FINANCE
GENERAL
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MOTOR WARRANTIES

Pretoria puts it straight

Motor warranty companies have just experienced their sharpest rebuke from Pretoria so far. They could find themselves out of business overnight if they refuse to toe the line. And short-term insurers have been given full responsibility to see that they do.

The slap in the face came in the form of a strongly-worded letter sent to the SA Insurance Association (SAI), shortly before Christmas, by the Registrar of Financial Institutions, Robert Burton. He warned that if exploitation of the general public is not curtailed immediately, he will outlaw the practice of recommending oil additives, and take steps to prohibit warranty companies from acting as insurance agents. In any event, Pretoria reminds the industry that their use of warranty companies for administrative assistance must end on December 31 this year.

The association, asked to comment on the letter by January 15 1984, was given a brief extension. A reply is now on its way advising the Registrar that it fully supports his principles and intentions.

A motor warranty may loosely be defined as a form of insurance that indemnifies the purchaser of a motor vehicle against mechanical defects chiefly caused by wear and tear. This was why the business was brought under the auspices of the Insurance Act on January 1 last year.

A one-year contract of particular benefit to the used car buyer should not cost more than about R200. However, several warranty companies have been overcharging for their services and the policies they sell for insurers. They have also shown a reluctance to pay claims.

Malpractices

Burton expresses grave concern in his letter about these "undesirable practices" and illegal activities. Recent detailed investigations of both insurers and warranty companies carried out by his inspectors revealed numerous malpractices and irregularities.

The insurer must settle all claims himself. Binding authorities, where a certain portion of the premium is retained by the intermediary to cover claims, must terminate immediately. He must also assess his liability in terms of the law. The rule is that liability on unmatured policies must be protected by reserves sufficient to meet future claims and expenses. The reserve must equal the gross premium less a maximum of 20% to cover expenses incurred by the insurer. As the term of the policy progresses, the reserve may be reduced in proportion to the expired period of the risk.

But apparently some underwriters are retaining insufficient reserves to cover unmatured policies. They see little of the original warranty premium and want to avoid digging into free capital reserves. Besides, many of the policies cover two or three-year terms where the reserve requirements are more onerous. One insurer is believed to have calculated the reserve on the basis that the risk of claim under a three-year warranty was more likely to occur in the first six months, so little reserve was retained after that period.

The Registrar is believed to be taking the view that reserves should be proportional to the period, and not to the perceived degree of risk. Thus two thirds of the net premium must be retained as reserves after the first year of a three-year warranty.

A major reason for controlling warranty companies under the Insurance Act is to ensure that provision is made for the unexpected risk held by a registered insurer. If a warranty company goes out of business, the public will not be left high and dry, as was the case previously. Where warranty companies charge more than the gross premium as outlined by the underwriter, insurers are warned that their reserves must be calculated on the figure appearing on the contract.

Insistence on strict reserve requirements should, therefore, have the effect of reducing the term of warranties to one year, and limit the incidence of overcharging on policies.

The authorities want the insurance document to be "transparent." If the motorist is going to be ripped off by the warranty dealer then the deed must be done on a separate document. The cost of oil additives, vehicle inspection fees, pre-delivery services, repair costs and other nebulous expenses must not be included as part of the premium as shown on the policy contract. This, plus stamp duty, less the allowable 12.5% commission, must be passed direct to the insurer.

The Registrar also warns that the insurer has a right to require certain oils and oil additives only if he can demonstrate that they reduce his risk. The charge must be reasonable and appear on a separate invoice. If the insured has to pay for a vehicle inspection he must be given the freedom to choose his inspector, while the cost must be deducted from the gross premium.

The new directive is well overdue. It follows a period during which the authorities have received a good deal of criticism for their mishandling of the motor warranty industry. In fairness, Pretoria could never have expected an easy time in bringing this business to heel – the motor trade is infamous for its independence of the law. Hopefully Burton's forthright approach, for which he must be commended, will redress the balance.

Insurers are now answerable to Pretoria for any malpractices they or their agents – the warranty companies, garage dealers and other intermediaries – perpetrate. It should mean a much better deal for the public.
By H.W. Preceez.

JOHANNESBURG.—Nedbank and Allied Building Society are planning to work together in yet another massive deal that will have a major impact on the whole South African financial scene.

The two giants have combined assets of around R14.6 billion at present. Neither party was prepared to comment on the precise nature of the deal last night, however.

But there is no question of any kind of forming a merger.

Such a move would be almost certainly be blocked by the authorities — and would in any case probably not be wanted by either management.

What seems intended is a close business relationship.

There is a precedent in the banks established last year between the Standard Bank group and the United Building Society.

A similar relationship would enable Nedbank and Allied to work together to offer their customers additional services and to rationalize some activities, including those on the technical side.

The announcement of the deal was, however, made by Nedbank and the Allied over the coming weekend.

Mr. Bob Abrahamson, Nedbank's chief executive, said last night: "I have no comment to make. Bank management will not comment on any relations with their clients.

Mr. H. P. Savage, the deputy managing director of Allied, also made no comment.

Taxed profit

A profit of the Nedbank-Allied deal through market sources.

At the end of the financial year to March 31, 1983, Allied had assets of just over R3.5 billion.

With the banks moved advances and re-advances.

The rise in mortgage advances took the outstanding net amount to R2.2 billion.

Nedbank has had a remarkable success record in recent years.

In the year to last September, Nedbank reported a 37.2 percent rise in disclosed taxed profit to R112.6m.

Total assets were up to almost R106 billion.

The last few years have been a major upsurge in competition between the banks and building societies in line with the government's and the Reserve Bank policy approach to encourage free market economics.

This has been reflected in the move by banks, led by Barclays, into the home loan mortgage business and by the interest rate war on all sides to attract deposits and new accounts.

Mr. Owen Howood, the Minister of Finance, has also made clear that the tax concessions given to the building societies are gradually to be phased out.

At the same time, however, this means that building societies must also be allowed to expand their activities and to compete vigorously with banks and other financial institutions for the public's money.

But the banks and building societies generally are involved in colossal costs in, among others, the whole technology of electronic banking and in their branch networks.

Rationalization

Cost-saving rationalization is an obvious answer.

In April last year the Registrar of Financial Institutions blocked a proposed take-over of the Standard Building Society, part of the Standard Bank group, by the UBS.

But it was then announced that Standard Bank was to take over the UBS, banking account that the organizations would fuse their compatible banking networks and certain other client services.

In that sense, therefore, the Nedbank-Allied deal is no surprise.

Nedbank, however, comes under the effective control of the Old Mutual which traditionally had close ties with the Johannesburg Building Society.

There may, therefore, be more ramifications to come.
Barclays posts impressive results, income up 23.7%

by Harold Fridjhon

Johannesburg. — In absolute terms the results of Barclays National Bank for the year ended December 1983 are impressive but viewed against the background of interest on current accounts and the stepped up competition in the banking industry they are excellent.

Net income for the year at R125.6m was 23.7 percent higher than 1982's R101.5m, resulting in earnings increasing from 190.6c to 236c. With the final dividend of 80c the total for the year is 95c, compared with the previous year's 75c. The dividend cover is unchanged at 2.6 times.

When the announcement about the forthcoming rights issue was made in December it was estimated that earnings would be 230c with the dividend at 90c.

The group's net operating income reached a new peak of just over R200m - 31.2 percent better than in 1982, but a much higher tax rate-off of R7m severely pruned the bottom line figure.

The managing director, Mr Colin Watson, said yesterday that the tax rate was high because large financing deals were completed just before the end of the financial year and the investment allowances on the equipment involved were being carried forward as a tax equalization reserve. This will revert into profits in future years. The tax rate was 34.9 percent compared with 25.8 percent the previous year.

A special tax provision of R4.6m was made in previous years pending the outcome of discussions with the Commissioner for Inland Revenue on the taxing of income from certain preference shares.

Total assets of the Barclays group went up by 21.7 percent in the year to R15,544 billion, deposits rose by 25.1 percent to R10,346 billion and advances increased by 31.2 percent to R10,395 billion.

