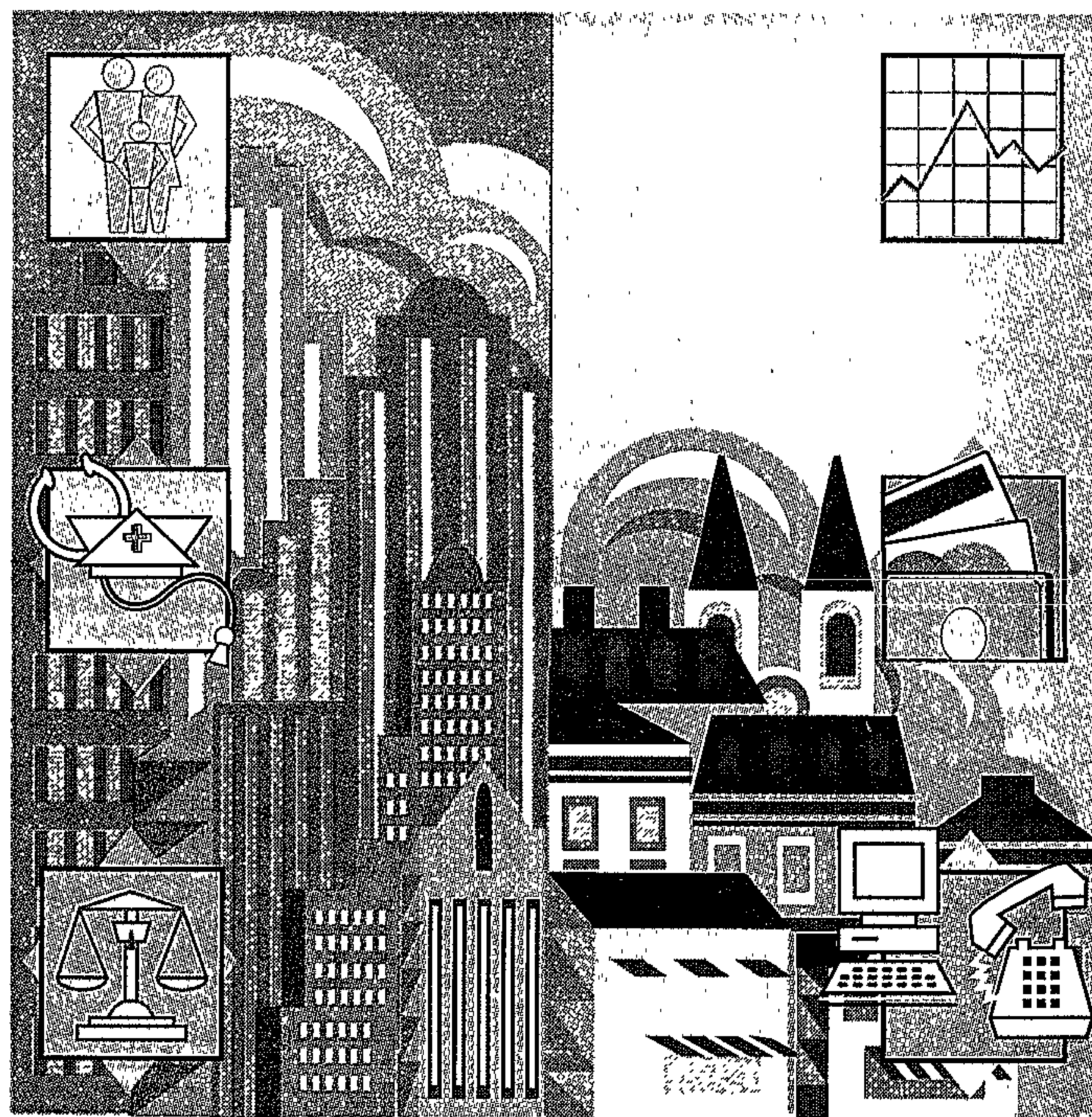
FINANCE – GENERAL

1998

Bigger and better financial services

The local industry is set for some major changes. LUCIENNE FILD looks at where it is heading



THE year ahead will bring many new investment products to the market, more regulated protection for investors, lower unit trust charges and an improved financial services industry.

BT Money asked various experts for their views on developments in the industry in 1998, and how these will affect investors.

REGULATION

There will be major changes in regulation after the enactment of a host of Bills already lined up for Parliament's next sitting.

Financial Services Board (FSB) executive officer Rick Cottrell hopes that at least 10 Bills will be passed by Parliament this year.

These include the Long-term Insurance Bill, which focuses on the life industry, and the Short-term Insurance Bill. Once promulgated these two Acts — which have been in the pipeline for the last eight years — will replace the outdated Insurance Act of 1943.

As for the pension fund industry, controversial legislation is under discussion. The draft legislation proposes the repatriation of surplus funds to the employer, albeit under very strict conditions.

A pension fund can accumulate a surplus from different causes, namely: over-estimating liabilities; higher than expected investment returns; and the employer's contributions remaining in the fund after members had resigned from the company. The proposed legislation has drawn much criticism regarding the employer's right to claim the surplus.

Of great interest to unit trust investors is the much talked about Unit Trust Control Amendment Bill.

The Bill proposes four significant changes to the existing Act — the most important one for investors being the deregulation of unit trust charges, which can lead to lower costs. The Bill proposes the legalisation of the fund of funds investment product, a unit trust fund which invests in other unit trust funds.

The Bill requires foreign asset management companies to register their funds in SA, while local asset management companies investing funds offshore will need to appoint a foreign trustee.

DEMUTUALISATION

A big issue during the two years ahead will be the demutualisation process of Old Mutual — an area which the FSB will be monitoring closely.

Old Mutual assistant general manager Dave Hudson says the insurance giant's focus for the year ahead is on its policy holders' views on the demutualisation process, as well as on the possible listing of the company.

Hudson foresees no major obstacles to the demutualisation process, but points out that a lot of work remains to be done. Careful preparation is needed before policyholders can be asked to vote, says Hudson, who is optimistic that voting will take place within the next 18 months.

LIFE ASSURANCE

In addition to a new Act and the demutualisation of its biggest players, the life industry is set to become internationalised in terms of its products and services. More foreign investment products will be marketed as local investors are expected to show increased enthusiasm for investing offshore. Old Mutual's Hudson says in the past investing offshore was considered risky, but now it is considered risky not to spread your assets beyond SA. More life assurers are expected to take Old Mutual's lead and allocate certain products to be sold directly to investors.

The aim is to abolish the use of paper share certificates and to store information on computer

LINKED PRODUCTS

The fast-growing unit trust linked-product industry will be under some pressure this year. The legalisation of the fund of funds product is sure to present the industry with big competition.

Brantam Financial Services director Bob Bartholomew explains that a fund of funds represents an alternative to linked products since investors will be able to buy one fund which can invest in four or five other unit trust funds.

Investors may find a fund of funds the cheaper option to an expensive linked product.

Sanlam Personal Portfolios head Rudi Stumpf says new legislation will be the most important development.

The FSB, together with representatives from the industry, is in the process of drafting legislation making it compulsory for a linked-product company to be registered. Companies will also be required to appoint independent custodians to protect investors' assets.

Investors can look forward to a wider range of investment possibilities under linked products. Stumpf says some companies will become product packagers or one-stop shops — also offering clients risk insurance and medical insurance. Others, including Sanlam, will have share portfolios in their range.

The Internet could play a much bigger role in the industry with investors increasingly being able to buy, sell and switch via the net.

PENSION FUNDS

Apart from the expected legislation on fund surpluses, the industry faces other challenges.

Colin Southey, managing consultant with actuaries firm Watson Wyatt, says the industry must give members of defined contribution funds the freedom to choose the underlying investment of their funds (for example, a share portfolio or personally selected unit trusts).

Also, by the end of this year retirement fund members will have the right to elect at least half of the members of their fund's board of trustees.

HEALTHCARE

Healthcare is an area where there is continuous change, and 1998 should see the maturing of the managed healthcare sector.

Momentum Health chief executive Adrian Gore foresees the introduction of more rigorous healthcare financing products — like medical savings products — which are aimed at being more sustainable. Greater emphasis will be placed on narrowing healthcare networks — meaning that members will be restricted regarding the doctors, hospitals and other medical facilities they can use.

Medical schemes are moving away from granting members absolute freedom, says Gore, but in return members are provided with discounts and cheaper options.

Demand management is a term which will feature strongly this year. This means healthcare companies will manage a patient's demand for treatment by encouraging members to phone a resident nurse for advice on whether treatment is needed or not.

The Medical Schemes Amendment Bill, which will regulate medical savings products, is expected to be passed early this year.

GLOBAL TREND

The year ahead will hopefully bring some degree of regulation of financial intermediaries selling insurance, banking products, unit trusts and other investment products.

The FSB's Cottrell expects the retail investment services legislation to be developed and introduced before the end of the year. This means that financial advisers will be required to comply with authorisation and market-conduct requirements.

Financial intermediaries will also be confronted with a swing to direct investment as this global trend takes hold in SA. Investors will be able to buy direct — and so bypass the commission cost to advisers — from more companies.

The really big move, according to Fincorp managing director Justin Hooper, is that investors will begin to understand the two extremes: on the one hand the professional fee-based financial adviser, and on the other, buying direct. The commission-driven salesperson will continue to come under intense pressure, says Hooper.

ELECTRONIC SCRIP

An important development in the financial services industry will be the establishment of an electronic scrip depository. The aim is to abolish the use of paper share certificates and to store the information on computer. The electronic scrip depository will offer increased protection to investors against fraud. It is hoped the system will be up and running by the middle of the year.

BANK CARDS

Paper money is another step closer to being relegated to a museum piece as the banks step up their issue of debit cards and smart cards.

These two electronic payment systems are being piloted in restricted areas in SA. Once the tests prove successful, the cards should be available nationally towards the end of the year.

Govt urged to rethink accident fund changes

BD 8/1/98 (58)

Bonile Ngqiyaza

THE Johannesburg Attorneys' Association has urged government to reconsider draft proposals on the restructuring of the Road Accident Fund following the apparent success of government's Arrive Alive campaign.

The association, which has a membership of 5 000 and claims to be the largest of its type in SA, said the proposals would cause hardship to victims of motor vehicle accidents.

The proposals were drafted when the target was a 10% reduction in accidents by 2000.

However, the campaign led to a decrease of about 30% in motor accident fatalities during the Christmas season.

Association spokesman Michael de Broglio warned that if the proposed changes became law, they would not only result in drastic reductions in compensation for injuries suffered, but also in likely increases in private insurance and medical aid costs. He said the attorneys' association believed a "very real" additional concern was that many people would never be able to afford the cost of the private insurance should the proposals be implemented.

De Broglio said changes in the law would allow attorneys to take on these matters on a contingency basis of "no success, no fee". This would undoubtedly result in cost savings.

The government proposals have drawn objections from a wide range of sources, including members of the medical profession, transport organisations and commerce.

Transport ministry spokesman Didi Moyle declined to comment yesterday.

The association congratulated Transport Minister Mac Maharaj on the success of Arrive Alive. It recommended that additional income to fund the campaign be sourced from fines paid by traffic violators. "In many instances, fines could well be increased for serious violations and the proceeds used to continue the financing of this campaign," De Broglio said.

Islamic Bank heads for final curtain in court

(58)

ARG 12/1/98

Big investors stand to lose heavily

LLEWELLYN JONES
Business Reporter

The liquidation of the beleaguered Islamic Bank will be made final in the Pretoria High Court tomorrow, says the Registrar of Banks, Christo Wiese.

The Reserve Bank and the Registrar of Banks lodged an application for the provisional liquidation of the bank in November, after it became apparent that the bank was in such a poor financial state that it could not be saved.

Mr Wiese said the report on the bank's failure by liquidator Andrew Wilkens would be completed some time after the final liquidation order and submitted to the Reserve Bank for possible further action.

Mr Wiese could not comment on possible irregularities at the bank until Mr Wilkens had submitted his final report, but said he had a duty to pursue legal action if it was shown that irregularities had occurred.

The Registrar had kept a close eye on the Islamic Bank for more than two years.

Mr Wiese finally ordered an audit of the the bank, which found that its accumulated losses were greater than its capital and reserves, rendering it insolvent.

He could not place the bank under curatorship, because neither the chairman nor the managing director of Islamic Bank would make such a request. The bank's board believed it could trade out of its difficulty, although Mr Wiese could see no reason for its confidence.

The bank, with a capital base of R27-million and assets of R191-million, appeared to get into trouble through bad lending practices, especially an over-investment in property.

The Reserve Bank is to compensate investors for amounts up to R50 000 arising out of Islamic Bank's difficulties. But some investors have deposited much higher sums with the bank and could lose most of their money.

Southern Life's Pure Specialist Fund, for example, held nearly R2,8-million in deposits with the Islamic Bank to comply with the statutory cash requirements for unit trusts.

The fund's mandate does not allow portfolio managers to place cash in interest-bearing deposits.

Last year portfolio managers wrote down the value of the fund's holdings to R50 000, in line with the Reserve Bank's bail-out decision.

Prices of the units immediately dropped 2%.

CAPE ARGUS, THURSDAY, JANUARY 15, 1998

Oudekraal developer gears to fight back

Wind-up order not last word

ARG 15/1/98 (58)

LLEWELYN JONES
BUSINESS REPORTER

The developer of the controversial De Oudekraal Hotel has been placed under provisional liquidation – but he has given notice in the Cape High Court that the fight is not over.

Building contractors GMR White House Joint Venture (Murray & Roberts and Grinaker Construction), were yesterday granted leave to join Standard Corporate and Merchant Bank's application to liquidate developer Steven Jones's company, Hottentots Huisie Investments.

The bank claims it is owed R33-million and GMR White House R5,6-million.

Mr Jones did not oppose GMR White House's inclusion, conceding that the group was owed the money.

Mr Jones's lawyers acceded to the provisional winding-up order, with the proviso that Hottentots Huisie made no admission on the correctness or entitlement of the bank's claims. This proviso would allow Hottentots Huisie to attack the bank's original liquidation application on the return date rather than show that the company was not insolvent.

In other words, once GMR White House had been paid, Hottentots Huisie could argue that the provisional winding-up order should never have been granted. Alternatively, if Mr Jones wants to regain control, he will have to come up with about R50-million to repay the bank and GMR, and to finish the hotel.

Mr Jones has been negotiating with another bank and the French hotel group Accor. Accor has already pledged R8-million.

In the meantime, the bank may carry on with the development. SCMB deputy managing director Myles Ruck said the bank would act in a responsible manner, which might involve completing the project.

Later, Mr Jones said he would oppose the bank's application because it had used "underhand" tactics. He would not oppose the application by GMR because he believed it was justified in trying to recoup its losses.

Mr Jones claimed the SCMB had another buyer interested in the Oudekraal project and intentionally failed to honour financial guarantees.

Banks to hold crisis meeting over heists

(58)

BD 23/1/98

Bonile Ngqiyaza
and Andrew Austin

A CRISIS meeting of senior banking officials and the Reserve Bank is planned for next Monday to seek solutions to the rash of armed robberies of cash-in-transit vans around SA.

This will follow a similar meeting today in Midrand called by Gauteng safety and security MEC Jessie Duarte to discuss the heists with the cash transport firm SBV, the Council of SA Banks (Cosab) and senior SA Police Service officers.

The bankers' meeting, scheduled some time ago, has taken on a new urgency following Wednesday's heist on the M1 in Sandton in which four security guards were shot and injured. It will discuss widespread staff intimidation, the sophisticated weaponry used in heists, the increasing numbers of gang members taking part in robberies and the problems associated with the movement of vast amounts of cash.

First National Bank (FNB) MD Viv Bartlett said yesterday the industry was facing a crisis. Petrol had been poured over staff members in several instances, with robbers threatening to set them alight.

There was a crisis when safety and security measures were constantly thwarted by increasing numbers of gang members and sophisticated firepower. The number of robberies at FNB branches had risen substantially.

While the use of aircraft to convey cash had been discussed, cost constraints continued to be a factor mitigating against using them.

Duarte said today's meeting would look at co-operation between security companies, police and the public.

Cash transportation techniques, the nature and pattern of the heists, information management, and the use of modern technology in fighting the robbers would be discussed.

SAPS provincial commissioner Sharma Maharaj, Cosab CE Bob Tucker, and SBV chairman Rod Heid were expected at the meeting.

In another development, SBV and the Society of SA Banking Officials, the financial union, announced the establishment of a joint forum to try to eliminate armed robberies. They said the forum would seek advice from local and international security experts. The forum's immediate aim would be to secure the safety of SBV personnel, safeguard SBV security vehicles and analyse past incidents in a bid to reduce the vulnerability of staff.

The union on Wednesday accused the four banks which owned SBV — Standard Bank, Absa, FNB and Nedcor — of criminal negligence, saying they continued to opt for low-cost solutions at the expense of human lives.

Banking sources ruled out the possibility that Wednesday's heist was an SBV inside job, saying the ambushed armoured panel van had unloaded most of its cargo at bank branches by the time it was attacked. They did not rule out the possibility that the 15 to 20 armed robbers could have received a tipoff at one of the van's earlier stops.

The sources said the increase in bank robberies meant branches kept less money on the premises. As a result, huge quantities of cash were being ferried around by security guards.

Tucker suggested a medium to long-term solution would be to reduce SA's

Continued on Page 2

Heists

(58)

Continued from Page 1

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dependence on cash. "The amount of cash handled by SBV each day has increased by 30% over the past year."

SBV MD Colin Gregor said the security measures his company had put in place had ensured that Wednesday's heist had not been worse. "We were transporting R8,5m and they only managed to get R3,3m of that."

He said it should be noted that SBV transported billions of rands and its vehicles travelled about 1,4-million kilometres a day. He refused to describe the new security measures, but said there would be further improvements.

"The next stage is for these vehicles to have gun ports, which our rural vehicles already have. If the vehicle involved in the last robbery had had this, it would have been a different story."

Asked whether he felt his job was under threat because of all the heists, Gregor said: "Definitely not."

Sapa reports that a man arrested in connection with last month's R10m cash-in-transit heist in Mpumalanga escaped from a police car yesterday.

☐ A Coin security guard was shot dead in his vehicle at the Kenilworth, Cape Town shopping centre shortly before he was to have collected money from a bank yesterday. Two suspects grabbed four empty money boxes and fled.

Comment: Page 9

FINANCIAL SERVICES *It seized the gap created by more cumbersome large banks to deal effectively with smaller enterprises*

Sasfin uses the entrepreneurial beanstalk

(58) CT(BR) 26/1/98

JOHN SPIRA

Jack and the Beanstalk got away with plenty while the giant was snoozing. For the former read Sasfin; for the latter, the big banks.

Fleet-of-foot Sasfin, an international finance house, boasts a five-year earnings a share compound annual growth rate in excess of 40 percent. This was achieved largely by identifying the gap created by typical big bank bureaucracy.

Roland Sassoon, Sasfin's managing director, is delighted with the purpose his beanstalk has served. Not only has it helped Sasfin elude the clutches of the slumbering titans, it has assisted the group to optimise the opportunities created by the new dynamics of South Africa's restructuring economy.

"Barriers to free trade, both internally and externally, are being collapsed. Devaluations of the far eastern and other currencies, coupled with a world trend towards deflation arising from an oversupply of goods and new technology, make imports ever cheaper.

"There's a move, too, towards buying 'just in time' in order to maximise stock turn and efficiency by minimising interest burden and risk," he says.

The marked trend towards outsourcing is another restructuring factor, driven by the quest to reduce fixed overheads and achieve the flexibility required in a rapidly changing environment.

"Companies need to minimise their investment in capital assets owing to rapid changes in technology and the very high real cost of money in a deflationary environment," says Sassoon.

"In South Africa, where there is a shortage of skills and an inflexible labour environment, outsourcing is vital."

Outsourcing is vital in SA, with its skills shortage and an inflexible labour setting

Many of Sasfin's clients, characterised by Sassoon as "relative SMEs", are finding themselves able to successfully take on the big corporates in most industries. "All they need is a right kind of financial support. In Sasfin, they have found it."

Sassoon says the advantage has swung in favour of the "relative SMEs" because they have been enabled to operate on lower fixed overheads, adopt a more entrepreneurial and less bureaucratic approach, and avoid being locked into cumbersome investment in often outmoded plant.

Sasfin's response to this evolving environment has been to provide a service aimed at facilitating its clients' growth by being entrepreneurial. It strives to develop a close business partnership with its clients, in contrast with the banks' impersonal approach.

As an adjunct to this strategy, Sasfin helps the client to outsource as much as possible and focus on the areas of his business where he has the skills, such as in buying, manufacturing and selling.

He says Sasfin can now accommodate a client to the point where he can outsource his total logistics, from freight forwarding to customs clearing, from warehousing to inland transport.

"We finance his entire operating cycle, from payments to his suppliers to collections from his customers, whether on open account or instalment terms.

"In addition, we can finance his capital assets and, where warranted by his potential growth, we can, through JSE-listed MDM Growth Investments, in which we have a large minority interest, provide risk capital coupled with the strategic input necessary to significantly raise the level of his business."

And Sasfin has the facility to protect their mutual interests by arranging the necessary short and long-term insurance.

Sassoon says Sasfin earns revenue at no extra cost to the client. "We get added security over the assets we are financing through our total logistics and insurance services."

DELIGHTED *Ronald Sassoon, the managing director of Sasfin*

From the client's point of view, he is dealing with an entrepreneurial group that understands his business. "Further, he derives heightened revenues through Sasfin's multifaceted services, which provide what he needs in terms of facilities, low rates and high commitment."

Sassoon is looking forward to the time when interest rates are lowered. "Such a move would be highly beneficial to us because, apart from the inevitable boost to the economy, it would make our facilities more affordable."

He says Sasfin, like all other business, encounters problems.

One such difficulty is of Sasfin's own making. "By the very nature of our operations, we help small and medium business units grow into large business units. Once they reach adulthood, many discover they no longer need us. They go public to raise the capital they need and employ their own expertise. It's a fact of life and there's nothing we can do about it."

Another negative is that success breeds emulation.

"The many new banks are making the lending market increasingly competitive, with more players moving in on our turf, financing business growth while the economy is tightening against the background of greater risk of default and fraud."

Sassoon is confident Sasfin will continue to increase its market share. "We are again expecting excellent growth in earnings a share in our current financial year to June 30."

In the past three years, the shares have appreciated more than tenfold, with a peak of R23 about six months ago.

The October and January mini-crashes have pushed the price down to R12,50, at which level the historic price-earnings multiple is 19.

That compares with a banking sector average of 33, suggesting that investors, as well as the banks, are guilty of snoozing and running the risk of losing.

Afbank reduced to 15 branches countrywide

(58)

Patrick Wadula BD 27/1/98

AFRICAN Bank's (Afbank's) restructuring process, particularly of its retail division, will see a further six branches close at the end of this month, leaving 15 branches countrywide.

Afbank operations executive Peter Eggeling said the bank was "optimising" its retail infrastructure by eliminating duplication in the branch network.

The six branches would be closed and their account bases merged with those of nearby branches.

East London would be merged with King William's Town, Atteridgeville with Denneboom, Acornhoek with Bushbuckridge, Soshanguve with Garankuwa, and Lebowakgomo and Pietersburg North with Pietersburg.

"At the same time staff numbers are being trimmed through duplicated jobs being consolidated in all branches," he said.

Eggeling said this was in line with the trend to achieve more realistic economies of scale, while inconveniencing clients as little as possible through continued service from other branches.

Research on the restructuring of other areas of business, including home loans and deposits, was still being done and would be available within days. The information would include the possibility of a listing on the Johannesburg Stock Exchange in about 18 months' time.

Eggeling said the bank was also looking to install a further nine automatic teller machines.

Afbank MD Chris Beazley said earlier the restructuring process would take six months to a year.

The bank's costs:assets ratio remained high, and management was looking to reduce costs, particularly with regard to salaries and information technology expenditure.

SA, Aussie financial sectors 'must co-operate'

BD 29/1/98

Lucia Mutikani

KEY players in the SA and Australian financial services sectors should co-operate in international markets, a local consultant said this week.

Grant Sieff, an associate partner in strategic services with Andersen Consulting — a global management and technology organisation — said that in an environment of accelerating deregulation in both countries, expansion abroad was essential.

Sieff recently presented a paper identifying similarities in the financial services markets of the two southern hemisphere countries.

The issue for major SA and Australian financial services players was not the threat of acquisition by foreign companies. "It is more about losing market share in the relatively small domestic markets with the entry of aggressive foreign banks, and losing out on opportunities to establish any significant presence in fast-growing, volatile, regional markets, particularly in southeast Asia."

Sieff said similarities between SA and Australia included industry structure and technological advancement, and the macroeconomic factors affecting them.

"In both countries, retail financial activities are dominated by four large banks. Both have insurance giants that are mutual societies which have declared an intention to demutualise."

Similarities at a macroeconomic level included the fact that both countries had predominantly commodity exporting economies which had failed to establish dominance in manufacturing. In this sense SA and Australia were consumers rather than producers.

Deregulation and technological advancement had brought opportunities for the main financial services companies to collaborate, both regionally and internationally, said Sieff.

Pyramid ownership allowed to empower

BD 29/1/98 (58)

Shareen Singh

THE use of pyramid structures and low-voting N-shares by listed companies in SA had gained legitimacy with the emergence of black empowerment, Prof Brian Kantor of the University of Cape Town said yesterday.

He told a black business conference in Johannesburg the Johannesburg Stock Exchange would have restricted the use of pyramids and N-shares had it not been for black empowerment. If the JSE took such action it would have been "an unfortunate regulation of activity", Kantor said.

Most successful corporations in SA were controlled by groups which had a minority claim on the dividends of the companies they headed. Control without majority shareholding had been entrenched in SA through a complicated web of holding, cross-holding and voting structures. The addition of every new layer to a holding company further diluted the ownership stake of the controlling shareholder but maintained their control.

Kantor said this structure had worked in SA because those in control had been able to deliver excellent returns on shareholders investment. The Oppenheimer family, which owns 8% of Anglo American; the Rupert family, which owns 5% of Rembrandt; and the Gordon family, which owns about 15% of Liberty Life, were very successful in this regard.

"Control without (majority) ownership would not have succeeded unless the majority owners were willing to own without control," Kantor said.

The top five listed companies had won the trust of fund managers who controlled billions of rands in retirement and funds and funds which made up at least 90% or more of the value of the JSE.

In the case of JCI, which announced yesterday it would break up, those in control were unable to produce good dividends and might have lost the trust of retirement funds.

Over the past three years the composition of the controllers of listed companies had changed to a degree. However, the ownership of the share in newly established black-controlled companies had remained where it was in the past, with retirement funds, he said.

"Retirement funds have exchanged shares in what had been companies controlled by whites for shares in companies now controlled by blacks."

While changes in ownership and control taking place at the level of listed companies was a major step in black empowerment, it should not be seen as an end in itself, Kantor said. Black economic empowerment would ultimately be measured by what income a black family took home.

THE Independent Broadcasting Authority announced yesterday it had cut its 1997/98 budget from R38,8m to R36,95m, a saving of nearly R2m.

"This is in line with the IBA's commitment to assist the government in reducing expenditure, even within the time constraints of the current financial year.

"The (communications) department and ministry are still assisting the IBA to secure remaining outstanding funds for the current financial year," it said.

Schools protest 'will go on all week'

FORMER House of Delegate schools in Phoenix, north of Durban, and Chatsworth, south of the city, continued their third day of protest action against the education department by closing schools early yesterday.

The action was apparently spearheaded by the Association of Governing Bodies of Greater Chatsworth in protest against the provincial education department's implementation of its schools management plan and the proposed laying off of about 6 000 teachers.

Parents' Association of KwaZulu-Natal chairman Cyril Naidoo said his association was not behind the closure and was seeking other ways, including legal action, to get the department to address problems in schools.

Naidoo said he had been informed schools would remain closed until the end of the week.

Cheque plan is banking industry's

THE proposed amendments to the Bills and Exchange Act, which sought to remedy the anomaly that banks were liable for cheque forgeries resulting from customers' negligence, was an initiative by the banking industry and not the Standard Bank, a bank spokesman said.

Standard Bank's Erik Larsen said the Council of SA Banks proposal that risk of loss be shared on the basis of negligence by the parties concerned, was in line with existing laws in the US, France and Germany.

Larsen said the proposals would place an obligation on drawers to take care of their cheques and would help reduce fraud.

REPORTS: Business Day Reporters, Sapa.

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Independent water company proposed

(86) BD 29/1/98

David McKay and Josey Ballenger

EAST Rand gold mines are to propose to government today that an independent water company should be formed, in order to rein in costs and improve the mines' environmental record.

Mining management would meet in Pretoria with an interdepartmental committee consisting of minerals and energy and water affairs officials to discuss the construction and operation of three plants to purify underground water pumped from mines in the East Rand basin, industry and government sources said.

The mines include JCI-owned Western Areas and Randfontein, Durban Roodepoort Deep, the Harmony group's Grootvlei, and Consolidated Modderfontein.

Durban Roodepoort Deep MD Mike Prinsloo said a study had identified the advantages of the independent company. The plants were estimated to cost between R200m and R250m each, which would be phased in and modelled after a pilot plant at Grootvlei.

Minerals and energy department acting director-general Dick Bakker said it had made money available for Grootvlei "on a very temporary basis" to improve their settlement process, which removes solid matter from water.

Bakker said the purpose of today's meeting would be for water affairs to give its stamp of approval for the project.

Prinsloo said that if the proposals were well received, a recommendation would be made to the cabinet in about three to four weeks. He said utility Rand Water could join the initiative if it had government's backing, and the proposed company would consist of a range of stakeholders representing the gold mining industry and other concerned parties.

Prinsloo said the water could be purified for human use, which would underpin Rand Water's existing supplies from the Lesotho Highlands water project and the Vaal Dam. "Years of work has gone into this proposal," he said. Durban Deep alone pumps about 240Mℓ to the surface a day.

Bakker said funding would "have to be worked out between all the shareholders".

The water affairs department, however, was adamant that it would not chip in.

"We have been pretty clear to minerals and energy on many occasions, including at the ministerial level as recently as December, that water affairs will not be funding, in any way, a subsidy to the mining industry," said acting chief director of scientific services Sakkie van der Westhuyzen.

He said under permit from water affairs, the mining industry was allowed to discharge water into public streams, but they also had the obligation to treat the water, which included desalination.

Banks redraft plan to make public pay for cheque fraud

(58)

Consumer groups force rethink on changes

ARG 29/1/98

BUSINESS EDITOR

Banks have back-tracked on a move to make consumers bear the cost of cheque forgeries.

The Council of South African Banks (Cosab) has agreed to make changes to amendments it is proposing to the Bills of Exchange Act.

The council's original suggestions would have forced consumers to prove they had not been negligent with chequebooks in order to get banks to bear the cost of forgeries.

Standard Bank legal adviser Kevin Daly, a member of the committee dealing with the issue, said yesterday that Cosab had now agreed that the burden of proof of negligence should rest with the banks, not with the consumer.

The controversy arose out of changes proposed by Cosab to the Bills of Exchange Act. Under the Act, banks are liable for losses due to forged or altered cheques.

'When fraud arises from negligence of a chequebook owner, we cannot be expected to carry the loss'

"We consider that when fraud arises from the negligence of the chequebook owner, we cannot be expected to carry the loss," Mr Daly said. He said the banks' argument applied to cheques with forged signatures only, not to cases where amounts or names on cheques were fraudulently altered. Forgeries cost Standard Bank nearly R3,5-million in 1996.

"We think it is more efficient to allocate the loss to the people who can prevent it," Mr Daly said. Banks could be expected to bear the cost of paying out money on cheques where the name of the person or company in whose favour the cheque was drawn had been altered, or where the original amount had been tampered with, because "these are things we can try to control".

But the banks had no control over a client who was careless with his or her chequebook, he said.

Cosab's first draft of amendments to the legislation had placed the burden of proof on consumers. Banks which had paid out mistakenly on forged cheques would not have been obliged to compensate clients unless the clients could prove, in a civil case, that they had not been careless.

Mr Daly said after it had been pointed out by consumer groups in Gauteng, including the new Consumer Institute of SA, that this would be the implication of the amendments, Cosab had agreed on a redraft.

Cosab was now discussing with consumer bodies a new draft which would force the banks to prove that a chequebook owner had been negligent before refusing to pay out on a forged cheque.

See Argus Action

Cheques plan will hit bank clients

(58) ARG 29/1/98

South African banks could be out of step with the rest of the world by making customers pay if, through their own negligence, signatures are forged on their cheques.

The Council of South African Banks wants the Bills of Exchange Act amended to place the duty of care on account holders if cheques are used fraudulently.

Along with most other countries, South Africa currently holds banks responsible for honouring unauthorised cheques.

Any change would have far-reaching consequences for consumers, warns Jopie Pretorius, professor of banking law at the University of South Africa.

See Argus Action, Classified section
Consumer groups force rethink, page 21

Demutualisation 'windfall for SA'

Samantha Sharpe

BD 30/1/98 (58)

CAPE TOWN — The proposed Johannesburg Stock Exchange listing of life groups Old Mutual and Sanlam would have a powerful influence on the SA economy and financial markets, the Board of Executors (BoE) said in its latest economic report.

The listings would increase consumer spending and reduce the scope for lower interest rates, the report said.

BoE economic consultant Rob Lee said transactions were so large — sharing a market capitalisation of more than R50bn — that the regulatory authorities would probably choose to stagger the two listings to avoid undue financial indigestion — the first possibly towards the end of this year or the first quarter of next year and the second nine months later.

Consumers would clearly react positively to what could only be described as a windfall when the option of keeping shares in the organisations or selling them was offered, he said.

In the UK, where demutualisation has been an important feature of the economy in the past 18 months, the windfall effect on consumer spending was significant, although this had been concentrated on durable goods or foreign holidays.

In SA the portion spent was likely to be considerably higher than in the UK, although an emphasis on durable goods or at least semidurable might remain, setting the stage for a major boost in consumer spending in 1999/2000.

Lee said the demutualisation also pointed to reduced scope for lower interest rates, with the Bank of England explicitly stating the windfall effect as a factor in a series of interest rate hikes over the past eight months.

While the SA windfall effect would probably occur at the tail end of a downswing compared with the UK timing during a sustainable growth phase, the new factor was bound to provoke a cautious attitude from the Reserve Bank, especially as there would be a low confidence in forecasts that attempted to quantify the impact.

However, the net impact of demutualisation on the economy and its markets was likely to be strongly positive, providing foreign investors — financial institutions and others — with the opportunity of obtaining large, liquid stakes in well-run businesses, Lee said.

"A large percentage of shares may end up in foreign hands, resulting in significant foreign capital inflows," Lee said.

He said the institutions' demutualisation would also facilitate more rapid corporate restructuring, neutralising many years of sanctions, high tariffs, and exchange controls which had created a distorted and globally uncompetitive corporate sector.

Banking, bungling and bailouts

SA holding its own

(58) FM 30/1/98

Banking supervision may be an arcane subject, says Deloitte & Touche partner Tim Store, but when it fails people tend to sit up and take notice.

Stabilising Asia's crumbling banking sector will make the bill for Mexico's banks — 8,5% of GDP — look like small change. In the past 15 years, emerging market banking problems have cost US$200bn to resolve.

SA's track record in bailouts and bank failures isn't perfect, but it's pristine compared to that of many other countries. *The Institutional Investor* lists some examples:

- US 1980-1992: Thirty-five banks and 1 142 savings & loan associations went under in the S&L disaster;
- Tanzania 1994: banks' nonperforming loans hit 80%. Government had to issue 14,5% GDP in bonds to stabilise the sector;
- Sweden 1990-1993: 18% of consolidated loans were lost and the two leading banks were bailed out by the State; and
- Czech Republic 1994-1995: nonperforming loans topped 38%, leading to a run on banks and closure of 5 institutions. In 1994 it cost 12% of GDP to support failing banks.

SA has escaped such crises because it is, on balance, doing most of the things it should, according to Store.

Good economic management is part of it, and so is nonintrusive government. SA has avoided mistakes like failing to integrate authorisation and supervision. This is a common problem in Africa: government decides who gets a banking licence, but the central bank has to pick up the pieces if the bank goes bust.

Store says SA is already following most of the 25 principles laid out last year by the Basle Committee of the Bank for International Settlements (the "central bankers' bank"). These principles aim to standardise bank regulation, covering areas like central bank independence, capital requirements, licensing and disclosure.

The standards arrive a day late and a dollar short for many Asian institutions, but there are still some disasters looming. At last count, China's four largest banks held an estimated 30% in bad debts — $157bn. "China is a disaster just waiting to happen," says a European policy maker. "That's why the recent rush to produce the core principles and get them in place is understandable." ■

SA's demutualisation race is on

CT (BR) 30/1/98 (58)

EMMA THOMASSON

Cape Town — Old Mutual and Sanlam, South Africa's two financial service giants, are racing to be first to demutualise as analysts salivate over the huge boost to market liquidity the listings should bring.

Their combined market capitalisation could reach about R100 billion, and the listings would transform about 7 million policyholders into shareholders. It would be South Africa's biggest black empowerment deal to date.

The two groups account for well over half of South Africa's life assurance market and have always competed fiercely. "But it is commonly regarded that Sanlam will list before Old Mutual," said one analyst. "Sanlam has done more groundwork."

Old Mutual stole some thunder from its smaller rival last year when it announced it was on the road to listing.

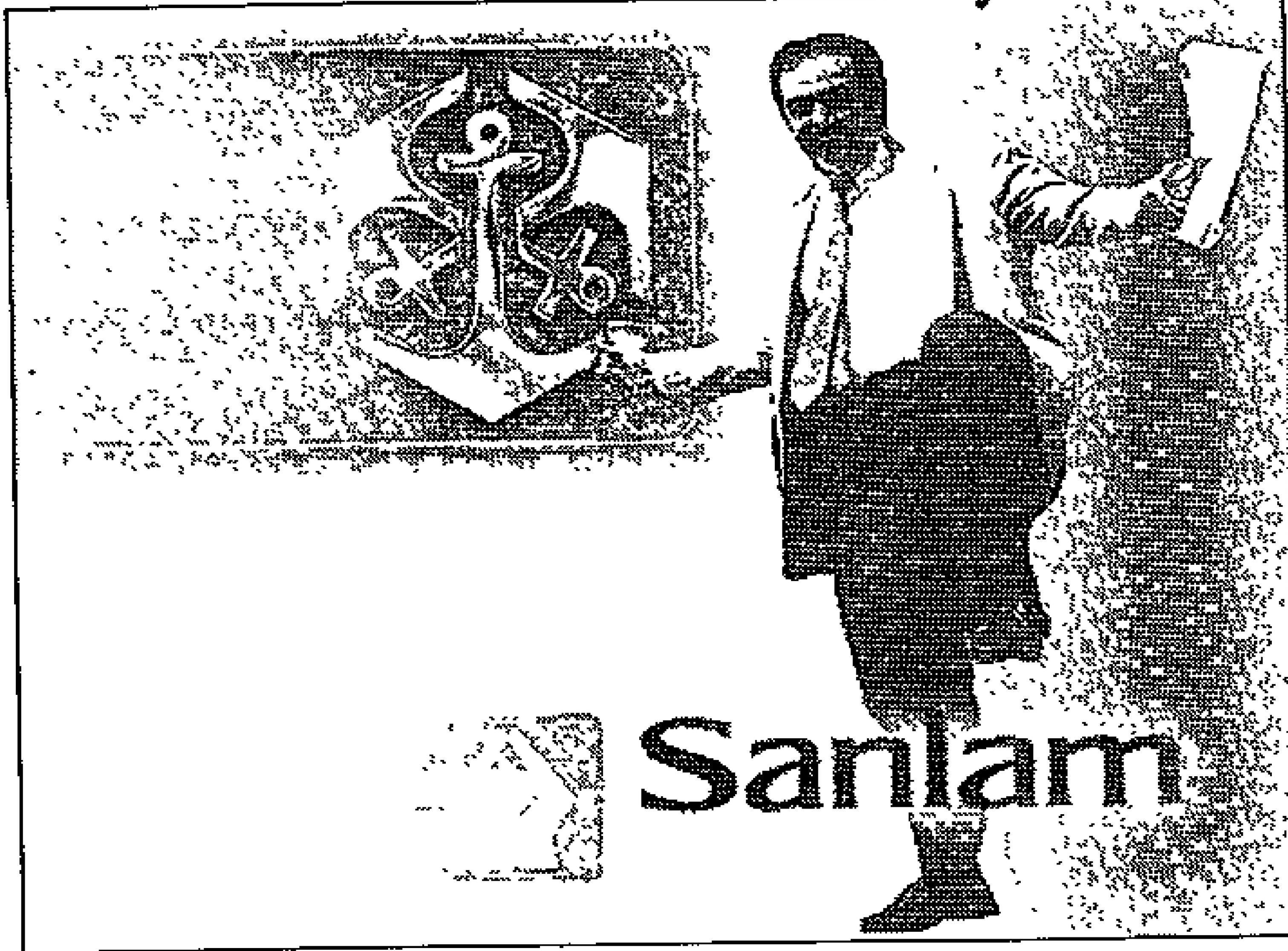
Sanlam has not said officially that it would demutualise, but it has been investigating the implications of a listing for two years.

"We are definitely on track to take a decision and make a recommendation to our policyholders this year," said George Rudmann, Sanlam's senior general manager of finance.

"This forms part of the company's comprehensive process of transforming the group into a world-class role-player in the financial services sector."

Old Mutual is keen to list next year, but analysts say it will have to decide whether to move before or after a general election due next April, which could cause some political — and market — instability.

Analysts said Old Mutual's listing process was likely to be more complex than that of Sanlam because of its greater size and operations abroad.



One analyst suggested it was in Sanlam's interest to list before the bigger Old Mutual. "Old Mutual will probably get a better rating than Sanlam, so it would benefit Sanlam to list first and get an independent rating," the analyst said.

Analysts estimate Old Mutual's market capitalisation will be around R60 to R70 billion and Sanlam's about half of that.

Sanlam has already appointed actuarial consultants Tillinghast-Towers Perrin to advise on demutualisation. It said it would announce details of other consultants soon.

Old Mutual had free reserves — total assets over total liabilities — of nearly R29,3 billion at June 30 1997, treble Sanlam's R9,3 billion.

Sanlam, lagging behind Old Mutual in expanding into the global arena, may need to use its listing to raise capital.

Old Mutual says it does not need to boost funds; the listing would be primarily to hand ownership to policyholders and to increase flexibility in its quest for global expansion.

"This would amount to an important exercise in economic empowerment in each of the countries in which we operate," Mike Levett, Old Mutual's chairman, said in the group's annual statement.

"The development of a wider array of businesses requires a structure with greater flexibility — namely one headed up by a proprietary company. This would better enable the group to meet the changing preferences of our clients around the world," Levett said.

Depending on how market capitalisation is calculated, Old Mutual could become the largest company on the JSE, ranking with South African Breweries, Anglo American and De Beers Consolidated Mines.

Old Mutual, which has branches in Guernsey, Hong Kong, Malawi, Namibia and Zimbabwe, has said it was also considering listing on other bourses, including London and possibly New York.

Analysts say the listing of such huge companies on the JSE would be a massive boost to liquidity. Most index-linked funds would have no option but to take a stake.

"It is going to be incredible for liquidity," said one analyst. "Because savings levels are so low, I think quite a portion will be sold quite fast ... even though the chances of share appreciation are quite high."

Another analyst estimated more than a million new shareholders could sell their free stocks on the day of Old Mutual's listing.

"If lots of people are going to sell, it will be quite a good injection for the economy," he said. "It is likely the excesses will be picked up by institutions and there will be a boost to consumer spending."

One analyst said the listings could lead to a cash injection of around R20 billion into the economy. "It's not to be sneezed at," he said.

Both Old Mutual and Sanlam say they do not keep a record of the race of their policyholders, but one thing is certain: demutualisation will hand free shares to hundreds of thousands of the country's poor blacks who hold small life policies.

The precise allocation of shares will depend on the size and life of each policy owned, but the average windfall for each of Old Mutual's 4 million policyholders could be up to R8 000.

"It will be the biggest empowerment deal this country has seen, and it will also target the poor," said one analyst.

Analysts estimate that 25 percent of Old Mutual policies are made up of so-called group schemes, held by very low-income earners. Some of these people could receive a windfall equivalent to a year's income.

"Part of the headache now is educating policyholders about what a share is," said one analyst. — Reuter

Intriguing duel begins with Old Mutual

Now Sanlam joins race to demutualise

CT (BR) 30/1/98 (58)

Marc Hasenfuss
Cape Editor

Cape Town — Sanlam, South Africa's second largest financial institution with free reserves of over R10 billion, would seek approval from its 2 million policyholders and the relevant authorities to demutualise and list on the JSE, Marinus Daling, the executive chairman, announced yesterday.

This news follows hard on the heels of similar proposals by rival Old Mutual and makes for an intriguing race to see which institution demutualises first.

The listing of Sanlam and Old Mutual, which should have combined market capitalisations of more than R50 billion, will markedly boost JSE liquidity.

Daling said demutualisation was in line with global trends and underpinned Sanlam's strategic plan.

He said it would provide Sanlam — which has been registered as a mutual company since 1954 — with greater flexibility and with access to a broader range of capital sources.

***TIME FOR CHANGE** Executive chairman Marinus Daling*

It would also create a more effective group structure, separating the interests of owners and customers, he explained.

"Although we're not yet in a position to give full details, I thought it was important to inform policyholders as soon as possible on the board's recommendations that Sanlam demutualise," Daling said.

"We face many challenges and opportunities in a rapidly changing market place," Daling said. "The mutual structure ... is restricting ... our business and is no longer in the interest of our policyholders ...

"Our mission is to become an international and world-class financial services group, building on a strong domestic position. The board believes demutualisation will provide the optimal corporate and capital structure to support this objective."

He added: "In analysing Sanlam's future, it became clear that, in parallel with our strategy to internationalise, we must demutualise."

He said benefits under existing policies would be unaffected and eligible policyholders would receive free shares in the "new" Sanlam.

Sources estimate it could take between 18 months to two years before Sanlam's demutualisation process is completed.

The cut-off date for participation is March 31, but this deadline may be extended depending on the progress of the regulatory process.

□ Business Watch, SA's demutualisation race is on, Page 16

Higher cheque charges a move to electronic banking

AKUS 23/2/98 (58)

New policy says use cards or pay more

BUSINESS REPORTER

Rising cheque charges and recent attempts to shift the cost of cheque fraud on to consumers are part of a move by banks to encourage clients to use electronic banking rather than cheques.

Higher cheque charges and moves to change the law so that clients, rather than banks, bear the cost of cheque fraud have left consumer organisations up in arms.

The banks are trying to amend the law so that clients who are careless with cheques or who fail to write "not transferable" across the face of the cheque are responsible if the cheque is fraudulently used.

Standard Bank senior general manager Len Schutzler said although there was no direct campaign to remove cheques from the system, the banks were trying to encourage customers to use debit cards, credit cards or smart cards rather than cheques or cash.

These options significantly reduce banks' costs by cutting down on the direct costs of administration, as well as the hidden costs of fraud and forgery.

"Electronic banking is quicker, cheaper, safer and more convenient," said First National Bank spokesperson Ann Bramhill.

But electronic banking is also becoming more expensive, after recent hikes in automatic teller machine (ATM) fees. Ms Bramhill contends, however, that it is still cheaper than using cheques.

She said bank charges at First National Bank are negotiable.

Most of the big four banks – Standard Bank, First National Bank, Absa and Nedcor – offer clients an option of paying no charges if they keep a certain minimum balance in their accounts. This minimum balance varies anywhere between R1 750 and R2 500.

"Customers at First National Bank can also negotiate their banking fees with their bank manager if they are unhappy with the cost structure on their accounts," she said.

Standard Bank charges customers using its Classic Cheque option a standard R2,45 per cheque plus 93c for every R100 over the first R100, compared to a cash withdrawal fee at an ATM of R1,50 plus 50c for every R100 over the first R100 drawn.

Electronic account payments, for example paying a telephone bill, cost R1,30 for the first R100 and 50c for every R100 thereafter.

And using your debit card at some supermarkets or garages, for instance, will cost R1,55 per transaction.

A cheque at First National Bank costs R1 per cheque plus R1 for every R100 over R100, compared to a cash withdrawal fee and electronic account payments at an ATM of R1,60 plus 80c for every R100 over R100.

Insurance company aims to improve industry's image

(58) BD 25/2/98

Hillary Joffe

RAND Merchant Bank Holdings (RMBH) is to launch a new direct short-term insurance company, Outsurance, which aims to improve on the industry's poor image with household and motor policies for individuals which will give them a return even if they do not claim for loss or damage.

Rene Otto, who heads the new operation, said it would use sophisticated computer-based telephone technology to provide comprehensive short-term cover with "impeccable service levels". SA policyholders tended to be promiscuous, shifting between insurers on the basis of price or because they were angry at the way claims were dealt with. Outsurance saw an opportunity to gain a competitive advantage by giving clients the incentive to be loyal.

Clients who do not claim will receive cash bonuses of 10% of premiums paid after three years, rising to 20% at five years and 25% in the sixth year. Those who did claim would not be penalised by higher premiums. Other innovations included no waiting periods for claim payouts on stolen cars (six weeks at most other insurers) and automatic adjustment of motor premiums to bring them in line with the value of the car.

RMBH has committed R50m of start-up capital to Outsurance, which is the latest of a string of greenfields operations launched by the financial services group over the past few years. These include five-year-old health insurance arm Momentum Health, which will collect R1bn in premium income this year and is highly profitable, as well as unit trust-linked products "packager" Momentum Administration Services, and Origin, the "merchant bank for individuals" launched last year. RMBH director Laurie Dippenaar said the group had succeeded by taking on established players in mature industries and changing paradigms. It avoided "me too" operations and targeted profitable niches, rather than necessarily high market shares.

The company will compete with Aegis, the broker-based short term insurer in the RMBH fold, so that the group would have multiple distribution channels suited to different needs. Otto said direct marketing of short-term cover was gaining favour worldwide and SA was likely to follow the trend.

Outsurance opens its telephone lines tomorrow. Otto said the starting date had been brought forward by a few days because of high levels of interest, including from brokers. The company would seek innovative ways of working with brokers, but would ensure it retained access to information on claims so it could assess risks accurately and price premiums accordingly.

BANKING

(58) FM 27/2/98

Niche players slip in to steal the kudos

But big institutions continue to fuel boom

As merger talks start in the financial services sector, a row of new banks have hung out their shingles.

The new players are taking advantage of a booming sector, while most of the big banks have been slow to recognise that niche banking is where the profits are. The former argue flexibility, niching and focus make them competitive. And, with lower cost structures, they're getting into a sector where rewards are high — and immediate.

Ask the shareholders of African Merchant Bank (AMB), who saw their shares rise from the listing price of R8 to R17 on the first day; the counter now stands at R28,10, a 250% increase in four months.

Or the boys from the Board; The Board of Executors' share has risen more than 40% since the October crash.

So, while Rand Merchant Bank Holdings (RMBH) talks to Anglo about merging their financial services operations, the Reserve Bank's bank supervision department has been inundated with applications for banking licences, mostly from smaller players.

In the past year, four new local banks acquired licences. And this doesn't include Business Bank, Gensec or Real Africa Durolink, which have been granted licences but have yet to have them formalised in the *Government Gazette*.

And a licence is generally a step towards listing. Last year, AMB listed on the JSE and at least four more — Business Bank, Real Africa Durolink, Newbank and Nedcor Investment Bank Holdings (NIBH) — have plans to list in the first half of this year.

This confidence runs counter to the world trend, where banks are cutting staff, closing less profitable operations or merging with former competitors.

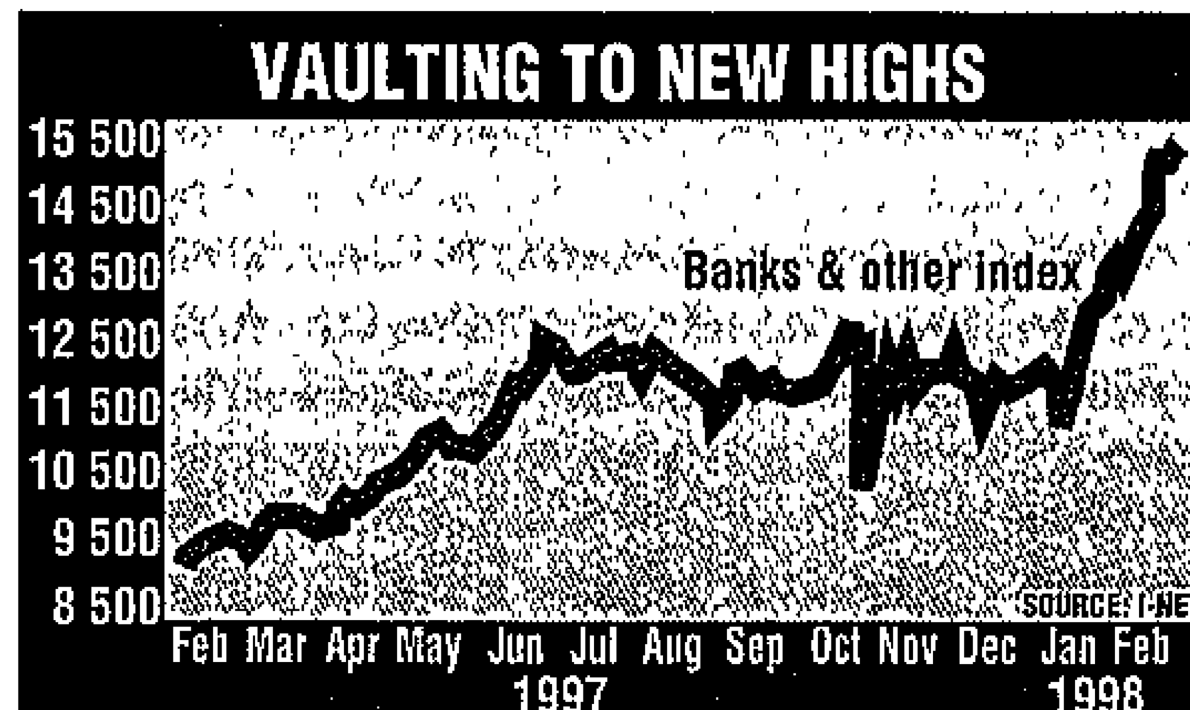
In the UK, the fire sale of some investment institutions has meant saying goodbye to some of the oldest names in London, like 150-year-old Hambros, sold off in parts to the French and Belgians. Portions of National Westminster and Barclays have been sold off. Union Bank of Switzerland and the Swiss Banking Corp have merged to form one of the world's biggest investment banks. And there is speculation of a battle between Barclays, HSBC and Lloyds over the remains of NatWest.

New boys on our block confidently say there's still space here for more competition. And that's despite the 80 foreign banks sniffing round our market.

I think they're right.

A new business environment, in which companies are refocusing, unbundling or globalising, has opened the doors for new players and new skills.

Demands for better service and greater transparency have left the doors wide open at the wealthy end of the retail market, which is where private banks such as BOE, Investec and RMB (with its new merchant bank for individuals), are picking the profitable business. With low cost structures and only high-margin niches, new players offer good earnings potential.



EPS for Business Bank, the newest bank on the block, due to list at R2 on March 4, are predicted to grow by about 30%/year for the next three years.

With capital of R425m, the bank will be on the acquisition trail, according to executive chairman Piet Liebenberg. It will target companies immediately below the top 250. Liebenberg says — too confidently, in my view — his will be one of the five or six local banks remaining when these smaller operations start to rationalise two to three years from now.

While black empowerment is still the flavour of the month, good connections will help merchant and investment bank AMB, which has Nail as its major shareholder. EPS are expected to grow by 30%/year in the next two years.

Real Africa Durolink also has its black connections through Real Africa, which holds an effective 36%. While the fashion lasts, it will use this to enhance its investment banking opportunities.

What is being temporarily named Newbank (the existing Capital Alliance Bank) has just lost its empowerment connection through Mzi Khumalo and will refocus on private equity as well as merchant and investment banking.

NIBH (see *Fox*) aims to compete with the likes of RMB, Investec and BOE, all of which have grown but retain their small company culture Equally important is that management has a stake.

If Southern Life is bought by Momentum, the group will still concentrate on niches. Apart from achieving economies of scale — merging could reduce costs by about 10% — size isn't the main objective Increasing shareholder wealth is.

Investec is comfortable with its critical mass locally — CE Stephen Koseff has been quoted as saying SA companies cost too much right now. It's concentrating on building its international base while remaining focused on high-margin business.

Cost to income ratios are high compared with international competitors — even Nedcor's, the lowest ratio of the big four at 58,7%, is almost double that of Lloyds.

Merging is seen as one way to cut costs. But apart from RMB and FNB, no other banks have yet revealed they've started merger talks or even a cosier local liaison. Among the big banks, neither Standard nor Absa is in the market for a local merger.

Which leaves Nedcor and FNB. The fate of FNB in the talks with RMBH is uncertain but it's speculated RMB could play a role in its corporate division and parts of its retail business could be merged with Nedcor, which wants to build critical mass. Volumes for Nedcor could come from FNB and from targeting parts of Old Mutual's business to build its bancassurance capabilities. But the broader issues of matching Nedcor's segmented market with Old Mutual's mass market have yet to be resolved.

Like Old Mutual and Nedcor, closer liaisons or cutting of ties will probably start with banks and their insurance companies — Sanlam and Absa; Liberty and Standard Bank; Investec and Fedsure — before more bank consolidation starts.

And when it does, the big banks, having learnt their lesson, will be concentrating on attacking the profitable niche markets targeted by the smaller banks But for now, it's not size that counts; there's room for big and small.

Heather Formby

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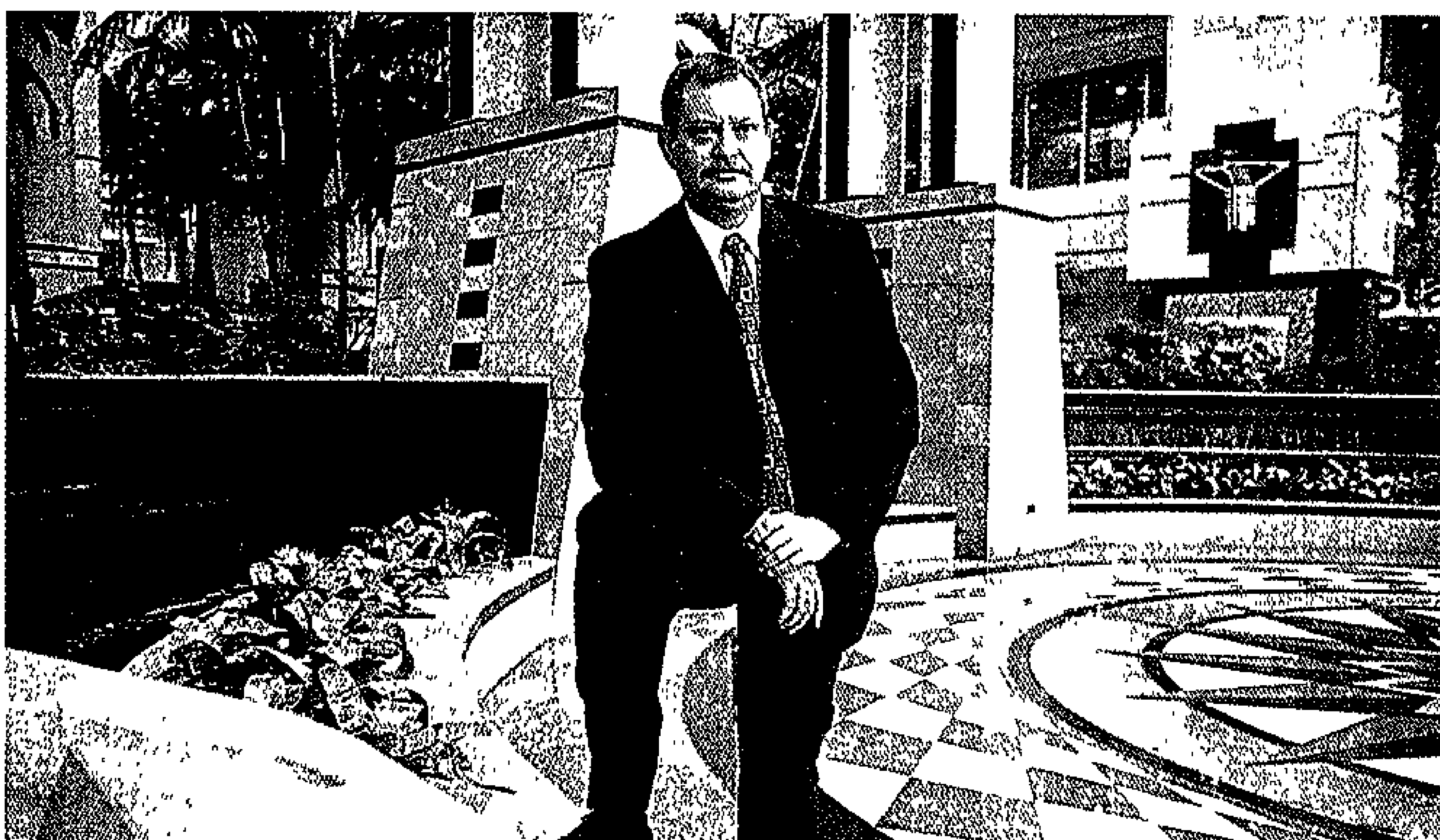


We review our fees every year. There's nothing clandestine about that.
Errol van der Merwe, Standard Bank

Robert Tshabalala

BANKING

Fm 27/2/98 (58)

Big four put squeeze on small institutions

Bid to halt niche operators cherry-picking prime customers

SA's big retail banks are closing ranks to block small operators from using their extensive ATM infrastructure. They are discussing the option of substantially increasing transaction fees charged to niche financial institutions, in an attempt to stop smaller, leaner, more competitively priced banks cherry-picking their prime customers.

The planned price hikes follow a series of heavy increases in Saswitch transfer fees.

Banks say it costs just a few cents to switch a transaction across Saswitch's infrastructure. Customers are not being charged so much for Saswitch or the system time used but rather to recoup losses from crime, which apparently costs the banks R1bn a year.

Saswitch administers a mainframe which routes transaction-related data between banks and calculates what the banks owe each other. When Saswitch was formed in the early Eighties, the banks charged each other a fixed R1 for the first R100 withdrawn.

Mike Jarvis, senior GM: IT and strategic planning at FNB, complains that smaller banks have had an enormous benefit from the Saswitch network. "That's not going to be the case going forward," he warns.

Standard Bank's assistant GM: customer electronic delivery, Errol van der Merwe, feels the big four should be compensated for the level of investment in their ATM infrastructures. He says the current "inequity" means that any bank can open its doors and have access to 5 000 ATMs.

The Eastern Cape-based Fidelity Bank absorbs the Saswitch fees on behalf of its clients. Assistant GM: IT Neville Welsh says Fidelity cannot afford to roll out its own infrastructure, and sees the cost of Saswitch fees as cheaper than rolling out its own ATMs. He does not feel the proposed increase in fees will seriously hurt his bank. "The big four are losing market share to the smaller banks and they don't like it. They think they are getting back at us, but we'll get back at them in other ways."

Fears have also been expressed that a cyberbank, with little or no physical infrastructure, could leverage off Saswitch.

Following the recent hikes in Saswitch charges, Walter Volker, assistant GM: cards and electronic banking at Absa, has lashed out at Standard Bank, accusing this competitor of "unilaterally increasing the Saswitch fees". He says Standard's decision forced the other banks to increase their rates, because when other banks' clients use Standard's ATMs, Standard charges these banks the increased rate.

"Our position is that banks should negotiate fees on a bilateral basis," Volker says "It is a fact that the cost of cash is higher but Standard Bank should have done this on a consultative basis."

Volker says that Absa wrote to Saswitch to protest Standard's move, which he says was rejected. He claims Absa was then forced to increase its rates

But Standard's Van der Merwe says he takes exception to Absa's claims. "We review our fees every year There's nothing clandestine about that. If someone else wants to use our infrastructure, we have a right to levy a fee."

Van der Merwe blames the increase on the high cost of handling cash. The vandalism of ATMs is also rocketing he says. "We just happened to go to market first with this price increase Their increase was their prerogative."

Other banks, he says, can choose to absorb the Saswitch fee on behalf of their customers, or levy their customers for the transaction.

The big banks have blamed next month's increase in Saswitch fees on rampant crime, including cash-in-transit heists, and spiralling vandalism of their ATMs.

According to Volker, when an Absa client, for example, uses a Saswitch ATM Absa is charged R3,50 by the other bank for the first R100 plus 60c for every R100 thereafter. For example, R1 000 would amount to R8,90, or R5,40 plus R3,50

According to Volker, there are heavy costs in maintaining the infrastructure. The capital cost of one ATM is R200 000. These machines must be loaded with cash two or three times every week.

At some locations, Volker says, an ATM is consistently vandalised every day.

Crime is speeding up the banks' interest in looking for alternatives to physical cash and cash payments.

In addition, ATM cards are being taken to the point of sale. Cash can be withdrawn, for example, at supermarkets and service stations in an attempt to change the cash circulation pattern. "There is a multifaceted attack on cash," Van der Merwe says, "but it's going to be long, hard road because it's difficult to change customers' behaviour."

It will be difficult to change habits as long as retailers believe cash is cheaper than plastic, Jarvis says. **Duncan McLeod**

Changes to accident fund 'could leave you destitute'

Argus 21/2/98

(58)

CHARLENE CLAYTON

The legal profession says you could be left financially destitute if you are injured in a road accident under proposed new Road Accident Fund legislation.

The insurance industry, however, says the legal profession is overreacting.

Controversial new changes to the Road Accident Fund (RAF) include the removal of your common law right to sue the person who caused the accident and limits on benefits paid to road accident victims.

Under the new legislation you will get a package of benefits although these may be lower than you expect. In exchange for this you relinquish your common law right to recover the shortfall between your claim and what the RAF pays out, from the negligent person.

A source in the insurance industry did not agree with the legal fraternity that the pending legislation would leave you destitute.

"The concept is that you must be happy with the package and take out additional cover yourself."

Theuns Steyn, of Deneys Reitz attorneys and the past president of the Law Society of the Cape of Good Hope, says if the government's latest White Paper proposals are accepted in May this year, whether or not you own a motor vehicle, you will be forced to take out prohibitively expensive insurance to protect yourself against accidents.

He says actuarial estimates show that such insurance could cost R1 600 a month for cover of R1 million for a single person and R6 400 a month for a family of four.

For the past 50 years, compensation has been paid to road accident victims from the RAF on the basis of their actual loss, reduced by a percentage based on how much they contributed to the accident.

At present, you have almost unlimited cover against the negligence of others under this fund. The cover is funded by a 14,5 cents a litre levy on petrol sales. It is estimated that it costs the motorist a mere R18 a month.

So, if you are injured in an accident caused by somebody else, you can claim the costs of your medical expenses, loss of income as well as compensation for pain and suffering. This process takes place through the legal system.

Should you be found at fault in the accident, your claim is reduced by the percentage to which you are found negligent.

Most people also take out comprehensive insurance with a private insurer, which covers you against your own negligence. This insurance pays out claims made against you by a victim of an accident, caused through your own negligence, and which is not covered under RAF legislation.

Mac Maharaj, Minister of Finance, wants to remove all existing rights to sue negligent, drunken or reckless drivers for damages not covered by the RAF and introduce a limit on benefits in an effort to cut costs.

Based on claims currently being processed the RAF has a deficit of almost R8 billion and this escalates at R160 million a month, he says. The existing R1 billion reserves will be exhausted in three years and the fund will be unable to meet its claims.

According to Maharaj the causes of the deficit are the inadequate levy on fuel paid to the fund by motorists, the high accident rate in South Africa and the heavy settlement costs.

However, Steyn disputes that the fund is technically insolvent.

"There is R1 billion in the kitty and the claims are not all going to come in at the same time.

"The minister's approach is actuarially incorrect," he says.

Under the new proposals, if you are employed in the formal sector, the amount of compensation you can claim for loss of income will be limited to 75 percent of your earnings at the time of injury.

It will be adjusted for inflation, but does not take your career path with its salary increases into account, says Steyn.

If you cannot prove that you are formally employed, you will get R1 000 and students will receive R1 500 a month.

Steyn says this situation is exacerbated by the removal of common law rights, in force for more than 2000 years, which allowed you to recover the shortfall from the guilty person.

According to the White Paper, leaving the common law intact has many disadvantages and would increase uncertainty, anxiety and loss of confidence among private motorists.

Under the new system, in the event of a claim for disability, your degree of disability has to be established. At the moment this is done by way of expert medical evidence in court.

"This will be replaced by a bureaucracy, with the state deciding, according to a set table, to what extent you are disabled," says Steyn.

So, the loss of two fingers results in, say, 20 percent disablement. The problem is the compensation for loss of income remains 20 percent irrespective of whether you are a clerk, a labourer or a concert pianist, says Steyn.

Compensation for "pain and suffering" will be replaced with a "chronic benefit". This will be paid only if you are 55 percent disabled and only to a maximum of R120 000. To be 55 percent disabled you must, for example, be totally blind or have lost two limbs.

"The government recognises, that seeking to allocate limited resources equitably some individual inequities are inevitable," the White Paper says.

A commission is to be set up by the minister to review the entire compensation system.

Steyn suggests in the meanwhile that the minister increase the fuel levy by six cents a litre, to provide enough money to fund the existing system.

WHAT THE NEW LEGISLATION WILL MEAN

	OLD ROAD ACCIDENT FUND	PROPOSED NEW FUND
Time to lodge claim after accident	Two years	12 months
How you claim	Via the legal system	Via Department of Transport
Medical Costs	Paid in lump sum or paid by Road Accident Fund when treatment takes place	By certificate of treatment to a public hospital, provided patient first pays own share of costs
Compensation for loss of income	*Determined by:* Court	Set tables
	Amount paid: Unlimited (according to actual loss)	Frozen at 75% of monthly earnings adjusted by inflation. Ignores future career prospects if accident had not occurred.
Compensation for pain and suffering	*Determined by:* Court after hearing medical evidence	None. Replaced by new "chronic benefit". This applies if you are 55% disabled and is determined by tables
	Amount paid: Paid in lump sum	To be paid monthly subject to maximum figures

Maharaj's vision of a debt-free Road Accident Fund will take 10 years to realise

BD 10/2/98 (58)

Transport Minister Mac Maharaj's wish list for victims of road accidents is slowly becoming a reality, writes Linda Ensor in Cape Town

MAHARAJ

THE restoration of the Road Accident Fund to some semblance of financial health took a further faltering step last week with the release of government's white paper on the subject. But the road is a long one and the compromises bashed out through prolonged negotiations over the past two years a long way from Transport Minister Mac Maharaj's vision for the care and treatment of motor accident victims.

In an ideal world all victims would be compensated automatically without delving into who was to blame — this could be left to the system of retributive justice to sort out. Such largesse, however, is currently beyond the means of SA, not only financially but also administratively, and in terms of an adequately equipped health-care system. Wish lists shrink dramatically when costed.

So the recommendations of the white paper were forged on the anvil of objective realities, yet they, too, are not the final answer but an attempt to contain further damage.

An independent commission, with a life span of a maximum of three years has been proposed to hear evidence on a system of compensation and come up with a long-term plan. If the economy and the state's purse allow, this could be the no-fault system Maharaj desires.

Yet another commission, one might well sigh; but at least something concrete will happen in the interim to provide what Maharaj believes is an equitable, fair and humane set of affordable benefits that prioritises medical care, the majority and the very seriously injured. Despite continued inequities, the fund, it is hoped, will be stabilised while efforts are made to determine the way ahead.

In terms of the proposed system, all victims will get medical assistance across the board; the number of people able to get higher compensation will be expanded by removing the R25 000 cap on benefits for passengers; and dependants of a deceased victim will be compensated on a full-fault basis.

The road to the white paper has been a rocky one. It was preceded by two drafts, the first in May 1996, which aroused heated opposition from the legal and medical professions, which tore it to pieces. The first draft was based on a no-fault system while the highly complex second draft placed very high caps on the income to be used for calculating loss of earnings.

Central to the white paper's proposals was how to reduce the crippling R8bn actuarial deficit in the fund — growing by about R80m a month — as well as an improvement of benefits for victims.

Why was the deficit climbing so astronomically? First of all, the premium in the form of the fuel levy had not been adjusted to keep up with the rate of inflation. In addition, accidents happen all too frequently in SA — 500 000 a year, 11 000 of them fatal. In an interview Maharaj cited the high settlement costs of claims which, at R247,6m represented 20% of the fund's expenditure, excluding attorney-own client costs. Delays in settling claims averaged between 2,8 and 3,8 years.

A 2/l petrol levy increase would raise income to R2bn from R1,5bn, savings of one form or another would reduce expenditure from R2,4bn to R2bn (18%), while the R8bn deficit would be reduced over time from these savings and other income.

The savings would be derived from reducing the settlement costs (a saving of 4%), paying only 75% of qualifying income (4%) for temporary loss of earnings instead of the previous 100%; providing for the apportionment of benefits to dependants in cases of loss of support (4%); and the replacement of the general damages for nonfinancial losses such as pain and suffering with a catastrophic injury benefit where impairment is 55% or more (19%). The catastrophically injured would get maximum assistance in terms of medical treatment and subsequent medical support.

The unemployed and those without verifiable income would receive R750 for loss of income, while children, students, apprentices etc would receive R1 125 a month.

Offsetting these savings would be the 13% rise in costs brought about by removing the R25 000 cap on passengers. Controversially, the common law right of victims to sue the wrongdoer for losses not covered by the fund would be abrogated. On the basis of these proposals the fund would be solvent in 10 years.

The cabinet's acceptance of the white paper earlier this year was a milestone for Maharaj, who hopes to see legislation passed through Parliament by end-March with the implementation date for the new system set for May 1.

Oil industry to demand bigger slice of fuel sales

Linda Ensor

CAPE TOWN — The oil industry would apply for its marketing margin to be increased by about 2,5c/l — in addition to the 2c/l granted in November — to cover higher distribution costs, SA Petroleum Industry Association executive director Colin McClelland said yesterday.

If granted by Minerals and Energy Affairs Minister Penuell Maduna and if the in-bond landed cost of petrol did not fall to offset the effect, then the retail petrol price would have to rise as a consequence. A 1c/l margin increase adds R180m a year to oil companies' revenues.

McClelland said the oil companies felt justified in applying for further interim relief considering that dealers had been granted a 2c margin increase in November and another 2,5c in February.

Between 1996, when the oil industry applied for a 3c/l margin increase and November, when a 2c/l rise was approved, costs had risen to 4,5c. The marketing margin was regulated at 16c/l.

Meanwhile, the National Black Fuel Retailers' Association attacked the oil companies at a workshop organised by the mineral and energy affairs parliamentary portfolio committee.

A representative of the association, Moses Moloele, said the industry had resisted transformation. Retailers, he said, wanted to own the land on which their petrol stations stood as the lease agreements they had with oil companies undermined profitability.

Excel executive Maurice Radebe said black oil companies wanted a 20% share of the fuel market, or 1 000 of the 5 000 service stations in the country. But McClelland noted that the big oil companies would be reluctant to lose their market position by selling their stations and insisted that they would have to be sold on commercial terms.

Radebe argued that black oil companies should have unlimited quotas for new petrol station sites, while the development of new ones by the major oil companies should be restricted. The workshop learnt that the large oil companies owned or controlled about 40% of all service stations and that these stations were the most strategically positioned resulting in a market penetration of between 70% to 80% of all fuel sold.

Maduna's special adviser, Thulani Gcabashe, questioned the rationalisation plan which governed the sale and distribution of fuel. He said the plan had given the large oil companies a clear advantage. "The powers which currently control the industry ... are insisting that the plan be further entrenched on their own terms and conditions. These things have to be re-examined, but they can't just be done away with as that would cause instability," Gcabashe said.

Mossgas MD David Day said government had been approached for R1,9bn to fund exploration of reserves which might extend the lifespan of the oil-from-gas plant for about 30 years.

BD 10/2/98 (58)

'Accident victims will be worse off' (58)

Sowetan 13/2/98

By Russel Molefe

THE Association of Law Societies of South Africa (ALS) has lashed out at the proposed Road Accident Fund (RAF) legislation which will deny motorists and passengers the right to recover excess compensation after accidents.

The proposed legislation will also put an obligation on attorneys, who have a monopoly in handling claims against the fund, to advise the RAF of their costs.

Transport Minister Mr Mac Maharaj released the details of the proposed law in the form of a White Paper for public debate a week ago.

The legislation is expected to be approved by the Cabinet and tabled in Parliament soon.

The current benefits of the RAF are unlimited, except that the claim is capped at R25 000 maximum. The victim has to seek redress via the common law for any balance of loss suffered above R25 000.

If the proposed legislation is passed, the victim will not be able to claim more than R25 000, irrespective of whether he/she became a paraplegic after the accident or not.

ALS standing committee chairman Mr Ronald Bobroff said the legislation would severely diminish citizens' rights and quality of life.

"The proposed legislation will in one brutal stroke remove a system of compensation that has been refined over 50 years and works well in practice, as well as common law rights that have been recognised in legal systems for 2 000 years.

"It will create a new under-class of destitute road accident victims. Each citizen will be at risk, when using the roads of our country, of becoming a member of this under-class," Bobroff said.

Maharaj earlier argued that the steps had to be taken to save the RAF, which has a deficit of R8 billion. However, he acknowledged that denying victims the right to claim for damages suffered in excess of benefits received could protect negligent drivers.

BNCR

Anger at ATM fee increases

Star 16/2/98 (58)

Not justified, say consumer bodies: banks admit heist losses among reasons for step

By Melanie-Ann Feris

Consumer organisations are seething over the rise in charges at automatic teller machines (ATMs) outside one's own banking network. Transaction fees at ATMs not belonging to one's own bank are up by as much as 60%.

This has angered some consumer bodies who claim the banks are trying to offset the losses sustained in a spate of multimillion-rand cash-in-transit heists.

These consumer unions say are not justified. Consumers using a "foreign" ATM have to pay a Saswitch fee in addition to the transaction fees charged by the bank in which the account is held.

Standard Bank's Saswitch fees, excluding a transaction fee, have gone up by 40% from R2,50 to R3,50; First National Bank's fees have increased from R2,85 to R3,42; NBS's fees from R3,75 to R5 while Absa fees have increased to R6 from R3,75.

National Consumer Forum chairman Diane Terblanche said the increases did not take inflation into account.

"If the inflation rate is only 8%, what is the rest of the increase for? We want to know whether the consumer is being charged for all the money that is being lost in the cash heists or are we paying for bank inefficiencies?" Terblanche asked.

Aletta Geldenhuys, chairperson of the SA National Consumers' Union, said there was concern about the "little people" who were most affected.

"The banks have been forcing customers into using the ATMs, but the people that are using the machines cannot necessarily afford it," she said.

FNB spokeswoman Ann Bramhill said one of the main reasons for the increase was the escalation of costs during the handling of cash.

This includes the cost of guarding cash against robbers, "which is understandably high because of the vulnerability of cash in transit".

ATMS	OLD	NEW
Standard Bank	R2,50	R3,50
First National Bank	R2,85	R3,42
NBS	R3,75	R5,00
ABSA	R3,75	R6,00

Other factors were the increased costs of handling cash deposited by customers from other banks and the high incidence of vandalism at ATM machines. Bramhill said a simple solution to minimise ATM costs was for clients to use their own bank's ATM networks wherever possible.

Banks claimed they had been subsidising ATM costs and would not make any profit on the increase. A spokesman for the council of banks would not comment.

Star 18/2/98

Service-fee increase was 'unavoidable'

(58)

The recent service-fee increase announced by banks is completely unavoidable and long overdue, the Council of South African Banks (Cosab) said yesterday.

The 60% service-fee increase has caused a public outcry and consumer unions have denounced the increase as unjustified, especially in relation to the 8% inflation rate.

But banks have indicated that one of the main reasons for the increase was the escalation of costs during the handling of cash, including the cost of guarding money against robbers.

Robberies cost the banking industry more than R400-million last year.

Cosab chief executive officer Bob Tucker said yesterday that consumers had, for some time, been cushioned from the high cost of cash transactions because banks had been subsidising the costs.

He said large losses from robberies meant that tighter security was needed to protect money and personnel. – Staff Reporter

Private bankers need to access 'new wealth'

CT(BR) 19/2/98 (58)

RAVIN MAHARAJ

Durban — Private bankers had to understand the next generation of wealth and adjust their approach accordingly, Brian Bechet, the managing director of Board of Executors (BoE) Private Bank, said yesterday.

BoE, which is based in Cape Town, provides investment management, banking services as well as trust company services to clients.

Bechet said new wealth was rapidly becoming the core issue in the future of private banking.

The multitude of new listings on the Johannesburg Stock Exchange, and the sale of very large companies to those newly listed "high flyers" had created largely self-made multimillionaires, many of whom did not have private bankers, Bechet said.

"Similarly, we need to watch where wealth is being generated and again adjust quickly.

"The rapidly emerging wealth among the disadvantaged communities is enormous. It is happening quickly and requires large staff which is not yet in place," Bechet said.

The requirements of private banks' potential client base were shifting and becoming global. That was because clients were no longer moving geographically within South Africa, but internationally as well.

"The new client base now requires worldwide expertise and attention," he said.

Bechet said the emphasis within BoE Private Bank would continue to be the identification of sound long-term opportunities for clients.

Bechet said each client required a customised investment portfolio.

Those portfolios could be specifically tailored to meet the client's individual and family requirements.

Bigger is often better for customers, too

Mergers and acquisitions in SA's financial services sector could lead to keener competition and better value, writes Samantha Sharpe

(58)

BD 6/2/98

SA's financial sector is riding a wave of mergers and acquisitions, in the wake of a spate of this activity in the US and Europe, which promises a revaluation of the sector — an outlook marred only by the possibility of a weaker competitive environment.

Spurred on by fears that increasing competition would require changes in traditional structures and strategies, international financial institutions turned to consolidation as early as the 1980s with the maxim "bigger is better" dominating the boardroom and management style.

In effect, early merger activity meant choosing a survival course of increased muscle power, where only the fittest would survive, or increased specialisation and "boutique banking".

SA's financial sector may have remained relatively untouched by this early merger activity, still cut off from international competitors by a moat of political isolation — although the emergence of specialist players such as Investec and the creation of Absa certainly reflected something of what was developing abroad.

However, the re-emergence internationally of merger fever in 1996 and last year meant the local banking and insurance sectors, now back in the international fold following SA's transition to democracy, could not remain unaffected by offshore trends.

While SA's consolidation activity appears to be on a smaller scale than that characterising Europe and the US, it is no less driven in its agenda.

Europe's more notable deals in the insurance sector include the mergers of AXA/UAP, Royal Insurance/Sun Alliance and ING/Banque Bruxelles Lambert (BBL) and in the banking sector the deal between ING and BBL to create a $5,2bn group, the formation of a $9,5bn giant out of Credit Suisse, and Winterthur and the recently announced merger between United Bank of Switzerland and Swiss Bank Corporation.

As with the latest round of consolidation in Europe and the US, SA institutions are showing signs of an evolution from the likes of Absa's "bigger for bigger's sake" to a more subtle understanding of where competitive advantages — and survival — lie.

Says Deloitte Consulting's national insurance practice leader, Jeff Sawyer: "The big winners in 1998 and on will be the insurers who learn how to decipher the Rosetta Stone of customer metrics. They will learn how to provide demanding customers with competitive prices and a value proposition that will make them choose a particular firm and stay with it.

This means products that are suited to the customer and which make use of enhanced data or technology-based resources. In effect using better data mining to understand the customer.

His colleague William Clay says: "For banks it means understanding what customers really want, then figuring out powerful new cost effective ways to give it to them." Added to this is an awareness among institutions of the need for improved distribution networks, which are increasingly being viewed as essential to accommodate new customer lifestyles and to facilitate new banking and insurance products.

In Europe this has resulted in the emergence of "bancassurers" — literally partnerships between banks and insurers — as exemplified in the proposed mergers between Credit Suisse and Winterthur in Switzerland and Sweden's S-E Banken and Trygg-Hansa.

In SA the announcement that Old Mutual, Nedcor, electronics group Dimension Data and retailer Wooltru planned to work together perhaps extended this idea even further to a concept of "bancretailassurers" — a banker, insurer and retailer creating a dedicated supply chain.

The view among analysts that the consolidation activity, which was kick-started last year with the merger of NBS and Boland to form NBS Boland and later financial services group the Board of Executors, is only the tip of the iceberg suggests that "bancassurance" may soon become de rigueur in SA too.

Now on the cards are the possible merger of Norwich Holdings and African Life, a potential acquisition by Fedsure of the life business of Capital Alliance and talk of a deal between Rand Merchant Bank Holdings subsidiary Momentum and Southern Life. The latter, if realised, could give birth to one of the largest insurance groups yet seen in SA.

However, a growing number of analysts forecast that the SA financial services sector is set for a restructuring that will leave only three or four conglomerates to dominate the scene — a possibility made all the more likely by the planned demutualisation and listing of Old Mutual and Sanlam.

Identifying the possible future powerhouses as Old Mutual and Nedcor, Standard Bank and Liberty and possibly Sanlam and Absa or Momentum Life parent RMBH and First National Bank means that they are recognising the possibility of a class of "bancassurance" in SA.

Major European banking mergers and acquisitions during 97/98

Transaction date	Merger/acquisition participant (a)	participant (b)	Transaction value ($bn)
1998	Union Bank of Switzerland	Swiss Bank Corporation	$47,3bn
1997	Credit Suisse	Winterthur	$9,5bn
1997	ING	BBL	$5,2bn
1997	Hypobank	Vereinsbank	$4,9bn
1997	Paribas	Compagnie Bancaire	$4,4bn
1997	Merita	Nordbanken	$4,1bn

Graphic: KAREN MOOLMAN Source: GOLDMAN SACHS EUROPE, UK RESEARCH

It is here that consolidation could prove to be a threat to industry efficiency through reduced competition. SA's financial services sector may have endeared itself to the investment community so far, but what if fewer players means a less efficient operating environment?

Although the net result of consolidation would logically be lessened competition, Goldman Sachs' research team, remains sceptical about what has really been the outcome in Europe and the US.

"First, remaining competitors are likely to be stronger, more efficient providers, with the ability to deploy more technology-based resources, such as data-based marketing, to keep overall competition keen," a Goldman Sachs research report says.

"Second, new advances in technology itself, as embodied by the ubiquitous Internet, may prove to be the ultimate competition. When the costs of delivery of financial services continue to decline (through ATMs, the telephone and the PC), so does the value added spread to the financial intermediary."

"Darwinian" banking, for example, has led to a better managed industry, with underperforming institutions weeded out and "accident prone" institutions in Europe increasingly at risk of being taken over by larger companies. Bank managers are put into a position of improving their returns or risking having someone else do it for them.

Where the danger arises is when firms overpay for acquisitions in the quest for greater size and profitability. "As consolidation continues and as the number of potential suitors declines, there is a risk that prices will be driven up and that companies desperate to merge will pay the inflated prices," says Goldman Sachs.

SA's financial services sector has shown formidable returns in the past year, with the banking and other index rising 44% to 12 180,7 points last year, while the insurance index rose 33% to 11 316,5. While some analysts say the financial sector is starting to look expensive, the key question is whether this year's mergers will see this run continue or provoke a complete overheating of a sector that has run its course.

Analysts in SA are fairly confident that the same consolidation benefits that have emerged in Europe and the US could dominate in the country.

What has to be ascertained is whether the emergence of a group of powerful "bancassurers" and new distribution networks as promised in the deal between Old Mutual and Nedcor translates into growth for shareholders and whether future distribution deals can be as effective as those evidenced between Credit Suisse and Winterthur and S-E Banken and Trygg-Hansa.

For analysts to commit themselves to a forecast of another revaluation of the sector is difficult, especially given a host of other variables such as aggressive new foreign entrants and ever-increasing competition from traditional and nontraditional firms.

However, if the earlier results of merger activity in Europe and the US are anything to go by, it seems possible that keener technology-driven competition may accompany a revaluation of the financial services sector, good news for shareholders and customers.

Accident fund claims under R5 000 to be scrapped

Star 2/2/98 (58)

By Anna Cox

Transport Minister Mac Maharaj will announce controversial changes to the Road Accident Fund, including the scrapping of claims under R5 000, removal of rights to sue negligent, reckless or drunken drivers for damages, and the introduction of a limit on benefits.

Maharaj is to announce the changes despite widespread criticism from the Association of Law Societies, the General Council of the Bar and disabled people's organisations which have stated the removal of such common-law rights is unconstitutional.

Under the current system, claims against the fund are unlimited, with some exceptions.

Under the new system, for past and future medical expenses, apportionment of fault now applies.

Temporary loss of earnings is calculated at 75% of monthly earnings at the time of the accident.

Permanent loss of earnings is subject to the same conditions, but will be frozen from the date of the accident and will increase only with the consumer price index. Career prospects, salary increases, promotions and potential will not be taken into account.

Disability is determined in terms of the American Medical Association table which makes no provision for individual circumstances.

Maharaj claims the new legislation will simplify claims and minimise costs. He said legislation would provide for an independent tribunal operating on an inquisitorial basis before permitting access to the courts and it would encourage professions to work together to identify the most effective way to reduce costs.

The fund is currently in deficit by R8-billion and the deficit grows by R160-million a month. The R1-billion reserves will be exhausted in three years when the fund will be unable to meet its claims.

Maharaj said the underlying reason for the deficit was that the fuel levy of 12,5c paid by motorists was inadequate.

Personal-injury-claim attorney Malcolm Lyons said only the more privileged could afford to insure themselves to compensate for shortfalls in the proposed system. It was estimated that such insurance would cost R1 600 per month for R1-million cover for a single person and R4 500 for a family.

The first R500, the first month's loss of earnings and general damages will no longer be claimable.

The Government has proposed to set up a commission of inquiry to reconsider the system of benefits and/or compensation for victims of road accidents and the latest changes are interim measures.

Lyons disputes the fund's R8-billion deficit: "This figure was based on the fund being fully funded to enable it to pay all outstanding past and future claims on one day.

"The 1991 Melamet Commission recommended that one year's reserves be held and the fund adequately provides for this," he said.

FINANCIAL SERVICES *Takeover offer is conditional on obtaining at least 40% of assurer's equity*

Aflife takes aim at Norwich

CT (BR) 2/2/98 (58)

VERA VON LIERES AND RICHARD STOVIN-BRADFORD

Johannesburg — African Life Assurance (Aflife), the listed entry-level life assurer in the Real Africa Holdings stable, emerged yesterday as one of the suitors for a controlling stake in Norwich Holdings (Norwich).

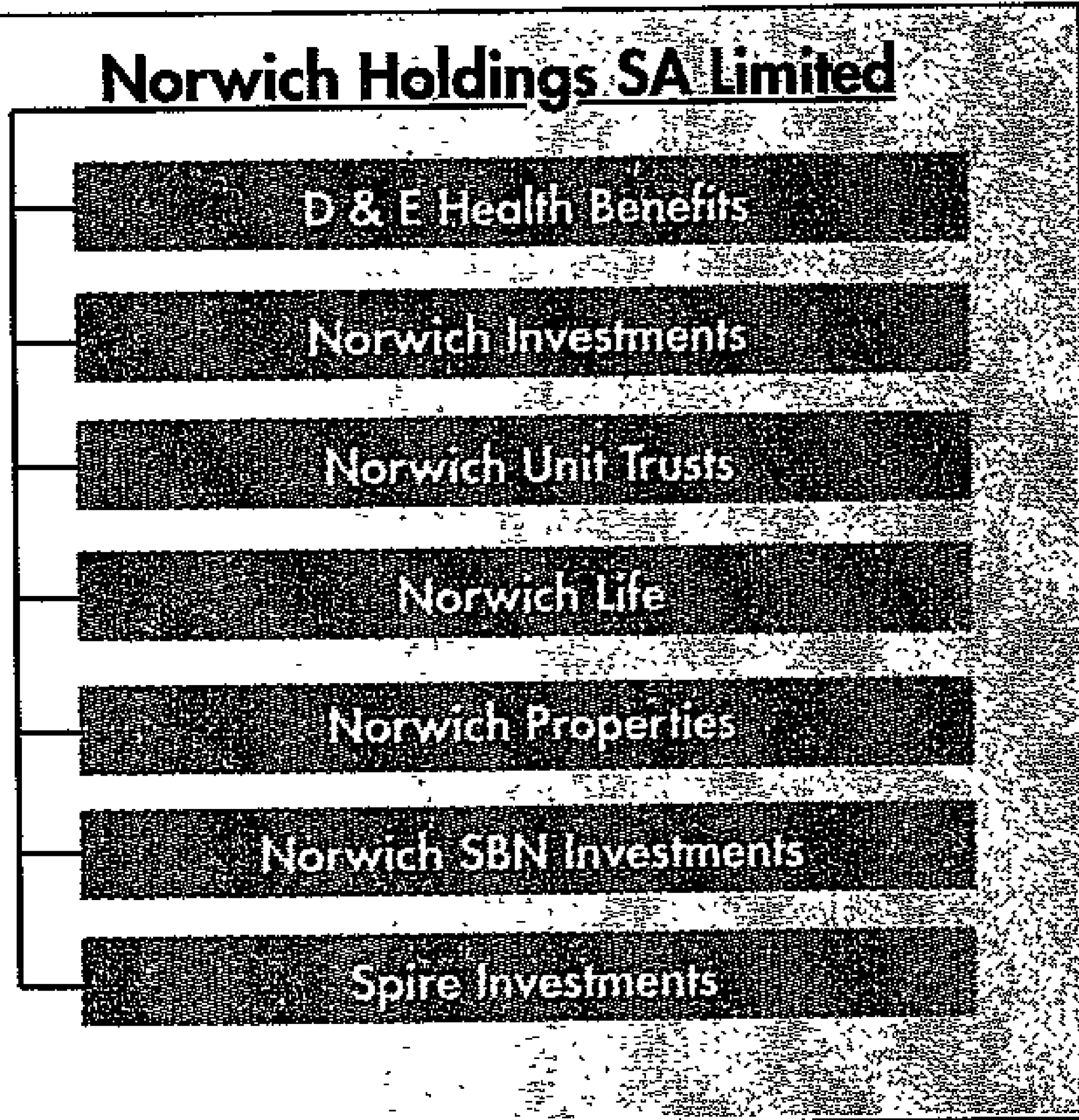
This move came after heavy trading in the assurer's shares late last week on speculation of a hostile takeover which provoked a cautionary announcement from Norwich on Friday.

Don Ncube, the chairman of Aflife, said his company would launch an offer today to Norwich shareholders, conditional on Aflife obtaining at least 40 percent of the company's equity, on the basis of one Aflife share for every four Norwich shares.

Based on the closing prices of Norwich and Aflife shares last Thursday, Norwich shareholders were offered a 27 percent premium which Ncube said was well above the average control premium paid for most listed companies.

Ncube said Real Africa Holdings, which controls 45,2 percent of Aflife, regarded financial services as a core area and the acquisition made sense.

Don Ncube, Aflife's chairman



"I want Norwich to achieve what Real Africa has achieved. Our aim is not to destroy Norwich but rather to create, unlock and spread value," he said.

Ncube said Aflife would be a strong and committed directional shareholder which would develop the Norwich brand for the benefit of Norwich policyholders, shareholders and staff. Aflife could introduce new business to Norwich by managing the progression of its own customer base up the income ladder.

The Norwich board had still to recommend the offer. Charles Davies, the chief executive officer, said at the weekend that Aflife had approached Norwich on Friday with the offer, which would be presented to the board tomorrow, after which Norwich would reply to Aflife. Davies declined to comment on whether he considered the bid hostile.

In Friday's cautionary, Norwich directors said the company's shares were "currently undervalued", leading some analysts to believe the company was seeking bids from more than one potential stakeholder.

Norwich put out the announcement in the belief that Aflife had been buying its shares. However Bill Jack, the chief executive of Aflife, said yesterday that Aflife, which holds 2,38 percent in Norwich, had not bought Norwich shares since January 20 and was not acting with other parties.

Jack said the bid had been accelerated by the cautionary but he did not consider it hostile because it had the support of Norwich's institutional shareholders. He said Aflife had been faced with putting out a cautionary or "going the whole hog".

Jack said the deal was motivated by Aflife's need to supplement its product mix by catering for the needs of the middle- and upper-income sectors through an established brand name. Synergies would emerge from the complementary customer bases, operations and product ranges and there was scope to reduce Norwich's costs.

"This is a good deal for Norwich shareholders but, critically, Aflife must get in there and take an active role in management," said Clive Cooke, the insurance analyst at BoE Securities.

One analyst said Aflife's offer was a little generous and feared Aflife might have damaged its own rating.

Norwich shares closed 70c up on Friday at R9,70. Aflife closed slightly off from R45,70 at R45.

CLAIMS UNDER R5 000 FALL AWAY

Road Fund changes 'unconstitutional'

CT 2/2/98

JOHANNESBURG: Sweeping changes to the Road Accident Fund will be announced today — and greeted by a chorus of criticism.

(58)

Sweeping changes to the Road Accident Fund, which include removing rights to sue negligent, reckless or drunken drivers for damages, as well as the introduction of limits on all benefits, are to be announced by Transport Minister Mr Mac Maharaj today.

The White Paper has drawn widespread criticism from the Association of Law Societies, the General Council of the Bar and disabled peoples' organisation who say the removal of such common law rights is unconstitutional.

Under the current system, claims against the fund are unlimited, except for passengers, if the driver was solely to blame for the accident. The balance can be claimed from the driver of the vehicle.

Under the new system, for past and future medical expenses, apportionment of fault now applies, so if a driver was 50% to blame for the accident, he would only receive half his medical costs.

Temporary loss of earnings are calculated at 75% of monthly earnings at the time of the accident. Children, students, apprentices and trainees will be deemed to earn 75% of R1 500, that is R1 125 per month, but only payable after the age of 21, again reduced by a percentage of fault.

All other South African residents will receive 25% of R1 000, or R750 per month, subject to fault.

Permanent loss of earnings are subject to the same conditions, but are frozen from the date of the accident and will only increase with the consumer price index. Career prospects, salary increases, promotions and potential are not taken into account.

Disability is determined in terms of the American Medical Association table which makes no provision for individual circumstances.

Maharaj claims the new legislation will simplify claims to minimise costs. He said legislation would provide for an independent tribunal operating on an inquisitorial basis before permitting access to the courts, and it would encourage professions to work together in identifying the most effective way of reducing costs.

The fund is currently in deficit of R8-billion and escalates at R160-million a month. The existing R1-billion reserves will be exhausted in three years and the fund will be unable to meet its claims, he said.

Maharaj said the underlying reason for the deficit was that the 12,5c fuel levy paid to the fund by motorists was inadequate. The deficit was aggravated by the appaling accident rate and heavy settlement costs.

Personal injury claim attorney Mr Malcolm Lyons said only the more privileged could afford to insure themselves to compensate for the shortfalls in the proposed system. It was estimated that such insurance would cost R1 600 per month for a R1-million cover for a single person.

Claims under R5 000 will disappear. An estimated 52% of all claims fall into this category. The first R500, the first month's loss of earnings and general damages will no longer be claimable. — Own Correspondent

Banks and insurers in big merger moves

Johannesburg – South Africa's financial industry is poised for a sustained period of mergers as banks and insurers emulate European and American counterparts in the fight for critical mass, analysts said here.

News that Sanlam will demutualise this year arrived hours after Anglo American Corporation and RMB Holdings Ltd announced talks over the merger of some of their financial interests.

Analysts took this to signal a marriage between Southern Life Association and Momentum Life and said other companies were being targeted, including some of South Africa's top banks.

"Absa will be absolutely pivotal for Sanlam," said analyst Dave Southey at Edey Rogers in Johannesburg.

Sanlam, which already owns 25% of the bank, needs a national retail network to distribute its financial products.

Other analysts said Sanlam would probably seek to raise its stake in Absa to over half, but might aim for a 100% takeover as this would tie up a great deal of capital.

Sanlam's rival, Old Mutual, also plans to demutualise and seek a listing. The group already owned 51% of Nedcor and it was expected to study how the two could aid each other's businesses, analysts said.

Merger mania was partly responsible for fuelling a major financial stocks rally in the United States and across Europe last year. The same re-rating was already underway in Johannesburg and might even have reached its peak. While the overall stock market fell about 8% in value last year, the financial index soared more than 35%.

"The sector is already looking expensive. On an average p/e (price/earnings) ratio of over 15 times, it commands a premium to the market – something banks in this country don't often manage to achieve," said another analyst. – Reuters

Aflife in Norwich venture

Johannesburg – JSE-listed African Life Assurance Company Limited (Aflife) has announced plans to bid for a minimum 40% interest in the Norwich Holdings group.

Chairman Don Ncube said Aflife was to make a conditional offer to Norwich shareholders to acquire at least 50% of their holdings in the ratio of one Aflife share for every four Norwich shares.

"Based on the closing price of Norwich and Aflife shares on Thursday (January 29), the holders of Norwich shares are being offered a 27% premium to the value of these shares," Mr Ncube said.

He said the offer was conditional on the necessary approvals from the holders of not less than 40% of the issued capital of Norwich.

Market capitalisation of Aflife has grown at a compound rate of 51,3% a year to R4,4 billion from R70 million. The offer opens on Monday, February 16, and closes on Friday, March 13. – Sapa

NEWS

Maharaj proposes ring-fencing Road Accident Fund's deficit and raising fuel levy to 14,5c

White paper puts brakes on road claims

CT (BR) 3/2/98 (58)

NCABA HLOPHE

Johannesburg — The final draft white paper on the Road Accident Fund (RAF), launched yesterday, proposes ring-fencing its R8 billion deficit and raising the fuel levy to 14,5c to ensure the fund's stability.

Mac Maharaj, the transport minister, said the deficit, which was growing at R80 million a month, could reach over R39 billion in 10 years if the present system of compensation remained unchanged. He said the current system was beset with problems that would not be solved even by increasing the fuel levy to 52,5c.

These problems include high settlement costs of R247,6 million, which accounts for 20 percent of total expenditure; settlement delays which take an average of two years; and the R25 000 passenger cap which would increase expenditure by 13 percent if it was removed.

Other problems included general damages, which took up 28 percent expenditure for non-financial losses, and the high national rate of 500 000 accidents a year with 11 000 fatalities.

Maharaj said the government intended to increase the premium income from R1,5 billion to R2 billion through the 2c fuel levy and to reduce expenditure by 18 percent, from R2,4 billion to R2 billion.

The government would also ring-fence the old fund from April 30 — thus sealing it from any new claims arising before that date — and would create the new fund from May 1 this year.

"The intention is to keep the new fund solvent over the next decade. This would require a reduction of the order of 18 percent in current levels of expenditure," the minister said.

However, the financing of the old fund would still need urgent attention since its assets were likely to be depleted within the first year, as its current R5,2 billion deficit was expected to accumulate interest of 15 percent a year to R22 billion in 10 years, Maharaj added.

The white paper recommended the formation of a commission to review the system and decide the structure of both the old and new funds.

The minister said the new system would also do away with the common-law right to sue wrongdoers for losses not covered by the RAF.

CAUTIOUS DRIVER *Mac Maharaj displays the new Road Accident Fund white paper* PHOTO: JOHN WOODROOF

'Restructuring to stabilise fund'

(58) BD 3/2/98

Bonile Ngqiyaza

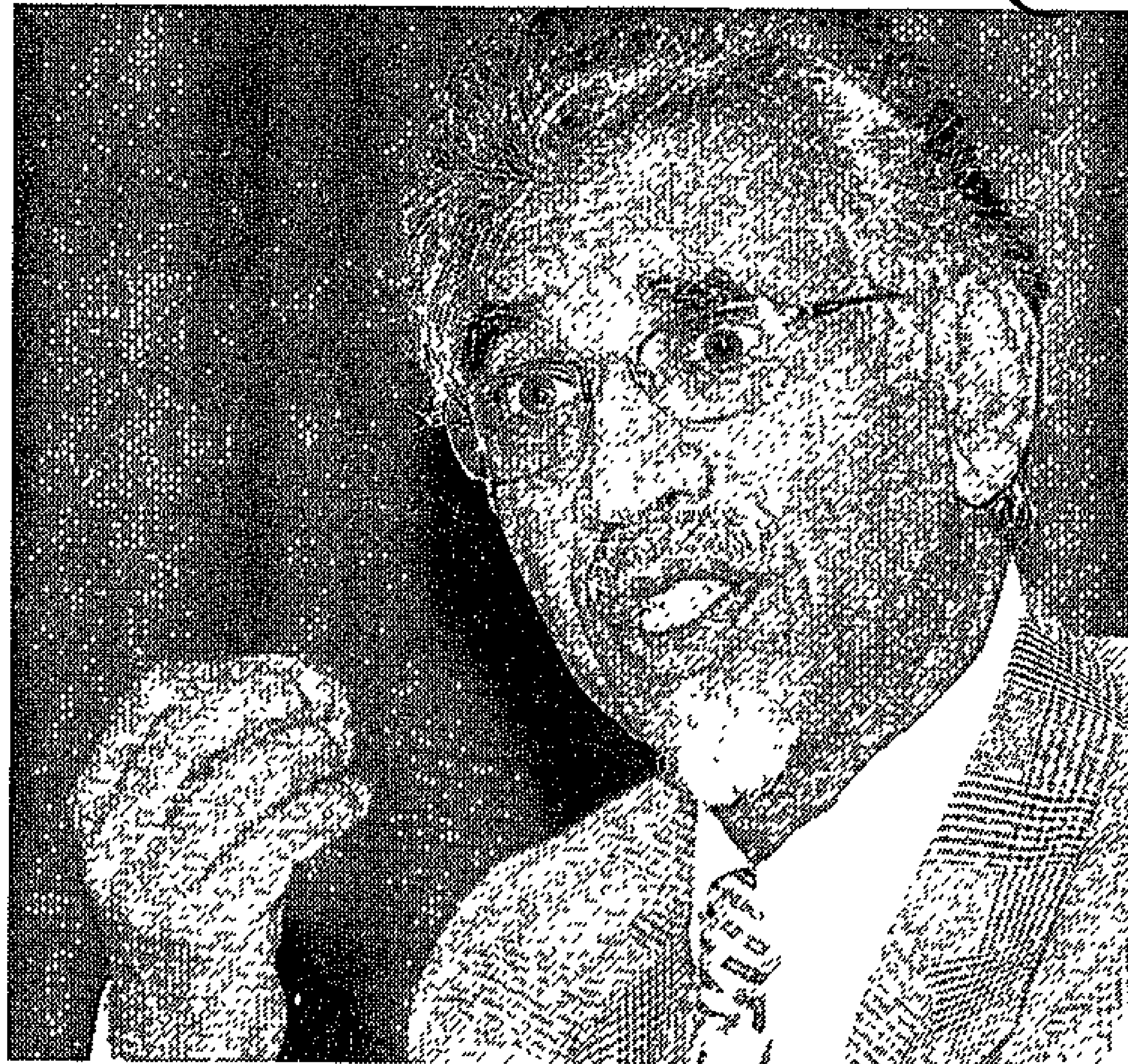
GOVERNMENT yesterday released a list of proposals it said were aimed at stabilising the Road Accident Fund and making it solvent within the next 10 years, including increasing the fuel levy by 2c to 14,5c.

At the document's launch in Johannesburg, Transport Minister Mac Maharaj said the proposals were also aimed at reducing expenditure 18% to R2bn so that it matched income — expected to rise with the increase in fuel levy.

The proposals in the white paper on the road accident fund include removing the common law right to sue the wrongdoer for losses not covered by the fund, the introduction of a limit on benefits and the scrapping of claims under R5 000.

The government proposals have drawn objections from a wide range of sources, including members of the medical profession, transport organisations and commerce.

Sapa reports that according to the document, leaving the common law right intact had many disadvantages and would create uncertainty, anxiety and loss of confidence among private motorists.



Transport Minister Mac Maharaj at the launch of his white paper on the road accident fund yesterday. Picture: TREVOR SAMSON

Maharaj said government was satisfied that the document contained a sustainable set of benefits which would stabilise the fund while a commission looked at the long term future and function of compensation for victims.

After careful consideration of the proposals, he said government had decided to abolish the common law right to recover excess damages from the wrongdoer as the larger portion of the population would be unable to afford the excesses, leaving many destitute.

Asked whether abrogation of the right could be challenged in the Constitutional Court, Maharaj said his department had taken exhaustive opinion on the matter and remained confident that such a challenge would fail.

Maharaj said the huge deficit government faced in the Road Accident Fund was a result of the premium not being adjusted to keep up with the rate of inflation.

Government, he said, had increased the levy three times in the past year from nine cents to 10,5c in March last year to 12,5c in December and finally to 14,5c this month — a figure which translated into an increase of more than 61%.

There were six issues other than the financial mismatch between premium income and benefits that were so problematic as to require attention.

These included high settlement costs using 20% of available expenditure — of which 75% was in legal costs alone — settlement delays of between 32 and 44 months on average and general damages claims that accounted for 28% of expenditure for nonfinancial losses.

Plan to stabilise Accident Fund sparks controversy

Star 4/2/98 (68)

BY ANNA COX

The new white paper on the Road Accident Fund seeks, through interim measures, to stabilise the fund by cutting costs and reducing its R8-billion deficit within a 10-year period, Transport Minister Mac Maharaj said this week.

He said the measures would ring-fence the current deficit and address it over a period through savings. The fund would also invest 2,5% of income in road safety to reduce the 500 000 accidents which happen every year, he said.

A commission would be established to review the entire system of compensation for road accident victims, and this would take between two and three years, he said.

The fund's current R1,5-billion income would be increased to R2-billion with the increased fuel levy of 14,5c, which came into effect at the beginning of this month, and the R2,4-billion expenditure would be reduced by 18% to R2-billion.

This would be done through reduced settlement costs, capping qualifying income at 75%, apportioning loss of support and replacing general damages with catastrophic benefits.

"We are committed to victims – that is why we have increased the fuel levy three times this year, representing a 61% overall increase," he said.

Reacting to the statement that lawyers were threatening to have the new provisions, some of which removed common-law rights, tested in the Constitutional Court, Maharaj said his department had taken legal advice and felt it was defensible from an equity and financial point of view.

"The Government recognises with regret that in seeking to allocate limited resources equitably for the benefit of the majority of the population, some individual inequities are inevitable."

ILO calls for radical overhaul of IMF

Sowetan 5/2/98

DAVOS, Switzerland – International Labour Organisations (ILO) called for a radical overhaul of the International Monetary Fund (IMF), saying its rescue package for Asia essentially protects banks' interests and will lead to millions of workers suffering.

The IMF is "using hard-earned taxpayers' money to bail out those who were responsible for the catastrophe", general secretary of the International Confederation of Free Trade Unions (ICFTU) Bill Jordan told a press conference at the World Economic Forum annual meeting.

"We have seen extraordinarily bad judgment on the part of the international banking community which continued short-term lending without taking proper account of the risk, but it is not the banks that will suffer," said general secretary of the International Federation of Commercial, Clerical, Technical and Professional Employees Philip Jennings.

But most private lenders "have now escaped from the consequences of their misjudgment and mismanagement – and the real burden" is falling on the victims of the crisis, said Jordan.

"We fear that the IMF package will bring much suffering to ordinary working people. Millions will lose their jobs, and their savings," he said.

Too little thought was given to the social consequences of the economic reforms demanded by the IMF in return for funds and the time had come for "new rules and a new approach to financial and banking regulations".

"The IMF has a long history of starting to raise the confidence of the banks, the investors and the speculators, by bailing out those that are at risk," said US union federation AFL-CIO chief John Sweeney.

But when it came to workers, all it left behind was "crushed hopes".

"This moment of crisis is the time to press for necessary changes in the international financial system, particularly in the conditions imposed by the IMF in exchange for the "bailouts" it gives to countries that have exhausted all other sources of credit," the AFL-CIO said in a statement.

The IMF should also be opened up and consult regularly with unions, not just business and financial institutions, when drawing up rescue packages, it said. *–Sapa-AFP.*

Gauging bank vulnerability

(58)

6/2/98

SA banks score well on new measure

Standard & Poor's new tool for assessing banking sectors tends to confirm that SA banks are quite healthy. But it does show government debt levels are too high.

S&P's approach estimates the portion of loans that would become uncollectable in the event of a crisis or sharp contraction in growth, says the *Emerging Markets Investor*.

For example, less than 3% of SA banks' loans are thought to be nonperforming (that is, likely to be written off). But in a crisis, S&P estimates 10%-20% of loans could go bad.

Then S&P looks at how big an item bank lending is overall. In SA, total credit to private-sector companies and nonfinancial public entities is 72% of annual GDP S&P calculates the "contingent liability" faced by government in a crisis is 7%-14% of GDP.

But the higher government debt is, the less able the State is to rescue ailing banks. SA has a heavy State debt load, at 59% of GDP. So, in terms of S&P's measure, good bank regulation is paying off, but failure to reduce SA's State debt will prejudice its chances of a good sovereign risk rating.

Mexico has one of the best scores, with a 6%-9% contingent liability and State debt of 15%. Thailand rates badly, with a potential 37%-60% GDP exposure (see chart). ■

THE BAD DEBT THREAT

	Problem assets (% of credit in the system)	Credit* as % GDP	Est contingent liability (% GDP)	State debt as % GDP ('97 est)
Russia	35-60	12	4-7	54
Mexico	35-60	16	6-9	15
SA	10-20	72	7-14	59
Turkey	35-60	24	8-14	57
Philippines	15-30	61	9-18	53
Indonesia	25-40	63	16-25	33
Hong Kong	10-20	177	18-35	7
S Korea	15-30	147	22-44	17
Malaysia	15-30	163	24-49	32
China	35-60	100	35-60	11
Thailand	25-40	149	37-60	23

*Foreign & domestic lending to private-sector companies and non-financial public-sector entities

SOURCE: S&P

ASSURANCE INDUSTRY

Rewriting all the old

Momentum is in the forefront of the upstarts fighting for a place in the big league. How will the fallout affe

Three major announcements in the space of 69 hours, all involving the assurance industry, mark the beginning of a major shake-up in SA financial services.

Last Thursday, Sanlam made its long-awaited announcement that it is to demutualise and convert its reserves into share capital. The same day RMB Holdings (RMBH), Momentum Life, Southern Life, First National Bank (FNB) and Anglo American issued a cautionary advising shareholders that "preliminary discussions are taking place regarding a potential merger of various financial services interests of Anglo and RMBH". The shareholding relationship between the parties is shown on the chart on page 33.

On Sunday, African Life launched a hostile takeover bid for Cape-based Norwich Holdings. The next day Fedsure issued a cautionary after speculation that it intended taking over Capital Alliance Life from Capital Alliance.

Last year's announced demutualisation of Old Mutual surely influenced Sanlam, which is now boldly following in its rival's footsteps. Demutualisation will make vast new sources of capital available to Old Mutual and Sanlam. Competitors such as Liberty, Southern and Momentum are acutely aware of this threat. Liberty doesn't lack capital. Southern and Momentum will now reassess their positions.

Black empowerment is also changing the industry. African Life has been a success in the lower end of the market and when it and its controlling shareholder Real Africa Investments started looking around, it was only a matter of time before their gaze fell upon Norwich Holdings in Cape Town. It has been particularly vulnerable to a takeover bid. A policyholders' trust is its biggest shareholder, with a 20% stake.

In addition, Norwich saw its free reserves (excess of assets over policy liabilities) decline by 25% in 1996 (*Focus* May 23 1997). Its capital situation is not strong and with last year's market havoc, it is unlikely to turn around anytime soon.

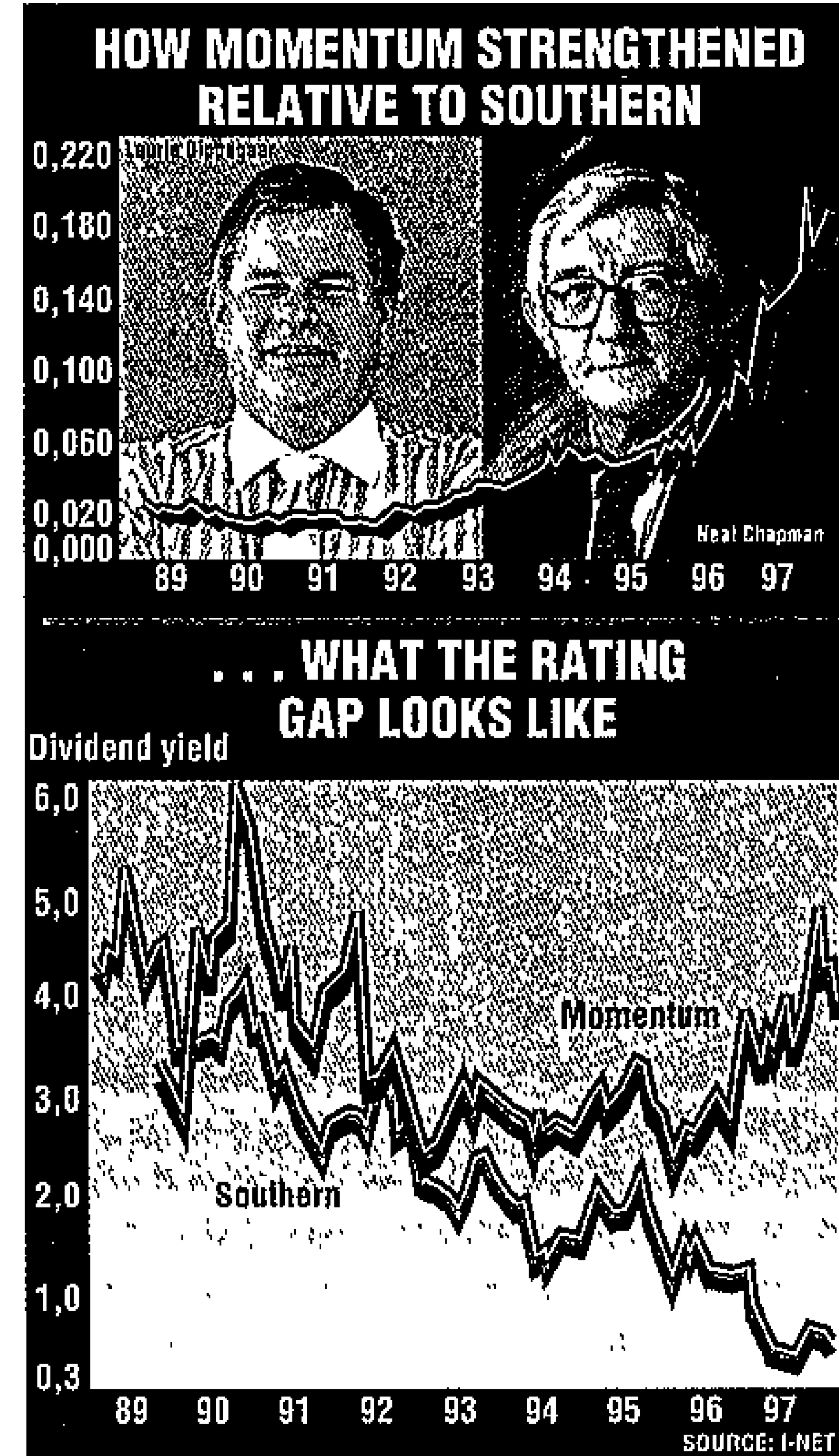
In fact, market instability is probably one reason why Southern is talking to Momentum. Southern also experienced a decline in free reserves last year.

If Momentum succeeds in its bid to join the big league it will make a major difference. In fact, in many respects it has already rewritten the rule book on financial services in SA.

Strangely enough, it all started a few months after the stock market crash of October 1987, when the news of troubled life assurer Lifegro became public.

A low solvency ratio and high investment guarantees on policies with a short term were only some of the problems facing SA's then fifth largest life assurer.

Controlling shareholders Rembrandt and Volkskas stepped in. In a reverse takeover scheme, the much smaller and then unlisted Momentum Life (also owned by Rembrandt and Volkskas) absorbed Lifegro.



Many years later, the *FM* saw an internal Lifegro management document which had apparently circulated in 1987-1988. At the old Lifegro, some managers probably believed firmly in the proposition that all was well as long as cash flow was positive.

The unknown author of the document dismisses this argument· "This is irrelevant, it is the balance of assets and liabilities that matters. Unfortunately, because of the normal manner in which surplus (profit) is released, one can have calculated positive transfers to shareholders when net worth is zero."

In slightly different terms, a life assurer can declare profits and dividends which are not backed by an increase in reserves. Lifegro had probably been doing so in 1987, as Norwich and Southern have been doing more recently.

In 1988 disclosure in the life assurance industry was really bad. Nowadays life assurers publish their free reserves (the excess of assets over policy liabilities). It is possible to see whether dividends are properly funded.

So, in 1988 Lifegro was in severe trouble. On the face of it, Southern — which listed in 1985 after demutualisation and a merger with Anglo American Life in 1984 — was in fine shape. With Anglo and FNB as shareholders, it kept the best possible company.

Meanwhile, Momentum battled to shake off Lifegro's baggage. In 1991, when Absa came into being, Absa took over the 30% Lifegro stake previously held by Volkskas. The next year, Absa and Rembrandt sold

MOMENTUM'S RESERVES REVALUED

	Rm
Free reserves as published	2 527
Less: Investments at published values	
— RMB (100%)*	(2 022)
— Other strategic investments**	(1 087)
Plus: Strategic stakes: *FM* estimates	
— RMB (100%)*	3 750
— RMB Asset Management	500
— Momentum Health (70%)	250
— Momentum Properties	409
— Aegis (50%)	300
— MAS	300
	4 927

* 40% held by policyholders. ** RMB Asset Management, Momentum Health, Momentum Properties, Aegis and MAS.

Sources: Momentum, annual report, 1997 and FSB returns.

(58) FM 6/2/98

rules

.nvestors?

Momentum to Sanlam. Management disapproved of the move and started looking around for an alternative shareholder.

The end result was the sweetest deal of all. First RMBH bought Rembrandt and Absa's stake of 59% in Momentum for R180,8m (43c/share). Then RMBH sold its 100% stake in Rand Merchant Bank for R385,6m to Momentum. Of that 40% (R154,2m) was funded in cash from Momentum's policyholders' funds. The balance of 60% (R231,4m) was funded by issuing 52,6m Momentum shares at 43c/share to RMBH.

RMBH's total cost in buying Momentum was R412,2m or about 44c/share. Today RMBH's stake in Momentum has revalued about 17 times to R8,6bn. The share price has revalued 21 times from 44c to R9,25.

Now, Momentum's market capitalisation of R12,4bn outstrips Southern's by about R3bn. In 1992 Momentum's premium income was 45% that of Southern. By last year it had leapt to 94%. So Momentum and RMBH have a strong hand to play in the Southern poker game.

How has all this happened?

RMBH, through RMB, was already a formidable force in merchant banking by the time it bought Momentum. RMBH's controlling shareholders — G T Ferreira, chairman of RMBH and RMB, Laurie Dippenaar, executive chairman of Momentum and Paul Harris, MD of RMB — had already established themselves as a force to be reckoned with.

RMB's independence and ability to make problems disappear with a fresh approach would soon be implemented in the often stifling and bureaucratic insurance environment.

A Momentum executive recalls the days when the best structure for the new group was under discussion: "It was open, frank and surprisingly democratic." Dippenaar would ask: "How do you measure (insurance) profit?" Nobody in the SA assurance world questioned at that stage the notion that profits were measured by the actuary's valuation. The *FM* has asked the same question repeatedly.

Momentum created profit centres. These are no theoretical exercises in which an accountant allocates corporate costs to different areas. It is a robust process and fees are negotiated between profit centres on an annual basis. Where necessary, Dippenaar acts as arbiter and has on occasion referred disputes to an outside consultant.

The result is that premium income at Momentum has in the past five years grown at a compound rate of 37% and administrative costs by only 7%. Cumbersome overhead structures have been discarded.

As a separate subsidiary, RMB follows the same principles. Both institutions are known for hiring young and energetic executives, typically people in their thirties and early forties.

Striking examples are Hillie Meyer (39), MD of Momentum, Adrian Gore (33), MD of Momentum Health, Llewellyn van Rensburg (42), MD of Management Administration Services (MAS)(42) and Hilary Wilton (41), MD of Aegis (a short-term insurer).

The stock market has been kind to Momentum and RMBH and analysts have learnt through experience that Momentum's published figures are naturally conservative and do not reflect real value.

The free reserves (also referred to as capital) are a key figure indicating the financial strength of an assurer. Last year Momentum revealed free reserves of about R2,5bn in its actuarial balance sheet.

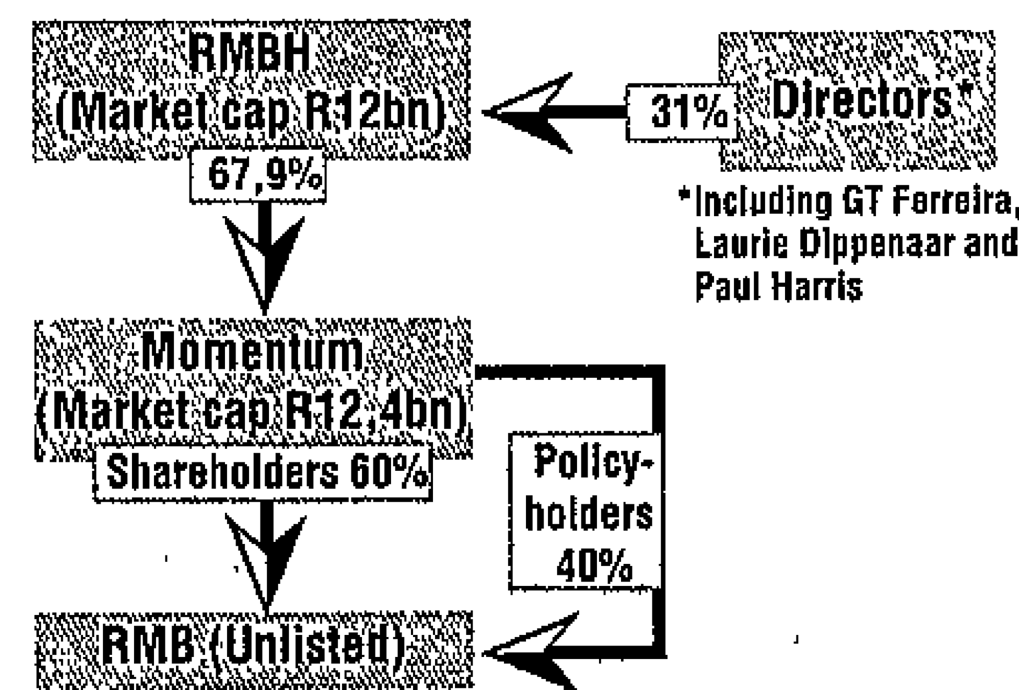
Actuarial balance sheets generally reflect the value of assets at market value. Momentum has a number of significant unlisted assets. The biggest of these, of course, is RMB. Being unlisted, it is shown at director's valuation in the balance sheet.

Returns submitted to the Financial Services Board show that RMB is valued at about R2bn. For the year to June 1997 RMB showed an attributable profit of R131m. As 60% of the RMB stake is owned by Momentum shareholders and the rest by policyholders, it means that RMB contributed R78,6m to Momentum's bottom line.

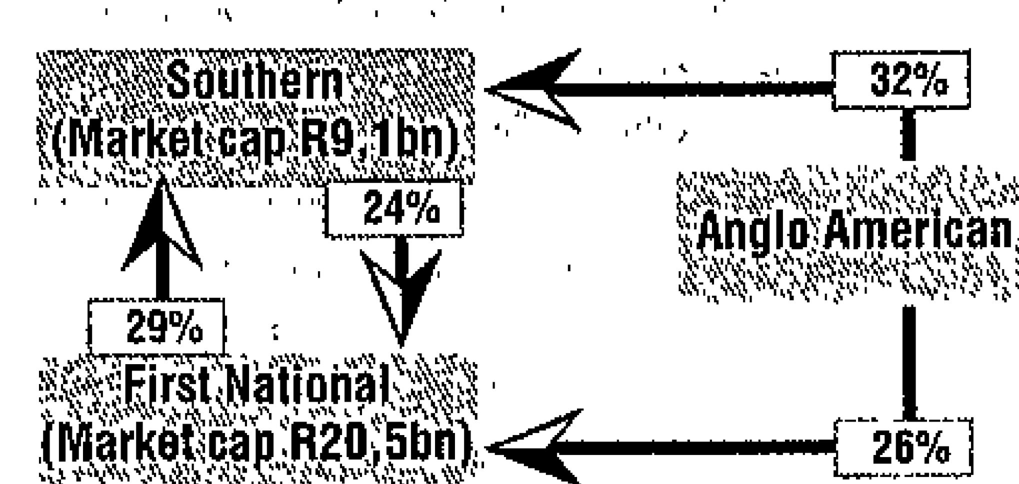
RMB's rolling updated profit for the year to December can be estimated at R150m. Its Sandton neighbour, Investec Bank, now trades at a p:e of 31,2. If we once again assume a p:e of 25, then RMB is valued at

THE PLAYERS

RMBH's basic structure



The Southern triangle



R3,75bn, a far cry from the value reflected in Momentum's balance sheet.

In addition, RMB's accounting is conservative. Listed equity investments are shown at book value. Showing them at market value would have added another R154m to RMB's capital of R751m.

Momentum also owns other unlisted assets. They include Momentum Health (70% held), Momentum Properties, RMB Asset Management, Aegis (50%) and MAS.

The Financial Services Board returns reveal that they are collectively valued at about R1,1bn by the directors. A conservative estimate, however, would put the valuation at about R1,8bn.

RMB Asset Management has, according to Momentum's 1997 annual report, been managing assets of about R40bn This huge client base adds at least R500m to Momentum's assets.

Momentum Health is an interesting asset. Gore shares with his management team in the equity of the venture. Its financial statements for the year to June 1997 show free

→

AFRICAN LIFE

Generous offer

African Life is probably a bit generous with its offer to Norwich. It offers one share in African Life for every four held in Norwich. At last Friday's price of R45, Norwich was valued at R11,25 per share. The market acted accordingly and as the *FM* went to press, the price dropped to R43, effectively valuing Norwich shares at R10,75.

Though Norwich has displayed, on a smaller scale, some of the symptoms Lifegro experienced in the Eighties, it remains an asset that African Life dearly wants in pursuit of its strategic objectives. The offer is generous and it remains to be seen if Norwich minorities will listen to its board's advice to disregard the offer. ■

Insurance bill aims to update SA finance laws

(58) 6/2/98

Pat Sidley

THE Long-Term Insurance Bill, about 11 years in the drafting, will finally come before Parliament this year.

The holdup this time was caused by the invention of a newly formed consumer research body, the Consumers Institute of SA, which hopes to raise several issues around consumer protection or, more importantly, the lack thereof.

The long-term bill and its companion in the short-term insurance industry are two of several proposed pieces of legislation, regulations and deregulation which will affect investors.

Aside from the insurance industry, the stock exchange, unit trust industry and aspects of banking including the Usury Act are up for grabs this year.

That these issues are being reviewed indicates, in part, a commitment to modernise the financial services industry, while offering its investors more by way of rights and protection.

But the move has been accompanied by a change in how consumer protection is viewed, both from the government and from newly formed lobby and research groups.

The bill can now be changed only by the intervention of the parliamentary discussion processes — a point at which the institute hopes to intervene, but will also be making suggestions to the Financial Services Board on the section contained in the bill dealing with the need for consumer protection. It certainly needs more attention.

According to Diane Terblanche, the institute's director and a lawyer who was for many years involved in public interest law, the most often heard complaint from insurance policy holders was that they did not receive the benefits they believed they were entitled to in terms of their policies.

She cites the high rate of lapses and surrenders of policies as evidence of large-scale misselling of policies and "misrepresentation of the benefits under the policies".

This misrepresentation features in the long-term insurance ombudsman's office, which has noted the difficulties in controlling how brokers and other intermediaries sell policies. The ombudsman's office has been given some teeth — but the gaps remain significant.

Terblanche points out that there is no reference in the bill to any code of behaviour to which agents or brokers should adhere. However, brokers in all the financial services are due for regulation in terms of the Retail Investment Services Act, according to Oppie Opperman of the financial board.

Last year about 3,1-million policies were sold. In the same year almost 1,4-million policies either lapsed or were surrendered, which caused investors to lose hundreds of millions of rands to the insurance industry.

"It's difficult to determine from the bills who will be responsible for misrepresentation and misselling. But even if you can prove a missale, the sanctions are so weak they offer no real deterrence," she says in institute journal Consumer Focus. (A firm like Old Mutual may pay a maximum fine of R20 000 for misselling, if one of its agents missells!)

A section of the draft bill which needs scrutiny proposes the overseeing of an assurer who, unpaid for several months, can on the basis of a formula calculated to benefit the assurer, ensure that a year's premiums are deducted from any investment due to the hapless investor.

This raises the issue of whether or not the investor was informed or should be informed of the consequences of skipping premium payments. The issue, however, is inadequately dealt with in the bill.

The institute believes that like investors in the UK, Australia and several other countries, prospective policy holders in SA should receive a simple sales illustration like the Key Features Document legislated in the UK. This document sets out the basic information necessary for an informed decision about the product.

Trade pact talks with EU shift into higher gear

(74) ARG 11/2/98

Brussels – The European Union says it has agreed with South Africa to step up negotiations on a trade and aid pact, where a "substantial amount of work" remains to be done.

South Africa is trying to persuade the EU to open its markets further to South African exports.

European Development Commissioner Joao de Deus Pinheiro reviewed negotiations, spanning 30 months, at a meeting in Pretoria this week with Trade and Industry Minister Alec Erwin. A key sticking point has been over farm trade. – Reuters

A free trade deal 'must include agriculture'

Canners take up cudgels for workers

(74) CT(BR) 17/12/98

RAVIN MAHARAJ

Durban — A group of fruit canners had presented a memorandum yesterday to the European Union (EU) mission in Cape Town, urging negotiators involved in drawing up a free trade agreement to ensure that domestic production of food products was not undermined by unfair competition from subsidised EU products, the Food and Allied Workers' Union (Fawu) said yesterday.

William Thomas, the Western Cape regional secretary of Fawu, said the union also wanted negotiators to ensure that a trade and development agreement would result in improved terms of trade for South African agricultural products, including the fruit canning industry.

South African canned fruit is charged customs duties of up to 21 percent in Europe. The EU was proposing that even if a free trade agreement was concluded with South Africa, high duties be retained on canned fruit and other agricultural exports, Thomas said.

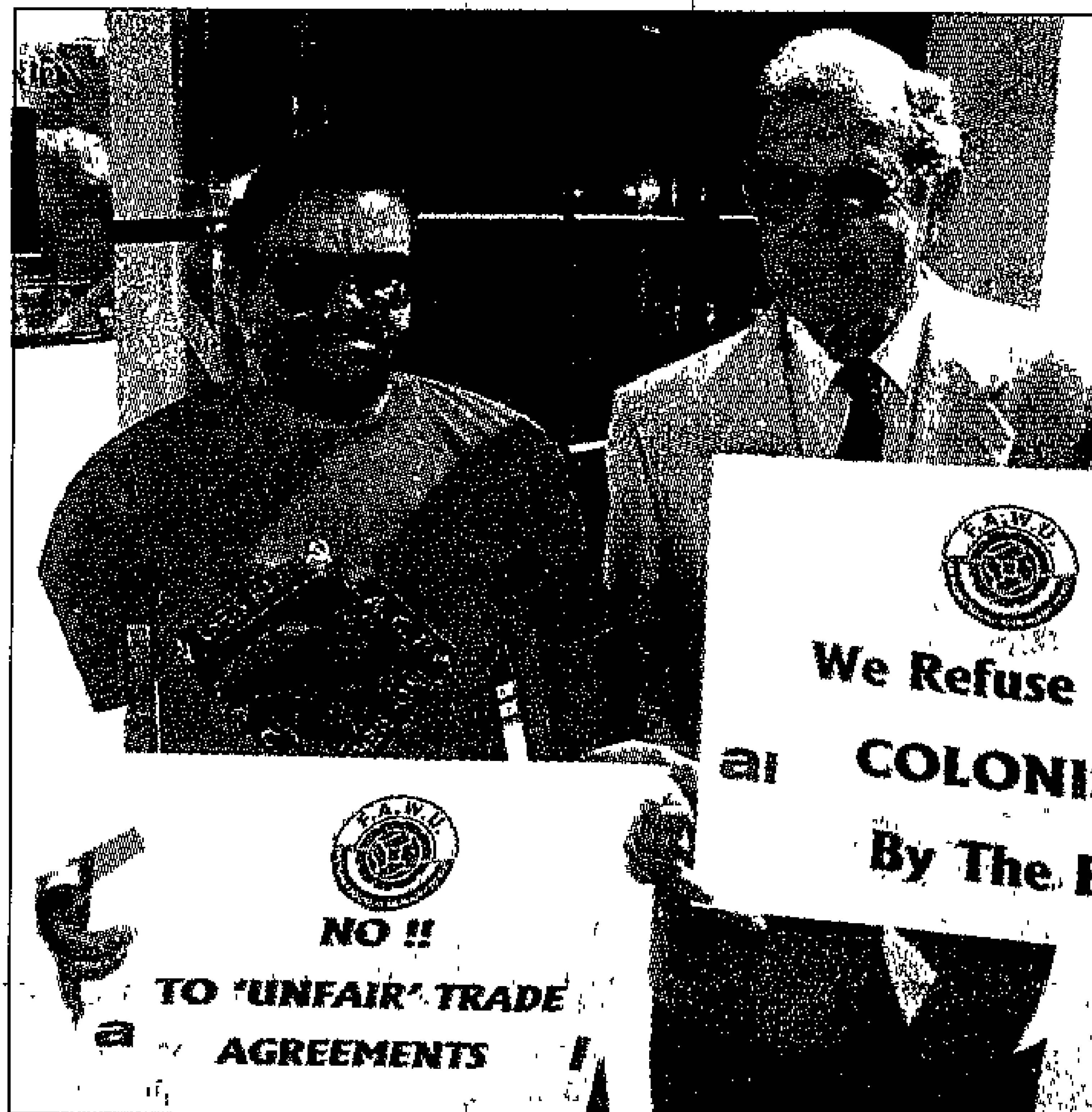
"The suggestion that high import duties be retained on local canned fruit and other agricultural products means that we will continue to face disadvantages in exporting to European countries," Thomas said.

He said the abolition of the government's General Export Incentive Scheme and quotas limiting the importation of tomato products was unacceptable because it allowed unfair competition from the EU to undermine job security in critical sectors of the Western Cape.

"Rural areas, which already suffer the highest levels of food insecurity in South Africa, will be worst hit. This approach makes a mockery of the rhetoric of the trade negotiations regarding the promotion of economic growth, development and job creation."

Last year, Langeberg Foods said it would cut production of canned deciduous fruit destined for Europe by a third. Some 2 000 seasonal workers and 400 permanent workers at the group's Paarl factory lost their jobs.

Some 800 permanent jobs and many more seasonal jobs on fruit farms, plus up to 4 000 jobs in tomato canning, were also under threat, Thomas said.



FREE TRADERS *Canning industry workers protested in Cape Town yesterday against the exclusion of SA agricultural and food products from an EU deal* PHOTO: ANDREW BROWN

Tariff 'protectionism' stalls accord

SA threat to pull plug on EU dialogue

ET(BR) 17/2/98 (74)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The long-running negotiations with the European Union (EU) suffered a setback yesterday when South Africa's trade negotiators threatened to pull out of free trade talks if the EU's offer was not improved.

Elias Links, South Africa's ambassador to the EU, and Bahle Sibisi, the chief director for trade relations in the department of trade and industry, told a joint sitting of three parliamentary committees that the EU's offer was disappointingly protectionist and placed much of the adjustment burden on South Africa.

They warned that South Africa might pull out of the trade aspects of its broader co-operation agreement with the EU. Last week Alec Erwin, the minister of trade and industry, said he hoped to make a breakthrough in the negotiations by March.

Links said South Africa had been disappointed that the concept of asymmetry had not been respected by the EU's offer. Under this plan South Africa would have more time to cut import tariffs, enabling producers to adjust to a more competitive market.

Sibisi said that by the time the new agreement went into effect in 1999, 76 percent of South Africa's exports to the EU would be free of duty. The EU had suggested different levels of tariff cuts for industry and agriculture, with the latter being much more conservative. About 6 percent of total trade, or 46 percent of agricultural trade, would be excluded from tariff cuts.

Tariffs on products where South Africa had the greatest export potential, such as vegetables, fruit, meat and some wines, would only be cut between the fourth and 10th year and in some instances it could be stretched to the 12th year.

For about 6,2 percent of trade the EU proposed that it and South Africa move tariffs to zero at the same time. This suggestion covered goods such as textiles, some clothing, insecticides, lamps and light fittings, tyres, steel and furniture.

Sibisi said the problem was that tariff levels for these goods were much higher here than in the EU and if tariffs were cut to zero at the same time the EU would benefit more than South Africa.

The EU had not yet decided what to do about ferro-alloys, but Sibisi said South Africa suspected tariffs on these products would be kept in place until the last, or not lifted at all. South Africa had in turn proposed that products produced and marketed in different seasons should not be excluded from tariff cuts, while the EU should commit itself to regular reviews of products still excluded from tariff cuts.

Most of the EU products excluded from tariff cuts are heavily subsidised agricultural products. Sibisi said the government was "still waiting for the EU to provide creative ways to deal with the problems and distortion which arise out of the Common Agricultural Policy".

Both Links and Sibisi said that although South Africa would bear the brunt of tariff cuts and would gain marginal market access at first, the strategic benefits of a free trade area agreement would be incalculable.

Several committee members expressed concern that the EU offer did not seem to take into account the possible effects of the free trade area on neighbouring states, especially those within the Southern African Customs Union.

□ Business Watch, Page 16

Dangers for SA in Indian Ocean Rim

ET (BR) 11/2/98 (74)

FRED AHWIRENG-OBENG

South Africa has formally endorsed the charter of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), a new initiative that seeks to promote economic liberalisation among some 47 Indian Ocean Rim (IOR) countries. Should it have done so at this stage of its transition? And on what basis?

South Africans involved in the IOR-ARC process have greeted the concept of regional co-operation with considerable optimism, yet no discernible attempts have been made to locate its practice in a critical context.

From political, historical, cultural and other perspectives, a fairly strong case for participation in the IOR-ARC has been established. But I wish to argue that the economic case is neither clear nor straightforward. In that sense, South Africa's enthusiasm is naive and misplaced.

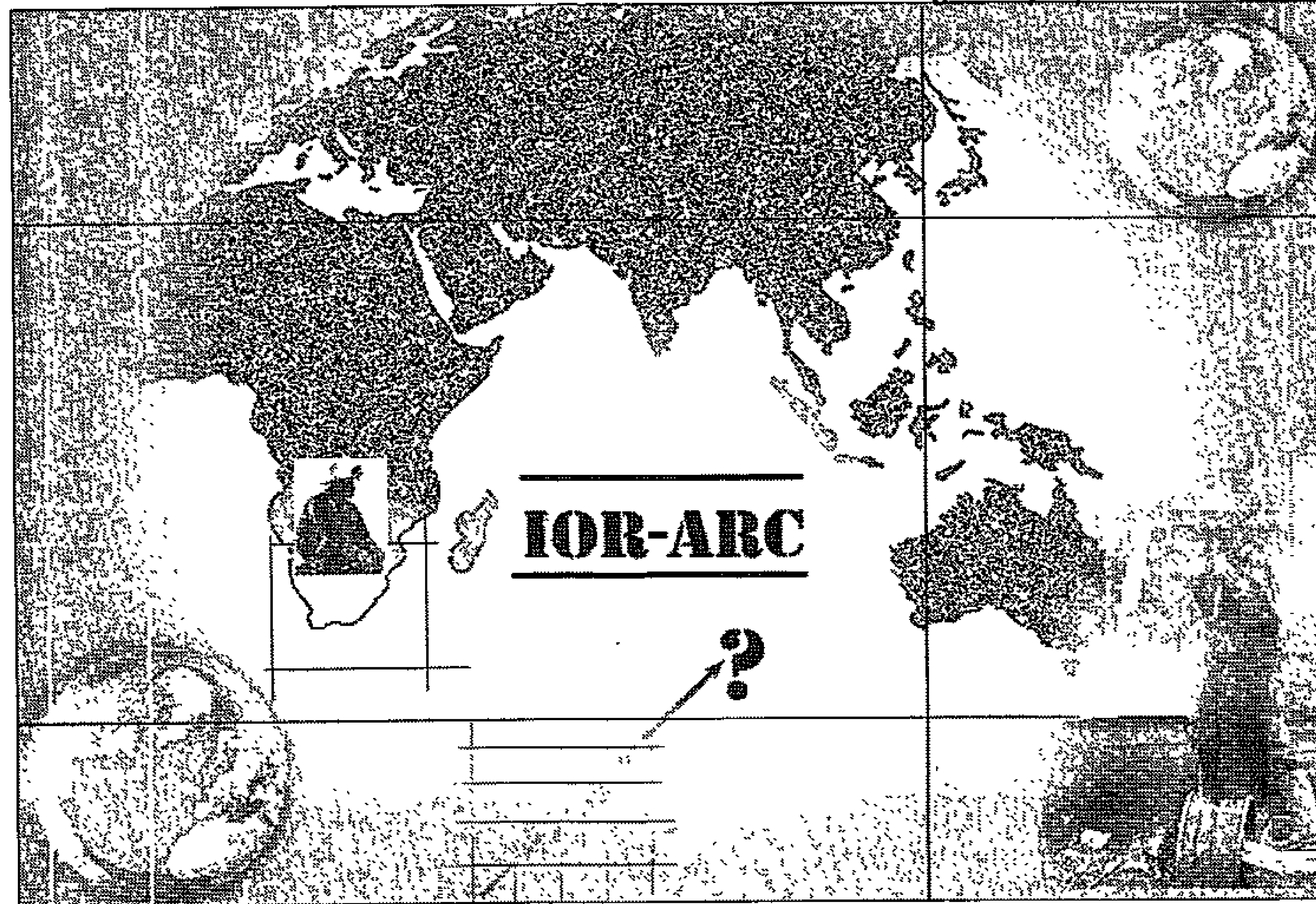
The South African government believes that participation in this forum will attract capital and technology, as well as promote trade, which will boost the growth, employment and redistribution (Gear) strategy. Underlying the optimism is a lack of understanding of the new rules of global competition.

A nation's comparative advantage and international competitiveness originate from its productivity relative to that of other nations.

Liberalisation of regional economic relations, as envisaged in the IOR-ARC charter, potentially stimulates and accelerates technological diffusion, but mere technological accumulation without the indigenous capability to access, absorb, adapt, add to and use efficiently, invariably fails to enhance competitiveness.

In my view, South Africa's supportive institutions lack the form and effectiveness to bring about improvements in the country's comparative advantage and international competitiveness within the alliance.

In fact, the opening of the South African economy to the IOR-ARC will put significant pressure on this weak institutional support system. As a result, the country will fail to respond quickly to the technological dynamism of more rapid industrialisers, diminishing its ability to compete successfully in regional trade.



This means that not only is South Africa's peripheral position vis-a-vis technologically superior countries in the region not likely to change, but also that its central role in relation to the less-developed countries could be challenged.

This argument is supported by research in 1995 which identified the competitiveness of Southern African Customs Union (Sacu) countries in relation to other potential trading partners within the IOR.

It shows South Africa's trading status to be peripheral, particularly to Australia, New Zealand, Burma, Thailand, Malaysia, Singapore and Indonesia, and that the country's participation in the association is unlikely to change the existing patterns of comparative advantage.

Indeed, these fast-industrialising countries are likely to use their superior technology and other competitive advantages to displace South Africa from its central role with respect to its African trading partners, as well as Pakistan, Bangladesh, Sri Lanka and the Maldives.

South Africa's successful participation in the IOR-ARC hinges on congenial conditions for technology transfer and accumulation being negotiated at governmental level. The purpose of negotiations would be to produce enforceable codes of technology transfer that would facilitate access to technology at reasonable cost, as well as regulate commercial practices.

It should address such issues as the technological monopoly of multinational corporations; the centralisation of research and development; the inadequacy of transferred techniques; the high cost of technologies; technological dependence; restrictive practices; and the absence of training effect.

These considerations, among others, are the fabric of a strategic appraisal of the benefits of open regionalism between countries of unequal levels of economic development.

However, given the current state of comparative advantages and IOR-ARC arrangements, I do not foresee any significant economic benefits arising from South Africa's inclusion in the alliance.

South Africa's trade with the region is, in any case, growing steadily. I would therefore recommend an intensification of the South African government's strategy of active, selective and consistent bilateralism within a multilateral framework, in gradually and steadily drawing the country into the global economy.

☐ *Fred Ahwireng-Obeng is a professor of economics at the Wits Business School*

Negotiators hope for breakthrough in trade talks

(74) BD 11/2/98

John Dludlu

THE European Union and SA emerged from a ministerial meeting yesterday with hopes that a "major breakthrough" had been reached on sticking points to the co-operation talks.

Officials said Trade Minister Alec Erwin and João de Deus Pinheiro, the EU commissioner, had agreed that their initial trade offers needed to be improved to increase product coverage.

However, Pinheiro and Erwin felt that "sensitive interests and products" would be respected.

Dealing with sensitive items, such as the EU's suggestion that about 45% of SA's farm exports should be excluded, was proving to be a serious obstacle in the trade negotiations.

SA, which opposes arbitrary exclusions of items from the proposed free trade area, has suggested that special accords — which would be reviewed periodically — be signed to accommodate sensitive products in the final accord.

But the lack of clarity in these "special arrangements" was regarded by the EU as a stumbling block to further progress.

On the other hand, SA was disappointed that the more detailed EU position still contained exclusions.

Erwin and Pinheiro have reiterated their commitment to reaching an agreement on trade, development and co-operation by midyear.

An EU official said the meeting achieved a breakthrough on positions that had become problematic to the two sides.

The official said Erwin would submit a list with specific requests on products to be granted preferential access to the EU over the next few weeks.

"The minister (Erwin) was able to find ways of dealing with logjams," a senior SA official said last night.

Echoing EU sentiments of a breakthrough in the talks, the Pretoria official said Erwin believed that there was a "political way out of the problems" between the two sides.

The official also said the June deadline for reaching an accord could not be extended.

The next round of negotiations next month by officials would be crucial.

The talks, which have been going on for 30 months, have yet to move into "real bargaining" about specific product lines, although progress has been made in non-trade aspects of the accord, including SA's qualified membership of the Lomé convention and the conclusion of a science and technology agreement.

It is understood Erwin and Pinheiro have agreed on a programme of work that will accelerate the talks, including monthly meetings of technocrats.

Talks on a fisheries agreement have yet to begin in earnest, with a round planned for next month.

The occasional meetings by senior political leaders are aimed at breaking deadlocks in the technical negotiations.

'Trade links will benefit SA, India'

Sowetan 12/2/98 (74)

Midrand show is just the beginning of a long relationship

By Shadrack Mashalaba

SOUTH AFRICA and India stand to benefit from the resumption of trade between the two countries, Indian high commissioner to South Africa Lakshmi Jain said yesterday.

Speaking during the opening of the Made in India Exhibition in Midrand, Jain said the show heralded the start of strong ties between the two countries. It also marked the beginning of a partnership between South Africa and India which was based on prosperity and peace.

Confederation of Indian Industry (CII) president N Kumar said trade between the two countries was expected to increase.

Kumar said the value of trade between the two countries had risen to more than R2 billion in 1996.

"We are now focusing on technological cooperation, the transfer of skills, manufacturing and long-term partnerships," the CII said.

Jain said the CII had already opened an office in Johannesburg and was ready to encourage industrial co-operation between the two countries.

The exhibition features products and services of 100 Indian companies which include automobile and auto components, building machinery, consumer non-durables, electronic equipment, healthcare, iron and steel, leather, office equipment, textiles and handicrafts.

It is the largest Made in India Exhibition staged anywhere in the world, the CII said.

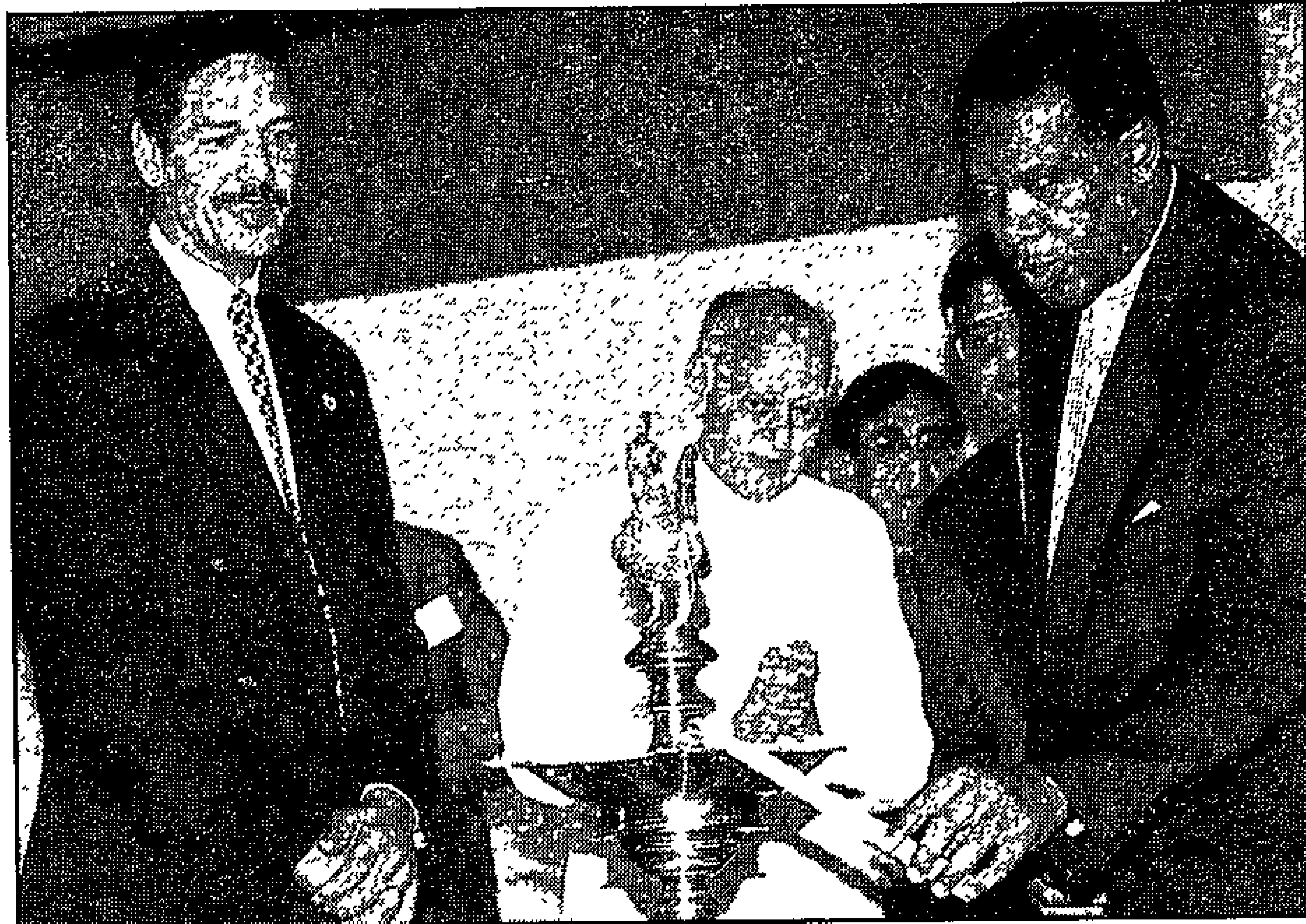
Former Gauteng premier Tokyo Sexwale said it was disturbing that South Africa, with its strong mining sector, was unable to add value and benefit to its resources.

Sexwale said it was ironic that South Africa, the world's largest supplier of diamonds, employed fewer than 3 000 people in the diamond processing industry compared to India's cutting and polishing industry, which employed 800 000 people.

"The products on display here reaffirm that the United States and Europe no longer have a world monopoly on high technology manufacturing. India has used its small and medium enterprises as an engine for growth, also in the high technology sector," Sexwale said.

Seminars on mining, small, medium and micro enterprises information technology and business opportunities in the Southern African Development Community will also run concurrently with the exhibition.

The exhibition is organised by the Indian High Commission, the CII and is supported by several local private sector companies. It ends on Saturday.



Gauteng Legislature speaker Trevor Fowler, Indian high commissioner to South Africa Lakshmi Jain and former premier Tokyo Sexwale light the inaugural lamp at the opening of ninth Made in India Exhibition yesterday. PIC: VELI NHLAPO

DIPLOMATIC VIEW

Window of opportunity for EU trade pact gets narrower

CT (BR) 12/2/98 (74)

It is by no means certain that agreement on a trade and aid pact between South Africa and the European Union (EU) will be finalised during the British presidency of the EU, which runs until June.

Jack Cunningham, the British agriculture minister, visiting here last November, urged South Africa to strain every sinew to get the work done during Britain's time in the chair.

Britain's Labour government, with its close affiliation to the ANC, is considered to be the champion of the most liberal pact South Africa could strike with the EU.

Having reviewed progress on the negotiations with Alex Erwin, the trade minister, this week, Joao de Deus Pinheiro, the European development commissioner, reportedly feels a "substantial amount of work" remains to be done.

Nevertheless, Pinheiro is upbeat about the state of the 30-month negotiations and believes "doors were clearly opened" in his meeting with Erwin, where it was agreed to step up the pace.

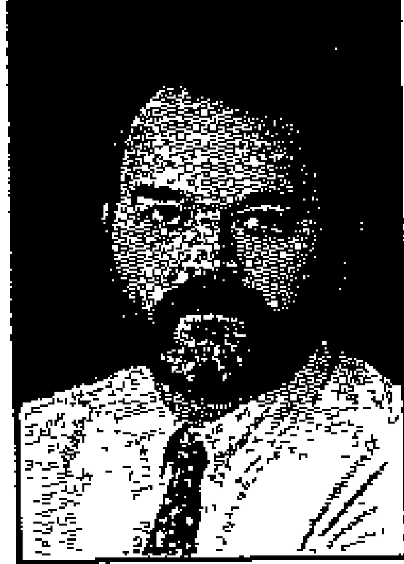
Negotiators on both sides have been charged with finalising a draft text by next month, with further rounds of negotiations in March, April and May.

This does not leave much time for officials to finish their work in time for a proposed signing in the middle of next year.

Whatever happens, the southern Africa region will remain very much front of mind in the Austrian presidency of the EU in the second half of the year.

Austria's Deputy Foreign Minister, Benita Maria Ferrero-Waldners, was in Pretoria last week explaining her government's intention of focusing sharply on developing co-operation between the EU and the Southern African Development Community (SADC).

She told Aziz Pahad, the deputy foreign minister, that no fewer than four conferences had been arranged to bring European and SADC opinion makers and experts together in specific fields of development.



JEAN-JACQUES CORNISH

In Harare, the subject of the seminar will be conflict prevention and containment. Zimbabwe holds the security portfolio in the SADC.

This gathering in late September or early October should be of particular interest to the government of Robert Mugabe, which has had more than a little local difficulty on the internal security front in recent weeks.

Transport ministers and other specialists from Europe and southern Africa will gather in Maputo in October to focus on transport in the region and ways Europe can help to get goods and people moving between SADC members and from the SADC countries to foreign markets.

In October, parliamentarians from the dozen SADC members and representatives of non-government organisations in these countries will meet their European counterparts in Vienna in a gathering that will set the scene for the EU-SADC ministerial conference there the following month.

The ministerial conference will be seen as a continuation of the 1994 Berlin conference of European and SADC ministers, the so-called Kinkel Initiative, named for the German foreign minister who masterminded it.

That meeting, which marked South Africa's admission to SADC, adopted resolutions on joint efforts to advance the southern African region politically and economically.

In addition to endorsing co-operation on political dialogue, financial, trade and other ties, the ministers pledged their countries' support for democracy at all levels and for human rights, protection of minorities, promotion of social justice and good governance.

The latter will dovetail well for Austrian officials, who are braced for a busy six months. In addition to the SADC conferences, they will be hosting or organising several meetings and seminars to reflect their country's commitment to human rights.

A Vienna conference is planned to review progress in this field 50 years after adoption of the United Nations declaration on human rights.

Given President Mandela's plain speaking at last year's SADC summit on the unsatisfactory human rights records of some of our regional partners, a vigorous review of progress is timely.

Some SADC members bridled at what they saw as a lecture from Mandela. So a review under a neutral chairman can only be healthy — and helpful to those SADC citizens suffering oppression or deprivation.

Erwin aims for March deadline on EU accord

(74) CT (BR) 13/2/98

LYNDA LOXTON

Cape Town — Free-trade negotiations between South Africa and the European Union (EU) were dogged by sharp differences of opinion but a basic framework should be wrapped up by March, Alec Erwin, the trade and industry minister, said yesterday.

Erwin told a media briefing at parliament that the EU offer made two weeks ago would not be acceptable to South Africa.

"It does not provide sufficient market access for industrial or agricultural products," he said.

But in Tuesday's meeting with Joao de Deus Pinheiro, the EU commissioner, they "evolved a very focused, well-structured means of going forward to try and reach a conclusion on this".

"I indicated to the commission exactly the areas on which we would like change in the industrial offer and I also indicated in precise terms the position around agriculture," said Erwin.

South Africa also believed the agreement did not have enough of a development component.

"We will meet again in March and we are confident that, by then, the EU will have decided if it can accommodate us," he said.

Asked whether he had detected any softening in the EU stance, Erwin said: "The day I see the EU softened will be a pleasant day. The EU has its member states' interests to pursue. We have very clear objectives and by the time we reach a final agreement we will have battered ourselves into a compromising pulp, I'm sure."

Other important trade negotiations to be concluded this year include the free trade area agreement with the Southern African Development Community, due to start in April, and the renegotiation of the Southern African Customs Union agreement.

□ Business Watch, Page 14

SA, EU aim at early start to trade pact

(74)

John Dludlu 13/2/98

SA AND the European Union (EU) have signalled their intention to facilitate an early implementation of the EU-SA free trade area currently under negotiation.

The two sides are hoping to begin a tariff liberalisation programme as early as next January, say the negotiators.

Jean-Claude Boidin, head of the European Commission's task force on SA, said early implementation of the pact would send positive signals to prospective investors, while allowing SA products to benefit from tariff preference margins. In terms under discussion, SA's exports should be allowed better market access to the EU first. After a grace period, SA would have to open its markets to the EU's products.

Apart from endorsement by EU states and SA's legislature, the accord would have to be submitted to the World Trade Organisation for approval. A delay could see tariff preference margins being whittled by the global liberalisation process.

It also emerged this week that the two sides had diffused a potentially explosive dispute over tariff adjustments by Pretoria. The EU was concerned that the continuing tariff reform could be in violation of last year's "standstill" and "roll back" clause. This clause, part of a technical agreement, chiefly forbids parties from raising protection while involved in negotiations.

Bahle Sibisi, chief director of foreign trade relations at the trade and industry department said the reforms, which also involved the replacement of import controls by tariffs, would generally result in the reduction of tariffs. However, there could be cases where the process bumped up protection.

INSIDE PARLIAMENT

EU trade negotiations move to parliament

CT(BR) 16/2/98

(74)

The long drawn-out negotiations with the European Union (EU) on a free trade area agreement move to parliament today as the trade and industry, foreign affairs and agriculture committees are briefed on the state of play.

Before that gets under way, however, a group of fruit canning factory workers from Paarl are scheduled to stage a demonstration outside the nearby EU mission in support of South Africa's demands that its agricultural products, including canned fruit, be granted better access to the European market.

Alec Erwin, the trade and industry minister, told a media briefing last week that this issue remained one of the sticking points in the negotiations. He and his officials, however, hope to make some kind of breakthrough by March.

Fruit canners like Langeberg have been hard-hit by the high duties they have to pay to get into the European markets, making them uncompetitive against the highly subsidised European canners.

Thousands of jobs are on the line in Paarl, and the demonstration this morning will remind the EU that South Africa strongly believes any trade agreement should take social and developmental issues into consideration.

The public accounts committee will decide today what to do about the Sarafina II issue, consider various treasury department replies to queries and hear a report-back on the National Intelligence Agency's new head office and secret service accounts in general.

LYNDA LOXTON

It will also prepare for its hearing on February 25 with the South African Communications Service (SACS), which is being taken to task for not following normal tender procedures on the printing of the government's mid-term report.

The contract, which went to a company in which relatives of the head of the SACS worked, cost R1,6-million more than it would have had the government printer been used.

Given the emphasis placed on fiscal discipline these days, the committee is expected to take a tough line with the SACS.

Jay Naidoo, the posts and telecommunications minister, is expected to give a media briefing today on his plans for the year and the little-reported recent meeting in Somerset West of telecommunications ministers from 32 African countries. They established an African Telecommunications Development Steering Committee, chaired by Naidoo, to prepare comprehensive positions papers to present to investors at the Africa Telecom '98 conference to be held in South Africa in May.

The aim of the conference is to attract investment in African telecommunications systems to get the continent up to speed with the rest of the world.

Tomorrow should be a busy day for committees. The finance committee will start its deliberation on the adjustments appropriations bill presented to the national assembly on Friday by Trevor Manuel, the finance minister. Much attention will no doubt be focused on the provinces' ability to stick to their budgets.

The minerals and energy committee will continue its examination of the liquid fuels industry which started last week with a day-long workshop.

This time the committee will mainly be briefed by the minerals and energy department, which will also touch on minerals policy including the mineral rights issue which has excited so many observers and created concern in the Chamber of Mines.

The public enterprises committee will take another look at the ever-contentious privatisation issue with a briefing by Alexkor, the troubled diamond mining parastatal, and the Electricity Regulation Authority.

The transport committee will be briefed on the proposed new cross-border road transport agency aimed at speeding up the flow of cross-border traffic. It will also be briefed on the bill to legalise the privatisation of the Airports Company.

On Wednesday the finance committee will meet again to consider three new bills.

The Unit Trusts Control Act aims to deregulate levies charged by unit trusts and make several other technical changes, including allowing foreign investment schemes to operate in South Africa.

The Stock Exchanges Control Amendment Bill will, among other things, "regulate undesirable advertising or canvassing relating to securities".

The Financial Markets Control Amendment Bill deals with restrictions on the management of investments, undesirable advertising, disclosure and limits on liability.

Late last week the committee was also considering the possibility of meeting on Thursday and Friday to discuss the formula developed by the Financial and Fiscal Commission on the funding of the provinces from the national exchequer.

That would give the committee another opportunity to discuss the adjustment estimates before they go to the national assembly for debate on February 23. A decision will be taken early this week.

SA and Mauritius to sign bilateral trade agreement

Sowetan 17/2/98 (74)

By Sowetan Business Reporter

SOUTH Africa and Mauritius are expected to sign a bilateral agreement on the reciprocal promotion and protection of investments between the two countries.

The Ministry of Foreign Affairs says the trade agreement will be signed by Mauritius prime minister Navinchandra Ramgoolam when he meets President Nelson Mandela today.

He is also expected to meet Deputy President Thabo Mbeki, Speaker of Parliament Frene Ginwala and Truth and Reconciliation Commission chairman Desmond Tutu during his two-day visit to South Africa.

He will also visit places of historical and cultural importance in KwaZulu-Natal and will unveil a plaque at Pietermaritzburg's railway station, where Mahatma Gandhi was forcibly removed from a train by the colonial administration in that province.

According to the ministry, Ramgoolam's visit will enhance and expand the sound trade and other relations which already exist between Mauritius and SA.

Accompanying Ramgoolam will also be a group of influential Mauritian business leaders, who will meet representatives of Business South Africa, the South African Chamber of Business and the South African Foreign Trade Organisation.

Bilateral trade between Mauritius and SA has grown steadily – it reached R1 billion in 1997.

SA tourists to the island reached the 50 000 a year mark, according to the ministry.

President Nelson Mandela will sign a bilateral trade agreement with Mauritius today.

EU response elicits 'deep disappointment'

(74) BD 17/2/98

Wyndham Hartley

CAPE TOWN — SA's chief trade negotiator with the European Union (EU), ambassador Elias Links, expressed "deep disappointment" yesterday over the way Europe's latest response had failed to reduce agricultural exclusions and ignored the principle of "asymmetry".

Briefing Parliament's committees on trade and industry and foreign affairs, Links said he was disappointed that the principle of asymmetry — which would allow SA to liberalise its trade regime at a different speed to the EU in the context of a free trade agreement — "has not been respected".

He was referring to the detailed trade offer from the EU presented to the SA negotiators late last month.

He complained that the latest mandate from the EU commission was "too rigid". This was particularly true of exclusions from the agreement with about 40% of SA's agricultural products not covered.

Links also announced that the EU had launched an investigation into the effects a free trade agreement with SA would have on neighbouring countries, particularly those belonging to the SA customs union (SACU). He said that if the study showed that there were negative effects for Botswana, Lesotho, Namibia and Swaziland, "they would have to beef up the agreement to negate the impact on our SACU partners".

Chief director for foreign trade relations, Bahle Sibisi told the committees both SA and the EU were committed to completing the free trade agreement negotiations by June. He said that at present SA's import tariff levels were higher than those of the EU.

Sibisi said intense work had produced broad agreement on competition policy and transparency in government procurement. However, work was needed on safeguards, anti-dumping and countervailing measures.

Links added that the ratification process for SA's accession to the Lomé convention should be in place by April. This would give SA tenderers access to the lucrative European Development Fund.

Pearl Sebolao reports that the Food and Allied Workers' Union (Fawu), the Congress of SA Trade Unions and the SA Communist Party have opposed the exclusion of certain agricultural and food products from the proposed agreements between SA and the EU.

"The suggestion that high import duties be retained on our canned fruit and other agricultural products means that we will continue to face disadvantages in exporting to European countries," Fawu said in a memorandum to SA and EU negotiators.

The union said there was unfair competition as the EU extensively subsidised its own farmers, enabling them to market their products in SA for far below the cost of production here, while SA had been urged to end its general export incentive scheme.

Quest for early entry: Page 11

EU deal must not hit jobs, SA unions warn

ARG 17/2/98 (74)

Latest offer dismays top envoy

ALIDE DASNOIS
BUSINESS EDITOR

The Food and Allied Workers' Union has urged South Africa and the European Union to make sure any trade agreement does not lead to further job losses in the Western Cape fruit and vegetable canning industry.

In a joint statement, Fawu, the Congress of South African Trade Unions (Cosatu) and the S A Communist Party expressed concern at EU attempts to exclude sensitive agricultural goods from the free trade negotiations.

The statement was handed in to yesterday's hearing of Parliament's agriculture and trade and industry committees.

Fawu said South African canned fruit carried duties of up to 21% in Europe, but at the same time the subsidies paid by the EU to its own farmers meant European goods could be sold on South African markets at prices well below the costs of production in South Africa.

Competition from Europe had led to the loss of 2 400 jobs at the Langeberg factories in Paarl and 4 000 jobs were on the line in tomato canning. Tomato production was subsidised by the EU to the tune of R22,24 -billion a year, the statement said.

South Africa's ambassador to the EU, Eltie Links, who heads the trade negotiating team, said the EU's latest trade offer, presented two weeks ago, was "deeply disappointing".

The EU had not taken into account the need for asymmetry in tariff liberalisation between South Africa and Europe. South Africa, because it was at a different stage of development from Europe, could not be expected to cut import tariffs as fast or on as many items as the EU could.

The EU still hoped to exclude 46% of South Africa's agricultural exports, including fruit and most wine, from the trade deal.

In addition, Dr Links said, European negotiators were now suggesting that tariff cuts on other key South African exports be phased in over time instead of introduced immediately.

Dr Links said both sides still hoped to conclude the long, drawn-out negotiations by mid-year.

Jobmakers

Roots: Trevor Manuel with Capricorn's Raven Naidoo and Rodney Squire-Howe at the sod-turning ceremony of the R3,5-billion Capricorn industrial project yesterday

EU FREE TRADE AGREEMENT

Next 12 weeks crucial to local trade interests

(74) CT (MR) 18/2/98

GREG MILLS
AND TALITHA BERTELSMANN

Despite the negative sentiments expressed at this week's parliamentary briefing, the Free Trade Agreement (FTA) negotiations between South Africa and the European Union (EU) still appear to be on course. But a lot of work must still be done if a deal is to be reached, as planned, by June.

Little progress was made for more than two years of discussions until last November, when, in a turnaround, the European negotiators heralded the meeting "a 120 percent success". Further headway was made at subsequent negotiations last month. And at last week's meeting between Alec Erwin, the trade and industry minister, and Joao de Deus Pinheiro, a European commissioner, there were hopes that a breakthrough had been reached.

South Africa initially rejected the EU's proposal of an FTA on the grounds that the proposed agreement did not address the development needs of South Africa and its neighbours. Pretoria was also unhappy over the EU's list of agricultural products to be excluded from the FTA. Last November, however, Erwin stressed that South Africa had changed its "defensive" attitude to free trade.

Yet during the recent ministerial meeting it was agreed that both sides could improve their offers. At the parliamentary briefing South Africa reportedly said it would pull out of the talks if the EU's offer on asymmetrical tariff reductions was not improved. South Africa and the EU now have to prepare detailed responses to each other's proposals, to be tabled next month.

The EU will then have to take South Africa's counter-proposals back to the Council of Ministers, which will vote on an amendment to the original mandate. During this period, South Africa will discuss the EU offer with its own constituents.

The turnaround time is not expected to exceed a month, though the South African team acknowledges that this stage of the process is much easier for them, because the EU can only proceed with the agreement of all 15 member states. By April the final offers will be assessed and a decision made on whether to accept or reject the deal.

The deadline for signing an agreement has been set for June, a date that cannot be extended. Not only is the British EU presidency, which expires in July, seen as sympathetic to the conclusion of an FTA, but the talks will have to be concluded before the renegotiation of the Lomé agreement starts in September.

Interestingly, the success or failure of the EU-SA FTA negotiations could also be significant for the Lomé countries. One South African negotiator said the talks would "provide a signal of what the ACP countries can expect in negotiations by small states with the EU".

The next two-and-a-half months are thus crucial in determining whether South Africa will accept an FTA with Europe, or walk away empty handed. There are, however, areas of concern for the South African negotiators.

Although their European counterparts have stressed that they accept the principle of asymmetrical trade liberalisation (meaning the EU will lower tariffs faster than SA), Pretoria still has doubts about the EU's commitment. South Africa wants more time to cut its import tariffs to give its industries — and those of the southern African region — more time to become increasingly competitive.

Elias Links, South Africa's ambassador to the EU, has expressed his disappointment that the concept of asymmetry has not been respected by Brussels.

Pretoria has argued that it needs to retain certain tariff margins to offer better tariffs to its neighbours in the Southern African Development Community (SADC), currently also establishing an FTA, than to the EU. The SA negotiating team has suggested that SA-southern Africa asymmetry should be implemented with South Africa dropping its tariffs immediately versus phased-in liberalisation over eight years for the rest of the SADC. With the SA-EU deal, Pretoria apparently prefers a 12-year implementation period, though for some agricultural goods the tariffs would be cut as early as the fourth year of the free trade agreement.

It is hoped the kick-in dates of the SADC and EU-SA agreements will be synchronised to retain maximum benefit for southern Africa. But until now little progress has been made on the SADC trade agreement.

The EU's list of agricultural exclusions remains problematic. Because of higher agricultural exports to the EU, the percentage of South African goods that the EU would exclude has risen from 39 percent to 45,6 percent, or 6 percent of total trade.

Pretoria will undoubtedly have difficulties convincing farmers that this is the best deal it can extract from Europe. European negotiators, however, point out that this figure will probably come down.

If South Africa and the EU are to conclude a trade deal, progress must also be registered on two parallel protocols — fishing, and wines and spirits. These agreements are not concerned with liberalising tariffs, but rather with standards and rights. The fishing agreement may be problematic and endanger the FTA.

Spain is demanding full access to South Africa's fishing waters, and almost vetoed Pretoria's accession to the Lomé Convention. South Africa is sensitive about violations of fishing agreements, particularly given its limited capabilities to protect its coastline. Pretoria said its fishing legislation must be finalised before any agreement with the EU can be reached. Madrid reputedly sees this as a delaying tactic and queries Pretoria's commitment to the protocol.

It is unclear whether South Africa will be able to sway the EU on any of these issues. In this, it is critical that South Africa not attempt to be over-ambitious in finding "a balance between the sky and the ceiling". Sooner or later South Africa will have to decide whether "to walk away or take what we can get". — Independent Foreign Service.

☐ *Greg Mills and Talitha Bertelsmann are respectively the national director and Standard Bank SADC researcher at the South African Institute of International Affairs.*

Govt to raise antidumping issue with US

BD 18/2/98 (74) (189)

John Dludlu
and David McKay

GOVERNMENT has opted to use the US-SA binational commission as a forum to resolve the antidumping dispute between SA's steel companies and the US government, heading off a potential confrontation for now, says a senior Pretoria official.

"If this failed, government could lodge a complaint with the World Trade Organisation, said Bahle Sibisi, the chief director of foreign trade relations at the trade and industry department.

Sibisi was reacting to yesterday's reports that US antidumping action against SA's carbon steel plate threatened the closure of two plants and could see 7 500 jobs being lost. The report was based on an analysis by the US embassy in SA.

Iscor and Highveld Steel & Vanadium are prevented from selling steel plate in the US below a floor price established by the US commerce department on the basis of what it calculates to be their domestic costs.

The floor prices have effectively priced SA producers out of the market and are much higher than those set for Russia, China and Ukraine, which were treated differently because they were deemed "nonmarket" economies.

Sibisi said government had been approached by Iscor regarding the problem and it had then been discussed with the US commerce department.

"For SA, the (binational commission's) trade and investment committee is a forum created to deal with this issue", Sibisi said.

Of particular concern to government was the apparent discrimination SA faced in the US market, he said. However, he pointed out that the issue of alleged dumping still had to be resolved.

At this stage the problem appeared to affect only two firms.

He said problems were bound to arise between trading partners as trade exchanges intensified. It was therefore important to have mechanisms of dealing with problems such as the binational committee.

The steel problem, which affected SA companies' ability to penetrate the US market, should not be taken lightly, he said.

Iscor steel division MD Louis van Niekerk said the antidumping action by the US against Iscor was putting its re-engineering process under pressure.

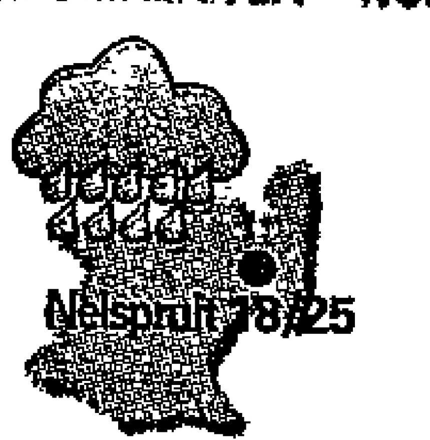
It would force Iscor to re-examine its exposure to the export market if it could not trade competitively in the US. In some cases Iscor's steel was selling at $200/ton more than products from other countries, he said.

Analysts said that Iscor might be overstating its case, but it aimed to put pressure on the US for action it believed was clearly discriminatory.

TODAY's WEATHER

GAUTENG

MPUMALANGA



NORTHERN PROVINCE

Company News

INSIDE AGRICULTURE

It suits European Union to go slowly on trade deals

(74)XT(DR)20/2/98

As Free Trade Agreement negotiations between South Africa and the European Union (EU) grind into yet another phase of proposals and counter-proposals, local farmers are not optimistic that the negotiators will reach an accord soon.

Farmers involved in agricultural export industries know the Europeans and their ways well. For more than 10 years Europe has been their leading export destination. They know that, in negotiations involving agriculture, Europe has time in hand where younger countries do not.

Although South Africa tabled proposals in November, and the EU replied with proposals this month, there is a large difference between what South African farmers and the EU want from the agreement.

Justine Nofal

Their positions have moved even further apart.

When Derek Hanekom, the agriculture minister, visited Germany a few weeks ago, he spoke to the German agriculture minister and afterwards said signs were hopeful for an accord soon. Hanekom even said the 40 percent exclusion of South African agricultural products could be reduced.

That was a politician speaking to a politician. The reality is less pleasing. Because the EU is basing its sums on South African agricultural imports to include 1996 figures, the percentage of South African farm products the EU wants to exclude has risen from 39 percent to 45,6 percent.

An increase in wine exports to the EU accounted for much of the escalation. The EU reached the conclusion, understandably, that if wine sales to the EU were so buoyant, South Africa did not require help in promoting wine exports.

Less understandable is the EU's reasoning on our fresh fruit exports. More than 50 percent of all agricultural exports are fresh fruit, including apricots, peaches and table grapes.

Although our fruit season is the polar opposite of the EU season, the EU regards South African fruit as competition for its own fruit producers.

Time is on the EU's side. Even if they thrash out some kind of accord next month, when the EU Commission meets the South African delegation in Pretoria, it is unlikely to be finalised before June, the deadline for signing the agreement.

Any agreement reached later than that may even overlap with the next round of Gatt talks due to start next year. Preferential margins of tariff reductions offered by the EU might have been reduced by then.

Another matter at issue is the lowering of tariffs on each side. Politically speaking, the EU has made all the right noises about supporting South Africa's new democracy and wanting to promote development here.

In reality, it is not eager to give South Africa any tariff advantage through asymmetrical trade liberalisation (in other words, reducing its tariffs on our products faster than we reduce tariffs on EU products).

In this respect 1999 is also an important year for the EU. It has given lip service to our democracy and our development ideals. It would like to see whether the democracy and the ideals survive a second democratic election.

The EU's attitude towards the Free Trade Agreement has been a reverse "winds of change". Although the EU bows low to the developing world, it no longer feels obliged to subsidise it.

Instead, the EU will subsidise itself and look out for its own interests.

Safto jobs on line after IDC retracts its support

CT (PR) 20/2/98 (74)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The jobs of 60 skilled employees of the South African Foreign Trade Organisation (Safto) are on the line after the Industrial Development Corporation (IDC) decided to withdraw financial and management support from the threatened export promotion agency.

The IDC is the sole shareholder of Safto.

Private sector board members of Safto, including business leaders Bertie Lubner, Tony Norton and Dave Lewis, announced yesterday that they would "seek alternative, wider financial and other support" to avoid the closure of Safto.

"Safto is vital to the country's future export drive and its expertise should be maintained," the board said.

A source in the IDC said the board would have to find alternative funding "very soon" because there were very little funds left to run the company.

A decision to close Safto would have to be made "within weeks", the source said.

"The export promotion agency needs about R6 million a year to survive in its current form," said Izak Lessing, who is the general manager of the IDC and the chairman of Safto.

The IDC became the sole shareholder in Safto in 1995 when it was transformed from a not-for-profit section 21 company into a private company.

"In the two financial years since then, the IDC had pumped about R20 million into the restructuring and rationalisation of Safto," Lessing said.

"We had hoped to merge Safto with an export promotion initiative of the trade and industry department, but that plan unfortunately did not materialise.

"More recently, the IDC accepted a new mandate which left Safto outside the core business of the IDC and forced us to terminate our financial assistance to it."

The business leaders on the board had been involved with Safto for many years. They said they would do their best to find alternative funding, Lessing said.

IDC halts financial assistance to Safto

BD 20/2/98 (74)

Patrick Wadula

THE Industrial Development Corporation (IDC) said yesterday it would end its financial assistance to the SA Foreign Trade Organisation (Safto) because it fell outside its core business.

The decision was taken with regret, "but in the light of the recently adapted mandate, Safto's activities are not considered a core IDC business", said CEO and MD Khaya Ngqula.

The IDC had rescued Safto in 1995 when it was clear the organisation could not function without external financial assistance. "The activities of Safto were rationalised ... at a cost of R20m to maintain essential export expertise pending the implementation of a national strategy to support the country's export efforts." However, the IDC and the trade and industry department could not incorporate Safto into a national promotion agency.

Ngqula said that to avoid disruption of Safto's activities, some programmes — including the three-year diploma programme in export management — would continue.

Although some of Safto's divisions were profitable, such as the education and training unit, its international business centre, which seeks to assist foreigners eyeing the SA market, was disappointing. The research and consulting division was believed to be a slow starter because its consulting fees were high. The organisation is said still to be in the red.

Safto chairman Izak Lessing said his board believed Safto was vital to the future of the country's export promotion and it was seeking alternative financial aid and other support to allow its existing functions to continue.

He said there were no retrenchments at present, but consultations with staff were taking place.

Safto, which began restructuring in 1995, has already reduced its staff numbers to 58 from 140. Early last year it sold its publishing business to UK-based publishing group Reed Elsevier. It has also rationalised its complex membership structures into a single system. It now has 900 organisations as members.

Sapa reports that Ngqula said his organisation was terminating the assistance because it felt let down by the public and private sector. "Given the fact that the functions of Safto need wide financial and other private and public sector support, the IDC felt it was imprudent to continue its sole financial responsibility for Safto."

Parliamentary group is concerned that deal is prejudiced and will cost thousands of jobs

Euro MPs support SA in EU trade talks

CT (BR) 23/2/98 (94)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — European parliamentarians have come out in strong support of South Africa's attempt to ensure its trade agreement with the European Union (EU) delivers growth, development and job creation in South Africa and southern Africa.

Alex Smith, one of a group of parliamentarians who visited South Africa last year, has written to Joa de Deus Pinheiro, the European Commissioner, to express the group's concern that the current trade regime discriminates against South Africa at the cost of thousands of jobs.

He said the group had received a submission on the job losses sent by Cosatu, the Food and Allied Workers' Union and South African parliamentarians to the EU.

He said it was with "particular concern" that the group had heard of the job losses at the Langeberg canning factory at Paarl, which they visited last year.

Langeberg is one of several South African canning factories that have had to pay off thousands of people because high tariffs and subsidies to European farmers make South African products uncompetitive in Europe and at home.

"We were able to establish for ourselves the importance of every job for the people in this area," Smith said.

"We wholeheartedly support the call (for a fairer trade deal) made in the submission, and will keep a vigilant eye on EU and South Africa trade negotiations.

"We would hope to see a significant improvement in the market arrangements for South African agricultural exports (including canned fruit), and expect a comprehensive resolution of the problems created by the export of subsidised EU food products," Smith said.

"We strongly urge you to take account of these concerns during the coming rounds of negotiations," he said.

The submission had pointed out that the EU's mandate excluded a range of agricultural and food products from the trade agreement. These included canned and fresh deciduous fruit products, which South Africa has long exported to Europe but which now faced customs duties of up to 21 percent.

At the same time, extensive subsidies to European farmers meant European canned products, such as tomatoes, could enter South Africa at prices way below the cost of producing them locally.

It is still unclear to what extent the decision by the government to slap a 30 percent duty on imported tinned tomatoes will help local canners beat EU competition, and how the trade talks will be affected by the decision.

These measures had already led to extensive job losses in the South African canning industry. The submission called for a trade agreement that would meet South Africa's real needs.

Rob Davies, the parliamentary portfolio committee on trade and industry, said yesterday he welcomed the support of the European parliamentarians. He hoped this would stand South Africa in good stead as the negotiations neared conclusion.

Alec Erwin, the trade and industry minister, has expressed his concern about the imbalances in the EU mandate. It is expected South Africa will continue to take a hard line in the negotiations, which must be concluded by June.

Norway seeks new trade ties

CT 24/2/98

(74)

ROBERT BRAND

THE high-powered Norwegian delegation due in South Africa with King Harald and Queen Sonja today is to look for opportunities for business as well as to uplift disadvantaged communities.

Although Norway staunchly supported the liberation movement, South Africa has a fairly high gross domestic product and does not fall within the category of needy nations benefiting directly from Norwegian aid.

The R300-million transitional development co-operation pledged over five years until 1999 is a fraction of Norway's commitment to foreign aid of R7 billion a year.

"I think in many ways we have not done enough to follow up the good and close relationship we have had with South Africa," says Mr Knut Vollebaek, Norway's Minister of Foreign Affairs, and a member of the delegation.

"The state visit is a follow-up to the close involvement we had with South Africa through the anti-apartheid struggle."

On the business side, too, Norwegian investors have been slow to expand into Southern Africa.

Trade between Norway and South Africa was only R500m last year. Although 150 Norwegian companies are active in South Africa and 20 have established joint ventures with local businesses, direct investment by Norway in South Africa remains fairly small.

This may be about to change. Norway is looking beyond the saturated European Union market to South America, Africa and the Far East — and South Africa is ideally situated as a springboard.

"We see South Africa as a potential hub for expansion of Norwegian activities in southern Africa," says Minister of Trade and Industry Mr Lars Sponheim, also a member of the delegation.

Most of the business leaders accompanying him are to look at possibilities.

"We are looking for partners for joint ventures," says Mr Arild Blixrus, director of corporate staff of the Norwegian Trade Council. "Our motive is not purely business, but also development and the upliftment of disadvantaged communities."

Govt promotes social clause in world trade

John Dludlu

(74)

GOVERNMENT has been urging its trading partners to uphold labour standards in global trade.

In line with a position agreed to at the National Economic, Development and Labour Council (Nedlac), government has got its trading partners to discuss a link between trade and a social clause.

Bahle Sibisi, the foreign trade relations chief director at the trade department, said yesterday the draft agreement with the European Union (EU) provided for a social clause.

The labour standards related mainly to the core conventions of the International Labour Organisation, including a ban on discrimination in the workplace; the right of workers to collective bargaining; the right to strike; and a ban on child and forced labour, an EU official said.

The formulation, which has EU member states' in-principle approval, also went beyond agreements between Brussels and third countries. The EU, understood to be backed by labour federations in Europe, will consider proposals to improve the clause.

SA appears to have succeeded in placing labour standards on the agenda of southern Africa, where observers say it will be difficult to sell.

Mfundo Nkuhlu, chief director in charge of Africa trade relations at the

Continued on Page 2

BD 26/2/98

Social clause

(74)

Continued from Page 1

BD 26/2/98

trade and industry department, said Pretoria raised the social clause in negotiating the trade protocol of the Southern African Development Community, signed a year ago.

"We've raised it with the SADC, but it was not imperative for it to be included in the protocol," he said.

The protocol, providing a framework for a free trade area in the SADC, has yet to be ratified by governments.

It is expected that the final memorandum of understanding between Zimbabwe and SA, to be signed by trade ministers, will include co-operation on labour standards.

The link between trade and labour standards is often perceived by developing countries as a ploy by the developed world to restrict market access.

According to an understanding at Nedlac, government was asked to raise the issue but not to make it a precondition for the conclusion of a trade agreement.

EUROPEAN TRADE PACT

FM 27/2/98

Brussels offers reprieve to the poor and fearful

(74)

But EU governments may balk at proposals

In a message aimed at reassuring African, Caribbean and Pacific (ACP) countries who fear withdrawal of preferential trading agreements with Europe, the European Commission (EC) has called for the negotiation of another global ACP trade and aid treaty after the Lomé Convention expires in February 2000.

European Development Commissioner Joao de Deus Pinheiro says the new agreement, which he hopes to start negotiating with the ACP states in October, will run for five years. After that, the European Union (EU) will negotiate separate "economic partnership" pacts with different regional organisations within the ACP group. In other words, there will be no real change in the EU-ACP relationship until 2005.

SA is not a full Lomé member, and does not enjoy preferential trade status.

Pinheiro's proposals are music to ACP ears. The group had worried that the commissioner's decision two years ago to review the entire EU-ACP relationship would result in the scrapping of Lomé. Though critics say the treaty is little more than a neo-colonial relic that extends the ACP countries' economic dependence on Europe, ACP governments continue to insist that the Convention, with its focus on tariff preferences for the group and access to billions of dollars in European aid, is crucial for their economic development.

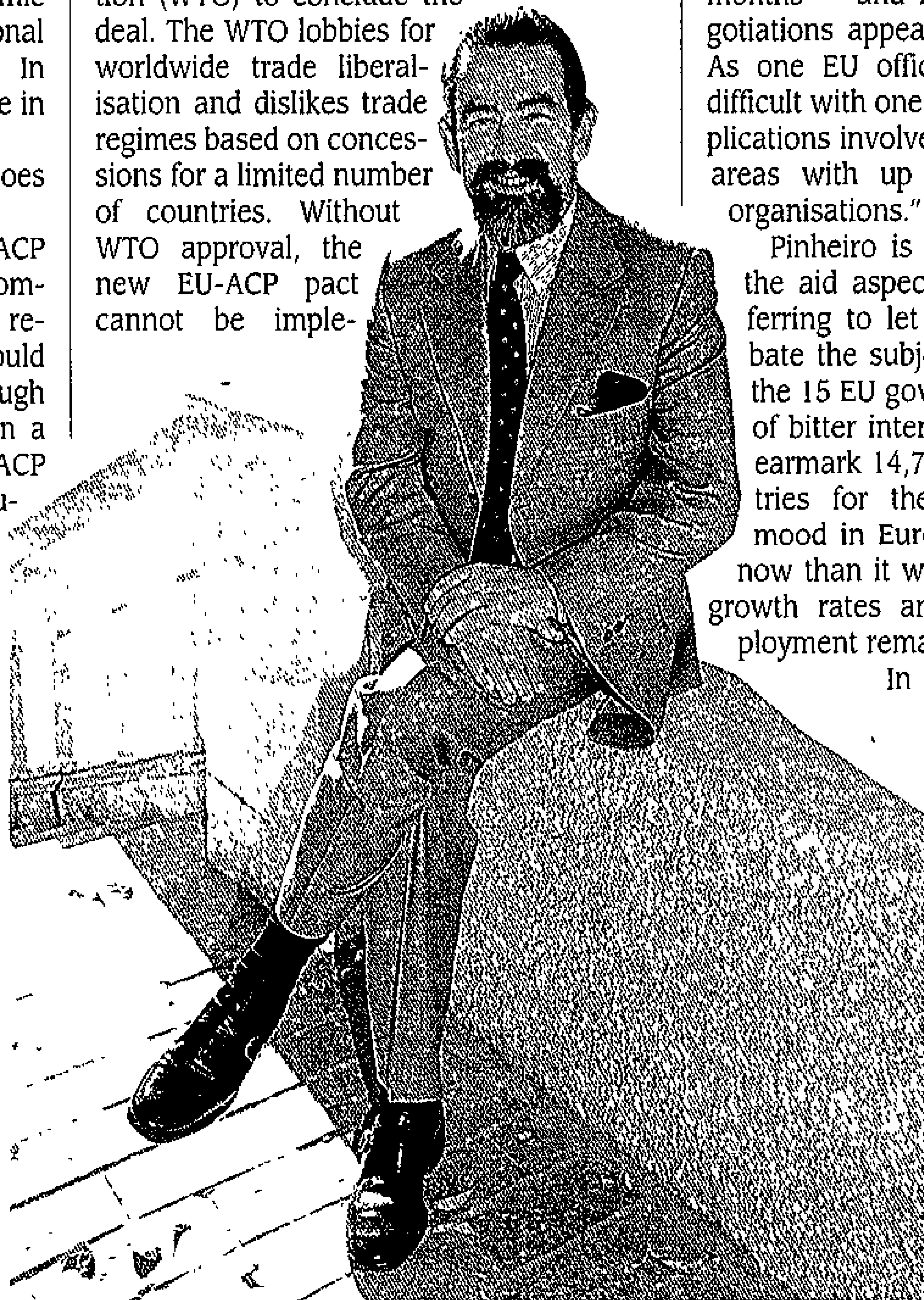
There was concern too that other countries in Asia and Latin America — Bangladesh and Cuba for instance — would be brought into the agreement, thereby reducing the trading advantages accorded the existing ACP- Lomé states.

Much to their relief, however, the commission has abandoned any attempt at an immediate radical revamp of the agreement. But ACP diplomats admit that their reprieve may be short-lived.

For one, Pinheiro's proposals still need to be endorsed by the 15 EU governments. France — which still maintains strong political and cultural links with its former colonies in Africa — remains fervently in favour of maintaining the Convention.

But other EU governments, including those of Britain, Germany and the Nordic states, are likely to press for a modernisation of the EU-ACP relationship. They may not approve of Pinheiro's plans for a virtual status quo.

Second, even if the idea of a new global treaty is given the green light by EU governments, Pinheiro will need to secure special permission — called a "waiver" — from the Geneva-based World Trade Organisation (WTO) to conclude the deal. The WTO lobbies for worldwide trade liberalisation and dislikes trade regimes based on concessions for a limited number of countries. Without WTO approval, the new EU-ACP pact cannot be implemented. The WTO waiver for the present Lomé Convention runs out in 2000.



Joao de Deus Pinheiro . . . waiting for EU members' stamp of approval

Pinheiro has promised to make the new agreement simpler, more efficient and driven by business — not government — priorities. While more attention will be paid to poverty-easing schemes, EC proposals acknowledge that boosting private-sector initiatives is the key to future development.

ACP diplomats recognise that even if the commission's proposals are accepted, they will have to start preparing for the regional trade agreements that Pinheiro wants to conclude as of 2005. The EC's plan is to negotiate a reciprocal lowering of tariffs with the different ACP regional organisations, along the lines of the trade deal that it is negotiating with SA. The 39 least-developed states in the ACP group, however, will continue to be accorded unilateral tariff preferences on the European market.

As SA's experience has shown, negotiating trade treaties is easier said than done. Pretoria and Brussels have been talking about lowering tariffs for about 18 months — and it's only now that the negotiations appear to be picking up speed. As one EU official admitted, "If it's that difficult with one country, imagine the complications involved in negotiating free trade areas with up to 15 separate regional organisations."

Pinheiro is unwilling to comment on the aid aspects of a future treaty, preferring to let EU Foreign Ministers debate the subject at a later date. It took the 15 EU governments almost one year of bitter internal discussion to agree to earmark 14,7bn Ecus for the ACP countries for the period 1995-2000. The mood in Europe is even less generous now than it was four years ago. Though growth rates are up, Continental unemployment remains high.

In addition, Germany, the EU's paymaster, is too worried about the costs of forthcoming EU enlargement to countenance an increase in its contribution to the ACP development fund. Britain prefers to administer most of its aid through bilateral programmes rather than through the EU. And on the eve of the introduction of the single Euro currency on January 1 1999, focus is on austerity discipline, not more expenditure.

Shada Islam, Brussels

European Union chief negotiator Philip Soubestre in Pretoria at the weekend. Picture: TREVOR SAMSON

EU defends offer on free trade area between SA and Europe

Louise Cook BD 2/2/98

PRETORIA — The European Union's (EU's) initial offer on a free trade area between SA and Europe could not change much unless more was known about the protocols in the SA offer, the EU 's chief negotiator Philippe Soubestre said at the weekend.

He was reacting to SA chief negotiator Elias Links, who said that "at first glance the initial offer was disappointing".

Soubestre said although the EU understood that SA developed new policy on a continuous basis due to the country being in a transitional phase, he could not fight at EU council level for a better offer while he had "no idea what the protocol concept means.

"We would need to know where SA stood on issues such as wine and spirits and what the country might be prepared to do about fisheries."

Soubestre defended the EU offer, saying that it complied with international trade requirements in terms of the General Agreement on Tariffs and Trade.

"The real challenge lies in completing the negotiation in the time frame of 1998. In the interim, the key issue is that on February 10 — when a ministerial meeting is scheduled — measures are taken to ensure that negotiations are completed on time."

He said a possible way of increasing SA farm exports to Europe was to look at products outside the main production periods of northern hemisphere countries.

(74)

Sowetan 3/2/98 (74)

Numsa upset over trade tariffs

By Abdul Milazi

THE National Union of Metal Workers will meet Minister of Trade and Industry Alec Erwin next week to discuss the recent trade tariffs reduction which led to the loss of about 500 000 jobs in the motor industries.

Numsa spokesman Dumisa Ntuli said the massive job loss was the result of the Government's "over-ambitious tariff reduction programme" and the Growth, Employment and Redistribution programme (Gear).

Car manufacturers and unions are already feeling the pinch, with Mercedes-Benz, Toyota and Opel Delta expected to retrench over 700 workers this month.

Mercedes-Benz South Africa says it was forced to retrench because of the growing crisis in the motor industry and the damaging results that have emerged since the scrapping of the old local content programme and the Motor Industry Development Programmes.

Ntuli said the scrapping of the two programmes exposed local manufacturers to harsh international competition.

"Numsa welcomes competition but we also believe that local companies should be protected by Government," Ntuli said.

"Foreign companies work from countries like Botswana where they don't pay tariffs and use cheap labour, which is why they can afford to sell their products at very low prices.

"Local companies are in turn forced to cut their spending and the first obvious area is manpower."

He said most of the about 500 000 retrenchments took place after South Africa became a signatory to the General Agreement on Trade and Tariffs (Gatt) Marakesh Agreement.

"The hasty Government tariff reduction programme, coupled with the restrictive Gear policies, have gone over the top in slashing tariffs to zero percent instead of the 20 percent required in terms of Gatt," said Ntuli.

Wetlands protection in SA 'substandard'

BD 3/2/98

David Greybe and Josey Ballenger

CAPE TOWN — Government was not doing enough to protect SA's wetlands or to realise their immense natural capital, estimated to be worth 10% of gross domestic product, the Wildlife and Environment Society of SA said yesterday.

Rennies Wetlands Project co-ordinator David Lindley said SA lagged behind other countries as it had neither a national wetland policy nor wetland act, nor high-ranking politicians championing its cause.

"To make matters worse, there is hardly anyone working full-time in wetland conservation," Lindley said. Rennies, a protection and rehabilitation project, runs under the auspices of the wildlife society.

Lindley estimated at least 50% of SA's wetlands had been destroyed, in line with a global trend. Mining and industrial pollution, urbanisation, dams, timber production, wetlands drainage and cropping, and overgrazing had all contributed to the loss of wetlands.

Lindley was speaking on World Wetlands Day, which coincided with SA's hosting of the first international meeting on southern African wetlands in Pretoria.

Opening the week-long Ramsar southern African subregional gathering, Environmental Affairs and Tourism Minister Pallo Jordan said SA had "encountered a host of problems" protecting wetlands.

The Ramsar international convention on wetlands was held for the first time in Ramsar, Iran, in 1971. It also refers to the Switzerland-based body which oversees sites recognised as wetlands by the convention's 101 contracting parties.

"Even Ramsar sites have sometimes been directly under threat," Jordan said. Jordan announced SA was adding two more sites — the Limpopo/Luvuvhu floodplain and pans and the Nylsvlei Nature Reserve — to the 16 site already recognised by the Ramsar list.

Lindley said the wildlife society had carried out its own assessment "and realised that wetlands can earn/save nearly R26,85bn in disease prevention and tourism enhancement". An additional R21bn was saved in drought and flood damage, conserved in fertilisers and top soil, or earned by fisheries.

SA joins the Cairns Group

CANBERRA — SA has become a member of the Cairns Group, an international lobby group for the reform of world agricultural trade, Australia's foreign affairs and trade department said yesterday.

Department senior spokesman Nick Warner said: "We congratulate SA on the changes it has made to bring its domestic environment into line with Cairns Group objectives for international agricultural trade."

SA is the first African country to join the Cairns Group. It will be welcomed formally at a ministerial meeting in Sydney in April.

Warner said: "It will be a critical meeting for the group as it develops objectives for the next round of multilateral negotiations on agriculture in 1999, and considers strategies to advance our interests in the World Trade Organisation prior to the commencement of the negotiations." — Reuter.

BD 3/2/98

Norwich Holdings S.A

(Incorporated in the Republic of South
(Registration number 95/10366/06
("Norwich")

FURTHER CAUTIONARY AN

Conditional, partial offer by African Life ("African Life")

The Board of Norwich met to consider the c
African Life to the shareholders of Norwic
announced in the press on Monday, 2 Feb
unanimously decided that it will not rec
shareholders of Norwich. Shareholders ar
continue to exercise caution in their dealing

More detailed information will be circulated
possible.

Cape Town
3 February 1998

NEWS

Original guidelines could hurt some nations

EC might relax its Lomé requirements

CT (MA) 5/2/98 (74)

LYNDA LOXTON

Cape Town — Hopes are growing that the European Commission (EC) could adopt a more flexible approach towards the renegotiation of the Lomé Convention, covering its aid to the African-Caribbean-Pacific (ACP) bloc of developing countries.