**Total assets**

Judging from the June interim report most of these impressive gains were achieved in the first half of the year when assets were reported as R13.2 billion, deposits were R10.8 billion and advances were R9.4 billion.

Mr Watson said that the big growth in deposits was the result of a well sustained marketing effort, particularly at branch level, to build up deposits when competition had been intensified by the payment of interest on current accounts.

Many customers switched from savings accounts to current accounts to receive the additional benefits. This applied particularly to the Status account which had been launched in the year.

The return on shareholders' funds rose from 12.7 percent in 1981 to 21.9 percent in 1982 and 25.3 percent in 1983. A similar pattern of growth was achieved in the return on total assets which went up from 0.75 percent in 1981 to 0.79 percent the following year and to 0.81 percent last year.

The commercial banking operation continued to contribute the lion's share of the profits earned by the group. Pre-tax profit rose by 7.5 percent to R106.4m in spite of the payment of interest on current accounts.

The cost of interest was partly offset by the marketing effort which boosted cheque deposits by 44.4 percent from R1.8 billion to R2.6 billion.

**Growing arm**

Westbank's pre-tax profit went up by 72.5 percent to R56.4m, making the installment-financing bank the second biggest contributor to group profits.

Westbank, Mr Watson said, had an uneven year. When rates were relatively low in the first part of the year trading conditions were favourable but when interest rates moved up sharply profitability was squeezed between the high cost of money and the Ladoofa ceiling.

Barclays National Industrial Bank (Barnib) was the fastest growing arm of the group. Its profit leapt ahead by 77.2 percent to reach R31.292m before tax.

The profit of the merchant bank dropped from R6.7m to R5.6m probably because of the sharp decline in banker acceptances finance.

At the end of the year the group's excess capital amounted to R160m. This will be increased by 50 percent as a result of the rights issue which is to be made early this year and which will raise about R80m.

The purpose of the issue, Mr Watson said, was to build up a solid base to enable the group to participate fully in what he termed the re-wakening of the economy. The group would then be in a strong position to go for growth.

The rights issue was being made when market conditions appeared to be very favourable. The last rights issue was made 12 years ago when Westbank was acquired.
GST to rise 1pc next month

Staff Reporter

THE government would increase the general sales tax by one percent to seven percent from February 1, the Minister of Finance, Mr Owen Horwood, announced last night.

Mr Horwood put the blame for the increase on the world-wide economic downswing, the inability of South Africa’s trading partners to register an early and meaningful economic recovery, and the recent drought in South Africa.

He said the rapidly-declining gold price and a consequent weakening of the rand-dollar exchange rate, and the higher-than-budgeted expenditure on essential services, also contributed to the need for the increase in GST.

"No tax increase is without sacrifice, and in view of price and cost increases evident elsewhere in the economy, the government would have preferred to avoid any increase in taxation, especially at this point in time. Unfortunately this is just not possible," Mr Horwood said.

An advantage of the general sales tax, however, was that it was levied on almost all final purchases.

"As a consequence, the community as a whole contributes to the financing of public expenditure, which in turn is incurred for the benefit of the whole community," he said.

The government's most important and unavoidable expenses were on drought relief, defence and the servicing of the public debt. Other expenses were on food and transport subsidies.

"On the other hand, the growth of the country's sources of income is limited by the present economic downswing, and is insufficient to cover a growing deficit, due primarily to declining profits in the business sector and a decrease in net customs and excise revenue," Mr Horwood said.

Pointing out positive steps, Mr Horwood said significant progress had been made in the fight against inflation. A positive 'turn-about in the balance of payments had been continued and consolidated. South Africa's credit-worthiness internationally stood at a very high level.

"In addition, it seems as if the economic downswing has reached its lowest ebb, or very nearly so.

"All in all, I am optimistic that South Africa will soon benefit from the long-awaited improved international economic climate and during 1984 experience the commencement of a prolonged and healthy export-led economic upswing."

Poor people hardest hit, page 6
Money supply 'key to lower SA inflation'

By David Bleazard

THE inflation rate would not be brought down significantly unless decision-makers like the banks could be convinced that the money supply was under control, Professor Brian Kantor of the UCT School of Economics said last night.

He was speaking during a panel discussion on monetary policy and inflation in the Summer School series on the South African economy in the next decade.

Professor Kantor argued that the failure of the authorities to control the money supply meant an opportunity to benefit from the recession by permanently reducing the inflation rate had been lost.

"Money supply growth has remained unacceptably high and highly variable through the downturn phase of our business cycle."

Although money supply growth had declined from about 38 percent in the second quarter of 1981 to about 15 percent by the end of 1982, it accelerated again from the third quarter of 1982.

The authorities had been unable to control the money supply because they used the management of interest rates and exchange rates as instruments of control.

"They should abandon attempts to manage interest and exchange rates and concentrate on controlling the high-powered money - the note issue and cash reserves of the banking system."

SCARED

Professor Kantor said the present high interest rates were meant to counteract the effects of the failure to control the money supply.

"The authorities are scared of the effects of the money supply growth on the economy. They are scared that the recovery will come on too soon and too strong."

"But it would have been better if we had had lower interest rates and lower money supply growth."

GOLD PRICE

Dr Jaap Meijer, assistant to the Governor of the Reserve Bank, said interest rates were high because the Reserve Bank was trying to establish credibility in doing something about the inflation rate.

He accepted the interdependence of the rate of growth of the money supply, interest rates and the exchange rate, although other factors such as the gold price also affected the exchange rate.

One could try to control inflation through interest rates or through the money supply.

However, the Reserve Bank had no direct control over the cash reserves banks held. They did not hold surplus cash and operated on the minimum amount they needed.

When they needed to replenish their cash reserves they went to the discount houses, which the Reserve Bank had no option but to accommodate.

Consequently the Reserve Bank could not exercise an exact degree of control and had to work in an indirect way through interest rates.

Dr Meijer said the Reserve Bank and Treasury hoped in future to announce target rates of growth in the money supply.
Sanlam holds 40% Protea Holdings issued shares

By PATRICK McLOUGHLIN

JOHANNESBURG. — Sanlam has acquired effective control of the industrial conglomerate Protea Holdings.

A spokesman for Sanlam said yesterday indications were that Sanlam had over 40 percent of Protea’s 33.5m issued shares. The group would consider buying other Protea shares “on merit”.

He declined to say whether Sanlam would purchase Protea shares in the future.

Informed sources say, however, that Sanlam has a holding closer to 45 percent and a change of absolute control in the next few months is on the cards if Sanlam continues to buy.

Potential

Dr Fred du Plessis, commenting on Sanlam’s stake in Protea, said: “Our attitude is that sooner or later, something will happen to Protea and it has potential. We want to hold Protea shares.”

In the year to June 30, Protea reported turnover of R336m (previously R402m) and earnings a share of 41.5c (95.4c).

Market talk on Protea — which has been the subject of take-over speculation for some time — was revived last week when 1.06m Protea shares were traded.

The volume represented slightly more than 12 percent of the week’s total volume in non-mining Protea shares, attracting brokers’ attention in a relatively static market.

Volume

On Monday, Protea moved up 5c to 340c on a small volume but on Tuesday the share increased a further 10c on a volume of 963,935 shares — 2.9 percent of Protea’s total issued shares.

The rest of the week saw Protea move up to 12-month highs on Wednesday, after a 30c price rise to 380c, whilst on Thursday and Friday the share price fell 5c to end the week at 370c.

Aside from Tuesday, when there was a bookover of about 950,000 Protea shares by broking firm Simpson Frankel Kruger on behalf of Sanlam, volumes remained fairly low.

The deputy chairman of Protea, Mr Aidan Beard, said there had been “a substantial change of shareholdings” in the group with 15.3m Protea shares — almost half the total share capital — changing hands in 1983.

Buying order

He said he had known of a substantial buying order placed with Simpson Frankel for Protea shares, but he did not know if Sanlam was approaching control. This was partly because Sanlam had a number of bank nominee accounts.

Mr Beard said he did not know if Sanlam had any further buying orders in the pipeline.

“I assume Sanlam has done due diligence and they have assessed potential in Protea IS good and they are simply accumulating shares,” he said.

Sanlam’s overwhelming shareholding means that it has secured effective control of Protea from Old Mutual, which some analysts believe to have around 20 percent of the shares.

Mutual bought about nine percent in Protea from Anglo American Life early last year. Protea, later in the year, issued 3m new shares at 280c each in part payment for graphic materials supplier Photra.

When the Photra vendors placed them with Old Mutual for cash, a paper chase was triggered for any of the 83m Protea shares in issue after the Photra deal.

Shareholder

Sanlam was the largest single shareholder in Protea 12 months ago. It held no more than 12 percent of the equity in its own name, although it may have held more through nominees.

The paper chase in October-November saw almost 7m Protea shares change hands, prompting market speculation of a takeover bid.

Sanlam is keeping to page 13
South Africa may soon raise dollar loan — bankers

From NEIL BERNHARD

LONDON. — European bankers believe that South Africa will soon raise a large dollar loan on the Euromarkets.

The money will be raised via a syndicated credit or Eurobond (ED). Timing could be propitious. The Eurobond market was flush with funds in the past week — an improvement over the recent cautious climate.

Spain, one of Europe's weaker credits offered $200m of 13 year notes. Such was the demand that in only a few hours the amount was raised to $250m.

Interest was set at only one eight of a point over the London Interbank rate for six months Europedollars, currently 9.88 percent.

A Republic of South Africa bond issue would set the pace for a concerted international borrowing campaign this year.

Budget estimates

In the first nine months of its fiscal year, the government's deficit was well in excess of Budget estimates. Total outlays of all State departments exceeded revenue by R2.5 billion.

The local money and capital market is already under considerable pressure and both long and short-term interest rates are inordinately high. So the government's domestic borrowing capability is limited.

This leaves the government and quasi-State bodies such as Escom and Iscor, little alternative but to borrow abroad.

If they fail to do so, local interest rates, especially medium and long term, could either rise to new heights or there could be further depreciation of the rand.

Since the flat gold price and the prolonged drought are aggravating these leas, it is highly likely that the authorities will opt for the foreign borrowing option.

Foreign markets

The big question however is whether South Africa will be able to raise substantial funds on the foreign markets this year. On the positive side, South Africa has proved to be an excellent credit risk.

"Banks are shying away from South American and East European nations, but they are happy to lend to countries with low debt service ratios," says a London banker.

He adds that South Africa's international credit commitments of two years or more were around $2.2 billion at the middle of last year, only 15 percent of total exports.

He contends that there are more than sufficient international funds for sound sovereign borrowers.

But other bankers and officials, are more cautious.

The United States Congress through various acts last year, has placed on American banks and the International Monetary Fund. This pressure enforces extra scrutiny on loans to South Africa.

Regardless of political factors, the international banking climate is not conducive to a sharp rise in South African borrowing.

Newsletter

Aegfi, the international credit newsletter, estimates that total syndicated Euro-loan and international bond issues dropped from $2.26 billion in 1982 to $1.66 billion in 1983.

"The market shrank significantly in 1983... such a large drop does not automatically indicate a strong revival in 1984," says the newsletter.

South Africa's borrowing on these markets tumbled to $1.2 billion to $1.4 billion in the same timespan, estimates Aegfi. South African syndicated credit and bond borrowing in 1983, however, were considerably higher than the levels seen in 1983.

Morgan Guaranty says "lesser developed countries' debt problems led to considerable restraint by lenders and investors."

It estimates that LDC's raised only $2.5 billion in the international bond markets last year.

But Standard & Poor's, the American credit agency, recently concluded that the debt crisis confronting many developing nations, masked the deteriorating credit risks of "small industrialized nations".

These countries are much better off than Mexico, Brazil and others but their balance of payments and domestic economic performance has deteriorated because of the prolongation of international recession.

Credit ratings

Last year, for the first time ever, Standard & Poor's downgraded its credit ratings of industrialized countries.

Denmark and New Zealand's debt ratings were lowered from the top quality AAA to AA+.

Australia, Austria, Canada, Finland, France, Japan, Norway, Sweden, United States and United Kingdom remain AAA ratings.

South Africa is not rated by Standard & Poor's because it did not ask for an assessment.

Unfortunately, however, it can be classified as a small industrialized nation, with growing economic problems.

Even though South Africa borrowed less on the Euromarkets last year, total credits increased. Companies resorted to extensive trade finance abroad because they took advantage of lower interest rates abroad.

The Bank for International Settlements says that between September 1982 and September 1983, total net South African borrowings rose from $10.9 billion to $12.4 billion.

About 60 percent of these loans were credits with a maturity of one year or less. These short-term credits must be rolled over, otherwise there could be short-term capital outflows with all the unpleasant side effects.

Commodity Index 1983.0

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Trust Bank profits up 19,2% in first half

By HAROLD FRIDJHON

JOHANNESBURG. — Disclosed taxed profit of Trust Bank for the six months ended December 1983 was R20,5m, an impressive increase of 19,2 percent on the outcome for the corresponding period of the previous year.

After the deduction of R2,776m for preference the balance attributable to shareholders was R17,724m, of which R17,7m was transferred to disclosed reserves. This brings the total of these reserves to R121,1m.

The earnings a share on the present share capital before transfer to the reserves are 34,24c compared with 27,88c for the six months ended December 1982 and 61,43s for the full year to June 1983.

The directors report in their interim statement that the result had been achieved in spite of severe pressure on interest margins caused by sharp increases in all deposit rates and the resistance by the authorities to lending rates rising to market-related levels.

Margins

The three reductions in liquidity asset requirements have not compensated for “the drastic narrowing of margins”. Considerable asset growth and increased penetration in important market segments compensated for shrinking profits margins. In addition, sources of income not linked to lending were also profitably tapped.

“Prospects for the second half of the financial year are viewed with circumspection and will largely be determined by the way in which monetary policy is implemented in this period.”

The managing director, Dr Chris van Wyk, said yesterday that the pleasing outcome of the first half of the year had been the result of several factors.

First the bank was achieving increased penetration in the corporate sector of the market, as well as in up-market personal finance business. Trust Bank had been concentrating on giving advances to quality chequeing accounts.

The customer profile was constantly improving.

Forex markets

Another area which showed sound growth was in the provision of off-shore short and medium-term finance and in trading activities in forex markets.

Fee-earning income was now being brought into account from large projects in which the bank was involved, projects such as Atlantis Diesel, Sappi and several others.

The bankers acceptances business in which Trust Bank and Senbank had a major share had levelled off in the second half of last year when overdraft financing was more advantageous than using BAs.

The bank was increasing its penetration in the hire-purchase and instalment finance field.

Comment: The new year starting July 1 1984, is of special significance to Trust Bank which has persistently reiterated that dividends to ordinary shareholders will only be resumed in 1985. This indicates that this time next year the first interim dividend will be announced.

Judging by the current market price of 250c, investors are prepared to forego another dividend-barren year of waiting for their return in the hope of getting a high payout.

Guessing now what the dividend will be then would be reaching too far over the horizon. The best way is to project what the profit and theoretical dividend would be at the end of the current year on the basis of current earnings.

All the banks show larger profits in the second half of their financial years when accounts are finally closed and all the bits and pieces are brought into the final reckoning.

Looking at Trust Bank’s profit without the payment of preference dividends which will fall away when dividend payments are resumed, the bank earned R17,2m at the halfway stage last year and R20,1m in the second half.

Last year’s second half profit was earned in the first half of this year which suggests that in the six-month’s period to December, R23,5m will be earned — if the economy does not deteriorate to any marked extent.

Preference shares

This means that, assuming all the preference shares are converted as they will be at the end of the current year, the number of shares in issue will be 132,9m. On a net profit of R44m the earnings would be 33c giving a three times covered dividend of 11c and a yield of 4,4 percent.

A further growth rate of about 20 percent in 1985 cannot be entirely ruled out. The one point to consider is, does it pay to wait for the return?

When it is in the clear and all debts to the Reserve Bank for its lifeboat rescue have been discharged, Trust Bank could set an example to South African-owned banks by accounting on a full disclosure basis, as Barclays and Standard do.
Statistics point to 12 months of solid growth

Stannic posts a net income of R23,735m

BY HAROLD FRIDJHON

JOHANNESBURG. — A spectacular turnaround in the net income of Stannic enabled the Standard Bank Investment Corporation (Stanbic) to achieve a 46.9 percent increase in its attributable profit for the year to December 1983.