Rob Davies, the chairman of the parliamentary trade and industry committee, said yesterday that the EC appeared to recognise that its original guidelines for the renegotiation of the agreement could impose heavy penalties on some developing countries.

Davies recently briefed the British House of Commons' international development select committee on the negotiations. He said the original guidelines had suggested that the European Union (EU) ditch the current convention and instead negotiate reciprocal sub-regional free trade agreements (FTAs) with regional groups such as the Southern African Development Community (SADC).

But least developed countries who were not members of those groups would benefit from specific non-reciprocal preferences for three years while they negotiated to join an FTA. If these negotiations did not succeed, the countries concerned would be awarded less favourable standard generalised system of preferences (GSP) status.

"The guidelines' proposal is based on the assumption that non-reciprocal preferences have failed, and that reciprocity will assist ACP countries to integrate effectively into a globalising world economy," said Davies.

This, however, failed to take into account the fact that preferential access to the EU was not as generous as it appeared to be on paper. It covered mainly traditional agricultural commodities and not manufactured exports, which were subject to quota limits.

Non-tariff barriers were also prevalent and restricted the ability of developing countries to export. Globalisation was also taking place unevenly, while EU agricultural subsidies had made many ACP products uncompetitive.

It had also been calculated that, should least-developed countries be transferred to GSP, they would be required to pay the EU tariffs, which would amount to more than 40 percent of the aid they received from the EU.

"Coupled with the lack of any specific commitment to significantly improved market access under FTAs, this could mean that some countries or sub-sub-regions find themselves compelled to run to stand still," Davies said.

"They would have to negotiate an FTA with significant adjustment costs merely to retain something like the status quo in terms of access to the EU market. Any such outcome would clearly be unacceptable and out of line with the stated principles and goals of a new partnership (between the EU and ACP."

Davies said it appeared that the EC was prepared to consider a five-year rather than a three-year period of special preferences, while not tying this specifically to the negotiation on FTAs.

SA-EU FREE TRADE PACT

On track despite SA's opening dismay

Hardheaded EU prepared to offer more tariff liberalisation

The European Union (EU)'s chief negotiator on a Free Trade Agreement (FTA) with SA, Philippe Soubestre, is confident the mid year target date for clinching a deal will be met "given political will from both sides and provided the pace achieved in recent months is maintained."

Arnold Pronto

Soubestre . . . confident of SA-EU trade pact by mid year

This is despite SA's disappointment that the EU's detailed trade offer, presented on January 27, still excludes most of SA's agricultural products, says SA chief negotiator and ambassador to the EU Elias Links.

After last week's talks in Pretoria, Soubestre said he understands SA's disappointment, but does not "share it entirely".

"The proposal we have put on the table covers 90% of SA exports to Europe, with the prospect of full liberalisation over 10 years," he says. "And we will soon add specific proposals for something like 4% more, pending discussion at EU level. So, 94% will be on the table."

The question is whether the proposals for those products meet SA expectations, and in which areas they could be improved. "That's part of the process," Soubestre says. "You cannot expect that an initial proposal will meet your expectations 100%. Let us progress on that first."

SA exports to Europe — by far its biggest trade and tourism partner — comprise 86% industrial, 13% agricultural and 1% fisheries products.

Currently 80% of SA's exports to Europe enter the market duty-free, says EU expert Talitha Bertelsmann of the SA Institute of International Affairs. By contrast, only 44% of EU products enter SA without a tariff. SA is obliged under General Agreement on Tariffs & Trade (Gatt) rules to reduce tariffs on 54% of EU exports by 2000, and Europe is obliged to let 83% of SA products enter its markets duty-free.

Bertelsmann says according to World Trade Organisation (WTO) rules, "substantially all" trade has to be included in an FTA, which means more than 90% of traded goods. "Under an FTA the EU would need to eliminate duties on only 7% of currently traded goods, while SA would need to eliminate duties on 36% of products to reach the target. Though the EU is proposing the exclusion of 45% of SA farm products, this amounts to only about 6% of SA's total trade with the EU, which would allow the trade pact to remain WTO-compatible."

Soubestre says the EU has excluded 45% of farm produce (or 6% of total trade) "for the time being" only. He says the figure was 40% when the EU issued its first proposal in 1996 based on 1995's trade figures.

This showed that "SA has been competitive for those products precisely, which means that your competitiveness is already established — and the sensitiveness on the European side has been confirmed — because even with protection you have been able to increase your share of the market. I have no doubt that at some stage in the negotiations we will have to improve that part of our offer."

A crucial part of his mandate is to balance liberalised entry of SA goods to the EU with sensitivity to competition on the part of EU member states, notably Spain's fishing industry.

SA has tabled a proposal which covers about 80% of EU exports to SA, says Soubestre. "But while you are prepared to consider full liberalisation for 100% of the trade (over 12 years), SA wants special treatment, or 'protocols', for 10 sectors" — red meat, dairy products, winter grain and sugar in agriculture, automobile and components, textile and clothing, TV assembly and parts, mineral oil fuel and derivatives, footwear, and arms and ammunitions. SA also wants fisheries included as a special protocol.

The EU has accepted the deal could be asymmetrical, "which means that in terms of coverage, depth of timing, what we are doing goes beyond what we are called upon to do." However, maintains Soubestre, "I still do not know what SA means by protocol, and how this will translate in operational terms.

"We need to know about the policies of the new SA. One might say that the process is still continuing. There might be some contradiction between those wanting to clinch the deal as soon as possible, and the fact that SA's domestic policy cannot be decided and implemented overnight."

Though aware of the importance of trade, which is the focus of the SA delegation, Soubestre says negotiators are "aiming at a comprehensive relationship" which includes economic co-operation and development, taking into account the consequences of a trade pact for SA's regional partners.

Amarnath Singh

OBITUARY

Ivan Faul

The *FM's* head proofreader, Ivan Faul (62), died last Friday after a short illness. He was born in the Cape but moved to Johannesburg while still young. Faul started proofreading for Times Media Ltd (formerly Saan) in 1970, specialising in reading the *FM*'s pages for more than 20 years. For the past few years, after early retirement, he worked part time for the *FM*.

He was well known as a trade unionist and served on the Johannesburg branch committee of the SA Typographical Union.

The Editor and colleagues offer their condolences to his wife, Marie and two children, Llewellyn and Laurinda. ■

EU will ask SA for clarity

BD 6/2/98

(74)

John Dludlu

TRADE and Industry Minister Alec Erwin will be asked to provide clarity on SA's position on sensitive products when he meets European Commissioner João de Deus Pinheiro on Monday, says a European Union (EU) official.

The perceived lack of clarity on the idea of "special protocols", SA's proposed way of dealing with sensitive exports in an EU-SA trade accord, is becoming a problem with Brussels' negotiators.

"We want more clarity ... more precise details on these protocols," the official said. The protocols could cover anything from a single product to a whole sector.

Unlike the EU, which has proposed. that about 39% worth of SA's agricultural exports be excluded from a free trade area, Pretoria has suggested that special agreements be negotiated to accommodate sensitive products in — and not outside — the free trade accord.

The suggested list of exclusions has now widened to 45%, according to the EU.

The union argues that this expansion of the list is evidence of how competitive SA's exports are on EU markets despite the continued tariff protection they face.

SA has already expressed its disappointment that the detailed EU mandate, presented last week, still contains exclusions. Brussels has made it known that it has no intention of scrapping the list completely, although it would be prepared to consider SA's specific requests. "A political decision (on changes to the exclusion list) will be taken only after clarity (on the protocols)", the EU official said.

EU officials said their updated offer would see SA's industrial exports enjoying free access in three years of the agreement, while liberalisation in the farm sector would take about 10 years. However, SA would be given a grace period before being asked to open up its markets to the EU.

In its present form, the EU proposal covered 90% of all trade exchanges. But this could rise to about 95% as soon as the EU had taken a position on 4,5% worth of industrial items still outstanding, the EU official said.

Erwin and Pinheiro, the commissioner in charge of relations with SA, were expected to confirm the two sides' commitment to concluding talks by June.

Negotiations on fisheries were expected to begin in April.

Attempts to get comment from trade department negotiators were not successful yesterday.

'Do not forget old trading partners'

BD 9/2/98 (74)

Claire Pickard-Cambridge

THE importance of SA's established trading partners in the northern hemisphere should be kept in mind in the rush to find new markets in Africa, says Neil van Heerden, executive director of the SA Foundation.

The trade and industry department promoted the concept of SA trade which resembled a "butterfly with its body in Africa and wings reaching east and west", he said. "We must still ensure this emphasis takes cognisance of the lucrative northern hemisphere markets which have the ability to pay. Our established markets in the European Union (EU) are wealthy, expanding and immensely stable — and an important source for high technology."

Close to 40% of SA's trade was with the EU and only 12% with Asia — a fortunate statistic when southeast Asia was in trouble, he said.

"Notably, Africa is now our fastest growing market for value-added exports. The US is also a strong prospective partner currently taking about 10% of our trade."

Van Heerden said trading nations always needed more markets, and SA's high trade propensity — 60% of its gross domestic product was realised through cross-border trade — meant that a greater public focus was required on promoting trade. Other successful "emerging countries" like Chile and Argentina had an intense debate going on the subject and were virtually "fixated" on promoting trade.

Canada had employed the "team Canada" concept in which the prime minister took teams of about 500 top businessmen with him on foreign visits. "It has a highly organised programme whereby government and business go into that market together: government to sell its vision and policy and business to sell its products."

The Japanese government and its large corporations worked hand in hand, and representatives from Miti (its trade and industry department) were posted to all embassies to promote the establishment of Japanese companies. The success of this policy was borne out by the fact that the two largest car exporters in the US were Toyota and Honda.

Global trade arrangements were changing rapidly and Van Heerden argued that a lot of work was needed in the region to project member countries into the new millennium. For instance, the US and France were talking about partnerships with Africa rather than aid to Africa.

He warned that member countries now carried regional responsibilities. For example, Zimbabwe's approach to land reform could affect foreigners' perceptions of the region negatively.

Van Heerden accepted that there were common interests but questioned whether regionalism was not being overstressed and whether this approach would succeed in achieving all the goals it was intended to. "We do not seem to have workable solutions as to how we compete as a region. For instance, if SA secured a deal on free trade with the EU it would have a significant influence on regional trade."

He did not believe regional co-operation had much to do with the growth of Thailand, Malaysia and Singapore, and development did not take the same course in each country. "This has made me think also there could be limits to the regional preoccupation."

VAN HEERDEN

SA banks lose millions as heists and loot soar

ARGU 4/3/98 (58) (24)

Johannesburg – Nearly R140-million was stolen from South African banks last year – an increase in the number of robberies and the amount of money stolen, the Council of SA Banks said here.

Cosab chief executive officer Bob Tucker said at a news conference there were 465 bank robberies last year compared with 408 in 1996.

The amount of money stolen from banks last year amounted to R139,9-million – R31,5-million more than in 1996.

"The increases indicate that while the Government is able to report a general reduction in armed robberies in South Africa, this is definitely not the case in the banking industry," he said.

"We accept the police finding that these robberies are not politically motivated.

"It is pretty clear that this is big business for big syndicates.

"The banks have two major and serious concerns,

"First, the safety and peace of mind of staff and clients. Next, is the increased cost of handling cash," he said.

Mr Tucker said Cosab would continue to work with the police, but it was clear from the increases that authorities would have to increase their resources to address this rising problem.

"It remains the Government's responsibility to maintain law and order," he said.

COMPAN

RMBH, Momentum, Southern Life, FNB shares suspended on announcement

Financial services merger on way

ET (BR) 9/3/98 (58)

MATT GETZ
MARKETS EDITOR

Johannesburg — Shares in RMB Holdings (RMBH), Momentum Life, Southern Life and First National Bank (FNB) were suspended on Friday as the companies, together with Anglo American, FNB and Southern's parent, announced what had been expected for weeks: the merger of various of their financial services interests.

Analysts said the only new detail of the announcement was that Nedcor was definitely not involved in the merger.

GT Ferreira, RMBH's chairman, told weekend newspapers the details of the merger, which the companies had been working on for some time, would probably be announced on Thursday.

This leaves analysts and brokers in the dark as to how everything will be organised. The games of strategic speculation should continue until the details are announced.

One analyst said the deal could involve creating a new company: "We feel there could be a new financial services holding company, call it Amfin, for example." That company and RMBH would serve as the holding company for the merged interests lower down.

Most speculators felt that Rand Merchant Bank, wholly owned by Momentum, would merge with the investment banking parts of FNB and that Southern and Momentum, the two life insurers, could be brought closer together. Uncertainty surrounded FNB's retail operations, which are the largest part of its business.

Certain permutations have been ruled out by analysts. A share swap between Anglo and RMBH would probably not be done because RMBH would not want any Anglo shares.

Moreover, one analyst said the market would not take it well if Anglo, which had been criticised many times for being too diverse and unfocused, took more than 5 percent of RMBH.

Anglo would also probably not want cash because the company is cash flush at the moment.

new commerce department statistics.

The continued growth of SA exports to the US came despite anti-dumping proceedings against car-

SA exports to the US totalled $2,5bn last year, up 8% on 19… while imports of US goods fell … to $3bn. That represented a sha…

New system heralds reforms

BD 10/3/98

Greta Steyn

THE "mini-bang" of financial market reforms planned for this month and next started yesterday with the introduction of a new electronic settlement system and a move to a repo system of cash management.

Reforms to come include the introduction of government stock auctions and primary dealers to make a market for government. Further easing of foreign exchange controls is also expected.

The new settlement system, known as the SA Multiple Option Settlement System, will allow real-time settlement of interbank transactions by October this year. The system has helped the central bank switch to a repo system of cash management, as it allows careful monitoring of banks' liquidity needs.

The changeover coincided with a one percentage point reduction in banks' prime overdraft and mortgage rates. Standard Bank, First National Bank and Absa yesterday followed Nedcor's example by cutting the prime rate to 18,25% and their home loan rates to 18%.

The banks cut their rates because Reserve Bank governor Chris Stals fixed the repo rate at 15% for this week, down one percentage point from the now defunct Bank rate of 16%.

The Bank kicked off the new system yesterday morning by telling the market it would provide R5bn in liquidity. Banks put in bids for R6,5bn at the fixed repo rate of 15%. Bank officials said the fact that the tender was oversubscribed did not necessarily indicate a cash shortage in the market. It showed that banks were still feeling their way.

There was some confusion yesterday about the valuation of the government securities used in the repurchase transactions (repos), but otherwise the first day of the new system went smoothly.

Money market traders noted that the cost of call money had sagged almost one percentage point to 13,25% and looked like it would nudge 13%. The decline suggested that once the repo rate was freed to fluctuate from next week, it could come down to 14,50% — which would pave the way for another 0,5 percentage point reduction in bank lending rates. However, the speed with which rates declined further would depend on the signals emanating from the central bank.

The central bank said yesterday the new payments system would usher in a new era in electronic payment and settlement. The system would facilitate payment flows resulting from repo transactions between the central bank and the banks.

COMMENT & ANALYSIS

Reserve Bank trying for a new look

The Bank is changing its complexion, but the process is slow and by no means sure, writes deputy editor **Bernard Simon**

(58) BD 10/3/98

ALL eyes in financial markets are on the Reserve Bank this week as it puts in place a new interest rate mechanism and national payments system.

Behind the scenes however, changes of another sort — less publicised but arguably even more challenging — are under way at the bank's head-office tower in central Pretoria.

The changes are epitomised by XP Guma, one of three deputy heads in the bank's economics department.

Guma, formerly director of social science research at the University of Swaziland, recalls the day he started at the Reserve Bank in mid-1995: "Walking onto the senior floor of the economics department was a very intimidating experience.

"There was a bunch of middle-aged, serious-looking people with somewhat unwelcoming expressions." Librarians thought Guma was a messenger.

White colleagues suggested he join them for lunch, but insisted on talking Afrikaans, which he does not understand.

Two years later, "we are the best of buddies", Guma says. Many younger whites unhesitatingly accept him as their boss.

He claims that every one of the economics unit's 114 staff realises that the days of the Reserve Bank being a bastion of white male Afrikanerdom are gone forever.

The transformation process is not going as smoothly in some other departments. One headhunter specialising in senior black appointments, who declines to be identified, says the bank as a whole has made little progress.

"We regard the Reserve Bank as a happy hunting ground to pick up their (black) people," he says.

Acknowledging as much, governor Chris Stals told the bank's 1 800 staff in a memo last August that "efforts must be redoubled in order to make significant progress". Nonetheless, in big ways and small, transformation is unmistakably under way at the central bank.

The black workforce as a whole has grown from 23,2% to 32,1%, even as the bank's total payroll has shrunk slightly (see table).

The number of blacks in the three top job categories has risen from 13 to 36 in three years. They include assistant general managers in the facilities management and economics departments.

Women have also begun to break through what was once an unmistakable glass ceiling. One is a deputy head of economics, another is an assistant GM in information technology.

Louise Parsons, a (white) mid-level legal consultant, says she noticed a vast difference between the time she quit the bank in 1990 and her return in 1995.

"We are treated very much equally," she says.

In days gone by, two out of four annual board meetings were conducted in Afrikaans. All are now in English, as are internal memos. Some 70% of the staff have attended "valuing diversity" workshops.

The information technology department has spearheaded a training programme with six commercial banks.

The first intake of 35 black matriculants was recruited in January. (As part of the deal, participating banks also agreed not to poach each other's staff.)

Tim Thahane, the deputy governor who is spearheading the transformation process, says the pace of change will accelerate in coming months: "The basic rationale is that you want to make full use of all your people from all sections of society and from all skills."

Thahane has gained a reputation as a warm, family-oriented father figure rather than a tough central banker since his arrival at the bank in April 1996. He was previously Lesotho's ambassador to the US and secretary of the World Bank.

Several levers have been put in place to help speed up transformation. Any manager wanting to take an enhanced early-retirement package is required to hire and train a black person at a suitable level within his department.

About half-a-dozen positions have so far been filled in this way.

For instance, the head of protective services has been allowed to take an enhanced package after recruiting a new deputy from the SA Defence Force.

Managers and supervisors are now judged partly by their success in recruiting and promoting blacks and women. The bank has also adopted an increasingly aggressive hiring policy.

According to Thahane, senior managers have been told: "If you come across a qualified black, grab him and put him in a post regardless of whether there's a vacancy."

But putting policy into practise has not always been easy.

Many whites, accustomed to a job for life at the bank, are worried they will lose their jobs or be denied promotion.

Others have simply resisted change. "None of the recalcitrants will say 'no' to me, but I see the results," says Thahane.

Whites' concern is mirrored by the experience of blacks entering a citadel of Afrikanerdom. Guma told his colleagues early on that if they insisted on sending him memos in Afrikaans, the replies would be in Xhosa.

Vuyelwa Matsiliza, a financial market analyst in the international banking department, said "people tended to hoard the work they were doing because they felt their positions might be threatened".

Matsiliza points to other tensions generated by the transformation process, such as black university graduates who have the same jobs as white matriculants, and the assumption that black employees can speak Afrikaans.

"There might have been some small changes, but if you're an insider you hardly notice them," Matsiliza says.

Her lack of enthusiasm is mirrored by Bongwe & Associates, a consultancy which runs the bank's diversity workshop. Bongwe warned in a report last September that "there appears to be a serious communication problem" between management and employees on issues such as benefits, promotions and transformation.

"In an environment that is struggling with diversity, it is inevitable that this could also lead to racial interpretations of the policies," the group concluded.

Thahane makes no secret of the problems he faces.

"It's moving, but it's moving slowly," he concedes.

Signs of the old days still abound. The bank's switchboard operators sometimes answer the phone only in Afrikaans.

The coffee-table books in Thahane's own anteroom include one titled "Transvaal — the Golden Province".

The deputy governor clearly has his work cut out for him as he tries to step up the pace of change.

THAHANE

The Reserve Bank transforms

Number of employees

	31/3/95		31/3/96		31/3/97		31/3/98	
	White	Black	White	Black	White	Black	White	Black
General management	43	0	45	0	45	3	45	3
Senior professional & management	84	3	87	5	88	9	89	10
Professional & technical management	251	10	236	20	234	20	239	23
Junior professional & supervisory	257	17	248	17	245	38	238	52
Trainee professional & clerical	779	147	660	189	620	218	593	247
General & utility	38	261	35	248	31	242	28	247
TOTAL	1452	438	1311	479	1263	530	1232	582

Blacks include coloureds and Asians

Graphic: KAREN MOOLMAN Source: RESERVE BANK

Sanlam races towards demutualisation by October

(68) CT (BR) 10/3/98

Marc Hasenfuss
Cape Editor

Cape Town — Sanlam, South Africa's second largest financial institution, could conclude its demutualisation and JSE listing ambitions as early as October, sources indicated yesterday.

There was no official word on a target date from Sanlam executives, but a spokesman confirmed that the group, which boasts free reserves of almost R11 billion, had kicked off the demutualisation process by requesting policyholder details.

Sources said signs indicated that Sanlam would attain its ultimate aim of a JSE listing a "comfortable" few months ahead of Old Mutual, the group's rival, which also has to deal with the demutualisation process.

The Sanlam spokesman said the policyholder details would assist in the allocation of free shares as a result of the demutualisation.

The spokesman said that with more than 2 million policyholders, Sanlam's process of confirming details was being carried out in one postal region at a time to ensure the exercise was handled as smoothly as possible.

He said general details on the progress made with the demutualisation process would only be made available in months to come. "Policyholders can expect further personal communication from Sanlam during the last quarter of this year."

Commenting on the confirmation of policyholder details, Marinus Daling, Sanlam's executive chairman, said it was extremely important that policyholders confirm their details on the forms without delay. "This is a vital step in ensuring that eligible policyholders receive the free shares to which they may be entitled."

Daling said demutualisation would be a milestone in Sanlam's continued transformation into a world-class provider of financial services and products.

Generally, eligible holders of Sanlam policies as at March 31 this year may receive free shares, provided they do not lapse or surrender their policies in the period leading up to the demutualisation vote.

Holders of units in Sanlam's unit trusts, clients of Sanlam Health and Sanlam Medical Risk Managers, Multidata or other Sanlam subsidiaries will not qualify for free shares unless they qualify under a policy with Sanlam.

Financial giants merge

BD 11/3/98 (58)

Samantha Sharpe
and Madeleine van Niekerk

CAPE TOWN — Anglo American and Rand Merchant Bank Holdings (RMBH) plan to join forces to create a R59bn financial services powerhouse that will be SA's largest listed company.

The new group, to be formed by merging Anglo's and RMBH's financial services interests, will have assets estimated at R250bn, including the third-largest banking and life insurance groups in SA.

Unveiling the merger in Johannesburg yesterday, the new group's CEO Laurie Dippenaar said First National Bank, Southern Life and Momentum Life would be consolidated under the umbrella of existing RMBH subsidiary, Momentum.

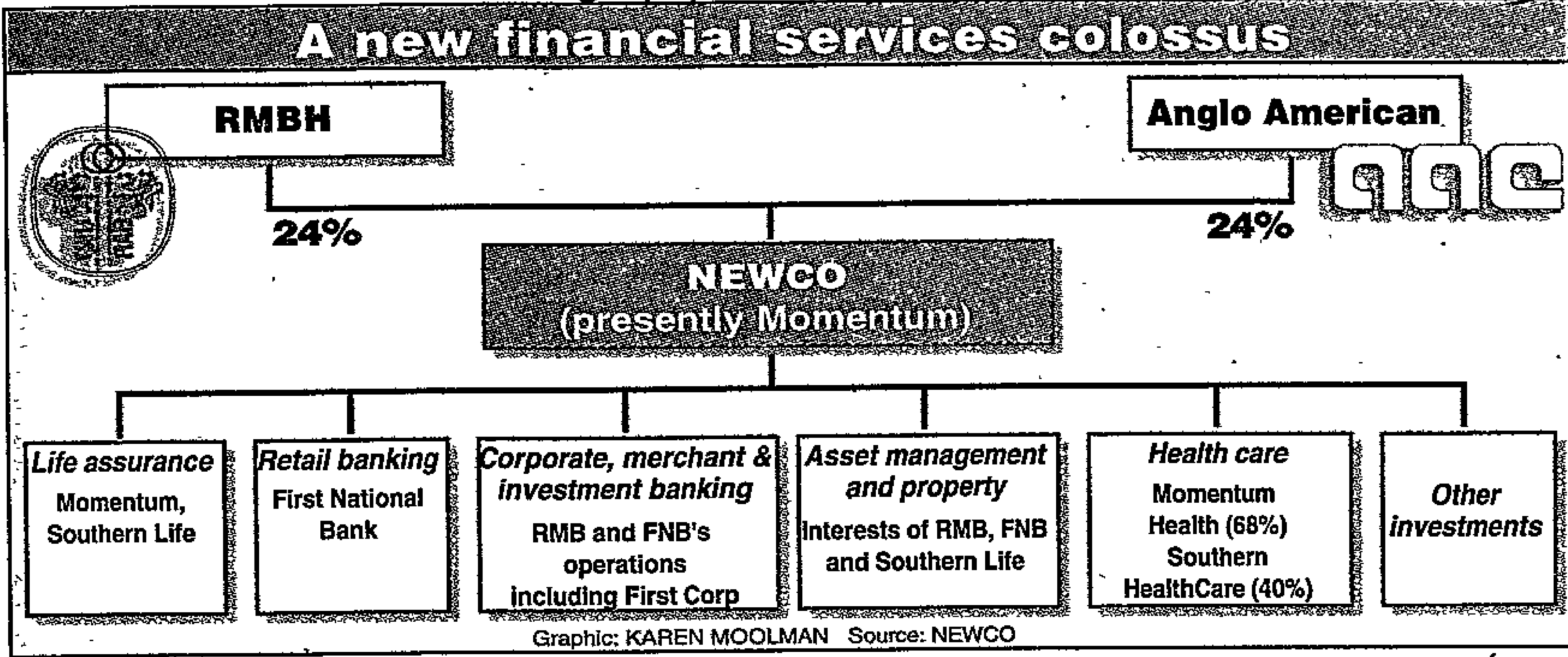
Anglo and RMBH would each hold a 24% stake in the new group, as yet unnamed.

In order to achieve the objective of a unified financial services grouping, FNB and Southern will be delisted from the Johannesburg Stock Exchange and all respective cross holdings eliminated.

Dippenaar said the merger would form a unique financial services group in SA, with the critical mass and potential to add significant value and to exploit the already considerable strengths of its respective components.

"We will add flair to this new grouping," he said. "We are obsessed with service."

The listing of business units and the introduction of black economic empowerment partners might arise "if and when appropriate", he said.



Graphic: KAREN MOOLMAN Source: NEWCO

Several subsidiaries of the proposed new group already had joint ventures with black empowerment partners.

The creation of the new group is expected to result in substantial job losses. FNB and Southern are already in the process of retrenching a total of about 2 400 workers.

The deal, which is due to take effect on April 1, is subject to numerous approvals, including shareholders of the constituent companies and regulatory authorities.

Dippenaar said the acquisition would be funded by the exchange of Momentum shares for FNB/Southern shares and a R5,1bn rights offer by Momentum. The terms of the share exchange would be 6,75 Momentum shares for every one FNB or one Southern share held.

Dippenaar disclosed that RMBH got the go-ahead from Southern Life and First National Bank "only last Friday and more than R5,1bn was raised in the market on Monday, in one day".

Following the merger, the relationship between Anglo and RMBH would be based on a solid partnership principle, he said. The two main shareholders would focus on developing the merged group's strategic direction.

Management of the new group will be controlled by an executive committee consisting of not less than seven members, with RMBH/Momentum holding overall operational responsibility.

The new group's board will be chaired by Southern Life's Neal Chapman. Dippenaar will be chairman and CE of the assurance arm. RMBH's Paul Harris will head the corporate, merchant and investment banking arm, while FNB MD Viv Bartlett will be CEO of the retail bank.

RMBH's GT Ferreira was named nonexecutive chairman of the bank holding company.

Dippenaar said FNB and Southern shareholders would immediately benefit from the deal, with further benefits to flow as the impact of rationalisation kicked in.

The proposed deal caps a long period of hectic expansion for RMBH. Harris said the group had grown more than 20% a year over the past 21 years. He said he would be "very disappointed" if the pace could not be sustained.

Anglo, RMBH deal creates R59-bn giant

ARG 11/3/98

Johannesburg – Anglo American and RMB Holdings (RMBH) said they would create a South African financial services giant which would be the largest company on the Johannesburg Stock Exchange by market capitalisation.

The deal combines Anglo's Southern Life Association and First National Bank Holdings (FNB) with RMBH's Momentum Life Assurers and Rand Merchant Bank into a financial services powerhouse with a total equity value of R59-billion.

The driving purpose of the merger was to release cost-saving synergies and harness a national retail distribution network to sell a full range of financial products.

RMBH, a well-regarded financial services and merchant banker in South Africa, said it would apply its entrepreneurial skills to the solid operations of FNB and Southern.

The merger is expected to result in a cutback of some 2 400 jobs at Southern Life and First National over the next 12 months.

As a result of the merger, First National Bank and Southern Life would be delisted, the companies said. – Reuters

Demutualising charge to capitalise jobs trust

Wyndham Hartley

CAPE TOWN — The proceeds of a one-off charge on demutualising insurance companies would be used to establish a skills upgrading and job-creating fund, Finance Minister Trevor Manuel said yesterday.

Announcing the creation of the Umsobomvu Trust during his budget speech yesterday, Manuel said: "Job creation is a national project that requires the talent, creativity, energy and the unwavering commitment of all our people.

"Unless we embrace this challenge collectively we will forever deny our country its true potential."

He said the proceeds of a one-off 2,5% charge on demutualising insurers would not go into state coffers but would be used to capitalise the Umsobomvu Trust. Umsobomvu means "new dawn".

"At the dawn of the 21st century, our nation must invest in its young people, arouse their skills potential, invigorate job creation and secure better lives for our children," Manuel said.

Assurers Old Mutual and Sanlam are expected to convert their organisations into shareholder-owned companies within the next 12 months.

The one-off charge, which will be on the free reserves of the assurers, estimated to be between R50bn and R120bn, will deliver between R600m and R1bn as start-up capital for the fund.

The fund, which will resemble the Independent Development Trust, will be run by a board of trustees.

It is seen as a government instrument for job creation and skills development which will be one of the "offerings" of the state at the presidential jobs summit later this year.

BD 12/3/98

Levy puts assurers on the spot

PD 12/3/98 (58)

Bernard Simon

FINANCE Minister Trevor Manuel's decision to slap a once-off levy on demutualising insurance companies not only surprised Old Mutual and Sanlam, but put them on the spot.

Their dilemma was summed up by Sanlam GM Marinus Daling yesterday. While complaining that the charge will be unique to SA, Daling welcomed Manuel's intention to use the proceeds to set up the new Umsobomvu job-creation fund.

The levy, equal to 2,5% of a demutualising assurer's free reserves, will take a relatively modest bite out of the windfall gain that Old Mutual and Sanlam policyholders can expect when the assurers convert into shareholder-owned companies, probably within the next 12 months. The two are by far the biggest mutual — policyholder-owned — life assurers in SA.

Old Mutual's free reserves totalled about R30bn at the end of last year, while the equivalent figure for Sanlam was about R10bn. The demutualisation levy is thus likely to raise about R1bn.

One tax expert, who asked not be named, noted that "policyholders have had the benefits of growth over decades. I'm not sure that I'm terribly upset by the measure," he said.

Old Mutual GM Johannes van der Horst declined to comment on the levy pending further study of its implications.

Daling said because it was a once-off charge, the interests of Sanlam policyholders "will be protected and their existing and future policy benefits will not be affected".

According to one insurance executive, the two companies are likely to seize on the job-creation fund to extract maximum public relations advantage from the levy.

Daling said he was especially pleased that the proceeds would not be used to finance current government spending.

However, he cautioned that "clearly defined objectives, as well as stringent controls on the application of resources for this project, will be essential".

Bond market reacts to swipe at investments

BD 12/3/98 (58)

Samantha Enslin

THE bond market reacted strongly to Finance Minister Trevor Manuel's swipe at interest-bearing investments yesterday, driving up yields as the increase in the tax on retirement funds from 17% to 25% sank in.

The government R150 bond weakened 18,5 basis points or 1,41% to close at a yield of 13,335% after touching an intraday high of 13,410%. The longer-dated R153 weakened 21,5 basis points to end at a 13,625% yield.

One analyst said the tax increase was expected to generate R1,2bn in revenue. "It has to be understood that government is taking money from where it can and from where it is easy to collect," he said. "Bonds will recover in time."

Another analyst said the tax was discriminatory and would be negative in the short-term, though in time, the news would be priced into the market.

The rand softened slightly, touching $4,9915 before recovering a little to $4,9860 from a close of $4,9720. In late trade the currency was at $4,9820.

Analysts said the further easing of foreign exchange controls was a good sign for the markets, but that the changes were largely cosmetic. Changes included doubling of the amount individuals could invest offshore to R400 000, allowing companies to invest R250m in the Southern African Development Community countries, from R50m, and R50m offshore, from R30m.

Analysts said the budget was generally well received but the market was sceptical of the 3% growth target for 1998/99.

The Johannesburg Stock Exchange largely ignored the budget. Shares closed slightly lower, but dealers were divided as to whether this was the result of a mildly negative reaction to the announcements or profit taking following the morning's run.

Analysts and dealers agreed that the budget would inspire confidence in offshore investors. "The budget shows discipline. This is the first budget projected over three years. It offers a framework against which government's performance can be measured," an analyst said. Another said the longer expenditure cycle would bring certainty to the market.

I-Net reports that dealers expect pension funds, which invest heavily in the bond market, to compensate for the increased tax on retirement funds by chasing returns on equities.

Liberty Life and Stanbic keep merger fever in financial sector alive

Hilary Joffe and Madeleine van Niekerk

MERGER mania in financial services continued yesterday with Liberty Life and Standard Bank Investment Corp (Stanbic) unveiling their intention to combine forces.

A merger of the groups would create a banking and insurance group to rival the planned R59bn merger of the financial services interests of Rand Merchant Bank Holdings (RMB) and Anglo American, unveiled this week.

The combined Standard/Liberty group would have assets of more than R300bn, compared with the estimated R250bn of the RMB/Anglo colossus.

In a cautionary announcement yesterday, Liberty said the two groups were contemplating a major restructuring and consolidation "where meaningful current and potential synergies exist". The outcome of the discussions "could well involve the creation of a common listed holding company, which would cement the 20-year relationship between the two groups".

Analysts expect that a deal would end the complex crossholding structure between the two.

Stanbic controls Liberty jointly with the family of Liberty chairman Donald Gordon, through its 50% stake in unlisted Liblife Controlling Corporation, the ultimate pyramid in the control structure. The Liberty group owns 39,9% of Stanbic.

Stanbic's share price climbed 11% yesterday to close at R290 and Liberty Life gained 8% in heavy trading to close at R150.

The talks follow the publication late last year of Liberty's "group vision", in which it outlined plans to streamline its various listed components by eliminating or integrating as many of them as possible.

Liberty CE Roy Andersen would not comment on what structural changes were envisaged. He said the talks with Stanbic were predicated on synergies, not cost savings. The objective was to

Continued on Page 2

BD 12/3/98

Merger (58)

BD 12/3/9

Continued from Page 1

expand revenues through improved marketing opportunities and product design. He said the two groups were following the global trend to "bancassurance". They were looking to develop innovative products and there were "fantastic opportunities" in combining their distribution channels.

Both groups were well-capitalised and would not need funds in the short term, Andersen said. However, a merger would lower their cost of capital, enhancing their ability to raise capital.

He said that while the motivation was local, both groups had global ambitions, and would be discussing these.

Liberty said the outcome of the talks could have implications for Liberty Holdings and Liblife Strategic Investments. The operations of Charter Life and offshore arm First International Trust could also be affected.

Stanbic CE Mike Vosloo would not comment. Liberty is due to publish its 1997 earnings today.

More reports: Page 22

Positive response to Anglo, RMBH financial merger

12/3/98 (58)

Madeleine van Niekerk

REACTION to Anglo American and Rand Merchant Bank Holdings' (RMBH's) plan to join their financial service interests to create a R59bn powerhouse, to be SA's largest listed company, has been largely positive.

First National Bank (FNB), Momentum Life and Southern Life will be consolidated under the umbrella of existing RMBH subsidiary, Momentum, under the name Newco.

Convergence of life assurance and banking boundaries are best exploited by having a single financial-services group where all assurance and bank operations are held as wholly-owned subsidiaries. Momentum has done what Standard and Liberty are planning to do and which the Nedcor/Mutual and Absa/Sanlam groupings have yet to address.

"Rationalisation of the Momentum grouping, including cost-cutting, will take place over a long period of time," an analyst said.

"It will be a process of integration that will be treated very gently and workers will not just be retrenched," he said. The two obvious areas for rationalisation would be in the insurance and unit trust back offices.

Momentum focuses on the higher-income insurance market and Southern on the lower-income groups.

RMB and FNB also operate in different markets. Merchant banking and retail banking have nothing in common, an analyst said.

"On the other hand Firstcorp and RMB are very complementary and not much rationalisation is expected there," he said.

When the merchant banking operations were taken out of FNB and given to Firstcorp, it resulted in a large exodus of people. But rationalisation on the asset management side could be expected, he said.

It was expected too that business groupings that did not fit into the new structure would not be sold initially. Business interests would be shifted around rather than sold.

Newco said strategic business units would be listed. "Momentum Health will probably be listed because it is not 100% owned by Newco, but the rest of the business units will remain subsidiaries for at least another three years," an analyst said.

Newco said that at the appropriate time the introduction of suitable black economic empowerment partners, and a foreign partner would be considered.

"It will take a while before further acquisitions will be considered. Newco will probably not look at further local or overseas acquisitions right now, because they have enough on their plate," the analyst said. "They will rather look for working relationships with other groupings. They will look at offshore expansion later on for a market distribution network and will probably consider an investment or securities house for this."

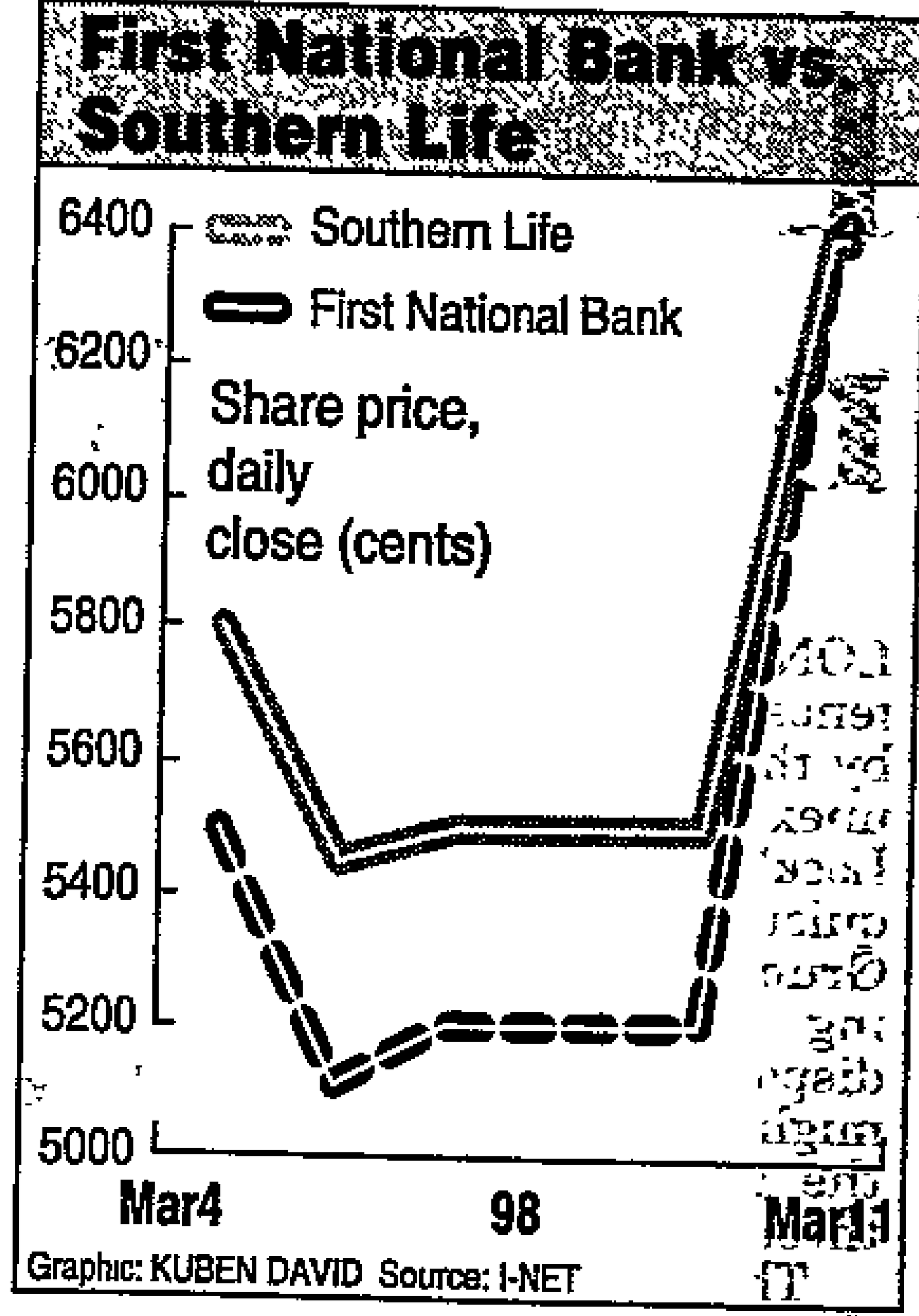
There was still much work to be done. The merger was subject to the fulfilment of certain conditions, including due diligence investigations and regulatory approvals.

It was expected that Newco would take a serious look at the performance of banks on a branch-to-branch basis before closure of banking branches would be considered. FNB has 484 branches, 71 service branches and 196 agencies. One analyst expected 20% of these to be closed down, including those retail banks already closed.

The question asked by analysts was whether this new financial services colossus would still be able to focus on the individual customer. The secret of RMB management philosophy thus far had been the creation of small business units. That strategy probably would be followed through by allowing management free rein in running their divisions.

They said in some ways bigger was better, as long as RMB continued to foster its entrepreneurial culture.

Rating agency Fitch IBCA said yesterday it placed the international "individual" credit rating of FNB of Southern Africa on rating alert with evolving implications. RMB's domestic short and long-term credit ratings have been placed on rating alert with positive implications.



Another financial giant on cards

(58) ARGT 12/3/98

Johannesburg – South Africa's financial services industry heard plans for another major tie-up when Standard Investment Banking Corporation and Liberty Life Association of Africa said they were discussing closer links.

The announcement followed news on Tuesday of a merger between Anglo American and RMB Holdings that will create South Africa's largest company.

Shares in Standard Investment, one of the nation's big banks, and Liberty Life rallied on the news that there were talks to consolidate some of their" operations.

The companies, which already own sizeable stakes in each other, said in separate statements that the discussions could lead to the creation of a common, listed holding company.

Financial services shares had minutes earlier opened 3% higher on news of the creation of a one-stop financial giant combining Anglo's Southern Life and First National Bank with RMBH's Momentum Life Assurers and Rand Merchant Bank.

That grouping will create a giant with nearly R60-billion in market capitalisation and almost R250-billion in assets. It will be the largest company on the Johannesburg exchange.

Momentum and RMBH shares slid on news of the merger because of the price of the deal and Momentum's plan for a R5,2-billion rights issue at R9 a share, a 20% discount to the R10,90 price at which it was suspended on Friday.

G T Ferreira, non-executive chairman designate of the banking arm of the merged group, said this week that Momentum was likely to dip and FNB and Southern to rise.

"(The ratio) implies a reasonable premium for Southern and FNB, but not for Momentum," said Mr Ferreira.

Shares in FNB, Momentum, Southern and RMBH were suspended on Friday when Anglo and RMBH announced an agreement in principle, ahead of Tuesday's detailed announcement. – Reuters

BUDGET

Private sector participation to be promoted

Robyn Chalmers

GOVERNMENT is to extend the range of infrastructure projects that make use of private sector participation, with the focus on prisons, airports, harbours and roads.

The move was broadly welcomed yesterday by the private sector, which has invested heavily in a range of infrastructure projects, including the Maputo development corridor and major water and sanitation schemes.

However, analysts said that the private sector was most likely to look to projects where it could make good returns — such as toll roads — where the risk could be forecast and managed.

The Budget Review said programmes such as electrification and telecommunications were self-financing and were able to draw on domestic and foreign financial markets.

However, proposals were under review for the private construction and maintenance of prisons under long-term contract. Private finance and management would be brought into airports, harbours and roads.

Finance Minister Trevor Manuel said government aimed to extend the delivery of basic services by bringing private sector finance into infrastructure projects.

"Business partnerships are encouraged between municipalities and private concerns for financing, extending, operating and managing infrastructure services," he said. Eighteen pilot projects had been established countrywide. These included water, sanitation, refuse collection and transport projects. The private sector invested R1bn in these projects in the 1997/98 financial year which amounted to R5 for every R1 spent by government.

A number of government agencies would be used to promote private sector involvement. The Development Bank of Southern Africa, for example, was playing an increasingly active role in financing infrastructure.

The review said the bank would "act as a catalyst for public-private" partnerships and was expected to mobilise at least R10bn in cofinancing in the current year.

It said the bank's disbursements for 1998/99 were expected to exceed R1,8bn from R1,38m the previous year. "Based on an average of 20 persons employed for each R1m invested, about 60 000 jobs will result from these project commitments."

Investment in transport infrastructure was expected to accelerate over the next three years, both as a result of increasing government spending and greater use of private finance. The national roads agency, which would be up and running soon, would draw on user charges and private finance as well as a more stable allocation of budget resources.

Comment: Page 15

Budget 'shocks' retirement fund institute

BD 13/3/98 (58)

Lukanyo Mnyanda

THE Institute of Retirement Funds said yesterday it was "shocked and dismayed" by government's decision to increase the tax on rental and interest income of tax funds, accusing it of breaking a promise to consult widely before making changes.

Institute president Chris Newell said Finance Minister Trevor Manuel's decision to increase the tax to 25% from 17% had come as a shock and could lead to the closure of some funds as people sought value in other instruments.

He said low-income earners, who would find themselves "paying more tax inside the pension funds", would be hardest hit.

Manuel said in his budget speech that the increased levy would boost government's coffers R1,2bn in the current financial year. The tax was being investigated to "determine the most appropriate method of taxation of the flow of funds through retirement funds to the ultimate beneficiaries".

However, Newell was not convinced and accused government of going above the National Retirement Consultative Forum which was supposed to investigate the taxation of retirement funds.

He said the imposition of a 17% tax two years ago was supposed to be a temporary measure, while the forum investigated the taxation issue. It was not clear if government intended to take the increase to the forum.

The Institute of Retirement Funds says the effect of government increasing tax on rental and interest income of tax funds would be felt by low-income earners who would 'pay more tax inside the pension funds', taking the sparkle out of the funds

'Extra R1,2bn will not swell province's coffers'

BD 13/3/98

GRAHAMSTOWN — The R1,2bn increase in the Eastern Cape's allocation would not represent a real increase in the amount of money the province would be able to spend next year, Democratic Party MP Eddie Trent said yesterday.

He "did not share the general enthusiasm for the Eastern Cape's R15bn allocation" and was "absolutely certain" the allocation would be less than was spent by the province in the past fiscal year if the province's overdraft and the amount still owed to suppliers was added to the previous budget.

He said all departments, including those responsible for social delivery, would therefore have less to spend in real terms next year than they did this year. He said he would have to wait until the provincial government released its budget next Wednesday before seeing how the Eastern Cape would deal with these real budget cuts.

Finance and economic affairs department spokesman Khulile Radu dismissed Trent's comments as "groundless electioneering".

Radu said his arguments were "very simplistic" as they did not take cognisance of the fact that the provincial administration has taken huge steps to enact credible budgets which "conform to treasury norms and standards".

Radu said the increase in the budgetary allocation was an "affirmation of the confidence that the national government has in the leadership of the province and in the financial control systems they have put in place".

Eastern Cape business activist Kevin Wakeford said yesterday the Eastern Cape's "kindergarten government" still did not have the capacity to deliver the goods to the "people at grassroots level" and was heading for a mammoth R2bn deficit for 1998/99.

He said the budget was "great in theory and in line with the fundamentals of the growth, employment and redistribution strategy", but that the Eastern Cape would be left in the lurch again at the end of this financial year with pensions and welfare grants unpaid and education in the province still in chaos. — ECN.

Home loan penalties 'can be harmful to property market'

Johnnic and Nail in R17bn merger talks

BD 13/3/98 (58)

Amanda Vermeulen

TALKS are under way to merge media, communications and financial services group New Africa Investments (Nail) with industrial holding company Johnnic to create a R17bn black-controlled conglomerate.

Separate cautionary announcements were published by Nail, its subsidiaries Metropolitan Life and African Merchant Bank (AMB), and Johnnic on February 16. Although these are apparently not directly linked, officials have confirmed that they pertain to talks between the four companies. Executives at Johnnic and Nail declined to comment on the record yesterday.

The deal taking shape is apparently designed to boost Johnnic's share price by linking it more closely to Nail's high-performing financial services interests. This would make it easier for shareholders in the National Empowerment Consortium (NEC) to repay their loans taken for the 1996 transaction in which Johnnic was unbundled from Anglo American.

Nail owns 1,9% of Johnnic through Metlife. The insurance group is one of the biggest lenders to NEC members.

It is understood that Nail, which already plays a significant role in the Johnnic group, will become its controlling shareholder. It will then inject its financial services assets, including Metlife and AMB, into Johnnic, which has publicly stated its goal of becoming a serious player in financial services.

The talks may also lead to a merger of Nail's media interests, held in New Africa Publications, with those of Johnnic, represented by Omni Media, the parent company of Times Media Ltd. TML owns 50% of BDFM Publishers, owners of Business Day and the Financial Mail.

Omni Media — which owns 92% of TML — may be collapsed and merged with Nail's media interests. These include the Sowetan newspaper and a stake in Radio Jacaranda. This is not the first time such a move has been suggested. Last year Nail and TML had discussions about merging their publishing interests.

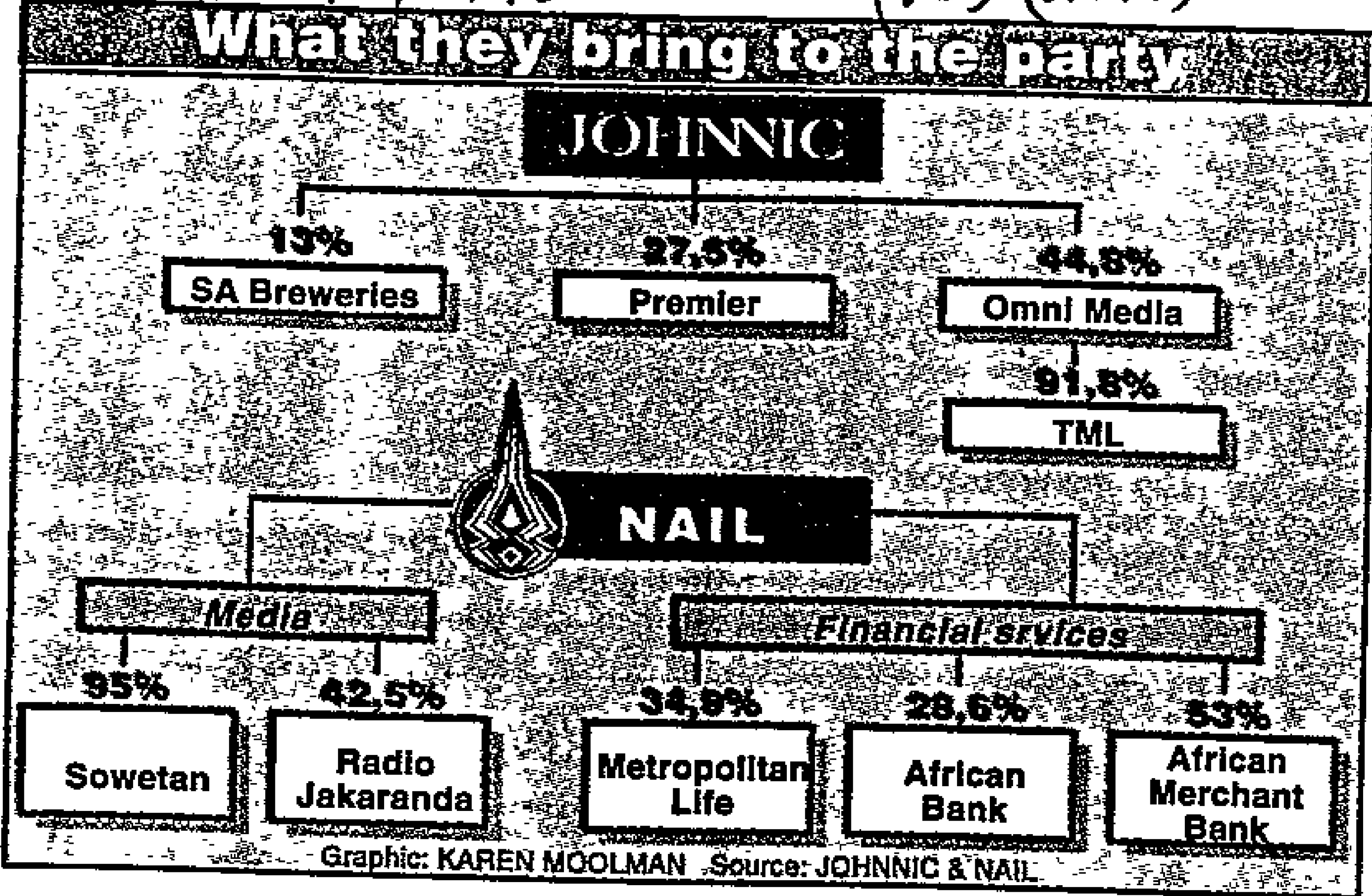
It is also understood that this enlarged media group — falling under the Johnnic umbrella — may be interested in buying The Citizen, which is in the Perskor stable. The paper — which has a large black readership and would be a good fit with the Sowetan — is one of the unknown factors in the proposed merger of media groups Caxton, CTP and Perskor.

Caxton director Gordon Utian said yesterday there were "no official talks" on the future of The Citizen. He said the situation was fluid, as the merger talks with Perskor were still dominating the agenda.

The wild card in a possible Nail-Johnnic merger is Johnnic's 13% stake in SA Breweries. Johnnic is believed to be unhappy with holding portfolio investments — such as SAB — over which it has little influence.

Speculation is that Johnnic will dispose of its R6bn SAB stake. This would unlock value for the black empowerment shareholders by providing cash to repay the NEC's loans and to increase their stake in strategic investments, such as food group Premier. Johnnic owns 27,5% of Premier.

Another option would be for Nail-Johnnic to swap its SAB shares for shares in Premier or even a merged Liberty Life-Standard Bank. This would take place in terms of voting agreements on the SAB shares between Liberty and Johnnic shareholder Anglo American. Such a move would kill two birds with one stone by beefing up Johnnic's food interests and enlarging its financial services portfolio.



Graphic: KAREN MOOLMAN Source: JOHNNIC & NAIL

Liberty turns in 20% earnings rise

(58) 13/3/98

Madeleine van Niekerk

LIBERTY Life, which is in merger talks with Standard Bank Investment Corporation, lifted headline share earnings 20% to R12,15 in the year to December, helped by a new accounting system that conformed with international norms.

The dividend rose 33% to 425c (320c), including a 40c a share bonus to celebrate the group's 40th birthday.

CE Roy Andersen said he hoped to conclude negotiations by the end of April. A merger would create an R80bn banking, life assurance and financial services giant. Libhold's shares rose 420c to R162,20 on the Johannesburg Stock Exchange yesterday, while Stanbic's gained 800c to R298.

Andersen said Liberty was restructuring because there were too many layers, with seven listed companies. "If we flatten the bigger structure, we will qualify for a full FTSE 100 listing".

Earnings attributable to Liberty Life shareholders increased to R1,18bn (R970m), helped by the new accounting system which includes investment surpluses in earnings. Previously, these were credited to reserves.

The total consolidated surplus rose 23% to R3,08bn.

Andersen said total new business grew 32,6% to R6,26bn, beating the targeted R6bn — "quite an achievement in the shrinking insurance market". Liberty Life's total assets grew to R101bn from R82bn.

Liberty Holdings, which has a 53,9% share of Liberty Life, lifted total consolidated attributable profit 23% to R1,74bn on a restated basis. Liblife Strategic Investments headline earnings improved 22,6% to R789m, while First International Trust pushed up net income after tax 43% to R220,5m.

Chairman Donald Gordon said Liberty International, whose share earnings rose 30%, was "looking at taking over a life company, with two or three major companies on our short list", but we are under no pressure to do it".

Picture: Page 3
Marriage could be swift: Page 15

Durban councillors arrested for corruption

BD 13/3/98

Farouk Chothia

DURBAN — THE Minority Front suspended Durban councillor Siva Pillay's membership yesterday, but the African National Congress (ANC) did not do likewise with metropolitan council tender board chairman Ndumiso Maduna after the two were arrested on corruption charges.

Durban mayor Obed Mlaba (ANC) said Pillay was arrested on Wednesday after he allegedly received a sum of money "on the pretext" that he was in a position to influence construction company tenders. Further investigations led to Maduna's arrest.

Mlaba said the ANC would wait until the outcome of the court case before suspending Maduna. Minority Front leader Amichand Rajbansi said Pillay claimed he was innocent, but he was suspended pending the court outcome.

Police spokesman Capt Vish Naidoo said Pillay and Maduna appeared in court on corruption charges. Pillay was granted R2 000 bail. Maduna was remanded in custody.

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RMBH/ANGLO AMERICAN

A chance too good to pass up

Courting Southern, RMBH fell for its sister, FNB

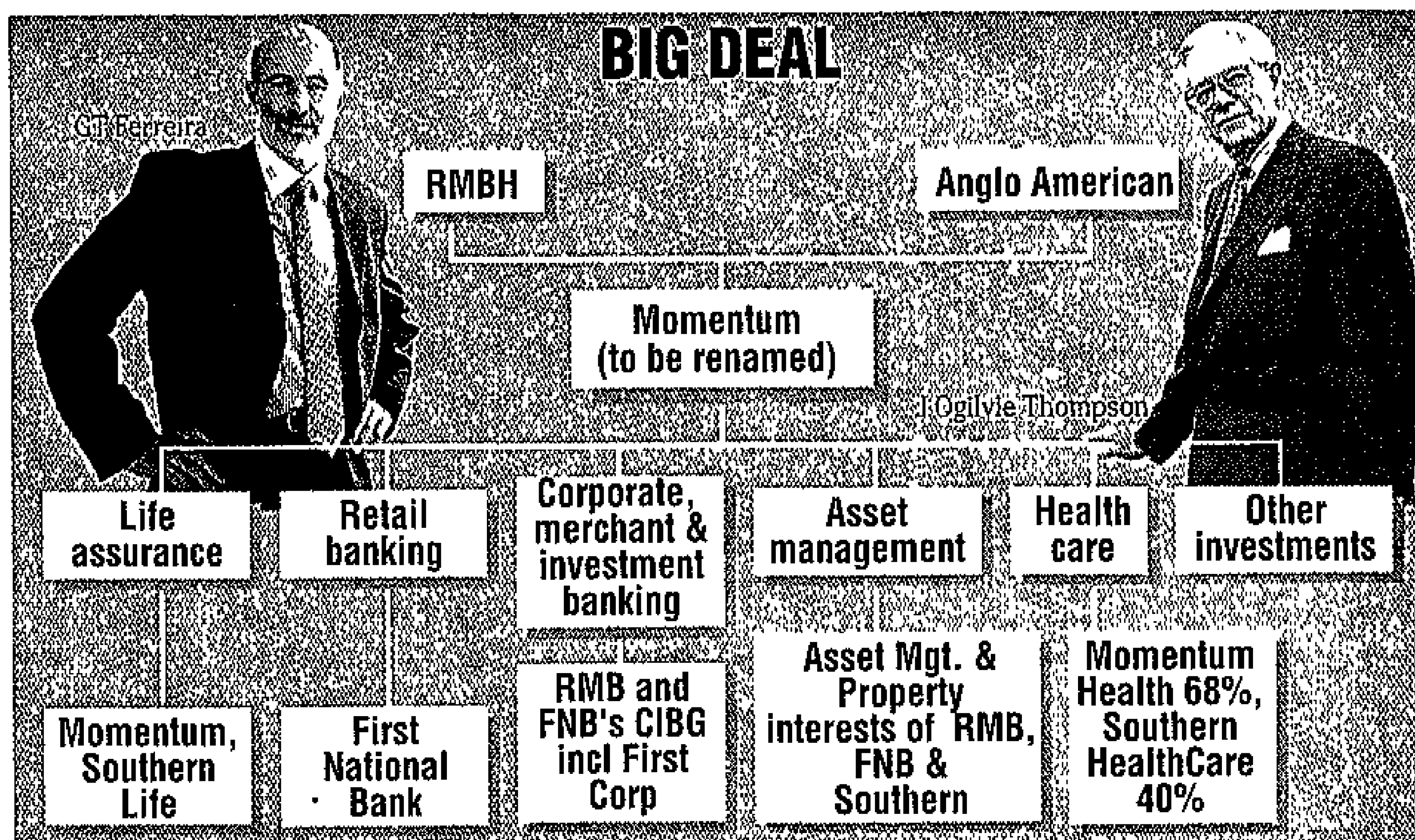
FM 13/3/98 (58)

When Rand Merchant Bank Holdings (RMBH) first looked at doing a deal with Anglo American's financial services interests — life assurer Southern Life and retail bank First National Bank (FNB) — it had no interest in the bank. And Anglo hadn't indicated it was a seller

But during negotiations on Anglo's 40,5% stake in Southern, which it has now acquired, RMBH management discovered FNB might make the prospective deal even more attractive. Apart from broadening the client base of the merged group, to be called Newco for now, the inclusion of FNB significantly increases its critical mass. It contributes about R100bn to Newco's total assets of around R250bn and has a market cap of about R23bn. At R10,90/share, Newco will have a market cap of around R59bn, beating SA Breweries, which now has the highest at R48,5bn.

"We're taking advantage of the current popularity of financial services and we're adding value for shareholders," says RMBH chairman G T Ferreira, who will be chairman of the company that will hold the banking interests of the new group.

"We would have got 22% of FNB anyway through Southern's shareholding and when Anglo indicated it was willing to consider a transaction that involved 100% of FNB, we saw an opportunity we couldn't afford to miss."



RMBH's only experience in retail banking is through Origin, a completely different type of bank formed recently for wealthy individuals, with no branch network like FNB's. But it has proved through its acquisition of life assurer Momentum that its "magic formula" works.

The formula it will apply to FNB, and throughout the new financial services group, is to instil an entrepreneurial management style and an "owner-managed" culture in small business units FNB has already segmented its markets by separating corporate and investment banking

NEWCO

Financial footwork

Here's how the deal works:

- ❑ RMBH disposes of its noncore interests in Hollandia Re (25% stake) and Glenrand MIB (16%) to Momentum for about R210m in cash;
- ❑ Momentum acquires Southern policyholders' shares in FNB;
- ❑ Momentum has a rights offer to raise about R5,1bn in the ratio of 42 shares for every 100 Momentum shares held at a price of R9;
- ❑ RMBH has a rights offer of R1,7bn in the ratio of 15 shares for every 100 RMBH shares held at a price of R15 to follow its rights in Momentum;
- ❑ All shareholders in FNB and Southern, excluding cross-shareholdings, are offered Momentum shares in exchange for existing shares in the ratio of 675 for every 100 held;
- ❑ Cross-holdings in FNB and Southern are purchased for cash;
- ❑ The Momentum business is transferred out of Newco (previously Momentum);
- ❑ FNB, Southern Life, Rand Merchant Bank and Momentum Life are placed into six wholly owned subsidiaries of Newco: life assurance (Momentum Life and Southern Life), retail banking (FNB); corporate, merchant and investment banking (RMB's and FNB's corporate divisions, including FirstCorp); asset management (asset management and property interests of RMB, FNB and Southern); health care (Southern and Momentum); and other investments; and finally
- ❑ RMBH and Anglo each have 24% of Newco, a group with a market cap of about R59bn, with RMBH taking management responsibility.

Heather Formby

from the retail business. This will make it easier to merge corporate and investment banking, as well as merchant bank First-Corp, with RMB.

The result of the deal is that FNB, Southern Life, Momentum Life and Rand Merchant Bank will become wholly owned subsidiaries of the temporarily named Newco, controlled by RMBH (24%) and Anglo (24%) in a clean structure devoid of the usual pyramids. Though shareholdings are equal, RMBH will have management control of the group's executive committee. "We'll be the more active shareholder," Ferreira says.

With the formation of such a huge and diverse financial services group, the battle lines will be drawn with other groups that have also tried to tie up their banking and life assurance interests. Most have tried to do this through cross-shareholdings.

It's common knowledge that many of these haven't worked as well as was hoped. There's been talk that the relationships between Absa and Sanlam, and Standard Bank and Liberty Life, are somewhat shaky. Old Mutual and Sanlam, it's said, will most likely concentrate on their demutualisation rather than attempt what Newco will try to do — take advantage of the blurring of boundaries between different financial services such as life assurance and banking.

But it was really Southern that first interested RMBH, along with numerous other suitors, many of whom didn't get past Anglo's front door. "We liked the life business and we knew there were significant cost-saving opportunities," Ferreira says.

No-one's saying how big a saving has been estimated, but if Momentum's track record is anything to go by, it will be large. When RMBH took control of Momentum in 1992, the assurer's cost ratio (management expenses divided by total premium income) was 12,9%. Five years later it's down to 4,1%. Southern's, on the other hand, dropped from 12,2% in 1992 to 8,3% in 1994 but climbed again to 11,7% in 1997. Even without the effects of rationalisation, it is estimated the deal would have increased Momentum's headline EPS at June 30 1997 by 172% and RMBH's by 96%.

But apart from back-office rationalisation, there are no immediate plans to merge any of the other operations that fall under Newco. "We need to look at that carefully before we make any decisions," Ferreira says. Businesses that could be merged include the two life offices, the Southern and RMB asset management companies, Southern and Momentum's health-care operations and the property businesses of RMB, FNB and Southern.

But brand names will be retained for now, and even in the future Momentum and Southern's names may be kept if the two are found to operate in different market segments. Retaining two asset management companies — one in Cape Town and one in Johannesburg — may also work.

One of the best things about the deal is that the shareholders of all parties are on a winning wicket. As Southern and FNB will be delisted and become wholly owned subsidiaries of Newco, shareholders will receive 675 Momentum shares (to be changed to Newco) for every 100 Southern or FNB shares they hold — a fairly hefty premium.

To do the deal, Momentum will undertake a rights offer to raise R5,1bn. RMBH will follow its rights in Momentum and undertake a rights offer of its own to raise not less than R1,7bn. RMBH's contribution to the new group will be around R3,5bn — it already has about R1,8bn in cash burning a hole in its pocket — and Momentum minorities will contribute about R1,6bn. After the new group has paid out shareholders, at least R4bn should be available for recapitalisation — a huge amount in anyone's terms.

One of Newco's future plans is to look for an international partner to give it access to global markets. It could also list some of its underlying subsidiaries. But right now, Newco will have to enhance shareholder value by applying the RMBH formula to FNB and Southern. Others will be kept on their toes to compete.

Heather Formby

SHAREHOLDERS' ADVISORY

What the deal means for you

If you are an FNB or Southern Life shareholder, you have probably had your calculator out and worked out what the deal's worth to you. If you haven't, then treat this as your friendly guide.

Before the shares were suspended, FNB traded at R52 and Southern at R55. Momentum's rights offer will be at R9, a R1,90 discount to the pre-suspension price. If you believe that R9 takes into account the dilution of shareholders' interests as a result of the rights offer and that Momentum will trade at this price, then the 675 Momentum shares you receive for your 100 shares will be worth R6 075. This gives you a premium on 100 FNB of R875 and on 100 Southern of R575 — that is, R8,75 and R5,75 per share.

If Momentum trades at the pre-suspension price of R1 090, you add R7,62 to your premium for each FNB or Southern share you hold.

If the market should decide the new Momentum is worth more than its intrinsic parts — well, you can do the calculations.

For RMB shareholders, the heart of the calculation lies in the merging of a business on a high p:e ratio with lower-rated businesses. It will take time for the benefits of the new structure to flow through. The market is unlikely to discount this fully. Wait and see.

Ben Temkin

AFRICA

Go north, young investor

Rewards outweigh risks

North of the Limpopo is considered wild and risky. It's the last frontier for fund management But fund managers are starting to take note of economic and political shifts elsewhere on the continent, and of the value in certain shares on the 12 major African exchanges outside SA.

At least five SA asset managers hope to start Africa funds because of the potential they've identified to the north Internationally, two or three Africa funds are being formed every month, says London-based Investec Securities analyst John Clemmow.

"The change has come since the collapse of communism and the increased influence of the International Monetary Fund and the World Bank," he says.

Deregulation, privatisation and the removal of exchange controls are other trends encouraging investment.

Economic statistics in many economies further north make SA look unattractive: 1996 GDP growth in Morocco was 12%, Botswana 8%, Kenya 4,6% and Egypt 3,9%.

From sma... beginnings, a banking behemoth is born (58)

ST (BT) 15/3/98

JULIE WALKER

Looks at the strands in this week's financial services deal

LAURIE Dippenaar took part in the Argus cycle race last Sunday with a cellphone, putting together the final details of this week's deal in which Anglo American's financial services interests First National Bank and Southern Life will become wholly owned subsidiaries of a new company in a deal via the Momentum listing.

Only 13 years ago, a deal between Dippenaar, GT Ferreira, Paul Harris and Pat Goss — partners in Rand Consolidated Investments — and Johann Rupert's rival merchant bank Rand Merchant Bank, became the platform for a group which is now set to boast a market capitalisation of some R59-billion. RMB grew bigger and in 1992, bought control of the pedestrian life assurer Momentum. A holding company, RMBH, was formed, and the bank became a 100% subsidiary of Momentum.

Momentum's market capitalisation is currently R13.5-billion; it will issue 675 shares per 100 Southern and First National and be renamed. Dippenaar will become chief executive. RMBH and Anglo American will each have about 24%. Anglo's Rupert Pardoe vehemently denied that Anglo was no longer regarding financial services as a core business; the facts endorse this. Anglo's market capitalisation is R51-billion and its stake in Newco will be of the order R14-billion — more than a quarter.

Neal Chapman, chairman of Southern Life, will be the non-executive chairman of Newco.

Chapman furnishes the details of who approached whom. "When Anglo American indicated it would consider proposals for its financial services operations, many parties beat a path to Mike King's door to talk about Southern, among them Momentum. From the other camps, Southern had identified Momentum as a most respected life assurer, and First National Bank had the highest possible regard for Rand Merchant Bank," says Chapman.

King, deputy chairman of Anglo, was, as ever, the chief negotiator. Semi-retired wine farmer GT Ferreira, the non-executive chairman of the bank holding company, says he thought he had met the toughest negotiator in the world when he tried to acquire part of a neighbour's property on which to build a winery. "That was before I met Michael Wallace King."

King stuck out for the favourable share-exchange terms secured by Anglo on behalf of itself but by implication all Southern and First National shareholders. Obviously, Momentum had to pay a premium. Anglo wanted the RMB management, but felt they should pay to quadruple the size of Newco.

Dippenaar says talks went on until moments before Tuesday's press conference.

"The deal was approved in principle only last Friday, since when we have prepared all the documentation, media releases, and managed to raise R5.1-billion which will be used in part-settlement. We haven't done too badly," he says.

Momentum shareholders will be offered 42 shares per 100 held on April 3, at 900c. The market price is 995c. RMBH also has to raise R1.7-billion to follow its Momentum rights of 15 per100 held at R15.

'I thought I'd met the toughest negotiator in the world, until I met Michael Wallace King'

Dippenaar says the merger between RMB and First National combines flair with solidity. The group will adopt a multi-brand strategy, and Dippenaar made much of the benefits to be had when a group holds 100% of bank, insurer, asset manager and so on. Newco attains critical mass with R250-billion of assets on balance sheet and more under administration, an 18% share of the banking market and 12% of the insurance market — roughly third position in both.

Only once did he slip by referring to the deal as a "takeover" — it's a merger. Still, RMBH will call the shots: it will lead the executive committee with a majority of one along with key members from FNB and Southern. Anglo and RMBH will appoint equal numbers to the Newco board which will delegate to exco.

Overall operational responsibility lies with RMBH/Momentum. Dippenaar will be chief executive of the assurance arm, RMB's Paul Harris will run corporate, merchant and investment banking and Viv Bartlett retail banking.

Dippenaar says Newco will take advantage of the changing paradigms in financial services without the limitations imposed by minorities in operating companies. He could have been echoing the sentiments expressed by Capital Alliance chief executive Mark Barnes only months ago, that owning bank and insurer allows a group to develop most efficiently.

However, Capital Alliance is already being unbundled into a bank and a life office after the synergies didn't emerge. How will Newco differ?

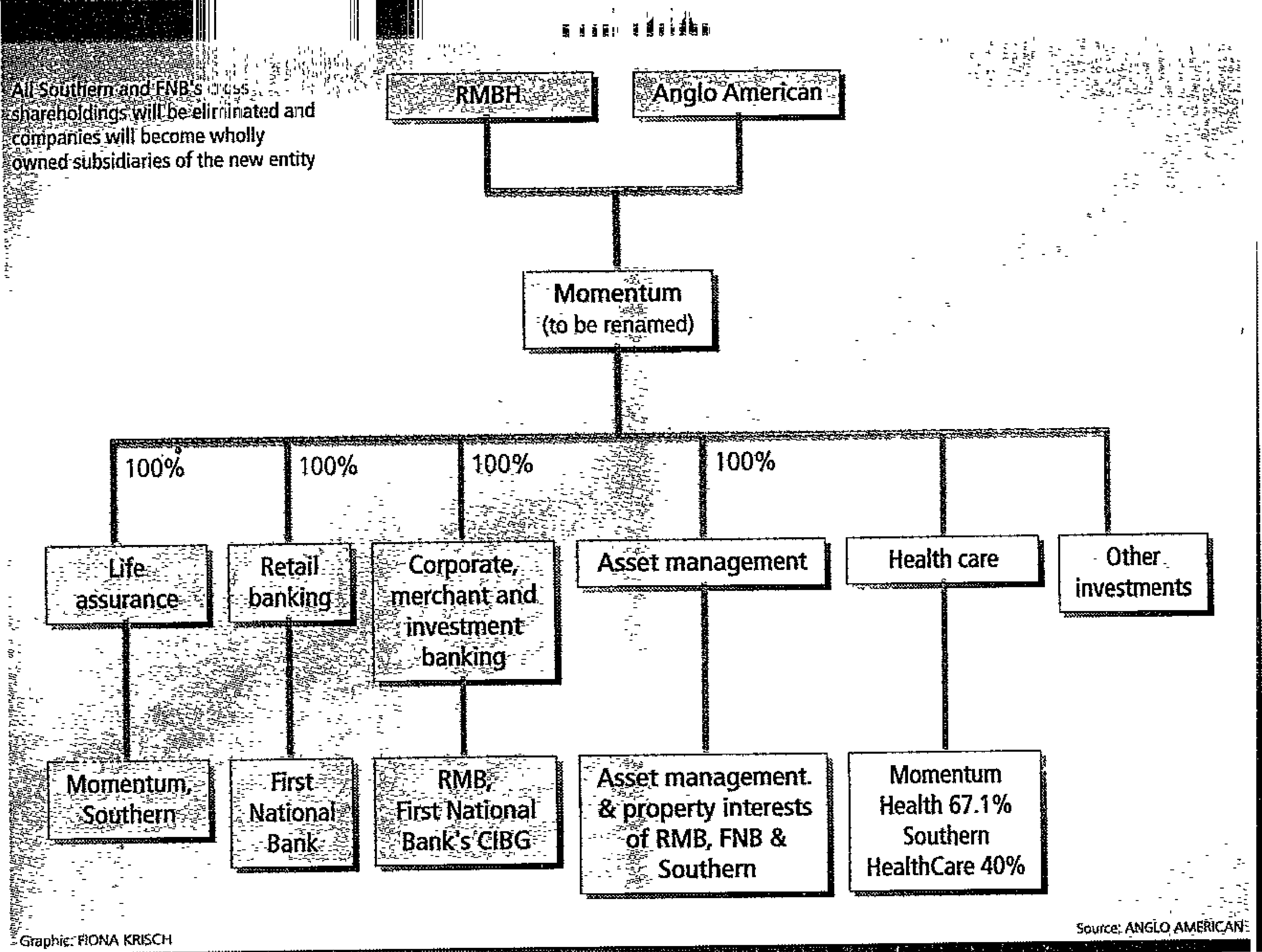
"Its executive committee comprises people from the bank and the insurance and asset management operations who are responsible for driving the entire process strategically and operationally," explains Dippenaar.

The merger terms immediately enhance the earnings of RMBH (by 96%) and Momentum (172%). First National's earnings will edge 1.3% higher while Southern's will be diluted by 2%. However, the shareholders in these companies benefit from the capital appreciation arising from the merger terms. First National shares jumped from R51.20 pre-merger to R61.80 and Southern from R54.50 to R62.30.

As Dippenaar says, these earnings enhancements are calculated before any possible cost cuts and operational improvements. Everybody was cagey about retrenchments: Southern's Jan Calitz says 200 administrative staff out of 2 800 have gone in the past 16 weeks, as have 200 of 1 200 marketers. First National's Bartlett prefers natural attrition to take care of 1 800 to 2 000 heads over the next 18 months. Nobody from RMB or Momentum was expected to answer the question on behalf of those companies; the implication obvious.

[illegible] CAPITALISATION OF [illegible] FINANCIAL SERVICES GROUPS ON THE JSE

Group	Market capitalisation
Liberty Life	R41.4-bn
Stanbic	R34.9-bn
Nedcor	R32.8-bn
Absa	R26.3-bn
Orion	R19.6-bn
Investec	R17.2-bn
Boe	R10.0-bn
Fedsure	R9.9-bn
Coronation	R8.8-bn
Aflife	R4.2-bn
Sage	R3.5-bn
Norwich	R3.2-bn
African Merchant Bank	R3.0-bn



Pictures: RAYMOND PRESTON

THE DEAL-MAKERS (clockwise from back left) . . . Paul Harris, Rupert Pardoe, GT Ferreira, Jan Calitz, Viv Bartlett, Hillie Meyer, Laurie Dippenaar and Neal Chapman

THE GREAT GRANDFATHER . . . Harry Oppenheimer, who sowed the seeds of Anglo's financial services investments with UAL in 1955, was at the news conference to witness the fruits of those early labours

SA applies to participate in fund

BD 16/3/98 (58)

John Dludlu

GOVERNMENT has applied to become a participant in the African Development Fund, taking the first step towards SA's intended contribution to the concessionary finance window of the African Development Bank.

This was disclosed in the budget review last week. According to the review, the application to contribute to the replenishment of the seventh fund was made last year.

Although the intention to contribute to the fund has been known for some time now, no official announcement has been made to indicate the scale of Pretoria's participation in the fund that is traditionally made up of contributions by non-African members of the bank.

When SA finally makes the contribution, it will be joining neighbouring Botswana which has already made a once-off contribution of $2,4m in two instalments.

The fund, created in 1972, provides loans on concessionary terms to about 39 low-income African countries. These loans bear no interest, but carry a service charge of 0,75% on unpaid disbursed loan amounts and a commitment charge of 0,50% on the disbursed loan portion.

The seventh fund has about $2,6bn to cover the 1996-1998 period.

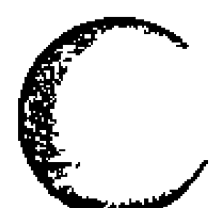
The contribution to the fund by Pretoria, which holds about 1% worth of shares in the bank, will signal its commitment to African development.

Since SA joined the bank, the relationship has developed. Last year, the bank launched a R100m Eurorand bond.

Last December the bank's executive board approved a line of credit to the Development Bank of Southern Africa for R750m to assist in funding infrastructure project service. This was in addition to a R113m investment in the SA Infrastructure Fund.

The board of directors of the Abidjan-based bank approved an investment of R12m in Msele Nedventures, a vehicle that provides equity financing to unlisted small and medium-sized enterprises.

According to the budget review, contracts worth R2,3m have been awarded to SA companies.



SA's financial services mergers follow trend

BD 16/3/98 (58)

Tim Cohen

LONDON — The announcement of two huge financial services mergers in SA last week will seem a familiar tune in the ears of Europeans, who have seen their banking and insurance sectors turned upside down over the past two years.

Europe's financial services sector is going through a period of consolidation eclipsed only by the boom years of the late 1980s. More turmoil is expected with the advent of European monetary union.

The wholesale changes to the corporate landscape have been motivated by campaigns to gain control of key financial services and the best channels for distributing them.

For the larger banks and insurance companies, merger mania has also been spurred by the need to gain critical mass by dominating the market — a market likely to expand as the influence of national borders decreases with the introduction of a single European currency.

The merger between Swiss bank Credit Suisse and Swiss insurance company Winterthur last year was followed by a troubled merger between Union Bank of Switzerland and Swiss Banking Corporation this year.

According to Fox-Pitt Kelton insurance analyst Bob Yates, the current consolidation phase has involved mostly nonlife, life, reinsurance and broker sectors. It began in 1995 and has seen Allianz, Axa-UAP and Generali vying for European domination.

Just two mergers — Generali's hostile bid for French insurer Assurances Générales de France, and the ensuing friendly approach from Germany's Allianz, as well as the merger between Zurich Group with the UK's BAT financial services — have been valued at $60bn.

Pehr Gyllenhammar, chairman designate of the combined BAT-Zurich group, said at the time: "This used to be a cosy industry, but that is no longer the case. Tough competitive forces are removing costs and life insurance is going into the broader sphere of financial services. Consolidation is necessary and market leadership is crucial."

The pressure on insurance companies in Europe has come from banks and building societies, which have eroded traditional markets, as well as from new marketing techniques such as telephone sales, which have cut out middlemen and lowered margins.

In the UK banks have made no secret of their desire to buy insurers, with new rumours emerging almost on a weekly basis. The most talked about are a link between Barclays and L&G or Norwich Union, while National Westminister Bank has already announced talks with Prudential.

Kelton says the rationale behind these links is the likely restructuring of state welfare provision, with government encouragement of more private pensions a probable consequence. Banks, with their extensive branch networks and sophisticated databases, are in a good position to distribute insurance products.

So far, alliances have been taking place within national borders due to legislative, accounting and supervision differences between countries. Kelton says these factors are likely to decrease with the introduction of the euro, which will make it easier for people to contemplate buying life products in particular from companies not based in their own country.

The logic of mergers between banks rather than between insurance houses and banks is much more compelling because the cost savings are likely to be larger. The Axa and UAP merger is claimed to have achieved annual savings of $326,3m, while the 1966 insurance merger between the UK Royal and Sun Alliance was likely to save £175m a year.

The distribution benefits of mergers between insurance houses and banks have been demonstrated, as have the dangers of management incompatibility.

(58) BD 18/3/98

Insurers to oppose government's plan to use billions from riot fund

Robyn Chalmers

SHORT-term insurers oppose government's plan to divert billions of rands from the SA Special Risk Insurance Association (Sasria) to reduce state debt.

The 48 short-term insurers — all stakeholders in special political riot insurance fund Sasria — fear they will lose valuable rights in the insurance fund and be left exposed to potentially large claims should government implement its transformation plan.

Sources said Sasria had accumulated reserves of R9,4bn, a portion of which government planned to use to reduce state debt.

The finance ministry was preparing legislation to convert Sasria from a Section 21 company to a public company with government as sole shareholder initially.

The move would also allow government to limit its risk exposure in terms of reinsurance cover provided to the insurance industry through Sasria.

The ministry would consult an actuary to determine the level of reserves Sasria needed to continue its normal business. However, previous industry estimates were that about R1bn-R1,5bn could be placed in an emergency fund for Sasria's future liabilities.

This could theoretically free between R7,9bn and R8,4bn for the reduction of state debt in the longer term. The finance ministry indicated that only R1bn of this was likely to be liquidated and used in the current fiscal year.

Sasria MD Mike Strydom said yesterday the organisation was taking legal advice. Member companies had taken a unanimous decision to oppose the legislation and were now exploring legal ways of doing so.

Stakeholders had the right to appoint members to Sasria's board.

They feared that government's plan to take over the organisation would deprive members of these and other rights.

Sasria's board of directors included Mutual and Federal MD Ken Saggers, IGI curator Cornelius Oosthuizen, SA Eagle MD Peter Martin, Central Reinsurance Corporation chief Mike Davis, Dawie Malan of Ginsburg Malan Carsons actuaries and investment advisers and Santam MD Jurie Geldenhuys.

Strydom said although the amount to be left in Sasria's "emergency" fund still had to be decided, the mooted R1bn-R1,5bn was not acceptable in view of the insurers' "vast exposure" in SA. "We do, however, have surplus assets and would be prepared to negotiate with government on how these assets can best be used. We are happy to talk about the way forward," he said.

BANKING LAWS FOR POOR URGED

Women MPs may target loan sharks

CT 18/3/98 (58)

A PARLIAMENTARY COMMITTEE was told yesterday about the number of small loans given to rural women. Group Parliamentary Editor **ZUBEIDA JAFFER** reports.

LOAN sharks, who charge poor people as much as 300% interest on borrowing, may be out of business if women MPs introduce draft laws to give the poor access to bank credit.

The director of Women's Development Banking, Ms Zanele Mbeki, wife of Deputy President Thabo Mbeki, urged the Parliamentary Committee on the Improvement of the Quality of Life and the Status of Women yesterday to consider drafting a new law on micro-funding which will differ from laws which govern commercial banks.

"There is no way we can get rid of loan sharks as long as poor people cannot access finance legitimately," she said.

Mbeki made a presentation at the public hearing on the implications of the Budget for women. The one-day hearing was part of an effort to reach a better understanding of this year's Budget to allow women to influence next year's Budget process.

Mbeki's initiative has so far given close to 10 000 loans, ranging from R300 to R6 000 to rural women. "A lot more has to be done, but so far we have issued R6,5 million in loans."

She made a strong call for laws to be passed to accommodate the banking needs of the poor. "Poor people are the greatest savers."

Women's Development Banking committed each borrower to save one rand on every R300 borrowed. "Through this system, we are holding R1m in savings but cannot access this because of the banking laws," she said.

She did not advocate laws which would not protect people's savings. However, she believed that laws were needed to make it possible for micro-lending institutions to access the savings they held. "We are sitting on money which we cannot use and spread because of legal limitations."

While the Usury Act regulated interest charges, poor people were subject to unscrupulous moneylenders who did not follow any regulations. "They pay because they need the money desperately."

Mbeki, who told the committee of her various international experiences with "poverty banks", referred specifically to the Grameen Bank in Bangladesh which has grown to service two million clients.

The growth of micro-credit arrangements would also reduce demands on welfare and reunite families. "Most of the women we have helped with loans have had their families reunited," she said. Often, men returned from fruitless job-hunting to join their wives who had secured loans to start small-scale, local initiatives such as selling bananas and oranges on the street.

MAKING A POINT: Zanele Mbeki addressing a parliamentary committee yesterday. *PICTURE: THEMBINKOSI DWAYISA*

Financial Services Board thwarts Manuel's Africa plan

The Financial Services Board is out of step with government over investment in southern Africa, writes John Clemmow

BD 19/3/98 (58)

FINANCE Minister Trevor Manuel in his recent budget speech again showed that he is keen to encourage SA institutions to invest in the equity markets of the country's Southern African Development Community (SADC) neighbours.

Last year he said local institutions could invest an additional 2% of their previous year's cash flow into SADC equities above and beyond the 3% allowed for other offshore investments.

This year he increased the allowance from 2% of cash flow to 10% — an annual flow of roughly R8,5bn.

The policy direction is clear. The minister wishes to see SA capital flow north in an attempt to balance the large direct trade gap that has developed with the rest of the region.

He may be surprised to notice that despite his efforts, not one SA-based SADC equity fund has been set up. This is not because of lack of opportunity. Of the countries within the SADC, only Angola, the Congo, Lesotho and the Seychelles do not have functioning stock exchanges.

Nor is the failure to invest due to a lack of value. Last year, Zambia and Botswana were two of the best performing stock markets in the world, registering capital returns in excess of 75% in US dollars. Even Zimbabwe, which suffered a crisis of confidence late last year in the wake of financial problems brought on by the government's mishandling of the economy, has seen an increase of 300% in the local value of the industrial index since 1991.

Despite these gains and the problems of Zimbabwe, the region still offers outstanding asset value, particularly in low-risk countries like Mauritius, which offer a combination of high growth and low prices.

Finally, the failure to invest is not due to lack of vision. Several major institutions have tried to invest in SADC markets and have applied to set up Africa funds.

Their failure to proceed is the result of what seems to be a disgraceful lack of urgency on the part of the Financial Services Board.

In a Government Gazette dated November 1996, the board sets out the stock exchanges it allows SA institutions to invest in. Not one African bourse is on the list. Despite the clear policy of the government, the board has not amended this list.

This means that institutions such as Norwich, BoE Asset Management and Investec Asset Management, which have tried to invest in Africa, have been stopped from following government-sponsored initiatives.

The board claims it is following the procedure adopted by other regulatory bodies, but this does not seem to bear examination of the facts.

For example, the Baring Asset Management Simba Fund is regulated by the UK authorities, yet it trades in equities listed on most African bourses.

Nor does this argument take into account government's goal of encouraging investment in the SADC. Apparently, the board is reviewing the situation.

The finance minister surely cannot be indulging in the pure sophistry of increasing SADC asset allocations, while being aware that SA institutions are not allowed to invest. Hence one must conclude that different parts of SA's financial leadership do not know what the other parts are doing.

This is not just ridiculous but also tragic — if Africa needs anything it needs investment. Thanks to the Financial Services Board, it is not getting it from SA.

□ *Clemmow is head of the Africa sales department of Investec in London.*

Small loans to women bring big results

(58) Star 19/3/98

By Zubeida Jaffer

Loan sharks who charge poor people as much as 300% interest on borrowing may be out of business if women MPs introduce draft laws to give the poor access to bank credit.

The director of the Women's Development Banking, Zanele Mbeki, yesterday urged the Parliamentary Committee on the Improvement of the Quality of Life and the Status of Women to consider drafting a law on micro-funding, which would differ from laws that govern commercial banks.

"There is no way we can get rid of loan sharks as long as poor people cannot access finance legitimately," she said.

Mbeki, wife of Deputy President Thabo Mbeki, made a presentation at the public hearings on the implications of the Budget on women.

The one-day hearing was part of an effort to reach a better understanding of this year's Budget to allow women to have a say on next year's.

Mbeki's initiative has so far given close to 10 000 loans, ranging from R300 to R6 000, to rural women. "So far we have issued R6,5-million in loans," she said.

She said she believed laws were needed to make it possible for micro lending institutions to access savings they hold.

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Development bank agrees to curtail pursuit of commercial customers

Robyn Chalmers and Louise Cook

OD 20/3/98 (58)

THE Development Bank of Southern Africa has pledged to curtail its pursuit of commercial bank customers under a deal signed with the Council of SA Banks (Cosab) yesterday.

However, Cosab has yet to resolve a similar dispute with the Land Bank.

The banks have accused the development bank and the Land Bank, which both provide loans at below market interest rates, of poaching lucrative business. They fear other development agencies will follow suit.

The development bank has agreed to limit its support to projects that promote infrastructure development and eradicate backlogs. Borrowers will also be required to prove they cannot obtain normal bank financing.

Cosab CE Bob Tucker said that due to historical subsidies, the development bank had lower cost structures. "This gives it the capacity and appetite for risk that the banks can't share."

As a result there was a danger that the development bank would take an "ivory tower" approach towards lending rather than assist those institutions which were unable to obtain funding through traditional means. "The bank has a crucial role to play in facilitating (commercial) banks' involvement in infrastructure and development funding," he said.

Development Bank of Southern Africa CE Ian Goldin said his institution was committed to co-operating with private sector banks. This was particularly important in view of the development bank's transformation and its role as a facilitator of public-private infrastructure partnerships.

In terms of the co-operation agreement a review panel would be set up to monitor the implementation of the agreement and resolve conflicts which could arise.

Cosab asked a parliamentary committee last month to revise the Land Bank Act as the Land Bank's "aggressive onslaught" on new farming business was costing commercial banks R400m a year in potential business.

Cosab said the Land Bank enjoyed a privileged position over commercial banks; that some provisions in the Land Act were unconstitutional; and that the bank's commercial activities should be restricted.

It accused the Land Bank of wanting to break into a "whole range of new client sectors like Rainbow Chicken, Triomf Fertiliser, ICI chemicals, and Total Fuel & Oil", currently served by commercial banks. In the past the Land Bank has confined its lending to farmers and co-operatives.

Law to facilitate demutualisation is being drafted (58)

Pat Sidley

BD 20/3/98

THE Financial Services Board is drafting legislation to ensure the legal framework within which SA's two large demutualisations — Old Mutual and Sanlam — can take place.

Originally conceived of as a separate piece of demutualisation legislation, it is now likely to take the form of an amendment to the Insurance Act, section 25.

This already deals with several similar issues.

The board's Francois Jooste said that the legislation would be necessary to ensure that the "architecture within which demutualisation happens is organised".

It would, he said, deal mainly with matters of succession, such as the continuation of contracts — for instance employment contracts or ownership of software and myriad other such contracts.

The two mutuals, which are each governed by a private act of Parliament, would still have to complete the process of equitably allocating and distributing resources and being seen to be doing this.

They would have to approach policy holders as they would have done without the new legislation for approval to change the status of the mutuals and they would have to satisfy a high court judge of the process.

The two acts of Parliament would one have to be repealed.

Banking institutions vow to face Africa's challenges

Sowetan 20/3/98 (53)

By Shadrack Mashalaba

THE World Bank and the African Development Bank have committed themselves to combining ideas to meet Africa's challenges.

World Bank manager of external affairs for the Africa region Robert Calderisi said many Africans did not regard the World Bank as impartial.

The bank's official was addressing a conference organised by the South African Institute of International Affairs and the United World Colleges on the topic Southern Africa – Into The Next Millennium.

"We are seen as peddling some kind of freemarket ideology, applying the same solutions to different countries and problems and being a battering ram for some large countries' interests on the continent. We are identified with conditionality rather than opportunity," said Calderisi.

He unveiled the bank's mission for the next 10 to 15 years.

According to him the priorities will include the development of human resources, regional integration, improving conditions for private and public investment and managing the natural environment.

He said: "This is a rich agenda, but one which African governments will drive – with the involvement of the private sector, local communities and the development institutions."

A new partnership, he said, was necessary because Africa was the only continent that would continue to rely greatly on multilateral development finance well into the next century.

"We do not need to have everyone agree with us," he said.

"We need to understand the specific circumstances, hopes and concerns of the people we are trying to serve in each country and spend not half, or two thirds, or three quarters of our time, but 90 percent listening, observing and hearing before talking and writing ourselves.

"We need to develop ground rules for desseminating data given to us by government in confidence. Such data will undoubtedly contribute to domestic confidence and attract investment."

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CAPE AUCTION

Preserving the Twelve Apostles

fm 20/3/98 (56)

Mystery over the real trump card in a contentious development

As foreign buyers jet in to bid for the contentious White House site, observers can only scratch their heads over how the original rezoning application went unchecked.

Cape Town's most contentious hotel site — De Oudekraal on Table Mountain — comes under Claremart Auctioneers' hammer on March 25. Claremart says there are four interested foreign buyers in what it dubs "the biggest hotel auction in Africa", including US developer Donald Trump.

But there are rumbles of discontent once again in the green camp, where there is talk of land swaps to rescue the site. According to metro planners, this could be problematic because of existing development rights. These distinguish this site from the adjoining piece of Oudekraal land, which is subject to new proposals for townhouses. But swaps are technically possible on both.

Cape spatial planning head Francois Theunissen says the metro is in dispute with the owner of this adjoining land. "It revolves around misunderstanding of Cape planning law. Rights pertaining to the land rest in its current land use rights, not in potential rights or land value."

Temperatures continue to rise over the White House, this time over the original rezoning application. Theunissen says one of his branch heads, Carne Blandy, coincidentally in his previous capacity processed that application. Blandy says "all procedures were correctly followed".

The greens did not pick up the ad in the local press. Cape planning law, unlike Gauteng's, does not insist on sign boards on sites notifying an owner's intention to rezone. But it does require personal notification of adjoining land owners.

Community spokesmen say they knew of the rezoning only when demolition of the original Hottentots Huisie began.

The one party that could have influenced the rezoning, the National Monuments Council (NMC), appears to have been incapacitated because, it is alleged, a previous regional manager failed to bring the matter to the attention of its relevant committee. But there is debate about this too.

According to NMC Western Cape manager Laura Robinson, the owner of Hottentots Huisie did apply to demolish the house. This was initially refused because "of its landmark quality". The applicant then appealed and the NMC reversed its ruling.

But, says Robinson, "the real problem lay in my predecessor's recorded discussions with the owner — a record we found only a year later.

"On the basis of this administrative hiccup and embarrassment over it, we could not formally object to the rezoning application because it was too late."

Strange indeed. Fact is, as Robinson confirms, the NMC never commented on the rezoning. It remains to be seen whether planners asked them to, or needed to.

"Our attitude today would be to vigorously oppose any development on that strip of the mountain" says Robinson.

Claremart is hoping to fetch R40m from the sale to cover expenditure on the incomplete development. The auction has come about because developer Hottentots Huisie Investments could not pay for the hotel's partial construction by GMR Whitehouse Joint Venture (Grinaker Cape and Murray & Roberts Cape), which brought the liquidation order last year.

Sanek Trust and St George's Trustees put a R40m figure on the property during the liquidation on February 26 when Hottentots failed to meet development loan conditions laid down by Standard Corporate & Merchant Bank. Claremart says R8m more is needed to finish it to five-star standards.

"Studies by the bank show that the 70-room hotel cannot be viable" says Save the Mountain Campaign head Desré Burski.

Clive Lurie of project management consultant Lurie Yates Partnership, which was called in by the bank to do an audit when the project started running into trouble in December, says "the viability of the scheme will depend on its ultimate use".

"It may be a pipe dream, but we hope one institution or a combination of institutions will help protect our national assets by buying the site and removing the construction in return for another site," says Burski.

Alison Goldberg

Milestone for development finance

By Isaac Moledi

THE Development Bank of Southern Africa (DBSA) and the Council of South African Banks (Cosab) yesterday agreed to cooperate in various fields after the two parties signed a Memorandum of Understanding.

The agreement, hailed by the two parties as a significant milestone in enhancing the coordination of financial flows for development in the region, will enable the DBSA and Cosab to cooperate in co-financing projects and sharing of information.

The agreement will also provide a vehicle for the establishment of a review panel to monitor the implementation of the memorandum and to resolve any conflicts which may arise between private sector banks and the DBSA at operational levels.

The parties said yesterday that they had been in discussion "for some time" to explore areas of common interest and to develop a framework for future cooperation.

Key role

Ian Goldin, DBSA chief executive, said the agreement had become particularly important in view of the DBSA's transformation and the confirmation of its role as a key public sector development finance institution, particularly in public-private infrastructural projects.

Cosab chief executive Bob Tucker said: "The agreement will give rise to a situation which will be of benefit not only to private sector banks and the DBSA, but to development in South Africa in general."

DBSA chairman professor Wiseman Nkuhlu said the agreement was a formalisation of the good relationship which had developed between the two parties and was a significant step forward in strengthening partnerships between the public and private sectors.

Steps taken to co-ordinate regional financial systems

BD 23/3/98 (58)

Criticism of the Financial Services Board's position regarding the Southern African Development Community was not entirely justified, writes Rick Cottrell

YOU have published an article entitled Financial Services Board thwarts Manuel's Africa plan in which Investec's John Clemmow argues that the Financial Services Board is failing to follow government policy on investment in the Southern African Development Community (SADC) region.

The article contains a number of errors and shows a lack of knowledge about the matter, which I would like to correct.

The finance minister's announcements quoted in the article refer to further relaxation of exchange control measures. Whatever the degree of relaxation which may apply at present, the board is charged with the prudential regulation of the nonbanking financial institutions in SA.

Investing in foreign investment opportunities has a significant prudential dimension which has been completely ignored in the article. The approval of foreign stock exchanges is one dimension of it. The second dimension is a limit on the value which may be invested in foreign assets.

Both these measures are aimed at ensuring risk to investors is contained within acceptable norms. The regulatory model of approving exchanges and limiting foreign exposure is used by regulators internationally. The board's responsibilities for investor protection are fully recognised by the finance ministry.

Since SA's entry into the SADC in 1995, various structures were set up for regional co-operation in the area of finance and investment. An unfortunate omission was the establishment of a structure to enable co-operation and co-ordination of nonbanking financial regulation. Towards the end of last year the board took the initiative towards establishing such a structure. It convened a meeting of SADC financial supervisors in SA in February where significant progress was made towards the establishment of such a structure.

In addition, SADC stock exchanges have begun their own initiative towards better co-ordination, particularly towards the harmonisation of listing requirements.

Progress is therefore being made separately and under the auspices of the board towards the better co-ordination and harmonisation of financial regulation in the SADC region, with the ultimate objective of facilitating better and bigger investment flows. But facilitating investment flows is not an end which justifies all means. In particular it does not override the need to preserve the integrity of prudential regulation.

Turning to a number of specific matters raised in the article, I would like to place the following on record. Clemmow claims several major institutions have tried to invest in SADC markets and have applied to set up Africa funds. In saying this he seems to suggest applications have been made to the board to set up unit trust schemes for this purpose. The board has no record of such applications and has only received two informal inquiries and discovered one contravention which it had corrected. I would like to be informed of the major institutions that have applied as claimed.

If an application is received for a dedicated fund to invest in equity opportunities in the SADC region, such an application would, subject to the normal requirements, be in accordance with the prudential structures and receive the board's consideration.

However, this is not what appears to be Clemmow's difficulty. He refers to a different prudential constraint placed upon general funds where only a certain percentage of assets may be invested in foreign equities and then only via stock exchanges that have been approved.

This constraint is part of the prudential system which is in place to protect South Africans who will invest in such opportunities under different conditions than those that would prevail in the case of the dedicated fund referred to. I believe that steady progress will be made towards accommodating both the desire to invest in these equities and at the same time preserving the prudential integrity required to ensure investor protection, but this cannot be achieved at present.

It should also be mentioned that in the case of life insurance companies, under current prudential regulation, they can invest their surplus assets in SADC investment opportunities. These institutions can also develop linked products of which the underlying investments are SADC equities and other SADC instruments, for an unrestricted value. Despite the ability which these institutions have to invest in SADC opportunities, they have not rushed in as Clemmow suggests.

In the light of the foregoing, two particular remarks made by Clemmow require closer attention. The first is that the failure of major SA institutions to invest in the SADC is the result of "a disgraceful lack of urgency on the part of the board". The second is Africa is not receiving the investment flows which it needs from SA "thanks to the Financial Services Board".

These remarks demonstrate the propensity to criticise without having verified the facts he presents. Had he taken the trouble to contact the board prior to writing the article he may have been able to demonstrate a better understanding and not have felt the need to level such accusations.

□ *Cottrell is the board's executive officer.*

Demutualisation 'a boost for SA economy'

CT 23/3/98 (58)

WINNIE GRAHAM

JOHANNESBURG: South Africa will enjoy a new era of prosperity when assurance giants Old Mutual and Sanlam go public, injecting some R65 billion into the economy, financial sources predict.

The "demutualisation" process — due to start at Sanlam towards the end of this year and the Old Mutual at the end of next year — is expected to unleash a major spending spree as many policyholders cash in their shares.

Independent research shows the spending will have a huge impact on the manufacturing and leisure industries.

Financial sources note that when mutual societies started "demutualising" in Britain (where people are more prone to save and less likely to spend), some 23% of the cashed-in shares were spent on home improvements, 23% on holidays, 10% on cars and 10% on white appliances (washing machines, fridges, stoves etc).

In South Africa, where people are less prone to save, financial experts predicting that they would spend most of their new-found wealth.

Some 30% of Sanlam's clients and between 40% and 50% of Old Mutual's are people of colour.

bottom line

Wisely managed, the spending could propel South Africa into a new era of prosperity, stimulating growth and creating jobs.

This is how Sanlam's economists think money from the sale of Sanlam shares will be spent:

- 25% on big household items such as stoves, TVs, audio equipment.
- 25% on semi-durables, such as clothing and footwear.
- 20% on home improvements.
- 10% on transport and accessories.
- 10% on travel/holidays.
- 10% on other items.

In the case of the Old Mutual, the benefits of demutualisation will extend well beyond the borders of South Africa. It has policyholders as far afield as Malawi, Zimbabwe, Namibia and even Hong Kong.

Independent financial sources believe sensible economic policies have already done much to prepare South Africa for growth.

Cape policyholders already in hip mood over huge cash bonanza due from demutualisation

24/3/98 (58) Star

By Winnie Graham

The excitement of sharing in the huge cash bonanza coming the way of Sanlam and Old Mutual's six million policyholders in the next two or three years is already being felt in the Cape where both assurance giants have their head offices.

Independent research has shown that some R65-billion will flow into the economy when the two mutual societies go public and start issuing shares, unleashing a tidal wave of spending. Already thousands of people are telephoning Sanlam's helpline – where some 80 people are employed – asking for more details of an expected "windfall". Old Mutual has set up an answering service.

The questions are usually fairly basic. When will they get their shares? What will they be worth? Why is Sanlam "going public"? Where is the money for the shares coming from?

The demutualisation windfall is increasingly being seen as a factor that will change the lives of South Africans from all spheres of society. It will also change the financial face of South Africa.

However, the good it will do will be shortlived unless the process is carefully managed. It is with this in mind that the assurance houses are soon to mount major advertising and educational campaigns to help their clients make informed decisions when the shares are finally released.

At a special briefing in Cape Town, George Rudman, Sanlam's senior general manager charged with heading the demutualisation process, and Emile Wessels, the group's legal adviser, spelt out the process – along with the benefits and the difficulties which lie ahead.

The answers to the questions listed above are simple: It is too early to say exactly what the shares will be worth. No one policyholder will be told ahead of another. Every policyholder is being kept informed as the process is being worked through.

The money for the shares will come from retained profits – those reserves kept aside for contingencies.

This money will be converted to share capital. The value of existing policies will not be affected in any way.

Rudman points out that the allocation of shares to policyholders is a complicated process and the final outcome is, as yet, unclear. At the moment the estimates being used are only a rough guide and the final amounts could be significantly different.

"Policyholders should bear in mind that the economic impact of the distribution of free shares will depend on the age and socio-economic profile of the recipients," he said.

"Obviously people who have had policies for many years will benefit more than those who have only just bought a policy."

Both Sanlam and Old Mutual are looking to become public companies because the move will allow them to become internationally competitive. When they came into being (Sanlam celebrates its 80th anniversary in June and the Old Mutual is 153 years old), they existed primarily as life assurance societies. Today the companies' portfolios include health care, unit trusts and overseas investments.

In other words, the two giants have outgrown their original purpose and, in a changing world, need to restructure to compete globally.

When they are eventually listed, they will have the largest number of shareholders in South Africa, with Sanlam having some 2,5 million and the Old Mutual 3,6 million. At present Iscor has the most: 154 000 shareholders.

Rudman wants policyholders to know the exact process to be followed in the coming months.

He points out that letters have already been sent to policyholders asking them to confirm details. The correct addresses of policyholders are vital if they want to ensure that they receive their allocation of shares.

Secondly, the regulations and requirements of the Financial Services Board require that an independent actuary be appointed to investigate the process to ensure that it is proceeding in a fair and equitable way. Policyholders will be kept informed throughout this procedure.

Thirdly, they will be asked to vote at an extraordinary general meeting on whether demutualisation should go ahead.

When this had been done, the evidence will be presented in writing to the High Court in Cape Town where the final stamp of approval must be given. Only then will demutualisation be complete and the assurance society become a company.

In Britain, policyholders were given up to nine years to claim their shares. Just how long they will have in SA has not yet been finalised.

Sanlam's chief economist, Jac Laubscher, and investment economist, Pieter Calitz, have pointed out that demutualisation will not create new wealth. Rather, it will release existing wealth to policyholders who will have the power to deal with it as they wish.

However, the wealth is being placed in the hands of people with a propensity to spend. Shares sold by private people will be bought both by other individuals and by local and foreign institutions who will finance their purchases from cash or by selling other assets.

"This implies that the demutualisation will cause a consumption expenditure bubble that will move through the economy," the economists say. "To a degree, it will put consumers on to a permanently higher level of income insofar as the benefits of the windfall can be assessed. Put another way, demutualisation will cause mainly temporary disturbances to flow within the South African economy."

In this country, the ultimate effect of demutualisation will depend on two issues: the proportion of allocated shares that are retained – or sold – and, secondly, the proportion of the proceeds of the share sales that are spent – or saved.

The economists add a possible negative. Once demutualisation has run its course, the economy will return to its normal growth path and it is foreseeable that the positive blip will be followed by a negative blip.

The Government is also expected to score. Its "windfall" will be an anticipated additional R2-billion in VAT.

Sanlam policyholders should call the tollfree number 0800-60-3355 for more information and Old Mutual members 0800-60-9000.

Insurance industry counts cost of fraudulent claims

(58) BD 25/3/98

Madeleine van Niekerk

CRIME costs the insurance industry R4,4bn a year, equivalent to 35% of all insurance claims, says the SA Insurance Association.

The cost of fraudulent claims was included in these figures, but it was difficult to give an exact amount or percentage, Caroline da Silva, executive at the SA Insurance Association, said yesterday.

"The police last year said 65% of stolen vehicles that were reported, were fraudulent claims," she said.

Australia, the US and Britain have come up with figures on what insurance fraud costs yearly. The Insurance Council of Australia says it costs $A1,5bn a year. The Insurance Information Institute, a US body with similar objectives to the SA Insurance Association, puts insurance fraud costs at $20bn a year. The Association of British Insurers says fraudulent claims cost the industry £600m a year, which adds 4% to the cost of insurance.

Nick Mew, MD of the short-term insurer Auto & General, said the insurance industry was becoming increasingly competent in dealing with fraudulent claims, and great advancements had been made to combat these activities. He declined to comment on measures taken to combat fraud.

Eugene de Meillon, deputy MD of Auto & General, said the problem was the better companies became technically proficient in discovering fraudulent claims the more they became aware of fraudulent activity.

A Santam spokesman said there was no defined trend in the type of fraudulent claims submitted.

INSURANCE *Accounting changes and tax charge lead to 31% drop*

Massive earnings plunge at Sanlam

CT (BR) 25/3/98 (58)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Sanlam, in the throes of demutualisation, reported a 31 percent earnings plunge to R1,2 billion in the year to December 31, mainly because of accounting policy changes, new actuarial valuation assumptions and a higher tax charge.

Marinus Daling, the executive chairman of Sanlam, stressed yesterday the financial year had been one of consolidation and there were areas of the group's business that required particular attention.

"Corrective action is being taken, and substantial progress has already been made to address the underlying causes.

"Our priorities in 1998 will be to provide higher service levels, increase product competitiveness and focus our marketing effort to re-establish Sanlam as a premier brand in the financial services industry and thereby improve our profitability."

Sanlam's main business performed disappointingly in the period under review, with operating profit up just 9 percent to R1 billion spurred by an 18 percent surge in premium income to R22 billion.

In addition, worldwide market volatility between October and December saw investment returns on policyholders' funds restricted to 9,9 percent, or R12 billion, against 10,8 percent, or R12,3 billion, in 1996.

Accounting policy changes played havoc with bottom-line earnings, particularly a change in the valuation of Sanlam Capital Fund's investment in listed subsidiaries. This resulted in a markedly lower investment return of R759 million (last year R1 billion) on the capital fund.

A change in actuarial valuation assumptions also saw a R141 million increase in policy liabilities, while the full effects of the "Four Fund" tax basis caused a 67 percent rise in the tax bill to R447 million also had an effect on the bottom line.

Daling said the change in accounting policy was necessary to bring Sanlam more in line with international norms.

He indicated that, had no accounting policy changes taken place, reported earnings for last year would have been R1,35 billion against R1,6 billion in 1996.

Daling noted that Sanlam's results were also influenced by hefty information technology expenditure to refine operating processes and redesign distribution processes. Overall, Sanlam's total expenditure (including tax) climbed to more than R3,4 billion from R3,1 billion.

He also cited problems at Sanmed and a lower than expected rise in the volume of individual recurring business as other factors hindering Sanlam's profit performance. Daling was reluctant to make a profit forecast.

Turning to demutualisation, Daling expressed satisfaction with the group's progress.

☐ **Business Watch, Page 18**

YEAR OF AGONY *Marinus Daling, the executive chairman of Sanlam, reported that corrective action is being taken to improve profitability*

PHOTO ANDREW BROWN

New high-powered adjudication panel to resolve complex disputes within life assurance industry

Ombudsman takes a tougher stand

(58) CT (PDR) 25/3/98

BRUCE CAMERON

Some life assurance companies require complex supporting evidence delaying valid claim payments – and do not pay out interest when they finally agree to pay up, says the Ombudsman for Life Assurance, Judge Jan Steyn. One such instance, Steyn reported in his latest annual report, involved the death of a child killed in crossfire in an unrest area. The company called for evidence that the death was not due to suicide. The child was three years old.

A number of retired judges, including the immediate former Chief Justice, Michael Corbett, have been recruited by Life Assurance Ombudsman, Judge Jan Steyn, to sit on a high-powered adjudication panel to resolve complex or high value disputes within the industry.

And negotiations have opened with the view to bring currently unregulated independent life assurance brokers within the ambit of the powers of the ombudsman's office.

Steyn said in his annual report for 1997 that although he had some reservations about the issue, he had told the financial services brokers and intermediaries body, FIFSA, that in principle he was prepared to extend his jurisdiction to include members of the federation and its component parts.

His reservations included the issue of how out-of-line intermediaries would be disciplined.

However, Steyn said that the recent Durr vs Absa Bank court case in which the bank was ordered to repay R750 000 lost in the Supreme Holdings fraud debacle, was a clear signal "to life assurers and members of the financial services industry as well as financial advisers to ensure that they and their employees, who are placed in a position to give financial and investment advice to the public, "have the necessary skills and knowledge which the employer professes they have, or which the relevant advisers profess they have".

The adjudication panel has been set up in terms of new tougher powers negotiated by Steyn with the life assurance industry to make the office more effective in resolving disputes and to give it a higher credibility level with the public.

Steyn said it was heartening that a committee representing the life assurance industry had agreed unanimously to the more effective rules under which he will now operate.

Changes agreed to included:

☐ Member life offices will now consider rulings of the Ombudsman binding on themselves;

☐ The Ombudsman will no longer be muzzled by a secrecy clause but will now, after giving notice, be able to make public statements on particular issues; and

☐ The establishment of the adjudication panel.

Steyn said although the life assurance companies had accepted that the rulings would be binding on themselves this in no way limited members of the public from appealing to a court against any decisions.

Issues would be referred to the panel of adjudicators when there was considerable public interest in an issue or where the case was so complex or evenly balanced to merit independent re-evaluation.

Steyn said one the objects of the new structure was to keep procedures accessible, quick, simple, inexpensive and flexible.

"The life assurance industry is viewed as a 'blue chip' investment opportunity by the general public.

"As such its business practice should be impeccable and beyond reproach.

"Regrettably even the most upright corporations occasionally employ the unethical salesperson – sometimes they employ, or license to sell, agents who commit fraud."

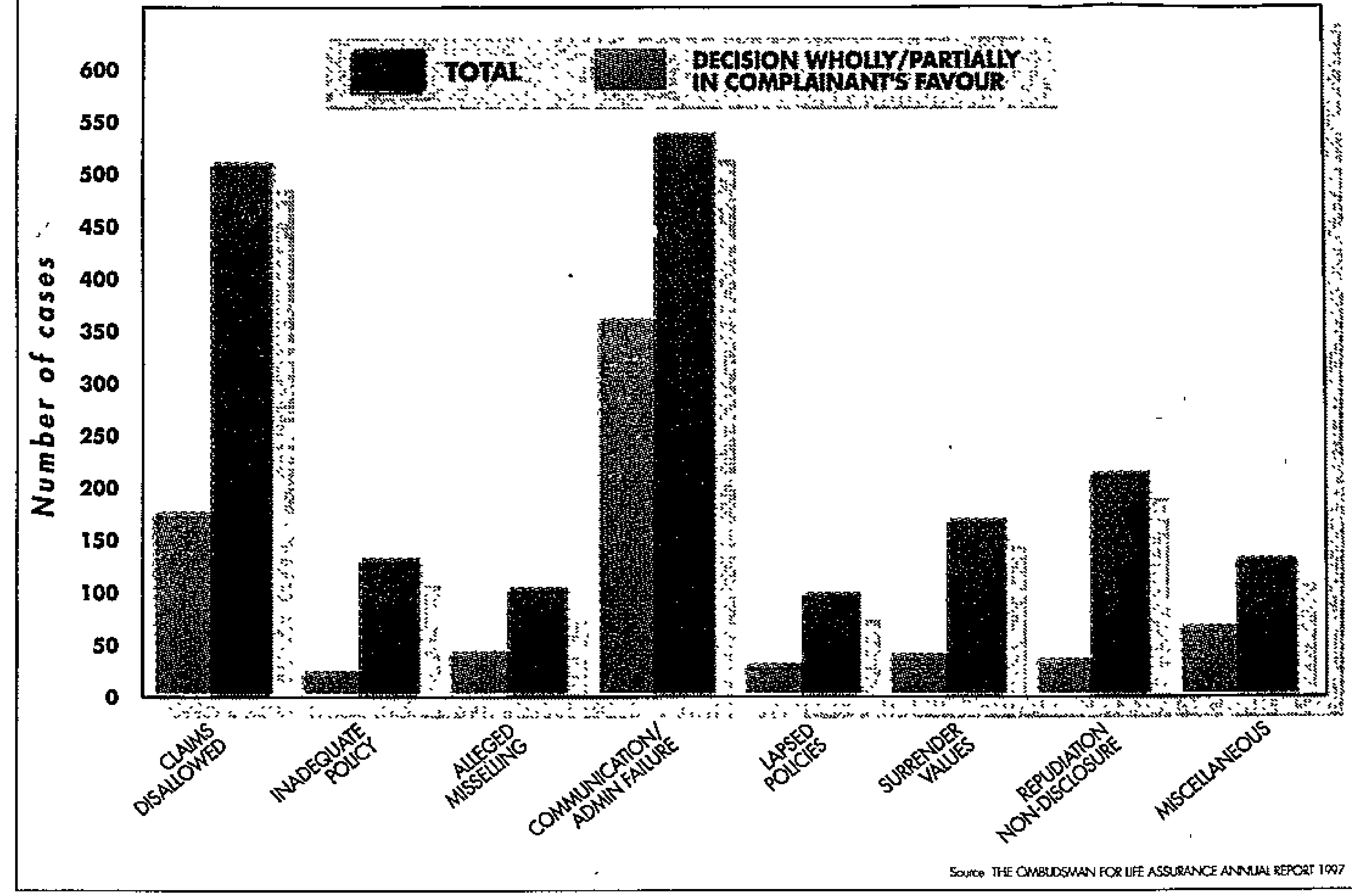
Steyn said again cases of unethical practice had come across his desk last year.

In 1997 he received 2 309 complaints compared with the 1 474 in 1996 – a 56 percent increase. Of the complaints received 53 were referred to the office of the Ombudsman for Short-term Insurance. A further 239 fell outside the scope of the rules of his office.

The two major areas of complaint involved claims.

Firstly claims which had been disallowed because terms of the policy had not been met. Most of these arose from disability or health claims.

The second area was where claims were repudiated because policyholders had allegedly not disclosed all relevant details about their circumstances when they took out the policy.



Insurance giant makes R1-bn profit

(58) Sowetan 25/3/98

By Shadrack Mashalaba

INSURANCE giant Sanlam reported an operating profit of more than R1 billion and free reserves of R10,3 billion for the 1997 financial year, ahead of its possible listing late this year.

Sanlam, which announced in January that it would demutualise – convert its assets into share capital and then issue the shares to policyholders – reported a premium income increase by 18;0 percent to R21,9 billion.

The total assets under management at the end of financial year at December 31 stood at R164,9 billion, an increase of 9,7 percent.

The group's executive chairman Marinus Daling said the prospect of demutualisation was the most exciting development in Sanlam's history, as it would provide new opportunities and enable Sanlam to pursue its mission of becoming a world-class financial services group.

"The past financial year has been one of consolidation for the group. There were areas in our business that required our particular attention.

"Corrective action is being taken and substantial progress has already been made to address the underlying causes.

"In order to lay strong foundation for future growth, our priorities in 1998 will be to provide higher service levels, increase product competitiveness and focus our marketing effort to re-establish Sanlam as a premier brand in the financial services industry and thereby improve our profitability."

The company said its results were influenced by cost of information technology development, instability and general decline in East Asian financial markets. Other factors were problems experienced at Sanmed, the lower than expected rise in the volume of individual recurring business and adoption of international accounting policies.

Sanlam's other interests are with: Absa, Anglo American, Billiton, De Beers, Dimension Data, Gensec, Rembrandt, Richemont, South African Breweries and Sasol.

Highlights

The group expects its more than two million policy holders to vote in the second half of the year, whether they want Sanlam to list.

The premium income increase of 18,0 percent to R21,9 billion was due mainly to a 34,7 percent increase in single premiums.

Individual assurance accounted for R13,8 billion, and 18 percent investment achieved by Sanlam Properties.

The group conducts business mainly in South Africa and Namibia at present, but had investments of R7,1 billion outside these countries at the end of 1997.

Meeting world demands puts stress on SA's banking industry

Madeleine van Niekerk BD 26/3/98

(68)

COMPLYING with international banking standards and maintaining competitiveness, but at the same time having to play a substantial role in the reconstruction and development of the country, was causing major tension in the SA banking industry.

Banking Council CEO Bob Tucker said yesterday SA banks handled most of the country's R300bn international trade, and the credentials of the banks were a fundamental requirement. SA and its banks were highly dependent on foreign capital and trading relations, and had no alternative but to meet those standards. They should thus not be forced into certain high risk lending areas.

The council (formerly the Council of SA Banks) has a membership of 43 banks and represents 99% of the total asset base in the local banking sector. The council was at work on a scheme that would allow banks to provide loans below R50 000 to small and microenterprises, Eddie Johnstone, one of the consultants to the body, said yesterday.

Further tensions resulted from 34 000 people in townships not paying their bonds. There was a real danger that this trend would start flowing to other areas in SA, Tucker said. Total assets of SA banks last year added up to R550bn, close to the gross domestic product of R600bn.

'Marketplace will rule on banking charges' (98)

CT (PR) 26/3/98

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — The Banking Council was conveying the message to South African banks that "the marketplace will rule" on whether or not they should offer free banking, Bob Tucker, the chief executive, said yesterday.

He blamed the high costs of maintaining extensive branch networks, cash handling and information technology for the banks' lack of progress on eliminating charges.

The Banking Council, previously known as the Council of South African Banks, represents the interests of the leading local and foreign banks operating in South Africa.

Tucker said he also expected the market to prevail in the move towards creating a central, indicative interest rate based on a local inter-bank money market rate, in line with other financial centres.

The creation of a Johannesburg inter-bank offered rate for money market deposits was a "matter intensely under debate" since the recent removal of the Bank rate, he said.

"There's a sense of need from the public to know where interest rates are heading," he said "I'm quite hopeful we're going to see the marketplace prevail."

The majority of developed financial markets operate an inter-bank offered rate for deposits. For example, in the UK there is a London inter-bank offered rate, which serves as an overall indicative interest rate and reference rate for capital market transactions.

The Banking Council's annual review, published yesterday, highlighted the twin pressures on South Africa's banks. On the one hand they were expected to play a substantial role in the reconstruction and development of the country, yet on the other hand they were accountable to their depositors and had to comply with international banking standards and maintain their competitiveness.

However, services to low-income communities could suffer if competition forced the banks to eliminate cross-subsidisation and perhaps withdraw some non-sustainable banking services, the review warned.

□ Business Watch, Page 2

Spate of heists is warfare, banks declare

Police say robberies are down, but the victims say it depends how you count

(58) (362)

By Gill Gifford and Sapa

Levels of violence expected only in war have been used in bloody cash-in-transit heists, the Council of SA Banks (Cosab) announced yesterday.

Despite a R500-million investment in improved security over the past year, the number of bank robberies has increased.

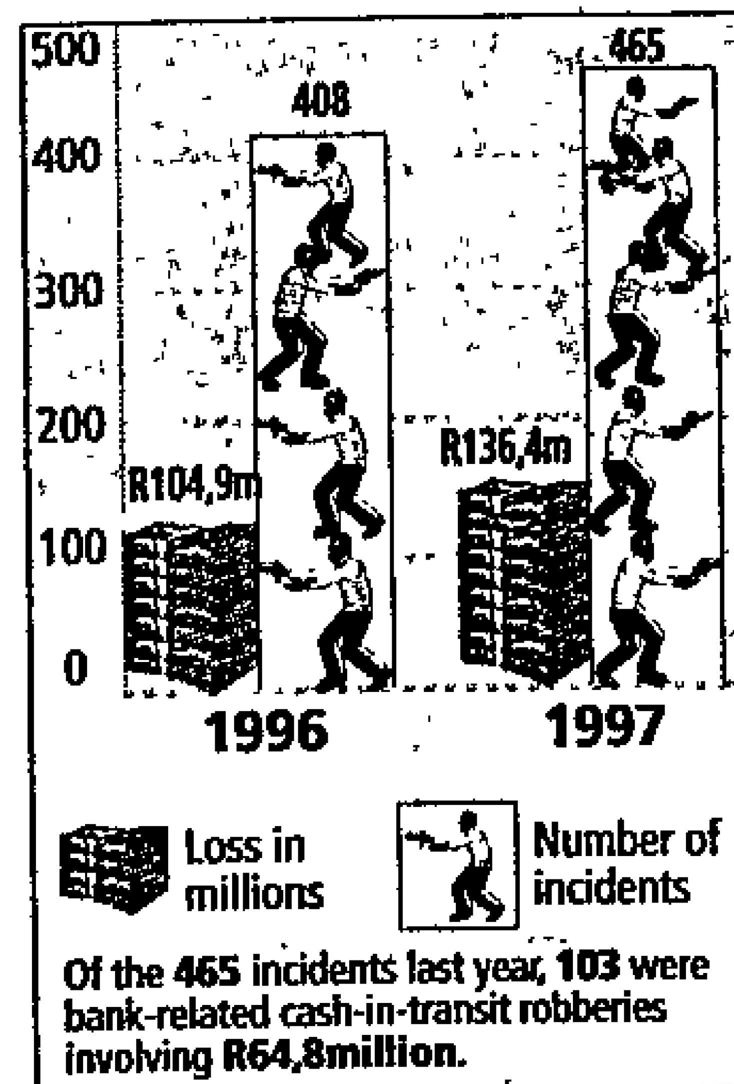
Cosab's research, which contradicts police statistics which show a decline in armed robberies, also states that the justice system has exercised too little expertise in prosecuting robbers and fraud perpetrators.

"We are not saying that government statistics are wrong; they may well be correct. The difference comes in the way we define and categorise the crimes. And the reality is that bank robberies have increased," Cosab chairman Bob Tucker said.

He said that while more than R500-million was spent to combat bank robberies last year, there were 465 robberies in which R136-million was stolen. This was up on 1996's 408 bank robberies in which R105-million was snatched.

The police reported late last year a 29,4% decrease in robberies, a figure that was disputed by the banks. "In May last year, banks broke with tradition and released bank robbery statistics and the amount of money stolen. It succeeded in highlighting the problem and provoked action, and we believe the arrests that followed had a lot to do with the energy that was triggered by shocking facts," said Tucker.

Nearly 50 heist suspects have been arrested in the past few months, and police say this shows that they are winning the war against crime.



Of the **465** incidents last year, **103** were bank-related cash-in-transit robberies involving **R64,8million.**

Brigadier Mossie Myburgh, a former SAPS syndicate fraud unit commander and head of the police component of the Office for Serious Economic Offences, has been appointed to implement a new strategy that will see Cosab introducing a high-tech assault on robbery gangs and syndicates. He will take up his new position on March 16.

A R10-million crime strategy project is also aimed at educating bank employees on information security and to improve witness protection.

■ North Rand police confirmed yesterday that a police constable had been arrested in connection with an attempted heist in Benoni. Superintendent Eugene Opperman said the suspect was arrested by a highway patrol shortly after the 10am attempted cash heist on a Fidelity Guard vehicle. He was due to appear in court tomorrow.

Robberies and fraud cost SA banks R1-bn

(58)(57) Sowetan 26/3/98

By Shadrack Mashalaba

THE banking industry lost about R1 billion through robberies and fraud last year, the Banking Council of South Africa (BCSA) said yesterday.

Speaking at the release of its review of banks' operation last year in Johannesburg, chief executive of BCSA (formerly called Council for South African Banks or Cosab) Bob Tucker said bank-related robberies were on the increase from 408 in 1996 to 465 last year.

The council said thousands of the country's 7 200 auto tellers were vandalised by thieves whose intentions were to defraud users. This cost the banking industry a further R2 million.

Another R2 million was lost to burglaries. "This is a major concern for the industry," Tucker said.

He said due to international competition the profit margins that were used to subsidise low-income people had to be used to improve local banks' capacity and efficiency.

A total of R100 million was spent in 1997 on metal detectors, video cameras, double doors and other security devices.

The *South African Banking Review* is the first issue to be published and will be an annual feature.

The review intends to reflect the conditions and role played by banking in the economy as well as issues that confront banks.

Total post tax profit of all banks for 1997 was R5,5 billion.

Tucker said the release of the review was a "revolutionary" step which will see the banking industry becoming more transparent.

According to the review, the big four banking groups in South Africa each have assets in excess of R90 billion. The medium-sized and small ones share among themselves R8 billion in assets.

By year end last year, the total funds of the banks amounted to R549 billion.

Total deposits amounted to R396 billion.

It quoted R8,2 billion as the total value of black empowerment transactions that were undertaken by banks last year.

Tucker said the Asian crisis last year increased the concerns regarding the vulnerability of the entire international banking system.

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Robert Tshabalala

The Fm*'s Michael Coulson, Ethel Hazelhurst and Adrienne Roberts flank Board of Economists members Nick Barnardt, Loyiso Giya, Raymond Parsons and Rudi Gouws . . . the economic brains trust in contemplative mood*

FM BOARD OF ECONOMISTS

(58)

Dissecting Manuel's '98 Budget

The message, the panel feels, is broadly favourable

FM 27/3/98

Discussing the Budget are Nick Barnardt of ING Barings, Rand Merchant Bank's Rudolf Gouws, and Loyisa Giya of Genbel Securities. As always, Sacob DG Raymond Parsons puts the questions.

***Parsons:* What message does the Budget give?**

Gouws: That government has not given up on reaching its RDP and transformation goals but won't go overboard about them. It will stay with the responsible fiscal strategy it embarked on in 1996.

Barnardt: It's a broadly positive message. But while it may be a little cynical to draw the comparison, the yield of the new retirement fund tax on the private sector is almost exactly equal to the 13% increase in the wage bill to the public sector.

Gouws: If you allow for the fact that it will come from a bigger base, the rise won't be nearly the 12,9% they show.

***Parsons:* Are you comfortable with the Budget's spending priorities? Is there the capacity to deliver, and is justice done to Gear and the RDP?**

Giya: I am not 100% comfortable with the spending priorities. Government is sacrificing capital expenditure for current expenditure. We have seen that the capacity to deliver is lacking. But overall the Budget is positive for the RDP and Gear

Barnardt: Problems with the capacity to implement spending have been overcome. The provinces have become operationally more effective after the initial lags.

But on the one hand we sense that the ratio of government spending to GDP is still a bit too high; on the other that we are not getting value. Education is a case in point.

Gouws: I was gratified by the R400m to improve systems in welfare and education and give the wherewithal to monitor spending better. As the Minister is aiming for a smaller Budget deficit and putting a brake on spending the changes are within spending. All the large increases are in the social expenditure fields and the major declines are in the economics service portion.

***Parsons:* Where do the provinces fit into the Medium-Term Expenditure Framework (MTEF)?**

Barnardt: The provinces will come up with their sub-MTEF plan for the next three years within the framework and sums allocated to them. Judging by the shift in the structure of spending from components like defence to components like welfare and education, they will play an increasing role in maintaining fiscal discipline in the MTEF.

Giya: I broadly agree in principle, but the practical applicability is a different story.

***Parsons:* What are the implications of low(er) inflation for Gear targets and MTEF, as well as wage negotiations?**

Gouws: The numbers have been reformulated in the Budget itself and the MTEF so that this shouldn't pose a problem. But it certainly has an implication for wage negotiations. We will come in well below 10% for average wage increases for

» The new repo system is good because it'll be more market determined «
Loyiso Giya

the private sector as a lot of businesses can't raise prices even as much as CPI. That message will get back to the labour unions.

Barnardt: Though wages will grow more slowly than last year, wages are traditionally less cyclically sensitive than inflation. The GDP price deflator could actually rise by only 4,5% because export prices are suffering. That could have some implication for revenue. And the nature of nominal income increases could imply that even if inflation is less than expected that could translate into an upside real growth surprise

***Parsons:* Are we in an era of lower inflation that has important implications for decision making in government and the private sector?**

Giya: Definitely.

***Parsons:* Is the assumption of 3% real growth in GDP for the fiscal year realistic?**

Barnardt: No. The Minister is right to be optimistic, but if we have real growth of 2%, which is more in line with the consensus, and a GDP deflator about 5%, that's about a 7% nominal GDP increase. If the Minister had to take that for his base for this Budget it would have been uncomfortable in terms of credible revenue projection. Using 3% and about 5,5%-6% inflation helps to keep the tax to GDP projection at a constant 26,5%.

Part of the tax base is spending-related so as interest rates fall and real incomes rise nominal spending could rise faster than nominal GDP. That could support tax revenues, especially towards fiscal year-end.

***Parsons:* Does this not undermine the credibility of targeting?**

Barnardt: That is a valid point but again there could be an upside surprise. We have had good rains and there might not be an El Niño effect on agriculture. Consumers' response to the demutualisation of Sanlam might be even stronger than we expect and the latest number for manufacturing output was very good.

Giya: I think 3% is a bit optimistic though the positive factors Nick mentions might get us there. But I'm expecting more like 2%-2,5%.

Gouws: The underlying increase in budgeted revenue before the tax changes is only 7,9%. Given that there is some multiplier effect that is quite reachable.

***Parsons:* Are we saying the economy could bounce back sooner than private-sector economists are now predicting?**

Barnardt: Not necessarily sooner but stronger, especially on the spending side.

***Parsons:* What about the external environment?**

Barnardt: We have already had most of the external shocks. The Minister could build them into the forecast. I think they also assume that the rand exchange rate will make some adjustment to keep rand prices of exports not too far from forecast.

Rudolph's argument that 7,9% revenue growth is achievable is legitimate, but about 1,5% of the revenue of the 1997 base fiscal year base can be called extraordinary; the other extraordinary revenues the Minister announced in his adjustment Budget last month must also be borne in mind

***Parsons:* What is the broad net effect of the tax changes on the economy? Are you happy with the tax ratio of 26,5%?**

Giya: The net effect is likely to be marginally stimulatory. The tax ratio of 26,5% is not desirable but the mere fact that it has not gone up is also not bad.

Gouws: There is in fact a R7bn overall tax increase. It's really only consumers that pay taxes. Companies do not, in effect. Even a lower income household will get back less from the reduction in direct tax than the hikes in fuel levy, excise duties and so on.

>>Government has not given up on reaching its RDP and transformation goals but won't go overboard about them<< Rudolph Gouws

Barnardt: My central guideline is simply to compare the projected rate of increase of total personal tax revenue with the rate at which personal income will rise My forecast for that is 8%, which is exactly what the Minister is budgeting to take from individuals, so on that basis the effective tax burden is completely neutral. At least that is better than the past few years where the net effect has been very negative every time.

With oil down to US$12,50/barrel the fuel levy is tolerable. I think one reason he made it 10c is that he realised that the low oil price gave him a strategic opportunity.

As a medium- to longer-term goal, a tax burden ratio below 25% would be ideal but it is more important in the short term to get the deficit down. I would not mind even 26,5% or 27% of GDP as long as government spending can be brought below 30% of GDP. Then the deficit would start to fall sharply and the future interest bill starts rising much more slowly. It actually falls in real terms and a very different fiscal situation enables you to start cutting the effective tax rate

Especially now, just about at the tail end of a cyclical downswing, I am not uncomfortable with 26,5%. If this was the ratio in an upswing it could be different.

Gouws: Without the RDP-type spending additions, most of a capital nature, the underlying increase in spending is only 3,8% To wish for an even lower tax burden and smaller deficit would require probably politically and practically unattainably large cuts in real expenditures.

***Parsons:* Would a consumption tax, like a 1% Vat rise, have been preferable to the tax on retirement funds and demutualisation levy on savings?**

Barnardt: Yes, but that's politically a difficult option at this stage and probably next year as well. Politically, retirement funds are easy to tax. In the short term it's relatively invisible and has little impact on the economy but at the least it will steer funds away from formal retirement vehicles and there will probably be a net negative effect on savings. A rate of 25% will stimulate the tax industry to look for loopholes.

Gouws: The Budget Review makes much of the need for a higher savings rate, yet this step must have a negative bearing on savings. The alternative is to increase Vat, which could have raised even more and is not as regressive as is made out

Giya: In terms of asset allocation, the bond market responded negatively so there'll be a switch towards equities It does not encourage savings either. Vat is the better option but politically they could not increase Vat just before the elections.

Barnardt: Taxing the free reserves of Sanlam and Old Mutual shouldn't be seen as a tax on savings. These reserves will be a factor in their market capitalisation, and the bigger their market cap the more people may be inclined to spend the windfall. So this tax in a way dilutes the potential consumption effect of that windfall.

***Parsons:* What significance do you attach to the further relaxation in exchange control? Why is the outflow since last year's relaxations so low?**

Gouws: People with serious money have obviously built up assets outside SA over a long period. Combined with that, the uncertainties of investing abroad right now lessen the risks of rapid abolition.

Giya: The process towards total abolition is certainly to be welcomed. Another reason for low recent outflows is that local interest rates have been attractive and then

R5,20 to the dollar by year-end.

Gouws: The fundamental movement will be slowly downwards but much hinges on what the US dollar does against other currencies. If it holds more or less at present levels against the D-mark and Yen I would go along with about R5,25 at year-end.

Barnardt: We need R5,20-R5,40 to the dollar within six months. We are at the start of a strong upswing in the domestic demand cycle and our current account deficit is already approaching R15bn-R16bn. Given disinflation in the economy, this is the year in which we can afford to let the currency adjust without much inflation impact and buttress the currency reserves.

***Parsons:* With a broad positive reaction to the Budget, why did Standard & Poor's lower SA's investment rating? Will investor perceptions improve?**

Gouws: The S&P rating came out before the Budget. S&P had two major concerns. The first is that under-performance of the economy may lead to higher unemployment and bigger political pressure which will lead to a reversal of what they consider to be a positive and correct economic policy. I think they are wrong, but that fear weighs heavily on them. The other worry is perhaps more valid: our external liquidity. They are saying the margin for error is very small. That is why we must stick to our guns on policy.

Giya: They were badly burnt on the emerging markets in Asia. But they gave us the higher rating when things were worse than they are now, so it does not make any sense to have downgraded the rating.

Barnardt: In a way I welcome this as government still needs more incentive to improve its performance. Short-term financial discipline and lower inflation probably do boost the long-term growth potential but they seem to be saying in a society like ours the long term must not be too long; you can't sacrifice too much growth and employment in an already high unemployment situation. It's a message that we must maintain a balance between financial discipline and economic growth and employment. They did emphasise that while government has progressed in some areas, the structure of the labour market has possibly become even more distorted.

***Parsons:* How does the Budget contribute to job creation?**

Giya: Very little; only the Umsobomvu Job Creation Fund. It's not the role of the Budget to create jobs though it can create an enabling environment such that the private sector is incentivised to create jobs

Barnardt: I sense that the ANC senses that if there is any threat to its target of a two-thirds majority in next year's election it is that unemployment could boost other parties. So there will be a lot of rhetorical emphasis on job creation. The question is always, will that be reflected in implementation or is it simply a facade?

It's not as if we have no progress; construction activity rose by a real 11% last year and created some jobs A lot of informal job creation is not measured

The Minister's most significant comment on this topic is his mention of public-sector fixed investment roughly doubling in three years time to R56bn even though he cut government's own capex If that is achieved it will create jobs on a massive scale.

Gouws: Government shouldn't be an employer of last resort It cannot create jobs on a net basis because to do that it either has to borrow, which pushes up interest rates and is bad for investment in the private sector, or it has to tax, which is bad for profits, which is bad for investment in the private sector. I am not too concerned about the poor investment figures in the central Budget because in the years ahead we will have private provision of infrastructure and jobs will then be created.

***Parsons:* What is your forecast now for average inflation in 1998?**

Barnardt: Headline inflation at about 5,2% and core inflation about 6,7%

Giya: Yes, 5,2% for headline inflation.

Gouws: I accept 5,2% but core inflation will be higher because it will not get the benefit of the interest rate cuts.

***Parsons:* And real GDP growth?**

Gouws: Just over 2%.

Giya: 2,2%.

Barnardt: GDP 1,9%, with real GDE closer to 2,9%. ■

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Land Bank 'didn't know director had been fired'

OWN CORRESPONDENT

(58)

Johannesburg – Dan Matsapola, the director of human resources at the Land Bank, failed to tell his employers he had been sacked from his previous job for serious misconduct, including allegations of financial irregularity.

Mr Matsapola was working as a registrar at the Commission for Conciliation, Mediation and Arbitration (CCMA) in the Western Cape when he was suspended from duty on full pay in March last year. He was sacked three months later before arbitration of his case had been concluded.

Last week the Land Bank sent Mr Matsapola on "special leave" on full pay of about R370 000 a year while his case was investigated by a committee.

Mr Matsapola has since sent the Land Bank a lawyer's letter demanding a year's salary, saying he has been wrongfully dismissed.

The CCMA in the Western Cape accused Mr Matsapola of financial irregularities in connection with hotel accommodation and a hired car after he had moved to the Cape from Gauteng to take up the job.

Mr Matsapola declined to say whether he had informed the Land Bank about the circumstances of his departure from the CCMA. "It's highly personal," he said.

CCMA director Thandi Orleyn confirmed Mr Matsapola had been fired last year.

The Land Bank said it had documentation on Mr Matsapola's dismissal from the CCMA.

Helena Dolny, managing director of the Land Bank, said: "I didn't know he had been fired. He came to an interview after being shortlisted by a professional headhunter.

"I will have to see what my rights as an employer are where there has been misrepresentation of certain facts.

"I did discover he had been insolvent through personal misfortune, not through any fraudulent activities."

She said there had been a campaign by some white staff against Mr Matsapola's appointment to the Land Bank, and crude messages about his insolvency had been stuck on his car.

"I wrote an open letter to the staff pointing out that one should look at the circumstances of insolvency. There was no fraud and his job in human resources didn't require him to have any financial skills."

Ms Dolny said she had experienced open hostility from some white Land Bank employees when she was appointed last year.

A respected academic, she is the widow of former Communist Party chairman, Joe Slovo.

When Mr Matsapola was interviewed for the Land Bank job, he claimed he was still employed by the CCMA and only had to give two weeks' notice. Ms Dolny said, for obvious reasons, many interviewees asked that their present employees not be contacted for references.

The Land Bank committee investigating Mr Matsapola contacted two organisations for which he worked prior to working for the CCMA. It learnt from these organisations that he left their services under a cloud.

The committee will call Mr Matsapola to appear before a disciplinary hearing in two weeks' time.

ARG 28/3/98

Sunday Times Business Times
March 29, 1998

Financial regulation lagging

In our occasional series of guest columns by leading lights in the financial services industry, Financial Services Board head of research Franso van Zyl looks at the shortcomings of the regulatory structure supervising SA's industry

ST (BT) 29/3/98 (58)

SOUTH Africa's regulatory bodies have not kept up with the revolution in the financial services industry, and the underpinnings of the regulatory structure no longer correspond to the shape of the industry or its products.

This mismatch will increase as electronic commerce develops. For example, when a customer buys products such as savings deposits, insurance, unit trusts, stocks and futures from a single terminal screen, it is senseless to have two or more sales practice regulators.

This is a recipe for customer confusion, as well as regulatory overlap, inefficiency and high costs. It also harms the cause of compliance and enforcement to have different requirements applied to similar issues.

In SA there are many instances of divergence between the rulebooks of the three exchanges — the Johannesburg Stock Exchange, the SA Futures Exchange and the Bond Exchange — as well as how the Stock Exchange Control Act of 1985 and the Financial Markets Control Act of 1989 operate.

The regulator and relevant sector of the industry should give high priority to the integration and harmonisation of the different rulebooks, laws and practices of the exchanges.

The question is: how many regulatory bodies are needed?

Unless you support a single financial services regulator, such as in Denmark, Sweden and Norway, you are inevitably left with the question of how to cut the cake.

Is it sensible to have a regulator who is responsible for traditional credit and banking-type business, another for securities and collective investment business, and a third for long-term savings and insurance?

Or is it preferable to have a regulator responsible for supervising payment systems and systemic risks, another for prudential supervision of financial institutions (to ensure sound financial services), and a third for selling and marketing financial products (to protect customers in the retail market)?

There are protagonists for both models, as well as arguments which combine certain aspects of the approaches.

A regulatory structure for SA

SA has a very fragmented regulatory structure.

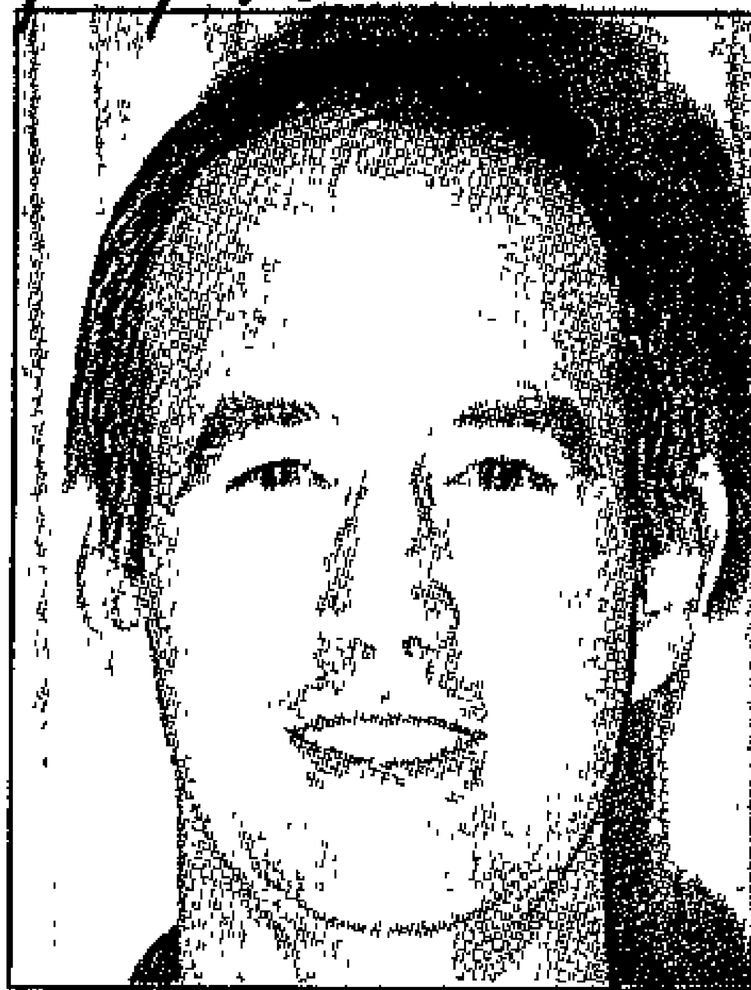
The Financial Services Board (FSB) is responsible for supervision over financial institutions, excluding banks and mutual banks.

The Registrar of Banks, as part of the Reserve Bank, is responsible for supervision over banks and mutual banks.

The Securities Regulation Panel supervises insider trading and takeover transactions.

If the supply of financial services is harmful to customers, the Business Practices Committee may also intervene.

The Registrar of Companies has a limited role to play in the marketing of investment products which public companies issue, such as debentures.



FRANSO VAN ZYL

The Registrar of Medical Schemes also comes into the picture as the distinction between the benefits provided by medical schemes and insurers often gets blurred.

The overlapping and duplication resulting from such a fragmented structure leads to confusion, uncertainty and hesitance to act. Culprits exploit the situation to their advantage and can undermine public confidence in the capabilities of the different regulators.

A single agency for banks, securities, collective investments, pension funds and insurance supervision may be the answer. Such an agency is further justified by the continued blurring of institutional and product boundaries, as well as growth in financial conglomerates.

A single regulator will bring the necessary consistency and uniformity to the current fragmented South African regulatory structure.

Instead of establishing a new regulatory body at high costs, I propose the enlargement of the FSB as a statutory, independent body to supervise the financial services industry.

Because SA has a relatively small financial services industry compared to other major financial centres, the task of the FSB will not be so difficult.

Single regulators are not only confined to countries such as Denmark and Sweden whose financial centres are relatively small. Countries with large economies, such as the United Kingdom and Japan, are also in the process of establishing single regulators.

As an all-embracing regulator, the FSB can deal with regulated entities on a uniform basis. It can have different divisions, each covering types of products or services rather than types of service providers.

I propose that the FSB should be responsible for all regulatory goals, except for the prevention of systemic risk which must remain with the Reserve Bank.

Systemic risks are confined to the banking industry and the Reserve Bank has the expertise and ability to respond thereto.

● *The opinions expressed are those of the author and should not be regarded as the official view of the FSB.*

Old Mutual and Sanlam growth bonanza

(58)

ST(BT) 29/3/98

Demutualisation is set to add 2% to the country's growth rate over the next two years, writes MARCIA KLEIN

THE demutualisation and JSE listing of Old Mutual and Sanlam will add 1% to SA's economic growth over two years and release R70-billion to its estimated 6.3-million policyholders.

Of the R70-billion, almost R30-billion could find its way back into the economy within two years of listing as policyholders spend their money on durable and semi-durable goods.

These estimates are contained in a report by stockbrokers Fleming Martin, the most detailed study to date on the effects of the two demutualisations, which will take place over the next two years.

According to Fleming Martin, the average windfall per policyholder will be R11 000.

The gross payout of R70-billion represents 11% of forecast 1998 GDP. This suggests that the effective impact on the SA economy is likely to be three times as big as it was in the UK, which has seen a number of demutualisations, including those of Norwich, Halifax, Alliance and Leicester and Woolwich building societies.

The effect on private consumption expenditure (PCE) is also forecast to be three times as big as the UK, with the payout estimated at 18% of forecast 1998 PCE.

Fleming Martin values Old Mutual at a market capitalisation of between R44-billion and R52-billion. Sanlam is expected to have a possible capitalisation of R21-billion to R28-billion.

The R70-billion-plus value of the two groups would account for 7% of the JSE's market capitalisation, with 6.3-million policyholders potentially becoming shareholders.

Assuming a market cap of R45-billion, Old Mutual would command 3.9% of the all-share index or 23.3% of the insurance sector. Sanlam, with an assumed market cap of R30-billion, would have 2.6% of the all-share index or 15.5% of the insurance sector.

The listings of Old Mutual and Sanlam will probably affect Liberty Life, which will lose its status as the largest listed insurer.

There has been much speculation about how much of the windfall will be cashed in and spent in the broader economy.

Fleming Martin says research in the UK showed that over 75% of the £30-billion (R240-billion) in demutualisation payouts was saved, while 25% was spent. Of those who decided to save their payments, 60% held the shares, 16% invested the proceeds in unit trusts and 17% sold their shares.

Fleming Martin says the assumption that 25% of windfalls will be spent in SA is at the low end, as SA consumers have a higher spending propensity — as much of 40% of the shares could be cashed in over the first two years of demutualisation. This would release R32-billion into the economy.

If 25% to 40% were cashed in, it would boost PCE growth by 4% to 7% "and could effectively almost double the PCE growth rate".

But the impact could be spread over two years as policyholders may take some time to decide.

If 30% were cashed in, PCE growth in 1999 would increase to almost 6% compared with the previous forecast of 3.5%, and GDP growth could rise to 4.8% in 1999 from earlier estimates of 3.5%.

Most Sanlam and Old Mutual policyholders are in the middle-income bracket, earning between R2 000 and R8 000 per household a month. In the UK, policyholders were generally higher-income earners.

SA policyholders' income distribution "suggests a greater consumption bias compared with a greater savings bias in the UK".

In addition, about 86% of SA policyholders are under the age of 54, while in the UK, policyholders were older. This also favours a bias towards consumption.

It is expected that smaller shareholders could sell their shares, ploughing the money into durable and semi-durable sectors. In the UK, only 2% of people who received windfalls said they would use their payouts to repay debt. Fleming Martin estimates that SA's declining interest rates don't favour debt repayment.

The report says most windfall money will be spent on durable and semi-durable goods.

How the virus affects insurance

ARG 30/3/98 (58)

LINDSAY BARNES
STAFF REPORTER

The Aids epidemic could have a serious impact on the sustainability of group insurance, disablement or death-in-service benefits and ill-health retirement benefits.

Companies offering these benefits face a notable increase in the number of claims submitted to their group scheme, warned Neil Walton, director of Ginsburg, Malan & Carsons at an Aids workshop held by the company.

In Zimbabwe, 75% of death and disability claims are now Aids-related, amounting to an increase of 400% in the cost of providing these benefits.

Similarly in Malawi, the cost of providing group life cover increased five-fold from 1987 to 1995.

South African companies would have to consider increasing employee contribution to such schemes or reducing the level of benefits.

Fewer companies would be able to offer such benefits, fewer people would be able to afford the contributions, or the level of benefit would be decreased, said Ivan Arkin, a director of Ginsburg, Malan & Carsons.

Many South African employers had not yet seen significant evidence of HIV infection and AIDS among their workforce but this was not surprising as the country was still in the relatively early stages of the epidemic, Mr Arkin said.

For some, especially older members and pensioners, the overall shift upwards in the contribution rate would make benefits, including medical aid, unaffordable, he said.

Most losses in this country would occur among unskilled employees who would be replaced easily in an economy with high unemployment, Mr Walton said.

Companies elsewhere in Africa had learnt, however, that high staff turnover – including that among unskilled employees – could have a serious implication for productivity.

In the past, the incidence of death and disability among younger workers was low but as most would now occur in this age group, the impact could be dramatic.

A firm in Zambia registered an increase in mortality rates among employees to 48 per 1000 by 1993.

Mr Arkin said it has been predicted that on average crude mortality could increase from 2,5 per 1000 to 18,3 per thousand.

Significant increases in mortality have already been observed in other African countries.

He urged companies to make an effort to educate their employees on the virus and to include Aids in their social responsibility efforts in their local communities.

"Making a contribution to changing behaviour among their employees' families and communities will reinforce the message spread during sessions at the factory, mine or company," Mr Arkin said.

LEON MULLER

Clinic crisis: Sister Elizabeth Fielder of the AIDS clinic at Somerset Hospital draws blood from an HIV-positive patient. The hospital and the AIDS clinic faces closure by the provincial health authorities, despite the rapid increase in the spread of AIDS in South Africa

Warning: more claims, says Neil Walton

Bills tighten control on foreign financial involvement

(58) BD 31/3/98

Linda Ensor

CAPE TOWN — The unanimous adoption of three key finance bills by the National Council of Provinces yesterday prepared the way for greater control of foreign participation in the domestic financial services sector.

One of the main aims of the Financial Markets Control Amendment Bill, the Stock Exchanges Control Amendment Bill and the Unit Trusts Control Amendment Bill was to regulate the operations of foreign players in the SA market and to level the playing fields between local and foreign players.

In terms of the bills, foreign collective investment schemes would have to be authorised by SA's authorities before selling their products in SA.

The Financial Services Board, which regulates the industry, has urged that a cautious approach be adopted to ensure that SA investors are protected from highly risky offshore unit trust funds. In terms of the legislation, foreign schemes applying for approval would have to include an SA representative, or maintain a representative office in SA.

The Stock Exchanges Control Bill regulated restrictions on the management of investments as well as further restricting undesirable advertising or canvassing of securities by foreign players not officially recognised by the SA authorities.

It also extended the matters on which the Johannesburg Stock Exchange must provide information where this is in the public interest and enabled it to conclude agreements and exchange information with foreign bourses.

The bill as well as the Financial Markets Control Amendment Bill extended the definition of investments which would be regulated by the legislation to include financial instruments listed on a financial exchange or on a foreign exchange as well as unit trust investments and any form of collective investment schemes registered in a foreign country.

CAPE ARGUS, TUESDAY, MARCH 31, 1998

20 000 community bankers to get cash back

(58) ARG 31/3/98

LLEWELLYN JONES
BUSINESS REPORTER

Nearly 20 000 people around the country who invested in Community Bank will get their money back when it converts from a mutual bank to a company registered as a bank next month.

A mutual bank is owned by its depositors, whereas a company is owned by shareholders.

The conversion will also effectively see Community Bank's name cease to exist. It will be renamed Unibank Savings and Loans. The bank was bought by Unibank for R50 million at the end of 1996 when it got into financial difficulties.

Community Bank was founded in 1994 with state and private funding to target the low-cost housing market. It was placed in curatorship in 1996 in the face of losses reported to be about R50 million and the withdrawal of some R70 million of funds from some of its original backers.

Unibank director Johan Havenga said Unibank Savings and Loans would continue to focus on the affordable housing market.

The Unibank Group was itself bought by motor, transport and financial services company Super Group and black empowerment group Hosken Consolidated Investments from First National Bank and Fedsure Holdings in October.

The Unibank Group owns Unibank, a medium-sized general bank operating installment credit and mortgage bond services, a credit card and microloan section and an office automation division.

Hosken plans to use its association with empowerment groups to introduce new opportunities and business to Unibank, such as extending its micro-loan business to trade union members and public servants. It would also obtain deposit funding from unions and local authorities.

Black-owned benefits firm launched

CT(BR) 31/3/98 58

THABO LESHILO
BUSINESS EDITOR

Johannesburg — Alexander Forbes, the financial services company, yesterday launched a black-owned negotiated benefits company with its black senior managers and trade union clients. It would be responsible for funds worth R25 billion.

Graeme Kerrigan, Alexander Forbes' joint managing director, said the company had effectively sold 71 percent ownership of its negotiated benefits division in exchange for guaranteed profits in the new joint venture, called NBC Consultants & Actuaries.

Alexander Forbes would retain a 29 percent shareholding in the new entity and provide its information systems and administrative support for five years. No money changed hands.

Kerrigan would not disclose NBC's value. The unlisted Alexander Forbes is owned by Price Forbes, which is listed on the JSE.

Max Maisela, an executive director of Alexander Forbes, is NBC's executive chairman. His team of senior managers includes Abe Nduru and Geoffrey Nzau, the only two fully qualified black actuaries in South Africa. NBC has 280 employees.

Kerrigan said Alexander Forbes believed it stood to benefit more from being a minority shareholder in NBC than owning it outright because of the surge in new business from the government and parastatals expected to flow resulting from the change in ownership.

"This is not just for socioeconomic reasons but also because of cold-hearted capitalist reasons," said Kerrigan.

He said it is was also essential to have a partnership with the labour movement, which constitutes most of NBC's clientele.

Maisela said NBC was well equipped to handle an even more substantial portion of business from the nine national trade union funds, with more than 600 000 members and R20 billion in assets under management.

"Our core business is the administration of funds, monitoring fund investments and seeking favourable rates for clients. We also ensure that the funds are kept informed about the latest trends in the industry and changes in legislation," said Maisela.

He said NBC would spend the first year consolidating its position in the market before inviting a more broad-based black empowerment group on board. He said a 10 percent stake would be set aside for the newcomer.

BoE to form core of new banking empire

(58) BD 1/4/98

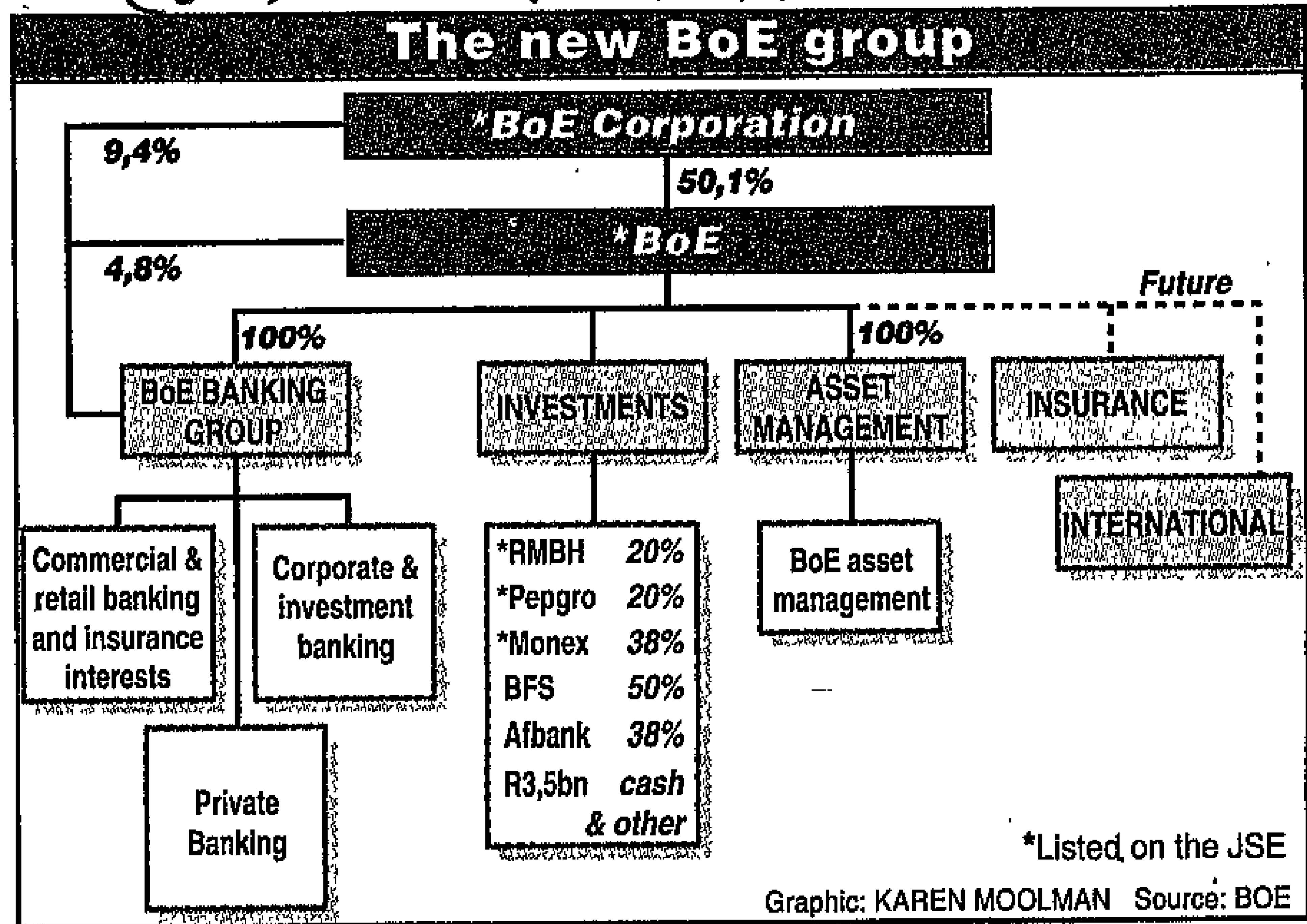
Samantha Sharpe

CAPE TOWN — Financial services companies Board of Executors (BoE), Orion Selections, Orion Selections Holdings and NBS Boland have agreed to combine their interests to create SA's third largest banking group.

BoE executive chairman Bill McAdam said yesterday the R18bn deal would ensure BoE retained critical mass in an industry undergoing major consolidation. The new group, with a market value of R31bn, will rank behind only Stanbic (R36bn) and Nedcor (R34bn).

The rationalisation is a sequel to the merger of NBS Boland and BoE last year and the subsequent listing of Orion Selections and Orion Selections Holdings. Under the latest deal, minority shareholders in Orion Selections, Orion Selections Holdings and NBS Boland will become shareholders in BoE and BoE Corporation.

Orion Selections, Orion Selections Holdings and NBS Boland will be delisted from the Johannesburg Stock Exchange, with the only remaining listed entities being BoE Corporation (a pyramid holding company) and BoE, an operating company with wholly owned financial services businesses and strategic investments.



Graphic: KAREN MOOLMAN Source: BOE

However, McAdam said the enlarged group would continue to be run as an association of specialised businesses, with the NBS Boland brand to be retained. He said the restructuring exercise, which cost the group R95m, aimed to improve shareholder value by eliminating structures which created discount and arbitrage opportunities in the market. It would also help to prepare the group for international and lo-

Continued on Page 2

BoE

Continued from Page 1

cal acquisitions which are reliant on critical mass.

McAdam declined to comment on market talk that one likely target was life assurer Norwich Life. However, with the realignment under way in the financial services industry there were numerous opportunities available to the enlarged group.

"We have received a number of approaches, but are not yet in a position to confirm anything except that we intend to become a significant force in this (the life assurance) area." An announcement could be expected within the next 14 days to a month, he said.

The new group has a R5bn cash pool. McAdam said it intended to develop its international business arm with internationalisation as important as the group's intention to bring in a black empowerment partner.

For now, BoE Corporation will continue to be controlled by a consortium comprising 15 BoE executives and key executives from the combined group's operations, the Christo Wiese group and Commercial Finance. Management will hold 75% of the voting shares in BoE Corporation.

Overall responsibility for the BoE group operation will rest in McAdam as executive chairman, Phil Biden as group MD and James McGregor as group financial director. The full spectrum of banking activities will be brought under a bank controlling company with Biden as chairman.

John Winship will retain executive responsibility for the asset management grouping, including BoE Investment Administrators and BoE Life. Strategic Investments will be handled by a small group including McAdam, Wiese, Biden and Winship.

SADC central banks agree to cooperate

(58)

By Sowetan Business Reporter

SOUTHERN African Development Community (SADC) countries narrowed their differences this week after their bank governors agreed on a project to align legal frameworks of the region's central banks.

The project's main aim is to integrate the region's financial systems.

South African Reserve Bank governor Chris Stals said early this month that the project to facilitate repatriation of notes and coins within the SADC was complete.

SADC central banks are now free to accumulate and convert currencies of fellow member states. This follows the work of the SADC's committee of governors, which Stals chairs.

In their recent meeting in Mauritius, the bank governors also began a project to identify differences in laws and rules governing central banks in the region.

SA Reserve Bank governor Chris Stals.

The project, expected to be carried out by legal experts, should be completed in a year, Stals said.

As a result of the committee's work, South Africa has announced measures easing foreign exchange controls for companies wishing to invest in the SADC.

This follows Finance Minister Trevor Manuel's announcement during the Budget speech, lifting the investment threshold from R50 million to R250 million.

This means dual listing on the Johannesburg Stock Exchange and any other SADC bourse is now possible.

At present, relationships between central banks and governments differ, with some countries having independent central banks. In other countries governments have more say on monetary policies.

It is understood that the work of the governors' committee could contribute towards freeing central banks in the region from governments' control.

The central bankers have also been working towards standardising both their regulatory and banking supervision systems.

Sowetan 16/4/98

Council defends lack of rural branches

(68)

Sowetan 17/4/98

By Shadrack Mashalaba and ECN Business

THE Banking Council of South Africa has defended the financial institution's lack of branches in underdeveloped areas, saying the current level of savings in those areas did not make it possible to do so.

Council chief executive Bob Tucker said that the lower per capita income in underdeveloped areas would make it difficult for financial institutions to open operations in those areas on a larger scale.

He told the Wild Coast Spatial Development Initiative (SDI) investment conference in Port St Johns that the Wild Coast had "considerable potential" and that banks looking at new opportunities would come into the venture on a demand basis.

He said banks should get involved in infrastructure development which they could do on an equity financed basis.

Investors who wanted to get banks involved in infrastructure development needed to be part-owners or have guaranteed participation in the venture for at least 30 years. The banks would need to get a return on their investment.

Banks could also get involved in the financing of small businesses.

Tucker said that the traditional classification of small, micro and medium enterprises (SMMEs) needed, for South African purposes, to be further broken down into small and medium enterprises (SMEs) and micro and small enterprises (MSEs).

SMEs were formal and often quite substantial businesses which often had access to capital and collateral, while MSEs were very small and often had no formal security whatsoever.

Banks which invested in MSEs were investing in the potential of the people involved.

Tucker said that the entire empowerment process hinged on people, who had been previously prejudiced, being given access to capital and quick annual income flows in order to service the costs of that capital.

Banks needed to look into the provision of banking services, but the problem was that the average income in some areas, which was below R10 000 per annum, was too low for banks to establish profitable branches.

This meant that banks needed to look beyond the traditional ways in which they provided banking services to people and start looking at innovative solutions to the lack of access to banking.

Boland leaves 'traditional' banking

(58) BD 17/4/98

Madeleine van Niekerk

BOLAND PKS, formerly Boland Bank, which yesterday announced the launch of a new corporate identity, has introduced an unusual banking service for clients, claimed to be the first of its kind.

The word "bank" was dropped from the Boland name, indicating Boland's move from traditional banking into the wider financial services market.

The acronym PKS stands for people, knowledge and systems, "expressing Boland's commitment to the three cornerstones from which we operate", MD Riaan Stassen said. The financial services group's new logo, in burgundy, gold and white, was redesigned at a cost of R10m.

"Boland's operation has been separated into three independent units, being relationship banking services, intermediate banking services for the mass market and micro loans services."

The new banking service, a mobile bank, will be used to deliver cash to the premises of commercial clients.

"The new delivery system provides all banking services to commercial customers without them having to leave their offices," Stassen said.

STASSEN

"All major banking services will in future be brought to the client via an electronic link using the Internet, backed by a mobile service. It allows commercial clients to conduct all their banking, from cash deposits and withdrawals to transfers, from the safety and convenience of their offices."

The new banking service had been "successfully" piloted in Springs and Benoni and was now in operation from the bank's new facility in Sandton. It would be introduced in the Western Cape and Pretoria before the end of the year.

Christo Wiese, chairman of Boland, said Boland PKS was now a division of the listed company NBS Boland which itself would disappear in the next few months to become part of the larger Board of Executors (BoE).

Financial services companies BoE, Orion Selections, Orion Selections Holdings and NBS Boland were combining their interests to create SA's third largest banking group with a market value of more than R32bn.

"It is not the size of financial services that will determine success, but innovation in financial services," Wiese said.

"We believe size is a competitive advantage and it will be very difficult to do without it, but it has to be sensible size.

"We have a big organisation, but the units work as separate businesses," he said.

his possible involvement in the authorisation of gross human rights violations was needed to gain "clarity".

Van Zyl said time was "running out" for the truth commission.

president had spoken with Botha in the past 48 hours to try to persuade him to appear before the commission.

Comment: Page 11

Depositors may sue over poor records

(58) BD 17/4/98

Shareen Singh

ABOUT 10 000 depositors in the defunct Islamic Bank who submitted claims earlier this year have been informed by Deloitte & Touche, the liquidators, that they are unable to process the claims because of the bank's "inaccurate accounting records".

The former chairman and directors of the bank could be sued for recklessness and negligence by the depositors.

The Islamic Bank became insolvent last year with debts estimated at between R50m and R70m. The Reserve Bank granted it funds to compensate depositors up to R50 000 a depositor, which would cover more than 80% of those affected.

"People are furious and sentiment in the Muslim community is that Ebrahim Kharsany (the CEO) and directors are getting away scot-free and something has to be done about it," one of the depositors said. Bungling up accounting procedures was a serious violation of basic business principles.

Deloitte & Touche partner Andrew Wilkins confirmed that accounting records were "inaccurately maintained and had to be reconciled" and was the main reason for the delay in paying out depositors. Another reason for the delay was that many depositors had filled in their forms incorrectly.

Wilkins said a confidential inquiry in terms of section 417 and section 418 of the Companies Act had begun and would include a probe into the directors' activities. The inquiry was being conducted by a commissioner appointed by the Master of the High Court.

"We will also use the inquiry to investigate lending and this will no doubt assist us in collecting amounts owed to the bank," said Wilkins.

Haroon Laher of law firm Goldman Judin & Werner said most of the depositors had invested their life savings in the bank. Laher contended that depositors would have a good case against the directors in accordance with a precedent in a recent case where the Appeal Court "gave definition to what constituted reckless trading and conduct on the part of directors".

He said some depositors had approached his firm to discuss possible litigation. "In my view if it is found that improper records were kept, that could be a blatant act of recklessness, with far-reaching consequences."

Inquiry into savers' losses ordered

(58) ARG 18/4/98

BRUCE CAMERON

The Financial Services Board (FSB) has been asked by the deputy Minister of Finance, Gill Marcus, to investigate the rising trend in the lapses and surrenders of life assurance products.

It has been estimated by Professor George Marx, of the Actuarial Department of the University of Pretoria, that individuals could be losing as much as R4 billion a year as a result of lapses and surrenders.

The figure has been disputed by the life assurance industry, but after years of bad publicity about the issue, it finally agreed last year to conduct its own investigation.

However, it appears the industry has made little progress on its own investigation.

In an interview with Personal Finance, Marcus said that if the FSB is unable to establish the causes of the rising trend, she will consider appointing another body to carry out the investigation.

"The position is really unacceptable. The rising trend of lapses and surrenders is not a new issue."

Marcus has asked the FSB to look at the reasons for the lapses and surrenders of each life assurance company over the past three years and she wants to know what percentage of the companies' profits comes from lapses and surrenders.

Marcus said that if the life industry and the broader financial services industry was not prepared to clean up its act in looking after the savings of the public, she will "not hesitate to move down the road of tougher regulation to protect consumers".

"It is a question for the financial services industry of how much regulation do you want?"

She said the life assurance companies should be doing more in taking responsibility for best practice.

She said she suspected that the financial services industry started from the point of what it could avoid doing instead of what it could do to apply best practice.

She said there is much talk in the business community about the government's responsibilityfor ensuring an ethical and moral society.

"But what are they doing in this regard?"

She said life assurance companies had been trying to improve the protection of consumers "but they should have been doing a lot more".

Among the things she would like to see is better disclosure of information in terms that the ordinary consumer would understand.

She also questioned whether enough was being done both by government and private sector institutions to educate consumers about choices and risks in saving their money.

Jurie Wessels, director of the Life Offices Association, said this week that the life assurance industry disputes some of the claims of losses suffered by policyholders.

Wessels said the industry nevertheless is very concerned about the level of lapses and surrenders.

"We are doing our own investigation to determine first of all, the actual extent of the problem, but also, and more importantly, to find out more about the causes.

"The various life insurers are all taking their own actions to preserve business and it will probably stay that way. We do not want to prescribe to member companies what they must do but we would like everybody to understand what is going on.

"Unfortunately, I must confess that our research project has been proceeding disappointingly slowly," he said.

DEFINITIONS

A lapsed life assurance policy: A policy lapses when you stop paying premiums before it has acquired a "value". A policy only acquires a "value" once all the costs of issuing the policy have been met. This can take up to two years of paying premiums, depending on the structure and term of the policy. If your policy lapses you will not get any money back.

A surrendered life assurance policy: A policy can be surrendered when it has acquired value but the value is unlikely to equal what you have paid in premiums, particularly in the early years.

At last, some rules to keep brokers from cheating you

A new regulatory framework will soon be incorporated into legislation, writes LUCIENNE FILD

(58) ST(BT) 19/4/98

IS YOUR financial broker qualified to advise you on how you should be investing your money, is he independent, and what would happen if his business were to go bankrupt tomorrow?

By next year, legislation should be in place to protect investors against unscrupulous and fraudulent financial intermediaries. The legislation will also enable you to check the credentials of your broker.

For years, financial intermediaries have been allowed to go about their business without being answerable to anyone.

Despite the existence of legislation regulating most aspects of the financial services industry, a gap in the statutory controls has allowed intermediaries to escape regulation.

As it stands now, if you feel you have been on the receiving end of a raw deal, the courts are your only recourse — involving costly and lengthy legal battles to prove that the broker acted wrongfully and caused you loss.

Now all this is about to change. The financial authorities, bodies representing the intermediaries, and consumer organisations are ironing out hitches in a new regulatory framework. The parties aim to have legislation ready by the end of the year.

Chris de Swardt, deputy governor of the Reserve Bank and chairman of the Policy Board for Financial Services and Regulation, says the fact that foreign investment service providers are increasingly opening up shop in SA has strengthened the need for investor protection.

At the same time, competitive equality, not only among local service providers, but also among resident and non-resident service providers, needs to be ensured.

About six weeks ago, the policy board appointed two task groups to assist with the development of a detailed regulatory framework, to be used as a basis for the new legislation.

The task groups are looking at registration requirements for intermediaries, a code of conduct, and disclosure requirements.

A third task group is in the pipeline and will be asked to look at compliance monitoring.

Financial intermediaries and consumer bodies are represented on these task groups.

"The intention is to produce a new Act which focuses exclusively on market conduct on the retail side," explains De Swardt.

The proposed Act is currently known as the Retail Investment Services Act.

De Swardt expects the two task groups to present their recommendations by the middle of this year. "But don't expect us to have all details finalised before the end of the year," he says.

Doug Tunbridge, President of the Financial Intermediaries' Federation of South Africa (Fifsa), and a member of the policy board, says 95% of all financial intermediaries are members of Fifsa and support the idea of legislation.

Tunbridge says the majority of financial intermediaries also support the adoption of some regulatory measures already proposed as a self-regulatory interim measure.

Tunbridge outlines the main points of the regulatory framework:

□ **Registration** of all financial services intermediaries who sell products to the public will be compulsory;

□ **Competency** standards will be introduced in terms of which brokers will have to write and pass examinations before being allowed to sell products to the public. The exam is currently being designed by Fifsa and the Insurance Institute of SA;

□ **Disclosure** of total acquisition costs, any fees charged by brokers on short-term insurance policies, and surrender values of long-term insurance products will be compulsory for all intermediaries and insurers who sell products to the public;

□ **Compliance** with these regulations will be enforced by a statutory supervisor — either a complaints board or a government department responsible for monitoring and policing the performance of financial intermediaries. The issue is still being debated;

□ **Sanctions** for contravening any of the regulations are likely to include fines and deregistration. Intermediaries may also be required to take out professional indemnity cover to ensure investor protection.

Tunbridge says the legislation will apply to anyone who distributes insurance or financial products.

Product manufacturers will also be forced to deal only with registered intermediaries.

Peter Klopper, executive director of the SA Insurance Brokers Association (Saiba), says: "We embrace the concept of regulation and support it to the hilt." He says Saiba encourages any efforts to regulate financial intermediaries in order to protect clients.

Lionel Karp, director of Hemmes, Geffin, Karp and Associates, says he supports the proposed regulation of intermediaries "wholeheartedly".

"At the moment anyone can start selling financial products. There must be some kind of standard. Half the time you don't even know who you are dealing with."

Karp feels strongly that intermediaries should be required to prove to investors they are qualified to give financial advice.

Disclosure is just as important, says Karp.

He adds that it is imperative for the industry to become more transparent.

"Commission is not a bad thing, so why shouldn't it be disclosed? The client is paying for a professional service, just as a patient pays a doctor."

Dr Franso van Zyl, head of research at the FSB, says in countries such as Canada, Australia and the US, financial intermediaries are regulated by statutory bodies (similar to the FSB) called securities commissions.

He says the UK, on the other hand, still practises self-regulation.

But this system has failed dismally, causing the authorities to consider direct regulation by the Financial Services Authority (FSA) on intermediaries.

As a result, the UK is now in the process of formulating laws in terms of which all self-regulating bodies will be dissolved, requiring intermediaries to register with one regulating body only, the FSA.

Explaining why self-regulation brings with it numerous pitfalls, Van Zyl quotes Rowan Bosworth-Davies, an international expert on regulation and financial fraud: "The Americans, having once experienced an almost terminal collapse of their financial market system, approach the problem of regulation in a wholly professional way.

"They recognise that those who handle other people's money will at some stage be tempted to steal some or all of it, if the systems to regulate their affairs are not effectively policed by an agency with the ability, knowledge and willingness to prevent such an occurrence."

Black-owned insurer enters short-term market

ST (BR) 19/4/98

RISK MANAGEMENT

By LUCIENNE FILD

THE highly competitive short-term insurance market has a newcomer — the country's first black-owned insurance company, launched this week.

First Central Insurance is licensed to conduct business in all short-term insurance categories except aviation.

More than 70% of the new company is owned by blacks — 42.5% is owned by previously disadvantaged investors, 10% by employees, 21% by non-executive chairman Ismail Ayob (the largest single and therefore controlling shareholder), who is also Nelson Mandela's lawyer, 17.4% by Nedcor Investment Bank, and 9.1% by Munich Re (the world's largest reinsurer).

The company's focus on the relatively untapped black market is its major distinction from other short-term assurers, but it won't offer different products to that market.

Managing director David Manuel predicts the new insurer will take the short-term insurance industry by storm. "We carry no baggage from the past. This allows us to be extremely flexible and innovative in our products," he says.

Manuel believes the most effective way to sell short-term insurance is through intermediaries, and so First Central Insurance will conduct business only through brokers.

Initially, products will be available from major brokers, then a broad spectrum of black brokers and eventually any short-term insurance broker.

While most of the company is black-owned, the company's target market is not exclusively black.

Manuel believes that now, for the first time, there is an insurance company positioned to look after the black market, especially emerging black companies, but emphasises that First Central Insurance will also compete in the traditionally white market.

Another focus area will be government and parastatal companies.

On whether First Central's short-term products would be cheaper than others, Manuel says: "We do not want to make our mark as a cheap insurer, but as a competitive one."

He says the new insurance company would have a lean, clean structure since most operations, except its core function of underwriting risk, would be outsourced.

First Central Insurance has its head office in Johannesburg and has established branches in Cape Town and Durban. Branches in Pretoria and Bloemfontein will follow.

Revised act gives banks freeze power on accounts

(58) CT (PM) 22/4/98

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The Reserve Bank was putting the final touches to amendments to the Bills of Exchange Act, which would allow banks to freeze the accounts of clients who wrongly received money, the parliamentary standing committee on finance was told yesterday.

The change is part of a move to get consumers — including individuals, companies and government departments — to take reasonable care in the way they administer cheques. The amendments will soon be submitted to the Cabinet by the Reserve Bank.

"Where fraud was detected after a cheque was paid into an account not entitled to it, the banks would have the right to freeze the account until it got an interdict," Kevin Daly, the general manager of the Banking Council, told the committee.

"The amendments aim to simplify the act and reduce cheque fraud by making consumers carry the can for losses if they were negligent.

"At present banks are fully responsible for losses due to cheque fraud, even in cases where customers were patently negligent in the way they made out the cheques or operated their banking accounts."

Daly said the amendments would remove the need to replace the Act with a new Bills of Exchange Act and a separate Cheques Act, as proposed in 1995 by the South African Law Commission.

He said the amendments had been written in consultation with consumer groups and might pass through parliament in the second half of this year.

The banks and consumer groups had agreed to launch a comprehensive campaign to educate consumers about the use of cheques and the consequences of the amendments to the Bills of Exchange Act.

Law on cards to limit bank liability (58)

Linda Ensor BD 22/4/98

CAPE TOWN — Legislation would be submitted to cabinet shortly to standardise and simplify the use of nontransferable cheques and in order to limit the liability of banks for cheque fraud in the case of negligence by the accountholder, Parliament's finance portfolio committee heard yesterday.

The proposed amendments to the Bills of Exchange Act have been long in the pipeline with the SA Reserve Bank given a task by Finance Minister Trevor Manuel last year to co-ordinate discussions between banks and consumers aimed at resolving outstanding issues.

Banking Council GM of special projects Kevin Daly told the committee the present law was deficient in that it was based on too strict an interpretation of the law of mandate. This prohibited banks from making payments on a cheque without a valid signature and placed all responsibility for forgeries on them even if the drawer was negligent. Last year three of the four major banks lost R55m from cheque fraud, up from less than R20m the year before.

A typical example of negligence, Daly said, would be a case in which a fraudulent accounting officer of a company did not conduct monthly reconciliations which would reveal the fraud at an early stage.

The existing law makes the bank obliged to compensate the account holder for the loss. In terms of amendments, banks would not have to bear the cost if the drawer had been negligent.

Mbeki denies link to Don's bank

(58) M+G 24/-29/4/98

A letter from Don Mkhwanazi cites Thabo Mbeki as the "top command" of his black-empowerment bank, reports **Mungo Soggot**

The offices of Deputy President Thabo Mbeki and businessman Don Mkhwanazi this week sought to dispel suggestions that Mbeki was closely involved with the Malaysian-backed bank Mkhwanazi chairs.

Senior staffers at the bank, including its former general manager, Stuart Schwabe, claim Mbeki was in high-level talks surrounding the bank's launch.

The *Mail & Guardian* has also obtained a letter written by Mkhwanazi in which the businessman refers to Mbeki as the "top command" of Southern Bank of Africa, supposedly a leading vehicle for black empowerment. The bank is one of the most important Malaysian deals to be struck in South Africa.

Mbeki's office has denied any involvement in the bank. "We place on record that Deputy President Mbeki did not help arrange any start-up capital for the bank, nor did his office monitor developments related to the bank," said his representative, Ricky Naidoo.

Mkhwanazi's letter came to light at Schwabe's disciplinary inquiry late last month. He was found guilty and fired after castigating and questioning the competence of the bank's Malaysian boss.

Schwabe had warned Mkhwanazi the bank was hopelessely behind schedule if it wanted to open as a retail operation this year. Ironically, the day after he was fired, the bank informed its staff that it had frozen its retail banking plans and had retrenched staff.

Southern Bank of Africa was officially formed in January last year as a joint venture between Mkhwanazi's National Empowerment Trust Investment Fund and the Malaysian Killinghall group.

Mkhwanazi's associate Guy Vezi confirmed the letter's authenticity, but said it did not imply that Mbeki's office called the shots at the bank. He added that Mkhwanazi's team had kept the deputy president "informed of developments" at the bank — a contradiction of Naidoo's statement.

In the letter to one of the bank's Malaysian backers in October last year, Mkhwanazi expressed anger at being excluded from their plans to buy a Mozambican bank for the group.

"I noted with interest in yesterday's newspapers your acquisition of a Mozambican bank. I in fact received a call yesterday afternoon from the deputy president's office to inquire whether Southern was involved in this transaction ... Obviously not having been privy to your incursions into Mozambique, I was most embarrassed to say the least.

"Our understanding, and that of our top command, is that Southern is set to play a role in Southern Africa as a springboard to penetrate the continent of Africa. It is against this background that the inquiry from his office should be understood."

'The deputy president did not arrange any start-up capital for the bank, nor did his office monitor developments'

Schwabe's disciplinary inquiry was chaired by Mkhwanazi's long-time associate Keith Kunene, who said it was improper for Mkhwanazi to have given Schwabe the letter. Mkhwanazi's office claimed Schwabe had obtained the letter illicitly.

Schwabe denies this, adding that it was he — not the office of the deputy president — who alerted Mkhwanazi to the Mozambican deal. Schwabe says he asked for the letter to be read in camera at his disciplinary hearing, but Kunene refused. Schwabe said he handed the letter in to give the inquiry a taste of the relationship between Mkhwanazi and the Malaysians.

Naidoo confirmed that Schwabe telephoned Mbeki's economic adviser, Moss Ngoasheng, on the eve of his disciplinary inquiry last month. "Mr Ngoasheng did receive a call from a Mr Schwabe and was informed that the matter of his dismissal was a personal issue. It was not a matter for the office of the deputy president."

Schwabe has a different version. He says Ngoasheng said he would ask Mbeki's legal adviser, Mojanku Gumbi, to contact him. The next morning Mkhwanazi telephoned Schwabe to wish him good luck. Schwabe also says Gumbi telephoned him, expressed her concern and indicated she would take the matter further.

Mkhwanazi dismisses suggestions that Mbeki helped arrange the bank's R50-million start-up capital. Mkhwanazi has worked for Mbeki in the past and has retained strong ties with him as one of the country's leading proponents of black empowerment.

Southern's human resources manager, Heather Carper, says she understood there had been high-level discussions between the governments of Malaysia and South Africa about setting up the bank.

Malaysia's prime minister had then "chatted to" Malaysian banking giant Dato Tan. Mkhwanazi's fund eventually secured R50-million from Malaysia.

Schwabe says he was informed it was Mbeki who held these initial discussions and had then dispatched Mkhwanazi to Malaysia to procure the bank's start-up cash.

Carper says for the time being the bank will concentrate on treasury and foreign-exchange operations. She says it is difficult to take on South Africa's banking majors in the retail market. It is unclear why such problems were not raised before the bank's launch.

She says Schwabe's disciplinary inquiry was one of the fairest she has ever witnessed. Schwabe was accused, among other things, of referring to the bank's CEO, Nathan Balakrishnan, as "your imminence [sic]", according to a charge sheet sent to him in February.

Schwabe wrote several letters to Mkhwanazi, complaining about Balakrishnan's performance. The letters listed how the bank was far behind schedule if it wanted to open as a retail operation this year. "Mkhwanazi asked me to keep him informed."

Schwabe says he has been the victim of the mismanagement that triggered the collapse of Malaysia's economy last year. "It is very sad that, without any retail or commercial operation, it will be very difficult to fulfil its admirable black economic empowerment objectives. I have always had the bank's interests and those of its South African shareholders and its employees at heart. I supported Mkhwanazi to the end."

Mkhwanazi has often talked publicly of links with Mbeki — such as when the scandal first broke surrounding his appointment, when he was chief of the state oil company, the Central Energy Fund, of Liberian financier Emanuel Shaw II as a R3-million consultant. He swiftly ceased such references as the scandal gathered pace. Mkhwanazi resigned as chair of the Central Energy Fund earlier this month.

The bank last year employed International Advisory Services, the consultancy run by Shaw and a fellow Liberian, which was given the state oil company contract.

Consumers feel left out as banks get bigger

CT (MR) 24/4/98 (58)

Caroline Mayer

As merger mania seizes the banking industry, many consumers are feeling bounced.

William Parker of Fairfax said he "felt like an orphan" when First Union took over Signet Bank last month. He couldn't get his new ATM card to work; not even the customer service representatives at his neighbourhood branch could help.

"They'd just sit you down at the telephone and have you call an accounts person" hundreds of kilometres away, he said.

Ellen Abrams, a Washington real estate agent, said she felt insulted whenever she visited her new bank, Crestar, which took over Citizens Bank last year.

"Every time I went in there, I had to show ID — even to just deposit a cheque or cash one."

In other words, the ties that have long bound customers to their local banks have increasingly become strained by the wave of mergers that has left bigger banks, branch closings and frequent name changes in its wake.

Two recent surveys indicate many customers believe mergers lead to less personal service, higher fees and, in the case of small businesses, less credit.

One survey of small-business owners showed mergers prompted 25 percent to switch banks in the past five years. The survey, by PSI Global, a market research firm for large financial institutions, also found 32 percent said they would find a new bank if their existing one was bought by another.

A recent Gallup poll indicated 23 percent of bank customers left for another bank after their bank merged. Their reasons included poor and impersonal service, too many fees and better rates elsewhere.

Studies by the Federal Reserve Board lend credence to some of these complaints. According to one report, smaller banks appear more willing to extend credit to smaller businesses.

"As banks get larger, the proportion of assets devoted to small business lending declines," the study says. While small banks extend about 9 percent of their total assets to small businesses, larger banks lend less than 2 percent.

The Fed also has found that the larger the bank, the higher the fees and also the higher the minimum balance requirements for consumers who wanted to avoid fees.

At the same time, large banks tend to offer lower interest rates on cheque accounts than smaller banks. A survey by Bank Rate Monitor, a financial research firm, shows that large banks pay an average return of 1,1 percent on interest-bearing cheque accounts. Small banks pay an average return of 1,58 percent.

"Generally, smaller banks offer consumers a better deal," said Bill Anderson, president of Bank Rate Monitor. "Intuitively, you'd say that's because they're trying to grow the bank and be more competitive. I think we need more competition — we need more institutions competing nationwide to drive the prices down."

But it is more than fees and interest rates that have left some customers lost in the forest of big banks; it is how impersonal one of the most personal of transactions — where to put your money — has become. Gone are the days when tellers knew each customer's name; gone are the lollipops that used to be offered to children.

In fact, it was the lollipops — or lack of them — that made Roger McWilliams's family realise how much things had changed when his local Hanover bank was taken over by Fleet Financial several years ago. Shortly after the merger, McWilliams said, his wife asked for the traditional lollipop for their child.

"The officer told her she had more important things to do than worry about lollipops," McWilliams said.

McWilliams's wife wanted to switch banks immediately, but he held out. That was until he applied for a mortgage and discovered decisions were no longer being made locally.

"All of a sudden, people in Nashua and Boston were reviewing my files and making decisions. I felt the personal touch I had come to value so much had been lost."

For Dan Gomez, losing that personal touch during a merger affected his business.

"Doing business with a large bank can sometimes be a nightmare," said Gomez, the executive vice-president of Mastercraft Interiors, a six-store chain.

Twice, mergers have caused Gomez to switch banks. The last time, he said, the bank "told us they wanted us out of their bank. The new executives felt the retail industry was out of fashion for loans. We had a substantial line of credit and were financially in a stronger position than when we had taken out the loan two years earlier."

The number of banks and financial institutions across the country has been declining steadily for the past 20 years, from 18 618 in 1975 to 12 169 in 1995. Banking officials say that number has dropped even lower — to fewer than 10 000 today — and will continue to decline.

Two weeks ago, Citicorp and Travelers Group announced a $70 billion merger. Last Monday, NationsBank and BankAmerica said they would form the first nationwide bank in a $60 billion deal. At the same time, Banc One and First Chicago NBD said they would form the fifth-biggest bank in a $28,9 billion pact.

For many consumers, "the large national banks will offer convenience", said Eric Withrow, merger analyst with SNL Securities. "There will be ATMs on every corner and branches through the town. Consumers can travel in any state and be able to bank there because the big national banks will have a branch there."

And as banks get larger and diversify, as Citicorp plans to do in its merger with Travelers, some banking experts say they may become more consumer-minded.

"I predict banks will behave more like non-banks — and make their hours longer and more convenient," said Robert Litan, the director of economic studies at the Brookings Institution. "There's no law that says bank offices have to close at 3pm."

Bank officers who have been affected by these mergers predict service may become more impersonal and inflexible as banks get bigger.

Bruce Sinkule, a banking vice-president who left Signet before it was acquired by First Union, recalls that there were more than 100 toll-free numbers for consumers to call, "all for different reasons".

"There was one number for people to call for a lost credit card, another to question a bill, another to stop payment (on a cheque). You could never get through to a local branch; their phone numbers were not even published in the phone book."

Today, Sinkule is the director of marketing at the National Capital Bank of Washington. It has only two branches, and like many small banks prides itself on customer service.

These small banks and credit unions are rushing to fill the customer-service void being created by the big bank mergers.

Since 1995, more than 300 new banks had been created, said Paul Schosberg, president of America's Community Bankers.

"Community bankers see these mergers as opportunities, not threats. We're prepared to capitalise on the people factor."

Officials at Crestar and First Union say they never intended to alienate any customers in the mergers.

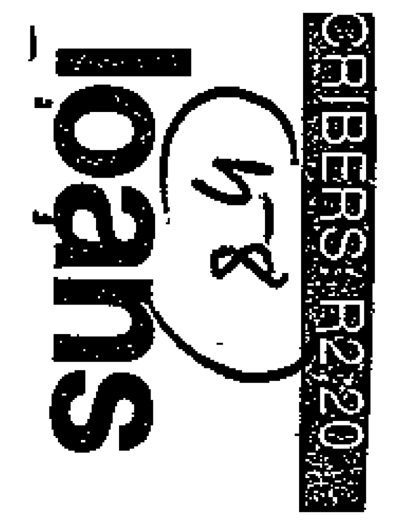
However, given the hundreds of thousands of accounts that may be involved in the transactions, they acknowledge there may have been some mistakes. Still, spokesmen for both banks say customers should be pleased by the expanded services, products and branches created by the merger.

That prospect, however, did not win Parker's allegiance. After spending about an hour a day for two weeks at First Union trying to get his ATM card to work, he closed his account at the branch he had used for 30 years. A block from his office was Adams National Bank, with only five offices in the city.

"They treated me like part of the family when I walked in. I felt like I was returning to the womb," he said. — *The Washington Post*

April 25 1998 SOUTH AFRICA'S BIGGEST SELLING SATURDAY NEWSPAPER R2,70 (inc VAT) ANNUAL SUBSCRIBERS R2,20

Banks profit from low returns on savings and high interest on loans



By CHARLENE CLAYTON and JEAN LE MAY

Banks are creaming off hugely inflated amounts from the South African public as bank profit margins are fast approaching the highest level in more than 50 years.

These record profits have sent bank share prices soaring while ordinary people struggle with low interest on deposits and high interest on borrowings.

The gap is growing between banks' charges to borrowers and what they give depositors.

Stuart Grobler, general manager at the SA Banking Council, has defended the record margins, saying it is in line with the Government's policy to restrict borrowing.

With credit cards, interest rates on debit and credit balances can vary by as much as 17%. Some customers are getting only 10% for credit balances but have to fork out 27% on any debit balances.

The gap between the prime-lending (for the best clients) and borrowing rates has hit more than 5%. In most cases it is far higher for the ordinary person.

In the United States, where the banking sector is extremely competitive, the profit margin is 2,9%. Banks would give their eye teeth for margins of 5%.

In Australia, the country with the next highest bank margins, the difference between interest rates in borrowing and lending is only 4%.

An investigation by the *Saturday Star* has revealed that banks charge up to R19,18 for over-the-counter withdrawals from cheque accounts. One bank charges R10 for over-the-counter withdrawals in a savings plan for low-income earners.

Banks charge huge fees for over-the counter transactions to force people to use automatic teller machines.

The high-profit-margin rate has been condemned by the Consumer Institute of South Africa and the broader financial services industry.

Sandra Gordon, chief economist for Nedcor Investment Bank Asset Management, says it appears that banks are able to drop interest rates to borrowers. But so far this year, the borrowing rate has fallen by only one percentage point, while savers have had to endure a two percentage point cut on their investments, widening the gap further.

Di Terblanche, executive director of the Consumer Institute, says: "Lending rates are troubling, in view of the fact that banks have been experiencing record profits. We are not saying we do not want banks to show a profit. On the contrary, we want to see a healthy banking industry."

Star 25/4/98

She adds: "It is most unfair to lay the blame for high rates solely on the shoulders of the Reserve Bank.

"Banks have a role to play as well, and they appear to be hedging their bets in favour of their shareholders by only cutting prime rates by one percentage point," Terblanche says.

The institute advises consumers to shop around when looking for a bank.

Nan Eyles, an Absa spokeswoman, says banks have to carry costs, including bad debts. While banks may show high returns to shareholders, these profits in many cases accrue from other sources, she says.

■ See Personal Finance

Banks profiteering at your expense

But financial sector investors are scoring big

Star 29/4/98

CHARLENE CLAYTON

The difference between what you are paid in interest to deposit money in your bank and what you pay to borrow money has reached "unjustifiably" levels in relation to overseas banks.

Stock market and unit trusts investors are the only ones "smiling all the way to the bank" as bank shares continually push new highs as the investment flavour of the past six months. The Johannesburg Stock Exchange financial index has rocketed by 53 percent since the end of October last year.

Not only are local banks making large proftis on the difference between borrowing and lending charges, but they also whack their customers with fees that are unthinkable in Europe or America.

Speaking at the Saturday Argus/Syfrets Private Bank Investor Club in Cape Town this week, Sandra Gordon, chief economist for Nedcor Investment Bank Asset Management, says banks appear to be in a position to immediately pass on further interest-rate cuts to consumers, but "we have seen only one percent drop to borrowers this year, while investors have been slapped with a two percent cut in rates on their savings".

South Africa's real (after inflation) prime lending rate of nearly 13 percent is testing post-World War Two highs and cannot be justified, according to a study by Fleming Martin Asset Management.

"The blame for South Africa's penally-high rates has popularly resided with Reserve Bank governor Chris Stals, but the banks have some answering to do, too," says Fleming Martin.

"Deposit rates having fallen by two percent this year, yet banks have cut prime rates by just one percent.

"The effect of this is that bank margins have widened substantially," Fleming Martin says.

"At 5,25 percent, they are significantly higher than the 1980-to-1997 average of 3,9 percent. Margins averaged 3,7 percent in the 1980s and 4,2 percent in the 1990s.

"Furthermore, South African bank margins are way above those of international banks. In the United States, for instance, bank margins are 2,9 percent.

"The ball is now in the banks' court to cut lending rates again. Until then, bank shareholders will be the winners, while the losers are the economy and the person in the street," Fleming Martin says.

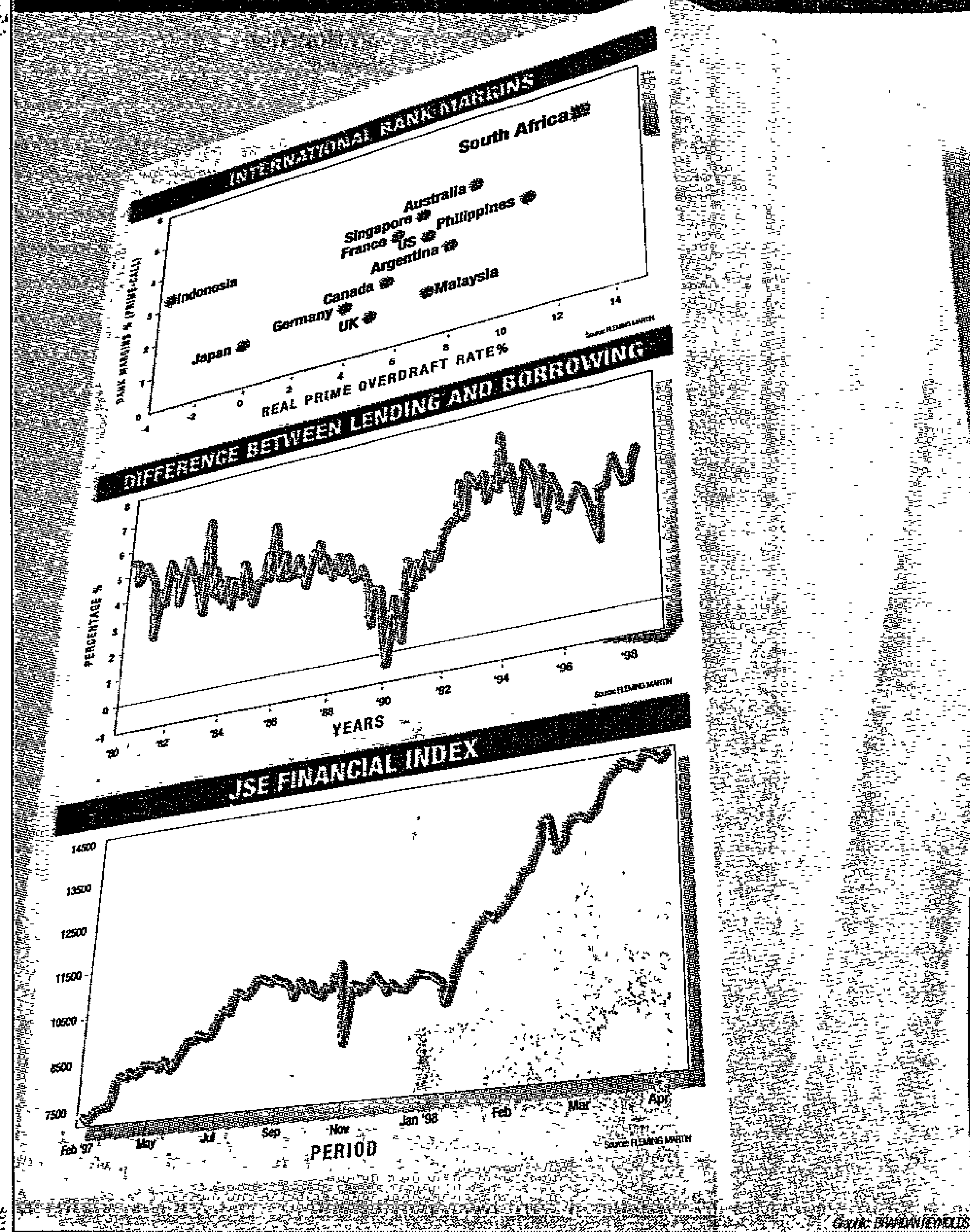
Gordon predicts that banks will drop their interest rates by 0,5 percentage points during the weeks ahead, and by mid-year the prime lending rate could be down by a full percentage point. During the second half of this year, interest rates could decline further, possibly by another full percentage point, she says.