Attributable profit rose from R82,769m to R121,582m, raising earnings from R155 a share in 1982 to R186c. The final dividend has been increased by 32c to 40c making a total of 52c for the year against the previous year’s 44c. The cover was 3.3 times against three times cover the year before.

The group's operating profit before tax was R1,973,111m, up 33 percent on 1982. Tax, however, rose by only R5m as the tax rate declined from 34 percent to 29 percent.

The previous year’s tax charge includes provision for a prior year’s disputed tax which remains under appeal.

Retained profits

Taxed income of R1,757,577m (R80,986m in 1982) was enhanced by R4m, the share of the retained profits of associated companies - R1,789m in 1982.

While the attributable profit increased by 46.9 percent, the earnings a share were only 39.2 percent higher because of the issue of 7,672,500 shares during the year - 6.7m to effect the Donald Gordon/Liberty Life deal, with the balance going to the staff share incentive scheme.

The statistics of the year point to 12 months of solid growth. Shareholders’ funds have increased by 21.7 percent to R628,855m with the return on shareholders’ fund increasing from 15.9 percent to 20 percent.

Total assets rose by 13.8 percent to R11,377 billion with current, deposit and other accounts increasing by 11.7 percent to R9,967 billion.

Advances and other accounts were 20.6 percent higher at R8,527 billion.

Growth rate

The commercial bank, the Standard Bank of South Africa showed a growth of only 4.5 percent last year with the net income going up from R77,603m to R81,132.

The Standard Merchant Bank registered the same rate of growth to achieve a net income of R10,287m.

Stannic was the spectacular performer. From a loss of just under R7m in the year to December 1982, the hire-purchase and leasing bank turned in a net income of R23,735m. This was achieved through increased market penetration and the writing of more profitable business. Only a limited portion of Stannic’s book was now being written on a fixed rate basis.

No earnings have been brought into account for the additional 25 percent shareholding in Liblife Controlling Corporation (Pty) acquired with effect from July 1, 1983.

Debt provisions

The managing director, Mr Henri de Villiers, said yesterday that debt provisions had been increased to cover potential losses this year. The charge to profit and loss had been increased from R40m to R50m. Other provisions had also been increased. He considered this a prudent move in the light of prevailing conditions.

The past year had been tough but the outcome was better than had been expected at last year's annual meeting when a gloomy view had been taken of conditions in banking after the abolition of the Register of Co-operation between banks.

But in a competitive market the bank and its staff performed exceptionally well. The banks had been assisted by the reduction in the liquid asset requirements which the banks have to hold. This released assets of between R500m and R1 billion.

Outlook

The bad debt experience in the past year had not been as bad as had originally been expected but Mr de Villiers was concerned about the outlook for the current year with the economy in recession and the distress of the agricultural sector to which the group is substantially committed.

During the year the changes in interest rates had squeezed margins, particularly earlier in the year when the bank had been committed to high-cost borrowing when lending rates had fallen. At present costs of money were running at a high rate but the bank did not raise its lending rates to where they should be because it was not considered expedient or in the public interest.

Progress was being made in strengthening the links with the United Building Society and Liberty Life Association. The Standard Building Society was winding down slowly, but it would take many years before it was finally wound up.

Looking at the current year, Mr de Villiers said that he would be relieved if the last year's figures were repeated.
Horwood stresses need for foreign funds
Sanlam may be creating new industrial group

By JOHN MULCAHY

JOHANNESBURG. — Sanlam seems to be in the process of creating another major industrial group, incorporating Malbak, Protea Holdings, and possibly Abercom Group.

Hot favourite to be top of the pile is Malbak, which has one of the most highly regarded professional management teams in South Africa. After raiding the market to acquire control of Abercom, Sanlam is now believed to be involved in negotiations which will lead to the take-over of Protea by Malbak.

Protea and Malbak’s listings were suspended on the Johannesburg Stock Exchange on Monday, for a period of 72 hours, which means that an announcement will have to be made before the opening of trading tomorrow.

Sanlam has at least 45 percent of Protea, or 13.5m shares, which at the pre-suspension price of R40c a share is worth about R52.9m.

New shares

Malbak’s pre-suspension share price was R50c, which suggests that for R52.9m in value Sanlam would receive 7.06m new shares.

Sanlam already holds about 20 percent of Malbak, which means that of the hypothetical share capital after the new share issue of 19.62m shares, Sanlam would hold 9.177m shares, or 51.7 percent.

A neat acquisition of control thus follows, and the only questions remaining are: Who runs the group? Is an offer made to Malbak minorities? What happens to Abercom?

To address the last question first, the Abercom deal, by which Sanlam acquired control of the engineering group through the market, is close enough to the suspensions of Malbak and Protea to suggest that Sanlam’s intentions for Malbak and Protea also involve Abercom.

This, however, is for the time being a peripheral issue.

Control

There seems little doubt that Malbak’s management will retain control of the enlarged group, headed by Mr. Grant Thomas.

Sanlam’s choice of management is also likely to be swayed by the defensive action attempted by Protea to ward off the Sanlam threat.

Protea is believed to have gone pavement pounding to find an alternative to Sanlam, but to no avail.

Malbak’s market capitalization before suspension was R88.77m, that of Protea was R102.03m and Abercom at yesterday’s peak valued at almost R80m, which puts a total market value of more than R230m on the three companies.

In second place in this race, as in several previous battles, is the Old Mutual, Sanlam’s arch-rival.

The Mutual has traditionally been content with a minority, or ‘strategic’ holding in companies, and this policy was fine when there was still a wide selection of free-float companies on the JSE.

Growth

But the growth in institutional cash flows over the past few years, accompanied by a shrinking equity market, has seen more and more of the independents sublimate to institutional control.

It can be argued that the Mutual did not really want control of Protea anyway, but if that were true then what possessed it to competitively build up a big stake through the market?

The one remaining question is what has motivated Sanlam to zero in on what are regarded by the market as little more than second-liners.

The answer must be that there is so little left that Sanlam has been forced to go for companies that could have recovery prospects, and as all three of this week’s cases that description must apply.

Malbak’s fortunes are closely linked to the economy (firstly, and more topically, to the agricultural and motor sectors.

The one certainty about the agricultural sector is that it will rain again, although the timing for this eventuality is less certain.

Recovery

This must also be true of the economy, and specifically, of the motor sector, so the recovery argument certainly applies to Malbak.

For Protea, which is essentially an agency business, there is some way to go before making up ground lost in the year to June 1983, although the six months to December showed that there had been no further deterioration.

Protea’s directors have for years complained that the group is misunderstood, that doing with the the set to do a similar trick with Protea, and is likely to do a deal with Old Mutual on Malbak.

Abercom has recently emerged from a particularly difficult patch, and after applying radical surgery seems to be on the road to better things.

In the case of Protea and Malbak, the issues are more complex. While effective control of Protea was vested in Sanlam, the same cannot be said of Malbak, where until recently Old Mutual had the bigger stake.
Reports sought on S A banks’ foreign activity

Johannesburg—The South African Registrar of Financial Institutions has requested local banks to supply by today detailed descriptions of the accounting of their foreign assets and liabilities where they have an overseas presence.

This move by the authorities is the first in a programme which aims at controlling and policing local banks’ foreign operations, say banking sources.

It will also enable the authorities to get a sharper handle on the banks’ foreign activities which, at present, show a somewhat unclear picture, said one banker.

Local banks, he explained, have tended to interpret the requirements of the Reserve Bank in different ways.

Concern

The concern over foreign exposure on the part of South African banks has been inspired by the Reserve Bank, which in turn has come under pressure from the Bank of England, say bankers.

South Africa’s foreign debt, according to figures published by the International Monetary Fund for June 1983, is almost R12.5bn.

The Reserve Bank is now committed to monitoring this debt and bringing South Africa into line with the procedures of the Basle Concordat, an international central bank agreement, sources said.

At present, South Africa is not a signatory. This means the need to set ground rules by which the banking community can operate. This will become especially important when the economy takes off, said one banker.