Commenting on the issue of bank margins, Stuart Grobler, general manager at the Council of South African Banks, says credit extension is still too high and it can be argued that even at these high real interest rates, the borrowing sector, in particular the public sector, is overspending, thereby justifying a continued high real interest rate.

He says it appears that the only countries which support Fleming Martin's view, are the major G7 countries and several Far East nations, which are currently under severe economic stress.

"One reason that South Africa was not affected by the recent Far East crises could be precisely because of the high real returns for international investors in South Africa," he says.

When margins get squeezed then the same anaylsts don't motviate higher margins to ensure continued bank viability.



Banks profiteering at your expense

(58)

But financial sector investors are scoring big

ARG 25/4/98

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Not only are local banks making large profits on the difference between borrowing and lending charges, but they also whack their customers with fees that are unthinkable in Europe or America.

Speaking at the Saturday Argus/Syfrets Private Bank Investor Club in Cape Town this week, Sandra Gordon, chief economist for Nedcor Investment Bank Asset Management, says banks appear to be in a position to immediately pass on further interest-rate cuts to consumers, but "we have seen only one percent drop to borrowers this year, while investors have been slapped with a two percent cut in rates on their savings".

South Africa's real (after inflation) prime lending rate of nearly 13 percent is testing post-World War Two highs and cannot be justified, according to a study by Fleming Martin Asset Management.

"The blame for South Africa's penalty-high rates has popularly resided with Reserve Bank governor Chris Stals, but the banks have some answering to do, too," says Fleming Martin.

"Deposit rates having fallen by two percent this year, yet banks have cut prime rates by just one percent.

"The effect of this is that bank margins have widened substantially," Fleming Martin says.

"At 5,25 percent, they are significantly higher than the 1980-to-1997 average of 3,9 percent. Margins averaged 3,7 percent in the 1980s and 4,2 percent in the 1990s.

"Furthermore, South African bank margins are way above those of international banks. In the United States, for instance, bank margins are 2,9 percent.

"The ball is now in the banks' court to cut lending rates again. Until then, bank shareholders will be the winners, while the losers are the economy and the person in the street," Fleming Martin says.

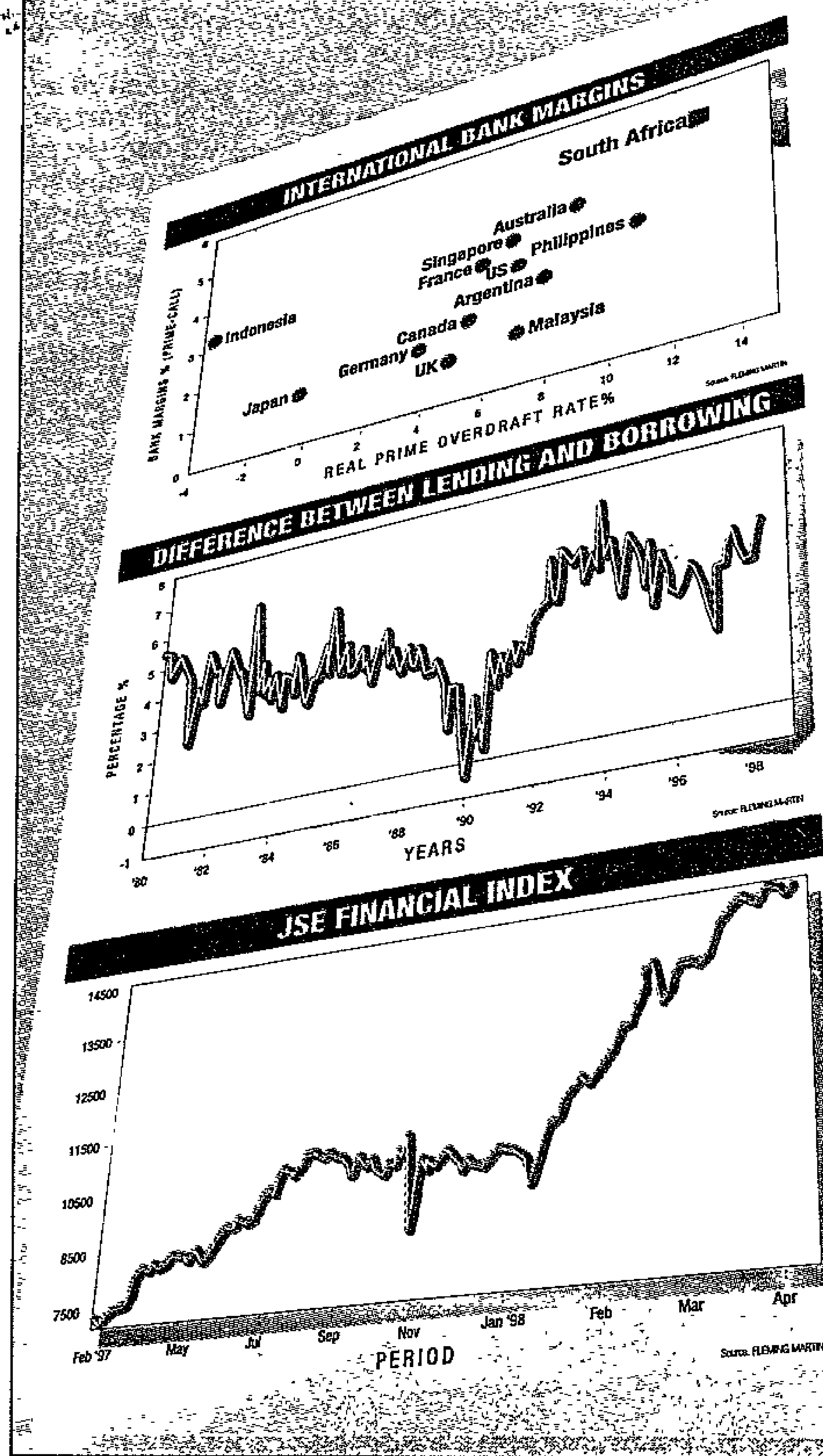
Gordon predicts that banks will drop their interest rates by 0,5 percentage points during the weeks ahead, and by mid-year the prime lending rate could be down by a full percentage point. During the second half of this year, interest rates could decline further, possibly by another full percentage point, she says.

Commenting on the issue of bank margins, Stuart Grobler, general manager at the Council of South African Banks, says credit extension is still too high and it can be argued that even at these high real interest rates, the borrowing sector, in particular the public sector, is overspending, thereby justifying a continued high real interest rate.

He says it appears that the only countries which support Fleming Martin's view, are the major G7 countries and several Far East nations, which are currently under severe economic stress.

"One reason that South Africa was not affected by the recent Far East crises could be precisely because of the high real returns for international investors in South Africa," he says.

When margins get squeezed then the same anaylsts don't motviate higher margins to ensure continued bank viability.



SA banks take their customers for a ride

ARGT 25/4/98 (58)

CHARLENE CLAYTON AND JEAN LE MAY

Banks are creaming off huge amounts from the South African public as their profit margins approach the highest levels in more than 50 years.

These record profits have sent bank share prices soaring, while ordinary people struggle with low interest on deposits and high interest on borrowings.

Sandra Gordon, the chief economist for Nedcor Investment Bank Asset Management, said banks appeared to be in a position to pass on further interest-rate cuts to consumers immediately, but "we have seen only a 1% drop to borrowers this year, while investors have been slapped with a 2% cut ... on their savings".

Interest rates on debit and credit balances on credit cards can vary by as much as 17% at some banks, resulting in huge profits.

Some customers are getting only 10% for credit balances, but often have to fork out 27% on any debit balances.

The gap between prime lending rates (offered to the bank's best customers) and borrowing rates has reached more than 5%. But, for the ordinary person, it is far higher.

Bank margins in South Africa are also way above those of other countries. In the United States, where the banking sector is extremely competitive, the profit margin is 2,9%.

Even in Australia, the country with the next highest bank margins, the difference between interest rates in borrowing and lending is only 4%.

And an investigation by Saturday Argus has revealed that banks charge up to R19,18 for an over-the-counter withdrawal from a cheque account. One bank charges R10 for over-the-counter withdrawals in a savings plan specially designed for low-income earners.

Another reason banks are charging these huge fees is to force people to use automatic teller machines (ATMs), thereby easing the workload on the banks.

The situation has been condemned by the influential Consumer Institute of South Africa as well as by representatives for the broader financial services industry.

Stuart Grobler, general manager at the South African Banking Council, defended the record profit margins, saying the high interest rate on borrowing was in line with Government policy to restrict borrowing.

But Di Terblanche, executive director of the Consumer Institute, said: "Lending rates are troubling in view of the fact that banks have been experiencing record profits.

"It is most unfair to lay the blame for high rates solely on the shoulders of the Reserve Bank.

"Banks have a role to play as well, and they appear to be hedging their bets in favour of their shareholders by only cutting prime rates by 1%," said Ms Terblanche.

The Consumer Institute advises consumers to do more shopping around when choosing a bank. Ms Terblanche said they should also actively lobby for lower transaction fees and lending rates.

"They need to create and support strong independent financial consumer bodies to act as a watchdog on financial institutions."

Nan Eyles, of Absa, said banks had to carry costs such as bad debt, running cheque accounts and staff and systems expenses.

"While banks may show high returns to shareholders, these profits in many cases don't only accrue from the core domestic banking operations but also from other sources such as corporate banking, treasury, international and other investment divisions."

See Personal Finance

Sean Summers replaces Gareth Ackerman in attempt to tackle hiccups in group's new division

Pick 'n Pay in financial services rejig

CT (BR) 30/4/98 (58)

LYNDA LOXTON

Cape Town — Pick 'n Pay, the supermarket group with banking aspirations, said yesterday that Sean Summers, the group's retail managing director, had taken over the supervision of the problematic financial services division from Gareth Ackerman, the group enterprise managing director.

The group said it was reviewing its financial services division seven months after the launch to get a better grip on how to get shoppers to combine their banking and shopping activities.

The move was made with an eye to forging a closer day-to-day relationship with potential financial services customers.

Analysts said yesterday the move made sense as the success of the financial services division depended mainly on the ability of the group to get more customers into its stores, and not just on selling the concept to the public.

Summers said the division's performance to date had met expectations but it had become clear that it had to be fine tuned to meet future growth targets.

Since the launch in September, the division has attracted about R80 million in deposits. Its initially aggressive advertising and promotion campaign has now been toned down as the division takes stock and maps out the way forward. "They are going through a learning curve and have, of course, experienced some problems," said an analyst.

One major problem appeared to be the need to reconcile the drive to attract customers to sign up for the card-based Cash Account to handle their savings accounts, bill payments and cash withdrawals with the need to ensure that there was also a smooth flow at the tills.

"One little old lady wanting to do all those things at any one till can hold things up," the analyst said. "They have to get the queues right and it makes sense for Summers to be in charge of where the deposits and things are dealt with." Some stores now have specially designated tills to deal with financial services.

Chris Oosthuizen, Boland Bank's chief executive in charge of electronic banking services, which administers the new financial service, said his group was generally pleased with the way it had progressed although it was slightly behind target. The number of account holders now stood at 90 000 compared with the targeted 110 000 to 120 000.

The change in reporting structures "should get us closer to retail" and make it easier to introduce the changes needed to attract more people, he said.

High bank charges hit low-income earners

(58) ARG 2/5/98

JEAN LE MAY AND CHARLENE CLAYTON

Banks are coining money by charging high fees to people with electronic accounts who have low balances or prefer to do business over the counter, it was discovered by Weekend Argus.

Low-income earners are particularly prejudiced. An office cleaner was told recently that drawing R20 over the counter from a branch of Standard Bank would cost her R10 – although her money was in a special type of savings account aimed at low-income earners, the E-plan account.

This fee is charged even if the account holder has a large credit balance, said Tony Ketcher, head of consumer marketing for Standard Bank.

However, Standard Bank Plus-plan account holders are charged R10 only if their balance is below R2 000.

In addition to the R10 fee, it costs Standard Bank savings account holders R16,50 to draw a bank cheque.

If the cleaner had wanted a cheque for R10 drawn from her E-plan savings account and made out to a third person, it would have cost her R26,50.

Mr Ketcher said that the E-plan was "very popular" and they were opening 68 000 E-plan accounts a month.

"It's a product designed especially for first-time bank clients, who are intimidated by the technology but once they understand it they will use it."

Asked why the cleaning lady was charged R10 for drawing money over the counter he said: "She should have gone to the Golden Acre, where there is a special E-Plan teller with greatly simplified screens and an assistant standing by permanently."

When Saturday Argus suggested the R10 counter withdrawal fee prejudiced poorly literate people, especially when confronted by a complicated-looking machine, he said: "You would be surprised how quickly they learn the pattern to type in for their pin number and the pattern on the screen showing different withdrawal sums."

The R10 charge was levied because the product was basically designed as a card service, he said.

"We want to discourage people from making counter withdrawals and use the technology so that the bank can make a profit."

Other banks levy high charges on poor people as well. For a counter withdrawal from an electronic account, Nedbank charges R7,98 for a balance below R4 000.

All Absa banks have recently increased charges by 10%, from R6,84 to R7,52, on a balance below R1 500; Permanent Bank charges R7,98, with a balance below R5 000.

NBS charges R2,99, with no minimum balance; Mercantile Lisbon R1,14, with no minimum balance; and Pick 'n Pay R1,40 for till withdrawals.

Banks also charge high fees when clients use automatic teller machines (ATMs) other than those of their own bank.

Absa banks charge an extra R6,60 in addition to the usual withdrawal fee of R1,60. Nedbank has a sliding scale on which a R100 withdrawal on another bank's ATM would cost R5,70, as against 57c on every R100 plus R2,28 on balances above R1 500 at their own.

First National charges R8,50 as opposed to R3,50 on its own ATMs; Standard Bank also has a sliding scale on which R100 withdrawn from another ATM would cost R6, as against R2,50 per R100 plus 50c per R100 on balances below R2 000.

Pick 'n Pay charges R1,40 at its own ATMs and R4,50 for the first R100 and 60c per R100 thereafter on other ATMs.

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Bank charges prove an ever-growing burden, especially if you're poor

(58) Star 2/5/98

BY JEAN LE MAY AND CHARLENE CLAYTON

Banks are coining money by charging punitively high fees to people with electronic accounts who have low balances or prefer to do business over the counter.

Low-income earners are particularly prejudiced: an office cleaner was told recently that drawing R20 over the counter from a central Cape Town branch of Standard Bank would cost her R10 – although her money was in a special type of savings account aimed at low-income earners, the E-Plan account.

This fee is charged even if the account holder has a large credit balance, said Tony Ketcher, Standard Bank's head of consumer marketing.

However, holders of Standard Bank Plus-plan accounts are charged R10 only if their balance is below R2 000. Above that, they pay nothing.

Other banks levy high charges on poor people as well. For a counter withdrawal from an electronic account, Nedbank charges R7,98 for a balance below R4 000; above that, it's free. All the Absa banks (United, Allied, Trust Bank and Volkskas) have recently increased charges by 10% to R7,52 on a balance below R1 500. Permanent Bank charges R7,98 with a balance below R5 000; above R5 000 there is no charge. NBS charges R2,99, with no minimum balance; Mercantile Lisbon R1,14, with no minimum balance; and Pick 'n Pay R1,40 for till withdrawals.

Banks also sock it to their clients who use automatic teller machines other than those of their own bank.

In addition to the R10 fee for counter withdrawals, it costs all Standard Bank savings account holders R16,50 to draw a bank cheque at the counter.

If the cleaner had wanted a cheque for R10 drawn from her E-Plan savings account and made out to a third person, it would have cost her R26,50.

Ketcher said the E-plan is very popular. "We are opening 68 000 E-Plan accounts a month," he said. "It is a product designed especially for first-time bank clients, essentially a Third World market. A lot of these folk are reasonably intimidated by the technology, but once they understand it they will use it."

Asked why the cleaning lady was charged R10 for drawing money over the counter instead of at an ATM, he said: "She should have walked down to the Golden Acre (shopping mall) where there is a special E-Plan teller with greatly simplified screens and an assistant standing by permanently."

When the *Saturday Star* suggested that the R10 counter withdrawal fee prejudiced people who were not comfortably literate, above all when confronted by a complicated-looking machine, he said: "You would be surprised how quickly they learn. They learn the pattern to type in for their PIN and the pattern on the screen showing different sums they can withdraw."

The R10 charge was levied because the product was basically designed as a card service, he said. "We want to discourage people from making counter withdrawals and use the technology so that the bank can make a profit."

Mauritius to implement SA's payment system

(55) BD 5/6/98

Samantha Sharpe

CAPE TOWN — The SA Reserve Bank and the Bank of Mauritius were involved in a joint venture to convert SA's recently upgraded national payment system into a platform for implementation in Mauritius, SA Reserve Bank governor Chris Stals said yesterday.

At a Society of Worldwide Interbank Financial Telecommunication conference, Stals said this had the potential to be a model payment system for the entire southern African region.

SA had recently introduced an upgraded national payment system through the introduction of the SA Multiple Option Settlement (Samos) system to provide for the eventual real time, online settlement on a gross basis for large transactions and an end-of-day settlement on a net basis for all other transactions.

"The SA Reserve Bank and the Bank of Mauritius are now involved in a joint venture to convert the Samos system into an appropriate platform for implementation in Mauritius.

"If successful, this could set a model for the upgrading and eventual integration of all national payment systems and for effecting cross-border payments in the whole region through an interlinked electronic payment system," Stals said.

He said the committee of governors of the Southern African Development Community (SADC) was making good inroads into improving financial co-operation in southern Africa.

"The challenge for the committee of governors is to prepare the way in the financial sector for an eventual integration of the economies of the countries of the southern African region.

"The committee's approach so far has been to analyse the basic framework of the financial systems and to identify major structural deficiencies that must first be addressed before any meaningful discussion on multinational financial integration can begin.

"Starting with a discussion on exchange control policies, the committee has already ventured into the arena of monetary policy harmonisation. In a next phase, the committee's work will have to be extended to co-operation among the central banks on other macroeconomic policies such as exchange rate, interest rate, and anti-inflation policies."

Stals said the SADC had to be developed within the environment of the wider globalisation process, with the SADC and Africa unable to ignore the continuing process of globalisation, facilitated by easy communication, electronic data processing and the multinationalisation of all economic activity.

"It will be difficult for the world to continue to marginalise Africa once the regional arrangements such as the SADC and eventually the whole African continent with its more than 700-million people, can become a joint economic force," Stals said.

Plan to beef up banking regulations

BD 6/5/98 (58)

Greta Steyn

BANKING regulation is to be beefed up to keep tabs on risks arising from the creation of big "bancassurance" conglomerates that offer a range of financial services products.

The aim is also to close loopholes which allow financial conglomerates to exploit the differences between banking and insurance regulations.

The policy board for financial services has released recommendations which will lead to legislative changes. These recommendations form part of a report on the regulation and supervision of financial conglomerates drawn up by a task group headed by economist Hans Falkena.

The task group recommends that SA supervisory legislation be brought in line with European standards.

The chairman of the policy board, Chris de Swardt, said the plan was to write amendments to a number of acts, including those on banking and insurance. "But if that proves too cumbersome a process, it might be necessary to write a new act."

Draft legislation would be prepared only after consultation with the industry and the legislation would not be ready this year.

The report recommends that the overall strength of a group to which a bank belongs be evaluated as part of the bank's supervision. This contrasts with the present approach which focuses only on the bank and disregards other companies in the group.

The report suggests the banking supervisor undertake a "qualitative assessment" of the overall strength of the group to evaluate the potential impact of other group companies on the bank. Known as "consolidated supervision", the approach takes into account the financial strength of other companies but will not subject them to banking regulation.

"The task group recommends consolidated supervision be implemented as a priority for all groups that include banks." Activities of nonbank companies would be taken into account only to the extent that they had a material bearing on the reputation and financial soundness of the bank or supervised financial institution.

The report also recommends that steps be taken to ensure that financial conglomerates do not use the same capital against different risk exposures. Conglomerates should not be able to meet different sets of regulatory requirements — for banks, investment firms or insurance companies — by using the same capital.

The definitions of capital used for different types of financial companies should also be made uniform, it says. "Consolidated supervision of banks and investment firms will effectively eliminate regulatory arbitrage between these two types of institutions."

The report also recommends that limits be placed on large financial exposures to single counterparties. At the moment there are no limits on large exposures to one party, but banks are required to disclose big exposures to the registrar. The report describes the absence of limits as "a significant deviation" from internationally acceptable standards. Limits would, however, have to be phased in or they would

Continued on Page 2

Regulations (58)

Continued from Page 1 BD 5/5/98

have a disruptive effect.

It recommends that exchanges such as those for stocks, bonds and futures should either have a margining requirement or limit membership to adequately capitalised companies subject to continued surveillance.

A margining requirement is similar to a deposit, with traders putting down money when the market moves against them. The SA Futures Exchange already has a margining system.

The report also recommends that different regulators, such as those for banking and insurance, give one another access to detailed information.

SA's legislative framework is in some areas inconsistent, unco-ordinated and outdated, and "as a result, important components of the industry avoid basic prudential supervision or are subjected to different standards of supervision," the report says.

Standard, Liberty talks: Page 17

FINANCIAL SERVICES *PSG Bank Holdings will specialise in group's 'proven' areas*

R500m niche bank is launched

CT(BR) 5/6/98 (58)

VERA VON LIERES

Cape Town — PSG Financial Services (PSL), the subsidiary of listed financial services group PSG Group, announced yesterday it would form a new bank called PSG Bank Holdings, with an initial capital base of R500 million, following Reserve Bank approval.

This is the second major development this year for the rapidly expanding group, which announced a reverse takeover of Servgro's R327 million cash shell in February.

Botha Schabort, the managing director of PSG Bank Holdings, said the capital, made up of R250 million ordinary and R250 million preference shares, would be funded from existing PSG Group resources.

"The bank aims to be a niche player in the specialist areas of treasury, financial structuring and engineering, investment banking and risk management outsourcing," said Schabort.

He said these were areas in which the group currently operated profitably and where management had "proven expertise".

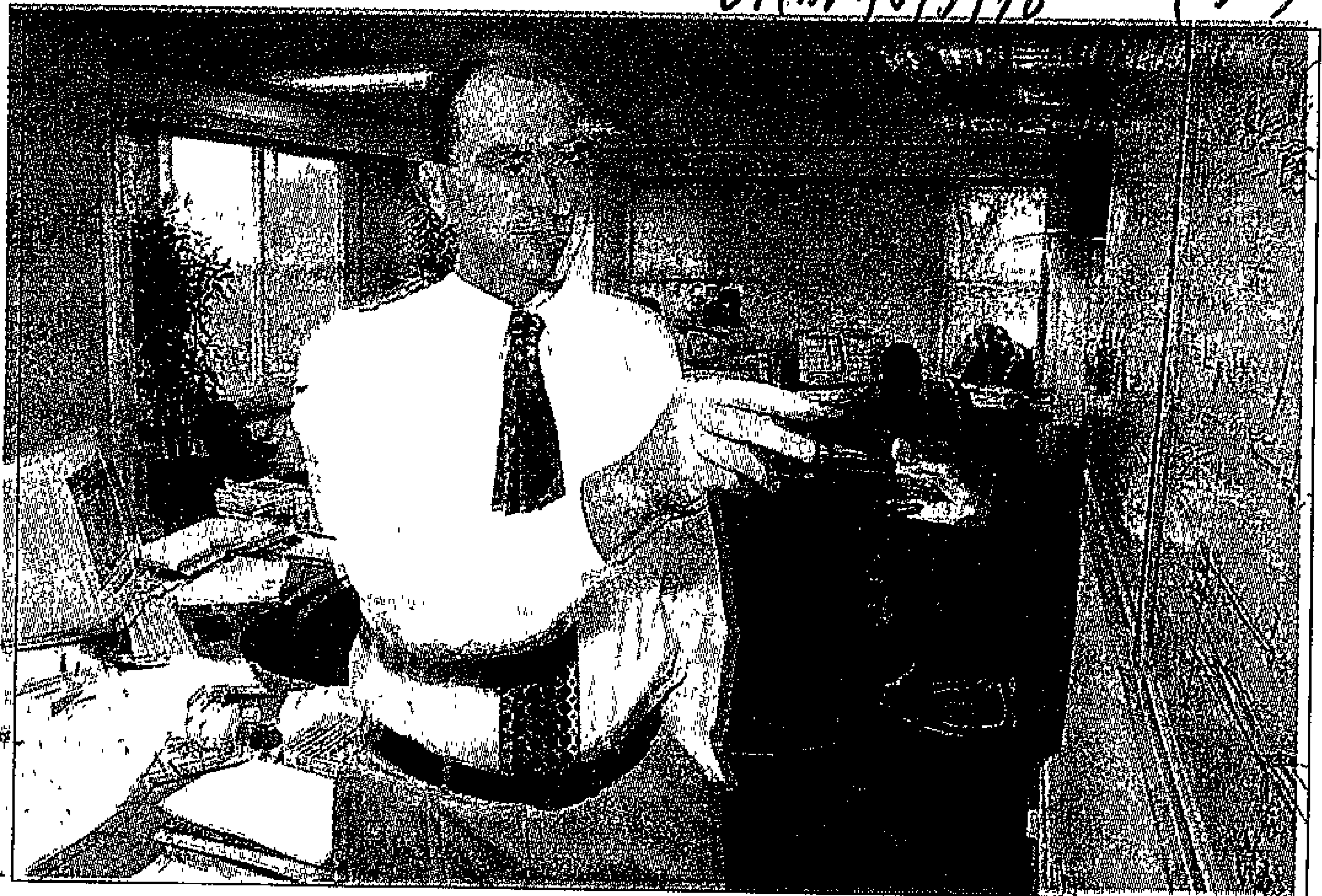
Thought would be given to a separate listing of the bank once its activities required additional capital, he said.

PSG Risk Managers would be incorporated into the bank, ensuring profitability from the outset, Schabort said. A banking licence would allow the group to apply existing risk management skills more broadly, for instance to the market for money market derivatives.

The bank's lending strategy would target the group's existing high net worth client base from its asset management and stockbroking companies. In addition, it would benefit from the association with Siphumelele Investments, the Western Cape-based black empowerment group which took an 11,5 percent stake in PSG earlier this year.

The current popularity of the Western Cape region as a home base among financial market players would help the bank to employ the cream of the crop in the market, Schabort noted.

PSG's share price enjoyed a strong run on the Johannesburg Stock Exchange yesterday, bouncing 90c to R16,50 as 79 400 shares changed hands.



POINTING THE WAY *Botha Schabort, the managing director of newly formed PSG Bank Holdings, said the new institution would capitalise on the Western Cape's popularity as a home base for treasury and market professionals*

PHOTO ANDREW BROWN

Cusaf and General Accident in merger talks

(58) BD 6/5/98

Madeleine van Niekerk

SHORT-term insurers General Accident and Commercial Union in SA are engaged in merger talks, a source says.

"The merger is in process.

"We will be merging locally if the merger deal between our parent companies in the UK goes through," he said.

London-based Commercial Union and General Accident announced a surprise £15bn merger in February to create England's largest insurance group.

"We are currently discussing what the structure of the merger locally will look like.

"We are exploring various options following the international merger. An announcement in this regard can be expected after June," the source said.

"The legal process in the UK has not yet been concluded.

"Once it has been concluded overseas and locally and shareholders are satisfied overseas and locally, the merger will go through worldwide, including in SA.

"A number of issues is been worked through in the UK and it is likely the process will be concluded overseas in June.

"The local process will be concluded after the UK process has been completed."

The overseas companies said in February the merger would mean 3 000 job losses in Britain and another 2 000 worldwide.

They did not specify where the job cuts would be, but estimated that savings of £225m would be achieved within two years of the completion of the merger.

The source said cost-savings figures were not given on a country-by-country basis. He could therefore not say what cost savings would apply in SA, although it was possible that there would be job losses locally.

He said a chief executive officer of the local company had not yet been appointed. "It will be an external decision. The decision will be made by a combination of Commercial Union and General Accident shareholders and a few local shareholders.

"It is possible that the new chief executive officer will be the current chief executive officer of General Accident or Commercial Union in SA. Certain key appointments will be made in the coming weeks."

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Tax officials to crack down on financial services and oil industries

(58) BD 6/5/98

Linda Ensor

CAPE TOWN — Inland revenue planned to target specific sectors such as financial services and the oil industry which it believed were not paying sufficient tax proportionate to their profit, commissioner Trevor van Heerden said yesterday.

Briefing Parliament's finance committee on the SA Revenue Service's budget vote, he said Soweto and townships in KwaZulu-Natal and the Western Cape would also come under the spotlight in an accelerated drive to broaden the tax base.

Special attention would also be given to improving value added tax and pay as you earn collections where the returns were quicker.

Inland revenue has projected an increase in revenue collection of R16bn to R180bn (R164bn) this fiscal year.

Van Heerden said special audit teams would investigate the tax paid by some economic sectors where the use of tax avoidance schemes appeared to be widespread and where the amount paid in tax was low compared with the nominal tax rate.

For instance, financial institutions had made extensive use of losses in trusts for their own benefit. This would be addressed through legislation.

Consideration was also being given to the highly successful Swedish approach of concentrating on the top 200 companies which generated most of the tax. Swedish tax authorities were also helping SA determine the size of the tax gap and identify sectors on which to concentrate.

Avhashoni Netshivhungululu, the director of tax structure development, told the committee the revenue service had successfully employed other initiatives to enhance collections such as visiting businesses to check whether they were registered. Successes had also been made in dealing with outstanding returns and collecting outstanding tax.

However, Van Heerden warned that improvement in tax collections was being hampered by the "inability of the present justice system to deal with the increased flow of prosecutions" and the low tax morality in the country.

He said a new income tax system at end-December would give the revenue service an interface with banks, though the benefits would only filter through in later years. This would result in "huge productivity gains" as a number of manual processes would become automated, reducing duplication and loss of revenue.

Deputy commissioner Pravin Gordhan said ways of extending services in collaboration with the Post Office and municipalities would be explored.

Courts prope. move to open mortgage rates

(58) CT (BR) 7/5/98

RICHARD STOVIN-BRADFORD

Three high court judgments — between September last year and last month — against two South African commercial banks relating to the unilateral increase and decrease of interest rates on mortgage loans may cause banks to review their standard documentation.

"The ramifications of this are enormous," says Trevor Olivier, the general manager of mortgage lending at NBS Bank. "But we're still of the view that banks can vary the rate, and whenever we vary the rate we give written notification to the borrower."

The judgments also underpin the need for the country's banks to put their heads together to create a pan-sectoral and continuously quoted reference interest rate. A transparent rate would be to their benefit as well as that of their customers.

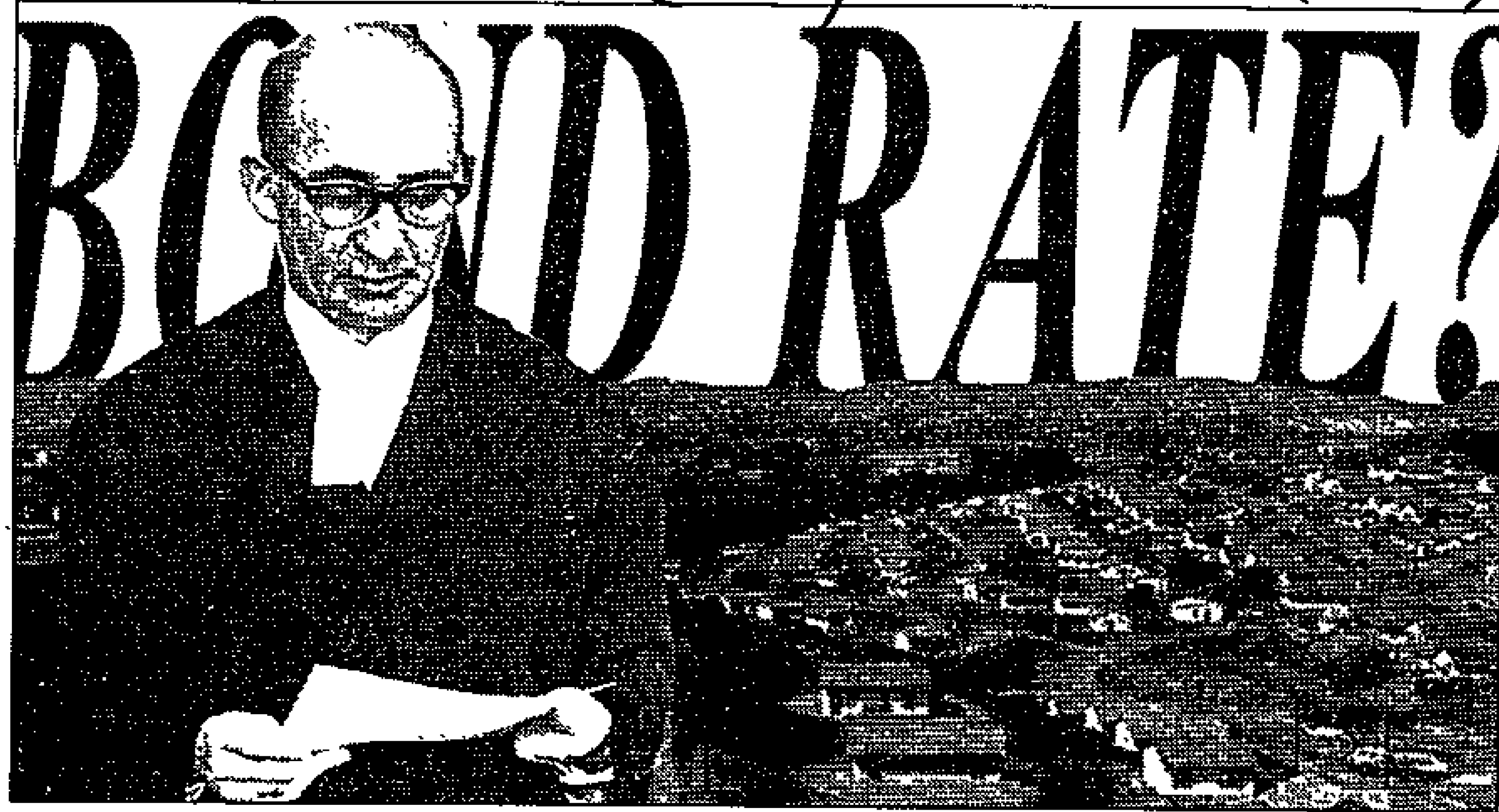
The judgments revolved around a clause in the banks' bond documents empowering them to decide unilaterally the timing and amount of interest rate variations. All three judges ruled that the clauses were legally invalid and unenforceable.

But they also made a cogent case for linking the variation of interest rates charged to variations in a publicly recognised interest rate — such as a rolling average of home loan rates market-wide.

However, Olivier says: "To my mind, the objective criterion is the general level of rates in the markets. If you're within a margin of those, I can't see the problem."

The attorneys who acted for the defendants on two of the cases brought by NBS Boland Bank said the judgments conclusively showed that banks could no longer take the liberty of one-sidedly changing the terms of a loan contract.

The outlawed clause said that "the NBS may at any time and from time to time increase or decrease the rate of interest per annum on all amounts owing to or claimable by the NBS in terms of this bond to the rate determined by the NBS as payable for the class of bonds into which this bond falls ..."



It is a general principle of the law of contract that material contractual obligations such as, in these cases, interest rates, must be clearly defined or ascertainable. Banks argue that there is little difference between the way bond rates are varied and those on other banking products such as overdrafts. But the judgments look beyond the mechanics to the dawning of an independent reference rate.

The judgment on the first case, between NBS Boland Bank and One Berg River Drive and others, was given by Judge Southwood. He reasoned that, to be valid and enforceable, the bond agreement should "define objectively ascertainable criteria" by which the interest rate could be varied without reference to the will of the moneylender or the borrower. He concluded that the interest rate variation clause was invalid and unenforceable.

Similar judgments were made against the lending banks, NBS Bank and Absa's United Bank division, in the second and third cases.

Three different judges have therefore given the same judgment on the same principle, overturning a cosy status quo among lending institutions as a whole, not just home loan providers.

NBS Bank said it would appeal the judgment but other banks and, most conspicuously of all, their very own Banking Council (formerly the Council of South African Banks), have been remarkably silent on the matter.

However, Olivier said: "If the Banking Council set the rate, we'd be accused of collusion."

Banks maintain that they do not set loan interest rates in isolation but are influenced by economic factors to which they have to react. They are then subjected to competitive pressures in the market place.

Johannesburg, as South Africa's financial capital, does not yet have an interbank offered rate for money market deposits, or Jibor, along the lines of Europe's financial markets, so the real cost of funds to a bank continues to be something of a mystery.

The huge margins that prevail in South African banking should provide the better-managed banks with some leeway for flexibility on mortgage lending, bearing in mind that it is a relatively low-risk form of credit. Imminent changes to the capital adequacy treatment of mortgage loans will inevitably be passed on to customers, so there should still be room for manoeuvre.

If the main retail banks fail to promote the adoption of the independent rate the judges were looking for, they will lose out to the leaner and meaner niche players. Investec has been swift to spot the gap in the market for its highly focused home loans business; and Origin, the new bank for individuals in the Rand Merchant Bank stable, is another example of a hungry market entrant.

If a focused global banking player such as ABN Amro can just come along and snap up Investec's fleet management business, a foreign financial services provider experienced in the home loan market could make an equally dramatic move. Investec and RMB are on the right track for businesses of their size, but South Africa's big four might begin to shudder if an international colossus opened up in this segment.

Australian Mutual and Provident (AMP), the life assurance giant engaged in home loans through Australian Mortgage Securities, is committed to expanding its operations among English-speaking countries in the southern hemisphere.

The foreign majors' mortgage securitisation techniques grant them immense flexibility in circumventing the traditional cost structures faced by local mortgage lenders and could undercut them. Their businesses are generally free-standing and not therefore predicated on cross-subsidies.

The time has come for South Africa's traditional home loan providers to review not just their loan documentation and to settle on an ideal independent interest rate, but also to consider how to prepare for foreign competition. They must do this without rushing to the Reserve Bank in search of further protective measures to hamper the introduction of the products our undemanding home-owners are crying out for.

Banking council defends high margins of profit

ARG 9/5/98 (58)

STAFF REPORTER

The difference between the lending and borrowing rates of banks in different countries cannot be compared for several reasons, says the Banking Council.

Bob Tucker, executive chairman of the Council, was responding to an article which appeared in Personal Finance two weeks ago, based on research by Fleming Martin Asset Management.

Their research revealed that local bank margins (the difference between lending and borrowing rates) are at record levels compared with other countries.

Fleming Martin added that deposit rates (call rates) had fallen by about two percent this year while the prime rate had been lowered by one percent.

The prime rate (the rate which banks give their best customers only), is 18,25 percent.

Fleming Martin said the difference between lending and borrowing rates was 5,25 percent, compared with banks in the United States, where margins are 2,9 percent, and Australian banks with margins of about four percent.

Tucker argues that the Fleming Martin comparisons with United States banks are incorrect.

He says the comparison of South African retail banks has been made with money centre banks in the US which have no branches and deal chiefly with wholesale borrowing and lending.

He says his comparisons show that South Africa's retail banks are operating "at much the same level of margin as comparable retail banks in the US, on average 4,5 percent."

"Margins are only part of the profit calculation – and it is profit which really counts," he says.

The other components are non-interest income, the operating costs and the losses which are incurred in doing business.

"It is significant that in spite of a number of new banking licences issued to foreign and local banks in South Africa over the last three years, not one of them have moved into retail banking – even with the apparently attractive margins at which retail banks are able to operate. This is because of their assessment of the costs of doing retail banking in South Africa at this time," he says.

Foreign banks could be surprised by the cost of doing business in South Africa, coping with inefficient telecommunications and generally poorly educated staff," according to a banking survey published last year by accounting company KPMG.

The Banking Council agrees that at the end of the day it is the market place which should prevail and which should be given free rein.

"No amount of media criticism, investigations by the ombudsman or regulatory interventions by the government can substitute for vigorous competition for profitable business."

"But if the market does not regard the business as profitable, then media comment that banks are profiteering does not take the issue any further," he says.

Cash-rich banks flatly refuse to cut lending rate

(58) ARG 9/5/98

CHARLENE CLAYTON

Banks this week continued to resist pressure to reduce lending rates, including mortgage bond rates.

This is in spite of record margins between banks' borrowing and lending rates and indications by Chris Stals, the governor of the Reserve Bank, that the time is ripe for rates to come down.

An announcement by First National Bank that its profits were up by 28,5 percent for the year to March was further confirmation of the large profits the banks are making. On the strength of this shareholders were given a 20 percent tax-free dividend increase.

The last time interest rates were altered was in March this year, when the prime lending rate was cut by one percent to 18,25 percent and the average home loan rate to 18 percent.

Meanwhile the repo rate, (the rate at which banks borrow money from the Reserve Bank), dropped to its lowest level since its introduction in March, but bank managers shrugged off suggestions that this could trigger interest rate cuts.

While the repo rate drop may be insignificant, it should be seen in against the background of a one percent interest rate cut for borrows, while savers have had to accept a two percent cut in deposit rates (call rates) this year.

This information was revealed in a survey, by Fleming Martin Asset Management, which also questioned why banks were holding off against a rate cut when South Africa's real prime lending rate (the rate less inflation) was testing highs not experienced since World War II.

A First National Bank spokesperson would not comment on lending rates as the bank was busy announcing its interim results.

A Standard Bank spokesman said "we continually review our interest rates and the quality of our margins and will make a decision when the time is appropriate".

Fanie Leach, of Absa, which includes Allied, United, Trust and Volkskas banks, said Absa had no immediate plans to reduce rates, but was monitoring the situation.

He said Absa was "not comfortable" with a rate cut now."We don't want to drop prime the one day and move it up the next day. South Africans don't have the appetite for frequent small moves in rates," he says.

John Cruickshank, of Standard Corporate and Merchant Bank, says there is no fixed amount by which the repo rate must fall before the retail banks will reduce their rates to consumers.

"It is a trend which must be established," he says.

The repo rate, is determined by the banks' demand for money made available by the Reserve Bank, but the rate is no longer set by the Reserve Bank. Furthermore, banks obtain only a small portion of their funding via the repo system.

Alan Greenstein, of Mercantile Bank, said: "The decision on whether or not to lower the rates is one of such market competitiveness that there is no way that I could comment on whether Mercantile is even considering that or not."

Jimmy Forbes, Nedcor's general manager: treasury, says the repo rate needs to move downwards for two to three weeks "before we start seeing an effect on interest rates".

He says you should not forget to negotiate your own interest rate package with your bank.

Banks need to work with the 'unbankable'

(58) Sowetan 12/5/98

By Claire Keeton
Feature Writer

BANKS need encouragement to move into "unbankable" areas as the poor require access to credit and have shown their ability to pay back loans, according to microenterprise expert Shardo Naidoo.

Naidoo was speaking at the Gauteng Speak Out on Poverty hearings in Johannesburg last week as a representative of the Alliance of Microenterprise Development Association.

The association consists of member organisations that offer training, marketing and other business skills to communities, and those that provide funding.

She said access to credit and savings were critical for building microenterprises, which have a positive role to play in reducing unemployment and poverty in South Africa.

Many of the individuals speaking about their personal experience of poverty at the three-day hearings highlighted the suffering of being unemployed.

Naidoo said microenterprises were characterised by self-employment and ownership by an individual or family group. If microenterprises do employ workers, they are usually unskilled and receive on-the-job training.

Microenterprises are labour intensive and do small-scale production relying on people's ingenuity and available local resources. They are flexible and competitive businesses, according to Naidoo.

But she said: "Microenterprises are often started by the push of unemployment, not the pull of entrepreneurship (in South Africa)."

Periphery of economy

Naidoo said most local microenterprises operate on the periphery of the established economy – in the informal sector. (She preferred to define these enterprises as part of the "emerging economy.")

She pointed to the critical role these enterprises play in the broader social context by taking the example of pavement trade. Even though many hawkers generate a low profit, the women traders often use the profits to provide food, education and healthcare for children in need.

Mandla Ntongana ... homeless people also have ambitions.
PIC: CLAIRE KEETON

A recent survey of 450 hawkers in the central business district of Johannesburg found that most of them are willing to pay for premises and advertising to become more effective. "We need to work with a range of products and skills," Naidoo said.

"In addition to providing employment and dignity, microenterprises require less capital to create jobs.

"They are more efficient and they provide valuable services to communities. They provide goods which help retain indigenous lifestyles and build cultural capital."

New Africa Investment Limited chairman and a commissioner for the Gauteng hearings Dr Nthato Motlana said it was sad that South Africa did not have "vibrant people's markets".

Motlana and Naidoo agreed to join forces in investigating this field, which works so well in countries like Mozambique and Tanzania.

It seems that there are restrictive laws against such markets in South Africa, which has over 200 laws impacting on small businesses. This is one of the major problems confronting microenterprises and stopping them from officially registering.

"The regulations bog down business. They have little incentive to register and formalise," said Naidoo. "(Recent) policy appears to cater for microenterprises but very little has reached the ground."

Naidoo said the contribution microenterprises presently make to the economy was not recognised. She said they have shown initiative and should receive support.

They require resources and technical support, however, as much donor funding has been shifted to Government since the 1994 elections.

Access to credit and savings is limited for microenterprises, with banks having inconsistent conditions for access and the post office savings service being under threat.

Naidoo said that the poor did repay loans, quoting an example of a bank that catered for the "poorest of the poor" in Tzaneen. This model bank had only one loan out of 4 000 written off as a bad debt.

"The financial sector is not catering for the majority, only for 34 to 37 percent," said Naidoo. "There is an initial period when investment is required. It is an investment in growing people and institutions which will last."

All the personal stories at the Pretoria hearing on the "economics of poverty" reflected the desperate struggles of people for survival and dignity.

"We are still human even if we are homeless," said the first person to testify, Nduduzi Mthembu.

Listened to stories

Commissioners who listened to his story were Motlana, Archbishop Njonkulu Ndungane, Farid Esack, Connie September, Jody Kolapen and Rams Ramashia (who chaired the hearings).

"It is hope that brought me here. We hope the hearings will create awareness in society. Now the Government will have an idea," said Mthembu.

Another speaker, Annah Molaola, said she wanted to testify because of unemployment. "I am asking for a job so my children can go back to school. If I can get (this), then I will be happy."

A homeless computer student, Mandla Ntongana, said that it was still possible for him to have ambitions. "Even if you are homeless it is not the end of the story.

"I want to go ahead until I obtain my Masters degree. I would like to teach the homeless people, if the Government could provide us with a place," he said.

The need for safe, humane shelters was clearly a high priority for people at the hearing, along with their need to find jobs.

Car insurance spending rates low, says industry

BD 14/5/98 (58)

Madeleine van Niekerk

ONLY between 30% and 35% of vehicles on SA roads are comprehensively insured, only 10% have third-party insurance and up to 60% of all vehicles on SA roads are not insured at all, and the impression is that the figure is declining, says SA Insurance Association CE Barry Scott.

This compares with the more industrialised regions, such as Europe, Australia and the US, where more than 90% of all vehicles are comprehensively insured.

"The insurance industry's perception is, we believe, that there is a slowdown in the number of people insuring their vehicles," he said.

Scott cited the cost of insurance, the increasing age of cars (and therefore lower values) and the tightness of the economy as some of the reasons for the declining trend.

Spending on short-term insurance was just less than 10% of after-tax income compared with 2% 15 years ago.

The age of vehicles were steadily increasing and, on average, were written off only after 10 years, compared to 10 years ago when a vehicle was written off after five or six years.

This meant the vehicle's value was so low that it was not worthwhile to ensure it comprehensively, Scott said.

The first thing to go in a tight economy was short-term insurance. People regarded it less important than paying a bond or school fees.

"The number of vehicles being stolen has increased threefold from the early 1990s from 40 000 a year to 120 000 a year now, including hijackings," he said.

Scott said the association, along with vehicle manufacturing companies, was launching a new vehicle security rating system in June to set a common standard.

Currently different insurers rated vehicle security systems differently, Scott said.

New bank rules set to hit 100% home loans

My Argus 14/5/96 (58)(123)

ALIDE DASNOIS
Business Editor

Taking out a 100% bond on that house you want to buy will be harder from October because of new rules set by the monetary authorities.

The Registrar of Banks said this week that from October banks would be expected to back each loan exceeding 80% of the value of a house with a higher proportion of their own funds.

At the moment, the banks must back each loan with 4% of their own funds and may use depositors' money for the other 96%. The new rules will mean that on loans of more than 80% of the value of the house, the bank must secure 8% of the excess with its own money.

The change was likely to discourage banks from granting mortgage bonds on the full value of homes, said Bob Tucker, chief executive officer of the Banking Council.

It also would make it more expensive for banks to give bonds for the full value of houses.

There has been speculation that banks may try to recover the extra costs by charging higher interest rates on loans which exceed 80% of the value of the house. However, Mr Tucker thought this was unlikely.

"I'd be very surprised if the banks changed interest rates as a result of this. But they are likely to put more pressure on customers to save money, to put down a deposit of 20%, or at least get an insurance policy or other security outside the bank."

Mr Tucker said the move would help rein in excessive borrowing. "As a general rule, no one should spend more than 25% of income on home-loan repayments, 30% as an absolute limit."

Local banking sector 'comparatively expensive'

While the recent consolidation trend in this country's financial services sector may continue to excite the local market, in the US and UK, where merger activity is similarly on the boil, investors appear a little less sanguine, reports Samantha Sharpe in Cape Town

(58) BD 15/5/98

SA's banking sector has experienced phenomenal growth over the past year, due primarily to strong earnings growth from the industry's larger institutions and boosted by the spate of mergers in the past six months.

Merger mania has helped push the banking index up nearly 50% to 16 592,8 points since January, with the sector's price-to-earnings ratio showing the sector trading at a premium of about 20% to the market. Increasingly, the question of its sustainability is being raised.

In the US and UK, however, where consolidation on an even grander scale has dominated the banking scene, the sector does not enjoy the same rating.

In fact, banks in the US — where banks are divided into "money centre banks" (effectively the big seven commercial banks) and "super regional banks" (the equivalent of niche performers like Investec) — are trading at a substantial discount to the market.

The latest figures show the US "money centre banks" on a price-to-earnings ratio of 18,5 compared with the market's 28 — generally high price-to-earnings ratios denote more expensive shares — and "super regional banks" on 24,6.

This translates into discounts of 34% and 12% respectively for the two categories in the US banking sector, despite the merger activity.

Analysts say there are fundamental differences between the banking sectors in SA, the US and UK, where banking shares are also trading at a discount to the market, which might account for some of the differences.

However, Investec Asset Management portfolio managers Gail Boon and Piet Viljoen warn that the SA banking sector, while deserving of a portion of its premium, is probably expensive compared with other international banking shares.

Viljoen said banking stocks in the US, which had historically enjoyed poor ratings, were treated a little more harshly than their SA counterparts. "When banks announce an intention to merge, for example for cost savings reasons, they are very clear about exactly how much will be saved and where exactly those savings will arise. In SA, this is not the case.

"Capital management is also of immense importance to US banks, which will not get away with a return on equity of less than 20% — in SA, investors are far more lenient."

Nedcor Investment Bank's Tony Bell said the SA banking sector, while benefiting from restrictive monetary policy conducive to wide interest margins, also gained from the crisis that hit the emerging markets last year. Investors in emerging markets looked for safety in solid share performers and turned to banking stocks.

In SA the current market rating can be explained by strong earnings growth in the past few years, wide margins and the spillover of last year's crisis, which are completely different from the US and UK scenarios. However, accounting for present market ratings does not necessarily indicate whether these will continue.

Viljoen said that while there was still room for growth, with the trend towards reduced cost-to-income ratios likely to act as a leverage — SA banks enjoy among the highest cost-to-income ratios — it seemed certain there would be some fallout.

Using the forward price-to-earnings ratios of the banking sectors of the US, UK and SA compared with the forward p:e ratios of the overall market, he said the premium enjoyed by the SA banking shares disappeared altogether, although one year forward they would still trade on a par with the market compared with a continued discount for UK and US banks. In the case of US money centre banks, the forward discount narrows from 34% to 28,3%; US super regional banks show a narrowing from 12% to 4,4%; while the discount for UK banks widens to 19,9%, making SA banks more expensive than their international counterparts.

Both Bell and Viljoen agree there is room for additional growth, but said investors should be wary of the quality of the stocks they bought and of their track record if they were to avoid getting hurt as the sector normalised.

Comparative price:earnings ratios

	Current price-earnings ratio	Current market price-earnings ratio	Current premium (discount)	12-month forward price-earnings ratio	Market 12-month forward price-earnings ratio	12-month forward premium (discount)
US money-centre banks	18,5	28	(34%)	16,5	23	(28,3%)
US super-regional banks	24,6	28	(12%)	22	23	(4,4%)
UK banks	18,2	22,2	(18%)	16,5	20,6	(19,9%)
SA banks	23,7	19,6	20%	17,2	17,3	0%

Graphic: KUBEN DAVID Source: INVESTEC ASSET MANAGEMENT

e instigation of high- faith.

Post Office bank to become a full savings bank — Naidoo

CT 15/5/98 (58)

ANDRÉ KOOPMAN
PARLIAMENTARY BUREAU

THE Post Office bank, Postbank, would be restructured to become a fully fledged savings bank and would take on an equity partner in the next few years, Posts and Telecommunications Minister Jay Naidoo said yesterday.

Releasing the government White Paper on postal policy yesterday, Naidoo said an independent board of directors, responsible to shareholders, would be established to run the bank as an autonomous company owned by the Post Office.

The chief of the postal policy unit, Mr Howard Gabriels, said yesterday that it was intended to improve the management structure of the bank by bringing in senior people with banking skills.Government would consider as an equity partner a local bank or insurance company and might consider an international postal operator. An equity partner would be taken on board within two to three years.

Policy of 'if you steal the mail you go to jail' being implemented

"We have to move carefully because we are dealing with a bank and want to ensure that services to the rural areas and the lower end of the market are maintained."

Naidoo also signalled to the market that he intended scrapping the monopoly of the South African Post Office by privatising some of its operations. He outlined plans to limit the Post Office's monopoly on mail delivery. The Post Office currently has a monopoly on letters up to two kilograms, but Naidoo said he intended to reduce this to one.

While this sector of the market was not insignificant, Naidoo intended to show business that the market would be liberalised, said highly placed sources.

"It is the government's belief that the growth of competition in the sector is healthy for the development of the sector, the economy and the public. Competition will therefore be encouraged by the government, subject to the requirements for the achievement of universal service provision and related regulation," Naidoo said.

A postal regulator would be established in the ministry to achieve universal service and to regulate the postal sector. The regulator would monitor and protect the exclusive rights of the Post Office for "reserved services" and would ensure that the Post Office did not abuse its monopoly in the market, Naidoo said.

In another major announcement, Naidoo said he was considering taking on a strategic partner for the Post Office. "As far as subsidiaries are concerned, we will allow the Post Office to enter into partnerships with the private sector," he said.

The strategic partner would probably be an international postal organisation. There had been several approaches from organisations in Europe and North America, top postal officials said.

Naidoo said the White Paper created the framework for the Post Office to become a world class operator in a market that was becoming increasingly competitive. He intended making South Africa a hub for postal services in Africa and to build SA posts and telecommunications into a world hub.

"The Post Office has been given a financial mandate to reach break-even point within three years," Naidoo said.

The White Paper proposed that tariff increases be regulated and linked to the inflation rate.

Speaking about the crime experienced by the Post Office, Naidoo said he would implement a policy aimed at "zero tolerance". The "If you steal the mail you go to jail" programme had yielded results.

The White Paper recommended that legislation provide for more stringent measures to combat crime in and against the postal service.

"Greater co-operation between the police, Interpol and the investigations unit within the Post Office will be encouraged," Naidoo said.

The White Paper made extensive recommendations to the Post Office to promote the economic empowerment of disadvantaged communities. It also called for a comprehensive human resources plan and strategy to be drawn up for the Post Office with clear targets for affirmative action and training.

Bill seeks to curb foreigners

(58)

BD 19/5/98

Linda Ensor

CAPE TOWN — Foreign long-term insurers will be barred from canvassing for business in SA unless they are locally incorporated and registered, if the proposed Insurance Amendment Bill, tabled in Parliament yesterday, is promulgated.

Francois Jooste, chief legal adviser of the Financial Services Board, said the bill closed a loophole in the existing act under which foreigners doing business in SA were deemed not to be doing business here. So they escaped regulatory and supervisory sanctions of SA legislation.

He said that under existing legislation it was possible for fly-by-night operators to canvass for life assurance business in the country without having the wherewithal to meet their financial obligations, which could stretch over 30-40 years.

New deposit-taking banks get the nod

CT(BR) 20/5/98 (58)

CHRISTO VOLSCHENK

Cape Town — The Reserve Bank had given the green light to the establishment of a new type of deposit-taking institution officially known as a village financial service co-operative, Johan de Jager, the legal adviser at the Bank, said yesterday.

Two of these savings co-operatives had been operating successfully in the North West, and more were planned in other provinces by a joint private and public sector initiative, he said.

The co-operatives would be located in rural areas to focus on mobilising the savings of the local inhabitants.

The Bank had written regulations for the new type of institution. USAid, the department of agriculture, two local banks and a firm of attorneys had combined resources to establish a chain of these co-operatives.

De Jager said the new institutions would not be banks. "Only members would be able to get loans from these co-operatives, and to become a member you would have to save with the institution.

"Although they would take deposits, they would not be allowed to call themselves banks."

Until a self-regulatory body had been established for these institutions, they would fall under the supervision of the registrar of co-operatives and indirectly under the Bank's supervision.

Savings co-operatives took form after the Strauss commission reported in 1986 that commercial banks struggled to mobilise the savings of the rural community while non-government organisations, which operated at grassroots level, were legally restricted in taking deposits.

Cost pressures had forced the big banks to cut their branches from just over 5 000 in 1994 to 3 446 at the end of last year. A large percentage of branches were closed in rural areas.

The commission suggested the banking regulations be reviewed to "allow smaller institutions to help with the mobilisation of savings in the rural areas".

NEWS

Reserve Bank aims to bring SA in line with global standard

Tighter supervision of banking is on the way

ET (PR) 20/5/98 (58)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The Reserve Bank yesterday gave notice of its intention to tighten banking supervision in the next 12 months in ways that could give further impetus to the unbundling of local conglomerates.

In the latest annual report released yesterday, the department of bank supervision of the Reserve Bank said it had adopted the Basle core principles of effective supervision and would tighten up on local rules that were out of line with these principles.

This would include phasing in of new limits to large exposures by banks to single borrowers, restrictions on so-called connected lending and the impairment of cross-holdings in financial conglomerates, the bank said.

Details of the tighter rules would be published in due course.

Banks could also be compelled to obtain prior approval from the registrar of banks for exposures to single borrowers above a certain percentage of capital and reserves.

"The Banks Act requires large exposures to single borrowers above 10 percent of capital and reserves to be reported to the registrar of banks, but prior approval is not required. Instead the Banks Act requires approval of the board of directors of the bank," the bank said.

The local rule on single exposures was more forgiving "because of the high concentration of ownership through conglomerates".

In addition, the total of so-called large exposures of some banks exceeded the Basle guideline of eight times their capital and reserves.

"This is of concern now that South Africa has re-entered the international arena and therefore the time has come to bring South Africa into line with international rules," the bank said.

The bank said it would consider measures such as graduated capital ratios, which would provide incentives for compliance over time.

On connected lending, the bank said it would phase in measures to ensure "lending always take place on an arms-length basis", that the registrar of banks got authority to "establish absolute limits on connected lending" and that the registrar received the authority to decide on the "existence of interconnections between banks and other parties".

The department of banking supervision also intended taking a "more comprehensive approach to the consolidated capital requirement of a bank which is part of a financial conglomerate".

All changes to rules would be made in consultation with the banks.

US to fund microloans institution in SA

Simon Barber

WASHINGTON — The US Agency for International Development (USAid) is advertising for a contractor with a "sound international track record" to establish a lending institution to fund small, black-owned SA businesses.

This was the last "microenterprise" venture the agency would fund in SA. The agency said it would provide up to R18m if the contractor contributed at least R4,5m from other sources.

"The most efficient way to add a sustainable microfinance lender to the SA economy is to invite an experienced US or international microfinance organisation to bring its expertise to SA," the bid solicitation said.

Results of local efforts, some backed by USAid, had been mixed. The successful bidder was expected to focus on lending to all forms of microenterprises, except crop production, employing fewer than 10 people and with working capital needs of between R1 000 and R 25 000.

At least a quarter of the new institution's portfolio would have to be "poverty loans" of R1 500 or less. It would be "free to service other sectors of the credit market" as its capacity to service the poor "may be directly tied to the profitability of other products and sectors".

USAid said that finding qualified nonprofit intermediaries to on-lend money and ensure it was put to effective use was a problem. Of 12 "credible" programmes now in place, "only one ... could be said to be performing well by international standards".

ANALYSIS

Absa aims to match peers with lower costs and better targeting

Hilary Joffe takes a look at the big changes ahead for the ABSA financial group

TWO new developments at Absa mark the end of the financial services group's seven-year merger process, illustrating that it is finally a single group.

The first is that from November it will trade only as Absa. The four brands which made up the group after the mergers that created it in 1991 and 1992 — Volkskas, United, Allied and TrustBank — will disappear.

The second is that in three weeks, Volkskas will migrate to Absa II, the central computer system the group has been building since 1995/96. The Volkskas system will be killed — the last of the four separate systems to go.

Absa MD Nallie Bosman recalled wryly that consultants pitching for the new group's business in 1992 put the merger's chance of success at no more than 20% and argued that their participation would raise the odds to 50%. Management decided to go it alone and a painful business it was.

In some ways the Absa story sounds a cautionary note to the makers of mergers in financial services, suggesting just how long and how complex the process can be. Recall Absa's rocky beginnings: the 1991 merger of Volkskas, United and Allied came after a hotly contested takeover battle for Allied.

A year later, the new group took over the Bankorp group, inheriting the notorious Reserve Bank "lifeboat" (now under investigation by the Heath commission), the Tollgate affair and a far worse collection of bad debts than the due diligence revealed.

Absa was known in its early years mainly for the low morale of its staff and its poor image in the marketplace, particularly in corporate banking.

The group was the biggest of SA's banks, but definitely not the best.

Over the past couple of years, it has been catching up, as this week's results illustrate. Headline earnings were up 28% to R1,7bn for the year to March after increases of 28% last year and 32% in 1996.

Bosman said the improved quality of earnings came from sustainable sources most notably corporate banking and trading.

The March figures show Absa still lags its peers (Standard, First National and Nedcor) in profitability and efficiency, but the gap is narrowing. Return on equity rose to 18,9%, below the 21,7% peer average, but well ahead of the 14,4% in 1992. Cost to income ratio fell from 70% in 1995 to 65% in the year to March (against a 61,9% peer average), but the merger of the four brands alone will cut the ratio to 63% over the next two years and the target is 60%.

Bosman said costs were not the only reason for the move, which would enable the group to segment market more accurately and serve customers better.

However there would be significant savings: supporting four brands was expensive, both in marketing costs and management time. The group had already begun to build the single brand.

Recent market research found that only 5% of customers would consider another group. Eliminating the four brands was expected to see about 1 900 jobs lost, not necessarily a big number, given high staff turnover rates in the industry and Absa's net attrition of 3 600 to 4 000 people a year.

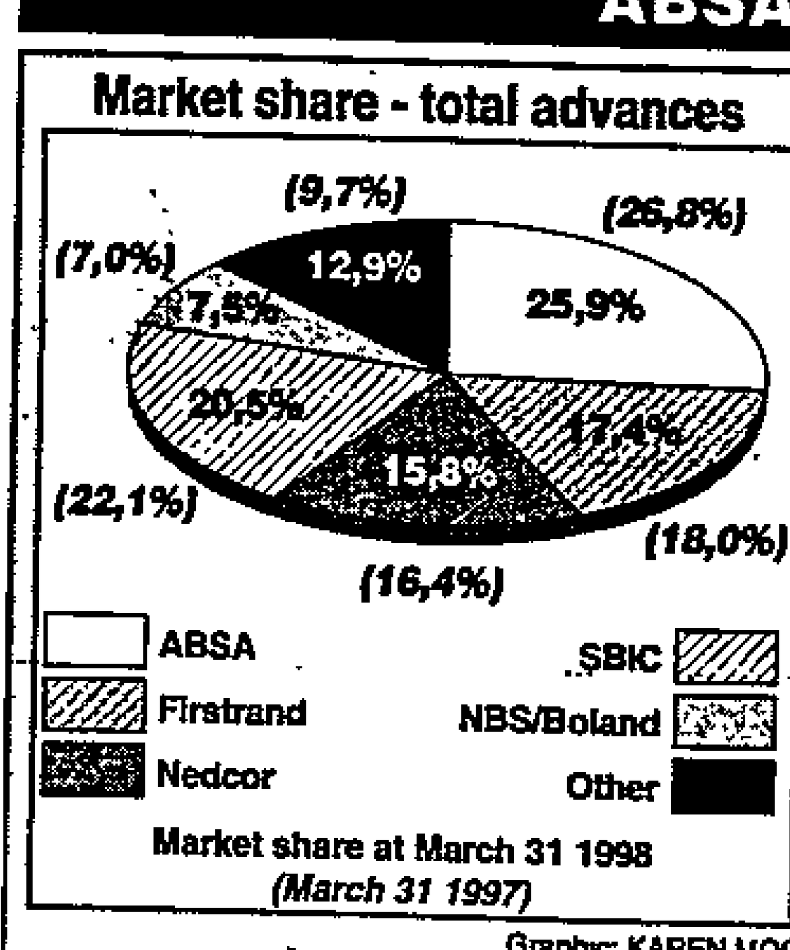
The fate of the group's 1 450 outlets would be decided between now and November by task teams working with local branch managers. Some branches would be closed or merged, others converted to agencies or automatic teller machine centres.

Had the group tried to merge brands a few years ago, it would have lost customers, Bosman said. The change was also made possible by the new computer system. While installing Absa II, the group found 200 000 duplicated account numbers. Unduplicating them was completed 18 months ago, so customers would keep existing numbers after the merger.

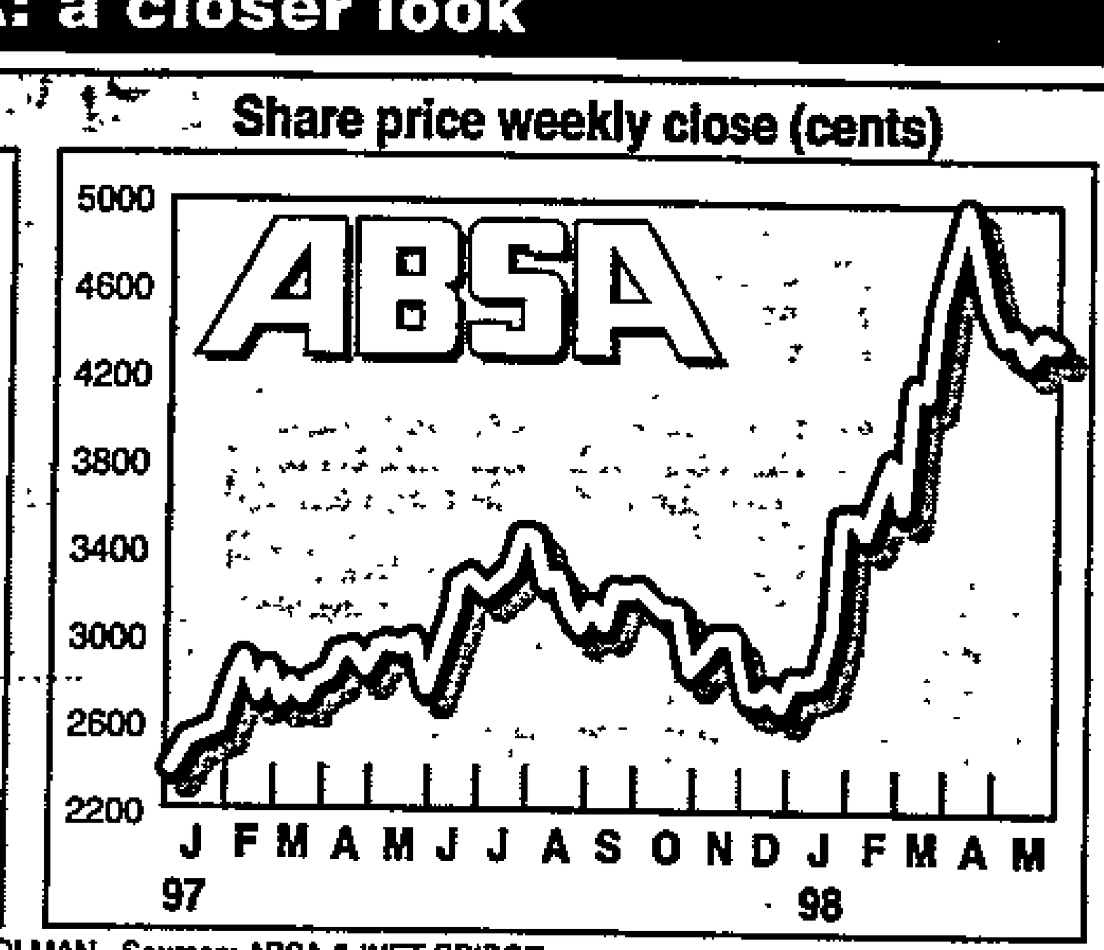
With much of the groundwork already done, Bosman said he expected the merger to be fairly smooth.

(58) MD 27/5/98

ABSA: a closer look



Market share at March 31 1998
(March 31 1997)



Graphic: KAREN MOOLMAN Sources: ABSA & INET-BRIDGE

Modern 'loan sharks' fill gap left by banks

(58)

ST(BT) 31/5/98

By lending small amounts, micro-lenders charging interest of up to 30% a month are able to bypass the Usury Act, writes ANDREW GILL

SOME call them modern-day loan sharks. They lend to the previously unbankable and many are making a mint out of it.

Micro-lenders have come under fire for high interest rates and for questionable business practices but they are among SA's fastest-growing businesses.

By lending amounts of less than R6 000 they are able to bypass stipulations of the Usury Act. In the short-term lending market monthly interest rates of 25% to 30% are standard.

The success of many lenders grew from the inability of SA's conservative banking institutions to tap the market. They have filled a gap which the major banks have not, but a question mark hangs over business practices and the astronomical interest rates being charged.

With growing competition and a declining cost of capital due to deals such as the recent tie-up between New Africa Investments and Theta, a shakeout of the bad seeds in the industry is seen as inevitable.

Leon Kirkinis is managing director of Theta, which has close to 10% of the estimated R13-billion micro-lending market, and makes a strong case for it. He says he would welcome a more regulated market.

"What drives the market is a client, a client who has certain basic needs and he or she wants those fulfilled. It is all well and good for people to sit on the sidelines and criticise but it is a R13-billion industry based on strong, vibrant client demand."

Werner du Plessis, who runs a Louhen franchise in Johannesburg, says the market is evolving and becoming a more formal and accepted business as established major businesses look to enter the market.

"People are lowering interest rates and bringing more products to the table. You had a lot of riff-raff in the market. All the guys are trying to purge those elements and get friendly service to the clients, try to establish what their needs are, shorten queues and evolve technology."

Du Plessis sees operators in different markets over time merging and creating larger finance houses.

"It is very fragmented now but it is going to merge into one very much the way Theta has done it."

Theta has three major micro lending operations — Altfin, King Finance and Unity Financial Services, operating in different markets, segmented chiefly by loan maturities and different repayment methods.

By linking with Nail, Theta has access to Nail's Metlife and African Bank, offering more cross-selling and improved distribution.

Theta has a client base of about 300 000 growing every month, says Kirkinis. It reports annual results next month to a market excited by the concept. Theta's share has soared from a starting price of about 600c in September last year to nearly R26.

Kirkinis says regulation should take the form of best business practice and not implementing interest rate caps, saying that would simply drive the business underground where the real loan sharks lurk.

"What you need is to ensure you have a level playing field, that you have disclosure, consumer protection, best business practice methods. The client determines if someone is charging too much."

Du Plessis says the system, as it stands, is open to abuse and needs more consumer protection, but sees it is providing an important service.

BIG BUSINESS: This Louhen loan shop in The Galleria shopping mall in Rosebank is part of a growing R13-billion industry Picture: ZOE SELSKY

"People don't realise that if there is not this industry, the guy goes to the townships and pays 100% a day. And if he doesn't pay there, don't think they just send him a nasty letter, they really knock him over the head."

He defends the rates charged, pointing out that interest is not compounded and for clients is viewed as a simple overhead.

He expects new technology to eliminate some murky collection practices such as taking a client's ATM card and PIN number to withdraw money owing.

Corrie Human, managing director of the 30-branch Elite Group active in the one- to six-month market, believes there are unscrupulous players in the industry acting like loan sharks.

"If you look at the way some people are doing the business they are doing it like loan sharks. You must not put the client in a position where he cannot pay initial capital back . . . You have got to prevent a debt spiral."

He says collection practices have to be stringent to ensure a successful business.

"The type of person who comes to a micro-lending organisation is the guy who doesn't pay his accounts. A bank won't touch this guy. That is why they take the cards. If you don't take the cards you are not going to get the money."

Consumers object to Long Term Insurance Bill

BD 1/6/98 (58)

Linda Ensor

CAPE TOWN — Consumer groups have objected to the proposed Long Term Insurance Bill, saying it does not go far enough in protecting the consumer.

However, Financial Services Board chief legal advisor Francois Jooste told Parliament's finance portfolio committee that the bill was intended as a prudential one and that another separate bill governing market conduct across the whole spectrum of financial services was envisaged. This would cover things such as the registration and licensing of intermediaries as well as their skills, competency and integrity.

He argued that there was no sense in regulating the market of one subsector when there was such a high degree of cross over of intermediaries between them. The bill dealt with the solvency, liquidity and capital adequacy of life assurers, a major component of the protection of the consumer.

However, Diane Terblanche, the executive director of the Consumer Institute of SA, complained during a public hearing on the bill that consumer groups were totally ignored in its drafting. She called for greater regulation of the industry as self regulation did not work and left the way open to exploitation of the public.

Among the provisions she wished to have included was the placing of the onus on the company and the sales representative to give the best advice; the detailing of standards of competency and ethics for agents; a requirement for greater disclosure about the product, contract and services on offer; and to beef up the penalties and establish a complaints and redress mechanism for wronged consumers.

Bid to mend watchdog relations

BD 2/6/98 (68)

Linda Ensor

CAPE TOWN — Deputy president Thabo Mbeki has set up a task team consisting of Finance Minister Trevor Manuel, auditor-general Henri Kluever and members of his office in a bid to forge a better relationship between government and its financial watchdog.

Corporate executive manager for the auditor-general's office, Clarence Benjamin, told reporters yesterday the task team would discuss uncertainties and "clear the air" between the two parties.

The decision to set up the task team was taken after Kluever briefed the cabinet on April 1 on reports pending from his office about different departments.

He wished to initiate a closer liaison with the cabinet in a bid to close the "big expectation gap" between his office and the executive, without this interfering with the independence and integrity of his office, said Benjamin.

There was a feeling that the executive and the auditor-general's office did not communicate "timeously and properly", hearing of each other's views only through the media.

Benjamin said while directors-general were aware of the contents of the auditor-general's reports before they were published, their briefings to ministers tended to be one sided and critical of the auditor-general's office instead of taking on board the criticisms made of their departments.

Directors-general and ministers received copies of the auditor-general's reports before they were tabled in Parliament, to give the department an opportunity to reply to allegations made.

Benjamin noted that the Association of Public Accounts Committees, which represented the provincial and national committees, was concerned about the classification of government's unauthorised expenditure, which last week involved Manuel in a public outburst against Kluever.

Manuel objected to the inclusion of the total secret services budget of R831m in unauthorised expenditure for the 1996/97 financial year on a mere technicality. This had the effect of boosting unauthorised expenditure to R1,1bn, thereby creating negative perceptions about government's financial management. On legal advice, Kluever felt impelled to include the sum in the total amount.

While the auditor-general's report already made a distinction between technical infringements and proper unauthorised expenditure, the new Treasury Control Bill, which would replace the Exchequer Act, would clarify the difference between overspending, noncompliance and unapproved expenditures, said Benjamin.

Meanwhile, the inquiry by Public Protector Selby Baqwa into allegations by Mineral and Energy Affairs Minister Penuell Maduna that Kluever had covered up the loss of R170m in his report on the Strategic Fuel Fund began in Pretoria yesterday.

The hearing was postponed twice after objections by Kluever's legal team to the objectivity of a member of the panel leading the inquiry, Zodwa Manase, who had been appointed by Maduna to the Soekor board. The hearing is expected to take at least a month.

Micro-lending is a stepping stone to poverty eradication

CT(PR) 2/6/98 (58)

In spite of the great social and technological strides of the past few decades, the absolute number of poor people on the globe has never been greater.

More than a billion people live on less than $1 a day. Every day, 100 000 people enter the global labour force, but only one in five is expected to find formal employment. Even with the burgeoning of political democracy across the globe, one third of the world's population has yet to attain the most rudimentary levels of economic wellbeing and security in their lives.

Eradicating poverty, and closing the gap between the world's rich and poor, is being recognised by governments throughout the world as one of the major socio-economic goals of the new millennium. To this end, thinking on sustainable development has embraced the notion of micro-credit, which opens up credit facilities to the poorest of the poor to foster self-employment through micro-entrepreneurship.

The philosophy underlying this approach to eradicating poverty is that the poor should be able to work their own way out of poverty.

Upwards of 50 million people worldwide are receiving the benefits of micro-loans. These poor individuals are from developing and industrialised nations. Dramatically, and against all expectations, these micro-loans are turning out to alleviate a great deal of human misery, and doing so relatively quickly.

Deputy President Thabo Mbeki last week indicated that the yawning gap between rich and poor coincided in South Africa with the existence of a small, white nation and a large, black one. This disparity in income between whites and blacks needs to be urgently addressed if our country is to have any hope of overcoming the legacy of black underdevelopment left by apartheid. Economists and other social scientists put it differently: South Africa has the highest "Gini coefficient" in the world. The Gini coefficient measures the disparity in average income between the richest 20 percent of a population (overwhelmingly white in South Africa) and its poorest 20 percent (overwhelmingly black in South Africa).

ZARINA MAHARAJ

Efficient revenue collection is one important weapon in the anti-poverty arsenal. Another is micro-lending. Both these require the intervention and co-operation of relevant stakeholders, including the government, the private sector, international donor agencies such as the World Bank and the United Nations Development Programme, non-government organisations (NGOs) and trade unions.

The World Bank already contributes $5 billion to micro-lending schemes globally and is active in South Africa. The United Nations Development Programme has begun changing its focus to micro-lending and is also active in South Africa, as are other international and local government agencies and NGOs. If there is one philosophy that can unite (and is uniting) such a diversity of bodies, it is that underpinning micro-lending.

For example, there is talk of the trade unions making funds available for micro-lending. And funds earmarked by the government's Gear strategy for micro-lending would not only similarly alleviate poverty, it would in doing so address the unions' criticism that Gear is anti-poor.

It is against such a background that we should be watching the African micro-credit summit to be hosted in Midrand, Gauteng, in November. This summit follows the first ever micro-credit summit held in February 1997 in Washington, DC, that was attended by 3 000 bankers, government officials, business people and representatives from 137 nations with the goal of launching a global campaign to "ensure that 100 million of the world's poorest families, especially the women of those families, are receiving micro-credit loans for self-employment by the year 2005". The estimated cost to reach this goal was $21,6 billion. First Lady Hillary Clinton pledged her support for the goal.

How many of these 100 million families, or half a billion people, are African? What proportion of the $21,6 billion will eradicate their poverty? How many of these have been reached? Are they being reached quickly enough to meet the 2005 deadline? These are some of the matters that will arise at the Midrand summit. Others include the creation and sustainability of African micro-lending institutions. It is one thing to have the capital to disburse among the poor. It is another to build sustainable government and civil institutions to increase the flow of investment capital to poor individuals.

Loan repayment, appropriate interest rates and keeping costs down are the three most important factors determining the sustainability of micro-lending institutions. The capacity to ensure that these factors operate thus becomes a cornerstone of poverty alleviation through micro-lending. Building such capacity through training would need to be considered. The summit would no doubt benefit from the experience of successful micro-lending organisations from Africa and other parts of the world.

Midrand promises to be another step in the global journey to poverty eradication.

FINANCE *Union's proposals on central bank independence fly in face of ANC report*

Cosatu renews its attack on Reserve Bank

ET (BR) 3/6/98 (58)

THABO LESHILO
BUSINESS EDITOR

Johannesburg — Cosatu yesterday reiterated its call for the Reserve Bank to be stripped of its independence and for the Bank to stop using interest rates to shore up the rand.

Zwelinzima Vavi, Cosatu's deputy secretary-general, said the Bank should be subjected to government policies and its board restructured and "democratised to include civil society representatives".

Cosatu's view follows last week's decision by a parliamentary task team headed by ANC MP Ben Turok to uphold the Bank's independence.

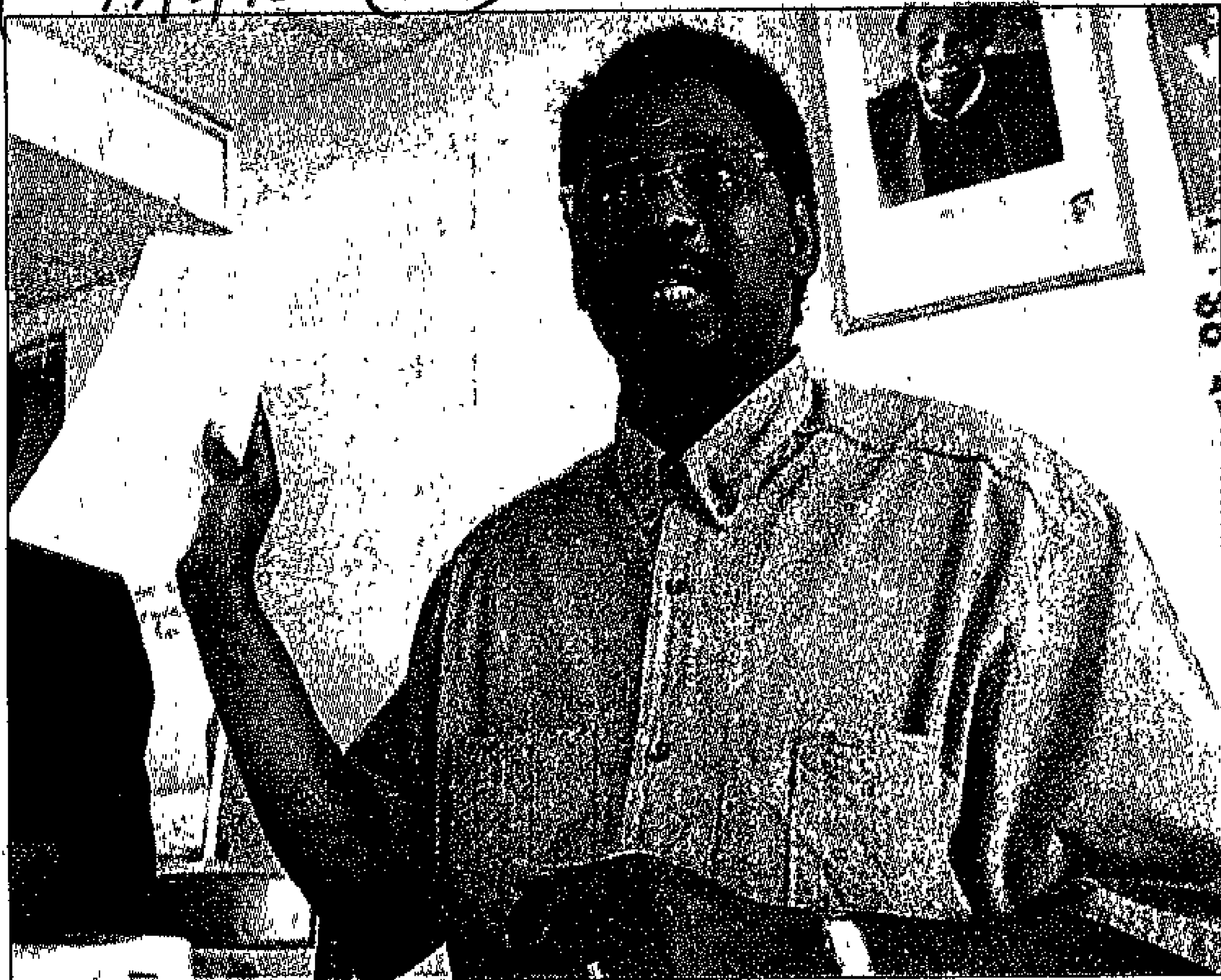
Vavi said the Reserve Bank's use of high interest rates to protect the rand against the dollar and sterling was wrong. He said the rand should rather be compared with the currencies of countries with a similar level of economic development.

The Reserve Bank spent R8 billion defending the rand against speculation in the past four weeks, and last week increased the repo rate by 2 percentage points to 18 percent. The prime rate is 18,25 percent.

Vavi also blasted the government's fiscal policies, saying they needed to be refocused to promote development objectives.

He said Cosatu wanted the government to have the deficit set within a "flexible band", which he suggested could be between 4 and 9 percent.

The tax policy should be progressive, companies should pay more tax and earnings above R200 000 should be taxed at 55 percent.



DEFIANT *Zwelinzima Vavi says the Reserve Bank should be subjected to state policies and its board restructured to include civil society* PHOTO JOHN WOODROOF

Azar Jammine, the chief economist at Econometrix, said Cosatu might be correct in saying that the high interest rate puts credit out of reach of ordinary people.

But he said Cosatu's proposals could lead to chaos in financial markets and a loss of confidence in the economy by foreign investors.

He said lifting taxes for high earners would increase emigration levels, while the tax on luxury goods had been proved to cause distortions in other economies.

Jammine said reducing interest rates would cause money to flow out of the country, the rand would decline and inflation would surge.

By Adrienne Roberts

WORLD'S REAL INTEREST RATES

SA's are among the highest

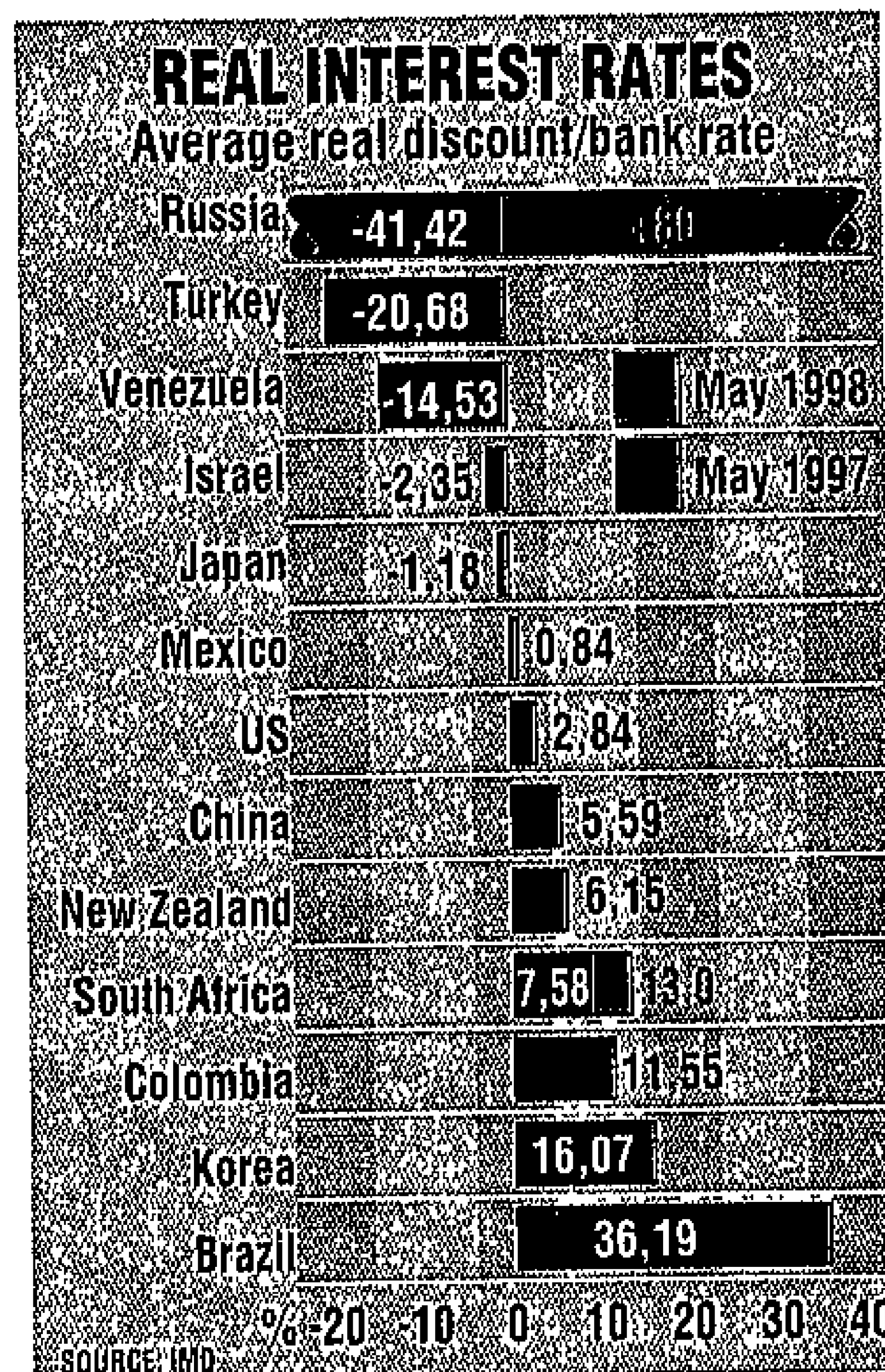
SA's real interest rates (interest rates adjusted for inflation) are still among the highest in the world. Its finance charges placed it 37th out of 44 countries in the Institute for Management Development's 1998 *World Competitiveness Yearbook* (see chart.)

The report covers average real central bank lending rates during 1997. SA's real Bank rate came in at 7,58%. Brazil, which doubled its interest rates during the Asian crisis, came in 44th, at more than 36%.

Further emerging market turbulence has made some changes. Last week's increase in the Reserve Bank's repo rate to 18%, assuming April's 5% inflation applied to May too, put the real repo rate at 13%.

But SA's increase pales into insignificance next to that of Russia. With inflation at about 70% and a central bank lending rate of 30%, Russia had the lowest real interest rates in the world last year — less than -40%. The central bank has now raised its benchmark interest rate twice — first to 50%, then to 150% last week. Assuming inflation is still about 70%, the real rate is now 80%.

Extracts from the *Yearbook* are available on www.imd.ch/wcy/wcy_online.html. ■



[illegible] to help you take on the financial giants

LUCIENNE FILD

Looks at assistance for consumers of financial services

SO, YOU believe a major financial institution has done you a grave injustice? And after having filled reams of paper with pleas, explanations and even threats, you feel you have finally discovered the real meaning of helplessness.

You are still convinced, however, that you are right and your claim is justified. But litigation is really not an option, as taking a big bank or life assurer to court will probably render you bankrupt.

Don't despair, help is at hand. Some sectors of the financial services industry have an appointed ombudsman or adjudicator.

You can turn to the life assurance ombudsman, the banking ombudsman, the short-term insurance ombudsman and the pension funds adjudicator for help if your complaints to the financial institution concerned have fallen on deaf ears.

While the three ombudsmen have been appointed by their industries, the pension funds adjudicator is a statutory appointment.

The jurisdiction and objective of each ombudsman and the pension funds adjudicator are set out below together with tips on how and where to file a complaint.

Ombudsman for life assurance — Judge Jan Steyn

His mission is to mediate in disputes between policyholders and the subscribing members of the industry.

Steyn must act independently and objectively and is not allowed to take instructions from any life office.

His decisions are binding on subscribing members of the industry.

Steyn will consider complaints from policyholders regarding the marketing, coming into existence (how a contract was entered into), [illegible] execution of life assurance contracts.

Unless there is a prima facie presumption of fraud or negligence, or a misrepresentation has occurred, he will not consider complaints involving the following: the underwriting of the policy; actuarial standards, tables and principles; the method of calculation of surrender values and paid-up policy values; the bonus system and bonus rate applicable; or, in the case of linked contracts, the performance of the portfolio to which the contract is linked.

Because the ombudsman is not an actuary or auditor, he is not able to check these figures.

All complaints must be submitted in writing.

Once a complaint has been received, the ombudsman will investigate it and give the concerned parties his decision in writing.

He may order that a claim be paid in full or in part, or that a policyholder be paid an amount not exceeding R10 000 for inconvenience, distress, or other financial loss suffered.

Ombudsman for banking — Charl Cilliers

The independent banking ombudsman was appointed in October last year. Before that, the chief executive of the Banking Council of SA acted as industry ombudsman.

Although the council appoints the ombudsman and pays his salary, he cannot be dismissed merely because his decisions are not in a member bank's favour. This helps guarantee his independence.

Cilliers has jurisdiction only over banks who agree to participate in the ombudsman's programme (most banks have agreed, he says).

The purpose of the independent ombudsman is to mediate between banks and their customers, and to ensure customers receive fair and equitable treatment.

Cilliers' duties include finding amicable solutions to problems. If the parties cannot agree on a solution, he will recommend a settlement.

This could include a recommendation that the bank pay damages — an amount not exceeding R100 000.

While at present his decisions are not binding on banks, Cilliers indicates this could soon change. To date, however, no bank has turned down his recommendations.

Cilliers does not restrict himself to a legal position when considering a complaint, but takes moral issues such as fairness and justice into account.

He is at present trying to convince banks to take the initiative and refer clients to him if complaints cannot be resolved to both parties' satisfaction. Complaints must be submitted in writing.

Ombudsman for short-term insurance — Michael Bennett

Bennett was appointed to resolve disputes between members and consumers in an independent, cost-effective, efficient and fair way.

Although appointed by the SA Insurance Association, he operates with complete independence.

He cannot, however, decide on disputes unless both parties agree to the mediation [illegible]

RESOLVING DISPUTES . . . ombudsmen bring warring parties together

(58) ST(BT) 7/6/98

breach of mandate, negligence, fraud, or misconduct by clients against brokers who are members of the SA Insurance Brokers Association.

He cannot, however, deal with statutory third party insurance matters, commercial or industrial insurance, or cases where the insured is a company.

He also cannot deal with cases already in the hands of an attorney, or where litigation is pending.

His duty is to evaluate complaints against short-term insurers if they have repudiated claims and their clients believe the claims are justified.

The ombudsman cannot enforce his recommendation on either party, but most insurers have agreed to accept and [illegible] recommenda-

His decisions could be based on legal principles or on fairness, and could suggest a compromise or an ex gratia payment (one the insurer makes without being legally obliged to do so).

Pension funds adjudicator — Professor John Murphy

The pension funds adjudicator is still very new — the office was created last year in terms of the Pension Funds Amendment Act of 1996. Murphy set up office in January.

He has jurisdiction over all private pension fund schemes registered under the Pension Funds Act only.

He cannot help civil servants unhappy with their government-run pension funds or pensioners who receive payouts from social assistance pensions run by the Depart-

He also has no jurisdiction over the bargaining council funds which are set up voluntarily and by collective agreement.

While the adjudicator is funded by the registered pension funds, he has been given the power to sort out complaints by investigating them and making legally binding orders for their resolution.

All registered pension funds must comply with his orders.

His decisions can, however, be taken on appeal to the high court.

Before Murphy can act, the complainant must complain in writing to the pension fund concerned or the employer who participates in the fund.

Murphy can only deal with a complaint if the fund or employer fail to reply within 30 days or if the reply is not satisfactory.

He says the majority of complaints received by his office provide insufficient details.

So if you want your complaint dealt with swiftly, make sure you include all the information relevant to the case, together with copies of documents and correspondence.

Murphy points out that he is not an advisory service — if you need advice on whether to opt for the defined benefit or the defined contributions pension fund, he is not the [illegible]

WHO TO CALL

OMBUDSMAN FOR LIFE ASSURANCE,
PO Box 4967, Cape Town, 8000. Phone (021) 461 5010

OMBUDSMAN FOR BANKING,
PO Box 5728, Johannesburg, 2000. Phone (011) 838 0035/8/9

OMBUDSMAN FOR SHORT-TERM INSURANCE,
PO Box 30619, Braamfontein, 2017. Phone (011) 339 6525/70

THE PENSION FUNDS ADJUDICATOR,
PO Box 1041, Cape Town, 8000. Phone (021) 454041

ARE YOU IN CONTROL OF YOUR DEBT?

This quiz can help you evaluate whether your debt is under control, or whether you are leaving it to chance.

QUESTION	POINTS	SCORE
Do you spend time worrying about your financial affairs?	No = 0 Yes = 3	
Do you know how much you owe your creditors ?	Yes = 0 No = 3	
Is this (including your mortgage bond): * Less than your joint gross annual income? * Less than twice this amount? * Less than three times this amount? * More than three times this amount?	 0 1 2 3	
Do you know the sum of your monthly debt repayments?	Yes = 0 No = 2	
Do you keep a monthly personal budget?	Yes = 0 No = 5	
How much money are you saving each month (including your pension fund contributions) expressed as a percentage of your joint net income?	>15% = 0 >5% = 1 <5% = 2	
Do you regularly save money other than contributions to pension/retirement schemes?	Yes = 0 No = 2	
Is your bond instalment more than 25% of your joint gross monthly income? OR Is your rent more than 20% of your joint gross monthly income?	No = 0 Yes = 1	
Do you pay only the minimum amount on your credit card each month?	No = 0 Yes = 1	
Do you buy everything on credit?	No = 0 Yes = 2	
Have you used up the maximum credit allowed on your credit and store cards?	No = 0 Yes = 3	
Do you jump at the opportunity when some chain store issues a new store card?	No = 0 Yes = 1	
Is your bank account permanently overdrawn?	No = 0 Yes = 2	
When last did you reconcile your bank account: * Within the last two months? * Within the last six months? * More than six months ago?	 0 1 2	
Have you recently tried to shift credit by paying the instalment on one credit card with another, or by increasing your bank overdraft or access bond?	No = 0 Yes = 2	
Do you have to borrow money when unexpected expenses crop up?	No = 0 Yes = 2	
Do you borrow money to pay for holidays?	No = 0 Yes = 2	
Is your home, valued at current market price, worth less than when you bought it?	No = 0 Yes = 3	
Have you made provision for the unexpected - being unemployed, falling seriously ill, or a drop in salary?	Yes = 0 No = 3	
Are you hiding information about your debt from your spouse or partner?	No = 0 Yes = 0	
Will all your major debts be fully paid before you turn 55?	Yes = 0 Unsure = 3 No = 4	
TOTAL		

SCORING RANGES

0 - 10	Congratulations! You're firmly in control of your finances and debts.
11 - 20	You seem to have some control over your debt, but there is room to improve.
21 - 30	You are at risk of losing control over your financial destiny.
31+	You're in serious trouble. Be honest with yourself, admit you have a problem, and start taking control of your financial destiny today. You cannot change history, but you can influence your future by changing your ways.

Graphic: RONA KIRSCH / Source: RETSBOV & CO.

New assurance bill offers you little protection

ARG 6/6/98 (58)

BRUCE CAMERON

Parliament's finance committee has entered the fray over losses to investors who do not carry life assurance policies through to the full term of the contract.

The committee, hearing evidence on the new long term assurance bill, also expressed concern about the protection given to investors. It was an issue that needed to be dealt with by the committee, said chairperson, Sipho Mpahlwa.

The newly formed Consumer Institute, backed by the Department of Trade and Industry's consumer section, raised concerns that the new bill did not do enough to protect consumers against poor marketing practices in the financial services industry and it could result in common law rights of consumers being undermined.

Diane Terblanche, executive director of the Consumer Institute, said one of the consequences of poor marketing, both by companies and intermediaries, was the losses suffered by investors.

In the case of lapsed policies there was no money forthcoming while policyholders who surrendered their policies only received part of their savings back.

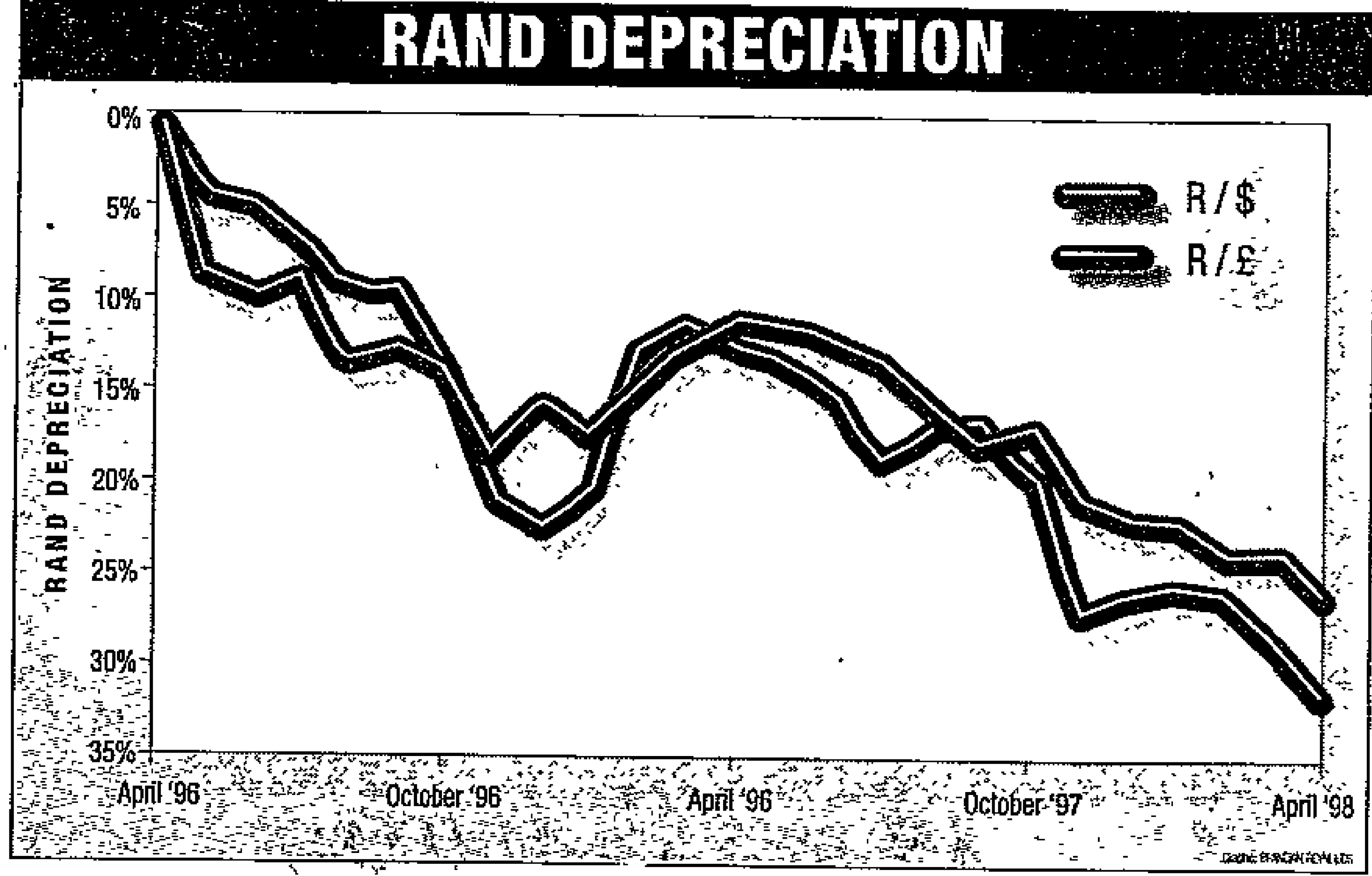
Losses of up to R4 billion a year were mentioned but Pieter de Beyer of Old Mutual, representing the Life Offices Association (LOA), said it was probably closer to R600 million a year.

Oppie Opperman, who is in charge of long term assurance at the Financial Services Board (FSB) said he was putting together a group to investigate the causes of lapses and surrenders on the instruction of Gill Marcus, the deputy Minister of Finance.

Marcus asked for the investigation following the upward trend in lapses and surrenders and the industry's failure to carry out a proper investigation.

Francois Jooste, the FSB's legal adviser, said the bill was not intended to be a vehicle for the full protection of investors. He said the FSB was involved in drawing up wider legislation to protect consumers, which would encompass the wider financial services industry.

Jooste rejected calls by the life industry to deregulate commissions on lump sum investments to make the industry more competitive with other sectors of the financial services industry. He said this could only be done when there was complete disclosure.



Merger fever gripping SA banking, insurance giants

ARGUS 11/6/98 (58)

LLEWELLYN JONES
BUSINESS REPORTER

Some are calling it "merger mania".

Like other countries, South Africa's financial services sector is undergoing a radical change as banks and insurances companies sidle up to each other in marriages of convenience, creating "bancassurance" behemoths.

Fedsure has bought Norwich Life; Southern Life is to merge with Momentum Life; BOE has merged with NBS-Boland.

Market watchers are cooing about the benefits of all these tie-ups.

But who will benefit? Policyholders or shareholders?

The answer should be both. None of the mergers will affect the validity of policies or accounts held with any of these companies. And, in time, if managers do their jobs properly, there could be huge cost savings through greater efficiency.

Whether this happens or not, and whether the benefits flow to shareholders, or policyholders or both, remains to be seen.

But all these tie-ups do not come without some pain as the newly merged groups cut back on costs by rationalising and restructuring operations.

So far, the companies concerned have been pretty tight-lipped about job losses in areas of business where there is duplication. But the writing is on the wall: jobs will be cut and a few plush head offices will have to go.

Some of the mergers and takeovers have been on the cards for a long time because some of these groups, such as First National Bank (FNB) and Southern Life, or Standard Bank and Liberty Life, had cross shareholdings (in other words, each owned a stake in the other).

Big deal: Western Cape banking magnate Christo Wiese

But the ball actually started rolling last year with Cape retail and banking magnate Christo Wiese eyeing the KwaZulu Natal-based NBS as an ideal partner for the Cape's own Boland Bank.

Thus began an intricate web of deals which eventually saw Mr Wiese merge his banking interests with the Board of Executors (BOE), creating a R30-billion group hungry for still more acquisitions in banking and insurance.

Tangled in this web is the rather sorry story of the rise and fall of Norwich Life.

When Mr Wiese joined hands with NBS, Norwich sold its own stake in NBS and forced NBS to sell its stake in Norwich, setting Norwich "free" with no dominant shareholder.

Mr Wiese turned to BOE, his corporate bankers, to help finance the purchase of the NBS shares.

It turned out that Mr Wiese and BOE found they worked well together, and they decided to merge their financial services interests.

Unfortunately for Norwich, African Life – an insurance company in the Real Africa stable – launched a hostile takeover bid, which was fended off with the help of BOE and Johannesburg-based insurance company Fedsure.

At first, BOE and Norwich made a fanfare of their tie-up, but in a surprise move last week Fedsure came back on the scene and took control of Norwich.

Next, and to the surprise of some, Anglo American announced in March the merger of its financial services interests (FNB and Southern Life) with Rand Merchant Bank (RMB) and its life insurance company, Momentum Life.

The deal stormed through to create the R59-billion giant, FirstRand, the biggest company on the Johannesburg Stock Exchange.

In terms of the deal, Southern Life and Momentum Life would merge their operations, and some of the banking operations of the two groups would merge, but FNB's network of retail banks would continue to operate as before.

Not to be outdone, Standard Bank and Liberty Life announced they, too, were negotiating a merger between the two groups.

With their long-established ties and cross-shareholdings, the marriage promised to be an uncomplicated affair. In the end, it turned out to be more like a divorce.

In spite of the long-standing ties, the two groups could not agree on the respective valuations they placed on each other, and the merger seemed to be all but dead in the water.

Insiders also pointed to a clash of personalities among the boards of directors of the two companies as one reason for the failure to come to an agreement acceptable to both parties.

Liberty has since announced that it is "reviewing" its interest in Standard Bank, and Standard has said that it would sell off its stake in Liberty if Liberty sold its stake in Standard.

As far as Sanlam and Absa go, a future tie-up is almost inevitable, once Sanlam's demutualisation is completed.

Sanlam, which already owns 25% of Absa, desperately needs Absa's national banking network to sell its products.

In the meantime, Sanlam has merged its asset management operations with those of Genbel Securities in a R7-billion deal.

The merged company will have more than R180-billion in assets under management.

Sanlam's rival, Old Mutual, also plans to demutualise and seek a JSE listing.

Old Mutual, which already owns 51% of the Nedcor Group, is likely to seek closer and more formal ties with Nedcor in line with international trends.

Call for more severe penalties to be imposed on companies which break the rules

Consumer body packs a punch for your insurance protection

CT (MR) 17/6/98 (68)

Various organisations are putting up a fight to get better consumer protection than is currently provided for in the new Short-term Insurance Bill. At a recent public hearing on the bill, the Financial Services Board (FSB) told parliament's finance committee that it wants to see the maximum fine for institutions that contravene legislation increase from R200 000 or five years imprisonment (or both) to R1 million or 10 years imprisonment. The claimed shortcomings of the bill were also harshly tackled by the Consumer Institute of South Africa which is opposed to self-regulation of the industry. ESANN DE KOCK reports.

The powers given to the Registrar of Insurance to protect consumers in the new short-term insurance bill have, for the lack of anything better in the past, been welcomed by those who gave evidence to parliament's finance committee at the public hearings on the bill.

But Diane Terblanche, executive director of the Consumer Institute, said in order to protect consumers more severe penalties had to be imposed on companies that broke the rules.

She said a R200 000 fine was small change for a large short-term insurer and was insufficient as a deterrent.

The institute, in its formal submission to the committee, also made a strong plea that the industry should not be allowed to regulate itself.

Terblanche said the short-term insurance industry should be policed by a regulatory authority which should set standards that the industry should comply with and create the mechanism that would enforce these standards.

She said the industry's desire to regulate itself was "utterly inimical to consumer interests" and based on false premises which would make it disastrous in its application.

Although the cheapest option would be self regulation by individual companies, Terblanche said this option would be complaints driven and essentially powerless to influence the industry's market conduct on a broader level.

"Self regulation is preservation of self-interest. It is naive to think that it would be possible for companies that are supposed to be competitors to get together to pursue the lofty ideal of consumer protection.

"The culture of hiding as much as possible, admitting as little as possible and presenting a face of a 'trusted' friend until claim time arrives, has served the industry so well financially that it is beyond any reform, particularly of the voluntary kind."

She suggested a small number of principles and obligatory core rules should be developed to regulate the industry – supported by guidance bulletins with practical interpretations of the principles and rules of short-term insurance products.

Forceful and prompt action against non-complying companies was the only way to achieve consumer protection.

Terblanche said, naturally, the industry should be involved in helping to develop the regulatory process, but it should not be accorded its accustomed preferred position to the extent of writing rules – as it had done with the long- and short-term insurance bills.

The institute also suggested the Financial Services Board and Financial Services Policy Board did not have the capacity to innovate consumer protection and that a statutory regulatory authority should emerge outside these boards.

Terblanche said the institute was in favour of a holistic approach to financial services regulation whereby consumers would have access to a single regulatory body.

It felt the bill should go further to regulate the financial services industry's conduct to policyholders and criticised the fact that it had been drawn up without direct consumer input.

Real Africa Durolink

Real Africa Durolink Investment Bank's listing on the JSE next week will bring it closer to realising its ambition of becoming the top-rated investment bank in southern Africa by 2007. ***AMANDA VERMEULEN*** *reports.*

Empowerment a key element in bank's growth

BD 19/6/98 (58)

REAL Africa Durolink (RAD) Investment Bank will list on the Johannesburg Stock Exchange (JSE) on Tuesday, raising R400m to provide the capital to expand the bank to the point where it will be the top-rated investment bank in southern Africa by its 20th anniversary in 2007.

The company, which was granted a banking licence in April this year, has been rated A-long term and A2-short term by Standard & Poors CA Ratings. The listing will help the group provide debt and equity finance, as well as enhance and increase the shareholder base of the company, particularly among previously disadvantaged communities.

The bank believes that it is well positioned to grow due to its owner-manager culture, combined with its strong black shareholding base through its relationship with the Real Africa group of companies, established by Real Africa chairman Don Ncube, who is also chairman of RAD.

The growth strategy includes opening a London office this year.

RAD's range of services includes treasury, structured and corporate finance, property financial services, special projects and privatisation, investment banking and corporate lending.

RAD was established in 1987 by CEO Michael Bolton and deputy CEO David André under the name Duro-Link Projects. After an investment by Britain's West Merchant Bank in 1992, the company was incorporated in SA as private holding company Durolink Holdings.

By 1994 West Merchant Bank's stake increased to 50%, resulting in the company's name changing to WMB Durolink Holdings. The company also established an operation in Zimbabwe.

Durolink had by then established itself as a leading player in the structured finance market and had launched a corporate finance division. A move towards becoming an investment bank, coupled with West Merchant Bank's policy against holding shares in a company it did not wholly own, saw a fresh change in Durolink's ownership structure.

West Merchant Bank sold its 50% stake in the company back to management. In a separate transaction black empowerment group Real Africa Holdings took a 50% interest in Durolink in 1996 to become the joint controlling shareholders, and Real Africa Durolink was born.

RAD's new positioning and its links with one of the most highly regarded black empowerment groupings in SA propelled it into a leading position in the mergers and acquisitions market. In 1996, it took third place in the Ernst & Young list of corporate advisers. Last year, it was ranked fourth.

Its range of services to clients has been expanded by the launch of new operations. Last year it launched a private equity fund in conjunction with the Gensec/NSA partnership, committing R150m for investment in emerging companies with above-average growth potential.

It also established RAD Securities, its broking arm. A key feature of this new operation is the alliance it has established with one of the world's leading broking and research groups, Japan's Nomura International.

The corporate finance division has been involved in a number of high profile transactions in the past two years, including the restructuring of NBS-Boland, which kick-started a banking merger creating one of the largest corporates in SA.

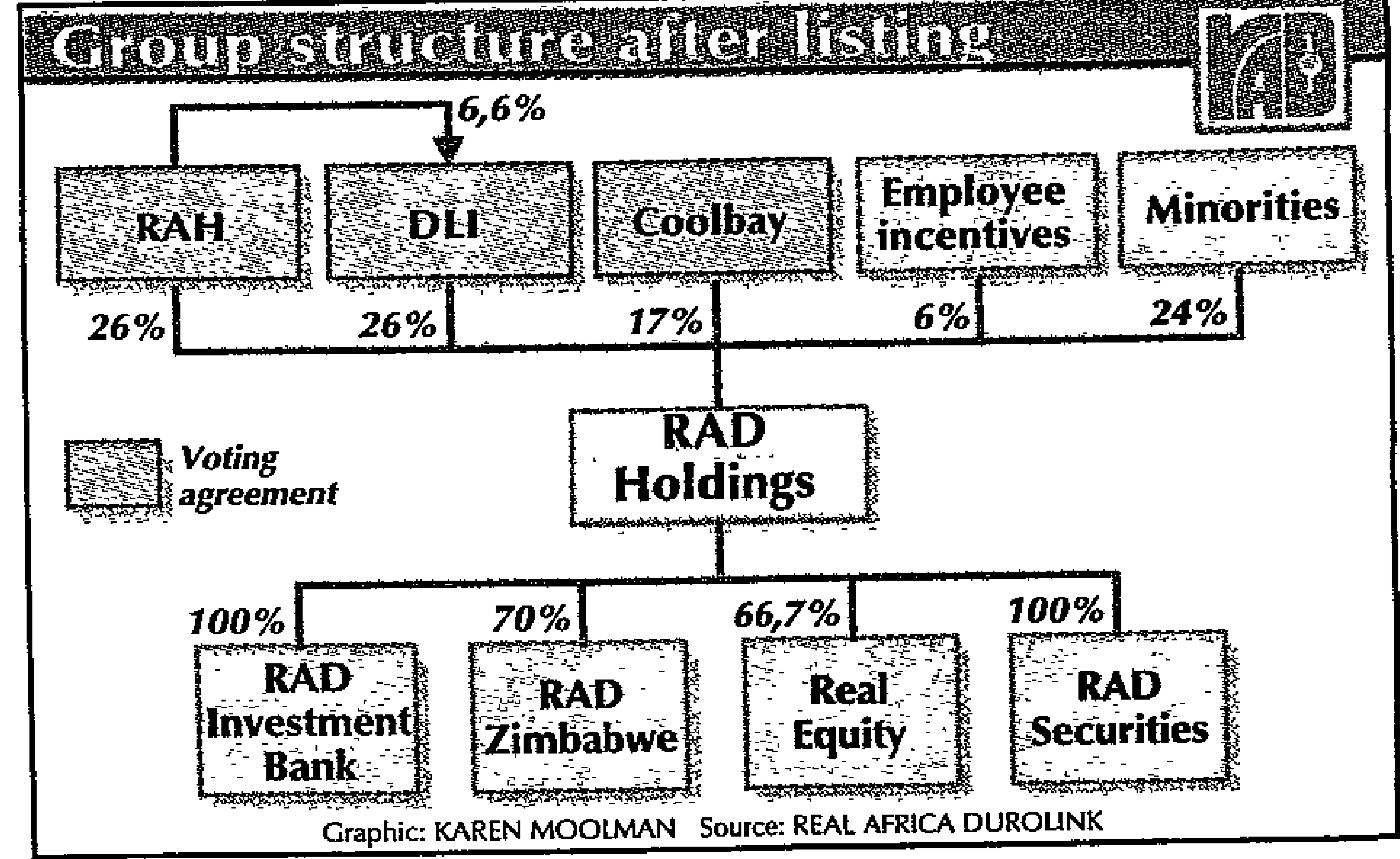
Another major project was the investment by Real Africa Holdings (RAH) in the merged PQ Holdings. RAH and its other black consortium partners took a 50% stake, at a cost of over R2bn, in PQ Africa, the local operation of PQ Holdings.

RAD is also playing a meaningful role in privatisation initiatives.

It has been been appointed lead adviser to government's restructuring of forestry company Safcol, and the water affairs and forestry department's assets.

Another coup for RAD was the investment late last year by Zimbabwean businessman John Moxon, through his company Coolbay Investments, of R200m to secure a 22,85% stake.

After the listing, the shareholding structure of RAD Investment Bank will comprise about 26%, held by senior management, with an equal shareholding by RAH. Other shareholders will include staff with about 6%, Coolbay at just over 17%, and institutions and the public with around 24%.



Graphic: KAREN MOOLMAN Source: REAL AFRICA DUROLINK

Mergers, restructuring push insurance sector to look at staff numbers

Samantha Sharpe

BD 19/6/98 (58)

CAPE TOWN — The recent wave of merger and restructuring activity in SA's insurance sector could have a significant effect on employment levels in the industry, sources say.

Although latest Life Offices' Association (LOA) statistics show that office, sales and service staff employed by the long-term insurance sector numbered 55 966 in March compared with 52 096 six months ago, industry consensus is that rationalisation and general downsizing will result in redundancies in current staff levels.

The 55 966 head count is only marginally ahead of the 55 525 employed in September 1996, indicating very little rise in employment levels in the past two years despite strong growth in profit over the same period.

Life group Sanlam, which plans to list on the Johannesburg Stock Exchange (JSE) later in the year and which employs about 12 600 people, has made no secret of the fact that it is carrying out a restructuring exercise.

GM of human resources Vic van Vuuren says of the group's 10 000 office staff about 6 000 have been approached about possible changes to their current job positions. Of these 6 000 jobs, only 10% are considered "high risk".

FirstRand CEO Laurie Dippenaar says the creation of the group from the merger between the RMB group of companies, First National Bank and Southern Life, is likely to result in about 1 000 retrenchments as Southern Life had a restructuring programme in place before the merger.

Also falling under head count scrutiny is Cape-based insurer Norwich Life. Although Norwich CEO Charles Davies says there are no retrenchment plans afoot, market sources say it is clear retrenchments will follow.

Life group Old Mutual says it has no major retrenchment plans.

Institutions' delegates seek microlending missing link

BD 1/7/98 (58)

SA is not alone in struggling to get a grip on the expanding microlending industry, writes John Authers in New York

DELEGATES representing more than 1 000 institutions from 98 countries spent last weekend in a New York hotel trying to work out how to link two very different financial worlds — third world "microcredit" schemes, which offer tiny loans to poor individuals, and the international capital markets.

Delegates agreed that microlenders would need access to capital markets if they were to reach the ambitious target of lending to 100-million poor families by 2005, which was set at an inaugural meeting a year ago in Washington.

Larry Reed, MD of Opportunity International Network, one of the largest microlending organisations, said microlenders were not ready to gain access to private capital. He said: "A dearth of capable institutions and the lack of good marketplace information on microcredit institutions block the flow of capital in their direction."

While several organisations, such as Opportunity, Accion International, and the Grameen Bank in Bangladesh, had shown it was possible to build scale in microlending, he pointed out that most lenders were still small and reliant on some form of philanthropy.

He estimated that only 20 organisations accounted for more than half of all microloans, even though there were now 10 000 programmes around the world lending to about 15-million people. Three countries — Bangladesh, Indonesia and Bolivia — accounted for half those loans, while less than 1% of organisations making microloans covered full costs with earned income.

Reed said reaching the target of 100-million people would require a loan fund of between $10bn and $20bn, and an upfront investment in staff training and systems. He proposed a system, modelled on the US Federal Reserve's inspection system, for examining and accrediting microlenders.

This would make it easier for western lenders to decide whether to support them.

Several organisations announced new ideas for providing capital. Calvert Foundation, a US organisation, said it had set up a "social investment foundation" that would allow US investors to make investments as small as $1 000 in Grameen Bank. This would earn them a fixed return of between 0% and 3%.

The idea is that it is not a philanthropic exercise, although returns will not beat those from conventional investments.

Bankers' Trust, a US international bank, announced a "microcredit development fund", financed by using donations from the bank's private banking clients, which would be used to capitalise the loan loss reserves of microlenders. This would enable the microlenders to leverage their conventional debt and grow their programmes further. The fund has already paid money to three organisations — Accion New York, which operates programmes in the poorer areas of New York; Propesa, a Chilean group; and SA's Shared Interest.

It was not only the financial services sector that decided to become involved. Biotechnology company Monsanto announced during the conference that it was launching a joint venture with Grameen to establish an agricultural technology centre in Bangladesh.

The theory is that Monsanto's centre, to be based in Dhaka, will be able to help solve some of the agricultural problems which bedevil the Bangladeshi economy, with initial aims including making the country self-sufficient in maize, rice and cotton, and improving tilling techniques to conserve topsoil. — Financial Times.

Stop passing the fiscal buck

(58) ETP 2/7/98

STEVEN FRIEDMAN

The term "unfunded mandate" has become the buzzword of the day as lower tiers of government struggle to perform their tasks without being given the funds to do so. This practice must end if our provincial and local governments are to remain viable.

HALF a loaf, says the cliché, is better than none. But half-decentralisation in government can be worse than none at all. This point is illustrated by some of the travails facing our inter-governmental fiscal arrangements or, more particularly, the common problem of "unfunded mandates".

This is the problem which ultimately lies behind controversies over pension payments in the Eastern Cape and teacher-pupil ratios in schools. But while these examples have attracted the most publicity, unfunded mandates are widespread in South Africa. A few months ago the term was known here only to students of American politics: a promise to end unfunded mandates was one of the rallying cries of Newt Gingrich's Republican revolution. Today it is painfully familiar to provincial and local governments.

An unfunded mandate is an instruction by a higher tier of government to a lower one to undertake a task or assume a responsibility, without providing the necessary funds for the job. The recipient of the mandate is presented with a painful choice: eat into the budget earmarked for other purposes or fail to discharge the mandate, thereby impugning its credibility. A third possibility is to overspend, run up large debts and insist that the higher tier bails you out.

In South Africa, there are two sorts of unfunded mandates. The classic variety largely affects local governments, which raise 95% of their own revenue from rates and other service charges. Our municipalities face a fiscal crisis: their debt is R3,6-billion, an increase of 193% from a year ago. They are, therefore, clearly unable to fund the tasks assigned to them from their current revenues. But this has not prevented central government, in particular, from loading new tasks on to municipalities in areas such as housing and infrastructure.

Similarly, central government has granted municipalities the right to take on tasks, but again without the needed funds. An example is metropolitan and municipal policing — a recent law allows it but assumes that if councils set up local police forces they will also pay for them. Where the task is simply assigned to local government, the obvious consequence is an inability to perform it. This creates the impression that local government cannot deliver and enables central government to evade responsibility.

The level of government which determines a spending commitment should provide the funds or take on the function

Where the task is optional, the effect is to make it far less likely that local government will accept the opportunity. It results in an unwillingness by municipalities to take on the role and a probable claim by central government that they are not interested in the function. In both cases, the credibility of newly-democratic local governments is undermined.

At provincial level, a more peculiarly South African form of mandate is evident. For a variety of reasons, central government is unwilling to allow provinces to raise a significant part of their revenue through their own taxes; it therefore provides their funds.

At first the amounts which provinces received were determined in negotiations between them and central government in each functional area. Therefore all mandates were funded. But the result was to reduce provinces to implementing agencies for the central government. It also reduced their accountability to their voters: they could blame an inability to balance the budget on central government stinginess.

To counter that, a system of block grants has been introduced. Provinces receive a lump sum at the beginning of the year, which is the product of a formula devised by the Fiscal and Financial Commission. They must then allocate funds to functions and priorities. In principle, budget overruns or a failure to allocate enough money to a task is purely the result of provinces' inability to manage their grants.

This is clearly an advance on a system which previously allowed provincial executives to escape responsibility for their budgets and created an incentive for provinces to chalk up large overruns and then demand a "bail-out".

But provinces' latitude was not as great as it seemed. In education, they were obliged to adhere to a set teacher-pupil ratio. They therefore had to allocate enough money to pay the required number of teachers — potentially at the expense of other priority areas. Provincial welfare departments also had to pay pensions at a rate set by national legislation. Again, the money had to be found, even if it had to be taken from key line departments.

The result is now evident. In education, provinces resolved the problem by simply overspending; in social pensions, the Eastern Cape simply did not pay the pensioners. The reaction may have been enough to ensure a rethink — teacher-pupil ratios have been abolished and central government might take responsibility for pensions from the provinces. While the latter move might be seen as a blow to provincial government, it may well relieve some of the pressure. And it does recognise a crucial principle: that the level of government which determines a spending commitment should provide the needed resources, either by transferring funds to the lower tier or by taking on the function.

It seems, however, that the principle is not yet recognised in relation to local government. Headlines have shown clearly that there is no better way of undermining provincial or local government than to impose unfunded mandates. If we want workable provincial and local governments, central government will need to end what seems to be a system of fiscal buck-passing.

The issue needs to be handled in two related ways. There are some functions or tasks where national maintenance of an agreed standard is essential: pensions is a clear example. They are designed to meet the basic needs of people who can no longer work and these do not differ between provinces. Payment levels should therefore not depend on budgetary politics. In these cases, central government is obliged to take on the responsibility. It might ask provinces to pay pensioners, but with funds provided for the purpose. The same principle may apply to infrastructure or housing.

For the rest, decisions on priorities and minimum standards need to be left entirely to lower levels. Provinces would, for example, need to decide how many teachers they could afford and explain the resultant ratios to voters. Equally importantly, local governments would be left to decide what they wanted to do and whether they had the funds to do it.

For centralists, this may seem disastrous. But to ensure that the provincial and local governments elected by voters enjoy both the power and capacity to decide how to serve their electorates, it is essential.

Steven Friedman is director of the Johannesburg-based Centre for Policy Studies. This article was written for the latest issue of Synopsis, the quarterly newsletter of the centre's governance programme.

Continued on Page 2 generate a track record for the market.

Liberty, Fedsure call off alliance talks

(58) BD 3/7/98

Amanda Vermeulen

TALKS between life assurance groups Fedsure and Liberty Life about an alliance between the two groups had been called off, Sandy Barnes, Fedsure GM of marketing and information technology, said yesterday.

"Earlier this year we held informal discussions with a number of players in the financial services industry, including Liberty Life, when there were indications of major realignments taking place in the industry.

"However these discussions were taken off the agenda with the sudden acquisition of Norwich. Our attention is now totally focused on the integration of the two companies."

He said that in these circumstances it was unlikely that the discussions with Liberty would be resumed.

However it is understood Liberty has not closed the door on further discussions. Earlier talks between the life assurance groups were wide ranging, but one of the unresolved issues was whether Fedsure's single largest shareholder, Investec, would be party to the transaction.

Investec owns about 21% of Fedsure, with other institutions holding a further 32%. The balance of the shares — 47% — is held by Fedsure management and the public.

Liberty CE Roy Andersen said the group had held discussions with a number of parties, but none had progressed far enough to warrant a cautionary notice.

Investec CEO Stephen Koseff said yesterday that the group had not been approached by Liberty. He said Investec had stated publicly it did not want to go the bancassurance route, raising questions whether it would be in favour of participating in a Liberty-Fedsure merger.

If the deal is done, Liberty could face a price tag of about R12bn for Fedsure which comprises the premium to buy control, a possible offer to minorities, as well as taking out the preference shares.

Fedsure shares closed at R67 on the Johannesburg Stock Exchange yesterday. Based on its closing price, the group has a market capitalisation of about R10,7bn.

One analyst speculated that although it was difficult to assess the true value of Fedsure owing to the nondisclosure by insurance companies, Liberty could fork out as much as R80-R90 a share for the company. With about 159-million ordinary shares in issue, the cost to buy Fedsure could be more than R12bn.

The rationale for the deal, apart from cost-saving benefits, would be to merge the linked products businesses of both companies — Fedsure's TMA and Liberty's Millennium — to give the merged entity the dominant position in this market.

70% of Eastern Cape principals fail the test

BD 3/7/98

BISHO — Nearly 70% of principals at Eastern Cape schools were "unqualified or underqualified", the auditor-general found in his education performance audit for 1995.

The audit report, presented to the public accounts standing committee yesterday, said 42% of the department's 58 438 teachers were unqualified or underqualified — they did not have the minimum three years' professional training after matriculation.

It said 1 052 (29%) of mathematics teachers were "totally unqualified" because they had no training at all. Some had less than matric in the subject.

Of the biology teachers, 397 (26%) were unqualified, as were 1 161 (32%) of science teachers.

The audit showed that the drop-out rate of Eastern Cape pupils was "materially higher" than other provinces'.

The high drop-out rate of pupils in 1994 represented a loss of R1bn a year to the department.

Pupils at secondary schools spent an average 4,4 years longer than theoretically required in the school system. This cost the department an extra R3,2bn for the 1995 school enrolment.

The report said the department had spent R4,4m transporting secondary school pupils from Missionvale to their school at Booysens Park. A new school at Missionvale would have cost R5m.

The report said electrical equipment had been supplied to schools without ensuring electricity was available. In 1996, 4 676 schools (76%) had no electricity.

Primarashni Pillay reports that national education ministry spokesman Bheki Khumalo said a joint task team of the departments of finance, state expenditure and education had completed investigations into the provincial education department's administrative and finance systems. "From this there is determination by government to put right the anomalies that exist in that province," he said.

Banks move away from uniform rates

Greta Steyn

BD 6/7/98

SA's big banks have broken with the tradition of charging the same interest rates, with some banks deciding to target business more than home owners when lifting rates.

Friday's decision to raise prime overdraft and home loan rates came as a shock to the markets. It brought some rates close to the 25% prime overdraft rate that prevailed at the beginning of 1985, when SA was a siege economy run according to the whims of former president PW Botha.

Economists warned that economic growth this year could be wiped out. Forecasts for next year would again be revised downwards from the range of 2% to 3% that emerged after the previous hike in rates.

Nedcor and Absa appeared to be targeting business customers more than home owners. Nedcor raised its prime overdraft rate to 24% from 22,25% — making its prime rate the highest of the major banks. Its home loan rate would rise to 21,5% from 20%.

Absa kept its prime rate a little lower, at 23,75%, and matched Nedcor's home loan rate. Standard, however, chose to spread the burden more equally, setting its home loan rate at 22% and its prime overdraft rate at 23,25%.

In some cases the new home loan rates will apply to existing and new bonds, but will kick in for existing bonds only after notice has been given.

Interest rates differ

	New home loans	Prime
Absa	21,5%	23,75%
Standard Bank	22%	23,25%
Nedcor	21,5%	24%
First National Bank	*20%	*20,25%

*No move on Friday

Graphic: KUBEN DAVID Source: REUTER

Asked whether the hike in interest rates would be the last, Nedcor treasurer Mark Parker said it would depend on the Reserve Bank's repo rate, which was hovering about 20,5%.

He said the banks had tried to hold back on rates hikes in the hope that the situation was temporary, with the result that last week's increases had been "brutal". The banks' overdraft rates had stood at 20,25% at the beginning of the week. "The sooner we get it over with, the sooner we can reverse it," Parker said.

John Cruickshank, Standard Bank's treasury director, said that rates would stay at these high levels until there was a fundamental shift in the cost of money. He said if the repo rate rose above 21%, the possibility of another round of rates hikes would emerge. "But I will be surprised if things go any further."

First National Bank had not announced any changes on Friday, but was expected to take action today. The bank was also expected to cushion the blow for consumers and to take more from corporate customers.

The rates hikes came as the rand hit another record low against the dollar of R6,43. It ended at R6,38 — a loss of about 8% on the week. Spooked by the banks' move, the bond market hit the psychologically important 16% level — an 18-month high. On Friday the all share index gained 1,2% or 82,8 points to 7 004 with the all gold index climbing 7,75% or 76,9 points to 1 068,6.

The role of mod cons in cheques and balances

***WHAT DO** you pay for at your bank? Have you ever asked why? And why does it still take seven to 10 business days to clear a cheque? **DIANE CASSERE** put the questions to some of our major banks.*

TWENTY years ago it took seven to 10 working days for a cheque, other than your salary cheque, to be cleared by a bank.

In these days of faxes, computers and the Internet, it takes the same time.

Why?

In the United Kingdom, a current account cheque is cleared in three days.

However, banks here have agreed among themselves — and in accordance with the Automated Clearing Bureau's rules — that the period should be seven business days.

"But (the UK's) systems are more advanced than ours," a representative of a finance house, who declined to be named, said gingerly.

Only if you can keep a R2 000 credit balance in your cheque account or other investments stipulated by the bank, will you be exempt from all those bank charges that seem small but which add up.

Absa, which includes Allied, United, Volkskas and Trust banks, confirmed that its holding period was seven days — 10 if the deposit was made at an ATM.

However, "in days gone by", it had been 15 days.

Why has technology not speeded up the process?

The more technologically advanced we become, the more sophisticated the fraud

Pearl Majola, speaking for Nedcor (including Nedbank, Permanent Bank and People's Bank) confirmed the seven-day holding period and said this had not changed in 20 years, as did Ann Bramhill of First National Bank.

Banks offer speed clearance.

But their charges for this service vary: Nedcor R30; Absa R28,50; Cape of Good Hope R25 — "what the drawer's bank charges"; First National R20 to R50 "depending on the complexity of the transaction"; Standard Bank R30, and NBS R32.

Standard Bank explained: "As can be seen from the priority treatment that a special clearance receives, it entails a lot more human intervention and more expensive communication methods.

"A charge for the service is therefore considered justified."

Account holders need to ask their banks to whom the interest earned on a cheque during the holding period is credited.

The answers given varied from "no one" to "the client to whose account the cheque is credited".

BANKING MINEFIELD: Choose the bank that best suits your needs and do not be afraid to ask what the charges are — and why — for various services. That's the advice from the experts, who say that building a personal relationship with your bank will work to your advantage.

PICTURE: GARTH STEAD

Service charges vary greatly

(58) CT 6/7/98

DIANE CASSERE

CHARGES for services from banks differ and clients are advised to shop around to see who gives you the best deal if you are not satisfied with what your bank offers.

However, a long-term relationship with the bank is a definite plus when negotiating charges.

Also consider whether a cheque account it what you want — special savings accounts can serve your needs efficiently and economically.

"Before opening a cheque account, people should first consider with whom they would like to have a banking relationship," says Pieter Raubenheimer, general manager retail banking and treasury of the Cape of Good Hope Bank.

"One must remember that a cheque account is an open credit line to the individual and, therefore, has to be built on mutual trust which will only develop fully through a personal and intimate relationship with one's bank.

"If properly managed, it is also a very valuable tool to cushion the effect of cash flows, whether debit or credit.

"The closer people are to their banks, the better position they will be in to ask for an economically fair deal.

"Client intimacy is the banking route we chose," said Raubenheimer.

Good Hope Bank is the oldest bank in the country at 167 years old.

The route through bank changes is a minefield with little conformity.

All the banks who answered the questionnaire said they sent statements to your home and issued standard cheque books free of charge.

For stop orders, for example, the amounts the client pays varied:

Negotiating bank fees: A long-term relationship is a plus

Cape of Good Hope, R6 — "subject to up to R12 exemptions for balances smaller than R5 000 and exemption in excess of R5 000"; Absa R4,30; Standard establishment R6,50, amendment R6,50, cancellation, no charge, basic fee per stop order payment, R4,50 per transaction; First National, normal service fee plus R2,50; Nedcor R2,28 cash handling fee (initiation fee for a stop order is R5,70); NBS not available.

Another area of difference was in statements and withdrawals from an ATM.

ABSA: Printed statement from bankteller ATM — mini statement is free, printed statement from personal banker R3, cash withdrawal from bankteller ATM R1,60 (irrespective of value).

STANDARD BANK: A printed "provisional" statement (two pages) from the Autoplus machines, one free per month, thereafter R1,40 each, a "mini" statement (last six entries) is free; a printed provisional statement from the personal bank defined as "over the counter" provisional statement — one free per month if you have not already drawn a statement from Autoplus, thereafter R1,40.

NEDCOR: Printed mini-statement at an ATM is free but with a cash withdrawal costs you R2,28; printed statement from a personal banker is free; cash withdrawal from an ATM is R2,28 plus 57c per R100 or part thereof. A statement from a self-service terminal carries a cost — not confirmed at time of going to press.

CAPE OF GOOD HOPE: Printed statement from an ATM is free, printed statement from the personal banker is free, cash withdrawal from an ATM up to R2,50 from a Nedbank ATM/other ATMs, Saswitch charge R5 (the latter subject to up to R12 exemptions for balances smaller than R5 000 and total exemption in excess of R5 000).

FIRST NATIONAL: Printed statement from the ATM is free, printed statement from the personal banker is free; cash withdrawal from an ATM costs R2,28 including VAT.

These are just a few examples of the variety of charges ... banks all agree that most clients do not check their banking charges.

If in doubt, ask and negotiate.

A the banks said fraud was a major consideration.

"The stipulated clearance periods are required because manual intervention is needed to validate the legitimacy of the cheque, etc — for example, verification of signatures," said Jenny Smith, speaking for Absa.

"The more technologically advanced we become, the more sophisticated the level of fraud."

Eric Larsen of Standard Bank said not all customers' cheques were subject to the holding period.

"Customers who have proved their creditworthiness and the ability to meet debits to their accounts ... would ... not be subject to the holding period."

Standard Bank customers who believed they qualified should apply to their branches for the hold to be removed from their accounts. However, this was at the discretion of the branches, said Larsen.

The seven-day clearance had been agreed to among banks, he said.

The number of days was based on what they deemed to be a reasonable period for the physical movement of unpaid cheques within the country.

Sharon Drummond of the NBS said the building society was not a clearing bank.

"We rely on the services of our bankers," she said.

"The clearance period is generally eight days on an account that is older than 90 days or 15 days on an account that has been open fewer than 90 days — irrespective of ATM or counter deposits (and) depending on the geographical location where the cheque is deposited."

Ulrich Fobian, public relations manager for the Cape of Good Hope Bank, said that the bank's clearance period for current accounts was seven days — as stipulated by Automated Clearing Bureau (ACB) membership rules.

... cas i transfers to other accounts are effected immediately.

Freelance and casual workers get the worst deal of all.

Questioned verbally, most banks agreed that the relationship between bank and client would be a consideration in clearing freelancers' and casuals' cheques.

However, all had answered that the client, subject to "usual criteria", should have an overdraft facility, charged for at current rates.

An exception was the NBS, which does not offer such a service.

"Crossed cheques cannot be cashed," said Larsen of Standard Bank.

"Freelance or contract workers who wish to be paid by cheque would need to ask the employer/drawers of cheques not to cross (it) and restrict the transferability of the cheque by making it an 'order' cheque.

"The freelance workers are then able to present such cheques, with their identification, to the bank/branch (from) which the cheque is drawn to be cashed by the teller."

Absa said freelancers were "treated in the normal manner".

"If they have an account with us the cheque can be credited to that account. The normal clearance period applies unless the client requests a special clearance (charge R28,50)."

Cape of Good Hope Bank said it arranged a special facility for freelancers.

For those of us who are convinced there is a conspiracy among banks to move members of their staff as soon as you have struck up a relationship with them, there is not.

All the banks said they moved staff to other branches at their request or on promotion.

However, for the average cheque account holder, the moral of the story is that small to middle-income earners pay charges. The wealthy are exempt.

THE QUESTIONS

A QUESTIONNAIRE was sent to the following banks: Absa (incorporating Allied, United, Volkskas and Trust banks); First National Bank; Standard Bank; Nedcor (Nedbank, Perm and People's Banks); Good Hope Bank; NBS. The same questions were put to each and their replies faxed back

WHAT IS YOUR HOLDING PERIOD ON CHEQUES (for example, seven to 10 working days)?

HAVE YOU ALTERED THE HOLDING PERIOD IN THE PAST 20 YEARS?

DO YOU NEED TO TAKE SEVEN TO 10 WORKING DAYS (if this is the case) OR IS IT JUST A RULE?

WHY HAVE E-MAIL, FAX AND COMPUTER NETWORKING NOT SPEEDED UP THE PROCESS?

IF IT IS POSSIBLE TO PROVIDE A SPEED CLEARANCE FACILITY, WHY DO YOU CHARGE FOR THIS?

WHAT IS YOUR CHARGE FOR SPEED CLEARANCE?

WHO GETS THE INTEREST WHEN YOU HOLD A CHEQUE?

HOW FAST DO YOU CLEAR CASH FOR TRANSFER TO ANOTHER ACCOUNT?

HOW DO YOU DEAL WITH FREELANCE/CONTRACT WORKERS WHO DO NOT GET REGULAR SALARY CHEQUES AND WHOSE CHEQUES FOR WORK COME IN IRREGULARLY?

HOW LONG DO YOUR PERSONAL BANKERS (BANK STAFF) REMAIN WITH THEIR CLIENTS OR DO YOU HAVE A POLICY OF MOVING THEM EVERY SIX MONTHS (OR ANY OTHER PERIOD)?

WHAT ARE YOUR CHARGES FOR THE FOLLOWING?:

A PRINTED STATEMENT FROM THE ATM
A PRINTED STATEMENT FROM THE PERSONAL BANKER
A CASH WITHDRAWAL FROM AN ATM
A RECEIPT FROM AN ATM
A DEPOSIT AT AN ATM
CHEQUES OR CASH CARD WITHDRAWAL AT THE TELLERS
A DEPOSIT AT THE TELLERS
PASSING/HANDLING CHEQUES
CHEQUE BOOKS
PASSING/HANDLING FOREIGN CHEQUES
STOPORDERS
STATEMENTS TO HOME ADDRESS
CHANGING FOREIGN CURRENCY
ISSUING TRAVELLER'S CHEQUES

Mboweni takes reins at Reserve Bank

(58) ARG 6/7/98

CLYDE RUSSELL

Pretoria – Tito Mboweni, named on Saturday as the next governor of the Reserve Bank, is one of the leading economic thinkers in the African National Congress.

Mr Mboweni, labour minister since the ANC came to power in 1994, has steered controversial labour policies through Parliament and is at the forefront of the battle to ease South Africa's chronic unemployment, estimated at 30% of the workforce.

The 39-year-old British-trained development economist acknowledges that he has very little know-how when it comes to central banking, saying it will be a "tough call" to get up to speed by August 8, 1999, when he formally takes over as Reserve Bank governor from Dr Chris Stals.

Mr Mboweni has used his labour portfolio to reform labour laws and introduce often controversial measures to attempt to eradicate decades of racial inequality in the workplace.

He was the architect of the new Labour Relations Act, endorsed by unions but criticised by business for making the labour market too rigid by enforcing central bargaining in major industries.

Bank boss: Tito Mboweni

The Basic Conditions of Employment Act has also been used by Mr Mboweni to guarantee the rights of workers, but business complains it makes it more difficult to hire workers, encouraging mechanisation and hurting job creation.

Mr Mboweni's most controversial legacy will be the Employment Equity law, which is still to be ratified by parliament.

The bill will require employers to produce plans on how they aim to use affirmative action to further previously disadvantaged groups.

It is Mr Mboweni's tendency to interventionist policies at the Department of Labour that could lead to concerns he will do the same at the Reserve Bank.

In August last year, Mr Mboweni said that he believed the Government should play a more active role in monetary policy, in order to help job creation.

Mr Mboweni spent a number of years in exile during the fight against apartheid and is seen as being close to Deputy President Thabo Mbeki, expected to succeed President Mandela when he retires next year.

Mr Mboweni grew up in Northern Province, although visits to Johannesburg, where his father worked, introduced him to the indignity of apartheid laws.

He became involved in politics when he enrolled for a commerce degree at the University of the North.

He left South Africa for Lesotho in 1980 where he became involved in ANC politics and studied for a degree in economics and political science at the National University of Lesotho.

Mr Mboweni left Lesotho at the end of 1985, moving to England where he obtained a masters degree in development economics from the University of East Anglia in 1987.

He went to work for the ANC in Zambia in 1988, eventually ending up in the economic policy department.

He returned to South Africa in 1990 after the National Party government unbanned the ANC and freed political prisoners.

He played a leading role in formulating the ANC's economic strategies, including the conservative macro-economic policy for Growth, Employment and Redistribution, Gear.

He was an observer at the 1991, 1992 and 1993 IMF-World Bank summits and in 1995 was selected by the World Economic Forum as one of its global leaders of tomorrow.

Recently his focus has shifted to preparing the presidential jobs summit, bringing together labour, government and business in an attempt to solve the unemployment millstone.– Reuters

Microlenders 'must not become target for control'

Patrick Wadula (58) BD 8/7/98

THE Microlenders' Association has urged government to state its position on the microlending industry', which increased its turnover 280% to R10,1bn between 1995 and last year.

This follows findings in a report on the microlending industry conducted last year by the University of Stellenbosch and commissioned by the Microlending Association.

Stellenbosch University's Piet du Plessis said in Pretoria yesterday that it would be in the best interests of all involved if the microlending industry did not become the target for elaborate legislation and government control.

He said a regulatory measure to contribute to stability in the industry would be compulsory registration of microlenders with the trade and industry department. An overt form of government control would be complex and costly in terms of legal and administration skills required for enforcement.

"Any system involving a fixed maximum interest rate for small personal loans will probably not be effective to prevent the continued development of an extensive small loan industry operating outside the law, with lenders recovering finance charges reaching 200% to 300% each year," he said.

Du Plessis said if the industry managed to keep its own house in order, it would bring microlending into the open. This would allow market forces to exercise some control over microloan finance charge rates.

"Microlenders have a role to play in the continuum of financial services provided in SA," he said.

However, Du Plessis said there were concerns that the interest rates microlenders charged were usurious and therefore there had to be some form of control over their lending rates. Yet if government were to lift the current exemption for microlending and other money lending transactions from the terms of the Usury Act, it would negatively affect the availability of funds for the informal sector.

Bank's functions must be seen to be done

Reserve Bank transparency and accountability are as important as the Bank's independence, particularly in light of recent developments, argues **Johann Fedderke**

(58) BD 8/7/98

THE past six months have seen a searching examination of the SA Reserve Bank's credentials. The parliamentary subcommittee on finance concluded its investigation into the desirability of the independence of the Bank, and published its long-awaited report.

Wits University's economics department was among those who defended the importance of the Reserve Bank's independence. International empirical evidence suggests that central bank independence is strongly correlated with lower levels and variability of the inflation rate, and higher growth rates in real per capita gross domestic product. The correlation is stronger for developing than developed countries.

Most strikingly, given the designation of SA's new central bank governor, the core indicator of central bank independence in developing countries is not the formal constitutional position of the central bank, but the nature and term of office of its governor. Central banks must not only be formally independent, but must be credibly seen to be independent. Political appointees hardly help.

While independence is desirable, it does not mean the central bank is entitled to a lack of transparency, or that it should be unaccountable. The evidence of the past few weeks suggests that we still have something to learn with respect to transparency.

The empirical evidence noted is not surprising given a number of theoretical economic insights. Any political commitment to controlling inflation suffers from what economists term "time inconsistency". No matter how sincere government's commitment today, there is always a possibility that because of subsequent macroeconomic events government will abandon its inflation targets.

The problem is particularly acute with inflation, as inflationary policy interventions have immediate though temporary stimulatory effects on economic activity, while the costs are borne in the future. This makes it difficult to hold political decision-makers accountable for their actions.

The consequence is that any commitment to inflation targets lacks "credibility": agents in the economy know that government may break its commitment to inflation targets in the future, and formulate their own actions in accordance with this expectation. Thus wage demands, and price determination more generally, will contain continued expectation of inflationary pressure, despite the fact that all agents in the economy may be agreed that lowering inflation is desirable.

The solution is that government must engage in a strategy of precommitment: it must bind itself to its initial inflation target in such a manner that it cannot renege. Central bank independence is such a precommitment. It assigns the task of controlling inflation to an institution other than central government (here the central bank), and (a) constitutionally binds that institution to the task of controlling inflation, while (b) constitutionally protecting the institution from political interference. Thus the central bank is set up to pursue price stability, and nobody can interfere in its operations. Likewise, government cannot go back on its initial policy target of controlling inflation, even if it wanted to. No half measures are possible. Any strategy of precommitment must prevent policy makers from changing their minds once they have chosen a policy target — or else it will simply lack credibility and thus be ineffective.

The empirical evidence suggests that such a strategy works — and works for many countries.

One obvious question is why the lower inflationary pressure associated with greater central bank independence is not associated with poorer performance in terms of other macroeconomic targets? Surely it would be reasonable to expect lower growth in real GDP, and higher unemployment flowing from the anti-inflationary stance of the central bank?

However, such arguments take too static a view of economic growth. Central bank independence may improve the long-term growth performance of an economy since a central bank free from political pressure and interference has the capacity (and may be constitutionally bound) to act more predictably. Since its only focus is on price stability, with a minimum of conflicting objectives, its actions become predictable and anticipated by agents within the economy. As such, independence serves not only to create a more stable economic environment directly by its impact on price stability, but also indirectly by creating a stable and predictable institutional environment allowing for greater certainty about their longer-term forecasts.

Stability and predictability. It is this combination of requirements that raises some searching questions with regard to the Reserve Bank's actions amid the turmoil in currency markets over the past four weeks. Let us recap.

By May, forward rates were rising, discounting growing rand risk, while easing domestic rates opened up an arbitrage gap. The Reserve Bank must have supported the rand by supplying dollars to the foreign exchange market while providing liquidity to the money market. As a consequence domestic interest rates were prevented from reflecting rising risk perceptions.

During the course of May, the extent of currency intervention by the Reserve Bank rose, while domestic interest rates were kept artificially low. It is now clear that this triggered the speculative attack. Dollar demand rose rapidly, pushing the rand to 5,20 to the dollar, raising money market shortages, so that the rate on the R150 rose to 14,5% off a low of 12,4%. According to one commercial bank, by the third week of May cumulative intervention had reached $3bn (another places it at $5bn over the course of May), partly financed through borrowing and partly financed by the forward book.

The repo rate crept upward in stages from its 14,78% low to 20%, while the marginal rate rose from 16% to 33%.

June was worse. The repo rate cuts in mid-June signalled a reversal of the trend of rising borrowing costs. It was clear also that intervention by the Bank continued on a significant level.

Now consider the intervention by the Reserve Bank in the light of the requirement of predictability.

The opening of the arbitrage opportunity between forward rates and domestic interest rates signalled uncertainty as to the direction of monetary policy, and the absence of a will to accept rising interest rates in the light of international developments. Hesitant increases in the repo, and worse, reversals in the upward trend only strengthened this perception.

The net effect was the impression of a policy maker unsure of direction and the needed strength of intervention in the markets.

The unclear pronouncements on the nature and purpose of the intervention by the Federal Reserve and Bank of England added to this. The net effect was to create ideal speculative conditions: the opportunity for riskless movement of capital offshore in anticipation of a depreciating spot exchange rate. Use of official reserves was pointless under such circumstances and amounted to little more than a transfer of official reserves to the bottom line of speculators.

The SA Reserve Bank in Pretoria

The obvious question now is: what was required?

First, if forward rates reflected heightened risk perceptions, the domestic economy should not have been shielded by the use of reserves. Experience after the Mexican and European exchange rate mechanism surely tells us that it is futile to buck the signals of the markets.

The bank had two options. One was to allow domestic interest rates to rise to reflect heightened risk perceptions, with the resultant consequence for the real sector of the economy. The second was to allow the exchange rate to slide. But above all the Reserve Bank had to provide clear signals to the markets, as to how precisely it would deal with the unfolding situations. Transparency of the policy rule and its prospective actions would have allowed markets to identify a new equilibrium, and would have minimised the adjustment costs.

A clear signal would have been an unambiguous announcement to the markets that reserves would not be used to prevent a depreciation of the currency, coupled to a clear indication of the value of the currency implied by fundamentals. Markets should have been encouraged to find their own value of the rand. To signal the continued commitment to sound fundamental domestic macroeconomic management, short-term interest rates could have been raised to punitive levels for speculators. Short-term rates in excess of 100% would have eliminated profitable arbitrage opportunities and might have prevented the need for higher rates.

Independence of the central bank is desirable; not for its own sake, but because it improves the reliability and predictability of policy. It is these same reasons that favour transparency and accountability of the monetary authority: this seems to be a lesson we have yet to learn in SA.

□ *Fedderke is a professor in the Wits University department of economics.*

Microlending under the spotlight

Madeleine van Niekerk (68)

MICROLENDING, always a dirty word, has become a boom industry.

However, with many new players entering the industry, it could be heading for a sharp downturn, said Hendrik du Toit, CEO of Investec's worldwide asset management business, at the Global 24 Around the World conference yesterday.

SA's mushrooming microlending industry, with high lending costs, could be allowed to provide larger loans to clients following pressure to lift the usury ceiling, James Cross, deputy governor of the SA Reserve Bank, said yesterday.

He told the conference, jointly sponsored by Investec and the Johannesburg Stock Exchange, that the cost of borrowing from microlenders was the major concern. "The Reserve Bank's focus is to find structures so that microlending can be formalised. Something needs to be done."

Microlending had been highly successful in Bangladesh, where the payback rate was as high as 98%.

Mutle Mogase, who set up NuBank, Absa's microlending facility, and co-founder of Real Africa Investments, said NuBank has turned the corner. "We will start making money soon," he said.

He warned, however, that he had seen a great deal of impoverishment because of microlending.

There was keen debate on the instability of financial and investment markets. Speakers called for control over massive flows of funds into and out of countries with disastrous effects for economies and currencies.

BD 9/7/98

Microloans act can undergo changes

(58) BD 10/7/98

Madeleine van Niekerk

CHANGES to the Usury Act allowing microlenders to make loans of up to R50 000 from the current ceiling of R6 000 was being considered by the department of trade and industry, Nkululeko Sowazi, executive director of financial services group Theta, said yesterday.

He said that lifting the ceiling would boost the microlending industry and benefit small businesses dependent on loans from this source. Microlending covers loans below R6 000, which fall outside regulations and interest rate ceilings laid down by the Usury Act.

"We understand that the department is considering introducing one regulatory body with various chambers which will have representations from government, industry and consumer groups.

"Regulation will entail a code of conduct and will ensure consumer protection and it will discipline those entities that engage in unscrupulous lending."

Presently one can charge a maximum of 29% on loans of more than R6 000 and a maximum of 32% on credit card or current account loans under R6 000. There is no ceiling for personal loans under R6 000, and microlenders can set any rate they wish.

The Consumer Institute of SA has voiced opposition to the proposal by the department of trade and industry that certain exemptions from the Usury Act be allowed. This follows discussion and a draft proposal by the department.

The institute's executive director Diane Terblanche said she could see no justification for further exemptions to the Act.

She said the proposed exemption apparently stemmed from the assumption that the costs of making loans under R50 000 exceeded the costs that the lender could recoup under the current interest structure, necessitating an increase in the current ceiling of loans exempted from the Usury Act.

Terblanche said any such exemption was inimical to the interest of the consumer. "The exemptions proposed would negate the protection offered by the act and would make its existence futile," she said.

State in firing line over Tito debacle

Government dismisses talk that it allowed news of Mboweni's promotion to leak out, writes ANDREW GILL

ST(MT) 12/7/98

INCREASING criticism of the handling of Labour Minister Tito Mboweni's appointment as central bank governor has been dismissed by the government, which says it spoke to local and international private sector figures a week before the announcement.

The National Party and local financial market players have raised the prospect that news of Mboweni's posting was leaked well before the official announcement, forcing a decline in the rand as a direct result.

Government spokesman Joel Netshitenzhe told Business Times initial consultations outside official circles were conducted with the heads of the International Monetary Fund and about three major central banks about two to three months before the announcement.

But, he says, local and international private sector banks and businesses were not consulted until a week before.

Traders say that unease about succession at the Reserve Bank was plaguing the market for some time and that strong rumours of Mboweni's appointment surfaced in the local market up to 10 days before the announcement on July 4.

"It is not a question of malice, but it was unprofessional from a market point of view," said one bank treasury manager.

Azar Jammine, economist at Econometrix, said it was worrying that some local players may have made a fortune based on the information.

"It is a big concern if a few wealthy people make a fortune at the expense of hundreds of thousands of individuals who are struggling to make ends meet."

Deputy president Thabo Mbeki said on July 4 the government consulted international and local business and other leaders, but gave no time-frame.

Netshitenzhe says the NP's complaint effectively insinuates that an early leak came from the very top of the IMF or from one of the heads of the central banks consulted.

"The NP complaint is questioning the integrity of those (IMF and central bank) individuals," Netshitenzhe said.

Analysts say the reaction of the rand to the official announcement of Mboweni's appointment shows it is likely there was some inside knowledge of the appointment ahead of time.

The rand rallied sharply by Tuesday, soon after sinking to a fresh record low of R6.75 to the dollar in skittish Monday morning trade. However, by late Friday the rand came under renewed pressure, weakening to R6.45 from a week's best of just above R6 — apparently on the back of a negative report about the rand from a US bank. It recovered later to R6.38

NP leader Marthinus van Schalkwyk has referred the party's complaint to the Public Protector, Selby Baqwa, but Baqwa will decide whether to investigate by tomorrow at the very earliest.

Netshitenzhe said the initial consultations two to three months before the appointment did not include the private sector and were likely to have covered a range of candidates.

"There were no foreign private bankers consulted then."

Analysts and traders say much of the local market picked up the rumours of Mboweni's appointment on the Monday before the announcement — about the same time as the government says it undertook wider consultations.

Andrew Kinsey, chief dealer at ABN AMRO in Johannesburg, said the government should scale down its consultation process. "It really has nothing to do with the with any outside parties. It must be an independent decision," he said.

Traders say the talk that Mboweni's appointment contributed to the weakness in the rand in the week before the announcement is backed up by the quick recovery in the rand last Monday.

Pendulum continues swinging over Mboweni's appointment

By ALI MPHAKI

HE IS YOUNG, erudite, and as to be expected, highly ambitious.

This is Reserve Bank governor-designate Tito Mboweni, the man who will be taking over from Dr Chris Stals come August 8 next year.

Reactions to his appointment have been varied, with the pendulum swinging from apprehension to confidence.

Cynics continue to point out that Mboweni's appointment could undermine the independence of the Reserve Bank, and that his banking and finance background is less practical than theoretical.

The already jittery markets also responded negatively to his appointment, with foreign investors giving his appointment the thumbs down.

Although wishing Mboweni well in his new position, outgoing governor Stals in an interview three weeks before Mboweni's appointment, mentioned some reservations about a political appointee as his successor.

Stals felt his successor should have been chosen from the Reserve Bank itself and was worried the reaction to the appointment might have on the remaining staff.

Once again, financial establishments had preferred James Cross, one of Stals deputies, as he is someone with a solid banking background.

Stals had mentioned that it is a tradition in SA that the governor must be someone with a real banking experience, coming out from either a banking or a central banking background.

In the 78-year history of the Reserve Bank, there had been only seven governors, all from either a banking or a central banking background.

Supporting Stals' comments is that the Reserve Bank Act required that the governor must be someone with a "tested" banking experience, which is perhaps why Mboweni's appointment will only come into effect next year.

With the Rand's short term direction mixed, with some suggesting that the exchange rate could go below R6 to the dollar by end of the week, economists have predicted a slow recovery after this onslaught by speculators.

Mboweni has throughout the week played his cards close to his chest – cautious that any pronoucements he makes on the monetary policy might be costly.

"I will insist that staff continue to report to Stals, and that he is in charge of policy and management," Mboweni said.

Commentators say Mboweni's appointment was inevitable, although he did not appear on any of the lists which were punted.

Some sources say it was the foresight of deputy president Thabo Mbeki to appoint him to his new position, as he had "sulked" when President Nelson Mandela appointed Trevor Manuel as Minister of Finance.

With his job as Labour Minister almost complete, observers say Mboweni had reached the proverbial glass ceiling, and was itching for a position important enough to appeal to his sense of self worth and economic acumen.

Mboweni's academic credentials are unquestionable for the job that lies ahead of him, although some perceive him to be leftist in his outlook.

Mboweni's detractors quote the Labour Relations Act, the Basic Conditions of Employment and the yet to be processed skills development and employment equity bills, which they say characterise the perceived inflexibility of the South African labour market.

While debate will continue about Mboweni's appointment, deputy governor of the Reserve Bank Timothy Thahane is impressed by Mboweni's acumen.

Thahane, who first met Mboweni whilst in Lesotho in the early '80s, opines that for Mboweni to succeed, he will need the full support of the personnel at the Reserve Bank.

It's definately a long way from the rural environs of Tzaneen (where Mboweni was born 38 years ago) to the hallowed offices of the Reserve Bank. But for a man who for the last 20 years has focused on economics as a student and professional, Mboweni is expected to adapt to his new role like a fish in water.

As part of his professional development, Mboweni has also attended special courses such as the International Business Diplomacy course at Georgetown University, Washington DC, Banking and Finance at Goldman Sachs in New York, and a World Bank Public Finance course in Berlin.

He was also part of the ANC economic policy unit before and after the ANC was unbanned in 1990.

He is also the current chairperson of the OAU labour and social affairs commission of African ministers of labour.

The last word should belong to Mboweni: "If I doubted my ability to learn and work at the Reserve Bank, I would have told President Nelson Mandela I cannot do the job."

(58) 1 (ST.) CP 12/7/98

DEBT *Legitimate microlenders edge out loan sharks*

New riches in small loans to working poor

CT (BR) 13/7/98 (58)

ANTONY SGUAZZIN AND JASON FOLKMANIS

Daveyton — To Israel Vusi Mthimkulu, who runs a Caltex petrol station and food market in this township about 40km east of Johannesburg, borrowing from unlicensed money-lenders was a fast track to a mountain of debt.

So when Mthimkulu recently needed cash to rebuild after a robbery, he turned to one of a new breed of legitimate lenders that specialises in making small, high-interest loans to poor clients.

"They are quite willing to help you," Mthimkulu said. "I think their main objective is to empower those who haven't got enough working capital."

These microlenders are getting very rich by lending to the working poor at rates substantially less than what the loan sharks charge. Theta, the biggest company in this young industry, is one of the best performers on the JSE and has risen 218 percent, while the Johannesburg financial index has gained only 21 percent.

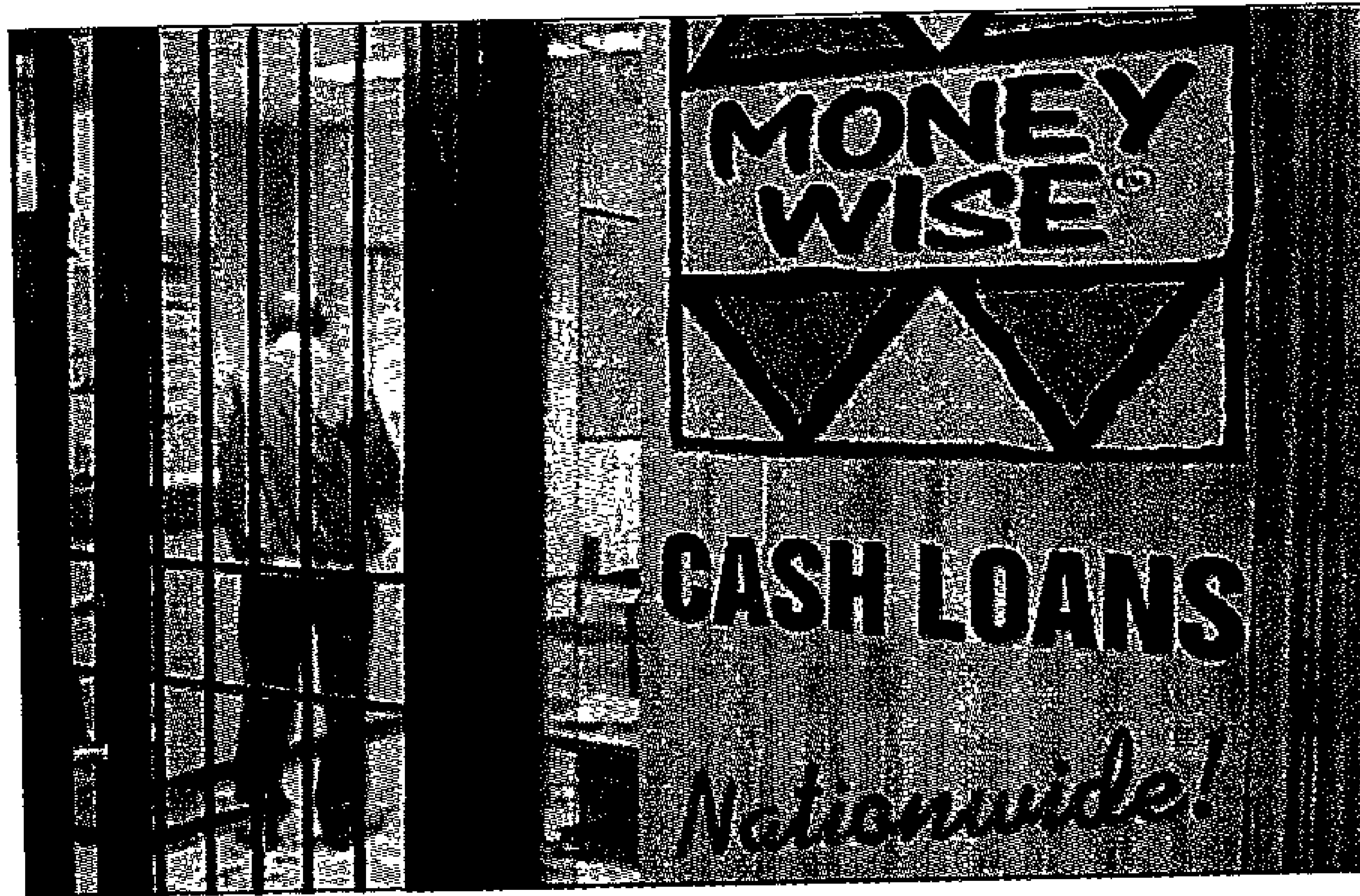
These new lenders typically charge interest rates between 30 and 40 percent, or six to 16 percentage points above the prime lending rate, on loans of six months to four years' duration. Loans of less than six months are available at 7,5 to 8 percent a month.

This new industry got its start in 1992, when a change in a banking law granted an exemption to the Usury Act, which abolished the 29 percent rate ceiling that lending companies could charge on loans of under R6 000. It made microlending profitable for companies like Theta, which has now grown into the 28th biggest company on the JSE with a market capitalisation of about R9,2 billion.

Theta's earnings for the six months to December 31 were 41 percent higher at R61,53 million from the year-ago period and reflect the success of a reorganisation last year when Theta pared most of its financial services operations to concentrate on lending to the working poor.

Companies like Theta have outsmarted established banks like Boland, South Africa's fifth-largest bank by asset value. The big banks are starting to learn from their small-fry competitors by forging alliances. Last month, Unity Financial Services, a Theta subsidiary that specialises in lending to low-income earners, merged with Boland PKS, the microlending subsidiary of Boland Bank, to widen the two companies' range of loans from 30-days to three and four years.

The potential for growth in this market is huge. Seventy percent of South Africa's population of 40 million is either unemployed or earns less than R800 a month, according to a report by the London-based Centre for the Study of Financial Innovation. — Bloomberg



AFRICAN-STYLE LOANS *A typical street advertisement by one of the new breed of microlenders*
PHOTO. REUTERS

Lack of access to credit a problem, says Rubin

(58) BD 15/9/98

Greta Steyn

US TREASURY Secretary Robert Rubin yesterday highlighted the lack of access to credit for small and medium enterprises as a problem for SA's financial markets.

He also praised SA's fiscal policy record and said that monetary policy had been successful "on the whole". He was less enthusiastic about the country's labour policies, saying ways had to be found to make labour markets more flexible, while protecting the interests of workers.

Rubin's health check on the SA economy was delivered on an African trip that started in Côte d'Ivoire last week. He is scheduled to visit Namibia, Mozambique and Kenya next on a tour that follows President Bill Clinton's landmark African visit in March. The emphasis of the tour is on building more efficient financial markets and improving economic governance.

The issue of access to credit came up at meetings with black businessmen yesterday afternoon and in a panel discussion in Soweto in the morning on microenterprise. "There is a great need and a great opportunity for financial intermediation in that area (small and medium business)," Rubin said later.

In a speech to Soweto students earlier in the day, he said the SA banking community did not serve the majority of the population. He touched a nerve in the banking industry by suggesting

Continued on Page 2

Rubin

(58) BD 16/9/98

Continued from Page 1

that US rules on lending disclosure and incentives to provide credit to poorer borrowers might be worth considering in SA. Banks have been fighting government proposals to implement US-style laws to monitor lending to disadvantaged communities.

Rubin said an important step SA could take was to develop a formal banking sector in which all creditworthy borrowers could gain equal access to credit.

Rubin's visit to SA comes after about two months of a relentless speculative attack on the rand which has wiped about 25% off the currency's value against the dollar this year and has pushed interest rates to 13-year highs.

Political resistance towards the SA government's conservative macroeconomic policies has deepened since the currency crisis set in and there have been calls for capital flow restrictions.

Rubin urged government to resist political pressure and to continue to pursue policies that would integrate it with the global economy.

In the Soweto speech, he said he could envisage the day when SA and the US could conclude a free trade agreement.

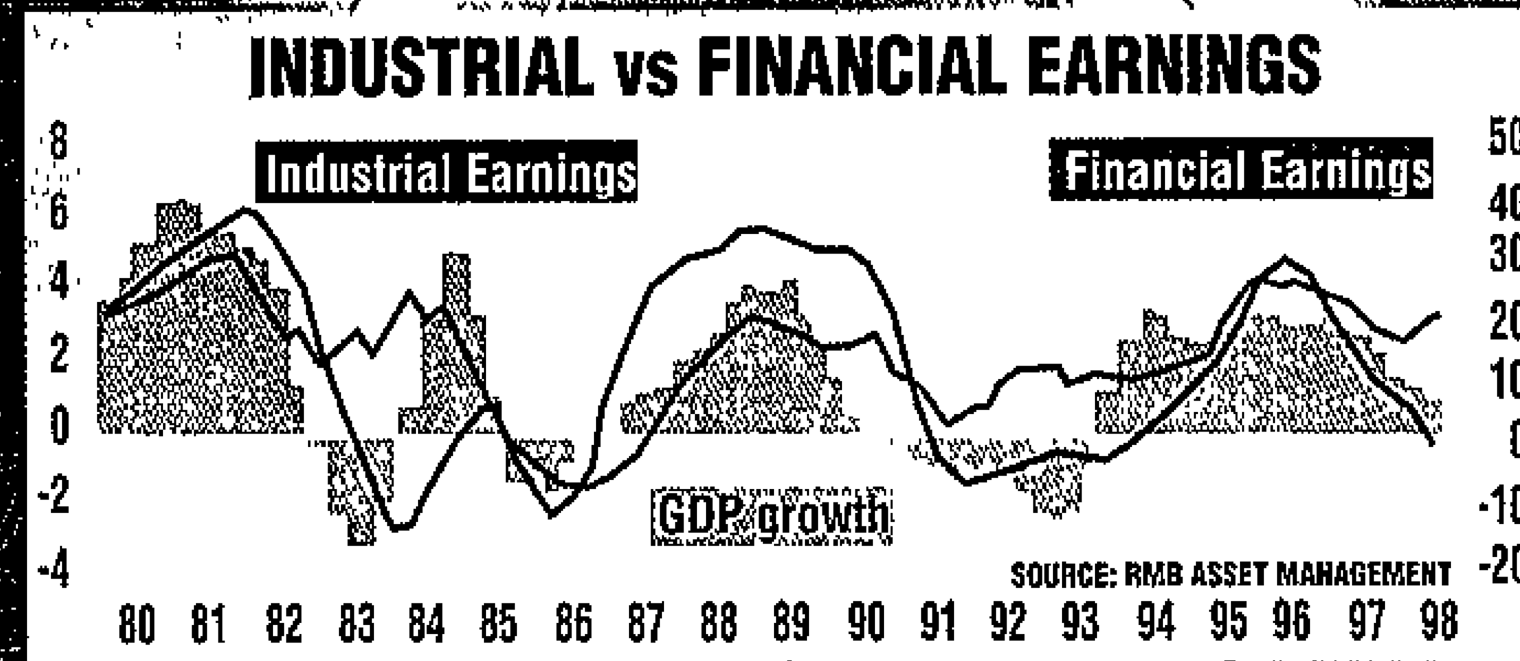
Rubin, who is a staunch opponent of controls on capital flows despite currency crises in emerging markets, said that sound macroeconomic policies were a prerequisite to achieving stability in the currency market. SA's monetary and fiscal policies were "on the right track".

"I know the recent pressure on the rand has raised questions in SA about the appropriate path to go forward. I believe strongly that SA should continue to follow the path of global economic integration," he said.

BANKS & FINANCIAL SERVICES

CAN YOU STILL BET ON BANKS?

What's wrong with the shares?



Before rand speculators dampened the spirits of the high flying banks and financial services sector, shares were rising . . . and rising. Many rose to record levels and p:e ratios soared to such heights that some very high expectations were placed on future earnings growth.

Sceptics wondered how long this euphoria would last and whether everyone had to get on to the bandwagon. P.es rocketed into the 30s, 40s, 80s and even 100s and the twitchier, more bearish types predicted a market correction.

They were right but for the wrong reasons. The appointment of Tito Mboweni as Reserve Bank Governor-designate, the collapse of the rand which hit a record low of almost R7/US$ at one time and the consequent rise in interest rates sent jitters through the economy. Economic growth forecasts became impossibly lower, expectations for the carefully-nurtured inflation rate became higher and analysts downgraded companies' earnings projections. The banks and financial services sector took a beating.

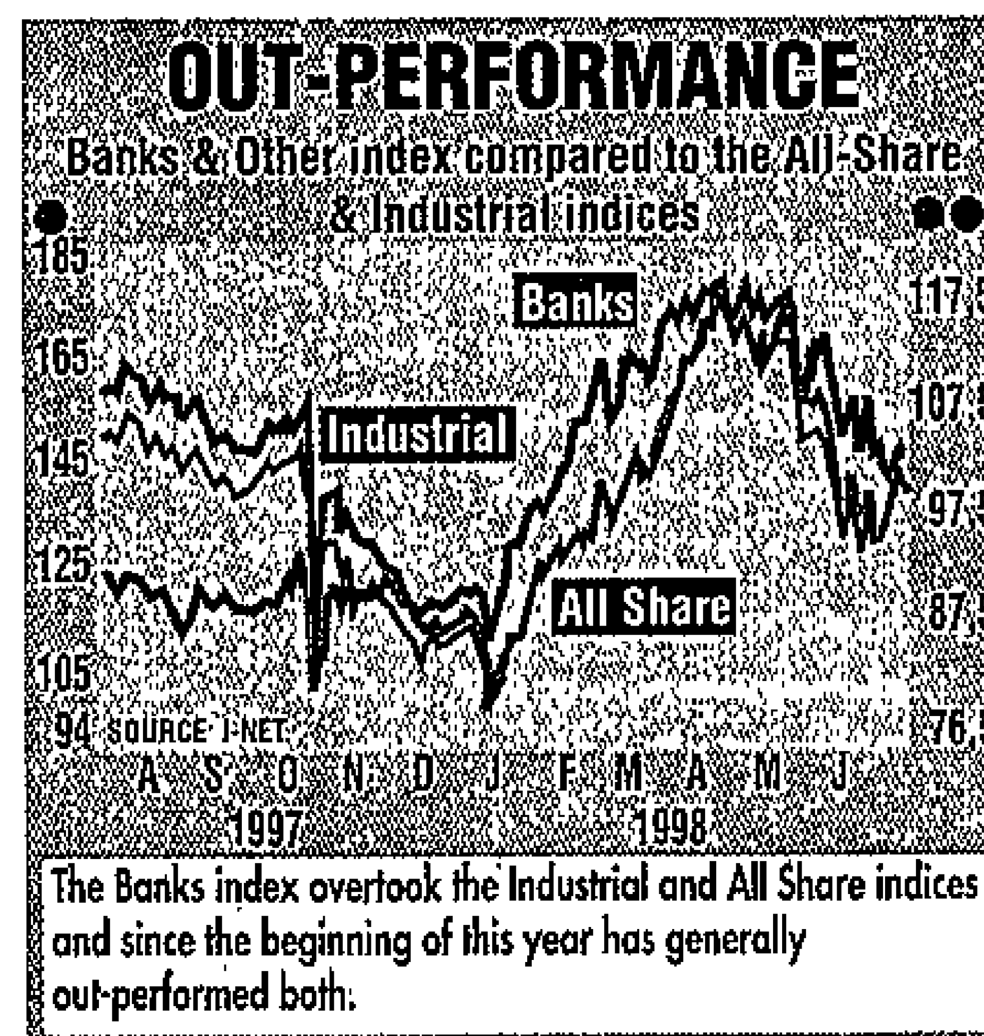
The big retail banks were the main victims as they would bear the consequences of high interest rates as their margins narrowed and consumers became over-awed by large debt commitments. Warnings of larger provisions for bad and doubtful debts were sounded as bankers nervously did their calculations.

Absa, Standard Bank, Nedcor and NBS Boland suffered. Even the niche banks were knocked off their perch though Investec, BOE and FirstRand can hardly be called niche in the true sense of the word.

Many of the smaller financial services groups like Real Africa Durolink (RAD), which listed in the midst of the market turmoil but doubled its pre-listing price in one day, and microlending expert Theta, have been more resilient than the bigger banks in the stockmarket downturn. Greater liquidity in big bank stocks is one of the reasons as many of the smaller banks' shares are tightly held and aren't so easy to buy back once they have been sold.

Now people are wondering whether banks and financial services can stage a comeback or whether they will suffer from poor economic fundamentals.

The lower rand and GDP projections will negatively affect many sectors of the economy (though some, like exporters, will celebrate the slide). But then, everything is relative. The impact of a declining currency will be far greater on the industrial and consumer sectors than it will be on the financial services sector



The Banks index overtook the Industrial and All Share indices and since the beginning of this year has generally out-performed both.

Financial services are more resilient to riding the storm of an ailing economy. Also, the bigger banks have the ability to smooth their results just as life assurers did a few years ago. In typical banking fashion they have the habit of slipping away reserves for a rainy day and pulling them out again when times are tough. Though earnings are expected to slow, they'll still be higher than in most other sectors — maybe 20% instead of 23% or 22% instead of 28%.

And while margins narrowed for a while, the only suffering banks really encountered was the criticism when they raised interest rates to widen their margins again. Bad debts will almost certainly increase but the amount depends on one's view of how long interest rates will remain high. One asset manager believes demutualisation could alleviate debt problems as people use the proceeds to pay off their debts rather than shop until they drop.

Though some analysts have downgraded their forecasts for the big retail banks, they generally remain bullish. However, one says the heydays of the Nineties are over as bank-bashing is becoming as fashionable as the bashing of life assurers. Consumers are becoming far more demanding and poor service is becoming less tolerable. More big bank customers could be lured away by smaller, niche players offering better service and more suitable products if the banks don't act fast in their market segmentation plans.

The outlook for the smaller banks is also

Private Client

Ben Temkin

DÉJÀ VU ALL OVER AGAIN

In the Sixties, on the back of the bull market in equities, one of the biggest pyramid scams in financial history took place. This was the notorious Investors Overseas Services (IOS) venture masterminded by American Bernie Cornfeld. The venture began with a single unit trust, expanded into a multiplicity of unit trusts and blossomed into a fund of funds. Along the line, the message of providing sound growth investments for members of the public became less than secondary to that of rewarding intermediaries.

In simple terms, the scheme worked something like this:

❑ Salespeople at the lowest level sold unit trusts, earning a commission;

❑ At the next level, the managers of a group of intermediaries earned an override (that is, additional commission) on the sales of their group;

❑ If the sales force was to grow, then it was all too obvious that not enough money was being generated to provide incentives to another level of salesmen — managers who would manage groups of groups of intermediaries. There wasn't any way that initial and service charges could be increased. This meant the pyramid could not grow. But Bernie was bright. He invented the fund of funds;

❑ With a fund of funds, there could be two lots of charges — on the fund that manages the underlying funds and on the underlying funds. What fun! There would be enough in the kitty for at least two more layers of the pyramid. The message went out — recruit, recruit, recruit. The more people a person could recruit, the higher up the pyramid that person could move. Huge motivational rallies were held under banners bearing Bernie's inspired slogan: "Do you sincerely want to be rich?"

The problem remained — the pyramid's levels were limited because there could hardly be a fund of funds of funds. Bernie was not stymied;

❑ He created a top level for the pyramid. At this level the intermediaries would be rewarded with shares in the management company. This would be publicly listed and turn them into instant millionaires, if not billionaires.

For the scheme to work, equity prices had to keep going up — otherwise investors would not buy units in the fund of funds, the key generator of income, nor even in the funds in the fund of funds. Everybody sincerely wanted to be rich, including the investors in the unit trusts. The latter's riches — indeed, everyone's — depended, however, on a bull market. Shame.

Bernie went to jail. Lots and lots of people lost money.

I'm telling you all this because I note that, just as the unit trust industry is about to deregulate charges, some of the management companies are introducing funds of funds. This could open the door to double-charging — the initial and service charges on the funds that make up the fund of funds, and similar charges on the fund of funds itself.

I suppose if you want all this expertise — selection and management of shares in first-level unit trusts and selection and management of the unit trusts that go into the fund of funds — with the added attraction of being able to switch funds when it's probably too late anyway — you have to pay.

For my part, I'll carry on being a private client.

Several people have asked me if I bought Concor on its drop after the Mpumalanga bridge collapse. I am tempted. At 1 230c, the share is on a p:e of 5,2 and a dividend yield of 6,2%. It has to be good value. I may buy if there's a signal on the charts.

I haven't yet bought Libhold yet. It refuses to confirm a buy signal.

upbeat. Merchant and investment banking transactions are still expected to remain buoyant and assets for management are not expected to dry up

My high-growth favourites remain those which are carefully niched in their own markets such as Peregrine and Specialised Outsourcing though there's always the danger of competitors entering a niche. Theta, which had more or less no competition in the formal microlending market, has now found itself in a fashionable market. But Theta's management and its historic success will keep its rating high. RAD is also highly rated though some analysts argue that, like AMB, their earnings could be volatile.

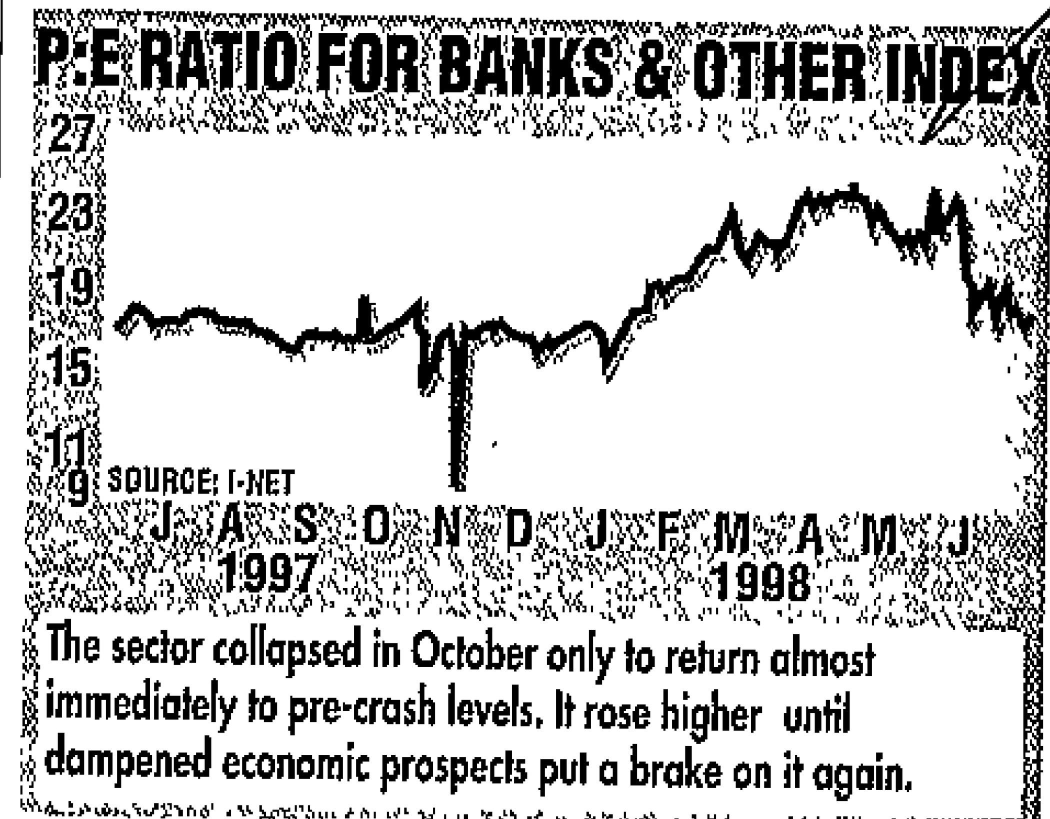
The problem is these favourites also just happen to be some of the most expensive in the sector. But there's always a price where a buying opportunity may present itself Though Brait has yet to be listed in its new format, it's also worth watching as is Coronation associate African Harvest.

Those which have taken sometimes large share price knocks and offer better value are the likes of FirstRand, Investec, Nedcor and BOE all of which have some of the best management teams in the country. BOE's restructuring hasn't been favourably received and the feasibility of the Momentum, Southern, First National Bank and Rand Merchant Bank relationship has yet to be proved But these shares should nevertheless be a buy Value could also be found in the likes of Absa if the cost cutting which goes with merging the four brand names is done properly

But competition is hotting up for both big and small If the economic scenario gets worse, I would predict some of the weaker financial services groups merging with stronger ones

All shares are expected to remain volatile for some time but when it's time for the comeback, banks and financial services are a good bet. Cash as an alternative .. well, that's another argument

Heather Formby



The sector collapsed in October only to return almost immediately to pre-crash levels. It rose higher until dampened economic prospects put a brake on it again.

Joint body to look at demutualisation

Reneé Grawitzky

BD 21/7/98

OLD Mutual and the Congress of SA Trade Unions (Cosatu) agreed yesterday to set up a joint subcommittee to investigate the implications of demutualisation, a union source said.

This emerged during a meeting involving the senior leadership of Cosatu and an Old Mutual delegation led by MD Gerhard van Niekerk to discuss the federation's growing opposition to the demutualisation process.

Cosatu and Old Mutual remained tight lipped about the outcome of the meeting which occurred ahead of the parliamentary debate this week on the demutualisation bill.

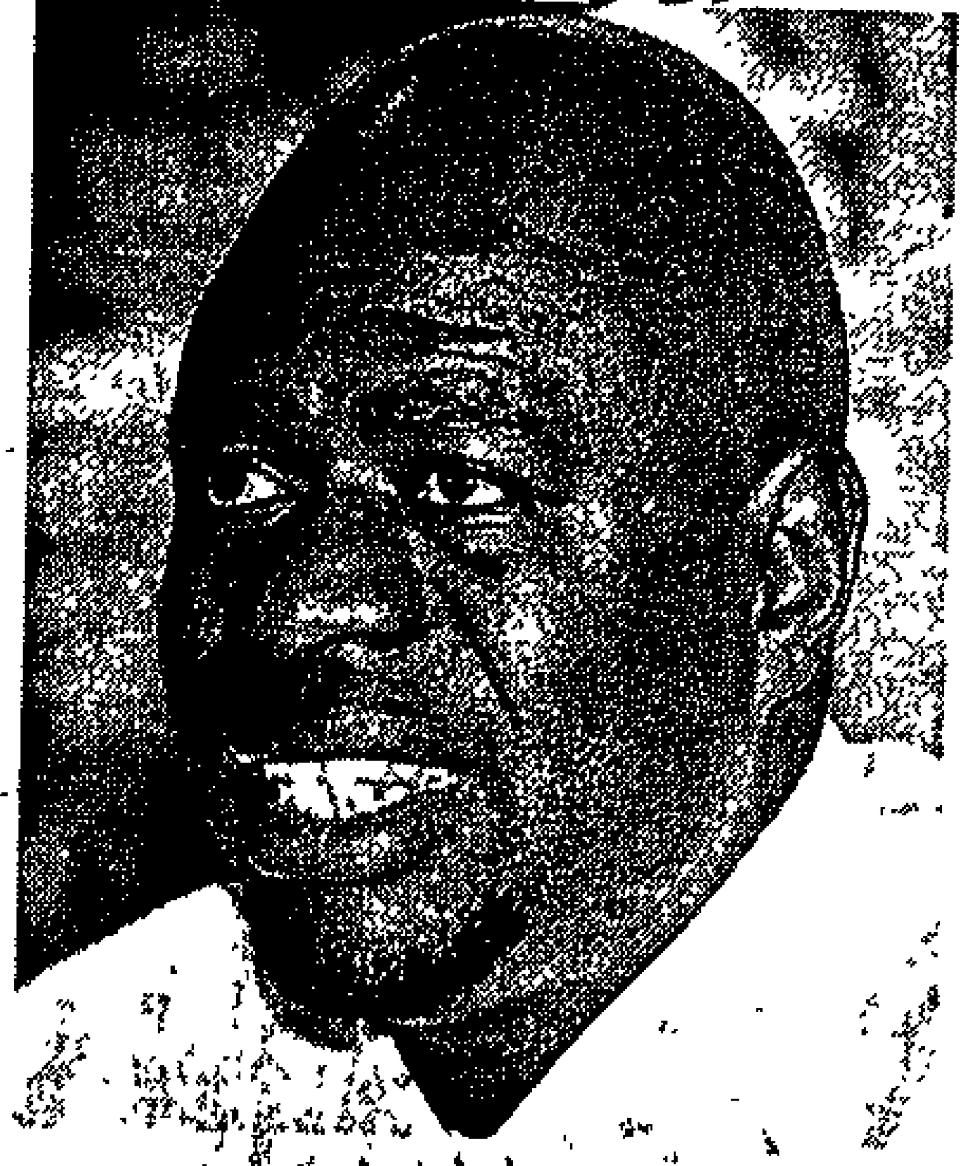
Old Mutual spokesman Stephen Bowey confirmed that the meeting had taken place, but refused to divulge any details save to say it "formed part of the ongoing relationship with Cosatu".

Old Mutual said the meeting was "constructive" and that a range of issues had been discussed, including demutualisation. Union sources said, however, that the parties were unable to agree on the concept of demutualisation and had therefore agreed to set up a joint subcommittee, which would meet next week.

The move occurs in the wake of a decision by the federation's central committee meeting last month to challenge the demutualisation process.

The central committee meeting coincided with reports that Old Mutual planned to make its primary listing on the London Stock Exchange, not in SA, when it demutualises next year.

In the wake of this report, Cosatu general secretary Mbhazima Shilowa urged delegates to adopt a resolution rejecting demutualisation if it would lead to capital flight out of the country.



SHILOWA

Mboweni 'brings key advantages to bank job'

AHG 22/9/98

BUSINESS EDITOR

The appointment of former Labour Minister Tito Mboweni to head the Reserve Bank could turn out to be a "master-stroke", a top economist has suggested.

BOE economics consultant Rob Lee says there is no doubt that news of the appointment leaked into the financial markets in the last few weeks and played a role in the rand's downward slide. But the markets' fears that Mr Mboweni may shift the bank from its tight monetary policies are probably exaggerated, he says.

"First, Mr Mboweni is about to embark on a steep learning curve and the Reserve Bank staff, the world's top central bankers and foreign investors among others will be pounding out the message of the need for monetary orthodoxy and acceptance of the market system.

"In any event, once in office his freedom of action will be greatly constrained by the power of global financial markets," Mr Lee says.

He points out that in the United States, the appointment of central bankers is often politically inspired and the present head of the US Federal Reserve, Alan Greenspan, is a known Republican Party supporter first appointed by a Republican president (Ronald Reagan).

Mr Mboweni, says Mr Lee, brings key advantages to his job at the Reserve Bank.

Because he comes from inside the governing circle, he will find it easier to co-ordinate monetary policy with key aspects of Government policy than an outsider would.

And his credibility within the African National Congress and its constituency means that he will carry weight when he insists on the need for tight monetary policies and unpopular measures such as high interest rates.

New focus for city hospital

Libertas goes psychiatric

JENNY VIALL
HEALTH REPORTER

ARG 23/7/98

(58)

Libertas Hospital in Goodwood, a private hospital focusing on rehabilitation, is to become a specialised psychiatric hospital.

All other medical disciplines will be moved to N1 City and Wynberg hospitals.

This forms part of a consolidation process by Network Healthcare Holdings (Netcare), which took over hospital group Clinic Holdings last September.

The building housing Libertas Hospital was originally built as an office and shopping complex and was not intended to accommodate a hospital, says Herman Leyenaar, Netcare's Cape regional manager.

The design and layout were not conducive to rehabilitation.

The spinal unit is to be moved to Wynberg Hospital on the Main Road to provide a more accessible service.

"Libertas Hospital owes its reputation to its exceptional doctor base. Every effort will be made to relocate these specialists to other Netcare facilities," Mr Leyenaar said.

Netcare was "wholly committed" to the Western Cape.

"This is evident in the R9-million upgrade at City Park Hospital and R14-million expansion of N1 City Hospital.

"N1 City Hospital is to increase its number of beds by 88. In addition, substantial upgrades of N1 City Hospital's existing trauma and intensive care units are scheduled for completion in November," Mr Leyenaar said.

Netcare has also launched a project to upgrade facilities behind the Wynberg library aimed at making parking safer.

Road Accident Fund continues to slide into red

(178)

Vuyo Mvoko

BD 24/7/98

CAPE TOWN — The Road Accident Fund continued to slide further into the red, with an accumulated deficit of more than R7 233m, a report tabled before Parliament said yesterday.

The state-run fund — previously known as the Multilateral Motor Vehicle Accidents fund — arranges compensation to victims of car accidents arising out of the wrongful driving.

Yesterday's report, covering the financial year ending April 10 1997, said that despite an increase in fuel levies imposed on August 7 1996, the fund's income totalled R1 548m, drawn from levies of R1 439m and an investment income of R110m.

However expenditure amounted to R2 434m, taken from R2 376m in claims and R59m in administration expenses.

The imbalance in income and expenditure caused an operating loss of R886m, which increased the fund's accumulated deficit to R7 233m.

According to the fund, some statistics contained in the report dated back to 1993 and had changed to show a steady increase in income from the fuel levy and investments. There was also an increase in claims and administration costs.

The fund staff's workload had increased fifteenfold.

Fund chairman Piet Botbijl said that while net cash flow remained positive at R264m, it was expected to become negative in two years unless further increases were imposed on fuel levy rates.

Botbijl is believed to be pinning his hopes on the "definitive" white paper on the fund which is understood to have been completed and to be ready for tabling before cabinet.

Transport ministry spokesman Didi Moyle said the paper could be tabled before cabinet next week. She said she could not comment on the legislation until its tabling.

Reforms that have been proposed for the fund include a 60% cap on savings, as well as a regular increase of at least 9% a year in the fuel levy.

Another proposal was that a portion of the money that went to the fund be used to prevent accidents that give rise to claims.

Loan approved: Page 9

Money-lending, watch out for baddies

In just more than two years, between 1995 and 1997, the number of micro lenders in South Africa grew by a phenomenal 280 percent. Interest rates vary from 30 to 100 percent but many poor people still flock to these lenders – and may get stuck in a debt trap.

By Gordon Freer

MICRO lending is a fashionable topic. There has been a scourge of articles on this topic recently and the efforts of different players around the redrafting of the Usury Act and the Banks Act, which will allow micro lenders to take deposits and, hopefully, lead to lower interest rates.

This issue was further highlighted by United States treasury secretary Mr Robert Rubin's recent visit to South Africa, calling for greater access to micro credit.

There is no denying that there is a market for the industry and that it is a thriving business, but there are many types of micro lenders out there, good and bad.

To assist in differentiating between them, here are some guiding questions.

It is estimated that between 1995 and 1997, the micro lending industry grew by an enormous 280 percent. Interest rates can vary from a conservative 30 percent a month to a more lucrative 100 percent a weekend.

Often practitioners are quick to point out that they are not "loan sharks". This then begs the question: "What makes a loan shark?"

Many practitioners are registered with the Micro Lenders Association (MLA). This gives them a veneer of respectability.

The MLA is a self-regulating body with whom practitioners must be registered to enjoy the benefits of such useful practices as payroll deductions.

However, it does not detract from the fact that as long as the client agrees, the cash-lender can charge any interest rate, over any time frame, and property (even income-generating property) can be held as collateral.

Repayments are guaranteed using a variety of methods. One of the most abusive occurs when the practitioner makes withdrawals directly from the client's account using the client's ATM card and PIN number.

The MLA officially discourages this practice.

"Why do people borrow from places that charge such high interest rates at such unfavourable terms?" is question two.

The traditional banking sector regards the borrowers as high risk, the size of loans they want are usually tiny in comparison to traditional banking standards, and the term of the loan is usually short, creating exceptionally high administrative costs.

This makes these clients a non-viable market for the commercial banks.

Why borrow?

The crux of the matter revolves around question three: "What is the money used for?" If the money was used for productive purposes, the chances are the clients would soon transcend the need to borrow on unfavourable terms.

However, the loan is usually directed towards a more mundane, but still vital end use – consumption. Clients use the money to purchase items of a non-productive nature.

They buy food to feed their families, provide clothes for their children or pay school fees.

In the saddest of cases, they use the money to back their favourite filly in the next race.

The money that is brought in with the next pay packet is used to repay the loan.

The next step is to approach the money lender for a further loan to see the family through.

And so the cycle continues. Those in the know call it the debt trap.

Question four: "Are there other lenders out there?" Lending money for consumption is one of the easiest ways to ensure clients come back to you – after all, they have to eat.

Lending for production or development is something that requires a little more skill and dexterity.

There is an alternative and it is widely practised throughout South Africa, generally among the poorer communities.

Those in the know call it micro enterprise finance. This involves taking on the allegedly high-risk clients, assessing their skills, their needs and options and financing their business start-up plans.

It involves being available to them to assist with regulatory red tape that threatens to stifle their initiatives, and standing with them while they go through the excruciating first few months of running their own business.

Hand-holding

It involves encouraging and mentoring but steers clear of indulgent hand-holding.

It also involves celebrating with the clients when their business succeeds and there is enough money to expand into a new enterprise or to buy new stock.

Finally, it involves building high ethical business standards, teaching skills in areas where they are most needed and focusing attention where a lack of focus has been the norm for years.

"Isn't this all a little altruistic?" is question five.

Surprisingly, the answer is "No." Not if by altruistic you mean benevolently giving away time, money and resources.

This alternative returns the initial capital outlay plus interest many times over.

First-time clients return time and time again to borrow money as their businesses grow and expand.

The loyalty the institution showed in risking an investment in the person is repaid many times over.

However, it is a little more long-term than the "immediate-gratification-short-term-returns" option of consumption lending.

But it also has advantages. This method invests in people, their skills and their futures. It returns its initial investment, plus interest and builds people's lives.

It does not break its clients to a point where they fear being unable to repay their debts or wonder if they can feed their children the next day. Those in the know call it empowerment.

(The writer is the programme manager at the Alliance of Micro Enterprise Development Practitioners. He writes in his personal capacity.)

Sowetan 28/7/98

CAPE ARGUS, THURSDAY, JULY 30, 1998

Loan sharks face tough new curbs

Regulator set to protect public

(68) ARG 30/7/98

THABO MABASO
BUSINESS REPORTER

The Government has tabled plans to toughen controls on the micro-lending industry, in a bid to protect consumers from loan sharks, some of whom have been found to be charging 4 000% a year interest.

The Department of Trade and Industry's deputy director for consumer credit and financial services, Astrid Ludin, told the parliamentary portfolio committee on trade and industry yesterday that changes to the Usury Act, which governs the conduct of of lending institutions, could include the creation of a regulatory body for money-lenders.

All lenders would have to be registered with the regulator, which would be financed and administered by the micro-lending industry.

A registrar would be appointed to ensure that lenders heeded the rules of the body.

"The critical question is how can the level of protection from exploitative practices afforded to consumers be increased while simultaneously creating greater access to finance for people who do not have access to the formal banking sector?"

Lenders that flouted the rules of the regulatory body would be removed from a list of approved companies. She said some companies were charging interest rates as high as 4 000% a year.

"The objective would be to put in place a regulatory framework to ensure that consumers have increased access to credit at reasonable interest rates and receive good service and fair treatment," she said.

The proposed regulations require lending companies not to charge fees for loans that have not been received, to bar the use of violence and illegal or unethical methods of debt collection and to encourage the signing of standard loan agreements.

Ms Ludin said the changes to the regulations had been necessitated by a huge growth in the micro-lending industry since 1992.

"The current exemption of loans under R6 000 (from the Usury Act, since 1992) has undoubtedly created an enabling environment for the growth and development of the industry." The R6 000 exemption ceiling would be lifted to R50 000.

The new regulations may be enacted in January. "Consumers are afforded minimal levels of protection and have no recourse to correct these practices, as the existing exemption effectively deregulated the market completely – 'everything goes' at the moment," Ms Ludin said.

COMMENT & ANALYSIS

Bank leads by example in transformation

The Development Bank of Southern Africa's turnaround has been dramatic and multifaceted, writes deputy editor **Bernard Simon**

IAN Goldin will have some explaining to do tomorrow when he presents the Development Bank of Southern Africa's latest annual report to Deputy President Thabo Mbeki.

The bank's mandate is to finance infrastructure development, with the aim of improving the lives of the poorest of southern Africa's poor. Yet the figures to be published tomorrow will suggest that the bank is making money hand over fist.

The bank is expected to disclose that its operating surplus doubled in the year to March 31 1998 from R103m in the previous financial year. The overall surplus, taking into account various special items, was even higher.

Goldin is likely to make no apologies for the improvement. He is likely to point to a remarkable transformation at the bank in recent years, ranging from improved lending margins to higher employee productivity and rising demand for its services.

Goldin recalls that when he took over as chairman in May 1996, the bank — once a vehicle for propping up apartheid's homelands — was "coming out of an existential crisis". There was even talk of letting it die a quiet death.

The bank has survived, but only after a top-to-toe shake-up still reverberating through its head office in Midrand.

The upheaval shows signs of bearing fruit. The value of projects approved by the bank has soared to R15,7bn in the 18 months to March 1998, from R2,7bn in the previous year and a half. The bank's own contribution has climbed to R6,1bn from R1,4bn.

Progress is reflected across a broader front than lending volumes. The number of projects given the green light within six months of application has risen from a quarter to 56%, and the number of bank clients has grown from 200 to 545.

The bank has also gone some way towards applying normal banking principles, such as commitment fees and cancellation penalties, to its business.

"The way we work has completely changed," says Fazal Saib, a regional manager.

Previously, "everything was committee-based". Now, individual managers can approve projects of up to R7,5m, with only Goldin's signature needed for projects of up to R25m.

Saib says a R7m infrastructure project in Harrismith was processed in just two weeks. At the same time, the bank has also become increasingly active in other parts of southern Africa.

Yet the bank's growing financial strength and operational efficiency are only part — and arguably not the most significant part — of its transformation.

The bank has launched one of the most aggressive affirmative action campaigns among SA employers. The proportion of management jobs filled by blacks and women has jumped from 28% to 68% within the past three years.

As part of this process, some white managers have been moved into nonmanagement jobs; others have left.

The bank is also one of the few SA employers — if not the only one — which has come up with substantial payments to compensate employees for past racial and gender discrimination.

As part of the shake-up, 65 operating units have been compressed into 21, one of four management layers has been cut, and the number of managers has been reduced from 74 to 27.

The bank's total workforce has shrunk by about 6% during the past two years.

According to Oupa Mokuena, chairman of the bank's affirmative action committee, "the essence of transformation was not to shift the chairs, but to ensure that some of the chairs came out of the room".

The bank "has changed, and is changing for the good", says Mvula Lolwane, who heads the local branch of the SA Commercial and Allied Workers' Union, which represents about 60% of employees. (Lolwane does, however, criticise management secrecy.)

The transformation process was designed for maximum staff participation. Besides the eight-person "transformation" team, 41 other groups were set up to examine topics ranging from the bank's interest-rate policies, to gender and affirmative action issues.

In addition, Goldin set up a 25-person "grading" team to reassess every one of the bank's 470 jobs. The team included representatives of the in-house affirmative action committee, women's forum, and staff association, as well as outside consultants.

The transformation process has not been without problems, big and small.

About half-a-dozen employees have appealed to the Independent Mediation Service of SA against their new job gradings.

Although the overall affirmative action numbers may be impressive, the bank has struggled to find blacks and women for professional jobs, such as engineers, accountants and financial analysts. Blacks currently fill 45% of these grades, and women 28%. The bank has set targets of 60% and 40% respectively by 2000.

Other employers have poached many of the bank's best and brightest people — black and white. Only three of the transformation team's eight members still work for the bank.

The most contentious part of the recent upheavals has been the exercise to correct "anomalies", in other words, past discrimination.

In consultation with the affirmative action committee, management last year identified about 200 people, or about 41% of the workforce who qualified as "anomalies".

White male salaries were used as a benchmark to determine compensation for previously disadvantaged employees. With the help of outside consultants, payouts were calculated on the basis of such criteria as level of entry, qualifications, years of experience and exposure to training. Experience was equated with formal qualifications.

The bank has so far made cash payments totalling R2m, and another R3,4m was set aside for salary adjustments last April. The payouts were, in Goldin's words, "slightly progressive", with lower grade employees generally receiving the biggest amounts.

Not everyone is happy with the process, including some blacks and women who have either been excluded from the anomalies exercise, or feel they deserve more.

"It hasn't ended," says Makgoshi Sindane, head of the bank's affirmative action and gender unit. "It needs continuous information and management."

Not surprisingly, disaffection with the transformation process as a whole has been greatest among the white Afrikaner men who once dominated the bank.

Dirk Swanevelder, formerly the bank's treasurer and a member of the transformation team before he moved to the private sector last September, says, "I never really had any problem with the transformation process." Yet he says most of his former white Afrikaner colleagues still at the bank are "not very happy".

Despite these complications and pitfalls, Goldin is satisfied. "Restructuring of this kind could and should be done by private companies," he says. "The real story is not only that it's been done, but that it's unlocked a huge amount of constructive energy in the bank. My sense is that one can achieve fundamental transformation and deliver simultaneously."

(58) 30/7/98

Ian Goldin

Development Bank: before and after

	04/95 - 09/96 (18 months)	10/96 - 03/98 (18 months)	Change
Total value of projects approved (Rbn)	2,7	15,7	+487%
Total DBSA contribution to projects approved (Rbn)	1,4	6,1	+325%
Total operational costs as percentage of total income	24%	13%	-46%
Number of clients at end of period	200	545	+173%
Percentage of management filled by affirmative action appointments	28%	68%	+143%

Graphic: KUBEN DAVID Source: DBSA

Transport Minister Mac Maharaj has recommended the scrapping of immediate plans for a major restructuring of the Road Accident Fund

Why the judiciary has to save accident fund

The cabinet's decision to scrap plans for restructuring the Road Accident Fund and submit the process to judicial review is a tactical retreat for Transport Minister Mac Maharaj, writes Cape editor Alan Fine

BD 30/7/98 (58)

ONE of the hallmarks of an effective revolutionary is the wit to know when to advance and when to retreat.

Conventional politicians tend to be to be less willing to retreat, because of the danger of losing face, but Transport Minister Mac Maharaj, in recommending to the cabinet scrapping immediate plans for a major restructuring of the Road Accident Fund, shows he has forgotten none of those skills acquired in an earlier era.

The case for change is indisputable. Only last week the fund — previously known as the Multilateral Motor Vehicle Accidents Fund — reported a R886m deficit for the 1996/97 financial year, taking the accumulated deficit to more than R7,2bn. The deficit continues to grow at R1bn a year.

A central feature of earlier draft white papers was, initially, the adoption of a fully "no-fault" system. Claimants would not have to run up huge legal fees to prove nonculpability for the accident.

By the time the second draft was published early last year, the department — to take account of administrative and practical obstacles to a wholesale switch — was opting for a switch initially to only a partial no-fault system as a transitional step.

Either way, the intention was to reduce the huge amount paid in legal costs. The department estimates that an amount nearly equal to half the deficit — or about 20% of fund disbursements — accrues to a relatively small group of specialist "third party" lawyers.

All victims, including those who have to pay substantial legal fees to establish who was at fault, would be entitled to an adequate measure of free medical care and loss-of-income compensation.

The second main recommendation was to cap at R4 000 a month the income on which loss-of-income compensation would be based. Little more than 15% of beneficiaries (80%-85% earn less than that) would be disadvantaged while a huge proportion of total disbursements would be saved because the top 8% of claims account for 60% of total payouts.

The result, Maharaj and then director-general Ketso Gordhan argued at the time, would be a more equitable, affordable and sustainable "third party" system. Wealthier commuters could supplement loss-of-income benefits through private insurance if they wished.

The "only" other catch was that the common-law right of a accident victim or his dependants to sue the person responsible for damages would be scrapped.

All seemed ready to roll — the last anyone heard was that legislation was to be put through Parliament this year.

Legislation there will be, and urgently dealt with too, but it will be a far cry from the intended radical if gradual transformation of the fund. Instead it will establish a judicial inquiry to take yet another look at how to do the job.

For Maharaj, the draft white paper proposals ran up against three serious potential obstacles: one constitutional and the other two practical. The constitutional problem is, of course, the abrogation of a common-law right.

The irony is that the gradualism which the second draft proposed is the source of the problem. Departmental legal advisors were confident that the initial proposal would survive a constitutional challenge because the quid pro quo for the elimination of the right to sue for damages would be the introduction of a vastly more equitable system.

However the proposal in the second draft, because it did not go as far as the first, offered far less equity. As a result its Constitutional Court prospects were far less certain.

Add to that the administrative difficulties of the fund running a dual fault and no-fault system simultaneously. This would have been necessary for at least the four to five years it would take for claims under the current system to be processed and finalised. It would probably have required the establishment of a separate, costly administration.

The third factor that forced the retreat is the power of the lobby for the status quo. It is rare for disadvantaged groups like the disabled to be offered so much voluntary support. However, they found themselves overwhelmed by offers of assistance by, particularly, lawyers — coincidentally mostly lawyers whose speciality is third party insurance.

New organisations were established to represent the disabled, and helped to bus them into the parliamentary complex for demonstrations against the proposed changes.

The same lawyers would have had the resources to gum up the works of a restructured Road Accident Fund for years to come.

All of which was enough to prompt the retreat, but that begs the question: What can a judge and two others with expertise in welfare and financial matters learn and devise in a year that three years of intensive research and strategic planning by one of the best endowed departmental bureaucracies could not?

In terms of substantial new information, that remains to be seen. Transport ministry hopes are, though, that recommendations by a judge will at least take into account the constitutional and legal factors.

More importantly, they hope it will take the political edge off proposed changes to the fund and give them an additional form of moral authority.

Competition heats up for slice of SA banking

(58) ET (BR) 30/7/98

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — South Africa was overbanked by foreign banks, according to 68 percent of respondents in Price-waterhouse Cooper's latest survey on foreign banking in South Africa, Brian Metcalfe, the survey's author, said yesterday.

Metcalfe is also associate professor of management and marketing at Canada's Brock University.

His research was conducted with the co-operation of the heads of 28 major foreign banking groups in Johannesburg in May. The groups comprise commercial and investment banks from the US, the UK, Holland, France, Germany, Switzerland, Japan and other countries, and are representative of the 75 banking groups that operate here.

"For the first time competition from other foreign banks has been cited by these banks as a difficult aspect of their operations here," said Metcalfe. He said the perception was a sign of the maturing of the market.

"So we can expect some shake-out and re-evaluation of opportunities in the market."

In addition to greater competition among the foreign groups, the identification and recruitment of good personnel remained a major difficulty for most of those consulted.

The US, British, Dutch, German and Swiss banks had markedly less difficulty with the regulatory environment than their French and Japanese peers. The survey was conducted before the appointment of Tito Mboweni as the governor-designate of the Reserve Bank.

Metcalfe asked the banks to rate each other's strengths in various categories. Deutsche Morgan Grenfell was the most highly rated bank in the equities and corporate finance categories, ahead of Merrill Lynch. The US banks carried off the prizes in the bond market (JP Morgan), treasury (Citibank) and correspondent banking (Chase Manhattan).

ABN Amro was the top-rated bank in corporate banking and trade finance and Societe Generale led the pack in project finance and structured finance.

SA insurance association is worried about inertia selling

CT (BR) 30/7/98 (58)

Audrey D'Angelo

Cape Town — The South African Insurance Association (Saia) is concerned about inertia selling — whereby unscrupulous brokers arrange for banks to deduct insurance contributions from clients' accounts without prior consultation, leaving it up to the client to cancel the arrangement — Barry Scott, Saia's chief executive, said yesterday.

He told a media briefing that moves were being led for the compulsory registration with Saia of all independent short-term insurance brokers to prevent such abuses.

'Some of these intermediaries set themselves up in a room at home, then just move on'

Stressing the need to ascertain that anyone representing himself as a broker was duly registered with Saia, Scott said complaints were sometimes received against people who had called on a householder to sell insurance and who could not be traced.

"Some of these independent intermediaries set themselves up, operating from a room in their homes and then move on."

Scott said inertia selling as such was not against the law and often succeeded because people did not study their bank statements and were unaware of deductions, or because they did not bother to cancel the arrangement.

However, during the past year, five fraudulent cases had come to light in which brokers had arranged for deductions for non-existent polices which were not backed by any insurance company.

In one such case the perpetrator had stolen a tape with details of another broker's clients and their bank accounts.

Discussing the work of the short-term insurance ombudsman, Scott said the launch of this office five years ago had resulted in insurance companies becoming more aware of clients' difficulties and misunderstandings.

Following improvements in their procedures, companies were now rarely in the wrong in cases which reached the ombudsman. This reversed the position when the office was first set up, and findings were mostly in favour of the complainant.

"The ombudsman has acted as the conscience of the industry," said Scott.

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Bank 'will stay independent'

BD 30/7/98 (58)

Linda Ensor

CAPE TOWN — Government would not interfere with the workings of the money market and the constitutionally enshrined independence of the Reserve Bank, Finance Minister Trevor Manuel said in Parliament yesterday.

He was responding to a question by Inkatha Freedom Party (IFP) MP Kisten Rajoo as to whether he would consider asking Reserve Bank governor Chris Stals to reduce the lending rate to banks so that the rate charged to their clients could also be reduced.

Rajoo also wanted to know whether Manuel could request a policy of low interest rates for first-time homeowners, noting that high interest rates would result in 18 200 home repossessions this year alone.

He complained about the high profit margins of commercial banks, which collectively earned a net after-tax profit of R5,5bn last year.

Manuel said banks had to make sound lending decisions and remain profitable to protect deposited funds. Southeast Asia was a stark example of the failure to submit to this regimen.

In another interpolation, Deputy President Thabo Mbeki rejected accusations by the National Party that the leakage by government of information about the pending appointment of Reserve Bank governor-designate Tito Mboweni had resulted in currency speculation.

In fact, he said, the certainty about Stals's successor had contributed to greater business confidence.

Mbeki also referred to Stals's statement on Tuesday that he had been fully informed about the process of the appointment and that he had confidence in Mboweni.

(7·5)

Insurance Amendment Bill is passed

CT (MR) 31/7/98 (58)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The national assembly yesterday unanimously passed the Insurance Amendment Bill aimed at protecting South African consumers from unscrupulous foreign firms in an increasingly globalised world.

However, Gavin Woods, the finance spokesman for the Inkatha Freedom Party, warned that this would not be the last time the Insurance Bill would have to be amended to protect consumers.

"Let us not for a moment believe that this bill will conclusively deal with the question," he said.

"Once the lifting of exchange controls gave the foreign linked suitcase insurers the scope to engage in selling foreign insurance without incurring the costs of a locally registered office, there was always going to be creative minds," he said.

"These minds will remain active even after the event of this legislation. Transactions will continue and expand by outmanoeuvring this amendment by working through correspondence, telephones, the papers and the Internet.

"Future amendments will have to become equally creative," he said.

Earlier, Trevor Manuel, the finance minister, said the bill would protect consumers against unregistered foreign insurers or unregistered agents by preventing them from conducting business in South Africa.

They exposed the local insurance industry to unfair competition and did not comply with local regulations, he said.

"This is not about the protection of the South African insurance industry as it seeks to provide consumer protection," Manuel pointed out.

Ben Turok, an ANC MP, said that while foreign competition was sometimes helpful by making the banking sector, for example, more competitive, it could also be detrimental if it was not controlled.

Momentum, Southern Life to operate as a single business

eT (MR) 31/7/98 (58)

Richard Stovin-Bradford
Banking Editor

Hillie Meyer

Laurie Dippenaar

Johannesburg — Momentum Life and Southern Life, the merged life assurance arms of RMB Holdings and Anglo American Corporation in the FirstRand stable, would operate as a single business while retaining the two separate brands, Laurie Dippenaar, the chief executive of the merged companies, said yesterday.

"We're investigating putting them into one legal entity," he said.

But no decision has been made on a name for the merged business, which will have one board and senior management team and 1,5 million contracts under management.

Dippenaar said Southern Life Asset Management, whose "core and satellite" investment style differed from that of RMB Asset Management, would be left intact.

"It's nice to have another runner in the race with a different investment style."

Dippenaar said FirstRand's strategy was to improve revenue and profitability through a two-pronged marketing thrust in the assurers' target market segments.

Costs would be reduced by merging the assurers' back offices over the next 18 months on to a single information technology platform.

Hillie Meyer, the managing director, said Momentum would concentrate on the upper-income market, where customers had more complex needs and relied more on the advice of financial advisers.

Momentum would therefore retain its existing broker-based distribution channel and conduct administration from its head office in Centurion.

Transforming DBSA cuts back, ups its lending 87%

ST (BT) 2/8/98 (58)

DEVELOPMENT CAPITAL

By ANDREW GILL

THE Development Bank of Southern Africa almost doubled its lending in the past year, outstripping even the most upbeat estimates and growing infrastructural spending exponentially.

The DBSA, which is coming out of a period of major transformation from its apartheid roots as a homeland bank, approved lending of R4.3-billion in 1997/8, up 87% from R2.3-billion a year earlier. Chief executive Ian Goldin said the bank was surprised by the extent of the growth, especially in view of the transformation process which has seen employee numbers substantially reduced with a focus on efficiency and affirmative action. He said it was unlikely that the current financial year would show such strong growth.

The bank has doubled productivity on almost every measure. It has cut management positions to 27 from 57 since October 1996 and the number of management positions filled by blacks and women has risen 83% to make up three-quarters of management.

Goldin says the bank's success should be measured by the impact it has on the communities it serves. "In the past year, 987 000 households in 72 SA urban areas benefited from DBSA projects which included upgrading water supply and sanitation, roads, electrical reticulation and institutional and social services."

The most striking turnaround at the bank has been the sharp increase in co-funding of projects.

For every R1-billion approved by the bank in 1997/8, another R2-billion has been contributed by other parties — private, government and donor — to create a total project value of some R13.5-billion. This compares to a ratio of under one just a year before. Much of this improvement comes from the DBSA's move outside SA to other SADC countries. While loan approvals of R2.3-billion within SA contribute the bulk of total project value of R4.1-billion, approvals of R1.96-billion in other SADC countries represent only 21% of project value of R9.4-billion.

Goldin says R2.2-billion was disbursed in 1997/8 against R1.4-billion a year earlier. The combined job creation effect of the 1997/8 disbursements and approvals is 54 000 direct jobs. The bank is budgeting for disbursements to grow on average by 10% a year and in 1998/9 provision has been made for disbursements of R2.5-billion.

The bank has already accepted new loan commitments in the pipeline of some R4.67-billion.

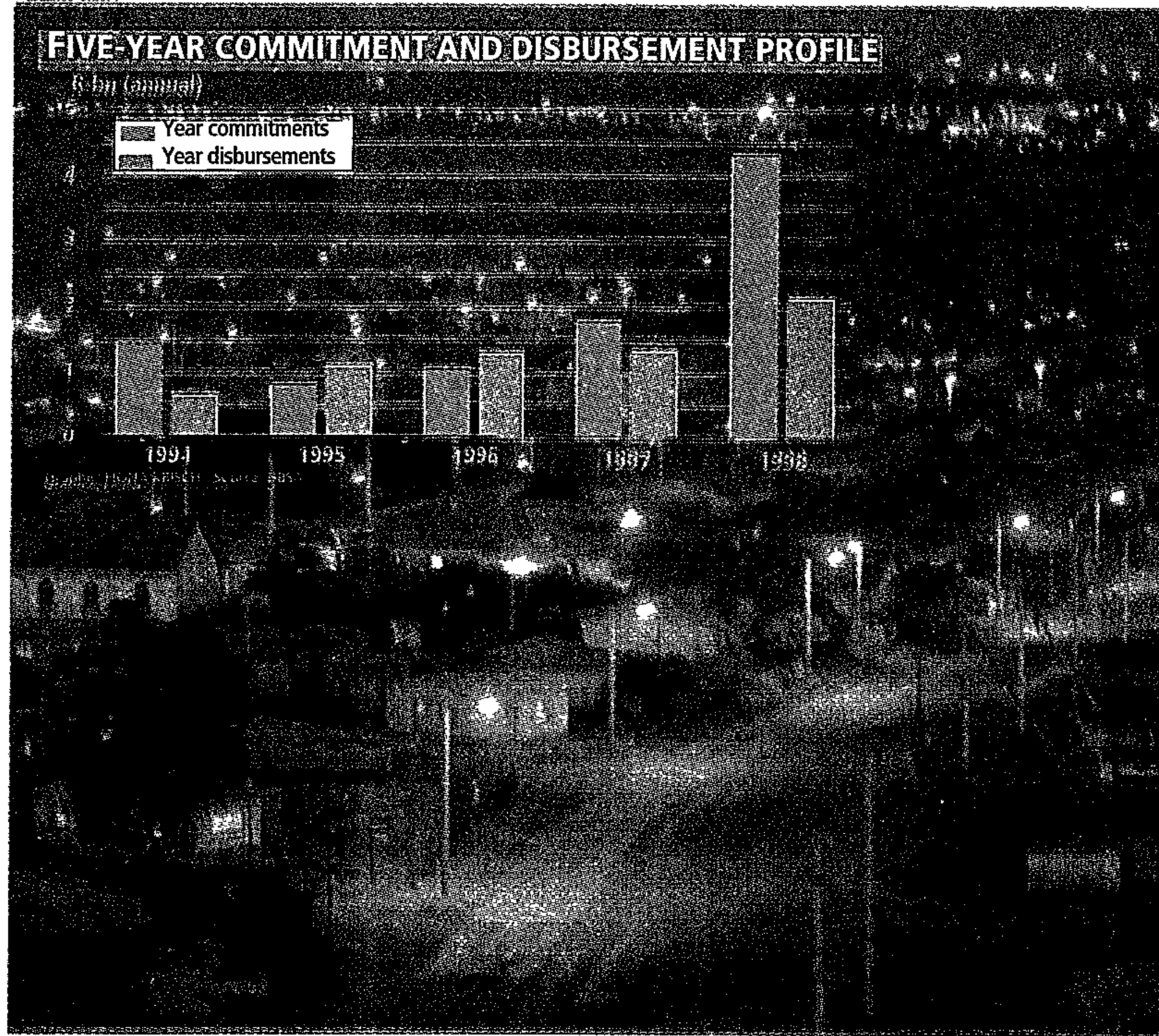
The DBSA lends over 40% of its funds to local authorities and Goldin says that despite the widespread attention given to potential bad debts, the argument carries little weight at the bank. He says none have had debts written off and expects potential write-offs to be minimal in the current year.

Overall bad debt write-offs in 1997/8 was a negligible 0.04% against 0.4% in 1996/7. The bank makes provisions of 7% of its development loans for bad debts.

The bank reported a 317% higher surplus for the year of R427-million, R250-million of which is considered exceptional.

About 95% of DBSA funding is raised at commercial rates on the capital markets, and about half of this is from offshore lending.

The bank has delivered well ahead of expectations in the last year and Goldin says the only possible constraint to further strong growth in lending is linked to internal capacity.



SA's big banks are losing market share

(58) BD 3/8/98

Madeleine van Niekerk

SA's large banking groups are losing market share in total credit extended, according to statistics submitted by banks to the Reserve Bank.

Analysts say this is largely a result of fierce competition by smaller banking groups and international banks.

Arend Brink, banking analyst at brokerage EW Balderson, said it was also because of a tendency by the big banks to focus internally in the wake of mergers and acquisitions, "less effective client service in comparison with the niche banks and ultimately the reaction time to the changing market environment tends to be slower".

Year-on-year comparisons indicate that Investec and Standard Bank are gaining market share on the mortgage lending side while Absa, First National Bank (FNB) and Nedcor are losing.

Absa's share of the mortgage loans market fell to 32,7% in the March quarter from 34,5% in the same quarter last year; FNB dropped to 10,4% from 11,1%; and Nedcor fell to 13,9% from 14,8%. Investec's share rose to 2,5% from 2,1% and Standard's increased from 17,0% to 17,3%.

On the instalment finance side, New Republic Bank, Fidelity and Saambou gained market share. New Republic Bank's share rose to 0,4% from 0,2%, Saambou's was at 1,1% (1,0%) and Fidelity's was 0,7% (0,6%).

FNB, Standard and Saambou lost some market share in the overdrafts and other loans category, with FNB having 17,9% of the market against 18,3% the previous year, Standard 22,5% (24,8%) and Saambou 0,3% (0,4%). Absa increased its share to 23,2% (21,5%) and Investec's share rose to 4,0% (3,0%).

In the credit cards category, Absa's market share dropped to 16,8% from 17,3% and Standard's share fell to 20,9% from 29,1%. FNB's share rose to 24,9% from 24,5% and Nedcor also gained, to 29,4% from 24,4%.

On a quarter-on-quarter basis Absa regained substantial market share in mortgages for individuals, but was still losing out on other mortgage lending business, overdrafts and other loans.

"We still believe the entry of the foreign banks and other niche banks will continue to stimulate competition

Continued on Page 2

Banks

(08) BD 3/8/98

Continued from Page 1

locally — banks recently broke ranks and started to offer different rates on the different product lines," Brink said. Local competition would be further encouraged by the far cheaper cost of entry "and some further repositioning will continue".

Analysts say the big banks have been losing market share to smaller banks and foreign banks for the best part of three years. "It is clear from their public presentations that they are losing," one said.

Another reason for their loss of market share was that they were a bit more careful regarding the type of business they took on their books.

BANKING *'Tight ship' policy yields productivity at Development Bank*

Transformation enhances delivery

(58) CT (BR) 3/8/98

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — The Development Bank of Southern Africa (DBSA) has given the strongest indication yet of its pivotal role in enhancing delivery on regional infrastructure financing and job creation.

The bank said last week it had approved a record R4,3 billion of funding and had disbursed R2,2 billion of loans in the year to March 31.

The 87 percent leap in loan approvals and the 58 percent surge in disbursements were the fruits of increased productivity following the bank's 18-month transformation of business practices and "tight ship" financial, operational and human resources policies, said Ian Goldin, the chief executive.

"A direct result of the disbursements is approximately 20 000 new and sustainable jobs created in South Africa alone ... with an estimated 34 000 additional jobs anticipated through the projects approved last year," he said.

Trevor Manuel, the minister of finance and DBSA governor, said: "The context in which the bank works is probably more important than its performance.

GOOD NEWS *Ian Goldin (left) and Thabo Mbeki are more than pleased that the DBSA has been instrumental in creating 20 000 new jobs* PHOTO SELWYN TAIT

"We ask the DBSA to operate fearlessly as a development finance institution, catalysing development in a particular way," he said.

The bank achieved a total surplus of R427,4 million for the year, helped by R250 million of exceptional items. The headline surplus was R177 million, a year-on-year rise of 72,9 percent.

Goldin said the total surplus would be recycled. It showed the bank was now self-sustaining. It would not require transfers or subsidies from the government.

"The bottom line is that we're a parastatal that's financially independent, and we're going to remain so," he said.

"The government hasn't had to give us any money for three years and we don't get any state guarantees. But more important still is the leveraging effect of the DBSA's lending, because it acts as a catalyst for other lenders to development projects."

These lenders now put in R1,60 for every rand lent by the DBSA, a 77 percent increase over the period prior to the transformation programme.

Goldin said the quality of assets, totalling R11,9 billion, had improved significantly. The growth in disbursements had been matched by a "prudent" 372,6 percent increase in risk provisions. Loan loss provisions were a "conservative" 7 percent of the development loan book.

Write-offs, in spite of loans to 120 local authorities, fell to a "very low" 0,04 percent of the book against last year's 0,4 percent as a result of better risk appraisal and management.

Cosatu steps up crusade on Old Mutual, Sanlam

(58)

FRANK NXUMALO

CT (PMR) 3/8/98

LABOUR EDITOR

Johannesburg — The Congress of South African Trade Unions (Cosatu) fight against the demutualisation of financial services companies, including Old Mutual and Sanlam, gained momentum last week when the National Economic Development and Labour Council (Nedlac) management committee agreed to put it on its agenda of issues for this year.

More than 1,8 million Cosatu members are expected to march on the two financial services companies on August 25 and 26.

The effect of Cosatu's marches on the Umsobomvu Trust, a youth employment creation fund that is to be set up with 2,5 percent of free reserves at the time of the listing of the demutualised companies, is not clear.

An Old Mutual spokesman said the company was in discussions with the labour federation over the issue but details were still confidential.

Nedlac said it would set up a task team to "look at concerns raised by labour on demutualisation" including a proposed primary listing on the London Stock Exchange.

Leaner bank doing more business

(58) Sowetan 3/8/98

By Isaac Moledi

THE Development Bank of Southern Africa (DBSA) has made record loan disbursements of R2,2 billion and approved new loan commitments of R4,3 billion in its financial year ending March 1998, the bank's chief executive Dr Ian Goldin said on Friday.

Compared to disbursements of R1,4 billion and approvals of R2,3 billion in the previous year, these figures represented an increase of 58 percent and 87 percent respectively.

This was the bank's first financial report after the DBSA Act was passed in April last year.

Confirming the bank's new mandate as a development bank in the Southern African Development Community region, Goldin said productivity, measured across a range of indicators, more than doubled.

"This is indicated by the significant increase in activities achieved while staff numbers decreased from 494 to 465 and real operating expenditure was held at zero percent real growth," he said.

Goldin said the results were achieved because "during the past year, DBSA vigorously pursued its development mission while continuing its transformation to achieve this more effectively".

"Last financial year, internal aspects of transformation inevitably dominated the agenda.

"During 1997-98 there was a greater focus on delivery and on the bank's relationships with its clients," Goldin said.

Deputy President Thabo Mbeki says the DBSA has benefited millions of South Africans

Deputy President Thabo Mbeki said during the occasion that more than one million households across the country benefited from the DBSA's infrastructure funding during the year in focus while more than 780 000 housing subsidies were approved by February this year. About 500 000 houses were nearing completion.

Last year alone, 424 000 houses were electrified and 360 000 telephone lines were connected by Telkom in underserviced areas.

This resulted in the creation of about 250 000 job opportunities through construction and maintenance of municipal infrastructure projects by the Consolidated Municipal Infrastructure Programme (CMIP), Mbeki said.

Concerning the bank's participation in the Southern African region, Mbeki said it funded smaller infrastructure projects and co-funded large-scale projects and programmes such as the Lesotho Highlands Water Scheme, the Maguga Dam, the Botswana North-South Water Carrier project and the Mozal aluminium smelter in Maputo.

"The bank contributed to employment creation and promoted community participation, skills transfer, and small business development and addressed environmental concerns, sound financial planning, and institutional capacity building," he said.

Mbeki said as the region was poised to enter a period of social and economic transformation, "we believe the DBSA is ready to support the infrastructural imperatives of the Reconstruction and Development Programme at national and regional level".

As governor of the DBSA, Finance Minister Trevor Manuel said he was happy to report that the bank had not cost the taxpayers a cent since 1994.

"In fact, it has invested more than R9,5 billion for development, raised mainly from the markets.

"In the past year alone, it has succeeded in virtually doubling its activities and productivity, while maintaining its financial independence and sustainability," Manuel said.

Bank must attract new investment — Mbeki

BD 3/8/98 (58)

Mzwandile Jacks

ABOUT $15bn-$25bn would be needed to address regional backlogs in transportation, telecommunications and energy by 2005, Deputy President Thabo Mbeki said at the weekend.

Mbeki said at the release of the Development Bank of Southern Africa's annual report that because governments in the region would not have all the resources to address the problem, public-private partnerships would be required.

"Optimal use of resources from multi and bilateral financial institutions and development finance institutions in the region are imperative.

"As one of the primary funding agents of infrastructure in the Southern African Development Community region, the bank's role is pivotal. It must act as a catalyst to mobilise international and private sector funding for investment in infrastructure in the area."

The bank approved R4,3bn in loan finance for 148 projects and disbursed R2,2m in the past year.

About 34 000 jobs are expected to be created in SA by these loan approvals, the bank said. During the past year, about 20 000 jobs were created in SA by disbursements.

Headline earnings lifted to R177m (1997: R103m) while total assets were R12bn at year end. The bank said the positive cost recovery policies resulted in an 830% increase in noninterest income, which grew to R11,2m.

The total surplus increased 317% to R427m of which R177m is normal and R250m accounted for by exceptional items. Loan loss provision is 7% of development loans, but write-offs were curtailed to 0,04% of the portfolio in 1997/98.

CE Ian Goldin said he was confident about the bank's performance. During the period under review the bank cut management positions from 57 to 27 and reduced staff numbers, pursuing an aggressive affirmative action policy.

"We believe that transformation and delivery go hand in hand. This performance indicates that we are transforming more than other parastatals.

"Our cost structure is far below that of private banks, showing that we are more efficient than the private sector."

Finance Minister Trevor Manuel, who attended the release of the annual report, said the government, in partnership with the private sector and parastatals such as the development bank, had to meet the challenge of overcoming the infrastructure funding gap for development.

The bank had not cost taxpayers a cent since 1994, he said. "In fact, it has invested R9,5bn for development, raised mainly from the markets."

The Development Bank of Southern Africa released its annual report on Friday. Attending the function in Midrand were bank CE Ian Goldin, left, and Deputy President Thabo Mbeki. Picture: ANDY KATZ

Demutualisation could bring government R5bn

(58) BD 4/8/98

Linda Ensor

CAPE TOWN — Government could benefit from a windfall gain of about R5bn over the next two years as a result of the demutualisation of Old Mutual and Sanlam, Sanlam chief economist Jac Laubscher said yesterday.

A finance spokesman said the R5bn — or part of it — had not been included in this year's revenue projections outlined in the March budget.

Laubscher said the R5bn would come from additional revenue from VAT and import duties (about R1,5bn) and higher company tax generated as the newly-created shareholders spent the proceeds of the sale of their free shares.

This amount excluded the approximately R1bn which would flow into the Umsobomvu Fund for job creation, derived from a 2,5% levy on the value of the free reserves of the two life assurers at the time of their listings. The reserves of Sanlam and Old Mutual are estimated to be about R10bn and R30bn respectively.

Laubscher expected R12bn — equal to 8% of 1997 retail sales and 4,5% of personal consumption expenditure (excluding services) — to be spent over a period of 18 to 24 months as a result of the two demutualisations.

Addressing the National Council of Provinces' select committee on finance on the demutualisation of Sanlam, Laubscher said the economic effect of the two demutualisations would be experienced mainly next year and in 2000. Growth in gross domestic expenditure over the two-year period would be 1,5% higher than it would otherwise have been, and growth in gross domestic product about 1% higher.

As a large part of the spending will be on durable and imported goods, it could have a negative effect on the balance of payments. However, Laubscher said, this would be more than offset by the inflow of capital as foreigners bought shares and as foreign institutions adjusted the weighting of SA in the indices.

He said stability appeared to have returned to the rand. It was encouraging to see differences of opinion emerging among large institutional players in the market as to whether it was over- or undervalued. The currency was trading in a range of between R6-R6,50 to the dollar and could fall below R6 again as portfolio investments began to flow back into the country.

High interest rates would knock consumer spending this year and the current account on the balance of payments could be in surplus by the fourth quarter, creating an environment for a decline in interest rates during the first half of next year. Laubscher forecast a repo rate of 18% by year-end.

While he was confident about a continuity of economic policy after the elections, a concern about this would probably restrain foreign investors from committing more funds and a further cut in interest rates might have to await the second half of the year. However, another 2%-4% drop in rates by the end of next year was possible.

Laubscher predicted a growth in gross domestic product of less than 1% this year and between 2%-2,5% next year. Headline inflation figures were likely to rise on the back of the sharp increase in mortgage bond rates, hitting 7% next month and 9% by the end of the year. They would drop back rapidly to below 5% by the end of next year.

Sanlam chairman Marinus Daling raised the possibility yesterday that the life assurer would raise capital at the same time that it demutualised and listed on the Johannesburg and Namibian stock exchanges, possibly before the end of the year.

A final decision would depend on the state of the market, he said.

A roadshow in Europe, the UK and the US was planned for November to introduce foreign investors to the life assurer, and to invite them to buy shares should a decision to issue shares be taken by then.

The primary listing would be on the JSE, but to make it easier for foreign shareholders to trade in their shares, american depository receipts might be issued in the US.

ROAD ACCIDENT FUND

GRAND HURRAH FOR MAHARAJ'S CHANGE OF DIRECTION

fm 7/8/98

(58)

Victory for rights of the individual

Transport Minister Mac Maharaj's aggressively promoted plan to reform the loss-making Road Accident Fund has collapsed. The Bill — based on the latest version of a White Paper — imposing radical changes substantially truncating the present system of compensation for injuries in road accidents has been scrapped.

Instead, government will appoint a three-member commission under the chairmanship of a High Court or Constitutional Court judge to re-examine the present system and to report back within a year.

For three years, Maharaj and the former DG of Transport, Ketso Gordhan, were deaf to arguments advanced by a host of opponents including the Bar, the attorneys' profession and the South African Chamber of Commerce who argued that the proposals were ill-advised and unconstitutional. Now Maharaj has conceded the point about unconstitutionality.

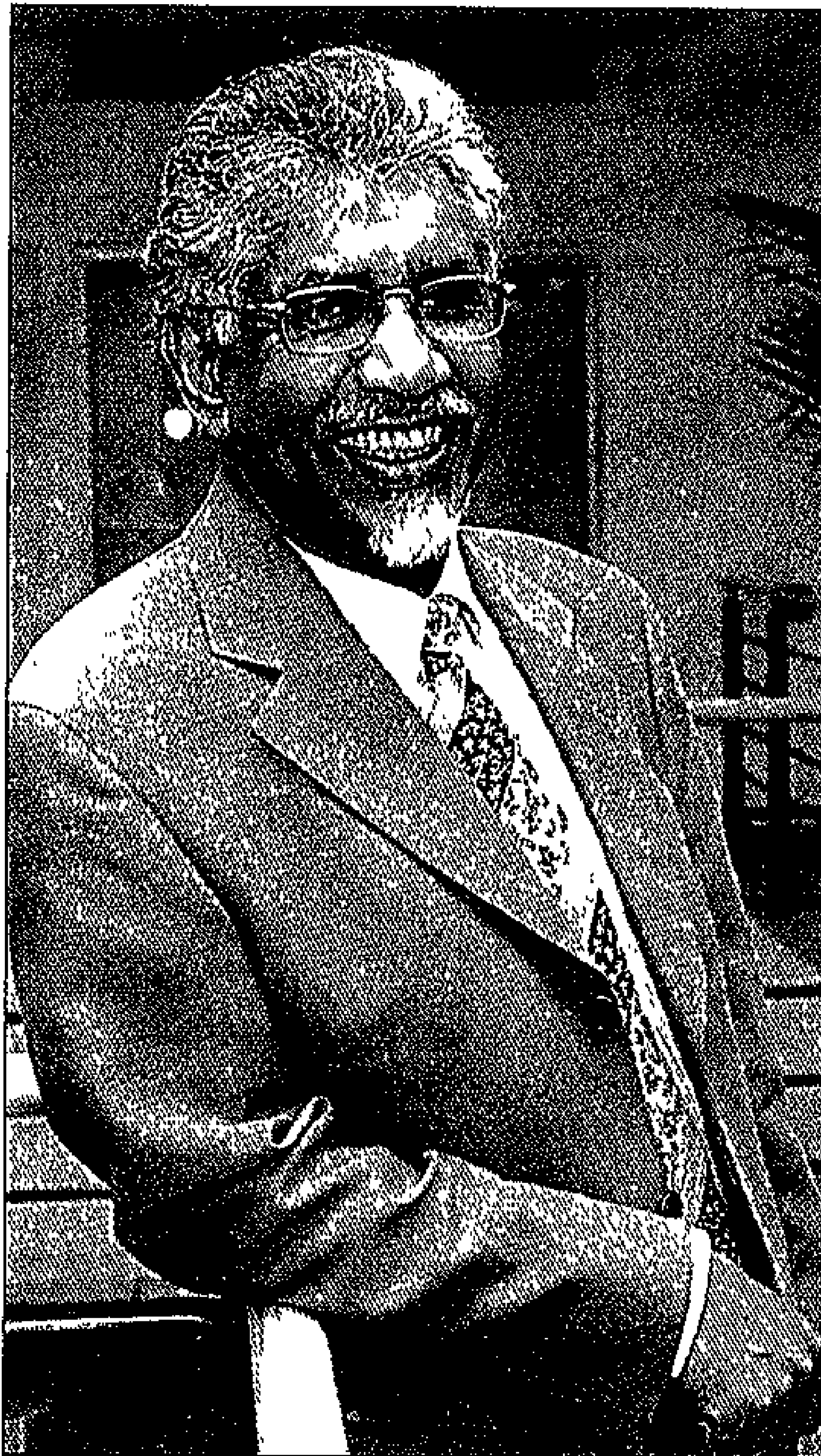
This outcome should be seen as a victory for the rights of the individual and of the Constitution. It is also a let-off for SA's middle classes, who would have had to choose between expensive personal accident insurance or exposing themselves to the risk of inadequate compensation. The proposals would have introduced an additional levy to finance the fund's increasing losses which totalled nearly R900m in 1996/1997.

Whether accumulated losses of over R7bn at the end of that accounting period reflected actuarial insolvency has itself been the subject of dispute.

The ANC should take to heart the significance of the concession by Maharaj that the Constitution effectively bars the deprivation of the common law right to sue the wrongdoer in the event of an accident, irrespective of the injured party's claim against the fund.

The argument that this right was worthless in the case of a wrongdoer without means was hollow, as no lawyer in his right mind will ever launch an action against a defendant "not worth powder and shot". The dark suspicion cannot be avoided that the hidden agenda was to protect the minibus taxi industry against future lawsuits. This proposed deprivation was regarded both by Maharaj and Gordhan as a cornerstone of the new system.

What made the plan even more perverse was that it was couched as an interim measure. This made its radical surgery even more incomprehensible. The most negative element was the capping of benefits for future loss of earnings at 75% of what was termed qualifying earnings. The effect of this was that those who had never worked and those working in the informal sector were deemed never to be able to earn more than R1 400/month. An additional absurdity was the effective exclusion of lawyers from the compensatory process (leaving the claimant, often poor and illiterate, at the mercy of a new cohort of bureaucrats within the fund)



Arnold Pronto

Mac Maharaj . . . should be complimented for swallowing his pride

Interestingly, Maharaj's "Drive Alive" campaign proved so effective in its first round that accidents and fatalities were reduced by a third in the 1997/1998 holiday period. What better way to reduce the payout for compensation than to cut the accident toll?

This campaign should be intensified. Until it bears fruit, road users will simply have to pay more to meet the obligations of the fund The levy is a user charge that covers the social cost of accidents and who better to bear the cost than road users, both drivers and passengers?

The petrol price has, in fact, been static in real terms for a decade and it will not be the end of the world if the levy increases for a time while accidents are brought down.

The appointment of a three-member commission headed by a judge is what government should have done earlier when it became apparent that the fund was in trouble. This body should strive to identify a practical mechanism for bringing the private sector back into the administration of the process for road accident compensation. This could be facilitated by incentives to set the profit motive to work once again to create greater administrative efficiency and so reduce the cost of the system, currently operating as a parastatal without the profit motive

There are also serious anomalies in the existing law which need to be removed — notably the cap of R25 000 on compensation for non-fee paying passengers. The concept of fault-free compensation, which was to have been partially introduced by the failed plan, is not of itself necessarily bad. The elimination of disputes over fault could reduce costs and litigation

A prediction can be ventured that the most important long-term consequence of this outcome is a warning to the ANC that the Constitution — after all, its own brainchild — is no dead letter but a general safeguard of individual rights against ill-considered schemes for social engineering and redistribution.

Maharaj should be complimented for the honourable way in which he has swallowed his pride and acknowledged error, so setting SA on the correct path to addressing these serious problems **Robin Friedland**

CAPE TIMES
WEDNESDAY, AUGUST 12, 1998

Money-lending industry in SA 'worth R15bn'

(58)

MELANIE-ANN FERIS

CT 12/8/98

JOHANNESBURG: South Africa's money-lending industry has an estimated annual turnover of up to R15 billion, the Micro Lenders' Association (MLA) said yesterday.

It was reported yesterday that Mark Thatcher, the son of former British prime minister Margaret Thatcher, has been running a money-lending operation in South Africa targeting poorly paid policemen, military staff, civil servants and traffic officers.

Registered loaning companies in South Africa provide loans of no more than 50% of the person's salary with a short-term lending interest rate of up to 30%.

An exemption in the Usury Act, however, allows micro lenders to charge any interest rates they like on loans of up to R6 000. Unscrupulous companies and loan sharks charge interest rates of up to 200% and then resort to unethical ways to recover the cash.

Loan companies say they are trying to bring the interest rate down, but this cannot be done unless the risk of lending money decreases. This can only happen when the industry is regulated.

Money-lending companies say they have cornered the market on instant loans to the previously "unbankable".

According to one loan company spokesman: "We provide crisis funding. The people who walk in here have nowhere else to go, after 20 minutes they can walk out with R1 000 in the pocket."

The Department of Trade and Industry is looking at ways to institute regulations, giving consumers better protection. However, it also wants to increase the amount that is exempt from the interest rate regulations in the Usury Act to R50 000.

These suggestions are being hotly debated by the government, consumer groups and the industry. The new legislation is only expected by next year.

Flip du Plooy, executive officer for the MLA, said companies registered with the association have to comply with strict codes of conduct. Bad practices by registered companies can then be investigated and reported to the bad practices council of the department, the Reserve Bank or the police.

According to Du Plooy, however, the industry will survive whether legislation exists or not as "there will always be people who need money".

esday August 12 1998

Loan industry turnover (68) worth R15-bn

Star 12/8/98

By Melanie-Ann Feris

South Africa's money-lending industry has an estimated annual turnover of up to R15-billion, the Micro Lenders Association said yesterday.

The Star reported yesterday that Mark Thatcher, son of former British prime minister Margaret Thatcher, has been running a money-lending operation targeting poorly paid policemen, military personnel, civil servants and traffic officers.

By December last year, he was reported to have signed up 900 borrowers to whom he was making loans of about R1 270 each, and charging compound interest rates of 20% on outstanding balances.

Registered loan companies provide loans of no more than 50% of a person's salary with a short-term interest rate of up to 30%. An exemption in the Usury Act, however, allows micro lenders to charge any interest rates they like on loans of up to R6 000.

Unscrupulous companies and loan sharks charge interest rates of up to 200% and then resort to unethical ways to recover the cash.

Money-lending companies say they have cornered the market on instant loans to the previously "unbankable" and are making big business out of it.

Flip du Plooy, executive officer for the MLA, said companies registered with the association have to comply with strict codes of conduct.

He said bad practices by registered companies can then be investigated and reported to the Bad Practices Council of the Department of Trade and Industry, the Reserve Bank or the police.

ET (BR) 14/8/98

Insurance revamp now a step closer

(58)

LYNDA LOXTON

Cape Town — The portfolio committee on finance yesterday finally passed the long- and short-term insurance bills to overhaul legislation covering the insurance industry and provide for greater consumer protection.

The bills have been in the making for more than 10 years.

The committee yesterday considered several amendments, many of which provide better consumer protection, after consultation with the Consumer Institute.

These include a stipulation that insurers must provide policyholders with a short summary outlining the benefits due and premiums that have to be paid.

Francois Jooste, the legal head of the Financial Services Board, told the committee the bills were "a vast improvement on the status quo".

He said although there might still be some criticism that not enough people had been consulted, "we have tried to be more consultative".

The bills still contained several shortcomings, notably measures to regulate the way in which insurance was sold.

"That is to be governed by the Retail Investment Services Bill, which is being developed," Jooste said. "A draft will probably be available for circulation towards the end of September."

'Great potential' for more savings

(58)

DEPUTY BUSINESS EDITOR

Many employers still refused to deduct money from employees' salaries for co-operative savings schemes, Finance Minister Trevor Manuel has said.

Between 10% and 15% of people's savings were estimated to be tied up in various co-operative savings schemes such as stokvels.

But the potential for rapid expansion of these schemes was great, given that the time was right for a "long hard look at how formal banks do business", Mr Manuel yesterday told the International Credit Union Leadership Institute conference in Cape Town. ARG 19/8/98

He said bank charges were high in this country and there had been several bank closures across the globe, particularly in the context of the Asian economic crisis, which had affected many poor people with deposits at those banks.

Mr Manuel also said he was worried about the mushrooming of "cash loan sharks".

Discussions had been held with Trade and Industry Minister Alec Erwin on protection for people who had to borrow money

Billion-rand share bonanza a step closer

ARG 19/8/98

Ramos overrules labour

(58)

BUSINESS EDITOR

The demutualisation of giant life assurers Sanlam and Old Mutual, which will put shares worth billions of rands into the hands of policyholders, came a step closer yesterday in spite of strong objections from the labour movement.

Parliament's portfolio committee on finance gave the green light to a bill which will streamline the process of transforming the mutual life assurers into companies owned by shareholders and listed on the Johannesburg Stock Exchange.

If policyholders and the courts approve the process, Sanlam will demutualise later this year and Old Mutual next year. The demutualisation will put huge amounts of money in the form of shares into the hands of policyholders. Estimates of the reserves to be distributed by the mutuals as shares vary from R50-billion to R80-billion.

Claims by the labour movement that the rights of policyholders would be harmed by demutualisation were quashed in yesterday's hearing by Finance Director-General Maria Ramos and by Francois Jooste of the Financial Services Board, which is watching over the process.

In a submission to the committee Cosatu representative Kenneth Creamer said the federation was opposed to demutualisation. Much of the money accumulated by the mutuals was the savings of workers through retirement funds, he said.

Cosatu was concerned that demutualisation would "strip these policyholders of their rights".

There was also a danger that when the shares were issued, many new shareholders would sell their shares and control of the companies would stay in the hands of a few.

Ms Ramos said policyholders' rights would not be affected by demutualisation. "There is a legal process to see that policyholders' rights are not affected. We must not give workers the impression that their pensions will be detrimentally affected."

The Financial Services Board has appointed international actuaries to help oversee the demutualisation process. If the legislation is passed, the mutuals will draw up a scheme of arrangement, in liaison with the board. The scheme must be approved by policyholders at a special meeting and also by the High Court.

A bill authorising a levy of 2,5% of the value of shares to be distributed by the mutuals, to finance job creation through the new Umsobomvu Fund, also got the nod from the committee.

WRITING IS ON THE WALL *Trevor Manuel says money lenders are exploiting poorer South Africans who cannot qualify for bank loans. Some borrowers pay as much as 800 percent a year in compound interest. Manuel is seeking new consumer protection in this sector* PHOTO ANDREW BROWN

Manuel wants to muzzle loan sharks

(58) CT (MR) 19/8/98

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Trevor Manuel, the finance minister, and Alec Erwin, the trade and industry minister, met a few days ago to discuss ways of beefing up consumer protection from loan sharks.

Manuel told a World Council of Credit Unions conference he had approached Erwin because he was concerned the poor were being exploited by ruthless money lenders who charged excessive interest rates.

Manuel said periods of frequent changes to interest rates, as has just happened in South Africa, provided fertile ground for loan sharks to exploit the poor.

"We discussed ways to enhance consumer protection, including tightening up the 'Usury Act," Manuel said.

At present, the Usury Act allows moneylenders to fix any interest rate on loans smaller than R6 000.

The maximum rate allowed under the Usury Act for loans between R6 000 and R50 000 is 32 percent.

The trade and industry department has considered pushing up the ceiling from R6 000 to R50 000, while introducing stricter control on who can lend money.

A higher ceiling would boost the microlending industry, which has lent an estimated R15 billion to consumers who cannot raise loans from banks.

The Consumer Institute of South Africa recently opposed such a move, saying it was not unusual for borrowers of small amounts of money to pay 800 percent compound interest a year.

The Institute said nothing would prevent moneylenders from charging the same compound rates on loans of up to R50 000.

Manuel said the government would prefer a national solution to the problem instead of leaving it to provincial governments to find their own solutions.

Legislation for registering microlenders proposed

(58)

Sibonelo Radebe

MICROLENDERS will be required to register with a consumer representative regulatory body if trade and industry department proposals are approved and legislated.

The proposals come after appeals from the public and some microlenders to government to regulate the mushrooming microlending industry to safeguard clients against fraud and mismanagement of funds.

Prof Piet du Plessis, of the University of Stellenbosch's enterprise management department, said elaborate government regulation would hamper the booming industry. He suggested the compulsory registration of microlenders with the trade and industry department.

Alistair Ruiters, chief director of the department's Business Regulation and Consumer Service, said the department hoped to protect noncollateral borrowers while making sure they had access to financial services.

Ruiters said this could be achieved only through a regulatory structure with adequate consumer representation.

This proposal, he said, "was prompted by some of the exploitative practises that are occurring at the moment".

Association of Microlenders CE Flip du Plooy welcomed the department's proposal and said the move would clean up the industry and "do away with the loan shark image".

In terms of the proposal, the regulatory structure would be empowered to license lenders who meet the structure's criteria and would terminate membership to lenders who repeatedly performed unethical business practices.

The department has also suggested the establishment of an independent complaint and dispute resolution body.

The proposals will be forwarded to the state law advisers and then submitted for public discussion.

BD 20/8/98

Obstacles could equal the opportunities

The merger of SA's three securities exchanges will sharpen their competitive edge but it will not be without its problems, writes deputy editor Bernard Simon

(58) BD 21/8/98

SA's three securities exchanges made much of the benefits of a single, integrated market for equities, bonds and derivatives when they unveiled plans last week to join forces. What the Johannesburg Stock Exchange, the South African Futures Exchange and the Bond Exchange of SA did not say is that the obstacles in the way of a merger could be as great as the opportunities.

According to the three exchanges, a combined "world class" institution "should provide efficient, cost-effective, secure and transparent markets which are internationally competitive".

Few in the securities industry disagree that pooling resources is the best — perhaps the only — way for the three exchanges to stake their place in a marketplace where size, cost and efficiency are increasingly the name of the game; national boundaries are disappearing fast; and new players keep popping up in unexpected places.

Underlying the merger proposal is the tidal wave of change sweeping through the world's securities industry. As one regulator puts it: "The strongest motivating force is the role that SA financial markets will play in a very rapidly developing global village."

Participants in financial markets around the world, including investors, securities firms and listed companies, are breaking down the geographical and technological barriers which have traditionally demarcated individual exchanges' turf.

National borders are becoming increasingly irrelevant, as shown by the recently announced partnership between the London and Frankfurt stock exchanges. That deal is expected to be the precursor of a pan-European exchange.

At the same time, technology is revolutionising the exchanges' modus operandi. Trading floors are already becoming a thing of the past. The JSE's closed two years ago, and the Bond Exchange is due to follow suit at the end of October.

In the US, about 20% of all share trades are now entered over the Internet. Online brokerage services are growing fast, undermining the role of the traditional full-service stockbroking firms which have up to now controlled exchanges such as the JSE.

This new generation of stockbroker has no interest in protecting a particular exchange, but simply in steering its customers' buy and sell orders to the market where they will be most quickly, efficiently and cheaply executed.

As a result, the stock, bond or futures "exchange" is becoming little more than a centralised electronic clearing house for buy and sell orders.

Even that role is being undermined by a proliferation of online trading systems, such as Instinet in the US and Tradepoint in the UK. These systems enable (mostly institutional) investors to display their bids and offers and execute them against matching orders in the system.

The threat to SA's exchanges is clear. "What you have to be careful of," says Chris Niehaus, chief executive of HSBC Simpson McKie, "is that another, more sophisticated, exchange trades more effectively in your market."

A regulator adds that the London exchange "will be bending over backwards to attract SA companies to list in London when exchange controls are gone".

The proposed merger between the JSE, Safex and the Bond Exchange is a response to these pressures. The hope is that by combining resources, the exchanges will sharpen their competitive edge, while also improving surveillance and risk management in all three markets.

As an official at one of the exchanges says: "Do we need two acts (the Financial Markets Control Act and the Stock Exchange Control Act), three trading systems and three rule books?"

Each exchange has its own executive committee, in spite of a high degree of overlap. For instance, 80% of the members of Safex's executive committee also sit on the Bond Exchange's board.

Proponents of the merger also predict that an amalgamation of SA's three exchanges will speed up the formation of a regional exchange covering the whole of southern Africa. Besides laying claim to being an indispensable regional market, the hope is that such an institution could facilitate the design of imaginative new securities, such as regional bonds.

For the time being, however, much of this ambitious blueprint amounts to wishful thinking. "All that we have at the moment is an agreement by committees that in principle we should integrate the three markets," says Stuart Rees, Safex's chief executive.

In other words, much work still needs to be done before the merger becomes reality. The obstacles ahead range from soothing ruffled egos to taking important decisions on regulatory and technology issues, and resolving disputes over the organisational structure of the new, as yet unnamed, exchange.

Amalgamating the exchanges to achieve maximum transparency and efficiency will require a significant change in culture for some players. "This has for so long been an old boys' club," notes the head of an information services provider that deals with all three exchanges.

"Not every market participant wants to put every trade on a screen with an audit trail."

One stockbroker, who asks not to be named, adds that "you will find some rather large egos that will get in the way of implementation". He predicts that Safex interests will seek to protect their control of farm products derivatives, while some Bond Exchange officials will drag their heels for years to come.

Another concern is that the dream of a "super clearing house" will turn into a nightmare of a "super bureaucracy". The Bond Exchange has only 15 employees, compared with 280 at the JSE.

One of the trickiest decisions lying ahead will be the choice of a trading system for the merged exchange. The JSE's present system is based on a mainframe computer. Safex uses PC-based hardware. The Bond Exchange has yet to decide which way to go, in the meantime using an over-the-counter telephone system.

Rees predicts a gradual integration. "We now have separate technology platforms, separate rules, separate everything. You can't shut that overnight and start something new."

Responsibility for pushing through the merger and reaping its benefits will fall most heavily on JSE executive president Russell Loubser, whose earlier career includes bond trading and a spell as Safex chairman. Loubser will chair a steering committee drawn from each of the three exchanges, and is expected to become chief executive of the integrated company.

"Nobody can bullshit him about those markets", says a former JSE committee member. But Loubser will clearly have his work cut out over the next year or two.

Graphic: KAREN MOOLMAN

Legislation seeks stricter inspection of institutions

(58)

Linda Ensor

BD 25/8/98

CAPE TOWN — Proposed legislation which would give the Registrar of Financial Institutions wide powers to conduct searches of registered and unregistered financial companies and seize documents without a warrant has been tabled in Parliament.

The Inspection of Financial Institutions Bill comes in the wake of a series of other bills strengthening the regulation of the financial services sector and enhancing consumer protection.

The bill, endorsed by the finance committee yesterday, would allow inspection of registered and unregistered entities working as financial institutions.

It would also give the registrar the power to disclose relevant information about an institution to specified parties and to the general public, if he believed an offence or irregularity had been committed or if it was financially unsound. However the rules governing disclosure to the general public would differ for registered and unregistered institutions.

The powers of inspectors would be enhanced to deal more effectively with offences and irregularities and to gather information which could be used in a court application to interdict the company from continuing to do business.

The bill would replace the current act, seen as inadequate because powers to inspect unregistered entities is limited. Before such an inspection can occur, the registrar has to obtain ministerial approval.

NEWS

Financial Services Board to be boosted

CT (PR) 25/8/98 (58)

Lynda Loxton
Parliamentary Correspondent

Cape Town — The portfolio committee on finance yesterday approved a bill aimed at beefing up the powers of the Financial Services Board to police unregistered financial institutions.

Francois Jooste, the board's legal chief, said the main aim of the Inspection of Financial Institutions Bill was to protect investors from "unregistered entities" that carried out the business of financial institutions, such as providing insurance or investment services.

The bill amends the current act, which stipulates that the minister of finance has to approve each inspection of a financial institution. "That ... often gives them an opportunity to relocate or do things that make prosecuting them or taking civil action against them difficult," Jooste said.

The act also limits the kind of information inspectors can make public. "In a number of cases, the need has arisen to make that information known ... to warn the investing or unsuspecting public," Jooste said.

The bill allows the board to get search warrants of third parties who might have information about unregistered financial institutions which might be breaking the law.

Gerrit van Deventer, a board inspector, told the committee the bill had become necessary because of the rapid rise in the incidence of commercial crime and because "unregistered operations go hand in hand with theft and fraud ... and great losses occur".

Ken Andrew, the DP finance spokesman, expressed concern about the constitutionality of the wide powers granted to the registrar and the fact that businesses could be ruined if the board released allegations about companies without giving them a chance to put their side of the case.

The committee amended the bill to ensure this did not happen.

Insurance industry makes progress on ombudsman

BD 27/8/98

Madeleine van Niekerk

ALL insurance companies which are members of the SA Insurance Association (SAIA), with the exception of Mutual & Federal, have agreed to accept the formal recommendations of the short-term insurance ombudsman.

This was significant progress, said short-term insurance ombudsman Michael Bennett. In his latest annual report, he said SAIA also expanded its membership during the year.

Last year the ombudsman received 1 775 complaints and dealt with 1 542. SAIA said this represented a significant increase over 1996, when 1 355 complaints were received and 1 243 were finalised. These figures did not include more than 400 enquiries falling outside the ombudsman's jurisdiction.

The majority of complaints — 38% of the total — were still related to motor policies. This was followed by householders' policies (19%), house owners' policies (13%), brokers (13%) travel policies (7%) and other (1%).

Regarding unauthorised or insufficiently authorised brokers conducting insurance business, he said he could not stress sufficiently the seriousness of the problem and the damage it did to the industry.

"There is a great need for reassessment of the ombudsman's function relating to brokers generally and for an examination of ways the ombudsman can be of better service to the brokers' associations and the public regarding their dealings with brokers."

SAIA CEO Barry Scott said more comprehensive consumer protection legislation was needed than contained in the short-term insurance bill passed last week. SAIA however supported the new bill for a number of reasons.

Russian crash: Page 8

Rumours of trouble for small banks denied (58)

BD 27/8/98

Greta Steyn
and Samantha Enslin

THE Registrar of Banks' office yesterday dismissed rumours that Brait Merchant Bank or any other small SA bank was in financial trouble as a result of the turmoil on financial markets.

Rumours about small banks emanated from London yesterday and swirled around SA markets, which were already reeling from the fallout from the Russian financial crisis. Brait's shares fell more steeply than the rest of the financial services sector, shedding 15,6% of its value to R39,05.

Deputy Registrar of Banks André Bezuidenhout said banking supervisors had asked Brait and other banks to look at their positions in the markets. "We found there was nothing out of the ordinary. There is no question of abnormal losses or settlement default. No SA bank is going into intensive care."

The bond exchange confirmed that there had not been a default and that it had no reason to worry that there would be.

Dealers said the surge in bond yields to close to 19% had caught many market players off guard, and trading profits would be under pressure. Some believed foreign speculators were spreading unfounded rumours to play the equities futures market.

Chris Tayelor, Brait financial director, said the rumours were "totally unfounded". He said variations of the "Brait rumour" included that Brait Securities had incurred losses on its equity and derivatives operations.

Tayelor acknowledged that Brait had incurred losses in some areas but said it had made profits in other businesses. "We are still confident the group will meet its profit forecast of R186m for the year," he said.

Mark Barnes, Brait CEO, said: "Losses we may have incurred in some areas of the treasury have been more than compensated for by gains in other areas of the treasury."

Madeleine van Niekerk reports Business Bank, African Merchant Bank, Fulcrum, District Securities Bank, Regal Treasury Private Bank and Theta all said yesterday they were not experiencing financial difficulties.

Bennett may take months to deal with complaints

(58)

ALIDE DASNOIS

ARGT 29/8/98

If you have a problem with a claim for short-term insurance, you can refer it to the ombudsman, but be warned that it may take him up to eight months to deal with your complaint.

Michael Bennett, the Ombudsman for Short-term Insurance, says claims are more frequent, more complex and more difficult and the result is that "it now takes far too long to finalise claims".

An additional problem is the time spent trying to trace insurance companies when the information given by brokers is inadequate.

The time between the filing of a complaint and the final resolution of the problem is now six to eight months, Bennett says.

"This is unsatisfactory and greatly frustrating to the public."

Last year the ombudsman received 1 775 complaints and dealt with 1 542. The percentage of successes – where the claimant won some money – increased from 26 percent to 27 percent.

The biggest category of complaints was motor policies (38 percent), followed by complaints about householders' policies (19 percent) house owners' policies (13 percent) and brokers (13 percent).

There are several problems the ombudsman cannot deal with, including:

- Motor vehicle accident injury or death claims;
- Most commercial or business insurance;
- Cases involving insurers other than your own;
- Most cases where attorneys are involved especially if legal action is already pending;
- Cases of an insurer cancelling your insurance when there is no claim pending or repudiated;
- Attempts to get a refund of premiums you think have been over paid or deducted on a bank debit order; and
- Disputes between you and a repairer or renovator, unless you are arguing that the insurer is responsible for the repairs.

The ombudsman will also not deal with complaints about rudeness, inefficiency or poor service, unless there is a financial claim involved.

Nor will he give free general advice on insurance law.

State considers new funding for entrepreneurs

ST(PT) 30/8/98

A second-tier banking system is a possibility for emerging small and medium businesses, writes THABO KOBOKOANE

(58)

GOVERNMENT is considering ways of stimulating access to capital for small and medium enterprises — a move that may lead to the creation of a second-tier banking system.

Deputy Minister of Trade and Industry Phumzile Mlambo-Ngcuka confirmed there are plans to stimulate further access to funds for entrepreneurs seeking funding from R50 000 upwards.

This "would have to be responsive to emerging markets needs". Ngcuka says she is holding discussions with the insurance sector for them to enter the market.

There were no concrete proposals, but there could be new legislation.

The Usury Act is under review to possibly increase loans not subject to the usury rate from R6 000 to R50 000. This latest development comes at a time when the banking industry seems set to enter micro-enterprise industry with a joint venture "pilot" to provide loans of R10 000 to R50 000.

The Banking Council's position paper on small, medium and micro-enterprises raises this possibility, and calls for the establishment of a new class of co-operative venture to support the broader needs of micro and very small enterprises.

"Only if the capabilities of non-governmental organisations, public sector bodies such as Khula Enterprise and Ntsika and the big four banks are mobilised and effectively integrated to provide this support can we hope for the necessary progress," the paper points out.

It warns, however, that the role of the big four banks can only be "to perform the mechanical function".

There are many players providing finance to micro-enterprises, but commercial banks have not made significant inroads into this market.

The pilot project, details of which are not provided in the paper, will be the first in which commercial banks have raised the prospects of providing finance to micro-enterprises.

"We should understand that any micro and very small enterprises initiative is essentially about the creation of employment and not the creation of jobs.

"Moreover, the vast majority of that employment is likely to be at subsistence level," the document says.

The provision of capital to SMME's, in particular to small enterprises, remains one of the critical challenges facing a transitional economy such as that of South Africa. With unemployment running in excess of 30%, the sector is expected to play a leading role in the creation of new jobs.

The document seeks to differentiate between small and medium enterprises, and micro and very small enterprises. The distinguishing factor is that small and medium enterprises are creators of jobs, while micro and very small enterprises have much to do with employment at the subsistence level.

"The differences are important, and we must work out how best to support both sectors," the report says.

The new development will further boost the sector, which has suffered a blow with the government's decision to close the National Small Business Council due to financial mismanagement by two senior executives.

The department of trade and industry has said it will liquidate the council and take civil and criminal action against anyone implicated in the misappropriation of council money following the findings of by an independent auditors.

According to Mlambo-Ngcuka, the closure is "unfortunate, but unavoidable". There is, she says, a need for an interim structure until another institution can be formed.

NEW BEGINNINGS: The People's Liberation Party hopes to win support with its call for improved access to financing for members of the previously disadvantaged communities. From left are party officials Shaheed Noor, Mariam Hendricks and Moegamat Salie Hendricks, and members Edwin van der Byl, Swile Nuke and Zenzile Nuke. PICTURE: MUJAHID SAFODIEN

CT 8/9/98 (58) (125)

New party to target discriminatory bank loans

YAZEED FAKIER
SENIOR WRITER

FREEDOM from the crippling conditions under which banks make housing and business loans to poor South Africans is the main focus of the soon-to-be launched People's Liberation Party (PLP).

The party plans an inaugural event that will also kick off its participation in the 1999 general election two months from now at the Wittebome Civic Centre.

With the housing loans issue, the PLP may be onto a good thing. Banks are notorious for holding the financially desperate hostage, especially in black communities.

Businessman and property developer Shaheed Noor, one of the two founders of the PLP, says: "Interest rates are going sky-high, financial resources are in the hands of a few people who control everyone.

"If a guy comes from a poor background like Khayelitsha, makes burglar bars for a living and needs some money to finance a two-year contract, for example, the banks will refuse him point blank.

"But if someone from the advantaged group has a car, shares or whatever in their name, they will be financed immediately and be given an overdraft facility," said Noor.

He said the banks' stranglehold should be challenged to give poor communities access to loans.

He remarked that it was a "farce" to put out to tender prime properties secured exclusively by the privileged in the past, such as property at the Waterfront. "Who in the marginalised communities can put up that kind of money? It will again go only to the rich.

"We say, okay, let those properties go out to tender — but let the developers put up 30% of that deal for education, for the President's charity funds or to health care. The money must go to people who need it most.

"We feel we have some answers. We say those people who control the wealth should utilise that wealth but it should also be used for the benefit of the larger community, like the people on the Cape Flats, Mitchells Plain, and Khayelitsha."

Noor's partner in the PLP, fellow businessman Salie Hendricks, says the party will also address educational issues that would be linked to present expenditure on the prisons system.

Hendricks says the millions of rands that the government spends on inmates and the prisons system and the effort that organisations put into fighting crime and gangsterism would yield better results if these energies were directed at education for youth from pre-school age — especially those who are slow learners.

Hendricks said he supported what the government and the ANC were trying to achieve, but that they were unable to handle the question of education.

Conversion of Sasria to state insurer slated

ET (BR) 9/9/98 (58)

LYNDA LOXTON

Cape Town — The planned conversion of the South African Special Risks Insurance Association (Sasria) into a state-owned firm was nothing short of nationalisation of a private asset and would not go down well with foreign investors, the portfolio committee on finance was warned yesterday.

Barry Scott, the chief executive of the South African Insurance Association, and Michael Kuper, the legal counsel for Sasria, made an impassioned plea to the committee to think carefully about the Sasria Bill.

The bill would convert Sasria from a Section 21 company, under the control of the short-term insurance industry, into a company with government as the only shareholder.

The bill is seen by critics as nationalisation and as hitting investment from foreigners

Sasria, which has assets worth R9,6 billion, was established under apartheid to provide short-term insurance for financial losses caused by political acts. This was later extended to cover non-political losses as well. The losses are usually so large they cannot be covered by the short-term insurance industry.

Government said it did not want to continue functioning as an underwriter of last resort, with unlimited liabilities, for Sasria. It wanted to conduct an actuarial assessment of Sasria's substantial assets versus its liabilities, with any surplus being used to pay off debts while Sasria was privatised.

Sasria warned this could result in its premiums rising by between 400 and 500 percent, given its total exposure of about R900 billion, providing cover to 270 firms and institutions.

Kuper warned that catastrophes could still happen, although in ever-changing forms. Last year, for example, claims increased 132 percent.

Scott said although the bill had been "tarted up" as an attempt to privatise Sasria, it was nothing but nationalisation as government had no automatic right to its surplus assets.

"I think this will have a negative impact for foreign investors when you see the state starting to meddle in the affairs of a private firm," Scott said.

He said industry would be concerned to see a state-owned insurance firm in the market.

Although the finance department claimed it had consulted the industry on the bill, Scott said the first he had heard of it was less than a week ago.

The committee agreed to hold back the bill for further discussions.

R2000 shares for all Sanlam policyholders

ARG 9/9/98 (58)

ED WEST AND ALIDE DASNOIS

Sanlam's more than 2 million policy holders could each get a free share bonanza of at least R2 000 when it lists on the stock exchange at the end of the year.

The exact value of each policy holder's share will depend on the value of Sanlam's free assets on the day of listing and also on how big the policy is and how long it has been held.

Sanlam's executive chairman, Marinus Daling, said today each policy holder would receive at least 300 shares. If the shares had been listed on 31July, for example, they would have been worth R7 and R9 a share, or R14-billion in total.

The actual share price when Sanlam lists late in November or early December may fall below this range. Since July 31 the Johannesburg Stock Exchange, along with stock exchanges across the world, has taken a tumble in the wake of the Asian and Russian economic crisis.

Outlining the first details of Sanlam's demutualisation proposal, Mr Daling said policy holders would qualify for free shares if they had bought policies before March 31 this year, and they had not let the policies lapse or surrendered them by October 15.

NEWS YOU CAN USE

TOMORROW
What's in it for you

ON SATURDAY
A Personal Finance special report on the Sanlam listing

On that day, the plan to convert from a mutual association owned by policy holders to a company owned by shareholders will be put to a vote of Sanlam policy holders at an extraordinary meeting.

If approved, the plan will go before the High Court a week later, and the shares will be listed on the JSE later this year.

Mr Daling said the new shareholders would make a huge difference on the JSE, since there were only 500 000 to 750 000 existing shareholders on the stock market.

One of the reasons for Sanlam's decision to list on the stock exchange is to raise money for expansion through the issue of new shares.

Mr Daling said Sanlam would raise up to R5-billion in new capital and the new shareholders would be given a chance to buy additional shares at a discount.

Further details on this would be released closer to the listing.

He forecast the listing would have a big impact on the economy.

"The impact comes through the spending loop," he said.

Although many policy holders might hold on to their shares waiting for the stock market to improve, some would sell them and use the money to redeem debt, or simply spend it, Mr Daling said.

Parliament gave the green light for Sanlam's demutualisation yesterday when the National Council of Provinces approved legislation opening the way for the life assurer and its rival Old Mutual to go ahead.

But the Congress of South African Trade Unions (Cosatu), which is hostile to the process, has warned it will launch a campaign of mass action in protest.

Cosatu fears the listing will enrich Sanlam management at the expense of policyholders and argues that it is not the right way to ensure that the assets of the vast retirement industry are used for economic development.

Tahane calls for regulation of stokvels

(58) BD 9/9/98

Patrick Wadula

SUN CITY — SA Reserve Bank deputy governor Timothy Tahane has called for the introduction of laws to regulate institutions such as credit unions, co-operatives, pyramid schemes and stokvels.

Speaking at the 34th annual conference of the National African Federated Chamber of Commerce (Nafcoc), Tahane said the central bank had launched a joint initiative with the department of trade and industry and the Land Bank to establish a regulatory framework to protect private depositors and encourage the development of the small business sector.

He said the small business sector could, like in other African countries, play a vital role in the economic development of SA.

He quoted a 1995 study of the informal sector and microfinance in west Africa by the World Bank which said that between 50% and 75% of employment was generated in the informal sector, while in some countries microenterprises contributed up to 50% of the gross domestic product.

One of the obstacles to the development of this sector — in SA as in other emerging countries — was that commercial banks were reluctant to offer loans to small and medium-sized businesses.

A survey of 18 countries in Africa, Asia and Latin America conducted last year by Ohio university in the US showed that banks around the world were reluctant to extend loans to small companies because of the perceived high risk.

Tahane suggested that commercial banks form strategic alliances with non-government organisations — which have experience in dealing with small businesses — to help the large institutions deliver financial services to smaller companies.

He also said banks and their boards needed to institute a cultural change in their organisations to improve services.

"What has differentiated organisations such as American Express, McDonald's and other successful businesses is the care and attention they pay to customers," he said.

He urged commercial banks to train and motivate their staff to improve customer satisfaction.

Empowerment partners: Page 17

Computerised payment system aims to reduce risk

BD 9/9/98 (58)

Linda Ensor

CAPE TOWN — The implementation of the computerised national payment system came another step closer yesterday after the consideration of the National Payment System Bill by Parliament's finance committee.

The bill provides for the regulation of the payment, clearing and settlement systems in the banking world.

The new system is intended to reduce systemic risk in the banking system and make payments within it quicker and more efficient.

The main benefit of the system will be in allowing the automated networking of participants in the system, cutting out fraud and giving banks access to their accounts with the Reserve Bank. This will allow banks to manage their exposures and collateral with the bank.

One of the most important aspects of the bill provided for the finality and irrevocability of settlements, said Philip Tromp, Reserve Bank GM in charge of business systems and technology.

"This implies that once settlement has taken place, it should not be possible in law to be reversed or set aside. This principle is also an internationally accepted prerequisite for a safe and sound payment system," the memorandum to the bill stated.

Tromp said the irrevocability of settlements would enhance SA's international credit rating, especially when the settlement of payments was achieved immediately, instead of the next day as at present. He said the irrevocability clause related to participating banks and did not take away the rights of creditors to get repayments if a payment was made in contravention of the Insolvency Act or the Companies Act.

Participating banks would be able to determine their own risk exposures vis-à-vis other participants, and the Reserve Bank, as supervisor of the system, would be able to determine the relevant risk exposures of all participants.

Tromp said the bill would introduce discipline into the system as it would oblige participating banks to either prefund their settlement obligations or provide adequate security for such settlement. To enable the Reserve Bank to fulfil its role as supervisor and to monitor the risk exposures of participating banks, the bank would have the right to information pertaining to the volume or value of payment and settlement instructions or obligations within the system.

Adv Michael Blackbeard, the head of the legal administration of the Reserve Bank's national payment system division, said the first phase of the system had been implemented in March with the automation of the old system. The second phase was the introduction of the irrevocability of payments, and the third phase, expected to begin in June-July next year, would effect same-day settlement.

Govt in bid for Sasria's excess billions

BD 9/9/98 (58)

Linda Ensor

CAPE TOWN — Government and the short-term insurance industry are at loggerheads over plans to convert the R10bn SA Special Risks Insurance Association (Sasria) into a state-owned company that could appropriate the insurer's excess reserves to reduce government debt.

As sole shareholder, the state would be able to restructure Sasria, which is now a section 21 nonprofit company under the control of short-term insurers, without the latter's approval.

In terms of the Conversion of Sasria Bill, presented to Parliament's finance committee yesterday, the state would no longer function as underwriter of last resort with unlimited liabilities.

Sasria and the SA Insurance Association (SAIA) objected to the proposals, which they said amounted to the nationalisation of a private company without compensation.

Sasria said the proposals were unconstitutional while SAIA warned they would have "serious economic repercussions and result in a significant increase in insurance premiums".

SAIA CE Barry Scott said: "The bill in no way caters for how the rights of the existing members are to be dealt with on conversion or in the future. This is a glaring shortcoming."

SAIA was concerned that the diminution of Sasria's reserves would result in a premium increase, at least in the order of 500%.

Both organisations objected to the lack of consultation over the bill and appealed to government to delay the legislative process so that talks about Sasria's future could take place. Sasria suggested that a consortium of short-term insurers take over the section 21 company, with government remaining the lender of last resort.

Sasria was established in 1979 to cover political riot risks when no short-term insurers were willing to do so. It now also covers labour disturbances and lockouts and provides special risk cover to all policyholders of its members, the 48 short-term insurers who act as its agents. It is exempt from tax and has reserves of about R10bn built up through premium contributions. About R3,3bn of this is held in government and semi-government bonds.

Finance deputy director-general Coen Kruger said the state's slice of the reserves could be taken by cancelling part of this debt to Sasria. This would also wipe out the state's servicing obligations for the debt.

An independent actuary would determine the extent of Sasria's reserves which exceeded its current business requirements, he said. While claims against Sasria in the 1996/97 financial year increased dramatically from R17,8bn to R41,6bn, it still had a substantial underwriting surplus.

In terms of the bill, government's obligation to carry Sasria's entire reinsurance risk would be terminated, but existing agreements would be honoured. The open-ended risk would be replaced with one limited to Sasria's capital reserves.

Kruger said the bill had an inbuilt flexibility in that it allowed government to share the risk with the private

Continued on Page 2

Sasria (58)

Continued from Page 1

BD 9/9/98

sector at a later stage. Government's ultimate intention was to privatise Sasria by selling its shares and to end its monopoly status.

Advocate Mike Kuper argued on behalf of Sasria that SA still desperately needed specialised risk cover which was beyond the means of any short-term insurer to provide. Sasria was a monopoly by necessity.

The mechanism provided by Sasria had worked very well for catastrophic losses which could result in vast claims, he said. Government had never been required to be the lender of last resort, though this had been requested and refused on two occasions.

While it was understandable that government wished to withdraw from its reinsurance obligation and gain access to Sasria's assets, this could be achieved without legislation and without changing Sasria's existing structure. The company could, for example, be controlled by a consortium of short-term insurers. The committee agreed to consider the bill at another meeting.

MPs agree on stiff supervisory measures

Financial registrar gets more powers

CT (MR) 11/9/98 (58)

Lynda Loxton
PARLIAMENTARY CORRESPONDENT

Cape Town — The turmoil in global financial markets had made the supervision and regulation of financial services more critical than ever, Gill Marcus, the deputy finance minister, said yesterday, wrapping up the debate in the national assembly on the Inspection of Financial Institutions Bill.

The bill gives the registrar increased powers to initiate inspections of unregistered financial institutions without referring to the finance minister.

The registrar will be able to release information discovered during inspections that could adversely affect investors. Inspections will no longer be confined to office hours, and the powers and duties of inspectors have been broadened.

Marcus said the Financial Services Board (FSB) would attend an international meeting in Kenya that would examine "what the past year has meant for regulation and supervision, and what lessons are to be drawn".

The national assembly yesterday passed the bill, which aims to improve investor protection and crack down on white collar crime by strengthening the regulation of the financial services sector.

"South Africa must be seen not to be a safe haven for criminals and racketeers," said more than one MP as all parties endorsed the bill. Marcus agreed legislation alone would not solve the problem and better enforcement was needed.

Grant for microlending scheme

Patrick Wadula

BD 14/9/98 (58)

THE trade and industry department has provided a capital grant to the tune of R1,8m to KhulaStart, a microlending programme which targets rural communities.

KhulaStart CEO Sizwe Tati said on Friday that the microlending programme, which has created pilot projects, was being run in conjunction with the United Nations Development Programme, which identifies microlending ventures in rural areas in developing countries.

The purpose of the programme was to provide microfinance to rural entrepreneurs, targeting mainly poor women, by creating greater opportunities for rural communities to access finance not available through formal lending institutions such as banks.

Tati said the trade and industry department, through its wholesale financing agency Khula Enterprise Finance, had set up pilot projects with six organisations in four provinces — Northern Province, KwaZulu-Natal, Eastern Cape and Mpumalanga.

He said a total of 14 projects would be established this year and R6m was expected to be granted towards the pilot programme. The remaining eight projects would be extended to the rest of the provinces and, when necessary, be repeated in those provinces in which the need was the greatest.

Deputy Trade and Industry Minister Phumzile Mlambo-Ngcuka stated that while the scheme was a pilot project with funding for a year, it would be under review. Khula would provide microlenders with continued support for five years.The government would also identify, on an ongoing basis, community based organisations who could apply to become microlenders in the communities they served.

COMMENT & ANALYSIS

Banks are vulnerable on several fronts

How are SA banks holding up against the crises in emerging markets? Deputy editor **Bernard Simon** takes a look at their financial health

(58)

BD 15/9/98

SOUTH Africans are repeatedly assured that their solid banking system provides one of the strongest bulwarks against the upheavals that have rocked other emerging market economies.

Yet rumours about the health of several SA banks have been rampant in recent weeks. The rumours have been sufficiently widespread for some of the biggest banking groups to have felt the need to publicly reaffirm their financial stability. When Standard Bank disclosed problems on its $100m exposure to Russia last month, it emphasised that "speculation about the financial soundness of the group is without any foundation".

Signs of a turnaround in banks' fortunes is mirrored in the steep drop in their share prices. The Johannesburg Stock Exchange's financial index has tumbled 57% from its April 15 peak. Some bank shares are trading at multiples that would have seemed ludicrously low early this year. Two of the biggest groups, Absa and Stanbic, are respectively at about six and eight times 1998 earnings.

The rerating is not unique to SA banks. Lehman Brothers, one of the best-known US investment banks, was forced to deny last Friday that it was on the point of collapse. Its shares have lost more than half their value since mid-year. Europe's big banks have seen their share prices tumble by up to 40%.

Credit Suisse First Boston said last week it would cut its lending to emerging markets after suffering heavy losses on its Russian portfolio.

As in other countries, SA's banking bubble has been burst by the turmoil in emerging markets which has rippled through to higher domestic interest rates and a slowing economy.

Merrill Lynch lowered its forecast for growth in the earnings of SA banks with a warning that "one should not underestimate the current emerging market turmoil in the SA economic situation and the impact it could have on banks' earnings".

An analyst at another securities firm says "banks are perceived to be secular growth stories. Actually, they are as vulnerable as any other sector."

SA banks are vulnerable on several fronts to a prolonged period of high interest rates and a slide in business activity:

□ One of the biggest headaches is their exposure to highly leveraged black empowerment groups. Already, the value of the security held by banks for many recent empowerment deals is at a sizeable discount to the value of their loans. "If everything goes wrong, the entire risk would be with the bank," says Bob Tucker, CE of the Banking Council of SA. The concern of lenders is reflected in tightening conditions on empowerment financing, including demands that sellers stand surety, in addition to collateral provided by borrowers.

□ Some banks have a sizeable exposure to the stock market, either through generous (some might say reckless) loans to customers to finance purchases of new listings and other shares, or through trading on their own account. With share prices falling, calls are going out to borrowers either to top up their security or sell the shares to service the loans. The jump in bond yields (equivalent to a drop in prices) is said to have cost some financial institutions dearly.

□ The steep hike in interest rates has raised the spectre of a wave of defaults on mortgages, instalment financing and other consumer loans.

BOE Securities estimated in a recent report that a six percentage point hike in prime lending rates translated into an extra R20bn annualised interest burden for consumers — equal to a one-third increase. With consumers' debt now at almost 70% of disposable income, BOE concluded that "seemingly, the man in the street has not yet adjusted his behaviour to take cognisance of changes in the macroeconomic environment. This constitutes a major risk area for the banking sector."

□ A feature of the SA banking industry since the end of political isolation has been the broadening of its geographical horizons. Investec, for instance, now earns about 37% of its income offshore. However, Stanbic's disclosure of its Russian loans has raised questions about other banks' emerging market exposure which may be at risk from currency devaluations and defaults. Some industrial countries require their banks to disclose their exposure to various regions. But most SA institutions are reluctant to provide such details.

□ Besides eroding loan quality, a slowing economy is likely to put the brakes on asset growth. Banks will almost certainly become more cautious in the months ahead.

The question is how seriously these adverse developments will affect individual banks, and the industry as a whole.

Nedcor chairman Chris Liebenberg says: "There is no doubt that the economic cycle is going to tax the quality of the assets that the banks put out in the marketplace." However, he insists "there is absolutely no reason for panic or concern". Liebenberg says stability of the banking sector continues to distinguish SA from the east Asian nations where turmoil in financial markets has rippled through the entire economy.

The capital-to-assets ratios of SA's big banks, a common yardstick of financial stability, have grown steadily over the past seven years. This was not the case with many Asian banks, which were not able to generate sufficient equity to keep pace with the explosion in their loan portfolios.

SA banks' capital ratios now stand well above the 8% legal requirement, ranging from 11,9% for Standard Bank Investment Corp to 9,8% for Absa. Furthermore, Tier 1 capital, denoting the most solid types of equity, makes up a relatively high proportion of the total.

Rather than a breakdown of the entire banking system, the tougher times now looming are more likely to encourage investors, depositors and corporate treasurers to draw a clearer distinction between strong and weak institutions.

Merrill Lynch's advice is that "now, more than ever, investors should focus on quality — and perhaps more on balance sheet factors than purely on earnings". Rising bad debts, which are charged to income, are expected to put a sizeable dent in most banks' performance this year and next.

Another analyst, who asks not to be named, says: "The big banks are all fine in relation to smaller financial companies. We are considerably more concerned about small banks."

Consolidation among SA banks is already under way. RMB Holdings took over First National Bank earlier this year as part of the creation of FirstRand. Stanbic is widely thought to be eyeing Nedcor, currently controlled by Old Mutual.

Soaring bad debts and narrowing margins are bound to cause this process to accelerate.

It is a fair bet that SA will have fewer banks in two or three years' time than it does now. The survivors are likely to be those best able to contain their bad debts in the months ahead.

How strong are SA's banks?

Company	Price-earnings ratio	Capital ratio (1)
Absa	6,5	9,8%
FirstRand (2)	11,4	10,8%
Investec	18,1	15,8%
Standard Bank Investment Corporation	8,9	11,9%
Nedcor	11,1	10,6%
BOE	13,3	12%
Saambou	13,9	9,2%

Graphic: KUBEN DAVID Source: MERRILL LYNCH (1) Tier 1 capital (2) FNB is used as a proxy for FirstRand

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COMPANY NEWS

***JSE LIVE** Ilana Meyer, managing director of Interactive Investor SA (left), and Sherry Coutu, managing director of Interactive Investor International. Coutu says the new site will give investors ten times the information in a tenth of the time, at no cost* PHOTO SELWYN TAIT

JSE @ http://www.iii.co.za

(58) CT (PR) 17/9/98

RENÉE BONORCHIS

Johannesburg — A comprehensive investment and financial information website was launched in South Africa yesterday. Set up by Interactive Investor International (III), the site — http://www.iii.co.za — gives investors free access to live JSE prices for the first time in the country.

III's UK website has been rated by the Wall Street Journal as the top source of European financial information available on the Internet.

"Building on over three years of success in the UK and Asia, the SA site is expected to quickly attract a similar standing in South Africa," said Sherry Coutu, III's chairman.

All information on the site is free and includes news and information from thousands of sources. "Interactive Investor will become an essential site for those investing in South Africa. It allows investors to gather ten times the information in a tenth of the time, at no cost," Coutu said.

The site offers performance histories of over 6 000 offshore funds from 50 financial centres worldwide, full stock listings from the world's top six stock markets and a daily news summary of South African media. This uses Business Report as a prime source of information.

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Credit granters appeal for better information on risk

(58)

MATT GETZ

CT (OR) 17/9/98 MARKETS EDITOR

Johannesburg — The more information is available to the granters of credit about consumers' credit risks, the more efficiently and cheaply will they be able to lend people money, Johan van der Merwe, the general manager of Bankfin's credit and risk management division, said yesterday.

"We want to grant credit as much as possible for the growth of the country," he said. "That's why we need information."

In South Africa, credit granters pay for information from Experion or the International Trust Corporation (ITC). Since 1994, ITC has had a local partnership with Fair, Isaac, a 40-year old company with 1 200 employees around the world that has devised scorecards and statistical models to help granters establish risk.

"On the marketing side, we will help people figure out how much risk they want to take on," said Klaas van Wyk de Vries, the director of Fair, Isaac's Southern African operations. "We help them to make decisions and assist with management in terms of collections, trust selling, credit and the like. We add value in every step of the credit management process."

In South Africa, Fair, Isaac's clients consist of most banks and credit-granting retailers.

There is a strange local problem, though: banks are much less willing to share information than retailers, which formed the Consumer Credit Association in 1989. In the rest of the world, the opposite applies.

"Retailers," said Andrew Knight, an ITC director, "give all credit data. The banks only give negative data. If we could get positive data, we would have a much more complete picture."

He said the Council of South African Banks had recommended fuller disclosure, but it was not clear if banks would agree.

The need to share information was even more acute at the moment given the heavy debt burden many households were under. "(People who should not receive loans and do) cost the industry a fortune in bad debts and collections," said Bankfin's Van der Merwe. "The fewer there are of those, the cheaper credit will be to good risks."

Already, the 40 percent rise in prime has had a severe impact on banks and retailers. "Consumers are cutting back on credit, and we've seen sales softening in the past two months," said Andre Gardiner, the director of the credit division at Edgars, which has 1,8 million credit-using customers, 500 000 of whom are paying interest. He said Edgars wanted to help them through the tough times to get its money back and retain its customers.

Management, unions discuss thorough overhaul of Land Bank

Stephen Laufer

MANAGEMENT and unions at the state owned Land Bank are discussing radical restructuring proposals aimed at making it more cost effective while broadening its range of services and its client spectrum.

Based on a capacity audit and proposals for a fundamental revamp of the institution by Price Waterhouse Coopers & Ebony Financial Services, the talks could lead to significant job losses, transfers from Pretoria head office to branches nationwide, and more training for many employees. Talks are expected to be completed by Christmas.

The still confidential Price Waterhouse study proposes reducing management levels from 12 to five to bring it into line with private sector banking norms. A 58% cut in running costs over several years is required to bring them down from the current 104,1% of income to the industry standard.

At head office, the study calls for a reduction in operating costs from R72,61m or 40,8% of total expenditure currently to R42,11m, equal to 23,7%. Only 34% of head office staff are expected to continue in jobs they are in now, with the rest leaving, moving, or being retrained as many noncore activities are outsourced.

A major computerisation programme linking branches across SA with Pretoria will allow employees to concentrate their efforts on client services. Government policy calls for the bank to extend its assistance and product range to small and emerging farmers, most of whom are black.

Reductions and retrenchments — if agreed — would see 20 staff members redeployed to branches and 30 to a new corporate finance business unit. Another 93 jobs would go as a result of outsourcing, 26 as the result of streamlining of existing processes and structures, 89 during and following the introduction of upgraded information technology.

The bank's board is understood to have set resources aside to aid retrenched employees in setting up businesses able to supply outsourced requirements such as cleaning and security services, fleet management, and buildings.

In the branches, the proposals call for a 180 degree turnaround from a situation in which 80% of resources go on administrative processing and 20% on client services. Sources said bank management hoped to have the new structures in place by March.

Cultural revolution: Page 12

Only 37% of South Africans have access to banking

BD 21/9/98

CAPE TOWN — Only 37% of South Africans have access to financial services, Sharda Naidoo of the Alliance for Micro-Enterprise Development Practitioners said at the weekend.

She said the Banks Act needed to be overhauled to allow for the growth of village banks and credit unions in rural areas. "The present situation is unacceptable because poor people need the full range of financial services as much as anyone else," Naidoo told delegates to the third annual conference of the SA National Nongovernmental Organisation Coalition in Cape Town.

(58)

Naidoo, who also represents the coalition's Commission on Small, Medium and Micro Enterprises (SMMEs), said the commission had passed a resolution to ensure the regulatory framework of financial institutions was expanded to allow for a broader range of services and institutions in rural areas.

The coalition would also lobby for banks to offer comparative charges.

Meanwhile, former member of the Gauteng legislature Safoora Sadek has been appointed to replace Kumi Naidoo as the coalition's executive director.

Nomavenda Mathiane reports that the coalition conference voted that nongovernmental organisations (NGOs) should be included in budget allocation committees.

Other topics under scrutiny at the four-day conference were the financial sustainability of nongovernmental organisations, the scrapping of apartheid debt and poverty.

Coalition programmes director Jacqui Boulle said the NGO sector was facing a funding crisis with the "transitional money from donors drying up". However, it had now succeeded in clarifying its relations with government, which had now developed into a "critical partnership".

Boulle said while the NGOs had been able to work with government on a number of projects, problems persisted with certain state policies, notably in the field of welfare.

The child support system, for example, did not meet the needs of the children, while in some areas pensioners were still not able to receive their benefits because they did not have the correctly coded identity documents.

The coalition also urged members of Parliament to reconsider legislation stipulating that only bar-coded identity documents will be valid for registration and voting in next year's elections as it was mainly the rural poor who were struggling to obtain the correct documents.

Trade and Industry Deputy Minister Phumzile Ngcuka-Mlambo outlined some of the programmes designed to empower the poor and how NGOs could assist the poor to gain access to funds by acting as facilitators. — Sapa.

New laws with teeth to protect insurance policyholders

ST (BT) 27/9/98 (58)

Policyholder rights enjoy scant protection from legislation that has passed its jubilee date, but that will change next year, writes LUCIENNE FILD

INSURANCE policyholders can look forward to an array of much-needed protection measures next year.

Last week, the Long-term Insurance Act and the Short-term Insurance Act were passed, and they are expected to come into effect on January 1.

Believe it or not, the insurance industry is currently regulated by legislation which is more than half a century old — the Insurance Act of 1943.

The new Long-term Insurance Act, which applies to life assurers, offers a host of serious protective measures for policyholders — a far cry from the current Act which largely neglects th rights.

William de Villiers, senior legal analyst at Old Mutual, outlines the important policyholder protection measures contained in the new legislation.

The Long-Term Insurance Act

□ All creditors demanding a life insurance policy from you as security for the debt must in future inform you in writing that you have certain rights.

These include your right to submit an existing life policy instead of taking out a new one. You may choose the insurer and financial intermediary if a new policy is needed, and you can opt for an endowment policy instead of a life policy.

You must then sign a document confirming that you were informed of your rights and not coerced into buying a policy.

This measure should end the practice of some banks which pressure new mortgage bond holders to take out a life policy with an associated company.

□ Insurers must ensure their products are financially sound before they are sold.

□ If you pay premiums in cash, the person collecting the money from you on behalf of the insurer must issue you with a receipt.

Details on the receipt must include their name, address and telephone number, as well as your policy number and the insurance company's name.

□ If you pay premiums to someone acting for the insurer, the Act regards these payments as having been made directly to the insurance company.

This means that as long as you make sure you pay an authorised representative of your insurer, the company cannot claim payment has not been received.

□ An insurance company must issue you with a written summary of your policy details, in addition to your policy contract.

This summary must acknowledge information provided by you which was fundamental in issuing the policy (for example, if you've had numerous knee operations and the insurer went ahead and approved disability cover).

Your premiums, policy benefits and the circumstances under which benefits will be paid must be included in the summary.

□ If you provide your insurance company with incorrect information, or you fail to disclose information, and such information is subsequently proved irrelevant to the underwriting of the risk, the assurer cannot invalidate the policy on this basis. But if you misrepresent your age, the assurer has the right to adjust premiums and benefits to reflect your true age.

□ An insurance company must take full responsibility for actions of agents in their employ.

Banks will not be able to pressure bond holders into taking out policies with associated companies

□ Assistance, life, disability and health policies are protected against the creditors of insolvent or deceased estates, provided the policy was taken out on the life of the policyholder or spouse, and the policy has been in force for at least three years.

However, the amount of benefit enjoying protection is R50 000 (it was R30 000).

□ The new Act gives the registrar of long-term insurance the power to impose additional rules on the life insurance industry.

The Act suggests that one such rule could in future give policyholders the right to cancel policies in particular circumstances and within a set time. This implies a cooling-off period, which now only applies to Life Offices Association members, for whom it is 21 days.

The Short-term Insurance Act contains less extensive consumer protection regulation. But Caroline da Silva, executive director of the South African Insurance Association, says the new Act, together with proposed legislation regulating financial intermediaries, should provide you with sufficient cover.

The Short-term Insurance Act

□ The Financial Services Board (FSB) will have the power to step in and save short-term insurance companies in financial difficulties to ensure they meet commitments to clients. Previously the FSB could only get involved when it was effectively too late — that is, once a company had breached solvency margins and was entering liquidation.

□ The new Act enables the FSB to institute civil action against an insurance company or broker accused of fraudulent or improper conduct.

□ The Act enables the registrar for short-term insurance to impose additional policyholder protection rules. These could include provisions that the contract between an insurance company and the client must be user-friendly and fair, and that there must be full disclosure of product information and costs.

□ Policyholders must receive their policy documents within 30 days of signing.

□ Under the new Act, contraventions will be severely punished — the fine for serious contraventions was increased from R100 000 to R1-million.

COMMENT & ANALYSIS

Banks still see microlending as too risky

There are good reasons why commercial banks should overcome their reluctance to finance micro-businesses, writes **Fred Ahwireng-Obeng**

(58) DD 1/10/98

ACCORDING to current international thinking, commercial bank microfinancing is a potentially profitable and sustainable economic activity, subject to enabling macroeconomic and regulatory environments with a reasonable level of political stability, a sufficient population density and a degree of monetisation.

However, though SA meets these conditions and its largest banks have several comparative advantages in microfinancing, they have demonstrated reluctance to adopt the appropriate lending techniques and new organisational structures that would enable them to expand their services into the massive unsupplied microenterprise market (businesses demanding a loan under R50 000).

Besides good physical infrastructure, including a network of branches and sophisticated technology, they have the organisational infrastructure for prudent management, the ownership structure for sound governance and cost-effective practices, and a diversity of financial products. Favourable external conditions include: exemption from the interest rate ceiling of 26% a year imposed by the Usury Act, credit guarantees covering 70% of the risk exposure, and a fairly stable macroeconomic climate.

Evidence from Asia, Latin America and Africa demonstrates that administrative costs can be reduced by locating credit outlets in the communities and simplifying application procedures, while repayments can be motivated by pursuing character-based lending, post-disbursement monitoring and such mechanisms as group guarantees rather than an insistence on collateral. Interest rates can be set to allow for profit.

Despite this, most commercial banks the world over spurn microfinancing as a viable option for two reasons. First, microbusinesses are a bad credit risk as they are unstable, lack collateral and have a poor repayment record. Second, microfinancing is costly. A R1 000 loan takes as much effort as a R100 000 loan, yet the return on the latter is much more.

Banks will have to demonstrate a greater commitment to microenterprise financing

While these reasons are universal, in SA competitive, social, political and cultural factors appear to present a more formidable obstacle.

The banks' sensitivity to venturing into microfinancing can be explained partly by the increased competition that has emerged in the banking industry since 1990 with more than 80 new banks having set up offices. These tend to have lower cost-to-income ratios than their SA counterparts who, recognising the need to cut costs, are shifting away from traditional branch banking operations.

Furthermore, information, cultural and confidence gaps between black and white South Africans, the political risk of charging market-related interest rates, and a culture of non-payment among blacks for public services all contribute to a perception of a lack of profit potential.

The banks do not consider the lower end of the market as a direct market because the circumstances under which loans have to be administered do not fit in with their business culture.

This cultural or market "misfit" view relates to the information gap problem — the majority of clients are banking illiterate as much as the banks are informal-lending illiterate.

Information on the capital structure of a microbusiness, and the management capacity and collateral of the entrepreneur, as well as the capacity of the project to generate profit and the likely risk of exposure, are scarcely available. These information gaps translate into mutual suspicion and mistrust — a confidence gap.

There are political risks associated with charging high interest rates on loans under R50 000. It is hard to explain to the predominantly black and poor clientele why a bank charges 45% interest on a R6 000 loan while "big white business" has access to millions of rands at half that rate, particularly in a country with a highly politicised electorate and a history of systematic oppression of the poor majority.

The banks perceive two major risks — pressure from government to observe lending targets, and negative sentiment and withdrawal of funds from banks should they charge "exploitative" interest charges.

Change is not only policy-induced, but will occur also over time through increased interaction. This, the government can stimulate by a combination of coercion and incentives: temporary lending quotas, tax incentives for the development of microloan infrastructure, more rationalised credit guarantee schemes, abolishment of interest rate regulations and, above all, political parties educating their constituencies on their economic, social and moral obligations.

While, in the short term, government should encourage and support selected non-governmental organisations, credit unions and other formal and semi-formal financial intermediaries to expand their microfinancing capabilities, in the medium term, microfinancing will have to rely increasingly on commercial banks, given their ability to mobilise and lend funds on a sustainable basis without reliance on external sources.

Ultimately, therefore, the challenge is to eliminate the socio-psychological racial barriers that are limiting the banks" involvement.

For their part, commercial banks will have to demonstrate a greater commitment to micro-enterprise financing as a contribution to stimulating employment generation and the process of endowing poor communities with business skills and spreading the ownership base of the economy.

They will have to acquire micro-enterprise specific financial innovation, develop the necessary human resources, and design cost-minimising strategies, as well as convince the regulatory authorities to adopt reporting and regulatory requirements that take into account the specialised demands of the microfinancing process.

The question then is: to what extent would commercial banks be realistically expected to respond to this national call without government providing an environment that does not undermine the profit motive?

□ *Ahwireng-Obeng is professor of economics at the Wits Business School.*

Absa officials to be grilled by Heath

Greta Steyn

SENIOR Absa officials must appear before Judge Willem Heath's special investigating unit before its report on Absa's R1,6bn Reserve Bank lifeboat can be finalised and made public.

The lifeboat was granted to the troubled Bankorp group in 1990. Absa took over Bankorp in 1992 and the lifeboat remained until October 1995.

The Heath unit, charged with tackling corruption, has investigated whether there was misuse of taxpayers' money and whether the lifeboat was intended to protect depositors or Absa's major shareholder, Sanlam.

The unit's investigations manager, Steve Barkhuizen, said the issue should be finalised within the next week or two. "There are one or two (senior Absa) people who can help us with a few outstanding questions," he said.

Asked whether further action was likely as a result of the report, he said some steps could be taken. "We still have to put some facts to Absa, but we have not formulated any summonses and if there is any action for recovery of money it will be only next year."

The Heath unit announced in May it was looking into the issue. Originally, expectations were that the investigation would be finalised and made public by the beginning of September.

An official of the unit said recently a presentation on the lifeboat had been made to the justice department, and it was up to the president to issue a proclamation authorising the unit to continue investigating.

The central bank has also been part of a controversy surrounding the appointment of governor Chris Stals's successor, Tito Mboweni.

INet-Bridge reports that Public Protector Selby Baqwa yesterday rejected an allegation by the National Party (NP), that he submitted to pressure from the president's office in finding there was no prima facie case to investigate the appointment of former labour minister Mboweni as SA Reserve Bank governor in August 1999.

"I take strong exception to the suggestion that I do my work on the basis of instructions from elsewhere," he said in a media statement.

In July the NP asked the public protector to investigate whether prior knowledge of Mboweni's appointment on July 4 contributed to the weakness of the rand, which lost about 20% from late May to early July, and also whether the appointment of Mboweni met the stipulations of SA's constitution and the Reserve Bank Act.

The public protector said at the weekend that a prima facie case could not be made to justify any further investigation of Mboweni's appointment to the post.

Doubt over future of investigating unit

EAST LONDON — Justice Minister Dullah Omar yesterday cast serious doubt on the future of Judge Willem Heath's special investigation unit, established by President Nelson Mandela to fight state corruption.

In a statement to Parliament, Omar asked whether it was appropriate or desirable to appoint a judge in a full-time capacity to head the unit and whether the unit was necessary.

Omar raised the possibility of rationalising the functions of the unit and the public protector.

"Is it appropriate to give the unit a blueprint to investigate any kind of irregularity within its mandate, even of a trivial nature, while such a matter can just as well, and even in a less expensive way, be investigated and disposed of?"

He said the possible rationalisation of the functions of the unit and the public protector would be examined during a summit against crime next month. There was a proposal that government establish one anti-corruption centre and that a cabinet committee be set up to deal with that. "These are all matters which the cabinet is looking at."

Omar said the appointment of a judge to the full-time position as head of the unit raised the question: "What happens to the independence of the judiciary?" Given the political principle and the judicial independence associated with the office of a judge, it should also be asked whether a judge should be doing that type of work.

Omar's statement was in response to an interpolation by Inkatha Freedom Party MP Ruth Rabinowitz, who said the independence of the unit had been compromised by the Special Investigating Units and Special Tribunals Act. The act states that the unit can investigate corruption involving only state assets and funds once the president or provincial premier has signed a proclamation to that effect.

Rabinowitz said the proclamation process set out in the act was causing substantial delays in Heath's work. Heath said he had forwarded suggested legislative amendments to Omar in April to address this problem but had not received a response. — Sapa.

Key Market Movements — 5/10 to 6/10

I-NET BRIDGE

Gold				Currencies					Stock Markets				
Lon close $/oz	Lon PM $/oz	Lon PM R/oz	Kruger-rand	R per $	$ per R	Europe close DM/$	Europe close R/£	Repo rate	FTSE 100	Nikkei Index	JSE Ov'all	JSE Gold	JSE Indus
298,95	298,75	1 811,62	1 815,0	6,0640	0,16700	1,6331	10,2610	21,856	4 854,00	13 021,64	5 116,6	1 270,2	5 700,6
⇩	⇩	⇩	⇩	⇩	⇧	⇩	⇩	NO MOVE	⇧	⇧	⇧	⇩	⇧
295,65	294,65	1 764,74	1 790,0	5,9893	0,16490	1,6283	10,0810	21,856	4 648,70	12 948,12	5 019,8	1 208,3	5 611,5

Local insurance merger

By Shadrack Mashalaba (58)

THE oldest existing black-controlled life insurance company, Prosperity Insurance, has merged in part with Kopano Ke Matla, the investment arm of the Cogress of South African Trade Unions (Cosatu) in a deal valued at R10 million.

In terms of the deal Kopano Ke Matla will secure a half stake in Prosperity. The deal marks an aggressive entry into the South African market for Prosperity after years of trading in the former Transkei.

Chairman Agrippa Mayaba said the agreement was sealed last week.

He said with Cosatu boasting a membership of about two million, the operation would develop products for the changing financial needs of workers.

The company's next priority would be to expand its branches.

He added that Prosperity would retain its name. The first board meeting would be held next week.

Prosperity is the first black life insurance company licensed in South Africa by the Financial Services Board in 1951. Its business was concentrated in the homelands until September 1997 when it was allowed to operate in South Africa.

"Prosperity has emerged from its extended period of isolation and entered a most exciting growth phase," Mayaba said. "We have successfully transformed the company, making it a suitable partner for Cosatu."

Kopano Ke Matla chief executive Tumelo Motsitsi said: "Prosperity is a credible, financially sound, authentic financial services company, ideally suited to provide insurance to our trade union membership."

Frogs B.DAY 06.10 214

IMF/WORLD BANK

Bank deposit insurance urged for SA

(58) BD 6/10/98

Simon Barber

WASHINGTON — International Monetary Fund staff recommend the introduction of bank deposit insurance in SA and say the move, which has been controversial in the industry, has the support of the Reserve Bank's banking supervision department.

The advice is contained in a generally positive report on the soundness of the SA banking system undertaken as part of the fund's latest Article IV consultations with SA.

Deposit insurance would enhance the competitive edge of smaller banks, the report argued, helping to reduce the concentration of the industry which posed "systemic" risks.

Deposit insurance would not increase "moral hazard" since the "public already expects that ... support would be provided whenever a bank experiences distress.... Moreover, in the absence of clear indications of the deposit guarantee, the authorities may be exacerbating the moral hazard problem."

The report emphasised that the insurance scheme would require legislation specifying the circumstances under which it could be used and setting clear coverage limits.

Participation in the scheme should be compulsory for all banks, preferably with institutions paying a uniform premium "to avoid creating a competitive advantage for some banks and in recognition that the reduction of systemic risk benefits all banks equally".

The report also urged the establishment of more transparent rules covering the Reserve Bank's role, as lender of last resort, in restructuring or liquidating failed institutions.

"Currently, the Reserve Bank retains the discretion of conducting secret operations, which in the past has given rise to doubts about the legality of some restructuring operations. Even if unfounded, such doubts are detrimental to the effectiveness and authority of the Reserve Bank as bank supervisor."

Overall, the SA banking system was found to be "generally sound" — in sharp contrast to some in east Asia, whose flaws played a major role in triggering the present global crisis.

SA banks were "well capitalised ... well run and organised and, in general, have sophisticated risk management systems and corporate governance systems in place".

The "large level of concentration" had allowed the largest banks to reap major benefits from economies of scale and also made supervision easier, but "it is also a source of systemic risk".

"There is, therefore, a need for measures to promote expansion of the smaller banks' market share and thus for stronger levels of competition in the banking system."

The report noted that government had used "moral suasion" to get banks to increase mortgage and other lending to the poorer end of the market.

"The authorities must continue to avoid forcing banks to adopt measures that would endanger depositors' interests and promote financial disintermediation."

Banks deny closing branches

(58) Sowetan 12/10/98

Shadrack Mashalaba

MAJOR banking groups have quashed the perception that they are closing branches in townships.

First National Bank spokeswoman Ann Bramhill said they were not closing any branches.

However, Bramhill said she could not confirm or deny whether some branches would be closed in the near future.

She said FNB wanted to make its branches smaller and more user-friendly.

Absa head of media relations Nick Cairns said in the long run there would be no need to have many branches as people were banking electronically.

"With Absa becoming one bank we will not need many branches. We are in the process of identifying branches which will be closed," said Cairns.

Standard Bank communications manager Gareth Richard said they were not closing branches, particularly in Soweto.

Richards said instead the bank was contemplating installing additional ATMs. "As for other areas, we are continually reviewing our business operations as customer banking habits change."

Executive general manager responsible for Nedbank and Peoples Bank Bob Wooddisse said: "We re-evaluate the positioning of our branches on an ongoing basis as customer bases move. Nedbank has grown rather than reduced its branch network."

"We closed the Peoples Bank branches in Blackchain and Jabulani in Soweto because of armed robberies. Our investigations indicate that our Soweto clients prefer to use our Dube or Dobsonville branches, which are on more convenient transport routes."

Wooddisse said although the Highgate shopping centre is very popular, customers had shown a distinct preference for the new Peoples Bank in Brixton and in the Southgate Shopping Centre.

Permanent Bank executive general manager Gustav Preller said the perception that branches had been closed was completely without foundation.

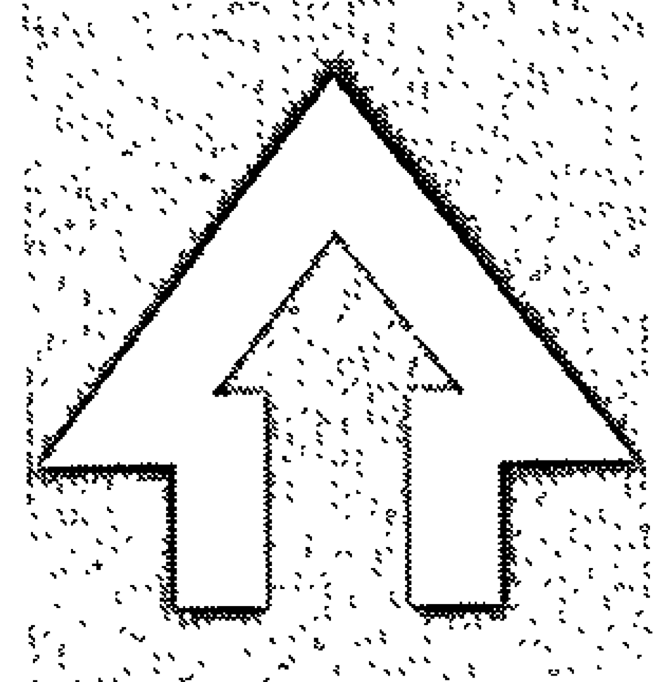
SA's largest exercise in democracy since 1994

(58) DD 16/10/98

Pat Sidley

THE silent majority of Sanlam's policy holders carried the day yesterday on the group's proposed demutualisation, on a day where voters were conspicuous by their absence at the luxuriously appointed polling station.

In the Paarl area, at the Nederburg wine estate, rows and rows of unoccupied seats, partitioned by curtaining in a hall equipped for thousands, bore testimony to Sanlam's preparation — should the policyholders turn up. A handful did, but few raised their voices to question the demutualisation proposal.



In a virtual tent city, scores of computers in booths waited on line for the potential thousands of policyholders to turn up to cast their votes in person at Sanlam's demutualisation extraordinary general meeting. Gallons of coffee, tea and juice with tons of biscuits awaited valued policyholders while security officials patrolled, waiting for trouble to break out.

The operation had been planned on the basis that thousands could pitch. A dry run was held the day before with the cast of white males participating in a dress rehearsal.

Sanlam will not disclose the costs of the day — but was happy to state that the Nederburg function was part of the R550m demutualisation costs.

It was a forgone conclusion that Sanlam's board would win the day on its demutualisation proposal. A draft of a news release lay on a desk at Sanlam the day before the meeting, proclaiming to the world that Sanlam's voters had voted for demutualisation.

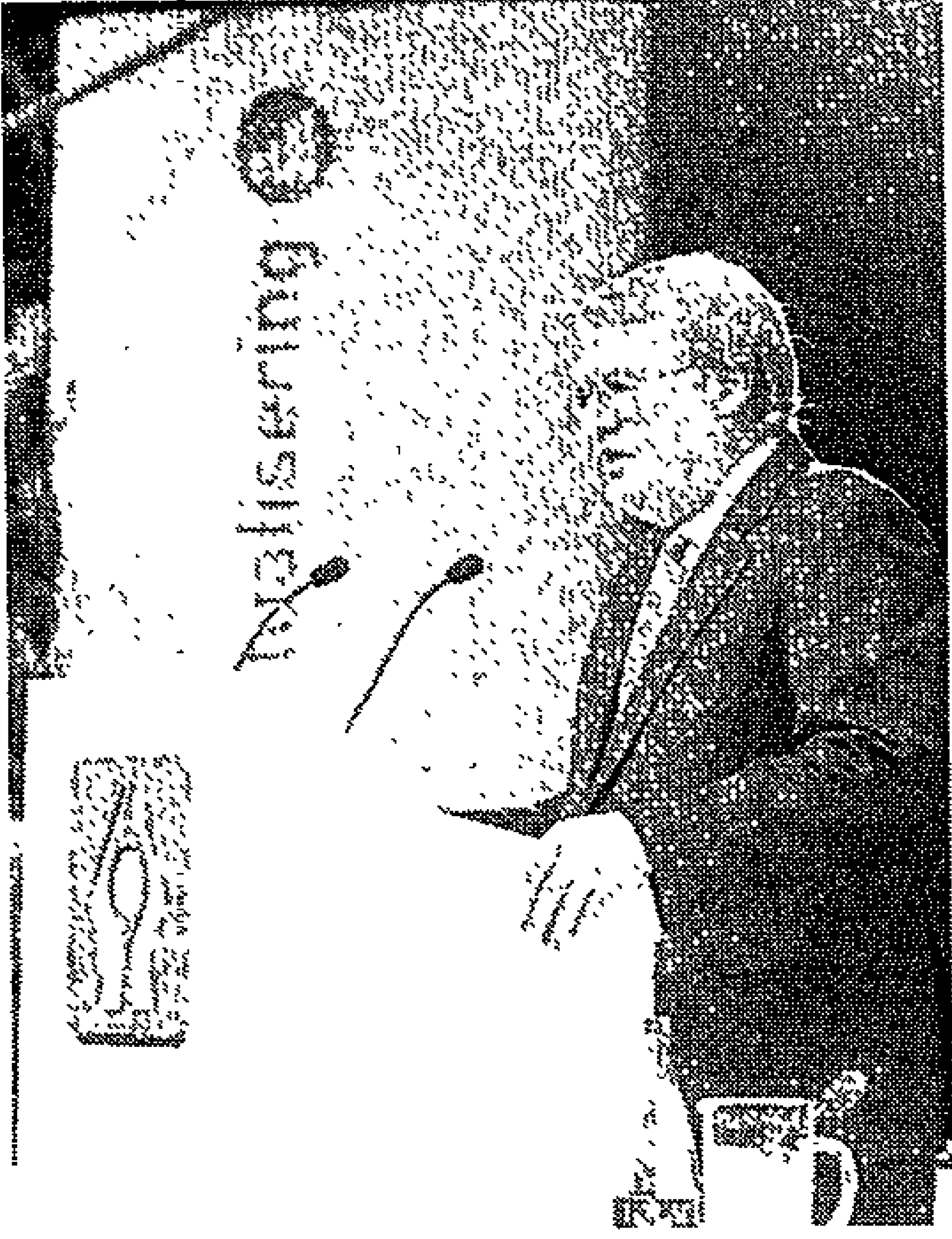
It was never likely that policyholders would turn up in droves to question the chairman, Marinus Daling — despite the fact that this was probably the country's largest exercise in democracy since the 1994 elections.

Two found voices. One was Dino Phillips, a civil servant with a Cape Flats background, a professional qualification, a keen interest in the market and a 14-year-old policy. He was going to vote for demutualisation, but was contesting the allocation of free shares.

Sanlam's 2,2-million policyholders were asked to vote. The board of directors required 75% to vote in favour of demutualisation. This move will change policyholder ownership to shareholder ownership. The transition was sweetened by an offer of free shares — referred to by one questioner as a "bribe".

Fewer than 60% of policyholders voted — but 99,5% of those who did, favoured demutualisation. They used the postal system — a triumph for a much-maligned SA Post Office that succeeded between September 8 and October 8 in getting the voting papers to policyholders — and 57% of them back. More than a million votes made it through the postal system timeously.

The significance of the historical moment was not lost on Daling, whose opening words made reference to Sanlam's start as an exercise in Afrikaner empowerment that had progressed to an era of black empowerment.



Sanlam policy holder Dino Phillips, bottom left, asks Sanlam executive chairman Marinus Daling, right, a question in Cape Town yesterday. Pictures: TYRONE ARTHUR

But very little hard information for the would-be investor was available. Daling could not say what the value of the shares was likely to be. Originally Sanlam believed the shares were likely to be between R7 and R9 each.

He could not say how much would be raised in the share offer. That was originally believed to be around R4bn or R5bn, but is now likely to be less.

He would or could not say at what rate discounts would be offered and he would not say if he wanted or expected overseas investors to leap on board.

By lunchtime it was all done bar the shouting — the vote, that is. Now the real fun begins as Sanlam sets about transforming itself into a modern financial services company with a very different ownership and corporate structure. Stockbroker Fleming Martin is preparing the offers for institutional investors in SA and abroad, and details should become known within the month.

Land Bank's restructuring gets stuck in the wage mire

BD 16/10/98

Reneé Grawitzky

THE restructuring of the state owned Land Bank ran into further difficulty yesterday after a one-day wage strike by members of the traditionally conservative finance union, Sasbo.

The wage dispute coincided with staff resistance to the bank's restructuring plans, aimed at broadening its range of services and client base and becoming more cost effective.

Such plans could result in retrenchments, staff transfers and changes in job titles and tasks.

Industry and union sources said the bank's restructuring had taken on political overtones.

The wage dispute revolves around Sasbo's demand for a 10% increase, while the bank has offered 6,5%. Members of the SA Commercial, Catering and Allied Workers Union did not participate in yesterday's action.

Sasbo spokesman Ben Venter said the strike was about wages and not about the restructuring. He said the union's demand was in line with settlements achieved with other major banks.

Venter said the staff learnt that the bank had budgeted for a 15% increase at the end of last year, but was now willing to offer only 6,5%.

Land Bank MD Helena Dolny said management wanted to restructure salaries to be market related and to introduce a performance-bonus scheme. This explained the 6,5% wage offer, a 2% increase in the housing allowance and a 5% performance bonus. This package would cost the bank R17m, while the union's demand would amount to R25m.

Dolny said there was a shortfall of R6m between the union's demand and funds available.

Management, she said, had a long-term view on restructuring and staff development, and had allocated R7m to training.

Sasbo said there were plans to meet the bank next week to try to resolve the dispute, which had already been referred to the Commission for Conciliation Mediation and Arbitration.

Sparks expected to fly over suspension of Sasbo affiliation

BD 16/10/98

Reneé Grawitzky

THE suspension of Sasbo's affiliation to the Congress of SA Trade Unions (Cosatu) until after the 1999 general elections was expected to spark heated debate at the union's two-day national congress starting today, union sources said.

The election of Sasbo's office bearers, instead of their appointment, was also likely to be hotly debated as internal divisions emerged ahead of the start of the congress, they said.

Internal divisions came to the fore during Cosatu's central committee meeting in June, where the federation adopted a resolution that all affiliates contribute R1 per member to be used for activities linked to the general election.

The adoption of this resolution was used by Sasbo's Durban branch to call for the union's suspension from Cosatu until after the elections.

Sasbo's membership base is traditionally conservative. However, insiders claim that left-wing elements are growing in influence.

Two govt groups offer different maize export figures

BD 16/10/98

Paul Vecchiatto

SA MAIZE export numbers continue to be clouded by uncertainty with two government mandated organisations offering widely differing numbers.

For the financial year from April to August, the Perishable Products Exports Control Board, which has the responsibility to inspect shipments for export, has said that it has inspected 385 581 tons of maize, while the SA Grain Information Service has declared that 239 000 tons has been exported.

Grain information service maize information compiler Ferdi Jacobs said part of the discrepancy may be because not all maize earmarked for export had left the country yet.

The information service was formed out of the now-defunct maize board as a means of getting information about maize to the market. Its latest numbers go as far as August.

The Perishable Products Exports Control Board refuse to comment on their numbers as the organisation saw itself as an impartial inspectorate for export shipments.

Since January, the exports control board has inspected 739 599 tons of maize for export.

However, the industry operates on an annual cycle from May to April. The elevator operators, the companies which load maize on to ships at ports, say they have handled about 200 000 tons of maize since April.

Agriport said that it had loaded 160 000 tons of maize, of which 25 000 tons was white maize, and Durban Bulk Shipping had handled about 16 500 tons white and 18 000 tons yellow. — I Net-Bridge.

TODAY's WEATHER

GAUTENG
Pretoria 14/17
Johannesburg 12/15

MPUMALANGA
Nelspruit 12/15

NORTHERN PROVINCE
Pietersburg 10/17

NORTHWEST
Potchefstroom 10/20

FREE STATE
Bloemfontein 06/21

KWAZULU-NATAL
Ladysmith 11/17

Policyholders give Sanlam the all-clear

BD 16/10/98 (58)

Samantha Sharpe

CAPE TOWN — Sanlam policyholders have given the thumbs up to the group's plan to demutualise, which will result in the issue of about 2-billion free shares to eligible members of the mutual society.

Legal sanction for the demutualisation proposal, which will result in the listing of the life group on the Johannesburg and Namibian Stock Exchanges before the end of year, will be sought in the High Court next week.

At an extraordinary general meeting held in Paarl yesterday, Sanlam executive chairman Marinus Daling said that of the more than 1-million Sanlam members that voted, about 99,5% were in favour of the proposal.

Out of the group's 2,2-million policyholders, 1,8-million were entitled to vote as members — the others being members of retirement annuity funds. The whereabouts of about 98 000 members remained unknown.

Daling said that following High Court approval, the group would embark on a capital raising exercise — the amount to be raised would be released later this month — through the sale of further shares in Sanlam. Qualifying policyholders would be offered shares at a discount to the price institutions and other investors would pay, but Daling gave no details of the discount.

Daling said, given approval by the High Court, a share application form would be sent to policyholders at the end of October, when a prospectus and mini prospectus detailing the group's interim results, details of the capital raising and the offers would be issued.

It was expected that Sanlam would be in a position to list on the SA and Namibian stock exchanges in late November, Daling said.

Analysts said that although it had been suggested in the group's demutualisation proposal that between R4bn and R5bn of new capital would be raised on listing, subject to market conditions and other factors, recent market volatility meant that this was more likely to be in the region of between R2,2bn and R2,4bn.

Picture: Page 15

Banks 'not lending to low-cost sector'

BD 20/10/98 (58)

Robyn Chalmers

BANKS are not lending in the critically important R20 000 to R60 000 house price range, a trend that is having a negative effect on the low-cost housing industry, according to the National Housing Finance Corporation.

Chairman Eric Molobi said developers were also not providing housing in this range. These were among the key obstacles facing the delivery of both low-cost housing and housing finance which authorities and market participants had to come to grips with.

Speaking at the launch of the corporation's annual report yesterday, Molobi said the organisation, established by government a little more than two years ago, had reached R587m in funding approvals for low-cost housing. These loans had provided housing opportunities for close to 60 000 low and moderate-income households throughout SA.

"This progress, in a remarkably short space of time, indicates that there remains strong demand for credit for affordable housing, despite the difficulties caused by high real interest rates and the effect of a sluggish economy."

Acting corporation CE David Porteous said a key new initiative by the organisation would soon be announced. It aimed to get housing finance to employed people in low and moderate-income groups.

Former corporation CE Johan de Ridder said there were a number of constraints to the growth of the organisation, most notably the fact that virtually no housing finance was available in the R20 000 to R60 000 price range.

The corporation had turned to nonbank lenders, but few existed and their scope was limited in terms of product range and delivery infrastructure.

There was an absence of established social housing institutions with significant delivery capacity. Building capacity was a challenge due to the special skills and knowledge required.

During the year ended March, the corporation increased net income for the year to R67m from R23,4m the previous year.

SA banking council tackles discrimination

(58) BD 22/10/98

Linda Ensor

CAPE TOWN — The likelihood of legislation outlawing discriminatory lending practices by banks has been signalled by the Banking Council of SA, but it has warned any such move should not undermine sound banking principles.

The Banking Council of SA said in a submission to Parliament that SA banks recognised the need to extend banking services to low-income earners but were concerned about the risk of lending to the low income market.

The council, which is due to meet behind closed doors with Parliament's finance committee tomorrow to discuss these and other issues, suggested the time might be right for legislation to ban discriminatory lending practices, to compel public disclosure about home loans and to reverse the decay of urban areas which create negative equity.

Council spokesman Claire Gebhardt-Mann said yesterday the meeting should provide more clarity on the way forward.

Also up for discussion will be the vexed question of bank margins.

The council is likely to justify SA banks' margins (on average 3,8%), on the grounds that they are necessary to absorb the risks of an emerging market and compared well with those of other emerging market countries. Last year banks' total interest margin income was R15,6bn, of which R3,5bn (22%) had to be written off in bad debts.

Regarding legislation to prohibit discrimination, the council's submission stated that "the banks are not opposed to the idea of constructive legislation which results in appropriate commitment from all parties and which is conducive to prudent, sound and safe banking."

It proposed that the US system of government guarantees, subsidies and tax credits be considered to address lenders' concerns about risk.

Issues to bear in mind before enacting legislation, however, were the capacity and resource constraints of the government in regulation of the act and the need to provide incentives to banks to comply.

Furthermore lending to low income groups should be a requirement of all financial service providers operating in this market — such as alternative lenders, pension funds, insurance funds etc — and not limited to deposit-taking institutions.

According to the Banking Council, there were 31 000 non-performing "township" loans worth R1,2bn out of a total book of 250 000 (R11bn) for this sector.

A non-performance percentage of about 10% was "far too high" in international terms, it said.

Banking council calls for more sector data

CT(PR) 23/10/98 (58)

LYNDA LOXTON

Cape Town — The competitiveness of the banking sector will come under the spotlight today during a closed meeting of the national assembly's portfolio committee on finance with the Banking Council.

In a discussion paper prepared for the meeting, the council is criticised for the "lack of factual evidence" in a recent position paper prepared for parliament.

The council had not provided a breakdown of trends in bank margins and charges over the last five years, nor had it provided statistics on the international competitiveness of the domestic banking sector, the paper charged.

The paper said there had been no comprehensive research on the competitiveness of the financial services sector as a whole.

"The people of South Africa have very little idea whether there is a tacit agreement between banks when setting charges and margins, or if these rates are determined by competitive market forces," it said.

In its paper, the council said that at an average of 3 percent, South African banking margins compared well with those in other emerging market countries such as Chile, Brazil and Indonesia, where margins varied from 2 percent to 13 percent.

The committee's discussion paper also said there were very high barriers to entry in the banking industry and there had been no new entrants into retail banking.

"Obviously there are far more lucrative niche markets that require less start-up capital and infrastructure than retail banking," it said.

"This means that established domestic retail banks continue to face very little competition from new entrants, either local or foreign.

"This is not conducive to ensuring that bank charges are kept in check by market forces."

TEMPORARY LULL *Khehla Lukhele says the stokvel association he helped found has not collapsed "in the formal sense" and its savings clubs "still exist on the ground"* PHOTO JOHN WOODROOF

Stokvel paralysed for a year

(58.) CT(BR) 26/10/98

THABO LESHILO
BUSINESS EDITOR

Johannesburg — The once mighty National Stokvel Association (Nasasa), which represents about 150 000 members, has been paralysed for more than a year, it emerged last week.

And there is some confusion over whether Nasasa, which has more than 11 000 stokvels on its books, either collapsed in September last year or is undergoing a "temporary lull" while being restructured.

In its heyday, the stokvel association was touted as a potential vehicle for mass-based black economic empowerment. It was wooed by powerful financial institutions wanting to tap into the informal associations through which the unbankable black masses exchange more than R1,5 billion a year.

Three former directors of Nasasa have placed the blame for its turn of fortune squarely on the shoulders of Khehla Lukhele, the body's founder and chairman.

Business Report visited what used to be the Nasasa head office in Diagonal Street, Johannesburg, last week but was told the association had long vacated the premises and left no forwarding address.

Even the Foundation for African Business and Consumer Services (Fabcos), to which Nasasa had been affiliated, had no clue about Nasasa's whereabouts.

The former directors, Senti Mokgoatsane, Linda Madida and Frankie Mosebi, accused Lukhele of having surrendered what was essentially a black empowerment vehicle to control by white businessmen who had no interest in stokvel development.

Mokgoatsane, who co-founded Nasasa with Lukhele, said: "We were always at loggerheads since the whites came. They took over the administration and ran the show. Our input was ignored."

They said that they left Nasasa in frustration after a deliberate move to force them out, and that they were not paid a salary for up to 10 months. Their departure came after Lukhele himself left his full-time job at Nasasa to work for Sappi, the pulp and paper company.

For their part, Lukhele and Stephen Japp, the white man at the centre of the controversy, denied Nasasa had collapsed. They said all that had happened was that Nasasa had moved from its head office, which had become too expensive to maintain. "It was not a collapse in the formal sense. The structures (stokvels) on the ground still exist," said Lukhele.

Lukhele said he resigned from Sappi in August to concentrate on reviving Nasasa.

Regulation for moneylenders

MHG 30/10-5/11/98 (58)

Wonder Hlongwa

The growth of loan sharking to a R10-billion business in South African cities has prompted the Department of Trade and Industry to intervene and regulate the business.

The proposed regulations, to be published by Minister of Trade and Industry Alec Erwin later this month, will be incorporated in a revision of the existing usury Act.

Since the inception of the Act in 1992, the micro-lenders have enjoyed the luxury of deciding their own finance charges when granting loans.

The new proposal requires that there be maximum finance charges. These will be decided by a regulatory institution, which will be approved by the registrar of the Act.

The proposal will prohibit the use of clients' bank cards and pin numbers by loan sharks as well as the use of violent, illegal or unethical methods of debt collection.

It will oblige micro-lenders to provide a written disclosure of contract — specifying the rand amount and finance charges.

Despite the high interest rates charged by micro-lenders, they are supported by thousands of people who do not have access to money from the formal banking sector.

"The almost 280% increase [last year] in the total turnover to R10,1-billion for the micro-lending industry was calculated conservatively," said Piet du Plessis of the University of Stellenbosch's department of business management. "It is possible that the real amount could be much higher."

Du Plessis was commissioned by the Association of Micro-Lenders to evaluate the growth potential of the industry.

His report stated that "23,5% of micro-lenders ... allocate between 401 and 2 000 loans per month. This ... translates to a turnover of between R450 000 and R1,2-million a month."

Like many regular loan shark clients Nhlanhla Mwelase is happy to make use of the micro-lending service, despite being trapped in a debt spiral.

"Since I started [borrowing] about eight months ago, I haven't stopped," says Mwelase. "I go there [to the loan sharks] almost every month."

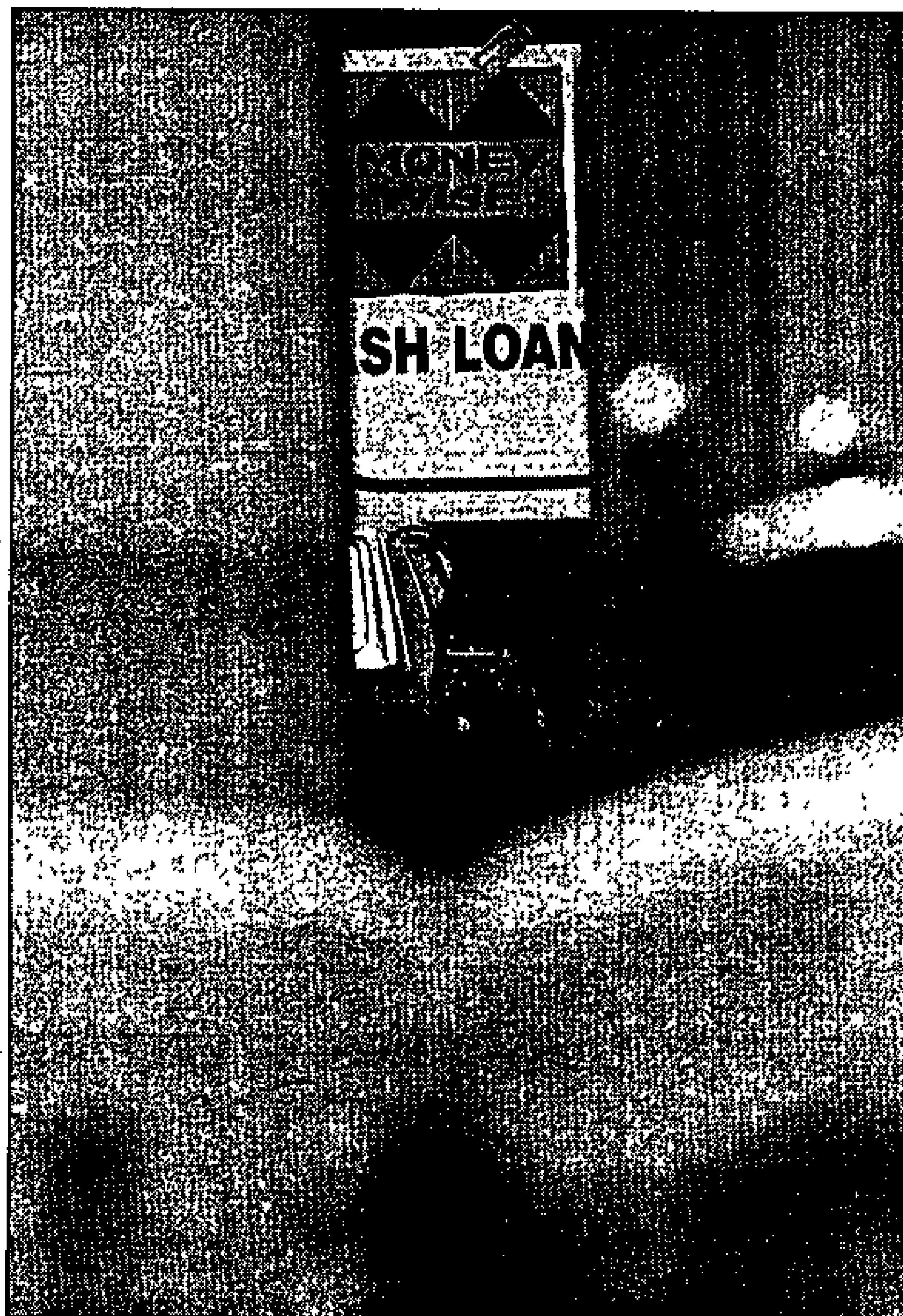
Mwelase says it is tempting to spend money randomly because he knows loan sharks will "definitely" make up the shortfall.

His bank card, identity book, payslip and other personal details are in the possession of the loan sharks.

"When I get paid they take almost half my salary," he says.

Phillip du Plooy, the managing director of the Association of Micro-Lenders, welcomes the department's proposal to regulate the industry.

The outstanding issue is the retention of bank cards by loan sharks, but the association is negotiating with the banks over alternative methods of debt collection.



Expensive cash: Micro-lenders are patronised by people who do not have access to the formal banking sector. PHOTO: MAGRIET THERON

I become a borrower

Wonder Hlongwa

It was handing over my autobank card and pin number that convinced me my visit to a loan shark was not going to be pleasant.

A friend had told me that loan sharks were the quickest moneylenders in the city.

The sign at the one in Braamfontein certainly seemed to back this up: "Cash loans up to R2 000, no waiting, no hassle."

An arrow pointed to a busy informal shopping complex where I was directed to the moneylender's office.

Inside a small office, a middle-aged white man in a grey T-shirt greeted me politely and asked if he could help me. "Yes," I said. "I need a loan of R500."

After asking for my employment status, my credit records and a minimum of personal information, he agreed

"Okay," he said. "You must give me your salary advice slip, three months' bank statements, ID book — the real one, not a copy."

And he wanted my autobank card, with the pin number. I hummed and hawed, muttering about whether this was absolutely necessary.

"But that's a condition of your getting a loan," the loan shark said.

Eventually, feeling very insecure, I parted with my most precious item — my autobank card. I didn't have my original identity document, but he accepted a copy before disappearing into the back of the office, where I assumed he was checking my credit status with a credit bureau.

Less than 15 minutes later he came out smiling. "There's only one thing to do now," he said "We need to check your card." His assistant, Selby, was sent with me to the ATM to check that I had given them the right pin number. "It's working," said Selby with a cynical grin.

On our return, Selby's boss was waiting with a loan form. As soon as Selby confirmed that my card had worked, his boss showed me where to sign for my R500. They would keep my pin number and autobank card, taking out my repayments as soon as there was money in my account.

That's when the trouble began — I told them I was a reporter checking on how they conduct their business. The loan shark threw my belongings back at me and ordered me out of the office.

In a development that will allow higher interest to be charged on bigger loans ...

Usury Act faces transformation

(58) BD 30/10/98

Pat Sidley examines the implications of the new, hopefully improved, regulations housed in the Usury Act

THE Usury Act is due to undergo sweeping changes that will allow banks, among others, to charge higher interest rates on loans of up to R50 000.

As it is, the act's regulations restrict interest on loans larger than R6 000. Loans for less are exempt. If draft regulations are accepted, as seems likely, the limit will be raised to R50 000.

Draft regulations envisage the creation of a regulatory body to supervise this loans market. Lenders will be required to register with this body and abide by rules and a code of conduct. The body itself will have consumers, bankers, small lenders and the Reserve Bank, among others, represented on it.

Those who contravene regulations will face severe consequences. They can be struck off the register and "named" in a Government Gazette to deter consumers from doing business with them. And if other provisions are broken they are liable to be prosecuted under the Usury Act.

The regulatory body will be a hybrid of self-regulation, with legal status similar to that in the Estate Agents' Act within its reach. There will be no prudential regulation by the body; only market conduct. A section 21 company (a nonprofit organisation) has already been registered for the purpose of regulation.

The move will suit banks and much of the growing microlending market. Banks have wanted to move into the small loans market — at high interest rates — but feel they cannot lend into that type of risk with the current restrictions of the Usury Act.

The microlending market has resisted the consumer lobby, which has sought to scrap the exemption altogether in a bid to regulate and rein in the worst of consumer exploitation.

Although the small loans market is dominated by those who are "unbanked", it is not restricted to them. Anybody with a poor risk profile and who has a need to borrow small amounts of money is likely to use a microlender.

The process leading to the new regulations being finalised is quite far advanced. The trade and industry department, which supervises and is responsible for the Usury Act, has held several workshops with consumer representatives and also with provincial government 'consumer departments.

A draft document has been sent to the state's lawyers, and after a few changes the document will be circulated among stakeholders and put out for public comment. The law is likely to see the light of day early next year.

Consumer bodies, while recognising the need to facilitate loans to people who cannot borrow from banks, would prefer the Usury Act to drop its exemption altogether, and force all lenders to be bound by the provisions of the Act.

Diane Terblanche of the Consumer Institute, an independent research and lobby group, believes there is insufficient information available to justify the claim made by microlenders that costs in their industry are such that they have to charge higher interest rates.

She says the trade and industry department said it had some figures it was not able to release, so she has asked them to conduct a study independently and to let her see the results. Terblanche is worried about the effects the new higher interests rates will have on an already squeezed public.

Another query she and other consumer representatives have raised is how the provisions will mesh with the Credit Agreements Act. What effect, for instance, will the exemption in the Usury Act have on a deal that finances the purchase of a car or lounge suite priced at less than R50 000?

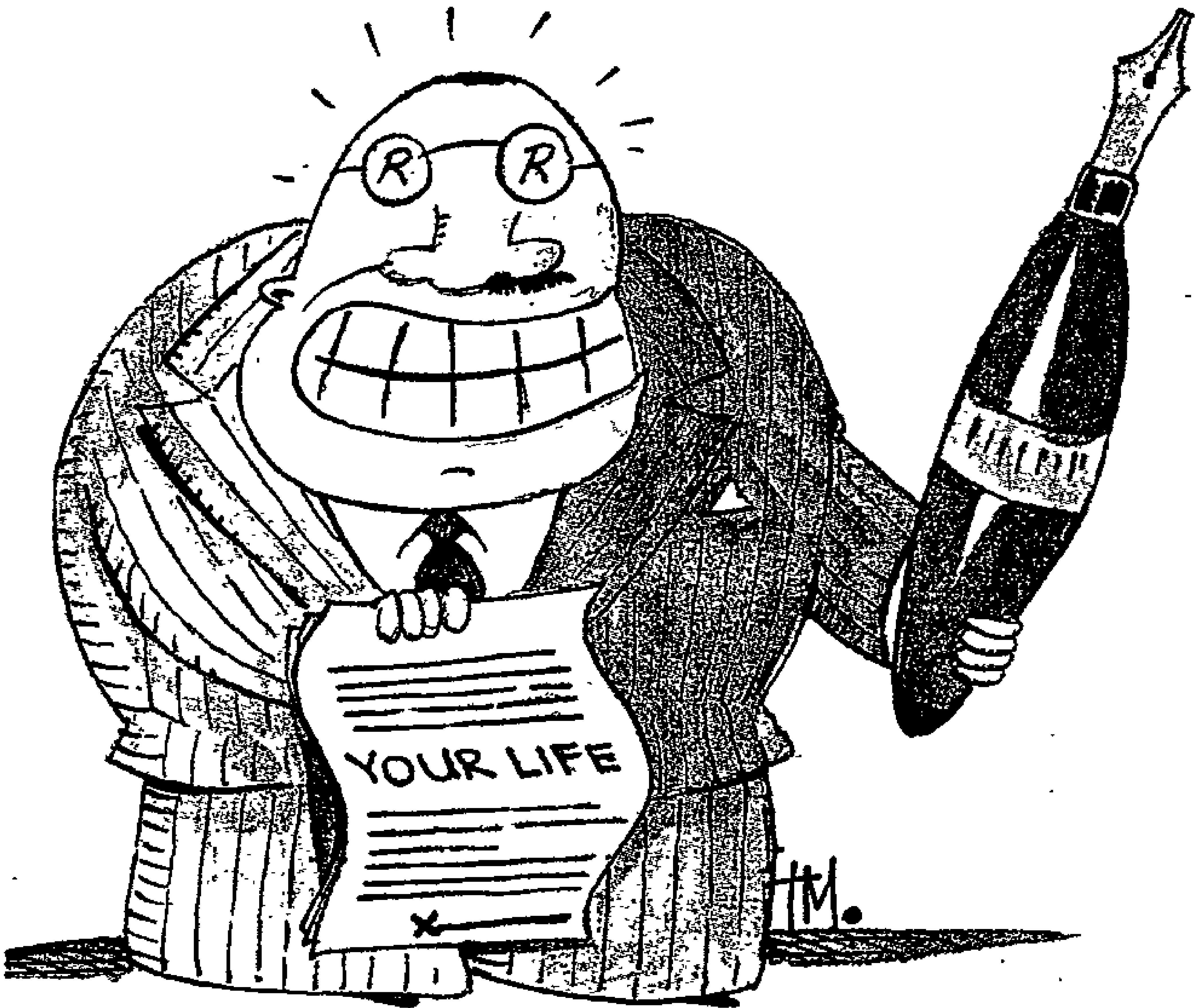
KwaZulu-Natal consumer director Siva Naidoo worries that the provisions will provoke consumer spending "for want, not need" and so increase the national debt enourmously. He believes the high levels of debt in SA, with little or no savings, ought to be curtailed. Consumers should be encouraged not to spend more, but to save. Naidoo worries, too, that the new regulations might thwart the intentions of government's economic policies as encapsulated in the growth, employment and redistribution programme (Gear).

Naidoo and Terblanche find it ironic that consumers protected by the Usury Act will be those who can afford to borrow amounts larger than R50 000 and wealthy enough to have good risk profiles at banks. Those who cannot afford to borrow small amounts will also forfeit the protection of the Act, they claim.

The regulatory body is, however, likely to set limits on interest rates below R50 000.

The department is itself unsure at this stage how all the provisions will work, particularly with reference to buying in terms of the Credit Agreement Act. Banks will not be able to charge higher rates than they are presently able to on overdrafts or credit cards, even for amounts less than the R50 000. But customers taking out a separate loan for a fixed period for less than the limit, will be able to charge higher amounts than those set in the Usury Act.

The trade and industry department is motivated in part by the need in certain areas to provide loans and then to regulate that loan market. Among the possible scenarios where loans are needed and difficult to get are small businesses and individuals wanting to extend existing houses.



BETWEEN THE LINES

with Pat Sidley

WITHDRAWALS of surpluses from pension funds can be done in one of two ways:

Employers who pay regularly into the fund and who are told the fund has a surplus, may be able to take a "contribution holiday". This method is often used when an employer wants access to a surplus; and

The more controversial method (which is not allowed at present) is simply to "repatriate" the amount — effectively to draw a cheque to the employer.

Most employees see them as the same but the Financial Services Board (FSB), when it drafted legislation to deal with repatriation of a surplus, differentiated between the two and was silent on contribution holidays.

Now that the legislative process has been delayed because of profound differences between the FSB and Cosatu, and the FSB has stopped allowing repatriation of surpluses until the issue is cleared, the question to funds, trustees and their members is: can employers use a contribution holiday to gain access to a surplus?

I put the question to the FSB's chief actuary, Jeremy Andrews. To cut a long and confusing story short, you could stop reading now and run for your lawyers.

Much of the answer will lie in what the employer intends to do with the surplus. According to Andrews it may be possible, depending on the fund, its rules and the actuary. Trustees have to apply their minds to the issue as part of their fiduciary duty.

But it gets more complicated if there is going to be a "conscious utilisation" of the money. The trustees would then have to work out whether benefits for pensioners or members have been improved. That would be in a defined benefit fund.

In a defined contribution fund, the rules would probably have to be changed and the FSB is not approving such rule changes.

At the moment, many employers are wanting access to surpluses to find ways of prefunding the post-retirement health care needs of members. This has been necessitated by a change in accounting practice, which means employers have to show such a provision as a liability in their books. It is onerous for many of them and as a consequence they are looking to end the liability.

Several schemes are being used to facilitate this and, says Andrews, the FSB is scrutinising them.

Among the issues he takes into account is whether the use of the surplus will be for the benefit of the employer or employee. Andrews says that the use of a surplus to pre-fund pensioners' health care benefits employers in that a previous liability is removed. He would be unlikely to approve of the use of a surplus for this purpose.

But even that scenario is more complicated than it seems. It has to be put to trustees and if there has been a fair distribution of the surplus and members have benefited, it may be possible to implement — that is, if a labour lawyer has been consulted to ensure that labour law has not been broken.

Andrews acknowledges that the situation is made all the more touchy because there is somewhere between R48bn and R80bn in surpluses in pension funds.

The FSB, says Andrews, has criteria it uses to decide on the application of a surplus. For instance, it should be a retirement benefit that everyone who is a member can enjoy. It cannot be linked to, say, medical cover.

The surplus is likely (until the law is clarified) to be used to pay legal fees for funds trying to sort this mess out.

BANKS & CRIME

FLAT SHOE SHUFFLE IN THE TELLER MACHINE

SA banks are joining forces with the police and justice officials to fight fraud.

The Banking Council of SA (BCSA) has agreed in principle for the banking community's own investigators and internal audit staff to be made police reservists. This would help alleviate the crippling shortage of financially skilled police detectives.

The police have a serious problem in being unable to retain commercially or financially skilled investigators as the public sector cannot compete with private-sector salaries, says SA Police Service CEO Meyer Kahn. By turning bank investigators (many of them ex-policemen) into reservists, the police service will be re-acquiring valuable skills.

"The internal audit staff of the banks are experts in the processes and systems of the banks and are thus better qualified to determine how a fraud is committed and to brief police detectives and prosecutors on specific cases," says BCSA crime strategies GM Mossie Myburg.

Bank robberies, in-transit heists and other high-profile robberies tend to grab the headlines, but so-called "white-collar crime" is just as costly to financial institutions and, by implication, to all the people who use those banks.

For example, 465 bank-related robberies cost the banks R136m last year, with a further R4m lost through ATM attacks and burglaries, says Myburg. In the same time, cheque fraud alone (6 044 cases) cost the four major banks R78,3m — a calculation that would be far higher if one counted losses through frauds involving "prime bank instruments", bearer bonds, electronic money transfers, credit card frauds and Internet hacking on credit card accounts.

Security costs added to the burden: the acquisition of metal detectors, video cameras, double doors and the like cost the banks a further R500m in 1997, Myburg says.

Banks had to develop new strategies to identify and investigate fraud, corruption and other crimes perpetrated against the banking industry.

Business Against Crime, meanwhile, has earmarked 146 "blockages" in the criminal justice system, and last week presented a set of proposals to the Cabinet to eliminate these problems over the next five years. The estimated cost of these initiatives would be R1,5bn. They include the long-term development of an electronic data system for prosecutors and police, the unification of the criminal records and dockets and the streamlining of investigation and prosecutorial systems.

One of these initiatives would be to establish specialised Commercial Courts to alleviate backlogs in fraud-related cases.

BCSA head Bob Tucker and his senior staff have held several discussions with Safety & Security Minister Sydney Mufamadi and Justice Minister Dullah Omar on the banking crime issue in recent months. These discussions led to the proposal to make bank investigators reservists.

"BCSA and government have agreed in principle to the idea. All that remains is for the details to be worked out," says BCSA strategy & communications GM Claire Gebhardt-Mann.

The number of banking staff who could become police reservists has yet to be determined.

Peter Honey

A MATTER OF SCALE

BANK ACTIVITY vs BANK CRIME

Last year SA banks:

BANK ACTIVITY	BANK CRIME
Processed **407m** cheques worth **R7,02bn**	Lost R78,3m through 6 044 cheque frauds
Handled **664m** ATM transactions worth **R97bn**	Had 210 burglaries on, and damage to, ATMs costing R4m
Spent an estimated **R500m** on antitheft security measures & devices	Lost R136m in 465 bank-related robberies.

Handled a total of 3,5bn transactions worth R8,4 trillion

SOURCE: BANKING COUNCIL OF SA

Moneylenders: help for the desperate

We should not seek to prohibit or regulate out of existence one of the few sources of crisis credit available to the poor, writes Jimmy Roth

(58) BD 24/12/98

There has been an ever-increasing call in some SA newspapers for the regulation of moneylenders. Moneylenders are portrayed in these articles as they have been for centuries: as unscrupulous, rapacious individuals preying on the desperation of the poor.

The particular focus of these attacks has been the more formal moneylenders such as Cash Wise. They typically operate as follows: a borrower approaches the lender and asks for a loan; the lender asks the borrower for an identity book, proof of employment, an automatic teller machine card and the user's personal code for the card. The lender then confirms that the card is active and the code is correct and within minutes lends usually up to 40% of the borrower's monthly income, at a rate often as high as 30% per month. These loans are frequently acquired in times of crisis, for example during food shortages and funerals

To outsiders this may seem iniquitous, but few formal credit institutions, like commercial banks, are prepared to lend to the poor, and for good reason.

The most common objection critics raise about the practices of moneylenders regards the handing over of automatic teller machine cards with personal codes. Unless a lender knows a borrower and trusts that the borrower will repay, the lender needs some form of collateral. The poor have few assets to provide as collateral. What assets they do have (pots, pans and other household goods) are very costly to seize and sell, and are worth little as second-hand goods.

What some poor people can offer as collateral, is the promise of future earnings. This is where the teller machine card comes in. The lender can hold the card as collateral and thus lend to a complete stranger.

It has been further objected that the moneylender, in possession of the client's personal code, can now steal the borrower's money. This is rare in practice because the lender can generally do better financially by being honest and getting repeat customers.

Take, for example, a lender who lends R400 at 30% interest per month to a borrower who earns R1 000 a month.

Under most circumstances, the lender is wiser to keep the client's business, earning R120 in interest, than to steal R480 and lose all future business from potential clients who hear of the theft.

The final objection to using teller machine cards as collateral is that the amount of collateral provided by the lender is too great. It is in essence the ability to withdraw all the borrower's funds. This is off the mark for two reasons.

Firstly, a person who applies for money at 30% interest per month, is unlikely to apply for that loan if he or she has a major surplus of funds in his or her account. In the example above, the borrower provides collateral of just more than double the value of the loan (excluding the interest).

It is common for lenders to take collateral in excess of the value of the loan. Many people who have paid for more than half the value of their home loan effectively provide a similar ratio of collateral to their lender.

Secondly, the collateral itself is not that secure. For a very small fee, the borrower can cancel the card and make the collection of the debt a costly and difficult task.

The second major objection to these moneylenders is the high rate of interest that they charge. Why should the poor, who can least afford it, be charged 360% a year when the rich are charged about 25% a year from banks? The reason quite simply is that it is expensive to lend to poor people.

Moneylenders' clients tend to be of two types. They may be poor borrowers who have never had any credit from a formal source before, so it is difficult to assess their creditworthiness.

The difficulty of screening risky from less risky clients means that the lender often has a fair share of risky clients who default.

Another source of clients are those who have poor credit records, for example clients who have defaulted on accounts with clothing shops and have already been rejected by formal credit institutions. To cover the costs of default, the lender needs to raise the interest rate.

Another consequence of dealing with poor people is that the lender is likely to encounter a number of non-deliberate defaults. This is because poor people are more vulnerable to income fluctuations than the rich.

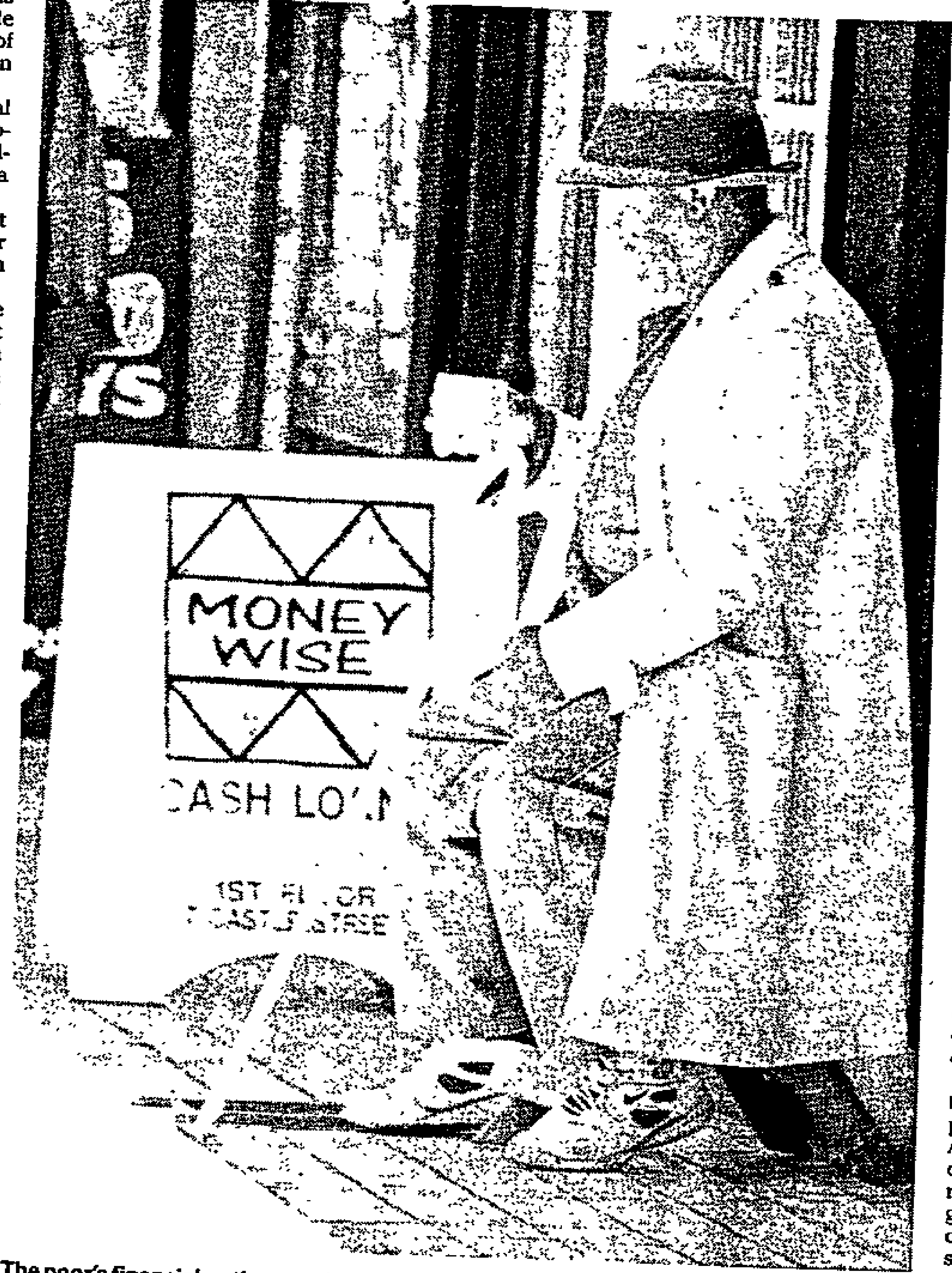
Typically, if a poor person, employed as an unskilled or relatively unskilled labourer, loses that job in a country with high unemployment rates like SA, it may take time to get a new job.

Thus a lender who deals principally with the poor exposes himself to high risks.

This risk is exacerbated by the fact that these moneylenders are typically small operations with few products (loans) and few types of clients

Unlike formal banks, they cannot spread their risk between different types of clients, for example individuals and corporations, and different types of products, for example short-term loans and home loans. Thus, to cover the cost of lending to risky clients with little collateral and all the attendant problems of default, and with few opportunities to spread risk, moneylenders charge higher rates of interest than formal banks.

The third major accusation against moneylenders is that they "drive the poor into poverty". It has been suggested that by lending at 360% per year the poor get into debt cycles that they never escape. This argument confuses causality. What drives a person to take a loan at 30% per month is often desperate poverty and even hunger Such a borrower goes to the lender for a loan that he or she now has to repay. The problem of poverty preceded the acquisition of the loan.



The poor's financial options are limited.

Picture: TYRONE ARTHUR

The poor person is a rational agent who, armed with information (and moneylending shops are quite clear about loan conditions), makes a choice. To suggest that the poor are making choices that "drive them into poverty", is either to fail to understand the existing poverty or to hold a patronising attitude towards the poor.

The final objection to moneylenders is the observation that many nongovernmental organisations apparently lend to the poor at a much lower rate of interest.

A number of government, nongovernmental and commercial organisations provide loans at far less than 360% per year, but the loan conditions and hence the product on offer are very different.

For example, the Small Enterprise Foundation in Tzaneen provides an excellent service to poor borrowers. It provides loans to poor borrowers at interest rates far below 360%. But to get around some of the problems of lending to the poor, it has quite strict loan conditions. It requires applicants to form joint-liability groups that are then trained. The processes take time and effort.

To a borrower who has just fallen on hard times, having to go to training or to form a solidarity group is not a viable method of satisfying his immediate needs. Moneylenders, on the other hand, promise and deliver loans in 10 minutes.

Ironically, actions taken to prohibit or regulate moneylenders out of open existence will impoverish the poor even further. The moneylenders will not disappear, but simply reduce in number and go underground. The poor will still be poor, they will still experience crises and seek ways of relieving those crises through moneylenders.

The result of driving moneylenders underground will be fewer moneylenders, which will in turn lead to higher prices for credit as competition is reduced, and costs of finding moneylenders increases. These increased costs will be borne by the poor.

All of the above arguments do not suggest that having moneylenders lending to the poor at 360% per year is an ideal situation. Alternative sources of credit to the poor require research and development and the role that is played by government and nongovernmental organisations in providing credit to the poor in a sustainable manner should be encouraged.

However, until poverty is eradicated or the poor have access to alternatives, we should not seek to prohibit or regulate out of existence one of the few sources of crisis credit available to them.

☐ *Roth is completing a doctorate on microfinance at Cambridge University.*

Analysts expect more bank mergers in 1999

Banking reporter **Madeleine van Niekerk** spoke to analysts Jacques Badenhorst and Steven Nathan about important issues in the SA banking industry

BD 30/12/98 (58)

How did the turmoil in emerging markets affect the local banking industry this year?

Jacques Badenhorst, ABN Amro Securities: The big problem was that as capital fled from emerging markets, SA was equally affected which resulted in an increase in liquidity pressures in the local markets. As a result of increased rates you will over the longer term see more bad debts. Very limited amounts of bad debts came through until now.

Steven Nathan, Deutsche Morgan Grenfell: I think the main effect was a sentiment issue where foreign investors got skittish because of the general negative impact of the emerging markets, so they withdrew capital and that led to liquidity problems, the repo rate rising significantly, foreign capital flowing out and prime following suit. Also, the rating agencies made some quite negative comments about SA.

What were the highlights in the banking industry in the past year?

Badenhorst: During the turmoil in the market, what came through is that our local banking supervision and regulations are fairly solid. The turmoil in Asian economies was worsened by the impact of weak regulations. Secondly, a consolidation phase started with the formation of FirstRand and this has improved efficiency in the local market. It is driving down the cost structures and making our banks more competitive internationally. The local market is overbanked, without a doubt, and that consolidation phase will definitely result in them becoming more competitive. It is all about finding synergies and driving down the costbase, especially with the expectation that next near is going to be difficult.

Nathan: That is right. A lot of analysts have been saying that SA's banking system is internationally competitive, both from the operational efficiency perspective and also from a regulatory point of view. Last year the International Monetary Fund was here, the World Bank was looking at the state of the banking sector and Standard & Poor's came out saying the banks are very strong. It comes back to confidence. If people believe you have a strong banking system and strong regulation, they are more likely to put capital here.

Will we see more bancassurance mergers in SA this year? Who will be partners?

Badenhorst: I do not believe we are going to see another bankassurance merger. Absa has been in bancassurance for the past 20 years, to a limited extent, and they have a relationship with Sanlam, so there is huge opportunity without making it into a formal structure. Stanbic will definitely go into bancassurance, but I do not see it going into a Liberty type of deal, everybody knows what happened there. I believe we will see mergers between the big banks. It is either going to be Stanbic and Nedcor, or Stanbic and Absa. Stanbic is going to merge with somebody, and if not Nedcor, I believe there are huge cost-saving opportunities between Standard Bank and Absa, although they have different cultures.

Nathan: I think you will see a big bank merger, one is just never certain of the timing. Another bancassurance merger is not out of the question. If someone does one thing it tends to be a catalyst for another company. I think demutualisation is significant on the merger front. Demutualisation will provide significant scope for further merger or corporate activity in the industry.

It is not what Stanbic will do, it is what Liberty wants to do, because Standard is controlled by Liberty. Liberty has stated its intention to focus on its core business, and to reduce its stakes in noncore businesses. It is part of that process. It looks like Nedcor would be a likely candidate to merge with Standard Bank. It is unlikely that a foreign bank would come in and take a significant stake in a local bank, so it needs to be left up to the domestic market to sort that out.

Standard Bank and Absa would be less likely to do something. Culturally there are a lot of question marks, and Absa is going through a dramatic transformation. Nedcor has stated that a bank merger would result in significant cost savings and they have done a lot of work on it. Nothing is impossible.

Banking analysts Jacques Badenhorst, left, and Steven Nathan

What is the future of the microlending industry?

Badenhorst: There are a lot of people who saw the upside potential in this market, and now everybody wants to get in. There will be a lot of consolidation because most microlending operations are small individual operations. This consolidation is the only way that we will see financial products and capital flow into the lower end of the market which the microlending industry focuses on.

The upside for the industry is huge and by New Africa Investments acquiring a majority stake in Theta, they have basically legitimised the industry. Theta is positioned to become a major financial operation in this country.

Nathan: I agree it has huge potential. You are going to see consolidation. There are about 3 600 microlenders that are part of the microlending association, so there are more than that. There is no doubt that those players, when margins start to be pressured, will either fall out of the industry or be absorbed by some of the more formal players.

A second issue is to what extent government is comfortable with the regulation of the microlending industry. Government is not totally happy with salary deductions or with the interest these operators charge. There is a regulatory risk for these operators. The profit that Theta is making is substantial in anyone's terms, even the major banks. Some of our big banks are already there, Nedcor and People's Bank have just less than one million customers, Standard Bank's E-Bank also has a substantial client base in this market and Absa formed Nubank.

What are the banking shares to look out for in the new year? Shares with great growth potential?

Badenhorst: There is going to be huge growth in the area of IT and financial services companies. Banks that have exposure to IT specialist knowledge and operations like Nedcor and banks that can take advantage of those opportunities will definitely show very strong growth.

Nathan: We expect strong earnings growth from Theta. Smaller banks like PSG will show strong growth, as will African Merchant Bank and Real Africa Durolink. Future Bank and the Business Bank will also show quite good growth and Investec is still growing.

Will 1999 be a good year for the banking sector?

Badenhorst: I think 1999 is going to be a tough year on the retail side. As a result of what happened in the past six months, the individual client is a bit debt averse, so advance growth is going to be affected negatively early next year.

Nathan: It is going to be a very difficult year for SA. We expect negative 1% gross domestic product growth. Banks will do better in earnings than the rest of the market, but it is not going to be a very good year.

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Sasria agrees to govt appropriation of billions from its excess reserves

(58) BD 4/11/98

Linda Ensor

CAPE TOWN — A fight between government and the short-term insurance industry over plans to appropriate billions of rands from the excess reserves of the SA Special Risks Association (Sasria) to reduce state debt was averted yesterday when the association's board voted unanimously to endorse the step.

The agreement opens the way for the conversion of Sasria, a section 21 company (nonprofit organisation), into a state-owned company.

Talks between Finance Minister Trevor Manuel, his deputy, Gill Marcus and Sasria over the past two weeks had achieved the consensus, Sasria MD Mike Strydom said yesterday. Newly appointed Sasria chairman Cyril Ramaphosa and finance department official Brian Molefe, who were appointed two weeks ago as replacements for government representatives on the Sasria board, had played a decisive role in steering the talks towards an amicable solution, Strydom said.

Two weeks ago Sasria, which had 49 short-term insurers as members, was still firm in its opposition to the Conversion of Sasria Bill, charging that it was unconstitutional. Sasria threatened court action to challenge the bill.

Through negotiation, however, Sasria had realised it had a common interest with government, Strydom said. It accepted that government could legitimately claim a share of Sasria's reserves, as it had provided reinsurance for the special risk cover provided since Sasria's inception in 1979 without charging short-term insurers any reinsurance premiums.

From the time of its formation until 1997, Sasria was exempted from tax and was afforded a monopoly over special risks by legislation. It was established to cover political riot risks when no short-term insurers were willing to do so.

Strydom said it was undesirable that Sasria should remain a section 21 company forever, and should convert to a company with shareholders as envisaged by the proposed legislation. "We are quite satisfied that our interests can be accommodated as long as we have a say in the process of implementation, on the composition of the board of directors and on any alteration to the company's memorandum and articles of association."

Sasria had proposed an amendment which would require government to consult it regarding the independent actuarial evaluation of Sasria's reserves, which would have to be undertaken to determine what funds were in excess of its liability to provide cover for its policyholders. The market value of Sasria's reserves stood at R8bn, Strydom said.

The finance committee is due to hold a public hearing on the bill in Parliament today.

Sasria shifts conversion stand

CT 4/11/98 (58)

LYNDA LOXTON

Cape Town — The South African Special Risks Insurance Association (Sasria) yesterday withdrew its objections to the government's plans to convert it into a state-owned firm.

Sasria has instead suggested four amendments to the Conversion of Sasria Bill to ensure that the short-term insurance industry was closely consulted.

The move was welcomed by Gill Marcus, the deputy finance minister, who has been brokering a truce with Sasria since it objected to the planned conversion of the national assembly's portfolio committee on finance.

Sasria objected that such a conversion was nothing short of nationalisation of a private asset and that would not go down well with foreign investors.

The committee's planned hearings on the bill last month were postponed until today after Marcus intervened, appointing to the Sasria board Cyril Ramaphosa of New Africa Investments and Brian Molefe, a director in the finance department.

The bill aims to convert Sasria from a Section 21 company under the control of the short-term insurance industry into one with the government as the only shareholder.

Sasria, which has assets of R9,6 billion, is a uniquely South African body established under apartheid to provide short-term insurance for financial losses caused by political acts.

Cover was later extended to non-political losses as well. Many of these losses are too large to be covered by any one short-term insurance player.

The government has justified the move by saying that it did not want to continue as the underwriter of last resort for Sasria with unlimited liabilities.

It wants instead to conduct an actuarial assessment of Sasria's substantial current assets versus its liabilities, using any surplus to pay off debt.

Victory for SA's unbanked

RICHARD STOVIN-BRADFORD

Johannesburg — South Africa's unbanked masses could soon gain access to free banking, thanks to Prosperity Holdings, a technology-driven financial services company launched yesterday by Kopano ke Matla Investments (Kopano) and JSE-listed Net 1 Applied Technology Holdings (Aplitec).

Kopano, the investment arm of the Congress of South African Trade Unions (Cosatu), will hold more than 30 percent of Prosperity while Aplitec, an information technology company, will hold a large but unspecified stake. Cosatu has about 1,7 million, mainly unbanked, members.

Tumelo Motsisi, Kopano's chief executive officer, said: "The new deal is a coup for the labour movement."

Prosperity has applied for a banking licence to create Prosperity Bank as its platform for banking the unbanked using smart card technology.

It would allow hitherto unbanked South Africans, who have been largely ignored, the advantages of a bank account without the costs or formality.

SMART IDEA *Kopano's Tumelo Motsisi has a smart card for the country's unbanked* PHOTO JOHN WOODROOF

(58)

Max Maisela, Prosperity's non-executive chairman, said: "Far too little has been done to find appropriate ways to address the needs of lower-income groups and historically disadvantaged communities."

Bradley Sacks, the chief executive officer, said his company hoped to raise R400 million of capital through a listing on the Development Stage sector of the JSE before the end of this year or early next. Prosperity would then make an offer to acquire the outstanding equity of Aplitec in a share swap.

It could also acquire Kopano's 50 percent interest in Prosperity Insurance, South Africa's first truly black insurer from which the new financial services group had taken its name.

Maisela said: "This is a victory for ordinary people on the ground, and unless the venture touches people on the ground it is futile."

CT (BR) 4/11/98

Privatised Sasria a step closer

(58) BD 5/11/98

Linda Ensor

CAPE TOWN — The privatisation of the SA Special Risks Insurance Association (Sasria) would have a strong black empowerment component after the association's conversion into a state-owned company, Sasria chairman Cyril Ramaphosa said yesterday during a meeting of Parliament's finance committee.

The committee unanimously adopted the Conversion of Sasria Bill which could conservatively see at least the R3,3bn of Sasria's reserves presently held in government bonds being used to reduce state debt.

Sasria's reserves are estimated at about R8bn, but last year they were as high as R13bn, finance department officials said.

Ramaphosa said the Sasria board wanted to begin the preparatory work for privatisation immediately, but did not think it would happen within the next year.

No time frame was put on the privatisation of Sasria in the bill as committee members felt that flexibility was required to maximise returns.

However, the bill did compel the minister of finance to dispose of the company, whose conversion from a Section 21 (nonprofit) company to a state-owned one would be a transitional measure.

Ramaphosa told the committee that once the short-term insurers who comprised Sasria's members had understood that the privatisation of the institution was planned further down the road, there was "complete agreement" over the terms of the bill.

The insurers had initially opposed the bill fiercely. He said industry members as well as previously disadvantaged groups, would participate in the privatisation.

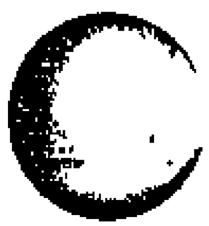
Sasria would lose its monopoly status once was privatised and premiums would be market-driven.

SA Insurance Association CE Barry Scott supported the amendments introduced by Sasria which mandated Manuel to consult with the industry during the implementation of the bill. Originally Sasria vociferously opposed the appropriation of its excess reserves on the grounds that this would result in premiums increasing by as much as 400%-500%.

But Deputy Finance Minister Gill Marcus, who said government had no plans to be involved in the insurance industry, argued that it was not a foregone conclusion that premiums would increase. This would depend on the actuarial evaluation and on an assessment of the business.

John Bizos, from the Consumer Institute of SA, said Sasria policyholders had been overcharged in the past: "Sasria's culture of rate determination has been based on a exaggerated assessment of risk."

This had enabled the association to build up its reserves. By charging a flat fee of R15 a year for all passenger cars, irrespective of their value, was not a fair insurance practice.



Land Bank expecting a profit of R300m for 1998

(58) BD 11/11/98

Stephane Bothma

PRETORIA — The Land Bank, which was exempted from paying tax in terms of current legislation, expected a profit of more than R300m for 1998 on the back of a significant rise in short term lending and a steady increase in medium and long term loans, bank MD Helena Dolny said yesterday.

Releasing the bank's 1997 financial report and unaudited results for the eight months ended August 31 this year, Dolny said that since April, loans worth R50m had been extended to 10 000 black emergent entrepreneurs.

"These entrepreneurs are farmers whose loan applications would never have been granted in the past but now qualify because of changed collateral requirements," Dolny said.

She said the loans were funded by R100m allocated from reserves.

The sum total of the loan portfolio to emerging farmers would remain modest, relative to the bank's commercial portfolio.

"The risk exposure must be seen in this context and not be exaggerated."

Some of these loans were as small as R250 and were granted in terms of the bank's new micro credit scheme aimed at people with smallholdings requiring money to improve production of vegetables, poultry or pigs.

Dolby said the scheme offered the opportunity for the establishment of a financial track record at a 2% interest rate.

Clients also qualified for increasing amounts of credit.

The repayment of these small loans currently stood at 82%, she said.

With 25 000 bond holders on its book, of which 4 000 were black commercial farmers, Dolny said industry fears that the bank would curb its lending to the commercial farming sector to focus on emerging farmers were now firmly dispelled.

Pricing

The bank introduced a new pricing policy for its corporate clients with variable pricing according to risk and loan size.

The bank's active drive to expand its lending to the commercial farming sector through lower interest rates has come under strong attack mainly by Absa and Standard Banks' farm financing divisions.

The banks have reportedly warned that they will be forced to shut down some rural branches due to the Land Bank's recent attack on their traditional market share in the commercial farming sector.

This year, the Land Bank's debtors increased by R1 272m to R12 281m and the bank's unaudited net surplus amounted to R242m in the first eight months of the year, compared to R132m in the first eight months of 1997.

This reflected an increase of 83% achieved through cost reductions, pricing adjustments and regained market share.

This was a clear indication that the bank was regaining market share in short term lending which had been lost in 1997.

At the end of 1997 the balance on the bank's total loan book amounted to R10 951m compared to a balance of R11 158m at the end of 1996.

The bank's surplus last year was R97m, compared to R150m the previous year due to various methods undertaken as part of the bank's restructuring.

These included the raising of provisions for irrecoverable debt from R40m to R127m; provision of about R30m for the upgrading of information technology systems; a R31m allocation to the medical fund and the provision of R16m for retrenchment packages for the restructuring of the bank's head office.

Sasria, government resolve differences

STAR 5/11/98 (58)

LYNDA LOXTON

Cape Town — The short-term insurance industry and the government publicly resolved their differences yesterday over plans to convert the South African Special Risks Insurance Association (Sasria) into a state-owned firm, eventually freeing billions of rands for debt relief.

Gill Marcus, the deputy finance minister, acknowledged that there had been major differences between the industry and the government, but these had been resolved. The industry's concerns were catered for in amendments to the Conversion of Sasria Bill.

The amendments state that the short-term insurance industry must be consulted on every step as the Section 21 company is converted into a public company. It will be owned entirely by the government as a first step towards privatisation.

Sasria has assets worth about R9,6 billion. An actuarial valuation will be undertaken within six months of the establishment of the new company. Excess reserves, which could amount to several billions of rands, will be used to reduce state debt.

Cyril Ramaphosa, the new chairman of Sasria, told the committee Sasria had initially opposed the bill because of "misunderstandings and uncertainties".

He said Sasria now accepted the fact that because the state had given unlimited underwriting to the association for many years and as Sasria had not paid taxes until recently, "the money is due to government".

Mike Strydom, Sasria's managing director, said if the proposed amendments were adopted, "the interests of the short-term industry as well as those of Sasria will be adequately safeguarded."

Rating agency says SA banking system is fundamentally sound

Madeleine van Niekerk (58)

SA's banking system is well developed, fundamentally sound and backed by a good regulatory and legal framework, the international rating agency Standard & Poor's said yesterday.

In a report accompanying the public information ratings Standard & Poor's assigned to five of SA's major banks yesterday, it said the industry benefited from strong financial profiles, effective information technology systems, experienced management and extensive distribution capacity.

Nedcor, Standard Bank and Absa each received a triple-Bpi rating. First National Bank of SA and NBS Boland received a double-Bpi rating.

Standard & Poor's said SA banks were under pressure. The Reserve Bank of SA had raised interest rates to control inflationary pressures arising from a sharp devaluation of the rand during the year.

While the rand had stabilised since its low point in August, real interest rates remained high. If this situation remained for an extended period, borrowers would be overburdened and banks' loan losses would increase. The rating agency said the negative impact of the situation had not yet filtered through, with non-performing loans still at manageable levels. At the end of June this year, gross non-performing loans measured just 3,6% of total lending for the banking system.

Standard & Poor's said non-performing loans and resulting loan losses would increase significantly next year, but would remain manageable given good operating earnings and high level of coverage by loan loss reserves already on the books.

The banking market in SA is dominated by the four largest banks — Absa, Standard, FNB and Nedcor — which between them hold about 80% of the country's banking assets. NBS Boland has a more modest market share of about 5%.

The agency said despite high margins, the banks' profitability was restricted by high operating costs driven by large and expensive branch networks. Banks, however, maintained good profitability levels and capitalisations were adequate.

BD 17/11/98

Real power is economic

Sasria's reserves to service debts

(58)

Parliament on Friday approved legislation allowing the government to pay off state debt from billions of rands from the reserves of a special fund set up to insure political risk under apartheid.

Parliament backed the conversion of the South African Special Risks Insurance Association (Sasria) from a non-profit association into a state-owned company, giving the fiscus access to up to R10 billion of its reserves.

"This is certainly in the public good and will help reduce the cost of servicing state debt, thereby releasing funds for more productive use in the budget allocations," Deputy Finance Minister Gill Marcus told parliament.

Sasria was set up in 1979, when apartheid South Africa was plagued by riots and internal strife, to provide insurance against damage to property caused by political acts. The government agreed to act as reinsurer of last resort.

As a non-profit monopoly company, Sasria was not allowed to distribute profits and was exempt from tax until 1996 and therefore accumulated substantial reserves in excess of what it needs to conduct its business in post-apartheid South Africa.

Reconstruction dividend

"Sasria was established to deal with the crisis that arose out of apartheid. It is fitting indeed that the funds accumulated as a consequence be used essentially as a reconstruction dividend," Marcus said.

The finance ministry said an independent actuary would value the new Sasria within six months of its formation and estimates that the government will be able to access several billion rands of its reserves to pay off state debt.

Total government debt stood at R338 billion last year, 55,2 percent of gross domestic product.

High interest rates have forced Finance Minister Trevor Manuel to budget for R1,2 billion more than originally expected in debt interest costs for the 1998-99 fiscal year and R3 billion more for 1999-2000.

The Conversion of the Sasria Bill, which is set to be approved by the National Council of Provinces next week before it is signed into law, will also allow for the eventual privatisation of the new company.

But Marcus said Sasria would continue its current business as monopoly for the time being and government would continue to cover its reinsurance risk, albeit at a capped level.
– *Reuters.*

Citizen 9/11/98

Sasria gets the nod to go public

(58)

LYNDA LOXTON

CT (BR) 10/11/98

Cape Town — The South African Special Risks Insurance Association (Sasria) may have been used as a loss leader by the short-term insurance industry in terms of marketing other forms of insurance, the national council of provinces' select committee on finance heard yesterday.

Coen Kruger, the head of asset and liability management in the department of finance, told the committee that although Sasria funds were well managed, its reserves had grown to such an extent that it had started continually reducing its premiums.

This, he said, was "the incorrect route" to take. Government said the best way forward was to convert it from a Section 21 company into a public company and use some of its excess reserves to pay off debt. The committee approved the Conversion of Sasria Bill that allows this to take place.

Its reserves stood at R9 billion, although they had moved as high as R12 billion before the stock market crash, Kruger said.

Land Bank plans to pare jobs

(58) (25) CT(BR) 11/11/98

ROY COKAYNE

Pretoria — The restructuring of the Land Bank's head office in Pretoria would reduce the number of employees from 330 to 80 by the end of next year, Helena Dolny, the managing director, said yesterday.

She said the bank's board of directors had in principle accepted proposals of the PricewaterhouseCoopers-Ebony report on restructuring the head office.

The reduction would be achieved through administrative streamlining; the outsourcing of cleaning, printing and stationery; and an information technology roll-out, which would save 50 administrative jobs.

"We are looking at scaling down our head office at a time when we've just had the jobs summit, which is something the board is very sensitive about," she said.

But Dolny said this did not mean the bank would not create jobs, particularly in its branches.

She expressed confidence of a breakthrough with the unions and achieving the head office restructuring by 2000.

According to the restructuring report, the main reconfiguration of the Land Bank's head office should take place by March next year with completion by the year's end when the new information technology system was fully rolled out.

The restructuring takes place against the backdrop of a continuing dispute over salaries with Sasbo, the finance union.

However, at a Land Bank briefing it was revealed that there were negotiations with Sasbo, and agreement had been reached on the size of the increase. Other issues were still being discussed.

The release of the annual report was initially supposed to have taken place on September 29 this year, but was postponed because of dissatisfaction with some of the observations in the auditor-general's report within the annual report.

☐ **83% net surplus, Page 3**

Land Bank reports an 83% rise in net surplus

CT(BR) 11/11/98 (58)

ROY COKAYNE

Pretoria — The Land Bank's net surplus for the eight months to August 31 rose 83 percent to R242 million, Helena Dolny, the managing director of the Land Bank, said yesterday.

This had been achieved through cost reduction, pricing adjustments and regained market share, she said.

The Land Bank's projected income for 1998 was R300 million compared with last year's R208 million, before provisioning. Indications were that this would be exceeded.

Dolny said unaudited figures for the first eight months of this year showed the Land Bank was regaining market share in short-term lending that had been lost in 1997. There was also a steady increase in the medium and long-term portfolio, while the debtors book increased by R1,27 billion to R12,28 billion.

The number of clients had risen as the bank launched a new range of products for micro credit clients. Dolny said almost R50 million had been lent to emerging farmers and the bank had 10 000 micro credit clients.

There had been an allocation from the reserves of R100 million and the income from the outstanding debtors of the Agricultural Credit Board, which was estimated at R300 million for 1998, would accrue to the Land Bank to finance this portfolio.

But Dolny said fears the bank would curb its lending to the commercial farming sector to focus on emerging farmers should be firmly dispelled and it had introduced a new pricing policy for its corporate clients with variable pricing according to risk and loan size.

New business with historically disadvantaged clients was demanding in terms of the numbers of persons requesting relatively small loans but the sum total of the loan portfolio would remain modest relative to the bank's commercial portfolio.

"The risk exposure must been seen in this context and not be exaggerated."

The passing of amendments to the Land Bank Act, which enabled the bank to extend credit to agri-related business, created a new window of opportunity for agri-business finance, she said.

Commenting on benchmarking the Land Bank with commercial banks, Dolny said this was "a tough one" because it was impossible for the bank to transform its operations overnight to perform like a private sector bank.

In the past the bank was asked not to lose money, and making a profit was also not an imperative.

The bank had a three-year strategy document that set out to achieve expenditure to income ratios.

"We do not run ourselves efficiently and need three years to turn ourselves around," Dolny said.

Salaries accounted for 76 percent of the bank's costs. Head office costs accounted for 43 percent of expenses compared with between 20 and 25 percent for a private-sector bank.

SA's banks tally up their contribution to change

Madeleine van Niekerk

SA BANKS have made a significant contribution to SA's transformation and are committed to continue playing a role, the Banking Council SA said in a position paper submitted to the parliamentary portfolio committee on finance, last month.

It said banks had granted R13bn low-income housing loans and another R3bn of "micro housing loans" and were committed to participation in the Gateway low-income housing initiative.

The council said the banks had worked together with the trade and industry department in establishing a joint venture to advance loans between R10 000 and R50 000 to very small businesses.

The banks facilitated R8,2bn of black empowerment deals last year alone and the social responsibility initiatives of the banks amounted to more than R70m last year.

From the numbers furnished by the four major banks doing business in all the markets, non-lending business was generating 67% of profits. The lending and transactions business was generating 33%.

Based on aggregated regulatory returns for the year ending December, banks in SA generated R5,5bn in after tax profits.

But only a small percentage of this profit came from lending, and if interest margins on lending activities were squeezed further, this would considerably weaken the bank's financial soundness, the Banking Council said.

In SA the bank interest margin — the difference between the rate of interest received and the rate of interest paid as a percentage of the average value of the loans over the year — is only 3,7%.

Until the foreign and niche banks came into the markets, cross-subsidisation from the high-value knowledge and trading markets to the low-value lending and transaction markets was the order of the day. However, if the large banks did cross subsidise they would either be unable to compete in the high-value markets or they would be eroding the sort of return shareholders could earn. If market forces were interfered with, the big banks would tend to withdraw from the low-return markets.

SA leads a banking revolution

SA's remote rural regions have become an important testing ground as local banks pioneer the global move to new banking technology such as mobile ATMs and biometrics. **Mark Ashurst** reports

(58) BD 23/11/98

IT IS pension day in KaNgwane, a rural corner of KwaZulu-Natal. Security guards armed with assault rifles escort four-wheel drive trucks past a bustling queue of elderly people. The middle truck carries an automated teller machine (ATM). Each pensioner rolls a weathered finger across a tiny glass screen, the machine checks the print against a digital template, then dispenses a monthly stipend. There are no personal identity number (Pin) codes.

Later this year, First National Bank (FNB) will bring the mobile machines "on line". A new telecommunications link — via a geostationary satellite 36 000km above the earth's surface — will bring the full gamut of retail banking services within reach of rural pensioners. This has been made possible by a new method of locating satellites, which has reduced the time required to set up a mobile satellite dish from several hours to about five minutes. "You have to design around the problems," says Gerry Cassidy, FNB's head of technology research, who conjured the solution.

Cassidy has other ideas up his sleeve. The surplus bandwidth in the satellite link could be used to provide a range of additional services never before found on a cash dispenser. His favourite is a "digital stethoscope", which would enable a travelling nurse to transmit medical data via the bank's satellite for diagnosis by a specialist doctor in Cape Town.

SA's unusual coupling of a sophisticated banking sector to a largely undeveloped country has made it an important testing ground for new banking technology. As the largest institutions replace expensive bricks and mortar networks with more cost-effective electronic systems, scientists have pioneered a range of new products.

Much of their work has focused on biometrics — identifying customers ... access to their banking networks using a desktop scanner, which recognises the human hand. Voice recognition and retina scanning proved reliable in tests, but were passed over for use at ATMs in favour of more "passive" technology. Researchers are exploring facial recognition software, which uses algorithms to identify clients by their face at the moment they enter a bank.

In a market characterised by a high incidence of violent crime, security has become the driving force behind many recent innovations. Earlier this year, FNB patented its "money shuttle", an electronically sealed mobile strong-box which transmits an updated tally of its contents to the bank via a fixed or cellular telephone connection. Funds are credited immediately to the retailer's account, and any attempt to tamper with the "money shuttle" detonates an internal dye-bomb which renders its contents worthless. The system is on trial at four British supermarkets.

Of course, the ultimate solution is to replace all cash with "virtual money". SA banks' interest has been sharpened by the potential of electronic banking to bridge the divide between the formal, taxpaying economy and the dynamic informal economy. With about 70% of the population still unbanked, this market is too large to ignore.

As a result, Johannesburg has emerged as a strategic battleground in the race to define a new standard for electronic cash transactions.

Rural pensioners are set to benefit from technological advances linked to the banking sector

Chip-based cards, which can track spending and support a pre-paid "electronic purse", promise to sever the umbilical chord linking points of sale to mainframe computer systems. Both Standard Bank and Amalgamated Banks of SA (Absa) last year issued Maestro-branded debit cards developed by Mondex International, the MasterCard subsidiary, to about nine million clients. These are conventional magnetic stripe cards which will be upgraded to "chip" cards in the first half of next year.

David Parrau, Standard Bank's senior manager for electronic customer delivery, insists the bank is "firmly committed" to on-line verification of debit transactions. All SA banks are supplying new infrastructure, including hand-held terminals for retailers, which will support the migration to chip-based smart cards. The new equipment includes GSM terminals which rely on digital cellular telephony in areas where copper is not available.

But this is Africa. The real potential of chip-based smart cards lies in providing secure transactions off-line. That requires a level of interoperability — known in industry ...

is Chase Manhattan's loyalty scheme with Burger King. The new generation of plastic will run on Multos, the non-proprietary smart card operating platform which MasterCard hopes will become a global standard. A significant proportion of its first users in SA will be people who have never owned either a credit card or a cheque book.

Other industries are already devising products to "piggy-back" on the new smart cards. "Multos is for smart cards what DOS is for PCs," says Alison Greensmith, Mondex's divisional manager for Africa. "Multos will allow multiple applications to be uploaded on a single card via ATMs and retailers. Most of the smart cards we see now are really 'stupid'. They all stand alone."

Among the most innovative of the new applications is Pycom Express, a pre-paid Internet account developed by a consortium including oil company Caltex, Australian software manufacturer KeyCorp, Fujitsu's SA subsidiary Amdahl, Mondex, and a local Internet service provider. Paycom combines a pre-paid credit with the user-identification required to dial into the Internet via ...

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Much of their work has focused on biometrics — identifying physical characteristics unique to an individual. "Biometrics will ultimately become the only secure means of activating financial transactions," says Mike Jarvis, head of corporate banking at FNB. "Cards and pins depend on ownership and knowledge which are inherently flawed because they can be transferred."

The impact of these new technologies is not confined to the rural poor. FNB's biggest corporate clients control

In a market characterised by a high incidence of violent crime, security has become the driving force behind many recent innovations. Earlier this year, FNB patented its "money shuttle", an electronically sealed mobile strong-box which transmits an updated tally of its contents to the bank via a fixed or cellular telephone connection. Funds are credited immediately to the retailer's account, and any attempt to tamper with the "money shuttle" detonates an internal dye-bomb which renders its contents worthless. The system is on trial at four British supermarkets.

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As a result, Johannesburg has emerged as a strategic battleground in the race to define a new standard for electronic cash transactions.

About 500 000 clients of FNB and Nedcor already carry multifunction, Visa-branded "chip" cards which combine debit and credit facilities. But SA's costly and often unreliable telecommunications infrastructure has limited the issue of credit cards to just 5,3% of the population. With fewer than 30% of credit transactions authorised on-line, the current infrastructure will not support credit services beyond the high income market.

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But this is Africa. The real potential of chip-based smart cards lies in providing secure transactions off-line. That requires a level of interoperability — known in industry jargon as "chip-to-chip, peer-to-peer security" — which has not yet been achieved elsewhere. The prospects for collaboration have been helped in SA by a history of common standards for banks' ATMs.

The sheer scale of Standard and Absa's efforts puts other e-cash projects in the shade. In SA, e-cash will be included on all nine million new smart cards from next year. In Israel there are about 8 500 Mondex-branded smart cards in issue. In the US, the biggest project to date

The new generation of plastic will run on Multos, the non-proprietary smart card operating platform which MasterCard hopes will become a global standard. A significant proportion of its first users in SA will be people who have never owned either a credit card or a cheque book.

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□ *Ashurst is a freelance journalist. This article first appeared in the UK publication The Banker*

Now for a card-carrying capitalist

Madeleine van Niekerk speculates on how cards will change the notion of money

IMAGINE being able to use the same payment card to draw cash at an automatic teller machine, buy a dress on credit, park at a parking meter and check a book out from the library. How about also booking an international flight and getting a cup of coffee upon arrival without stopping to exchange currency.

This is not science fiction; it is the new global money era. In the card industry, the explosion and mass acceptance of multi-application smart cards will dominate the next 10 years. It will create a new type of money that will change consumer spending habits forever.

Smart cards represent a "bank in the pocket" for consumers in emerging markets as well as those in countries with advanced technology infrastructures. A combination of credit, debit, customer identification, loyalty, network access and other applications can be stored on a single card, tailored to each individual's needs, anywhere in the world.

A major problem with the new smart card technology is not the cost of the infrastructure but the time it takes to upgrade automatic teller machine infrastructure to accommodate the new technology. Another problem is acceptance of the new technology by commerce, industry and consumers.

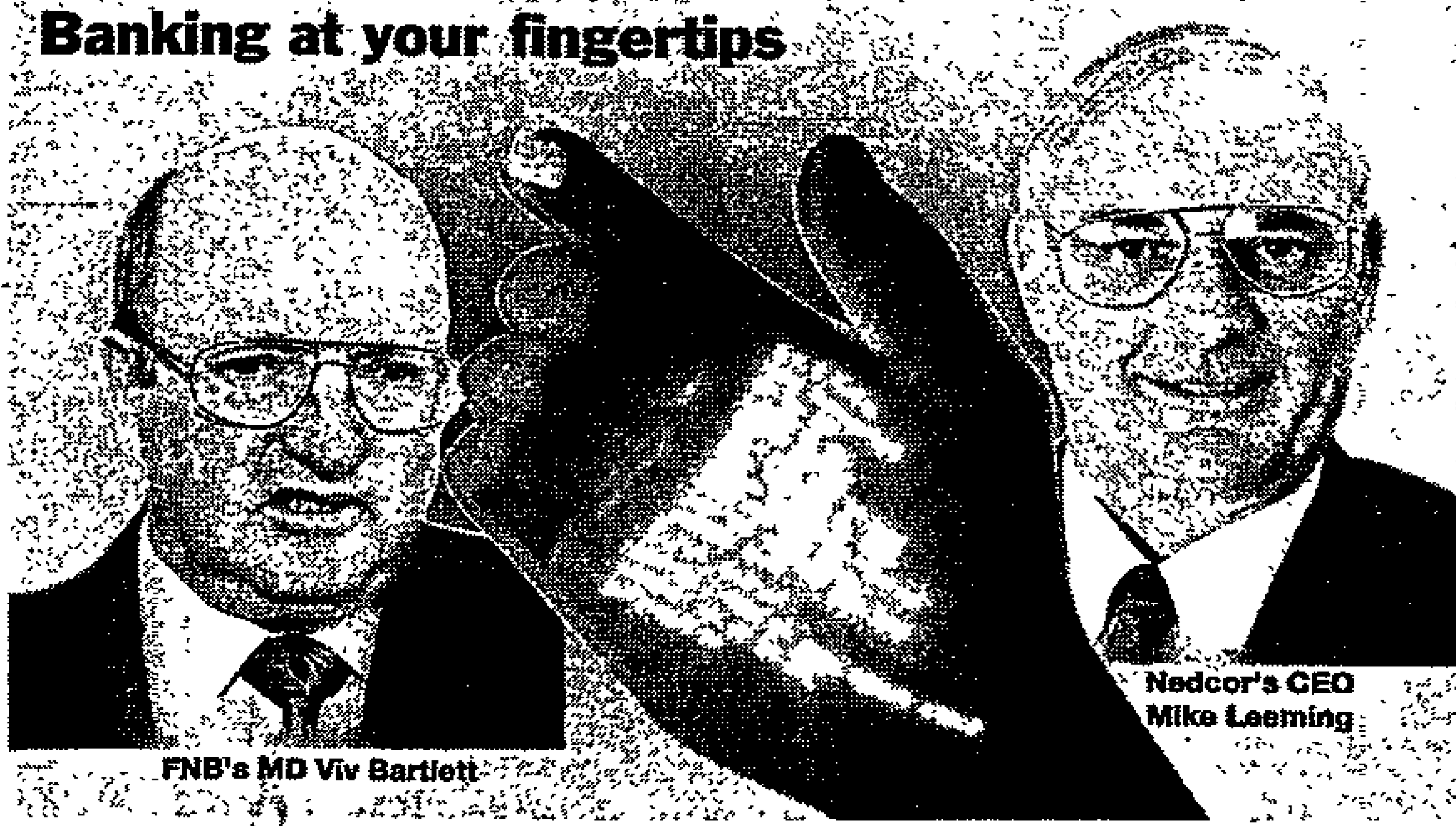
Smart cards will have to take off in a big way in SA, because of world pressure to move from the magnetic stripe to the chip. Banks in the UK are moving their credit and debit cards — 104-million cards altogether — to chip. German banks are converting all their automatic teller machine cards to chip.

SA banks are pretty certain that South Africans will buy into chip. After all, there are 2-million cellphone users in SA, with each one using chip cards.

The way SA consumers pay for their goods and the manner in which store owners are paid is about to change.

Visa Southern Africa, with First National Bank of SA and Nedcor, recently announced the launch of new Visa debit and credit cards — smart cards — each with a microchip embedded in the front of the card as well as the traditional magnetic stripe on the back.

The computer chip acts like a minicomputer and has the personal identification number (Pin) and account details in its memory, enabling transactions to take place off-line. The retailer's terminal does not need to connect to the bank's computers for authorisation.



FNB's MD Viv Bartlett

Nedcor's CEO Mike Leeming

KAREN MOOLMAN

Visa is the largest consumer payment system worldwide with more volume than all other major payment cards combined, and has 21 000 financial institutions as members.

The advantage of a chip is that it gives added security to the data stored on the card, while retaining the magnetic stripe ensures that the new cards can be read by all automatic teller machines around the world.

There is a clear difference in the way debit and credit cards are designed to be used.

Debit cards are linked to a bank account, typically a current account, from which money spent or withdrawn is deducted. Holders of the debit card must have enough money in their bank accounts for the transaction to be processed.

Debit cards are the convenient way to pay for small- to medium-sized purchases such as groceries and other daily expenses. They are faster to use than cheques and safer than carrying large amounts of cash.

Compared with using cheques, they also save consumers the inconvenience of carrying identification documents and giving out personal information at the time of the transaction.

Consumers do not need to carry extra cash or a cheque book as the card is accepted for payment. If a debit card is stolen or lost it can be stopped immediately and replaced by the issuing bank, usually within 24 hours. If cash is stolen it is lost forever.

The new cards are "off line" which means that they can be used in locations which do not have the telecommunication infrastructure to authorise transactions electronically.

There are numerous benefits for retailers and merchants who accept the debit and credit cards. When their customers use debit cards, they are in effect using electronic cheques to access their current accounts. Debit transactions are far quicker to perform, compared with the time required to authorise and process cheques and credit card transactions.

Debit card holders must also enter a Pin, which helps protect businesses, retailers and their customers from fraud.

Debit processing provides secure guaranteed funds for every properly authorised transaction. Merchants obtain secure settlement for their goods because they know instantly if a customer has funds available. Decreasing cash handling responsibilities results in less risk of takings going astray and permits tighter internal control.

It might take a while before smart cards become common currency in SA, because banks have just started to put the cards on the market. However, there is no doubt that this is the beginning of the chip explosion.

Erwin outlaws pyramid schemes

CT(BR) 24/11/98 (58)

Roy Cokayne

Pretoria — Alec Erwin, the trade and industry minister, yesterday declared chain letter schemes, multiplication schemes and pyramid promotional schemes as unlawful and harmful business practices.

The move followed Erwin's acceptance of a report and recommendation by the Business Practices Committee, published in the latest Government Gazette.

In its report, the committee referred to a number of schemes that had operated in South Africa and were subsequently declared unlawful, including Newport Business Club, Rainbow Business Club, Sun Multiserve and Dunamus CC.

Louise Tager, the chairman of the committee, said the committee calculated in regard to Newport that at any time at least 75 percent, and possibly more, of members would have been at risk of not recouping their investments.

Tager said this applied to the total number of members, irrespective of the stage at which they joined the scheme.

She said an analysis of the commissions earned by Newport members showed that 61 percent of the members had not recouped any of their monies, while another 30 percent recouped some monies, but less than their initial R14 000 payment. Only 9 percent of members earned more than R14 000.

These percentages were identical at the stage when Newport had 1 671 members and again when the scheme had 6 354 participants.

Tager said three people received R10,9 million, R2,1 million and R4 million respectively in the Newport scheme, while the top 30 earners each received more than R226 000.

"These rewards were financed by those 91 percent who had not recouped their payments of R14 000," Tager said.

She said these percentages were almost identical to those calculated during the investigation into the Rainbow Business Club, and "may be indicative of the trend in these types of schemes".

In a summary of the schemes, Tager said although a smokescreen of other advantages was often used, the only genuine product of these schemes was money. The schemes' continued existence relied totally on the ever-increasing numbers of new participants.

Tager said the success of the promoters and its participants was dependent on the money received from its participants and new members.

"The potential advantage to consumers who become participants lies in the right to recruit new participants. The incentive to new participants to recoup their initial cash payment lies in the canvassing of further new participants on which a scheme is dependent."

Tager said the proponents of schemes, such as Newport, argued vehemently that no saturation point could be reached.

She said theoretically and mathematically this might be the case, depending on the underlying assumptions, but the extent of a new member's possible earnings was clearly limited by the extent of the market — and the market was limited.