At present, many foreign liabilities incurred by local banks are not required to carry capital requirements as they are treated as contingent liabilities. These are in the form of off-shore credit facilities for South African companies.

Some bankers believe authorities may tighten regulations in this area.

Off-balance sheet items may be brought on to the balance sheet to enable a clearer financial view on the banks.

Capital

This would also mean that banks would have to tie up capital that they do not have to at present and thus, bank profits could be affected, some bankers said.

An official of the Reserve Bank confirmed that a circular had been sent to the banks and that their foreign operations were being investigated but declined to comment further.

He also said that any new requirements instituted would not harm banks.

The local banks that have overseas branches are Nedbank Group, Volkskas Group and Trust Bank. (Reuters)
R667m aid immediately for banks

Pretoria steps in to hold prime

By Howard Preece

The Reserve Bank last night took special action to stop another rise in prime rate, the minimum overdraft rate, from its 20% level.

A particular reason, according to some economists, is to prevent farmers from facing even further rises in colossal debt burdens.

But the actions announced in Pretoria by Dr Gerhard de Kock, Governor of the Reserve Bank, also fit in with his long-term objective of changing the methods of monetary policy control.

Dr De Kock announced cuts in the commercial banks’ liquid asset requirements for short- and medium-term liabilities.

The relaxations, he said, would release about R667m in cash and liquid assets to the banks.

This will obviously ease the pressure on the banks and remove any immediate need to increase prime rate to 21%.

Continuing, and surprising, high demand for bank credit, coupled with the steep cost to the banks of getting help from the Reserve Bank to stay within legal obligations, has put renewed upward pressure on prime.

It looks as though the Reserve Bank has decided to try and keep prime at 20% for the time being.

Under Dr De Kock’s changes banks will now be obliged to hold only 25% previously 20% of their short-term liabilities in liquid assets.

This change, effective from the date of certification of the banks’ February 29 monthly statements, will apparently reduce about R460m in liquid assets.

That means that the banks can put these funds to even more profitable use.

Dr De Kock has also decided to abolish from today the requirement that the banks keep a supplementary cash reserve equal to 2% of medium-term liabilities with the National Finance Corporation.

That will reduce the total liquid asset requirement for medium-term liabilities to 18% from 20% and release about R217m in cash.

The Reserve Bank has been progressively reducing liquid asset requirements in line with the recommendation of the de Kock Commission that bank credit should be controlled by a so-called “cash reserve” system rather than by liquid assets.

It is argued that the cash reserve system will make it much easier for the Reserve Bank to control bank credit and thus to keep a much tighter grip on money supply.

Both the Reserve Bank and all leading private sector economists agree that money supply has been expanding far too fast for far too long.

According to the latest figures for the 12 months to the end of January, the broadly-defined M2 measure rose by 17% while the narrower M1 soared by over 29%.

The crucial reason for this is simply that the authorities have not been tough enough in their overall financial strategy.

However, they do have some merit in their claim that control over the money supplies, as in a number of other countries, more difficult in practice than it might seem to some theorists.

A cash reserve system should be far better able to provide “restrainive” credit creation by the banks.

But the timing of Dr De Kock’s announcement last night seems immediately related to holding down prime rate — which was otherwise looking set to move up to 21%.

The Reserve Bank action is bound to attract some criticism from those who believe that deep-seated inflationary problems can be tackled only by letting interest rates rise as high as market forces take them.

It is also supposed official Government and Reserve Bank policy to try and assist disaster-struck farmers directly rather than by distortions of the general pattern of interest rates.

However, such direct action — which would presumably be outlined in the Budget in two weeks’ time — cannot take place overnight.

Dr De Kock has presumably decided that in the interim a 20% prime is high enough for the best interests of the real economy overall.

The other side of the coin is that he may equally take actions to keep prime up longer than some commentators have been assuming.

A “smoothing operation” can obviously work both ways.

What does seem clear is that the philosophy of financial policy has certainly been adjusted from the theory of two years or so ago.

It was then suggested that interest rates would be allowed to move freely in line with market forces.

In fact the Reserve Bank appears to have a target policy for key interest rates now much as it has for the foreign exchange value of the rand.
Reserve Bank counters further rise in prime rate

By HOWARD PREECE

JOHANNESBURG. — The Reserve Bank yesterday took special action to stop yet another rise in prime rate, the minimum overdraft rate, from its present 20 percent level.

A particular reason, according to some economists, is to prevent farmers from facing even further rises in the colossal debt burdens they already have.

But the actions announced last night in Pretoria by Dr Gerhard de Kock, the Governor of the Reserve Bank, also fit in with his longer-term objective of changing the methods of monetary policy control in South Africa.

Dr De Kock announced cuts in the commercial banks liquid asset requirements for short and medium-term liabilities.

The relaxations, he said, would release about R607m in cash and liquid assets to the banks.

Pressures

This will obviously ease the pressures on the banks and remove any immediate need to increase prime rate to 21 percent.

Continuing, and surprising, high demand for bank credit coupled with the steep cost to the banks of getting help from the Reserve Bank to stay within legal obligations, has put renewed upward pressure on prime.

It looks, in fact, as though the Reserve Bank has decided to try and keep prime at 20 percent for the time being.

Under Dr De Kock’s changes, banks will now be obliged to hold only 25 percent — previously 30 percent — of their short-term liabilities in liquid assets.

This change, effective from the date of certification of the banks February 29 monthly statements, will apparently release about R450m in liquid assets.

That means that the banks can put those funds to much more profitable use.

Cash reserve

Dr De Kock has also decided to abolish from today the requirement that the banks keep a supplementary cash reserve equal to two percent of medium-term liabilities with the National Finance Corporation.

That will reduce the total liquid asset requirement for medium-term liabilities to 18 percent from 20 percent and release about R217m in cash.

The Reserve Bank has been progressively reducing liquid asset requirements in line with the recommendation of the De Kock Commission that bank credit should be controlled by a so-called “cash reserve” system rather than by liquid assets.

It is argued that the cash reserve system will make it much easier for the Reserve Bank to control bank credit and thus to keep a much tighter grip on money supply.

Both the Reserve Bank and all leading private sector economists agree that money supply has been expanding far too fast for far too long in South Africa.

According to the latest figures, for the 12 months to the end of January 1984, the broadly-defined M2 measure rose by 17 percent, while the narrower M1 soared by over 20 percent.

Strategy

The crucial reason for this is simply that the authorities have not been tough enough in their overall financial strategy.

However, they do have some merit in their claim that “acceleration of the money supply in South Africa, as in a number of other countries, is more difficult in practice than it might seem to some theorists.

A cash reserve system should have far fewer loopholes for “creative” credit creation by the banks.

But the timing of Dr De Kock’s announcement last night seems immediately related to holding down prime rate — which was otherwise looking set to move up to 21 percent.

The Reserve Bank action is bound to attract some criticism from those who believe that South Africa’s overheated inflationary problems can only be tackled by letting interest rates rise as high as market forces take them.

It is also supposed official government and Reserve Bank policy of trying and assist disaster-struck farmers directly rather than by distortions of the general pattern of interest rates.

Direct action

However, such direct action — which will presumably be outlined in the Budget in two week’s time — cannot take place overnight.

Dr De Kock has presumably decided that in the interim a 20 percent prime is high enough for the best interests of the real economy overall.

The other side of the coin, though, is that he may equally take actions to keep prime up longer than some commentators have been assuming.

A “smoothing operation” can obviously work both ways.

In fact the Reserve Bank appears to have a “target” policy for key interest rates now much as it has for the foreign exchange value of the rand.
The Atlas of the economy

SA's big banking groups have turned out a rash of megaprofits in the last few months. It is easy to be blinded by them. Barclays' R126m, or the R122m net profit that both Nedbank and Standard released at the end of their 1983 financial years, look huge.

Some say big profits are also vulgar in recessions. The common charge is that the banks are profiteering from all those unfortunate borrowers who are paying them record interest rates. This is not only bad for bank's public image. It also raises political resistance in the Cabinet, where SA's monetary leaders try to sell policies that could mean even higher interest rates and more financial burdens on farmers and industrialists.