Tager said the longer the scheme operated, the more difficult it would become for a member to find further potential members.

Minister signs the death warrant for get-rich-quick schemes

(58) ARG 28/11/98

ESANN DE KOCK

Get-rich-quick pyramid or money-revolving schemes were declared illegal by Trade and Industry Minister Alec Erwin from this week.

If most of the income generated in any scheme comes primarily from the introduction of new members it is now illegal.

There is a plethora of money-revolving schemes in South Africa, some of which have been the target of a Personal Finance campaign, which will effectively be closed down by the new regulations.

The Business Practices Committee, which administers the Harmful Business Practices Act, has found that these schemes essentially rob Peter to pay Paul and that, while some people make money, many more will lose their money.

The banning follows a probe by the Business Practices Committee.

Schemes investigated by Personal Finance have included Rainbow, where money was fraudulently stolen by some of the organisers, Balltron and the Newport Business Club.

In a report to Minister Erwin, Business Practices Committee chairman, Louise Tager, says the committee's investigations show that the amount gained by the promoters and other participants of these "easy money-making" schemes is usually equal to the amount lost by the other participants.

She says pyramid schemes, in particular, pose a dilemma for authorities: The apparent success of people, who are making money out of these schemes, is very visible to new entrants and if the authorities step in they are accused of being unconstitutional and interfering with the consumer's freedom of choice.

On the other hand, when the scheme grinds to a halt, "as all these schemes inevitably do" there is an outcry over why the authorities did not intervene.

Minister Erwin, accepting the report of the committee, defines the harmful business practice of money revolving schemes as follows in the Government Gazette of November 13:

◆ Operating or participating in a multiplication scheme which offers investors or participants an effective annual interest rate of 20 percent and more above the repo rate (the rate at which the Reserve Bank lends money to other banks);

◆ Directly or indirectly operating, conducting, promoting or causing a chain letter scheme where others are invited to enter into an agreement which obliges them to make a financial payment; where other participants must be recruited and where the promoters of the scheme benefit from the arrangements; and

◆ Directly or indirectly participating in a pyramid scheme where people are compensated primarily from the introduction of other members.

Industry watchdog has to be set up

Micro-lenders get incentive to clean up

(58)

CT (BR) 7/1/99

Thabo Leshilo
BUSINESS EDITOR

Johannesburg — The micro-lending industry's R6 000 limit on loan amounts exempted from the Usury Act's cap on interest rates could be increased in the first half of this year.

But the government wants the R12 billion-a-year industry to first prove itself worthy of the lucrative concession by cleaning up its act and maintaining ethical standards.

The department of trade and industry recently announced its willingness to extend the Usury Act exemption on loans not subject to the maximum 36 percent on transactions up to R6 000 and 33 percent over R6 000, provided the industry established an effective co-regulatory body.

A co-regulatory body is a self-regulatory body with legislative backing.

The most common malpractices in the industry include some lenders keeping borrowers' identity documents and charging interest rates of more than 2 000 percent a year.

Astrid Luden, the department's deputy director for consumer credit and financial services, said yesterday the body could be up and running between May and July, paving the way for the exemption to be granted.

"It does not make sense from our perspective to implement the proposed exemption until a body is in place that can effectively administer the exemption," Luden said.

Industry stakeholders are establishing the regulatory body. An interim board has been set up and registered as a non-profit company.

Luden said the department's interest in granting the exemption was guided by the need to promote access to finance, especially for the development of small business, while protecting the consumer and tackling the problem of over-indebtedness.

Gordon Freer, the programme manager at the Alliance of Micro Enterprise Development Practitioners, said the extension would be good news for small business.

"A lot of small businesses need expansion capital and banks won't fund micro-enterprise," Freer said. "It is difficult for micro-lenders to be viable working on the R6 000 ceiling."

He said the high interest rates charged to micro-businesses did not limit small business development.

Luden said the regulatory body would essentially accredit and license lenders who would benefit from the exemption.

Chris Hock of the Rural Finance Facility said the industry still needed to reach consensus on consumer education and complaints procedures.

The trade ad industry department has issued minimum consumer protection rules for such lenders.

The rules provide for a three-day cooling off period during which the borrower can terminate the contract and return the funds without a penalty.

Luden said the proposed regulatory body would also be required to set maximum finance charges.

HOUSING *SA Home Loans will offer first alternative to big four*

Banks get mortgage rival

CT (MR) 15/1/99 (58)

Shirley Jones
KwaZulu Natal Editor

Durban — SA Home Loans (SAHL), a company offering South Africa's first alternative to bank-based home loans, will be launched here today, challenging the stranglehold of South Africa's big four banks.

Simon Stockley, the chief executive, said SAHL would offer mortgage finance via a securitisation issue. Its lending rates, based on the BA rate plus 2,5 percent, would be at a 2 to 3 percent discount to those currently offered by banks.

He said the new company, capitalised at R30 million and with R500 million in start-up finance, hoped to capture 3 percent of South Africa's R180 billion residential mortgage market in five years and list on the Johannesburg Stock Exchange within the next three.

The company was an ideal vehicle for listing as it offered ongoing annuity income from within the attractive financial services sector, he said.

At a conservative estimate, Stockley said the SAHL book should reach between R7 billion and R8 billion in five years.

However, based on the runaway success of similar schemes overseas, the book would probably top this and the listing could be fast-forwarded.

He said SAHL was essentially a pass-through management company attracting no deposits. Funding of its book was through the sale of mortgage-backed securities to major institutions.

SA Home Loans' management owns 30 percent of the company; Peregrine, the recently listed financial services company currently capitalised at more than R2 billion, has a 24 percent stake; and private investors hold the remainder.

"Our research tells us that mortgage backed securities are an attractive vehicle for diversifying existing institutional investment portfolios, and that there will be strong investor support for the new product given the attractive yields," Sean Melnick, the chief executive of Peregrine Holdings, said.

SAHL's foray into the home loans market would start in KwaZulu Natal early next month, followed by Johannesburg and Cape Town in February, and the Eastern Cape and Free State markets by the end of the first quarter, Stockley said.

He said SAHL's entrance into the market would challenge both the margins and modus operandi of the South African banking sector. Stockley said he expected strong opposition from the banking fraternity, which had fiercely defended its monopolistic hold on the home loans market.

He argued that current practice was predatory and that South Africa's big four banks had reached tacit agreement not to compete on rates.

SAHL's rate would be calculated and published daily.

"We believe an open-transparent pricing policy is vital if the home loan market in South Africa is to deliver affordable housing to all. The current operating margins enjoyed by banks are unsustainable in world terms," said Dave Barber, SAHL's financial director and the guru behind the year-long formulation of the alternative funding mechanism.

Stockley said the SAHL model followed precedents set in the UK, Australia and the US, where the mechanism currently held between 40 and 60 percent of the markets

□ Business Watch, Page 2

RACING AHEAD *Simon Stockley, the chief executive of SA Home Loans, expects opposition from the big four banks* PHOTO BARRY TUCK

Big four banks 'face tough year'

(58) CT(BR) 15/1/99

AUSTER BULL

Johannesburg — South Africa's four big banks faced a tough 1999 and might struggle to increase real-term earnings as fading volumes and pinched lending margins hit their business, credit rating agency Fitch IBCA said yesterday.

"There will be pressures on the level of profitablility due to rising levels of bad debt, coming at a time when both margins and volumes are already under pressure ... some banks may find it difficult to achieve real growth in profits," the agency said.

But Fitch IBCA has already granted all four banks a national rating of A1+ for short-term borrowings and AA for long-term debt and said that, at the moment, these were under no threat.

"I would not expect any change in ratings unless the outlook deteriorated significantly, and that is not expected," said Mark Young, a Fitch IBCA director.

South Africa's status as a top emerging market left its financial system exposed to savage swings in international sentiment in which foreign money can and will pull out on a whim.

This had placed immense stress on banks, which are already battling a tough business climate. But Fitch IBCA reckoned the industry had weathered the storm. "To its credit, the financial system came through well, supporting the view that South Africa's banking system is relatively sound," it said.

South Africa hoisted interest rates to a decade-high in 1998 to defend the rand during a five-month currency crisis.

All four banks — Absa, Nedcor, FirstRand and Standard Investment Banking Corporation — have warned that high interest rates and rising bad debts could seriously dampen the climate within their industry.

The agency estimated all four banks to be working on lending margins of slightly less than 4 percent — not much compared with other emerging markets and a sign that margins might be driven wider to protect bank profitability.

"The country's interest rate margins are not wide when compared to other sovereign credits with similar risk profiles ... a widening of interest rate margins may be necessary in the medium term," it said.

South Africa's actual sovereign foreign currency rating is a speculative grade BB with Fitch IBCA. — Reuters

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Pressure on profitability of banks set to continue this year

(578) BD 15/1/99

Madeleine van Niekerk

SA BANKS' profitabilty will come under increasing pressure this year due to rising bad debts and lower lending volumes, according to international credit rating agency Fitch IBCA.

"While asset quality has been falling for the past two years, the effect of the interest rate shock in the second half of last year is not currently evident in the latest round of bank results, due to its delayed impact. The true effect should become evident in March this year," said Fitch IBCA director Mark Young.

He said the current trend with regard to nonperforming loans (NPLs) was of concern.

"Banks are increasingly experiencing losses in the mortgage market as a result of high interest rates and lower inflation, together with a trend of higher loan-to-property values during the last few years."

According to the report, FirstRand's NPLs were 4,23% of advances at end-June last year, 25,8% higher than First National Bank's NPLs at end-September 1997. For the Absa group, NPLs as a percentage of lending rose to 3,88% from 3,32% in the six months to end-September, an increase of more than 22%.

Recent NPL statistics for the other major banks are not available, but the most current financial results suggest a similar upward trend, with the bad debt charge increasing at a higher rate than the increase in operating profit before provisions.

Nedcor registered a 27,9% rise in provisions for bad debts, while the Standard Bank group reported a 17,6% increase off an already high base. The latter does not include the provisions for its well-documented exposure to Russia.

Supporting this trend, but not to be considered exact, are the provisions as per the statutory DI 900 returns for the industry, which show a 30% increase for the 1998 calendar year to November, while the figures for the latest five months — from June to November — show an increase of 16%.

Fitch IBCA said while the effect of demutualisation was difficult to quantify, it was positive and would help offset some of the negative bad debt trend.

The rating agency expects the level of risk present in the financial systems last year to persist into this year.

Volatility would have a direct impact on the banking sector, and the uncertainty would inhibit any move towards an environment of significantly lower interest rates.

BANKING & LAND

PRIVATE BANKS SUE LAND BANK FOR THEIR ACRE OF PROFIT

Further tensions simmer beneath the surface

A simmering dispute between the Land Bank and the largest commercial banks in agriculture — Standard, First National (FNB) and Absa — could boil over in the first week of February.

A High Court case — initiated in Bloemfontein by FNB's agricultural division against the Land Bank, and morally supported by the other banks and the Banking Council — is set to test the constitutionality of the State-owned bank's statutory powers, which the private banks claim is undermining their interests.

But this is only a glimmer of the tensions beneath the surface.

"Firstly, the Land Bank Act allows the bank to attach any farming assets to recover short- and medium-term operating capital loan debts from farmers — without having to follow the normal legal channels of first advertising its actions, thereby allowing ranking claimants such as commercial banks time to prove their alternative claims," says an FNB spokesman.

Private banks say the Land Bank, as a developmental institution, is not only muscling aside commercial banks' interests — it is also "aggressively" expanding its market in lower-risk, commercial farming.

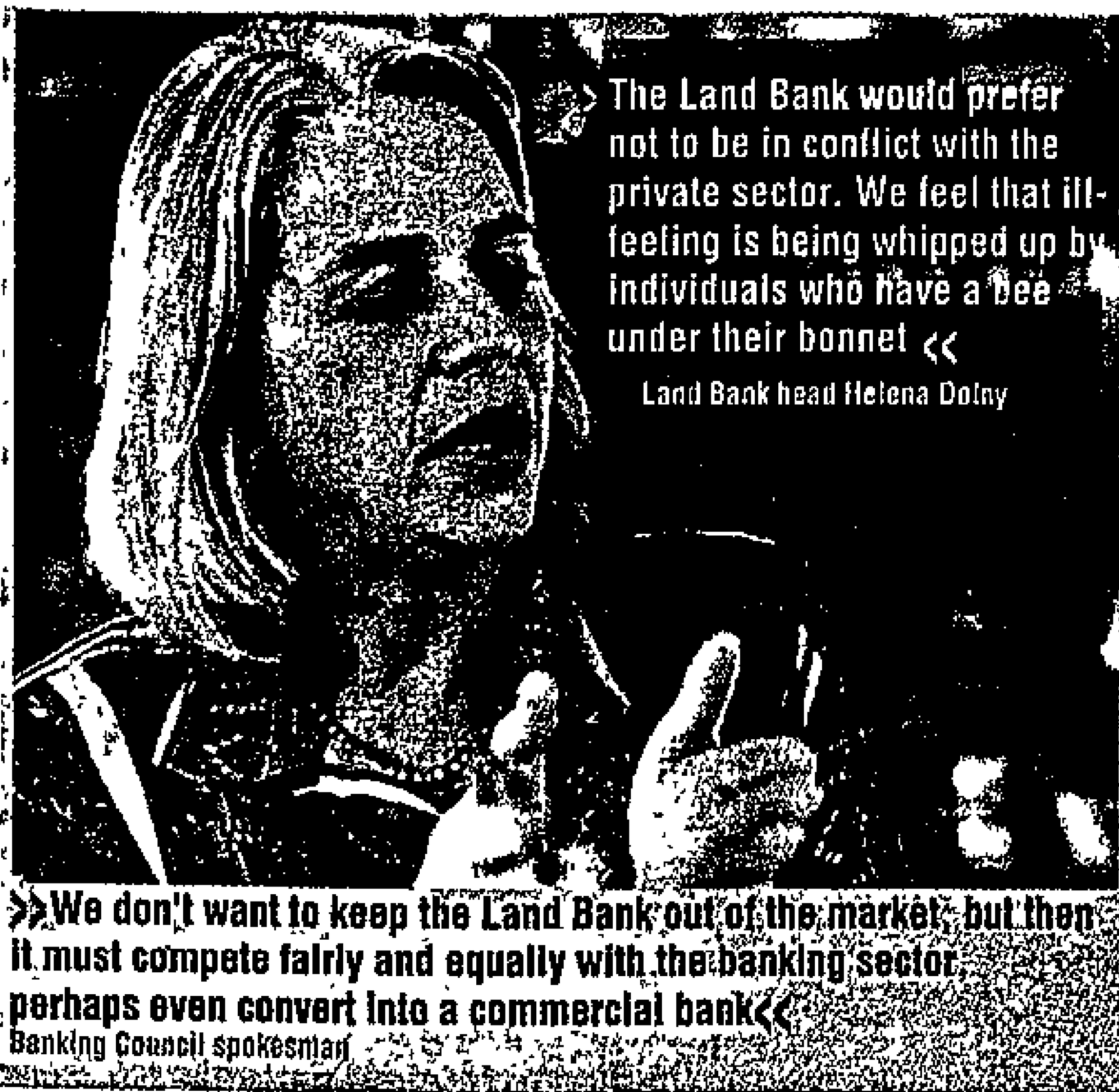
Land Bank CE Helena Dolny says the commercial banks are exaggerating the bank's competition. Its recent increase in retail lending to commercial farmers, she says, "is modestly above inflation and, in terms of market share, certainly less than it used to be in years gone by".

Though the FNB court case is ostensibly about the Land Bank's use of its "preferential creditor status" rights granted in terms of Section 34 of the Act, far more is at stake. A spokesman for the Banking Council, which represents the private banking sector, says it is patently unfair for a State-owned institution to use its statutory powers — designed for developmental purposes — and other privileges to grow its commercial business.

But Dolny says the Land Bank's "privileges" are necessary for its role as a high-risk financier for black and white farming sectors and because it is using taxpayers' money. What's more, she adds, "the commercial banks have for decades benefited from the Land Bank's safety net for them".

The Banking Council spokesman, however, says "in the past 12-18 months, the Land Bank has taken over an estimated R500m of business from private banks, in an obvious quest to broaden market share. It is clearly growing its low-risk commercial business to cross-subsidise its higher-risk development business."

Dolny responds that the Land Bank's R500m in new commercial business may be important to its own portfolio, but it is "apparently insignificant to the overall portfolio of the commercial banks — whereas agriculture is 100% of the Land Bank's exposure, it comprises a mere 3,2% of Absa's portfolio, 2,7% of FNB's exposure, 1% of Nedcor's and 5,9% of Standard Bank's porfolio exposure."



>> The Land Bank would prefer not to be in conflict with the private sector. We feel that ill-feeling is being whipped up by individuals who have a bee under their bonnet <<
Land Bank head Helena Dolny

>> We don't want to keep the Land Bank out of the market, but then it must compete fairly and equally with the banking sector, perhaps even convert into a commercial bank <<
Banking Council spokesman

Dolny, who has headed the Land Bank since May 1997, confirms it has been marketing aggressively, but mainly in "the lowest end of the market which the private sector does not want to touch".

"We have 14 000 new clients in the past eight months joining our micro-credit scheme," she says, adding that the bank has a redistributive mission and is not a pure profit-making institution — "and we would defend its special privileges ... in terms of the Constitution".

The Banking Council spokesman says the Land Bank has an unfair advantage — "this is why the constitutionality of its powers and actions are now being tested".

Dolny hits back. "We agree that the playing fields are uneven. We have only 25 branches, we cannot offer a packaged one-stop service. We have recently narrowed our margins ... In the end, are the Land Bank's interest rates too low, or are those of the commercial banks too high?"

The Banking Council, however, insists that the Land Bank's statutory privileges are unfair to its commercial "competitors":

- Section 34 allows it to attach "anything" without the necessity of "normal" legal action or of advertising its operations, as commercial banks must;
- It pays neither tax nor dividends, allowing it to plough profits back into preferential financing;
- It was given a R200m loan by government, at a nominal 2%-3% interest;
- It is exempted from the Banks Act and does not have to pay compliance costs or meet "liquid asset" requirements. Commercial banks must buy Land Bank paper to finance it; and
- It does not have to keep cash reserves with the SA Reserve Bank, or provide monthly returns, allowing it to offer "cheap" credit.

"Even with all these privileges, it has grown its developmental activities to only about R50m/year, or about 0,8% of its total outstanding loan book, while massively expanding its commercial business," says the council spokesman. "The Land Bank's classic dilemma seems to be that it was politically instructed to grow its development business — but at no risk to the taxpayer, given its healthy balance sheet and R1,7bn of inherited reserves."

But, he says, the bank cannot be allowed to take this instruction too far without raising its credit ratings risk in the money and capital markets.

"We don't want to keep them out of the market, but then they must compete fairly — perhaps even by converting into a commercial bank," he says.

Dolny says the Land Bank intends maintaining its commercial farmer portfolio.

"The Land Bank would prefer not to be in conflict with the private sector, and feels that ill-feeling is being whipped up by individuals who have a bee under their bonnet," Dolny says.

Arnold van Huyssteen

FINANCIAL REGULATION

BY THABO KOBOKOANE

State lays out nets to restrict loan sharks

(88) ST (BT) 17/1/99

THE days of loan sharks may be numbered if current proposals to regulate the micro-lending industry are as effective as proponents claim.

The sector, which has flourished in the past few years, has come under criticism for bad business practices, such as keeping clients' ATM cards to ensure repayment and charging prohibitive interest rates.

The spread of micro-lending and less-than-fair business practices have prompted government to intervene and protect consumers, most of whom are black and often illiterate.

Deputy Minister of Trade and Industry Phumzile Mlambo-Ngcuka recently announced a first step in the process, the formation of an interim board which will oversee the establishment of a Micro-Finance Regulatory Council.

The council is expected to provide consumer protection by encouraging a cap on interest rates and greater disclosure and transparency by lenders.

But will it work? Estimates vary, but it is widely estimated that there are about 6 000 cash lenders and over 400 term lenders, rising rapidly, in a market worth between R10- and 12-billion.

The regulatory council will licence operators who will be expected to abide by a certain code of conduct. The code will outlaw the widespread use of clients' ATM cards and identity documents and place a cap on maximum interest rates. Failure to comply will result in retailers losing their licences and being outlawed.

"Most will toe the line, but whether the regulations will succeed is a different question," says Franz Pretorius, managing director of Alternative Finance, a subsidiary of the Theta Group which recently bought African Bank.

This raises a serious problem. Those whose licences are withdrawn will inevitably go underground, once more raising policing problems.

"It will be business as usual for the unscrupulous lender," says Pretorius. However, going underground will make it difficult for lenders to access government and business payrolls, he says.

So, while regulation may have the best of intentions, it could also lead to undesired results. This raises the question: what then?

Most practitioners reckon the consumer holds the key.

"If consumers go to the council with complaints it makes it easier to investigate the matter and act appropriately," says Sharda Naidoo, executive director of the Alliance of Microenterprise Development Practitioners and a member of the interim board.

She argues that educating consumers about their rights is crucial. "Ensuring that a significant number of consumers are aware of their rights will be one of the critical challenges facing the council," she says.

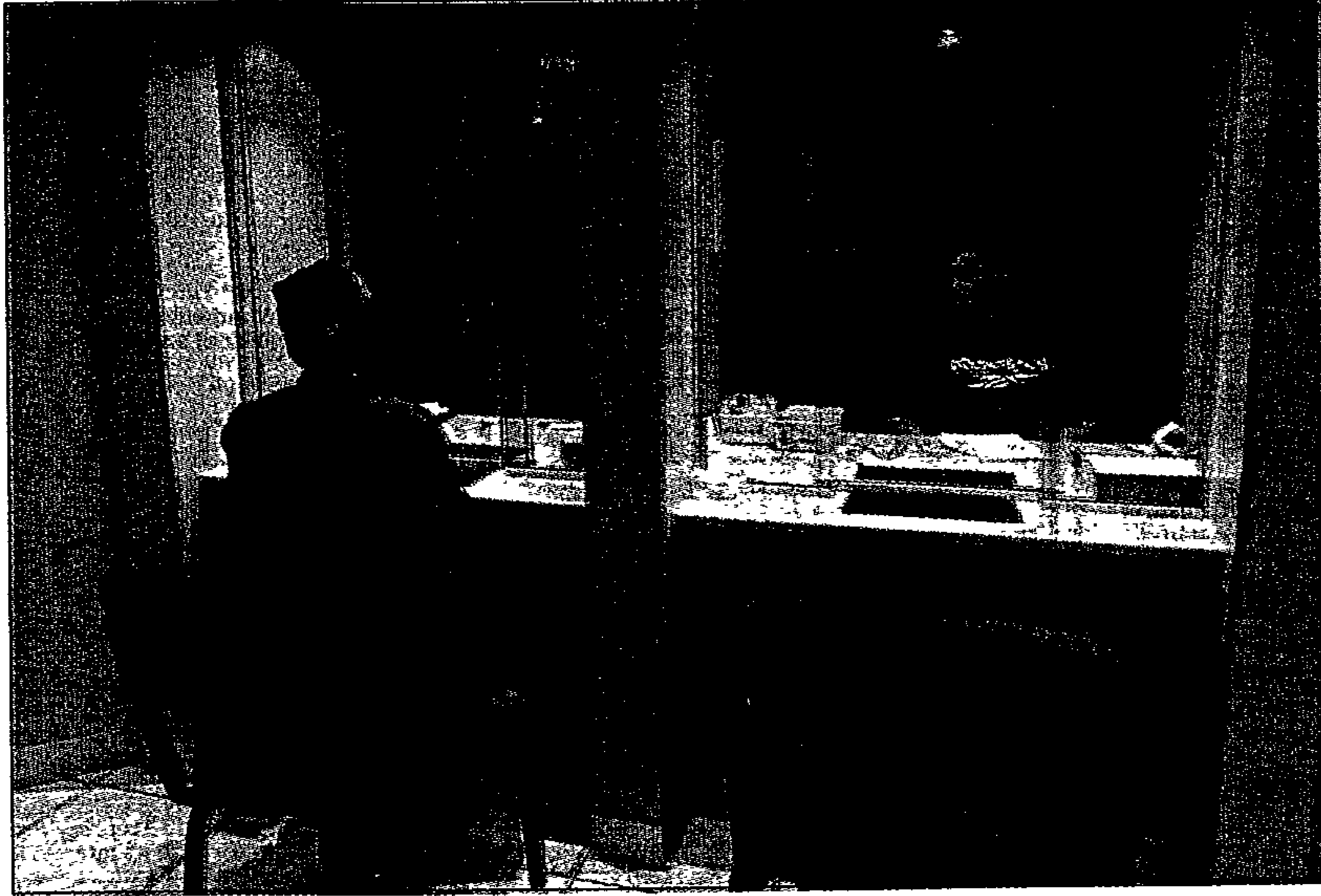
Although interest rates are prohibitively high, a mixture of regulation and increased competition should lead not only to better practices, but also to a lowering of interest rates.

"There are signs of this already, with many consumers gravitating towards those lenders who offer the best service and practices," says Nkululeko Sowazi, executive director of Theta.

Attempts to regulate the industry are in line with government's plans to clean up the business ahead of its planned move to increase to R50 000 (from R6 000) the amount which will be exempt from the provisions of the Usury Act. Sizwe Tati, managing director of Khula Finance, explains the reasoning behind the increase. "The aim is to stimulate the provision of finance by commercial banks to micro-enterprises by removing constraints impeding micro-lenders in the market," he says.

Banks do not lend in the critical area between R20 000 and R60 000, arguing that loans below the R60 000 threshold are not cost-effective.

The entry of banks may also help reinforce public awareness of acceptable practice, says Sowazi.



GRIM DEAL ... a typical customer waits anxiously to apply for a loan at a micro-lending operation

LIFE ASSURANCE

Poor service could ring death knell for moribund industry

(58) CT (BR) 21/1/99

VERA VON LIERES AND RICHARD STOVIN-BRADFORD

The fast-changing life assurance market could see further corporate activity in the year ahead as groups seek to improve the distribution (or "delivery") channels for their products to maintain flagging premium income.

The bancassurance trend which fleetingly gripped South Africa early last year has not been a bed of roses, with RMB Holdings certainly not getting any pleasant surprises at Southern Life.

Liberty Life called off the wedding with Standard Bank Investment Corporation and now appears to be willing to sell its stake in the banking group for the right price.

Reports are persistent about Metlife, which recently cozied up to Commercial Union, forging closer ties with Nail's other financial services interests in African Merchant Bank and Theta.

African Life, which lost out to Fedsure on the Norwich deal and a chance to pitch its business to a more well-heeled clientele, might have to concentrate on its core business in the lower end of the market.

But it certainly doesn't seem to have any problems in rapidly conquering its home niche.

Real Africa Holdings, Aflife's holding company, might not be that keen to look at a tie-up with rival Metlife, although the critical mass and exposure in the upwardly mobile section of the life assurance market is attractive.

Sanlam's post demutualisation performance is worth watching. Marinus Daling, the chairman, has promised to instil a new corporate culture, which will hopefully reverse the institution's market share losses which have taken some analysts by surprise and must be giving Old Mutual food for thought.

Sanlam, however, does look vulnerable to a takeover, especially from an offshore predator.

But a new controlling shareholder would hasten Sanlam's transformation into a real contender in the local insurance sector.

Old Mutual, which is looking to list by mid-year, was rocked by the mass walkout of its top asset managers and the departure of Garth Griffin, the managing director, just as the year drew to a close.

Griffin's exit and the walkout caused ripples, despite assurances that they were unrelated and the demutualisation process would not be affected.

The life assurer was granted an urgent interim court order restraining the breakaway asset management team from immediately setting up new business activities with Harvest Securities. The final court order is due later this month.

Old Mutual is still the country's biggest assurer, but it is also making a major presence offshore through selective acquisitions. The question is who will be Old Mutual's anchor shareholder(s) — without which it won't list this year. Nedcor and Stanbic appear the most likely contenders.

But another, not unrelated, issue which Old Mutual may have to address before it can join the elite FTSE 100 club is the London Stock Exchange's intense dislike of pyramid companies brimming with significant listed investments.

Sage, in which Rembrandt continues to hold a big stake, is still looking solid and dependable. There must be someone out there keen to buy rapidly-streamlining Rembrandt's stake. Perhaps it will be Coronation Holdings, with whom Sage has an asset management strategic alliance.

Liberty Life is the assurer on the analysts' watch list. In its interims last year, new premium growth was a pathetic 3 percent and recurring premium growth an even more alarming 1 percent.

The message is clear: Liberty is losing new business and clearly losing market share. Yet Fedsure is enjoying the opposite experience after a quiet period in the life market.

Arnold Basserabie's firm increased recurring premium by 15 percent and new premium income by 25 percent at the interim stage.

Liberty's ailing share price is not just the result of overpunishment following the breakdown of the Stanbic merger talks, or of the reaction to the still complex group structure.

It is as much as anything about negative sentiment arising from the life group's inability to show a decisive turn of speed in delivering on its promises.

The one indicator to watch at any life office is growth in single premium income, which more or less bailed out the market in 1997 but was generally pretty flat last year. The market literally needs an injection of life to get it going this year.

But this won't happen if long-suffering policyholders, angered by poor service and returns, continue to vote with their feet and chop and change providers or even products despite the heavy costs involved.

Late last year several readers told Business Report of their frustrations at the way they were treated by a number of prominent life assurers.

Unless consumers get rapid and comprehensive explanations from assurers for underperformance or sheer administrative incompetence, the better performers in the industry will be dragged down by those that still do not understand the meaning of service.

Only a handful of assurers, including the efficiency freaks at Momentum Life, seem to understand that good service leads to happier policyholders and recurring premium growth.

Poor service could ring death knell for moribund industry

(58) CT (BR) 21/1/99

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The life assurer was granted an urgent interim court order restraining the breakaway asset management team from immediately setting up new business activities with Harvest Securities. The final court order is due later this month.

Old Mutual is still the country's biggest assurer, but it is also making a major presence offshore through selective acquisitions. The question is who will be Old Mutual's anchor shareholder(s) — without which it won't list this year. Nedcor and Stanbic appear the most likely contenders.

But another, not unrelated, issue which Old Mutual may have to address before it can join the elite FTSE 100 club is the London Stock Exchange's intense dislike of pyramid companies brimming with significant listed investments.

Sage, in which Rembrandt continues to hold a big stake, is still looking solid and dependable. There must be someone out there keen to buy rapidly-streamlining Rembrandt's stake. Perhaps it will be Coronation Holdings, with whom Sage has an asset management strategic alliance.

Liberty Life is the assurer on the analysts' watch list. In its interims last year, new premium growth was a pathetic 3 percent and recurring premium growth an even more alarming 1 percent.

The message is clear: Liberty is losing new business and clearly losing market share. Yet Fedsure is enjoying the opposite experience after a quiet period in the life market.

Arnold Basserabie's firm increased recurring premium by 15 percent and new premium income by 25 percent at the interim stage.

Liberty's ailing share price is not just the result of overpunishment following the breakdown of the Stanbic merger talks, or of the reaction to the still complex group structure.

It is as much as anything about negative sentiment arising from the life group's inability to show a decisive turn of speed in delivering on its promises.

The one indicator to watch at any life office is growth in single premium income, which more or less bailed out the market in 1997 but was generally pretty flat last year. The market literally needs an injection of life to get it going this year.

But this won't happen if long-suffering policyholders, angered by poor service and returns, continue to vote with their feet and chop and change providers or even products despite the heavy costs involved.

Late last year several readers told Business Report of their frustrations at the way they were treated by a number of prominent life assurers.

Unless consumers get rapid and comprehensive explanations from assurers for underperformance or sheer administrative incompetence, the better performers in the industry will be dragged down by those that still do not understand the meaning of service.

Only a handful of assurers, including the efficiency freaks at Momentum Life, seem to understand that good service leads to happier policyholders and recurring premium growth.

(58) Sowetan 26/1/99

Key merger announced in insurance industry

METROPOLITAN and Commercial Union of South Africa Limited (Cusaf) have concluded a R350 million deal in terms of which Metropolitan has acquired the entire share capital of Cusaf's life-asset management and unit trust business.

Metropolitan said yesterday that the acquisition, effective from December 31 1998, was given the go-ahead by Cusaf shareholders at an extraordinary general meeting held in Johannesburg recently.

The necessary approval of the registrar of insurance had already been obtained.

In October last year Metropolitan announced it had purchased a 22 percent shareholding in Cusaf from Gold Fields of SA for R232 million.

The respective managing directors of Metropolitan and Cusaf, Peter Doyle and Roger Wanless, were upbeat about the advantages inherent in the transaction for both their companies.

Doyle said that by acquiring the integrated life operations of Commercial Union and Protea Life (the latter was taken over by Cusaf in 1996), Metropolitan "will be gaining a firm foothold in the upper income markets in terms of product, systems and distribution channels".

Wanless said that, given Cusaf's relatively small share of the SA life assurance market, "our strategy is to concentrate on consolidating our position of strength in the short-term insurance market, as well as expanding our operations in this arena".

"In the final analysis, this is our area of core competence and capabilities where we have achieved considerable success in the past and where we have the advantage of critical mass."

Wanless said the merger of Commercial Union Insurance with General Accident Insurance was "affording us an even larger market share and an enhanced product base".

"We believe that we have the expertise and experience to go on to accomplish even bigger and better things in the future," Wanless said. – *Sapa.*

SA insurers facing foreign challenge

(58) BD 27/1/99

Madeleine van Niekerk

FOREIGN insurance companies are challenging local players, with international firms likely to become dominant in SA, says Fernando Patrizi, CEO of Nova Risk Partners, a short-term insurer with foreign parents.

The SA Insurance Association said the effect of foreign insurers was a significant factor in the local market, as some foreign insurers who had disinvested in the past had been reinvesting during the past two years.

There had been extensive changes in the shareholding of local insurers, through overseas mergers and acquisitions, and there had also been changes in the shareholding of local brokers.

"An industry which has traditionally been characterised by a handful of local companies enjoying unchallenged market domination will experience an erosion of those companies' power bases as international and niche players make a name for themselves," said Patrizi.

"It is as if the glue of the industry cartel is failing — which in itself is a promising scenario as new opportunities are offered to innovative players," he said.

However, association CE Barry Scott said there was no local cartel.

"There are more than 60 registered insurance companies operating in SA. There is huge competition in the market, which causes pressure on underwriting results. We do not operate a cartel. The pressure on underwriting results certainly indicates that, with some players reporting underwriting losses," he said.

Foreign players who had reinvested locally included AIG and American Signa. Other foreign players were Allianz Insurance, which had always been active here but now had a stronger presence. Aviation was sold to European-based Poligon and Lloyd's was active in the market.

Nova Risk Partners is a joint venture between black empowerment financial services group Capital Alliance Holdings and foreign parents American Reinsurance Company and Munich Re of Africa.

New players included American St Paul Insurance Company, Winterthur, Zimbabwe Reinsurance, Pinn-Africa and European Gerling.

Patrizi said the legal environment in which insurers operated was undergoing stringent review.

He said with the implementation of the 1998 Insurance Act and tighter Financial Services Board controls, the stage had been set for improved standards and better disclosure.

He expected the challenges for the industry this year to include acquisition of expertise for sophisticated tailor-made solutions, the development of "emerging-market" products and adaptation to a continually changing regulatory environment.

"Unless insurers and brokers can meet these challenges, they will be left behind," he said.

UK listing approved

Sheer size of deal persuades government to approve Old Mutual's primary listing in London

BD 28/1/99 (58)

Hilary Joffe

GOVERNMENT has given the green light to Old Mutual's plan to seek a primary listing on the London Stock Exchange, persuaded by the "sheer size" of the deal and concerns that there will not be sufficient demand for the shares locally.

Old Mutual goes to London showing a R4,4bn bottom-line loss for the year to June 1998 after restating its earnings figures to reflect the changes necessary for demutualisation and to bring them in line with UK accounting standards. Though operating profit was unchanged at R2,4bn, the group wrote off R6bn in goodwill as it transferred its controlling stake in Nedcor from policyholders to shareholders. Roddy Sparks, the finance director for the SA life operations, said, however, this was a "one off" and the group remained strongly capitalised.

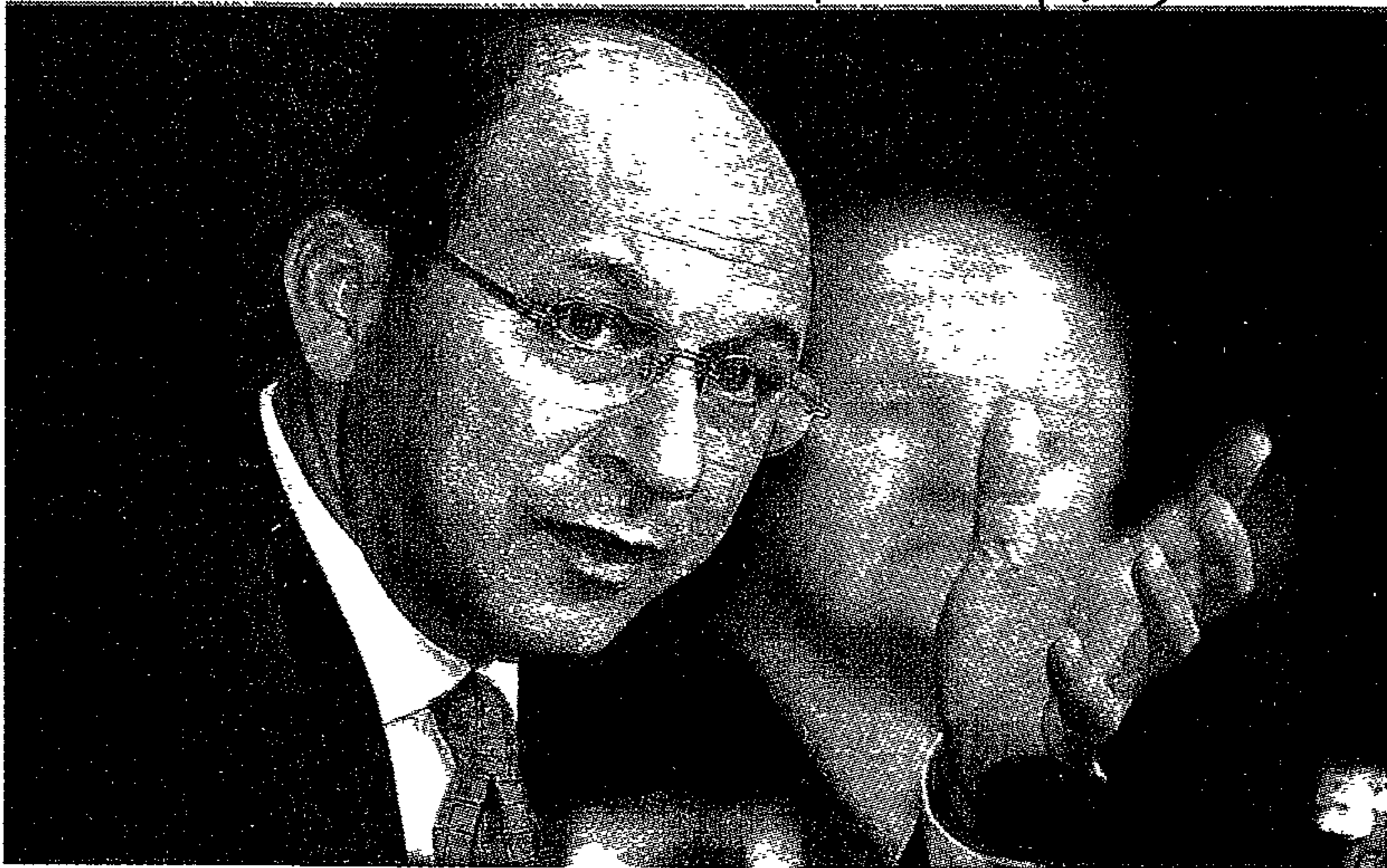
Finance minister Trevor Manuel expressed confidence that Old Mutual's move would be positive for SA's balance sheet and economy, and would not result in an outflow of capital or skills. But he cautioned that government, which has already allowed Billiton, Anglo American and SA Breweries to go the London route and has received applications from several other companies, would not necessarily grant every company the right to do so.

"There is no carte blanche," he said.

Manuel said government was reassured by Old Mutual's assurances that its SA life operations would remain domiciled here and would remain subject to regulatory supervision in SA. Old Mutual amended its articles of association to give effect to this.

It will form a UK-based holding company, Old Mutual plc, which will wholly own the life and other operations in SA as well as in the rest of Africa, Asia and the UK. Old Mutual plc will seek listings in London and Johannesburg as well as in Harare, Windhoek and Blantyre. The group's 3,2-million members and employees will be entitled to free shares in Old Mutual plc on demutualisation, though the new SA shareholders will still be subject to exchange control and will have to trade their shares through the Johannesburg Stock Exchange in rands.

Old Mutual chairman Mike Levett said the dual listing would give the group access to capital for future



Finance Minister Trevor Manuel at Old Mutual's news briefing yesterday. Picture: TREVOR SAMSON

growth. Its southern African operations were not in immediate need of capital, but the listing could provide an opportunity to raise new capital to accelerate development of its international operations. This would probably represent no more than 10% of its share capital.

Levett said the group's new structure clearly separated its life operations in various countries from its other assets to ensure security of members' policies.

Finance sources indicated a key concern was to ensure that the millions of new shareholders created by the demutualisation did not become disillusioned with the market.

International experience suggests 30%-40% of policyholders turned shareholders could sell their free shares. With Old Mutual's market capitalisation set to be between R30bn and R40bn, there might not be enough domestic liquidity to mop up shares worth billions of rands that could come up for sale. Old Mutual plc's likely inclusion in London's FTSE 100 index would help unlock value for shareholders.

Picture: Page 3
Who gets what: Page 15

DISABILITY PROTECTION

THE STATISTICS ARE GREY

Most claims may be disputed

The problem with trying to assess the extent of the use of disability insurance and its effectiveness in SA is the lack of statistics. Though disability products offered by the life insurance companies fall under the broad jurisdiction of both the Financial Services Board and the Life Offices Association, there is no central bank of statistics.

"Facts and figures are hard to find," says Kevin Letord, marketing manager of risk products at Fedsure Life. "The insurance companies tend to keep their statistics to themselves."

But there is some historical data available from the Life Insurance Ombudsman, and this indicates that traditional occupation-based disability insurance is a grey area. According to Fedsure, as many as half of all occupationally based disability claims are disputed by the insurance industry. Of these disputed claims, 60% were disallowed according to the 1995 Life Insurance Ombudsman report.

Conventional industry and company-provided disability has become even more of a contentious, and potentially costly, issue since the introduction of the new Labour Relations Act.

Failure by employers to strictly follow prescribed steps before attempting to dismiss an employee on the grounds of disability will result in an unfair dismissal claim by the employee.

Disability is increasingly being outsourced to professional disability management organisations, a number of which have recently been formed in SA.

One of these — the Alexander Forbes Disability Management Service — says apart from employers needing professional advice on the new labour legislation, disability claims are also difficult to assess because no standard for assessment exists, and doctors are not trained in disability assessment. This contrasts with practice in some Western European countries where people can qualify professionally in disability assessment. And, says Alexander Forbes, it heightens the need for a nonpartisan third party to act between companies and trustees or insurers.

Though most employees are covered by disability policies, offered by the company they work for at fairly keen rates, problems associated with claims indicate that it might not be a bad idea to seek additional, more flexible cover.

This is even more vital for the self-employed or people who work from home. Insurance is meant to be all about protecting your assets, and an individual's ability to work and earn an income must be one of their most valuable assets.

There is even an argument that for the young employed, disability insurance might be more important than life insurance, because there is a greater chance at this age of becoming disabled than dying.

With early signs of a growing trend towards self-employment in SA as government and large corporations downsize, as well as the group of people under threat from affirmative action policies, disability insurance will become vital. It has always been important, but the difference now is that the onus for finding the right cover is shifting more towards the individual than the company.

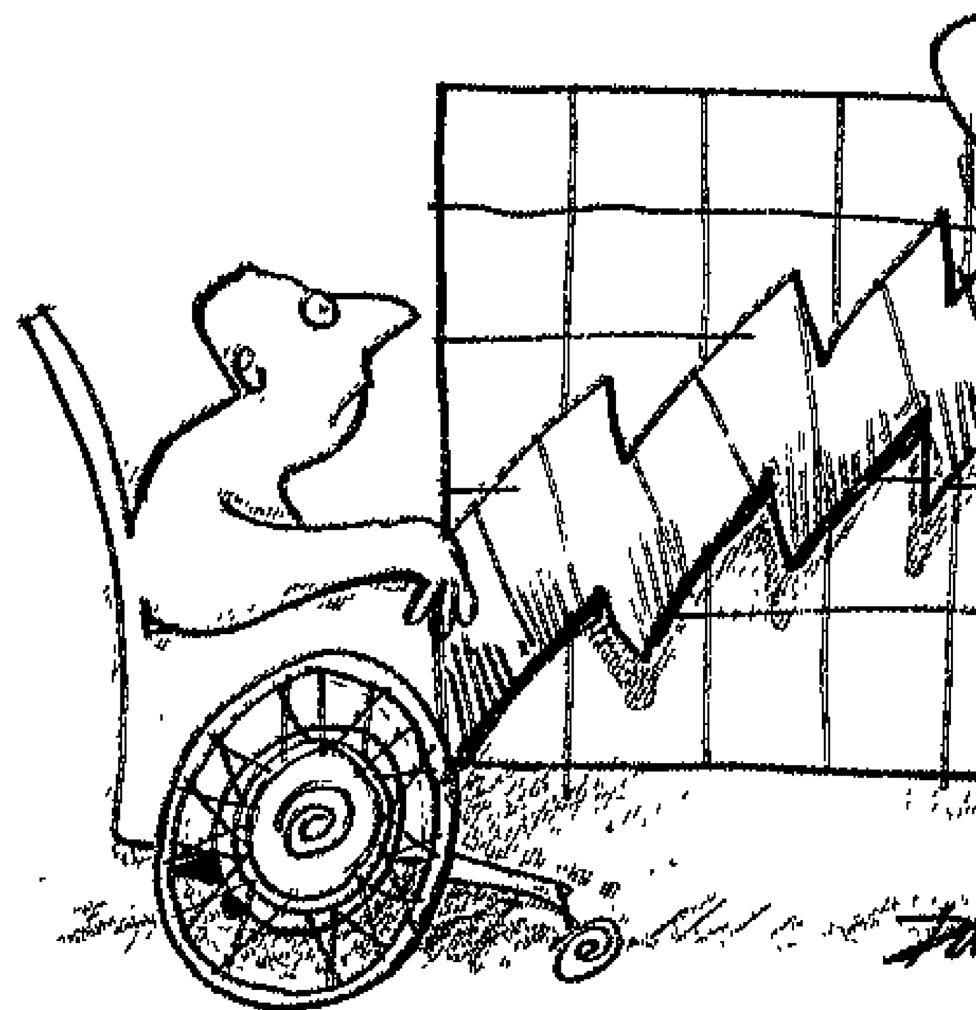
So how does one go about finding the appropriate disability policy? Once again, the general lack of industry statistics and the difficulty in measuring the value of disability insurance (sadly, a person only learns what it's worth — or not worth — when something goes wrong) make it a difficult task to perform without professional help. The best route is probably to use the services of a reputable financial adviser.

Occupational and financial circumstances will largely determine the type and level of disability cover necessary for a particular individual, but broadly speaking there are three types of product to consider.

First is the capital sum disability product, where a person buys lump sum insurance to cover disability. This is the type of policy usually provided by companies for their employees, and in terms of claims seems to be the most problematic.

Capital sum disability insurance depends on the specific situation, and the growth of professional disability management organisations might ease some of the problems of the past. But Letord questions the value for money offered by this type of cover.

"Fedsure Life has developed a transparent product — the Debility Benefit — so the client knows exactly what he will get for a claim. All the benefits are specified upfront," he says.



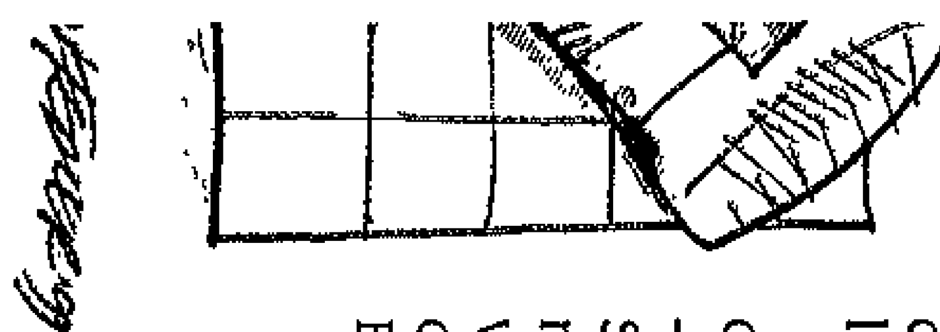
Momentum Life has a similar product, which like Fedsure's seems to overcome one of the most common problems with disability products — that the individual has to be practically incapable of earning a living before the policy will pay out.

The Debility Benefit is not occupation-based, so the insureds will receive a payout if permanently disabled, irrespective of whether they are able to return to work or not. Letord says the policy can be selected to provide cover to age 65 or the whole of life, and is available as a stand-alone policy or can be added to a policy with life cover as an ancillary.

Since its takeover of Norwich Life, Fedsure is also offering an Income Security Plan, which provides benefits for a maximum of two years for total disablement, and a Business Security Plan to cover the normal operating expenses of a business if the proprietor, who is the sole producer of income, is disabled.

But there are also short-term disability cover products available that in general have the advantage over products offered by life companies because they have shorter notice periods before claims are paid and attract lower premiums.

At least two organisations offer a variation of this product — the Professional Provident Society, and Financial Management International (FMI) — which are not limited to income protection only. FMI's Business Cashflow Protector allows cover for the four major individual or business expenses at competitive rates (see table).



But as a short-term product, cover is only extended to two years for temporary total disablement per occurrence.

One solution, which financial advisers should inform clients of, is to use a short-term product such as the Business Cashflow Protector in combination with a life company disability product with a two-year waiting period.

Premiums for both should be less than the cost of a conventional life product with a one-month waiting period. **Shaun Harris**

Squeeze on moneylanders

(58) Sowetan 28/1/99

By Isaac Moledi

KNYSNA-BASED Black Sash Trust has welcomed the Department of Trade and Industry's proposal to regulate the money-lending industry but remained unconvinced that the regulation would work, the trust's submission to the department revealed.

The trust's submission follows the department's recent proposal that there should be a self-regulatory body with legislative backing to protect consumers from the exploitative mentality of money lenders.

The proposal also recommends that the level of loan amounts exempted from the provisions of the Usury Act should be raised from the current R6 000 to R50 000.

The proposal is aimed at increasing access to finance for those who do not have access to banks by creating an enabling environment for businesses to exempt and to attract greater capital into the market (including increased involvement from the formal banking sector).

If enacted, the proposals will impact upon a range of businesses and organisations, from credit and small enterprise development organisations to money lending businesses whose sole or primary function is the disbursement of short-term cash loans.

Black Sash Trust spokesmen Duncan Marsh said while it welcomed the department's recognition that the moneylending industry urgently required regulation, the organisation was far from convinced that self-regulation for moneylenders would work, given their track record to date.

"Our research has shown that exploitation and unethical business practices are endemic throughout all sectors of the moneylending industry.

"We believe that there is a strong case for money-lending businesses to be treated as a separate category and be subject to more stringent regulation," said Marsh.

He said his organisation was gravely concerned that the proposal would not afford the consumer adequate protection from the exploitative and unethical practices of moneylending businesses.

Take drastic step

Marsh said Black Sash did not believe that enough was known about the moneylending industry – the practices of moneylending businesses, the consequences of increased levels of debt and the sustainability of increased access to credit offered by money lenders – for the department to take the drastic step of increasing the Usury Act exemption levels from R6 000 to R50 000.

He said the proposed increased exemption from the provisions of the Usury Act would lure more people into debt, which, in the long run, leads to a debt spiral with negative consequences for both individuals and communities.

In their submission, Marsh said his organisation recommended that the department should order an investigation of the moneylending industry (formal, semi and formal sectors) by the Business Practice Committees, "given the paucity of objective information available at present".

"The department has already established an overall regulatory body for organisations and businesses wishing to operate under the R50 000 exemption.

"The proposal for regulation must now be widely circulated to consumer groups and community organisations throughout the country in order to make a valid assessment of likely consumer protection," Marsh said.

Real

Stokvels to get a boost

LISTED financial services company Zeltis says it will buy up to 24 percent of NIFC, a company controlled by the National Stokvels Association of South Africa.

NIFC will develop and deliver appropriate financial products and services for the stokvels market in conjunction with Zeltis.

NIFC will be funded by stokvels members and by local and international investors.

According to Zeltis managing director Peter Cronshaw this initiative was expected to yield major long-term benefits for Zeltis and stokvels members.

Finalised sale

Zeltis has also finalised the sale to Selective Financial Group of its 10 percent interest in employee benefit organisation PEO for a sum of R2 million settled by new Selective ordinary shares, according to an agreed pricing formula.

Cronshaw said this sale and the expected rationalisation of other holdings with Selective would probably yield about R4, 3 million in additional profits.

This will give Zeltis the flexibility to invest some of its cash resources in attractive listed shares which, in the short term, will probably yield lower earnings than interest-bearing investments.

However, the forecast earnings per share of 9,6 cents for the year ending June 1999 remains unchanged for the moment.

Sowetan 1/2/99 (58)

Insurance Act brings 'welcome' protection

(178)

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — The new short-term Insurance Act that came into effect on January 1 brought "welcome" consumer protection for policyholders, Keith Kennedy, the operations director at Guardian National Insurance, said this week.

"The new bill has addressed policyholders' needs and gives them increased protection," Kennedy said.

The new measures had the support of insurers and brokers who were committed to cleaning up the insurance industry, he said.

In the past, many consumers had fallen prey to unscrupulous operators and insurance scams, creating the impression that insurance fraud was acceptable.

The act, which lays down honest operating procedures and introduces measures to clamp down on unprofessional conduct, also places greater reliance on the role of insurance professionals in promoting sound internal discipline.

Consumers taking out personal life cover must now be given a policy document within 30 days of entering into the contract. Brokers must disclose separately any fees they charge to show policyholders how their insurance money is spent.

Kennedy said intermediaries must have written authorisation from an insurer or from Lloyd's, the London insurance market, before they could collect premiums. Non-compliance was now a criminal offence.

CT (BR) 3/2/99

Law consolidates regulation of banks

BD 3/2/99

Linda Ensor (58)

CAPE TOWN — The regulation of mutual banks would be consolidated with that of other banks in terms of the Mutual Banks Amendment Bill tabled in Parliament yesterday. There are four mutual banks with total capital amounting to about R1bn.

The bill's memorandum said mutual banks would be subject, as far as possible, to the same provisions applied to other banks in terms of the Banks Act as amended in 1994.

Mutual banks would no longer be required to be provisionally registered before being finally registered as the concept of provisional registration had negative connotations which resulted in discrimination by investors.

Not more than 49% of the directors of a mutual bank should be executive directors, nor should the majority of the members of the audit committee be employees of the bank.

At least one of the directors on the committee scrutinising investments, loans and advances should not be employed by the bank.

New bill intends to guarantee Statistics SA's independence

Linda Ensor (235) BD 3/2/99

CAPE TOWN — A bill designed to guarantee the independence of the statistician-general and official statistics was tabled in Parliament yesterday.

In terms of the Statistics Bill, the finance minister would be empowered to shape the priorities and the work programme of Statistics SA.

However, decisions on how to implement the programme and determine Statistics SA's priorities would be the job of the statistician-general, who would be appointed by the president.

The statistician-general would have to be impartial and perform his functions "without fear, favour or prejudice".

The bill also proposed the establishment of a Statistics Council of 15 to 25 members, appointed by the finance minister in consultation with the cabinet. The council's task would be to safeguard official statistics.

The council, which would have to be broadly representative, could also commission investigations.

The membership of the interim council, which currently oversees the work of Statistics SA, is obtained from universities, nongovernmental organisations, national departments, parastatals, provincial governments, labour, and civic and business organisations.

Statistics SA officials would be empowered to have access to any organ of state, organisation or business to make enquiries or observations for statistical purposes. However, the bill differed from the previous act by requiring a warrant and reasonable grounds for access, and by excluding private dwellings.

The bill proposed measures to protect data submitted for statistical purposes.

"The bill provides that such data cannot be used for purposes other than statistics. For example, they cannot be disclosed to other departments or organisations, they are not admissible as evidence in legal proceedings and the statistics may not be published in such a way that a specific person or organisation can be identified."

All Statistics SA employees would be obliged to take an oath of confidentiality. Breaking the oath would be a criminal offence. Failure to supply data or supplying misleading data would also be an offence.

Law consolidates regulation of banks

Linda Ensor (68) BD 3/2/99

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SA Eagle's profit plummets 47%

(58) CT(BR)4/2/99

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — SA Eagle, the short-term insurer in the Zurich Allied insurance stable, suffered an underwriting loss of R58,8 million to report a 47,7 percent year-on-year drop in headline earnings for the 12 months to December 31, the company said yesterday.

Headline earnings a share dropped from 1171,3c to 612,5c but the company declared an increased dividend of 475c a share, up 25c, "in view of the inherent financial strength of the company".

Gross premium income slipped from R1,57 billion to R1,56 billion but earned premium rose R50 million to R1,38 billion.

The underwriting loss stemmed from SA Eagle's motor and fire accounts, but the company said the overall result was "satisfactory", given the adverse trading conditions experienced during the year.

It also blamed increased competition from new market entrants.

Nick Beyers, the managing director, said: "The unacceptably high level of crime and the deterioration of roads, services and the standard of driving impacted on the motor account, resulting in an increased incidence of claims."

The fire account was hit by "adverse weather conditions", a large number of fires and December's tornado in Umtata, which had cost SA Eagle R12 million gross.

Beyers warned that fire premiums would increase as cover was renewed because reinsurers carried a large proportion of the losses.

Investment income declined moderately from R168 million to R160,3 million because the company had increased its investment in equities over the period and had to make an "abnormal tax payment" at the end of the prior year.

SA Eagle's realignment of its equity portfolio gave rise to a R86,8 million surplus on investments.

By the end of last year, the company's solvency margin had fallen from 104,5 percent to 89,4 percent.

NEW REPUBLIC BANK/MAWENZI (58) FM 5/2/99

THE VERY SUBTLE ART OF ACCOUNTING INTERPRETATION

Same figures, different totals and quite different conclusions

Something curious about the public brawl between New Republic Bank Holdings (NRBH) and prospective buyer Mawenzi Resources is the different conclusions reached by two auditing firms and the Reserve Bank on the financial soundness of the bank.

The conclusion reached by KPMG, after conducting a due diligence audit on behalf of Mawenzi, was given as the reason Mawenzi pulled out of the deal. However, NRBH deputy chairman Jonathan Scott says the group wanted to cancel the deal as it didn't have the means to pay.

The leaking of the due diligence document to the press resulted in withdrawal of deposits and the curatorship of NRB last Friday.

Unless KPMG had access to different figures from those used by NRBH auditors PricewaterhouseCoopers and the Reserve Bank, their conclusion doesn't say much for accounting standards. According to reports in *Business Day*, KPMG seems to have concluded the bank was undercapitalised and that its capital adequacy fell below the required 8%. KPMG CE Stuart Morris says he stands by the report.

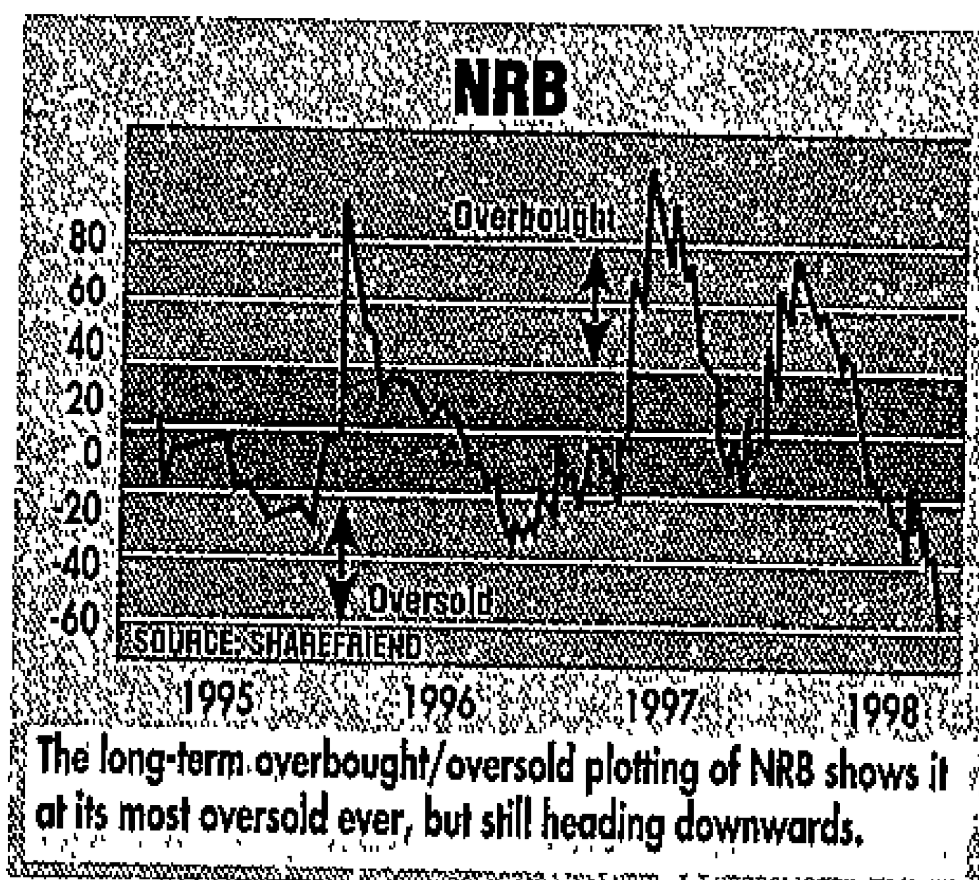
PricewaterhouseCoopers stated in the NRBH annual report that the annual financial statements to March 31 1998 fairly presented the financial position of the group. In the annual report, the capital adequacy ratio was stated as 19,1%. Registrar of Banks Christo Wiese also confirms the Reserve Bank was happy that NRB had met the capital adequacy requirements based on figures presented to it.

At the centre of the accountancy wrangle is the nonperforming loan to Merchant Trade Finance, which KPMG says should have been treated differently. Who knows who is right?

The next round in the dispute will feature legal action and an attempt to save the bank from liquidation. Ernst & Young

senior partner Pieter Strydom has been appointed curator. He says his immediate task is to determine the quality of NRB's assets. "By the end of February, we must know whether the bank will go into liquidation or can operate as a going concern," he says. "At first glance, there seem to be a number of quality assets, such as IT and the treasury."

Meanwhile, deposits have been frozen. "We have to restore some confidence in the bank," Strydom says. A knock in confidence saw 15% of NRB's deposits withdrawn over two weeks. On a deposit book of R1,5bn according to the 1998 annual report, this would mean an outflow of around R232m. Scott says because the bank had a high level of liquidity with liquid assets at around 15%-20% of deposits, this was at first used.



The long-term overbought/oversold plotting of NRB shows it at its most oversold ever, but still heading downwards.

Obviously, NRB's first choice would be for Strydom to give the bank a clean bill of health and restore some confidence in it. If this happens, together with NRB Asset Management and NRB Financial Services, it could be sold to one of the other suitors said to be waiting in the wings. These suitors — Cosatu investment company Kopana Ke Matla has been mentioned as one — would get a much-coveted bank licence and the bank's assets at a price way below the R490m agreed on with Mawenzi. The effect of the public battle on Mawenzi could also be significant. Its part payment to NRBH of R80m cash has already been exchanged for 18,5% of NRBH shares at R7,50/share. The value of Mawenzi's holding has diminished to around R27m. This transaction, however, is in arbitration and Mawenzi is trying to get its R80m back. A R45m claim Mawenzi has against Brett Kebble's Consolidated African Mines was used as security against guarantees to purchase the bank and is now "in limbo". Together, the two amounts knock R125m off Mawenzi's total assets of R325m, so Mawenzi will be keen to try to reclaim its cash soon.

The story's not over by a long shot and the results of arbitration and Strydom's curatorship will be awaited keenly. But the damage has been done. Heather Formby

British banks under fire

M+G 5-11/2/99 (58)

South African banks last year earned R8,7-billion from bank charges. One bank increased its charges by up to 67% last month. Surely South African regulators should follow the United Kingdom's example in cracking down on high bank charges. **Phillip Inman** *reports from London*

British high street banks are under the cosh once again. After years of stinging criticism from consumer groups concerning poor service and overcharging, the banks now face a government investigation which will scrutinise the root causes of high bank charges.

The man in charge of the investigation, Don Cruickshank, says he will leave aside nitty-gritty claims from customers fed up with their treatment by particular banks. Instead, he wants to examine widespread practices that work to restrict competition.

His review will take in the bundling of building insurance with mortgages which obscure the real cost of individual products.

It will also consider whether the domination of the credit card market by Visa and Mastercard is harming competition, whether the payment systems for cheques and other transactions can be described as competitive, and if small businesses are restricted from shopping around by restrictive practices.

Cruickshank is likely to be a tough adversary for the banks. He has a strong track record as an aggressive regulator from his days as telecoms ombudsman, preventing British Telecom from entering markets such as cable television, where it might have killed off the competition.

His curriculum vitae also reveals a stint as general manager of Richard Branson's Virgin Group and head of the Scottish health service, all giving him a wide-ranging business background.

His paymaster, Chancellor Gordon Brown, is the man who gave Cruickshank the brief to consider the wider picture. Brown wants to know how the Barclays and NatWests of this world rack up billions of pounds in profits.

Is it because they are fabulously efficient businesses providing a range of services demanded by customers? Or does it stem from their ability to dominate the scene and charge huge mark-ups on their products?

Brown must suspect the latter is true, or he wouldn't be sponsoring an investigation.

His approach to the problem is not to slap a windfall tax on all bank profits and walk away with the cash.

Rather, he wants to end some of the restrictive practices that are at the heart of keeping charges to customers high. At the back of his mind must be the fact that bank shareholders demand profits today rather than investment in the very core parts of their networks.

Ripping out 20-year-old systems that process transactions is expensive. And why do it, ask senior bank executives, when the banks are just a cosy club sharing the same payment networks?

In short, there is a suspicion in the British Treasury that banks in the United Kingdom have allowed time to stand still; that far from being innovators, giving their customers a fast, cheap and transparent service, they enjoy the fruits of a protective world free from outside competition except in very limited areas.

The banks have recently shown resistance against lowering their unsecured loan rates despite a series of cuts in interest rates since last September.

Mortgages linked to insurance products have also been a longstanding bugbear, making it harder for consumers to work out the real cost benefits of going with one mortgage company rather than another.

The review will run in parallel with the investigation by the Office of Fair Trading into the major supermarkets. Like the big banks, they are accused of using their dominant position to impose huge mark-ups on goods and strangle innovation.

Bank share prices slumped when the UK government launched its review, but quickly recovered when traders realised Cruickshank will not be reporting his findings until the end of this year.

And even if he meets his deadline, any proposals for reform will take a long time to filter through into cheaper, simpler products.

Greater regulation of banking products is possible, but — except in the area of mortgages which have so far escaped close scrutiny by financial watchdogs — this is unlikely. Instead, specific issues will be taken up with the big banks behind the scenes, pushing them towards the innovative practices seen in the United States and other countries.

In the meantime, big British banks, which have largely failed to compete abroad, will continue to dominate the financial scene and continue to face accusations of milking their captive audience.

Bank fees need to be looked into, says consumer institute

Financial institutions free to charge customers whatever they like

By Cathy Powers

The Consumer Institute of South Africa has taken financial institutions to task over the amounts they charge in bank fees.

The institute believes banks should be able to disclose bank charges upfront at the request of the customer, but found that few branches in Johannesburg were able to do so.

The institute's Aynon Doyle said that while banks often complained that their margins were low, bank charges made up R8,7-billion of the total earnings of the banking sector last year.

Although this was a small percentage of total turnover, Doyle said this still contributed to the profit margins of banks.

Another bone of contention was that there was no prescription on the rate of bank charges on accounts, according to the banking supervision division at the Reserve Bank.

"This means ... banks are free to impose whatever charges they feel are in their best interest on current accounts and savings accounts, with little or no onus to provide proof of actual costs incurred in the provision of the service."

The Usury Act, which limits interest rates, comes into play only when banks lend money in the form of overdraft facilities, credit cards or home loans.

Standard Bank upped its lost-card charge fee by 67%, from R6 to R10, at the beginning of the year. This was justified, said spokesperson Erik Larsen, because lost cards were becoming an increasingly frequent problem.

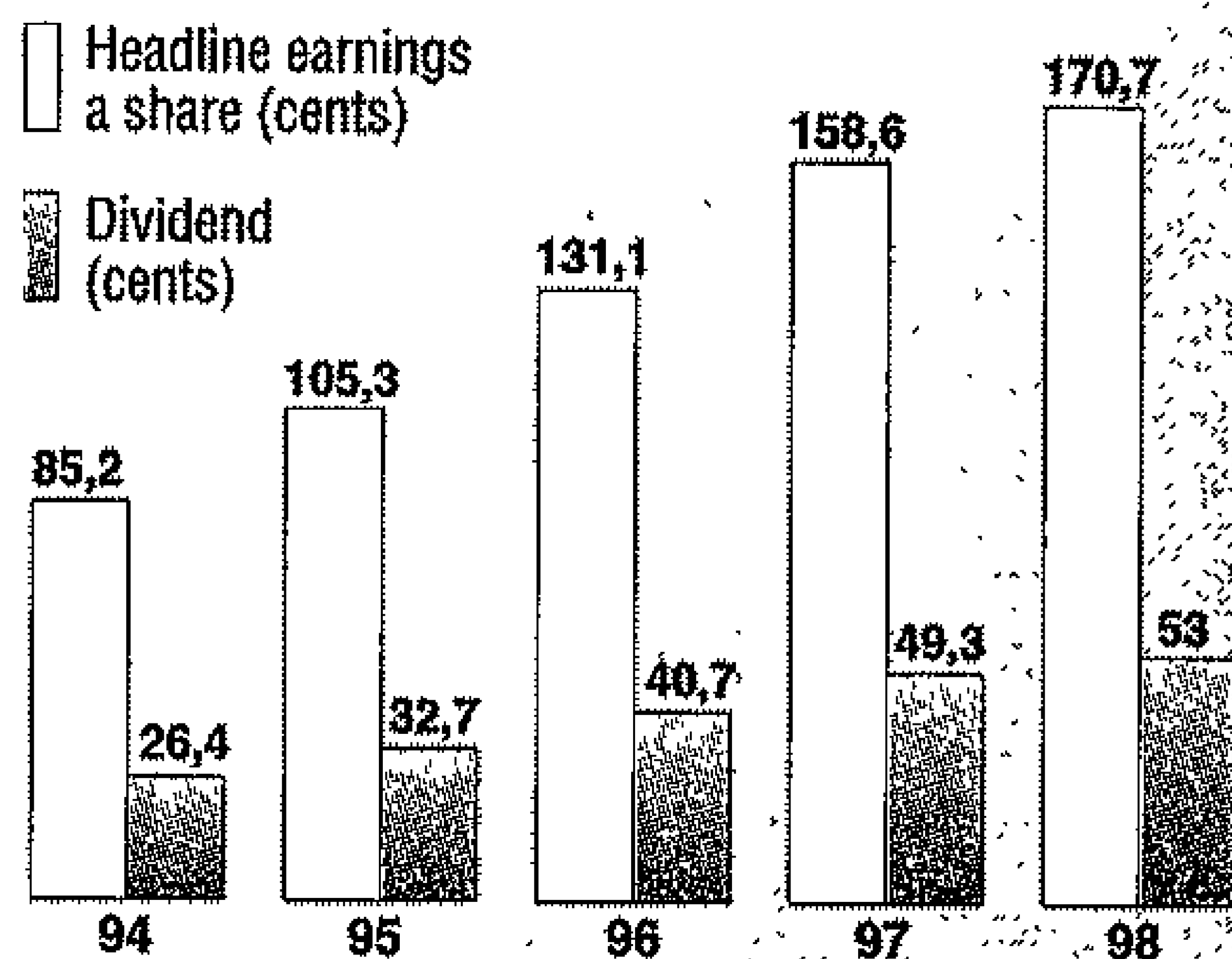
However, bank charges are not set in stone. It is always possible to negotiate a bank-charge structure with your bank manager. First National, Absa and Standard offer this option.

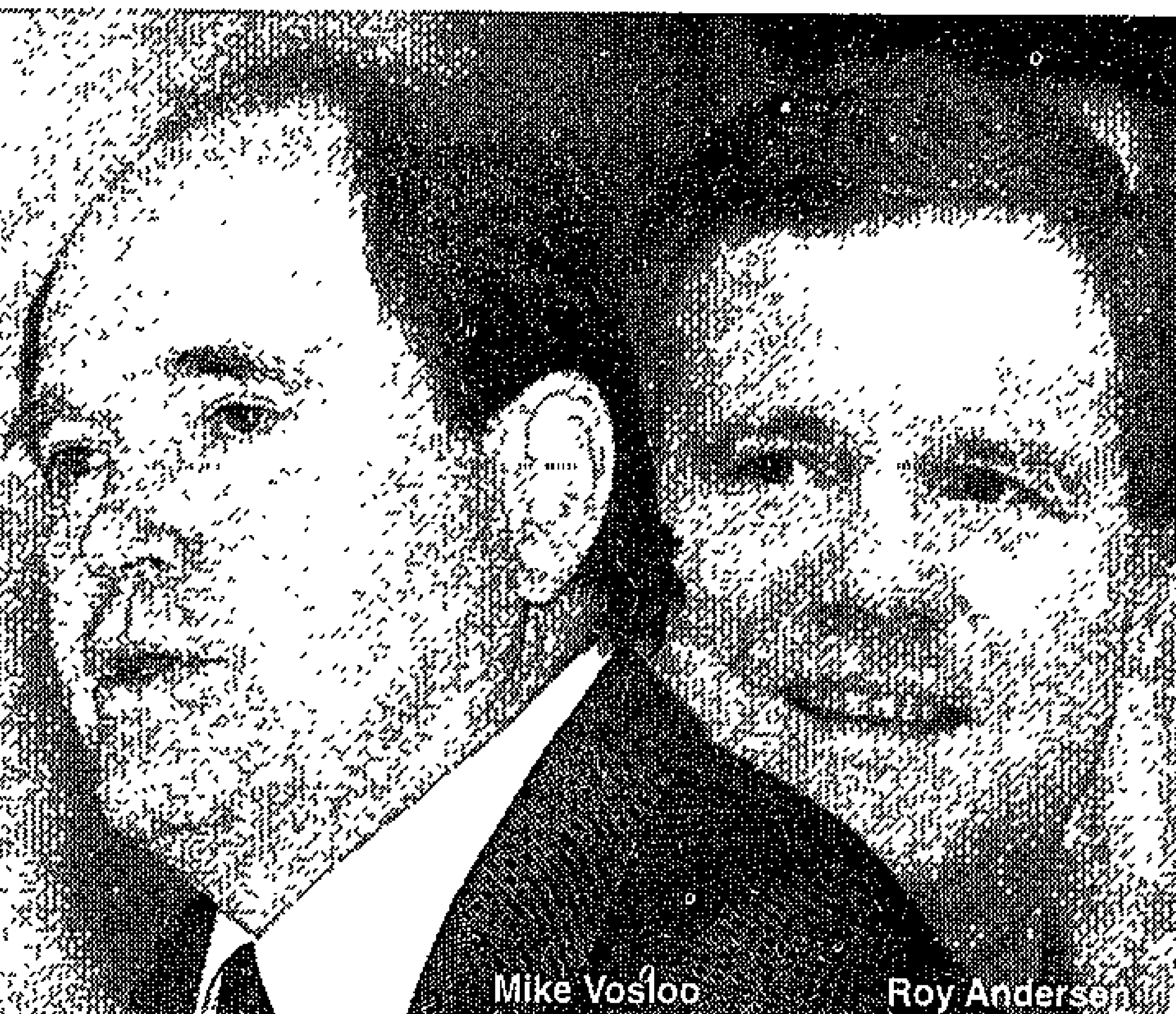
At Nedbank you can offset service fees against interest earned on your cheque account, and you can also cut down on your bank charges by choosing the electronic option over standing in queues at your branch, said Larsen.

"This is because electronic transactions need less manual involvement for the bank than branch transactions, and the service is therefore cheaper."

ATM withdrawal fees and cheque fees are dependent on the value of the transaction, because, as the value of the transaction increases, so does the risk to the bank, he said.

BANK CHARGES	First National	Absa	Standard	Nedbank
Debit orders	R3,42	R3,00	R1,85	R2,00 under R100, R1,29 for each R100 thereafter
Stop orders	R6,27	R4,30	R6,50 for initial order, R4,50 thereafter	As above plus R5,70 initiation fee and R2,28 handling charge
Cash deposits Own ATM / Branch	First R200 free 72c per R100 thereafter	Free 0,7%	Free < R250 0,79% thereafter	84c per R100
Cheque depsosits electronic/branch	Free	Free	R2,45 for first R100, 95c for additional R100	
Cash withdrawals Own ATM	R2,28	R1,60	R1,75 for first R100, 75c thereafter	R2,28 plus 57c for every R100
Other ATM	R7,34	R6,00		
Branch	service fee	R6,25	R2,45 for first R100, 95c for additional R100, maxiumum R16,50	R7,98 for balances below R4 000, thereafter free
Balance inquiries	Free		Free	
Own ATM		Free		Free
Other ATM				R2,74
Branch		R1,50		
Electronic account payments	Service fee	R1,60	R1,30 for first R100, thereafter 50c per R100	R1,71 for balances below R4 000, free for balances above
Lost/stolen card replacements	First one free	R12,84	R10,00	Free
Provisional statements	Free		1 free p/m	
Own ATM		Free last 10 transactions	R1,40 thereafter	R2,28
Other ATM			R2,00 thereafter	R2,74
Branch		R3,00		
Cheque books	Free	R6,90 30 pages	R10,00 30 pages	Free





Graphic: Kuben David SOURCE: Standard Bank Investment Corporation

Stanbic takes over control of Liberty

(58)

BD 10/3/99

R5,6bn deal opens way for long-awaited bancassurance merger to go ahead

Hilary Joffe and Madeleine van Niekerk

IN A move which opens the way to the long-awaited Standard Bank-Liberty Life merger, Standard Bank Investment Corporation (Stanbic) is to buy control of Liberty in a R5,6bn deal by acquiring the 50% stake in unlisted Liblife Controlling Corporation (LCC) it does not already own.

The deal, which precedes Liberty chairman Donald Gordon's retirement in June, will see Stanbic buy Libvest's 50% stake in LCC, the company through which the Gordon family and Stanbic have exercised joint control over the life group since 1983. The Gordons hold 51% of listed Libvest. Liberty Life holds a further 20%, which it will not vote.

The deal will be settled by a combination of cash and shares.

The announcement came as Stanbic reported its worst earnings for years. Headline earnings rose only 8% to R2bn, mainly due to heavy provisions made against losses offshore, particularly in Russia. Share earnings grew 8% to 170,7c with the total dividend for the year at 53c (49,3c). Domestically, however, Stanbic did well, raising headline earnings 37%.

Stanbic's 100% stake in controlling company LCC will give it an attributable 30% of Liberty Life, because of the pyramid structure of the group's ownership.

Despite the change from the previous joint control situation between Stanbic and the Gordon family, to Stanbic's control alone, the Securities Regulation Panel has ruled that Stanbic does not have to make offers to minorities of Liberty Holdings or Liberty Life.

Stanbic CE Mike Vosloo said it had always been Gordon's intention for the bank to become Liberty's anchor shareholder when he retired.

He said the transaction would unlock considerable synergies. There was broad agreement on a merger between the two companies, probably by creating a listed holding company with two wholly owned and independently managed subsidiaries — banking and life assurance. He hoped the merger would be completed this year.

A market source said Stanbic chairman Conrad Strauss was expected to chair the holding company, with Liberty CE Roy Andersen and Vosloo as chairmen of assurance and banking respectively.

Vosloo said the benefits of co-operation in the first year would be revenue-driven, as the two groups took advantage of cross-selling opportunities. There would be rationalisation opportunities in the longer term.

On the bank's financial year, Vosloo said the international operations delivered a "pretty lousy" performance, driven by the Russian problem and losses in Hong Kong. The international book, however, showed an overall profit of £7m.

He said the African banking group had a "bread and butter" year. African operations increased headline earnings by 14% and the book was in good shape, with Stanbic expecting a good year ahead.

Net interest income, before provision for credit losses which soared 68% to R1,8bn, increased 17% to R5,97bn

Non-interest income rose 25% to R5,3bn and contributed 47% of total income, against 45% the previous year. Income from associates, including Liberty Life's earnings and certain Africa associates, was up by a fifth.

Stanbic deputy CE Jacko Maree said consumer business demand had been weak, but Standard had fared well in comparison with other domestic banks. He said Standard Corporate and Merchant Bank had "an absolutely fantastic" year.

Stanbic's shares closed 3,66% lower at R19,75c yesterday while Liberty Life lost 7,4% to close at R102,60.

Gordon 'main beneficiary' of Liberty deal

Madeleine van Niekerk

The SA market has not been impressed by the tie-up between Standard Bank and Liberty Life

LIBERTY's outgoing chairman Donald Gordon seems to be the main beneficiary of Standard Bank Investment Corporation's (Stanbic's) takeover of Liberty Life in a R5,6bn deal.

An analyst said yesterday that Gordon, who has a 51% interest in Liberty Investors (Libvest), appeared to have "looked after himself". His shareholding was now worth R2,8bn, 72% higher than a week ago when the Libvest share price stood at R12,20. Yesterday the counter closed at R20,90, up 13,6% from the previous day's close of R18,40.

However, the SA market was not impressed by the tie-up between the two groups — announced on Tuesday — which opened the way for the long-awaited Standard Bank-Liberty Life merger to create a financial services conglomerate.

Share prices of both groups fell across the board yesterday, with the exception of those of Libvest.

Analysts struggled to see where synergies would arise as a result of the merger, except from cross-selling opportunities. They said the price Stanbic had to pay up front to obtain control of the ultimate holding company of the Liberty group, Liblife Controlling Corporation (LCC), was high.

Stanbic shares closed 8,35% lower at R18,10 from the previous day's close of R19,75, after reaching a morning low of R17. Stanbic year-end results, which were released on Tuesday and were lower than expected, pushed the counter lower.

In terms of the planned merger, Stanbic would buy a 50% stake in LCC, the ultimate holding company of the Liberty group, from Libvest — giving the banking group 100% control of LCC.

All the companies in the Liberty stable shed value yesterday, expect for Libvest, which ended the day up 13,6% at R20,90, nearing the R24,75 value put on the shares.

Analysts were not convinced by the opportunities that would be unlocked by a merger cited by Stanbic CE Mike Vosloo and Liberty CE Roy Andersen.

"There will be little immediate cost-saving for Liblife or Stanbic because the deal is revenue-driven. Andersen and Vosloo themselves said it would take five years for benefits to kick in. The market will wait until these benefits are on the table," said Jacques Badenhorst, banking analyst at stockbrokerage ABN Amro.

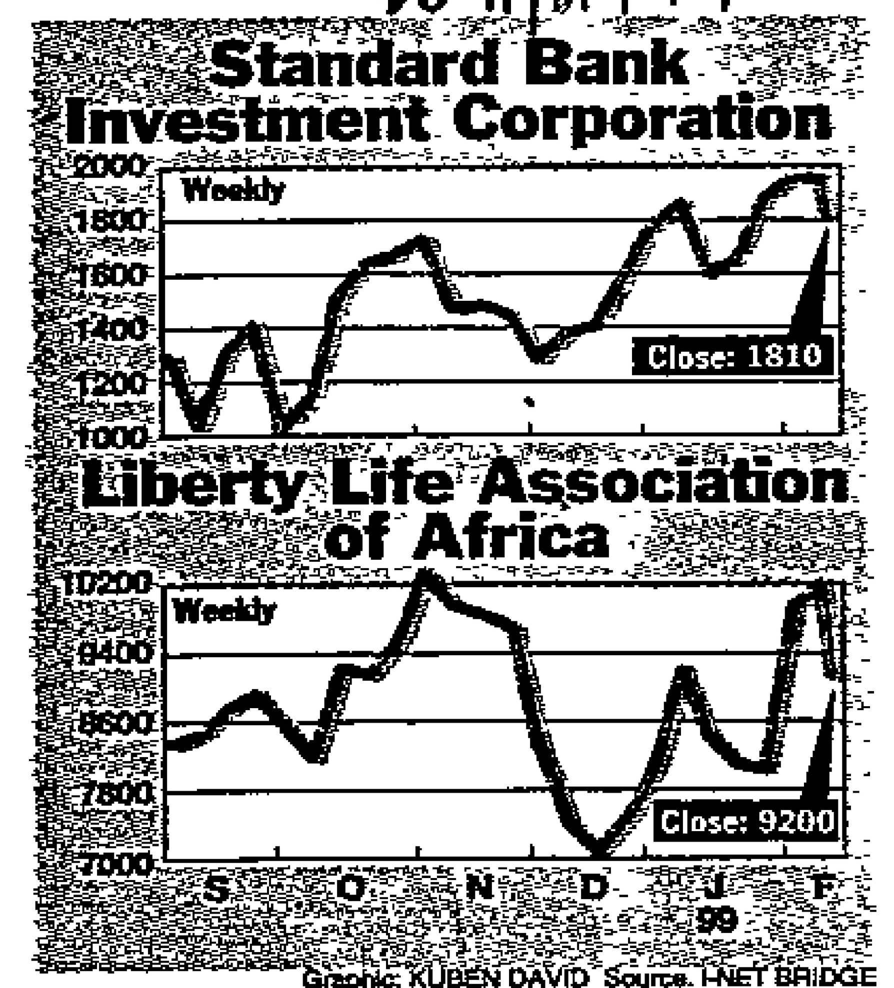
This deal contrasted with the FirstRand deal whereby the operations of two insurers, Southern Life and Momentum Life, and the operations of two banks, Rand Merchant Bank and First National Bank, were merged, a move which delivered immediate massive cost savings.

Badenhorst said that both Liberty and Standard were operating in a mature market, with FirstRand, Sanlam/Absa, Old Mutual/Nedcor chasing the same client base.

"I do not know where all the clients are going to come from. People are not going to buy four new insurance policies or three new bank products all of a sudden."

The approximately 158-million Stanbic shares that would be issued in terms of the first part of the merger could cause an overhang of Stanbic shares in the market, which would put the counter under pressure.

"Liberty and Stanbic shares are still undervalued and given the overhang, the shares would not easily reach a fair value," he said.



Graphic: KUBEN DAVID Source: I-NET BRIDGE

(58)

11/2/99

FINANCE *Niche bank takes stakes in four local and Namibian operations*

Saambou goes microlending

(58) CT (BR) 17/2/99

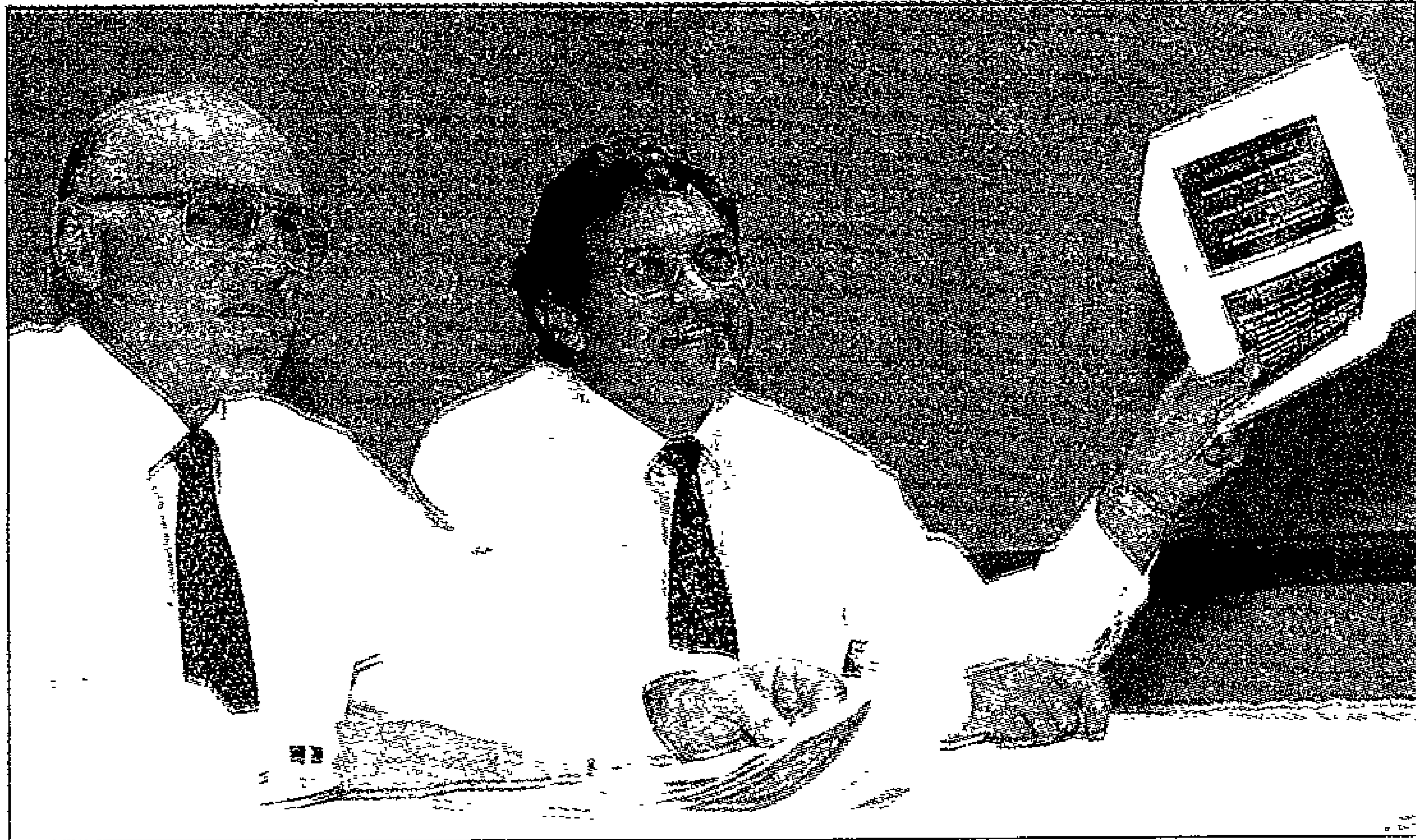
RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — Saambou Bank, the niche retail bank, has stolen a march on the country's big four banks, teaming up with a string of top-end micro-loan origination businesses locally and in Namibia to smooth the mass market's move into the formal banking sector.

The investments and joint ventures, the company said yesterday, would double new business flows, boost its loan book from R400 million to R1 billion and deliver at least a 30 percent rise in earnings a share in the year to March 31 2000.

"By being one of the first formal banking institutions to enter the market, we can ensure that we have an opportunity to consolidate many operators into a strong, competitive grouping," said Johan Myburgh, Saambou's chief executive.

South Africa's microlending industry turns over an estimated R13 billion a year. Saambou said its support would help to formalise the sector and begin the process of banking the unbanked in a structured and efficient manner.



BANKING THE UNBANKED *Johan Howell, Thuthukani's chief executive officer, and Johan Myburgh, Saambou's chief executive officer. Saambou owns 8,7 percent of Thuthukani* PHOTO JOHN WOODROOF

Among its purchases was AllSure, a Cape-based personal loan origination company specialising in procuring finance for members of 22 trade unions.

Saambou said it paid an insignificant amount which would be recovered from AllSure's business flows.

AllSure typically grants one- to three-year loans in the R500 to R5 000 bracket, obtaining repayment through salary deductions. It is expected to generate new business of R15 million a month.

Saambou also bought 8,7 percent of Thuthukani in exchange for providing a R1 billion line of credit over three years to finance personal loans.

Thuthukani is listing on the JSE next month; Saambou has an option to increase its stake to 20 percent a year afterwards. The company has a debt collection agency and 52 affiliated lenders across the country.

The bank has also bought 70 percent of Cape-based Digita-ta, a joint venture with Riaan Botes, formerly of Boland Bank and Theta Group's Unity, to originate and process personal loans to trade unionists.

It is expected to achieve volumes of R50 million to R60 million a month by the end of the year.

Botes's brother Danie had enabled Saambou's 44 percent interest in a cross-border joint venture with Windhoek-based Finance in Education (FinEd), to develop the untapped personal loans market in Namibia.

FinEd has an agreement to facilitate personal loans to Namibian state employees. A portion of its shares will be held by a local education and health-care trust.

□ Business Watch, Page 2

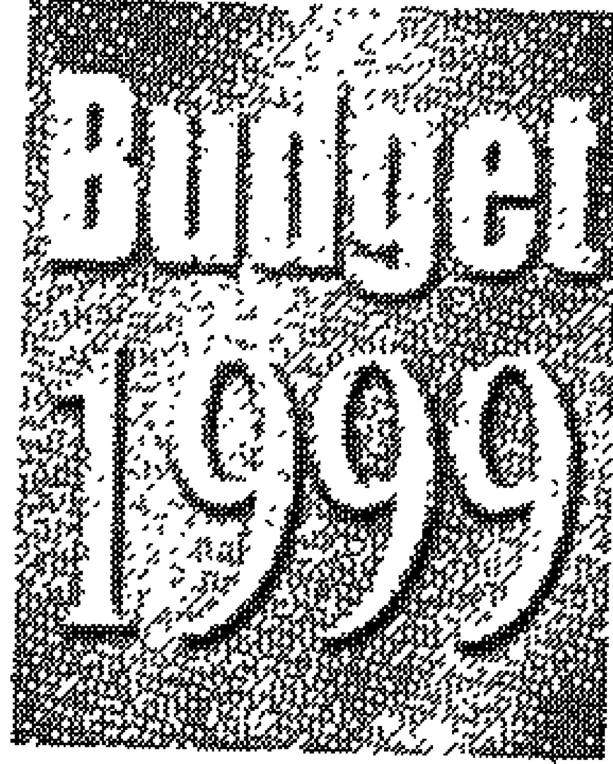
Manuel vows to crack down on loan sharks

BD 18/2/99 (58)

Wyndham Hartley

CAPE TOWN — Government has taken aim at unscrupulous loan sharks in the multibillion-rand microlending industry, vowing to prosecute those abusing interest rates and the human rights of their borrowers.

Finance Minister Trevor Manuel warned those who were "holding people hostage" that tax measures and regulations would be used to put the unscrupulous out of business.



He said government would wait until after the scheduled hearings into bank charges, interest rates and the microlending industry before taking appropriate steps.

"There is a place for the microlending industry. But we will not tolerate the blatant exploitation that appears to be taking place at the moment. It is illegal to take people's identity documents as collateral; it is illegal to charge people usurious interest rates; and it is bad practice to lend to the point where a person's entire wage is consumed by the repayment of the loans," Manuel said.

He warned those in the industry that they were subject to normal tax provisions and promised that they would receive increased attention from the SA Revenue Service this year.

It is understood that the trade and industry department is considering raising the ceiling for microloans to R50 000 from the present R6 000 and introducing an enforceable code of conduct.

Microlenders can charge almost any interest rate on loans less than R6 000, while the Usury Act sets the maximum rate for larger loans at 36%. It is intended that microlenders will have to register and face severe penalties if they breach the code of conduct. Raising the ceiling will enable banks to become involved in microlending.

Many large black empowerment consortiums are involved in highly lucrative microlending.

Moneylenders support Manuel's call for sector to clean up act

BD 22/2/99 (58)

Steps are already being taken in the rapidly growing microlending industry, writes Madeleine van Niekerk

MONEYLENDERS ABC Cash Plus, Moneywise and Theta and the Association of Micro Lenders, have voiced their support for Finance Minister Trevor Manuel's criticism of unscrupulous money lenders and his intention to deal with tax avoidance, unethical lending practices and exorbitant pricing in parts of the microlending industry.

In his budget speech, Manuel said there was room for the microlending industry but government would not tolerate blatant exploitation of South Africans struggling to make ends meet by unscrupulous money lenders. He emphasised the illegality of taking borrowers' identity documents as collateral, charging usurious interest and avoiding taxes.

SA's microlending industry is a rapidly growing, fiercely competitive and highly profitable sector. But it is also a controversial one — even lenders which have managed to shake off the "loan shark" image have come under fire for the way they do business.

The biggest stumbling block is the security that lenders require, often in the form of ATM cards or identity documents of borrowers. The industry admits this is a problem. However, last week George Gibson, MD of Johannesburg Stock Exchange-listed ABC Cash Plus, said his company had found a solution and was ready to implement it. He said modern software programs such as those used by ABC obviated the need for drastic measures such as confiscating ID books or bank cards.

A second problem is the moral issue surrounding the small loans sector. There is huge demand for credit from the large proportion of South Africans who have no access to the formal banking sector. But many of the people who apply for cash loans are already in debt. The risk is that taking on additional debt, at relatively high interest rates, will lock consumers into a debt spiral. Small lenders are often accused of adding to debtors' misery.

"The bad apples are ruining the image of the industry and risking the wrath of consumers and the authorities," Gibson said.

"We insist on a responsible approach and take the greatest care to advise clients and assist them in structuring their personal finances. By assessing risks properly, we maintain a bad debt rate of less than 2%, without reverting to illegal means."

The sector will soon have two separate bodies aimed at regulating the industry, each with a different approach.

Gibson said the Alliance of Micro Lenders and Associated Consumers — of which ABC is a founding member — would soon be formally constituted with the aim of furthering ethical practices and self-regulation within the industry.

The association was established three years ago to place the microlending industry on a professional and ethical footing by identifying unscrupulous operators. Over the past year it co-operated in regulating the industry, said executive officer Flip du Plooy.

Amlac director Henk Viviers said 70% of the association's 1 700 members were large moneylending players such as Theta and Lohen, while Amlac had a broader membership of smaller microlenders and client representation through its association with Acapo, a consumer protection body. "The objectives of the two associations to 'professionalise' the microlending industry are the same, but the way in which we will achieve these goals differs vastly," he said.

The association wants to regulate the interest microlenders charge while Amlac says market forces should prevail. Clients should be educated about interest rates so that in the long run clients will borrow only from microlenders that charge the lowest rates.

Legislation to combat money laundering

BD 22/2/99 (58)

The SA Law Commission has been asked to compile a money-laundering bill. It is already in draft form and has been referred to the finance department The process of legislating the bill is expected to be completed by late 1999. The bill introduces some interesting international concepts, Krepelka says.

"The bill in its draft stage is very comprehensive and was presumably based on international experience. The commission recommends the implementation of an administrative framework to facilitate the prevention, detection, investigation and prosecution of money-laundering."

The framework should have a wide scope of application beyond the banking sector and includes attorneys, accountants, insurers, investment intermediaries, gambling institutions and betting services.

Institutions will be required to identify their clients when business relationships are established or single transactions concluded. They will also have to ascertain the identity of persons with whom transactions are concluded

Institutions will have to keep records of the identity of their clients and information relating to transactions performed by their clients. The commission recommends that information on transactions exceeding a prescribed threshold must be reported, as well as information in respect of suspicious transactions.

Other recommendations are that adequate protection is given to persons making reports in terms of the reporting structure. This includes protection against liability for breach of confidential relationships and protection of their identity.

A statutory body called the Financial Intelligence Centre should be established, says the commission, to analyse, investigate and disseminate the reported information. It will also supervise the enforcement of the administrative scheme by means of appropriate administrative sanctions.

"For this purpose the commission recommends the institution of a statutory body called the Money Laundering Policy Board to represent all the relevant institutions and bodies," says Krepelka.

The due diligence process employed by international financial service providers, and hinted at in the SA money-laundering bill, can appear to be an invasion of privacy or, in the extreme, an interrogation about backgrounds and financial positions, says Krepelka.

"The reality is, whether the bill is passed or not, for SA institutions to transact internationally, implementation of international due diligence standards will be essential."

Absa-survey results point to differences in clientele (58)

Star 11/3/99

Victoria Falls – Banking group Absa has concluded one of the largest quantitative exercises ever undertaken in the financial-services industry, in a bid to understand and meet the banking needs of the South African consumer.

Its findings were made public for the first time at the weekend during a banking seminar at Victoria Falls in Zimbabwe.

Among the findings:

The well-to-do (those earning R20 000-plus a month) used bank cards more for transactions than obtaining credit; had a unanimous disdain for in-branch interactions – preferring electronic banking with the use of the Internet – and demanded tax-efficient financial portfolios.

The middle bracket (earning more than R3 000 a month but less than R20 000) used credit cards but found the cheque book convenient for controlling spending. They preferred face-to-face contact in the bank and had a mistrust of technology.

The lower paid (earning less than R3 000 a month), however, used debit cards to avoid overspending and used ATM cards because of the flexible banking hours. They wanted assistance inside the bank, where they felt more secure. They were resistant to technology.

On service, the top earners had the "bank-must-come-to-me" attitude, and preferred one person handling their individual needs efficiently.

The middle group also wanted prompt service but was more flexible, seeking advice and access to the manager, while the lower earning group had more understanding for bank staff but wanted shorter queues and more tellers.

The upper earners used an extensive and established product portfolio, the middle section used cheque, credit and bond finance as well as having store credit and hire purchase agreements. Among the lower paid, small loans, burial schemes, store credit, HP laybys and stokvels were among the main products used.

The three groupings had one thing in common – their concern about crime. Shopping malls and garages were considered the safest banking areas and, if they had to visit a branch, they wanted it near their home or work.

The major lesson learnt by Absa from this three-month survey is, according to the banking group, that it must communicate more with clients and provide more education to those needing it. – Sapa

Banks shutting out low earners, experts tell probe

TYRONE SEALE
SPECIAL WRITER

ARG 1/3/99 (58)

South Africa's leading banks are spurning low-income earners, pensioners and the unemployed and denying them participation in the mainstream economy, Parliament has heard.

Hard-hitting criticism of the country's large financial institutions was delivered today by Alistair Ruiters, chief director of business regulation and consumer affairs in the Department of Trade and Industry, and Bruce Cameron, editor of Personal Finance, which appears in Saturday Argus.

Dr Ruiters and Mr Cameron were the first on an extensive list of witnesses who are briefing the parliamentary portfolio committee on trade and industry about bank charges, microlenders and consumer protection. The hearings end on Wednesday.

Dr Ruiters told the committee consumers had a need for a safe place to deposit money, transmit their income and obtain credit.

"Without a bank account you are denied access to a number of basic services in South Africa."

Still, he said, the banking sector showed an overall disdain and complete lack of appreciation for the need for consumer protection.

"(Banks) have already decided they aren't going to be part of an approach that will seek to transform the financial services sector for the majority of the people ..."

The formal banking sector was moving away from the provision of services to the low-income sector by closing branches in townships and rural areas and encouraging residents there to use automatic teller machines, without providing the necessary training.

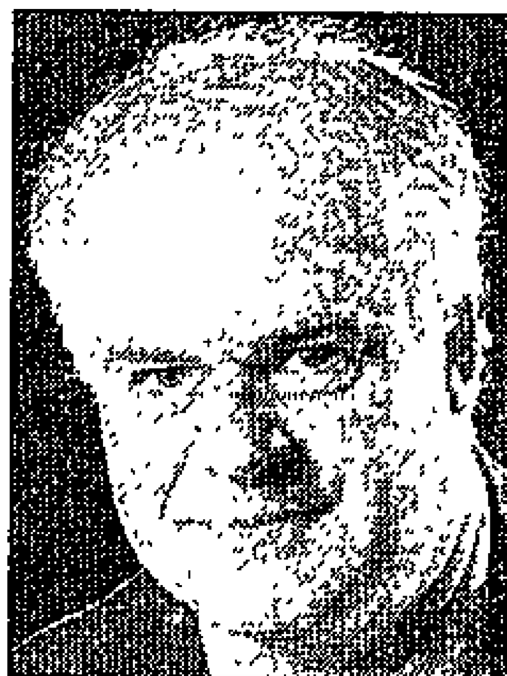
Banks were closing branches and reducing staff complements to reduce cost but were simultaneously increasing user charges.

Most banks had minimum deposit requirements and demanded proof of minimum income before accounts could be opened.

These conditions drove consumers to do business with microlenders and other institutions that were not regulated.

The time had come for universal banking to be considered in South Africa, as consumers needed to participate in the mainstream economy.

Mr Cameron said that in an investigation by Personal Finance several years ago, it was quite clear from readers' complaints that banks on the whole did not have clear-cut charges.



Bruce Cameron: 'law to regulate bank charges'

"Readers told us that what the banks were telling us and what they were charging were different. It appeared some banks had the policy of virtually charging to the extent of the pain a customer would take."

More recent Personal Finance surveys had not only revealed dramatically increasing costs but also a concerted effort by banks to exclude lower-income groups by charging excessive fees.

"For example, there are monthly charges for not using your savings account when the balance is below a certain level and/or charges for using the savings account when the balance is below a certain level.

"It is all very well for the banks to say that the costs of carrying such customers is too high and they are in effect being subsidised by other wealthier customers. Low-income earners and pensioners are often in a squeeze, with banks trying to force them out of the system while employers are attempting to keep them in."

He said legislation should be used to regulate bank charges and fair, market-related interest rates.

'Greedy, elitist' banks slammed

Star 2/3/99

Institutions are accused of charging excessive interest rates and fees, and of denying services to the poor

By Ryan Cresswell and Sapa

South Africa's banks have been slammed in a parliamentary committee hearing, with speakers accusing them of denying services to the poor and levying excessive bank charges and interest rates.

During a trade and industry portfolio committee hearing in the National Assembly yesterday, speakers decried what they said was the disgraceful way in which banks treated clients.

The three-day hearing follows a public outcry about high bank charges and interest rates. It came against the background of increasing pressure on banks to drop interest rates in line with the repo rate, which has been falling steadily in recent months. The repo rate is the rate the Reserve Bank charges commercial banks to meet their daily borrowing requirements.

Dr Alistair Ruiters, the Trade and Industry Department's chief director of business regulation, told the committee that banks were reporting record profits while interest rates were at their highest in South Africa's history.

Banks said they were keeping interest rates high to discourage excessive consumer credit, but were in fact deliberately encouraging people to get deeper into debt, he claimed.

They had deliberately decided to shy away from the consumer market, making banking services virtually inaccessible to poorer people, he added.

He said banks discouraged the opening of branches in townships, had increased over-the-counter fees and placed onerous requirements on credit seekers. Several banks had minimum deposit requirements and would not open accounts for people earning below certain limits.

Personal Finance editor Bruce Cameron said banks appeared not to have clear-cut charges.

"What the banks were telling us and what they were charging were different. It appeared some banks virtually had a policy of charging to the extent of the pain a customer would take."

Personal Finance surveys not only revealed the dramatically rising costs but also the concerted effort by banks to exclude lower-income groups from their books by using high charges.

Committee chairperson Dr Rob Davies said a change to the Usury Act to widen its ambit was likely in the next session of Parliament. The act governs the rate of interest that money lenders may charge, but does not cover loans of less than R6 000.

Several individuals testified about their long and costly legal battles with banks. They claimed the banks had acted unethically and at times illegally, but the banks' financial and legal muscle made it virtually impossible for them to be challenged.

Analysts said yesterday there seemed no doubt prime overdraft and home loan rates would drop within the next few weeks, but differed on whether this should happen sooner or later.

Banking Council of SA strategy general manager Claire Gebhardt-Mann said the money supply and rand rate looked relatively good, and banks should cut rates as soon as possible.

Gensec Asset Management economist Jac Laubscher called for an immediate cut in rates.

But Econometrix's Azar Jammine said banks and the Reserve Bank were moving at the right pace. If the Reserve Bank went too fast with repo rate cuts, it could trigger speculation against the rand. If it moved too slowly, it could kill the economy.

▶ More reports Business Report

'Greedy, elitist' ba

banks slammed

Institutions are accused of charging excessive interest rates and fees, and of denying services to the poor

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Several individuals testified about their long and costly legal battles with banks. They claimed the banks had acted unethically and at times illegally, but the banks' financial and legal muscle made it virtually impossible for them to be challenged.

Analysts said yesterday there seemed no doubt prime overdraft and home loan rates would drop within the next few weeks, but differed on whether this should happen sooner or later.

Banking Council of SA strategy general manager Claire Gebhardt-Mann said the money supply and rand rate looked relatively good, and banks should cut rates as soon as possible.

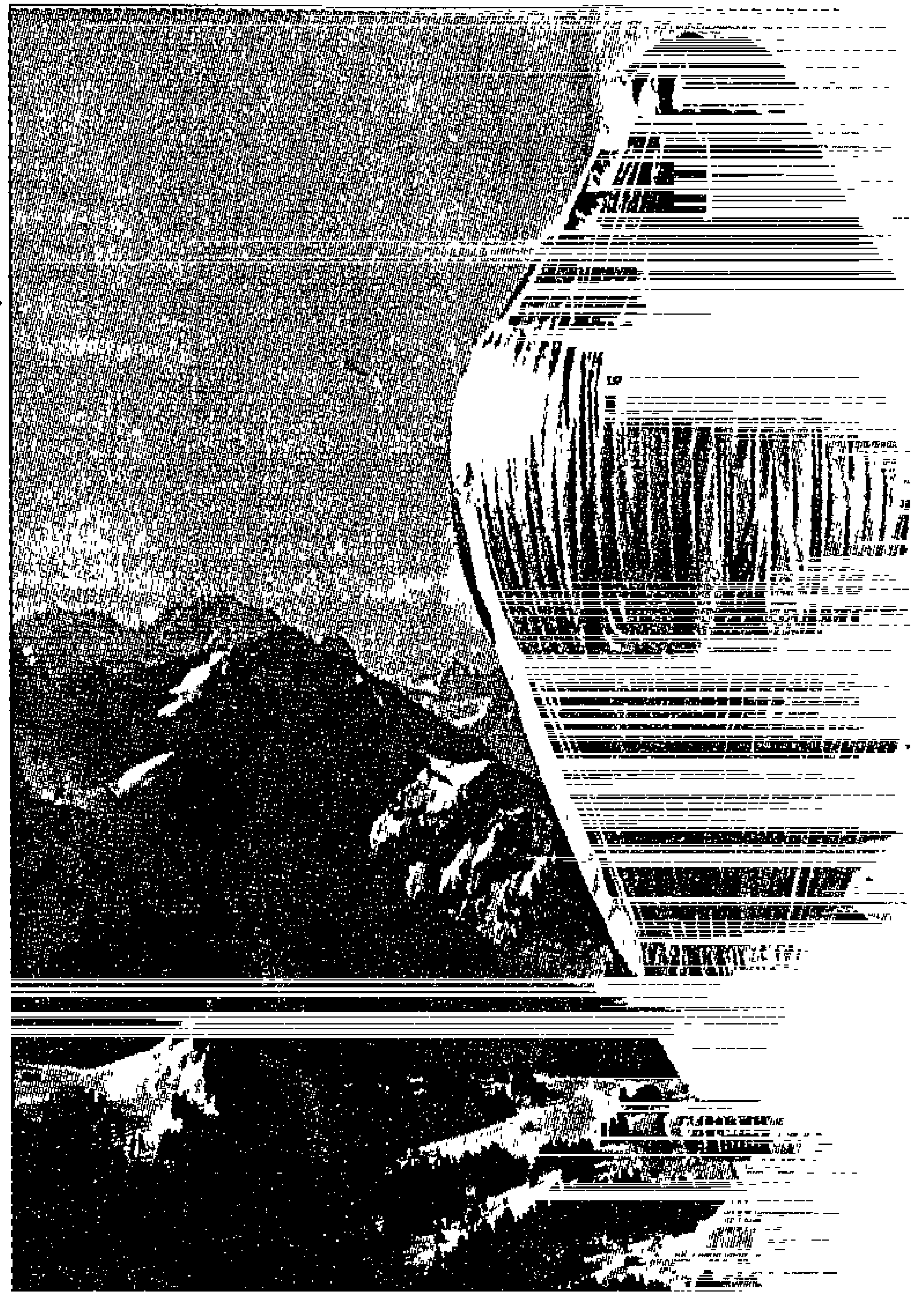
Gensec Asset Management economist Jac Laubscher called for an immediate cut in rates.

But Econometrix's Azar Jammine said banks and the Reserve Bank were moving at the right pace. If the Reserve Bank went too fast with repo rate cuts, it could trigger speculation against the rand. If it moved too slowly, it could kill the economy.

▶ More reports Business Report

In The Slipstream

(58) Star 2/3/99



Up, up and away ... the Breitling Orbiter balloon flies over the Swiss ... The attempt follows on the heels of two British balloonists who were

Suspects arrested for slaying of 1

Two suspects have been arrested for the murder of a 35-year-old Edleen, Kempton Park, man who came to the aid of a hijacking victim on Saturday, North Rand police said.

Spokesperson Marcia Havemann yesterday said the two suspects, aged 25 and 30, were arrested in Katlehong on Saturday after they got involved in a car accident. Traffic officers found the car had been reported stolen earlier. A third suspect fled.

Annette ... Pretori... Okkerneut Avenue in ...een, had pulled up outside her house when she was confronted by three gunmen who ordered

'Greedy banks squeezing man on street and shunning poor'

(58) CT 28/8/99

JOHANNESBURG: South Africa's "greedy" banks have been slammed at a parliamentary committee hearing, with speakers accusing them of deliberately denying services to the poor and levying excessive bank charges and interest rates.

A succession of speakers yesterday decried what they said was the disgraceful way in which banks treated their clients.

The trade and industry portfolio committee hearing follows a public outcry about bank charges and interest rates. It comes against the background of growing pressure on banks to drop interest rates in line with the repo rate.

Alistair Ruiters, the Department of Trade's chief director of business regulation, said banks were reporting record profits, yet interest rates were at their highest in South Africa's history.

Banks claimed they were keeping interest rates high to discourage excessive consumer credit, but they were encouraging people to get deeper into debt, he said. They had decided deliberately to shy away from the consumer market and were making banking services virtually inaccessible to poorer people.

Banks discouraged the opening of branches in the townships, Ruiters said. They had increased over-the-counter fees and placed onerous requirements on people seeking credit.

Several banks had minimum deposit requirements and would not open accounts for people earning below specified limits. This drove many consumers into the arms of largely unregulated micro-lenders, Ruiters said.

Bruce Cameron, editor of *Personal Finance*, which appears in the *Weekend Argus*, said banks appeared not to have clear-cut charges. "What the banks were telling us and what they were charging were different," he said, referring to a *Personal Finance* survey. "It appeared some banks had the policy of virtually charging to the extent of the pain a customer would take."

More recent surveys had found a concerted effort by banks to exclude lower-income groups by levying excessively high charges. "For example, there are monthly charges for not using your savings account when the balance is below a certain level and/or charges for using (it) when the balance is below a certain level."

Committee chairperson Rob Davies said it was likely the Usury Act would be changed to widen its ambit. The act governs the rate of interest that money lenders may charge, but it does not cover loans of less than R6 000.

Several individuals testified about their costly legal battles with banks. They claimed the banks had acted unethically and at times illegally, but because of their financial and legal muscle, it was almost impossible to challenge them.

Analysts said yesterday there seemed to be no doubt that prime overdraft and home loan rates would come down within the next few weeks, but they differed about whether this should happen sooner or later.

Banking Council South Africa's general manager of strategy, Claire Gebhardt-Mann, said the money supply and rand rate looked fairly good and banks should cut interest rates as soon as possible. "We need a boost to the economy. People are suffering because of high interest rates."

Gensec Asset Management economist Jac Laubscher called for an immediate cut. The margin between lending and funding rates was about 5% — one of the highest in five years.

However, Econometrix economist Azar Jammine said banks and the Reserve Bank were moving at the right pace. If the Reserve Bank moved too quickly with repo rate reductions, it could trigger speculation against the rand. If it moved too slowly, it could kill the economy.

There were indications that banks could cut interest rates, but they were probably holding off for a while to ease some of the debt incurred last year, Jammine said.

Richard Gahagan, general manager of Absa mortgage loans, said banks had to be sure the repo rate was moving in a consistent direction before they changed interest rates. "It is best to hold off for a few days, but we expect rates to drop soon." — Own Correspondent, Sapa

FINANCE *Parliament hears allegations of neglect and profiteering*

Banks 'don't care about the poor'

CT (BR) 2/3/99 (58)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Banks came under fire yesterday in the parliamentary portfolio committee on trade and industry for their refusal or inability to cater to the needs of poor South Africans.

Alistair Ruiters, a chief director in the trade and industry department, said millions of consumers were being excluded from the mainstream banking service and thrown to the mercy of unscrupulous money-lenders who charged exorbitant interest rates.

Bruce Cameron, the editor of Personal Finance newspaper, said banks appeared more interested in boosting their profits than in providing a service to the poor.

They were speaking at the start of a special three-day hearing into bank charges, microlenders and consumer protection organised by the committee in response to complaints from the public.

Ruiters said the hearings should not be seen as bank-bashing but as part of a worldwide move to re-examine the role of banks and other financial institutions.

He said it was increasingly obvious that banks were only interested in the upper end of the market. They were closing branches serving poor areas, forcing people to use ATMs and increasing transaction charges.

The poor found it nearly impossible to gain access to credit, especially for housing. "Banks are failing to meet the needs of all South Africans in at least three respects," he said.

"They are failing to provide a safe place to deposit savings. They are not providing a facility for receiving and transmitting income and they are not providing access to credit.

"Most banks have minimum deposit requirements and require proof of minimum income to open accounts. In some cases, banks have unilaterally closed accounts and refused to open new accounts."

Many people were using alternatives like the Post Bank, stokvels and credit unions, and Teba Cash, but most of these were unregulated.

Cameron accused banks of profiteering. He said the government should make greater use of competition laws to force them to offer more competitive services. He said the Usury Act was a joke because of all the exceptions to it, making it possible for some institutions to charge exorbitant rates.

CONSUMER CRUSADER *Alistair Ruiters, a chief director at the trade and industry department, says banks are letting down the majority of South Africans*
PHOTO ANDREW BROWN

R1-bn crime losses blamed for bank charges

Rising costs force banks to end subsidisation of low earners by high-value clients, says top official

ARG 2/3/99 (58)

TYRONE SEALE
SPECIAL WRITER

Growing competition in banking and the ravages of crime are among factors to blame for increased bank charges, says Bob Tucker, chief executive officer of the Banking Council.

Fraud and robberies were costing the banks more than R1-billion a year, Mr Tucker told the parliamentary portfolio committee on trade and industry today.

Banks came under fire yesterday at the committee's inquiry into bank charges, micro-lending and consumer protection.

Mr Tucker said that last year banks had lost R151-million on cheque fraud alone.

Some 3,2 million cheques were "returned to drawer" (insufficient funds to cover the cheque) and of the 173 000 cheques that were lost, a high percentage had been stolen.

"This has a direct effect on banks, which have experienced an increase in the number of cash heists, robberies and white-collar crime," he said.

"In addition, the cost of maintaining adequate security at outlets throughout the country runs into millions each year."

At yesterday's hearing, banks attracted sharp criticism from Alistair Ruiters, chief director of business regulation and consumer affairs in the Department of Trade and Industry, and Bruce Cameron, editor of Personal Finance, a Cape Argus sister publication.

They accused banks of denying poor and low-income South Africans access to accounts – and thereby access to various systems within the mainstream economy – while pandering to the needs of high earners.

Defending the leading financial institutions, Mr Tucker today acknowledged that bank charges had increased over the past four years, but said these had fallen behind the costs incurred by banks.

From 1993 onwards there had been a sharp increase in such costs as the moving and storage of cash.

The depreciation of the rand meant banks had to pay more for imported computer equipment.

The banks had been using the profits on savers' accounts to subsidise clients with low balances, and they had been using the profits made in the high-value sector of their market to subsidise the low-value segments, he said.

Newly established South African and foreign banks had begun competing for the high-value business of the four leading banks. These banks had been left with no alternative but to match the competition and stop the cross-subsidisation.

Clients would in future have to pay the full cost of the banking services they used.

"The unfortunate result is that, initially at least, competition has intensified in the high-value markets, and the high-value clients are benefiting handsomely," said Mr Tucker.

"For example, although mortgage rates have been very high as a consequence of the economic pressures to which the country is subject, they are now coming down for the wealthy, but less so for the poor," he told the committee.

with the FINANCIAL TIMES worldwide

Banks 'excluding low-income earners from mainstream economy'

BD 2/3/99

(58)

Wyndham Hartley

CAPE TOWN — SA's banks had used high charges to force low-income earners out of the market while earning even larger profits, a senior trade and industry official told Parliament yesterday.

In a blistering attack the chief director of business regulation at the trade and industry department, Alistair Ruiters, said banks had deliberately withdrawn from the lower end of the market.

A complete change in banks' behaviour was needed because they were failing to offer all South Africans a safe place for deposits, a facility for transmitting income and access to credit, he said.

Ruiters was speaking at trade and industry committee special hearings in Parliament as part of an investigation of banks, their charges, and the difference between the rates at which they borrowed and lent.

The first day of hearings was characterised by a flood of bitter complaints from individuals and companies.

"This shift away from provision of services to the lower-income segments is achieved primarily by discouraging clients through closing branches, increasing over-the-counter fees in particular and service fees in general, and by imposing onerous requirements for opening accounts and accessing credit," Ruiters said. Lower-income earners were increasingly being left without banks as they were "excluded from the mainstream of the economy", he said.

This had led to the growth of the microlending industry and a mushrooming alternative banking industry. "Individuals accessing this emerging market for financial services have become the victims of an industry which is free to pursue notorious and damaging practices which leave consumers heavily indebted and robbed of consumer rights," Ruiters said.

Financial journalist Bruce Cameron told the committee attempts by his publication to investigate bank charges and interest rates, particularly when it was reported that margins were at record highs, had led to him and his paper being "subjected to a shocking campaign of vilification and intimidation".

Cameron encouraged some government intervention through competition law, alternative banking and consumer protection. Government had to intervene in the microlending industry; the Usury Act had become a joke because of all the exemptions, he said.

Nothing justified interest rates of 30% or more, and all charges relating to borrowing should be scrapped.

The National Maize Producers' Organisation, in its submission, said it supported an investigation of bank charges.

The Banking Council of SA will make its submission to the committee today. Cosatu and the law review project will also address the committee today.

Credit growth slides: Page 3
Accounts not profitable: Page 16

'Concerned' banks go on the defensive

CT (BR) 3/3/99 (58)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — South Africa's sophisticated banking sector was concerned about its bad reputation among South Africans and was working hard to be more responsive to their needs, Bob Tucker, the chief executive of the Banking Council of South Africa, said yesterday.

Addressing the portfolio committee on trade and industry's three-day hearing on bank charges, Tucker said it was disconcerting that banks were disliked, feared and accused of charging exorbitant service fees.

As a result of the pressure, the banking ombudsman's role would be strengthened and a code of conduct introduced to ensure banks were more open about their charges and kept clients better informed about services.

But Zwelinzima Vavi, the deputy general secretary of Cosatu, called for a total overhaul of the regulations covering commercial banks, to give consumers a better deal. Public sector bodies like PostBank and TeleBank, he said, should play a more active role in providing financial services to the poor.

Tucker admitted that bank charges had risen considerably, blaming this on sharp cost increases to store and move cash, and the higher cost of computer equipment because of the rand depreciation. Competition for high-value business had also increased, forcing the four big banks to stop cross-subsidising the bottom end of the market.

He denied the increases were excessive, saying they compared favourably with those in Australia and the US.

South African banks had also suffered from a growing level of debt defaults and debt write-offs, and many banks had been forced to close some branches.

Pensioners caught in loan sharks' trap

ARGT 3/3/99 (58)

TYRONE SEALE
SPECIAL WRITER

Up to 70% of pensioners in the Southern Cape are trapped in debt and depend on deals with money lenders, Parliament heard today.

Research by the Black Sash shows that in Knysna and Mossel Bay, 50% of pensioners borrow regularly from money lenders, while this figure rises to 70% in George.

Until recently, many of these pensioners were dealing with lenders who would hold on to pension and identity documents as security. Lenders would return the documents to pensioners on pay day and would claim them back along with loan repayments.

The Black Sash recently moved in and persuaded loan sharks to do their business away from payout points.

Duncan Marsh, of the Black Sash office in Knysna, today gave evidence to the parliamentary portfolio committee on trade and industry, which is holding an inquiry into bank charges, micro-lending and consumer protection.

Mr Marsh said increasing levels of debt had widespread socio-economic consequences. Municipal services went unpaid, social and family breakdowns occurred and, in effect, poverty was reinforced.

Smaller loans, especially those taken by the poor, were used to pay for food and rent or to service other debts and pay for emergencies.

People who received social welfare benefits were the money lenders' most usual clients.

The Department of Welfare's budget for social security was about R14-billion, covering almost three million beneficiaries, and these recipients constituted the most vulnerable sector among South Africans.

On average, they received R500 a month as a means of alleviating poverty, but this was not enough and they therefore turned to money lenders to satisfy basic needs.

Mr Marsh supported earlier evidence by the Consumer Institute South Africa which showed that most people who turned to micro-lenders did so to pay for consumables.

The Black Sash and the consumer institute have called for a review of an exemption in the Usury Act which makes it possible for lenders to charge any interest they please provided they satisfy criteria for the exemption which applies only to loans of R6 000 and under.

The exemption was legislated seven years ago, ostensibly to aid small, medium and macro enterprises in their quest for capital.

However, the parliamentary committee has heard from the Black Sash and the consumer institute that only one percent of loans issued by micro-lenders go to businesses.

The two organisations have called on the Department of Trade and Industry to withdraw its support for an extension of the exemption to loans of under R50 000.

Council rejects 'dangerous' claim

(58) BD 3/3/99

Wyndham Hartley

CAPE TOWN — The Banking Council has acknowledged that low-income earners have borne the brunt of substantial increases in bank charges, but has rejected as "dangerous" government claims that the banking sector is making huge profit from the poor.

Banking Council CE Bob Tucker, reacting yesterday to criticism of the banking sector in parliamentary trade and industry committee hearings, said increases in bank charges had to be measured against the fluctuations in volumes banks achieved. Allowance also had to be made for the rate of inflation.

He produced figures indicating that while absolute growth in charges had been 35%, 16,2%, 24,1%, 13% and 16% respectively in each of the past five years, if the volume increases and inflation were taken into account, the real increases were 15,3%, -4,1%, 5,3%, 0,9% and -2,4%. The cost of moving and protecting money — about R1bn last year — also had to be taken into account, he said.

The key question was whether the charges were fair.

The R13bn granted in housing loans showed it was not true that nothing had been done for the poor, Tucker said.

Answering ANC MP Ben Turok, he conceded that when historically low bank charges were adjusted, it was "overwhelmingly the low-income earners" who bore the brunt of increases.

"High costs in SA are substantially attributable to inadequate volumes to justify the infrastructure involved and the high level of cheque fraud that pushes costs up substantially," he said. Banks had lost R151m to cheque fraud in 1998, when 3,2-million cheques were returned to drawers.

The banks had to concentrate on how to extend services to more people.

He charged that trade and industry department business practices chief director Alistair Ruiters, accusing the banks of closing thousands of accounts, was making "dangerous generalisations".

Some banks might well have done this, but no mention had been made of the bank that opened 2,5-million accounts in the lower end of the market. There had been no complaints stemming from this quiet revolution.

It was of concern that "we are not liked", Tucker said. The banks supported the creation of a more friendly environment for entry to the deposit-taking and transaction-handling sectors, consumer protection legislation, and creation of a regulatory body for the industry along the lines of the Financial Services Board.

Comment: Page 13

'Urgent action needed on banks, lenders' (18)

Parliamentary committee calls for independent banking ombudsman and investigation into micro-loans trade after hearing that poor are virtually enslaved by debt Star 4/3/99

By Tyrone Seale
Special Writer

Parliament's trade and industry portfolio committee has called for the creation of a more credible ombudsman's office for the banking industry, and an urgent investigation into the micro loans trade.

The call was made yesterday by trade and industry portfolio committee chairperson Rob Davies, at the end of three days of hearings on bank charges, micro lenders and consumer protection.

Davies said there was consensus among organisations that had presented evidence this week, that short-term interventions were required to deal with a number of issues raised before the committee.

One area of agreement was the establishment of a more credible banking ombudsman.

At the moment, the ombudsman comes from within the banking industry, a situation which Banking Council chief executive Bob Tucker himself described as unacceptable.

Davies said the formal banking industry was undergoing change as globalisation and other forms of competition heightened the drive for profitability.

The result was the recalculation of transaction charges and a feeling among consumers that low-income earners were paying a disproportionate premium for banking services.

The poor are paying a premium

Changes in the banking industry merited further research.

Meanwhile, said Davies, there was also a need for greater transparency and the conveyance of more meaningful information to clients in the formal banking sector and in the small-loans sector.

A further need was an urgent investigation into all micro lenders who had access to the government payroll.

The committee heard this week that a growing number of micro lenders had access to the government payroll, from which they deducted civil servants' loan repayments.

Davies said special attention had to be given to the exploitation of recipients of social welfare benefits, by small lenders.

The non-governmental organisation Black Sash told the committee yesterday that a high number of welfare beneficiaries lived off loans as they tried to satisfy basic needs.

Black Sash says that up to 70% of pensioners in the southern Cape are trapped in debt and depend on money lenders.

Clash over tax-funded 'ANC propaganda'

By Clive Sawyer
Political Correspondent

The row between the Government and opposition parties, over alleged use of taxpayer-funded government services to produce ANC propaganda, deepened yesterday, over claims of bias in Government Communication and Information System television and radio advertisements promoting voter registration.

The Democratic Party has written to Public Protector Selby Baqwa to request a probe into the advertisements – which depict various show business and media personalities urging people to register – as well as a probe into the GCIS glossy insert in newspapers this past weekend.

The party is troubled by the fact that the way in which the personalities appearing in the broadcast advertisements extol the virtues of the post-1994 dispensation, specifically favours the ANC.

Unhappiness about the advertisements follows an outcry by the DP, the New National Party and Louis Luyt's Federal Alliance about the GCIS insert, which allegedly cost about R4-million of taxpayers' money.

The DP held a news conference at which it issued an alternative, but much less glossy, pamphlet claiming that most of the achievements claimed in the GCIS advertisement could be countered by proof that the Government had failed to achieve its promises in crucial areas like crime, health, international relations, land reform, housing and education.

Selby Baqwa ... DP has requested public protector probe.

Douglas Gibson, chairperson of the DP's federal council and its representative on the IEC's inter-party liaison committee, said he would take the issue of the GCIS advert up with IEC chairperson Brigalia Bam.

In a letter to Baqwa, DP federal chairperson Errol Moorcroft said his party believed the ANC Government was guilty of a flagrant abuse of power in issuing the GCIS insert.

Borrowers in the R15-bn small-loans sector seen as a neglected market

Star 4/3/99 (58)

By Tyrone Seale

Cape Town – South African consumers and entrepreneurs in small, micro and medium enterprises are borrowing up to R15-billion a year from lenders in the small-loans sector.

At this end of the market, where loans run for between six months and four years, effective finance charges range from around 35% a year to 300%. In the shorter-term cash loan markets, monthly charges range from 7,5 to 30% and more. The borrowers represent a neglected market of mainly African people who are in formal and informal employment and have distinct credit needs that are not currently satisfied by the banking sector.

This was the evidence given this week to the portfolio committee on trade and industry.

Johan de Ridder, former chairperson of the Mortgage Indemnity Fund, said the mainstream banking market was characterised by significant failures. The lack of access to credit for people, particularly black South Africans, who wanted to buy houses or establish or expand small, micro and medium enterprises constituted a major failure.

This neglected market particularly needed finance for housing, where mortgage finance was not only inaccessible but also inappropriate, as well as for education and other income-generating activities.

Since 1993, various models of credit provision had been tested and, at the moment, significant success was being recorded by formalised term lenders operating as public or private companies and which maintained high standards of conduct and credit policy.

Given the present, sometimes shoddy situation in the micro-loans sector, many questioned the benefit of this industry and favoured a crackdown by authorities. De Ridder argued that a crackdown without viable alternatives would result in illegal, underground lending that would be difficult to regulate.

The Government had a role to play in regulating the small-loans market while providing support and official recognition for those operators who had a long-term business focus and were striving to adopt responsible and sustainable policies and business practices.

CAPE AR

MPs call for credible bank watchdog

Committee wants probe into 'unregulated' micro-lenders

(58) ARG 4/3/99

TYRONE SEALE
SPECIAL WRITER

Parliament's trade and industry portfolio committee has called for a more credible ombudsman's office for the banking industry, and an urgent investigation into the micro-lending sector.

The call was made yesterday by trade and industry portfolio committee chairman Rob Davies at the end of three days of hearings on bank charges, micro-lenders and consumer protection.

Dr Davies said organisations giving evidence agreed that short-term interventions were required to deal with several issues raised before the committee.

One area of agreement was the establishment of a more credible banking ombudsman.

At the moment, the ombudsman comes from within the banking industry, a situation Banking Council chief executive Bob Tucker described in his evidence to the committee as unacceptable.

Dr Davies said the formal banking industry was undergoing change.

This was because globalisation and other forms of competition had heightened the drive for profitability in the banking sector.

The result was the re-calculation of transaction charges.

This had led to a feeling among consumers that low-income earners were paying an unfair rate for banking services.

Changes in the banking industry merited further research.

Meanwhile, said Dr Davies, there was also a need for greater transparency and clearer information to customers in the formal banking sector and in the micro-loans sector.

A further need was for an urgent investigation of micro-lenders who had access to the Government payroll.

The committee heard this week that a growing number of micro-lenders had access to the payroll, from which they deducted public servants' loan repayments.

Dr Davies said special attention had to be given to the exploitation by micro-lenders of people receiving social welfare benefits.

Advocacy group Black Sash told the committee yesterday that many people who received social welfare benefits lived off loans as they tried to satisfy basic needs.

The Black Sash said that up to 70% of pensioners in the Southern Cape were trapped in debt and depended on deals with money lenders.

Closing the hearings yesterday, Dr Davies said the Harmful Business Practices Committee should also investigate the micro-lending industry.

The industry, the parliamentary committee had been told, was fragmented and marked by ineffectual attempts at self-regulation.

Grievances about the banking and micro-lending industries had highlighted a policy dilemma for the Government, said Dr Davies.

On one hand, self-regulation was not working, and where inspectorates existed they produced few prosecutions and meted out insubstantial penalties.

Regulation was limited and enforcement was not respected by violators.

On the other hand, the Government had no resources to set up major regulatory bodies.

Dr Davies said a small working group of parliamentarians and researchers would be established to consider the submissions to the committee.

In future, he said, in-depth examination of the micro-lending industry would have to be undertaken. Consumer courts required beefing up.

Also, various laws needed to be reformed to help with regulation in areas where controls were weak, said Dr Davies.

BRENTON GEACH

Money matters: Rob Davies, left, and Personal Finance editor Bruce Cameron, who this week gave evidence on bank charges to the portfolio committee

(58) FM 5/3/99

BANKING COSTS

CREDIT CARDS SPUR CONSUMERS' ANGER OVER BANK CHARGES

Banks moot code of conduct and new controls to protect clients

How high is too high? When it comes to prices and charges, consumers and the providers of goods and services rarely see eye to eye. But, as this week's special hearing of the parliamentary portfolio committee on Trade & Industry showed, the issue of pricing is particularly emotive when it comes to banks, the institutions most people love to hate.

The Banking Council of SA (BCSA) acted swiftly this week to dampen the public outcry and demands for tighter regulation of banks. It proposed a banking code of conduct and the appointment of an independent banking ombudsman. It also proposed legislation for the protection of borrowers, which would apply "to all loans to consumers, no matter who grants them".

The code, which may be ready by midyear, would be an undertaking by banks to be more transparent about their practices, says BCSA's Adri Weideman.

The Financial Services Board was scheduled to meet in Cape Town this week to discuss the establishment of a "super-ombudsman" to oversee the banking, insurance and pensions industries. This would be a more independent body than the current banking and insurance ombudsmen who, though independent in function, are paid and funded by the companies.

This week's hearings raised the temperature of the debate over bank and credit card charges. The department of Trade & Industry's (DTI) chief director of business regulation, Alistair Ruiters, accused banks of "failing to meet the needs of all South Africans" and of shutting out the poor, forcing them to borrow at extortionate rates from microlenders.

Committee chairman Rob Davies said the Usury Act may be amended in the next session of parliament to cover microlenders.

The Usury Act currently limits loan rates to 36% a year for amounts of R6 000 or less and 33% for larger loans.

The Consumer Institute of SA (Cisa), meanwhile, has accused banks of not being transparent enough. "There should be an explanation for increases in charges because often they are higher than inflation," says Cisa researcher Aynon Doyle.

He says banks don't do enough to explain clearly the implications of a credit card agreement when drumming up business. He cites the case of a credit card-user who was outraged at having to pay a R67 fee to replace her lost card — though she had agreed to do so when signing the contract. Banks could argue that, as the information was in the document she signed, she could not blame them for her ignorance. And they would be right. Unfortunately, this will do them no good with the public who tend to believe banks are always wrong.

But the banks defend their case fiercely. They say service charges are high because their own administrative costs are high, and that security costs are spiralling and bad debt rising.

Bank officials claim lending and credit card rates are well below the limits stipulated in the Usury Act, proving that competition does bring down rates.

To reclaim even the capital amount owing is a costly process for banks — it can involve attempts to restructure repayments, the services of private debt collectors or defaulters may have to be taken to court.

The BCSA says it has conducted a study that shows SA's banking charges are in line with international practices. It argues also that the lending and transaction market is not particularly profitable and that proof of this is that newcomers to the sector avoid retail banking and concentrate on providing knowledge-based services or financial securities trading.

Any moves to limit banks' pricing freedom could come at a cost — and not only to banks. Clients will find services available from banks will shrink as they become unprofitable, because banks are, after all, in business to make a profit. There will also be a cost to the economy because one of the mechanisms for allocating resources will have been distorted. Foreign investors may think twice about a country whose government prescribes prices.

Bankers have proved themselves bad communicators. Whatever the merits of their argument, they can't seem to communicate it to the public. This may change with the adoption of the code and other measures to improve customer care.

Meanwhile, the *FM* is conducting a series of surveys on banking charges to inform consumers about the choices. Recently, we carried a table of current account charges (see *Economy & Business* January 15). This week we examine credit card charges. With the prime lending rate reduction and cuts in bank rates, card rates might also soon come down. These rates still applied at the time the *FM* went to press.

Consumers must remember, though, that direct comparisons are difficult because services and pricing strategies vary. But, the table should help readers decide which rates suit them best

Siyabulela Qoza

MORE THAN A HANDFUL

	First National	Standard	Absa	Nedcor*	Boland Pks	Mercantile Lisbon	American Express	Diners Club
Credit card annual fee for:								
Ordinary	R54,72	R52,00	R52,19	R50,00	R55,00	R44,50	R171,00	R153 excl Vat
Premium	R104,88	R104,00	R96,60	R100,00 R50,00 (Perm)	R98,00	R100,00	R2 800,00	
Interest on outstanding balance on:								
Ordinary	31%	30,5%	29,5%	29,5%	28,5%	30%	29,5%	32%
Premium	29,5%	29%	27,25%	29,5%	26,5%	29%	29,5%	None
Interest on credit balance	13,5%	6%-14,5%	12%	11,5%	13%	13%	11,5%	None
Lost card protection on:								
Ordinary	R20,52	R18,00	R18,00	R20,52	R20,00	R15,00	R34,20	R25,00
Premium	Free	Free	Free	Free	Free	Free	Free	Free
Garage cards Annual fee	R41,04	•R29,00 ••R39,00	R31,07	R50,00	R35,00 (petrol card)	R33,75	Nil	Nil
Transaction fee — fuel	R1,25	R1,60	R1,42	R1,60	R1,60	R1,60	Nil	Nil
Can card be linked to current account?	Yes	Yes	Yes	Yes	Yes	Yes	Nil	Nil

*Nedbank and Permanent Bank •Linked to credit/current account ••Stand alone card

MICROLENDING

STILL MORE BEGGARS FOR BORROWERS

(58) FM 5/3/99

Soon there will be five listed competitors on the JSE

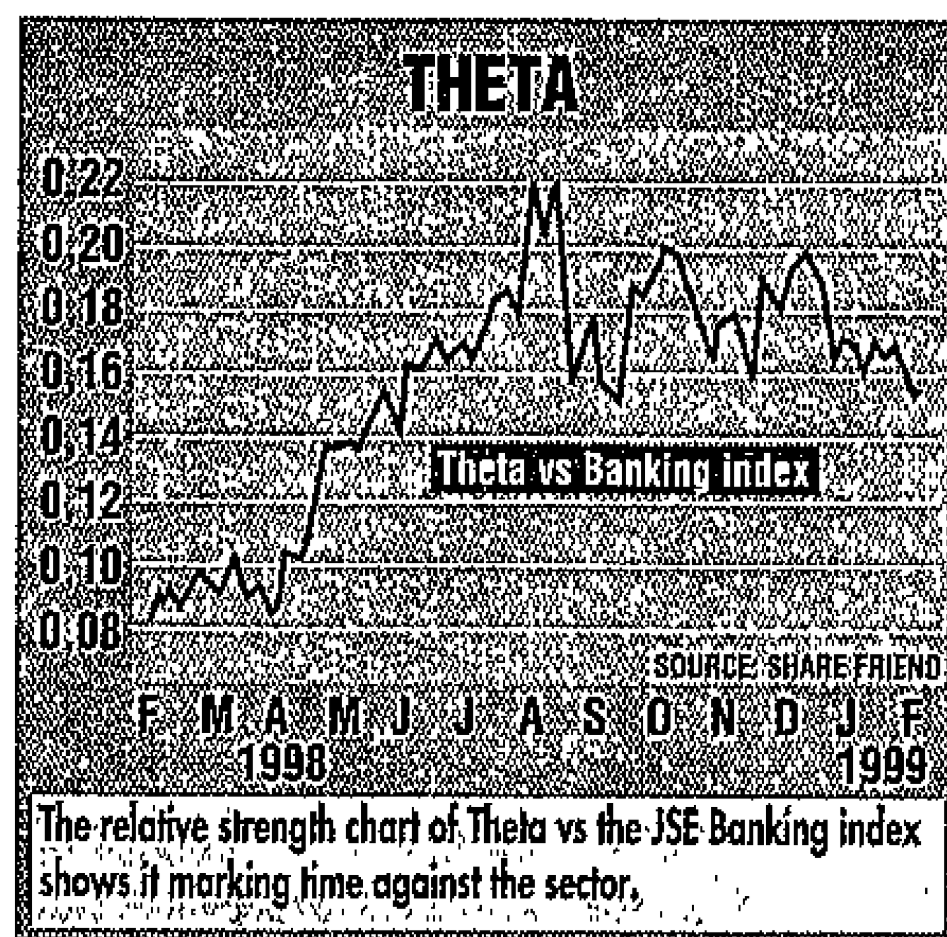
Theta's position as the only listed microlender is being eroded by many new listings in the same or similar markets. Once latest entrant Thuthukani Group is listed this week, the JSE will have five microlenders all looking to tap into the fast-growing market.

Though no-one really knows the true turnover of the microlending market because of the large number of informal microlenders, it's estimated at R10bn-R13bn/year. Research by the University of Stellenbosch's P G du Plessis estimates that total turnover grew by 280% to R10,1bn in 1997 compared to 1995. The research also found that formal microlending grew by almost 200% over the same period and the total number of microlending outlets is 30 500.

Banking on huge growth and presumably trying to emulate Theta's success, other operations are jumping on the bandwagon and listing on the JSE. Theta's high p:e of 48,4 is one of the attractions for would-be copycats.

Already Creditsure (soon to be called Unifer), which listed as an investment holding company in the development stage sector in June last year, has a p:e of 34,3. It listed at R1; its share now stands at close to R3. Creditsure has been acquiring businesses ever since it listed and has built up a range that offers many financial services to the emerging market, making it different from those that focus on microloans. Also different is its interest in building supplier Creditbuild, which means it can offer microloans together with a product. MD Francis Molyneaux is expecting around 50% EPS growth for the year, boosted by acquisitions.

Another microlending group, Money Wise, hasn't fared as well as a listed company. Its share has fallen from a listing price of R1 to 62c. It listed on a 7,6 p:e. MD Gerhard Naude says the market will rerate the share once it sees his group's first set of profits, which are expected to rise to around R30m from R500 000.



The relative strength chart of Theta vs the JSE Banking index shows it marking time against the sector.

Before it listed, Money Wise acted as franchisor of about 300 microlending branches, for which it was paid a 2% royalty fee. Having raised cash at listing, it bought 77 of these outlets— the reason for the huge improvement in profits.

Hoping for more success is start-up group ABC Cash Plus, which listed recently at R1 on a p:e of 3,5. MD George Gibson isn't forthcoming with information on the group (he'll have to learn to tell the story if he wants to sell his concept), but when asked, he did say EPS were expected to grow by 50% to February 2000. ABC Cash Plus has a long way to go — out of its 57 branches, 32 are new. It focuses on short-term loans but hopes to move into medium-term loans. Gibson says it listed on a low p:e "to ensure it will grow"; its share did rise after the listing though probably not as much as management expected.

Newest kid on the JSE block is Thuthukani, which seems to be more organised. It lists this week (March 4) in the banks & financial services sector, along with Theta and soon Unifer, on a p:e of 15,6, and is looking at a forward p:e of 10. Thuthukani offers short-term microloans but plans to expand to medium- and long-term loans as well as insurance products. Its greatest attraction is its agreement with Saambou, which will offer funding of about R1bn over the next three years, enabling the group to lower the cost of its funding.

Theta's purchase of African Bank and Creditsure's acquisition of Unibank also gives them this advantage. Saambou will, in turn, own 7,4% with an option to increase this to 20% and is part of its strategy to expand into this market. Saambou group CE Johan Myburgh says in a press announcement that "by being one of the first formal banking institutions to enter the market we can ensure that we have the opportunity to consolidate many operators into a strong, competitive grouping".

Thuthukani executive director Willie van Aardt says his group's ownership of 85,8% of debt collectors Snyman & Partners will be an attraction as the group will be able to offer microlending products to the 4,5m debtors. EPS growth is estimated at around 60% to February 2000.

Everyone (except Gibson) has their story. The trick with the microlending newcomers to the JSE will be to pick another Theta. All are in a growth market, so the potential for success is huge. But some will succeed more than others. A good indicator is always management, which has driven Theta's success and created some magic for the market

Creditsure seems to be on its way to becoming another Theta, with a broad range of products. Others are more or less in the start-up phase. The start-ups are also the ones on lower p:es — a good time to buy if they're going to produce the goods. But be selective — not all of them have the magic formula, and beware of management with a bad attitude. There's usually a reason for it.

Heather Formby

IMPENDING DISASTER GOES BEYOND MORTALITY RATES

Average life expectancy likely to fall to 40 years

In a recent address marking World Aids Day Dr Peter Piot, executive director of the UN Aids programme, warned: "The southern African region is facing a human disaster on a scale never seen before."

SA is catching up fast with the HIV-Aids levels of its neighbours — 20%-26% of the 15-49 age group and the Health Department projects that Aids-related deaths will increase from 130 000 last year to 260 000 by 2001 and more than 500 000 annually by 2008. Average life expectancy will fall to 40 years.

Southern Life Asset Managers actuarial researcher Janine Slawski says that by 2005 4m with incomes of R2 500-R8 000 a month will be affected. Higher medical costs and taxation to fund State health services are estimated to reduce the disposable incomes of those households by 20%.

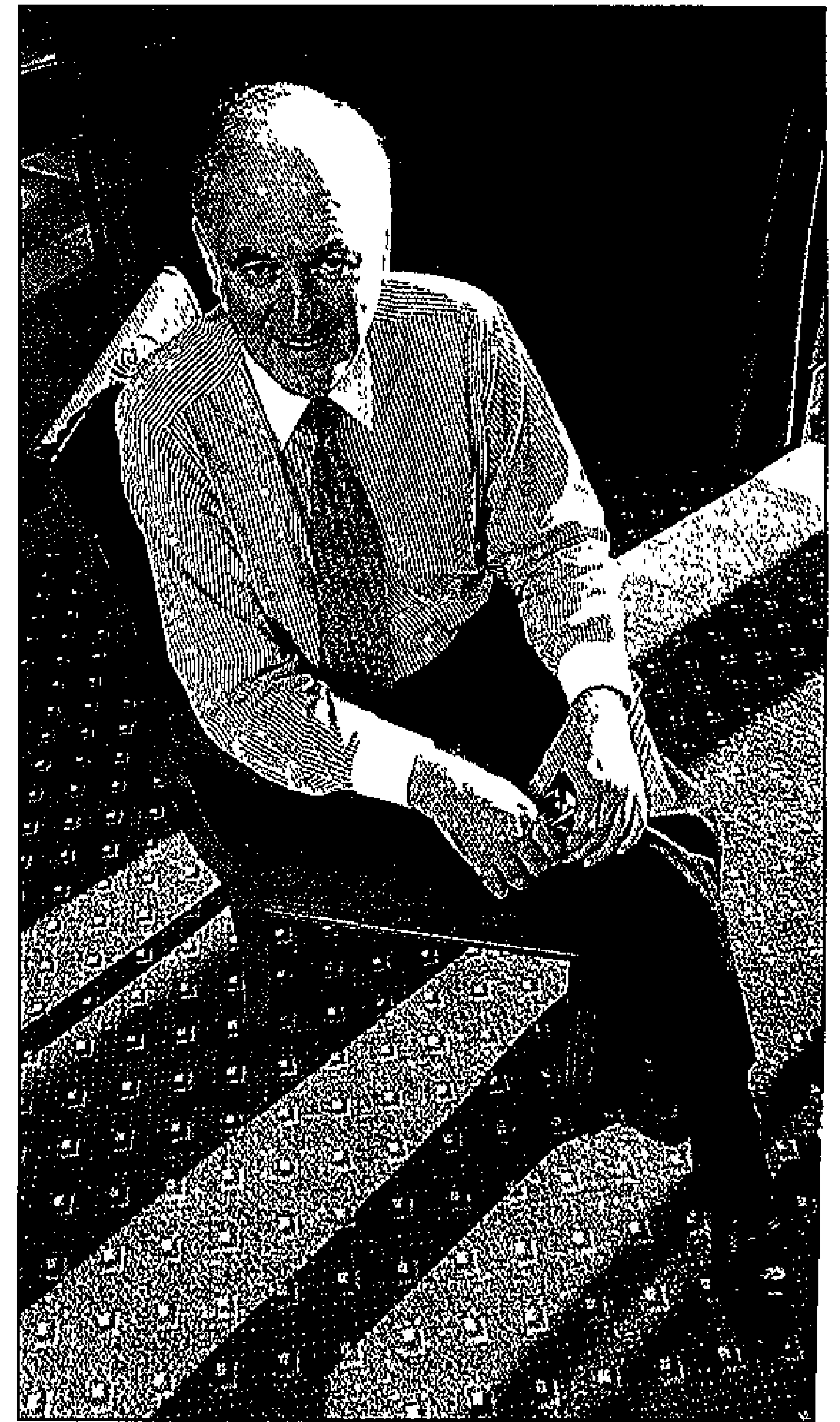
Many more dire statistics abound but perhaps the most shocking reality has been the general denial surrounding the problem by almost every organisation except the assurance sector. Old Mutual chief operating officer Gerhard van Niekerk says: "If the US faced SA's Aids problem it would be regarded as a national catastrophe."

Aids is something local assurers have taken seriously for many years. Aids-related mortality has been factored into life product costs and backed by Aids review clauses.

Metropolitan, in the forefront of research, has for some time offered life cover to HIV-positive people. Other companies offer life products with no Aids testing aimed at the lower-income group's need for funeral cover.

Aids will "lead to big premium increases on life cover, particularly group schemes", warns Van Niekerk, citing Zimbabwe's rocketing premiums.

Old Mutual Employee Benefits GM Peter Moyo warns: "Chunks of my market are dying." OM risk benefits actuary Trevor Pascoe adds: "Most employers struggle to visualise how Aids is going to affect them."



Bill Jack . . . *warns on increasing mortality levels requiring higher liquidity*

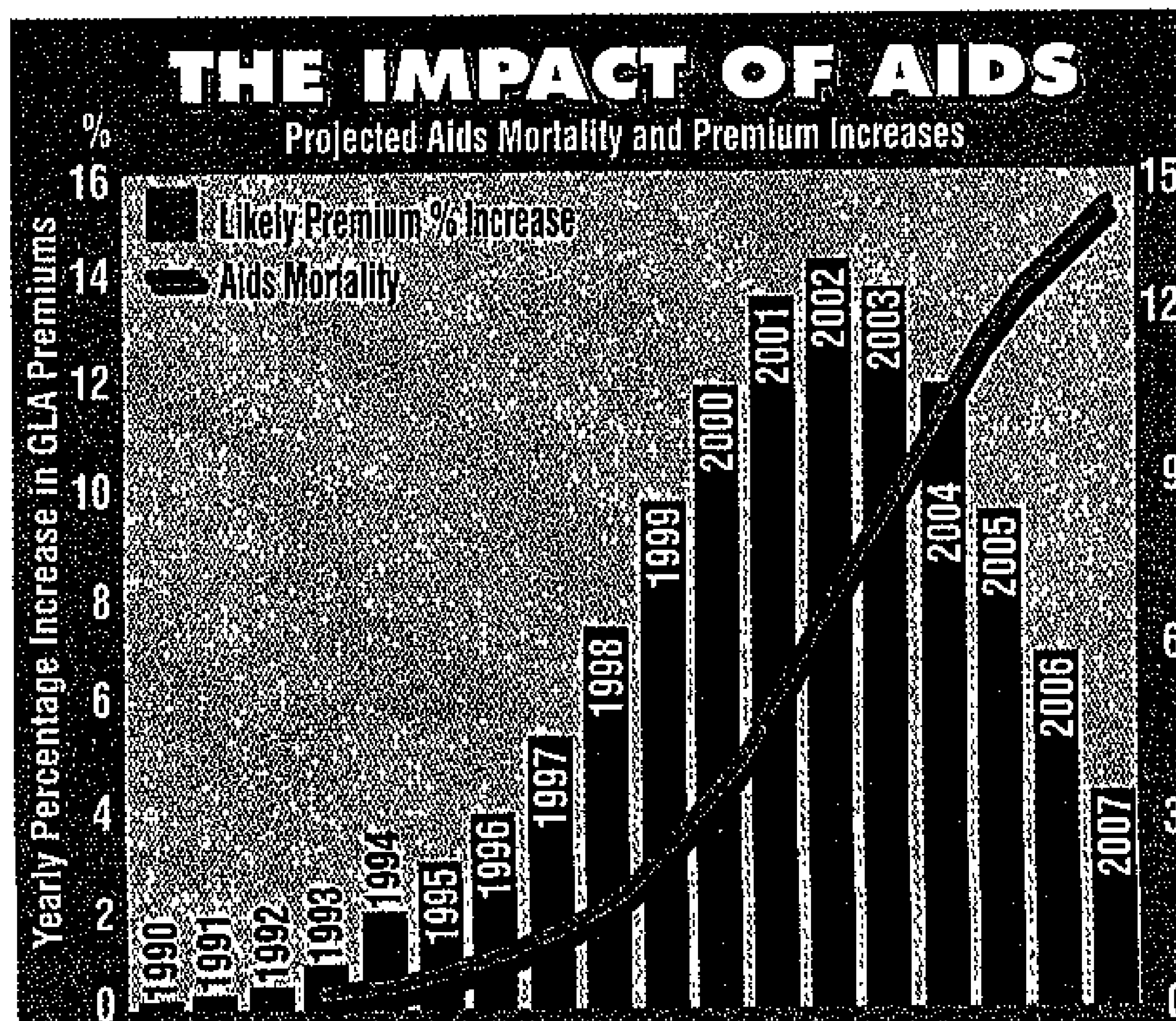
Most likely to be affected, he notes, are death and disability benefits and medical scheme costs. Funds facing higher risk benefits costs could sacrifice retirement funding allocations.

African Life MD Bill Jack warns that increasing mortality levels will require some assurers to build higher levels of liquidity long before they are needed.

The result will be falling cash flows for equity investment.

Problems are not confined to mortality rates. A more sinister aspect is the potential impact on company profits and share market performance.

An Epidemiology Research Unit study found that 25% of miners in the Carletonville area were HIV positive. "Mining is staring disaster in the face," was one comment.



Pascoe feels that industry in general could lose many skilled employees.

Corporate profitability will in the end be threatened in an economy facing an erosion of its work force, lower demand and falling production. This will work through to investment performance — a poor prospect for assurers already struggling with seven years of poor investment returns. ■

Sparks fly over 'painful' banking

MtG 5-11/3/99

The battlefield of the real banking war has shifted to the corridors of Parliament.
Howard Barrell *reports*

(58)

The major banks, stung by perceptions that they don't care about customers and charge as much as they can get away with for their services, begin hawking a new draft banking code of conduct around consumer groups this month.

The banks say the intention is to make the new code easier for customers to understand, enabling them to push harder for "fair and just" treatment.

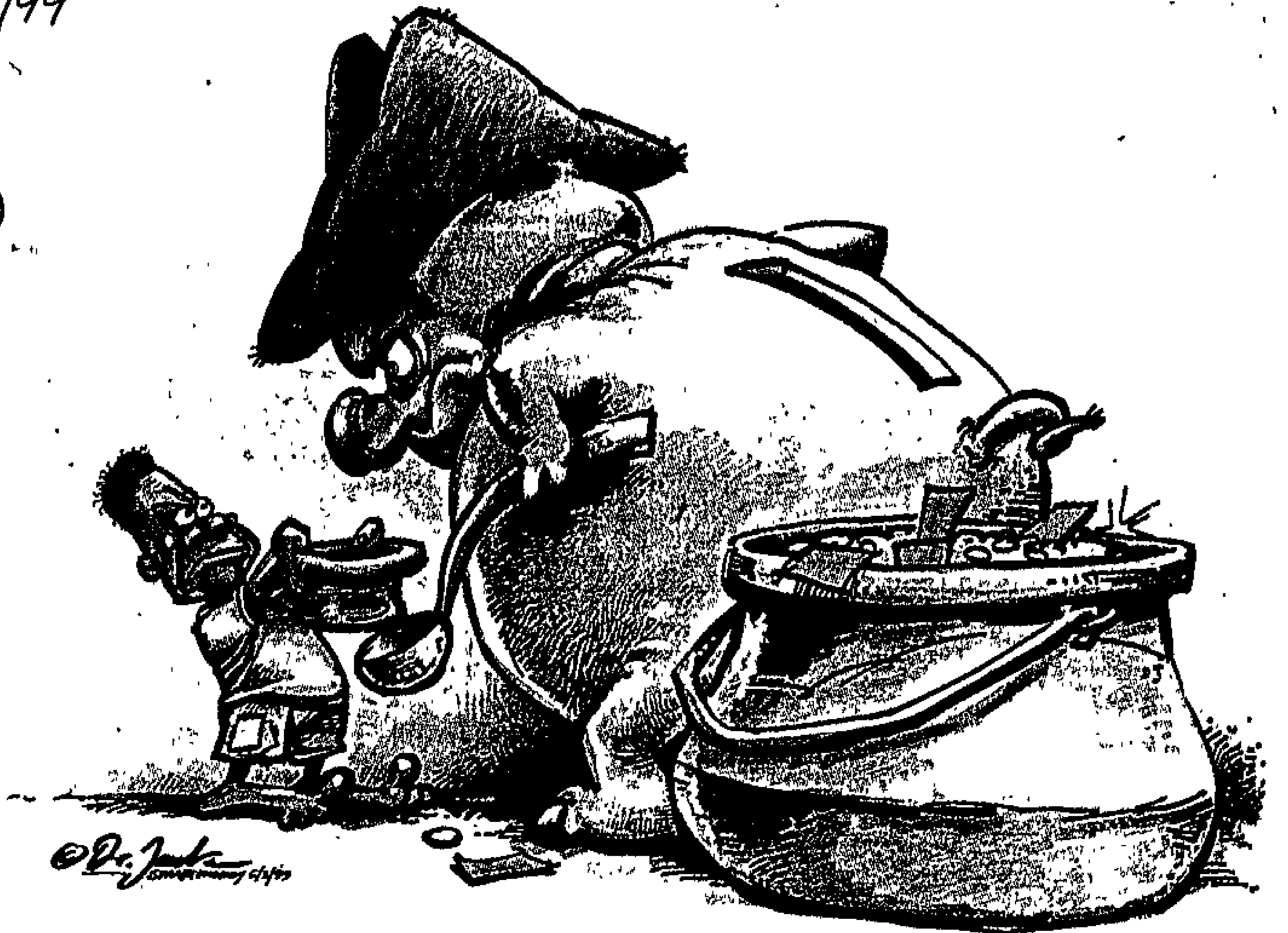
"It will spell out the responsibilities of both bank and client more clearly. The Banking Council, together with the ombudsman, has already negotiated a number of major concessions from the banks," according to Bob Tucker, CEO of the Banking Council. He did not spell out what these concessions might be.

The revised draft, based largely on a banking code introduced in Britain in 1997, is part of a counter-offensive by the banks against a rising clamour of dissatisfaction among consumers and within the government over the charges they impose and the quality of the services they provide.

The banks will, however, oppose any attempt to make the new code legally binding. "This would be a serious mistake, as the code of conduct is an aspirational document that reflects the intention of the banks to do better than the law prescribes," Tucker told a special hearing held by Parliament's trade and industry committee this week into the banks, their charges and the difference between the rates at which they borrowed and lent. Consumer dissatisfaction was the major theme of the hearings.

Bruce Cameron, a personal finance editor, told the hearings that, in the course of an investigation into bank charges, he had come to the conclusion that "some banks had the policy of virtually charging to the extent of the pain a customer would take". His investigation has led to him and his paper "being subjected to a shocking campaign of vilification and intimidation", he added.

Tucker acknowledged that there had been an increase in bank charges "in certain segments of the market" in recent years. A simultaneous "revision of services" had led to "perceptions of a decline in the quality of some services".



He said South African banks had been forced to raise charges on customers' accounts because these had been allowed to lag behind increases in costs, notably of moving and storing cash and of computer equipment.

Tucker said that, for commercial reasons, in recent years South African banks also had to shift the burden of bank charges from their richer customers to their poorer customers.

Previously, banks had been using the profits on the accounts of those of their customers able to save to subsidise the accounts of customers who had low balances and conducted a lot of transactions.

"They had been using the profits made in the high-value segments of their market to subsidise the low-value segments," he said.

But, over the past few years, "newly established South African and foreign banks began competing for the high-value business of the four major banks. These banks were left with no alternative but to match the competition and stop the cross-subsidisation. "The transactors would in future have to pay the full cost of the banking services they used," he said.

Tucker, however, denied that South African banks were making big profits on the backs of the poor. He described the allegation as "dangerous". He said he was concerned that banks "are not liked".

Alistair Ruiters, chief director of business regulation at the Department of Trade and Industry, said the banks were using high charges to force lower earners out of the mainstream of the economy.

"This shift away from provision of services to the lower-income segments is achieved primarily by discouraging clients through closing branches, increasing over-the-counter fees in particular and service fees in general, and by imposing onerous requirements for opening accounts and accessing credit," Ruiters said.

This had forced the poor to throw themselves on the mercy of unscrupulous money-lenders. "Individuals accessing this emerging market for financial services have become the victims of an industry which is free to pursue notorious and damaging practices which leave consumers heavily indebted and robbed of consumer rights," he added.

Tucker said Ruiters was making "dangerous generalisations".

Tucker told the hearings that the system of bank charges operated by South Africa's main banks was so complicated that even a consultant hired for the purpose had been unable to compare the charge structures and packages being offered by them.

But it had been possible to average these costs out to compare banking charges in South Africa against those in some other countries. This comparison showed that banking in South Africa was nearly twice as expensive as in Britain, though only about half as expensive as in the United States.

Action expected against money-lenders

But government impressed upon not destroy the industry's worthy side

(58) ARG 6/3/99

People who make use of money-lenders can expect to see some action in the months ahead, following hearings in Parliament this week on problems with the way some money-lenders operate.

The challenge, it seems, will be how to address these problems without throwing the baby out with the bath water.

Reports by Alide Dasnois, Charlene Clayton and Esann de Kock

Several players in the micro-lending industry presenting their cases to this week's hearings, which was opened by the Department of Trade and Industry's Alistair Ruiters, pleaded for government recognition for their role in assisting lower income households with smaller loans.

Many organisations representing the formal micro-lending sector also argued that money-lenders needed scope to operate in a regulated environment.

Many felt that self-regulation and market forces were the way to go. But there were opposing views from organisations like the Black Sash Trust.

Its representative, Duncan Marsh, told the committee the Sash disagreed with a Department of Trade and Industry proposal to raise the level of loan amounts exempt from the provisions of the Usury Act, from the present R6 000, to R50 000. The Sash says the proposed increase will lure more people into debt.

"Loans from money-lenders are overwhelmingly for short-term consumption purposes, or to pay existing debts. By its very nature, this type of debt is unsustainable and commonly leads to a debt spiral with negative consequences for both individuals and communities."

Another view on regulation came from Johan de Ridder, of African Bank, who, in his personal capacity, argued that the unregulated environment in which money lenders operate presented fertile ground for exploitation of desperate consumers.

Some operators, he says, are getting away with blatantly unethical conduct, usurious pricing and irresponsible extension of credit.

De Ridder, however, says there is a huge demand for credit in this neglected market and that any "crackdown" without viable alternatives is likely to be ineffective.

Challenges highlighted by groups like the Association of Money-lenders (MLA) included the provision of education and advice to clients to help prevent them from falling into a debt trap.

The MLA's Johan Jonck acknowledges these are some of the shortcomings of the micro-lending industry. One of the solutions he offers is the establishment of a national credit register, on which borrowers' names will appear.

However, Jonck says, one has to strike a balance between the freedom of choice of consumers to borrow money as and when they like, and protecting people against themselves. "We operate in a market where there is not sufficient education and where it is necessary to have mechanisms in place to protect people."

Jonck says the MLA has already devised an education programme for its members to help clients plan and budget properly. The cost of this programme has been borne by the 1 700 members of the association. However, in the long run, government will have to get involved in funding or co-funding education programmes, he says.

Controversial practices by money-lenders – such as retaining identity documents, asking for autobank cards and PIN numbers, and charging high interest rates, were among the other contentious issues that received attention during the hearings.

On the matter of interest rates, Diane Terblanche, of the Consumer Institute of South Africa, argued that money-lenders might have a role to play when it comes to lending money to people with no access to the formal banking sector, but that practices such as prohibitive interest rates, which kept borrowers indebted for long periods, were unacceptable.

"The gnawing question in the minds of many people is why should the poor, who can least afford it, be charged interest rates of up to 360 percent a year, when the rich are charged only about 25 percent a year from banks?"

She says the reason often cited by money-lenders is that it is expensive to lend to the poor because "the difficulty of screening risky from less risky clients means that the lender often has a fair share of risky clients who default". Another reason is clients with poor credit records, who, for example, have defaulted on accounts with clothing shops and have already been rejected by formal credit institutions. To cover the cost of default, lenders argue, they need to raise their interest rates.

Still, Terblanche says, accusations that interest rates charged by money-lenders are unacceptably high and aggravating the plight of the impoverished, are denied by money-lenders.

Banks take the first punch

ST 7/3/1999 (BT) (58)

FINANCIAL SERVICES

By MARCIA KLEIN

THE relationship between South Africa's major banks and government is under considerable strain after submissions on bank charges and the micro-lending industry to Parliament's portfolio committee on Trade and Industry.

The big banks came under fire because of their high interest rates and hefty charges, and because their reluctance to give credit to low-income earners puts people at the mercy of micro-lenders.

Amid criticism of excessive interest rates, the major banks this week reduced prime and mortgage rates to 20%.

Committee chairman Rob Davies said on Friday that a structural linkage between bank charges and micro-lenders was clear from the submissions. "Some banks are abandoning low-income accounts. Obviously, the whole way that the financial services industry has evolved needs further debate and involvement in the direction of lifeline banking," he said.

Alistair Ruiters, chief director for business regulation and consumer affairs at Trade and Industry, who lashed out at the banks at the committee meeting, said later he was concerned about the independence of the banks as they chose one person (Banking Council CE Bob Tucker) to represent them. He said the SA banking industry had clearly decided to support the high end of the market, and banks had failed to make this point in their submission.

"I am not sure that the banks have reconciled themselves with the fact that the public expects them to play a greater role," said Ruiters.

"We can move in that direction without tampering with shareholders and return on equity. I am saying they must factor that into their thinking."

SA lacked strong consumer groups. "It is now government's responsibility to come in and make these noises, which are in step with public opinion."

"Banks have said they support the first-world economy, so over 80% of South Africans won't have access to the formal banking sector. Micro-lending is a response to this demand."

AT ODDS ... Trade and Industry's Alistair Ruiters and Banking Council chief Bob Tucker differed sharply in Parliament

Claire Gebhardt-Mann, general manager for strategy and communications at the Banking Council, said relative to costs in other countries, and in view of shareholder needs, "we think we are being fair to consumers".

Commenting on other criticism, Gebhardt-Mann said the council was working on the idea of a code of conduct and an ombudsman. She said the thrust of the submissions was that banks were getting out of serving low-income customers, but some, like Standard Bank's E-Bank, were serving them.

"The point people missed is that individuals will be catered for. It is a question of changing the regulatory environment to facilitate it. If we cannot bring in new entrants effectively, we must enable others to do it."

Gebhardt-Mann admitted that some of the stories about the way people have been treated by the banks hit home. "We felt uncomfortable, but we have 160 000 employees. Transformation never works immediately, and there are instances and practices which should not be tolerated. None of those attitudes exist at the top, but change is taking time to filter through the organisations."

Ruiters asked what banks were doing to address SA's low savings problem. "And if they attracted more savings, what would that do to their cost of capital?"

He also suggested that the banks should spend some of their significant advertising budgets on banking education and teaching people how to operate their own budgets.

Gebhardt-Mann agreed, and said that banks could do more in this area. "It brought home the fact that we have to educate consumers more about our products."

● **Micro-lending: See Page 5**

Moves to pull the loan sharks' teeth

ST(BT) 7/3/99

THABO KOBOKOANE

Looks at the micro-lending business

(58)

THE fortunes of SA's unbanked people are slowly changing for the better. A few years ago very few institutions dared even to contemplate providing finance to the lower end of the market. Now they are thinking very seriously about servicing it.

There are two reasons for this. The first is that since 1993 loans less than R6 000 have been exempted from the restrictions of the Usury Act.

The second, and related development, is the huge but unmet demand for loans of less than R6 000, a demand which commercial banks say they cannot meet because of high administrative costs and unprofitability.

Enter micro-lenders. By providing loans of less than R6 000, micro-lenders (or loan sharks, as they are more commonly known) are able to charge usurious rates — as high as 30% a month (in some cases even 100%), and they are creaming off the profits.

Figures remain sketchy, but it is widely estimated that there are about 30 000 micro-lending outlets with an annual turnover of between R10-billion and R13-billion.

The phenomenal growth of the industry has seen the advent of a new class of player set on providing niche financial services to SA's unbanked masses.

There are already five micro-lending operations listed on the Johannesburg Stock Exchange with a combined market capitalisation of about R11.5-billion. More will follow.

Listings will enable players to raise capital and lead to greater disclosure and transparency

The listings will enable existing and new players to raise capital, and lead to greater disclosure and transparency. This will go a long way towards eliminating some of the many unacceptable practices in the industry.

Analysts also say the listings will lead to a consolidation in the industry as companies raise cheap capital, acquire operations and expand.

It is already happening. Theta, which wholly owns two lending operations, Altfin and King Finance, is in negotiations with Boland Bank to increase its shareholding from 51% in Unity Financial Services. These assets are to be injected into African Bank, which it acquired last year.

Last December signalled the entry of a new player, UniFer, which is set to rival Theta's dominance. Unifer arose from the merger of Creditsure, Unibank, Global Insurance Company and MBI Underwriting following Hoskens Consolidated Investments and Super Group's sale of their pooled emerging market interests to Creditsure. HCI and Super Group will have a combined 71%, and joint control of UniFer.

Creditsure will change its name to Unibank Investment Holdings and incorporate Ferreira's Financial Services. It will transfer its listing from the development stage to the financial services sector under the name UniFer.

Saambou, the niche retail bank, recently said it had acquired stakes in four micro-lenders. These include a 7.4% interest in recently listed Thutukani Group (with an option to increase its stake to 20%), a stake in All-Sure, and a 70% interest in Cape-based Digita. Midlands Economic Equity Group, headed by Wiseman Nkuhlu, is also looking for acquisitions.

A common feature of the latest rounds of restructuring and consolidation are linkages with niche retail banking institutions. This has advantages for both operators and consumers.

It paves the way for the migration of micro-lending businesses into a regulatory environment. A case in point is Theta and African Bank.

But, more importantly, it is likely to lead to a reduction in the cost of borrowing for consumers. Micro-lenders are not allowed to take deposits and, therefore, have to raise expensive finance elsewhere. The cost of these borrowings, in addition to the operators' own margins and administrative costs, are borne by the client.

The alliances enable operators to source cheap capital from within and reduce the cost of borrowings. An example is Saambou, which has agreed, as a condition of its acquisition of the stake in Thutukani, to open a R1-billion line of credit over three years.

The entrance of traditional commercial banks raises an important question: will these banks themselves eventually seek a piece of the pie?

The new developments, although small, are important in leading the charge towards cleaning up the industry and reducing the cost burden on clients — matters which have drawn the attention of government.

The widespread use of withholding clients' ATM cards and IDs as guarantees, not to mention exorbitant rates, are common knowledge. Government has announced its intention to clean up the industry, a move supported by consumer groups and the more legitimate lenders.

The first stage, announced recently by Trade and Industry Deputy Minister Phumzile Mlambo-Ngcuka, is the establishment of a Micro-Finance Regulatory Council.

The council is expected to provide consumer protection by encouraging greater disclosure and transparency by lenders. It will licence operators who will then be expected to abide by a code of conduct.

But there is concern among industry players that such a move may prove unenforceable. The fear is that lenders who do not qualify for a licence, or those who find the requirements onerous, will simply go underground and continue their practices.

"Most will toe the line, but whether the regulations will succeed is a different question," says Franz Pretorius, managing director of Altfin.

A similar concern is raised by bank executives in the face of government moves to cap micro-lending rates.

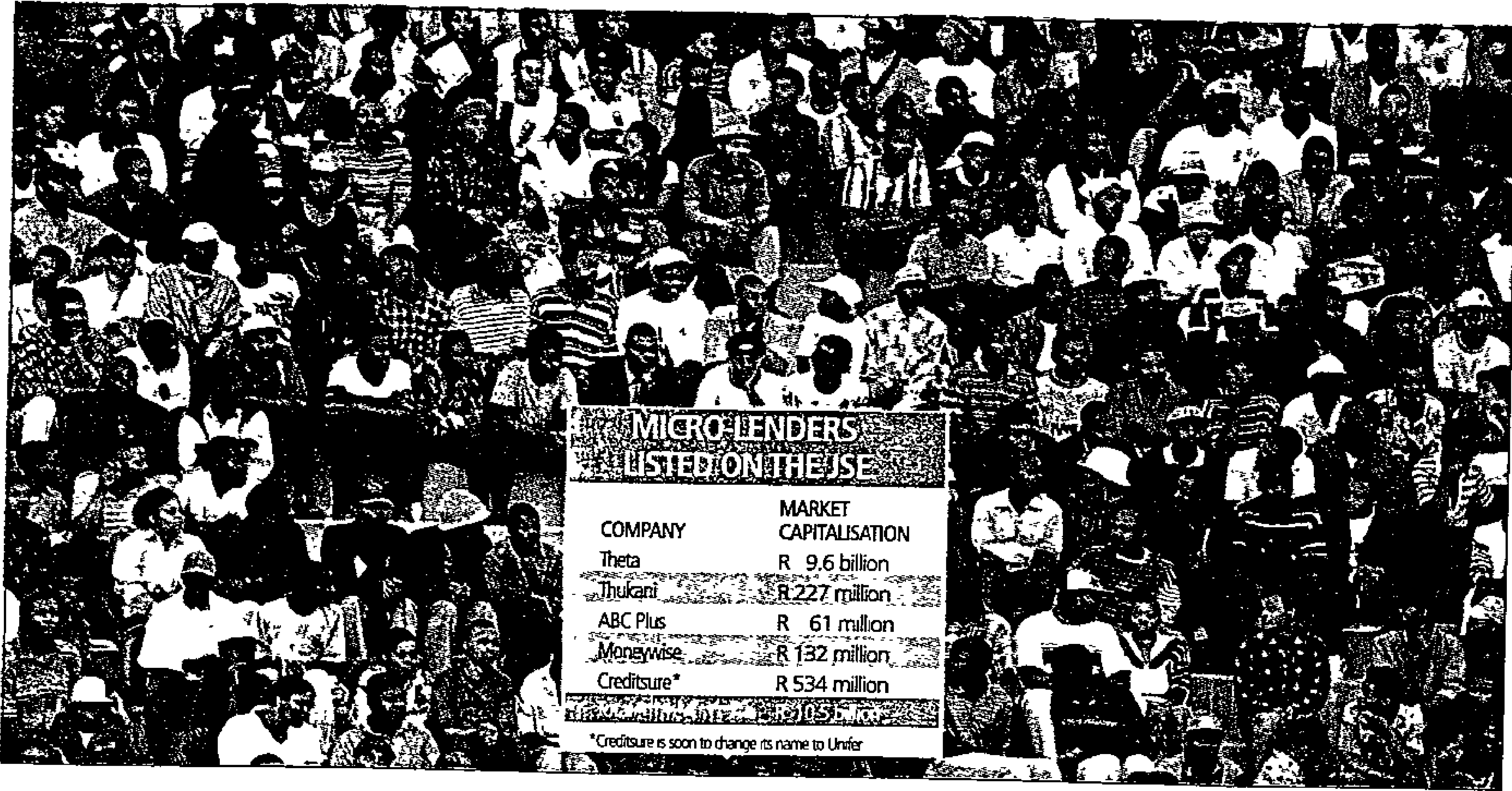
African Bank executive Johan de Ridder warns that price-fixing by a bureaucracy will have a negative impact on the cost structure of micro-lenders and may force players underground.

Nkuhlu favours a market approach, pointing out that increased competition is making operators adjust their costs downward. "Competition, improved technology and public advocacy will bring costs down," he says.

He also favours an approach which compels registered operators to publicise their lending rates, a move he says will give consumers a choice.

In The Boardroom

Sunday Times Business Time
March 7 199



MICRO-LENDERS LISTED ON THE JSE

COMPANY	MARKET CAPITALISATION
Theta	R 9.6 billion
Thukani	R 227 million
ABC Plus	R 61 million
Moneywise	R 132 million
Creditsure*	R 534 million
[illegible]	R 10.5 billion

*Creditsure is soon to change its name to Unifer

Usury — what's the limit?

(58) ST (BT) 7/3/99

THE Department of Trade and Industry recently indicated its willingness to increase to R50 000 the limit of loans exempt from the provisions of the Usury Act.

As things stand, only amounts less than R6 000 are exempted.

Government is keen to increase this threshold to R50 000 as a way to create jobs and stimulate the provision of finance to small and micro-entrepreneurs.

Commercial banks are reluctant to lend anything less than R50 000, arguing that loans below this level are administratively costly and unprofitable.

Only recently did commercial banks announce their intention to lend to the "unbankable" market as part of proposals to the presidential jobs summit.

The proposals, unveiled by the Banking Council of South Africa, talk of launching a scheme to provide finance to micro- and very small businesses.

In the pilot phase, loans ranging between R10 000 and R50 000 will be supported by an 80% Portfolio Indemnity Scheme from wholesale financier Khula of up to R3-million.

But consumer watchdogs and non-governmental organisations are worried about the impact this will have on micro-borrowers, who are already reeling from interest rates as high as 100%.

The Black Sash this week told government it needed to re-think its policy during the Trade and Industry parliamentary hearings into bank charges and interest rates. Its contention is that very little is known of the micro-lending industry and its practices.

"The proposed increased exemption from the provisions of the Usury Act will lure more people into debt.

"Loans obtained from moneylenders are overwhelmingly for short-term consumption purposes, or to pay for existing debt.

"By its very nature, this type of debt is unsustainable and commonly leads to a debt spiral, with negative consequences for both individuals and communities," the Black Sash says.

But there are those who disagree, saying that with proper regulation the proposed new measures should stimulate entrepreneurship and create jobs.

They say government proposals to regulate the industry are in line with its plans to clean up the business ahead of increasing the amount exempt from the provisions of the Usury Act.

Sizwe Tati, managing director of Khula Enterprise Finance, welcomes the possibility of a higher exemption level, which he says will help enterprise funding.

"It will stimulate the provision of finance by commercial banks to micro-enterprises by removing constraints impeding micro-lending," he says.

But Tati is concerned about the downside of the proposals on consumers who borrow for consumption purposes.

Like the Black Sash, he thinks the increase will lead to a debt spiral.

However, most micro-lenders argue that this is unlikely, judging by the lending patterns over the past few years.

They point out that although there is a R6 000 ceiling, the average size of loan tends to be between be between R1 200 and R3 500. It is unlikely, therefore, that hard-pressed consumers would seek out loans close to the R50 000 limit.

But Tati is not entirely convinced by this argument. He says in reality matters may be very different.

Banks shun disclosure provisions

(58)

LYNDA LOXTON

PARLIAMENTARY CORRESPONDENT

CT (BR) 9/3/99

Cape Town — The Banking Council of South Africa yesterday came out against disclosure provisions about nominee shareholders in the Companies Act Amendment Bill, calling them unnecessarily cumbersome.

Kevin Daly, the general manager of the council, told the portfolio committee on trade and industry that the obligation placed on nominees to monitor shares on behalf of beneficial owners against the issued share capital of the company, and to report on the movement of shares, was ill-conceived.

"The provisions are supply driven rather than demand driven," Daly said. "In other words, people with no interest in providing certain information are being forced by law to disclose that information to someone who may have no interest in receiving it. This is wasteful and unproductive, especially in a developing economy with scarce resources."

He said this information should be provided only when requested, cutting the costs of compliance, which could affect South Africa's competitiveness in relation to other developing markets.

Daly also objected to a clause in the bill allowing companies to buy their own shares. This could reduce the issued share capital of the company without the knowledge of nominees.

The bill would also not ensure total transparency as owners wanting to conceal their identities could appoint multiple nominees, he said.

While the bill provided for a six-month period before its stipulations should be implemented, it would not be possible to meet this deadline because of the pressure to become year 2000-compliant as well as new electronic share system requirements.

'S

Short-term insurers suffer as underwriting losses mount

(58) BD 9/3/99

Shaun Harris

DURBAN — Combined results for major short-term insurance companies were the worst in years and show the industry's cyclical nature, according to SA Insurance Association CE Barry Scott.

In the year to December 12 of the 23 member insurance companies reported underwriting losses, compared with seven the previous year.

Scott said the 23 insurers showed a total underwriting loss of R165m, compared with a combined profit of R377m in 1997 and R283m in 1996.

However, an insurance analyst pointed out that while the result was negative in relation to the history of the industry in SA, it was not out of line with international experience, which was that short-term companies often had underwriting losses.

"The losses are mostly coming through on the corporate side of the business and show the effect of the intense competition in the industry," he said.

Underwriting results were important to the cash flow of short-term companies, but a larger portion of profits was usually derived from investment income. The underlying strength of the short-term companies was based on their substantial investment portfolios.

However, pressure was also evident in other statistics released by the association, he said. Combined net premiums increased only marginally to R12,38bn from R12,30bn and underwriting and investment income together dropped from nearly R1,5bn to R1bn.

"Expressed as a percentage of premiums, underwriting and investment income decreased from 12% to 8% and an underwriting loss of 4% compared with 4% profit in 1997 and 3% profit in 1996," Scott said.

Claims increased to 69% of premiums, compared with 65% in 1997. Management expenses and commission for 1998 increased to 35% from 31% the previous year.

Explaining the industry cycle, Scott said: "After every three or so years of underwriting profit, market forces turn the cycle downwards and a period of loss-making ensues. This was proved by last year's dismal results compared with 1997's."

Recent results from two of the leading short-term companies, while not showing underwriting losses, confirmed the trend.

Mutual & Federal reported an underwriting profit of R148m for an 18-month period, compared with a profit of R134m for the previous year. MD Bruce Campbell blamed the extremely competitive conditions in the industry and underperformance of the fire account due to inadequate pricing, saying the company recorded an underwriting loss of R10m in the last six months of 1998.

Santam's underwriting profit dropped to R20m for its extended 15-month reporting period, with MD Jurie Geldenhuys pointing to "an abnormal increase in claims".

Scott said short-term industry prospects for this year did not appear to be better, where "continued problems with the fire account, upward turning crime trends and intense competition from new entrants, will ensure that insurers margins will again be under pressure".

Apart from crime, the key problem was competition, with both foreign competitors and new companies from outside the traditional short-term industry keeping pressure on premiums.

US urges SA to clean up its money act

(58)

RICH MKHONDO

Washington, DC — South Africa was harbouring money launderers, causing a serious problem for the country's law enforcement and banking institutions as they raced to catch up with the disruptive effects of crime, the US government said this week.

"South Africa is the major financial centre in the region, and its relatively sophisticated banking and financial sector harbours great money-laundering potential," said the US state department in a report.

"It is believed the many syndicates active in criminal activity in South Africa, such as the Russian Mafia, are involved in diamonds and weapons smuggling.

"In addition, Chinese triads, which specialise in the trade of endangered species, and Nigerian drug rings are active in South Africa.

"These organisations diversify and conduct legitimate operations as fronts to help launder their money."

It said South Africa continued to be a major transshipment point for narcotics trafficking and an entry point to Africa for domestic and international criminal organisations.

Salient factors included South Africa's location on trafficking routes between east Asia and the Middle East, the Americas and Europe; the rapid expansion of international air links; a well-developed transport infrastructure and modern telecommunication and banking systems.

Long, porous borders and weak border control, including undermanned ports and numerous secondary airports, provided criminal organisations nearly unfettered entry into the country.

The South African government had passed the Prevention of Organised Crime Act, which, among other things, criminalised money laundering and those harbouring money launderers.

But the report said the delay caused by January 1997's transfer of responsibility for promulgating the Money Laundering Control Bill from the justice to the finance ministry had contributed significantly to the success of criminal groups in South Africa.

The bill had nearly been ready for presentation to parliament when the transfer occurred. Upon receiving the new responsibility, though, the finance minister had appointed a task team whose study of the bill was still not finished. — Independent Foreign Service

CT(BR) 10/3/99

MPs challenge banks to do more to finance micro sector

(58) CT(MP) 10/3/99

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Members of the national assembly challenged the banking sector yesterday to finance small and medium-sized enterprises to increase job creation and economic activity.

Phumzile Mlambo-Ngcuka, the deputy trade and industry minister, led the charge.

She said banks who lacked social commitment did not deserve the government's patronage.

Special legislation might be needed to get banks to do more to meet the needs of the majority of South Africans, she added.

This theme was taken up by several MPs during the debate on the budget vote of the department of trade and industry.

Alec Erwin, the trade and industry minister, said a new mechanism was needed to help finance emerging entrepreneurs.

Erwin rejected allegations that the competitiveness of South African industry was adversely affected by rigid labour regulations.

A recent study by the International Labour Organisation had revealed that certain jobs in South Africa were so badly paid that some wage earners were among South Africa's poorest people, he said.

"A policy that says such jobs are justified is tantamount to feeding someone poison and then giving them painkillers," he said.

This meant that people were prepared to accept any payment for work even though it would still impoverish them.

He appreciated the support of all political parties for the government's stand on the stalled trade talks with the European Union.

He said that agricultural restructuring had resulted in some job losses, but the whole sector was now more stable and transparent.

with the FINANCIAL TIMES worldwide

Forced disclosure on cards for banks

(58)

BD 10/3/99

New law designed to discourage discrimination against lower income groups

David Greybe

CAPE TOWN — Government plans to force financial institutions to disclose full details of their home loan operations.

The move, the housing department's top legislative priority after the elections, is designed to discourage banks from discriminating against prospective home buyers from lower income groups.

"Government plans to implement a new law which deals with both fair lending and disclosure in the new Parliament," housing director-general Mpumi Nxumalo-Nhlapo said yesterday after briefing the parliamentary housing portfolio committee on the department's 1999/2000 budget. The intended legislation is based on the US approach to banks and the housing market — "a three-part legislative package dealing with fair lending, disclosure and community reinvestment", Nxumalo-Nhlapo said.

SA would tackle the issue of community reinvestment, such as banks opening more outlets in townships and offering residents greater access to credit and other banking facilities, at a future date.

The new legislation was also linked to the US-SA binational commission and its housing programme, she said.

The new law — intended to ensure fair lending practices by financial institutions in the home loan market — is expected to make it compulsory for banks to disclose all investment in housing assets.

"It is envisaged that banks will have to disclose annually, in writing, where and to whom they had given home loans, how many applicants they had rejected and the reasons," Nxumalo-Nhlapo said.

The new law would not, however, make it compulsory for banks "to give home loans to people who cannot afford the repayments".

"You can legislate for principles of fair lending, but you cannot have compulsory lending," Nxumalo-Nhlapo said.

"The fair lending principles will be based on the constitutional principle which prohibits discrimination based on colour, creed, sex, et cetera.

"No one is asking the banks to practise bad banking — they must act on the basis of commercially sound practices. But if there is risk, banks must demonstrate that risk."

It was time banks extended their markets to neglected areas. For instance, only 14% of the 700 000 houses under construction or completed since 1994 were funded with government subsidies and credit from banks.

The rest — 86% — were financed by government subsidies.

In terms of the new law, a regulatory board would be established to handle disputes between banks and unsuccessful applicants, Nxumalo-Nhlapo said. The penalties the board could impose against banks that discriminated against applicants was still the matter of intense debate, she said.

At the very least, the board would be able to institute civil proceedings against offending banks.

"The new law will also help expose structural problems at the lower end of the housing market, which will allow government to act accordingly," Nxumalo-Nhlapo said.

The law would also expose banks which were discriminating against certain groups of people — and that could affect their business. Banks should lend to the people who invested in them, she said.

Her department was working closely with the trade and industry and finance departments on the bill as the two departments were looking at similar legislation involving financial institutions and other areas of credit, she said.

The cabinet, at the end of January, gave the go-ahead for a number of far-reaching legislative measures on housing as part of government's effort to renew its focus on the delivery and regulation of low-cost housing this year.

These included draft versions of the Fair Lending Practices (Housing) Bill, the Rental Housing Bill, the Housing Matters Amendment Bill and the Housing Consumer Protection Measure Amendment Bill. A redrafted and renamed Fair Lending and Disclosure Bill would be sent back to the cabinet for approval before tabling in Parliament in the first session after the June 2 election, Nxumalo-Nhlapo said.

SA likely to have more say in bank dealings

(58) BD 10/3/99

John Dludlu

SA AND other African shareholders of the African Development Bank are likely to be given meaningful say in the running of the bank's concessionary window if mooted reforms are endorsed by the owners of the bank.

Since becoming the first African state participant in the African Development Fund, the bank's concessionary finance window, Pretoria has been pushing for reforms in the fund's articles of agreement that will give African members a better say in the fund's affairs.

The fund, which will be replenished for the eighth time this year following a recent deal cobbled by negotiators from donors, is financed mainly from contributions of the bank's non-African shareholders. However, SA, which recently increased its stake in the bank to 6%, became the first African country a year ago to contribute to the fund, during its seventh recapitalisation.

Botswana made clear its contribution would not be repeated.

A source from southern Africa familiar with the talks in the fund, said SA's proposal — that African contributors be allowed to vote in the fund — had been well received by the non-African shareholders of the bank.

The bank's management had proposed amendments to the fund's articles of agreement following SA's lobbying.

The source said the planned changes would most likely be endorsed by the bank's board of governors. The board, constituted by finance ministers from shareholder governments, are due to meet in the bank's annual meetings in Cairo, Egypt, in May.

Meanwhile, the SA cabinet is expected to decide shortly the scale of SA's contribution to the eighth replenishment of the fund. Its previous contribution was R36m.

The fund's contributing members agreed in January that it would recapitalised at $3,4bn.

The money will enable the fund to provide concessional finance for development projects and programs in low-income African countries.

The fund was established in 1972 to finance, on concessional terms projects and programmes in low-income African countries that are unable to bear market interest rates. Its loans bear no interest, carry a service charge of 0,75% a year, a commitment fee of 0,50%; and are repayable over 50 years.

n terms of a reshaped vision of the bank, priority will be accorded to agriculture and rural development, human resource development, private sector development, good governance and economic integration.

Policy surrenders to be researched

Samantha Sharpe

(98)

CAPE TOWN — The Life Offices Association has undertaken a significant consumer research project to determine the cause of SA's high incidence of life insurance policy lapses and surrenders. BD 17/3/99

Executive chairman Gerhard Joubert says the move was prompted by growing concern about the rising rate of policy termination in SA, as reflected in the latest figures from the registrar of insurance.

According to Joubert, the average SA household is under increasing financial pressure, and this is affecting consumers' ability to pay life and insurance premiums.

The latest investigation will also determine to what extent lapses and surrenders are driven by other factors, such as clients being encouraged by life companies to surrender their policies in favour of other investment vehicles.

Joubert says the association believes the issue of financial pressure on households needs to be addressed to ensure that proper procedures are implemented by member offices. These should result in insurers taking on only business which is likely to mature, and making sure that appropriate steps are taken to conserve business.

"As part of this process the association has started to collect quantitative data ... to ascertain exactly how many policies actually lapsed or were surrendered over a defined three-year period, and to quantify the ... losses suffered by consumers as a result of early terminations."

Committee calls for tough laws on banks

(58) CT(MR) 18/3/99

LYNDA LOXTON

Cape Town — The national assembly's portfolio committee on trade and industry yesterday adopted a report calling for a tougher stand on the regulation of banks and small loans companies.

This follows its recent hearings on bank charges. It said a priority should be to create a "credible ombudsman for the banking industry that is independent of the industry and can be effective in dealing with customers' complaints".

The committee also called for greater disclosure and transparency by all financial institutions, with clear obligations to inform customers what they would be charged for services and when charges would be levied.

There should also be a review of which institutions were granted access to direct deductions from the government employees' payroll system. Access to, and the conduct of, lending institutions at welfare payout points should also be reviewed, the committee said.

Existing regulations, including disclosure and cooling-off provisions for loans under R6 000, should also be more strictly enforced. Financial institutions should be prohibited from holding identity and other personal documents as security.

The micro-lending industry's business practices committee, and the banking industry's competition commission should consider possible investigations "with a view to ensuring fair competition for the entire financial service and identifying barriers to entry of new institutions".

A longer-term challenge was to develop a more effective regulatory environment as self-regulation had obviously not worked. While some micro-lending associations had codes of practices, there was no obligation on institutions to abide by them. It was also not clear whether the views of consumers were fully taken into consideration when those codes were developed.

The committee also said it was opposed to any moves to abandon interest rate caps. It believed more attention should be paid to encouraging the emergence of alternative institutions that could do more to provide finance to lower-income groups.

Use 'poor-friendly banks', state urged

TYRONE SEALE
SPECIAL WRITER

(58)
ARG 18/3/99

Government departments are being urged to bank only with institutions that can prove they provide affordable services to poor people.

This plea, from the Catholic Bishops' Conference, forms part of a parliamentary report on recent hearings into bank transaction charges and the small loans industry.

The portfolio committee on trade and industry took evidence from angry bank clients, consumer rights organisations, the Black Sash, representatives of the small- loans industry and the Banking Council of South Africa.

The portfolio committee's report highlighted a Catholic Bishops' Conference proposal that national, provincial and local governments could put their own banking needs out to tender.

The church also suggested that government departments could decide where to bank partly on the basis of how particular banks responded to community needs.

The committee felt this suggested that the Government develop criteria to put to the banks.

The committee, led by Rob Davies of the African National Congress, recommended yesterday that the portfolio committees on finance and trade and industry in the next Parliament establish a task group to examine the structure and trends in the financial services sector.

It is hoped this examination will identify options for the Government to influence the development of so-called lifeline banking that would ensure affordable services for an increasing number of South Africans.

Among the urgent issues on which there was consensus among those who gave evidence to the committee was the creation of an ombudsman for the banking industry.

Another was greater disclosure by all financial institutions, with clear obligations to inform customers what they would be charged for various services, and when charges would be levied.

MOTOR ACCIDENT CASES

Net closes on 'vulture lawyers'

(98) ([illegible])

CT 19/2/99

IT'S HEATH to the rescue once again, this time to recover money withheld by some unscrupulous lawyers from Road Accident Fund payouts to clients. **JOVIAL RANTAO** reports.

SOUTH AFRICAN super corruption-buster Judge Willem Heath has been requested by the government to recover millions of rands stolen by unscrupulous lawyers from road accident victims from as far back as 1990.

President Nelson Mandela has issued a special proclamation asking the Heath Commission's special investigation unit to investigate the defrauding of road crash victims by members of the legal profession.

The establishment of the investigation follows a memorandum from the Minister of Transport, Mac Maharaj — who has vowed to recoup the funds due to victims, — to the Minister of Justice, Dullah Omar.

Maharaj said yesterday that the Road Accident Fund, of which he is the shareholding minister, had been aware of unethical and illegal behaviour by some members of the legal fraternity for a while after numerous complaints to his office and the fund.

Of 143 cases investigated by the fund and the Department of Transport, on average 56% of what was supposed to be paid to victims was kept by their lawyers and in six instances it appears that 100% of the amount awarded was kept by lawyers.

These practices occurred after payment and settlement, and were therefore outside the jurisdiction of the fund. However, the fund had referred many of the complaints it had received to the Law Society for action.

Maharaj said that the fund covered party-to-party costs (the cost arising between lawyers from both parties in settling the claim) and these were lodged with the Master of the High Court and open to public inspection.

He said that because the abuse of attorney-client relations involved the use of public money, he had decided to recommended that the President refer the alleged failure of attorneys to pay over to claimants the net amount received from the fund after deduction of a reasonable amount and/or taxed amount in respect of costs.

Maharaj said that the vulnerability of road accident victims to unscrupulous attorneys arose at various points in the procedures, according to which claims were handled.

The work of the Heath Special Unit is separate from the commission of inquiry into the Road Accident Fund set up to investigate problems facing the fund.

Parliament last year passed the Road Accident Fund Commission Act to set up a three-member commission, chaired by a judge of the Constitutional Court or of a High Court. The commission will be required to complete its work and report back to the President within one year of its appointment.

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Heath to probe lawyers

(58)

Investigation expected to cover some of the most reputable law firms handling road accidents

BD 19/3/99

David Greybe and Linda Ensor

CAPE TOWN — Dozens of lawyers who have defrauded road accident victims of millions of rands since 1990 are to be probed by the Heath anti-corruption unit.

The probe would cover some of SA's most reputable law firms, Transport Minister Mac Maharaj said yesterday after Acting President Thabo Mbeki signed a proclamation authorising the unit to investigate all lawyers who had acted on behalf of accident victims since January 1990.

This followed an investigation by the transport department and the Road Accident Fund of 143 cases, and, more recently, allegations of lawyers' widescale abuse of fund payments.

Maharaj said: "The investigation found, on average, 56% of what was supposed to be paid to victims was kept by their lawyers — in six instances it appears that 100% of the amount the claimants were awarded was kept by their lawyers."

Heath will look into the "alleged failure of attorneys to pay over to claimants the total net amount received in ... compensation from the fund after deduction of a reasonable amount and/or taxed amount in respect of 'attorney-client' costs".

Maharaj wants monies recovered by the unit paid to victims who were defrauded. Lawyers involved "could be criminally charged, struck off the roll and be open to civil action", he said. "We don't know how far the defrauding goes, but my office and the fund receive complaints from road accident victims every week. Some victims do not even know what the settlement awarded by the fund was."

According to legal sources, news of the inquiry has sent "jitters" through part of the legal fraternity.

Cape Law Society president Adrian Watermeyer said all four provincial law societies welcomed the probe.

"We want to eliminate people from our ranks who are dishonest and steal from trust funds," Watermeyer said.

The Transvaal Law Society was investigating 50 third-party complaints involving five legal firms, one of which had been taken to court, he said.

The Heath probe, according to observers, must inevitably lead to a major restructuring of the way the fund's claims are settled, as well as a change in attorney-client relations — currently shrouded in secrecy.

The fund spends 20% of its payouts on settlement costs, including legal and medical charges. The main problem, said Maharaj, was attorney-client fees: 56% of awards investigated were found to be withheld from victims.

Watermeyer said excessive overcharging of clients constituted theft. Sometimes attorneys had to keep back a large portion of the settlement amount to cover trial costs such as advocate fees and expert medical witnesses. These could occasionally consume the entire payment.

Watermeyer and Transvaal Law Society president Emile Boshoff said it was unfair to conclude from the "small" sample (government's investigation of 0,2% of all claims paid out) that third-party lawyers were often fraudulent.

The investigation — Heath's first focusing solely on the private sector — was made possible by invoking two subclauses of the Special Investigating Units and Special Tribunals Act, allowing for an investigation on the grounds of alleged "unlawful appropriation or expenditure of public money" or "unlawful or improper conduct ... which has caused or may cause serious harm" to the public's interests.

As attorney-client costs were outside the ambit of the fund, it had had to refer complaints to the law society for action, Maharaj said. However, government sources said the law society had not done enough to stop members' abuse of the system.

Boshoff conceded that it was necessary "to address the serious problem of public mistrust of the legal profession".

Maharaj stressed the probe was separate from the judicial commission of inquiry into the future of the fund, due to be appointed soon.

A year to devise strategy: Page 2
Comment: Page 11

A prisoners' work

Judge to head Road Accident Fund probe

A commission of inquiry will have a year to devise an appropriate strategy for the ailing fund, writes Linda Ensor

CAPE TOWN — The future of the technically bankrupt Road Accident Fund, whose problems have defied resolution for decades, is to be investigated by a high-powered commission of inquiry led by a high-court judge.

Transport Minister Mac Maharaj said the commission would be given a year to come up with a sustainable and equitable strategy to restore the fund to financial health. Judge President Ismail Mohamed has agreed to release a high court judge to chair the commission of three, and Maharaj will be announcing the judge's name in the next few weeks.

Parliament passed the Road Accident Fund Commission Act last year to set up the commission which would inquire into and make recommendations "regarding a reasonable, equitable, affordable and sustainable system for the payment by the Road Accident Fund of compensation or benefits, or a combination of compensation and benefits, in the event of the injury or death of persons in road accidents in the Republic".

The financial malaise of the fund, previously known as the Multilateral Motor Vehicle Accidents Fund, is that the income it derives from the fuel levy is insufficient to pay all the claims arising from the country's high accident rate.

Maharaj said the huge deficit government faced in the Road Accident Fund was a result of the premium not being adjusted to keep up with the rate of inflation. Costs were exorbitant — for instance, high settlement costs consumed 20% of available expenditure, of which 75% was in legal costs alone, while general damages claims accounted for 28% of expenditure for nonfinancial losses.

The fund is expected to report next month that its accumulated deficit increased 14% or R1bn to R8,4bn in the year to April last year. However, including provision for outstanding claims, the accumulated deficit rises to R10bn.

The annual deficit — the difference between income on one hand and total claims, operating costs and the net increase provisions on the other — increased by 30% to R1,2bn (R886m).

A range of solutions have been suggested to tackle the problem, including reducing the amount paid out, cutting down the costs of settlement and increasing revenue.

Last January the cabinet adopted a white paper on the fund which Maharaj hoped would result in the implementation of a new system, partly based on the no-fault principle of paying claims within a few months.

The proposals for cutting costs included eliminating general damages claims for pain and suffering, capping loss of earnings and disability benefits, and a simplified claims and settlement procedure. The victim's common law right to sue for more than the proposed limits would be abrogated.

This raised the prospect of a constitutional challenge which, along with administrative difficulties and vociferous protests, led Maharaj to opt for a judicial inquiry.

The commission's work will be one leg of a multipronged strategy, and will include cleaning up fraudulent practices by legal firms and limiting the sum attorneys can charge victims for their services on an attorney-client basis.

BD 19/3/99

Heath team to probe accident fund scam

Howard Barrell

The Heath special investigating unit has been empowered to recover millions of rands stolen from road accident victims by unscrupulous lawyers.

Judge Willem Heath's team will investigate a fraudulent scheme which targets unsophisticated road accident victims. Rogue attorneys have been cheating semi-literate and often indigent clients of large parts of the insurance pay-outs they have received from the state-backed Road Accident Fund which compensates traffic victims.

According to the Department of Transport, of 143 cases investigated, on average 56% of what was to be paid to victims was kept by their lawyers and, in six instances, it appeared as if 100% of the amount the claimants were awarded was kept by their lawyers.

Deputy President Thabo Mbeki signed a proclamation on March 18 empowering Heath to conduct the investigation.

The provincial law societies have welcomed the investigation. President of the Cape Law Society Adrian Watermeyer said: "We are delighted to have Heath and his powers on our side in the battle to get rid of the bad apples among us."

But some legal circles queried how Heath could be given powers to investigate funds passing between people in the client-attorney relationship. Heath's powers are generally understood to cover investigations into matters regarding funds owed to or owned by the state.

The transport department said in a statement, however, that the special investigating units and Special Tribunals Act empowered Heath to carry out the investigation. This was because "the abuse of attorney-client relations involved the use of public money".

Wake-up call for SA banking

ST (BT) 21/3/99 (58)

COMPETITION

By CHRIS BARRON

NEDCOR chairman and former finance minister Chris Liebenberg has warned that international competitors will hang SA banks out to dry if they do not become more cost-effective.

Amid criticism that banks gorged themselves on high profit margins and did little to service the lower end of the market, he said comments of some government officials, who should know better, was unfortunate. Margins and profitability of SA banks were "well in line" with offshore institutions.

But with fiercer international competition on the way, local banks were facing an uncertain future. "They had better get their house in order with their cost-to-income and cost of capital ratios because we're going to get blown out of the water if we don't do that quickly. There is an urgency which the people who criticise us don't see."

Liebenberg said it was not possible for privately owned banks in SA to subsidise high-risk sectors.

"People don't realise that the banks lend money they themselves borrowed. If we don't get it back, sooner or later we have to tell savings account and fixed deposit holders they're not going to get their money back. That's unthinkable," he said.

SA banks were at a major disadvantage to international banks in terms of cost of capital and cost-to-income ratios.

"When these banks start looking at SA, we're going to see a big, big fallout here. Our banks are too small, they're not profitable enough and they don't control their costs. They are not well capitalised enough to really compete with the international banks. We're going to end up with three or four very average banks," he warned.

Of bancassurance, Liebenberg said that despite its "sexy image", it was not the answer to international onslaught. Few banks abroad had made a success of it. "The jury is still out."

"What a lot of people understand by bancassurance is nothing more than cross-selling. If you look at what banks in SA have to do to become internationally competitive, merging with an insurance company is not going to do it. Merging with another bank is more likely to take us much further."

It might be better for major SA banks to team up with significant overseas partners, but these were hard to find. International banks were not yet ready to put the necessary money on the table — a third of Nedcor would cost about R11-billion — for an emerging market.

Liebenberg cautioned on proposed African debt relief. In spite of positive noises from President Bill Clinton, he did not see debt being written off totally. "I'm not convinced when it comes to signing off the documents and writing off the debt that it's ever going to happen."

SA's recent trade talks experience with the European Union was evidence that "countries do what suits their books. Africa's expectations are far greater than what the reality will be."

Even a debt write-off would not put everything right. "There are still certain disciplines that need to come in."

Liebenberg was full of praise for what SA had done economically since 1994. Monetary policy was spot on. Although it seemed "nonsensical" to keep interest rates so high, so creating more unemployment, this was a necessary short-term measure to create a sound and sustainable base.

However, while the government had managed to do "the difficult things" so well, its performance with regard to "the easy things like crime and bribery" was abysmal, he said.

He felt the government should create an impression of more urgency in the fight against crime.

PAIN, GAIN ... Nedcor chief Chris Liebenberg lauds sacrifice

Labour body reacts to portfolio hearings

Cosatu backs call for micro lending curbs

CT (BR) 28/3/99 (58)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — Cosatu yesterday welcomed recommendations on the need for stricter regulation of banks and micro-lenders made by the parliamentary committee on trade and industry after its recent high-profile public hearings.

The organisation said it also supported recommendations for the improved regulation of banks; that community reinvestment legislation requiring banks to provide services to low-income communities, be investigated and enacted; and that provision be made for an independent ombudsman who would represent the the banking industry.

"Cosatu supports (the call that) there should be prosecution of those unscrupulous micro-lenders who take possession of people's ID documents and bank cards.

"Legislation should be passed which will put a maximum interest cap on all loans, including smaller loans for under R6 000, which are presently exempted from any maximum cap," Cosatu said.

On sectoral determinations on minimum wages for domestic and farm workers Cosatu stated that although the issue had never made headline news, it was an "open secret that the majority of these workers earned as little as R90 a month" on some farms in areas like Vryheid in KwaZulu Natal.

'It's an open secret that farmworkers in Vryheid earn as little as R90 a month'

"This is slave labour, which cannot be tolerated. Furthermore, the 1996 census, for example, reports that 26 percent of South Africans have an income of less than R500 a month.

"Yet the South African Agricultural Union was the first to oppose a minimum wage while simultaneously closing its eyes to this reality.

"Cosatu will be making a detailed submission on the subject of a minimum wage to the Employment Conditions' Commission," the labour federation said.

On the skills training levy, Cosatu said it wished to place on record that it had never agreed to a reduction of the levy from 1 percent to 0,5 percent by 2000.

"We will therefore continue to seek amendments and improvements that reflect the need for appropriate investment in skills development."

The organisation said it had already approached the ANC to discuss a political solution to these issues.

Road accident fund R9-bn in red

(58)

By Khangale Makhado

THE Road Accident Fund (RAF) has been battling to administratively and financially cope with the volume of claims made to it.

This is exacerbated by the fact that South Africa has a high accident rate.

RAF claims executive Judge Chris Greenland told *Sowetan* at the weekend that his office had 137 000 outstanding claims.

The news of the possible collapse of the fund – which has a deficit of about R9 billion – confirmed fears that the financial condition of the RAF (and its predecessor the Motor Vehicle Assurance-MVA) had deteriorated over the last decade.

Greenland said the financial state of affairs is due to a mismatch between income to and liabilities of the RAF.

Furthermore, dozens of lawyers are being investigated after claims of defrauding road accident victims. Deputy President Thabo Mbeki signed a proclamation last week authorising the Heath anti-corruption unit to investigate all lawyers who had represented victims since 1990.

The Road Accident Fund Act 56 of 1996 – which came into operation on May 1 1997 and succeeded the Multilateral Motor Vehicle Accidents Fund Act 93 of 1989 – has the sole objective of paying compensation for personal loss or damage wrongfully caused by the driving of motor vehicles.

"The RAF is funded by a fuel levy, presently at 14,5c a litre of petrol and 10,3c a litre of diesel.

There is an actuarial deficit of over R9 billion in the fund.

"The reason for this in simple terms is that the average motorist is paying about R3 400 per year by way of fuel levy. This is insufficient to meet claims coming in for millions of rands.

"Common sense dictates that this cannot be allowed to persist. The matter will now be looked into by a commission which will make recommendations for an affordable and sustainable system, after considering submissions," said Greenland.

Greenland said the fund does receive complaints from claimants about the conduct of attorneys. The RAF in turn refers these to the relevant law societies.

"The fund also assists complainants by actually investigating the facts of the matter and providing information as part of the referral process," said Greenland.

Sowetan 23/3/99

Banking Council warned about 'haphazard' treatment of defaulters

(58) BD 25/3/99

David Greybe

CAPE TOWN — Parliament is fed up with the "haphazard" manner in which banks list defaulting clients with credit bureaux.

Political parties were unanimous that the practice had to stop, Parliament's justice committee chairman Johnny de Lange yesterday told the Banking Council during public hearings on new right-to-information legislation.

Failure by the banks to clean up their act would result in a "strongly worded clause" been written into the Open Democracy Bill to protect consumers, De Lange said.

"This committee is very unhappy about the way in which usually poor people are put on credit bureau lists, and how costly it is to get one's name removed," De Lange said.

The Banking Council earlier proposed an amendment to the bill to include "private bodies" such as banks in the section allowing "governmental bodies" privileged access to information held by other governmental bodies in following up debts.

"The private sector has the same problems in following up on defaulting debtors as the government does," the Banking Council said.

Telkom, meanwhile, made a plea similar to Eskom's the day before, for exemption from disclosure of information obligations which applied to "governmental bodies" and not to the private sector.

Telkom, like Eskom, argued that it needed to be competitive because, it said, it operated in a very competitive global environment.

But Telkom's Brenda Madumise and Abel Nkosi said if the bill was amended to apply "across the board to include the private sector" Telkom would withdraw its objection, and would agree to comply with the requirements of the right-to-information legislation.

The constitution guarantees the right of individuals and organisations to information from the private sector and the state.

But a host of nongovernmental organisations argued during the two days of public hearings that the bill had failed to achieve this, particularly when dealing with the private sector.

De Lange, referring to the February deadline for the passing of the bill, said: "It has to be passed by the end of the year."

Banks back loan scheme

(58) Sowetan 25/3/99

By Shadrack Mashalaba

STANDARD Bank, People's Bank and African Bank have backed the National Housing Finance Corporation's home loan initiative for low income earners.

In terms of the agreement that was announced in Johannesburg yesterday, the three banking institutions undertook to start lending low income earners home loans of between R10 000 and R50 000 under the NHFC's subsidiary Gateway Home Loans scheme.

African Bank subsidiaries to offer this service are Alternative Finance and King Finance.

The home loan scheme is expected to fill the enormous gap in the South African housing finance market which is estimated at more than two million.

This includes people earning between R1 000 and R5 000.

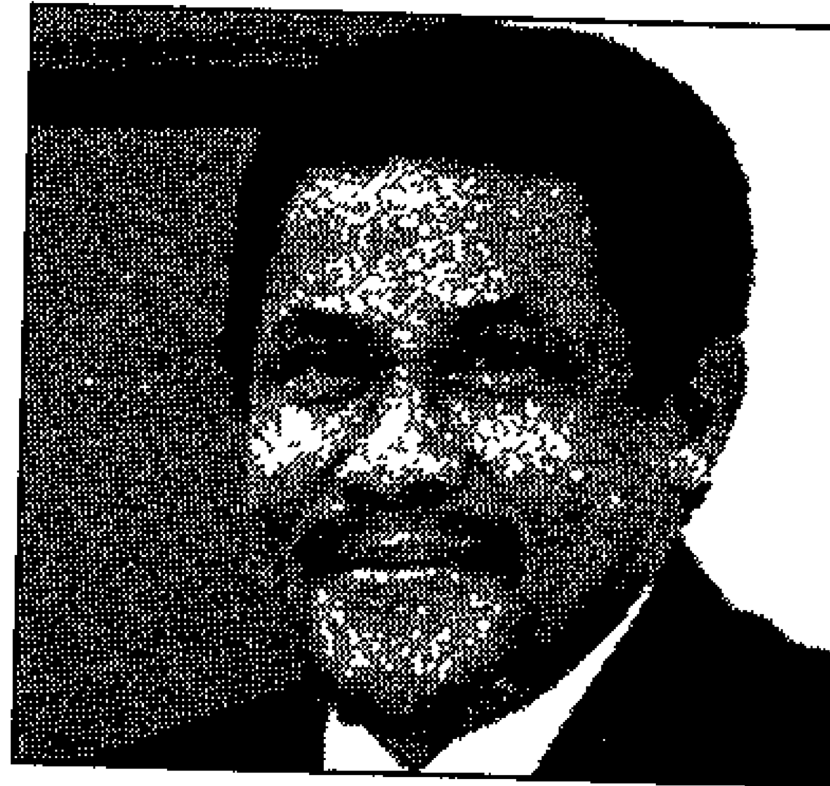
NHFC chairman Eric Molobi said during a press conference that the new scheme would start on a pilot basis on new housing projects in April.

Gateway was currently tracking more than 18 500 units, he said.

The home loan scheme, initiated last year, has been designed to offer fixed interest rates.

Gateway managing director David Porteous said the rates would be pegged at 21 percent.

It will also rely on securitisation, a funding process whereby assets (such as loans) are packaged and converted into transferable debt instruments such as bonds which are sold to capital market investors.



Eric Molobi

Porteous said they were aiming for a loan book of 20 000 clients in the short-term.

Standard Bank managing director of retail banking Noel Webb said the collaborative initiative should be commended as banks could not do it alone.

Nedcor group executive Derek Muller said the venture represented a true partnership between different players in housing delivery which will bring in more partners.

The introduction of the product will facilitate the housing of more people, said African Bank managing director Franz Pretorius.

A total of 18 160 potential areas have been identified, with 2 600 applications received while 1 804 projects have been identified among the provinces of Gauteng, Mpumalanga, KwaZulu-Natal, Western Cape and Northern Province.

Crackdown on Road Accident Fund fraud

(58) Star 26/3/99

By Jovial Rantao
Political Correspondent

Cape Town - At least 24 law firms are being investigated for defrauding road accidents victims of millions of rands awarded to them by the Road Accident Fund (RAF), and a further 66 law firms could be added to the list, it emerged in Parliament yesterday.

Police are in the process of finalising charge sheets against three firms on 34 cases.

The Heath Special Investigating Unit has been mandated by President Nelson Mandela to investigate the defrauding of road crash victims since January 1990 and to recover money stolen from the injured, the disabled and families of those who died.

A separate commission is to be instituted to investigate the long-term restructuring of the cash-strapped RAF.

In the National Assembly yesterday, Transport Minister Mac Maharaj issued a stern warning to the legal fraternity, which seemed to be set on a collision course with the Government. "The time of feigning ignorance about unscrupulous legal practices is over," he said.

Maharaj said the status quo could not continue as this was a scam that involved lawyers as well as some medical practitioners and assessors in a R500-million-a-year business bankrolled by taxpayers.

He tabled a list from the RAF which showed inactivity by the South African Law Society.

Maharaj said that since 1988, 84 individual cases had been referred by the RAF to the police for criminal investigation and charge sheets were currently being drawn up against three firms on 34 cases.

"The defrauding of road crash victims has been an open secret in legal circles for years ... We do not know the full extent of the problem because these practices take place after the settlement of a claim has been reached between the victim's legal representative and the RAF.

"But we know that of the fund's annual claims budget of R1,386-billion, about 20,5% (R284-million last year) is spent on settlement costs. On top of this come attorney-client costs ... We estimate that it further reduces the money paid to the victim to less than 70% of the award," Maharaj said.

He said the legal fraternity had fought to maintain the status quo and block any change to the fund's operation.

New home loans to vie with microlending

Gateway offers a risk-free lending opportunity for accredited financial institutions

Robyn Chalmers

A LARGE percentage of the people who, together, borrow about R300m a month from microlenders are expected to switch to home loan securitisation, say analysts and lenders.

African Bank's Franz Pretorius said the microlending sector was, however, unlikely to be adversely effected by this development because of the increase in the number of new borrowers, particularly shack dwellers wanting small tranches of credit, who were entering the microlending market.

Pretorius said the current average loan size in the microlending market was about R4 500.

"People are borrowing a significant amount in this sector, about R300m a month, and I see a lot of those who can switching into this (securitised) product."

Two of African Bank's divisions, Alternative Finance (Altfin) and King Finance, along with Standard Bank and Nedcor, were recently accredited to begin lending under government's Gateway Home Loans initiative.

Pretorius said both Altfin and King were significant players in the delivery of unsecured small loans, primarily for housing purposes. Their combined book exceeded R1,5bn.

"Gateway offers a unique opportunity for Altfin and King to enter the formal housing sector in a risk free manner," he said. In the future, this could enable Altfin and King to provide credit directly into the market with Gateway facilitation in the future, he said.

Up to now banks have been reluctant to lend into the lower end of the housing market due to the risks involved and high administration costs.

As a result, Gateway Home Loans was established last year by the National Housing Finance Corporation to set up a secondary market process for housing finance for low- and moderate-income households.

In terms of this process, standardised home loans are granted by accredited lenders and then sold to Gateway. Gateway then intends to pool the loans and, in time, sell debt to fund these pools in a process known as securitisation. Loans of between R10 000 and R50 000 will be available.

Gateway Home Loans MD David Porteous said the initial Gateway loan product had three key features. It was paid out only on transfer of property or completion of the unit; it relied on payroll deductions for repayments; and it was not backed by the value of the house but required only a provident fund guarantee for 50% of the loan value.

Porteous said that in order to be eligible for a Gateway loan, a home buyer had to be at least formally employed with a retirement fund able to provide the required guarantee.

(58) MD 26/3/99

Maharaj lashes out at rotten, rip-off lawyers

BD 26/3/99 (58)

Linda Ensor

CAPE TOWN — Transport Minister Mac Maharaj delivered a scathing attack on the legal profession in the National Assembly yesterday, charging it with failing to take action against the widespread fraud perpetrated on accident victims.

He also accused lawyers of conniving in violence against victims who complained about the fraud. Their lives were often threatened and they had to be given protection.

At least 99 legal firms around the country required investigation for their alleged complicity in this fraud, Maharaj said. "In the face of this, the legal fraternity has been remarkably silent", and had failed to act to stop the rot.

Last week, the Heath special investigating unit was instructed to investigate law firms alleged to be defrauding crash victims of rightful payments from the Road Accident Fund. Maharaj said there had been an "ominous silence" from the law fraternity about the investigation.

"Defrauding of road crash victims has been an open secret in legal circles for years. To date the fraternity has refused to acknowledge or do anything to stop it, bar action against a handful of lawyers. The time of feigning ignorance about unscrupulous legal practices is over.

"If the legal profession is to have credibility in this country, it must enter this debate with the clear understanding of the imperative of placing the victim of a road crash at the centre of discussion, to make sure that the victims' interests are paramount and are dealt with first and foremost."

Maharaj said the legal profession had tried to block any change when he had tried to engage it in the restructuring of the cash-strapped fund and to clean up dubious legal practices like touting. Indeed, the profession had put up R250 000 to defeat changes to the system. "The status quo cannot continue to exist as it is a scam that involves lawyers as well as some medical practitioners and assessors in a R500m-a-year business bankrolled by taxpayers."

The Road Accident Fund had sent a host of complaints to the provincial law societies, but little had been done. Eight Gauteng firms allegedly involved in 69 claims were reported last year to the society, but action had so far only been taken against one lawyer.

The Cape law society had been told about three firms involving 12 claimants, and the Free State of one firm involving nine claimants. "There are a further 369 cases from 21 law firms being investigated by the fund following complaints, and the fund is of the view that at least 66 law firms require investigation.

"Since 1998, 84 individual cases have been referred by the fund to the police for criminal investigation, and charge sheets are currently being drawn up against three firms on 34 counts."

A limited departmental study of 143 cases, involving 18 law firms, found that the fund had paid R15,7m in settlements but the 143 victims claimed they received only R7m. This meant that on average 56% of the award was kept by the lawyers. In six cases, lawyers kept 100%, and in 42% they kept more than 65% of the awards.

Maharaj said he had recently met all four provincial presidents of the law societies to determine what was regarded as acceptable practice by the fraternity, but no response had been forthcoming.

He said that he was also in discussion with Justice Minister Dullah Omar on how government could regulate compensation to road crash victims. Maharaj called on law societies to make proposals on what would be a reasonable and fair tariff for attorneys to charge their road accident clients.

Sowetan 26/3/99

Stricter lending laws welcomed

(58)

By Mzwakhe Hlangani
Labour Reporter

STRICTER implementation of bank regulations and the prosecution of unscrupulous micro-lenders who confiscate their debtors' bank cards and identity documents, has received overwhelming support from micro-lenders associations and labour unions.

Micro Lenders Association chairman Mr Flip du Plooy said yesterday that improved legislation and monitoring of micro-lenders and banks will benefit everyone. But he pointed out that "loan sharks" who took unsuspecting families for a ride so that the families ended up working just to repay their debts, should be actively uprooted.

Du Plooy said the association approved of a free market policy for high-risk short-term loans. He said they would not "prescribe in any way" to them how much interest should be charged.

The parliamentary committee on trade and industry has recommended the enforcement of existing regulations and prosecutions of micro-lenders who take people's IDs after recent public hearings. It suggested that the high interest rates charged by these institutions should be regulated.

Congress of South African Trade Unions general secretary Mr Mbhazima Shilowa also welcomed the recommendations. He said "a credible ombudsman, independent of the banking industry", should be appointed to deal with complaints by customers of banks and micro-lenders.

The committee also recommended that community reinvestment legislation – which requires banks to provide services to low-income communities – be investigated and enacted.

The recommendations on improved regulations of micro-lenders, also highlighted that legislation which puts a maximum interest ceiling on all loans, should be passed.

Du Plooy said the association would play a pivotal role in convening a meeting between banks, micro-lenders, information technology institutions and the Government to finalise the enforcement of strict legislation of the banks and micro-lenders.

SERVICE STANDARDS *'Serious concern' over customers' perceptions*

Banks release code of practice

(58) ARG 27/3/99

RICHARD STOVIN-BRADFORD
BANKING EDITOR

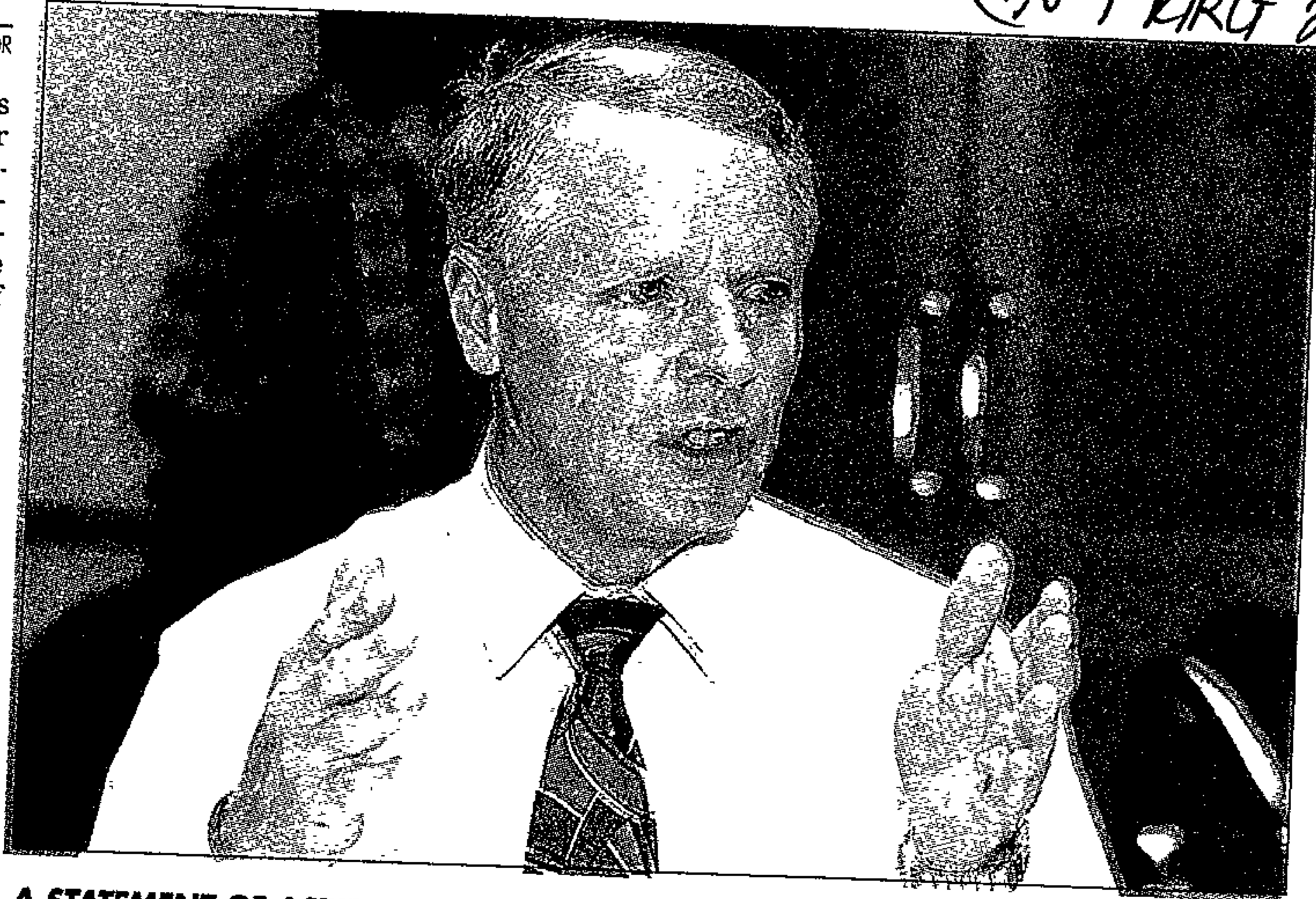
Johannesburg — South Africa's banks sent a clear signal to their customers that they were "seriously concerned" about their service standards when the Banking Council, their representative body, released a draft code of banking practice yesterday.

Bob Tucker, the chief executive of the Banking Council, said the draft code was a discussion document which represented the banks' opening position and was their acknowledgement of the "anger out there".

The draft code was voluntary and covered the banks' relationships with personal customers, and aimed to set minimum standards for good banking practice.

It was a "statement of aspiration" rather than a legal framework, and would not prevent competitive and market pressures from playing their own role in stimulating new and more efficient services.

The code, in which the banks are automatically subject to an independent banking ombudsman, could be used by the ombudsman in recommending awards in unresolved disputes between banks and customers.



A STATEMENT OF ASPIRATION *Bob Tucker, the chief executive of the Banking Council, says the draft code aims to set minimum standards for good banking practice* PHOTO SELWYN TAIT

The acting ombudsman was scheduled to stand down on September 30, and Tucker said he hoped the code could be launched in its final version by then, to coincide with the appointment of a successor.

The code was the culmination of a process that began in November 1997 and was not therefore a response to the recent trade and industry department's portfolio committee on banking charges and microlending. But the "real energy" for the code had come from the major banks that were the most exposed to criticism, he said.

Asked whether South African bank consumers were not sufficiently demanding and were therefore partly to blame for the standards about which they complained, Tucker said: "I don't know if apathy on the part of the consumer or lack of competition in the market is to blame.

"You've got to draw a very clear distinction here between market failure and market abuse," he said, adding that "nowhere in the world has it been found that government intervention is an answer to market failure".

"We looked around at codes of practice elsewhere in the world and came to the conclusion that world best practice is in the British code."

The banks had used the British code to create the draft code released yesterday, but had introduced higher standards where South African conditions dictated them.

Tucker said that ATM-related theft was one area in which higher standards had been incorporated in the draft, a reflection of the 7 000 ATM thefts reported each month in South Africa.

New law will tackle malpractice in the debt collection industry

CT (BR) 29/3/99 (58)

The new Debt Collectors Act has at last been promulgated and a Council for Debt Collectors is to be established in terms of the Act to deal with malpractice in the industry.

The Act will require that debt recovery agents register with the Council, that they operate trust accounts, that they keep proper accounting records of monies collected, and that they pay over to their clients the interest accrued on monies held in the trust account. The Council will set out a code of conduct.

This has been welcomed by John Rupert, a founder member of the Association of Debt Recovery Agents (ADRA) and senior manager, credit support services, at Credit Guarantee. "We have been preparing for this legislation for over four years," he says. "We are ready for it and it is high time other debt collectors got their house in order.

"Until the structures of the Act are in place my advice is that people only employ the services of agencies which are registered members of ADRA. Stay away from those which don't operate a trust account and insists on a copy of their audited financial statements.'

Practices that have given the profession a bad name — intimidation of debtors and their friends or family, using force, masquerading as a police officer or sheriff and using legal or official documentation to mislead or intimidate a debtor — are outlawed by the new act. A debtor will also be able to demand a settlement account showing all debits and credits in connection with a specific collection.

John Rupert, a founder member of the Association of Debt Recovery Agents

Rupert was recently commissioned by a Credit Guarantee policyholder to recover money from two debt recovery agents in Durban and Johannesburg.

Although both agents had collected the debts they were commissioned for, they never paid the money over to their client. By the time Rupert and his team were called in, they had been sitting on the money for over a year. In the case of the Durban firm, a court subpoena was needed to persuade them to open their files for inspection. It turned out that they were incomplete and that there was no trust account. The second company, with theft and fraud charges laid against it, admitted to severe internal financial disorder.

"It is our belief," Rupert says, "that these two agencies were rolling their clients' cash to finance their operations. There were no formal contracts between the client and the debt recovery agents and both unlawfully charged a fee to open files."

State rethinks usury changes

(58) ST (BT) 28/3/99

MICRO-LENDING

By THABO KOBOKOANE

GOVERNMENT is set to back off from its plans to increase the ceiling for micro-loans to R50 000 and to let the micro-lending industry regulate itself.

Deputy Trade and Industry Minister Phumzile Mlambo-Ngcuka hinted strongly this week after a public outcry that government might not proceed with its plans.

"We are not going to proceed at this stage, but will apply our minds to it. There is a general feeling that we should not increase the ceiling too high," says Mlambo-Ngcuka. "There were compelling arguments against this, in particular that it will lead the poor into a debt cycle."

Mlambo-Ngcuka says the new threshold could be in the region of R25 000.

The department recently announced plans to increase the ceiling at which loans are exempt from interest-rate caps in the Usury Act to R50 000 from R6 000, to stimulate lending to small business.

Consumer watchdogs and non-governmental organisations have warned that such a move will lead many poor people into a debt cycle as loans are often used for consumption and not productive purposes.

Planned self-regulation of the micro-lending industry may not be appropriate. "We wanted to see the industry regulating itself, but there have been very strong views that self-regulation will not work," she says.

It seems now that government will play this role, but it remains to be seen how effectively.

Mlambo-Ngcuka says government is forging ahead with its plans to form a small business lobby to replace the now-defunct National Small Business Council. "It must be a public-private partnership and accountable," she says.

The department held the last of its consultative forums on a review of its small business strategy this week. This review is expected to address obstacles to the sector's development, such as labour legislation and access to finance.

Mlambo-Ngcuka says the review process has shown that the most important issue for small business is access to finance, rather than labour laws.

"Entrepreneurs want to see government creating an enabling environment to stimulate the provision of finance." She favours a community-type reinvestment law, similar to the US model, that compels banks to disclose banking patterns, the extent to which they deal with small business and penalties for failure to invest there.

"I don't believe that the high percentage rejection of the proposals is a reflection of the hopelessness of people's ideas."

She expects the National Small Business Regulatory Review to make final recommendations on legislative conditions that will promote the growth of small businesses by the end of May. This will be presented to the new Parliament for debate.

DEBT TRAP ... Deputy Trade and Industry Minister Phumzile Mlambo-Ngcuka acknowledges fears for the poor

Here's your chance to help banks get their act together

(58) ST(BT) 28/3/99

Banks admit that their service standards are lousy. Now they want your feedback on a draft code of conduct, writes LEIGH ROBERTS

PROMISES, promises, promises. The new draft code of conduct for banks sets out how they should deal with their customers.

Although it contains lots of good stuff — the promise to treat you fairly and reasonably for one — it's not without some oddities.

On Friday, the Banking council released its draft "new and improved" code. Banks have accepted it, but the council wants feedback from consumer groups and the public. The final version is expected in September.

The draft code will replace the existing one, which chief executive of the council Bob Tucker candidly describes as "weak" and in need of "beefing up".

Tucker denies that the launch of the new code stems from recent parliamentary hearings in which banks were taken to task. He says work on the code started 18 months ago.

The code sets out minimum service standards and good banking practices. It's all the more important because, as Tucker says, banks accept they have "lousy" service standards.

Adoption of the code by individual banks is voluntary. All of the 48 member banks of the council (this includes the big banks) will subscribe to it.

The code goes a long way to helping customers understand what they can expect from their bank, and also their responsibilities in the banking relationship. Indeed, the code could be key to unlocking tension between banks and the public.

What is crucial, though, is that banks actively market the contents of the code. Tucker says the banks are most likely to display the code in their branches.

The code rests on lofty principles: to treat you fairly; to give you information in plain language; to advise and help you understand your banking products; and to correct errors and handle complaints speedily

But one of the code's principles prompts a cynical laugh. A bank promises to "act in the best interests of our many and different stakeholders". These number eight, and range from depositing customers to shareholders to the community at large. What rot! It's well nigh impossible to meet the best interests of all stakeholders all of the time.

Here's a summary of the major issues covered by the draft code:

DISCLOSURE

A complaint of many customers is that banks are shy about disclosing information, whether it's on charges or their procedures. The draft code holds extensive requirements for disclosure — good news for customers, but bad news for trees.

Your bank promises to give you information — when you join or at any time — on the key features of your banking products, on how your account operates (for instance, procedures on stopping cheques), the basic service charges, and interest rates.

The written terms and conditions "will be fair" and set out in plain language, using technical terms only where necessary.

Your bank promises to give you reasonable notice when there is a change in the charges for basic banking services, and "as much notice as possible" of changes in interest rates.

When interest rates go up, your bank will advertise the new rates in the media — but this won't happen when rates go down.

On advertising and promotional pamphlets, the code requires these to be clear and not misleading (at last an end to the misleading effective rates too often used in ads).

CROSS-SELLING

Many a bank customer has been pounced on by a commission-hungry insurance agent from their bank's insurance division.

Sadly, the practice of handing over your confidential bank account details to other companies in your bank's group — even to external companies — is considered good banking practice in terms of the code. But the bank has to have your (verbal) consent before they pass on this information.

In this era of bancassurance, customers can expect heightened interest by insurance sellers and even more junk mail.

CONFIDENTIALITY

Your bank promises to keep your affairs private, but there are four exceptions permitted by common law: with your consent (which covers the above); when it is legally obliged to disclose; when there is a duty to the public; and when it's in the bank's interest to require disclosure.

CREDIT AGENCIES

An issue that has long been controversial is information the bank passes to credit reference agencies. The code sets out circumstances when information on your account will be revealed, but the provisions are widely phrased, for instance after you have fallen behind with your payments.

LENDING

Your bank promises to market and approve loans responsibly in an attempt to ensure you are not extended financially beyond your means. This is a remarkable acknowledgement by banks of their responsibility.

If your bank refuses your credit application, you will be told why. This promise ushers in an era of transparency. Banks gave scanty information in the past.

Another welcome move is that the bank can advise a surety for a loan to take independent legal advice. One hopes this will lessen the number of hard luck stories of the ignorant surety losing his all after guaranteeing a friend's debt.

FINANCIAL DIFFICULTIES

Your bank promises to take reasonable steps to help you manage your financial difficulties — provided you approach them in good time. And your bank promises to be sympathetic!

CRIME

Your bank promises to take further steps to minimise your risk of crime at ATMs — for example, closing high-risk ATMs at night.

BANK CHARGES

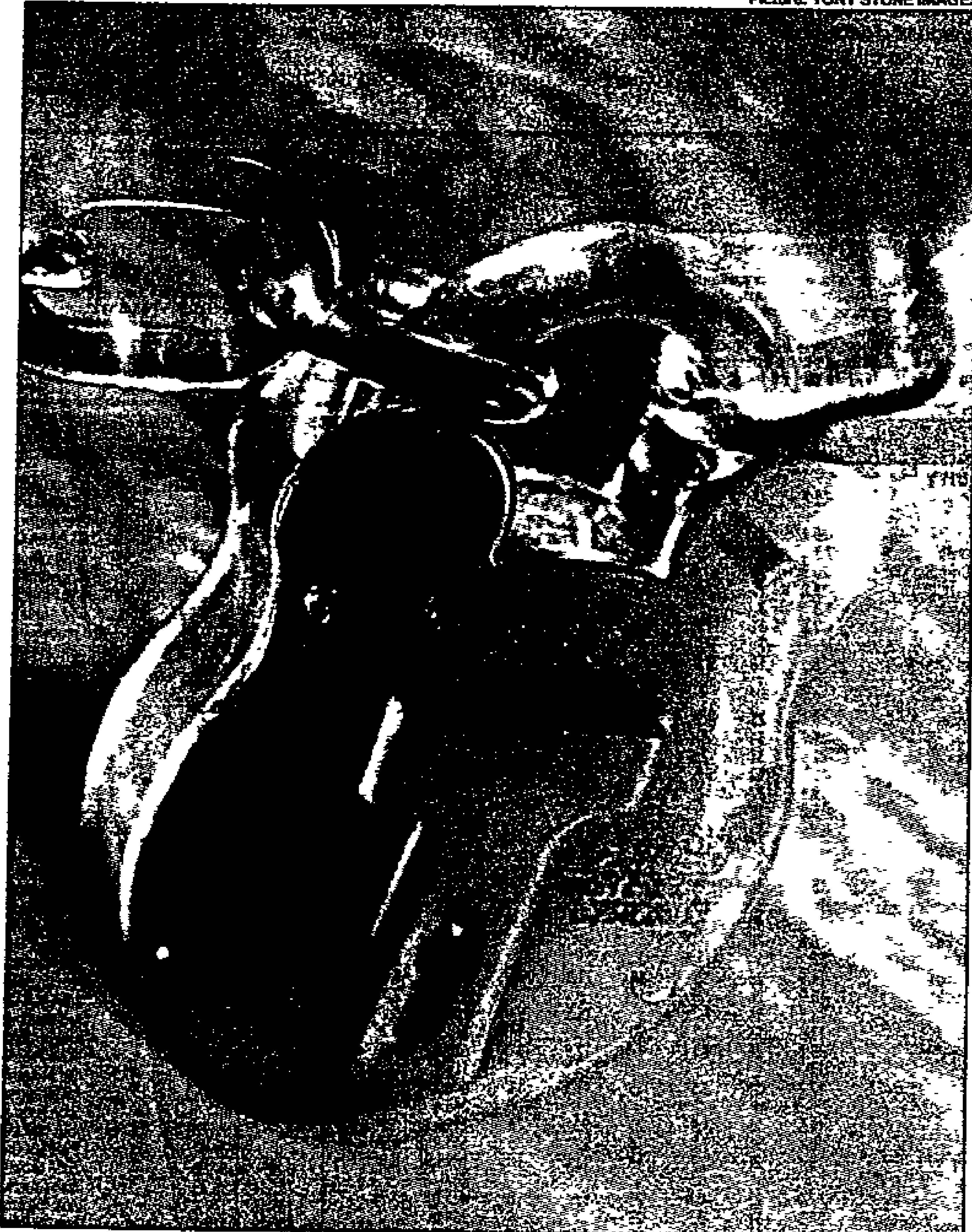
The code does not mention the excessiveness or otherwise of the service fees charged by your bank.

COMPLAINTS

A breakthrough is that the code requires your bank to establish formal procedures for handling complaints, whether on a branch or a centralised basis. Your bank duly promises to inform you of these procedures.

Unresolved disputes can be taken for mediation to the Banking Ombudsman, who will use the code as the basis for resolving disputes and awarding claims.

An independent ombudsman is crucial for the enforcement of the code.



Picture: TONY STONE IMAGES

KEY ISSUE ... the new code may unlock the tension between banks and customers

● The text of the code of conduct is available on our website www.btimes.co.za or call the Banking Council for a copy: telephone (011) 370-3500.

Banking council unveils new code

Sowetan 29/3/99

By Shadrack Mashalaba (58)

THE Banking Council of South Africa released its code of banking practice which it hopes will improve relationships between banks and customers.

The code, that will serve as a discussion document for comment, comes at a time when banks are under pressure to become user-friendly. For years relations between customers and banks have been cloaked in a veil of secrecy.

Among the fundamental principles contained in the document is a commitment by banks to act fairly and reasonably in all its dealings with customers; help customers choose service or product according to needs; have safe, secure and reliable banking and payment service; and correct errors and handle complaints speedily.

Presenting the code of conduct to the media in Johannesburg on Friday, BCSA chief executive Bob Tucker said the document provided safeguards for customers as it would help them understand how banks were expected to deal with them.

"The code does not only tell what the banks responsibilities are, but also addresses consumers' responsibility," he said.

The process was started in 1997. Its objective has been to rewrite a report which seriously committed banks to provision of service.

The code also deals with account operations in relation to statements, cheques and lost or damaged payment instruments; protection and difficulties experienced by customers.

Tucker said as part of the broader process, consultations with a number of bodies ranging from consumer organisations to government departments, were at an advanced stage with a view to establish an independent banking ombudsman office by September.

Charl Celliers is the first banking ombudsman whose term ended last year and his tenure in office had to be extended while an independent incumbent is being sought..

"The appointment of an independent ombudsman involving all interested parties will ensure that there is a speedy adjudication process which will enable customers to have speedy redress.

"We cannot wait for two years, we want to see the code in place soon," said Tucker.

Banks are also looking into making information available to customers relating to accounts, charges, ATM charges and mortgage loans.

These will be made available in a simple form and using clear advertising and promotional material.

Written comments on the new code are expected by May 15. This will be followed by a two months debate of the document.

Comments can be sent to BCSA PO Box 61674 Marshalltown 2107 or fax (011) 836-5509 or Email AdriW@banking.org.za

Road fund debt of R9-bn to be probed

High Court judge will lead commission

ARG 31/3/99

ARGUS CORRESPONDENT

Pretoria – A judicial commission is to be appointed to investigate the activities of the beleaguered Road Accident Fund, which is R9-billion in the red.

Transport Minister Mac Maharaj said yesterday the inquiry would be led by a High Court judge.

He said the judge had already been appointed, but he would not identify him, pending ratification by the president.

The minister assured claimants, however, that the fund would continue to meet its financial obligations, in spite of the R9-billion deficit.

The fund has been in the red for years, mostly as a result of apparently fraudulent claims lodged by lawyers for accident victims.

Some lawyers have been investigated in connection with their claims, which collectively run into millions of rands.

Newspapers have reported how accident victims were made to sign away power of attorney to law firms, which then lodged applications on their behalf. In many cases, victims were paid out far less than they had claimed.

Mr Maharaj said Parliament had passed a law enabling him to appoint a three-man commission led by a judge to investigate the activities of the fund.

The commission would be appointed for one year.

It would be expected to give a full report on the fund, and make recommendations to the minister.

Mr Maharaj said he was consulting the appointed judge about the two other members of the commission, whose names would be given to the president, pending their formal appointment.

Mr Maharaj also had good news for victims who had received payments from their lawyers who had claimed on the behalf from the fund.

He said such cases were receiving attention and, if it was found that the victims were underpaid, they would be compensated accordingly once investigations were completed.

"It is clear that we have lawyers who enrich themselves with money not belonging to them. In 143 cases investigated, six lawyers withheld all the money paid out by the fund for themselves.

"The victims received nothing, while in most of the other cases, victims got less that 44% of what was due to them," he said.

He said the Heath investigating unit has been given a mandate to go through all payments made to lawyers since 1990 to find out if any irregularities had occurred.

Mr Maharaj said that in all cases where it was found that an attorney had acted improperly, Judge Heath would recover the money from the lawyer and pay it directly to the victim.

Mr Maharaj said the two investigations were being conducted separately because he wanted to make sure that enough work was done before he left office.

He said that while there was opposition in some quarters to the Heath investigating unit, there was nothing to stop it because most of the accident victims should be protected by the Government.

MICRO-LENDING

The plan is to net loan sharks as they target minnows

(58) CT(BR) 1/4/99

LYNDA LOXTON

South Africa's low savings rate is legendary, the result of the virtual exclusion of many citizens from the formal economy and skilled employment during the apartheid years. It is a millstone the economy will have to bear around its neck for many years.

In the meantime, however, rising social and economic aspirations among the majority of our population have turned the attention of authorities to the cost of credit, especially firms specialising in small loans. These have mushroomed in recent months, as they show willingness to service the needs of low-income earners than the mainstream banks.

There have been some horrific tales about interest rates of up to 300 percent a year being charged by these loan sharks, often leaving the lenders even worse off than before.

As a result, the government is reviewing the Usury Act, which governs these "informal" lenders, but it is also asking questions about what the mainstream banks can do to be more accommodating to the less well-off. After all, their need for credit is not only consumption-related but is often based on efforts to finance self-employment.

The situation has been clouded by the fact that, for a variety of external reasons, formal bank interest rates have soared over the last year, although they now appear to be on their way down.

The national assembly's portfolio committee on trade and industry recently held several days of hearings on the issue, receiving representations from a variety of interest groups. The committee reported there was a structural link between the two issues.

Formal banks were undergoing profound changes, mainly because of their increased exposure to international competition. They were having to invest heavily in new technology to provide fully computerised, 24-hour, all-year-round banking, even though this was inaccessible to most South Africans, especially in the rural areas.

This had led to sharp rises in bank charges, with some alleging that the poor, with smaller banking accounts, were being penalised more than the rich. It had encouraged the development of the micro-lending industry, which provided much-needed credit to people who lacked access to formal credit or banking services.

The committee determined that the largest and fastest growing of the micro-lenders were those who provided credit to waged and salaried people. Most of the abuses took place in this sector, with some companies demanding ID documents and marriage certificates as "security", as well as charging high interest rates.

Even more worrying was that a number of small loan firms had been granted access to direct withdrawal facilities from the government's Persal payroll system. As a result, civil servants had become the major target of these firms, and many were having large slices of their salaries deducted each month.

Some firms were putting pressure on clients at welfare payout points. "All of this should be viewed against the backdrop of indications that an increasing number of poor people are falling into a debt trap," the committee said.

Although some formal banks, such as Standard Bank through its E-bank facility, were trying to draw more of the poor into their system, the committee concluded that much more had to be done to provide affordable services and credit facilities to lower-income people.

The committee suggested the various levels of government could also place their bank accounts out to periodic tender, "and make decisions on where to bank partly on the basis of how particular banks respond to community needs".

The Catholic Bishops' Conference said it was willing to do the same, which suggested that the government could enter "into a dialogue with the churches and other forces in civil society to develop criteria to put to the banks". It has also been put forward that the government could introduce legislation similar to the US Community Reinvestment Act.

"This would require disclosure of, and set guidelines for, involvement by financial institutions in the provision of services to low-income communities," the committee said. It believed this merited "urgent consideration".

In the short term, the committee felt the government should concentrate on establishing a credible ombudsman for the banking industry, who was independent of the industry, and could be effective in dealing with customers' complaints.

Financial institutions should be forced to be more informative about what they were charging clients for various services, and when these would be levied.

There should also be a review of who could have access to the Persal system and what lending firms were doing at welfare payout points.

The committee recommended the stricter enforcement of existing regulations, including disclosure and cooling-off provisions for loans under R6 000, and a ban on the holding of identity and other personal documents by loan firms.

The longer-term challenge was to develop an effective regulatory environment for the whole system. The committee believed self-regulation had not worked in the sector and that there was a clear need for greater consumer protection.

Most controversial of all was whether there should be a cap on interest rates, especially at the micro-lending level.

The committee accepted that loan providers had to be able to recover their costs, but said there was too high a level of abuse and exploitation of low-income consumers to contemplate abandoning interest rate caps.

500 victims of voracious lawyers ask Heath to help

By MAX MARX

MORE than 500 road accident victims, who were allegedly defrauded by greedy lawyers, have contacted the Heath Special Investigative Unit since President Nelson Mandela's proclamation on March 17 requiring the unit to investigate the matter.

The unit is to investigate the defrauding of road crash victims by unscrupulous lawyers since 1990 and recover the money which has been stolen from them.

During an interpolation debate in the National Assembly on March 25, Transport Minister Mac Maharaj said the unit would help ensure road accident victims received the compensation they were entitled to.

He said the Road Accident Fund (RAF), of which he is the shareholding minister, had been aware of unethical and illegal behaviour by some members of the legal fraternity for some time.

Maharaj said of the 143 cases involving 18 law firms investigated by the RAF and the Department of Transport (DOT), on average 56 percent of what was supposed to be paid to victims was kept by their lawyers.

He said it appeared that in six instances 100 percent of the amount the claimants were awarded was kept by their lawyers, and in 42 percent of cases lawyers kept more than 65 percent of the awards.

The 143 victims claimed they had only received R7,038 million of the R15,676 million paid out in settlements by the RAF.

"We know that of the Fund's annual claims budget of R1,386 billion, about 20,5 percent (R284 million last year) is spent on settlement costs.

"On top of this comes attorney/client costs which are not disclosed. We estimate these attorney/client costs further reduce the monies paid to the victims to less than 70 percent of the award, which means that 30 percent to 40 percent of that revenue goes on settlement and legal costs, and not to the victims."

Maharaj added that his office and the RAF had received countless complaints and queries from victims whose lawyers had not even informed them of the total settlement awarded by the Fund on their claim. He said these practices occurred after payment and settlement of the claims by the RAF, and the full extent of the problem was therefore not known.

"About 10 000 people die on our roads every year while 250 000 are injured, 50 000 of them seriously. This is the potential scale of the problem.

"Our first priority must be to recover the money stolen from the victims, as all too often they are poor and disadvantaged with no other means of support."

Maharaj added that the challenge lay with the legal profession.

"Through three White Papers on the RAF, countless drafts, workshops, hearings and meetings, the legal fraternity has fought to maintain the status quo and block any change to the operation of the Fund to speed up the settlement of claims and bring early relief to victims.

"The status quo cannot continue to exist as it is a scam that involves lawyers and some medical practitioners and assessors in a R500 million-a-year business bankrolled by taxpayers."

He said the RAF had referred numerous claims to the Law Societies for investigation.

Maharaj said that since 1988, 84 cases had been referred by the Fund to the police for criminal investigation and charge sheets were currently being drawn up against three firms on 34 cases.

Law Society of South Africa spokesperson Anna Mkwena told City Press she could not comment until after the Law Society meets next week.

(58) (52)

CP 4/4/99

Business Times MONEY

Tough law to protect the investor from incompetent advisers

Government is determined that only the right people operate as financial advisers, writes LEIGH ROBERTS

(58) ST (BT) 4/4/99

O Happy days! At last we'll have regulations with teeth to protect consumers from incompetent, underqualified financial advisers.

Long-awaited legislation will put the screws on financial advisers, and radically change the way financial products are sold.

Proposed regulations will prevent any unlicensed person from practising as a financial adviser, enforce a strict code of conduct and put in place extensive consumer protection measures.

On Tuesday, the Financial Services Board will release the Financial Services Advisers Bill for public comment — but you can get a copy of the Bill today on our website www.btimes.co.za

The Bill is important as it's the first piece of legislation to regulate activities of financial advisers. Right now, any Tom, Frik or Thabo can call himself a financial adviser (today a bricklayer, tomorrow a financial adviser).

The Bill is a courageous effort — and the legislators certainly deserve a song of praise.

The life assurance industry and other powerful lobby groups have long called for industry self-regulation and a complaints-driven system, rather than legislation enforcing compliance.

But the Financial Services Board (FSB) and the Finance Ministry won the day. The Bill is strongly compliance-based; industry sources say this is largely because of Deputy Finance Minister Gill Marcus's foot-stamping.

The regulations — and here's hoping they make it into the Act without much change — catapult SA into the first world where similar legislation is imposed.

However, the Bill departs in excluding the financial adviser's duty to give "best advice". But this omission, say industry sources, will be rectified after the debate on whether to use "best" or "good" advice is over.

The Bill's regulations will govern banks, stockbrokers, pension funds, life assurers, short-term insurers, unit trusts, linked-product companies and medical schemes. This wide governance means any person who sells such financial products must comply with the regulations.

Independent financial brokers will fall under the legislation, as will sales employees or agents of authorised financial services companies (this covers insurance agents). The Bill applies to foreign financial advisers, too.

The adviser is seen as giving advice, in terms of the Bill, when making a recommendation, giving an opinion or carrying out financial planning involving any financial product, whether the advice is oral or in writing.

A person who wishes to carry on business as a financial adviser must apply for a licence from the FSB, and give information on his business profile and reputation, which includes financial soundness and record of competence.

The applicant must satisfy the FSB that he is a "fit and proper person". Applicants who have a criminal record won't be considered, unless their offence is of a minor or outdated nature.

The successful applicant will be called an authorised financial adviser, and be licensed for 12 months, after which he must apply for a renewal.

Company agents or sales employees are under the control of the financial services company (which must similarly apply for a licence). The company must keep a register of all agents, disclosing their areas of competence, qualifications and experience. A member of the public will know the agent is authorised by the letter he or she carries, stating the company accepts responsibility for the advice given.

The financial adviser must set out the advice to the client in a written document, detailing the reasons the recommended products are thought to meet the client's needs. This is signed by both parties. Importantly, this exonerates the adviser from legal liability apart from that arising from false or misleading information. But the client can take civil action against the adviser.

The Bill requires the appointment of compliance officers to monitor adherence — this applies even to two-person brokerages and a single adviser who employs sales representatives. The officer must report complaints and any non-compliance to the executive chairperson (the industry "premier" to be appointed in terms of the Bill).

The adviser must keep detailed records of the procedures with clients, including the advice given and reasons for it. These records must be audited, and FSB inspectors will also make random checks.

The Bill sets out the procedures for complaints by clients. If the adviser does not satisfactorily rectify the problem, the client can take the matter to the executive chairperson or to the industry ombudsman.

The executive chairperson can apply to court to restrain a financial adviser who doesn't toe the line; and for damages claims which can be paid out to aggrieved parties. Financial advisers who contravene the Act could face three years in prison or a fine of R100 000.

The Bill calls for a cooling off period when a client has bought a financial product after an unsolicited call from the adviser.

But for all the glory of the Bill, there are some weak areas. The Bill refers to minimum qualifications for advisers, but cops out on this score as it makes no recommendations.

Industry sources say there will be a ranking system for financial advisers. For instance, a junior adviser is limited to bank deposits or funeral cover. But the Bill doesn't mention this.

All in all, this Bill deserves praise. It is certain to prompt much lobbying and bickering in the industry.

● See page 11

Picture: TONY STONE IMAGES

STRICT ENFORCEMENT ... the new law will keep financial advisers on the straight and narrow

BANKING

FM 9/4/99

LEARNING TO JUMP BEFORE THEY'RE PUSHED

(58)

Big retail banks ponder the problems of banking on the masses

It's not surprising big retail banks have been reluctant to do business with low-income clients; that mass market has always tended to operate at a loss, or show weak returns. Lately it's become even more difficult, as foreign and domestic niche players nibble aggressively at the most profitable banking business: the 20% of banking customers who — so the saying goes — bring in 80% of the profits.

It makes you wonder why the big four retail banks haven't turned their backs on the mass market and focused on protecting their higher-value and corporate business. But they have been slow to offer a full banking package that includes regular personal loans that meet the needs of the low-income target market. That's why controversial microlending operations have flourished in SA.

But there are two compelling reasons the retail banks will never walk away from the low-income end of the market: political pressure and a groundswell of popular resentment towards banks; and a realisation among bankers that, as SA's economic and educational disparities shrink, the mass market will become a far more important source of business. Standard Bank's consultant McKinsey has established from official census data, for instance, that there are 35m unbanked South Africans — 12m of them employed.

But until market conditions in that sector improve, the banks will have to keep grappling with some difficult challenges.

The most contentious issue, from a client's point of view, is the bank's fee structure. Patricia Rolisisu is just one customer who complains about the amounts she is charged for small withdrawals from her account.

Rolisisu is a contract worker. Her salary is deposited monthly by her employer into her account at a bank she didn't even choose. This particular bank doesn't yet offer depositor incentives, such as funeral schemes or other value-added products that are becoming the norm in an industry struggling to meet both client and shareholder demands.

Given a choice, Rolisisu may well have gone to a different bank, as she says that if she were offered free funeral cover or an education loan she would be less concerned about paying the bank charges.

Well aware of the criticism of bank charges from all kinds of customers, banks say they can no longer afford to cross-subsidise the lower end of the market as they have done This is especially so since the competition for banking business started growing more intense.

The banks maintain that savers or wealthier clients have been paying for the lower-income customers, who are more expensive to service because they regularly make low-value transactions. What's more, they rarely leave enough money in the account to generate interest income for the bank.

Absa, which according to Banking Council research has the lowest ratio of transaction costs to total income, wants to stop cross-subsidising its low-income clients soon. It claims to have 4,8m non-profitable savings clients. But Absa commercial banking GM Eric Tomlinson says clients won't end up paying more for the same product; Absa promises to add value to the existing accounts by offering funeral schemes and other add-ons to give customers better value for their money.

MASS MARKET BANKING ACTIVITY

1996 - Perm split into Peoples and Permanent Bank to differentiate market from low-income and middle-income.

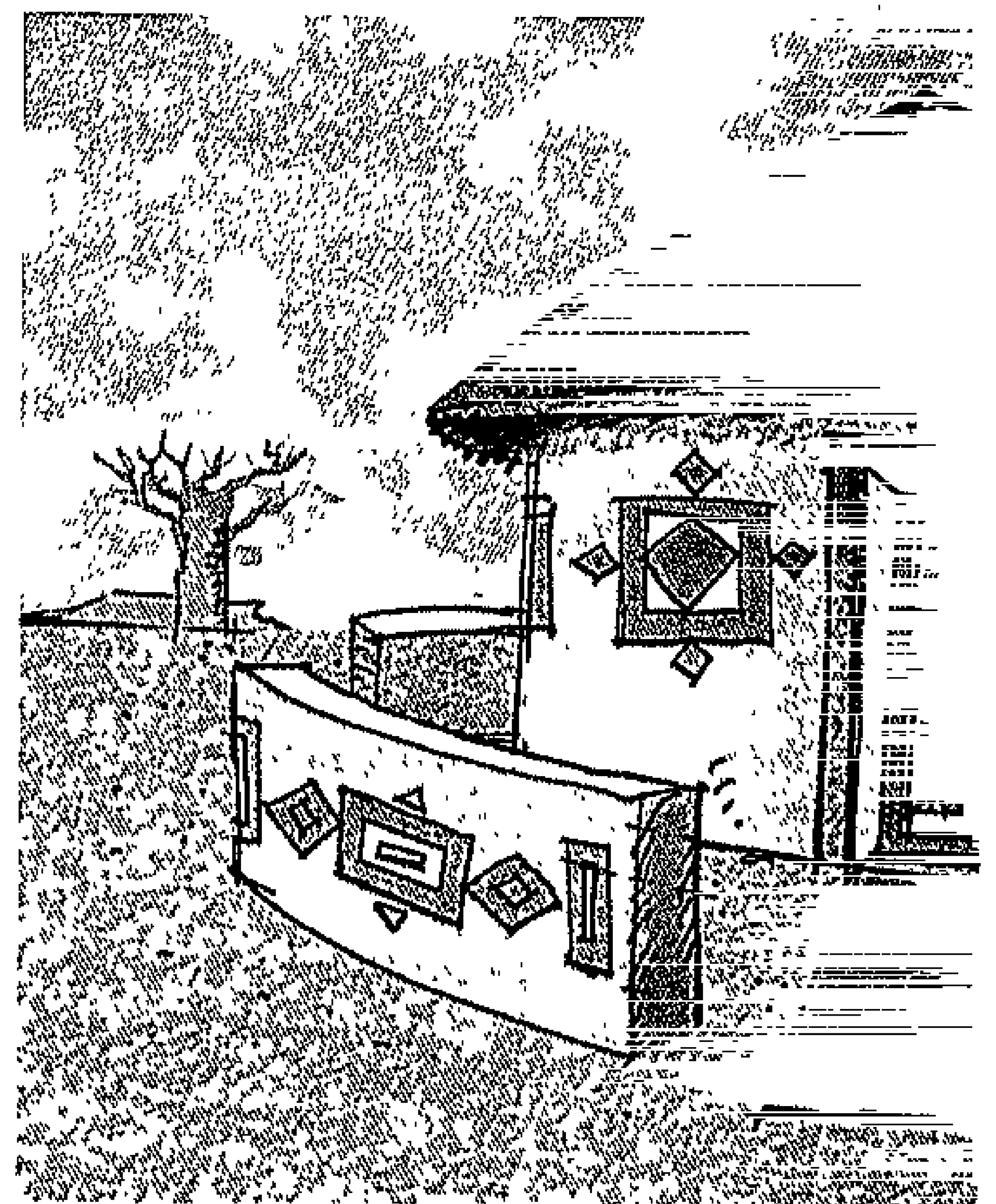
Mid-1998 - Standard Bank's E Plan strategy changes, new price structure and bank on the road to making profits.

1998 - FNB launches Building a Better Bank campaign and uses Bob Bank to target low income market.

March 1 1999 - Portfolio Committee on Trade and Industry meets to discuss bank charges and microlending industry.

March 25 1999 - Standard Bank and Nedcor become loan originators for the Gateway low-income housing securitisation project.

Going forward - All four retail banks looking at ways to extend microloans



Welcome to your bank . . . innovation is the key to kee

Some of the other banks already offer other products in a package. For instance, Standard Bank offers a funeral scheme to clients of its E Plan — aimed at the low-income market. There are also short-term plans to add a bancassurance product to the package, says Standard Bank mass market assistant GM Tony Ketcher.

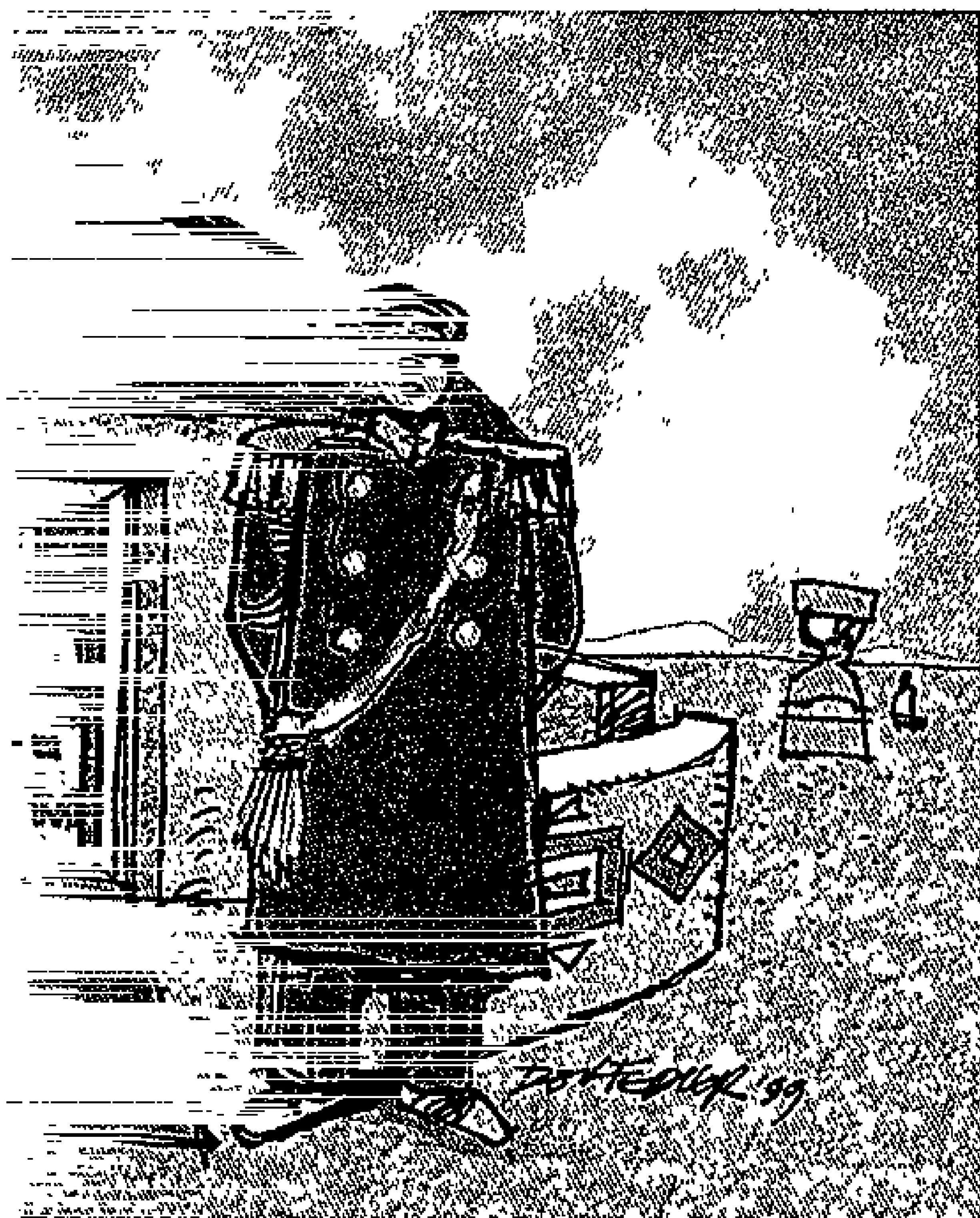
Peoples Bank recently added a funeral scheme and education loan to its low-income savings product. Absa and FNB are developing value-added products such as funeral schemes and endowment and education policies.

Do these innovations mean low-income banking can be profitable? Ketcher says the E Plan has been profitable since the group changed strategic direction last year. "In mid-1998 we brought E Plan back into the bank structure because customers weren't associating it with Standard Bank. We also introduced pricing changes because we were convinced it was a profitable product," he says.

It certainly seems to be a hit with the low-income market — the bank is opening 50 000 new accounts a month and so far has 2,5m E Plan customers

But not all banks are in the same boat. Peoples Bank, for instance, is running in the black but is being cross-subsidised by a huge, affordable home loan book it has built up since the Perm pioneered its way into the market years ago, says Peoples Bank MD Craig Bond.

He says the bank is keeping client costs low because "we want to grow the book



› a low-income customer base

as big as possible and make it affordable to our clients". The low-income bank has almost 1m savings and home-loan customers.

FNB Bob Bank assistant GM Zweli Manyathi says the low-income banking segment is profitable as a whole but some areas "will never make money".

Bob Bank, which caters for customers with a minimum salary of R800/month, has 3,5m clients. On the group's future plans for the sector, Manyathi notes "the bank is working with a few companies with a view to launching value-added products such as funeral benefits, endowment and education policies." The process has been slowed up by complications.

In the urgent drive to offer cheaper banking to the mass market, banks have come up against an unexpected hitch: customers have been slow to move over to the sophisticated, lower-cost technology designed at great cost to the bank. Many are still much more comfortable using the full-service branches.

Manyathi says banks have learnt they can't "stamp" technology on their clients. "We offer clients a combination of electronic banking and branches because we have accepted that you can't throw technology at people."

Ketcher had a similar experience: "We encountered a reluctance to migrate to the technology and had to bring it into the broader offering of the Standard Bank."

As a result, banks are now putting staff into electronic branches to assist clients who are intimidated by the technology. E Plan has set up 88 Autobank E Centres and FNB Bob Bank has 48 branches that offer electronic banking and full branch services.

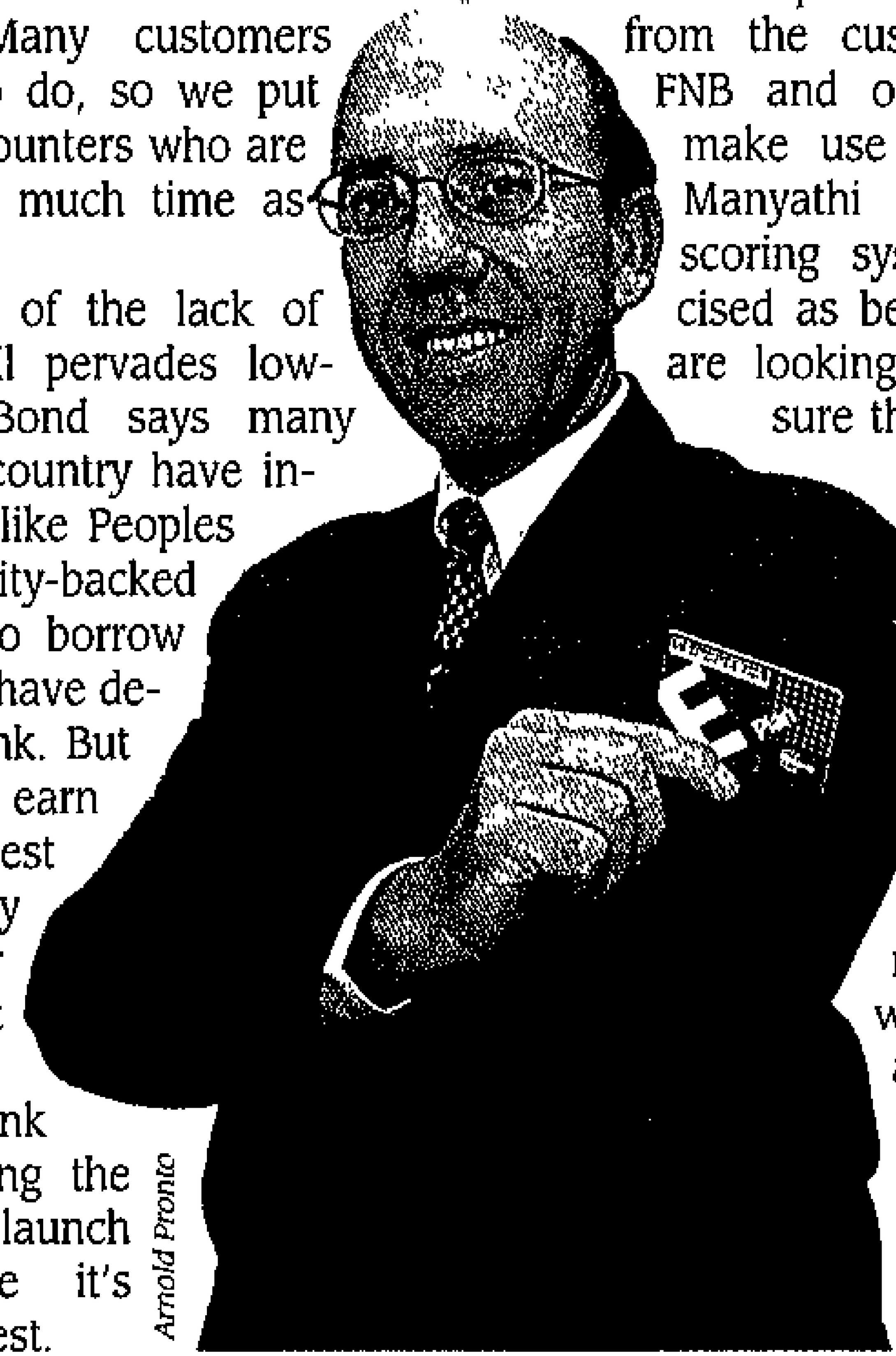
Ketcher and Manyathi agree that they need more outlets. Standard Bank wants to treble the number of E Centres in time and Bob Bank has set a target of 120 branches in SA's metropolitan areas within five years — 20 of which will be set up this year.

Peoples Bank has an advantage because of its earlier emphasis on the mass market when Bob Tucker took the Perm into the low-income areas. The bank has 1 100 ATMs and 90 branches, with many well-placed for its customers "We've focused on areas where people work and live," says Bond, noting that the bank is reviewing its branch network.

The bank has spent a lot of time on designing and staffing branches that complement the market they serve. "Peoples Bank branches are different from the usual branches. Many customers aren't sure what to do, so we put people behind the counters who are happy to spend as much time as necessary," he says.

As an indication of the lack of knowledge that still pervades low-income banking, Bond says many clients around the country have indicated they would like Peoples Bank to offer security-backed loans. They want to borrow against money they have deposited with the bank. But it would mean they earn a far lower interest than the one they would be paying for a loan they don't really need.

Bond says the bank is not recommending the product but may launch something because it's such a popular request.



Arnold Pronto

Ketcher . . . *E Plan growing by 50 000 accounts a month*

Apart from the bank charges issue, banks are also experiencing pressure to extend microloans and stem the practice of issuing cash loans at interest rates of between 30% and 40% a month. Most banks are already lending relatively small amounts to their low-income customers, but they're obviously not nearly active enough to meet the demand.

Ketcher says Standard Bank has extended term loans to 70 000 of its customers in amounts that range from R500 to R8 000. Manyathi has estimated that 80 000 of its Bob Bank clients have borrowed an average of R1 500

Both are debating whether they'll enter the microlending sector and, if so, how. Standard Bank is running a pilot project where it extends small, unsecured loans to employees of corporates.

Manyathi says FNB will definitely not participate in the controversial cash loan, or pay-day, part of the microlending business and will probably not extend loans of less than R1 000 because of the cost of administration. Standard Bank has similar concerns.

"The fact that our customers are going elsewhere for cash loans means we're not delivering a comprehensive service to our market. We need to repackage the personal loan because the administration of the personal loan is expensive at the moment," he adds.

Manyathi says the bank may have to consider extending nonsecured loans because the process of taking security from the customer is expensive. FNB and other banks want to make use of a scorecard but Manyathi points out that the scoring system could be criticised as being Eurocentric. "We are looking at ways of making sure the system is not tilted in favour of one group and not another," he says.

Absa plans to link up with an existing microlender. Meanwhile, Peoples Bank expects to offer its clients a microlending facility within six weeks. "We are coming out with a product that will counter the loan sharks," says Bond. "We're going to do it on our own. There are no partnership plans."

The bank will first conduct a soft launch because "we're babes in the wood when it comes to unsecured microlending" and will offer a minimum loan of R500

Peoples Bank is obviously not alone in its nervousness about entering a market it's tiptoed around for most of the Nineties. But it seems that at this stage its fear of being pushed into the market outweighs its misgivings.

Sharon Wood

Sunday Times Business Times
April 11 1999

ST(BT) 11/4/99

Pay up, pay up for the bottomless accidents fund

(58)

FUEL LEVIES

By DON ROBERTSON

MOTORISTS must be prepared to pay even higher fuel levies to finance the increasing deficit in the Road Accidents Fund (RAF) — in spite of efforts to weed out fraudulent and exaggerated claims and inflated legal accounts.

Recently, Transport Minister Mac Maharaj made a proclamation allowing the Heath anti-corruption unit to investigate allegations that some lawyers have defrauded accident victims of millions of rands. It was reported that in some cases over 50% of payouts by the RAF were kept by lawyers.

An increase in the fuel price has an immediate impact on inflation. This week the petrol price was raised by 7c a litre — the result of higher crude oil prices and a weaker rand. The 7c includes a 4c increase in the levy, announced in the Budget.

The RAF, previously the Motor Vehicle Accident Fund or Third Party, compensates victims of motor accidents and is financed mainly by a levy on petrol and diesel sales.

In his Business Plan for 1999-2000 presented last week, Maharaj says the fuel levy has been increased twice since November 1997 from 10.5c a litre for petrol and 6.8c a litre for diesel to the present 14.5c a litre for petrol and 10.3c a litre for diesel.

"The two latest increases are, of course, most welcome, but over the past five years the income has covered only 58% of expenditure. This demonstrates the necessity for regular and timely reviews of the fuel levy rates," says Maharaj.

Since 1994, the RAF deficit has increased by 121% from R3.783-billion to the current R8.385-billion in the 1997/98 financial year.

Maharaj says the restructured RAF is coping well with the inflow of exaggerated and fraudulent claims, especially over the past three years, "but the number of outstanding claims can be expected to grow because of the large number of claims now being lodged and the time it takes to reach settlement".

Maharaj says 243 claims were received in the past financial year for R1-million or more, totalling R513-million. These were eventually settled for R83-million or 16% of the amount initially claimed.

The average claim paid in the 1997/98 financial year was R29 762 compared with R30 263 in the previous year and R33 993 in 1995/96.

The average payment had been increasing by about 20% prior to 1995 and efforts to combat this have saved the RAF about R1.7-billion in the past three years.

Maharaj says it is cause for concern that the RAF should operate in such a litigious environment and spend so much on legal costs, which exceeds the medical benefits paid to victims.

(58)

ST(BT) 11/4/99

State moots super-body to oversee financial services

The Reserve Bank may soon lose control over banking supervision, writes THABO KOBOKOANE

THE government is considering the creation of a super-regulator to oversee banking and financial services, a move which may remove responsibility for banking supervision from the SA Reserve Bank.

The Department of Finance recently held a workshop on a report by the Policy Board for Financial Services and Regulation on ways to improve regulation and supervision. Experts from Australia, Canada and the UK attended.

Maria Ramos, Director-General of Finance, says: "We are exploring options on how to improve regulation and supervision. We listened to international experience and we will consider what might work best for SA."

Registrar of Banks Christo Wiese says the exercise is part of an ongoing debate on how best to regulate financial institutions. He says banking supervision forms part of the debate.

It is understood that two options are being considered. The first is to leave the present regulatory system unchanged. But the second, and the one apparently favoured by the ministry, is to consolidate existing regulatory bodies, in particular banking supervision and financial regulation, outside the central bank. An independent prudential supervision and financial regulation body will then be formed.

If the second option is accepted, it will almost certainly remove the function of banking supervision from the SA Reserve Bank, following an announcement early this year by Finance Minister Trevor Manuel that the government, and not the central bank, would in future set inflation targets.

There is ample evidence to suggest that if government decides to consolidate its regulatory bodies under one entity, banking supervision may be removed from the central bank.

A common feature of several regulatory bodies globally has been to combine banking supervision with some form of regulation outside the central bank. Such a move leaves central banks the task of merely implementing monetary policy.

The presence of experts from Canada, UK and Australia suggests that government may be looking at models in these countries, although Ramos insists many options are being considered.

Canada, for instance, merged its banking and insurance regulation, while Belgium and Switzerland did the same for banking and securities.

The UK in 1997 launched the Financial Services Authority, formerly called the Securities and Investment Board, which acquired powers from nine regulatory domains, including banking supervision, wholesale money market institutions and foreign exchange, over a period of two years.

But Australia has gone one step further. Its single prudential regulator, Australian Prudential Regulation Authority, covers all sectors, also those outside of the central bank, following a probe by government.

A move towards a super-regulatory body, first raised in the Melamet Commission report in 1994, will therefore be in line with international trends.

The development has been spurred by a trend toward conglomeration in financial services.

The present system in SA is considered by some to be outdated. They argue that a one-stop regulatory body, alongside a reformed regulatory regime, removes regulatory overlap and uncertainty over different reporting requirements. There are several regulatory bodies in SA at present, including the Financial Services Board, the Registrar of Banks (a division of the SA Reserve Bank), the Registrar of Companies and the Securities Regulation Panel.

contenders have to incorporate plans ... bidders, Sunwest

Regulator warns about unregistered operators

BD 12/4/99 (58)

Taryn Lamberti

AS more insurance companies demand that their clients undergo polygraph lie detector tests, the Polygraph Association of SA has warned about unregistered examiners who lack the required training or experience.

The association, which has 34 members including the SA Police Service and the SA National Defence Force, was a private body set up to regulate the lie-detection industry in the absence of laws governing it, said the association's president, Coen Pretorius.

However, some operators who do not belong to the association claim it is not the right body to perform a regulatory function.

Pretorius said that the operators who functioned on their own without subjecting themselves to regular investigations and who did not abide by the association's code of ethics, gave the industry a bad name.

Fanie Voges, the MD of Polygraph Proactive, who was recently alleged to have subjected an insurance claimant to verbal abuse and intimidation during a polygraph test, said the association was not a nationally recognised body and there were many operators who had chosen not to join it. Voges denied the allegations against him.

He said that he was one of the three longest serving polygraph examiners in the country. Not one of them had chosen to join the association.

Pretorius said Voges was one of the operators giving the industry a bad name.

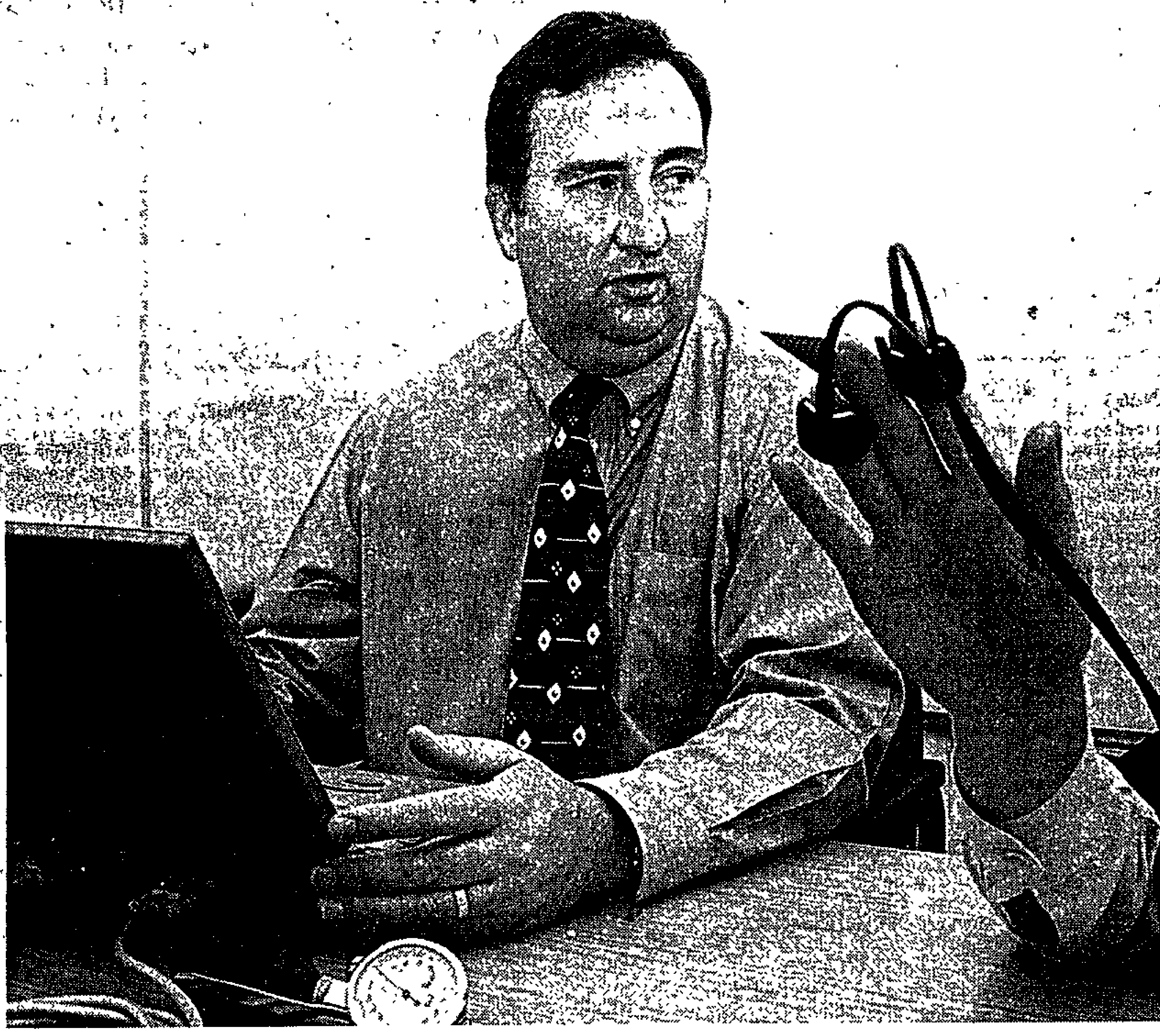
"We invited Mr Voges to our first meeting when the association was established, but he chose not to join. I believe this is because he does not have the necessary qualifications. I have also heard ... that Mr Voges was not properly trained," Pretorius said. Voges refuted this, saying he was trained for three months by a person who had been trained in the US, and that he underwent an internship of three months. He said he had not joined the association because its name was too similar to a company, the Polygraph Institute of SA, of which Pretorius was a director.

Another operator who does not belong to the association, Kevin Condon of Lodge Services, claimed he was the longest serving examiner in SA. He said some of the association's members were underqualified.

He said he was trained by the Baxter School of Lie Detection in the US.

Condon stressed that anybody undergoing a polygraph test should first ask to see the examiner's qualifications. "The industry does have to be policed but the question is who the best people are to police it," he said.

Pretorius said the association required its members to warn the people it was testing that they did not have to answer any questions they did not want to answer. He said the testing should never be used as a form of interrogation.



SA Polygraph Association chairman Koen Pretorius demonstrates the use of a polygraph. Picture: TYRONE ARTHUR

Bills to cover medical aid brokers

Pat Sidley

BROKERS selling medical scheme memberships are likely to be regulated through the Financial Advisers Bill that is now being circulated for comment, and certain aspects of their work could be regulated through the Medical Schemes Act.

It is also likely that limits will be placed on the commission they earn. The health department has suggested a ceiling of about 3% of premium income.

This information emerged yesterday in a discussion on the remuneration of health-care brokers at the Institute of Life and Pension Advisers (Ilpa) annual conference, held in Sandton.

Commission for medical scheme brokers is technically not allowed, but this rule is often ignored. As a result there has been abuse of commission payments.

The new Medical Schemes Act seeks to regulate sales of scheme membership and the recently released financial advisers bill makes provision for the regulation of brokers selling health-care products.

Patrick Masobe of the health department welcomed the draft Financial Advisers Bill, saying he believed its provisions could be used to regulate medical scheme sales remuneration. He said it went further than he had expected, but believed certain aspects of medical scheme sales still would have to be regulated by the Medical Schemes Act.

Task groups were working out aspects of the regulations to be applied to the Medical Schemes Act, which was passed by Parliament last year.

In his address to the conference, Masobe outlined provisions under the Medical Schemes Act that would apply to these sales staff. Among the key points would be the need for sales staff to be accredited and licensed.

Full disclosure would be necessary, including disclosure of remuneration and a full written contract with a scheme member specifying the nature of the services.

A code of ethics could also be devised to which all sales staff would have to subscribe.

Masobe said that the health department believed the maximum commission paid should be 3% of contributions.

However, an alternative would be for medical schemes to use a portion of their marketing expenses to pay sales staff.

Better regulation could prevent crisis, says Stals

(58) CT (BR) 13/4/99

LUKANYO MNYANDA
ECONOMICS EDITOR

Johannesburg – The financial crisis of the past two years had highlighted the need to upgrade the supervision and regulation of banks and other financial institutions, Chris Stals, the Reserve Bank governor, said yesterday.

"Bank and other financial institution supervision and regulation must be upgraded and new standards of adequate risk management must be introduced," he said at the annual convention of the Institute of Life and Pension Advisers.

He cited the insufficient supervision and regulation of financial institutions and the lack of accurate economic data as among the main causes of the emerging market crisis, which began with the collapse of Thailand's currency in 1997.

Lax controls over multinational financial institutions had encouraged excessive leveraging of a relatively small capital base among hedge funds. Certain banking institutions, such as the Long Term Capital Management fund had had to be rescued by large US banks under the supervision of the Federal Reserve last year.

Stals also called for a review of the role and policies of multilateral institutions like the World Bank and International Monetary Fund, to examine their part in the prevention of future crises.

In a statement interpreted by market players as meaning that the Reserve Bank was happy to see interest rates go down further, Stals said there was cautious optimism that the macroeconomic adjustments of the past year had succeeded in restoring financial stability and had laid the basis for a recovery in real economic activity.

He said the tightening of monetary policy in most crisis-hit countries had largely succeeded in re-establishing stability. Ending the decline of economic activity, promoting the resumption of sustainable growth and accelerating financial and corporate restructuring were now priorities.

But Roelof Botha, a senior lecturer at Rand Afrikaans University, attacked the Bank's "lousy" reaction to the financial crisis, which entailed prime lending rates shooting up to a record 25,5 percent last year, for inciting panic and increasing liquidations.

"They should have let the currency find its own level," he said. "It did anyway."

He said Bank policies were hard to understand and could not be justified in light of the country's need to boost growth and job creation. "We have to do something about the Reserve Bank."

Real interest rates should fall in line with those of South Africa's trading partners in Europe and North America, he said.

Banks urged to aid homeless

(58) (120)

THE Ministry of Housing is looking at creating incentives, such as tax breaks, to encourage banks to offer more perks to low-income clients, Housing Minister Sankie Mthembi-Mahanyele said yesterday.

Speaking at a media briefing ahead of a three-day meeting with her United States counterpart Andrew Cuomo, Mthembi-Mahanyele said the local banking system had much to learn from the US system.

She said banks in the US had developed cordial relationships with low-income earners.

Cuomo, secretary of housing and urban development in the US since January 1997, is in South Africa for the annual meeting of the Bi-National Commission (BNC) housing committee.

The committee is one of seven that were formed in 1994 by US deputy president Al Gore and SA Deputy President Thabo Mbeki.

Some of Cuomo's greatest achievements at home involve initiatives related to credit and finance initiatives, such as encouraging home ownership.

"I particularly want to share American expertise in the areas of home financing and construction of affordable housing," Cuomo said yesterday.

Mthembi-Mahanyele said she was confident banks would understand the benefits of what was being done in other communities. "Local banks are coming round to understand what we are trying to do," she said.

Cuomo is scheduled to visit Johannesburg, Pretoria, Soweto and Cape Town. – *Sapa.*

Sowetan 13/4/99

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(58)

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Sowetan 13/4/99

Ready and eager to learn ... a group listens attentively to one of the skills lectures run by the Women's Development Banking.

Helping poorest help themselves

Star 15/4/99 (58)

Development Banking initiative offers women more than just a ray of hope

By Edwin Naidu

Nobody understands the importance of successful business choices made by a collection of smartly dressed executives in Johannesburg more than the rural folk who reap tangible profits from these high-powered boardroom decisions.

Thousands of rural women, among the most marginalised and poverty stricken in the country, have embarked on a better life through initiatives backed by the Women's Development Banking (WDB), in Milpark, Johannesburg.

The WDB, which began in 1991, has granted over 15 000 loans, trained more than 7 000 women in business skills and created at least 14 000 jobs. Through these loans, women in the Northern Province and Mpumalanga have been able to furnish their homes or set up small to medium business ventures which have enabled them to become self-sufficient.

Separate, yet parallel, to the dishing out of loans is another major initiative which ensures that its business arm, WDB Investment Holdings, creams profits off its investments in casinos, car rental firms and franchising opportunities, which it ploughs into WDB.

The investment company is run separately from the bank despite the link which bonds them.

Executive director of WDB Investment Holdings, Faith Khanyile, said the loans granted by WDB, which runs as a not-for profit Section 21 company, is given without asking for collateral. Women in rural communities, however, have to form groups of eight to qualify for individual business loans of between R500 and R5 000.

In the event of one member of the group not paying, the remaining members would be prevented from applying for additional funds. Another of the main provisos is that the women have to know each other over a period of time.

Khanyile said the bank has a 98% pay-back rate. WDB plans to open branches in Mpumalanga and the North-West, targeting rural communities which find it difficult to obtain small loans or support from formal institutions.

"WDB-IH has a strong commercial focus but the investment is matched with development. The people WDB assists are the unbankables whom no one wants to see. Through our investment arm, we want to make a difference," she said.

"People in the rural areas are among the least focussed on at the moment," added Tania Slabbert, also an executive director at WDB-IH.

She said, however, while formal institutions did not do as much in rural areas, WDB found that people living in impoverished areas were more stable and committed to improving their lives. The cherry on the top is knowing the likes of Khanyile and Slabbert are studying business trends daily to ensure the roll of the dice continues to favour them, since the real recipients are SA's poorest of the poor.

Banking rules overhauled

BD 19/4/99 (58)

Greta Steyn

THE Reserve Bank has just completed an overhaul of banking regulations and legislation in a move designed to bring SA in line with the latest international trends.

Checks and balances have been refined and new ones introduced, not only as a result of international trends and global market volatility, but also because of local banking developments such as the failure of New Republic Bank (NRB).

The registrar of banks, Christo Wiese, has given banks a deadline of end-May to comment on the proposed changes.

Most SA banks already implement the latest risk management systems and should have most of the risk information required available for internal management purposes. Moves in the pipeline include setting specific provisioning percentages against mostly loans and investments, beefing up monitoring of capital provisions, introducing capital requirements for loans to provincial authorities, a clear distinction between banking and trading activities in banks, consolidated supervision within banking groups and rules on public disclosure.

For the first time, the banking supervision regulations contain a chapter on corporate governance. Banks will have to appoint compliance officers responsible for meeting banking supervision requirements. The regulations also outline reportable offences — transgressions which have to be reported to the authorities when uncovered by banks.

On public disclosure, Wiese said minimum requirements in line with international banking practice had been outlined. "SA is already up there with the best when it comes to disclosure. We have highlighted the risk management aspects of public information. People should have a clear idea of a bank's risk profile and its appetite for risk."

One of the planned changes relates to appointment of curators to banks facing financial problems. The draft legislation says appointment of a curator depends, among other things, on a reasonable probability that the bank, under curatorship, will be enabled to meet its obligations and become a successful concern. Currently the probability of a bank being able to meet its obligations is not a prerequisite for appointment of a curator.

With NRB, Finance Minister Trevor Manuel appointed a curator and, when on the strength of information obtained from the curator it appeared that NRB was insolvent, the registrar applied for the bank's liquidation. However, the court decided against liquidation. Wiese confirmed that the change in legislation had been motivated by the NRB experience.

The new regulations also change the picture with regard to large exposures, which previously did not attract any extra cost. Now the excess amount of any exposure to one person that exceeds 25% of a bank's capital and reserves will be subject to additional capital requirements.

Banks have to maintain a cushion of capital of at least 8% of their risk-weighted assets. SA's banks are well capitalised, with an industry average capital adequacy ratio of more than 10%. For prudential reasons banks must also meet cash reserve and liquid asset requirements. Wiese acknowledged that the large exposure rule would have affected the calculation of NRB's capital ratio, as the bank had a large exposure to one subsidiary.

Another regulation should cut the cost of prudential holdings of liquid assets. Interbank transactions will be deducted from liabilities when calculating their liquid asset and cash reserve requirements.

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BANKING

(58) FM 23/4/99

THERE'S A WORM IN THE APPLE OF FALLING INTEREST RATES

Banks expect bad debts to keep growing until late 1999

Bank borrowers are probably feeling a lift in their step after the four percentage point reduction in interest rates this year. But the bad news is banks still expect credit conditions to deteriorate until later this year at least.

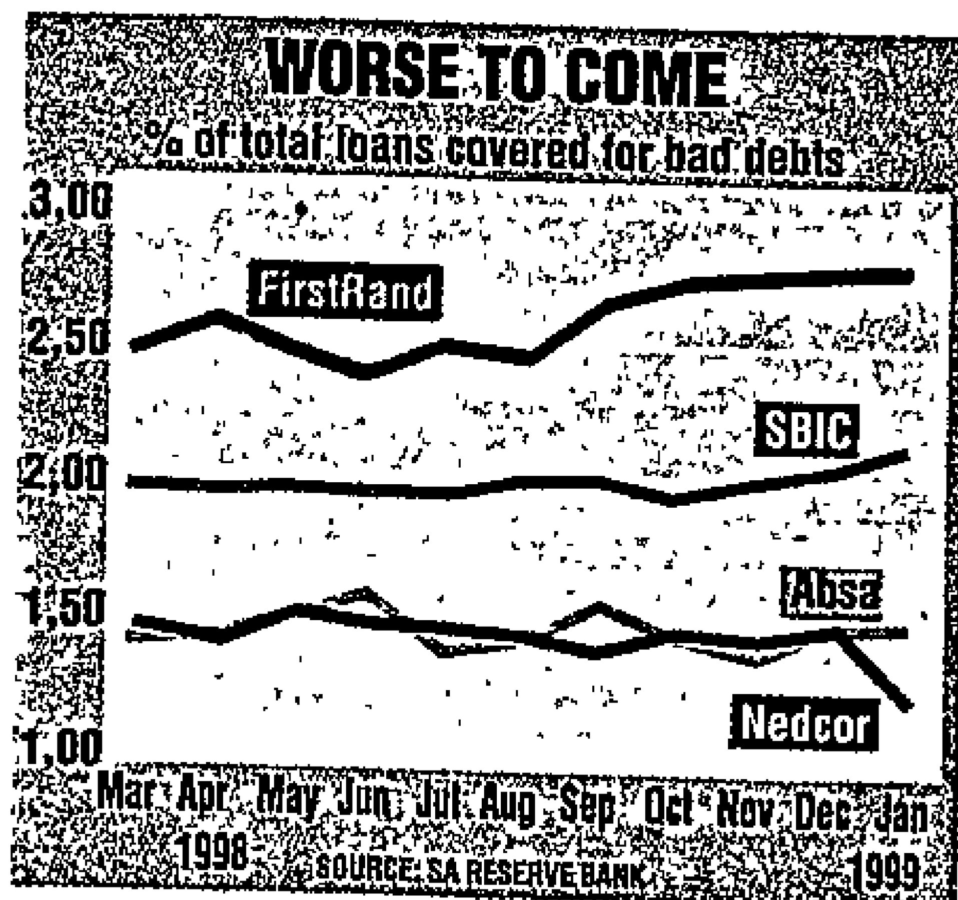
In-depth research by one major bank shows it could take 12-18 months for individual and small- to medium-sized businesses' bad debts to peak. If that's true, credit conditions are only likely to improve later this year, or by next April, despite the fact that interest rates began to decline last October.

The good news, though, is once bad debts have peaked, there should be a dramatic improvement in conditions, because rates have fallen steeply and are expected to come down another three percentage points this year.

The banking sector's pain is reflected in sharp increases in specific provisions that banks set aside to cover likely bad debts. Rating agency, Duff and Phelps, calculates that specific provisions grew by 33,7% during 1998, compared with strong 16% advances growth. It doesn't consider the growth in bad debts out of line but expects actual bad debt experience to become evident during the second and third quarters of this year.

The amount set aside to cover bad debts in banking financial statements ranges from Absa's 0,92% of advances for the six months to September 1998 through to Standard Bank Investment Corporation's (Stanbic) 1,53% during its 1998 financial year.

A more recent picture of bad debt experiences can be drawn by the DI900 returns submitted monthly to the Reserve Bank by banks. Though only reflecting accumulated specific provisions and not the current bad debt charge, they give a good indication of trends. Duff and Phelps calculations show the average rising from 1,8% last June to 2,2% last December.



Absa's specific provisions against bad debts as a proportion of its advances have remained steady since interest rates climbed last year while Nedcor's have declined. Stanbic and Firstrand, on the other hand, have shown a steady upward climb in their accumulated provisions (see graph). In January, Stanbic had built up provisions that cover 2,2% of advances (1,97% in June 1998) and Firstrand 2,8% (2,4% in June 1998).

Nedcor's financial director, Tony Routledge, has done detailed research into the group's bad debt experience over the past 13 years, and concludes that "they seem to peak a year to 18 months after the interest rate cycle has turned, and not nine months to a year as is generally believed". He says the group has budgeted for substantial increases in bad debts during 1999. It set aside R698m for bad debts during its 1998 financial year, which comprised 0,72% of its total advances.

The research also shows that about three-quarters of bad debts stem from the retail sector and that credit cards are worst hit, followed by hire purchase and home loans.

Routledge says there's been a low incidence of bad debts in the corporate sector: "SA listed companies are in good shape. They're not overgeared and are not contributing to bad debts." However, Nedcor is finding that commercial companies (small- to medium-sized businesses) are under more pressure now than they were last year.

"As a general observation," he says, "the major SA banks are conservative on their bad debt provisioning. They are in good shape and there are no major risks."

Absa, which started its new financial year on April 1 and reports its full year results in May, has been topping up its bad debt provisions monthly, says chief financial officer Simon Ridley. He expects the difficult times to continue in the next six to12 months, but describes the bad debt situation as "uncomfortable but not uncontrollable".

The bank's business customers, but not the larger corporates, are feeling the pinch, and retail bad debts have been rising since October. Absa's research has shown that instalment sales may take as long as 22 months to stabilise and Ridley says that cheque accounts and personal loans have also been hit.

"We're just going to have to weather the storm," he concludes.

A Stanbic spokesman says the group expects bad debts to continue growing until June this year and for Stannic to have a bad year. Home loans are still under pressure and individuals holding credit cards are under pressure. The deterioration will be coming off a high base: Stanbic bad debts soared by nearly 70% last year because of a R460m write-off for its Russian debt. It provided conservatively for general bad debts in December when it set aside R153m in its income statement compared with a "norm" of R50m to R60m.

FNB chief financial officer John Moses describes the bad debt situation as volatile but says the bank has had a couple of good months. Moses says home loans have been worst hit, followed by credit cards and hire purchase agreements. Bad debts, which are not unmanageable, may start flattening out but won't return to pre-crisis levels for at least another nine months, he adds.

Sharon Wood

Steyn warns against over-regulation

Call to review system of ombudsman in SA

BD 23/4/99

(58)

THE crash on local and international markets reverberated in the offices of life assurance industry ombudsman Judge JH Steyn.

This emerged from his annual report. Once again, health related issues have also featured in the report, which shows the difficulty consumers of health products have in getting their problems solved.

Steyn has called for a review of the current system of ombudsmen in the country and has stated that "where it is practicable and where competent mechanisms exist that render an efficient public service, such institutions should be integrated into the network of regulatory mechanisms", but warns against an expensive "over-regulated" system which will be unwieldy and expensive to manage.

"We need to ensure that our own spontaneous 'hybrid' initiatives are structured in such a way as to ensure well-designed, compatible and clearly delineated institutions that are calculated to protect the public interest," he says.

The stock market crash, locally and internationally, meant that policyholders with market-linked investments found the maturity values of their policies to be considerably less than they anticipated.

"Regrettably complaints cannot be upheld simply because an investment in a life assurance contract turned out to be less successful than was anticipated," Steyn says. "The complainant frequently refers to the fact that the maturity value was in fact markedly lower than the illustrative value, which was quoted at the time the policy was effected.

This was reflected in the fact that a considerable number of complaints in life assurance policies were in the category of Inadequate Policy Performance About 238 complaints in the year fell under this category.

The ombudsman reported that 4 877 complaints had been lodged in his office in 1998. This was more than double the year before.

Of these 2 592 were actually finalised compared with 1 889 the year before.

In 43% of cases, the ombudsman settled wholly or partially in favour of the complainant.

Pat Sidley looks at the ombudsman's review

Statistical Summary of Cases 1998

Nature of complaint	Life		Disability		Health		Total	
Claims disallowed-Policy terms not met	196	57	311	102	45	12	552	171
Inadequate policy performance	238	37	—	—	—	—	238	37
Alleged mis-selling	310	176	—	—	7	4	317	180
Communication/ Administration failure	821	530	38	11	29	12	888	553
Lapsed policies	99	46	8	2	3	2	110	50
Dissatisfaction with surrender values/withdrawal benefits	132	52	5	1	6	1	143	54
Repudiation - Alleged non-disclosure	102	11	102	10	14	3	218	24
Miscellaneous	108	34	15	1	3	—	126	35
TOTAL	2006	943	479	127	107	34	2592	1104

Total | Decision wholly/partially in complainant's favour

Graphic: MATTHYS MOSS

Unfortunately, the ombudsman has resisted the temptation to run a comparison, with the names of companies, of who did worst and best for their consumers. He has also resisted the call to name companies which have had rulings made either against them or for them.

One nameless company, he reports, had about 875 complaints lodged against it but he notes it is a company which is so large that this would form a very small percentage of its business. At the other end of the spectrum, three companies had no complaints lodged and two companies "shone".

He records a disproportionate number of complaints in the lower income sector of the market, pointing to the need for information and explanation to first time buyers and sellers of financial services products. Once again, intermediaries are under the spotlight.

In highlighting the problems of ignorant, cash-strapped first-time consumers of these products, he says: "We have had ample evidence that cessions, as a component of financial contracts, are negotiated by unscrupulous intermediaries They exploit the need for loan finance to market inappropriate long-term insurance products which are then ceded as security to the intermediary," he says. "We believe that the industry itself should be proactive in identifying and eliminating from its portfolio of intermediaries those who offer them questionable business of this kind."

On health issues, Steyn comments that many policyholders "make unjustifiable assumptions about the scope of the protection provided by their policies".

He points to the large number of health products available (his reach however, does not extend to medical schemes and problems). "The majority of complaints involving health risks stem from the fact that the surgical procedure which the complainant underwent was not in fact covered by the policy or was subject to a specific exclusion."

He illustrated this with a case highlighted by Business Day last year in which the birth of a baby born prematurely fell outside the scope of the policy because the baby was born before a 12-month limitation on the coverage of birth. (That case involved Liberty Life, which is not stated by the ombudsman, but which is well known.)

He also draws attention to the difficulties involved in assessing psychiatric conditions when deciding on death and disability policies.

Most of his complaints, however involved communication or administration failure — a feature he has in common with the medical ombudsman.

Steyn suggests that the reasons for the leap in complaints are the higher visibility of the office and the service it offers; the entry of so many first time investors and inexperienced marketers of products which are also increasingly complex; volatility in the markets and unjustifiable expectations.

He says that on only two occasions during the year were his rulings challenged by subscribers (life assurers), but both of his rulings were later confirmed by judges on the panel to which the cases were referred.

One further assurer did not accept this and the case is now on review.

Move to ban credit prejudice

Durban – When it convenes after the election, the new parliament will consider twin legislation which will pave the way for more disadvantaged people to gain access to loans.

The two bills – the Consumer Credit Bill and the Home Loan Disclosure Bill – are being processed by the trade and industry and housing ministries, and will outlaw discriminatory lending practices by banks and force them to give reasons for declining loan applications.

Department of Trade and Industry chief director Alistair Ruiters said the Consumer Credit Bill would have broad applications to all types of credit, including mortgage lending, personal loans, and loans to small business.

"The aim is to rationalise and simplify the current set of laws that govern credit transactions and ensure that all institutional loans are regulated equally," Ruiters said.

The Department of Trade and Industry has been engaged with banks since 1997 through the National Consumer Credit Forum to identify non-discriminatory lending criteria, and these will be captured in the Consumer Credit Bill.

The Home Loan Disclosure Bill will monitor banks' lending activity in low-income areas compared to its savings from those areas.

Housing Minister Sankie Mthembi-Mahanyele has said that banks had failed to live up to an agreement to provide 150 000 loans over a three-year period to low-income earners at the top end of the government housing subsidy scheme. These earners comprise 30% of subsidy beneficiaries, but banks granted less than half of the loans.

It is expected that the Home Loan Disclosure Bill will speed up the process of housing delivery and identify areas where banks were not active in terms of providing loans. – Own Correspondent

(58) Star 28/4/99

New bid to outlaw bank bias

CHARLES PHAHLANE (68
PARLIAMENTARY BUREAU
ARG 28/4/99

There's good news in the pipeline for tens of thousands of low-paid people who cannot raise mortgages and other loans because banks have branded them "high risk".

When Parliament convenes after the elections it will consider two bills now being processed by the trade and industry and housing ministries that will outlaw discriminatory lending practices by banks, and force them to explain why loans are refused.

Department of Trade and Industry chief director Alistair Ruiters said the Consumer Credit Bill would have broad applications to all types of credit, including mortgages, personal loans and loans to small business.

Dr Ruiters said legislation would also prohibit banks' blanket bans on mortgages in areas considered high-risk – commonly known as red-lining.

"The aim is to rationalise and simplify laws that govern credit transactions, and ensure that all institutions are regulated equally," said Dr Ruiters.

The other bill is the Home Loan Disclosure Bill, incorporating principles of the Fair Lending Practices Bill, which was sent back by Parliament.

The Reconstruction and Development Programme commits the Government to investigate ways of legislating against discriminatory lending practices by banks.

It also demands that the banks disclose whom they lend money to and in which areas.

Housing Minister Sankie Mthembi-Mahanyele said banks had failed to live up to an agreement that they provide 150 000 loans over a three-year period to low-income earners at the top end of the government housing subsidy scheme.

CT 29/4/99 (58)

Poor to get foot in door at banks

CHRIS BATEMAN

NEW laws outlawing discriminatory lending practices by banks will be passed within months of Parliament reconvening.

This is the result of public anger at banks slamming their doors in the faces of the poor and forcing poor households into the arms of loan sharks.

Top of legislative priorities will be the Consumer Credit Bill and the Home Loan Disclosure Bill, now being processed by the Trade and Industry and Housing ministries.

The first prohibits banks from having blanket bans on mortgages in areas considered high risk, also known as "red-lining", governing credit transactions and ensuring that all institutions are regulated equally.

· The second incorporates principles of the Fair Lending Practices Bill and forces banks to explain why loans are refused.

Housing Minister Sankie Mthembi-Mahanyele said banks had failed to honour an agreement that they provide 150 000 loans over a three-year period to low-income earners at the top end of the government housing subsidy scheme.

The bills flow from the Reconstruction and Development Programme, which commits the government to probe ways of legislating against sharp lending practices by banks and insists that banks say who

Sowetan
BUSINESS
Real power is economic

DTI pushes for banks to disclose information

Phumzile Mlambo-Ngcuka, deputy minister of Trade and Industry.

By Shadrack Mashalaba

DEPUTY Trade and Industry Minister Phumzile Mlambo-Ngcuka will push for the speedy tabling of the draft Act which will compel banks to disclose information on their lending operations when Parliament opens.

Alistair Ruiters, the Department of Trade and Industry (DTI) chief director for business regulation and consumer services, said on Friday that the Consumer Credit Bill aims to tighten up the regulation of all forms of money lending and to prohibit discriminatory lending practices. Mlambo-Ngcuka said once in place the Act will enable the poor and under serviced communities access to funding.

The Act will cover target investment in poor and neglected communities, reasons for declining loan applications, lending criteria used and disclosure of loans by race and gender.

Last week Mlambo-Ngcuka met several community organisations and non-governmental organisations at Gugulethu in the Eastern Cape as part of her roadshow.

She said NGOs and communities felt that "too little was being done too late".

She said the NGOs and community organisations wanted to brief her on their role in the unfolding process leading to the formalisation and post legislation.

The organisations wanted to use the Act to their advantage in order for them to be effective in their projects.

"The organisations want the Act to work and not allow it to accumulate dust on the shelf," she said.

Mlambo-Ngcuka also announced that the advisory board's final report of the Regulatory Review, undertaken by DTI to investigate the appropriateness of the existing legal and regulatory framework on small business, will be released at the end of this month.

Controversial political appointment to the Reserve Bank is welcomed by analysts

Gill Marcus to be Mboweni's deputy

(58) Star 1/5/99

STEPPING DOWN *Chris de Swardt retires at the end of June*

ROY COKAYNE AND RICHARD STOVIN-BRADFORD

Pretoria – Deputy finance minister Gill Marcus had been appointed a deputy governor of the South African Reserve Bank (SARB), Deputy President Thabo Mbeki said yesterday.

Mbeki said Marcus would replace Chris de Swardt, the deputy governor of the SARB, who retires at the end of June. Marcus would assume her duties on July 1.

Mbeki's statement was delivered by Joel Netshitenzhe, the head of Government Communications, at the Union Buildings.

Dennis Dykes, Nedcor's group chief economist, said: "She's obviously a fairly technically-competent sort of person. I don't expect adverse reaction from the market."

"But it is obviously controversial in that she is the second politician to be appointed to the Reserve Bank, which could raise eyebrows internationally." Her appointment follows the appointment of Tito Mboweni, the former minister of labour, as governor designate of the SARB. Mbeki said Marcus' successor would be announced when the new president declared the new Cabinet.

Netshitenzhe said Marcus' name would be removed from the ANC's election list of candidates for the National Assembly.

He said the government believed the markets would welcome Marcus' qualities.

Marcus said on radio yesterday she would focus on financial market regulation and bank supervision when she assumes her duties.

A banking analyst said there had been concern that after senior deputy governor Chris de Swardt's retirement there would be no natural successor with De Swardt's experience and education.

"Gill Marcus is definitely not a bad choice," the analyst said. "She has gained far more insight than other contenders as a result of (her involvement) in the standing committees on finance, insurance, company law and consumer legislation.

"She has the presence as a successor but (the Bank) is really lacking in economists and monetary policy specialists with the right background. James Cross is more of a dealer and Timothy Thahane is more of an administrator," he said.

Netshitenzhe said the appointment had "the full support of the (Reserve Bank) board", the deputy president and Trevor Manuel, the minister of finance.

Thanking De Swardt on behalf of the president, Netshitenzhe said: "The President is confident that Dr de Swardt will continue to be a resource to the bank even though he will have retired."

QUEEN OF THE BANK *Gill Marcus is to focus on financial market regulation*

Lawyers act to halt probe into road-accident ripoffs

CARMEL RICKARD

(58)

A NEW organisation of specialist lawyers is trying to stop Judge Willem Heath and his unit from investigating whether their members have been ripping off the Road Accident Fund by grossly overcharging.

The South African Association of Personal Injury Lawyers this week launched High Court action which would effectively declare their members off-limits to investigators. Among their most significant claims is one that says Judge Heath's appointment to head the special investigation unit is unconstitutional, and should be declared invalid.

They also say the proclamation recently issued by Deputy President Thabo Mbeki, which refers the problem of Road Accident Fund ripoffs to the Heath commission for investigation, is invalid and should be scrapped.

They ask the Pretoria High Court to bar Judge Heath and his investigators from conducting any investigations into the activities of their members, and to bar members of the unit from entering or searching the premises of any of their members while carrying out the investigation authorised by Mbeki.

In an affidavit forming part of the application, the vice-president of the organisation, Monique Woods, says the Minister of Transport, Mac Maharaj, is waging a campaign against the legal profession, even though only a small number of lawyers have been acting improperly in relation to Road Accident Fund payouts.

She says the provincial law societies are well equipped to deal with such problems.

Fraudulent attorneys, says Woods, make up a tiny minority of the profession, and the number of claims involving fraud do not justify an investigation by the Heath Commission, let alone an investigation as wide-ranging as that authorised by Mbeki.

Her organisation recognises the need to expose the fraud committed "by the handful of attorneys responsible" and to deal decisively with the practitioners involved.

However, the actions of Maharaj and his department have been aimed indiscriminately at all personal injury lawyers, thus tainting "the vast majority of honourable and professional practitioners".

Her organisation complains that when the investigation was set up, none of the parties involved was given any opportunity to make representations beforehand.

She says Judge Heath and his unit have wide powers which they may now exercise against members of the organisation. If members of the Heath unit investigate any members of the organisation, news of this would leak out and cause "irreparable damage" to that member's professional reputation.

The organisation says this is a breach of privacy and potentially violates their members' common-law personal freedom.

They could find themselves subjected to searches and in the process their clients' privileged documents could be inspected, attached and removed.

ST 2/5/99

Bank independence 'not under threat'

BD 3/5/99 (58)

Economists confident about Marcus, but sorry she did not get a full ministry

Stephen Laufer
and Samantha Enslin

ECONOMISTS have expressed surprise over the appointment of Deputy Finance Minister Gill Marcus to the Reserve Bank, saying they were expecting a private sector appointment.

However, they had confidence that her posting would not lead to erosion of the Bank's independence.

Marcus is to succeed Bank deputy governor Chris de Swardt on July 1.

Reserve Bank governor-designate Tito Mboweni and deputy James Cross said on Saturday that the appointment of a second senior African National Congress politician to the board of governors would not have a negative effect on the institution's independence.

The rand firmed slightly following Friday's announcement — after the official market close — but later in New York traded unchanged at R6,06 to the dollar.

Stressing that "monetary policy stands", Mboweni said Marcus would be part of the Bank's team "driving monetary policy" and "maintaining price stability". The Bank had been consulted on the appointment and was "very pleased".

Cross said government had "demonstrated very aptly that the central bank will be left independent". Even at the height of the run on the rand last year, when the Bank hiked interest rates massively, "there was no interference. The government has shown a high degree of fiscal responsibility — I hardly see them tampering with monetary policy."

Mboweni said that while Bank structures ensured that no individual could change its constitutionally guaranteed independence, "we should not be glib about the issue. Concern is there, and we have to go the extra mile to ensure that the concern is never realised."

SA's history had meant that many economists, accountants, and professionals in other fields had remained outside the institutions of state, involving themselves instead in the liberation struggle. "Now we can use that wide range of talents, including those previously outside or coming from other universities like Wits, Cape Town, Turfloop or Fort Hare."

Cross said half the central bank governors of the G-8 group of industrialised nations, including Russia, had not risen to their positions inside their institutions.

The appointment of a deputy governor with Marcus's background was useful because "we need someone who can explain short-term adjustments in monetary policy to the people. If you have people who are technically competent and have political credibility, it makes the task of communicating the message of tough monetary policy that much easier." Referring to her reform of the revenue service, Cross said: "We can look forward to a stable future if she has the same effect on inflation as she has had on tax collection."

JP Morgan economist Peter Worthington praised Marcus's capability. "However, I am a little disappointed over the appointment as she has done such a good job at the revenue service, people were expecting she would get a full ministry."

Hinting at talks with government on the desirability of hiving "prudential supervision" of commercial banks off into a separate institution, Mboweni said he had a clear idea how the Bank's work would be divided between his deputy governors. An announcement would be made in August, when he succeeded Chris Stals as Bank head. If and when the prudential component was moved out, it would remain vital for the Bank to be "responsible for financial stability".

Marcus would initially take over De Swardt's portfolio, including banking supervision, internal Reserve Bank services, information technology and oversight of its multimillion-rand budget. It was too early to say she would also lead the Bank's currency management team. There would be "some reshuffling and spread of responsibilities".

Inflation targeting was still being discussed, Mboweni said. He knew of nobody at the Bank opposed to the idea, which was "about more than monetary policy alone". Inflation targeting had to be agreed upon between the presidency, the Bank and the finance ministry. It was "not a one-way process", even though the decision would be taken by the cabinet.

Second in command: Page 2
Comment: Page 11

By Adrienne Roberts

FM 7/5/99

SA BANKING SYSTEM STILL STABLE — S&P

(58)

Local banks among the best

Near the end of 1997, credit rating agency Standard & Poor's developed a tool for assessing banking sector stability. SA received a clean bill of health.

This year, SA is still in the clear. But 24 other banking systems, including those of Ireland and the US, have been queried. Excessive credit growth, weakening foreign debt profiles and deflating asset prices signal deteriorating credit quality.

SA is an anomaly. It appears among A-rated countries even though (with a BB+ foreign currency credit rating) it has yet to reach triple-B investment grade status.

S&P groups 61 countries according to the percentage of loans that could go bad in "a reasonable worst-case economic recession or slowdown". Their "gross problematic assets" are shown as a percentage of domestic credit to the private sector and nonfinancial public enterprises.

At the top, predictably, are heavy hitters like the UK, the US and Switzerland. SA falls into the second band with 12 others, all of which rate between A- and triple-A. SA's total credit to private-sector companies and nonfinancial public entities is up from 72% to 79% of GDP. And the "contingent liability" that government might have to face in a crisis is 8%-14% of GDP. This is up from 7%-14%.

THE BAD DEBT THREAT

Problem assets (% of credit in the system)	Foreign currency credit rating	Credit* as % of GDP	Est contingent liability (% GDP)
5-15			
Sweden	AA+	42	2-6
UK	AAA	125	6-19
US	AAA	130	6-19
10-20			
Austria	AAA	105	11-21
Ireland	AA+	103	10-21
SA	BB+	79	8-16
15-30			
Japan	AAA	196	29-59
Israel	A-	87	13-26
25-40			
Brazil	B+	35	9-14
Greece	BBB	46	11-18
35-70			
China	BBB+	101	35-70
Czech Rep	A-	70	25-49

*to private-sector companies and nonfinancial public-sector entities

SOURCE: S&P

S&P has identified "visible signs of weakness" in countries like China, which has had analysts worried for some time, and the Czech Republic, which is vulnerable to recession and low liquidity. But some systems flagged "vulnerable", such as those of Ireland and the US, are more surprising.

"Ireland's economy is overheating. Domestic credit has risen steadily to 103% of GDP in 1998 from 73% in 1994. House prices are rising 25%-30%/year." S&P argues the economy is vulnerable to shocks in key sectors like software, chemicals and financial services. And fiscal policy needs to tighten up.

In the US, domestic credit has shot from 95% of GDP in 1994 to 130% in 1998. And certain sectors in the economy are showing signs of weakness. S&P is worried about loans to real estate investment trusts, high-yield loans and certain segments of consumer lending.

But despite these points, S&P stresses it doesn't expect a serious blow-up in either the US or Irish financial systems. ■

GILL MARCUS

(58) FM 7/5/99

ONCE MORE INTO THE BREACH

ANC politicos may be sidelining government's best fiscal weapon. But she'll be a boon for the Bank

Gill Marcus's move from Deputy Finance Minister to Deputy Governor of the Reserve Bank is not a step up the career ladder.

Some observers see it as proof that she has been marginalised from the inner workings of the Finance Ministry and wonder if the move is designed to sideline her further. They ask whether her talents could not be better used at the helm of a Ministry.

Whatever the reasons for her redeployment, Marcus's role at the Bank will be critical, and she no doubt will prove her exceptional abilities yet again.

A senior civil servant with long experience in government confides that SA's Deputy Ministers traditionally have been regarded as *kortbroek* — Afrikaans for "short pants", implying juniority, inexperience and lack of authority.

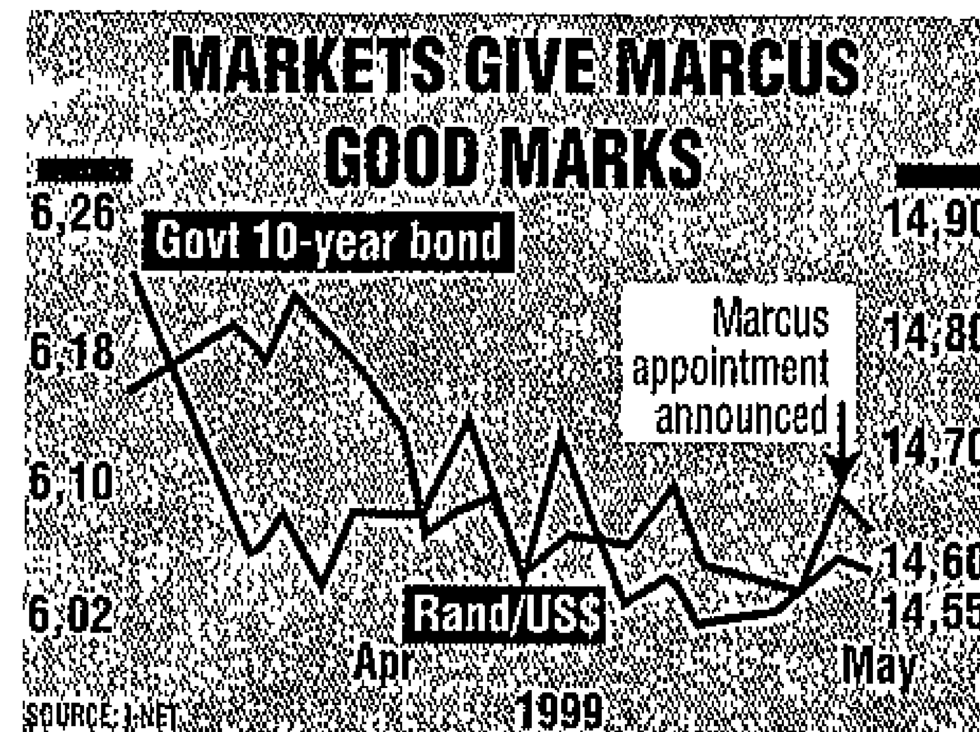
But Marcus has redefined the Deputy Minister's profile. Her stature as a reformer and administrator is unquestioned and her authority is widely acknowledged.

An ANC member of many years' standing she may be, but her surprise appointment to the Bank, where she will take over from retiring Deputy Governor Chris de Swardt, is political only in the narrowest sense.

Last year's controversial appointment of former ANC Labour Minister Tito Mboweni to succeed retiring Reserve Bank Governor Chris Stals in August, and now Deputy Finance Minister Marcus's move to join him, may not be textbook practice for central banking.

But their appointments must be seen against the backdrop of SA's undemocratic political past, which forced many opponents of the former government into organised political opposition, rather than into mainstream career structures.

Marcus has never been a politician; she lacks the personal ambition that drives people to seek political office. Nor is she blind to the shortcomings of colleagues or an unthinking follower of the party line. Soon after the ANC came to power she criticised Ministers for taking a second bite of the cherry, using RDP funds when they had exhausted their own.



She keeps a low profile, focusing her energies on the job in hand, doing it to the best of her considerable ability.

And she doesn't court popularity, though she quickly gained it in unlikely quarters, notably the business community and the financial markets.

Marcus chaired the Joint Standing Committee on Finance from 1994 to 1996.

The 55-member committee, with five working groups, deals with the Budget process, taxation, financial regulations, provincial finances and macro-economic policy.

In 1995, she responded with distinctly unpopulist realism to speculation that government would introduce new taxes to increase its revenue.

"We should not be hasty in looking for new taxes but rather address the problems pervading our tax administration," she told an audience at the University of Natal in Maritzburg.

"In the longer term, the revenue yield will be far greater from an enhanced, more efficient tax collection system, where everyone pays their fair share, than from new taxes which will be costly to implement and administer."

In a Cabinet reshuffle after the 1996 resignation of former Finance Minister Chris Liebenberg, Marcus was made Deputy Minister of Finance and assumed responsibility for restructuring SA's revenue collection into the newly established SA Revenue Services.

That operation has already proved a stunning success, improving the effective-

P.T.O.

ness of revenue collection which, in turn, allowed for a cut in the corporate tax rate and concessions to individual taxpayers in the March Budget.

She has also been the driving force behind the tightening of cross-border control to improve the policing of trade abuses, including Vat evasion — an area where she will be sorely missed.

The benefits of these reforms will be felt for many years to come.

A measure of Marcus's stature is that, apart from the issue of her former political affiliation, the only reservation expressed about her latest move is that her talents and energy may be more badly needed elsewhere.

That sentiment comes from, among others, Japie Jacobs, Senior Deputy Governor of the Bank for five years until his retirement in 1990, who went on to act as economic adviser to former National Party Finance Minister Barend du Plessis, and later to former opposition National Party leader F W de Klerk.

Now an adviser to the Land Bank, Jacobs describes Marcus's performance as "remarkable" and regrets the loss of her skills to the Finance Ministry. He believes Marcus and Mboweni, who he describes as an excellent administrator, will make a first-class team.

Marcus will join Deputy Governors James Cross and Timothy Thahane, on the Governor's Committee, the top policy making board under the Bank's board of directors.

What still has to be clarified is seniority among the deputy governors.

Traditionally, one of them has carried the title of Senior Deputy Governor. But, when the former incumbent Jaap Meijer retired in 1995, De Swardt was not given this title, though he was *de facto* senior deputy.

Meijer's retirement was followed by the appointment of the first black Deputy Governor, Timothy Thahane.

Robbie Tshabalala and Russell Roberts

Bank on their reserves *. . . (clockwise from bottom left) Governor-designate Mboweni and deputies Marcus, Thahane and Cross*

However, given the seniority of Marcus in government, she is seen as moving into the number two position. Her term has five years to run from July 1, when she takes over. Cross's present term will expire in December 2001 and Thahane's in March 2001

If she assumes De Swardt's responsibilities, her brief at the Bank will be financial market regulation and bank supervision.

Since the introduction of floating exchange rates in the Sixties, which made banks vulnerable to sudden movements in exchange rates, banking supervision has now, become a critical issue internationally.

The failure of a banking system can quickly translate into an economic crisis, as happened in southeast Asia, where the collapse of regional currencies was followed by the closure of banks and a dearth of liquidity that plunged the region into recession.

A number of unresolved issues relating to banking supervision that have been in limbo will affect Marcus.

One is the extent of her duties. De Swardt is chairman of the Policy Board for Financial Services & Regulation, a role which brought him into the arena of broad financial market regulation. However, it is not clear whether the chair will pass to Marcus.

Related to this is the question

of whether banking supervision will remain entirely within the ambit of the central bank or whether it will be moved to a surveillance agency that will also be responsible for insurance and investment operations, now supervised by the Financial Services Board.

The argument against the second option is that the Bank, as lender of last resort, has the responsibility of providing liquidity to any bank that may be facing a cash crunch. If the Bank did not have a supervisory role, it might not be as well equipped to pre-empt an emergency. And bailouts are expensive and controversial.

The argument in favour of centralising all financial market supervision is that the financial markets are closely interrelated, and are becoming increasingly so with the advent of bancassurance (banking and insurance) and universal banking (banking and investment operations).

Another issue to be dealt with has been on the table for about 15 years: depositor protection. The dilemma facing the authorities is that protection for depositors may encourage management to take unacceptable risks — known as "moral hazard". Moreover, if the funding comes from the banking sector, it forces large, established banks with expensive infrastructure to subsidise nimbler but riskier operations.

Marcus has refused to comment on her future responsibilities, but she has already been exposed to the issues in her two earlier roles. There can be few people better equipped to deal with them.

Ethel Hazelhurst

Registrar favours bank support scheme

BD 12/5/99 (58)

Money-back move to protect depositors with less than R50 000

Madeleine van Niekerk

THE Registrar of Banks' bank supervision department supports the establishment of a limited deposit-insurance scheme in SA whereby 90% of deposits of less than R50 000 per bank client would be reimbursed in the case of a bank failure.

Christo Wiese, the Registrar of Banks and GM of the bank supervision department, said in the department's annual report, the objective would be to safeguard the deposits of ordinary bank customers who did not have the ability to monitor the riskiness of the banks with which they placed their funds, as well as to ensure financial stability.

The function of a deposit-insurance scheme was to provide a safety net for bank depositors, thereby increasing public confidence in banks and making the financial system more stable, Wiese said. A safety net might also limit the potential effect of problems in one bank on other, healthier banks in the same market, and reduce the possibility of contagion or a chain reaction within the banking system as a whole. Consequently many countries established deposit-insurance schemes to protect small depositors.

The annual report states that in all cases of distress in banks in SA during the 1980s and 1990s, all small depositors had been reimbursed substantially.

Large depositors may have lost some money, while shareholders have certainly made losses. However, large depositors and shareholders would have been adequately compensated by receiving higher returns on their investments.

Only rarely were depositors' funds completely frozen, and depositors could always access badly needed funds even when a bank was under curatorship. The perception has evolved therefore that deposits with banks are guaranteed. Despite SA not having a formal deposit-insurance scheme, it can be said to have implied deposit insurance.

Once there is a perception that deposits are guaranteed, there is a danger of adverse selection. In other words, risk decisions will be distorted, and depositors will seek the highest interest rates without regard to the soundness of a bank.

The premium rates for the funding of such a scheme should vary in accordance with the risk attached to each insured bank.

Alternatively, it may be easier to charge banks flat premiums and to allow certain rebates to those that exceed certain predetermined prudential ratios.

The bank supervision department believes the benefit of increased confidence in the banking system would exceed the direct or indirect cost of a deposit-insurance scheme.

During the second quarter of last year, the International Monetary Fund (IMF) held talks with the bank supervision department and the banking sector.

According to the IMF there was a need to operate in an environment with clear rules and to protect small and unsophisticated depositors.

Illovo tables a sweet report

Nicola Jenvey

DURBAN — Illovo Sugar expects to produce 1,74-million tons of sugar for the 1999/2000 season with its Swaziland, Malawi and Tanzanian production outputs rising due to improved irrigation and good growing conditions.

Releasing the half-year results to March, chairman Robbie Williams said yesterday weather conditions in SA and Mauritius have been drier than normal, which will lower production in these countries. However, the national crop insurance scheme in Mauritius will ameliorate the financial consequences there.

The newly rehabilitated sugar mill at Maragra, in Mozambique, comes into operation next month.

The results incorporate the second half of the 1998/99 season when Illovo achieved record sugar and cane productions through good growing conditions in SA, increased areas under cane in Malawi and Swaziland and the acquisition of new estates in Tanzania.

Attributable income rose 19% to R157,9m, while headline earnings a share increased to 52c (1998: 43c). An 18c (15c) interim dividend was declared.

Turnover grew 10,6% to R1,9bn, while operating profit climbed 26% to R382m.

In the period under review, sugar contributed 53% towards group operating profit, cane growing 31% and downstream and other operations 16%.

t World Wide acquisition")

State acts to stamp out microlending abuses

(58)
ST(BT) 16/5/99

USURY

By AMANDA VERMEULEN and BELINDA ANDERSON

TRADE and industry has announced long-expected changes to laws governing the microlending industry in a bid to stamp out prevalent abuses and provide consumers with recourse when their rights are violated.

Amendments to the Usury Act include three key provisions: capping interest rates at 10 times prime lending rate, now 19%; increasing the loan ceiling to R10 000 from R6 000; and creating a system to compel microlenders to be members of a regulatory authority to qualify for the exemption.

Prior to the changes, loans under R6 000 were exempt from a capped interest rate, which allowed some microlenders to charge rates on cash loans of up to 350% on an annualised basis. In addition, consumers had to surrender their bank cards and pin numbers to the microlender.

Now, with the loan ceiling raised to R10 000, the interest rate has been capped at 190% currently on an annualised basis. Loans above that value are subject to the current usury rates, which vary between 32% and 36% annually.

Industry players say the use of cash cards and pin numbers will no longer be acceptable for repayment. This method is highly labour-intensive, and its eradication will result in lower costs that will be passed on to consumers.

Microlenders that do not register with an approved regulatory authority will not qualify for the exemption, and will be forced to restrict themselves to the usury rates. Any company found to have violated the regulators' codes of ethics can be expelled, and so will not qualify for the exemption. All microlenders must register with a regulator by July 1.

The legislation was formulated in conjunction with microlending industry representatives. In the next few weeks, a new industry-driven microlending regulator is expected to be unveiled. This will promote a strict code of ethics governing issues such as tax and accounting standards.

The new law did not win the approval of every industry player. Flip du Plooy of the Microlenders Association says it could have a negative effect on the economy, and threatened court action to interdict the new laws. He says many of the changes were made without fully consulting members.

The changes come ahead of widespread restructuring expected in the industry, with all four major retail banks considering a push into microlending. Standard Bank is running a pilot project, and FirstRand is investigating opportunities with outside consultants. Nedcor and Absa, say banking analysts, are busy with similar plans. Furniture retailers could follow suit, using their extensive hire purchase books as a springboard.

Theta, microlending market leader with about 40% of the roughly R7-billion a year business (excluding cash loans), welcomed competition from banks and applauded the new legislation as it would help clean up the industry.

Theta says it is well set for competition with its lower cost-to-income ratio and owner-management culture that gives it edge.

But the group, which has a million customers, does not rule out an alliance with any of the retail banks, and says it has been having ongoing informal discussions with all the major players.

Analysts say increased competition is inevitable, but retail banks will probably have to partner existing microlenders to tap into their systems and expertise rather than reinvent the wheel.

Financial behemoth's local subsidiary applies for a licence to up the ante in private sector

HSBC to launch full-service private bank

(58) CT (AR) 17/5/99

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg – HSBC Simpson McKie, the local subsidiary of one of the world's largest banking groups, would apply for a banking licence to introduce a full-service private client banking operation in South Africa, Chris Niehaus, the chief executive, said last week.

The move heralded a realignment of HSBC's private client business locally and follows the disposal of its Johannesburg retail stockbroking department to Investec Bank. "HSBC's acquisition of Republic New York, which is largely a private bank, is an indication of the direction we are following. The group is concentrating increasingly on the wealth creation business."

HSBC last week paid $10,3 billion in cash to buy Edmond Safra's Republic New York Corporation and Safra Republic Holdings, its European banking affiliate. The New York operation banks 30 000 clients through 83 branches in the New York area, while Safra Republic operates 44 offices in Europe's playgrounds for the wealthy.

HSBC Simpson McKie's move comes as its parent is on a drive to increase its worldwide presence in the high-margin, lower-risk wealthy private client segment.

Niehaus said: "We are serious about private banking, and we're increasing our emphasis on private clients – any inference that we're not is completely wrong."

HSBC Simpson McKie was targeting professional, wealthy and "about-to-be wealthy" clients, but particularly those who could not keep pace with the rapid growth in financial services and products on offer and needed advice.

"Nobody (in the local market) is yet making life easier for private clients," he said. "We intend rolling out a whole range of products to private clients to meet a far greater range of their needs.

"We are client-focused, not product-focused. We are putting all the relevant services under one umbrella to service our strong, loyal client base."

Niehaus said HSBC had already started and would continue hiring professional staff for the business. It had set a high entry standard in anticipation of "inevitable" changes in the regulatory environment governing financial advisers, and in order to "up the ante" in the local marketplace.

The private banking operation would be staffed by qualified professionals, who individually or collectively would be able to provide specialist advice on tax, law, insurance and banking as well as trusts.

Niehaus said the asset management and execution function within HSBC's local stockbroking arm would be separated into "focused" independent operations able to access the global resources of the HSBC Group as a whole.

"An independent asset management arm means that other brokers can supply their research to our asset managers," said Niehaus.

HSBC Simpson McKie concentrates on institutional securities, personal asset management and investment banking activities in South Africa. It has over 5 000 offices in 79 countries and territories and assets of $483 billion at December 31.

Banking Council voices concern over Usury Act

BD 18/5/99 (78)

Pat Sidley

THE Banking Council is to meet the departments of trade and industry and finance to discuss changing some of the provisions to the Usury Act published on Friday, after expressing its concern about the effect of the provisions.

According to a notice published on Friday, all micro-lenders will have to belong to an approved regulatory institution from July 1. The notice places a ceiling on the interest rates micro-lenders may charge which has raised fears in the industry that micro-lenders will call in their loans.

It also lifts the ceiling on amounts that can be lent before the Usury Act comes into play. This has been raised to R10 000 from R6 000. Interest rates are limited to 10 times the prime rate of interest charged by the big four banks. Charges have been as high as 45% a month at some micro-lenders.

The Banking Council's CEO Bob Tucker said the regulation did not directly affect the banking industry as it was within the ambit of the Usury Act.

However, the council was "greatly concerned" about the effect on the microlending industry and was in "intense negotiations" with the departments of finance and trade and industry.

These views have been challenged by Diane Terblanche, executive director of the independent Consumers Institute of SA. She wondered why lenders would call in their loans and believed the R10 000 limit was as "arbitrary as the previous suggestion of R50 000".

Terblanche said she would have preferred the amount to stay at the original level, or have the exemption totally removed, which would have the effect of making all loans subject to the provisions of the Usury Act.

In the notice issued by the department of trade and industry conditions are laid out to ensure adequate consumer involvement in the industry and its regulations.

Astrid Ludin, head of consumer credit and financial services of the department of trade and industry, said the department believed it was necessary to regulate the behaviour of some members of the micro-lending industry sooner rather than later.

Rates at many of the micro-lenders have already dropped to about 14% a month. The average, however, was 30% a month, according to Ludin.

New rules 'likely to see loans recalled'

BD 20/4/99 (58)

Pat Sidley

NEW regulations in the microlending industry could cause severe problems because unregulated lenders are likely to call in their loans, says Banking Council CEO Bob Tucker.

Yesterday Tucker presented the council's annual review and said the microloan regulations, published on Friday, were not an appropriate place for the government to experiment in self-regulation.

The basic problem lay in the creation of a regulatory institution that would require an estimated 15 000 microlenders to register and be monitored for compliance by a body that did not yet exist, he said.

His criticism was echoed by the Consumer Institute, which normally does not see eye-to-eye with the council.

Aynon Doyle, a researcher who presented the institute's views on banking to parliament earlier this year, said he did not believe there would be sufficient time for anything to be put in place by the July 1 deadline stipulated in the regulations.

Both sets of reservations, however, were dismissed by Nkululeko Sowazi, interim chair of the Micro Finance Regulatory Council, which applied yesterday for approval by the Minister of Trade and Industry as a regulatory institution in accordance with the new regulations.

He said nothing in the regulations should be new to interested parties because the issue had been discussed in various forms for two-and-a-half years.

The regulations published on Friday allow exemptions from the effects of the Usury Act for loans of less than R10 000 at interest rates up to 10 times prime rate set by the big four banks, provided lenders register with an approved regulatory institution.

This institution will comprise equal portions of industry, government and consumer representatives and has to be approved by the minister of trade and industry. It is to set up a complaints procedure, monitor all complaints, see that its members comply with regulations, and publish the results annually.

The industry is said to be worth more than R10bn.

The Consumer Institute said the amounts arrived at in the regulations were arbitrary, that consumer representation would be under-resourced compared to industry representation, and that if research was conducted it had not been given to the institute.

Some members of the microloan industry have opposed the regulations, but the more "established" ends of it, among them listed companies, have welcomed the moves.

Tucker said the bulk of customers in the microloans industry were on a debt "treadmill" and could not get off. Their debts were large and they borrowed to pay them.

Tucker believed the registration process should have taken at least a year and that "microlending rather than microlenders" should have been regulated.

Sowazi said the regulations were not an experiment and nor was it self-regulation.

He said the Micro Finance Regulatory Council was a co-regulation body on which all the stakeholders would sit.

This included the Banking Council, which was a founding member.

COMPANY NEWS

Banks 'hit unfairly by the media'

RICHARD STOVIN-BRADFORD

(58) CT (BR) 20/5/99

Johannesburg – South Africa's banks were not recognised for the beneficial role they had played in the country's economy and transformation process but had instead remained the targets of media criticism, Bob Tucker, the chief executive of the Banking Council, said in his annual banking review yesterday.

"Possibly, prudent and sound banks can never gain general approval. The rules of banking conduct, upon which depositors rely for the safety of their savings, do not allow banks to act magnanimously in lending out other people's money."

The review said that although the public perception of banks still left much to be desired, the council's contact with key government departments such as housing, finance, local government and constitutional development had "contributed materially" to a better understanding of the industry's role.

Tucker stressed that political and public pressure should not be allowed to divert banks from scrupulously adhering to "exacting international banking standards". Such pressure would destroy the banks' high international reputation, retard South Africa's economic growth and "militate against potential foreign investment. Worst of all, it would harm the very people in whose name the banks are being pressured to relax standards."

But Tucker acknowledged the formal banking sector's service was "neither appropriate nor affordable for large numbers of people." He said the Banking Council believed the solution lay, at least partly, in relaxing regulations to allow a new class of deposit-takers and transaction-handlers to offer limited banking services underpinned by appropriate deposit insurance.

The Banking Council has explored the possibility of a "mini banking licence" to cater for such microlenders. It argued strongly in its review for greater consumer protection.

Tucker said he was "really worried" about microlending. He said there were cases of people being charged 40 percent interest a month by "loan sharks" and having to jump from money lender to money lender to keep their creditors at bay.

Retail banking feels the pinch

JOHANNESBURG: Retail banking in South Africa is under considerable pressure and unless the major banks can generate satisfactory returns on the capital invested in the low-value markets, far from extending banking services, they will have no option but to withdraw from these markets.

This was the chilling message yesterday from the Banking Council of South Africa when it launched its review of the year to the end of December.

It stated that retail banking and especially the "big four" — Absa, First National, Standard and Nedcor — were exposed to criticism regarding their relations with their clients, and to persistent demands that they extend banking services to low-income South Africans.

It went on: "However, they earn a significantly lower return on equity (ROE) in this segment of their business than they do in their investment and merchant banking activities, and their overall ROEs are at best satisfactory.

"If South Africa's banks were compelled to serve the full spectrum of the market, irrespective of economic considerations, they would either fail in their fiduciary responsibility towards their depositors, or prejudice their shareholders, or both. In either case, there would be serious repercussions for the banks and for the country's economy. Unless they can generate satisfactory returns on the capital invested in low-value markets, far from extending banking services, they will have no option but to withdraw from those markets."

The banks, said the council, are very conscious of the difficulties experienced by people who were unable to open bank accounts, pay the costs of operating accounts through the sophisticated banking system or borrow small amounts from formal lenders.

To alleviate these difficulties, the industry had consulted various bodies, including informal savings institutions, to work out ways to provide alternative, safe, competitive and high-quality services to fill the existing gaps in the market.

Banking Council chief executive officer Bob Tucker told a media briefing yesterday that while one major bank had closed down 100 branches with 800 000 accounts, another had opened 2,5 million low-value accounts over the past three years.

He said the banking industry had also made proposals which would impose greater accountability on the banks and promote the development of deposit-taking, lending and transaction-handling services in the low-value markets.

These proposals include the repeal of the Usury Act and the introduction of the new National Consumer Credit Act to protect consumers.

"This law," said the council,"would protect the public against the worst of abuses while not frustrating access to credit."

Tucker said he is "really worried" about the current situation regarding micro-lending. He added that while self-regulatory conditions being implemented by micro-lenders would reduce the amount of interest charged to about 9% per month, thousands of people have been caught up on a "treadmill of debt". — Sapa

'IT'S A MAJOR TRAGEDY'

Manuel slates banks

CT 20/1/99 (58)

MINISTER of Finance Trevor Manuel stopped just short of accusing bank managers of deliberately undermining the economic reconstruction of the country. Special Assignments Team **ROGER FRIEDMAN** and **BENNY GOOL** report.

CONCERN: Wherever the election trail has taken him people have told Trevor Manuel of the difficulties they encounter with banks. Here, he speaks to residents of Saldanha Bay.

HE doesn't often get the opportunity to engage small-town South Africans on their personal financial concerns. When he did this week, in towns across the Northern and Western Cape, people kept telling him that bank managers seemed to be working at cross-purposes to would-be entrepreneurs.

"It's a major tragedy. I am struck by the consistency with which this issue has been raised. It was raised in Upington, Concordia, Springbok, Nababeep, Calvinia, Citrusdal and Saldanha Bay," Minister of Finance Trevor Manuel told the *Cape Times*.

"People say they have ideas, they draw up business plans, but when they take these to the bank manager he or she says sorry, they are not interested. The people are saying these bank managers don't give a damn.

"I have explained to these people, in all instances, that I cannot legislate to direct banks to lend in a particular direction.

"But the point they raise, which is quite correct, is that if the route to employment is through small, medium and micro-business enterprises, how can these get off the ground without lending?"

Manuel, on the road in a bid to secure votes for the ANC, said he had been struck by the high levels of unemployment he encountered, especially among the youth. There was almost a sense of despair, he said.

"The question is. Do banks have some sort of responsibility in this regard? And if they do, how do they go about exercising that responsibility?

"The issue cuts both ways. If a bank gets into difficulty, it comes to the state and asks to be bailed out by the Reserve Bank.

"I don't know what their instructions are or whether new instructions have been issued by banks to their managers. Bad debt was very high in the first quarter of this year and small businesses have proved vulnerable. I don't know if that has instilled a risk aversion that creates this situation where people don't have access.

"I think maybe it's about tightening up credit limits, and managers playing to the field they feel most comfortable in. But if they are opposed to change, they are in a position to get in the way. What is being articulated by the communities is that bank managers are standing in opposition to development. Perhaps it's their risk appraisal, perhaps it's something else.

"Part of the difficulty could be that my discussions with banks take place at a very senior level and I don't know if what we talk about gets filtered down to branch level."

In December 1995, the government launched a wholesale finance facility — Khula Enterprise Finance — to increase access to finance for small, medium and micro-enterprises by providing surety to banks making loans in these areas.

"The problem is your bank managers act as if they don't know about it," Manuel told a gathering of the business community in Saldanha Bay on Tuesday night. He said that only 37% of Khula's lending had gone to black business people.

What appeared to be happening, he said, was that in the past the bank manager was prepared to take a slight risk by lending money to his or her golfing partner. Now, with the Khula option, the golf partner still received the loan but the government took the risk. But when someone came along "from the other side of the line", the bank manager started to worry about the risk of not being able to afford green fees.

People who could not access money from banks often ended up with money-lenders. This was another issue that repeatedly confronted Manuel. He spent much time telling people about the regulations the government gazetted last week, which include formally declaring it illegal to hold someone's identity document or bank pin number as surety, and putting a cap on interest rates.

Real power is economic

R654-bn profit for SA's banks

Sowetan 20/5/99

By Shadrack Mashalaba and Sapa

THE assets of the South African banking industry at the end of December amounted to R654 billion – almost R9 billion more than the country's gross domestic product (GDP).

This is according to the *South African Banking Review*, which was launched yesterday in Johannesburg by the SA Banking Council.

Of this amount, 80 percent, or R525,5 billion, was made up in loans of which mortgages accounted for 38 percent or R189,4 billion.

By end December last year, 7 383 automatic cash dispensing teller machines (ATMs) were in use in South Africa and on an average day processed 85 000 transactions worth some R65 million.

There were 850 000 cheque transactions processed each day worth R16,6 billion.

But 475 of these cheques were lost and some 8 800 were returned to drawer, reported Banking Council chief executive Bob Tucker.

The risk return of the SA Banks at between three and eight percent was significantly below that of other African banks as well as those in the UK, Canada, Australia and the United States.

The interest margin in SA of 3,7 percent was lower than other African countries but higher than the 2,5 percent and 2,3 percent of the UK and Canada.

According to the *Review*, the financial institutions were faced with the seemingly intractable problem of the failure of many township residents to pay their rates, service charges and mortgage bonds.

The commercial banks currently have 63 100 township property loans which are in default.

Tucker said the situation put banks under pressure.

Of the non-performing loans, approximately 33 100 are in Servcon "ringfenced" portfolio which is 50 percent guaranteed by the Government. The other 30 000 are in the hands of the banks themselves.

"Servon, which was established in 1995 as a joint venture between the Government and the banks, was given the task of rehabilitating defaulted township loans. However, despite the optimism that followed the Record of Understanding signed in 1994 between the Government and the banks, the problems have not yet been resolved," the *Review* said.

The *Review* is an annual publication which was first released last year. The latest report tracks the activities of banking sector in South Africa during 1998.

Of the more than 50 banks operating in South Africa (both local and foreign), 41 are members of the council.

The council said aggregate pre-tax nett profit of all the banks last year was R9,5 billion compared with 1997's R7,6 billion.

Tucker said progress was being made by banks with the ministry of trade and industry in financing the small, medium and micro-enterprises. He said these sector should be differentiated to meet their needs.

"Institutions created by the ministry to help guarantee loans have failed to do so.

"The fatal fault at Khula is that its structure is not geared to taking risks," he said.

New micro-lending enters the fray 'for y

'Beggars can't be choosers. Disempowered people who are desperate and poor will go to whoever is prepared to lend them money.'

ANC 22/5/99 (58)

These words, offered by the Catholic Bishops Conference at the parliamentary hearings on the banking and micro-lending industries three months ago, send a message to those looking for solutions to the problem of the exploitation of consumers by the unscrupulous.

Esann de Kock reflects on the latest developments as another trade organisation joins the ranks of those wanting to lead you and micro-lenders to a promised land of self-regulation.

The Alliance of Micro Lenders and Associated Consumers (Amlac) and its Consumer Advice and Protection Organisation (Acapo) arm, are the latest additions to the micro-lending organisation scene.

They say they are here to improve the industry, to reduce exploitation and to help you manage your money better.

Amlac and Acapo's launch follows hearings two months ago in Cape Town where parliament's trade and industry committee heard testimony on the practices of micro-lenders. The committee learned that about 30 000 micro-lenders turned over between R6 and R8 billion a year in the course of providing the "unbanked" sector of the population with access to small loans. It learned that the industry has massive support from its clients and that it is here to stay – high interest rates or not.

Some banks, it was said, have started to enter the small loans market. Still, the committee learned that more and more banks are focusing their operations on higher income earners and that lower earners are desperate for access to finance.

Of the tens of thousands of micro-lenders, only 3000 are said to be members of trade organisations. The result is that unscrupulous lenders often use illegal ways of luring you into debt and collecting repayments.

GOVERNMENT INITIATIVES

After presentations to the committee, a report on the status of the micro-lending and banking industries was tabled. It recommended immediate action to monitor the practices of these industries.

The micro-lending industry, specifically, has been under tight scrutiny, resulting in a call for regulation to minimise exploitation.

On one side are those who want the government to introduce legislation; on the other are those who believe the micro-lending industry should continue to operate in a free environment. Somewhere in between are those that believe the industry should be held to standards, but that the lenders and borrowers should devise and enforce those standards.

The newly launched not-for-profit organisation, Amlac, falls into the latter category. As a member of the panel discussion pointed out at its launch, Amlac has the words "and associated consumers" in its title. But so far Amlac's managing director, Henk Vivier, has not been able to justify the reason for this and explain why consumers should take it seriously. He says Amlac represents 10 to 15 percent of the formal micro-lending industry and that the majority of its membership is made up of MoneyWise, and ABC Cash Plus members. No consumers are members, only money-lenders.

Amlac says it welcomes legislation. But Vivier asks whether self-regulation is not better than punitive and restrictive laws, which will force money-lenders underground, to the detriment of the rest of the industry and consumers. He wonders whether it is not naive to think that laws can control an industry as profitable as this one.

He says Amlac is different because it not only represents micro-lenders, but also sees consumer protection and education as a priority through the extended organisation, Acapo. It is also different because members who join Acapo will get information brochures and will be invited to attend free basic life skills seminars designed to educate consumers about financial matters and their legal rights. Depending on demand, these seminars will be conducted nationally in various official languages and will be recorded on audio cassettes for free distribution to Acapo members.

But members of similar organisations who attended the Amlac/Acapo launch could have been forgiven for feeling bemused. Especially when Vivier, following discussion of an example of the ethics of a specific micro-lender towards a specific consumer, commented that this was an example "of a member of the public allowing himself to be exploited by a micro-lender".

After all, as the trade and industry committee noted, people who approach money-lenders are mostly in need of immediate assistance.

Government has indicated that these desperate borrowers cannot be expected to distinguish between scrupulous and unscrupulous lenders.

Rob Davies, who chairs the trade and industry committee, says the committee does not believe self-regulation will work. Government intervention is necessary and he warns that people should expect movement from government on the issue.

"The principle is not one of government versus the rest. The real issue is one of compulsory versus voluntary regulation . . . government has a duty to ensure that effective regulation takes place. If it gives concessions relating to the Usury Act, then surely it has a right to exercise some control."

ing group for you'

More protection, but some say it's still not enough

The exemption in the Usury Act under which money lenders are allowed to do business has just been amended to give you more protection.

But not everyone agrees that the new measures will be sufficient.

The amendments include:

◆ Instead of R6 000, money lenders can now lend you up to R10 000;

◆ Money lenders have to belong to an approved regulatory institution;

◆ This body will have to monitor its members, ensure your complaints are dealt with adequately, annually publish information on the industry and its members, provide the government with annual reports of its membership and compile statistics of complaints; and

◆ Money lenders are no longer allowed to use bank cards and pin codes as security.

Diane Terblanche of the Consumer Institute says the Department of Trade and Industry has not indicated why the level had to be raised to R10 000.

"Their research shows that the average loan is about R3 000. We don't see the need to have raised the exemption and are worried that, while the amendments offer some measure of protection, this is not enough."

Terblanche says consumer involvement on any regulatory authority is important, but if consumer representatives don't have the resources to take up issues effectively, their presence will be futile.

Trade organisations which already exist include the Association of Micro Lenders (MLA), the Alliance of Micro Enterprise Development Practitioners and the Association of Micro Lenders and Associated Consumers. These organisations represent their members who are money-lenders.

WAYS YOU CAN PROTECT YOURSELF:

◆ Shop around for the best deal;

◆ Try to negotiate a favourable interest rate;

◆ Check if the lender belongs to a recognised trade organisation;

◆ Ask for an assessment of your income and existing loan repayments;

◆ Ask for a contact number of a consumer body – should you have any hassles or complaints;

◆ Don't borrow money from one micro-lender to meet repayments to another;

◆ Don't hand over your identity document; and

◆ Insist on a three-day cooling-off period. This is one of the conditions of the Usury Act exemption.

Banking empire strikes back

(58) ARG 22/5/99

ALIDE DASNOIS

The banking empire has struck back at critics with a move to explain high interest rates, rising bank charges and lack of attention to the needs of consumers.

In a glossy 38-page *Review of South African Banking* published this week, the Banking Council has taken seriously the criticisms levelled at banks by an increasingly angry public and by parliament.

The review follows widely publicised hearings by parliament's Trade and Industry committee in Cape Town earlier this year, where the banking industry was accused of failing to meet the needs of most South Africans, driving many into the hands of money-lenders.

Tackling the thorny question of punitive interest rates, the Council notes that last year's huge lending rate hikes "caused great difficulties for all households with a high level of debt" and led to the economic slowdown in the second half of the year.

But the Council says the banks had no option but to raise interest rates last June. Banks' own margins were being squeezed by the higher cost of borrowing from the Reserve Bank as the country tried to weather the emerging market crisis and speculative attacks on the rand.

"Where banks borrow funds more expensively from the Reserve Bank, they are compelled to pass the increased cost of borrowing on to consumers in the form of higher interest rates."

Explaining how the prime overdraft rate – the rate at which banks lend to their best customers – shot up to 25,5 percent last August, the Council says interest margins of 3,7 percent in South Africa are relatively low. Examples of interest margins in other countries are: five percent in Argentina, 3,5 percent in India, 7,7 percent in Zimbabwe, 3,4 percent in Australia and 2,5 percent in the United Kingdom.

"The margin between the interest rates at which banks borrow and the rates at which they lend is one of their principal sources of revenue," says the Council, adding: "Contrary to popular belief, interest rates are determined by the market and not by the banks."

In the world market, where money can be moved around with a touch on a computer keyboard, any bank charging excessive interest or paying too little on deposits would soon lose clients.

But if interest margins are narrowing, why are bank profits increasing?

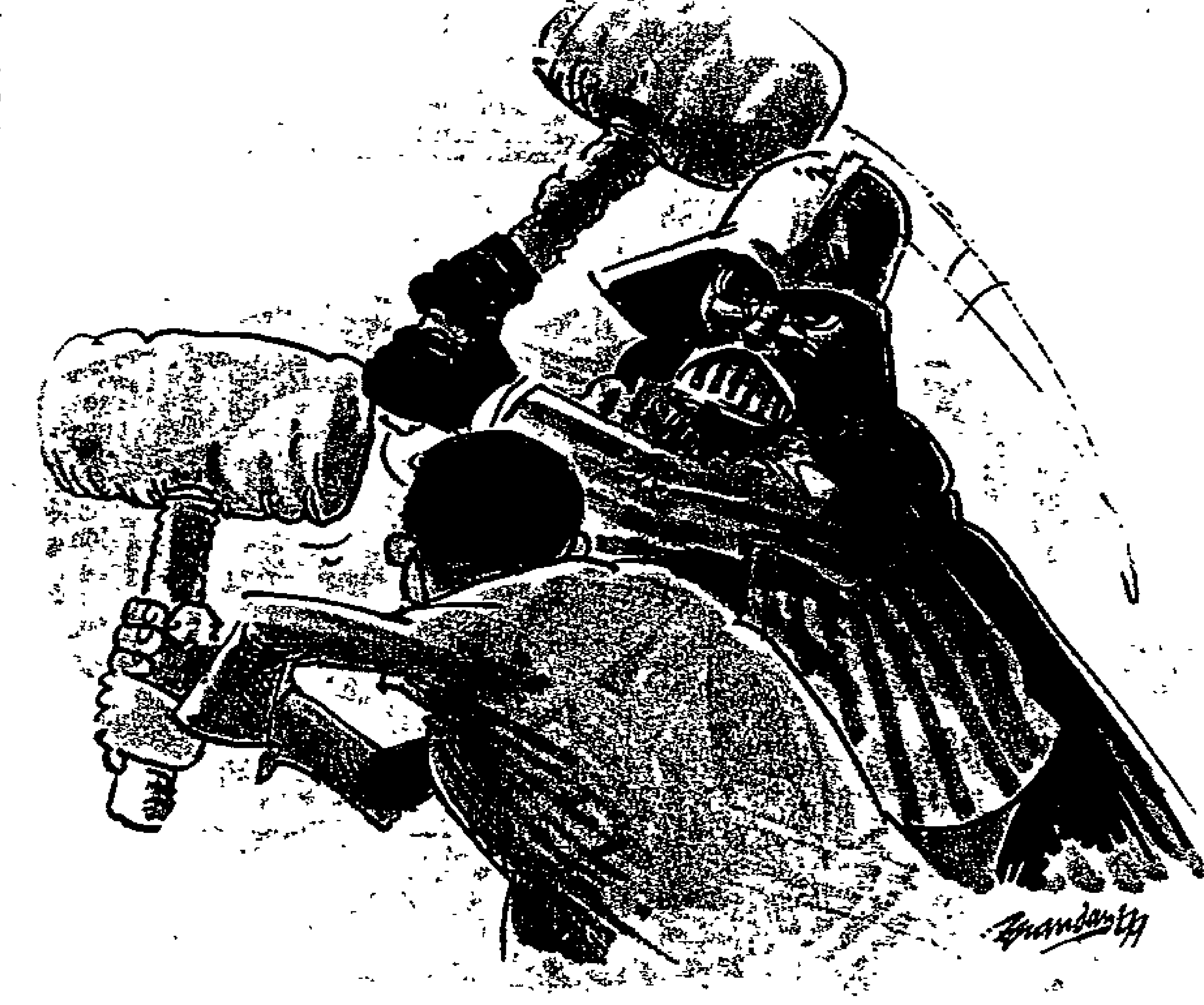
After-tax profits of all the banks jumped 25 percent last year to R6,9 billion. The Council says this is partly because banks are now less dependent on interest revenues for profits.

And anyway, it points out, adequate profits are necessary to attract investment. Investors who can get comfortable returns without risk from, say government bonds, are not going to invest in banks unless they can get better returns. This risk premium, according to a study by accountants KMPG, varies from three to eight percent on banking shares in South Africa compared to 15 percent in the United Kingdom, 10 percent in Australia and up to 50 percent in other African countries.

"Any reduction in profits would encourage shareholders to seek better returns elsewhere and severely erode the financial strength of the banks.

"Moreover, comparing charges with the cost of providing services, and bank charges in South Africa with charges in other countries, it is equally clear that consumers are being fairly treated."

Countering accusations that bank charges have increased dramatically, the Council says transaction fees in South Africa are much the same as in Australia and lower than in the United States, though they are nearly three times higher than charges in the United Kingdom.



Little profit in low-income clients

Far from increasing their services to low-income customers, banks will have no option but to withdraw from this market unless they can generate satisfactory returns on the capital invested.

This is the Banking Council's answer to criticisms that banks are neglecting poorer consumers.

Retail banking – the provision of services to the public – is the least profitable part of the banks' activities, says the Council. Investment and merchant banking is much more profitable in terms of returns on shareholders' capital.

And if the banks had to serve the whole market without taking into account economic considerations, they would either fail in their duty to depositors, or shortchange their shareholders, or both, says the Council.

The Council says it is conscious of problems of people who can't open bank accounts, borrow small amounts or use the banking system to pay accounts.

Banks are consulting with microlenders, the Registrar of Banks and others to work out ways to provide alternative, safe, competitive and good quality services to fill the gap.

Steps taken already include:

◆ The banks have helped to devise ways of financing low-cost housing;

◆ Five banks are in a pilot project with the government-initiated Khula Enterprises finance scheme to provide loans to micro and very small enterprises;

◆ The Banking Council is working on a code of conduct based on the British code; and

◆ An independent Ombudsman's office is in the pipeline.

Money guide destined for the best seller lists

Hot off the financial presses is the Banking Council's guide to banking services, "Looking after your money", in all official languages.

Aimed at people with little experience of banks, and written by the Educational Support Services Trust (ESST), the guide tackles questions such as "Why do we need banks?", "How not to invest your money", "Banks, the economy and us", and "What services do the banks offer?"

Illustrated with a comic strip, where Karl and Kondi and their child, Lulama, find out about the dangers of pyramid schemes, the benefits of a bank account, how to save, and how to borrow to start a small business.

The guide is based on a booklet called "Money", developed by ESST for the Reserve Bank.

For more information, telephone the Banking Council on (011) 370 3500.

Inquiry launched into R7,2-bn deficit in road crash victim fund

ARG 24/5/99 (58)

Pretoria – An extensive inquiry aimed at overhauling the bankrupt Road Accident Fund for road crash victims formally kicked off in Pretoria yesterday.

Transport Minister Mac Maharaj told reporters the fund's R7,2-billion deficit was growing by nearly R1-billion a year.

The fund played a vital role in the social welfare of South Africans suffering as a result of road accidents.

"But it has been in crisis since the mid-1980s when its expenditure outstripped its income from the fuel levy," Mr Maharaj said.

Other major problems included the high cost of settling claims from the fund. This consumed more than a fifth of money paid out, of which 75% was for legal expenses.

Another complication was settlement delays of between 34 months and 46 months. The current ceiling of R25 000 in damages paid to a passenger in a car crash was also unacceptable, Mr Maharaj said.

The Presidential Commission of Inquiry into the Road Accident Fund was proclaimed in the Government Gazette yesterday.

Its brief is to "inquire into and make recommendations regarding a reasonable, equitable, affordable and sustainable system for the payment by the fund of compensation or benefits".

The body will be headed by High Court Judge Kathleen Satchwell. Part-time commissioners are social scientist Riah Phiyega and attorney Zakhele Sithole.

The commission will start by studying 50 volumes of submissions, records and other information.

The debate over the future of the fund began in March 1996 with public hearings in Parliament, followed by a draft white paper on the matter.

Mr Maharaj said the commission's brief was separate from a probe by the Heath special investigating unit into allegations that members of the legal profession were defrauding road crash victims.

The commission would, however, be kept informed of the progress of the Heath unit's investigation, Mr Maharaj said. – Sapa

Black Sash opposes microlending laws

BD 24/5/99 (58)

Pat Sidley

THE Black Sash has joined growing opposition to the proposed new regulations intending to place controls on the R10bn microlending industry.

Despite growing opposition, a second group which claims to represent microlenders and consumers has made a formal application to the trade and industry minister for recognition as the regulatory authority.

In terms of the regulations, microlenders will have to join a regulatory institution. The body will equally represent stakeholders such as the microlenders, consumers and government.

It will have to see to it that the estimated 15 000 lenders in the industry toe the line and it will have to monitor all complaints and enforce compliance. It will also have to collect this information and publish an annual report.

The regulations place a ceiling on interest rates, limiting them to no higher than 10 times the prime rates charged by the big four banks and raising the limit for exemption from the Usury Act from R6 000 to R10 000.

Duncan Marsh of the Black Sash in Knysna said he believed the regulations could not be enforced. He said the Black Sash's research had highlighted the need for government action, but that regulations would not do the job.

"Enforcement will be left to a handful of Usury Act inspectors, who in the past six years have brought not a single prosecution against any money lender. Far from reducing debt levels, increasing the exemption level to R10 000 will only serve to lure more people into further debt."

Research undertaken by the Sash showed that 74% of money lenders indicated that 70% of customers returned to renew their loans. Half the clients entered more than nine loan agreements. The reasons given were food, accounts, transport, education and rent. This was evidence of the theory of the debt trap.

Ignorant and illiterate people found themselves signing blank forms as well as powers of attorney and admission of debt forms. Before any action could be taken, a judgment against them had been taken in a court of law.

The debt trap and the unenforceability of the regulations has prompted opposition from sources as diverse as the Consumers Institute and the Banking Council. A grouping of microlenders — the Micro Lenders Association — has voiced its opposition to the regulations.

The association's problem revolves around the practice of taking ATM cards, PIN numbers and ID books from clients to retrieve money. The association does not want to see this abolished. It also claims interest rate limitations will create problems for certain sectors of the industry.

Not all microlenders are opposed to the regulation. One group has already applied to the minister for recognition and another new group, called Amlac, asked for recognition last week. Its CEO, Henk Viviers, said he and a lawyer, Eric Mabuza, who acted on behalf of consumers, had joined forces to be a part of the new regulatory process.

Regulation in the industry, said Viviers, was long overdue. He believed the interest rates in the new regulations were still too high. Long-term loans in the industry, he said, were on average 8%.

Commission seeks solution for accident fund

Business Day Reporter (58) (2049) BD 24/5/99

JUDGE Kathleen Satchwell of the Transvaal provincial division of the High Court will head a commission of inquiry into the Road Accident Fund which will investigate a sustainable compensation system for crash victims, Transport Minister Mac Maharaj said on Friday.

Judge Satchwell will be assisted by two part-time commissioners, Riah Phiyega and Zakhele Sithole. Phiyega is senior manager: corporate social investment at Transnet, and Sithole is a senior partner with accountants Fischer, Hoffman, Sithole.

The commission must report to the president within a year.

The commission is the latest in a series of attempts since 1996 to resolve the problems of the fund, which has an accumulated deficit of R7,2bn. The deficit grows by nearly R1bn a year, despite three increases in income from the petrol levy over the past 18 months.

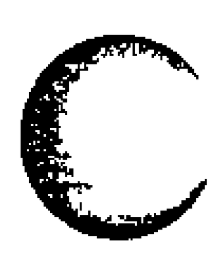
The fund's failure to recover is blamed by government on "a financial mismatch between premium income and benefits".

Maharaj said the commission was the shortest route to a credible system acceptable to all stakeholders. It was the most effective way of dealing not only with the fund's financial crisis but also of reaching an equitable and affordable system of compensating victims.

The fund played an important role in the social welfare of many South Africans, said Maharaj, "but it has been in crisis since the mid-1980s when its expenditure outstripped income from the fuel levy, as adjustments were not made over the years for inflation".

The commission will "inquire into and make recommendations regarding a reasonable, equitable, affordable and sustainable system for the payment ... of compensation or benefits, or a combination of compensation and benefits, in the event of the inquiry or death of persons in road accidents"

The commission will be housed in the Forum Building, corner of Bosman and Strubens streets, Pretoria. The contact person is commission secretary: Annami Roux: 082-564-6961.



Probe of accident fund

(58) Sowetan 24/5/99

By McKeed Kotlolo

OUTGOING Minister of Transport Mr Mac Maharaj has named three commissioners to investigate the activities of the cash-strapped Road Accident Fund with the aim of finding a long-term and sustainable system to compensate victims.

Maharaj made the announcement in Pretoria on Friday, the day the proclamation of the commission by President Nelson Mandela was published in the *Government Gazette*.

According to Maharaj the fund accumulated a deficit of R7,2 billion which, he said, increased by about R1 billion annually. "This is despite three increases in income from the petrol levy over the past 18 months as there is a financial mismatch between premium income and benefits".

Maharaj said the fund's R7,2 billion deficit was growing by almost R1 billion a year.

The fund played a vital role in the social welfare of South Africans suffering as a result a road accidents.

"But it has been in crisis since the mid-'80s when its expenditure outstripped its income from the fuel levy," Maharaj said.

Other major problems included the high cost of settling claims from the fund. This consumed more than a fifth of money paid out, of which 75 percent was for legal expenses.

Another complication was settlement delays of between 34 months and 46 months. The current ceiling of R25 000 in damages paid to a passenger in a car crash was also unacceptable, Maharaj said.

The three-member commission, comprising two women and a man, will be headed by Judge Kathleen Satchwell of the Transvaal Provincial Division of the High Court.

Satchwell practised as an attorney, notary and conveyancer in Johannesburg for 18 years before she was appointed as an attorney to the Transvaal Bench. She had also chaired a number of other commissions of inquiry including one into the management of the Bophuthatswana Pension Fund.

The other members are Ms Riah Phiyega, a senior manager of Corporate Social Investment at Transnet and Mr Zakhele Sithole, a senior partner in Fischer, Hoffman and Sithole accounting firm.

US expert ready to learn from SA parks

American parks chief Robert G Stanton says that SA and the US are on track to work closer together on tourism issues and share their conservation skills, writes Mbonisо Sigonyela

(56)

BD 27/5/99

TRAINING of SA staff in aspects of nature conservation in the US has begun, and there are "tremendous opportunities to share management skills, says US National Parks Service chief Robert Stanton.

His visit to SA is in the spirit of an agreement of the binational commission between the US and SA initiated by Deputy President Thabo Mbeki and his US counterpart Al Gore.

Stanton, who arrived in Pretoria yesterday, is reciprocating an earlier visit by SA National Parks CEO Mavuso Msimang to America. Stanton said they were planning a binational agreement to co-operate on environmental affairs and tourism to facilitate the spirit of the commission.

Stanton said SA would learn from the US experiences of promoting tourism through the national parks services. He said: "We will also learn a lot from SA as well.

"SA as a conservation country is highly regarded in the US and by my immediate staff," he said.

His visit is also linked to SA's hosting of the World Congress of National Parks in 2002.

Stanton said SA had produced scientists who distinguished themselves in wildlife management. There were tremendous opportunities for the US and SA to share and exchange management skills.

He said the national parks were faced with a continuing challenge to strike a balance between conserving resources for future generations and running profitably.

Legislation to achieve this objective was needed, he said.

In the US all commercial activities in the parks were carried out by the private sector.

Mavuso said that in SA today, unlike in the past, the government had more obligations and could not afford to fund the national parks to the extent it did before.

He said: "We are getting only 14% of our funding from the government; the rest we have to raise on our own."

Prof Willem van Riet, chairman of SA National Parks, said: "The US is different to our situation because we still have a lot of land to buy for conservation. In the US they already own the land." SA had to pay market-related prices.

He said SA had learnt from its US counterparts to avoid "over-commercialisation".

In the US there were attempts now to take some businesses out of the parks.

Van Riet said: "We cannot expect the private sector to fund preservation entirely, it is still a government duty to do so."

Stanton, who is accompanied by his wife and officials from his office, yesterday flew to the Kruger National Park. He will later visit the Cape Peninsula Park, which includes Table Mountain. He will visit Robben Island, too.

Robert G Stanton, director of the US National Parks Service, who is in SA to promote closer ties between SA National Parks and its US counterparts.

Picture: TREVOR SAMSON

Bid to hook loan sharks

Code of conduct will help to safeguard borrowers

ARG 27/5/99 (58)

TYRONE SEALE
SPECIAL WRITER

The Department of Trade and Industry will publish a notice next week exempting money-lending transactions under R10 000, with a maximum loan term of 36 months, from the provisions of the Usury Act.

Money lenders must register with a regulatory institution by July 1, and they must comply with a code of conduct.

The notice becomes effective on July 1 to replace the dispensation under which the exemption stood at R6 000, and under which money lenders were free to charge any interest rate.

The new rules impose a ceiling on finance charges of 10 times the prime bank lending rate.

The previous exemption was legislated seven years ago, ostensibly to help small, micro and medium businesses obtain start-up capital.

But when the parliamentary portfolio committee on trade and industry took evidence on banks and the small-loans sector in March, MPs heard from the Black Sash and the Consumer Institute of South Africa that only 1% of loans made by micro lenders went to businesses.

Evidence was that consumers and entrepreneurs were borrowing up to R15-billion a year from the small-loans sector.

The borrowers represent a market neglected by mainstream banks – a market of mainly African people who are in formal and informal employment and have distinct credit needs that are not satisfied by the banking sector.

The committee was also told that at the unsecured-loan end of the market, where loans ran for between six months and four years, effective finance charges ranged from about 35% to 300% a year.

In the shorter-term cash loan market, effective charges ranged from 7,5% to 30% a month.

Giving details of the new notice, Trade and Industry Minister Alec Erwin said: "We are all aware of the abuses that have occurred in the small-loans sector under the present exemption, which imposes minimum conditions on money lenders.

"This notice must be seen as a strong message from the Government to the industry, and the small-loans sector in particular, that we intend to address the conduct and practices prevalent in the sector.

"It is our intention to ensure that consumers are treated fairly and that consumers have recourse when their rights are violated, or when they are treated unfairly."

Under the new rules, to be co-regulated by the Government and the small-loans industry, lenders must provide written disclosure of the loan amount, finance charges, the repayment period and instalments.

Lenders are also expected to use a standard contract that must be explained to, and signed by, the client, and account statements should be provided to borrowers on demand.

The code also provides for a three-day cooling-off period during which the client may cancel the contract and pay back the loan and pro-rata finance charges for the period.

Where the loan term is less than a year, or the borrower is retrenched, pre-payment or settlement of the loan can be done without notice or penalty.

Where the loan term exceeds a year, 60 days' notice must be given.

No charges are to be levied where a loan is refused or before funds have been handed over.

Lenders should display a copy of their registration certificate from the new regulatory authority, as well as the complaints procedure.

Also from July 1, lenders will not be allowed to use personal information such as Personal Identity Numbers and bank cards as security arrangements.

The new code has been welcomed by Johan de Ridder, African Bank's senior general manager: business development.

He told the parliamentary committee in March that the lack of access to credit for, particularly, black South Africans who wanted to buy houses or establish or expand small, micro and medium enterprises, constituted a major failure on the part of commercial banks.

The neglected market needed finance, especially for shelter and housing, where mortgage finance was not only inaccessible but also inappropriate, as well as for education and other income-making activities.

This week, Mr De Ridder said the new rules provided a long overdue, increased degree of protection for consumers, and made it possible for cash-loan operators to continue to do business.

However, the capping of the interest rate at 10 times prime would result in pressure on the profitability of some micro lenders.

Duncan Marsh of the Black Sash office in Knysna, said that, while the increased exemption was helpful to emerging businesses, it could be used to encourage further borrowing among people who might already be in a debt trap.

He welcomed the attempts in the new rules to regulate the micro-loan industry, but pointed out that many people were borrowing from informal lenders who would circumvent the code of conduct.

The Black Sash has found that up to 70% of pensioners in the Southern Cape are trapped in debt as they depend on deals with money lenders.

Research by the non-governmental organisation shows that in Knysna and Mossel Bay, 50% of pensioners borrow regularly from money lenders, with this figure rising to 70% in George.

Until recently, many of these pensioners were dealing with lenders who would hold on to pension and identity documents as security. Lenders would return these documents to pensioners on pay day and would claim them back along with loan repayments.

Earlier this year, the Black Sash moved in and persuaded money lenders to do their business away from payout points.

The new rules will also apply to lenders who offer loans to customers in businesses or government departments from whose payrolls repayments are deducted.

Long wait for the money ...

The new rules will be good news to hundreds of thousands of South Africans whose only collateral against loans is steady jobs with big organisations.

One such borrower, an employee at Parliament, called the Cape Argus this week to complain he had been waiting nearly five months for a R3 000 loan which the lender, a reputable small-loans firm, had told him had been approved. No reasons had been given for the delay, he said.

The man said he would use the loan to consolidate debt – a popular practice with borrowers.

This way, he would use the loan to pay off various debts so that he was left only with a commitment to the micro-lender who told him he qualified for a loan of R8 000, repayable over 48 months – by the end of which he would have paid a total of R18 480.

Under the new code, the loan will have a maximum term of 36 months.

SA banking an oxymoron

(58) M+G 28/5–3/6/99

South African banks are trying to cater for two opposite worlds, reports **Donna Block**

South African banking could be called an oxymoron. It's like two worlds colliding — the rich and the poor, the developed and the undeveloped.

The country boasts a world-class banking and financial system, however, the majority of the population remains unbankable.

South Africa is in a difficult position, says Nick Cairns of Absa Bank. "Traditionally, white South Africa compares itself with Britain and the United States and wants the same service that's provided in those countries. Black South Africa ... compares itself with the rest of Africa and somewhere between the two is the truth."

The truth is South African retail banking is not prepared to lose money on "low-value" markets. They argue they are in the business of making money and to do this they have to be able to compete internationally. Which means taking on US and European heavy-hitters.

But to stop providing "low-value banking" would brand them socially irresponsible. So banks are now more than ever willing to let new and alternative entrants fill the gaps.

At the launch of *The South African Banking Review* last week Bob Tucker, CEO of the Banking Council, said retail banking in the country is under pressure and if the major banks cannot produce satisfactory returns on money invested in low-value markets they will have no choice but to pull out.

The banking review says retail banking and in particular the big four — Absa, FNB, Standard and Nedcor — were laid open to criticism with respect to their relations with customers, and to persistent demands that they extend banking services to low-income earners.

According to the Banking Council, the banks are well aware of the problems experienced by people who are unable to open bank accounts, or afford the associatedcharges, or the costs for borrowing from formal lenders. Tucker acknowledged that the formal banking sector was "neither appropriate nor affordable for large numbers of people".

To help this segment of the market along, the industry had consulted various bodies, including informal savings institutions, "transaction handlers, the Registrar and other organisations" to work out ways to provide alternative safe, competitive and good quality services to fill the existing gaps in the market.

Tucker says that while one major bank (Nedcor) has closed down 100 branches with 800 000 accounts, another (Standard's E-Bank) has opened 2,5-million low-value accounts.

He says the banking industry has also made proposals which will impose greater accountability on the banks and promote the development of deposit-taking, lending and transaction-handling services in the low-value markets.

Proposals include the repeal of the Usury Act and the introduction of a new National Consumer Credit Act to protect consumers. "This Act," says the council, "will protect the public against the worst of abuses while not frustrating access to credit."

Tucker says he is "really worried" about micro-lending. There have been cases of people being charged 40% interest a month by "loan sharks" and having to jump from moneylender to moneylender to try to keep their creditors at bay.

He added that while self-regulatory conditions being implemented by micro-lenders would reduce the amount of interest charged to about 9% a month, thousands of people had been caught on a "treadmill of debt".

He says banks are also concerned about their image and admits: "Even our own code of conduct is no panacea."

Tucker and a number of economists said customer education is critical to the local banking industry and commented: "There are people coming out of schools without any comprehension of the basics of finance."

One economist said: "It doesn't matter if interest rates are high or low if the customer doesn't understand why he has to pay it."

In an attempt to correct this, the council has published 1,2-million educational booklets, *Looking after Your Money*, in the 11 official languages. These are being distributed to schools, trade unions and disadvantaged communities.

The banks are responding to the enormous political and public pressure, according to Dr Rob Davies, chair of the parliamentary trade and industry committee. A task team will be appointed to look at bank performance, legislative intervention and the Usury Act. The hope is that the banking industry will adapt and change.

Move to cut off loan sharks

(58)

By Shadrack Mashalaba

THE Transport and General Workers Union (TGWU) and Sanco Investment Holdings have entered into a joint venture agreement to provide micro loans to union members and officials in an effort to insulate them from loan sharks.

The agreement, signed on Wednesday, also involve Msizi Financial Services and Ilima Financial Services, a subsidiary of Sanco Development Trust. It is expected to be effected soon.

TGWU general secretary Randall Howard said the loan scheme was initiated because of concern over skyrocketing interest rates.

"We can no longer allow our people to be exploited by 'loan sharks' charging exorbitant interest rates," said Howard.

The members can borrow between R1 000 and R6 000 at very reasonable interest rates – still to be determined.

Organisations involved in the agreement said the current initiative by the Department of Trade and Industry to review laws governing the micro lending industry to eradicate abuses and provide recourse to consumers should their rights be violated is precisely the context in which this deal should be located.

Howard said if the DTI proceeded to introduce legislation increasing the maximum amount from R6 000 to R10 000 "we would follow suit".

The key aspects of the agreement include:

- The union grants the company (where it mobilises) exclusive rights to conduct the business of providing micro loans to its members and staff;
- The union in return will acquire 20 percent of the authorised share capital;
- The union undertakes to market the scheme among all its members;
- Parties will bind themselves to a shareholders agreement which will regulate the relationship; and
- There will be five directors appointed to represent all the shareholders.

Standard takes banking to all corners of Africa

(58) CT (MR) 28/5/99

The Standard Bank group is the oldest South African commercial bank in operation, one of the largest in terms of total assets and profits and a market leader in terms of market capitalisation. The Standard Bank Investment Corporation (Stanbic), based in Johannesburg, is the holding company for the interests of the Standard Bank Group.

Through the acquisition of ANZ Grindlay's interests in eight African countries in 1992, the group started re-establishing its sub-Saharan network, which was then limited to Swaziland and Namibia.

It is now represented in 14 countries, namely Botswana, Democratic Republic of Congo, Ghana, Kenya, Lesotho, Madagascar, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

"A key feature of the services offered by Stanbic is its knowledge of Africa, gained over almost one and a half centuries," said Bob Norval, the regional director of Stanbic Africa.

"Business now is interesting and competitive, and South Africans are definitely spreading into Africa as new market opportunities present themselves.

"At present many of these businesses revolve around mining, infrastructure construction and retail. At Stanbic we see local manufacturing as an opportunity that should be taken up by South Africans who have the relevant experience. There is a definite market for many goods, and local manufacture in a central region of Africa could provide an excellent means of adding value to existing raw materials and contributing to the creation of skills and long-term job opportunities.

"There is a strata of wealth in sub-Saharan Africa as would be expected from 650 million people and these people want goods and services in line with the rest of the world. Importing all items is often restricted by the lack of international funds and weak local currencies.

"Stanbic offers its corporate clients not only on the spot banking facilities in many of the developing trade areas but also an economic research division that has access to a wide variety of information.

"Many South Africans, already based in the countries to the north of us, share the information they have with regard to taxes, legislation, distribution and other local obstacles and opportunities.

"Our advice to South Africans looking to enter Africa in business is to educate themselves about the country and do a capabilities and skills assessment both of themselves and the local population. Then get a good banker, lawyer and accountant and a good local person on their board.

"Our mission at Stanbic is to be the best financial services group based in southern Africa. We have the largest presence by far of any South African bank on the African continent.

"At the end of last year, we stated that our future performance depended on reduced political and regional tension and an end to other structural problems such as corruption and uncoordinated banking legislation. A key strength is that the diverse nature of our representation in Africa produces a portfolio effect.

"We offer a wide spectrum of products and services which include investment banking, commercial banking, and treasury services."

SATURDAY ARGUS
BUSINESS RE

Union sidesteps the loan sharks

FRANK NXUMALO
LABOUR EDITOR

(58) ARG 29/5/99

Johannesburg – Thousands of union members and officials of the Transport and General Workers Union (TGWU) and the South African National Civics Organisation (Sanco) would benefit from a short-term microloan facility signed this week between the two unions.

The money would be supplied by Msizi financial services, a joint subsidiary of TGWU, and Ilima financial services, owned by Sanco.

The scheme, for amounts of up to R6 000 payable over a 12-month period, saves ordinary workers from the humiliation of credit checks and onerous demands for collateral security, often in the form of identity books or ATM PIN numbers surrendered to loan sharks.

"Thousands of workers are currently borrowing money at extremely high interest rates from loan sharks, or 'mashonisas', and are being ripped off," said Randall Howard, the general secretary of TGWU.

BENEFITS *Randall Howard, general secretary of TGWU*

"This is exacerbated by the consistent refusal of private financial institutions to grant the majority of our people access to short-term financing, so we intervened to ensure our members and staff are no longer subjected to super-exploitation."

Howard said the agreement brought together key stakeholders from the black community to address the needs of black workers in the transport, cleaning and security industries.

"We believe it is inappropriate to continue to allow established white institutions to deny access to our people on the one hand, and loan sharks ripping them off on the other," he said.

The Association of Microlenders conceded that the present situation was unacceptable, and said it was in talks with the government to present the microlenders' case as forcefully as possible and find feasible solutions.

The department of trade and industry is reviewing laws governing the industry with a view to eradicating abuses and protecting consumers.

Draft bill easy on financial sharks

(58) ARG 29/5/99

JEAN LE MAY

The Nel Commission, which is investigating South Africa's financial legislation, has slammed the draft Financial Advisers Bill for being on the side of Big Business instead of protecting the public from scams.

The bill was published in April for public comment.

The commission, chaired by Mr Justice Hendrik Nel, was set up originally to investigate the reasons for the Masterbond empire collapse in 1991, with a loss of more than R600-million to investors.

Two reports from the commission have found that the law as it stood then failed to protect the public from scams and that some professionals, including the legal and financial authorities, state officials, auditors and accountants, fell short in their duties.

The commission's brief was extended and its latest investigation is into the draft bill, which is supposed to protect the investing public.

The drafters of the bill, in asking for comment, got more than they bargained for from Judge Nel. A 97-page "comment" document released this week says the draft bill will demonstrably fail to protect the public unless it is extensively amended.

The document started by repeating the recommendations the commission had made in August 1996 when the Policy Board for Financial Services issued a consultative paper on the regulation of retail investment in South Africa.

Retail in this context has nothing to do with shops or shopping, except in the sense that people "shop" for investments. And "product" refers to everything from an insurance policy to a debenture or a mortgage bond.

It appears from the commission's "comment" that the board, which falls under the Department of Finance, ignored most of the commission's recommendations.

Judge Nel based his latest comments on an extensive study of financial legislation in other countries, namely the United States, Canada, Britain, Germany, France, Australia, Malaysia and Singapore.

He found that, in comparison, the South African draft bill would perpetuate a fragmented supervisory system, in which numerous financial products such as insurance policies would be totally exempted, and in which untested or unregulated "representatives" would be let loose to prey on the public.

'The law failed to protect the public from scams'

Securities legislation should be focused on the protection of investors, he said. Instead, the bill sanctioned "authorised financial advisers" on everything from funeral policies to the most obscure and risky transactions.

Even worse, unlicensed and unregulated "representatives" would be let loose on the public, said Judge Nel.

Another failing was that in spite of enormous losses suffered by the public when long-term insurance policies lapsed or were cancelled, the bill excluded them from its strictest provisions.

The bill protected Big Business, said Judge Nel, instead of the investor. It suggested going to the High Court to recover money lost or to receive compensation, but – as Judge Nel comments: "Very few South African investors have the means to engage in court disputes with the Sanlams and Old Mutuals or the fraudulent Masterbonds of the world. A toothless, understaffed and under-funded ombudsman is not the answer."

The bill would also protect authorised "financial advisers" or "representatives" against claims based on their incompetence or negligence, said Judge Nel.

This became in issue in the Masterbond debacle, when many investors complained, to little effect, that they had bought dud investments on the advice of "advisers" or "representatives" of some of the country's major financial institutions.

"This attempt to protect negligent and incompetent advisers is unheard of in legislation which professes to protect investors," said Judge Nel, who also slammed "indirect benefits", such as overseas holidays, offered to "advisers".

As for offenders, Judge Nel got really tough in his recommendations. The Criminal Law Amendment Act lays down sentences of between 15 and 25 years for fraud. The judge recommended that anyone who gives financial advice for reward without being registered, or contrary to the licence terms, or not in accordance with a prescribed code of conduct, should be sentenced to at least 10 years in jail or fined R1-million or both.

That is, of course, independent of any sentence imposed for fraud.

At the end of 1997, there were expectations of lower interest rates and the hope of much-needed relief for consumers. But 1998 was a year of disappointment as interest rates shot to 25.5% on the back of turmoil in emerging markets. EAMONN RYAN looks at how the corporate banking sector coped with the turbulence. Pictures: JEREMY GLYN

SA banks hold on to survive turbulent ride

DESPITE the persistent high interest rate environment in the wake of the emerging markets crisis and JSE slump, total banking assets grew 19% — exactly the same as in 1997. The SA banking sector once again held up well in the face of rising consumer defaults and stiff competition, especially from foreign banks.

An analysis of the SA banking sector in Profile's 1999 Financial Markets Handbook puts the total size of banking assets at R655-billion in December 1998. SA's Big Four accounted for 75.8% (1997: 77.8%) of this. The Big Four — Absa, Standard, FirstRand and Nedcor — continued to lose market share to new players.

Growth in banking assets disguises the strain being felt in the consumer sector, where low growth was recorded. The main drivers in the 19% growth were increased overdrafts and loans to the corporate market, which grew by 43.6% for the year compared with the 28.9% of the previous year, showing strong demand for corporate borrowing in spite of high interest rates, according to the handbook.

There was also a 100% growth in larger investment portfolios, which predominantly relate to government and public sector bodies. Corporate lending accounts for 20.4% of total assets (1997: 16.8%).

Investec Bank executive director David Lawrence attributes the increase in corporate activity to a growing reality among corporates that to grow in business they have to find ways of being smarter both in their equity needs and debt requirements. "A number of specialist banks possess the talent to identify these opportunities and corner the deal flow. I see no likelihood of the work flow lessening. SA corporates have huge challenges and problems to resolve," says Lawrence.

"The process will be forced by the growing inclination of corporates to seek smarter solutions. Just one example is the outsourcing drive as companies stop trying to do everything in-house. And if there's enough value in a solution, clients are happy to pay for it.

"The major challenge in corporate banking is for the concept of value add to be a living reality and not just a cliché. Everyone uses the term today and it runs the danger of becoming just another fashionable buzz word. Our imperative is to make sure this doesn't happen. In our dealings with clients we ensure that we offer a tangible benefit to them. The past few years have proved to us that if we are successful in adding value for our clients, our work flow just snowballs."

The SA banking sector is dominated by the Big Six — adding BOE and Investec to the Big Four — whose combined assets account for around 88% of the market. These six account for more than 92% of mortgage loans and instalment finance.

Only in resale and repurchase agreements do some overseas banks or their branches have a greater share of the market.

'The major challenge in corporate banking is for the concept of value add to be a living reality, not just a cliché'

In corporate lending, Standard Bank has the largest market share at 22.4%, followed by Nedcor (19.4%), Absa (18.5%), FirstRand (15.3%), Investec (5.4%) and BOE (4.3%). The others contribute 14.6%.

The handbook says that Absa's biggest loss in market share over the past years was in corporate overdrafts and loans; but from the second half of 1998 it started gaining strongly.

That total assets didn't grow by a higher rate than in 1997 is a reflection of the severe market turmoil that gripped much of the world in the latter half of 1998. SA's financial system felt the full brunt of this negativity.

"The withdrawal of portfolio investments created significant liquidity pressures, magnifying the banking system's inherent structural weakness, with its large maturity mismatch created from mainly long-term assets being funded by short-term liabilities," the handbook reports.

There was a ripple effect as smaller banks were exposed to a "flight to quality" as depositors elected to place their funds with the larger banks, who were themselves the victims of the same flight as international banks sought to limit their exposures to SA.

The combination of this and the sell-off of government securities by foreigners created large market shortages and a record R16.7-billion accommodation was provided by the SA Reserve Bank on May 26 1998. "To its credit, the financial system came through relatively well, supporting the view that SA's banking system is relatively sound. Management and systems are sophisticated by international standards, encouraging sound risk management principles," the handbook says.

The proliferation of SA and foreign banks continued unabated. Over the past two years, 14 banking licences were issued, half of them to foreign banks. After accounting for mergers, licences issued increased from 50 to 56. In addition, there are now over 60 foreign banks with some form of representation in SA.

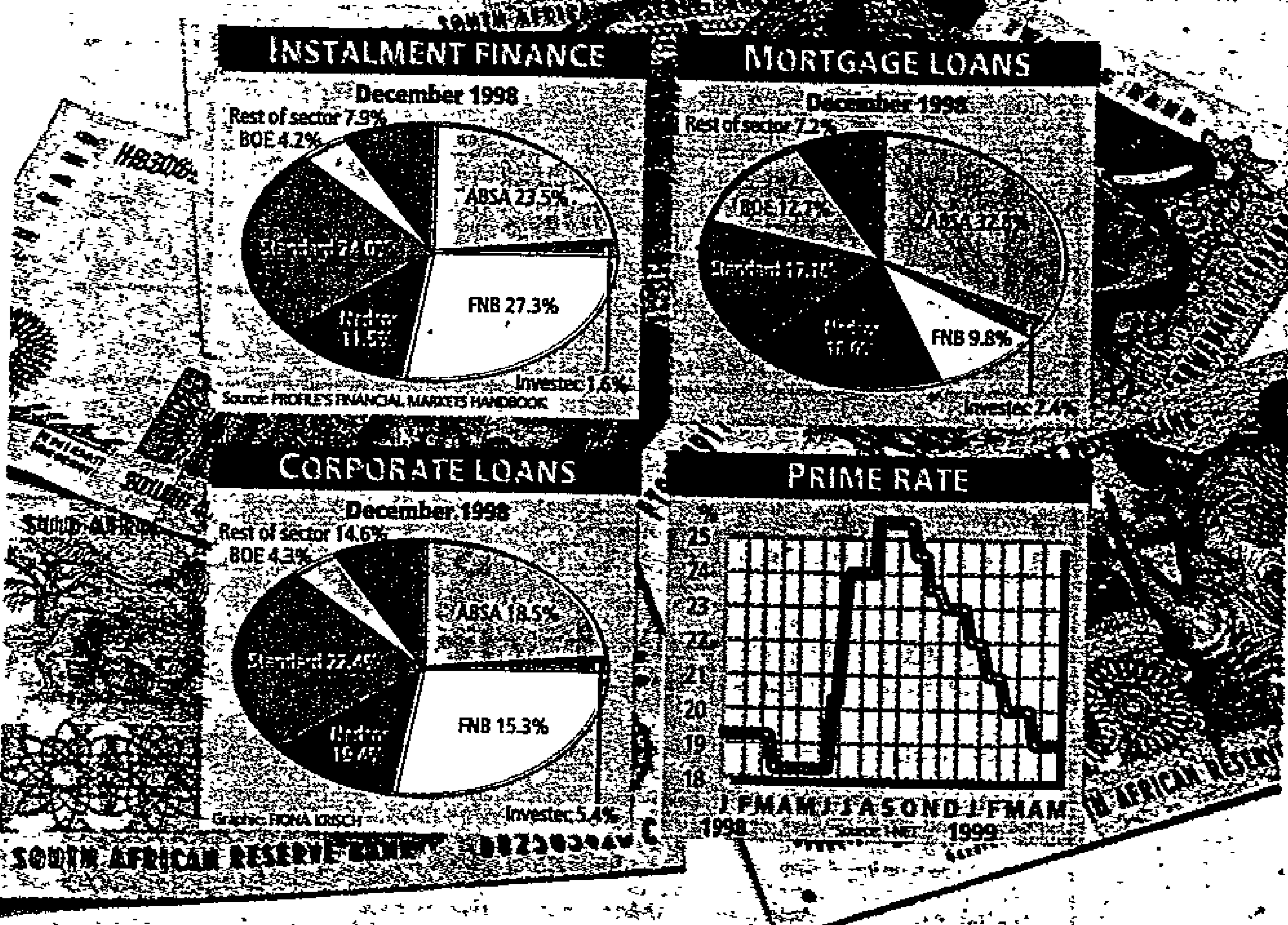
Off relatively low bases, international banks grew total assets to R20.4-billion by the end of December 1998, a growth rate of 169% over a two-year period. This represents a market share of 3.7%, against 1.9% the previous year. The influx of international players has been aimed at the advisory business typical of merchant banking and the middle corporate market.

"The increase in new banks and the influx of foreign banks in their various forms does raise the question of whether the banking sector is becoming overbanked," the handbook says.

Investec's Lawrence says: "SA has nothing to be ashamed of in the depth of its specialist banking talent and can be proud of its delivery of ideas. The professionals in our field are every bit as smart as professionals elsewhere in the world. We don't have to look to foreigners to lead the way."

The Big Four continue to lose market share to new niche players and international banks.

Their year-on-year growth rate in assets for the period ended December 1998 was 16.1% against 29.4% for the remainder of the market. Since December 1996 the market share of the Big Four has declined from 81.1 to 76.1%.



BOE has appetite for new assets

OF THE Big Five banks, BOE probably has the least corporate exposure and, with a big balance sheet at its disposal, is well positioned to take direct stakes in corporates so as to remedy this limited exposure.

BOE Merchant Bank MD Brian Kennedy says: "We still have a lot of appetite for assets, whereas our competitors may be unable to do more deals because their balance sheets are full."

BOE is specifically focused on what services it provides to the corporate market: traditional merchant banking facilities; specialised finance; limited recourse projects; merger & acquisition activity and corporate finance; private equity; and treasury products.

"We pull together the capabilities of our merchant banking and transactional functions to have the broad spectrum of services on tap to the client. When we call on clients we would, for instance, try to have a forex trader on hand to address specialised issues. The client is made aware that the full range of services is available to him," says Kennedy.

The bank prides itself on its fast turnaround time and innovative culture, best illustrated recently by the Reunert deal where, backed up by its large appetite for private equity funding, BOE was able to present a deal on behalf of Altron to Reunert in a fraction of the time most banks would require.

"We're targeting resource companies. We live in a resource economy and we're building a strong resource team to service it," says Kennedy.

Microlenders' body applies to the state for regulatory status

CT (BR) 31/5/99 (58)

RICHARD STOVIN-BRADFORD

BANKING EDITOR

Johannesburg – The Alliance of Micro Lenders and Associated Consumers (Amlac) had formally applied to the department of trade and industry to become a regulatory body in terms of the new microlending industry legislation to be introduced on July 1, the organisation said last week.

Henk Vivier, the managing director, said Amlac already fulfilled the requirements laid down for a regulatory body. It had equal representation of industry and consumers on its board, as well as the necessary structures to discharge the duties demanded of a regulatory body.

Vivier warned that microlenders who did not adhere to the new legislation would not be tolerated.

He said IT Group Major Systems had developed a software package to enable its members to transact business under the new legislation. Amlac members would have the benefit of the program at no initial cost.

It was prompted by the urgent need in the industry for sustainable solutions as well as for the restructuring of microlending operations before July 1.

Vivier said the large number of microlenders joining Amlac to be able to meet the requirements laid down by the legislation ahead of the deadline had made the association the largest of its kind in the industry.

BANKING

BANKERS TO REWARD EXCELLENCE

Proposals will cut the cost of debt to top-class corporations (58) FM 11/6/99

International authorities could have had a knee-jerk reaction to the banking fires that have flared up all over the world and upped capital adequacy ratios by a few percentage points in the hope of comforting investors.

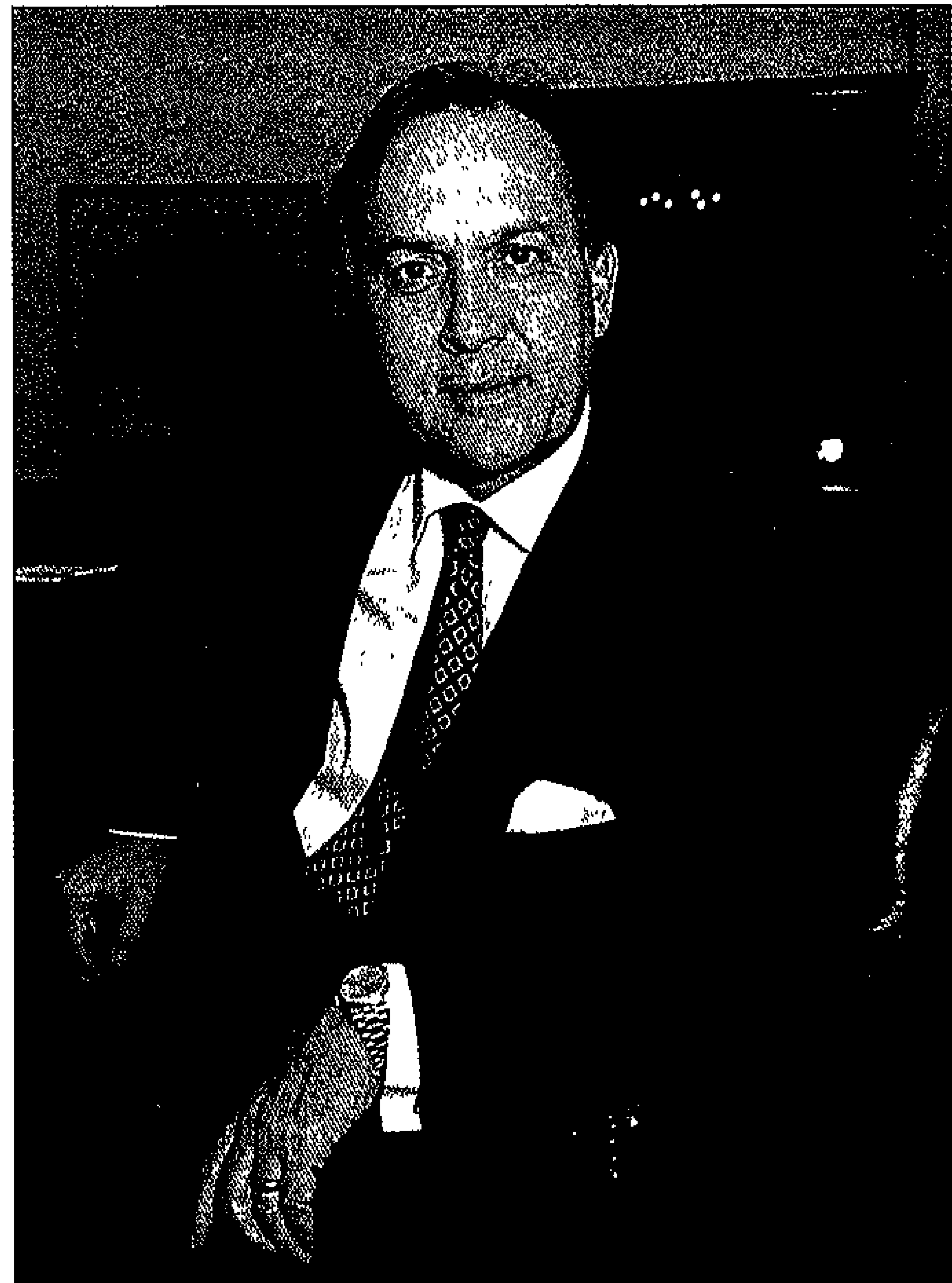
But the Basle Committee — a supervisory body representing the central bank governors of the world's 10 largest economies — last week issued farsighted proposals that recognise the sophistication of the financial markets and eschew the now blunt capital measures of the late Eighties.