But profits are not the same thing as profitability. And the profitability of banks is different from that of other sectors. Says a leading Johannesburg banker: "If an industrial company's profits drop, its shareholders are the main victims. But if a big bank's profits fall, it raises a question mark over the whole banking system. The banks are the backbone of the economy. I know of no country in the world with a strong economy and a weak banking system. And strong banks require strong profits."

Bankers feel strongly about this issue. They also recognise that, right now, they are receiving unfavourable attention, with people accusing them of gaining at the community's expense. There is political pressure on this approach. "But," says Trust Bank MD Chris van Wyk, "it shows a lack of understanding of what banks offer. They create a high confidence factor in society and also a high continuity factor. People assume their banks will still be around in 10 or 20 years."

Rise in debt

Banks also take risks that few industrial companies would even consider. A good and topical example now can be found among farmers. Through funding the Land Bank and lending directly to farmers, the banks' total exposure to agriculture was almost R2.5 billion in 1983. That is more than twice what it was three years previously. And the rise in this debt shows a sector that is in trouble - not one that is running up credit because it is booming.

These are "soft" assets to the banks - ones that have lost their immediate profitability. But the banks are not seizing farmers' property. They are absorbing and rescheduling their debt - and facing the possibility that some could be written off. Banking is a high-risk business at the best of times," says Van Wyk. "In recession it's worse."

Moreover, bad debt experience is not simultaneous. It takes a year or longer for those shabby credit risks to materialise - and they cannot always be foreseen. Van Wyk gives an example. If 0.25% of your debt on a R10 billion asset book turns against you, your profits fall by R25m.

A figure like 0.25% is very small, while R25m is very large. That is why banks need inner reserves to stabilise disclosed profits and maintain public confidence. Not all would agree that inner reserves must be hidden reserves. But the fact remains that non-disclosure of contingency reserves by banks is international practice.

Some feel that SA's banks are over-protected. No new banking licences have been granted for 15 years. And non-bank depositaries, like the enormously successful money funds that have hit bank profits in the US, have not been allowed to set up here.

Barclays' Ball... 'credit is our function'

Commercial bank liquid assets to liabilities

- Actual
- Required
THE BANKING SECTOR

The Atlas of the economy

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Use in debt

Banks also take risks that few industrial companies would even consider. A good topical example now can be found among farmers. Through funding the Landbank and lending directly to farmers, the banks’ total exposure to agriculture was at least R13.9 billion in 1983. That is more than twice what it was three years previously. The rise in this debt shows a sector that in trouble — not one that is running up 40% in 1982.

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Barclays’ Ball . . . “credit is our function”

LESS TO KEEP, MORE TO LEND

Commercial bank liquid assets to liabilities

Actual

Required
Bankruptcies snowballing, report says

Argus Correspondent
JOHANNESBURG. — Snowballing personal and corporate bankruptcies are the grim legacy of the continuing recession plaguing South Africa.

More than 25,000 companies voluntarily closed their doors last year at a cost of R24.800-million — up 28 percent from 1982, the Government has reported.

The courts ordered the liquidation of 2,276 others — up 16 percent — involving an undisclosed amount of money.

Voluntary personal bankruptcies rose by 12 percent to 355,246 but their cash debt rose a staggering 33 percent to nearly R200-million. The courts ordered 1,201 others into liquidation — up 20 percent from 1982 — for an undisclosed amount.

The figures were released by the Government's Central Statistical Services, the agency which recently revealed that South Africans have been passing rubber cheques in record numbers and defaulted on R200-million worth of hire purchase payments and other commitments last year.

CHRISTMAS SPREE

The number of defaulters being taken to court was reported to be rising in record numbers and the prognosis for the balance of 1984 was dismal.

The figures may worsen in the aftermath of a spree by Christmas shoppers and the gamble by retailers who hurriedly stocked up — at enormously high interest rates — in the hope of making a quick buck.

First-quarter figures will be available in about four weeks. They may show that some consumers have overspent and now cannot afford to pay up.

That will pressure companies with severe cash-flow problems to turn the screws on anyone trying to delay payments. More defaults could also force up the price of loans, goods and services.

GOLD PRICE

Matters have worsened because of the Government's failure to lower inflation and its helplessness in the face of low gold prices. Economic forecasts for the rest of the year are gloomy, heightening speculation that bad cheques, personal bankruptcies and the number of liquidated companies will continue to rise.

Statistics also showed that 335,000 people were taken to court last year after defaulting on R200-million worth of payments — up 34 percent from 1982 — on such things as rents, loans and HP payments.

In 1982, 298,800 people defaulted on payments amounting to R148-million.

BIGGEST INCREASE

The biggest increase was in the HP category, where the rand-value rose by 63 percent to R31-million — up from R15-million the previous year.

The number of bad cheques and reneged-upon promissory notes rose sharply, topping the R27-million mark — an increase of 50 percent over 1982.

On the business front, the number of judgments were up 32 percent in 1983 — reaching 25,000 — and defaults are getting bigger. The value of defaults rose 62 percent to R28-million, up from R18-million in 1982.

BLACK CONSUMERS

The figures do not break down into white and black sectors but observers note that black consumers are often lured by high-powered advertising into long-term credit deals for cars and furniture — many of which are out of their reach.

• The United States Central Bank's latest increase in its main lending rate will make headlines but should not have much of an impact on other US interest rates, according to money market economists.

They say the health of the economy in general will largely determine whether the rate goes up any further, Sapa-Reuter reports.

The Federal Reserve Bank of the "Fed" raised its so-called discount rate by one half-point, to 9 percent on Friday. Some analysts see the rate staying at 9 percent for the rest of the year, while others predict more rises to as high as 11 percent.

The bond market closed higher, relieved that the Fed had finally ended weeks of uncertainty, while the dollar fell on disappointment that the rate was not raised a full point.

MORE AMMUNITION

Thomas Thompson of Crocker National Bank said the discount rate increase would be more ammunition for West European and Latin American critics of high US interest rates, but the impact should be short-lived.

"It will be quickly forgotten. The discount rate is a technical detail affecting some banks, but it does not have much of an effect on other interest rates, especially when it is lagging a lot," he said.

The discount rate, 8.5 percent since December 1982, had fallen well behind Fed fund rates which averaged 10.41 percent last week.
Industrial group's assets to top R350-m

By DEREK TOMMEY
Financial Editor

SANLAM is using the industrial investment company Malbak to create a major industrial group which will have assets of more than R350-million, will rank among the country's top 30 industrial companies and will have an outstanding management team.

The new group will be Sanlam's third major industrial investment venture after Federale Volksbeleggings and Genkor.

Sanlam is to sell its 71.5 percent stake in Protea Holdings to Malbak for R8.5-million. The purchase price will be met by an issue of Malbak shares which will increase Sanlam's stake in Malbak from 24 to 58.6 percent.

The move will effectively double the size of Malbak, increasing its assets from R133-million to more than R365-million. Its turnover will rise from R280-million to more than R700-million.

MANAGEMENTS
However, an important factor in the decision to group the two companies is the quality of their respective managements.

Mr Marius Daling, Sanlam's general manager, who masterminded the deal, said today: "We believe if we take the combined strength of the Malbak-Protea managements we have a very good team which will go places."

"Once the new management has settled in we expect them to identify where they want to go and expand into those areas."

DIVERSIFIED
Malbak is a diversified investment group with interests in packaging, farm machinery, motors and engineering.

Protea also has diversified interests, ranging from chemicals, packaging and electrical items to medical and laboratory equipment and workwear.

The results of both companies last year were affected by the recession, with Malbak's earnings dropping from 99c to 51c a share and Protea's earnings falling from 66c to 41.5c a share.

However, both companies are on the recovery track and Malbak has increased its interim dividend from 10c to 11c a share.

TAKEN YEARS
Earnings of the new group are expected to be comfortably ahead of last year's figures.

Malbak's managing director, Mr Grant Thomas, said he was excited by the deal. It had given Malbak the size and influence which otherwise would have taken years to achieve.