The committee's proposals — emerging at a time when the Reserve Bank is in the throes of a thorough review of SA banking regulations — will strongly influence the Bank's deliberations, and hence the future of banking in SA.

Instead of increasing the risk-weighted capital adequacy ratio from its current 8%, the committee presented plans that update the 1988 Basle Accord and hinge on far wider risk differentiation than before.

"The regulations will be a lot more market related," says Reserve Bank banking supervision head Christo Wiese. "They are more comprehensive and risk-sensitive and give recognition to banks' sophisticated risk analysis." Though SA is not obliged to implement the accord, it will do so once they are finalised because the Bank wants to apply minimum standards and best practices Wiese says the Bank will be involved in the consultative process and will make its own comments to the committee by the March 31 2000 deadline.

The biggest change to current regulations will be the recognition of different levels of corporate risk. At present, banks have to provide 100% cover to loans ranging from individual credit cards to a multimillion rand Anglo American loan. In future the banks won't have to set aside any capital for a triple-A rated corporation but will face more stringent capital requirements if they lend money to a more risky firm.



Arnold Pronto

***Christo Wiese** . . . "the regulations will be a lot more market-related, comprehensive and risk-sensitive"*

SA BANK CREDIT RATINGS

	Short-term		Long-term	
	Fitch IBCA	CA Ratings	Fitch IBCA	CA ratings
Absa	A1+	AA-	AA	A1+
FNB	A1+	—	AA	—
Stanbic	A1+	—	AA	—
Nedcor	A1+	—	AA	—
Investec	A1	A	A1+	A1
BOE	A1	—	A1+	—
NIB	A1	—	A1+	—
Gensec	A1a	AA-	A	A1
International Bank of SA	A1a	—	A	—
Cape of Good Hope	A2	—	A-	—
African Merchant Bank	A2	—	BBB+	—
Real Africa Durolink	A2	A-	BBB+	A2
Saambou	A2	BBB+	BBB+	A2
Future Bank Corporation	A2	BBB	BBB	A2
Imperial Bank	A2	—	BBB	—
Brait	A2	—	BBB	—
Unibank	A2	BBB	BBB	A2
African Bank	A3*	BB	—	B
Business Bank	—	BBB	—	A2
Mercantile Bank	—	BBB	—	A2
Mettle	—	BBB	—	A2
Cash Bank	—	BB	—	B

*under review

SOURCES RATING AGENCIES

Most SA banks are well capitalised by any measure and didn't come under undue pressure during the market volatility last year. But the proposals will have two important consequences: they'll reduce the cost of debt for top-class corporations and allow banks to use their capital much more efficiently in the future.

The more risk-sensitive pricing of corporate debt may break the traditional reliance on equity finance that has dominated the SA company scene for decades because of exchange controls and a high interest rate environment.

It has been difficult to determine cost of capital accurately because of the peculiarities of the local equity market. But, as interest rates fall, debt is expected to become more attractive. Anticipated capital adequacy changes would help by allowing the banks to charge companies' interest rates that are in line with their relative risk profile and reward the financially healthy firms.

After the market crisis, it became obvious just how little gearing corporations had built up. Despite the steep increase in interest rates, most banks reported surprisingly few corporate bad debts.

In the beginning, though, there may be difficulties because few of the local corporations are officially rated. Until now there's been little reason for them to get a rating. The corporate bond market, which is driven by the ratings process, has been stagnant and banks tend to do their own in-house assessments of their customers.

The accord does suggest that "sophisticated" banks be allowed to determine capital adequacy based on their own risk

assessments. But even the banks that are given regulatory approval would benefit from being able to compare their rating to other objective measures of a company's financial situation.

Bank-to-bank lending won't be a problem because most of the banks have credit ratings to facilitate already strong interbank lending and to tap international markets on occasion.

There are three major rating agencies in SA: Standard & Poor's local affiliate, CA Ratings; Fitch IBCA and Duff & Phelps. Together they have awarded 34 short- and long-term local bank ratings. None of the banks has received a global rating at this stage.

Last year, the rating agencies were severely criticised for failing to predict the potential problems in the Asian economies. With the latest regulatory changes on the table, there's concern that the same organisations might give them too much influence.

Fitch IBCA banking analyst Mark Young points out that the rating agencies made mistakes in their sovereign, not bank, ratings. He says the bank ratings were "spot on" and is confident the agency is capable of doing the job.

Young would be happy to see a "deeper" corporate debt market. "There's going to be an increased realisation of the cost of capital and the fact that companies can't recycle capital and it has an infinite lifespan," he says. "Debt, if correctly used, has a clear cost and the company can buy into a fixed term, fixed rate loan. With the more stable interest rate environment, companies are likely to look at debt more favourably."

To some extent, the committee has avoided too much emphasis on credit ratings by pushing detailed and frequent disclosure of a bank's capital adequacy position. Better transparency would give investors an important role to play in a bank's market status.

Another ground-breaking aspect of the Basle Accord is its suggestion that banks may use capital mitigation techniques. For the first time banks will be given capital relief for collateral that underlies a loan or hedging mechanisms they've put in place to reduce the risk.

"This is an important proposal because previously banks have not been able to give any regard to underlying collateral," says Wiese.

The Basle Accord is only the first step in a process that is aimed primarily at changing world attitudes to risk. Banks can get started on better disclosure to the market immediately.

Sharon Wood

A NEW REGIME

The Basle Committee proposals in brief

— The recommendations scrap the blanket 100% capital adequacy requirement currently set for all corporate and commercial loans.

— The new system will rely on credit rating agencies. Their risk assessments will be used to gauge how much capital must be set aside to back bank, corporate and sovereign loans.

— Supervisors may allow sophisticated banks to use their own internal credit assessments.

— For the first time, banks will be able to take risk hedging mechanisms and collateral into account when they set capital requirements.

— Capital charges will be set to cover interest rate and operational risks for the first time.

— Guidelines for banking disclosure of capital adequacy figures will be issued later this year to ensure market participation in the process.

— Consultations will take place for the next 10 months and it may take another three years before the new regulations are adopted.

FRANCHISING

SPREADING LIKE CHICKEN-FEED

Newly arrived American fast-food chain Chick-fil-A has devised an ingenious franchising system for its maiden venture into Africa: it targets low-income franchisees.

The Atlanta-based company — the third-biggest chicken fast-food chain in the US, with about 800 franchised outlets in 37 states — plans to make SA its second-biggest market outside the US, intending it to become a springboard into the region.

Chick-fil-A does not demand a large capital outlay, but will require franchisees to pay a R5 000 deposit and submit 15% of turnover as a monthly management service fee. In addition, the franchisee will be required to pay Chick-fil-A half of any profits earned above R84 000/month.

Franchise Association of Southern Africa executive director Nic Louw says the terms are "unusual" for a franchise operation. The average management fee charged by franchisors in his association is about 5% of turnover, though deposits are often much higher.

But Chick-fil-A's southern Africa patent holder, Danie van den Heever, defends the management fee as reasonable considering the small capital investment by the franchisee.

He is confident the company will achieve a reasonable return on its investment. Expansions, he says, will be financed by the company's cash flows.

"This is a long-term investment and we are not too worried about the forecast weakening of the rand against the dollar.

"If the rand weakens badly in the long term, then the investment would be minimal," he says.

The company first invested in SA three years ago, its only venture into foreign territory, when it opened a franchised outlet in Durban. Two stores have since opened in Johannesburg malls.

Why did it choose SA? "SA's fast-food lifestyle has a lot of similarities to that of the US," says Chick-fil-A executive vice-president Dan Cathy.

Chick-fil-A was tipped off about the opportunities in SA by contacts in Coca-Cola International, which is also headquartered in Atlanta, Georgia. Chick-fil-A intends making southern Africa its second base and has plans to open 54 stores over the next seven years.

Zimbabwe, Zambia and Botswana are the next targets when the "chick" spreads its wings. But the expansions will not be rapid, because its marketing strategy is to become the most preferred quick-serve restaurant in shopping malls. Cathy is coy about how much money will be put into the region, but says capital and financial investments amount to several million rand.

Siyabulela Qoza

Making your cash w

Learn the new lending laws

(58)

By Tom Nevin

CONTROVERSY over changes to the Usury Act, specifically aimed at tightening up the practices of micro-lenders, continues to heat up with some quarters saying the changes go too far, and others arguing that they don't go far enough.

Key to the issue, however, is that they bring in much needed additional protection for the borrower.

The Department of Trade and Industry (DTI) has been unusually outspoken on the issue. Criticism has come from some banks and other operators in the micro-lending industry.

Deputy director of national consumer affairs at the DTI Astrid Ludin says the department's intention to impose interest rate ceilings and to ban the holding of bankcards and PIN numbers has been clear since the beginning of last year.

Bob Tucker, chief executive of the SA Banking Council, says the time in which the new exemption will be implemented is too short and will cause problems to cash borrowers.

Managing director of Unibank Gerrit van der Merwe agrees but says the issue "goes deeper in the sense that a number of cash-lending operations may go underground" where "consumer protection – if this is what is being envisaged – will exist to an even lesser degree than it does now".

The probability is very real that cash loan operators who choose to operate as before or are unable to comply will simply continue to operate illegally.

The exemption to the Usury Act was originally created to simplify the granting of small or low balance loans because of administration expenses and other overheads.

"Wide-scale concerns regarding consumer abuse probably led to the DTI amending relevant legislation," says Van der Merwe.

On the question of time constraints in implementing the new legislation, Van der Merwe notes that discussion papers have been circulating since October last year.

"We believe the final implementation date is mere formality and should have been expected by all parties concerned".

He does not, however, believe that the infrastructure exists to effectively enforce the new regulations.

Get to know the new rules.

- The highest interest rate micro-lenders are allowed to charge you is not more than 10 times the prime lending rate of the four major banks.
- The loan may not be more than R10 000.
- Micro-lenders cannot take your PIN code or bankcards as security.
- You can terminate your loan agreement with a micro-lender within three days after signing the agreement.
- All micro-lenders must belong to an approved association and certification of this fact must be displayed at the micro-lender's offices as well as how and where you can lodge complaints.
- All micro-lenders must keep proper accounts detailing records of loans advanced, repayments received, interest and other charges
- If micro-lenders decline to grant you a loan, they must give you a full explanation.
- You must receive a full agreement in writing setting out the amount of the loan, your schedule of repayments, the rate of interest and the total cost over the repayment term and the penalties that may be levied in case of default.

Beware of loan sharks.

Loan sharks operate illegally and most often have extreme methods of recovering money owed to them, so it's best to avoid getting involved with them.

A loan shark will lend you money at sky-high rates of interest, sometimes as much as 1 000 percent a year.

The way loan sharks operate, for example, is to give you a straight cash loan in exchange for a cheque post-dated to the day your next salary is due.

Some might demand that an insurance policy be signed over to them, or swipe your credit card through their machine and give you the amount available on your budget account in cash.

This way you have to pay back your credit card on terms, while you have already paid the loan shark fat interest, even though he is taking no risk at all.

Banks dodged the micro-credit bullet, but borrowers were hit

BR 58 CT. 17/6/99

Time was when the government thought it could influence the country's major financial institutions and get them to jump headlong into the business of banking the unbanked masses.

In theory it would have been a nice idea but, mercifully for the safety of the banking system, the government's serenade fell on deaf ears. However, it did strike a few chords, and most of the banks have had a go at providing transaction services even if they have not dangled credit facilities in front of a client base that remains broadly unknown.

First National Bank tried its hand in the market about 20 years ago, but now prefers to provide straightforward transactional services through its normal network. Standard Bank set up E-bank and seems to have created a platform from which, one day, it could offer credit. Nedcor has People's Bank, but really prefers other segments. Absa simply gets on with it through its normal channels and need never have experimented with Nu Bank.

Of course, the stokvel system used to be able to handle most credit requirements and should be recognised as an impeccably sensible way of dealing with the credit issue. But not even stokvels could keep up with the consumer aspirations of those they served.

Then along came the cash loan businesses; we now know that there are only a few good ones, many bad ones and plenty of ugly ones. Microlending's reputation has unfortunately been ruined by a few bad men.

We, and the pukka microlenders, welcomed the government's long-overdue move to clean up and regulate the market.

But the government only has itself to blame for the demographic shift into often dodgy banking. It could have used its very own PostBank as the basis for an exemplary mass market financial services hub and, perhaps, even thrown in the Land Bank at the corporate end.

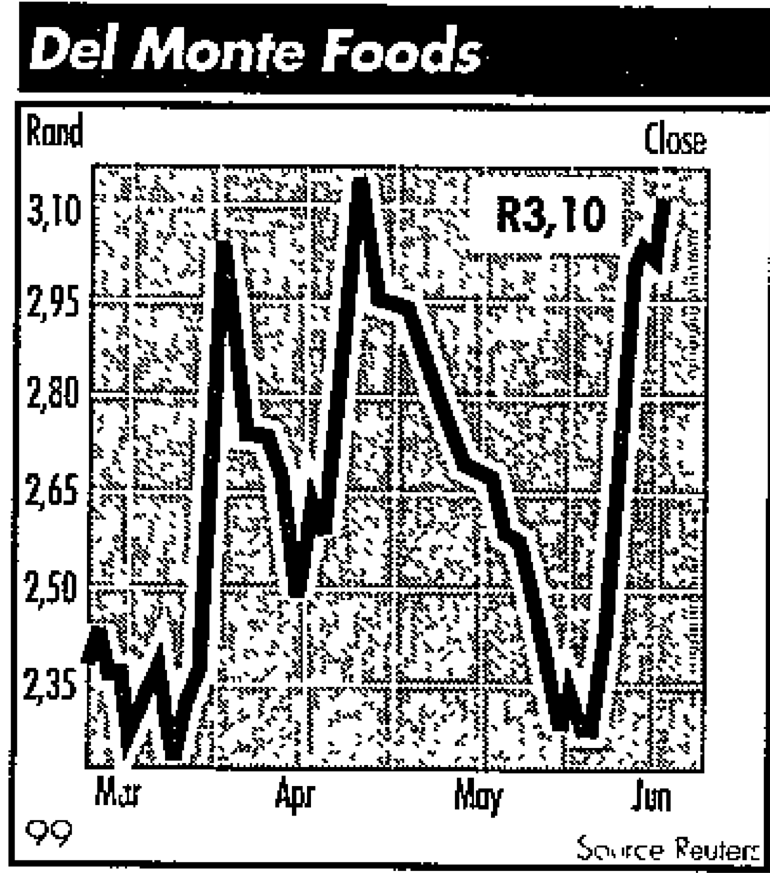
Perhaps we shouldn't be encouraging the government to go into business. Yet it might help it to understand the real pressures and responsibilities of running a financial institution.

Del Monte Foods

The man from Del Monte seems keen to draw our attention to the positive impact the proposed listing of Del Monte Pacific Resources (DMPRL) will have on the net asset value of Del Monte Foods.

In this week's announcement relating to the application to list DMPRL on the Singapore stock exchange, Vivian Imerman remarked that the proposed listing was not expected to have a significant effect on Delfood's earnings for financial 1999.

However, it seems the company's net asset value is expected to increase by approximately 25 percent for the year, arising from the listing and the inherent growth of the group.



Let it be said that we were not the first to bring up the notion of net asset value, but perhaps what would be much more useful for Delfood shareholders is some idea of how proposed changes to the accounting standards will affect the company's income statement and balance sheet. In terms of these changes, which come into effect from January 2000, goodwill on the balance sheet will have to be amortised and written off over 20 years.

At this stage it is unclear exactly how the different categories of goodwill will be treated. Delfood's balance sheet at the end of December 1998 included trademarks and brand names valued at R2,1 billion, accounting for much of the group's total assets of R3,8 billion.

In the absence of official information it would seem that implementation of the proposed new accounting standard would result in a R100 million a year earnings knock, for 20 years.

The alternative would be to rush and write off the R2,1 billion, which would have a devastating affect on the balance sheet. But perhaps Viv has something up his sleeve.

Jay Naidoo

An old Siswati adage proclaims that "somebody's good deeds are normally acknowledged when he is dead".

Although Jay Naidoo, the outgoing communications minister, is not dead, he has to be acknowledged for his commitment and passion for the telecommunications sector – especially the bidding process for the third cellular licence.

His ministerial life has ended before reaping the glory of his efforts in defending the virtues of competition in the telecommunications industry.

His resilience saw him withstand some heavy flak for initially punting two new cellular licences at a time when some industry sources felt strongly that just one more licence was unsustainable. This week's impressive submission of eight bids by internationally backed empowerment groups is a testimony to Naidoo's efforts.

We trust the South African Telecommunications Regulatory Authority (Satra) will not let him down by mishandling the evaluation process.

Satra should take all necessary precautions to ensure that its job is squeaky clean to avoid the post-award legal wrangles as seen with the private television bid.

The disqualification of the Zintatu consortium for its incomplete submission is a step in the right direction. This decisive action has almost certainly avoided nasty repercussions. But Satra should follow this up by making sure that the concerns about Afcent/CLC, its adviser, are put to rest.

SA BANKING

NOBODY'S STATING THE REAL SIZE OF THE PROPERTY PROBLEM

33 000 low-income housing units alone have been repossessed

Banking's a simple game. The profit's the margin between what the bank pays to borrow money and what it receives on the money it lends. Since banks don't lend money unless they have enough security to get it back, they can't lose. That's why bankers don't talk about their problems — they don't have any. Not even in property.

"Listen to them, then do your own figures," advises one analyst.

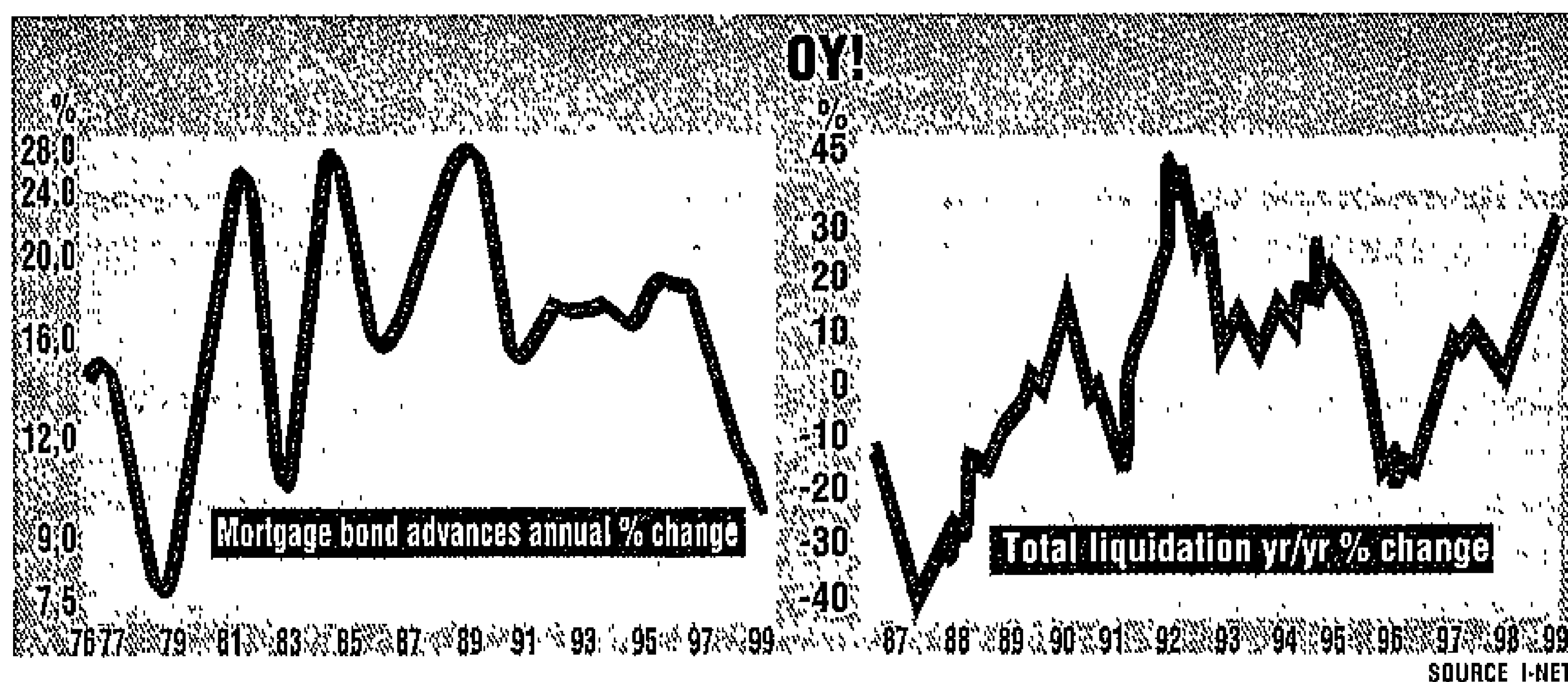
If all the banks quizzed are correct, problems are only a minor irritation. Lower interest rates will cure all. The market also thinks so and has pushed the Banks index up 50% from its September low. But so far expectations and reality tell different stories.

Property is a big problem, they won't tell you, and it also reflects more deep-seated problems in the banking sector.

Representing about 40% of private-sector credit extension and the "solid foundation" of many lending books, the property sector remains locked in deep recession. Measured by real estate transactions, the industry experienced an 88% year-on-year decline to March 1999. A 56% fall compared to the previous quarter also offered little joy.

The number of properties in possession (PIPs) is a "figure not published by the industry", says NBS divisional director Trevor Olivier. One figure available is 33 000 houses relating to "ringfenced", nonperforming, low-income housing bonds. This excludes PIPs from their normal books, says one national estate agency group. "In general, the banks appear frozen in inaction."

Absa chief financial officer Simon Ridley is a little more forthcoming. Absa's PIP book rose by 7% to R0,99bn in the year to March and bad debt provisions to R0,5bn, about 0,7% of the total mortgage book and one-third of their total bad debt provisions. Of the smaller banks, Saambou recently disclosed a PIP figure of R260m.



"PIPs represent somewhat of an iceberg tip," says a property industry analyst. "They are the really bad ones and exclude those in arrears payment."

In the commercial property sector, FNB commercial property head Steve Crozet says it is "fair comment that insolvencies are a proxy of conditions in the sector". That proxy indicates a 30% year-on-year deterioration.

Property brokers also report a "significant rise" in subleasing requests, indicating, as Porter Commercial MD Reg Wall puts it, "many smaller retailers in trouble".

Standard Bank commercial property head Stuart Shaw-Taylor acknowledges "a higher experience of arrears payments". The bank is "working with these problem borrowers". This and other comments like "we see property as a long-term investment" are common to the banking sector in general. How bad or long-term problems are, no-one will say.

A big negative for commercial property over the past five years has been the broad-based move by life assurers to reduce their property exposure. Freedom to invest up to 15% of assets offshore sliced off further potential institutional demand.

"This removed the underpinning effect on prices in A, B and even certain C grade properties," says Shaw-Taylor. Negative equity has become a reality to many property owners, particularly those with CBD or ageing buildings. "It's really impossible to put a value on some buildings," laments Amaprop MD Gerald Leissner.

Banks have generally lent 40%-70% of the original market values of properties. It would need a 30%-40% fall in values before red lights really began flashing. But it clearly represents an undermining of banking asset quality.

The undermining of asset quality goes beyond this. The MD of a large quoted property group terms it "weeds growing below the water line".

Property development is becoming increasingly dominated by structured finance deals outside the banking sector. Developers are "picking the eyes out of the market", dealing primarily with triple-A companies. The paper is discounted with institutions at interest rates linked to long bond yields, well below mortgage bond rates offered by banks.

The result is a "steady impoverishment of the banks' lending books as the underlying quality of tenants diminishes".

The good news is that a panacea for all these ills exists — economic growth flowing from lower interest rates. The bad news is that from a monetary perspective at least, that growth potential appears more illusory than real.

Real interest rates, measured off the prime overdraft rate, sit at 12%. SA has never started a GDP growth phase with real rates of over 4%. The norm since 1980 has been around 2% positive. Previous economic growth peaks have been at real interest levels of between 4% and 6%. But perhaps it will be different this time

Monetary policy gives little hope. Real money supply, as measured by M3 figures, runs at about negative 1%/year It may be guaranteed to reduce inflation but is more appropriate to an economy in the final phase of a boom.

If growth comes, it will also be the first time since the Sixties that SA kicks off with a current-account deficit. Perhaps a commodity boom will save the day If not, we could be back to relying on high interest rates to attract foreign capital.

Are these factors "discounted" into current share prices? Or are they ignored by investors whose minds are set on the hope of an upturn, not on reality? If so, bank shares and their companions, such as retail sector shares, are vulnerable.

Stafford Thomas

can offer active clients, rather than its traditional, old-money clients.

Comfortable that the staff has settled at last, group MD Isak Botha outlines a listing timetable that should see the organisation go public at the end of August — nearly a year after a previous listing attempt was put on hold during market turmoil. He says the organisation has undergone restructuring and has "a new generation structure". It's independent, he adds, but "will still have a strong umbilical cord to Nedcor".

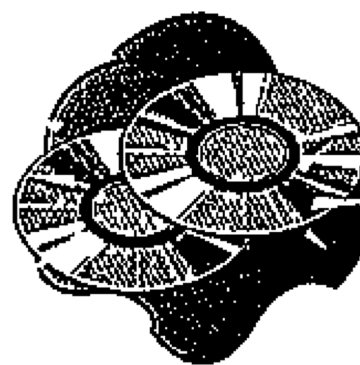
There have been some key appointments recently. The bank put Neil Cochrane in as head of asset management, hired Kerry Millard to handle unit trusts and is close to announcing the appointment of six project finance specialists from another bank. Ivan Palframan has taken over former Development Bank of Southern Africa head Andre le Grange's administrative responsibilities in corporate banking and NIB is still looking for someone to replace Charles Turner, who joined Le Grange at PSG Investment Bank.

The heart of NIB's restructuring has been to get rid of noncore businesses, and set up joint venture agreements in areas where the bank believes there's a potential partner that would offer a more comprehensive service or has a significant infrastructure.

The most important likely joint ventures are the sale of 60% of NIB Securities to two other asset managers and the setting up with a partner of eDistribution, aimed at offering private banking customers an electronic transaction facility.

NIB is cleaning up its structure and is more focused. But it still has some legwork to do before the organisation's likely to gain the market's full confidence. **Sharon Wood**

BYNX



Bynx, a software development house, will seek a listing on the JSE in mid-July to capitalise the company for rapid growth locally and in Europe.

Like most IT companies, it is also listing to attract new skills, a task that is becoming more difficult without the ability to lure talent through stock options.

Though its staff turnover is only 5%/year now, the company expects it to become more difficult to retain its 70 programmers without giving them such incentives. Financial director Rod Stainton attributes the company's low staff turnover so far to its ability to expose its employees to leading technology.

Established 10 years ago as Tangram Computer Services, Bynx has developed a core accounting package similar to software produced by international enterprise software vendors like Baan and SAP. It uses this software in areas such as fleet management and leasing, hospital management and agricultural estate management

Attributable earnings are forecast to climb to R6,71m for the year ending February 28 2000, from R3,16m in the 1999 financial year (1998: R556 000). Revenues are forecast to jump to R69,4m from 1999's R29,14m (1998: R9,64m).

More than 72% of income is from offshore, mostly from the UK, where the company has established two offices. Of the company's 170 staff, 50 are based in the UK. All development, however, is done in SA; 56% of the company's cost base is rand-denominated. Stainton says this makes financial sense.

The company is listing on the JSE's main board on a forward p:e of 14,9. "We're not an assortment of acquisitions," Stainton says. "We'd like to think we've got a fairly mature group." **Duncan McLeod**

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Financial Mail 18 June 1999

A1038

PRIVATE BANKING

HOUSE CALLS

Special relationships are the sexy thing in financial services — profitable too

The private banks are abuzz with activity. New players are entering the market in search of low-risk revenue streams and old players are restructuring to meet the demands of their "new-money" clients. Private relationship managers are beginning to replace asset managers as the financial service sector's hottest property.

Less than a month ago, HSBC announced it was getting fully involved in private banking. Since then it's appointed a CEO (not yet named) and hired Nedcor Investment Bank's three Johannesburg-based private client asset managers, and plans to set up a separate structure for the private banking and asset management operations of the group.

The Killarney-based financial services group's approach towards private banking has been unclear. Competitors saw the sale of its Johannesburg retail broking service to Investec as a signal it was withdrawing from the private banking arena. Not so, says HSBC CE Chris Niehaus.

A year earlier, HSBC hired former Syfrets Private Bank head Mark Butler to set up a full-service private bank, but he left the group in March to join Regal because "he wasn't fulfilling the role in business that he wanted". The group's stated intention to move into private banking is in line with the strategic acquisitions its parent company has been making recently. HSBC bought Republic New York Corp, and its US$50bn asset under management, for $10,3bn this year. It has also acquired the remaining 25% of Swiss private bank Guyerzeller.

Butler's new position as head of private banking at recently listed Regal Treasury Bank signals it is beefing up its private banking activities. Regal this week took on five ex-Syfrets private banking relationship managers to grow assets under management from their current R1bn.

Syfrets Private Bank, regarded as the premier private bank a few years ago, has come under pressure as competition has intensified. But private banking head Dave Macready says the bank has undergone significant strategic change, with the help of McKinsey consultants, since late last year and has appointed four people to replace the private bankers lost over the past month. The bank still manages R4bn for its local clients and has R2,5bn funds under management internationally.

The sudden flurry of activity in the sector is a result of the obvious attraction of getting involved in private banking and is in line with global trends. It's apparently at $26bn and growing at 6%/year, says the recent Gemini/Merrill Lynch World Wealth Report.

Gemini Consulting vice-president Mark Tilden describes it as offering steady, good-quality and high-margin profit streams. An example: "Most clients want significant borrowings for their short-term needs. But they're not risky because of the assets they own."

But wealthy individuals are by no means easy game and are expected to test their suitors to the limit during the years ahead. Traditional private banks have already had to do a lot of running to keep up. Tilden summarises what's been happening: "Private banking used to be reserved for traditionally passive, old-money investors who had often inherited their wealth and were looking for a lot of cachet, discretion and glamour. That kind of banking is in decline. There's been an explosion in new wealth. Now there's a much more demanding, knowledgeable investor whose primary desire is to see returns on investment and service."

BANKING FOR TOP PEOPLE

Transactional banking
Not all players offer these services but those that do issue credit cards, cheque books and are developing sophisticated telephonic and Internet banking facilities.

Lending facilities
Single credit facilities that consolidate debt have proved immensely popular.

Global asset management
Wealth creation during investor's early years and wealth management towards, and after, retirement

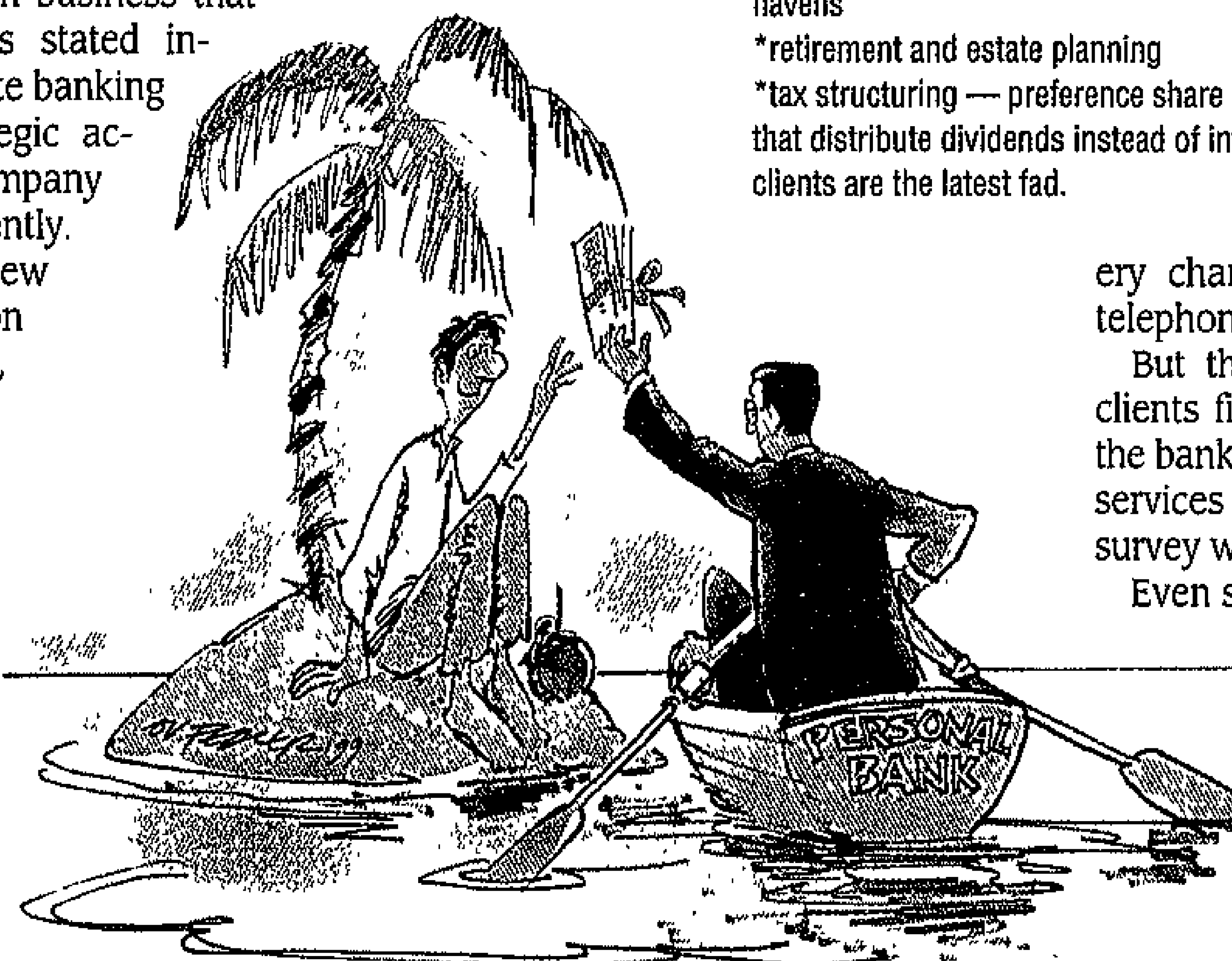
Fiduciary (trust) services
Squirrelling away wealth in the world's tax havens
*retirement and estate planning
*tax structuring — preference share schemes that distribute dividends instead of interest to clients are the latest fad.

The secret ingredients to success may be to offer a global service, with relationship managers at the beck and call of clients anywhere in the world, or setting up alternative delivery channels, such as the Internet and telephonic banking.

But the Internet could also mean that clients find the services they need outside the banking sector, say from online broking services with clear pricing structures, the survey warns.

Even so, the SA private banking industry has burgeoned over the past few years. Commercial banks have set up private bank divisions and newcomers have appeared.

Industry diehards, such as Investec, have also had to adapt to industry changes. The



Private Client

Ben Temkin

WHY I DON'T BUY NEW DOGS

I've been asked twice this week why I seem to be uninterested in new listings. I *am* interested in new listings. I read avidly what my colleagues have to say about them. Sometimes I am moved enough to wish I'd been in on the ground floor and had been offered a pre-listing allocation. I'm terribly envious of those entrepreneurs who, as founders and managers of their companies, are allocated millions of shares at, say, 1c/share. They then place new shares at, say, R1/share with persons anxious to share in the company's fortunes and when, on listing, the shares open at R1,50, they become instant millionaires. The lucky allottees are happy to make a 50% profit. The return for the even luckier founders is astronomical.

Even if the market doesn't like the shares and they open at 30c, the founders are making 29c on every cent they invested. Only the allottees are unhappy.

Now that's one reason I'm not anxious in general to subscribe for new issues: the substantial downside risk.

Another reason is that so many venture capital investments — the area where most of these new listings are taking place — are predicated on promises and expectations rather than on substance. You have to believe what the entrepreneurs tell you.

Even the auditors who check the prospectus are at pains to tell you that they are relying on the information they've been given. In other words, if they've been told by the management that they can use the cash raised by the share issue to produce a 50% return on capital and can justify their earnings projections on expected sales, the auditors can't do much more than check their calculations. After all, the managers are the experts. They're supposed to know their markets. That's why they're in the business.

Does this mean I wouldn't buy shares in a new listing? Of course I would. Regular readers of this column know I bought shares in Sweets From Heaven and Alliance Pharmaceuticals ahead of their listings. I worked closely with both companies on their listings and had a good idea of the quality of their respective managements. Their profit forecasts were soundly based.

Early results from both companies did nothing to change my views, but, as most stock market followers know, Heaven fell short on its international ventures — its share price drop has blighted my portfolio. I'm also showing a loss on Alliance.

Fortunately neither holding is large, but I'm in the mood for liquidating.

If I do, I'll be increasing my stakes in Metcash or Imperial. I won't be looking at spec shares such as Noble Minerals.

I've had to field a few phone calls in response to the *FM*'s collaborative look last week at the worst-performing shares on the JSE over the past five years.

The point I've had to repeat is that this is a cash-flow exercise that calculates the actual rate of return to a shareholder who bought the shares at the end of 1993 and sold them at the end of 1998. It does not take into account whether or not earnings have improved during the period or any changes in the nature of a company's business.

I find it hardly gratifying to know that Pick 'n Pay was on this list. The comfort is that I've held the shares for so long that my current return from dividends each year exceeds my capital outlay. I'm sure my internal rate of return over the holding period is in double figures.

This is always a problem with performance figures calculated over a period. What most companies — and unit trusts — would like is for performance to be calculated from crash to boom. ■

bank will offer transactional services for the first time when it launches its credit card within the next month or so.

Tilden says transactional banking services will be an important private banking service because clients "want access to cash at any point in the globe at any time because they are highly mobile".

Relative newcomer Regal doesn't buy that approach. It won't get involved in the transactional side of private banking and will focus on building relationships. It'll offer clients the full range of banking services outside cheque and credit card facilities: investment management, fiduciary services, lending facilities and broking and forex services

Regal sees the advantage of keeping its infrastructure and cost base small It plans to outsource asset management administration and the administration of deceased estates. It's formalising existing and new international relationships and "in a short space of time will have a full, seamless, international service".

Both Syfrets and Regal put great store on their ability to offer private banking clients independent advice and investment products that are not their own

Soon after the barriers to international investment were lifted in the mid-Nineties, Syfrets decided to go the multimanager route overseas. This week it launched two local multimanager funds that will be offered to its private clients "We want to offer the client a gateway and access to a whole range of asset managers and investment solutions. You can't only offer your own products; the bank wouldn't be fulfilling its fiduciary duty"

He adds the real future focus will be on packaging investment banking products to prepare the bank for a market "that is going to look different in three years' time"

Syfrets has seen all stages of the private banking cycle and realigned its business earlier this year to capture the active end of the private banking market as opposed to the clients whose full financial affairs are handled by the bank.

Macready says the bank has invested significant sums in technology. But it'll soon set up a partnership to help the bank meet the challenges of keeping pace with technology and distribution demands. Regal's Butler insists private banks should offer independent advice and not only their own products because "you have to ensure the advice is working for the client, otherwise you're not doing your job".

Anyone get the feeling that at last the customer is in charge? Sharon Wood

Y2K-READY *Bob Tucker (centre), CEO of the SA Banking Council, says banks that are not compliant by September will have to revert to a paper-based system* PHOTO JOHN WOODROOF

SA's banks get Y2K all clear

(58) CT (BR) 24/6/99

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg – The Reserve Bank said yesterday it believed there was "no reason whatsoever for people to withdraw their savings from banks" ahead of the new year. This was based on its assessment of the preparedness of the country's banks for the year 2000 (Y2K).

Speaking at the launch of Year 2000 Preparations in the South African Banking and Financial System, a booklet prepared by the Reserve Bank and the Financial Services Board, Christo Wiese, the registrar of banks, said: "The banks are all ready, because we've leaned very heavily on them."

The booklet was part of a broad campaign to reduce the risk of a run on bank deposits at the end of the year and to avoid a systemic crisis.

However, in view of the potential knock-on effect of parties outside the banking and financial system not being Y2K-compliant, the Reserve Bank has cancelled leave for all staff between Christmas and the new year.

The cut-off date for banks to be Y2K-compliant is the end of September. Bob Tucker, the chief executive of the Banking Council, said any banks that were not compliant by then would have to revert to a paper-based system until they could demonstrate compliance.

But the main issue that concerned Wiese was not the banking and financial system's Y2K readiness as much as small and medium enterprises, and even local authorities.

"The only areas of concern are ones we don't have control over," he said.

However, this was not a direct reference to public utilities, on which banks are reliant. Esau Mailula of the Y2K National Decision Support Centre said: "We're very much confident about public entities like Eskom and Telkom."

The booklet said that, based on independent assessments of both electricity and telecommunication utilities, neither was expected to fail nationally. But "regional or local authority failures are, however, possible", it said. Mailula said Telkom had attended to Y2K compliance three years ago.

The booklet defines a Y2K-compliant system as "one that is able to operate on and after January 1 2000 and that is able to manage and represent information involving dates, without being abnormally affected by dates spanning the period prior to, during and after the year 2000."

Watchdog puts bite on banks to tighten security

ARG 24/6/99

Ombudsman wants action on ATMs

(58)

MAUREEN MARUD
CONSUMER EDITOR

Banks must beef up security at "high-risk" automatic teller machines, says Charl Cilliers, the banking ombudsman.

"Only the banks know which machines are high risk," says Mr Cilliers.

In a draft code of conduct, now being prepared, he wants banks to include a proviso requiring them to do at least one of three things:

- Move high-risk ATMs to safer areas.
- Increase security at existing high-risk ATMs.
- Have high-risk ATMs open only during daylight hours.

Mr Cilliers says the Banking Council supports the proposal but must still clear it with banks and consumer representatives who have been hammering out a new code of conduct for months.

The draft code already includes a clause saying banks "will take reasonable precautions to minimise crime" at certain ATMs where people are vulnerable, but it gives no details.

Diane Terblanche, head of the Consumer Institute South Africa, says the draft's reference to "reasonable precautions" is too vague.

"What constitutes reasonable precautions to one person may be viewed as hopelessly inadequate by another," she says.

Ms Terblanche says she does not think the ombudsman's proposals go far enough.

Security options include cameras that can relay images to a central control booth, and panic buttons

next to ATMs, linked to armed response, says Ms Terblanche.

A technical option is a device that requires the user's fingerprint to be input before a transaction, making ownership of an ATM card more personalised than simple possession.

"Implementing any security options obviously requires a financial investment by banks, so the question really is how much banks are prepared to spend," says Ms Terblanche.

> **'Banks provide the service and should accept some responsibility for the risks'**

The need by banks to make a profit often means the level of security they are prepared to pay for may not be sufficient to cover the needs of customers using high-risk ATMs, she says.

Banks have long argued that they cannot be held responsible for ATM crime, which they say is part of the wider crime picture and should be addressed by lawmakers and government.

Mr Cilliers says: "The banks' attitude is that if someone allows a third party to have access to his or her card and PIN number, banks should not be liable, which is also the attitude of British banks."

He says people occasionally complain to the ombudsman's office that they have never allowed anyone else access to their PIN or card, "but when we investigate we find that is not the case".

Ms Terblanche says: "I think people who lose money from an ATM transaction when the money was not necessarily stolen from them, should get some sort of compensation. Banks provide the service, and should accept some responsibility for the risks inherent in that service."

The draft code says consumers must take reasonable precautions when using an ATM.

"You are requested to adhere to any notices of caution at ATMs in order to protect yourself against criminal activities," says the draft.

It also says banks must accept the burden of proving fraud or gross negligence when transactions are disputed.

The decision to revise the code stems from a need to overcome difficulties banks are experiencing as consumers, often with no previous experience of banking, open banking accounts in the new South Africa, says a Banking Council spokesman.

Lender's agents up in arms

(58) Sowetan 24/6/99

By Saint Molakeng

AGENTS of a leading money-lending company have accused it of paying them poorly and allegedly ripping off its black clients.

Alternative Finance – which has 70 branches countrywide – contributes substantially to the R15-billion that the South African micro-lending industry makes every year.

However, Altfin agents told *Sowetan* that the company paid them two and half per cent of the amount of loans they signed with customers.

The agents from Springs and Alberton claimed the payment was "far below" the inflation rate that currently stands at 7,8 percent.

"We receive such payment while Altfin makes a killing out of black people to whom they lend money at 25 percent interest," said Mr Musa Dubazama, a former agent.

Conceding that Altfin was making money, Gauteng and North West manager Mr Ben White said that the agents had agreed to the "deal".

But Dubazama and others denied they had signed a contract. He said the payment had been previously set at five percent and was dropped unilaterally.

Agents also complained that there were delays in their payments.

White said the delays were caused by "logistical" problems but everyone got paid in the end.

Dubazama and Setlhaku had their contracts terminated recently and no reasons were advanced.

On Dubazama's fate, White said: "If agents bring one deal a month, we get rid of them as they are not worth our while administratively."

However, Dubazama said that he been victimised because he questioned Altfin's unilateral decisions.

Micro-lending agents are invited to a meeting on July 3 at the KwaThema Civic Centre at 2pm.

Empowerment trends outlined

(58) BD 29/6/99

Survey shows that black groups have yet to break into commercial banking

Madeleine van Niekerk

COMMERCIAL banking stands out as one of the main sectors of the economy where black empowerment has yet to play a significant role, according to a survey of the SA banking industry.

The survey by Japanese research house Nomura Securities and SA financial services company Real Africa Durolink indicates that the leading empowerment groups to date have focused on niche investment banking, life insurance and small-scale lending.

It remains to be seen whether expansion in traditional banking can add value for either side, says Nomura in its report, SA Banks: Strategy Games.

Leading black-controlled financial groups have already penetrated the insurance sector with the acquisition of MetLife by New Africa Investments and Aflife by Real Africa, and it is reasonable to assume that, at some point, they will wish to enter mainstream banking, says the report.

Nomura foresees greater penetration by the major black empowerment groups into the mainstream banking system. Whether this takes the form of a direct acquisition of an existing bank or organic growth of black-based institutions like Theta is less certain, the report says.

Banking group FBC Fidelity, a black controlled company through Thebe Financial Services, is already involved in the provision of retail financial services, including retail banking products, through its retail financial services division.

Trevor Fourie, director of the retail financial services division at FBC Fidelity, says: "This division has identified the home loan sector as the market niche around which it will build to meet the growing and evolving needs of its clients."

He says the bank's business finance division provides the full range of general banking products to meet the changing demands of commerce and industry.

Nomura says it foresees a continuation of change in the ownership structure of the banks and a further strategic differentiation of key players in the sector.

According to the report there is the possibility also of interest on the part of foreign banks. However these often consider SA valuations too high for that.

Only 20% of the country's 16,5-million economically active population — largely white — has an active banking relationship. By universal agreement, banks do not offer lending facilities to the other 80%, which includes about 4-million homeless and 8-million living in relative squalor in townships.

Millions of low-income blacks possess bank debit cards to access their salary payment but are not deemed creditworthy by the issuer of these cards. At the same time most economists note the growth of a black middle class as well as the build-up of wealth among the C and D income levels.

The level of personal wealth in the black urban segment has increased steadily during the 1990s.

Domestic banks still the best

BD 29/6/99

The number of players operating in the SA market is expected to fall to about 50

(58)

Hilary Joffe

DOMESTIC players remain top of the rankings in most sectors of the merchant banking market in SA despite the influx of foreign banks over the past few years, a PriceWaterhouseCoopers survey has found.

The survey, conducted for the accounting firm by Brian Metcalfe, an associate professor at Canada's Brock University, is based on interviews with 17 foreign-owned and nine domestically owned merchant and investment banks in SA. Although this is a relatively small proportion of the about 75 banks with a presence here Metcalfe said it included all the big players.

Almost all said their profits over the past three years were better than expected. Even so 73% believed the market was overtraded and most expected the number of banks operating in the SA market to fall to about 50 over the next three years.

Metcalfe said the survey demonstrated the continuing strength of local merchant and investment banking groups and the high regard in which they are held by their foreign peers.

Rand Merchant Bank was ranked top by its peers in corporate finance, both in listings and in mergers and acquisitions, as well as in tax structured finance. Standard Corporate and Merchant Bank (SCMB) was ranked the leader in corporate lending, foreign exchange, money markets and project structured finance, while Investec was rated number one in asset management.

The only areas in which foreign players were the leaders were bonds (JP Morgan), institutional brokering (Deutsche Morgan Grenfell) and retail equities trading (HSBC).

The banks were all "real niche players", said Metcalfe.

"They are all highly focused and some plan to specialise even further in the areas they believe are most profitable," he said.

The domestic banks had fairly broad customer bases but the foreign banks tended to target only the top 100 companies with one US bank targeting only the top 15 to 20 firms.

Cross-border business, both inward and outward bound, makes up a substantial proportion of the banks' lending and advisory activities. The cross-border average for the 18 banks which offer advisory services and the 15 which provide loans was just below 40%.

Metcalfe, who has conducted similar surveys in Canada and Australia, said one of the most striking aspects of the SA study was that the bankers identified their main challenge as being a shortage of good personnel.

Few however saw identifying clients or building a customer base as a problem.

The banks in the survey together employ 10 516 people and expect this number to increase by 17% in the next three years, with black empowerment banks anticipating a growth of almost 200% in staff numbers.

Only half the sample disclosed their cost-to-income ratios. The two black empowerment banks who provided this information had the lowest cost ratios in the group. Both domestic and foreign banks expect their ratios to fall to 50% or below in the next three years.

Asked to highlight the most important changes in financial markets the banks identified the unbundling of corporate SA and the opportunities this provided to investment banks, bancassurance and demutualisation, internationalisation, the lifting of exchange controls, the effect of technology and the increased levels of competitions.

Amendments to Banks Act put forward

BD 2/7/99 (58)

The aim is for SA to adopt world standards

Linda Ensor

CAPE TOWN — Amendments to the Banks Act to bring the law into line with current practice are some of a host of legislative changes likely to be presented to Parliament this session, if the schedule allows.

Two bills have already been approved by the cabinet and will probably be dealt with first — the Financial Markets Control Amendment Bill which provides for the amalgamation of the Johannesburg Stock Exchange, SA Futures Exchange and the Bond Exchange, and the Closed Pensions Fund Amendment Bill, which concerns government pension funds.

The Reserve Bank is working on amendments to the SA Reserve Bank Act to allow banks to comply with the minimum reserve balance they hold with the Bank under the repo system on a monthly average basis rather than a daily basis.

Registrar of Banks Christo Wiese said this amendment would bring the law into line with market practice. A proposed amendment to the Banks Act would introduce a third tier of capital requirement to cover shorter-term subordinated loans and banks' trading in financial instruments such as derivatives and options.

The first tier would cover primary shareholders' capital and the second tier longer-term subordinated debentures.

Wiese said this amendment was dictated by the market and international best practice.

At the moment banks had to cover their shorter-term loans with their first and third tier capital, Wiese said.

An advantage of having a separate short-term tier related to the permanency of the capital — capital could mature sooner if banks' short-term activities slowed.

A technical amendment to the Mutual Banks Act which will bring its registration procedures in line with those in the Banks Act is also on the cards. This will do away with the dual registration process by abolishing the necessity for provisional registration.

If time allows the session could see the introduction also of the far-reaching Financial Advisors Bill.

This will govern the market conduct of intermediaries in the insurance industry and the Collective Investment Schemes Bill, which will replace the present Unit Trusts Control Act.

The Banking Council said yesterday it was in favour of the proposed amendments, believing that the daily average was a more equitable way for the banks to calculate their average liabilities and reserves than a month-end snapshot, which could be severely distorted.

Banking Council GM for strategy and communication Claire Gebhardt-Mann said: "There is broad support also for the proposals relating to the capitalisation of trading exposures but the finer details have still to be worked out.

"As is often the case the devil could be in the detail," she said.

OM set to spark R10bn spending spree

Insurance giant's listing performance seen as big injection for ailing SA economy

(58) (49) ARG 13/7/99

ARGUS CORRESPONDENT

Johannesburg – A million cash-strapped South Africans are set to go on a R10-billion shopping spree from next week, when they get paid for the pre-listing sale of their Old Mutual shares.

The cash will become available next Tuesday, July 20, when a million shareholders (representing 874 million shares), who took up Old Mutual on its pre-listing offer of R11,25, will be paid out.

The cuts in interest rates from the highs of 24% last year to 17,5% at present has meant that consumers have been able to repay debts and economists expect that the bulk of the R10-billion will be spent on luxury goods. Part, would however, be spent on debt repayment.

Shares yesterday started trading at R12,60, a 12% premium on the R11,25 pre-listing offer price and continued moving up throughout the day – and this morning– leaving a number of people unhappy at their decision to sell at the pre-listing price.

While it was "money for jam", some believe they had "lost out big-time" because of the extra money they could have made had they kept their shares. Others who kept their shares were optimistic that they would reach R15 in the short term and in the long term could soar even higher.

Brokers were commonly asked to sell at R14 to R15 – which would signify "quite a nice windfall".

Old Mutual chairman Mike Levett said the company's listing would not only inject more than R10-billion cash into the economy but would also boost foreign exchange reserves by 6-billion when buyers settled their debt next Monday, July 19.

About $1-billion (more than R6-billion) was expected to flow into the country's foreign reserves on that day, representing about 20% of foreign exchange reserves, Mr Levett said.

Speaking from London late yesterday, he said Old Mutual's listing on five stock exchanges (London, Johannesburg, Zimbabwe, Namibia and Malawi) yesterday would bode well for the economy.

About 3 million of the total of about 3,2 million Old Mutual shareholders, or about 90% of the market, were in South Africa.

Economists said that whichever way these shareholders decided to use their money – either to pay off debts or to spend on consumer items – it would be positive for the economy.

Econometrix senior economist Tony Twine said if debt was liquidated, that is if share proceeds were paid into bonds or car repayments, it would put the economic upswing on a very sound footing – a much stronger base than existed a month ago.

Ray Brand, an analyst at Standard and Poors MMS, said: "We're hoping that people will use that money to buy goods which will give the economy the boost it needs."

Microlenders hope to establish credit register

Madeleine van Niekerk

THE Association of Micro Lenders has asked the Council for Scientific and Industrial Research (CSIR) to help develop a central credit register that will prevent consumers being lent more than they can afford to repay.

Member services manager Gerco Engelbrecht says the register will allow association members to check whether loan applicants have existing debt with other microlenders. It will disclose also whether the maximum loan limit has been exceeded. The association's code of conduct stipulates that repayments on long-term loans should not exceed 25% of applicants' net salary, and 50% of net salary on short-term loans.

The need for a central credit register was raised at the association's annual meeting last year. Members said checking records to prevent applicants from over-committing themselves financially was prohibitively expensive and cumbersome because of the lack of a single credit register.

Engelbrecht says the register will protect microlenders by allowing them to avoid consumers who have reached their maximum loan limits, thus reducing the risks of payment defaults. Consumers will be prevented from borrowing more than they can afford to repay.

(58) BD 14/7/99

HEATH INVESTIGATING 172 FIRMS

Lawyers try to block accident fund inquiry

CT 15/7/99

AN APPLICATION brought by 75 Gauteng lawyers in the Pretoria High Court against the Heath Special Investigation Unit is designed to protect from prosecution law firms under investigation by the unit for theft from the Road Accident Fund. **GUSTAV THIEL** reports.

THE probe into law firms which allegedly misappropriated money paid out by the Road Accident Fund has uncovered widespread theft, involving millions of rands, from the fund's coffers. The Heath Special Investigation Unit is investigating 172 firms, including some of the country's most prestigious practices. The theft is a major cause of the fund's dire state, with some estimates putting its debt at R9 billion.

The application — brought by the SA Association of Personal Injury Lawyers (SAAPIL) on behalf of 75 lawyers against President Thabo Mbeki, Justice Minister Penuell Maduna, Judge Willem Heath and the investigation unit — will aim to prove that the unit was not appointed to investigate the criminal actions of lawyers but to probe misappropriation of public funds.

SAAPIL suggests in its affidavit that the Heath investigation is unconstitutional according to section 3(1) of the Special Investigating Units Act and Special Tribunals Act 74 of 1996. The organisation says that if any lawyers are involved in misappropriation of funds, they represent a small percentage of the lawyers working in South Africa. "The number of attorneys doing motor vehicle accident work is at most a tiny minority of the profession," according to the affidavit.

The Heath unit was mandated by President Nelson Mandela to investigate the defrauding of road crash victims since January 1990 and to recover money stolen from the injured, the disabled and the families of those who died.

The furore over the theft of money paid out by the fund began when journalist Martin Welz and accident victim Freddie Yalezo claimed that Cape Town law firm Hoosain Mohammed and Associates regularly misappropriated funds. The case, which continues on August 31 in the Cape High Court, resulted in a media outcry which led to President Mandela's appointment of the Heath unit.

According to Michael Murphy, the attorney representing Welz and Yalezo, they have received affidavits from "hundreds of people" who claim that their legal representatives stole money paid out by the fund.

"The Heath unit initially misunderstood the issue because they thought it was only about money. What is at stake here is theft by lawyers from clients," said Murphy. "The problem is to prove the theft. If you don't have somebody in a law firm spilling the beans, as was the case with the Mohammed firm, it is difficult to convict that firm."

A member of the Heath unit, Thinus Rheeder, told the *Cape Times* that the scale of theft by law firms exceeded the unit's original estimates. "We have received complaints involving 172 firms, but since these investigations are still at a sensitive stage we are not going to disclose who they are at this point.

"What I can say is that we have solid evidence of theft on a grand scale from the road accident victims and we will be prosecuting law firms soon," he said.

Reliable sources say the lawyers' action was designed to derail the efforts of the Heath unit to the extent that law firms would not be successfully prosecuted.

The sources said the possibility

Turn to Page 3

Lawyers' action halts probe into fund irregularities

(58)

CT 15/7/99

From Page 1

exists that law firms are using the delay created by the action to get their houses in order by paying crash victims the money that was paid out by the fund.

SAAPIL president Malcolm Lyons said the application was brought only to show that the Heath unit's investigation is "invalid and unconstitutional".

"The Heath unit was appointed to investigate instances of corruption in the public service, but in this case they are investigating unspecified allegations of impropriety by unspecified attorneys.

"When the Road Accident Fund pays out money to law firms, it is no longer public money and therefore the Heath unit is not acting within its ambit. The attorneys under investigation have not been told who they are. At the moment it is made to seem that all 12 000 attorneys working in this country are involved in the theft."

Lyons added that their application "was served on the unit at the beginning of May 1999. The unit has not yet filed affidavits in reply and this is what is delaying the court case.

"If the unit wishes to investigate any member of SAAPIL, we will bring an urgent application to prevent this and the case could be heard by the court almost immediately. The unit has effectively removed the urgency by giving SAAPIL members an undertaking not to investigate them before giving 10 days' notice."

Herman Karberg, the legal representative of the Road Accident Fund, said the alleged theft by law firms of money paid out by the fund is "of grave concern".

It is currently estimated that the fund is about R9bn in debt. According to Rheeder, of the R11,4 million paid out by the fund since 1996, only R4,4 million ended up in the pockets of accident victims.

Arrive Alive spokesperson Richard Benson says the fund's dire financial state is directly affecting the ability of the government to ensure proper safety measures on South African roads.

Leaner assurer strives to transform

(58) BD 19/7/99

Shareholders watch for signs that demutualisation will translate into a healthier bottom line and a higher market rating, writes **Hilary Joffe**

FOR most of the eight months since Sanlam listed on the Johannesburg Stock Exchange (JSE), its shares have been in the doldrums.

Only recently have they risen above the listing level. Nevertheless, chairman Marinus Daling says he would not necessarily have done anything differently.

Daling's views are striking in the light of last week's Old Mutual listing. Old Mutual made a point in its prelisting presentations of emphasising that what happened to the Sanlam share — with policyholders driving down the price by shedding free and discount shares after the listing — would not happen to Mutual.

Sanlam did not offer its policyholders the option of selling their free shares before the listing. Old Mutual did, taking the free shares of 1,1-million policyholders who wished to sell into its prelisting bookbuild and placing them with institutional investors. Where Sanlam offered discount shares to individuals, all buying and selling prior to the Mutual listing had to be done through the bookbuild at the same strike price, set at R11,25. Mutual and its advisers aimed at a stable aftermarket. That was achieved in the first few days, with the share price drifting gently upwards.

Daling says Sanlam decided that it did not want to decide the price at which policyholders would sell their free shares. The market would have to do that. With hindsight, he muses, the group might not have given its advisers a 15% "greenshoe" option, which allowed the merchant bankers to place additional shares. The exercise of that option over the 30 days after the listing served simply to delay the inevitable, so the bottom fell out of Sanlam shares in January instead of December.

The share, which listed at R6, hit a low of R4,40 in February, just before the release of the group's year-end results. Since then it regained lost ground and more, and last week was trading in the R7,50 range.

Sanlam finance director Flip Rademeyer notes that the share has gained about 70% since February, while the JSE's financial index has advanced only 15%.

He believes the election was one plus factor, since Sanlam is a proxy for the entire SA economy. Another was Sanlam's inclusion in the emerging market benchmark Morgan Stanley Capital International (MSCI) index from June 1, eliciting demand from tracker funds. The Old Mutual roadshow and listing drew new attention to the life assurance sector, with both Liberty Life and Sanlam benefiting.

Rademeyer says the group has seen some "useful" institutional buying, particularly from offshore. Although the shareholder base remains predominantly South African, the foreign component has increased to about 15% of the total.

The trend has been particularly marked since March, when the group released its year-end results showing flat earnings and a huge increase in losses at troubled Sanlam Health.

An analyst describes the year-end results as "shrewd and prudent". If the health division simply breaks even this year, it will give Sanlam a 20% earnings boost, but analysts note that Sanlam's conservatism is not the only factor which has endeared it to the market lately.

Sentiment has improved because the group is perceived as humble, and its life business, which had lost market share (from more than 30% to about 25%) is seen as having growth potential.

The interim results for the period to end-June, now being prepared, are likely to be closely watched. Rademeyer says Sanlam, for the first time in the SA life industry, will report the return on capital in each of its businesses: personal finance, employee benefits, Gensec (which includes asset management) and health. This follows a complex exercise in which the group's capital resources have been allocated among its divisions.

While SA and UK analysts tend to watch numbers such as embedded value and net asset value for life assurers, North American analysts tend to focus on return on equity. Sanlam will be giving it to them, perhaps forcing other SA assurers to follow suit.

Rademeyer notes that the interims are also significant because they will be the first results covering Sanlam's time as a listed company. According to Daling, the group has changed quite dramatically in its relatively brief time as a public company: "The listing really energised the group," he says.

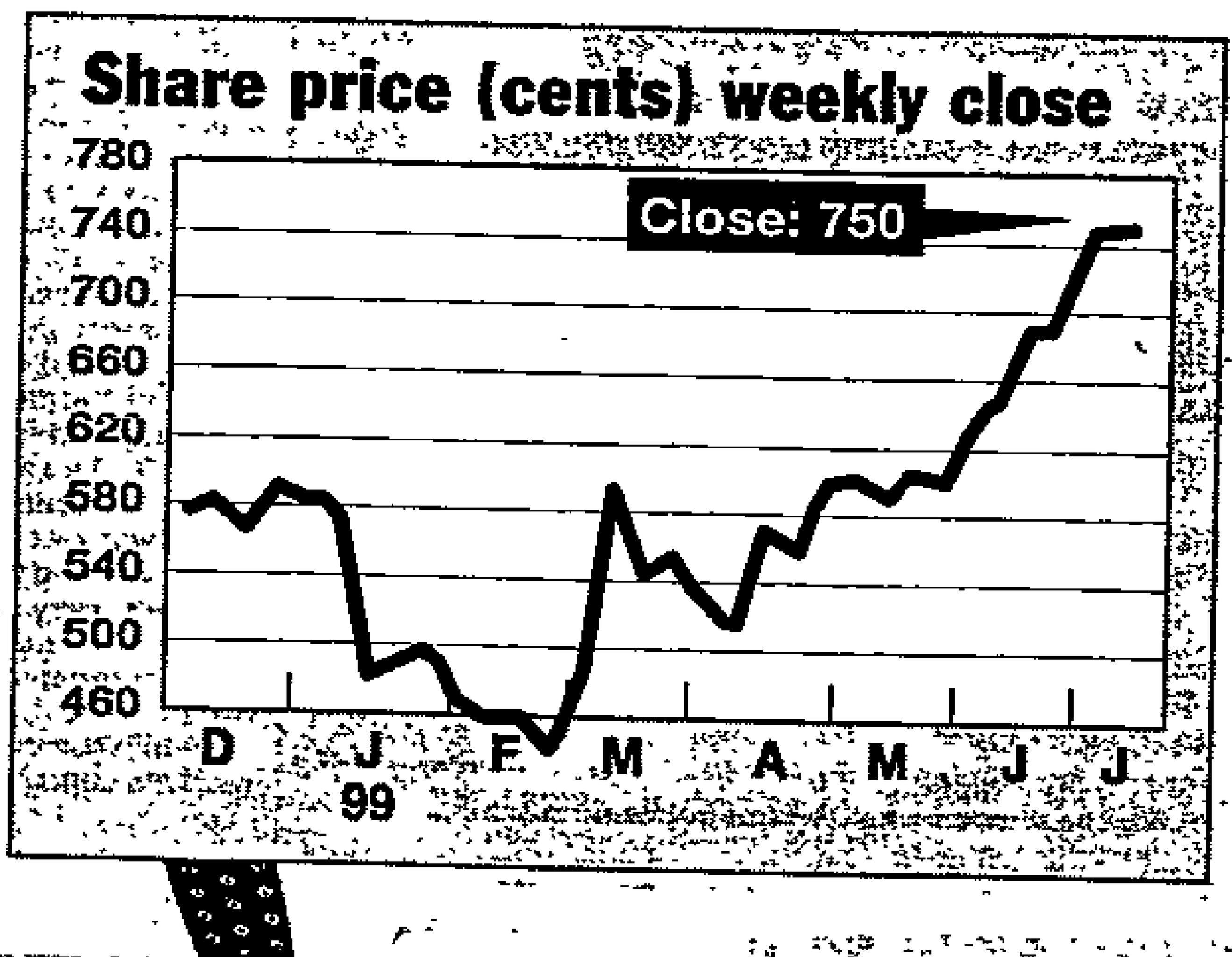
Sanlam has a new vision. There is an urgency about the previously rather grey organisation. Daling points to the decentralisation of management responsibility within the group and the potential this has opened up.

The group has over the past couple of years brought in new senior managers, who have good incentives, and given them scope to drive their businesses forward.

DALING

Picture: GARTH LUMLEY

Sanlam



KAREN MOOLMAN Source: I-NET BRIDGE

Now it is recruiting skilled people "of colour", something Daling says simply did not happen before, even though the group did not in theory practise discrimination.

"People are feeling responsible and we are seeing smiles in the building," he says.

At the same time, Sanlam has become leaner. Permanent staff numbers fell from 9 374 at the end of 1997 to 8 031 at the end of 1998, with most of the jobs shed in the personal finance and health businesses.

The sales force has been streamlined: the group cancelled about 1 000 unproductive contracts with independent brokers and reduced its full-time agency force by about 1 000 over the past two years.

This year it is focusing on growing both its top (sales) line and the bottom line. The group wants to regain lost market share and drive into new markets.

One of the avenues being explored is cross-selling of products, with short-term insurance subsidiary Santam, banking group Absa (in which Sanlam holds about 23%) and within Sanlam itself, for example between 67%-held Gensec and the group's other divisions.

The market remains curious about Sanlam's plans for its Absa stake; speculation has ranged from a full merger to Sanlam shedding the banking group if the two cannot create opportunities for bancassurance-type cross-selling of products. The line from Daling is that discussions between Sanlam and Absa are continuing. The two groups are considering whether they can unlock synergies.

While Sanlam has won brownie points for being transparent about its problems and taking action to remedy them, many in the market remain unconvinced that the group has a clear strategy for the future.

Compared with the other large listed life assurers, it has little offshore exposure or hard currency earnings other than some foreign business in Gensec.

Daling stands firm in his view that there is no point in Sanlam trying to expand offshore from a weak home base. "We have to fix what we have first and get our return on equity up."

He stresses that if Sanlam does decide to look offshore, it will take care to go only into markets where it can make money.

The group raised a net R3,4bn in new capital prior to its listing. After restructuring costs, it still has about R1,2bn left on the balance sheet, providing it with a war chest for expansion or acquisition. Some may be absorbed as the existing divisions grow, but the group seems to feel under no pressure to spend the money — and no one seems to be demanding that Sanlam gives it back.

Meanwhile, the group still has plenty of small investors to keep happy. A far higher proportion of Sanlam policyholders held onto their shares than was the case at Old Mutual, where a third of policyholders gave their free shares up for sale ahead of the listing.

At Sanlam, the number of shareholders dropped from 2,08-million on listing day last year to 1,59-million at the end of May. The proportion of the shares in the hands of individuals decreased from 55,5% to about 45% over the period. This means that there are still 380 000 shareholders with 300 shares or less, and 1-million holding 1 000 or less.

Nominee companies hold about 36% of Sanlam's shares, with most of the rest in the hands of pension and provident funds and a small number still in the Demutualisation Trust, which holds the shares of policyholders who cannot be traced.

What all Sanlam's shareholders, large and small, have in common is that they will be watching for signs that the transformation wrought by demutualisation will translate into a healthier bottom line and a higher market rating.

BD 21/7/99

Absa spends R46m on community

BANKING group Absa said yesterday it had spent R46m on community development initiatives, sports sponsorship and art in the past financial year. (58)

Most of the "good deeds" came from the Absa Foundation.

Since its establishment five years ago the foundation has committed R34m to social upliftment. The group allocates 2% of its annual dividend to the foundation.

Absa said the foundation would increase its spending from R9,5m to R11,4m in the financial year to end March 2000.

"About R4,1m was spent on 44 job-creation projects, the main beneficiaries being unemployed or informal-sector entrepreneurs who received business skills training.

"In addition, community-based income-generating projects received startup capital and funds for equipment. Capital also went to nongovernment organisations to administer loans to entrepreneurs, particularly young people and women," said Absa. — Sapa.

Microlenders council gets ministerial go-ahead

(58)

Madeleine van Niekerk

THE Micro Finance Regulatory Council (MFRC) has been formally approved by the trade and industry ministry as the regulatory institution of the microlending sector.

"In terms of the Usury Act exemption a moneylender will only be permitted to operate after registration with the council and will be obliged to operate within the council's rules, complying with the Usury Act in all aspects," said council CEO Neville Zar.

Zar said the council would create a regulatory environment in which borrowers and lenders would be protected.

The trade and industry department has extended the date by which lenders are expected to be registered in order to operate within the exemption from August 1 to September 15.

Founder members of the council are Alliance Micro Enterprise Development Practitioners, the Banking Council, the trade and industry department, Khula Enterprise Finance, the Micro Lenders Association, National Housing Finance Corporation and the SA Reserve Bank.

Consumer interests are represented on the council by the Legal Resources Council and the Housing Consumer Protection Trust. Representation from the Congress of SA Trade Unions and the Consumer Institute of SA are being finalised, said Zar.

The major functions of the council are accreditation, monitoring of accredited institutions to ensure they comply with council regulations, attending to complaints from the public and conducting inspections.

The need for a formal regulatory body gathered momentum when Finance Minister Trevor Manuel criticised lenders charging usurious interest rates, not registering for tax and using illegal collection methods.

28/7/99

Council to regulate money lenders

THE newly formed Micro Finance Regulatory Council hopes to have all money lenders, who are exempted from the Usury Act, registered by the end of September.

This will include pawn brokers, banks and small business lenders.

Council chief executive officer Mr Neville Zar said yesterday that the exact number was hard to determine, but it was believed to be between 4 000 and 8 000.

The need for a formal regulatory body was highlighted earlier this year during the Budget speech of Finance Minister Trevor Manuel when he criticised lenders for charging high interest rates, not registering for tax, and using illegal collection methods.

Some of them charged interests of up to 1 000 percent and even more a year on loans smaller than R6 000.

The exemption notice published on June 1 increases the loan size exempt from the Usury Act to R10 000 provided the lender is accredited by the MFRC.

After September money lenders who are not registered may be prosecuted while those registered will have to operate within the council's rules. – *Sapa*

PENSIONERS, RETRENCHED TARGETED

Beware bite of loan sharks

(58) CT 23/7/99

JOHANNESBURG: Police have warned of fly-by-night cash-loan operators — even if they are recommended by staff at reputable banks. **JOHAN GAGIANO** reports.

POLICE countrywide are investigating thousands of small cash-loan operations in a bid to get to the bottom of claims that there are multi-million-rand lending schemes and investment rackets operating in South Africa.

Detectives sifting through the allegations of broke cash-loan victims say the micro-lending and investment industry is "turning into a nightmare and is taking on epidemic proportions".

Some of these operations charge monthly interest of 40% or more for cash loans, and offer 6% interest monthly on investments.

Complaints are streaming in and two Pretoria operators alone face more than 1 500 allegations of breaking laws governing investment institutions.

In one case, a "quick cash" operation was liquidated and investors recovered a mere eight cents for every rand they had put in, leaving most of them in dire straits.

According to commercial crime detective Captain Hugo Wolmarans, mushrooming "quick cash" enterprises are exploiting the worsening economic climate and the rocketing cost of living in South Africa and preying on vulnerable members of the public.

Mushrooming "quick cash" enterprises prey on vulnerable members of the public

Popular targets police have identified so far include pensioners, retrenched people and deceased estates, he said.

Captain Wolmarans said an alarming factor was that many complainants claimed they were advised by personnel — some of them senior — from established financial institutions to deal with micro-lenders or their agents.

The suspicion is that certain of these bank advisers, for kick-backs, recommend micro-lending outfits and punt them as offering higher interest rates. Some investors hungry for quick returns are promised more than 6% interest monthly on their money.

"These recommendations confer trust and credibility on totally illegal and doubtful practices," Wolmarans said.

Investigations have revealed that many "financiers" trading as "closed corporations or companies" are not registered with the Companies' Office. Many have no Reserve Bank approval to accept investments or deposits.

Wolmarans urged the public to "do your homework" before investing. Not only do people risk losing their investments by dealing with illegal institutions, but proceeds could be forfeited in terms of legislation combating organised crime.

Investors could even face criminal charges for taking part in illegal schemes, he added.

The law regulating deposit-taking institutions contains penalties for contraventions of up to a R100 000 fine or five years in prison.

Microlending business gets a big boost from NuBank

(58) CT (BR) 23/7/99

RICHARD STOVIN-BRADFORD

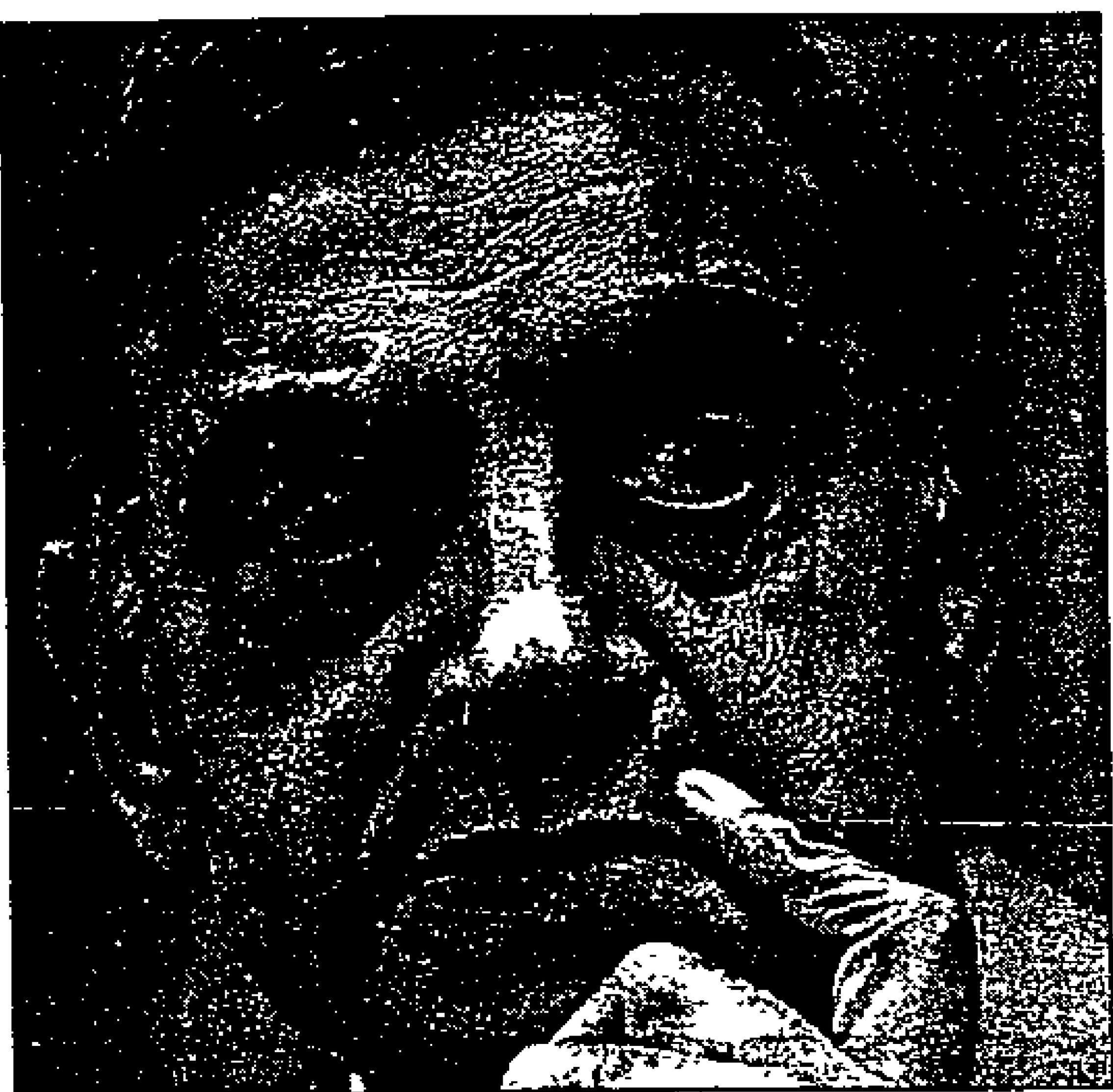
Johannesburg – A subsidiary of Thuthukani Group, the JSE-listed microloan origination business and credit service provider, had been granted a R115 million long-term loan facility by NuBank, Absa's mass-market microlending and insurance arm, the company said yesterday.

The facility would help Thuthukani enhance the long-term loan end of its micro-lending business.

Johan Howell, Thuthukani's chief executive, said that the transaction with NuBank, which will make long-term loans under R6 000 available to the previously disadvantaged communities in South Africa for periods of six to 36 months, was the first of its kind in the industry.

"Such financial assistance was not previously available through the formal banking sector," he said, explaining that the facility "would actually help them become part of the formal banking sector."

Bert Griesel, the chairman of NuBank, said the Absa Group, as a prominent participant in the South African financial sector, was involved in several development projects in financial education and the development of previously disadvantaged communities.



NEW BROOM: Transport Minister Dullah Omar promises action.

Accident fund debt is R8,3bn

GUSTAV THIEL (58) (264)

NEW Transport Minister Dullah Omar will use his experience as former justice minister to address the spiralling debt of the Road Accident Fund, which stands at a whopping R8,3 billion.

The debt of the fund doubles every three years. Unless checked, it could cripple the country's finances, according to economists.

The parlous state of the fund was highlighted by the Heath Investigation Unit's probe into allegations that lawyers had expropriated money paid out by the fund to victims of road accidents.

A commission was appointed at the beginning of July to aid the Heath unit in finding ways to alleviate problems with the fund.

Omar said he was satisfied with the progress made by the Heath unit. He has confirmed that the unit is investigating allegations against certain law firms.

The fund is the main sponsor of the Arrive Alive campaign and the state of the fund therefore influences safety on South African roads. "If the fund's financial position does not improve, its ability to invest in safety measures will be prejudiced," said Omar.

He added: "It would appear that allegations of deviance relate to only a small number of lawyers and there is nothing to indicate that deviance is widespread in the profession." He appealed to the public to await the findings of the probe before concluding that theft of money by law firms from road accident victims is a widespread phenomenon.

Absa vows to fight action

BD 26/7/99 (58)

Linda Ensor

CAPE TOWN — Absa vowed yesterday to defend itself "vigorously" against civil action the Heath anticorruption unit intends to bring for the repayment of R1,125bn interest the bank earned on a R1,6bn lifeboat from the Reserve Bank.

If the unit succeeds in its claim that the loan contract was unlawful, Absa would be obliged to surrender 11,3% of its total capital and reserves of R9,9bn.

Depending on how payment was made, this could reduce its lending ability by about R20bn.

It is likely that outgoing Reserve Bank governor Chris Stals will be called to give evidence during the civil action, which will be heard by a special tribunal.

The unit's senior legal officer, advocate Gerhard Visagie, confirmed a weekend report that a summons would be issued against Absa, probably before the end of next month, for the recovery of R1,125bn. This is the amount Absa and its predecessor, Bankorp, gained over a five-year period through receiving a R1,6bn loan from the Reserve Bank at 1% in 1990 and investing it at a rate of 16%.

Absa's group legal services GM, Koos Wepener, said: "In our view there is no factual or legal basis for any claim against Absa based on the financial assistance which was granted to cover debts of Bankorp."

In the interests of "fair play" Visagie would not disclose the basis for the case or the identity of the defendants before Absa has knowledge of them. However, it is likely that the unit will argue that the secret loan contravened the Reserve Bank Act and contravened the common law of contract in that it was against the public's interest.

The unit is also investigating whether the contract was breached by Absa in that it did not use the proceeds of the loan in the manner stipulated by the loan agreement. However, to proceed with this it requires documentation from Absa to show whether the money was used to offset Bankorp's bad debts, as was intended. Absa took over the agreement when it acquired the troubled Bankorp group in 1992.

The unit's view on the matter contrasts with Stals's view that the Reserve Bank was legally entitled to grant lifeboats and had done so on a number of occasions.

Stals argued at a hearing, held in terms of section 417 of the Companies Act, on the collapse of the liquidated Tollgate group that granting the lifeboat was in line with international practice and was necessary to maintain the stability of and public confidence in SA's financial system as the Bank was required to do under its governing legislation.

In the end the head of the inquiry, Jules Browde SC, excluded the lifeboat from the ambit of the inquiry and did not rule on its legality. Visagie said the inquiry had not exonerated the Reserve Bank for the loan and he did not anticipate that the whole Tollgate matter would be reopened were the tribunal to reach a finding that the lifeboat agreement was unlawful.

Wepener expressed disappointment yesterday that the unit had not informed the bank of its intentions, in terms of a prior undertaking, before the information was made public. He said the unit was in breach of faith and was not playing the game.

He found it strange that the unit had already drafted summonses for the recovery of the money and insisted that the bank was willing to hand over all documents required by the unit but needed clarity on certain items. "We have to date expended enormous amounts of time, effort and money on collating vast quantities of documentation for the unit."

Booming industry of micro-lending looks to the future

CT 27/7/99 (58)

SINCE the genesis of democracy in South Africa, the poor state of the economy and resultant low levels of income, coupled with expectations, have led to a culture of debt unrivalled in other developing countries. A need was created almost overnight for poor people to have access to borrowing facilities. Since the country's banks were not interested in lending money to the poor, a decision often criticised by the ANC government, the micro-lending industry stepped into the breach and created services which, although vibrant, brought many new problems. Consumer Writer **GUSTAV THIEL** investigated the state of the industry and the possible impact of new legislation and regulations proposed by the government.

CONSUMER organisations in South Africa say new government regulations to curb the uncontrolled growth of the micro-lending industry might not be enough to correct the grim legacy of these organisations over the last five years, during which time debts have been run up as never before.

The government decided last week to raise the limit allowed for loans exempt from the Usury Act from R6 000 to R10 000.

This announcement by Trade and Industry Minister Alec Erwin coincided with the formal establishment of the Micro Finance Regulatory Council, which hopes to register by September all money-lenders who are excluded from the act. The council has operated since December last year in a less formal capacity.

In 1994, then Trade and Industry Minister, Trevor Manuel, began planning to ensure that the poorest section of South Africa's population was not left without the ability to borrow money, while at the same time keeping the culture of debt in the country in check.

Manuel initially planned to abolish the R6 000 exemption. The almost R15 billion micro-lending industry feared that Manuel's plan would scuttle their future and lobbied intensely to have the loan amount exempted raised to R50 000.

With the latest decision to limit the exempted amount to R10 000, government is attempting to achieve three things at once: Control the culture of debt in the country by not increasing the exempted amount too much; make it possible for the money to be productively used by small businesses instead of it only being used for consumption; and try to ensure that the industry will become progressively regulated.

Police are investigating thousands of small cash-loan operations in a bid to get to the bottom of claims that micro-lending institutions are charging interest rates of up to 1 000%.

They face a steady stream of complaints from consumers who are caught in a web of debt by unscrupulous operators.

Three operations in the Western Cape have been liquidated in the last three months. In Worcester, the provisional liquidation of an operation called Pro Cash left hundreds of elderly people without retirement funds.

Commercial crime detective Captain Hugo Wolmarans says the loan-shark industry is exploiting the worsening economic state in the country and the increased cost of living. Vulnerable members of society are the most likely face ruin at the hands of slick operators.

Examples of doubtful "quick cash" operations are legion.

The most prominent of these, which whose micro-lending operation, CKS Financial Services, was liquidated, allegedly defrauded clients of some R48 million by claiming to be "God's banker".

The chief executive officer of the Micro Finance Regulatory Council, Neville Zar, hopes the new regulations will go some way towards ensuring the further proliferation of dishonest micro-lending practices is stopped.

A report released in March found that the value of the industry was between R10 billion and R15 billion, as opposed to the massive R654 billion of the formal banking industry.

Put differently, the value of the assets of micro-lenders represents only about 2% of that of banks. The contribution of the micro-lending industry to the economy is consequently less than 1%.

But consumer organisations warn that doubtful operations will not disappear overnight.

Frans Frazenburg, head of consumer affairs in the Northern Cape, has warned that micro-lenders charge ridiculous interest rates and persist in taking bank cards and pin numbers from clients.

It has been reported that so-called loan sharks confiscate clients' identity documents to ensure payments, although this is illegal.

A new problem is that people who borrow money are being robbed outside micro-lending institutions, especially in poor areas.

Raybin Windvogel, head of Consumer Services in the Western Cape, says education is the key to preventing a debt culture from proliferating, although he has confidence in the ability of the council to address the problems of the micro-lending industry.

Time will tell whether the council can convince the majority of private and public consumer organisations that the micro-lending industry can be sufficiently regulated to function within the law and create a sensible opportunity for sensible South Africans to borrow money.

MONEY FOR NOTHING: Just one of the many institutions in the country where a "quick cash" solution is only a signature away.

PICTURES: MUJAHID SAFODIEN

Fuelled by greed on the one hand, need on the other

THE proliferation of micro-lending institutions in South Africa impacts heavily on the day-to-day lives of people in the country.

In a quest to understand the psyche of both the people who are forced by circumstance to borrow money against their will and the mind-set of unscrupulous micro-lenders, the *Cape Times* went in search of the borrowers and the people they borrow from money from.

He is desperate not to have the institution he borrowed from named because "they will stop at nothing to make sure that they get the money I owe them".

He admits that "people of all races borrow money because they need it. There are bills to be paid and there is no money. Once they have you, they have ..."

Steven's candour must be admired because others approached on their debt laden existence reacted with the anger of someone trapped. No-one wants to be exposed.

Says Mandla (not his real name): "I have lost my life. I can't even see a future. People in this country have no future."

Wickus is a 29-year-old university graduate ...

"The problem is that money lenders prey on people's vulnerabilities and insecurities and get them to take money that is dangled in front of them like carrots.

"When I worked in the business I often saw how people with no ability to pay back the money were gladly accepted as clients.

"Once people are caught in debt that's it:

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Examples of doubtful "quick cash" operations are legion.

The most prominent of these, which brought attention to the character of the industry, was that of Mark Thatcher, son of former British Prime Minister Margaret, who used contacts in the SA police service to convince officers to borrow money from him.

Although Thatcher was never convicted of any wrongdoing, his cash loan operation brought the point home that the micro-lending industry had arrived.

In another instance, investor Karl Stander, [illegible] [illegible] of the micro-lending industry to the economy is consequently less than 1%.

But consumer organisations warn that doubtful operations will not disappear overnight.

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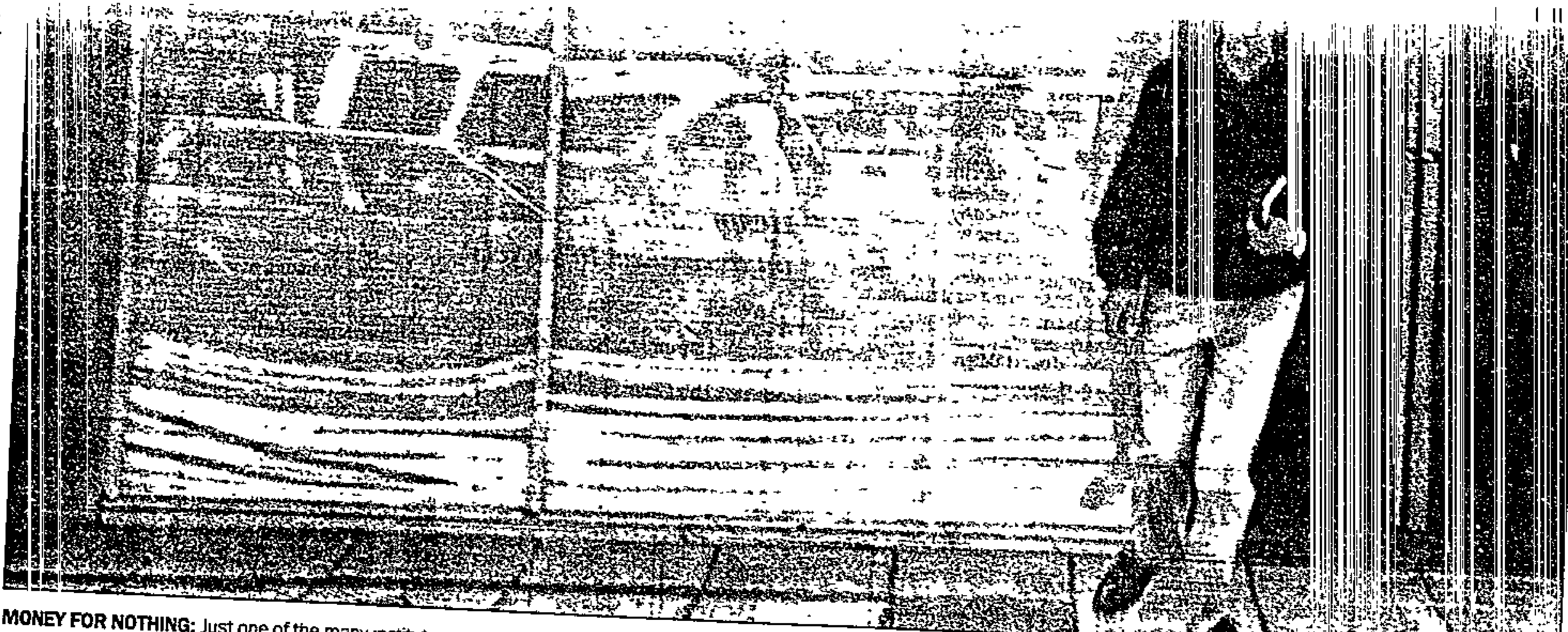
EDUCATE THE PUBLIC: Head of Consumer Services in the Western Cape, Raybin Windvogel, believes the public can be educated to the point where debt doesn't spiral out of control.



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Without exception, the borrowers felt uncomfortable discussing their circumstances. The aura they exude is one of embarrassment tempered by resignation.

Once caught in a cycle of debt, they say, the cycle becomes all-consuming.

Steven is an out-of-work mechanic who must support a family of five. He has barely managed to hang on to his house in Parow and says he lives in fear of the people he borrowed money from.

He is desperate not to have the institution he borrowed from named because "they will stop at nothing to make sure that they get the money I owe them".

He admits that "people of all races borrow money because they need it. There are bills to be paid and there is no money. Once they have you, they have you".

Steven says he has to hand over his bank card to the lending institution every month and gets it back after the monthly amount, plus interest, is paid.

"The interest is heavy and I feel like I will never pay the money back. That's all I want to do, pay the money back and forget about it.

"I see these people begging on streetcorners and I think that is where I am going. I think debt is big trouble, man, it can ruin your life."

Steven's candour must be admired because others approached on their debt laden existence reacted with the anger of someone trapped. No-one wants to be exposed.

Says Mandla (not his real name): "I have lost my life. I can't even see a future. People in this country have no future."

Wickus is a 29-year-old university graduate who couldn't find work after finishing his studies in philosophy, and decided to accept an offer to work for a micro-lending institution in the Bellville area.

Although he tried for a while to dupe himself into believing that he could make a difference, he soon realised that the lack of scruples his bosses showed made his quest impossible.

"There is no bigger human misery to witness than of you taking away a man's right to his existence.

"The problem is that money lenders prey on people's vulnerabilities and insecurities and get them to take money that is dangled in front of them like carrots.

"When I worked in the business I often saw how people with no ability to pay back the money were gladly accepted as clients.

"Once people are caught in debt that's it, the vast majority of them never get out of the cycle and they become lifelong clients.

"It's simply one of the saddest industries to work in and it is fuelled on the one hand by people who are motivated by greed and on the other by those in need."

Wickus says it would be a mistake to judge micro-lending institutions across the board as unscrupulous, but warns that if not regulated properly by the government, even the scrupulous ones will exploit potential clients.

THE Consumer Institute of South Africa (Cisa) has publicly declared its opposition to the provisions of the Usury Act, thereby effectively pronouncing its opposition to the new regulations proposed by the government for the micro-lending industry.

Diane Terblanche, head of Cisa, asks: "Why should micro-lenders be excluded from the provisions of the Usury Act, which was created in the first place to protect consumers at the lower end of the market who are highly vulnerable to unfair practices?"

She says micro-lending institutions do not further the cause of small and medium business enterprises.

"In the past a number of micro-lenders who have claimed to fall under the exemption were not actually exempted as they broke the rules for exemptions, for example to wait three days before making the loan amount available to the consumer."

She says micro-lenders should start taking into consideration the ability of consumers to pay back loans.

"Cisa's stance has always been that there should be no exemption as there have been no studies to prove whether there is a need for exemption."

She adds that there would be no need for self-regulation in the sector if micro-lenders fell under the Usury Act and were not exempted "as the act, if enforced, gives more than adequate protection to consumers".

Facts and figures:

- There are more than 300 micro-lending outlets countrywide
- Less than 2% of loans are used for business purposes
- Most loans are used for consumption
- The average interest rate is 30%, as opposed to about 20% from banks.
- About 70% of clients return for loan renewals.
- The industry has a turnover of about R15 billion a year.
- The micro-lending industry forms about 1% of the economy.
- The amount exempted from the Usury Act has been increased to R10 000. This came into effect on July 1 this year
- There are no entry barriers for new micro-lending operations
- All micro-lending institutions must register with the Micro Finance Regulatory Council before September 15 this year

Amendments aim to protect borrowers

THE government signed papers on July 30 last year which set in motion a process to form the Micro Finance Regulatory Council.

After that, the Minister of Trade and Industry, Alec Erwin, presented a notice in terms of Section 15A of the Usury Act of 1968 to the cabinet which brought into effect amendments to the Usury Act Exemption, which was passed in 1992 to exempt all amounts below R6 000 from interest rate caps (maximums allowed).

The main thrust is that amounts below R10 000 will in future be exempt from the stipulations of the Usury Act.

One of the conditions of the amendment is that the use of bank cards and pin numbers by micro-lending institutions will be illegal.

Other rules include: Lenders shall not disclose details of the transaction or obtain information on their borrowers' credit records without their consent; lenders must have copies of the exemption rules for inspection; lenders must display certificates of registration and transactions must be recorded on standard written agreements approved by the body.

Before any loan is agreed to, lenders must provide borrowers with a schedule setting out the loan amount, the total amount repayable, the total charge of credit, the annual rate and whether it is fixed or variable, the nature and amount of any insurance, any penalty interests or costs, the instalment amount and number of instalments and the repayment period.

The borrower must be given a verbal explanation of the loan agreement in a language that they understand. The borrower must also be allowed to read the agreement and lenders must provide borrowers with a copy.

In addition, the new exemption amendment in the Usury Act stipulates that lenders must maintain accurate accounts reflecting the status of all transactions and statements must be provided on request.

Borrowers must be given 28 days' notice before their details are forwarded to any credit bureau and can also insist on reasons for a loan having been refused.

Lenders may not charge any advance payments on loans, but borrowers may be allowed to make early settlements. The borrower also has the right to repay the loan in full within three days of the start of the loan.

Culture of moneylending in the spotlight

(58) CT 27/7/99

GUSTAV THIEL
CONSUMER WRITER

THE micro-lending industry is the biggest consumer headache in the Western Cape and consumer organisations doubt whether new measures introduced by the government will be able to control the culture of incurring debt.

Since the early 1990s, almost 30 000 outlets that lend money at high interest rates have mushroomed across the country.

The industry is worth an estimated R15 billion a year and is still growing rapidly.

Now the government has taken steps it believes will control the situation.

Raybin Windvogel says Consumer Services, which he heads in the Western Cape, will be watching with keen interest the functioning of the Micro Finance Regulatory Council, launched last week.

The council hopes that all moneylenders exempted from the Usury Act will be registered by September 15.

As from July 1, the government has increased from R6 000 to R10 000 the loan limit exempted from the Usury Act, provided that the institutions which supply this money are registered with the new council.

The CEO of the council, Neville Zar, says it is hard to determine how many moneylenders there are in South Africa, although the figure is believed to be between 4 000 and 8 000.

Once the September deadline set by the council for registration has passed, micro-lenders who are not registered will face prosecution. Those who have registered will have to comply with the council's rules.

Moneylenders will be able to charge a maximum of 10 times the prime lending rate. Various reports allege that some moneylenders charge interest rates as high as 1 000%.

Zar says once registration has been completed, the council will initiate education programmes to warn potential borrowers of the adverse effects of incurring debt.

The council has said that it is considering imposing a fine of R25 000 on members who disobey its rules. It may also cancel registrations, which cost R3 000.

● See Page 11 Insight

New law to clean up money-lending

(58) Sowetan 27/7/99

By Isaac Moledi
Money Matters Editor

CONSUMERS are advised not to use the services of any money-lender who is not a registered member of the Micro Finance Regulatory Council (MFRC) by September 15 this year.

And, if it happens that you as a consumer want to make use of the money-lenders' services after September 15, you have the right to request proof of the institution's MFRC membership.

Henk Vivier, director of the MFRC, the newly formed consumer watchdog which promises you greater protection, says if you take a loan from a money-lender after September 15 and you find out that such a lender is not registered, such a loan will be illegal.

Money-lenders, exact numbers of which is hard to determine, but believed to be between 4 000 and 8 000, include pawnbrokers, banks, small business lenders and others.

If the money-lender makes you a loan and is not a member of the MFRC by this date, Vivier says you can take action against such individuals or institutions by reporting them to the MFRC.

The lender will be prosecuted in terms of Section 15A of the Usury Act.

Actions against the individual or institution practising this is a fine of up to R10 000 or 10 years in jail, or both, says Vivier, who is also managing director of the Alliance of Micro Lenders and Associated Consumers.

Vivier says according to the Usury Act, all money-lenders must adhere to certain principles as promulgated by the Department of Trade and Industry.

He warns, however, that individuals who have entered into a transaction with money-lenders before September 15 should continue paying them.

"If such a lender is not registered with the MFRC after September 15 and there are individuals who are still paying what they owe, such a transaction will be illegal. It means such individuals have a case against that lender," says Vivier.

MFRC chief executive Neville Zar, says all money-lenders who want to benefit from the exemption notice should register with the council.

"The certificate must be displayed in their business premises for clients to see them," he says.

He was not expecting any consumer to phone the council before September 15.

"Money-lenders need to improve their systems and integrate them with those of the banks. They need to use more legitimate methods of collection," says Zar.

He says that once the registration process is complete the MFRC will embark on a consumer education programme to encourage borrowers to only go to money-lenders who display their MFRC registration certificate.

The watchdog body comes after considerable time has been spent by the department and other industry players to find solutions to consumer abuses by unscrupulous loan sharks.

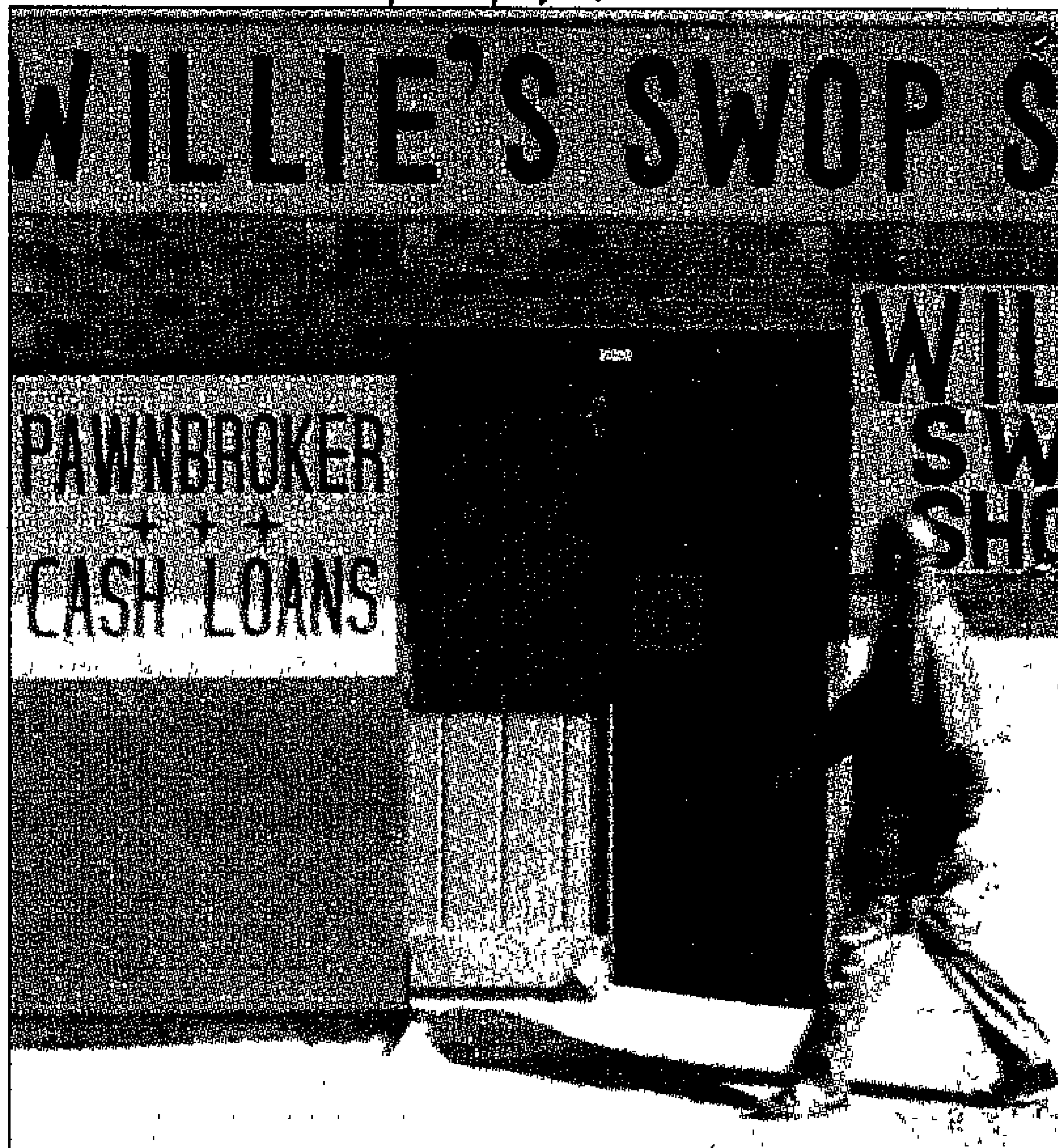
Interest of up to 1000 percent is charged and sometimes even more a year on loans smaller than R6 000. Customers' ATM cards, PIN numbers, identity documents and marriage certificates are also taken by the money lenders as security.

In terms of the exemption notice published on June 1 this year, the loan size exempt from the Usury Act has been increased from R6 000 to R10 000, provided the lender is accredited by the MFRC.

Borrowers' confidential information obtained in the course of a money lending transaction shall not be disclosed without their consent. Personal information such as pin codes and bank cards cannot be used as security or collection arrangements.

The money lenders are also not allowed to make you sign a blank document.

In future money-lenders will only be able to charge a maximum of ten times the prime lending rate.



Ensure that if institutions such as these lend you money after September 15 this year, they are registered members of the Micro Finance Regulatory Council.

Getting rid of the loan sharks

Sowetan 29/7/99

(58)

OVER the past few years, the microlending industry has developed into a R15 billion industry. In view of its magnitude, this industry not only plays a crucial role in the financial sector but it also makes the need for regulation stronger.

People from the lower income groups generally have little or no security to offer. As a result they have trouble getting loans from large financial institutions such as banks. That is why these people turn to microlenders.

Unfortunately there are unethical microlenders who are only trying to make a fast buck and exploit consumers. This is one of the reasons why the Association of Micro Lenders (MLA) was established in 1996.

There are many microlenders who operate according to sound and professional business principles. They also act in an honest and ethical way. It is microlenders such as these who belong to the association.

The association is a regulating body in the industry and all its members have to comply with its strict code of conduct.

The association's goal is to help regulate the microlending industry to eliminate unethical loan sharks and to create a safe and fair environment in which consumers borrow money.

Right from the start the MLA strove to help educate consumers in the pitfalls of the industry. The association wrote a booklet on personal money management which is available to all members' clients. This booklet educates consumers on how to manage their money effectively, with the result that they eventually will not have the need to borrow money to make ends meet.

It teaches the basic principles of income, fixed payments (rent), variable payments (transport) and discretionary payments (donation).

It also focuses on teaching consumers how to control their expenditure and how they could possibly generate an extra income if they can't make ends meet with their current income.

Microlenders are getting increasingly involved in projects where they make a contribution to society, such as sports sponsorship. The association recently donated money to the Gold Development Trust and by doing so, enabled young golf players from all over the country to attend a big golf tournament.

By assisting in these projects, the MLA is trying to improve the circumstances of the people who form a large part of their members' client base.

Consumers are taught how to control their expenditure sensibly.

The association has also encouraged its members to get more involved in their own communities, with projects such as these.

Microlenders are channelling millions of rands back into their communities through sponsorship and donations.

"There has always been a need for this industry. Just because there is a bigger risk involved, it doesn't mean that microlenders should be able to do whatever they like.

We are convinced that with proper regulation – as is being exercised by the association on its members – the microlending industry will get the recognition it deserves. It is a professional and honest industry and is there to serve the needs of consumers," Flip du Plooy, executive member of the association said.

Micro-lending industry gets its first watchdog

(58) ARG 31/7/1999

ESANN DE KOCK

If you want to borrow money from a micro-lender, check that the lender is registered with the Micro Finance Regulatory Council (MFRC). If this is not the case, go elsewhere.

The Department of Trade and Industry (DTI), in an effort to tighten the rules governing the industry, has approved the MFRC as the regulatory body to which all micro-lenders must belong if they want to do business under the exemption in the Usury Act.

This council will have the task of regulating the industry to ensure members comply with the rules and legislation and that you have sufficient protection when borrowing money from this sector.

The approval of the MFRC as the only regulatory body means that it is no longer enough for your micro-lender to belong to an association such as the Alliance of Micro-Lenders and Associated Consumers (Amlac) or the Association of Micro-Lenders (MLA), although these organisations are among those associated with the MFRC.

Others associated with the council are the Alliance of Micro Enterprise Development Practitioners, the National Housing Finance Corporation, the Banking Council and Khula Enterprise Finance.

At a R3 000 registration fee, R5 000 annual membership fee and R700 certification fee, membership of the MFRC does not come cheaply. Micro-lenders interested in a cheaper option may dangle their membership of other "authorised" organisations in front of you, but don't be fooled: You should only expect compliance with the law and adequate protection from members of the MFRC.

If ensuring that you borrow from an MFRC member is the first step in protecting yourself, the next step is asking for a copy of your loan contract, says Amlac director Bennie Burger.

Make sure you understand the contents before signing anything and if you don't, ask the lender to explain it to you in detail. Pay particular attention to the interest you will be paying on your loan.

Burger points out that it is now also illegal for a micro-lender to hold on to your identity document, bank card or pin number. And, even if you have accepted the loan, you can reverse your transaction within three days and pay interest on a pro rata basis.

He emphasises that if a lender is not a member of the MFRC and does not comply with the latest rules set out by DTI, your consumer rights are at risk and you should go elsewhere for your loan.

Your micro-lender's membership of an organisation such as Amlac or MLA should offer you even more protection, he says, because organisations such as these have codes of conduct for their members. They have to uphold a reputation in the industry as honourable businesses that operate profitably within the law and, therefore, cannot afford to give you bad service.

Burger says despite the fact that Amlac fully supports the MFRC and DTI's objectives, it will constructively take up contentious issues such as the inspection powers afforded to MFRC which, Amlac believes, should be the responsibility of DTI.

He says the council's insistence that micro-lenders be registered as, for instance, closed corporations, trusts or banks before they can join the body is another bone of contention, because it excludes too many individuals who operate small micro-finance businesses.

The regulatory process, however positive for consumers and lenders, is fraught with short-comings which need to be urgently addressed, says Burger.

ARG 2/8/99 (58)

Borrowers 'debt-battered'

PRETORIA: Thousands of cash-strapped South Africans turn in desperation to loan sharks operating in the twilight of the law. Quick money is advanced to people who often have no idea of what they are signing or being sucked into.

One court-approved administrator in Pretoria, officially assigned to manage people in trouble with their debts, presently has about 500 files on his desk where debt-battered borrowers go home with less than R100 a month. A large percentage of the debtors affected are employed by government departments, including the South African Police Service.

Administrators said disturbing practices were uncovered in recent investigations. "The situation is getting totally out of hand. Many 'micro-lending' operators get borrowers to sign agreements providing for *in futuro* debts.

"These debts are excluded from an administration application and court order, enabling quick cash agencies to have priority claims to a debtor's salary," said city administrator Stefan Fourie. "The present situation makes it impossible to do our job properly." — Own Correspondent

Tuesday August 3 1999 SOWETAN

Ask the bank ombudsman

(68)

WHILE banks serve as safekeepers of money belonging to millions of consumers countrywide, the marriage between the client and bank is sometimes threatened by a dispute

In an impasse a middle person may be needed to mediate between the two parties and the right person for this role is the banking ombudsman The ombudsman is the watchdog for the banking industry and makes sure bank customers are treated fairly.

The standards of the investigation are that the ombudsman acts with integrity, objectivity and fairness when probing a complaint When the customer has made his or her complaint in writing, the ombudsman asks the bank to explain its conduct Each side in the dispute puts his or her case before the ombudsman The ombudsman acts as mediator and "judge", attempting to make a settlement If that fails a recommendation will be made to the bank

Any customer who has a problem with the bank's services or products can contact the ombudsman Problems with mortgage bonds; bank statements, ATM or card complaints; deceased estates, investment advice, bank suretyships and many other matters are handled by the ombudsman

There are a few areas in banking where the ombudsman cannot assist These are complaints about business or commercial decisions made by banks These include decisions about whether or not to grant credit to a customer, how much credit is granted and increases in interest rates and bank charges.

However, once these decisions are made and there are deviations from the agreement or maladministration of the account, the ombudsman can intervene

If a bank wishes to raise interest rates on home loans the ombudsman cannot interfere but once the bank decides what interest rate is applicable to a customer's account, it may not charge more than the agreed percentage

If it does, the ombudsman has the right to intervene. If a complaint relates to a matter older than four years, the ombudsman may refuse to investigate the matter because bank records may not be available.

Before the establishment of the ombudsman's office, the person in the street could do little to protect his or her rights when dealing with a bank because of the legal costs involved.

The situation has changed now, because anyone with a complaint that falls within the ombudsman's jurisdiction can ask for help or advice from the ombudsman

This does not mean that banks are not doing anything to improve their internal dispute-resolving procedures. A new banking code is being drafted that will outline what banks have to do to ensure fair treatment of its customers.

Bank customers should do all that they can to protect themselves, especially as regards ATM cards, and should understand any instructions provided by the bank Many people ask the ombudsman for assistance when money has been withdrawn from their account at an ATM without their knowledge. These people say that no one knows their personal identity number (PIN)

But family members or friends are often the culprits because they have discovered the secret place where the PIN and card are kept.

All complaints must be made on the ombudsman's application for assistance form and it can be posted or faxed to anyone who requests it. It can also be completed at the office

Complaints may take up eight months to be investigated and resolved, so complainants must be patient

While the ombudsman investigates a complaint the bank usually suspends any further legal action

Before making a complaint to the ombudsman, it is important that the customer approach the bank to ask it to resolve the problem

The ombudsman is at. 3rd Floor ,17 Harrison Street, Johannesburg Tel (011) 838-0035 Fax (011) 838-0043.

Sowetan 3/8/99

(58) FM 6/8/99

FORCED CHANGE BRINGS PAIN

But customers reap the benefits as interest rates start to drop and product ranges are expanded

The painful impact of regulatory changes, bad publicity and competition is starting to show in the microlending industry

Theta, long the market leader and favourite in the sector, has seen a slowdown over the past few months in lending to groups (companies or government, as opposed to individuals). This market makes up half its R3,2bn book It has also experienced a market rerating from its heyday and the share price has recovered only limply after taking a knock in March

It's not alone Thuthukani's share price is still languishing at a third of its listing price and CEO Johan Howell is wondering why investors were willing to pay R1 for his story at listing but only 32c five months later He says "it's a much better company, has better income streams and is much better managed now"

There's scepticism about whether the sector will be able to deliver the kind of returns achieved in the past Microlenders will be much more stiffly regulated when the Micro Finance Regulatory Council is up and running; they are now subject to interest-rate ceilings where they used to charge whatever they wanted (See *Economic Viewpoint* July 30.)

The work has begun and there's evidence that the industry is becoming a mature, better-regulated one ready to take the interests of the customer more seriously.

Prospects of stricter regulation haven't deterred determined newcomers Euphoria about this industry has encouraged a spate of new listings, including Unifer, Money Wise, ABC Plus and Thuthukani

And investors expect competition to grow in the "respectable" side of the industry — the players who offer employed people bigger loans for longer periods — if microlenders migrate away from offering less lucrative pay-day cash loans

Theta managing shareholder Chris Wood acknowledges competition is growing "The easy parts are going to be penetrated first by competitors. The maturing of the industry means we're going to have to run and work harder"

Listed microlenders are expanding product ranges, bringing down interest rates and moving into new, relatively unexploited areas of the market

MAPPING OUT MICROLENDING

That was then:
Size: Trade & industry estimates there are 30 000 microlenders with combined turnover of R6,5bn-R8,5bn
Cost: Interest rates of up to 45% a month
Getting payback: Lenders hold pin codes, bank cards and identity documents to ensure payment
Reaction: Finance Minister Trevor Manuel slams loan sharks (Feb '99) – Microlenders put under the Parliamentary spotlight (Mar '99)

This is now:
The law: Usury Act revised to increase ceiling to R10 000 from R6 000 and interest rate limit set at 10 times prime rate (May '99)
The regulators: Micro Finance Regulatory Council formally approved (July '99)
The new way: Retail banks give go-ahead to microlenders to develop a preferred debit order system to replace old pin code system (Aug '99) – Industry interest rates on longer-term loans fall to between 75% to 80% a year including all fees

The second-largest microlender, Unibank, seems unfazed by the industry pressure. It reports a doubling in volumes during the past four months MD Gerrit van der Merwe says there's been strong demand for "nuisance finance" between R2 000 and R4 000, but he's not expecting this growth to go on indefinitely and says microlenders need to cross-sell other products if they want to survive

Unibank plans to offer Visa debit and credit cards to clients this month It's also launching low-cost housing products paid off by payroll debit and "attractive" second-hand vehicle finance soon

The deal concluded this week with Liberty — it takes a 7% interest in holding company Unifer — will give Unibank access to Chartered Life Insurance products

Theta's restructuring has involved the integration of its three microlending operations into African Bank The bank plans to offer a "suite of products" to clients, such as overdrafts or top-up structured finance

Wood says African Bank also wants to set up a direct debit to guarantee payment by deducting the instalment immediately off the salary account if the client isn't part of a payroll-deduction scheme Guaranteed payment is an issue the entire industry is confronting since government outlawed access to PIN codes and bank cards

Microlenders may find a solution within months after making a breakthrough last week The big retail banks have agreed to explore ways of setting up preferred debits on customer bank accounts

Microlenders envisage a pre-agreed microloan instalment for the lender when the client's salary is paid into a bank account The preferred debit would remain on the account until the loan was repaid.

Howell explains "There's been a lot of talk but nobody's come up with the perfect solution to get away from the PIN code For the first time, the banks have said they're prepared to give the microlending associations access to the Bankserv system. There'll probably be a solution on the table within three months"

Howell is comfortable that Thuthukani will see high growth in its cash loans market segment within the constraints of the revised Usury Act There are 69 owner-managed offices The holding company has an average 60% stake in the national outlets and offers IT and S&P's support in an arm's-length relationship

"The businesses are doing well," says Howell. "We're comfortable with what we can get out of the business and happy that, though we won't get as high returns as before, they'll still be good" He says regulation is part of industry consolidation and, as long as cost structures are lowered, there's an opportunity to bring in big volumes of business.

Venture capital company ABC Plus and development capital group Money Wise get most of their business from pay-day loans.

Knysna-based microlender Money Wise has 60% of its R55m book in short-term loans and the rest in payroll-based lending MD Gerhard Naude wants to turn around the ratio but emphasises that there's a "strong need and demand" for small cash loans

Money Wise has developed a guaranteed-payment system It uses an unnamed third party to implement real-time debits with three of the major banks for the 107 wholly owned and 181 franchise branches

But most established market participants are eager to get a large chunk of the less risky payroll term loan business because, with regular income earners as clients, bad debts are likely to be lower Obviously, future growth depends on the potential size of the unexploited payroll market.

Microlenders have been lending to the government and parastatals for years Unibank's Van der Merwe estimates about 70% of the public-sector market has already been serviced The biggest potential, he says, lies in the private sector, where microlenders are targeting big corporations and smaller enterprises.

Thuthukani has signed an exclusive five-year agreement with the National Congress of SA Trade Unions (Nactu), giving it a valuable launching pad into the private-sector arena Money Wise's Naude is in negotiations with a few "blue chip" groups.

"We're comfortable that, though we won't get as high returns as before, they'll still be good"
Johan Howell

Wood agrees growth in government-sector microlending will slow down and be substituted by the private sector, where companies' reluctance to be tied into payroll lending schemes is being overcome by employees' demanding the service.

But he doesn't expect growth in volumes to be 180% anymore — "it's more likely to be about 40%" Even so, Wood is confident the group will meet forecast earnings growth of nearly 100%, from 48c to 92c for the full financial year

He says there are some markets that won't be easily penetrated by competitors "The payroll is a strong risk-management tool but if you structure a loan differently, use credit scoring and build up a relationship, the potential market becomes a lot bigger than before"

He uses the group's investment in Credit Indemnity, through a 70% holding in Nisela, as an example. It's a business offering six-month to one-year loans to 260 000 people and is the only company that lends into this market segment where there is no payroll or direct debit reduction

Theta has certain clear competitive advantages. a banking licence to access cheap money and a knowledge of the market it has been serving for years It will need them.

Interest rates have already fallen to about 80% (including annual interest rate, management and administration fees) on payroll term loans and they're expected to drop further The heat is on **Sharon Wood**

Tito takes his stand as a firm, prudent governor

ST(BT) 8/8/99 (58)

The new Reserve Bank chief says the Bank's independence is beyond question, writes ANDREW GILL

RESERVE Bank governor Tito Mboweni says he will follow a sound and prudent monetary policy in his tenure as head of the Bank

He says fears that the institution's independence is under threat are misplaced.

"For me the independence question is a dead issue," Mboweni, who took over from Chris Stals this weekend, told Business Times.

"I am very clear about what my job is That is why I accepted it. I am very clear about what the constitutional requirements are: that the central bank is an independent institution and should operate as such The political leadership in this country is very clear on this."

In a wide-ranging interview, Mboweni said he was determined to move away from "eclectic" approaches to monetary policy and entrench a system with a solid monetary policy foundation.

"Here in the bank, all of us said we must get rid of this thing called the eclectic approach, which means a situation where you don't have to know what you want to do. The consensus here among senior bankers is that we must get rid of it and have a clear anchor for policy."

Exactly what that anchor will be is expected to be announced on August 24 when Mboweni makes his inaugural governor's address, but the most likely course is inflation-targeting, where monetary policy is dedicated to achieving a certain inflation rate. He also mentioned the idea of a currency board, but this is seen as unlikely by most commentators.

"We can start inflation-targeting anytime. Most people started when inflation was very low. I think there are many benefits of inflation-targeting. One is it clarifies the policy stance very well and it clarifies the role of the different agencies. It makes the job of the Reserve Bank much clearer and much easier, but so does a currency board," Mboweni said.

Inflation-targeting went much further than monetary policy, he said. Business, labour and government would all have roles to play, and needed to be consulted about the implications of such policy.

"Inflation pressures affect the economy as a whole. It will help in achieving targets if all the players play their roles. If they don't then we end up with a burden on monetary policy."

He said that if inflation targeting was followed, discussions would be held with the unions to avoid the conflict that arose from the implementation of the government's Growth, Employment and Redistribution strategy.

"We are not going to dish out surprises If we spend 20 hours or more discussing the issue with business and labour, that is worth more than 100 years of conflict."

Until a new policy was decided, he said the current informal inflation target of 2%-5% would remain.

Earlier this week Finance Minister Trevor Manuel said he expected inflation targeting to be introduced in the first quarter of next year.

Mboweni said there was a need for co-ordination in economic policy, although no formal discussion with relevant parties had yet taken place.

"If there is one thing that is important in macro-economic management it is co-ordination, and that doesn't mean that things have to be identical and there are no problems," Mboweni said.

He is considering the possibility of discussing with parastatals the timing of their import programmes, an issue that came to the fore last year when Telkom and SAA imported heavily and contributed to short-term balance of payments problems "I would hope there would be some kind of co-ordination between the Bank, Trade and Industry, Finance, and the rest. How exactly that comes out is a matter of discussion."

'I am very clear about what my job is. I am very clear about what the constitutional requirements are'

Mboweni said labour legislation, much of which he created when he was Labour Minister, was not inflexible despite perceptions among some investors and commentators to the contrary. "There is nothing wrong with the labour legislation. The perceptions are wrong"

Another change in the Reserve Bank likely in Mboweni's reign is its role in the economic policy debate.

He said the Bank's job was not to comment on all economic issues, but rather to concentrate on monetary policy. "We are not the economic supremos here. Our monetary policy is very clear. One of the things I am determined to do, and I hope the Finance Minister will play ball, is not to comment on matters which have to do with the Finance Minister, and he musn't comment on monetary policy."

Mboweni says his policy speech on August 24 will address the issue of the heavily oversold foreign exchange forward book, which the market cites as a major concern.

"We will have something to say about the forward book which will not be different to what people have been saying We must reduce it, because for as long as it remains as is, it is an albatross around our necks."

He said he was not going to start a war with currency speculators, who were blamed for much of last year's emerging market crisis which sparked rand weakness. "When you as a country decide you are going to be part of globalisation, the free movement of capital, money and investment, you must know there are people who want to participate in your market to make money."

But he said there were ways of reducing their ability to take advantage "and throwing money at them is certainly not one of them."

Proposed insurance bill too onerous

BD 10/8/99

Linda Ensor (58)

CAPE TOWN — Players in the short and long term insurance industries have expressed concern that the cost of complying with proposed legislation to regulate the market conduct of intermediaries will be too onerous.

The Life Offices Association has warned that the costs involved could prove a disincentive for intermediaries to sell insurance to the low-income market.

However, the Financial Services Board, which is going through the numerous submissions on the Financial Advisors Bill says it believes that the compliance system has to be maintained.

Board research head Franso van Zyl says that while the bill has been earmarked for Parliament's legislative programme for this year, the need for redrafting and further consultation with the industries might make it impossible to meet this target.

The bill provides for consumer protection by demanding greater transparency and better quality of advice, as well as for a complaints and compliance system.

It also requires brokers to register with a central licensing authority and to undergo a biannual audit by independent auditors — a costly matter for a small broker.

The bill also makes mandatory a complex system of keeping records of transactions that will impose a heavy administrative burden on smaller intermediaries.

Van Zyl says that any system of regulation involves costs. The aim would not be to put intermediaries out of business and the bill would therefore be phased in. However, intermediaries would be required to meet "fit and proper" standards regarding competency, integrity and financial soundness.

The principle of regulation to protect the consumer and rid the industry of undesirable elements has, however, been welcomed by most players.

The SA Financial Services Intermediaries Association (Safsia — which incorporates the old SA Insurance Brokers Association) supports the idea of intermediaries having to have a licence to operate but because of the cost of compliance, the association has proposed that the process be complaints-driven. A record could be kept of complaints against an intermediary and action taken against him.

It insists that credit life insurers be included in the legislation as some of the worst abuses, it says, take place in cases where credit life insurance is taken out for hire purchase goods.

The SA Insurance Association has proposed that instead of a uniform approach the treatment of the long-term and short-term industries be differentiated otherwise short-term insurers, especially direct insurers, would be faced with onerous conditions.

For its part, the life association argued in its submission to the board that prudential regulation and market conduct regulation should be dealt with separately and that the bill should only deal with the latter.

It also said it was in favour of low intensity, low-cost regulation coupled with a complaints-driven system, noting that a compliance-driven system would entail a costly bureaucracy that ultimately would have to be financed by the consumer.

The life association urged that the proposals on supervising compliance be drastically reduced, giving the ombudsman a greater role in dealing with complaints.

The additional costs of the proposed "penal" supervisory system could potentially make some products unaffordable or cause small brokerages to go out of business.

A further concern was that the bill could result in lower income groups no longer being serviced because it would not be profitable for financial advisers to operate in low-premium markets that require high volumes to be affordable and profitable.

The life association asserted that higher premiums could put insurance outside the reach of most clients in the lower-income market or force traditional suppliers, for example of group schemes, to withdraw.

Most group scheme operators have extremely thin margins. The minimum monthly premium per benefit is sometimes as low as R20. Up to 80% of the business can be pure insurance cover for sums assured of R5 000 to R10 000.

Confidence could be undermined, warns insurance ombudsman

Watchdog defends autonomy

ET(BR) 12/8/99 (58)

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg – The ombudsman for short-term insurance yesterday delivered one of his strongest messages yet in defence of its continued independence from government control.

The office of the ombudsman was established in 1985 as an independent and impartial body appointed to serve consumers and the insurance industry by resolving disputes arising from personal lines policies. It does not normally intervene in disputes related to commercial policies.

Speaking at the release of the annual report for the year to December 31, Michael Bennett, the ombudsman, said: "If we move to a statutory ombudsman under government control we can never obtain the same degree of confidence from the insurance industry as has been achieved to date.

"We should not allow what has already been built up over a number of years to disappear."

But Bennett supported government plans to ensure the controlling body embraced a broader constituency than insurance industry members.

He would stay on beyond his scheduled year-end retirement date to ensure the independence of the ombudsman.

His comments coincided with confirmation that all members of the South African Insurance Association conducting personal lines business had voluntarily agreed to accept the ombudsman's formal recommendations.

But Bennett said that as a result of the close relationship his office had with the short-term industry, the trust in which it was held by short-term insurers and its independence, there had only been "three or four" occasions in thousands of complaints where he had had to make a formal recommendation.

The ombudsman received a total of 1 819 formal complaints in 1998, finalised 1 773 during the period and had 1 336 complaints pending at the end of the year. Of the complaints outstanding at year-end, 52 related to years prior to 1996, 294 to 1997 and the rest were received last year.

Complaints received have more than doubled since 1993, but increased only slightly on last year. Bennett said the figure for this year could reach 2 000.

The ombudsman's success ratio in dealing with complaints rose from 27,5 percent in 1997 to 28,5 percent in 1998, but progress was hampered by complainants not responding to requests for further information.

A successful complaint is one in which there is a financial benefit to the complainant as a result of his application.

Bennett said: "The type and nature of complaints have not changed much. It seems that complaints against brokers alone are still a comparatively small percentage. However, it must be appreciated that a very substantial number of complaints target both the insurer and the broker."

In this light, he said he was keen to "get closer" to South Africa's two insurance brokers' association.

An ombudsman's handbook was being prepared, Bennett said.

More than 1 000 gun owners marched to the parliamentary gates in Cape Town yesterday to protest against government's plan to introduce new gun control laws. The marchers handed a petition to a representative of the safety and security department. Picture: TYRONE ARTHUR

Issue of ombudsmen debated

BD 12/8/99 (118)

Pat Sidley

THE Financial Services Board (FSB) is circulating for comment proposals on financial services ombudsmen and how they should operate.

A paper on the FSB's website offers proposals on the future constitution, and the role and function of ombudsmen in the financial services sector. Raised in the paper is whether or not such ombudsmen should be statutory.

Of four industry ombudsmen at present, three are voluntary and one, the pension funds adjudicator, has been created by statute. The paper includes a proposal for a fifth ombudsman in the brokering industry.

Among the points raised is whether or not ombudsmen should receive statutory backing to force all financial service product providers and financial advisers to take part in such a scheme, and how to ensure that rulings are binding on the parties involved.

This raised several legal problems. To cope with some of the problems, one of the proposals is a system of exemptions for voluntary schemes which meet certain criteria.

The paper says the need for an ombudsman in the financial sector "derives from the desire to provide the consumers of financial products with a dispute resolution mechanism that is easily accessible, informal, quick, affordable and effective, without affecting the right of the consumer to enforce his claims in a court of law ..."

The paper proposes the statutory creation of an ombudsman for each sector of the financial services industry, with rules on how it is to be established, funded and how ombudsmen are appointed. Participation would be compulsory for product suppliers and financial advisers.

Exemptions for voluntary schemes would depend on several minimum criteria. Among them would be:

- The ombudsman would be appointed by an independent body;
- Rulings would be binding on product suppliers who subscribe to the scheme;
- A significant majority of product suppliers should belong to the scheme; and
- Funding should be done in a way that preserves the independence of the scheme.

Unlike the UK, which has established a single ombudsman to replace eight ombudsmen in the financial services industry, the paper recommends one ombudsman for each sector of the industry, including, for instance, unit trusts.

The paper is likely to generate a great deal of debate, with several differing views within the industry and input from consumer groups. Comments should reach the FSB by September 30.

Meanwhile, SA Insurance Association (SAIA) deputy chairman Ronald Napier said yesterday the association was opposed to the notion of a statutory ombudsman for the industry. The issue of one or more statutory ombudsmen in the financial services industry has recently come under the spotlight and the insurance industry has previously expressed its opposition to the idea.

The ombudsman, Michael Bennett, said he supported the industry position. Napier said a statutory ombudsman would be "complicated and costly and provide no added value". Costs ultimately would be borne by the consumer, he said.

Insurers use all the 'legal' loopholes to avoid paying

ST (MT) 15/8/99

The industry Ombudsman's report reveals the tricks of the trade, writes DINA SEEGER

(58)

DON'T get hoodwinked by insurance companies which try every dirty trick in the book to avoid paying your claim when disaster strikes.

The Short-term Insurance Ombudsman, Michael Bennett, released his annual report for 1998 this week. The most common consumer complaints, the report reveals, are related to the 'legal' loopholes insurance companies use to turn down claims.

For example, many vehicle-theft policies insist you have an immobiliser for your car. But if you read the fine print in your policy document, you may find the insurance is only valid if you have a specifically coded immobiliser.

Most policyholders have not read the fine print in their contracts and don't know the circumstances under which their possessions are fully insured, says Lucy Boscia, professional assistant to the Ombudsman.

The clear message is that you must read your contract carefully and comply with all the insurer's requirements or your policy won't be worth the paper it's printed on.

Boscia highlights some of the common consumer complaints which the Ombudsman deals with, and how insurers get out of paying the claims.

Car Insurance

Over a third of all complaints to the Ombudsman last year related to car insurance claims.

An oft-heard dispute relates to a policy clause which states that the policyholder "maintain the vehicle in a roadworthy condition". It's a clause that allows for multiple loopholes.

For instance, the Ombudsman investigated a claim where a driver crashed into the policyholder's parked car. The insurer had repudiated the claim because the policyholder's car had one tyre with insufficient tread — even though the bald tyre had nothing to do with the accident claim.

Another common complaint to the Ombudsman is from policyholders who have insured their cars for private use (to get the lower premiums). But when it comes to the crunch, some insurers won't pay for the damage because an investigation has shown that the policyholder used the car for a business errand several months prior to the accident.

Family car policies are another joker in the pack. The policy may only include your spouse — so check the small print before allowing your teenage son or daughter into the driver's seat.

"Consumers should be aware that blanket insurance cover doesn't exist," says Boscia.

Household Policies

These policies picked up the second-biggest slice of the complaints pie last year, totalling 17% of all disputes.

The most common complaint is against a policy clause which lets insurers squirm out of burglary claims.

Your household policy may insist that your windows have burglar guards. But if you have even one small window which is not protected, your insurance policy is worthless. And the insurer won't have to pay if you are burgled — even if the robbers entered your home through a protected window by breaking the burglar bars.

Homeowners' Policies

Just because you have homeowners' insurance does not mean your home is insured against all types of damage.

Boscia says the Ombudsman frequently hears complaints from policyholders who are shocked to find that their policies do not cover structural defects in their homes. Boscia explains that many policies only cover damage from lightening, fire and floods.

Travel Policies

If you buy your flight tickets on your credit card you get free travel insurance. But clients are never sent a policy document. Some travel policies only cover certain types of luggage — but how would you know that if you have not read the fine print in the policy. "Insist on a policy document and read it carefully," advises Boscia.

Personal Accident

These policies notched up 12% of the complaints received by the Ombudsman last year. Most complainants had been blissfully unaware that their insurance did not cover illness or hazardous activities (like mountain climbing).

Cellphones

Cellphone insurance is being snapped up by users who fear their phone will be lost or — more likely — stolen. But read the small print in your policy: most policies only pay out claims if the phone was lost or stolen while it was "on your person". Since most phones are stolen from restaurant tables, handbags and desk drawers, the insurance is nullified.

Brokers

Insurance brokers often find themselves in the middle of disputes. Boscia says the most frequent complaints occur when the broker delays handing over the premium to the insurance company and the policyholder needs to claim — thinking they are already insured.

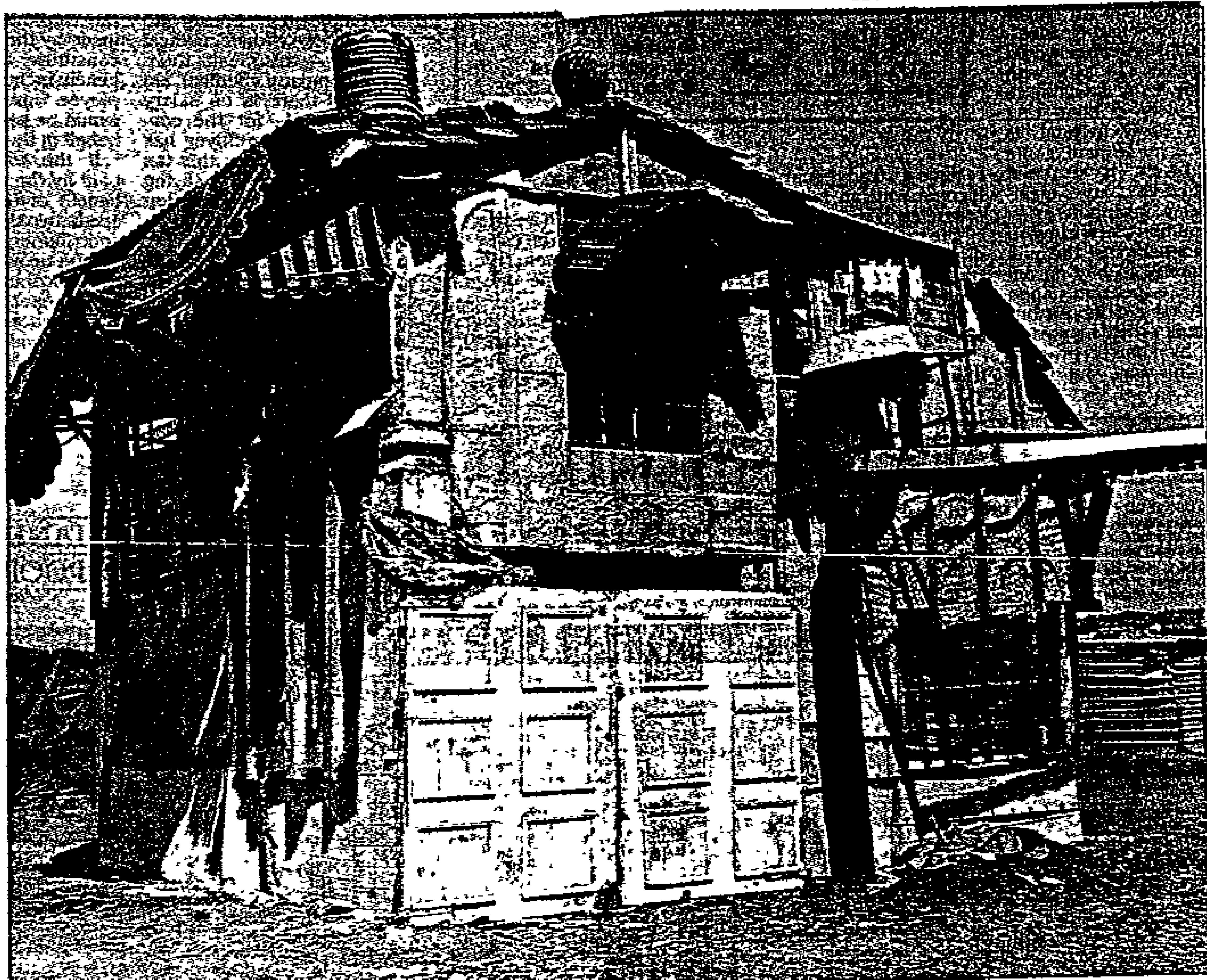
Another common complaint is when the lazy broker does not notify the consumer of changes to their policy — like the requirement for a specific car immobiliser.

The Ombudsman pinpoints the problem facing both the insurers and consumers: most policyholders don't understand the basic rules of insurance.

To tackle this issue, Bennett is putting together a handbook which will explain some of the concepts and principles of insurance in simple terms. He says the booklet, which will be available from insurance companies and brokers, should be published and distributed before the end of this year.

■ If you have a complaint against your insurance company, write to the Short-term Insurance Ombudsman at Box 30619, Braamfontein, 2017.

If you're unsure of how to put a complaint together, go to the website and download an "application for assistance". The Internet address is www.fsb.co.za/ombudsman/omassist.htm



YOUR HOME IS YOUR CASTLE: But beware — you might not be as fully insured as you think you are

Huffing and puffing over the Financial Advisers Bill

LEGISLATION

By LEIGH ROBERTS

THE Financial Services Board (FSB) has received "an abundance of comments" on the controversial Bill governing financial advisers. But while the criticisms may delay the new legislation until late next year, they certainly aren't going to stop it.

The Financial Advisers Bill was released for public comment in April. The Bill is the first piece of legislation to govern the behaviour of financial advisers and to provide protection for their clients.

The FSB is now in the process of analysing the comments. Their next task will be to redraft the Bill to incorporate the valid criticism.

Dr Franso van Zyl, head of research at the FSB, says he is hoping the re-drafted Bill will be ready for Parliament this year, but this could be delayed if the amendments are extensive enough to warrant sending the Bill out for public comment for a second time.

Van Zyl says they received much comment in favour of the Bill, but some parties criticised it for not going far enough.

An aspect of the Bill which has had many financial advisers up in arms is the extra cost they will incur in complying with the Bill's regulations.

Van Zyl says the FSB will try to reduce these costs while still achieving the objective of consumer protection. For instance, the requirement of an external audit on the adviser's records will be cut from twice to once a year.

Van Zyl says the FSB is unlikely to deviate from a compliance-driven system of regulation.

The Bill's extensive disclosure requirements, particularly on the thorny issue of costs and commission, was also a focus of criticism. However, Van Zyl says disclosure of relevant information to the client will remain a cornerstone of the Bill.

"The client must know with whom he is dealing, what the financial product entails, and what the costs will be. How else can the client make an informed decision?"

Full disclosure of costs and commission is a worldwide trend, says Van Zyl, but not all industries in SA have joined up yet.

(58) ST(BT) 15/8/99

UNIT TRUSTS: NIB WEALTH CREATOR FUND

OBJECTIVE: To outperform the average of the funds in the sector, but with lower risk. The fund will hold up to 95% of assets in shares that track the NIB Lifetime Index. This is a customised equity index consisting of 90% financial and industrial, non-mining resource and real estate indices and 10% mining and resource index.

TARGET MARKET: Investors seeking capital growth and willing to accept the inevitable ups and downs of the stock market.

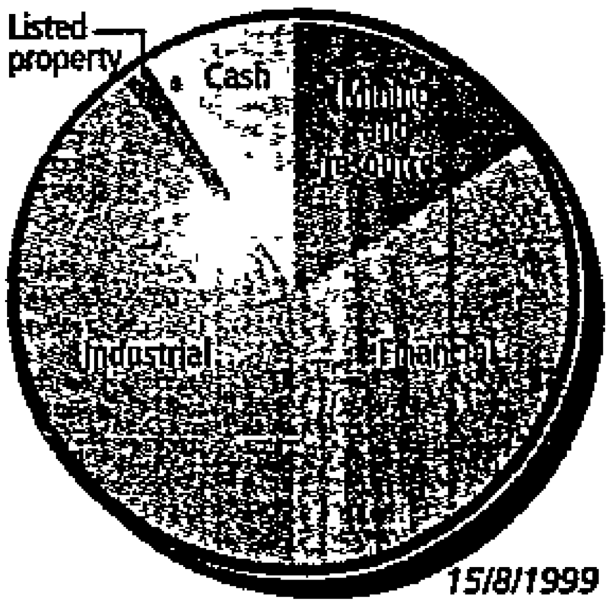
CHARGES (incl VAT): Initial: 5.53% (on a sliding scale). Compulsory: 0.65%. Annual service fee: 1.14%.

MINIMUM INVESTMENT: Lump sum: R2 500; monthly: R250.

PAST PERFORMANCE (per Micropal):
ONE YEAR
Fund: -1.4%
Inflation: 4.7%
JSE all-share index: 7.5%
Sector average: -9.5%
Performance is calculated on a sell-to-sell basis with income reinvested.

PAST TWO INCOME DISTRIBUTIONS: December 1998: 9.43c (19% interest; 81% dividend); June 1999. 10.09c (55% interest; 45% dividend).

This fund is in the **Domestic Equity — General Sector** It has 126 unitholders and assets of R56-million. Launched in July 1997, it is managed by Stephen Roberts for NIB Asset Management



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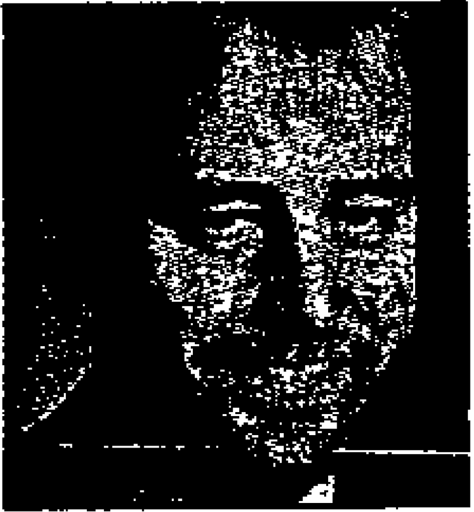


FACTS-BASED Stephen Roberts

TOP 10 HOLDINGS: Richemont, Old Mutual, SA Breweries, Anglo American, FirstRand, Sasol, Liberty, Nedcor, Standard Bank, Rembrandt Group

TOLL-FREE: 0800 22 8282

ABOUT THE FUND MANAGER

AGE: 41

QUALIFICATIONS: BA Hons

EXPERIENCE: Roberts has 14 years' investment experience — one year in the UK and 13 years with NIB (11 with the former UAL). He has managed the fund since inception.

INVESTMENT ATTITUDE: We look to exploit market opportunities through systematic application of processes rather than through intuition and judgement. In plain terms, we prefer to work with facts rather than feelings. This is in line with international trends, where investors are increasingly putting their money with tracker and consensus funds. These funds aim to replicate the performance of an index or a group of investors. It is widely accepted that the JSE all-share index is a poor performance benchmark because of the structural over-weighting of mining shares in the index. So NIB has rigorously researched the concept of a better market cap weighted benchmark — the NIB Lifetime Index has filled this requirement.

THE FUTURE: Our fund is passively managed and does not attempt to assess which share or sector will be the star performer in the coming months.

INDEPENDENT ASSESSMENT

This fund has performed well over the past 12 months relative to other funds in the sector because of its larger relative holding in large cap stocks. Also, resource stocks outperformed the all-share index in the second quarter of this year. The fund is fundamentally a tracker fund which tracks the NIB Lifetime Index. The fund has been favoured in this market cycle. However, the general view is that the local stock market is moving into an environment where stock pickers will outperform tracker funds and this may not bode well for the fund.

Compiled by Dina Seeger

Banks 'must care for rural clients'

Nicola Jenvey

DURBAN — Banks had to develop the same levels of confidence among their rural customers as they had with large corporates and respect the fact that the amounts saved by small clients were important to the saver, SA Reserve Bank deputy governor Tim Thahane said at the weekend.

Addressing the annual dinner of the Durban branch of the Institute of SA Bankers, Thahane said the challenge facing bankers today was to realise that banking remained a service industry based on confidence. Clients in rural and previously unbanked areas also expected respect when dealing with their local branches.

"Regardless of the amounts being saved, it is an important amount to the person concerned," he said.

He also urged banks to consider reward schemes for small clients in the same way that large account holders were thanked for their patronage by the banks.

Thahane warned the industry that education remained a focal point for moving into the future. This was particularly relevant for frontline staff dealing directly with clients' aspirations.

"People approach banks with their dreams, but as long as banks have personnel who cannot change unbankable ideas into bankable ones, there will always be mistrust of the industry," he said.

Although understanding the need for banks to scale down branches and replace people with automatic teller machines (ATMs) for everyday banking requirements, Thahane said SA still had too many people unable to read or write and with no comprehension of computers. These people needed to deal with other people, or their savings would remain outside the national economy.

Thahane said SA domestic savings rates were "very low" while the investment rate demanded to create new jobs was high. The country had to attract foreign direct investment. Foreigners were reluctant to investment in countries where locals were shy to invest.

Banks' risk assessment to toe the international line

CT (MR) 18/8/99 (58)

Lynda Loxton
Parliamentary Correspondent

Cape Town – The Reserve Bank's bank supervision department planned a wide range of changes this year to beef up the assessment of risk and respond to weaknesses in financial markets, Christo Wiese, the registrar of banks, said yesterday.

He said meetings were held with the banking industry on the changes. There was a general "meeting of minds that for us to remain internationally relevant, we have to keep in touch with best practice".

In his latest annual report, Wiese said the global crisis in the sector last year had been due to excessive speculation and the poor management of risks.

He said the role of banks had changed from rationing credit to marketing it.

"This change in culture has, however, tended to be coupled with neglect of the basic principle that banks are, in the final instance, the custodians of other people's money," he said.

To drum this home in South Africa, the department was amending the 1990 Banks Act to put it in line with international trends in supervision and control. This would be done in close consultation with such bodies as the Basle Committee on Bank Supervision.

It would also work closely with the Financial Services Board to improve the supervision of financial conglomerates, develop consolidated returns on capital adequacy and formulate consolidated capital requirements and large exposure and connected lending limits.

There would be an increased focus in the asset quality and market risk management of banks, including more emphasis on on-site supervision and joint on-site examinations with external auditors.

More attention would also be paid to the measurement and monitoring of operational risks such as banks' year 2000 preparedness.

Attention would be paid to possible reporting requirements for banks' scrip lending facilities – to monitor the build-up of risk arising from certain derivative activities – and to the monitoring of capital flows to assess banks' vulnerability to a sudden withdrawal of international funding.

Another possibility is the introduction of capital requirements for banks taking part in the JSE's Share Transactions Totally Electronic (Strate) system.

Kevin Daly, the general manager of the Banking Council of South Africa, said yesterday that South Africa's attempts to keep abreast with fast-changing international banking requirements were "highly rated".

Progress had been made on nearly all the points raised by Wiese after fairly extensive consultation with all parties concerned.

The ombudsman is there to help

(58) Sowetan 17/8/99

By Isaac Moledi
Money Matters Editor

IT appears that most of the complaints addressed to the ombudsman for short-term insurance relate to issues that are outside the scope of his jurisdiction

And, according to the annual report of the ombudsman for short-term insurance released last week, the majority of cases directed to the ombudsman could not be successfully resolved because of a lack of cooperation from the insurer or the insured

According to the report, the majority of consumers are not able to distinguish between long- and short-term insurance

This has led to the industry's ombudsman receiving correspondence not related to his office

The short-term insurance ombudsman Michael Bennett said last week at the launch of the report that, apart from formal complaints his office received last year, a very large number of letters and other forms of written inquiries were not related to the functions of his office.

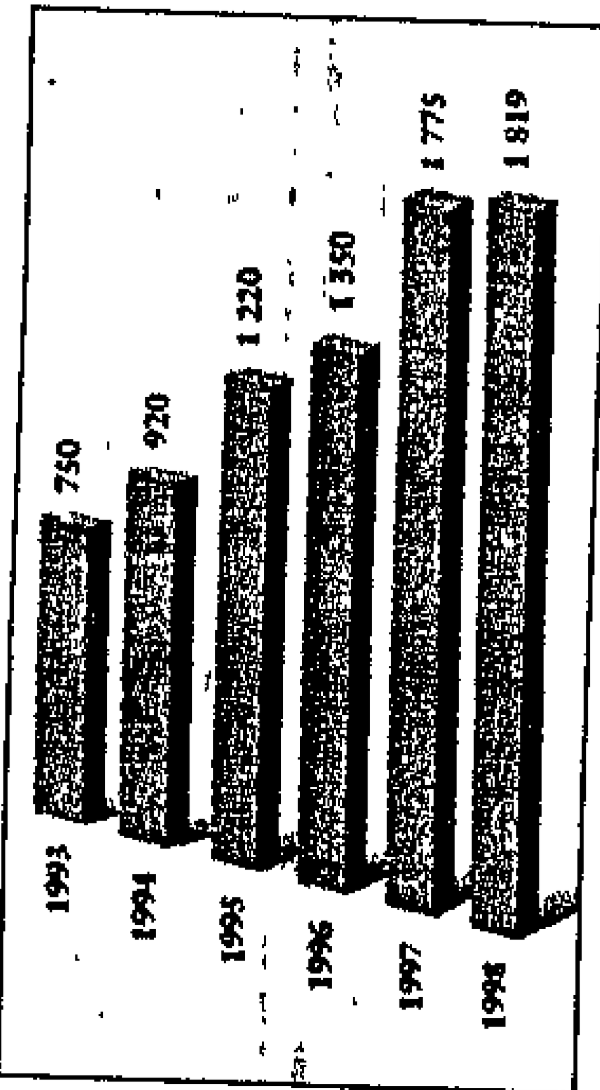
Complaints relating to pensions or banking are not referred to the short-term insurance ombudsman but to the pensions adjudicator and the banking ombudsman respectively, he said. Issues around short-term insurance include motor, householders' and houseowners' policies, personal accidents, disability, hospital and travel policies.

Although the success rate for the number of complaints that were resolved during 1998 had slightly increased (28,5 percent), compared with 27,5 percent for 1997, the report shows that 71,5 percent were not resolved.

This, the report says, is as a result of the complaint being misconceived, the formal complaint forms not being properly completed or returned to the ombudsman or the insured's failure to forward further information as requested by the ombudsman.

"A considerable number of the remaining cases unfortunately involved material disputes, of fact or expert opinion, or allegation of fraud or misrepresentation, and many of these had to end on the basis where the ombudsman was not in a position to decide where the truth lay between conflicting versions and therefore no recommendation could be made either way," says Bennett

Short-term insurance ombudsman Michael Bennett.



Increase in number of complaints.

Other cases involved applicants who have never been properly insured or at times where the broker or brokerage in question has disappeared or gone into liquidation

Bennett says in cases where, after very careful investigation and checking, it was found that there was no insurer involved, the matter was referred to the Financial Services Board to consider the possibilities of a criminal prosecution under the provisions of the Insurance Act as it then was

He emphasises the fact that all members of the South African Insurance Association have voluntarily agreed to accept his formal recommendations.

He says the procedure is always carried out where there is an insurer to correspond with, even though the complaint is primarily addressed to the broker

"It is often necessary for the ombudsman, in matters where it becomes clear there is no real complaint in law or equity against the insurer, to consider the possibility that there may be grounds for complaint against the broker," he says

What does the ombudsman for short-term insurance do?

The ombudsman, appointed by the industry to resolve disputes between members and consumers, receives and studies a complaint If it falls within his capacity, he will send the complainant an official notification to complete, sign and return with any relevant documents.

If the ombudsman cannot assist you officially, he will reply your letter by making some informal suggestions as to what you may do

- The application for assistance must be returned to the ombudsman completed and the ombudsman will give a formal notification that an official complaint has been received
- Each application is studied The response could take time because the ombudsman works on about eight applications a day (some of them complicated and lengthy)
- Once a file has been opened and studied in detail, the ombudsman or assistant will respond to the complaint You may be asked for further information or documents; told whether your complaint is sustainable or not; or whether the complaint has either legal or equitable grounds for approaching the insurer or broker in the matter The ombudsman may write formally to the insurer or broker setting out the complaint, and asking for comment and answers.
- Once the ombudsman has a complete reply from the insurer, you may receive correspondence setting out the insurer's or broker's comments and giving you an opportunity of dealing with the matter.

The ombudsman's address is 27 Stiemens Street, Braamfontein, Johannesburg, 2001 or fax (011) 339-7065

WITH regulation of financial advisers looming, the Financial Services Board (FSB) has invited comment on its proposal for the future constitution, role and function of ombudsmen in the financial services industry.

The FSB's head of research, Dr Fransc van Zyl, says the proposal follows consultations with those involved in the present ombudsmen arrangements.

"There are ombudsmen for life insurance, short-term insurance, banking and retirement funds," says van Zyl.

"The need for compulsory alternative dispute resolution was considered in the light of the pending regulation of financial advisers."

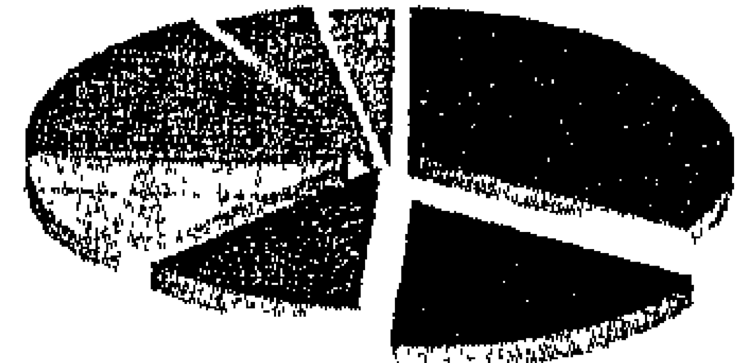
The document proposes the establishment by statute of ombudsmen for all financial service sectors, with compulsory participation, although provision will be made for recognition of current voluntary ombudsmen schemes.

Some of the other objectives of the proposal are to deal with the enforcement of decisions by the ombudsman as well as funding the offices of the ombudsmen.

The proposal is available on the FSB's website at www.fsb.co za (ombudsmen in the financial sector).

Comments on the proposal are to be submitted by not later than September 30 1999 to the Head: Legal and Policy, FSB, PO Box 35655, Menlo Park 0102. They may also be faxed to (012) 347-7622.

Inquiries may be directed to Dr van Zyl at (012) 428-8076 or Dr Elmarie de la Rey at (012) 428-8077. e-mail: carienb@fsb.co.za



Motor policies	36%	Brokers alone	15%
Householders' policies	17%	Travel policies	6%
Houseowners' policies	11%	Miscellaneous	3%
Personal accident, disability and hospital policies	12%		

Breakdown by type and nature of complaints.

Moneylenders must register or else

Sowetan 17/8/99 (58)

By Isaac Moledi
Money Matters Editor

ANY micro-financier who may think of putting off the decision to register with the Micro Finance Regulatory Council (MFRC) next month should think again.

The Department of Trade and Industry (DTI) has issued a stern warning to anyone in the business of lending money using the exemption from the Usury Act to register with the council or face the consequences.

The DTI's chief director Alan Hirsch says if recent threats of legal action by some moneylenders and their associations has created an impression that the regulation is not in force, it is a serious mistake.

"Unless and until a court finds the relevant regulation has no standing, it is in force and it will remain in force," he stresses. "Any moneylender using the exemption after September 15 must register with the MFRC and must comply with the rules of the MFRC and the Usury Act Exemption Notice Number 713 of June 1 1999," he says.

Anyone lending money under the conditions provided for in this Notice who is not a registered member of the MFRC will be acting illegally and will be dealt with accordingly, he adds.

Section 15A of the Usury Act provides that any moneylender who is not registered but is still in this business after September 15 can be fined up to R10 000 or 10 years in jail, or both.

Hirsch says the council's measure to act against those who do not adhere to the rules will be backed by action from the Government.

"The Department of Trade and Industry will use its National Inspectorate to act against illegal moneylenders and will approach the Asset Forfeiture Unit of the National Directorate of Prosecutions to enforce the regulation where possible," says Hirsch.

The MFRC aims to increase consumer protection from the exploitative nature of moneylenders.

"Anyone lending money who is not a registered member will be acting illegally"

It also aims to increase access to finance for the "unbanked" by creating an enabling environment for businesses to expand and attract greater capital into the market (including increased involvement from the formal banking sector).

In terms of the exemption notice published on June 1 this year, the loan size exempt from the Usury Act has been increased from R6 000 to R10 000, provided the lender is accredited by the MFRC.

Borrowers' confidential information obtained in the course of a moneylending transaction will not be disclosed without their consent Personal information such as pin codes and bank cards are not allowed to be used as security or collection arrangements. Consumers are not allowed to be made to sign blank documents.

According to the exemption notice, moneylenders are allowed to charge a maximum of 10 times the prime lending rate (that is 16,5% prime x 10). Where a consumer borrows more than R10 000, the prime doubles (about 31%).

Moneylenders' MFRC's membership certificates must be displayed in their offices at all times.

To register with the MFRC or if you want more information about the council, phone (011) 484-2123/8677 or toll free number 086 0100406, website: www.MFRC co.za

Banks uneasy over rules for debtors

BD 17/8/99 (56)

Proposals seen as encroaching on freedom, says registrar

Linda Ensor

CAPE TOWN — Banks have expressed unease over certain aspects of draft regulations issued by the registrar of banks which would prescribe how they make provisions for their bad debts.

According to registrar Christo Wiese, the banks see the proposals as encroaching on their freedom to conduct their business in the way they see fit.

However, Banking Council CEO Bob Tucker said in general terms the 250-page draft regulations met with the banks' approval.

The proposals stem from an in-depth review of the SA banking system undertaken by the International Monetary Fund (IMF) last year. The report highlighted the need for explicit and mandatory loan classification and loan provisioning rules on which the bank supervision department of the Reserve Bank has now acted.

The authorities have also acted on the recommendation for a deposit insurance scheme for small and unsophisticated depositors. Finance Minister Trevor Manuel has appointed consultants to work with the Bank to formulate proposals that will be presented to him in the next few months.

In terms of the proposals, deposits of up to R50 000 will be insured for up to 90% of the deposit in the event of a bank failure. This would be funded by banks according to an actuarial calculation, but ultimately the depositor would pay for the insurance by means of a discounted interest rate.

Wiese said an explicit insurance scheme would ease the responsibility of the Reserve Bank as the Bank would not have to concern itself with the fate of "widows and orphans", while large depositors had the means to care for themselves. It would also provide certainty for depositors.

In terms of the draft regulations, banks would also be required to subtract from their capital any cross-holdings they might have in insurance companies to prevent the double accounting of the capital. This already applies to cross-holdings between banks.

The regulations also proposed a hard 25% limit on their large exposures to conglomerates.

Regarding the proposed prescribed provisioning requirements, Wiese said that while the big banks would comply, there were certain banks whose existing provisions were inadequate.

He said he was opposed to prescribing a provisioning matrix on banks as over-regulation would rob the banks of the opportunity for innovative thought.

But Wiese said he had been persuaded by the IMF that this was international best practice.

At present SA banks are required only to submit their provisioning policy to the registrar of banks, who has to confirm it as prudent. There is no prescription.

In terms of the proposed regulations, a bank's loan book would be classified into five categories. A 100% provision would be made for loans that were certain losses, could not be collected and were overdue for a year.

FINANCIAL REFORM

(58) FM 20/8/99

NO HONEYMOON FOR TITO WHILE SIRENS BECKON FROM THE BANKS

Banking supervision looms as another political hot potato

While new Reserve Bank Governor Tito Mboweni served his year-long apprenticeship, important and sometimes controversial banking issues were left in limbo Now they are back on the agenda

The more urgent ones include legislative reforms to co-ordinate and rationalise supervision and regulation of financial markets (see illustration)

Mboweni is expected to announce at the Bank's annual general meeting next week which of the three deputy governors will assume responsibility for overseeing this area Recently appointed Gill Marcus is expected to inherit the responsibilities of former deputy governor Chris de Swardt.

As chairman of the Policy Board for Financial Services & Regulation, De Swardt was the link between the Bank and the Financial Services Board (FSB), which is responsible for nonbank financial institutions His brief within the Bank included banking supervision, run by Registrar Christo Wiese.

Marcus, who took responsibility for SA's crippled revenue collection activities two years ago and helped turn them into the smoothly run SA Revenue Services, will find a successful work-in-progress at the Bank and the FSB SA's well-established and sophisticated financial system is a sector of the economy that scores in international rankings, despite years of financial isolation

The World Economic Forum's competitiveness report for 1999, which puts SA's overall ranking at 47 out of 59 countries, ranks the financial regulatory structure and supervisory practice 19th, soundness of banks at 16, sophistication of financial markets at 14, bond markets at 11 and the stock market in ninth place.

The Bank and the FSB have made a series of reforms in response to the rapid changes in global financial markets that began early in the Eighties.

There are several initiatives to raise domestic standards which Marcus, if appointed to the board, would oversee.

The separation of banking supervision and the office of the Registrar of Banks from the Reserve Bank may be the first The issue of whether the Bank is the most appropriate agency to supervise the banking system has become a priority since the mergers of banks and stockbroking firms (universal banking) and of banks and life assurers (bancassurance) in recent years.

Merged companies are supervised by two agencies and operate under several Acts, including the Stock Exchanges Control Act, Financial Markets Control Act, Long-term Insurance Act and Banks Act.

There are valid arguments for placing banking supervision within the Bank: it is responsible for the national payments system, which is bound to the banking system; and, as lender of last resort, it should be responsible for avoiding a last resort situation But former Governor Chris Stals was not possessive about banking supervision. His perspective was moulded by the lifeboat operations to rescue Bankorp, a major bank, in 1991, and the small Cape Investment Bank (CIB) in the same year

Because of its size, the collapse of Bankorp would have affected many depositors, threatening the liquidity of the banking system and damaging confidence in the economy So an amount of more than R1bn was provided to tide the bank over the worst In the case of CIB, then Registrar of Banks Hennie van Greuning provided a R15,4m lifeboat by lending CIB R300m for 116 days at a rate of 1%/year, while accepting a deposit for the same amount at a 17,12% interest rate. The controversy was compounded when the Bank withdrew its R300m two weeks ahead of CIB's provisional liquidation. Both rescues have been subject to official inquiries and have generated countless media reports and much adverse comment.

Stals subsequently decided banking supervision distracted the Bank from its main responsibility — monetary policy Mboweni is like-minded. Shortly after his appointment, he spoke in favour of placing all financial market supervision and regulation under one umbrella

An issue related to plucking banking supervision from its comfort zone in the bosom of the lender of last resort is that of depositor protection. But this, too is controversial because protection for depositors also protects bank directors and managers who take unacceptable risks

Moreover, the concept has been met with resistance from large established banks because they would in effect be subsidising smaller, riskier rivals. But, if banking supervision were removed from the Bank's ambit, a measure of deposit insurance would almost certainly be introduced.

Removing supervision from the Bank would redefine Marcus's role — whether she stays with the Bank or moves to the FSB.

Some of the initiatives to bring banking supervision and regulation into line with all the 25 core principles of the Bank for International Settlements (BIS) have already been decided on

One is the size of "single exposure" — banks subscribing to the BIS core principles are not allowed to lend more than 25% of their capital to one borrower. In SA, the practice was unavoidable during the sanctions and exchange control era because there were so few corporate borrowers that local banks had no alternative But BIS exposure rules are to be implemented fully from 2002

Other likely legislative changes are listed in a recent report from Absa's economics department. The Stock Exchanges Control Act and the Financial Markets Control Act are to be merged, bringing together equity trading operations and the trading of other types of securities under one legislative umbrella. The Reserve Bank Act of 1989 may be rewritten and the Banks Act of 1990 could be streamlined to improve the way in which banks report their activities.

Several holes in the way SA's financial institutions operate need to be plugged, including inadequate disclosure in financial statements. Though a revision of JSE listing requirements in 1995 improved standards of corporate governance, disclosure and transparency requirements, there is no legal force to accounting standards approved by the industry body, the SA Institute of Chartered Accountants

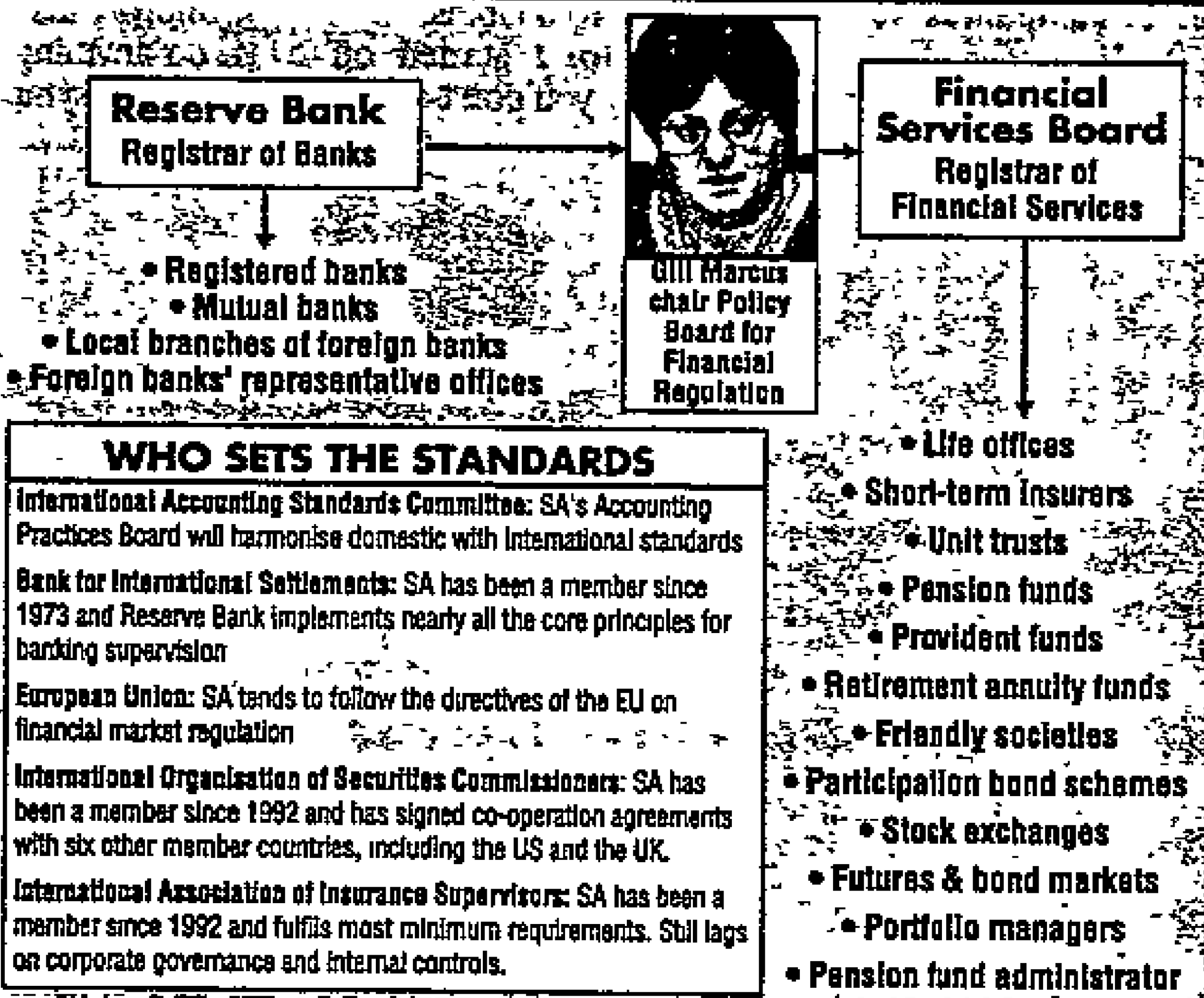
Also on the financial reform agenda is consolidated accounting for merged institutions When all the information appears in the same financial statements, financial institutions won't be able to double-count capital, using it as they may do now for more than one type of operation.

Globally, the adequacy of financial supervision and regulation is, of course, a moving target As fast as the authorities move, the market moves faster And there are constant changes in international standards which will keep the financial authorities busy once domestic standards are up to scratch

So, regulators will be rewriting the rulebooks and SA will have to follow as quickly as possible. There are few people better than Marcus to co-ordinate and oversee the process

Ethel Hazelhurst

WHERE MARCUS MIGHT FIT IN
Who looks after who



WHO SETS THE STANDARDS

International Accounting Standards Committee: SA's Accounting Practices Board will harmonise domestic with international standards

Bank for International Settlements: SA has been a member since 1973 and Reserve Bank implements nearly all the core principles for banking supervision

European Union: SA tends to follow the directives of the EU on financial market regulation

International Organisation of Securities Commissioners: SA has been a member since 1992 and has signed co-operation agreements with six other member countries, including the US and the UK

International Association of Insurance Supervisors: SA has been a member since 1992 and fulfils most minimum requirements. Still lags on corporate governance and internal controls.

SUN AIR

(332) FM 20/8/99

COSTLY DEATH OF AN AIRLINE

SAA's R25m taxpayers' gift

It's not surprising Sun Air is dead. Those who read the *FM* would have known it had problems, and why (*Economy & Business*, July 9). What is surprising is just how far gone Sun Air was at the end — and how national carrier SA Airways went about dealing with the situation.

SAA has assumed the role of benevolent godfather (or, perhaps, a central banker) in the mess, surprising many in the airline industry by deciding not only to buy a controlling stake in the insolvent carrier but, with the help of Sun Air shareholder Comair, to fly Sun Air ticketholders to their destinations for free.

SAA president Coleman Andrews says details of the arrangement have yet to be finalised, but that the cost of free tickets and a majority equity stake will amount to between R25m and R30m. A small part of it

Banks need tough codes

(58) BD 20/8/99

Ombudsman would like a lot more clout when it comes to settling disputes

Pat Sidley

BANKS should be bound by recommendations of the industry ombudsman when his office addresses customers' complaints.

This view has been submitted to the Banking Council by its ombudsman, Charl Cilliers, in his inaugural report covering his first 18 months in office. He has made several recommendations to the council to toughen his mandate and improve his ability to settle disputes equitably. In the 18 months under review, banks have had to pay out more than R1m to customers in settlement of disputes — one payout for bad advice totalled R300 000. However, banks are not bound by Cilliers's recommendations. He would not name the "offending" banks.

The report comes against a backdrop of public anger at the banking industry, and proposals put forward by the Financial Services Board to set up a statutory system of ombudsmen to settle disputes within the financial services industry. Unlike his counterparts in the insurance industry, who have both delivered reports this year and who have held office for several years, Cilliers faced aggressive questioning from journalists, reflecting the issues faced by the public.

Mortgage bond problems formed the largest component of complaints handled (about 19%), followed by ATM complaints at 13%. Of the ATM complaints, 19% were resolved in favour of the customers.

ATM customers in the UK and US are better protected by law and, in Britain, a tough banking code of conduct which ensures more redress in ATM disputes.

Cilliers has made recommendations to the council to toughen up its proposed code of banking practice. "Banks have said they will not be contractually bound by the terms of the code," he said.

The detailed report, reflecting a process of cajoling banks into adopting a more consumer-friendly approach to disputes, establishes a credible degree of independence for the new office.

Independence, or the perceived lack of it, has been an issue the ombudsman's office has had to face. As a consequence, the next ombudsman — who will be appointed when Cilliers retires — later this year, will be chosen after a careful process of selection by a panel of independent experts.

Your Money: see AfterHours

Banks pay R1-m to complaining customers

ARG 20/8/99 (58)

STAFF REPORTER

Johannesburg – Banking ombudsman Charl Cilliers says R1 067 550 has been paid to compensate customers by banks at fault.

He said yesterday at the publication of his first annual report that this followed investigations into 1 899 complaints lodged with his office about South African banks in the past 18 months.

In one case a bank had to pay about R300 000 to a customer because of bad investment advice it had given.

But more than half the complaints investigated by Mr Cilliers office were resolved in favour of the banks. Mr Cilliers refused to identify the banks that were found guilty.

He said that while he had the power to publicise the names of banks he would do so only if they did not abide by his recommendation on a case.

Complaints investigated by his office included mortgage bond problems, lost or stolen cheques, fraudulent cheque or saving withdrawals and issues around bad investment advice.

Complaints about automatic teller machines (ATMs) were common, he said, and in the past 18 months banks had had to compensate customers R45 343 because of bad ATM transactions.

Banks' role needs to change, says Erwin

CT (BR) 20/8/99 (58)

LYNDA LOXTON

Cape Town – Major institutional changes were needed in the financial sector to ensure that it met the growing needs of small and medium-sized enterprises, the portfolio committee on trade and industry heard yesterday.

During a briefing by Alec Erwin, the trade and industry minister, and Lindiwe Ngwane, his deputy, the committee was told that a total review of the regulations affecting financial institutions was being finalised to ensure that they played a greater role in the economy.

Erwin said that although Khula, the department's wholesale loan facility, provided risk guarantees of up to 85 percent on loans, banks were not making enough use of this. "The banks take all the good risks and give us all the bad ones," Erwin said.

"We are in negotiations to change this. There is something structurally wrong."

Increased investment in the small business sector was vital because although foreign investment had increased over the last few years, it was generally into sophisticated areas geared towards the international market which did not create many jobs.

Ngwane said the department was consulting various government departments about licensing, labour regulations, taxation and other issues affecting small businesses.

Erwin said a major issue was that the capital market was not working in favour of small business. Although banks were facing greater competition with the entry of international banks into the South African market, they also appeared to be cutting back on areas that needed the most attention and were the most difficult to deal with.

"They are cutting back on the small and medium enterprises because they are more risky and more costly," he said.

I'm not toothless, says ombudsman

(58) ARG 21/8/99

RICHARD STOVIN-BRADFORD
BANKING EDITOR

IMPARTIAL Charl Cilliers
PHOTO: [illegible]

Johannesburg – The banking ombudsman this week stressed his independence and impartiality and dispelled the notion that he was a "tame and toothless watchdog" when he released his inaugural report for the 18 months to April 30.

The ombudsman's office was set up in November 1997 by the Banking Council, which represents the interests of banks in South Africa, to facilitate the resolution of bank customers' problems and complaints, at no cost to complainants, in a fair, impartial, confidential and timely manner.

Its mission includes influencing the banking industry to improve services to customers.

Charl Cilliers, the ombudsman, said in his report: "I hope (it) will show that although I have been appointed by the Banking Council, I have jealously guarded my independence and impartiality and that banks have not been given preferential treatment."

To emphasise the point, Cilliers said he had recommended to the Banking Council that an independent commission be established to appoint future ombudsmen.

But, in his report, which came hot on the heels of that of the ombudsman for the short-term insurance industry released last week, Cilliers was not able to say his office had the buy-in of South Africa's banks.

His short-term insurance industry counterpart, Michael Bennett, said recently that all short-term insurers had agreed to abide by the recommendations of the insurance ombudsman.

Cilliers nevertheless hoped that once the Banking Council's code of banking conduct had been ratified by members of the council, banks would voluntarily agree to comply with it. In his report, Cilliers said while customers had welcomed the ombudsman, many bank executives had "approached the idea with caution".

Banks in South Africa had not previously been required to explain to an independent mediator why they had acted in a particular way.

He said some banks tended to treat the letters from the ombudsman as if they were from an attorney representing a client, but after explaining to the banks that the ombudsman was an independent and impartial mediator attempting to resolve a dispute fairly, this had improved.

Some of the problems experienced by bank customers stemmed from their lack of understanding of basic economic facts and bank procedures. Banks were partly to blame for this because they did not always communicate effectively, but banking consumers frequently displayed apathy in matters affecting their own interests.

More power to the banking ombudsman for you

(68) ARG 21/8/99

CHARLENE CLAYTON

The banking ombudsman's powers are to be beefed up to help you resolve problems with your bank.

In an announcement after the release of the ombudsman's first report this week, Bob Tucker, chief executive of the Banking Council, said it had been decided that the ombudsman could now make rulings as if he were a magistrate or judge, where there was certainty about the law.

In other cases he would make recommendations.

Members of the banking council would automatically subscribe to his jurisdiction.

It has also been decided that the ombudsman will be renamed the banking adjudicator.

And in order to ensure and protect the independence of the banking adjudicator, the council is to set up a commission whose task will be to appoint future adjudicators.

Previously the adjudicator was appointed by the council itself, which represents the major banks and almost all xthe smaller banks in South Africa.

The new commission will be chaired by a judge and will include representatives of consumer organisations, the banks, the Financial Services Board and the Public Protector's office.

The present ombudsman, Charl Cilliers, retires in September this year and a member of his staff will take up the position of acting banking adjudicator from October 1, until the commission has found the right person for the job.

Another measure which will strengthen the banking adjudicator's office is that he or she will be able to make binding rulings of amounts up to R500 000.

So far, the ombudsman has been able to recommend compensation of R100 000 or less – and his recommendations have not been binding on the banks.

Another big step forward for consumer protection is that the code of conduct for banks, which has been negotiated over two years, has been approved. It will take effect early next year to give the banks some time to prepare for its implementation.

More reports on page 3

Money-lenders urged to expedite registrations

(58) ARG 21/8/99

STAFF REPORTER

Money-lenders are urged by the newly appointed Micro Finance Regulatory Council not to leave their registration with this council to the last minute.

If they do, they can expect long and frustrating delays, Neville Zar, the chief executive officer of the council, says.

The council has been established in terms of an exemption to the Usury Act and is intended to safeguard the interests of lenders and borrowers.

Money-lenders have until September 15 to register with the council, Zar says, after which time they will be allowed to lend a maximum of R10 000 in one go, within the Usury Act interest rate limits of between 29 and 33 percent a year.

If they fail to comply with the act, they will be breaking the law and will be subject to its penalties.

Zar points out that the council requires sufficient time to review and process an application. This process, he says, will be severely hampered if there is a last-minute rush. So the earlier an application is received, the sooner it will be processed and the sooner lenders will obtain their registration certificates.

Lenders are required to display these certificates prominently in their business premises.

Zar says the council will, after September 15, be educating and advising consumers to borrow money only from those lenders who display their registration certificates.

You can demand to see a money-lender's council registration certificate before you borrow money, to ensure you will be treated in a fair manner and by someone who operates within the law.

Manuel fast-tracks Bill to stop money laundering

ST (BT) 22/8/99

FINANCIAL REGULATION

By HENRY LUDSKI

(58)

FINANCE Minister Trevor Manuel has moved to fast-track legislation to flush "dirty money" out of SA's monetary system — despite major differences with the financial sector over its implementation.

The Money Laundering Control Bill, due to go through Parliament in the current session, imposes a tough "know-your-client" regime on banks.

Such legislation, regarded by the international community as a crucial requirement for doing business, will bring SA financial institutions in line with international practice.

It will compel banks and other financial institutions to declare all transactions above a certain specified threshold and will be applied to about 18 types of financial services providers.

However, while the financial sectors support the broader legislative principles, the disagreement remains largely in the detail.

Stuart Grobler, general manager of the Banking Council, told Business Times that the disagreement went right down to what would meet the definition of a transaction.

The council had put the government under enormous pressure to introduce the legislation but disagreed with certain of the clauses.

It was important to reach consensus on the setting of reporting thresholds realistic enough for institutions to cope with and for government agencies to administer, he added.

Banks have major reservations about being required to report each foreign exchange transaction, and having to know the identity of each person performing a transaction.

Max Coleman, a member of a task group appointed by Manuel to come up with legislation both watertight and practical, said: 'There has been broad approval of the approach being suggested by government, but not necessary on the detail."

The money laundering legislation is regarded as yet another necessary weapon in the government's growing arsenal of laws to take on drug traffickers and crime syndicates that have exploited SA's lax laws.

Despite concerted pressure by the international banking community for SA to bring its policies into line with international practice, Manuel has taken the cautious road to avoid what has become a major domestic legislative pitfall — laws that are open to legal and constitutional challenge.

Repeated attempts to obtain comment from Manuel and his department have been unsuccessful.

However, this week Coleman confirmed that members of the task team would be meeting the minister tomorrow to discuss progress.

Ombudsman's bark puts the bite on banks in his first 18 months

(58)

LEIGH ROBERTS

Reviews the first report of the banking industry's watchdog

ST (BT) 22/8/99

THE banking ombudsman does not want to be seen as a "tame and toothless watchdog".

The present incumbent, Charl Cilliers, zealously espouses his independence despite his office's bills being paid by the Banking Council, the industry body.

The ombudsman has in the first 18 months of the existence of his office received 1 899 complaints from bank customers and has awarded the 1 233 successful complainants more than R1-million in compensation.

Nevertheless, the word "tame" creeps into mind when the ombudsman declines to reveal the names of banks who were involved in the cases.

Some may say, as he does, that it's not important. And, yes, it is true that none of the other ombudsmen in the financial services arena reveal names.

But this is the age of transparency — an ideal the Banking Council ironically aspires to.

Disclosure of names is doubly important in the light of other evasive comments made by the ombudsman at a media conference to launch his first report in Johannesburg this week.

One bank in particular, he said, drew complaints about its investment advice. And some banks were more prone to ATM problems than others.

The public would love to know more. And why shouldn't we be told the name of the bank that paid out R300 000 to a customer because of bad investment advice? (This was the largest payout.)

The issue of the ombudsman's independence gets more curious. During the after-media conference lunch, the CE of the Banking Council, Bob Tucker, jumped up and announced some far-reaching changes to the ombudsman's office. He decreed that, henceforth, the ombudsman was to be known as the banking adjudicator (to get the "man" out of ombudsman).

Further, he acceded to most of the changes formally requested by Cilliers — although they will take effect only in the middle of next year when the new Banking Code becomes effective.

Tucker said the adjudicator's rulings would be binding on banks — at present, they are recommendations to banks only. And the adjudicator can order claim payouts of up to R500 000 plus the incidental costs incurred by the complainant, and up to R2 500 for distress. Currently, the ombudsman's payout limit is R100 000.

The next incumbent, said Tucker, would not be chosen by the Banking Council but by the new Banking Adjudication Commission, which would have consumer and government representatives, and a minority of bankers.

It's been a tough 18 months for ombudsman Cilliers, who had to deal with some bad attitude from banks, which never before had to explain their actions to an outside party. (Before the ombudsman, complaints were handled by the CE of the Banking Council.)

But Tucker's changes should pull the banks more into line, together with changes the Financial Services Board is proposing to the current watchdog structure in the financial services industry.

Cilliers retires next month: the acting ombudsman is David John.

HOW TO REGISTER A COMPLAINT WITH THE BANKING OMBUDSMAN

1. Phone the ombudsman's office on (011) 838 0035 and ask for an "Application for Assistance" form to be mailed or faxed to you. This is necessary because a complaint must be in writing, and the form authorises the bank to furnish information that would otherwise be confidential. You can also go into the ombudsman's office and request assistance in completing the form. The office is on the 3rd floor, 17 Harrison Street, Johannesburg.
2. Fully and carefully complete the application form - don't forget to sign it.
3. Attach any documents that can assist the ombudsman in investigating your complaint.
4. Post your application to: The Banking Ombudsman, PO Box 5728, Johannesburg, 2000. Or fax to: (011) 838 0043.

The ombudsman offers a free service. He attempts to reach agreement with a bank to settle any dispute with a customer on the basis of law, good banking practice and fairness. The ombudsman can only deal with complaints from individuals and small businesses. The ombudsman cannot deal with complaints which concern commercial decisions by banks (for instance decisions relating to the granting of credit) and in cases where the complainant has already issued summons against the bank.

Currently, the ombudsman can recommend payouts of up to R100 000 to successful complainants. From the middle of the year, the ombudsman can order a bank to pay up to R500 000 for loss, plus any incidental expenses incurred by the complainant, and up to R2 500 as compensation for inconvenience and distress.

For more information on the banking ombudsman refer to this website: sunsite.wits.ac.za/bankingombudsman

ATM fraud: banks don't do enough

THE banks should do more to prevent theft at ATMs, says the banking ombudsman.

The ombudsman received hundreds of complaints from bank customers concerning ATMs. And yet only 19% of these complaints were resolved in the complainant's favour. The total payout was a paltry R45 343.

"There was little we could do to assist most complainants in this category who had compromised their PINs or had failed to cancel a card in time for loss to be prevented," says Charl Cilliers, the ombudsman.

Compromising a PIN means the cardholder allowed his or her PIN and card to be used by someone else. Unfortunately for the customer this often includes the thief who uses devious means to obtain the PIN and card.

Here's what Cilliers says banks should do:

- Amplify their warning notices to advise customers that if the ATM retains their card, the machine could be rigged and the card must be cancelled immediately.
- Put warning notices on all ATM screens advising customers not to key in their PIN before being prompted to do so by the machine.
- All the banks offer an all-hours emergency phone number which can be used to cancel lost, stolen or retained cards. But one bank conceded that at a certain time on a certain day, a customer had to wait half an hour before speaking to an operator.

Cilliers says banks should employ sufficient staff so customers don't have to wait for more than a few minutes. Banks know thieves who obtain cards use them almost immediately after stealing them, he says.

Banks rapped over the knuckles for unfair practice

THE banking public frequently displays apathy and a lack of concern in matters affecting their own interests, says banking omudsman Charl Cilliers. And a prime example of this is the failure of many customers to check their bank statements each month.

Apart from this, and the times banks make mistakes or act unfairly, the factors responsible for many complaints to Cilliers' office are crime, poor service, inefficiency, and lack of communication between bank and customer.

"Complainants sometimes express their helplessness and outrage at the lack of service, high-handedness or inefficiency of the banks," he says.

During the past 18 months Cilliers has taken the banks to task over many issues. Some of the matters are listed below.

Deposit slips

One of the large banks accepts cash deposits in a manner which the ombudsman calls "unfair". Bank tellers use only the account number written on the cash deposit slip to allocate the deposit (there is no check on whether the account-holder's name and the account number correspond).

If the depositor makes a mistake when writing the account number the money ends up in the wrong account — but the bank refuses to take responsibility. The bank has agreed to meet the ombudsman to discuss the problem.

Lost cheques

Last year, 173 000 cheques were lost while in the care of banks. The reasons are theft, fraud, hijacking or damage during processing.

Banks generally refuse to accept liability for lost cheques, saying that the depositor must request a replacement cheque from the drawer.

The ombudsman says depositors cannot be held to have accepted the risk of having the cheque lost by the bank. If the bank negligently lost the cheque it should be held liable for the loss to the depositor if a replacement cheque cannot be obtained.

Banks are quick to point out that the number of lost cheques is only a small percentage of the total issued. But in the UK and in Australia, lost cheques are a rarity!

Unchecked cheques

The ombudsman says banks do not check signatures on cheques under R5 000 to save time. "Banks which fail to examine cheques for forged signatures, unauthorised alterations or crossings should reimburse the drawer for any loss."

RD cheques

Some banks reverse the credit for an RD cheque (a cheque returned unpaid) months after it was deposited. And two major banks do not contact customers to notify them of RD cheques, unless special clearance has been requested.

The ombudsman says banks should undertake to clear cheques within a reasonable period and such period should be made known to customers. Further, the customer should be informed as soon as a cheque has been returned unpaid.

Confidentiality

Banks should not be entitled to use confidential customer information for marketing or other self-serving purposes without the express consent of customers, says the ombudsman. Banks have a duty to keep customers' financial affairs confidential, he says, and this should be breached only in the public interest.

The 'in duplum' rule

In terms of this rule, interest stops running when the unpaid interest equals the outstanding capital. This legal principle cannot be waived by the borrower or altered by banking practice. The ombudsman says he dealt with a bank that had no knowledge of this law (the bank then reduced the claim against its customer accordingly).

Mortgage bonds

Housing loans are the most common cause of complaint. Specifically, increases in interest rates, structural defects in the property, insurance and repossession.

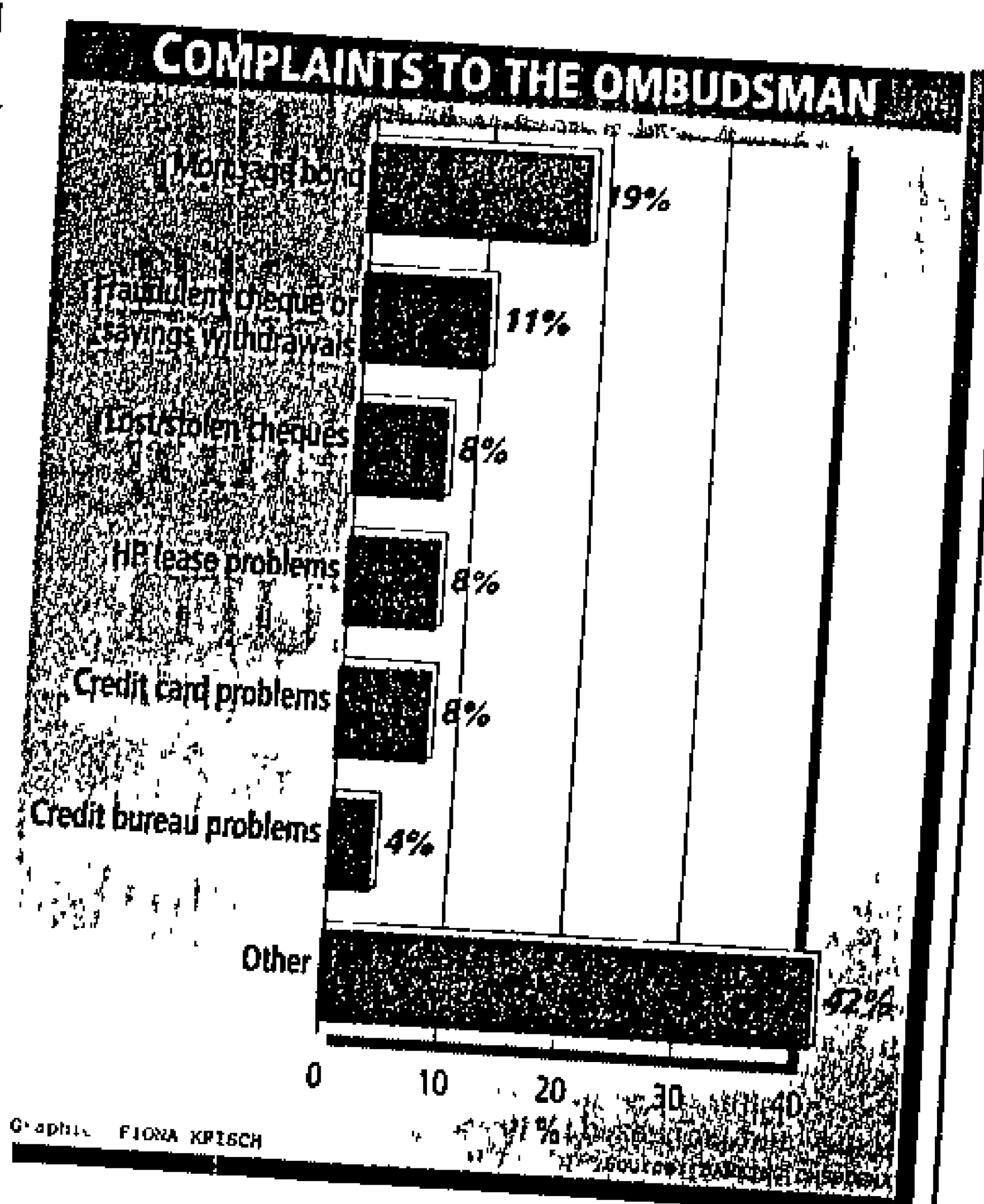
As interest rates are a commercial decision by the bank; the ombudsman cannot intervene except when there is an element of unfairness.

Homeowners blame the banks when structural defects in their property appear which they believe the bank's inspector should have picked up when approving the loan.

As the buyer pays the bank an inspection fee he thinks he has some assurance on the structural soundness of the property. The banks say this isn't the case.

Cilliers says a bank should inform the borrower that its inspectors are assessors only, and do not carry out a thorough examination.

On property insurance, Cilliers says where it is clearly stated in the bond agreement that the bank has the right to nominate the insurer, there is nothing he can do to allow borrowers to select their own insurer.



Graphic FIONA KRISCH

Repossessions

On occasion, bondholders who are about to be evicted from their homes for non-payment approach the ombudsman for assistance. But all the ombudsman can do is ask the bank to allow the occupants to remain in the house until new owners are found. Banks seldom refuse as it reduces the risk of the property being vandalised, says Cilliers.

Suretyships

Any individual giving surety for somebody else's loan should get independent legal advice — the ombudsman has many heart-rending stories to tell of long-forgotten sureties!

He has recommended to banks that they not take out unlimited suretyships on individuals. And also that any spouse signing a surety for the other, when the security involves the matrimonial home, be required to obtain independent legal advice.

Cheque fraud

Forgeries on cheques present a big problem and are rife. But it would be more difficult to alter cheques if customers used care when writing out their cheques, says the ombudsman. For example, figures reflecting the amount, as well as the words describing the amount, should not leave room for alteration. And when customers receive a new cheque book they should check that every cheque is in the book.

Leigh Roberts

30 000 TO REGISTER

Micro money-lenders in rush for deadline

CT 24/8/99 (58)

SMALL money-lending outfits have until September 15 to register their operations. Most members of the industry have welcomed coming regulation. **GUSTAV THIEL** reports.

THE Micro Finance Regulatory Council (MFRC) is currently holding workshops nationwide to educate the estimated 30 000 money lenders about new terms of the Usury Act which was recently passed.

Money-lenders have until September 15 to register with the MFRC to ensure they can qualify for exemption from the Usury Act.

Neville Zar, CEO of MFRC says money lenders who attended the first workshop, held in Cape Town yesterday, supported the fact that their R15 billion industry will be regulated.

"Regulation of the industry will go a long way towards ensuring its credibility, but we are faced with a complicated industry with a history that did not always inspire confidence," Zar says.

The MFRC was established last month in terms of an exemption to the Usury Act. Its main task will be to register all micro-lenders in the country and to ensure that these lenders stick to the R10 000 cap (limit) set on single lending transactions. Interest rates for these amounts are capped at 10 times the prime lending rate.

"There are numerous formal money lenders throughout South Africa, and if they all leave their registration to the last minute, applicants can expect long delays and a lengthy, frustrating wait" warned Zar.

Lenders who fail to register on time will be required to lend within the Usury Act's interest rate limits, which are between 29% and 33% per year.

"In the interests of both lender and borrower, the council will, after September 15, be educating and advising consumers to borrow money only from those lenders who display their registration certificates," Zar says.

He adds that money lenders expressed their unhappiness about at no longer being allowed to keep the ATM cards and pin numbers of borrowers.

"They feel this will complicate their job, but I am confident that when the industry is properly regulated, all parties will realise that the steps taken now is in the best interests of the industry.

"The tag 'loan shark' and the negative image of the industry will be eradicated by the new regulations," says Zar.

One of the biggest problems faced by the micro-lending industry in South Africa will be to balance the needs of the mainly white, Afrikaner lenders and the people who borrow money from them, who are mostly from previously disadvantaged communities.

Zar says that "although there is no need to over-politicise the issue, it is true to say that the lenders and borrowers come from different backgrounds".

He says this discrepancy will pose problems with the process of regulation of the industry, though he didn't elaborate or say what the problems will be.

Auditor-general urges re-evaluation

Road fund berated for lax controls

CT (PM) 27/8/99 (58)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town – The National Road Fund was yesterday taken to task by the auditor-general's office for its failure to keep a proper asset register, its poor accounting systems and continued heavy losses on its toll roads.

In a report tabled in parliament yesterday, the office said the rapid growth in losses on toll roads made it essential to re-evaluate whether they could be regarded as going concerns.

Toll road losses rose to R412,4 million in 1996-97 from R293,8 million in 1995-96, while the accumulated losses at March 31, 1997 stood at R1,6 billion compared with R1,2 billion the previous year, an increase of 33,7 percent. Only two of the 13 toll road projects made profits in 1996-97.

The report criticised the fund for not being able to maintain a proper register of fixed assets. It said the lack of a proper register created "uncertainty about the ownership of the land, which may result in material financial losses through illegal disposals, prescription and loss of rent".

The register of expropriated land was also incomplete and financial losses might be taking place because of inadequate record-keeping.

The report also questioned the administration of accounting systems in the fund and said it was not possible to confirm their accuracy. In one case, this meant that R140 million in accounts payable could not be verified, while the validity of an amount of R5,1 million, representing a credit against a bank account, could also not be verified.

There had also been discrepancies between the loan accounts of the transport department and the fund.

This amounted to R20,2 million at the end of March 1997 and was still being investigated.

The report said there had been a breakdown in control after the introduction of a new computerised system in 1996, mainly because of the shortage of technically qualified staff.

It also noted that a case of unauthorised spending totalling R4,3 million had been pending for the past three years.

The report said the office was concerned that not enough money was being made available to meet the R9,5 billion backlog in road maintenance.

About R950 million a year was needed to maintain and rehabilitate roads, but only R517 million was being made available.

Although the reintroduction of a dedicated fuel levy for road maintenance had been suggested, there was no guarantee the revenue raised would be made available for that purpose.

Public attitude to life assurers warms

(98) ARG 28/8/99

BRUCE CAMERON

The life assurance industry and its sales force has received a general thumbs up from policyholders in a survey conducted on behalf of the industry by an international research company.

However, the research showed up a fundamental lack of understanding among the investing public about the financial services industry. For example, life assurance investments are generally perceived to be low risk but the Johannesburg Stock Exchange is seen as "the most risky investment" – this despite the fact that most money invested in life assurance products is channelled into the stock market.

Life assurance is regarded as less likely to beat inflation than shares, but it is seen as the investment "that inspires the most confidence, the best long-term investment and the safest investment".

And life assurance investors believe that the high commissions paid on these products (which can be as much as 85 percent of their first year's premiums) have no effect on investment performance. Policyholders are more concerned about the payout on their policies than the commission paid.

The research also showed that although consumers seem to be content with the amount of information provided, only 54 percent were aware of the 21-day cooling off period during which you can cancel an assurance contract while 80 percent were not aware that there is a life assurance ombudsman to whom you can make complaints.

The public's attitude towards life assurance companies and individual sales people has improved since the last survey in 1995 but the reputation of the sales force as a whole has gone down.

The three most widely held and purchased policies are assurance against dying or being disabled (44 percent), funeral assurance (42 percent) and retirement policies (41 percent). The average person holds 2,3 policies.

The survey showed an increase in the level of advice being given with 67 percent of respondents saying they had a financial needs analysis before purchasing their most recent policy and 88 percent believed they had received good advice from their brokers.

One in five policyholders has lapsed or surrendered a policy early with a change in personal circumstances being the biggest cause. This reason is up to 56 percent from 43 percent in 1995. The Life Offices Association is researching the causes of lapses and surrenders which, it has been estimated, cost policyholders billions of rands in lost savings every year.

Micro-lenders set to challenge new curbs in High Court

(58) CT 30/8/99

EDWIN NAIDU

JOHANNESBURG: The Micro-Lenders' Association is set to challenge Trade and Industry Minister Alec Erwin's decision to outlaw high interest rates and the withholding of borrowers' bank cards as security.

The new Usury Act comes into effect on September 15, but association spokesperson Flip du Plooy said aspects of the act would be challenged in the Pretoria High Court next week.

He said micro-lenders are angry because the new laws threaten their businesses and mean they will have to drop the interest they charge by as much as half. "Many micro-lenders, especially those offering short-term loans to people who would not qualify at banks, would be forced to shut down," Du Plooy said.

Many lenders charge up to 30% a month in interest, but in terms of the new laws lenders can charge up to a maximum of 13,8% a month.

The interest rate ceiling was determined by Erwin after investigating local and international micro-lending trends, according to Department of Trade and Industry spokesperson Alan Hirsch.

Hirsch said the department would defend the action and that inspectors would be checking whether micro-lenders had registered with the Micro Finance Regulatory Council, which will act as a consumer watchdog.

Micro-lenders registered with the council will be able to charge only the amount prescribed in the act and be subject to conditions such as keeping the borrowers' particulars confidential, making the terms of the act available to borrowers, not charging fees when a loan is not granted by the lender, adhering to a cooling-off period during which the borrower can return the entire sum without any costs and not using bank cards or pin codes as security.

Borrowers who obtain loans from unregistered micro-lenders will give up the right to protection offered through the regulatory body.

The council's CEO, Neville Zar, said hundreds of micro-lenders have applied to register.

But the Micro-Lenders' Association is adamant that the industry should be involved in determining the interest rate and finding an alternative to keeping bank cards as a guarantee of payment, Du Plooy said.

CLAMPING DOWN: Minister Alec Erwin

A spokesperson for the Lou Hen Group of micro-lenders, Dave de Beer, said small-scale lenders do not have the same financial muscle as banks and would be adversely affected by the interest rate ceiling.

Commenting on the Usury Act's banning of the withholding of consumers' bank cards, he said: "The card is not an issue. We are living in Africa and it was accepted. We agree it may not be right, but give us a chance to find another mechanism to obtain collateral."

Henk Vivier of the Alliance for Micro-Lenders and Associated Consumers, the largest association in the country for lenders, said the law would give consumers greater protection, but many users would face the prospect of losing out on loans if companies close down because of the new pressures.

South African National Consumer Union vice-president Lillibeth Moolman said the new laws are necessary to help consumers and that she hopes the department and the micro-lending industry would resolve the difficulties as swiftly as possible.

Black Housewives' League official Sally Motlana said many unemployed people get into debt daily by borrowing at high interest rates and discovering they will have to continue borrowing.

Road fraud comes to head

GUSTAV THIEL

(58)

ALLEGATIONS against a leading Cape Town law firm for defrauding road accident victims of money paid out by the Road Accident Fund (RAF) will come to a head in the Cape High Court today.

The publisher of *Noseweek* magazine, Martin Welz, and a road accident victim, Freddie Yalezo, claimed in earlier affidavits that Athlone law firm H Mohamed and Associates ran a road accident claims scam aimed at poor and disadvantaged victims for the past 15 years.

The scheme allegedly involves payment of only a portion of claims approved by the RAF — which is funded by a levy on petrol sales — to people injured in accidents.

Yalezo and Welz's legal representative, Michael Murphy, says if the application is successful it could lead to many more similar ones being lodged.

A protest march by people who allege that they have also been defrauded by the law firm is being planned outside the Cape High Court today.

The Heath special investigating unit is currently investigating at least 20 other firms in South Africa for similar offences. The unit's investigation was prompted by Welz and Yalezo's application. The fund is currently some R9 billion in debt, in part due to the unscrupulous actions of the lawyers.