He was delighted at what he had seen of the Protea team and looked forward to consulting them before any major decisions were taken.
Hope for end to world debt crisis

RIO DE JANEIRO. — The completion in January of an $11bn debt rescue package for Brazil may be a turning point in the debt crisis that has plagued the developing world for nearly two years.

At least that is what senior international bankers and officials are hoping.

The Brazilian package was put together against all the odds. It was the second time in a year Brazil had turned to its reluctant bankers for help, and against a background of severe domestic recession its Congress proved reluctant to accept the harsh austerity demands of the International Monetary Fund.

Now the package is complete, the sense of acute crisis has lifted, permitting both creditors and debtors alike to ponder some of the longer term problems left in its wake.

As the Governor of the Bank of England, Mr Robin Leigh-Pemberton, put it in a recent speech: "The day-to-day management of debt problems has become somewhat less difficult ... We now, I suggest, have an opportunity and a responsibility to think more deeply about the longer term."

So far most of the rescue packages organised for debtor countries in trouble have had the immediate objective of keeping them afloat financially.

The cornerstone has been an IMF adjustment programme, backed up by rescheduling and new loans from banks and sometimes governments as well. Initially bankers hoped that such packages would suffice until a combination of lower interest rates and economic growth in industrial countries floated the debtors gently away from the shoals of default.

But the debt overhang is simply so large that it will take many years before most of the affected countries can rebuild their creditworthiness.

Meanwhile, a way has to be found for them to allow their economies to grow while they continue to use up precious resources in servicing their debts.

Last year, according to Morgan Guaranty Trust, the seven major borrowers of Latin America notched up a trade surplus of about $30bn, but the shortage of new bank loans meant this money had to be used to pay interest on foreign debt.

For the first time since the oil price rises of the early 1970s, borrower countries have begun to make net payments to their commercial bank creditors.

The payments do not reduce their debt, but arise simply because banks are no longer lending enough to cover all the debtors' interest obligations.

According to Mr Tom Clausen, president of the World Bank, developing countries made net payments of $12bn to commercial banks last year. Two years earlier they had received net transfers of $18bn.

Worse still, the trade surplus that is being used to meet these payments has been achieved largely through cuts in imports.

The seven major borrowers in Latin America last year held their imports to a level 42% below what they had been in 1981.

Lower imports mean lower growth, and unless a means can be found of financing some import revival, the countries concerned face years of economic stagnation with cuts in living standards, leading to the risk of severe political and social tension.

As the debt crisis moves out of its acute phase, more thought is now being given to this type of long-term problem. What is clear, however, is that the chances of radical intervention by creditor governments still seem slim indeed.

There is little political support in the industrialised world for grandiose schemes that effectively involve governments in buying the banks out of the problem by taking over their loans to developing countries.

Instead, the basic approach is still a pragmatic one which involves adapting existing solutions for the longer term.

From the banks' point of view, one of the most significant changes has been a willingness to accept a reduction of both interest margins and fees. At the same time, the maturities on rescue packages have been lengthened to spread the burden of repayment well into the future.

The most dramatic example of this came with the $3.8bn credit launched for Mexico in late December. The loan bears a maturity of 10 years, four years longer than Mexico's previous $8bn loan and interest margins have been cut by up to a full percentage point.

Another change has been an increased willingness of both banks and borrowers to consider the use of currencies other than the dollar.

Credit Commercial de France made its contribution to the latest Brazilian jumbo loan in ECUs, the currency basket of the EEC.

For the borrowers this offers a welcome opportunity to reduce total borrowing costs by diversification out of dollars, lenders which are not US banks find their funding dependence on the Eurodollar deposit reduced.

To reduce their dependence on bank lending debtor countries are now being actively urged by Western governments to open their doors to direct foreign investment.

Unlike loans, equity investments do not have to be repaid. Said Mr Leigh-Pemberton: "There are no remaining financial obligations if a project should fail."

"There is a foreign exchange cost to the country only when the investment is productive and profits are remitted abroad — and in these circumstances the project itself may well be generating or saving foreign exchange."

Financial Times.
By Peter Farley
Nedbank is well on its way to becoming a fully fledged international bank headquartered in SA, a fact underlined by its interim figures.
And although chief executive Mr Rob Abrahamsen declined to give a breakdown of the bank's individual profit contributors, it is clear from his comments that international operations earnings were a major underpinning for the 13% profit growth in the past six months.
Many sceptics have expected Nedbank to crack, but after a string of strong profit performances Mr Abrahamsen says with 13% growth in a bad period longer-term potential must be even stronger than before.
Nedbank's traditional operations have, however, been under severe pressure in recent months. High interest rates have precluded substantial profits on the bank's money and gilt market operations, and retail sector competition has pushed Nedbank's market share down from the 11% peak achieved in mid-1983.
But Mr Abrahamsen thrives in this environment, and he accepts that while the bank has kept growing it could have been paying more attention to retail banking in urban areas.
With Barclays making a massive push in this sector it's highly unlikely Nedbank will be content with just sitting still.
But Mr Abrahamsen says the bank will continue to concentrate on quality accounts rather than volume business.
A major factor is the bank's tie-up with the Allied Building Society. The Allied had long had close links with Barclays, and switched to Nedbank at the beginning of this year.
Now Nedbank customers can cash cheques at Allied and Perm branches. In future it is likely more innovations will cement this relationship.
Mr Abrahamsen says current accounts represent less than 10% of the bank's total assets. Profit contribution from this source is seven lower, particularly as it costs R20 million a year in interest on those accounts.
Last year some 76% of group earnings were generated by the commercial bank, with about 10% each from UAL and Nedfin.
In the short-term Mr Abrahamsen sees little change here, but he expects stronger performance from Nedfin to gradually produce a bigger slice.
He says there are signs that Nedfin is writing a bigger volume of business in the highly competitive leasing market.
Nedbank has also achieved a major success in the local foreign exchange market where it was weak a couple of years ago. Mr Abrahamsen estimates that in contrast to only 15% in 1981 Nedbank now handles more than 40 percent of the total business traded.
But foreign activities present Nedbank's biggest opportunities in the longer-term.
The bank is writing substantial business through its London and New York offices. Mr Abrahamsen reckons that in the past six months it was involved in raising over R500 million overseas for the public sector alone.
Nedbank now plans to develop in Switzerland; it recently opened a finance company there aimed at raising money on the Swiss capital markets for SA clients. This could develop into a much larger operation.
Clearly there will be expansion into other countries, but Mr Abrahamsen would not disclose those plans now.
Barclays and Standard's SA operations have made few inroads, but nonetheless thefield is intensely competitive.
There are advantages. Mr Abrahamsen admits Nedbank has probably been able to secure certain fund-raising operations, particularly in the US, because of the reticence of some foreign banks to handle fund-raising for SA corporations.
But he is confident this aspect of business would still be growing at a similar rate had this advantage not applied.
Such confidence at senior level permeates the bank, and has consistently attracted the attention of the investment community. This has resulted in Nedbank's market capitalisation on the JSE rising to around R1.5 billion, well in excess of that of all other listed banks.
As Mr Abrahamsen says, "We may not be the best in every single area, but the sum total is certainly better than any other bank." And on the basis of the past five years there will be few who bet against Nedbank over the next five.
Low rand, higher sales tax mark end of gold boom

By DEREK TOMMEY
Financial Editor

The fall in the value of the rand this week to a new low of $0.762 and the proposed increase in general sales tax to 10 percent have served to bring home the fact that South Africa’s gold boom has collapsed.

The message on the temperature billboard that used to be at Woodstock station and was known to tens of thousands of train travellers is as apt for gold as for alcohol: First it lifts you up, then it lets you down.

Gold has let South Africa down badly, although that fact has been concealed to some extent by changes in the value of the rand against the dollar.

Measured in rands, the value of South Africa’s gold output looks reasonably stable. According to the Reserve Bank, gold output in recent years has been worth:

1977...............R2.5-billion
1978...............R3.9-billion
1979...............R6.0-billion
1980...............R10.1-billion
1981...............R8.3-billion
1982...............R8.6-billion
1983...............R9.9-billion
1984...............R9.9-billion (est.)

These figures suggest that the country’s gold income, after peaking in 1980, has been comfortably maintained.

However, the rands in which these gold output figures are given has been steadily devalued against the dollar.