CT 31/8/99

Personal injury lawyers 'should welcome probe'

Taryn Lamberti

BD 31/8/99

(58)

JUSTICE and Constitutional Development Minister Penuell Maduna said yesterday personal injury lawyers should welcome Judge Willem Heath's investigation into alleged third party fraud because it would be in their interest to prove their innocence.

Maduna has refused to comment on the merits of an application brought by the SA Association of Personal Injury Lawyers in April in which it has asked the Pretoria High Court to declare Heath's special investigating unit unconstitutional.

He did say that he did not see anything "wrong" with the investigation.

"I am an attorney and if I were them I would say let us be investigated because we have nothing to hide.

"There have been so many lawyers struck off the roll which shows that all is not well in the profession," Maduna told reporters in Pretoria.

Association president Malcolm Lyons said the association represented over 100 personal injury lawyers who normally represented the injured party in road accident fund applications.

The respondents in the application are Heath, his unit, President Thabo Mbeki and Maduna.

The association has asked the court to strike down the proclamation authorising Heath to investigate the personal injury lawyers because the investigation is based on flimsy evidence.

The unit is only allowed to investigate public corruption while the present case deals with issues which fall under attorney and client privilege.

The association also claims that Judge Heath's appointment to head the unit is unconstitutional because the constitution requires that there is a separation between executive and judicial powers.

A judge cannot chair such a unit because it is an organ of state, the association has argued.

Lyons said the association launched the application after the proclamation authorising Heath to investigate third party lawyers was issued in March.

Asked for the reasons for the proclamation, the respondents said there had been 143 complaints relating to 18 lawyers, out of 12 000 attorneys in the country, Lyons said.

The dispute arose as early as 1995 when former Transport Minister Mac Maharaj attributed the Road Accident Fund's deficit of several billion rands to the legal profession, the court application said.

Saapil is also requesting an interdict preventing Heath's unit from investigating any of its members. SA Rugby Football Union President Silas Nkanunu, who has recently been named as one of the lawyers who will be investigated by the unit, said yesterday that he was not a member of the association.

Reverse order, asks firm

(58) CT 1/9/99

MOTSHIDISI MOKWENA
COURT WRITER

HOOSAIN Mohamed and Associates, one of the firms of attorneys accused of fleecing road accident victims, asked the court yesterday to reverse an order made by two judges on February 11 which allowed the seizure of documents by the sheriff from the law firm's offices.

The order was granted by the court following an application *Noseweek* editor Martin Welz and Freddie Yalezo, who claimed a scheme existed at the firm where money was stolen from clients over a period of 15 years.

They also alleged that the existence of the scheme was contained in the firm's documents, which the latter had tried to hide.

The scheme is said to involve payment of only a portion of the claims approved by the Road Accident Fund (RAF) — funded by a levy on petrol sales — to people injured in accidents.

In papers, Welz and Yalezo alleged that "the scheme deliberately targets those who by reason of their lack of education, poverty, helplessness, physical and or mental disability and humble social origins are disadvantaged and who would be unlikely to discover that they had been victims of the scheme".

Anwar Albertus, SC, counsel for the lawyers, argued that the two applicants did not satisfy all the requirements to show that they had legal standing to bring the application and requested the court to order the return of the documents.

Albertus said that Welz and Yalezo did not have direct evidence when they brought the application and that the order to seize the documents was misplaced as there was no evidence that the law firm was tampering with evidence.

He added that when the documents were seized, attorney-client privilege was invaded and that the applicants turned the whole matter into a media circus.

'The scheme deliberately targets those who would be unlikely to discover they were victims ...'

Albertus attacked Welz and Yalezo for contacting the press to arouse public sympathy and pointed out that his clients have been prejudged and their right to a fair trial has been affected.

Such conduct should not be allowed because it undermined the administration of justice.

Steve Kirk Cohen, counsel for Yalezo and Welz, said that in terms of Section 38 of the Constitution, the men had a legal standing to bring an application of this nature because their fundamental rights were infringed.

Cohen argued that the court should not order the return of the documents because the previous conduct of the respondents showed they would tamper with evidence and destroy some of the incriminating documents.

Justice G Kuhn and Justice Willem Louw postponed the matter to a later date.

SA banking system stable

(58) Sowetan 1/9/99

Mongwadi Madiseng

SOUTH Africa's swift recovery from last year's financial market turmoil could be attributed to the country's stable banking system.

This is according to Christo Wiese, registrar of banks and supervision department general manager at the South African Reserve Bank.

Wiese, speaking at a financial stability seminar held in Pretoria this week, said the world financial system has witnessed considerable economic turbulence.

The risks with which internationally active banks had to deal have become increasingly complex and challenging.

"The globalisation of international markets is accelerating as obstacles to the free movement of capital are removed," said Wiese.

At the same time "international financial markets have become much more volatile. Volatility is one of the principal sources of financial risk and when volatility increases, market participants are exposed to greater uncertainty."

This has increased the need for international standards and codes for banks to follow in the interest of stability.

But in order to be effective, they had to be closely aligned with incentives of international standing.

On core principles for effective banking supervision, Haw Evans, central policy adviser for London's financial service authority said the aim was to strengthen financial stability worldwide, through improving banking supervision.

In strengthening financial stability, Evans said, banks would need to strengthen their prudential systems, transparency and disclosure, standards and codes, compliance, crisis prevention and response and global financial architecture.

"Preconditions for effective banking supervision would need sound macro-economic policies, well developed public infrastructure, effective market discipline, procedures for efficient resolution of problems in banks and safety net mechanisms," Evans said.

Evans said these core principles had been discussed with groups from developing countries while consultations with the International Monetary Fund and World Bank have also been made and endorsed by 120 countries around the world.

Microlenders must register by September 15

(58) CT(BR) 1/9/99

BONTLE HEADBUSH

Johannesburg – Microlending companies would be subject to penalties if they failed to meet the September 15 registration deadline, the Micro Finance Regulatory Council, the national microlending regulatory institution, said yesterday.

"Companies which fail to register by this date will be subject to penalties of the Usury Act, including imprisonment or a fine to be imposed by the council," said Neville Zar, the chief executive of the council.

He said the national inspectorate of the department of trade and industry had indicated its intention to conduct an inspection on those companies or individual microlenders that had not registered. It would also consider approaching the asset forfeiture unit to deal with non-registered money lenders.

The Micro Finance Regulatory Council, which was launched in July, said its primary objective was the promotion of the microlending industry to allow for unlimited growth and to serve legitimate unserved credit needs.

All moneylenders can now only operate after registering with the council, and are obliged to operate within its rules.

The council had the authority to accredit, fine and discredit any members that contravened its rules, said Zar. Many moneylenders had already registered, and others had decided to discontinue operations because they could not sustain their businesses under the new capped interest rates.

"Under the new regulation, the lenders are only allowed to charge interest rates of 10 times prime, and some of them were accustomed to charging up to 30 percent and therefore felt that they couldn't sustain their businesses at this level," said Zar.

The Association of Micro Lenders said many of its members had already registered and were in full support of the new council.

Road accident files 'tampered with'

Court packed for fight over documents seized from Athlone legal firm by sheriff

(78) ARG 1/9/99

ASHLEY SMITH
HIGH COURT REPORTER

An Athlone firm of attorneys allegedly tampered with some of their 500 client files before they were seized from their offices in a raid by the Wynberg Sheriff of the Court.

The files allegedly link the firm run by prominent Cape Flats lawyer Hoosain Mohamed to a massive scam in which hundreds of unsophisticated clients have lost large sums from their payouts from the road accident fund.

This emerged in the Cape High Court yesterday when Martin Welz, editor of investigative journal *NoseWeek*, and Freddie Yalezo, one of the people who believes he was defrauded, applied for an extension of the order to hold the files in safekeeping.

Hoosain Mohamed and Associates is opposing the application.

Mr Justice Gerrit Kuhn and Mr Justice Willem Louw reserved judgment until later this week.

The courtroom was packed by victims of the alleged fraud, whose hope of any future claims against the attorneys hinges on the files being kept safe.

Former attorney Mark Hess told the court he had removed files from the offices of Hoosain Mohamed and Associates and given copies of them to Mr Welz.

Steve Kirk-Cohen, who appeared for Mr Yalezo and Mr Welz, said his clients wanted the court to keep the documents in safe-keeping.

Only the Sheriff of the Court and independent forensic accountants appointed by the Cape Law Society had access to the files at present.

Mr Kirk-Cohen asked the court to extend the order in terms of which the files were seized on February 11. If the court rules in favour of this, it effectively means the seized files remain in safe-keeping until the matter is settled.

Mr Kirk-Cohen said Mr Mohamed, or somebody at his firm, had tampered with the files before the raid by the Wynberg Sheriff of the Court and two High Court appointed attorneys on February 11.

Other evidence presented to the court was that, during the raid, one of Mr Mohamed's employees tried to conceal several documents by describing a locked room as access to the fire escape.

Mr Kirk-Cohen said it was obvious that if the files were returned they would be destroyed or altered.

"If the documents are not kept safe until the completion of the case, something untoward might happen to them," he told the court.

He said that, according to standard procedure, law firms were obliged to keep client files for only five years. If the documents were returned to Mohamed and Associates, victims allegedly defrauded before 1994 would lose any proof that they had been wronged.

Anwar Albertus, who appeared for Mr Mohamed, said seizing the files had been an infringement of Mr Mohamed's right to privacy.

He said by "unlawfully" removing some of the accident claim files from the firm's offices and making copies of them, Mr Hess had made himself guilty of theft.

Mr Albertus argued that on these grounds alone the court should dismiss the application for the extension of the order.

He also lashed out at Mr Welz and Mr Yalezo's "sustained and widespread media campaign" in which they had prejudged Mr Mohamed as a thief.

"They did this to arouse public sympathy and support for the claims they made, and they did this undeterred that the publicity would interfere with the right of Mr Mohamed to a fair trial," he said.

Man sues Athlone attorneys for fraud

Freddie Yalezo is a bitter and angry man. Not only is he dealing with the aftermath of a car crash, which left him unfit to work and his daughter permanently brain damaged, he also discovered an Athlone firm of attorneys had allegedly stolen R80 000 of his Road Accident Fund payout.

The Khayelitsha man, 39, was instrumental in the uncovering of the multi-million fraud allegedly perpetrated by Athlone attorney firm Hoosain Mohamed and Associates.

Mr Yalezo told the Cape Argus he remained "unhappy".

However, the former truck driver said all that was important to him was seeing justice done, not only for him, but for others who had been victims of the attorney firm's alleged dishonesty.

"The only thing that keeps me going is the knowledge that if I succeed in getting back my stolen money, many of the poor people who were also robbed will have the courage to take the firm to court," said Mr Yalezo.

Mr Yalezo, a father of five, was the first of hundreds of impoverished Cape Flats residents who either have or intend to institute legal action against the firm for allegedly defrauding them of money paid out by the Road Accident Fund.

Mr Yalezo said R80 000 of the R193 000 he was supposed to have received from the fund in 1996 was never passed on to him.

Mr Yalezo and Martin Welz, the editor of the investigative journal Noseweek, launched an application in the Cape High Court yesterday to extend the safe-keeping of over 500 client files seized from the firm in February this year.

If the court rules against them, the files, which Mr Yalezo believes are vital to proving his case and the claims of several other hundred poor people, will be handed back to the firm.

According to evidence before the court, the files, which are in possession of the Sheriff of the Court, contain evidence of the alleged multi-million rand fraud.

According to court papers filed by Mr Welz, it is alleged that the Athlone firm has for the past 15 years operated a massive fraud scheme involving third-party road accident claims.

In his affidavit, Mr Yalezo alleged the fraud scheme was targeted at the illiterate and poor of society and the firm had clearly discriminated against him and others like him because of their race and background.

About 100 victims of the alleged fraud, many of whom have not yet applied for compensation, were in court yesterday to listen to the application.

Before proceedings started at 10am, a group of placard-waving protesters gathered at the entrance of court to voice their support for Mr Yalezo.

After the court proceedings were adjourned by Mr Justice Gerrit Kuhn and Mr Justice Willem Louw, Mr Yalezo left the court and voiced his frustration with the legal jargon used by attorneys arguing the matter.

"I am not happy, as I cannot understand what is being said and meant in court," he said.

Mr Yalezo said he and his daughter Noxolo, 9, were involved in a car crash on May 16 1992.

Mr Yalezo broke both his legs in the accident and spent four months in hospital.

He was declared unfit to work and received a monthly government grant.

Noxolo, who at the time of the accident was 2, suffered permanent brain damage.

Mr Yalezo said Noxolo was in a "special school".

LEON MÜLLER

Fighting: accident victim Freddie Yalezo alleges that a top Athlone legal firm, Hoosain Mohamed and Associates, stole more than R80 000 of his Road Accident Fund payout

City lawyers' day of shame

Bid to axe pair over road-fund scam

ARG 3/9/99

ASHLEY SMITH AND JEREMY LAWRENCE
COURT REPORTERS

(58)

'Whistle-blower under fire, page 3'

The Law Society of the Cape today asked the Cape High Court to have the senior partners of H Mohamed and Associates, the Athlone firm allegedly involved in a huge road accident fund scam, struck from the roll of attorneys.

The society alleges that the partners, Hoosain Mohamed and Ahmed Ayoob Chohan, used money claimed on behalf of an accident victim to reduce the firm's bank overdraft.

If the application is successful, the attorneys' legal careers will effectively be ended.

Mr Chohan has not filed opposing papers, which means he will be struck from the roll, but Mr Mohamed has indicated to the court that he will oppose the law society's application.

Mr Mohamed's firm has been implicated in a fraud in which hundreds of unsophisticated clients were deprived of large portions of their payouts from the road accident fund. It is alleged that money paid by the fund to the firm on behalf of clients did not reach them.

The law society alleges Mr Mohamed and Mr Chohan are guilty of "unprofessional, dishonourable and unworthy conduct"; that they have brought the legal profession into disrepute; and have manifested "character defects" and are not fit to practise as attorneys.

In the society's court papers it is alleged that in the few cases which have come to its attention, Mr Mohamed took R1,24-million of payouts intended for accident victims.

Today's application follows an investigation by forensic auditors of the firm's accounts after allegations of misappropriation made by former employee Mark Hess, an attorney now practising in Wynberg.

His initial allegations were followed up by investigative journalist Martin Welz, editor of Noseweek magazine, and Khayelitsha accident victim Freddie Yalezo. Stemming from these "allegations of serious misconduct on the part of H Mohamed and Associates", the law society instructed forensic auditors to inspect the firm's books.

A raid on the law firm's offices on February 11, in which more than 500 client files were seized, heralded a countrywide crackdown on similar alleged attorney scams.

Mr Welz and Mr Yalezo are involved in a High Court battle with Mr Mohamed's attorneys over safekeeping of the files.

As a result of the auditors' inspection, an unauthorised loan of R400 000 from the estate of Jerome Madela was discovered.

The money was the proceeds of a road accident fund claim and was supposed to be paid to the dead man's mother, Mavis.

In an affidavit, Mrs Madela said she was told by a partner at the firm that the fund had paid out R700 000. She wanted the full amount placed in her bank account, but was told that she should put R300 000 in a trust for her daughter and that a house costing R150 000 would be bought for her.

She claimed she was promised R50 000 and that a further R200 000 would be put into a fixed-deposit account. Mrs Madela said she had received two cheques of R20 000 each in September last year.

According to the law society court papers, R400 000 was drawn in March 1998 from an investment account in which Mr Madela's estate's funds had been put, and paid into the firm's trust account.

Then a cheque was drawn from the trust account in favour of Mr Mohamed and deposited into the firm's business account. The withdrawal was authorised by Mr Chohan, who signed the cheque.

In his affidavit, the law firm's bookkeeper, Mahomed Muktar Hamid, alleges that Mr Chohan "knew all along it was a loan from Mr Madela which was used to reduce the overdraft in the business account".

Whistle-blower comes under fire

Tyres slashed and car scratched after accident-fund 'scam' exposed

(68) ARG 3/9/99

ASHLEY SMITH
HIGH COURT REPORTER

As a bright-eyed Standard 8 pupil at Grassy Park High School in 1985, Mark Hess became fascinated by the suave investigative lawyers portrayed in an American television series, and decided to study law.

Fourteen years later he investigated and uncovered a multi-million rand fraud allegedly perpetrated by the Athlone law firm that had employed him.

His allegations have sparked a national crackdown on unscrupulous lawyers, who allegedly steal from road accident victims.

But since his story was published in the investigative magazine Noseweek, Mr Hess has had moments of deep anxiety

He told the Cape Argus yesterday his car tyres had been slashed and his car scratched. "I have also received several crank calls, but I can't prove who is responsible."

Mr Hess confessed he no longer enjoyed an active social life and avoided public places.

The only thing that had kept him going during a difficult period had been the fact that he had lived up to "high moral values" he has always prided himself on

And, he said, if he could turn the clock back he would not change the decision he had made to blow the whistle on the Klipfontein Road-based law firm Hoosain Mohamed and Associates.

"I did not do it for financial reward, and I'm in fact worse off than what I was while working for the law firm. I did it for the the helpless victims of the alleged fraud, who did not even know they were being robbed.

"When I was admitted to the side bar in 1997, I promised I would represent every client to the best of my ability."

Some of his former colleagues have given him the cold shoulder, while other attorneys have expressed nothing but support and admiration for his efforts.

BRENTON GEACH

Mark Hess: 'the rich were getting richer and the poor were getting poorer. I couldn't stand it'

His suspicions were originally aroused by rumours from innocent colleagues at Hoosain Mohamed and Associates that the firm was allegedly profiting illegally from Road Accident Fund payouts.

"One day my boss asked me to make a copy of a document, which a visiting lawyer had brought. It turned out to be from a handwriting expert. I made two copies, one for them and one for myself.

"Later when I went through it, I could see that the client's signature had been forged and dates on the document had been changed," Mr Hess said.

Worried, he investigated by photocopying at least 30 of the motor vehicle accident files over a period of several months last year and studying them at home. He discovered large amounts of money due to accident victims from the Road Accident Fund appeared never to have reached them.

On the basis of Mr Hess's investigation the Cape Law Society will apply to the Cape High Court today to have Hoosain Mohamed and his senior partner, Ahmed Chohan, struck from the society's roll of attorneys.

Mohamed accused of ...

The charges brought by the Law Society against attorney Hoosain Mohamed after independent forensic accountants inspected some of the 500 client files seized from the Athlone law firm are that he stole.

- R30 000 from Freddie Yalezo
- R150 000 from Mr Yalezo's nine-year-old brain-damaged daughter Noxolo
- R17 000 from Bernard Nondabula
- R200 000 from Mlulekı Albert Gijana
- R110 000 from Elmien Smith
- R400 000 from the estate of the late Jerome Madela, concealing the theft from the dead man's widow

It is also alleged that Mr Mohamed contravened the provisions of section 78 of the Attorneys Act, because he did not 'accurately reflect the transactions which have taken place'.

Mr Hess joined Hoosain Mohamed and Associates as an articled clerk in April 1994 after completing his BA Law and LLB degrees at the University of the Western Cape.

He was an ambitious young man, but because of his upbringing in the Cape Flats township of Grassy Park, he had an overwhelming compassion for the poor.

"When I walked into the law firm's lavishly decorated double-storey offices in Athlone I felt my dream was coming true.

"I was working for a prestigious law firm whose clients included the then Justice Minister Dullah Omar, and I could serve the poorest of the poor," he said.

But his dream turned into a nightmare when in the final months of his employment at the firm Mr Hess agonised about what he should do with the detailed proof he had assembled.

"Sometimes as I sat in that office ... it was just me and the files. The rich were getting richer and the poor were getting poorer. I couldn't stand it," he said.

WAYNE CONRADIE

Law and order: the offices of a law firm that allegedly was involved in the scam

In November last year he resigned and was asked to leave immediately.

In his new job at Edgar Tamboer and Associates in Wynberg he sat in his office every day and weighed up what to do with his "file of proof".

"Sometimes I would just look at the addresses of some of the claimants in the file and I could tell that these were addresses of shacks. I kept thinking that some of these people had lost arms and legs, and yet appeared to have received only a small part of the money they should have been paid from the accident fund," he said.

Mr Hess finally presented his evidence to the editor of Noseweek, Martin Welz, and few days later, on February 11, the Cape High Court granted an order to seize more than 500 client files from Hoosain Mohamed and Associates.

I was a Robin Hood, says attorney

LAWYER: Hoosain Mohamed's advocate Anwar Albertus, left, at the Cape High Court with co-counsel Mike Donen Picture: LEON MULLER

ASHLEY SMITH

Embattled Athlone attorney Hoosain Mohamed, alleged to have stolen millions from road accident victims, believes he is a modern day Robin Hood who gives the "poorest of the poor access to justice".

This was argument in the Cape High Court yesterday by his advocate, Anwar Albertus, who is opposing an application by the Cape Law Society to have Mr Mohamed struck from the roll of attorneys.

The society alleged that Mr Mohamed committed the thefts to reduce his law firm's bank overdraft.

Mr Albertus said Mr Mohamed admitted to taking R800 000 from the trust fund of an accident victim unlawfully but he returned the money later.

Law society attorney Steven Koen argued that Mr Mohamed was guilty of "unprofessional, dishonourable and unworthy conduct", that he had brought the legal profession into disrepute, had manifested "character defects" and was not fit to practise as an attorney.

Mr Mohamed, who lives in a mansion in Rylands, was not at the proceedings.

In contrast to his comfortable lifestyle, those who allege he stole from them are from impoverished areas of the city.

Mr Albertus, a close friend of the wealthy attorney, argued that Mr Mohamed had chosen to ignore the society's guidelines for how much attorneys should bill road accident victims because his "billing system" ensured that his poor clients could claim from the fund.

The system included an agreement with clients that he would bill them for the "risk factor" involved in taking their cases.

This agreement was that he would charge a "success fee" if a claim was successful.

In papers submitted by the society, the victims mentioned denied they had such an agreement with Mr Mohamed.

According to court papers, Mr Mohamed received two cheques from the road accident fund to pay each road accident victim and he pocketed one of them. Mr Albertus was adamant his client was entitled to take the second of the cheques.

"Normally big attorneys' firms want up-front payment before taking cases from poor people. By not charging up-front my client was acting like Robin Hood and gave poor people access to justice," he said.

The society alleges that Mr Mohamed and Ahmed Chohan, a senior partner in H Mohammed and Associates of Athlone, ran a 15-year scam in which they stole clients' payments from the road accident fund.

Mr Chohan, who did not oppose the law society's application, has been struck from the roll of attorneys.

The allegations include that Mr Mohamed stole R400 000 from the trust fund of accident victim Jerome Madela and that he defrauded Freddie Yalezo of R30 000 and his brain damaged nine-year-old daughter Noxolo of R150 000.

The alleged frauds were exposed by Mark Hess, a former employee at Mohamed and Associates, when he leaked about 30 client files to the investigative magazine Noseweek.

Mr Albertus said Mr Mohamed admitted he had not kept proper records of how much he had billed his clients.

This included not saying in his client files how many consultations he had had with them and exactly what he was billing them for.

Mr Justice Fritz Brand and Mr Justice Selwyn Selikowitz reserved judgment.

(58) ARG 4/9/99

HEATH CRACKS DOWN

Seven Cape lawyers facing fraud probe

(58) CT 6/9/99

UNSCRUPULOUS LAWYERS who have overcharged road accident victims for their services will have to repay their clients — and they face being struck off the roll.

SEVEN Cape lawyers are to get official notices from the Heath Investigative Unit that they are being investigated for fraudulent conduct in Road Accident Fund payouts to accident victims.

This was confirmed yesterday by Judge Willem Heath, who said the activities of 37 attorneys countrywide were being investigated and that investigations into complaints against between 140 and 187 lawyers would begin soon.

The investigation follows closely on an application in the Cape High Court by the Law Society of the Cape to have the names of attorneys Hoosain Mohammed and his senior partner Ahmed Chohan struck off the roll for disgraceful and dishonourable conduct.

The two men were alleged to have fleeced thousands of rand from the accounts of road accident victims.

Judge Heath said the investigation was launched to probe the actions of certain attorneys. Considerable progress had been made, and in two instances the investigation had been completed.

"We have a case where an attorney has, for example, recovered R700 000 from the Road Accident Fund but only paid R20 000 to his clients. It's a very typical example."

INVESTIGATION HEAD: Judge Willem Heath is probing corruption.

The Heath Unit has also collected money from an attorney who was holding money on behalf of some minor children for three years. He has conceded that he was obliged to pay up and the money has been recovered and paid over to the minor children.

Judge Heath said the investigative unit received the co-operation not only of the Law Society of South Africa but of each attorney who had been approached.

Once a complaint is received against an attorney, the unit makes an appointment with the lawyer concerned and requests that the Road Accident Fund files are made available. Should the attorney refuse, action can be taken.

Once the unit has access to the files, it establishes how much was paid out by the fund, and an expert on its staff then assesses the costs they have charged their clients and how much reached the road accident victim

"If our expert finds they have overcharged with regard to attorney and client costs, we confront the attorney and ask if he or she is prepared to accept that.

"If the attorney does not agree, we go over to a more formal action and submit the account to the Taxing Master at the High Court where the final amount is established," said Judge Heath.

Should the unit find that an attorney has made a payment to a c lent that was too little, the amount is then recovered from them by the unit, Judge Heath said.

Asked if the action brought against the Heath Unit by the South African Association of Personal Injury Lawyers (Saapil) in the Pretoria High Court would imperil the existence of the unit, Judge Heath said it would not.

The lawyers, some of whom are being investigated by the Heath Unit, argued in papers that Judge Heath could not investigate a matter and then adjudicate on it later.

Judge Heath said yesterday: "I am not hearing any matters. I have been off the bench now for four years We have got a special tribunal where judges have been appointed by the government to hear the matters that we investigate.

"There is no dual functioning by myself. I'm only involved in the investigation of cases and then sending the cases to the special tribunal "

In the case being heard in the Pretoria High Court, the personal injury lawyers claimed that the Heath Unit was entitled to enter any building to search and seize any document That was not correct, Judge Heath said.

"We need to apply to a judge of the special tribunal for an order to authorise us to search a building It's not at random."

The personal injury lawyers were also attacking the proclamation which was issued to refer the investigation into some of its members of the Heath unit. Judge Heath said that was something to which President Thabo Mbeki and Justice Minister Penuell Maduna would have to reply.

Reports that the Saapil application aimed to have the unit declared invalid were not correct, Judge Heath said.

"Even if they succeed in getting rid of me, the unit will continue to exist."

After the application was brought,

Turn to Page 3

Lawyers probed

From Page 1

the Heath Investigative Unit agreed that it would not investigate their members.

It was on the verge of investigating Hoosain Mohammed when his attorneys informed the unit that he was seeking immediate membership of Saapil. On that basis the unit agreed to suspend its investigation into him.

Judge Heath said the investigation into Mohammed began long before journalist Martin Welz and the magazine of which he is editor, *Noseweek*, exposed certain practices by him.

"We had the information, not necessarily the cases run by Hoosain Mohammed. The subsequent High Court application brought by Welz confirmed the grounds that the Heath Investigative Unit was investigating.

"That was probably just the final straw in confirming the existence of this practice."

Judge Heath said that should the Law Society succeed in its bid to have Mohammed struck off the roll, the Heath unit would proceed with its investigation because Mohammed would no longer be a practising attorney and this would disqualify him from being a member of Saapil.

CT 6/9/99 (58)

Accident fund R8,4-b in the red

(58) ARG 6/9/99

The ailing road accident fund's accumulated deficit increased by more than R1-billion, to R8,4-billion in the year to April 1998, according to the fund's annual report tabled in Parliament today.

This would rise to R10-billion once outstanding claims were taken into account, the report said.

Fund board chairman PJ Botbijl said in his review: "It is, of course, untenable for the fund to continue operating with a deficit of this magnitude; a deficit which is doubling every three years." The report notes that the fund has not been left untouched by increasing "white collar" crime. - Sapa

R1bn increase in Road Accident Fund's deficit

BD 7/9/99 (58)

THE ailing Road Accident Fund's (RAF's) accumulated deficit increased by more than R1bn to R8,4bn in the year to April last year, according to the fund's annual report tabled in Parliament yesterday.

However, this would rise to R10bn once outstanding claims were taken into account, the report said.

RAF board chairman PJ Botbijl said in his review: "It is, of course, untenable for the RAF to continue operating with a deficit of this magnitude; a deficit which is doubling every three years."

Referring to the commission of inquiry headed by Judge Kathleen Satchwell into the RAF, he said: "It is hoped that the commission will have completed its mandate towards the end of 1999, and in the meantime the RAF must maintain its 'damage control'."

In March this year, then transport minister Mac Maharaj said the commission would be given a year to come up with a sustainable and equitable strategy to restore the fund to financial health.

The report notes that the RAF has not been left untouched by increasing "white collar" crime. Over an 18-month period up to April last year, the RAF referred 82 cases of suspected fraud to the police and 1 300 cases were being investigated by the fund's forensic department. In the same period, 57 instances of irregularity were reported to the law societies. — Sapa.

Blow to govt's bid to regulate microlenders

A court ruling sets back a move to enforce a ceiling on lenders' interest rates

(58) 08/9/99

Pat Sidley

THE trade and industry department has had a temporary setback in its attempts to regulate the microlending industry

The Pretoria High Court ruled yesterday that while microlenders would still have to register by September 15 in accordance with the new regulations, the Microfinance Regulatory Council and the department would not be able to implement the cap on interest rates charged.

Nor would they be able to stop the widespread practice of taking the ATM card and PIN number of the borrower to ensure repayment. These two provisions within the regulations will be argued at a later date next month.

The microlending industry is worth about R15bn and it has been a high government priority to regulate its activities to try to stamp out the less savoury practices of some of the money lenders.

The department circulated and then promulgated a set of regulations which would, among other issues, have forced all lenders to register as legal entities (companies or closed corporations) by September 15 with a regulatory body; stopped the taking of ATM cards and PIN numbers with ID books from borrowers as a means of ensuring repayment; and placed a ceiling on the interest they could charge of 10 times the prime rate of interest.

It also set up a regulatory body called the Microfinance Regulatory Council which would see to it consumers were protected in the industry and that it was properly regulated and supervised so it could gain greater legitimacy.

However several sections of the industry believed the regulations were too onerous and brought legal action against the department and the council

These were the Microlenders Association and a group of 49 others. Their case was heard yesterday in Pretoria.

A further decision made by the court yesterday was that while microlenders would still have to register by September 15, they would not have to register by that date as either a company or closed corporation. They could register as natural persons who would at a later date register as companies or closed corporations.

The Microfinance Regulatory Council would still, though, be able to implement some of its other regulations, such as stopping the practice of making borrowers sign blank contracts when they signed on for a loan, to be filled in by the lenders later.

The council's acting CEO, Neville Zar, said there would be little excuse for lenders not to register by September 15 — especially as some of the restrictions, like having to be a company, had been relaxed.

Move to disbar lawyer

(58) M+G 3-9/9/99

Marianne Merten

The Cape Law Society applied to the Cape High Court this week to disbar attorney Hoosain Mohammed for allegedly pocketing millions of rands from indigent road accident victims from the Cape Flats.

The application was brought on the basis that Mohammed's law firm not only violated law society rules but also improperly loaned money from a trust account established for a victim.

Investigative journalist and editor of *noseWEEK* Martin Welz and the *Mail & Guardian* exposed earlier this year how the Athlone-based law firm H Mohammed & Associates operated a fraudulent scheme to siphon off funds from pay-outs of the government's Road Accident Fund to road accident victims.

In an affidavit to the court Welz alleged the law firm obtained hefty insurance pay-outs for accident victims, only to cream off large portions of the money for itself. In addition, the firm has been accused of keeping its clients in the dark about what they are really owed.

Mohammed has since resigned from the firm, which still carries his name. The exposure of the scam led legal observers to say it was not an isolated case. Since then the Road Accident Fund has referred many complaints to law societies.

After the *M&G* article, then minister of transport Mac Maharaj ordered an inquiry into the fund's administration. Maharaj's last White Paper included a proposal which would have forced attorneys to disclose how they determined a particular portion of their fees in such cases, which until now has not been regulated.

Other proposed changes would have meant a reduced role and lower fees for lawyers, but also lower pay-outs for accident victims in an attempt to curb the fund's R8-billion deficit. The reform programme was effectively abandoned after vigorous lobbying by the legal profession

On Tuesday, Welz and one of the victims, Freddie Yalezo, asked the Cape High Court to extend an order for the safekeeping of files seized from H Mohammed & Associate's offices in February. The files are being kept at court.

They argued the files could be tampered with as an employee of the law firm already tried to conceal some of them during the February raid. Documents were found behind mirror panels in the office of the senior partner and in a private, marble-lined toilet. Other bundles were found outside the building on the fire escape in black plastic bags. The applicants maintain the files are vital to a class action suit brought on behalf of 19 people against Mohammed.

H Mohammed & Associates is opposing the application, saying the files were unlawfully removed and that this is part of a sustained campaign against the well-known Cape Flats attorney. The matter has been postponed to September 20.

Post office accounts transformed

(58) M+G 3-9/9/99

Barry Streek

Steps are being taken to transform the old post office savings accounts into a fully-fledged bank, mainly for the lower-income and rural groups.

The Cabinet has already approved a three-phased process to establish PostBank, which in the first phase is to have greater autonomy within the post office and have separate accounts.

The Director General of Communications, Andile Ngcaba, told members of Parliament this week that the post office already has three million customers with savings worth R2-billion in PostBank.

"PostBank is only a savings bank, but it has no right to lend money. You can imagine what we require. The uniqueness of PostBank is that people can extract small amounts."

The possibility of the post office savings accounts being turned into a bank was first raised by the Straus commission, which identified PostBank as the institution which could provide rural financial services based on the network of post office counters.

In the second phase approved by the Cabinet, PostBank will be able to provide a complete range of payment and funds transfer services as well as expand the deposit service range.

In the third phase, an independent board of directors will be established and be accountable to the government through the minister of communications as the sole shareholder, and it will expand its services "to include credit products and services".

Ngcaba said his department's vision of PostBank is to establish it as a financial institution for the mass mobilisation of savings and investment funds through post offices and to "create a bank of first choice for the lower-income group".

He also said tenders have been called for Ecash machines, worth R10-million, to be installed at post offices to enable people to pay accounts and make electronic commerce transactions. These will be open 24 hours a day, but people will not be able to use them to withdraw money.

Women best bet for microcredit

et (MR) 9/9/99 (58)

Robert Holloway

New York – The number of the world's poorest taking very small loans for self-employment swelled from 8,1 million to 12,6 million in the past year, microcredit campaigners said at the United Nations (UN) this week.

This rapid growth encourages the Microcredit Summit Campaign to believe that its goal of reaching 100 million people by 2005 may be reached ahead of time.

The number of borrowers remains comparatively insignificant, however, in the Middle East and China.

Ironically, it was in Beijing in 1995 that the UN conference on women resolved that action should be taken to provide women in poverty with access to savings and credit mechanisms.

"The face of poverty around the world is the face of women," said Sam Daley-Harris, the director of the Microcredit Summit Campaign, an alliance of non-governmental organisations set up after the Beijing conference.

"That is one reason the campaign has focused on women clients," he said. "Experience has shown that women are more dependable in repaying their loans and put more of the proceeds from their enterprises towards the well-being of their children."

Daley-Harris said one of the aims of the campaign was to define new measurements of poverty to help lenders identify those most in need of small, cheap loans.

"One is the Cashpor house index used in rural Asia," he said.

"By looking at the structure of a house you can tell with 80 percent certainty whether the people who live in it are really poor. If the roofing materials are of such a temporary nature that it rains inside the house, they are among the poorest."

Another index, used in Liberia, was "no shoes, tattered shoes, new shoes", he said.

Such rule-of-thumb indices had enabled the campaign to identify as "poorest" 12,5 million of the 22,2 million currently receiving microcredit from one of 925 programmes around the world.

The report highlighted 34 of the largest programmes with a total of 7,5 million borrowers from among the ranks of the poorest. Of these, 76 percent were women hoping to set up small businesses.

"If you are committed to the eradication of poverty," Daley-Harris said, "your focus will be on women." – AFP

Mainstream banks are looking for a share of the growing small loans market

Emerging from the shadows

BD 10/9/99 (58)

Pat Sidley looks at the first product to be marketed in the wake of new regulations on microlending

IT WAS a foregone conclusion that the mainstream banks would want to get into the microlending market when it became "legitimate" — if they were not already into it.

For some months, Absa feigned ignorance of any movement it might be making in the microlending direction — until it was reminded that it had a special division devoted to such activities, called Nubank.

Now the bank has "come out", as it were, along with a partner, to form a company called Nu Payment Solutions (Pty) Ltd. The bank says the new operation will offer an alternative to the newly outlawed (but much used) practice of taking possession of an ATM card and PIN from a borrower, along with the borrower's ID book, in order to make a monthly repayment withdrawal.

The same ATM card and PIN will be used for repayments, but they will be held by the customer, who will use an Absa and Maestro "swipe" system at a micro lender to design a schedule of payments. The system will operate in much the same way as a debit card.

The launch of the new company this week comes in the wake of the setting up of the Micro Finance Regulatory Council, established by government to regulate the burgeoning microlending industry, allow it to grow, give it more credibility and — most importantly — to protect consumers from the "kneecapping end of the business" (as described by chief executive Neville Zar).

Microlending has become a far bigger business than a few loan sharks dealing with the poorest of the poor and ripping them off. It is now worth something like R15bn nationally, and around R1,125bn is being repaid each month.

It affects employers whose workers take out small loans, people who are unable to get credit from their banks (perhaps after being blacklisted) and a large group of wage earners who perennially need to relieve short term debts.

The new regulations (which are basically a set of rules to guide specific exemptions from the Usury Act) come into effect on September 15, after which, says Zar, a crackdown is likely by the new Micro Finance Regulatory Council and the trade and industry department, which will have inspectors who will operate both reactively and proactively.

Interestingly, he says that while insurance companies which make cash loans against policies will not have to register, pawn brokers will have to. Other "legitimate" bankers have applied for registration with the council says Zar.

The way has been pointed for most, if not all, banks to follow.

So far Unibank, Nubank, African Bank, Saambou Bank and several mutual banks have applied for registration. Some have already been granted the registration.

Banks have other regulations they have to comply with and these include supervision by the Reserve Bank which, along with the Banking Council, has seats on the Regulatory Council. Also represented are various consumer bodies — although one with a great deal of consumer credibility remains excluded — for the moment. This is the Consumers Institute of South Africa, run by lawyer Diane Terblanche.

The type of lenders who will not be able to join the council, and will then have to cease operating or be prosecuted, are those with criminal records for violence or fraud. The Usury Act, which has seldom if ever been used to prosecute offenders, has notoriously lenient penalties.

Zar says: "The Micro Finance Regulatory Council has adopted a moderate regulatory approach which does not place onerous registration requirements on lenders but at the same time ensures that lenders that are registered, are credible and able to meet our minimalist criteria."

This "minimalist" approach has not stopped a group of micro-lenders, specifically worried about capped interest rates, from applying to court to have the regulations stopped or changed.

Meanwhile, for those with some trust left in the regular banking system, the introduction of the new system from Absa and its partner will ensure more checks, a paper audit trail of transactions, more transparency and a sense that the institution is willing to be properly regulated.

Neville Zar of the Micro Finance Regulatory Council

Taxman eyes life assurance sector

(58)

Hilary Joffe BD 10/9/99

THE taxman is set to release a series of proposals within the next few days that aim to increase the tax take from the life assurance industry by hundreds of millions of rands.

The proposals are intended to close loopholes in the "four funds" approach according to which life assurers are taxed, and so stem the steep decline in the amount of tax paid by the life assurers since the approach was introduced five years ago.

Tax collected by the SA Revenue Services (SARS) from the six largest life assurers declined from R958m in 1994 to R204m in the 1998 tax year. At this level it was less than half the amount collected 10 years ago.

However, over the past five years the insurance industry's investment income has risen from R17bn to R30bn.

The industry's argument has been that sluggish performance in investment markets in recent years cut its taxable income. Some also argue that raising taxes will cut policyholder benefits.

Finance Minister Trevor Manuel has expressed concern about the arbitrage opportunities in the four funds approach and the SARS has signalled it intends to stop abuses of the system as part of its broader drive to improve revenue collection. Acting commissioner Pravin Gordhan noted yesterday that trends in revenue collected from the insurance industry did not match growth in the industry's investment income.

Analysts say assurers have taken advantage of scope in existing legislation to play around with where they take their costs and their profits, with certain transactions between funds done specifically to reduce tax liabilities.

Essentially, the four funds approach recognises that insurance companies are trustees for their policyholders. It therefore provides for different dispensations for different kinds of policyholders, distinguishing tax-paying individuals and companies from tax-exempt organisations. It also obliges assurers to transfer any profit they make on their life business (after they have ensured the assets cover liabilities to policyholders) to a corporate fund, which effectively belongs to shareholders and is taxed accordingly.

One of the problems with the system is that while the policyholders' funds are really taxed only on their investment income, they are allowed to deduct a large chunk of their expenses for tax purposes. It is understood that the SARS wants to see allowable expenses cut to match the tax base more closely. Also expected are moves to close loopholes in the system of transfers to the corporate fund, which offers further opportunities for tax avoidance.

The new proposals have been in the making for some time and follow extensive discussions between the SARS and the industry, which objected strongly to an earlier set of proposals circulated last year. Though many industry players appear to have seen the new proposals, none would discuss them.

The Life Offices Association would not comment on the proposals, but said it would release a statement once the SARS published its press release.

A package of tax proposals is due to come before Parliament on Tuesday, when the SARS will brief the portfolio committee on finance on the Revenue Laws Amendment Bill. It is not yet clear whether the package will include the proposals on life assurers.

R940 000 MISAPPROPRIATED FROM VICTIMS

'Robin Hood' attorney struck off roll

(58) CT 10/9/99

A BELEAGUERED CITY ATTORNEY'S defence argument that he was "like Robin Hood" was dismissed as "confused" by two Cape High Court judges yesterday.

CAPE TOWN attorney Hoosain Mohamed was ordered to be struck off the roll after being found to have withheld almost R1 million in Road Accident Fund claims from clients.

Judges Selwyn Selikowitz and Fritz Brand said Mohamed was not fit to be an attorney and ordered him to surrender his certificate of enrolment as an attorney "forthwith" and pay the cost of the application brought by the Law Society of the Cape.

His advocate, Anwar Albertus, SC, likened Mohamed to Robin Hood. However, this did not impress the judges, who said: "The analogy with Robin Hood is rather cynical, if not confused, when one remembers that Robin Hood took from the rich in order to benefit the poor."

The Law Society claimed that Hoosain, 48, misappropriated R940 000 from various clients; persuaded Mavis Madela to claim falsely in an affidavit that she had given him permission to borrow R400 000 of a claim paid out to her; failed to keep proper accounting records in contravention of the Attorneys Act; and misappropriated R1,2m from his firm's trust account out of payments made to accident victims by the Road Accident Fund (RAF).

He admitted he made "unauthorised short-term borrowings" of R800 000 from his firm's trust account to make up the cash shortfalls he experienced when he personally funded RAF claims. The capital sums were repaid but no interest was ever added.

"The fact that an attorney may be regarded as a pillar of society who serves the community in civic or political spheres, or works indefatigably for the upliftment of the poor and defenceless members of society, cannot in respect of his profession be seen as a substitute for ... honesty, reliability and integrity which one is entitled to expect of an attorney. One does not entrust money to a person because of his good deeds in the community, but because he is an attorney who can be trusted and on whom one can rely."
— Judge Smallberger in the 1994 Appellate Division judgment in Reyneke v the Law Society of the Cape

Evidence was that Mohamed had used the "two-cheque system". Once payment was received from the RAF, he issued one cheque in favour of his client while the other — the total of the balance owed to the client after he had deducted his fees and other expenses — was made out to him.

Clients were not informed of the extent of the compensation paid by the RAF and Mohamed falsified his records to disguise his actions.

He explained in court that most of his clients who sought to recover money from the RAF were poor and could not afford the costs of pursuing their claims.

Asked why these clients could not rely on legal aid, Mohamed replied that "the legal aid system, especially in the case of RAF claims, is a discredited system".

He claimed that his policy was to prosecute the claims on a "contingency fee basis" and that this practice had "over a long period facilitated access to the justice system for indigent persons".

Judges Selikowitz and Brand said Mohamed was guilty of two serious transgressions, both of which reflected on his honesty and integrity and rendered him unfit to carry on practising as an attorney.

The judges referred to a 1994 Appellate Division judgment in the case of Reyneke v the Law Society of the Cape (see quote box) to justify their finding. They said Mohamed's bid to exonerate himself on the basis that he was acting in the interest of indigent clients could not overshadow the fact that his actions reflected a "complete disregard" for the basic duties incumbent upon an attorney.

An investigation into Mohamed's actions will now be resumed by the Heath Special Investigative Unit.

Judge Willem Heath suspended the probe after the South African Association of Personal Injury Lawyers (SAAPIL) — which Mohamed applied to join — brought a High Court action against the unit when it began investigating lawyers.

The Law Society will now apply to have Mohamed's partner Ahmed Chohan struck off the roll, also for disgraceful conduct.
— Staff Writer

Lawyers who fleeced Legal Aid to be charged

ROBERT BRAND

THE Department of Justice has initiated criminal proceedings against lawyers who fleeced the Legal Aid Board, Justice Minister Penuell Maduna said yesterday.

Maduna told the National Assembly the Legal Aid Board was responsible for about two-thirds of the R157 million of unauthorised spending uncovered in the Justice Department by the auditor-general in a report tabled in Parliament recently.

"Our preliminary investigations have led us to the conclusion that we are not only dealing with maladministration but with criminal activity," Maduna said.

"I have decided to refer certain matters to the National Director of Public Prosecutions (Bulelani Ngcuka) with instructions to take appropriate action."

Maduna's spokesperson, Paul Setsetse, said many instances had been uncovered of lawyers making "excessive claims" from the Legal Aid Fund. They would be prosecuted as part of the board's efforts to put its own house in order.

ACTION: Penuell Maduna

Maduna said long-awaited plans for the reform of the legal aid system would be discussed at a workshop this weekend. If the present system could not be reformed, he would draft urgent legislation to ensure "radical transformation" to put a cost-effective system in place.

Third lawyer barred for road fund scam

(58)

LENORE OLIVER

Another Western Cape attorney has been struck from the roll after allegedly forging a client's signature and stealing more than R20 000 from her road accident insurance payout.

Grabouw lawyer Bernard le Roux is the third attorney in less than a week to be prohibited from practising after allegations of Road Accident Fund scams.

Earlier this week prominent Athlone lawyer Hoosain Mohamed and a partner, Ahmed Ayoob Chohan, were struck from the roll after allegedly stealing millions from impoverished accident victims.

Yesterday Cape High Court Judge President Edwin King and his deputy John Hlope ruled that Mr Le Roux's name be struck from the roll, that he surrender his certificate of enrolment as an attorney and that he pay the costs of the application by the Law Society of the Cape of Good Hope.

The society alleged that in 1995 Mr Le Roux forged Mareldea Lourens's signature on a cheque for R17 457 and paid it into the account of Claughton, Le Roux and Wehmeyer in which Mr Le Roux was a partner. He then deposited a cheque into the account of Elgin Couriers, which he owned.

According to court papers, insurers Commercial Union paid Ms Lourens R22 957.

After Ms Lourens inquired about the progress of her claim for almost two years, Mr Le Roux told her Commercial Union was still looking into it because they were investigating reckless driving.

She was later told by a partner in the law firm that Mr Le Roux no longer worked there and had taken her file with him. Commercial Union told Ms Lourens that they had paid her R22 957.

When Law Society president Adrian Watermeyer questioned Mr Le Roux, he said his secretary had "probably deposited the money in the wrong account".

Mr Le Roux finally paid the money into Ms Lourens's account in 1997.

In his affidavit Mr Watermeyer said Mr Le Roux was guilty of "unprofessional, dishonourable and unworthy conduct".

ARG 11/9/99

A total of 176 firms of attorneys involved in RAF scandal

By ELIAS MALULEKE

THE probe by the Heath Special Investigation Unit into the affairs of dodgy lawyers linked to the Road Accident Fund scandal involves 176 firms of attorneys.

A body representing some of the attorneys, the South African Association of Personal Injury Lawyers (Saapil), is trying to have the Heath Unit investigations stopped.

City Press was yesterday informed that serious complaints under investigation concern some 32 lawyers who are alleged to have had siphoned millions of rands from the Road Accident Fund and their clients.

Advocate Jan Lubbe of the Heath Unit confirmed that investigations against three of the lawyers had been completed.

One of the lawyers is facing 45 charges.

"It is impossible to say accurately at this stage how much is involved, but in only one case more than R1 million is involved," Lubbe said.

He said despite the court interdict, investigations would continue until the Saapil court application was heard in court.

Lubbe said among the alleged corruption uncovered by his unit, was the failure to inform clients of the lawyers what amount was paid by the Road Fund.

"In some instances the attorney will then draw two cheques on his account and hand one to his client and pocket the other one," Lubbe said.

In other cases, claimants were slapped with excessive costs called "overreaching" for work done.

Lubbe said this was illegal and amounted to unprofessional conduct on the part of the lawyers.

Members of Saapil could not be reached for comment yesterday and messages left on the voicemail of one of the officials were not returned.

The Saapil has in the interim pending the application, asked the Heath Unit to give its members a 10 days notice before any investigations can be conducted against them.

This was to ensure that the lawyers who are to be probed can be given the opportunity to challenge the Heath probe against them in court.

The application to stop the Heath Unit investigations against the lawyers is expected to be heard in the Pretoria High Court next month.

Saapil filed supplementary papers with the court on August 6 and the opposing papers must be filed on or before September 17.

Judge Lubbe said the application by the lawyers was not only to stop the investigations, but to seek the the dissolution of the Heath Unit on a constitution issue.

He said the action was being brought against the justice ministry and his unit.

The application would be opposed, but the unit would abide by the court's decision.

Lubbe said in the meantime, the unit would proceed with its investigations.

Snowy Smith, who has been leading a campaign to expose corrupt lawyers, told City Press yesterday that he had many more cases of fraud by lawyers.

He said the corruption was also being carried out by lawyers in cases involving the funding by the Legal Aid Board.

It was revealed by City Press last month that the LAB had been ripped off by some lawyers who are funded by the Board to deal pro-deo in civil and criminal cases.

Smith, who is leading the Complaints Against Attorneys organisation from Durban, said the lawyers involved in corruption were also quick to destroy files of the cases once they became aware they were under investigation.

He said to get more money from the LAB in connection with divorce claims, the lawyers tended to stretch the cases for years with petty issues which included string of letters, unreasonable high settlement demands, failing to act in good faith and creating animosity between the parties.

Smith said he has dealt with hundreds of cases involving complaints against lawyers in connection with the Road Fund.

"The lawyers must clean up their houses and if they have nothing to hide, why are they trying to stop the Heath investigations," Smith asked.

He added that the government should institute a commission of inquiry to investigate the lawyers alleged corruption activities in both the Road Fund and the Legal Aid Board.

The New National Party has also come out in full support of the Heath Unit.

NNP justice spokesperson, Sheila Camerer, said Saapil was barking up the wrong tree in trying to stop the probe.

Camerer said Saapil was applying the shotgun tactics.

The Transvaal Law Society said there was an element of hysteria in fraud allegations by the Road Fund and the Legal Aid Board against attorneys.

The society president, Emile Boshoff, said although the society was aware of some of the accusations, there was a degree a hysteria on what the lawyers had allegedly done.

Boschoff said the society was prepared to investigate the allegations of fraud against its members, but needed more information before acting.

Boschoff said the society needed specific claims and to hear the other side of the story to deal with the complaints.

Micro-lending under scrutiny

Marcus lashes out at abuse of clients

By MALOSE MONAMA

THE deputy governor of the South African Reserve Bank, Gill Marcus, this week hit out at the micro-lending industry saying it had earned itself a tarnished image for bad practices.

Marcus was addressing a meeting of the Micro-lenders Reporters' Club in Midrand this week.

Marcus said although the industry provided a crucial financial service to those who had no access to formal financial services, it had a very bad reputation for abuse of clients, charging exorbitant interest rates and the illegal holding of IDs, bank cards and their confidential PIN numbers.

The deputy governor said the mushrooming of cash lenders followed the relaxation of the provisions of the Usury Act for loans under R6 000.

The need to regulate the industry arose out of the blatant abuse and the compromising of consumers by some "sharks" within the industry, she added.

The formation of groupings such as the Micro-lenders' Association and others was an attempt at self-regulation.

Self-regulation has, however, not been easy to achieve.

Government has had to step in and assist in establishing a regulatory framework for the industry, she said.

Progress has been made with the establishment of the micro-finance regulatory council.

All micro-lenders will be required by law to register with the council to enable them to conduct their business.

Affiliated micro-lenders will then need to be issued with a notice of designation by the Registrar of Banks as persons authorised, subject to certain conditions, to conduct the business of a bank. This means that micro-lenders not affiliated with the council would not be allowed to take deposits.

"Thus the steps proposed and taken would bring the micro-lending industry under the ambit of the Registrar of Banks."

Although there are still some contentious issues that the micro-lending industry still want sorted out, the council is in place and has a board of directors.

Its main objective is the promotion of the common interests of micro-finance members, providing small loans in compliance with the provisions of the council.

Micro-lenders wishing to register with the council will need to pay a non-refundable application fee of R3 000 as well as an annual licence fee of R5 000.

Registered members are also to be subjected to regular inspections which will be driven by queries from consumers and members of the public.

The Micro-lenders' Reporters Club has a committee of three, composed of industry representatives and members of the media.

New regulations for cash loans activity

ASSOCIATIONS in the micro-lending industry still have a vital role to play.

Before 1992, the "loan sharks" ruled the South African short-term cash lending industry.

But after consultation with some money-lenders, the government decided to exempt loans up to R6 000 from the Usury Act to allow for the self-regulation of the micro-lending industry.

The result was the rise of the formal micro-lender. Loan sharks found it harder to survive.

The formal micro-lenders also started to organise themselves in associations to represent their interests.

Unfortunately, there was still loan sharks around who abused the uninformed borrowers.

The government then repealed the R6 000 exemption and replaced it with a new exemption effective from September 15.

The amendment will increase the amount exempted from the Usury Act to R10 000.

Under the exemption, all micro lenders must register with the Micro Finance Regulatory Council (MFRC).

As MFRC membership will cost micro lenders about R5 000, many of them terminated their membership from the associations, which also cost them money – albeit less than R5 000.

These micro-lenders' argument is that they do not need associations anymore.

However, experts say they are wrong. Micro lenders will still need associations.

The only question is what role will these associations play.

Flip du Plooy, chief executive of the Association of Micro-lenders (MLA), says that associations are the only mouthpieces of micro-lenders on the board of the MFRC.

Currently, there are only two representatives of associations on the 12-member MFRC-board.

He sees the role of associations as supportive to the MFRC. The associations will be the MFRC's eyes on the ground.

The MLA has even before official regulation, developed strict rules to which its members must comply with.

But Henk Vivier, managing director of the Alliance of Micro-lenders and Associated Consumers (Amlac), says that the policing job should be left to the MFRC and the government.

Associations' worth will be measured by their ability to provide members with information and strategic analysis, to ensure that they will always be ahead of those who do not belong to associations.

They will therefore have to empower themselves and provide their members with a forum of perceptual and commercial value to them.

City Press MICRO FINANCE SURVEY

(F8) CP 5/9/99

New laws for cash lenders

THE micro-lending industry is on the verge of drastic changes.

Most changes are meant to benefit the consumers, but unscrupulous lenders will still abuse the uninformed.

Experts agree that new legislation will contribute to a more credible industry.

However, they have warned that the same legislation will lead to closing down of many small micro-lenders, as well as those granting short-term cash loans.

Professor Piet du Plessis from the University of Stellenbosch and advisor to micro-lender, Miloc Holdings, says the micro-lending industry will be characterised by a shift away from cash loans to long-term loans.

This is because legislation will increase the costs of small micro-lenders and limit its income potential due to the limit placed on the maximum interest rate that may be charged.

Therefore, the small legal cash loan micro-lender will disappear.

This will result in the mushrooming of illegal cash loan operators in the informal sector.

They will continue to abuse borrowers by charging astronomically high interest rates, pushing borrowers into a debt spiral.

However, he also sees an opportunity for the formal and legal micro-lender to empower the community through education.

Micro-lenders have the best infrastructure to educate borrowers.

If consumers can be taught about issues such as financial planning and the economy, the whole country will benefit from a higher educated population.

Education is also a way to ensure that consumers are informed and stay away from illegal, short-term, cash loan micro-lenders.

Johan Howell of Thuthukani Financial Services says the formal micro-lending industry could prepare consumers to enter the banking sector.

The micro-lending industry will provide them with a chance to build a credible track record of loan repayment.

Once their income and credibility have increased sufficiently, they will be able to borrow from banks.

Another significant change in the role of the micro-lending industry will be the provision of a full range of financial services that will satisfy the needs of consumers.

Casper Oelofsen of Finais Financial Services says the client will become the most valuable asset of the micro-lender in the future

FORESIGHTED ... Unifer group executive director Corne Ferreira and Nehawu's Vusi Nhlapo

Unifer's happy with unions

By SIMBA MAKUNIKE

THE Unifer group, with a term-loan book of R1,6 billion, is beginning to reap the fruits of a long partnership with South Africa's trade unions

Group executive director, Corne Fereirra, told City Press this week that his institution has steadily built up a client base of over 400 000 since 1993 when they packaged a product with the Police, Prison and Civil Rights Union (Popcru).

Since then the group has had numerous agreements for the provision of broad-based financial services with individual unions in the Congress of South African Trade Union stable like National Education, Health and Allied Workers Unnion, Numsa, four Sadtu provinces, the TGWU, SASBO, SACPAWU and the newly formed CEPPWAWU – a merger of the chemical and the paper and printing workers unions.

Under the agreements, Unifer will provide a broad-based financial services for the unions's members, including micro-lending.

"We have a captive market and considering the fact that there are more than 1,2 million union members, there is a lot of potential," Fereirra said.

He said the fact that their clients are trade union members and employed, played a significant role in their bad debt position.

"Our bad debts are less than one percent because of our relationship with the unions and that all our premiums are collected via a stop order system direct from the client's salary," he said.

Fereirra said 80 percent of the micro-loans issued out by his group were funded by Unibank, a wholly owned subsidiary of the Unifer group.

The balance is funded by other financial institutions.

"It is our intention that by next year, 100 percent of the micro-loans we give out will be from our bank."

Apart from Unibank, the Unifer group also wholly owns the Fereirra Group, Credit Build and an insurance arm comprising of Constancia, Global Insurance, MBI and Rubeinstein.

It offers loans from R1 000 to R15 000 at a rate of prime plus 10 per annum.

On the recent changes to the Usury Act fixing interest rates and abolishing the surrendering of bank cards to micro-lenders, Fereirra said the move was more than welcome and that they have always pegged their rates to within the Act's requirements and are fully supportive of the new regulations.

Court to decide on Usury Act exemption

By SIMBA MAKUNIKE

THE Pretoria High Court will on Wednesday hear opposing arguments on the Usury Act Exemption Notice 713, which is aimed at protecting consumers from being ripped off by unscrupulous micro-lenders.

The court action was instigated by the Micro-lenders Association, who told City Press they were against the notice's ban on keeping cards and PIN numbers and the "unscientific" interest-rate calculation.

According to the notice, the minister of trade and industry can cap interest rates at 10 times the average prime rate of the country's four major banks – a monthly rate of about 13,75 percent, using a formula applied in the notice.

The regulation takes effect on September 15.

The retention of bank cards and PIN numbers, the notice said, left borrowers at the mercy of money lenders and could be abused by unscrupulous loan sharks.

"The MLA will seek an order from the High Court setting aside the decision of the minister, alternatively an order declaring these sections to be ultra vires. An order is also being sought to declare them unconstitutional," MLA spokesperson Flip du Plooy said.

Du Plooy said while the MLA supported the new regulations, it was against the lack of consultation leading to the notice's promulgation.

"We want the minister and the Micro Finance Regulatory Council to come together with us and forensic auditors to discuss the issue of interest rates, which has not been done scientifically."

Capping the interest rates and banning the retention of bank cards and PIN numbers in the absence of alternative security would threaten the viability of the industry.

"The sudden and unilateral fixing of the maximum interest rate at the rate which the minister did, took place without any indication from him as to how the rate of ten times the prime overdraft lending rate of the four major banks was arrived at, or precisely what factors were taken into account in fixing such a rate."

His association was not afforded the chance to give input into the minister's decision, he said.

"The MLA is in full agreement with the minister that the maximum rates in the lending industry should not be left unregulated ... however, if such regulation was going to take place, it should be market-related and scientifically researched, protecting the borrower while at the same time allowing the lender some profit."

DTI chief director Alan Hirsch said his department was going to contest the case. He saw nothing wrong with the notice and how it was brought about.

He said his department followed all the necessary steps before coming up with the regulation.

"We are operating on the premise that we will win this case. We do not see anything wrong with the exemption and are fully convinced that a significant proportion of the micro-lenders will remain in business when the exemption takes effect from September 15," he said.

Micro-lenders tackle the problems facing industry

AMIDST an uncertain future and court cases against the Government regarding certain aspects of new legislation, a group of micro-lenders has decided to address the problems confronting the industry.

The Alliance of Microlenders and Associated Consumers (Amlac) has organised a forum where all the major role players in the micro-lending industry can discuss problems in the new regulatory environment.

Henk Vivier, managing director of Amlac, said the special meeting, held in George, Western Cape, on Friday, was in line with Amlac's viewpoint that constructive dialogue will determine the solutions to the industry's problems.

They discussed issues such as an alternative payment system for micro-lenders – it will be illegal to take clients' bank cards and PIN numbers from September 15 – the problems caused by the way the maximum interest rate is determined and the deduction of payments direct from clients salaries. The intention is to decide on a strategy which will benefit Amlac. The meeting was attended by Amlac, the Department of Trade and Industry, Micro Finance Regulatory Council, ABSA, Saambou Bank, Unibank, PSG, Mycomax, Compuscan, Micro-Lenders Credit Bureau and Applitech.

Microlenders!

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Road accident fund scam lawyer struck off Cape roll of attorneys

ASHLEY SMITH
High Court Reporter

(58)
ARG 10/9/99

Athlone lawyer Hoosain Mohamed, implicated in a road accident fund scam in which millions were stolen from accident victims, has been struck from the Law Society of the Cape of Good Hope's roll of attorneys.

Mr Justice Fritz Brand and Mr Justice Selwyn Selikowitz ruled in the Cape High Court yesterday that Mr Mohamed was "unfit to be an attorney" and that the charges brought against him by the Law Society indicated that he had committed theft.

Mr Mohamed, a prominent Cape Flats personality who lives in a luxury, double-storey mansion in Rylands, was not at the proceedings.

Those who allege he stole from them live in impoverished areas of the Cape Flats.

The judgment against Mr Mohamed follows an application last Friday by the Law Society to have him and a senior partner in his law firm, H Mohamed and Associates, Ahmed Ayoob Chohan, struck from the roll.

The society alleged that Mr Mohamed and Mr Chohan stole clients' payments from the Road Accident Fund for 15 years.

Law Society lawyer Steven Koen argued that Mr Mohamed and Mr Chohan were guilty of "unprofessional, dishonourable and unworthy conduct, that they had brought the legal profession into disrepute and that they had 'character defects', and were not fit to practise as attorneys".

Mr Chohan did not oppose the application.

The allegations detailed in the application included one that Mr Mohamed stole R800 000 from the trust fund of accident victim Jerome Madela, and that he defrauded Freddie Yalezo of R30 000 and Mr Yalezo's brain-damaged, nine-year-old daughter, Noxolo, of R150 000.

The society alleged that Mr Mohamed committed the thefts to reduce his law firm's bank overdraft.

The alleged frauds were exposed by Mark Hess, a former employee at H Mohamed and Associates, when he leaked about 30 client files to the investigative magazine, Noseweek.

Judge Selikowitz yesterday also ordered Mr Mohamed to pay the costs of the application and the fees of the independent forensic auditors appointed by the Law Society to inspect his law firm's books.

Earlier, Mr Mohamed's lawyer, Anwar Albertus, said Mr Mohamed admitted to taking R800 000 from the trust fund of an accident victim, but that he had returned the money.

Mr Albertus argued that Mr Mohamed had chosen to ignore the society's guidelines for how much attorneys should bill road accident victims, because his "billing system" ensured that his poor clients could claim from the fund.

The system included an agreement with clients that he would bill them for the "risk factor" involved in taking their cases.

This agreement was that he would charge a "success fee" if a claim was successful.

In papers submitted by the society, the victims denied they had had such an agreement with Mr Mohamed.

According to court papers, Mr Mohamed received two cheques from the Road Accident Fund to pay each road accident victim, and that he pocketed the second ones. Mr Albertus said the Mr Mohamed was entitled to the second cheque.

"Normally, big attorneys' firms want up-front payment before taking cases from poor people. By not charging up-front my client was acting like 'Robin Hood' and gave poor people access to justice," he said.

Mr Albertus said Mr Mohamed admitted he had not kept proper records of how much he had billed his clients.

This included not recording in his client files exactly what he was billing them for.

Innovation is the key to efficient microfinancing

ET (BR) 14/9/99

(58)

The retention of borrowers' ID books, ATM cards and PIN numbers by some moneylenders, as well as the exorbitant interest rates they often charge to poor and generally desperate borrowers, are at the heart of a dispute that has led the Association of Microlenders and others to take the trade and industry department to court over the department's attempts to outlaw such unsavoury practices.

The court has ruled that the department's attempt to set the maximum interest rate for microlenders at 13 percent a month – under half the going rate of 30 percent a month for short-term loans and 40 percent for longer-term ones – and the practice of retaining ATM cards to ensure repayment would have to be argued next month.

Only the right of Alec Erwin, the minister of trade and industry, to make lenders register and account to the Micro Finance Regulatory Council was upheld.

Sharda Naidoo, the executive director of the Alliance of Microenterprise Development Practitioners, says about the court decision: "Where in the world would a very large number of businesses be allowed to base their transactions on totally unethical practices like handing over one's bank card and PIN number to a stranger?

"How can it be acceptable to pay 30 percent a month for a loan when those better off can conduct credit card purchases for 25 percent a year?"

The ceiling on interest rates is clearly at the heart of moving towards a regulated microlending environment. Too high an interest rate deepens the debt trap of poor people.

But too low a rate does not give the lender an adequate return on the risk in lending to the informal market. Establishing a rate ceiling would drive moneylenders underground. As long as there is a need for credit, there will be suppliers, and the law will not be able to reach them all.

ZARINA MAHARAJ

Flip du Plooy, the executive officer of the Association of Microlenders, agrees that the 1000 percent a year interest of many moneylenders is too high.

But he insists that the department's proposed interest rate ceiling of 165 percent a year, 10 times the prime rate, is too low.

Leaving interest rates hovering anywhere between 165 percent and 1000 percent is no answer.

Grasping this nettle involves getting microlending institutions to master the principles of lending efficiency so that the costs of administering loans and those of bad debts will be reduced, allowing microlenders to cut the interest they charge and still make a profit.

Some innovative thinking about microfinancing seeks to balance the credit needs of poor people with the financial viability of lending institutions.

Instead of looking at those living in poverty as a single market with a homogeneous set of needs, divide the poor into categories: the poorest of the poor, or those in the bottom 50 percent under the poverty line; the poor, or those in the upper 50 percent under the poverty line; and the not-so-poor, or those above the poverty line but still unable to meet all their basic needs without help.

The credit needs of those at the lower end of the poverty spectrum can be met by a form of "welfarism", generally practised by organisations which lend to assist the very poor to become self-employed.

Experience shows that because of the relatively high costs of many small transactions, welfarist organisations cannot become financially self-sustaining in the short to medium term.

These organisations tend to rely on donor or state funds to disburse loans to the poor until they can become self-sustaining by mastering and implementing the so-called "best practices" of microfinancing to achieve acceptable efficiency ratios.

The credit needs of the upper end of the poor can be met by "institutionism". Institutionism tells us that there is a market segment for conventional private sector banks to target.

Such targeting converges with the social objective of eradicating poverty.

The challenge for microfinance today is to achieve efficiency through a focus on client needs based on proper market segmentation.

MAIL & GUARDIAN
September 10 to 16 1999

Mainstreaming the microlenders

While legislation regulating microlenders is the subject of a legal battle, the industry is in a state of flux, writes **Belinda Beresford**

(58) M+G 10-16/9/99

It happens to even the most highly paid individuals. Bad personal money management or just a particularly demanding month financially, and suddenly there's a cash crunch.

Creditworthy customers can turn to their banks The less creditworthy, and those without access to the formal banking system, have to turn to other resources such as pawn shops and moneylenders.

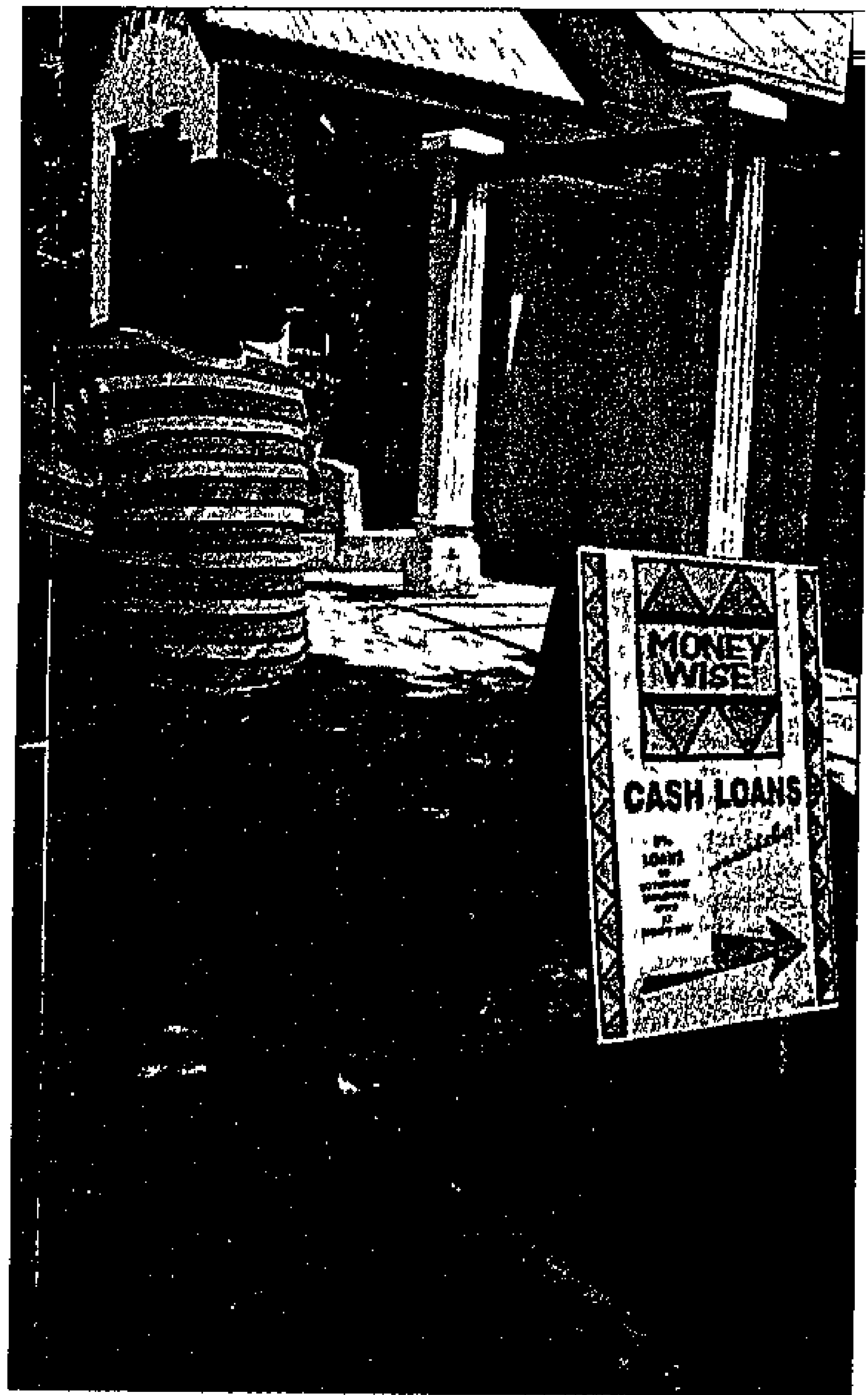
Legislation regulating the microlending industry was due to take effect on September 15, but the issue has been clouded by a court judgment this week that some regulations could not be implemented

The legislation promulgated by the Department of Trade and Industry requires all microlenders to register with the Micro Finance Regulatory Council (MFRC).

The Pretoria High Court decided that while the registration requirement can stand, a cap on interest rates and the ban on taking ATM cards, personal identification numbers (PINs) and identity books as security is unenforceable. Rather they'll be the subject of further debate in court next month.

Microlenders who do register will be exempt from the Usury Act. Those who do not comply will fall under the provisions of that Act and be limited to maximum yearly interest rates of between 29% and 33% a year, according to the MFRC.

The legislation had capped maximum annual interest rates at 10 times the prime interest rate. Presently the interest rate is capped at 165% a year. This compares to interest rates of about 27% a year on credit cards.



On the move: Microfinancing is big business in South Africa. PHOTOGRAPH: MAGRIET THERON

Moneylenders have justified their higher rates by the greater risks they accept in lending in the informal market. While this relationship between risk and return is generally accepted, there have been numerous instances where moneylenders have abused their customers. An industry insider says interest rates of 30% to 40% per month are common

Flip du Plooy would not say what a 'scientifically' reasoned interest rate might be, other than to agree that an annual rate of 1 000% would be excessive

In addition, microlenders do not have to register as a company or close corporation by the deadline; they can instead do so as a natural person and change the registration later.

The Association of Microlenders, one of the parties in the court case against the legislation, has said the interest rate had been calculated in an "ill-considered and unscientific manner".

But this week executive officer Flip du Plooy would not say what a "scientifically" reasoned interest rate might be, other than to agree that an annual rate of 1 000% would be excessive.

Microlending is fraught with problems. Some moneylenders demand customers sign blank contracts, which are filled in later.

Another disquieting problem is the practice of demanding the PIN and ATM cards of their customers, and their identity books. This allows the lender to withdraw money directly from the borrower's bank account

The drawback for the borrower is difficulty in getting access to their account, unless they incur the charges of going to a bank counter to make a withdrawal.

The system is also open to gross abuse — loan sharks have been known to spontaneously take out extra sums of money as extra "fees".

For the lender there is also risk: one banking official says that microlenders sometimes have to wait by ATMs in the middle of the night, armed with borrowers' cards and PINs in an attempt to get the money before the customer gets to the bank to withdraw it.

Microfinancing fills an important niche and is not only used by the desperate. For entrepreneurs, for example, microfinancing may be the only way to get seed capital for their business.

Certainly, microfinancing is big business.

Exact industry figures are hard to come by, since it is so informal. However, Absa estimates that when the dust from the required registration dies down there will be about 5 000 legal microlenders.

The bank estimates the industry provides about R15,5-billion in advances. Repayments of R1,125-billion are made through more than two million monthly installments.

The risks are undoubtedly there, but so is the moneymaking potential, demonstrated by the number of entrants into the market, such as Unibank and King Finance.

Increasingly, the major banks are interested in lower-income finance.

Microlenders sometimes have to wait by ATMs in the middle of the night to get the money before the customer withdraws it

Standard Bank, for example, is looking at moving into the microfinancing arena using its 2,6-million E-Plan customers, while Absa created NUBANK for this kind of business.

A new development has been the cration of Nu Payment Solutions, by Absa and electronic company Itas, to provide technological solutions to improve the moneylending industry.

The new system will see special point of sale machines installed at participating vendors Once a loan has been agreed to, the borrower will insert his or her ATM/debit card and key in the PIN. The borrower will then authorise future-dated monthly installments to repay the loan. Once the transaction is done, the lender knows the repayments are scheduled and authorised, and that they will be deducted automatically, while the borrower will retain his or her card and the PIN will remain private.

Eric Tomlinson, operating executive at Absa, says neither party can alter the repayments unilaterally, but similarly, anyone wishing to repay a loan early will have to get the approval of the lender. Merchants will be probably be charged about 2%, according to Tomlinson.

There is still a debate about whether this charge can be passed on to the consumer or whether it would be contained under the disputed interest rate cap.

This is the latest attempt at finding a way which gives lenders security that they will get their money back, while protecting consumers. Previous methods, such as payroll deduction, have their drawbacks — the employer could go bust or refuse to co-operate.

While the government and the microlending industry argue over regulation, the action by Absa and Itas seems to indicate another moderating influence on microlending. The movement of the mainstream banks into the industry is likely to contain interest rates and improve the treatment of customers.

Unfortunately, there will probably always be those so desperate they will agree to anything to get a loan.

Additional reporting by David le Page

Finance council 'ineffective'

CT 17/9/99 (68)

GUSTAV THIEL
CONSUMER WRITER

WHILE Wednesday was the last opportunity for money-lenders to register with the Micro Finance Regulatory Council (MFRC), the Black Sash Trust has questioned the effectiveness of the council in the light of a court ruling that suspended key aspects of new regulations for money lenders.

On July 1, Trade and Industry Minister Alec Erwin announced an exemption from the Usury Act that is designed to regulate the micro-lending industry in South Africa.

The Pretoria High Court ruled last week, after an application brought by the Association of Micro-lenders, that the department of Trade and Industry's attempt to set the maximum interest rate for micro-lenders at 13% a month and the practice of retaining ATM cards to force borrowers to pay debts, would be argued in court next month.

The court upheld the department's stipulation that micro-lenders had to register with the MFRC by Wednesday.

Erwin has called on all money-lenders to register "in order that they may benefit from the provision of the exemption" and views the order as support for the approach that the "micro-lending industry must be regulated and consumers must be protected".

The council's chief executive officer, Neville Zar, says money-lenders who failed to register will be subject to the penalties of the Usury Act, which include imprisonment or a fine.

The Black Sash Trust has sent a warning to consumers and the government stating that the MFRC, was an ineffective body "promoting the interests of industry at the expense of consumer protection".

The Black Sash will release a detailed report in mid-October on the money-lending industry and access of the poor to credit. The trust furnished the *Cape Times* with the provisional results of this report.

According to Duncan Marsh, a Black Sash spokesperson, the report draws heavily on the experiences of the borrower and industry insiders.

He adds that the underlying reasons for the MFRC'S ineffectiveness were that it had no specific focused function for dealing with money-lenders, had a lack of knowledge of the industry, that consumer representation and protection was not taken seriously, and that there was an over-reliance on consumer education and a resultant lack of emphasis on forcing money-lenders to comply with regulations.

Marsh says "only 1 000 from a possible 30 000 money-lenders have registered with the MFRC. Only lenders who intend to comply with the new regulations have registered.

"In theory non-registered lenders will be operating illegally and will be dealt with by the department of trade and industry, but the department has neither the capacity nor resources to regulate non-registered lenders".

The Black Sash said that the department "has two Usury Act inspectors who, since 1992, have not brought a single prosecution against a money lender, despite copious evidence of systemic abuses within the industry."

Zar says: "Since the start of the registration process, the number of applications received by us signalled the money-lending industry's acceptance and has embodied the need for regulation."

Moneylenders queue to sign up with council

(58)

Many microlenders waited until the last minute, hoping a High Court ruling would decide in favour of non-registration, writes S'THEMBISO MSOMI

ST(BT) 19/9/99

SCORES of moneylenders queued outside the offices of the Micro Finance Regulatory Council (MFRC) in a scramble to register before the closing date for application on Wednesday.

MFRC chief executive Neville Zar said some had travelled from as far away as KwaZulu-Natal in an attempt to meet the deadline.

In an attempt by government to protect the public from unscrupulous loan sharks, all microlenders are required in terms of new legislation to register with the MFRC.

Since the Usury Act exemption came into effect in June, few companies have shown enthusiasm for the process.

Zar attributed the slow start in the registration process to a High Court challenge by some moneylenders who oppose the validity of the council and some of its rules.

The moneylenders are mainly challenging stipulations in the exemption notice which provide for the capping of loan interest rates and which outlaw the confiscation of borrowers' bank cards as a debt collection method.

"Many lenders left it to the last minute, hoping the High Court would rule against the process of registration.

"However, the court recently ruled that this provision of the Act should remain valid, hence the sudden increase in the number of applications," explained Zar.

The High Court hearing resumes in October.

Since the court ruling on registration, the council has been receiving an average of 500 applications a day. Applicants range from financial institutions such as Absa and African Bank to individual moneylenders. MFRC's 20 employees are processing more than 5 000 applications.

Although he is not sure about the size of the industry in SA, Zar is confident most have heeded the call and registered.

"There is definite support for the process from the industry as they realise this will bring credibility. It will also help us with data on the size of the industry — speculations range between 4 000 and 8 000 microlenders operating in South Africa," Zar said.

The Department of Trade and Industry has warned it will investigate companies and individual lenders who fail to apply for registration.

Zar said the council had powers to fine, warn or deregister any moneylender failing to comply with the rules.

"We have set minimalist registration criteria which allows all kinds of lenders to be part of the system," he said. "But we also have a duty to provide adequate consumer protection. Hence all those registered are required to follow certain rules."

After completing the registration process, the MFRC intends to shift its focus to educating borrowers about fair lending practices.

In search of the small-business loan

There are ways for entrepreneurs to borrow money without sky-high fees, writes Belinda Anderson

BD 22/9/99 (58)

NTSIKI Gwebu is an entrepreneur who started out in 1993 with R60 000, a business plan and a vision

She started a tissue manufacturing company called Jacaranda Tissue Four years later she obtained R1,3m equity to grow her business by purchasing advanced machinery. She now plans to expand to local retail chains and later into Africa

Examples like this prove that entrepreneurial initiative can pay off They also suggest that there are an increasing number of financing mechanisms available to the entrepreneur who knows where to go This flies in the face of perceptions that the biggest problem for small, medium and microenterprises is the lack of access to capital

Debt is the most traditional source of funding for any new or growing venture. But if there is anything last year's interest rate hike will have taught borrowers, it is to be careful of borrowing too much too quickly

There is a better route for small businesses not wanting to pay exorbitant microlending rates or bank rates of three to six percentage points above prime

Microlenders operating under the Usury Act exemption can provide a maximum of R10 000 at up to 10 times prime. Banks will provide between R10 000 and R50 000, which is charged at prime plus 6% Loans above this level are charged at lower rates of interest And the entrepreneur must contribute 10% own capital

The alternative is to obtain equity through one of the many institutions seeking to partner fairly risky capital

Gwebu's tissue company is a joint venture between herself and her husband, with a 30% stake owned by an institution called Business Partners The company is the offshoot of government's Small Business Development Corporation and takes on average a 25% stake in any venture it deems to have sufficient potential.

An equity partnership involves a structured deal where the institution provides the capital needed, values what the owner already has (physical assets, trademarks etc) and takes a minority stake in the business.

If the entrepreneur's own contribution is small — in other words the business lacks sufficient collateral, but is viable — the deal will not be turned away. It will simply be structured differently bearing in mind the greater risk.

This should not, however, be confused with the private equity fund, which finances mainly medium-sized existing ventures that have the potential to be classed as venture capital

The private equity partner takes a view on the business and plans to exit within a certain time period — usually no longer than 10 years — by means of a listing, management buyout or direct sale back to the original owners or other minority taker

The more conventional equity partner will only exit when the business is strong enough to buy out its stake or has another minority wanting to purchase that stake.

Equity partners who do not fall into the private equity category usually look for businesses that fit into what they call "lifestyle" ventures. These are businesses that provide goods or services to local consumers and which are unlikely to make it into the venture capital sector because they are too small

They are the owners of restaurants and petrol stations — businesses that provide a reasonable income for their owners, but only an average return for the equity partner.

Gwebu is the owner of a lifestyle venture

The dividing line between small, medium and micro businesses is quite blurred.

Government's white paper on small business says small businesses with between five and 50 employees constitute the bulk of established businesses. But it says pinning down boundaries between the three is not simple

"Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction," the document says.

Concentrating on relatively small companies, and examining funds that provide a minimum of below R1m and a maximum of a few million, some feasible options are presented.

Business Partners, the International Finance Corporation, Msele Nedventures, and Prestige Venture are a few that provide minimum capital of below R1m. But in most of these cases the average investment size is way above R1m, indicating the fund's focus is not necessarily on small businesses, but on medium-sized ones

Gwebu, who plans to extend to retail chains, in her factory in Rosherville, Johannesburg. Picture MARTIN RHODES

Business Partners has three funds that will contribute between R150 000 and R5m to a lifestyle business, and the average equity invested per deal is about R500 000

Jacaranda Tissue is a manufacturing retail venture, for which Gwebu required R1,3m to purchase new machinery, but it is still relatively small.

Business Partners has two other funds, one for loan capital and the other for venture capital, from which it derives greater returns than from lifestyle partnerships

In the three years since government reduced its stake in the company from 50% to 20%, it has built up its capital to R1,2bn from R178m and now finances about 80 deals a month. Between 90% and 95% of these are lifestyle ventures such as restaurants, petrol stations and plumbing companies It has concluded about 2 400 deals to a total value of just over R1bn

MD Jo Schwenke says returns on these ventures are below 30% and roughly 80% to 90% of all those concluded do succeed. To guard against some inevitable failures, Business Partners has a 2,4% provision for bad debt

Most clients of the equity financing houses are still white.

Schwenke says Business Partners, which has up to now done 70% of its deals with whites and 30% with blacks, is aware of the disparity

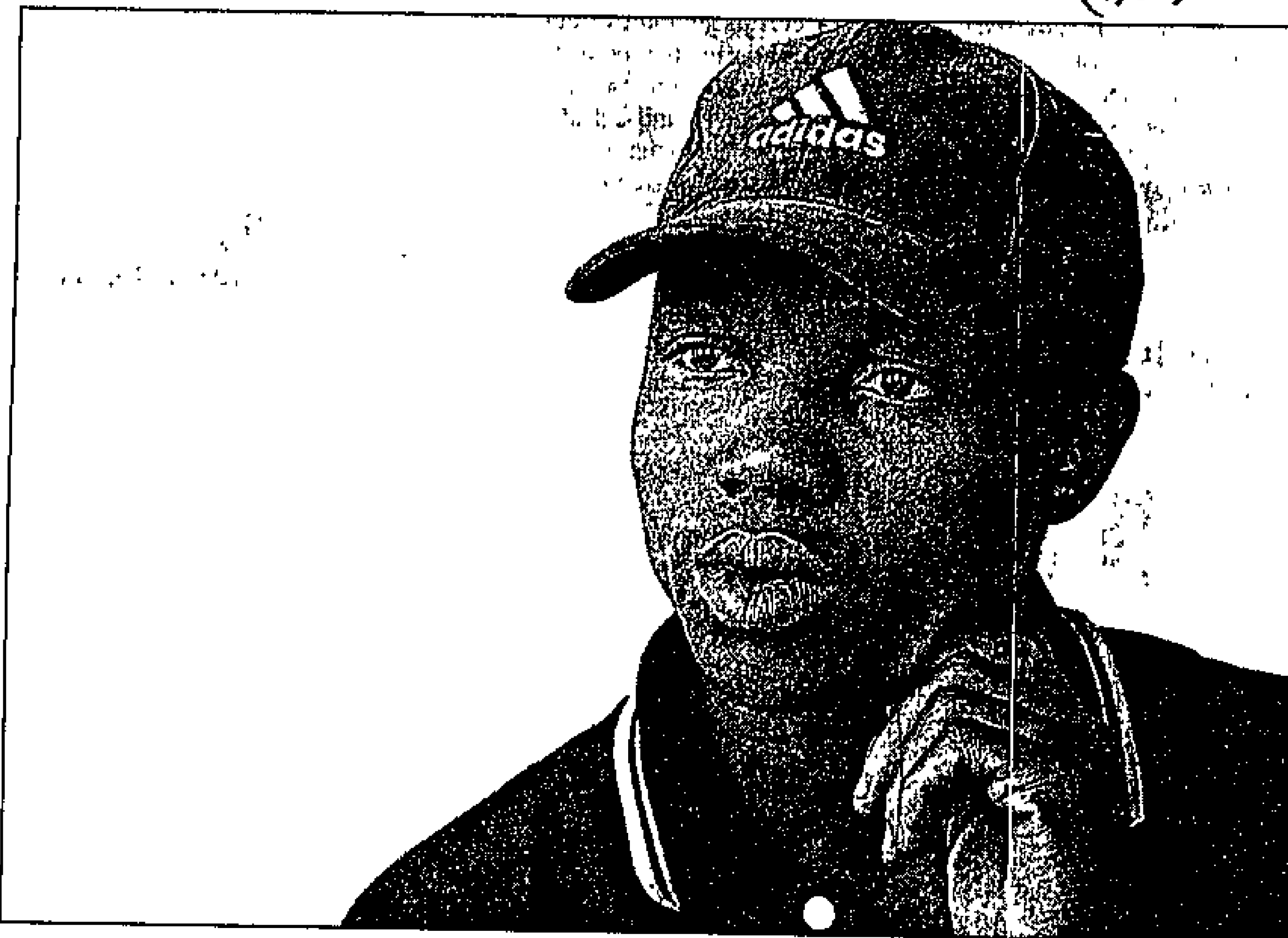
"We are actively targeting this market and doing so intelligently Retail ventures seem to be more popular with black entrepreneurs than industries like manufacturing"

Asked whether she thought black entrepreneurs necessarily battled to obtain finance, Gwebe answered "I don't believe that if you come up with a good idea there's any reason why you shouldn't get finance. Obviously the more collateral, the better for you, but the most important part is starting out with an idea and carrying it through."

Knysna's lagoon of loan sharks

(68) mG 17-22/9/99

The moneylending and debt collection industry is booming in the coastal town of Knysna, reports **Marianne Merten**



Financially snared: Geoff Jeku is one of many Knysna residents caught in a web of spiralling debt which forces him to borrow from one moneylender to pay another. PHOTOGRAPH: RODGER BOSCH

Geoff Jeku goes to one of many moneylenders in Knysna every month to put food on the table. Two years ago he borrowed a couple of hundred rands, and he is now so indebted that he has to borrow more cash just to live and support his mother, brother, sister and her children.

"The moneylender takes all my money, I can't get something to eat He takes R400," whispers Jeku "I don't know what to say It's not our idea to make these loans. When we have a problem, there's no other place to go "

Knysna, one of the Cape's most picturesque towns, is renowned for its oysters and rich pleasure seekers and as a place of retirement But underneath the hustle and bustle of the main road and its cafés, craft stores and restaurants, another industry is booming — moneylending and debt collecting.

Jeku is just one of hundreds of working people caught in the vicious circle of borrowing money to repay money.

The Black Sash started probing moneylending after people asked for help when faced with legal action Sometimes the Black Sash managed to halt what it calls "ruthless debt collections" or fraudulent practices, and in four cases the organisation has arranged for a lawyer to take matters to court.

Black Sash representative Duncan Marsh says it is disappointing that the government has promised to deal with unscrupulous moneylenders, but has not invested resources to help people like Jeku "People in Knysna and elsewhere are stuck in a debt trap which is reinforcing poverty."

Several Knysna borrowers could lose their homes after signing over their title deeds — sometimes because of pressure by debt collectors, sometimes out of ignorance. Everyone who has borrowed cash from the 13 or so moneylenders in the town handed over their bank cards and secret personal identification numbers as "security".

In many cases borrowers do not even know how much money the lenders remove from the bank accounts each month. Borrowers say they never receive receipts. Says one who was too scared to be named: "I always took him [the moneylender] as a person you could trust."

Many are afraid of the moneylenders and their debt collectors Several people did not want their stories published because they fear what may be done to them afterwards.

In 1997, Jeku borrowed R200 from a company called Seven Minute Finance to help tide him over a rough patch. This debt was settled through a garnishee order — a court order allowing another party to deduct money from a person's salary.

"He [the moneylender] told me I could now come to make another loan," Jeku says. Last December Jeku borrowed R800 from the same moneylender with R240 interest over three months and left behind his bank card. R1 500 was deducted from his bank account, yet he still owed money.

"When I asked how much we owe him, he didn't want to say," Jeku explains. "I have to borrow more money."

Over two weeks in March Jeku earned a gross income of R633,24. He was left with R19,08 after the moneylender deducted money from his bank account. A total of R443,75 was paid straight from his wages to three moneylenders or their debt collectors.

Another R115 was taken off his salary to repay a loan from the municipality's social club where municipal workers can borrow up to R500 at an interest of 13%.

Zimizele Xalibi, the father of a nine-month-old boy went to the same moneylender as Jeku.

About two-thirds of Xalibi's wages for two weeks' work in May were deducted to pay moneylenders. Of the R125,40 he received, he had to pay half to another moneylender.

Waiting to speak to the woman in charge of one of the branches of Moneywise, which won a recent Knysna business of the year award, it became clear how easy getting into debt can be

Surrounded by brightly coloured posters of smiling black women and men declaring, "Great Success" and "Great Security", a couple paid and borrowed money in less than 15 minutes. The woman paid R50, but asked for R5 back for taxi fare She did not get a receipt for the money, but her husband later had to sign a blank form for the R5.

Negotiations started over how much money the couple could get. Initially they asked for R850. But this was not possible after the Moneywise official saw the man's salary advice and explained she could only give them the equivalent of half his pay, or R780.

Obviously familiar with the couple's financial status, she asked if there have been new deductions to his pay; he now only takes home R600 of his R1 400 salary. She then told him to bring in his salary advice on the 15th of the month so she could "see if we can give you some more money".

A blank blue form was signed, and the man had to initial against another of many loans recorded in a personal file. A quick peek revealed the couple had been borrowing amounts averaging R800 for at least six months. Then the R730 was paid over.

When the couple was asked why they borrowed money, the woman said "we are struggling" before becoming angry at the questioning.

Mcoseleli Zondeka is one of the lucky few who have managed to escape the debt trap. The Black Sash is now trying to help him retrieve the money he apparently overpaid the moneylender Cashfriends He borrowed R800 to attend a funeral in King William's Town in April last year

Zondeka signed four forms, which he says, were never explained to him. Money was deducted from his bank account. In June he asked the moneylender to deduct the capital of the loan because he had received a special bonus from his employer According to him only R200 was still outstanding.

Yet when he spoke to Johan Kolbe at Cashfriends, he was given a computer printout saying he still owed R800 — or around R1 200 with interest Through a garnishee order, a further R1 047 was deducted from his salary

The moneylending business in Knysna is complex Often several members of one family run different "shops". For example, Seven Minute Finance is run by Kolbe senior and Cashfriends by his daughter Michelle J&M is run by Annelize Groenewald and her mother Debbie Naudé, whose other daughter is the deputy manager of National Finance Many of the lenders use debt collectors Soft But Sure

Although Kolbe spoke freely about the moneylending business and her reasons for setting up an office, she refused to be quoted unless it was vetted by the lawyers for the Micro Lenders Association, which, according to her, was a requirement of the association. Others were less concerned.

The moneylenders say they check the payslips of potential borrowers to find out it they owe money to other lenders. If there are more than three or four deductions to local lenders or their debt collecting agencies, the applicant will be turned down. If they approve a potential borrower, they are prepared to give loans of up to half the applicant's salary

Unofficially, some moneylenders acknowledged there are those who overcharge interest, make borrowers sign blank forms and hand over money without the mandatory three-day cooling off period

The owner of Nettcash is overseas, but his nephew Jacques Dreyer was prepared to explain how the operation works. Sitting at a table in a local antique shop where money is loaned, he says borrowers leave behind their identity documents — "They can come use them anytime" — but not their bank cards.

On application, everyone signs a garnishee order. Dreyer says loans are seldom more than R300

Groenewald says retaining bank cards as security "is the way all the moneylenders operate". She says little will change "until the government gives us another way to get the money out of these people". Aware of the pending new laws, she says the company will continue to charge 30% interest until amendments are in force.

But she dismisses the often negative perception of moneylending. "You people don't understand. The people come in and they want more money. They sit and sit there until we give them money"

For Jeku and hundreds of others in Knysna, where employment is scarce, it is a life of permanent spiralling debt.

"I'm trying to get out, but I can't. I'm in already I want to get proper money. I want to pay all the people I owe," Jeku says.

Netting the loan sharks, PAGE 20

Most moneylenders fail to register

Belinda Beresford

The Micro Finance Regulatory Council (MFRC) deadline for moneylenders to register was Wednesday, but only a fraction of those in the multibillion-rand business complied.

The micro-lending industry is so unregulated that no one knows how many operators there are, although there is general agreement that the industry is worth billions of rands each year.

MFRC acting head Neville Zar estimates there are "between 4 000 and 8 000" micro-lenders. By Wednesday evening, Zar said, "a couple of thousand" had applied for registration. However, the council's offices had been swamped with applicants in the past few days and he was confident that the number of registrations will rise rapidly.

Professor Piet du Plessis of Stellenbosch University last year concluded there are about 30 000 moneylenders in South Africa, although he admits this is largely an educated guess. Earlier this month Absa assessed the micro-lending industry to be worth about R15,5-billion per year, and said it expected there would be around 5 000 registered moneylenders when the regulatory process had gone into effect.

New legislation this year required all micro-lenders to register with the MFRC by September 15 if they wished to be exempt from the maximum interest rates stipulated in the Usury Act. The exemption allows for loans of less than R10 000 and with a loan period of less than 36 months. The limit had been raised from R6 000 after previous proposals to lift the ceiling to R50 000 had been withdrawn following intense criticism.

The Department of Trade and Industry plans to clamp down on unregistered moneylenders, using the South African Police Service and national and provincial consumer bodies as its own inspectorate.

Next month will see the next round in the legal battle to reverse a Pretoria court's decision last week to suspend some provisions of the new legislation, including the cap on interest rates. The court also suspended the clauses banning micro-lenders from taking customer's ATM cards and personal identification numbers. The disputed clauses will be argued in court in mid-October.

There is evidence that illegal and borderline tactics are widespread among some micro-lenders. Clients have been threatened with violence if they don't repay, have been forced to sign blank forms and have signed away property, including houses, under pressure from micro-lenders.

Duncan Marsh of the Black Sash has also encountered micro-lenders willing to take guns as collateral.

Complaints about moneylenders should be made to the Micro Finance Regulatory Council, at 0860-100-406 from 8am to 4.30pm

Fraud costing banks R4bn a year

FROM AFP (34)(58) CT (AR) 23/9/99

Cape Town – South Africa's banking sector was losing about R4 billion every year to fraud, a banking official told a parliamentary committee yesterday.

Last year the industry also lost about R1,1 billion to robbery, Bob Tucker, the chief executive of the Banking Council of South Africa, told the safety and security committee in a briefing.

The large amount was despite a 22 percent decline in bank and cash-in-transit robberies, from 465 in 1997 to 382 in 1998, attributed to a tightening of security, Tucker said.

He estimated that 40 percent of commercial crime in South Africa was committed in the banking sector.

Of nearly 60 000 commercial crime cases opened by the police last year, more than 84 percent was related to fraud and about 7 percent to forgery, he said.

Last year cheque fraud cost the industry R151 million.

Tucker said that automated teller machine (ATM) crime, often committed by syndicates, was another headache for banks, with about 11 000 cases reported each week. This was estimated to be half of the actual number of incidents, he said.

Not all lenders are sharks

M+G 23-30|9|99 (58)

Jimmy Roth
CROSSFIRE

The editorial "Netting the loan sharks" (September 17 to 22) makes some crucial errors in its presentation of township credit markets The editorial, like the amendment to the Usury Act, is in danger of contributing to the further impoverishment of the poor in South Africa.

On the basis of what evidence does the *Mail & Guardian* make the claim that "the bulk of what are politely called 'micro lenders' are often little more better than loan sharks who have long bled dry the poor and the desperate"? Medieval stereotypes? Perhaps a handful of horror stories from the Black Sash? Hardly enough to tar a whole industry.

In attempting to draw inferences about the whole sector from the data collected by Black Sash, the *M&G* makes an elementary error. The sample of moneylenders the Black Sash encounters in its advice offices are those clients whose relationship with their lender has, for various reasons, broken down. It's a bit like writing an editorial about the institution of marriage and going to a divorce lawyer for case studies.

The editorial makes numerous factual as well as analytical errors. The first factual error is the claim that "the micro-lending industry has flourished as just about the only access to credit for poor people". In a study I have just completed in the Grahamstown township, I found that, subject to similar lending criteria as semi-formal moneylenders, poor people can obtain credit at varying rates of interest from: hawkers, spaza shops, shebeens, furniture shops, township moneylenders, clothes shops, some employers, the Consumer Credit Corporation, lending stokvels and, to a small extent, formal banks

Thus they have a range of sources from which to obtain cash on credit and an even greater number of sources from which they can obtain goods and services on credit.

The editorial mentions further on that "increasing numbers of customers find themselves in a debt trap" and presents evidence that "70% of borrowers from micro-lenders are taking out new loans to pay off old ones".

A few paragraphs later in a reference to moneylender interest rates, the editorial states that a rate of 30% to 40%, "translates into an annual interest rate of 2 000%". The impression is created of the creation of an endless and ever-increasing debt spiral. This very rarely occurs in practice.

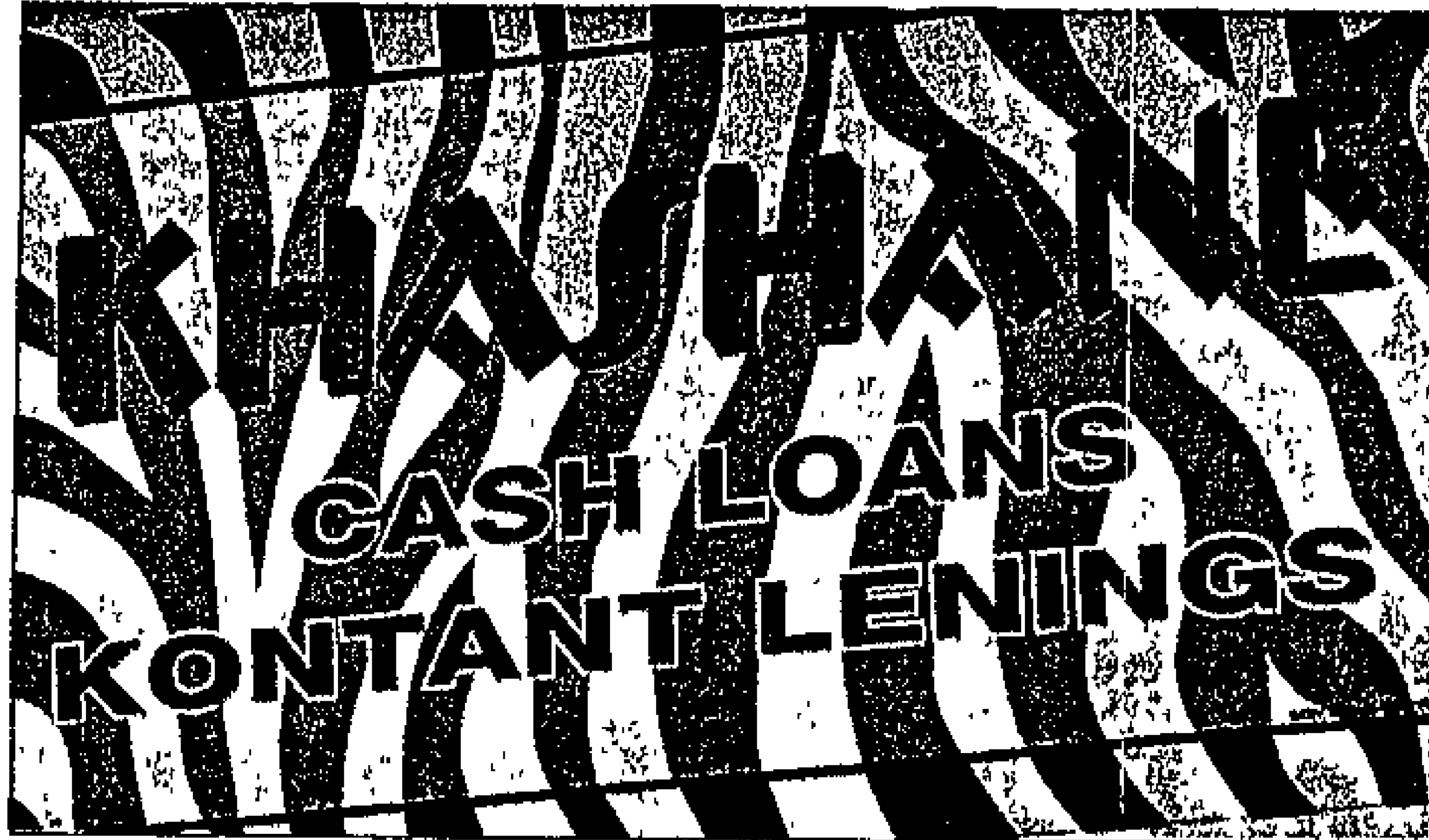
Lenders set credit limits. They do this not because they care about their borrowers but because they want to get repaid. In the absence of good collateral, a lender concerns himself or herself with determining the borrower's willingness and ability to repay.

If the lender believes that a loan is so large that the client is unable to repay she would be foolish to lend it For much the same reason none of the lenders I interviewed in Grahamstown, nor any of the borrowers I interviewed, reported the compounding of interest rates to much beyond the initially quoted rate of 30 to 50%

The fact that many borrowers take out new loans to pay back old ones is in itself neither good nor bad. Many rich people live for months on their credit cards before they pay them off with their 13th cheque Numerous borrowers I interviewed borrowed with the expectation of some large pay-out, for example, a disability grant.

It is tragic that some desperate borrowers lie to their lenders about other debts and consequently default on their loans But this cannot be blamed on the moneylenders, who then bear the losses.

Much of the demand for crisis credit could be reduced by improving the efficiency of state services. People often borrow when their pensions fail to arrive, or the salaries of state employees have not been paid or because they fall ill and want to avoid state hospitals Moneylenders come to the rescue of these people when no one else will People undergo crises first and then need to borrow. To suggest that the poor are somehow making a mistake in borrowing is to adopt an attitude of immense paternalism toward the poor.



Cash at hand: Much of the demand for crisis credit could be reduced by improving the efficiency of state services

> **To suggest that the poor are somehow making a mistake in borrowing is to adopt an attitude of immense paternalism toward the poor**

The township moneylenders in the Grahamstown township charge on average 50% a month Few make huge profits. The average Grahamstown township moneylender in my sample puts R1 800 per month of her (the vast majority are women) own money at risk She provides 12 loans from that amount and puts in 15 days' work walking all over town to collect her loans, begging clients to repay her, fighting with other moneylenders to get repaid, being on the receiving end of resentment and prejudice, and making a measly R700. In the same town, the lowest paid manual labourer earns R900.

The moneylender makes so little profit because it is expensive to lend to poor people In the absence of good collateral it becomes crucial to screen clients Screening clients can take a township moneylender two days and involve numerous trips to the borrower's household.

Once she has lent the money she faces a risk from default and delinquency. Defaults are often due to death from HIV or illnesses related to old age Delinquency often results in one moneylender having to borrow from another so as to have cash at hand to meet the demand for a loan from a client whom she does not wish to lose.

The development of new technology, notably automatic teller machine (ATM) cards and electronic banking, is a boon to poor borrowers It allows lenders to use the ATM cards as a form of collateral and reduces collection costs Consequently, semi-formal moneylenders can now provide loans to some people at, on average, 20% less than township moneylenders.

Two objections have been raised to this practice Firstly, some claim the moneylender can use the client's personal identification number to steal money This is rare in practice because the lender can generally do better financially by being honest and getting repeat customers The second objection is that the amount of collateral provided by the lender is excessive It is in essence the ability to withdraw all the borrower's funds

But a person who applies for money at an interest rate of 30% per month is unlikely to have very much money in his or her account. It is also common for lenders to take collateral in excess of the value of the loan. People who have paid more than half the value of their new car loan effectively provide a similar ratio of collateral More importantly, the collateral itself is not that secure — for a small fee the borrower can cancel the card

The new amendment to the Usury Act forbids the taking of ATM cards and caps the rate of interest that moneylenders can charge at 10 times prime. The effects of this Act are likely to be perverse. Given the highly clandestine, informal nature of small township moneylenders it is unlikely they can be effectively regulated The state will in all likelihood only be able to enforce the Act on public semi-formal moneylenders such as Cashwise and Louhen

Semi-formal lenders are likely to respond to the new legislation in one of two ways. Some will still be able to operate profitably at the reduced interest rate, but they will ration credit and reduce the number of more risky clients they dealt with prior to the new legislation Others will shut down operations completely This will leave a pool of poor clients who will still need crisis credit, and will have to borrow from township moneylenders or lending stokvels at higher costs.

As a result of the amendments, township moneylenders, many of whom are poor middle-aged women, will now become *de jure* criminals.

The government committed itself to empowering poor women and fighting crime and tackling poverty It seems odd that the state should turn poor women who are trying to empower themselves through small moneylending enterprises into criminals and increase the cost of credit for the poor.

Foreign direct investment plummets

BD 28/9/99 (74b)

Slowdown in privatisation transactions cuts figure to $371m

John Dludlu

SA's level of foreign direct investment plunged to about $371m last year, four times lower than the year before, dragged down by a slowdown in privatisation-related transactions

This was reported by the United Nations Conference on Trade and Development (Unctad), which was chaired in Pretoria.

However, the report, released yesterday showed a continued surge in global flows of foreign direct investment. Worldwide, the level of foreign direct investment powered ahead almost 40% to more than $640bn, driven by mergers and acquisitions. The bulk of the foreign direct investment stock was concentrated in the developed world markets — Europe and the US.

Unctad said: "It is quite possible that total foreign direct investment this year could well exceed $700bn...."

The decline in SA's foreign direct investment is also attributed to the slowdown in investments from Asia, particularly Malaysia, which had just become an important source of foreign direct investment before the Asian financial crisis. Interestingly, the US-based Investors' Responsibility Research Centre said if privatisation deals were excluded from the tally in 1997 and last year, then foreign direct investment inflows rose 32% last year.

The outcome of the study now places SA behind countries such as Nigeria, Egypt, Tunisia, Algeria, Zimbabwe and Angola — the top foreign direct investment recipients. Though the rest of African countries experienced modest increases in foreign direct investment, the continent's foreign direct investment fell $1,1bn to $8,3bn last year.

The industries that attracted most foreign direct investment in SA are energy and oil; mining and quarrying; construction and materials; motor vehicles and components; as well as food and beverages. Unctad said foreign direct investment originated in the UK, Germany, the US, Italy, Malaysia and Switzerland.

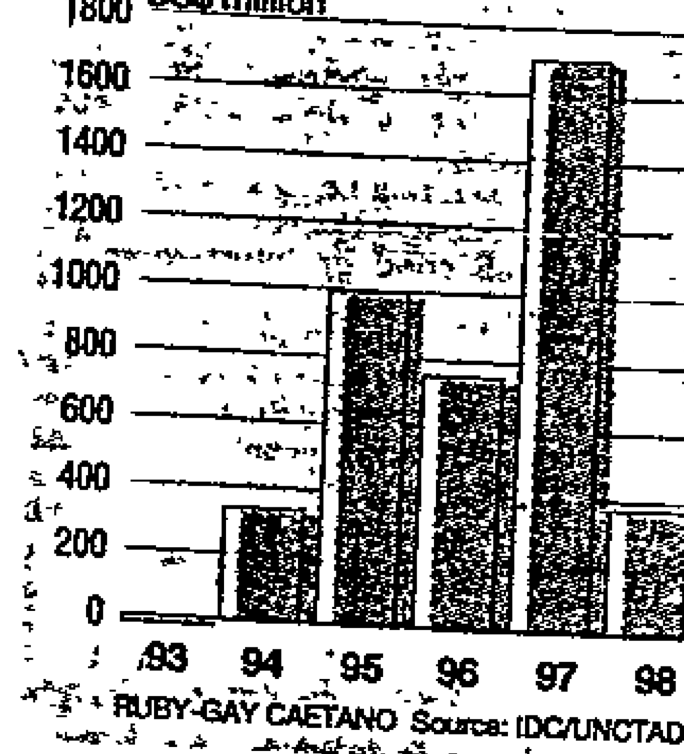
Themba Mhlongo, the acting director-general at the trade and industry department, appeared to pour cold water on the report's findings, questioning its focus on privatisation.

While government's restructuring of its assets, including the privatisation of some, had foreign direct investment attraction as one of the objectives, this was not the only goal.

Government was finetuning its policies to attract foreign direct investment. This was why President Thabo Mbeki had decided to establish an international investment council.

The pace of government's privatisation would be dictated by government in line with other public policy instruments, said Mhlongo

SA analysts suggested last night that the foreign direct investment flows should recover this year, especially with the fresh impetus in privatisation.



World investment report cites weaker flows into South Africa

Cape Times 28/9/99 (74b)

Foreign investment in Africa falls

Ross Herbert

AFRICA CORRESPONDENT

Johannesburg – Foreign direct investment (FDI) in Africa fell last year, largely because of a sharp fall in investment in South Africa, according to the world investment report released today by the United Nations Conference on Trade and Development.

In 1998 Africa received $8,3 billion in FDI, down from $9,4 billion in 1997. Almost all of the fall in investment flows to South Africa resulted from a slowdown in the sale of state assets and as investment flows surged into Europe and the US.

If South Africa is excluded from the continent's total, African FDI inflow increased from $7,6 billion to $7,9 billion from 1997 to 1998. If state asset sales are excluded from the total, South Africa showed a 32 percent increase in private FDI last year, the report said.

The report identified the following key trends on the world investment scene: world FDI was up 37 percent in 1998 to $649 billion, transnational corporations played a growing role in FDI, and mergers and acquisitions in developed countries drove the boom, reaching a record $468 billion in 1998.

> **Investment fall in South Africa is the result of a slowdown in the sale of state assets**

The US and European Union (EU) were each other's largest investors and virtually all of the world's increased FDI took place in the developed world.

FDI inflows to developed nations leapt 68 percent over 1997 and outflows from the developed nations increased by 46 percent.

South Africa was the largest African investor into other countries on the continent, boosting its total stock of investment in 1997 (the most recent year for which figures are available) by one-third to $1,3 billion. Overall the biggest investors in Africa were the US at $3,7 billion, Belgium at $1,2 billion, the UK ($1,1 billion) and France ($600 million). The survey had no precise figures on national FDI into South Africa, but generally ranked Germany, Italy, Malaysia, Switzerland, the UK and US as the biggest investors.

In a survey of African investment promotion agencies, South Africa was ranked as the most attractive African nation, and ranked second behind Botswana for having made the most progress in creating a business-friendly investment environment.

The survey found the most important negative factor affecting investment in Africa was the level of extortion and bribery, which was cited by 65 percent of respondents. Other concerns were the administrative cost of doing business, access to low-cost unskilled labour and finance, the size of local markets and customs inefficiency.

The report noted that South Africa held good prospects for investment in 1999, and the most important future factors affecting FDI would be the conclusion of trade deals with the Southern African Development Community, the US and EU, domestic political developments and crime.

The largest African recipients of FDI in 1998 were Nigeria followed by Egypt, Tunisia, Algeria, Zimbabwe, Angola and South Africa. The most attractive industries were tourism, food and beverages, textiles and leather, telecommunications, agriculture, mining and quarrying. – Independent Foreign Service

BANKS: LAND VS COMMERCIAL (58) FM 1|10|99

WHEN BANKERS ARE SEIZED BY THE ISSUE OF POWER

A village farmer beats squabbling lenders to the punch

The Land Bank's sweeping powers of debt collection — the subject of a long-standing dispute with commercial banks — are due to be tested in the High Court early next year.

But the issue could be decided before then, at least in part, when the Constitutional Court rules on a separate, similar case that it reviewed two weeks ago — in which the High Court ruled for a North-West province farmer who had challenged the right of the North-West Agricultural Bank — the former Bophuthatswana's land bank — to seize his assets without court process.

Commercial banks have had numerous skirmishes with the Land Bank over its statutory powers — disputes which "have become messier and more vicious", says Banking Council of SA GM Stuart Grobler.

The issues invariably pivot on two sections of the Land Bank Act: Section 55, which makes the bank's board a preferred creditor and allows it to decide, as if it were a court, whether a debtor is in default and then order an attachment; and Section 34, which entitles it to attach, without legal process, the moveable assets of a delinquent debtor.

Other creditors, including commercial banks, do not have such powers, and can lose assets for which they have issued loans if the Land Bank attaches those assets.

The issue was headed for the High Court earlier this year after First National Bank (FNB)'s agricultural division decided to test the constitutionality of the Land Bank's powers (*Economy & Business* January 15). But this was put off when the warring parties tried to reach consensus. Those negotiations have faltered. Now FNB, with the support of the Banking Council and other commercial banks, is proceeding with the action. It will also test the constitutionality of Section 90 of the Insolvency Act, which exempts the Land Bank from its provisions.

The commercial banks claim they are losing millions of rand under the bank's extraordinary powers. They cite the case of Frankfort, Free State, farmer Lourens Bibbey; the Land Bank granted him a loan for a flock of sheep and when it found he was in default, wanted to sell off his Mercedes-Benz and other vehicles in an instant auction. FNB's agricultural division, supported by the council, went to court and won a last-minute interdict against the auction. It also stopped an attempt to sell off Bibbey's wife's assets.

Meanwhile, unbeknown to the squabbling banks, another case was wending its way through the courts — that of Direko Lesapo, chief of Schoongezicht, a village in the North-West. His tractors and farm implements were attached by the North-West Agricultural Bank in April last year.

He did not contest his arrears or whether the seizure was lawful. Instead, he argued the North-West Agricultural Bank Act was unconstitutional because it allowed for seizure without a court order.

The High Court ruled in his favour. It said the law violated Section 34 of the Constitution, which entitles everyone to a court hearing. The Constitutional Court reviewed this case two weeks ago, and can ratify or overturn the judgment.

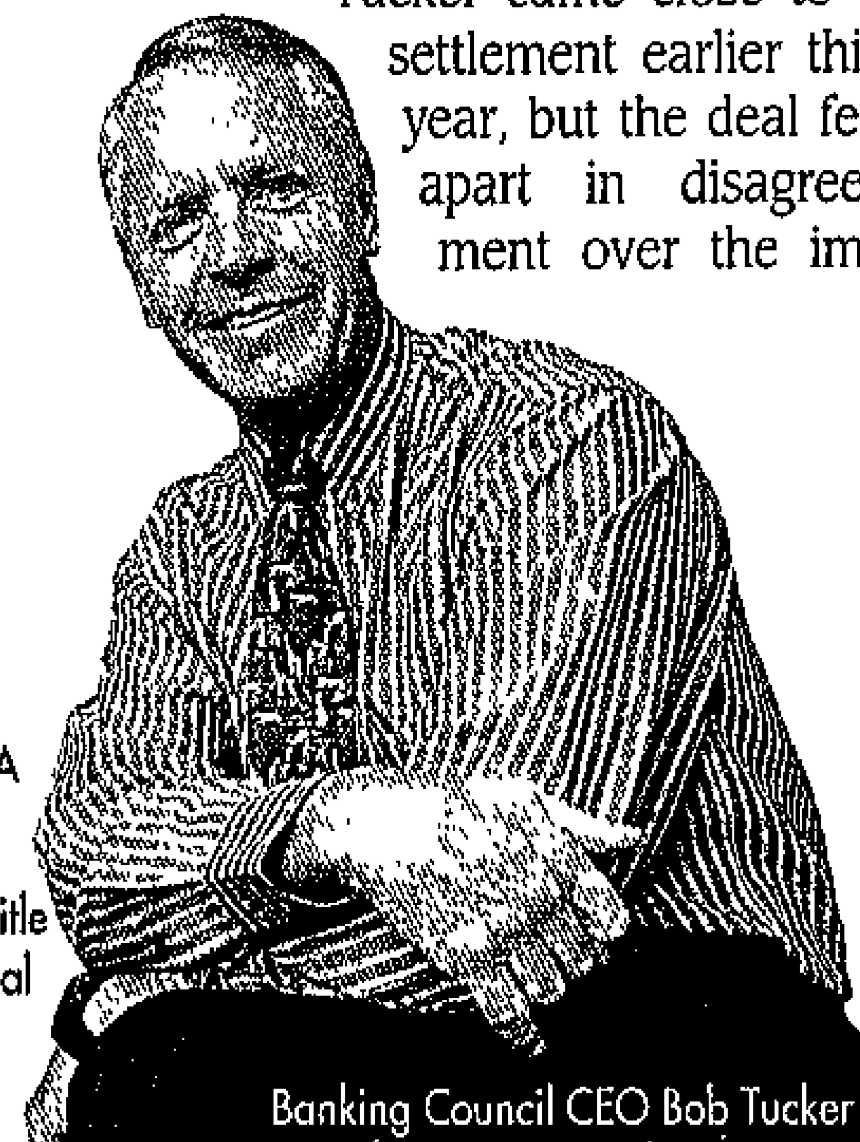
"The case caught us all by surprise," says Grobler. He believes the Constitutional Court's decision on Lesapo will strongly influence the FNB case. Should it uphold the Lesapo ruling, he says, it could preempt a decision in the FNB case on Section 34, at least, and may encourage the antagonists to return to the negotiating table.

The legal action, meanwhile, has not stopped the banks' squabbling.

FNB was given a written undertaking that the auctions would stop, pending negotiations and the court case. However, lawyers for the Land Bank recently informed FNB that the person who authorised this instruction did not have the authority of the Land Bank board, and that sales would resume. It planned to auction the moveable assets of J F Nel — who also owes money to FNB — on September 10, but called it off after FNB drew up papers to apply for a court order to stop the sale.

Land Bank MD Helena Dolny says the preferred creditor issue has been "exaggerated". When FNB initiated the court challenge in April 1998, she says, "our first response was that our loan book was based on preferred creditor status, and we had a development mandate, so it was right we should have some privileges the other banks didn't" She says the Land Bank has gained only R11m in the past three years from its preferred creditor status — "and who's to say how much we would have got through a normal process?"

She and Banking Council CEO Bob Tucker came close to a settlement earlier this year, but the deal fell apart in disagreement over the implementation date.


Banking Council CEO Bob Tucker

BATTLE OF THE BANKS

The combatants: First National, the Banking Council of SA and other commercial banks versus the Land Bank

The issues: Two sections of the Land Bank Act which entitle it to decide if a debtor is in default then attach, without legal process, the moveable assets of the delinquent debtor

What's at stake:
- The Land Bank's special status as preferred creditor in debt collection
- Commercial banks claim they are losing millions of rands to the Land Bank's power to seize and sell moveable assets
- If the Land Bank loses its special status, there are grave doubts in legal circles that it can afford to protect its interests by applying to the courts, as other banks do

In May, however, the Land Bank's board membership changed, and the new board decided to revisit the issue. The Banking Council is still willing to talk. The question is whether Dolny can persuade her board to part with its sacred cow. And if the Land Bank does cede its special status, does it have the resources — human and financial — to pursue its interests through the courts?

Janet Wilhelm, Peter Honey & Adrienne Roberts

State to act on 'zero pay' loan misery

Micro-loan deductions from salaries are leaving people with no net pay, writes MARCIA KLEIN

ST (BT) 3/10/99 (58)

GOVERNMENT is expected to announce a cap (believed to be 25% to 30%) on the amount which microlenders can deduct from employee payrolls following revelations that many people are bringing home fractions of their pay after micro-loan payments are deducted.

Salary slips of public service employees show that some people are bringing home less that R50 from salaries of R2 000 or more. Some public service employees are ending every month with a negative balance on their pay slips, bringing home absolutely nothing.

A capping move by government could put significant pressure on microlenders, whose share prices are feeling the effect of uncertainty over industry regulation, bad publicity and increased competition. This week Theta slumped to its year-low of 965c, down from a high of R24.60. Unibank has dropped to 150c from 344c, Money Wise to 6c from 100c and ABC Cash Plus is at 30c, down from 200c.

It is estimated the industry is worth about R15-billion, with as much as R6-billion in interest taken from relatively poor people every year.

Microlenders themselves have gone some way towards self-regulation. Unibank MD Gerrit van der Merwe says Unibank, African Bank, Saambou and PSG, who are the major banks in micro-loans, have formed a working group under the Micro Finance Regulatory Council (MFRC), creating a number of guidelines to avoid abuse. Under these regulations, interest on loans should not exceed 25% of net salary, and net salary should be at least R750.

However, microlenders say this rule is not followed by all players in the industry, and that people borrow from a number of sources.

Sources in various government departments and microlending organisations say they believe a report commissioned by Finance Minister Trevor Manuel will come up with a fundamentally new policy on microlending, including a cap on the percentage of income deductable by microlenders.

The MFRC has just completed the task of registering each microlending company. Neville Zar, chief executive of MFRC, says: "It is my understanding that in discussion with more responsible lenders, there is a need for a mechanism to ensure there is no overborrowing."

Any cap on lending could place enormous pressure on microlenders' businesses, but the microlenders themselves say they would welcome such a move, because if there were fewer people defaulting, the interest rates could be set lower and the risks to microlenders would be substantially reduced.

Asked if business had been affected by the 25% self-imposed rule introduced some six months ago, Van der Merwe said it had a significant dampening effect on turnover but had improved the quality of business.

Another microlender says his rule is 25% of net pay, pension and medical aid. He believes government could be looking at a cap of about 30% of net disposable income rather than gross.

It is understood that government could follow guidelines set by SA's major banks, who have generally steered away from microloans.

Standard Bank senior manager Dave Wright says major banks have certain rules of thumb when looking at credit. In home loans the instalment income maximum was 25% of gross income, but this has moved up to 30%. Discretionary expenditure on other debt should not add up to more than another 15% to 20% of gross salary.

> *'Some public service employees are ending every month with a negative balance, bringing home absolutely nothing'*

He says the microlending industry creates a cycle of dependency. Unsophisticated borrowers will borrow on any terms because they need cash. They can never get out of the trap, then default and so interest fees are higher.

According to some salary slips of public servants, there are many cases where people earning gross salaries of R2 000 and more are taking home less than R10 due to a number of deductions for loans.

The victims are often government employees as microlenders have chased low-risk loans with payroll deductions.

An industry source says his understanding is that an announcement by the Minister of Finance would be subject to Cabinet approval and negotiations with the unions.

□ Other initiatives to regulate the industry are going ahead. Microlenders have had to register with the MFRC by September 15. Provisions to regulate the industry, including a cap on the level of interest rates (at 10 times prime) and restricting the practice of taking ATM cards, PIN numbers and identity documents, have been hampered by court action.

Banks face ban on home loan curbs

(123)(58)

New law aims to stop 'red-lining' practice

ARG 8/10/99

CLIVE SAWYER
POLITICAL CORRESPONDENT

Red-lining, the practice by banks of barring people in certain high-risk areas from getting mortgage loans, is to be banned by proposed equality legislation.

Red-lined areas have tended to be in black areas because of factors including mortgage bond repayment and rent boycotts, and political unrest.

At the same time, the ministries of housing, finance and trade and industry are working on harmonising planned legislation which will compel mortgage lenders to disclose why loans are refused.

The Promotion of Equality and Prevention of Unfair Discrimination Bill contains far-reaching provisions aimed at ending discrimination on a range of grounds, including in regard to goods, services and facilities, including bank credit and finance services.

Approved by the Cabinet subject to further amendments by Justice Minister Penuell Maduna, the Bill is to be tabled in Parliament before the end of the year.

The constitution requires national legislation on equality and the prevention of unfair discrimination to be approved by March.

No-one will be allowed to unfairly discriminate against "any person or persons either directly or indirectly in any manner" including "imposing terms and conditions that perpetrate the consequences of past discrimination or exclusions regarding access to financial resources, such as 'red-lining'".

The Bill requires that within two years of the measure becoming law, the Minister of Finance will have to take steps to eliminate any form of discrepancy in any law, policy or practice, and report details of these steps to the Human Rights Commission.

Meanwhile, Deputy President Jacob Zuma, in his capacity as Leader of Government Business in Parliament, has listed the Home Loan And Mortgage Disclosure Bill among priority legislation for committees to start processing so that it can be approved early next year.

However, this Bill is still in the redrafting process, after an earlier version was sent back by the Cabinet with an order to the Housing Ministry to consult Finance and Trade and Industry colleagues on harmonising all laws relating to home loans and mortgages.

Housing ministry representative Gege Kekana said this was being done to ensure there were no contradictions or loopholes in the laws to be piloted by the three ministries.

The intention of the Bill was to ensure that mortgage lenders would scrutinise applications thoroughly, and was to provide an open and transparent manner for reporting reasons why people's applications were refused, for example because they lived in a "red-lined" area.

Commenting on the Equality Bill proposals on red-lining, The Council of SA Banks said it supported the outlawing of any discriminatory practices related to race, sex or religion.

"It is important to ensure that the rule of law prevails and that where loans are not repaid, the banks can exercise their security. Where lending is not possible within normal risk parameters, government should look to provide appropriate loan guarantees," the council said.

Spate of accidents a drain on fund

Sipho None

ROAD accidents cost taxpayers R1,76bn annually and this amount could double as a result of the recent spate of accidents involving buses, a road safety expert says.

Richard Benson, spokesman for private road safety initiative Drive Alive, said accidents caused a drain on the Road Accident Fund and there were 77 000 accident claims still outstanding for 1997-98. Of the fund, almost R12,6bn was spent a year on road safety, which included the maintenance of roads. Benson said if road safety could be improved it could lead to savings of about R6,5bn a year.

There were 8 000 vacancies to be filled in the road safety directorate.

Most accidents were caused through speeding, drunk driving and overloading. These accidents alone cost the country R1,38bn annually.

The fund receives R1,76bn from government and only R1,6m from levies. It spends more than R100m on administration and R300m in legal costs.

BD 11/10/99 (58)

Saga must end, Land Bank is told

BD 14/10/99

Short-term paper no longer highly sought after in money market, says financial adviser

(3)(48)

David Greybe

CAPE TOWN — The Land Bank's financial adviser has warned bank chairman Sam Mkhabela that the continuing uncertainty over the position of MD Helena Dolny is costing the bank hundreds of thousands of rands a month.

The uncertainty is making it increasingly difficult for the bank to raise funds in the money and capital market, Japie Jacobs, bank adviser and former Reserve Bank deputy governor, has told Mkhabela twice in the past six weeks.

"Until recently, the Land Bank's short-term paper was very much sought after in the money market. This is no longer the case," Jacobs told Mkhabela.

The increased costs of funding resulting from the negative perceptions had damaged the bank's competitiveness in providing finance to all sectors of the farming community, Jacobs said.

He estimated it had cost the bank about R500 000 a month more on a short-term funding book of R5bn because the saga had dragged on.

The bank's credit rating is also up for review at present, but could suffer because of the uncertainty at the bank. The rating is currently AA, but the situation is not favourable for the retention of this rating in spite of the bank's improved financial performance — a surplus of R370m for this year, up from R97m the previous year.

Staff morale had also suffered, Jacobs wrote to Mkhabela at the end of August

The bank's board has been in possession of a report by lawyer Michael Katz on allegations of racism, corruption and nepotism against Dolny — laid by previous chairman of the board Bonile Jack — since the end of August, but has so far not released it.

The Katz report cleared Dolny of the charges of nepotism and racism, but found her implementation of substantial salary increases for herself and five other executive directors "unwise".

However, Katz told the board there were no grounds for disciplinary action against Dolny regarding any of the allegations against her. The board has not made this information public.

However, a three-member subcommittee of the board headed by Mkhabela recommended disciplinary action against Dolny in a follow-up report to Agriculture Minister Thoko Didiza

Jacobs first warned Mkhabela in a letter at the end of August that the saga "has obviously had an adverse impact on the standing of the Land Bank in the financial markets.

"It has created uncertainty in the minds of investors, who are now adopting a wait-and-see attitude," he wrote.

Last week he warned Mkhabela: "It will take time and effort to repair the name of the Land Bank in the financial markets, and the risk is that it could in the end also impair its financing role in the agriculture industry in general "

Dolny declined to comment Both Mkhabela and Didiza have declined to speak to Business Day despite several requests for interviews over the past four weeks Didiza would issue a statement shortly, her spokesman said.

There were indications this week that the Land Bank board may have backed off instituting disciplinary action against Dolny after the board failed to meet a ministerial deadline for a final decision on whether to act against her.

Didiza, in a September 8 letter to Mkhabela, said the decision was the board's and not hers, and gave him until September 13 to inform her of the board's decision. The letter was circulated among board members but never discussed, said two of the 11 members.

One said this week: "Disciplinary action against Dolny can be taken only if the board agrees to recommend such action — and that has not happened.

"The board should now put this issue to rest and get down to the good business of the bank, which is to assist and serve the needs of SA's agricultural community," the member said.

The Katz report said Dolny had been a positive agent for transformation and was not driven by racism. No board members other than Jack believed she was a racist. A report by Jack to then Deputy President Thabo Mbeki, accusing her of racism, corruption and mismanagement, led to the inquiry.

Farmers on the march: Page 3

Farmers march on Land Bank office

BD 14/10/99 (3)

Louise Cook

A GROUP of black farmers from the Northern Province African Farmers' Union (Nopafu) marched on the Land Bank's regional office in Tzaneen yesterday.

This follows the suspension last month of the office's branch director, Sydney Khando.

The group accused Land Bank MD Helena Dolny of racism and said the bank's black managers "acted with white skins".

It called for Dolny's resignation, along with those of the executive director of operations, Totsie Memela, and Potchefstroom branch director, Mmoloki Legodu.

The furore erupted when the bank suspended Khando and started a probe into possible irregularities in the granting of loans.

This included an independent review of Khando's branch and its operations.

Memela said at the time that the branch experienced a high increase in the number of loans granted last year.

"This raised questions about the use of consistent criteria across Land Bank branches."

He said significant operational issues were under investigation.

"They are being dealt with in terms of the Labour Relations Act," Memela said.

Yesterday's march was reportedly organised to try to force Dolny to drop the forensic investigation. Reports said the union's president, Joseph Ngomana, said the body wanted an immediate withdrawal of the charges against the office and Khando.

Memela said: "The bank is permitted to pursue a culture of good governance and to safeguard the proper deployment of public financial resources.

"The bank has met senior executives of the National African Farmers' Union — an affiliate of Nopafu — and will continue to extend its open door policy to Nopafu," Memela said.

Microlenders and minister square up in Usury Act conflict

(SB) CTCBR 15/10/99

Shirley Jones
Kwazulu Natal Editor

Durban – Micro-lenders, who have repeatedly appealed to Alec Erwin, the minister of trade and industry, to discuss recent amendments to the Usury Act, would challenge the minister in the Pretoria Supreme Court on Monday, Theuns Botha, a spokesman for the industry in KwaZulu Natal, said this week.

Botha, who appealed to KwaZulu Natal lenders to meet yesterday to create a provincial body, said those whose cries had fallen on deaf ears at the Department of Trade and Industry faced certain closure.

He said between 15 000 and 20 000 of the 30 000 operators would close down, putting at least 60 000 people out of work.

The Usury Act, which previously covered only the formal financial sector, has been extended to cover medium-term lenders offering loans at higher interest rates than banks and loans on a stop-order basis, and to cover cash loan businesses and pawn shops. However, the cash loan industry is arguing it was unprepared for the amendment because the information that circulated within the industry at the end of last year differed completely from the final legislation.

According to Botha, issues that urgently needed to be discussed included the capping of interest rates at 10 times the prime overdraft rates of major banks and the forced return of clients' banking cards held by micro-lenders.

Botha said that while medium-term lenders, such as African Bank and Altfin, relied on public funding, cash lenders were small businesses relying on their own resources. The latter had security in the form of stop order agreements with employers, while his industry had no security other than clients' bank cards.

Cash lenders could not carry out the same volume of business as medium-term lenders, he said, and their overheads were too high to operate at the stipulated interest rates.

Another bone of contention was the act's appointment of the Micro Finance Regulatory Council as the regulatory body which, Botha claimed, was not representative of the industry. It did "not have the authority" to deal with crucial issues, he said.

'Remarkable' six-month growth for life insurance

Madeleine van Niekerk (58)

THE life insurance industry experienced significant growth in the first six months this year, an achievement seen as remarkable by the industry.

Statistics released yesterday by the Life Offices' Association showed new recurring premium business increased 14% to R2,8bn in the six months to June 30 this year, compared with R2,5bn for the same period last year.

"This is a remarkable recovery for the industry, considering the adverse economic conditions during the first six months of this year," says Gerhard Joubert, executive director of the association.

The average annual premium for recurring business increased to R2 950 against R2 230 the previous year and R2 400 in 1997. Average annual single premiums increased to R52 177 this year, compared with R27 217 last year and R32 900 in 1997. Gross single premiums increased from R12,3bn in 1997 and R11,5bn last year to R17,2bn this year.

"This massive 33% increase very clearly represents investor confidence in the industry," says Joubert. "We believe consumers have become increasingly aware of comparatively good returns for less risk being offered by the long-term insurance industry."

Total benefits paid out totalled R45,4bn this year, compared with R38,2bn last year and R39bn in 1997.

The decrease in total expenses from nearly R6,8bn to R5,6bn confirms the industry's cost-effective approach to business, says Joubert.

Total assets at June 30 this year were R542,6bn, compared with R494,6bn at December 31 last year, representing a 10% growth.

BD 19/10/99

MD calls for the education of borrowers

Robyn Chalmers BD 19/10/99 (123) (58)

NELSPRUIT — A co-ordinated effort to educate borrowers in the lower end of the housing market is critical to avoid continuing problems with the nonpayment of loans, says Standard Bank regional MD Chris Lombard.

Delegates at the Institute for Housing of SA conference heard yesterday that the high risk involved in providing loans to first-time home buyers in the lower end of the housing market has caused many banks to shy away from this sector.

Housing minister Sankie Mthembi-Mahanyele, who is due to speak at the conference today has previously indicated that banks' limited involvement in the low cost housing market is of concern to government.

Banks have largely failed to enter this end of the market, despite a safety net set up by the government in the form of the Mortgage Indemnity Fund which indemnified banks from risk in certain areas.

The fund was set up as a limited intervention and it has subsequently been closed.

"It is our view that better education and counselling has the potential to reduce the incidents of nonpayments of loans — thereby removing obstacles to wider entry into the low cost housing market by private sector players."

He said it was clear from SA's experience over the past five years that there is no quick fix to housing delivery. The banks and other players in the housing market faced a number of obstacles. These included the inability of banks to find money because capital subsidies for credit-linked applications had started drying up.

"In this regard it should be made clear up front that it would be an incorrect assumption to make that banks should be viewed as the primary source of funding for low income housing," he said.

It is now generally accepted that the traditional mortgage bond is not the most appropriate lending instrument for low income earners.

Mortgage bonds have proven complex to understand and manage, as well as being expensive, making them ill suited for the poor.

"Being able to offer creative financing alternatives to encourage home ownership is one of the big challenges facing us in banking today," he said.

Niche lenders like Cash Bank, Future Bank and New Bank have pioneered "unsecured" lending for the lower end of the market.

They are selling a product with a high interest rate to cover their cost and risk.

The loan is repayable over a relatively short period of four to five years and innovative ways to recover instalments, including community involvement, have been implemented.

RAF 'brought in hired guns'

MtG 22-28/10/99 (58)

Ivor Powell

Two legal firms with connections to the former claims executive of the Road Accident Fund (RAF) were given large volumes of legal work contracted out by the fund

Former RAF claims executive Johan van Oudtshoorn — who was appointed internal audit executive for the fund after August 1998 — was involved in contracting out legal work worth millions of rands to a firm in which he had been a partner

Van Oudtshoorn resigned from his partnership in the Johannesburg firm, which was reincorporated as Hofmeyr, Herbstein, Gihwala, Cluver and Walker Incorporated in December 1993, when he took up his position with the RAF. But the firm continued to be awarded substantial contracts.

According to RAF financial records, an even greater volume of work was handed out to a Pretoria firm, Gildenhuys, Van der Merwe Incorporated. The firm's personnel manager confirmed that there was an ongoing association with Hofmeyrs — though she could not specify exactly what that association was. Earlier, the Pretoria firm was known as Gildenhuys, Van der Merwe and Hofmeyr.

During the 1997/98 financial year, Gildenhuys, Van der Merwe Incorporated handled 400 cases on behalf of the RAF. Hofmeyrs were given just over 100 cases in the same period. In the 1998/99 financial year, the picture was virtually the same. This was at a time when the government was moving to distribute RAF work more evenly throughout the legal profession and was bringing in black-owned firms to represent the fund.

Other white-owned firms did even better. In the same period, Dyason in Pretoria handled about 700 cases for the fund — more than a tenth of the total number of legal cases handled by the RAF.

No precise figures are available on how much the contracts were worth. But the total amount of money written off to expenses in the 1998/99 financial year was nearly R250-million. Of this, more than R150-million went to attorney's fees.

Acting chief executive officer for the RAF, Chris Greenland, said there was nothing necessarily irregular about the way the work was handed out.

"Firms were employed on contract," he said. "They were retained for purposes of litigation on the basis of legal expertise in the particular field."

Greenland said in the old system it was at the discretion of the fund's executives who would be appointed to handle a particular case

He admits there "have been cases where what you might call hired guns were brought in to inflate legal costs and drag out proceedings in the past, so more money could be made".

He also concedes that there was a racial bias, with "certain companies being advantaged to the detriment of other firms contracted to the RAF".

However, Greenland has introduced major changes since joining the RAF in August last year. He selected around 20 firms from more than 300 which tendered to the RAF at the beginning of 1999. These firms are allocated work on a strictly rotational basis

Another intervention came in the form of a pilot project aimed at exploring arbitration as an alternative to court proceedings. Greenland said the introduction of an arbitration system could save the RAF around R75-million in legal fees.

Van Oudtshoorn left the RAF in September this year. At the time he was embroiled in another controversy in his capacity as the RAF's appointed investigator into allegations of legal irregularities around the administration of the fund.

Lawyers from the Personal Injury Lawyers Association rejected his role as investigator, claiming they could not be sure of his impartiality

The RAF is currently the subject of two official inquiries — one into allegations of malpractice on the part of lawyers acting for accident victims, and the other into how the fund has been run with a view to restructuring it.

Van Oudtshoorn could not be reached for comment at the time of going to press

SATURDAY ARGUS
OCTOBER 23 1999

Some lenders are still fractious over Alec Erwin's new rules

(58) ARLT 23/10/99

Some money-lenders are still trying to put a spoke in the wheels of rules set out by Alec Erwin, Minister of Trade and Industry, in order to make the industry run smoothly and fairly.

This week the Association of Micro Lenders took the minister to court over the capping of interest rates at 10 times the prime overdraft rate of major banks, as well as over the rule that money-lenders are no longer allowed to hold your bank cards.

Another organisation, Laruma, has challenged the existence of the Micro Finance Regulatory Council (MFRC). This council is the only recognised regulatory body to which money-lenders who offer loans under an exemption to the Usury Act (the legislation governing the formal financial sector) must belong.

In both instances, judgment is only expected at the end of the month. In the meantime, money-lenders must be registered with the council. Money-lenders can only lend you amounts up to R10 000.

In terms of the Usury Act exemption, they can charge more than a bank, up to a maximum of 10 times the prime overdraft rate (which, at the moment, is 15,5 percent a year).

This may not be the kind of protection which some consumer bodies had in mind for you, but the MFRC and the Department of Trade and Industry feel it is a good start.

After all, they say, before the minister published the new set of rules and amended the Usury Act earlier this year, money-lenders could still legally charge you whatever annual interest rates they liked – and lenders were far less aware of your rights to be protected from contracts which were difficult to understand and which were unfair towards you.

Neville Zar, of the MFRC, says opposition from lenders did delay registration with the MFRC and they are continuing to receive applications.

So far, more than 1 200 applicants representing over 500 branches of money-lenders all over the country have applied for MFRC membership, Zar says.

This, he notes, is a substantial number of lenders.

In fact, Zar says, you can be assured that the major players in the industry have applied for MFRC membership.

This, he adds, is your ticket to protection from unscrupulous practices, because MFRC members have to operate within the rules laid down by the council and in legislation. So if you go to an accredited lender, you can be sure the lender is being monitored for compliance with the law and that you have the protection of a regulatory body which can attend to your complaints.

◆ **If you want to make use of lenders and you are in any doubt as to whether they are MFRC members, you can phone the council's tollfree number 0860 100 406 to find out.**

Benchmarks suggested for micro-lenders

CP 24/10/99

SET STANDARDS ... Micro Enterprise director Sharda Naidoo
Picture: Mpho Mpholo

By WILSON RAMOTHATA

A CONFERENCE to help local NGOs and small and micro enterprise support practitioners to develop appropriate benchmarks, or performance standards, in their programmes, was held in Johannesburg this week.

The two-day conference, hosted by the Micro Enterprise Alliance, aimed at building consensus on the frameworks for growing stronger and giving more effective support to small businesses.

Speaking at the conference, alliance director Sharda Naidoo said the meeting would enable their members to make qualitative decisions on the frameworks for the growth of strong, sustainable institutions.

Two alliance members who attended the seminar were the Soweto-based Community Development Project and the Small Entrepreneur Foundation from Tzaneen, which offers rural women loans of up to R1 200 with which to start their own small businesses.

"Given that there has been a range of concerns about the implementation strategies of state institutions, these institutions will outline their visions for achieving the goals of the white paper on small business development in the next few months," said Naidoo.

The alliance has challenged Khula Enterprise Finance to inform them on what they have so far done with the money they are supposed to be distributing.

Sources say Khula has only disbursed R100 million of the R800 million provided by the government for intermediaries to lend to small, medium and micro enterprises.

A report by World Women Banking, a consultative group assisting the poorest of the poor with their micro finance programme, recommended the government play an important role in establishing a favourable regulatory policy and that it introduce incentives for micro financing institutions. The report said the micro financing institutions that meet performance standards should be allowed to operate as recognised financial intermediaries and be given incentives.

Stokvel, burial schemes to help SA's poor people

(58)

THE Humble stokvel and burial saving schemes are about to become the saviour of millions of poor South Africans who cannot access bank loans.

The National Urban Reconstruction and Housing Agency (Nurcha) is developing a programme that will secure bank loans for people who earn less than R2 000 a month and have a proven track record for saving money.

"Africans have always saved money through stokvels and burial societies. There are at least 2 000 stokvels in the country today and we are saying if they pool together, they can make bigger returns," Nurcha financial consultant, Sabi Mthwecu, told delegates at the National Housing Conference in Nelspruit this week.

To qualify for the envisioned National Savings Programme, applicants would have to prove that they had saved money through savings schemes such as stokvels and burial schemes for the past six months. Their savings would have to be at least 20 percent of the loan they were applying for.

"Borrowers would not have to be formally employed and have repayments deducted from their payrolls. They would not have to use their provident or pension fund as security," said Mthwecu.

She said Nurcha would also negotiate with banks to review the current procedure of dictating the size of the repayments.

"We want banks to determine repayments based on how much a person can afford," she explained.

Although three pilot projects were being implemented in KwaZulu-Natal, the Western Cape and Gauteng, banks were still dubious about the programme.

"The banks are still cautious. They say it's not good to have such clients in their books," she explained.

To assuage such concerns, Nurcha is guaranteeing 60 percent of the risk, while the bank and borrower guarantee 20 percent of the risk each

Nurcha has already entered into an agreement with one financial institution to design a savings linked credit product, the first phase of which should start operating in March next year

"The programme will then hopefully be made widely available towards the end of the year 2000," said Mthwecu. – African Eye News Service

CP 24/10/99

SA micro-lenders helped by new Act

CP 24/10/99

By WILSON RAMOTHATA

THE Micro Enterprise Alliance, an NGO working in the field of micro enterprise support, released its annual report at its third annual conference, aimed at setting performance expectations in the development of its members.

In its annual report, the alliance's executive director Sharda Naidoo said for small scale lenders to remain sustainable, the government had exempted the alliance from certain legislation through the Usury Exemption Act.

She said the legislation allowed their members to become members of the Micro Finance Regulatory Council.

To create growth within their organisation, said Naidoo, the alliance had designed courses in financial product development, building NGO sustainability and piloting management information systems.

She said to keep their members well informed about the organisation's activities, two new regular publications, *Briefings* and *Frequently Asked Questions (FAQs)*, had been launched.

Naidoo says the delivery of the micro credit officer course – in conjunction with the department of agriculture and economics at the University of Pretoria – has been one of the alliance's major achievements.

"I am delighted to report that this is to be an ongoing arrangement for all alliance courses in micro finance," she said.

She says the organisation's growing reputation is evidenced in the visit by delegates from Tanzania, Benin, Zimbabwe and Kenya, as well as by the host of local and international consultants at its annual meetings and conferences.

According to Naidoo, the annual conference is an important occasion where the focus is on "what has been achieved in terms of the projects implemented and how they have been aligned to available human and capital resources."

It also provides guidelines for the way forward in the micro-lenders' year ahead.

Court postpones ruling on micro-lenders

PRETORIA High Court judge Freddie Mynhardt postponed to November 30 his ruling on an application by the Association of Micro-Lenders (AML) to have certain sections of the regulation of the industry changed. (58)

The association is against the withdrawal of the retention of banking cards and PIN numbers to effect repayment, and the capping of interest rates by the minister of trade and industry.

It claims the introduction of these measures will erode the viability of the industry and will expose the lenders to heavier risks.

AML spokesperson Flip du Plooy told City Press Business his organisation was still encouraging micro-lenders to register with the Micro Finance Regulatory Council (MFRC) as was required.

The MFRC set September 15 as the deadline for micro-lenders to register.

Du Plooy said the lenders should use the time afforded by the court's postponement to register.

It is not clear whether the MFRC will accept registrations as the cut-off date had expired. The MFRC was not available for comment.

■ Meanwhile, a De Loitte and Touche team headed by Neville Zar that was engaged to set up the MFRC has completed its task and the process of appointing a substantive chief executive has already begun.

Zar, who was instrumental in the establishment of the council, confirmed his three-month contract was up and his team had fulfilled its mandate.

Zar was offered the position on a permanent basis but he declined it.

MFRC board members are still to decide on the new chief executive.

CP 24/10/99

NEV

Crooks fleecing public payroll in microloan scams

Thousands of public servants are being hoodwinked by fictitious 'loan' deductions from their salaries, writes MARCIA KLEIN

(58) ST (CPT) 24/10/99

AN INVESTIGATION into fraud related to microloan deductions from payrolls is under way following several arrests in the past week.

The investigation could lead to many more arrests and to several government departments stopping microloan payroll deductions.

The army, where one soldier and two civilians have been arrested, has already stopped deductions and other state departments are set to follow.

The frauds involve payroll clerks taking backhanders in return for photocopying ID documents and payslips and then handing them on to crooks who apply for loans under the names of the defrauded public service employees. Monthly repayments are taken off the payrolls of these people.

Military police special investigative branch commanding officer Lt Col Johan Swanepoel says an investigation by his department has led to three arrests and charges of fraud and theft of official documents. An SAP fraud branch investigation led to a further five arrests.

"We (military police, the SAP fraud branch and the Consumer Board investigator) are investigating the bigger picture now," says Swanepoel. The modus operandi is the same but it is not clear if the frauds are part of a syndicate. "However, we suspect that the problem is much wider. We have had complaints from government departments all over the country.

"At this stage there are not that many clues. It is a paper trail and we will work on the suspects."

Swanepoel says there were deductions in October for various microlenders but Lantern Finance has been the most prominent. Deductions varied between R100 and R1 000.

He says is it difficult to say what percentage of the payroll could be involved, but it will run into "thousands of millions of rands".

SA Army spokesman Major Merle Meyer says fraudsters are taking copies of their own IDs and sticking on pictures of victims who are army employees. They also forge ID books, obtain payslips from the personnel salary system and then borrow money against other people's names.

She says the problem goes beyond the army. She believes many other departments, including correctional services and education, have fallen prey to similar criminal acts.

Meanwhile, negative salaries — where repayments on microloans exceed the amount that people earn — are becoming more common.

KwaZulu-Natal deputy state attorney Graham MacKenzie says he has been approached by the province's finance department with regard to hundreds of emoluments attachment orders served against the province. Many employees have several of these orders.

As an example, he cites a nurse earning R3 700 in gross salary, with deductions for tax, pension and housing of R1 700, and 10 emoluments attachment orders totalling R2 700.

Natal finance received over 660 emoluments attachment orders between the end of July and the end of September just in respect of employees whose salaries were already below zero. This implies that emoluments orders run into thousands each month.

Another source says over 20% of salaries in correctional services are negative.

Rural poor need 'loan education'

(58) M+G 5-11/11/99

By Sharon Hammond

The rural poor have always been the pariahs of the banking industry because of their tendency not to repay loans But banks have also failed to properly educate low-income earners, especially the illiterate and semi-literate, before giving them thousands of rands tied to complicated contractual obligations

"You can't have a loan officer sitting with a borrower for 30 minutes without the benefit of other educational input," explained Billy Davies, the general manager of education and facilitation for the Homeloan Guarantee Company

He said banks needed to be trained to deal with especially poorer customers and had to keep up to date with the latest developments in the housing industry

"Some loan officers don't even know that the government's housing subsidy has been increased from R15 000," he said At least three million houses still need to be built to address South Africa's housing backlog, and this figure is expected to increase as the predominantly young population starts leaving school

If poor people don't have easier access to loans that are more understandable, this backlog might never be addressed The Homeloan Guarantee Company and the African Union of Housing Finance established a task team four months ago to investigate educating bank officials, as well as potential home owners about the housing industry "Ideally, people should be educated a year before home ownership and if possible, starting at school level," said Davies.

Housing education should be introduced as a subject as part of Curriculum 2005 and be taught by a specialist, he suggested. "We can't teach housing as part of a life skills course because it requires specialist knowledge," he explained.

National housing minister, Sankie Mthembi-Mahanyele, is also keen to motivate school children to start saving for housing so they can supplement the government's housing subsidy scheme. "My favourite system is the German system of encouraging people to save from age 16," she said "The Australian model encourages saving from the cradle to the grave."

Meanwhile, the government is supporting non-governmental organisations that specialise in providing bank guarantees for low-income earners who would otherwise be turned down by banks. An NGO, the National Urban Reconstruction and Housing Agency (Nurcha), is negotiating with a bank to give loans to people who earn less than R2 000 a month, but have a track record of saving with informal savings schemes such as stokvels and burial societies.

"Africans have always saved money through stokvels and burial societies There are at least 2 000 stokvels nationwide and we are saying if they pool together they can make bigger returns," said Nurcha financial consultant, Sabi Mthwecu

If the banks accept informal savers as being bankable, this would stop poor people using their pension savings or provident funds as collateral for home loans

It would also mean that lenders would not have to be formally employed to qualify for a bank loan so that repayments could be taken directly from their payroll.

Nurcha is guaranteeing 60% of the risk, while the bank and lender would each guarantee 20% of the risk If negotiations succeed, the product will be available on the market by March next year. "The programme will then hopefully be made widely available towards the end of the year 2000," said Mthwecu.

Davies said the variety of programmes being mooted by various individual organisations and banks should be jointly co-ordinated for any housing education programme to properly succeed. Institute for Housing of South Africa president, Themba Mthethwa, said the institute was willing to take such a role and would focus on creating a forum to co-ordinate the current best practices in the housing industry and then start the education process

"This is the most critical objective of the institute," he said

Traffic victim fund pleads for 10% increase in its share of the government's fuel levy

Accident fund deficit could hit R64bn

CT (BR) 10/11/99 (58)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town – The accumulated deficit of the struggling Road Accident Fund (RAF) could soar to R64,3 billion in 10 years unless its share of the fuel levy was increased by 10 percent, or 1,5c a litre a year, the national assembly's portfolio committee on transport was warned yesterday.

Chris Greenland, the fund's acting chief executive officer, said the fund would also have to dramatically reduce its total outlay to road accident victims at the same time.

The value of total claims paid had been rising steadily in recent years because of the high accident rate. It was expected to reach R1,8 billion this year.

The RAF hoped the department of transport's Arrive Alive campaign would bring down the accident rate, but it was considering the cost reducing benefits of a new arbitration system being tested in a pilot project in the Western Cape.

The Central Energy Fund, which administered the fuel levy, had been asked to provide advance payments to improve cash management.

The fund pays the medical expenses of road accident victims, compensating them for lost income. It also pays funeral expenses and damages from accidents.

Funded by a levy on all fuel sold in South Africa, the RAF's share since February 1998 has been 14,5c a litre on petrol and 10,3c on diesel, which yielded R1,7 billion last year and R2,2 billion this year.

As claims are usually not settled in the year in which they are made, provision has to be made for outstanding claims. This resulted in a gradual build-up in the fund's deficit from R3,7 billion in 1994 to an expected R9,3 billion this year.

Claims can be settled between 18 and 36 months, but most take as long as three years.

To help fund such claims, R190 million was, for example, transferred to five portfolio managers in 1998/99, which increased the book value of the RAF's investments at the end of April 1999 to R1,4 billion.

Greenland said because of the difficulties faced by financial markets over the last year, the unrealised capital on these investments had fallen by R129 million.

Since then, the number of asset managers had been cut to three: Old Mutual, African Harvest and Metropolitan.

A commission headed by Judge Kathleen Satchwell was appointed earlier this year to examine ways of making the fund more sustainable and to speed up the processing of claims.

The RAF was also working with the Heath Commission to investigate allegations of fraudulent claims. It was expected to report back by the end of the year.

Greenland said the government had not yet responded to the RAF's plea for a 10 percent increase in its slice of the fuel levy.

It had been suggested that the levy be increased by 9 percent a year, but this would still leave the fund with a sizeable deficit, topping R40,5 billion by 2007/8.

Accident fund deficit worsens

(58)

Wyndham Hartley

CAPE TOWN — SA was the world leader in road carnage and this had pushed the Road Accident Fund's deficit another R1bn into the red, bringing the total to R9,2bn, Parliament's transport committee was told yesterday.

Fund acting CE Chris Greenland said the reasons for the ever-increasing deficit did not lie with crooked attorneys, inefficiency or other reasons but simply that expenditure far outstripped income. The huge costs were because SA was "the world champion in road carnage".

The committee was told that the fund's deficit had trebled from a little more than R3bn in 1994 to its current level. The deficit had grown by R886m between last year and this year.

The situation of the fund was even further complicated by the fact that the average SA motorist paid about R300 a year (through the fund's allocation from the fuel levy) for unlimited cover for those injured in accidents.

This had led to a claim of about R40m from a Russian musician and a R35m claim from a group of British teachers — "this is the real reason for the deficit".

BD 10/11/99

Access to small loans is urged

Patrick Wadula

ACCESS to credit services is a binding constraint for micro-entrepreneurs, rather than the cost of credit, said Tanzania's National Micro-Finance Bank chairman Ibrahim Kaduma yesterday.

Speaking at a plenary session for micro-credit and -finance at the Commonwealth Business Forum in Johannesburg, Kaduma said people wanted credit whenever they needed it.

"Cost is not an issue and normally, poor people are loyal and cannot afford to default," he said.

Kaduma said access to finance had been hindered by cost.

"It has also been demonstrated worldwide that small savers are scared of debts.

"Normally low income earners save more than they borrow," he said.

He said microfinance relied on trust and not collateral like the formal banks.

Microfinance institutions' management procedures had to be simple, transparent, highly standardised and decentralised.

The institutions had to be readily available to all.

Kaduma said with micro-finance the emphasis had to be placed on both savings mobilisation and credit delivery at grassroots level.

(58) BD 11/11/99

Loan sharks still not netted

(58) M+G 12-18/11/99

Marianne Merten

A new report on moneylending in South Africa questions the effectiveness of the recently established Micro Finance Regulatory Council to regulate the R15-billion industry often accused of widespread malpractice.

A Black Sash report says new measures have downscaled moneylending to a consumer issue which addresses neither the unwillingness of the formal banking system to provide services nor the potential debt traps.

"The socio-economic impact has been ignored by policymakers The government has chosen to address the problem of moneylending as an issue of consumer credit This ignores the reality that access to credit for the poor is integral to the ongoing debate about poverty alleviation."

The Black Sash is concerned the Micro Finance Regulatory Council (MFRC) does not have the capacity to enforce regulations because it overemphasises consumer education and considers consumer protection as secondary.

"The MFRC does have in place a call centre to record borrower complaints Unfortunately it does not have any means to investigate such complaints. Even if the capacity were in place, a complaints-driven process is problematic."

The council's acting chief executive officer, Neville Zar, rejects these claims. He says the 30-strong Johannesburg-based team is equipped to deal with complaints and enforce regulations. The council has also started a public awareness and education drive.

Lender registration is under way, and so far 4 500 outlets, mostly from Gauteng, have registered. Zar says the estimate of 30 000 lenders operating in the country is overstated.

The Association for Micro Lenders and Associated Consumers, represented on the council's board, shares some of the concerns about its ability to control the industry. Says its director Henk Vivier. "The law should give more powers to the MFRC and the ability to enforce its good intentions. At this stage it cannot protect consumers."

Zar insists there are sufficiently strong penalties to ensure compliance in the industry The council can impose a fine of up to R25 000, a warning, deregistration and/or the reimbursement of the borrower to a position before the complaint. It can also ask for independent reports on loan contracts and other details, or hold on-site inspections.

One of the key failings identified by the Black Sash report and other organisations is that the council can only take steps against errant lenders on cases after September 15, when the new rules came into effect. Cases before this date must be passed on to other authorities, like the Department of Trade and Industry. But, says Zar, the council will refer borrowers and follow up grievances

The Black Sash report points out, however, that since 1992 not a single prosecution has been brought.

This leaves people like Knysna municipal worker Geoff Jeku still at the mercy of moneylenders In September Jeku told his story in the *Mail & Guardian* of months of spiralling debt as he had to approach new moneylenders to repay others and put food on the table for the five people he supports. Since then one of the moneylenders has withdrawn about R4 000 from his bank account. His bankcard has yet to be returned to him

Initially the lender refused to hand over any documentation when Jeku attempted to have the company investigated After the Black Sash advice office intervened, a handwritten statement detailing repayments was obtained. A copy of the loan contract is still missing

The Department of Trade and Industry recently appointed 24 officials after training which, it says, will enable them to enforce the rules. Prosecutions will be handled by the directors of public prosecutions.

The report also points out that the new regulations do not deal with court procedures which are being abused by moneylenders and debt-collecting agencies to reclaim debt

Bid to limit microloan rates fails

BD 12/11/99 (58)

Judge rules that Erwin took correct decision in banning retention of bank cards, PIN numbers

Stephané Bothma and Sapa

PRETORIA — The Pretoria High Court has dealt government's bid to regulate the multibillion-rand microlending industry a severe blow by outlawing statutory ceilings on interest rates.

However, Judge Fanie Mynhardt offered some solace to borrowers by ruling that microlenders should not be allowed to retain clients' bank cards and PIN codes as security for debts.

The burgeoning microlending industry, which specialises in small loans to high-risk borrowers, has been charging interest rates of 30% a month, the court heard. Under a June 1 notice published by Trade and Industry Minister Alec Erwin they would have been restricted to a ceiling of about 13,75%.

The court heard that in 1997 the industry had an annual turnover of R10,1bn, with about 30 500 outlets employing about 152 000 people.

"The financial statements of 47 members of the Association of Microlenders were investigated by an auditor and it was found that at the new rate of interest only 19% of them stood a chance to survive. The rest, 81% of those investigated, would not be able to continue doing business profitably," Mynhardt said in his judgment.

He said it was common cause that the practice of retaining clients' PIN numbers and bank cards led to abuse

The judge accepted an argument by the association and 50 microlenders that they had not been granted the opportunity to make submissions to Erwin before the regulations capping microloan interest rates were published.

Yesterday's judgment stemmed from an application by microlenders against Erwin and the Micro Finance Regulatory Council, asking the court to set aside the capping of interest rates. The lenders also asked the court to declare the regulations unconstitutional on the grounds that they could no longer practice their business as they wished by, for example, not being allowed to retain bank cards.

Mynhardt said it was clear the microlenders believed that the formation of the Micro Finance Regulatory Council would be followed by an investigation into appropriate interest rates and that they would then be given time to make representations

However, the court found that this did not happen.

Without consultation and without taking into consideration factors such as the risk profile of clients, costs involved in lending the capital, administration and profit, Erwin determined that the "lender shall ensure that the annual rate for the total charge of credit demanded shall not exceed 10 times the average prime overdraft lending rate as applicable to the major banks".

Regarding the retention of PIN numbers and bank cards, the judge found Erwin had applied his mind properly and that microlenders had been given sufficient time to make submissions.

"The minister has pointed out that there are indeed money lenders ... who do not retain codes and cards and that the industry to date has failed to propose an alternative system (of collecting debt).... The prospect of the industry therefore proposing a suitable alternative in the foreseeable future is, practically speaking, nil," he ruled

The Association of Microlenders welcomed Mynhardt's findings with regard to maintaining interest rates.

"The judge has ensured the survival of an important sector of the economy," said the association's executive officer, Flip du Plooy

State claws back after microloan setback

Despite a High Court decision, statutory rate caps will come, writes S'THEMBISO MSOMI

(58) ST(BT) 14/11/99

GOVERNMENT is determined to place statutory caps on interest rates charged in the microlending industry despite Thursday's court ruling against such ceilings.

The Pretoria High Court outlawed statutory ceilings on interest rates, finding that there had been a lack of consultation. The court gave the go-ahead, however, for regulations preventing microlenders from keeping clients' bank cards and pin numbers.

Now government officials are working on a new strategy to cap interest rates.

Alan Hirsch, chief director of business regulations and consumer services at the Department of Trade and Industry, said on Friday the government was committed to protecting borrowers from lenders who charge exorbitant monthly interest rates.

Most short-term microlenders are said to be charging interest rates as high as 30% a month.

In the case against Trade and Industry Minister Alec Erwin brought before court by the Association of Microlenders (MLA), Judge Fanie Mynhardt set aside the minister's promulgation restricting microlenders to a ceiling of about 13.75% a month. The judge found that the minister had not consulted the industry and that he had not considered factors such as the risk profile of clients.

The court ruling was slammed by the Black Sash, which claimed the court had reinforced "the protection of lenders with no regard to borrowers".

Hirsch said his department would meet this week to finalise its new approach.

"It is now back to the drawing board for us," said Hirsch. "We accept the court's criticism that we did not consult well enough when we were doing our study on this issue ...

"We will be putting up a tender soon for a private company to conduct a proper study for us. This time around, all stakeholders will be consulted and we will also look at other countries, developed and developing, to see how they deal with interest rates."

Hirsch revealed that the department was planning a crackdown on unregistered microlenders. Micro Finance Regulatory Council CE Neville Zar estimates that there are still hundreds of lenders operating illegally throughout the country.

The government's decision to re-investigate lending rates has been welcomed by key role-players in the industry, including the association.

"We will welcome a new study if it means all parties will be consulted because there are many factors that need to be looked at before government can pronounce on lending rates," said MLA executive officer Flip du Plooy.

But he expressed disappointment that the judge had ruled against the retention by lenders of borrowers' bank cards and pin numbers as security on loans.

"I am afraid that some of the microlenders will now pull out of the industry because of the high risks involved," he said.

"We would have been happy if government had sat down with us and discussed alternatives because we are concerned about security."

The MLA represents more than 1 500 members in the short-term microlending sector, which employs about 50 000 people throughout SA. On average, the sector issues loans of up to R700, payable within 31 days.

Johan de Ridder, business development executive at African Bank, said the court ruling could result in most of the short-term lenders moving into the payroll market where risks are lower. He welcomed the court decision and said it provided an opportunity for role-players to ensure that the industry was properly regulated.

"SA must treasure the fact that this sector has developed from nothing into a multibillion-rand industry in the past 10 years," he said.

"The industry provides an important service to a very large market. Inappropriate regulation can cause damage to the market, which has been under-serviced for years."

Court's decision could affect micro-lenders' interest rates

By SIMBA MAKUNIKE and MALOSE MONAMA

THIS week's decision by a Pretoria high court judge to ban the micro-lenders' use of bank cards and PIN numbers as security could result in higher interest rates as lenders seek to cushion themselves from possible defaulters, analysts said.

Presenting his judgment on Thursday, Justice Fanie Mynhardt ruled against the use of bank cards and personal information numbers (PIN), saying it was open to abuse.

He said minister Alec Erwin had applied his mind when he banned the use of bank cards and it was up to the micro-lenders to come up with alternatives.

Mynhardt also threw out minister Erwin's attempt to cap interest rates to not more than 10 times the average prime overdraft rate of the country's four main banks, saying it would severely erode viability.

An audit had shown that more than 80 percent of the lenders would close down if they were to go up to a ceiling of 13,75 percent instead of the 30 percent most of them are currently charging, Mynhardt said.

"The implication of this judgment is that no lender will hold on to borrowers' banking cards as security. If the lenders do not quickly find alternative risk control methods, their bad debts will increase and will ultimately destroy their viability," an analyst said.

"In order to cushion themselves from this situation, they can increase their rates because the minister's attempt to cap rates was thrown out."

Raymond Brand, an analyst with Econometrix, said Mynhardt's judgment had both positive and negative aspects.

(58)

"The bad thing is that the small borrowers will now pay more for money. The good one is it will keep the micro-lending industry going and thus save jobs. Any other decision would have forced them to reconsider their risk profile and insist on security, which many who go to this sector do not have."

Brand said borrowers should tread carefully when applying for micro-loans.

"We have always questioned the ethics of keeping cards and PIN numbers and we support the decision to abandon this," Nubank general manager Con Snyman said.

He said despite the judgment, there was still a need for the government, through the Micro Finance Regulatory Council (MFRC) and the lenders' association, to consult on the issue of interest rates.

CP 14/11/99

Analysts say market is overcrowded

Culling of banking sector necessary 'to restore equilibrium'

(58) CT (PR) 15/11/99

Alister Bull

Johannesburg – There were too many banks in the country and a consolidation was looming, with two big lenders sparring over a merger and smaller rivals expected to do the same, analysts said last week.

Standard Bank Investment Corporation was awaiting the next move of Nedcor, its smaller rival whose proposal of marriage to create a bank with a market value of R50 billion was firmly rejected.

Nedcor said a deal would capture crucial cost savings which the country needed to reinforce its banking industry to face off mounting foreign competition. But at the other end of the scale, the minnows of the country's lending world were shaping up for a fight for survival.

Bad debts, a run on a bank and worry before the millennium had given the industry a nasty bruising over recent months. This had translated into a substantial downgrading in JSE bank shares.

It had also underlined a serious weakness in a sector that generally earned high marks with offshore investors and served a key role in getting the country through last year's emerging markets crisis.

Analysts said far too many small banks had been set up recently. About 24 niche lenders were chasing a market that was not growing at nearly the pace needed to keep all of them in business

The resulting competition and the scramble for growth had also led to some banks building loan books of poor quality.

Last month the Reserve Bank was forced to prop up a lender with R6 billion of deposits after a corporate failure sparked a run against it that had left a cloud over the small bank sector.

Andrew Heathcote, an analyst at Standard Equities, said: "There is bound to be a consolidation among the smaller players as they cannot compete on their own."

Analysts said a liquidity squeeze had pinched numerous smaller lenders after the problems at FBC Fidelity, which the Reserve Bank placed in the hands of an independent accountant on October 25.

According to the Bank, South Africa had 57 licensed deposit takers with assets totalling R717 billion. About 70 percent was controlled by the top six banks.

The billion-rand corporate collapse of Macmed Healthcare on October 15 crystallised reservations over small lenders.

They had already been under scrutiny before the millennium, which some feared could hurt liquidity. Macmed was behind FBC's woes and money managers were taking no chances.

Mark Young of Fitch IBCA said: "The larger banks are big enough to absorb the knocks but the smaller lenders are not."

Even Saambou, the largest of the small lenders, has said it was forced to borrow from the Reserve Bank for the first time in years because corporate clients were wary of increasing deposits.

Young said too many institutions were granted deposit taking licences by the Bank in recent years, with inevitable consequences.

"The rush of new banks into the market in the past couple of years means they have been chasing asset size to the detriment of asset quality," Young said. "The Reserve Bank must allow some to fail to restore the equilibrium." – Reuters

Commission consulted banks on merger

(58) BD 18/11/99

Madeleine van Niekerk
and Marcia Klein

Nedcor, still waiting for response from Stanbic, in contact with regulatory bodies

THE Competition Commission yesterday acknowledged it had been approached on the proposed merger of Nedcor and Standard Bank Investment Corporation (Stanbic).

Commissioner Alistair Ruiters said yesterday that the commission took the unusual step, against its own policy, of consulting with the parties prior to notification of the merger because of the magnitude of the proposed merger. He gave no further details and did not indicate whether the commission had given a tentative nod to the proposed transaction.

Meanwhile, it is becoming increasingly clear that it could be some time before a formal merger proposal will be formally put to shareholders. The next step forward for Nedcor would be to announce a stalemate in the negotiations with Stanbic management and to make a formal offer to Stanbic shareholders, an analyst said yesterday.

"Once a controlling stake in Stanbic is secured, Stanbic management and board members will again be offered a chance to 'come on board', before Nedcor could resort to such drastic action as calling for a general meeting asking Stanbic shareholders to vote the Standard Bank board out," he said.

Another analyst said that one could expect a special general meeting to be called to elect Nedcor supporters to the Stanbic board and "pressure the last bastions of defiance".

However, Nedcor said it was still waiting for a response from Stanbic and was also in contact with regulatory bodies who could take up to three months to make a decision. "No formal offer has yet been made, only a conditional offer. If the regulator's response is in the affirmative, a formal offer will be made," a Nedcor spokesman said.

The Stanbic board said it would respond next week with a synopsis of its comprehensive analysis of the takeover offer together with an overview of its stand-alone plan going forward.

An analyst said this stand-alone plan could entail Stanbic providing cost reduction plans based on rationalisation of its 1 193 "points of representation" and its staff complement, by attrition through the application of a technology strategy.

Revenue generation will also be highlighted — largely taking place through its EPlan business and its offshore footprint, the analyst said.

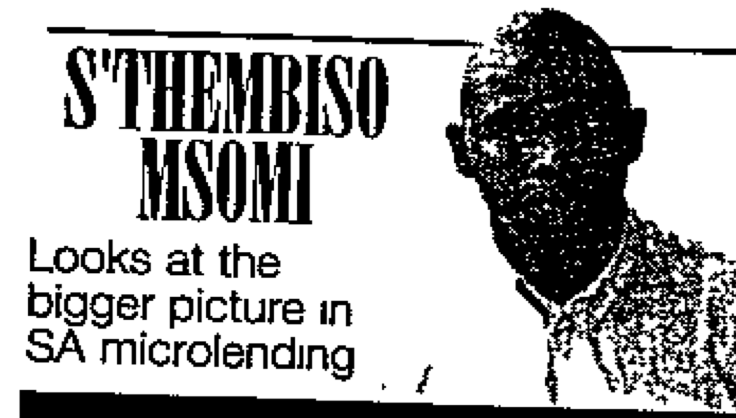
Stanbic's stand-alone plan could entail, like Natwest's in the UK, a plan addressing the weaknesses that made Stanbic vulnerable, such as targets and measures to reduce the cost-to-revenue ratio closer to that of Nedcor. It could also aggressively highlight the Liberty/Stanbic bancassurance revenue enhancements.

Another scenario would be the "white knight" option whereby Stanbic would introduce a fresh shareholder which could replace Old Mutual and simultaneously reintroduce foreign investment into SA banking.

Sunday Times Business Times
November 28 1999

Are sharks among shoals of poor really so bad?

S'THEMBISO MSOMI



Looks at the bigger picture in SA microlending

ST(BT) 28/11/99 (58)

THE word "microlender" conjures up unpleasant images of unscrupulous, filthy rich individuals and companies who cash in on poor people's miseries by charging extremely high interest rates for cash loans.

This picture is reinforced by a growing number of people condemned to perpetual starvation by loan sharks who are intent on making a quick buck by sucking the poor dry.

But not all operators in the industry are crooked. Not all survive by confiscating their clients' bank cards and identity documents, or by hiring feared criminals to terrorise those unable to repay loans.

Says Neville Zar, CE of the newly established statutory Micro Finance Regulatory Council (MFRC), most of the over 8 000 moneylenders in SA have registered with the council and support government moves to rid the industry of unacceptable business practices.

The microlending industry in SA is less then a decade old and yet it is already estimated to be worth between R15- and R20-billion, with over 30 000 outlets. It is said to employ more than 152 000 people.

The Black Sash Trust's Lauren Nott says the SA industry is unique in that nowhere else in the world is it so big, nor has it attained semi-formal status elsewhere.

The NGO says the enormous boom in this industry is largely due to the struggle by the poor and the "under-banked" to maintain living standards in the face of a hostile economy.

The small cash-loan business was born out of a widespread need for access to credit among the majority of working people who do not have access to conventional banking. This is a market perceived to be high-risk by major financial institutions.

For this market, microlenders are the only viable route when they need credit to pay for their children's education, extend their RDP-subsidised two-roomed houses or deal with crises

Johan de Ridder, business development executive at African Bank, says over the past few years the industry has evolved into four broad categories.

"At the bottom of the industry, a large number of the informal and semi-formal lenders operate. Card-and-pin lending, high rates and unacceptable business practices prevail. Widespread tax evasion is alleged to be the order of the day," says De Ridder.

The average loan size at this level is under R600 and the loan term is less than 31 days at 30% or more interest a month.

Attempts by Trade and Industry Minister Alec Erwin to introduce a 13.75% interest rate cap in this category suffered a setback three weeks ago when the Pretoria High Court ruled against the move.

But DTI's chief director of business registration and consumer services, Alan Hirsch, says government is still committed to introducing the cap and is working on a new strategy.

The second category is made up of formal lenders who lend money to selected and "trustworthy" clients and rely on cash payments without any security. There are very few operators in this category because of the risk involved.

The next segment consists of moneylenders who depend on employers to deduct monthly instalments from payrolls This category has experienced rapid growth in the past few years and it is believed some of the card-and-pin operators will opt for this segment now that their methods have been banned.

"Although a minority of smaller players in this segment do have unacceptable lending practices and charge usurious rates, most have a long-term outlook and charge reasonable rates," claims De Ridder.

Loans in this category usually do not exceed R4 000 and are payable over six to 48 months at 2.5% or 5% interest a month, depending on the amount.

De Ridder argues that growing competition will soon lead to improved business practices and a drop in interest charges.

"As more institutions get into the market, employers and trade unions will be able to choose the best lenders for their workers and this will force operators to be more competitive to get business," he says.

The final category is controlled by major commercial banks who provide small loans but protect themselves from risks through provident funds, withdrawal benefits and other collateral.

Those in the card-and-pin category now face the challenge of finding alternative security and collection mechanisms or going out of business. Flip du Plooy, executive officer of the Microlenders' Association, says some of the group's 1 530 members have indicated they will shut their operations following the ban on their methods.

De Ridder says a careful balance needs to be struck between the need to protect consumers and ensuring that operator's investments are not exposed to high risks. "The industry plays a significant role in the economy. Estimates are that over R1-billion a month and R18-billion a year is advanced via the first three categories. The payroll category alone lends money to about 200 000 customers a month."

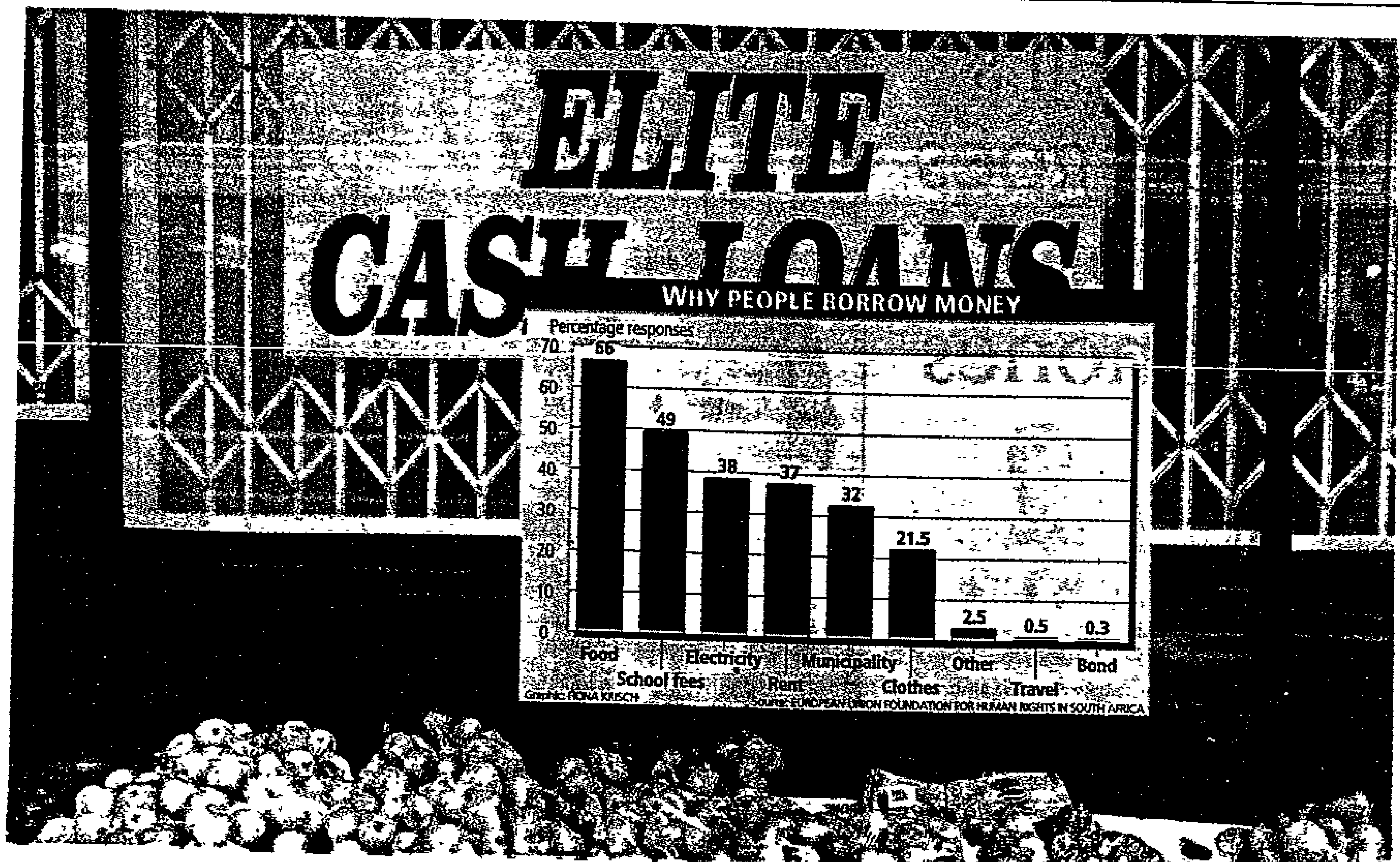
But the Black Sash criticises the government for not doing enough to protect the poor. In a report, Access to Credit for the Poor: The Borrower's Perspective, Black Sash researchers contend that the MFRC is structurally inadequate for the task of enforcing compliance among moneylenders.

They recommend an investigation into the socio-economic consequences of the moneylending industry.

"The socio-economic impact has been ignored by policymakers. Government has chosen to address the problem of moneylending as an issue of consumer credit. This ignores the reality that access to credit for the poor is integral to the ongoing debate about poverty alleviation," says Nott.

Contrary to claims by microlenders, the Black Sash says the industry contributes to the decline in living standards for borrowers. It says 63% of borrowers earn R1 000 a month or less, and over 60% were forced to stop paying other debts in order to repay moneylenders.

But it seems unlikely that the industry can be done away with Most stakeholders agree that government needs to ensure that microlenders comply with regulations and that those who do not are punished.



Between 8% and 35% of insurance claims fraudulent

(58) BD 3/12/99

Even at the lowest estimate dishonest claimants cost at least R1,2bn a year and push premiums up

Madeleine van Niekerk

IT IS estimated that at least R1,2bn is paid out annually in fraudulent claims in SA, and fraud is a considerable contributor towards increased short-term insurance premiums.

"Insurance companies estimate that between 8% and 35% of claims are fraudulent," said Barry Scott, CE of the SA Insurance Association. "The short-term insurance industry pays out about R15bn in claims every year. Even if we take the lowest estimated fraud figure of 8%, it still amounts to the massive figure of R1,2bn annually."

The cost of this is passed on to honest consumers through higher premiums, said Scott.

Dishonest claimants increase insurance companies' costs, leaving them with no alternative but to implement stricter underwriting practices or increase premiums, he said.

A recent study by brokers showed that the cost of insurance in 1983 was about 2% of household income. Last year this had increased to nearly 10%.

"Although fraud is a major contributor to this increase, the environment in which the SA insurance industry operates is also to blame. We have one of the highest road death and accident rates in the world. Fraud and corruption in the motor and transport industry is widespread."

Scott said there were a number of types of insurance fraud, from the individual who claimed for items not lost or who inflated the value of items or lied about the way in which the loss occurred, right through to complex syndicated fraud.

While numerous steps were being taken by the industry to limit fraud, as was the case internationally, it might decrease but would not be eliminated.

In Australia, insurance companies claimed that fraud costs about R6bn a year. A study in the US of property and casualty insurers showed that fraud cost companies about R120bn a year.

A further study, said Scott, showed that 26% of all respondents said that padding or inflating claims was understandable, acceptable and even proper.

In the UK it was estimated that fraud cost the insurance industry about R6bn a year, adding about 10% to insurance costs. This was rising by 8% a year, with up to 42 homes being deliberately set on fire each day, he said.

Dennis Burton, GM of operations at SA Eagle insurance company, said it was extremely difficult to say how badly SA Eagle was hit by fraud. He thinks 10%-15% of claims are fraudulent.

"If we have tip-offs or find fraudulent claims we will prosecute," he said.

A fraud line for callers to report suspected fraud anonymously was started last year by Santam. It has resulted in investigations of claims worth R6,75m.

One of the most common forms of insurance fraud is inflated claims. A typical example is a policyholder claiming for sunglasses and a CD collection when only his radio/CD player was stolen.

Another form of fraud is committed by people who set fire to their homes — after removing most of the contents — and then submit a claim.

Service providers, including panelbeaters, are also regularly subjected to claims audits to ensure that they are not "loading" accounts.

If the service provider is dishonest, its name gets scrapped from the Santam panel, said Santam GM Hannes Wilken.

Mboweni intervenes in banks' battle

Governor asks Stanbic and Nedcor to 'show maturity' in their handling of proposed merger

Hilary Joffe (58) BD 7/12/99

RESERVE Bank governor Tito Mboweni intervened yesterday in the battle for control of Standard Bank Investment Corporation (Stanbic), taking Stanbic and Nedcor to task for their increasingly destructive tactics.

Mboweni asked Nedcor and Stanbic to "cool it" and said he would not be rushed into making a decision on Nedcor's hostile bid

The governor emphasised that he was not taking sides But he said he was concerned that the public "bunfight" between two of the country's biggest banks might not be good for the banking system He appealed to the two banks to "behave themselves"

He said he was disturbed the two had moved away from purely commercial to political arguments. "They must show a maturity in managing the process I don't see that now," he said. The Reserve Bank is due to issue a more detailed statement on the matter today

Mboweni said he and his deputy governors are scheduled to discuss the proposed merger in mid-January and will not be pushed into considering it earlier This seems to contradict a statement last week from registrar of banks Christo Wiese, who said he hoped to make a decision within six weeks Mboweni would not comment on the registrar's timetable.

Stanbic said yesterday it would launch a high court action this week, requesting clarity on which regulator will judge Nedcor's hostile bid Stanbic argues that the bid must be fully investigated by the competition authority and competition tribunal, and by setting a six-week deadline, Wiese is trying to bypass the competition authorities

Nedcor has applied to the Reserve Bank to clear its proposed takeover of Stanbic. The chairmen and chief executives of both Nedcor and Stanbic have made presentations to the Bank. Mboweni said Nedcor's document was long and complicated and the Bank would need to do a lot of research to assess whether what Nedcor proposed was good or bad for SA banking The plan had been a year in the making and the Bank was not about to make up its mind in a month, Mboweni said

Reserve Bank governor Tito Mboweni details his concerns over the battle for control of Stanbic. Picture: ROBERT BOTHA

As governor, his interest was in ensuring the stability of the banking system To the extent that there were issues of market power and market dominance, this was for the competition authority to assess Mboweni said the competition authority's role was under discussion

Mboweni also said he was concerned about Old Mutual's "bulldog" behaviour Old Mutual is Nedcor's controlling shareholder and also has a sizeable minority stake in Stanbic Mboweni had particularly stern words for Old Mutual finance director Eric Anstee, who raised the temperature of the battle last month with sharp criticisms of Stanbic's management and veiled threats that Old Mutual would dump some of its Stanbic shares

The authorities are understood to be especially concerned that the takeover battle could undermine confidence in a big SA bank in the same way as smaller banks have suffered recently. There is also concern that many of Stanbic's top managers might depart, raising questions about how a merged entity would be managed.

Competition body will judge merger

Hilary Joffe (58) BD 9/12/99

NEDCOR's hostile takeover bid for Standard Bank Investment Corporation (Stanbic) will be judged by the Competition Tribunal, and if there is any doubt about its jurisdiction over competition matters the competition authority will seek to change the law, competition commissioner Alistair Ruiters says.

The commissioner's comments yesterday came after Reserve Bank governor Tito Mboweni said on Tuesday that the Bank would consult the competition authorities on the competition aspects of the deal, as it is required to do in terms of the Banks Act.

Ruiters said: "There is no framework for us to be consulted other than the Competition Act. We will apply it consistently, and adjudicate the Nedcor-Stanbic deal as we would every other large merger." The Nedcor takeover bid is the first hostile deal to come before the new competition authority.

In terms of the legislation, the deal is a large merger, so the competition commission has 60 days to investigate it.

The commission then reports to the tribunal, which must convene a hearing within 15 days. No time limit is specified for the tribunal to reach a decision. The tribunal's jurisdiction over competition matters is subject to appeal to the Competition Appeal Court.

Echoing Mboweni, who earlier this week said the Bank would not be rushed into a decision on the deal, Ruiters said: "Every application is urgent. We cannot and will not be pushed into time frames which those with commercial objectives have."

Ruiters said the competition authority had never doubted its jurisdiction in the Nedcor-Stanbic matter. "If we don't have jurisdiction, we will change the Act," he said.

He emphasised that the competition authority's brief is to examine only the competition aspects of the deal. The Office of Banks in the Reserve Bank will separately examine the prudential and any potential systemic risk problems.

The two regulators are finalising an agreement which will demarcate the issues each will adjudicate. "It is not a question of who has jurisdiction, but rather of where one jurisdiction begins and the other ends," Ruiters said. The agreement, which will set a precedent for relations between the two regulators in future bank mergers, will include a deadlock-breaking mechanism.

It remains unclear who has the final say, if the two disagree. But Competition Tribunal chief Dave Lewis suggested that this was not an issue. Many deals have to clear more than one regulatory hurdle — all large merger transactions, for example, require the approval of both the Securities Regulation Panel and the Competition Tribunal.

Ruiters said the commission was also in talks with various other regulators, including the SA Telecommunications Authority (Satra) and the Financial Services Board, to reach agreement on how to proceed on mergers falling under more than one regulator.

The Competition Act sets out all the factors which the commission and tribunal have to look at in assessing a merger. They are entitled to put certain conditions on their approval, and may negotiate with the parties until the shape of the deal meets requirements.

Exemptions from act: Page 3

Community to fight closure of hospital

MtG 10-16/12/99 (58)

Aaron Nicodemus

Most government hospitals are bustling, noisy places. The wail of infants punctuates the low murmur of waiting room voices. Patients are wheeled on squeaky trolleys from room to room. Machines beep.

The hallways of rural Derdepoort Community hospital in the North West province, near the Botswana border, though, are eerily quiet. This modern and superbly equipped hospital, with storerooms filled with drugs and supplies, will be closed in three weeks' time. The bewildered community of 22 000 that it has served for 40 years will now have to make do with tiny, understaffed and under-equipped government clinics and hospitals located more than twice the distance from their homes.

This week the local village chiefs decided to file a court interdict against the closure in the hope that some government official might explain the decision. They suspect the government is planning to privatise the hospital, catering to the needs of the rich.

When asked about privatising the hospital, the provincial district manager, Jachard Henning, said the building and its assets "may not be disposed without the full involvement and consent of the villagers in the area".

However, when the *Mail & Guardian* presented him with documents including a plan to lease the facility to Botswana for use as a private facility, he said: "Those plans have fallen by the wayside because of international legal implications. After the idea of leasing it was discarded, the decision was made to close the hospital."

Asked whether the hospital could be ceded to the nearby Madikwe Game Reserve as a private facility, Henning replied: "If it is to be sold to the game reserve, so be it," adding that "it would still be considered a government facility, as the game reserve is a government parastatal".

This week uniformed nurses were quietly packing supplies and documents into boxes, trying to look busy in a hospital that has not had any patients for a month. New and modern equipment — including a ventilator and a portable X-ray machine — stand at attention in dark rooms. Six surgical tables and four intravenous drip stands are still swathed in their original wrapping. There are two laboratories, new laundry facilities and a fully functioning kitchen. One of the most striking aspects of Derdepoort is that everything works, even the public phone outside.

Nurses tell stories of unbelievable waste. Thousands of rands worth of medicine have expired sitting on storage shelves, and the staff say they destroyed 100 boxes worth of expired painkillers, antibiotics and vitamins last month. More expired boxes of medicine wait for disposal.

Meanwhile, less than 100km away, the medicine shelves of Pitsedisulejang village's government clinic — one of the province's medical facilities meant to replace Derdepoort — are almost bare.

Derdepoort's head matron, Philippine Sentle, said the closing is a "terrible waste", adding that the provincial government refused all requests to redistribute medicine. "Government officials rammed through the decision without consulting hospital staff or even visiting the facility," she said, "just like the apartheid government before it. It's even worse than that."

Henning tells a different story. He says the hospital was running at a R5 million annual deficit with only 11% occupancy. While most government hospitals consider spending R200 per patient per day a reasonable cost, Derdepoort was spending R1 950 per patient, and most of the hospital's patients were from Botswana. Regarding the issue of waste, Henning said hospital employees have threatened provincial workers coming to redistribute equipment and supplies.

The news that Derdepoort will be closed has hit the community hard. Built in 1919, Derdepoort's construction and funding was a combined effort between local villagers and the Dutch Reformed Church. A separate tuberculosis wing was built in 1961 in response to conditions among villagers at the time, bringing the facility to its peak capacity of 150 beds. The hospital fell under the control of the Bophuthatswana government in 1977, and the land and building were transferred to the Bantustan regime without the consent or knowledge of local village chiefs. It has been in government hands ever since.

"This hospital was built by our fathers and forefathers," said Silas Modisane (68), a chief in Pitsedisulejang village. "The community is strongly against the closing of that hospital."

The North West provincial government has been slowly closing Derdepoort for several years. In 1996, there were more than 23 000 admissions. In 1998, the government decreed that no more patients from Botswana could be admitted, and admissions dropped. In April the hospital's two Cuban doctors were redeployed and staff were ordered to refer patients to Lehurutshe and Zeerust hospitals, both more than 150km away. Admissions dropped to about 150 per month. On December 3, the government decreed no more patients could be accepted at Derdepoort and announced the closing date of December 31.

The closing of the hospital will affect villagers in practical ways. Chief Mogalenyana Matlapeng of the Molatedi village said: "This imports a hardship to the community, especially to the poorest of them. They will now have to travel more than 100km to seek help. Where are they going to get the money from?"

The provincial government had promised to build a centrally located community health centre, but Henning says those plans have been scrapped. Instead, six existing government clinics in the villages will be expanded into health centres.

An examination of the current state of these clinics reveals how steep the drop off in medical care will be. The clinic in Pitsedisulejang village is supposed to provide 24-hour service, but the nurse on duty explained what that means. "I live here for seven days in a row, 24 hours a day, by myself," she said. "I have no security, no sterile packs, no gowns, no transport, no telephones, no two-way radios." There is no food for patients other than what nurses bring on their shifts. The medicine shelves are nearly empty and there is no doctor.

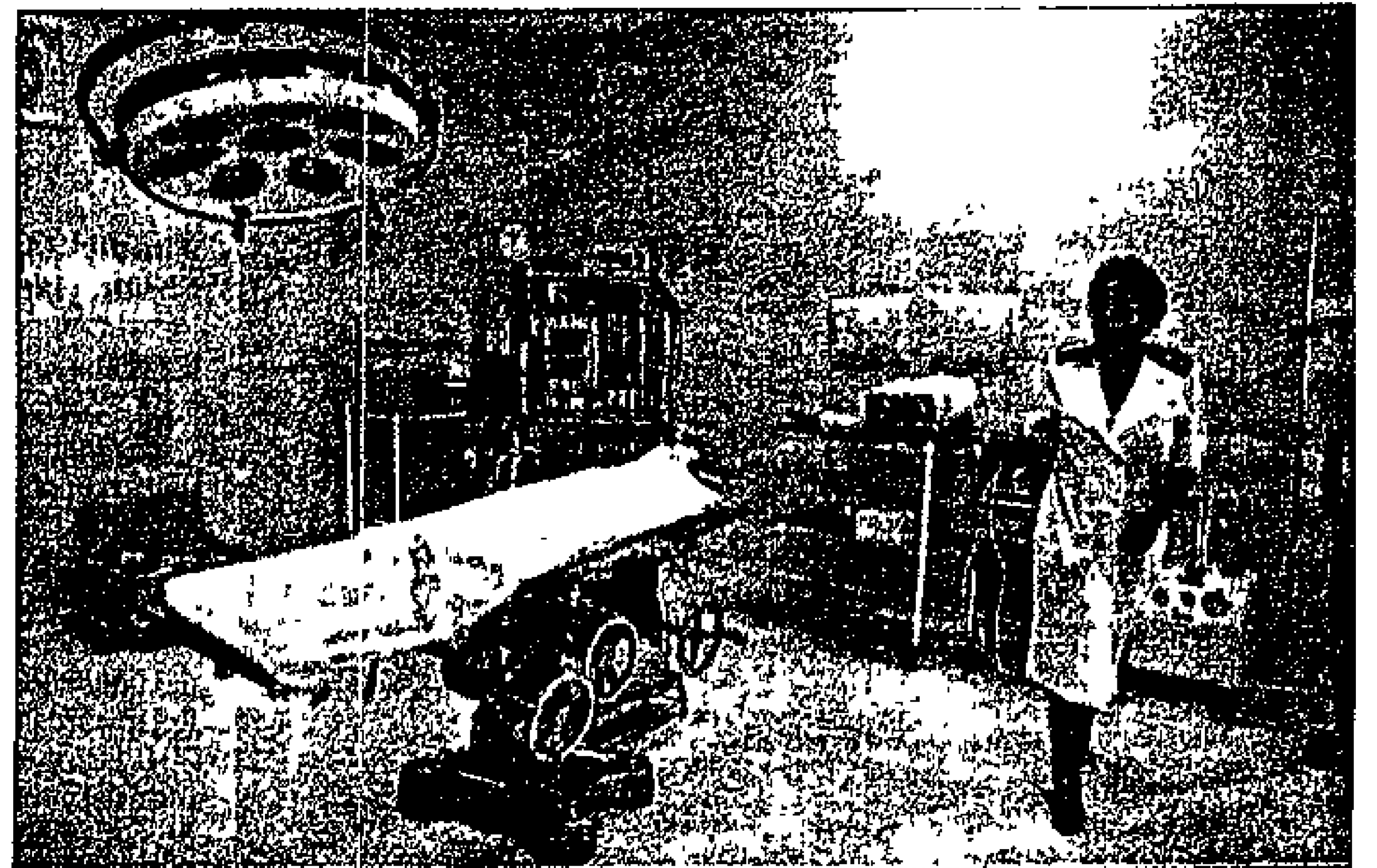
At the Dikome clinic in Sesobe village, Polena Maphunye is a nursing assistant in charge. Her superior is on maternity leave for the next month, and no one else is authorised to dispense drugs to patients. The clinic's ambulance driver is also on leave. There is no telephone or two-way radio. Despite being built in 1991, the clinic's walls are filled with cracks large enough to fit two fingers.

In winter the clinics are warmed with paraffin heaters. There is little paraffin to be had. Should it come as any surprise that Derdepoort has boxes and boxes of paraffin in storage?

In her office, surrounded by now meaningless employee attendance charts and ambulance routes, Sentle said it is the poorest of the community who will suffer under the new plan. "I worry about what will happen."

Just outside her office door, in the hallway, there are jars of formaldehyde with poisonous snakes inside. The snakes, collected by a doctor, are coiled up and displaying their fangs, ready to strike.

To workers from the nearby Madikwe Game Lodge, snakebites are a constant threat. Closing the hospital will put their lives at risk, they say. But with or without the hospital, a game reserve tour guide revealed his method of treating snakebites in the bush. Tightly tie pieces of string on either side of the bite, he said, and then use a cut tennis ball to suck the poison out of the wound. "By the time they get to the hospital, they're usually fine," he said.



A terrible waste (above): The well-equipped theatre at the Derdepoort Community hospital, which will be closed in three weeks' time.
Poor show (left): Villagers will now be treated at a clinic such as Pitsedisulejang village clinic, which is lacking in facilities

Insurance industry faces major changes (68)

Liberty and Fedsure may lead the charge to consolidate, writes AMANDA VERMEULEN

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SOUTH Africa's insurance sector is poised for a shake-up next year, with a number of players believed to be considering consolidation in line with similar trends in the banking sector.

The most likely catalyst for a significant re-shaping of the industry is Liberty Life, depending on the outcome of the proposed Standard Bank-Nedcor deal. Stanbic controls Liberty, and if Nedcor's merger bid succeeds, Liberty could be spun off or unbundled to placate the competition authorities.

Liberty and Fedsure have been holding broad discussions for some time about consolidation in the industry, but these have been put on hold until the Stanbic-Nedcor issue has been resolved, sources said this week.

Fedsure is in a fluid situation, with major shareholder Investec possibly contemplating divesting its insurance interests with an eye on an offshore listing. Foreign bourses take a dim view of large cross holdings between insurance companies and banks, and Investec is known to be pursuing an offshore listing if it gains approval by the regulators.

Investec has also publicly said it does not want to pursue a bancassurance strategy, which raises questions about its long-term view on holding an interest in Fedsure, especially in the light of its international listing ambitions. Investec management was not available for comment.

Liberty and Fedsure make a good fit, complementing each other in various areas, analysts and company sources said this week. Last year, Fedsure and Liberty had tentative talks about a tie-up, but Fedsure's acquisition of Norwich Life put the brakes on further courting.

In addition, Fedsure may wish to join forces with another player to move up in the size rankings, with the industry dominated by Old Mutual and Sanlam, with Liberty and Southern/Momentum following in third and fourth place respectively.

One analyst said consolidation in the insurance industry was logical, due to the big gap in size between the larger and smaller players. "If Fedsure wants to compete for market share with the larger groups, a tie-up with a company like Liberty makes sense."

At the time Fedsure and Liberty held talks last year, Fedsure said it had been having informal discussions with a number of players in the financial services industry, including Liberty, when there were indications of major realignments taking place.

Fedsure Health could also capitalise on the Liberty client base, while Liberty's strength in the life business could help Fedsure, which has struggled with the integration of Norwich Life.

> *'If Fedsure wants to compete for market share, a tie-up with a company like Liberty makes sense'*

One analyst said that Liberty would have to decide whether a merger, with say Fedsure, was better than continuing alone. He said Liberty would have to weigh up the benefits, and the extra pressure such a merger would put on its management team.

Fedsure's share price has retreated against the background of a general improvement in the performance of other listed insurance counters. Analysts said this week that Fedsure's problems with subsidiary FBC Fidelity, recently placed under curatorship, and integration difficulties with Norwich, had not helped market perceptions.

Fedsure's share price has dropped to its current levels of around R41 from R65 in July, while Liberty's share price has risen to around R66 from R45 in October. The share prices of Metropolitan Life, Sanlam and Old Mutual have also improved recently.

Liberty CE Roy Andersen and Fedsure CE Arnold Basserabie are on holiday and could not be reached for comment.

Analysts also believe there could be some interesting acquisitions in the pipeline for Metropolitan Life.

Metlife told analysts recently that it no longer regarded itself as a niche player in the bottom-end of the market.