In 1980 a rand would buy $1.28. But in 1981 it would buy only $1.15, in 1982 92 US cents, in 1983 89.7 US cents and at present it buys only 77 US cents.

If the country’s gold revenue is converted into dollars at these rates a different and a far less satisfactory picture emerges.

It shows that South Africa’s dollar earnings from gold in recent years have been:

1977...............$3.2-billion
1978...............$4.4-billion
1979...............$7.1-billion
1980...............$10.0-billion
1981...............$9.5-billion
1982...............$8.0-billion
1983...............$8.9-billion
1984...............$7.8-billion (est.)

It can be seen that South Africa’s real income from gold has been declining since the peak in 1980.

It is also evident that even if the gold price remains at its current levels the country’s dollar income from gold this year will be at its lowest level for several years.

The consequences of this decline in dollar earnings are far-reaching. South Africa needs dollars to pay its foreign debts. Without dollars or other foreign currencies it will have to cut back on its foreign purchases.

This is what the Government is trying to do. Its actions have been given added urgency by the news that in the first three months of this year the country was going into debt at the rate of R3-billion a year.

The main way of cutting imports is to reduce consumer spending and the Government is aiming to achieve this by raising income tax and levying higher indirect taxes — which will be increasingly felt as the year rolls on.

So, after the high life of the early 1980s, South Africans are now having to tighten their belts, trim their living standards and reduce their expectations.

They will also have to listen to Cabinet ministers and businessmen accusing them of living beyond their means — though the irony is that it is the Government that has been the worst culprit.
Anglo top power with assets of R30-billion

Financial Editor
ANGLO American controls the biggest business empire in South Africa and its largest rival is Sanlam, a survey by a group of economists at the University of Pretoria for Mercabank shows.

The economists, led by Professor J.A. Lombard, estimate that, on 1982 figures, Anglo American controls assets of around R30-billion. Sanlam is a distant second, with assets of R17.3-billion.

Some way behind these two are three others, roughly equal "powers" - the Old Mutual with business assets of R10.9-billion, Barclays with R10.4-billion, and the Standard Bank Investment Corporation (Stanbic) with R3.8-billion.

However, the Old Mutual's muscle is increased by a shareholding in Barlows, which has R5.8-billion in assets, and a share in SA Breweries, which has assets of R2.2-billion.

LIBERTY LIFE
Similarly, Stanbic's stake in Liberty Life, estimated to have assets of R2.7-billion, and its links with United Building Society, estimated as being worth R4.7-billion, also help increase its importance.

The Rembrandt group was estimated to be worth R1.7-billion, but its powers are greatly heightened by its links with Volkskas, which controls about R4.8-billion worth of assets.

These large groups control about 90 percent of the total assets of South African companies whose ordinary shares were listed on the Johannesburg Stock Exchange.

Foreign interests were largely confined to the 9.1 percent held by Barclays and the 2.3 percent held by Stanbic - the two banking groups which at least in a formal sense are controlled from abroad.

The Government, through the Industrial Development Corporation and Iscor, controlled 5.2 percent.

INCREASING
The survey found that the share of the biggest industrial companies in the total assets of listed industrial companies was steadily increasing.

In 1973 the five biggest companies accounted for about 22 percent of total assets. But by 1982 this figure had risen to about 33 percent.
Horwood spells out requirements for SA expansion

LONDON. — The Minister of Finance, Mr Owen Horwood, spelled out here the requirements that will have to be fulfilled before the South African economy can be allowed to expand.

He also announced that his department was planning to supervise more closely the activities of South African banks in overseas markets.

Speaking at the opening of a branch of the Trust Bank in London this week, Mr Horwood said South Africa could not afford a strong upswing in domestic demand unless it was accompanied by an increase in exports or by a rise in the gold price or by an inflow of long-term capital into the country.

South Africa was reluctant to make an excessive use of short-term finance to cover any projected deficit on the current account of the balance of payments.

There had been some encouraging signs from the industrial countries of increased demand for basic metals, minerals and other commodities that the country exported.

For many third world countries this might provide some relief that would enable them to meet some of their more pressing international commitments.

"For South Africa we see in it an opportunity that will enable us to embark on a new phase of expansion."

As in the past foreign investment would again play an important role in providing finance for the new phase of expansion.

The Reserve Bank had told the commercial banks that it would not provide foreign exchange cover for them after September 1986.

This meant that the forward foreign exchange market would have to develop outside the Reserve Bank, and it provided a great incentive for the South African banks to expand their presence and activities outside the country.

This could be only to the advantage of South Africa.

However, the greater internationalisation of South Africa brought with it greater responsibility, both for the banks and for the Bank Supervisory Office.

He urged South African banks to conduct their foreign operations even more meticulously than those of domestic branches subsidiaries.

Representative

"A foreign branch is not only an extension of a bank but also a representative of the country of its parentage."

In line with the spirit of the Basel Concordat the Government accepted full responsibility for the capital adequacy of South African banks and also their foreign activities.

The Registrar of Banks would soon define more clearly the minimum capital requirements for foreign activities.

He and the Reserve Bank were cooperating closely with the Bank of England to ensure adequate supervision over the activities of banks operating in the two countries.
De Kock puts squeeze on credit

By DEREK TOMMEE
Financial Editor

SOUTH AFRICA is at the start of a serious Reserve Bank-induced credit squeeze which will hit many companies and individuals, bankers say.

The Reserve Bank, after several frustrating months of trying to curb bank credit and cool down the economy, has at last achieved a breakthrough. Apparently it now has the banks over a barrel.

In contrast to his predecessor, the present governor of the Reserve Bank, Dr Gerhard de Kock, has always set his face against using physical measures such as credit ceilings to control bank lending as it leads to serious distortions in the financial markets.

Instead, he has relied on market forces — that is interest rates — to damp down the economy.

However, South Africans have proved to be extremely insensitive to changes in interest rates and bank lending has continued to soar.

Now another element has entered the scene — this is the Government’s refusal to increase the maximum rates the banks can charge for loans in line with the increase in the cost of money.

As a result the banks’ margins are being squeezed and they are having to curb their loans.

Dr D C Cronjé, senior general manager of Volkskas, said in an interview in Cape Town the Reserve Bank was now very much in control of the situation. It was not prepared to let rates drop. Nor would it increase the Ladofca rates.

As a result the banks were having to curb their loans.

"The squeeze is coming through now. We expect the bad debt rate to start going up."

...and little hope for drop in bond rates

Mr BOB Tucker, managing director of the SA Perm, held out little hope of lower mortgage rates when he was interviewed during a visit to Cape Town this week.

He said: "I'm afraid the bond rate will not come down in the next year, and people must plan on that basis."

The building societies had to build up their cash reserves in order to meet the Government’s expected new reserve requirements and this would keep mortgage rates high.

Some people were already having difficulty maintaining their mortgage payments and there had been a significant rise in the number of people not meeting their commitment.

As a result of the higher mortgage rate this year and the increases in general sales tax people were being badly squeezed. He expected an escalation in bad debts.

Money funds

The Government’s decision to stop the building societies operating money funds had been frustrating.

They were doing only what they would do when the new legislation came into effect.

It meant that the societies could not satisfy the needs of their clients, and it also kept the societies from the appropriate banking strategy.

However, the societies had been permitted to retain the funds they had so far received. The SA Perm had attracted R206-million in this way by the end of May.
Company liquidations up 31% — Nedbank

Own Correspondent
Johannesburg. — The number of company liquidations increased 31 percent in the first quarter of 1984 compared with the first quarter of 1983, according to the latest Nedbank economic round-up.

The Nedbank report says company liquidations reached a record level of 289 in February while there has also been a sharp increase recently in the number of civil summonses for debt as well as in the value of debt judgments.

The number of civil summonses for debt declined in most of 1983 but after October started to increase and rose by 17 percent to February.

The value of debt judgments rose to a record level of more than R23m in February which is 29 percent up on a year previously.

The Nedbank report says these are legacies of the large increase in consumer borrowing last year and the financial position of consumers is precarious.

Interest rates

"Consumers are faced with interest rates at record highs both in nominal and real terms, fiscal drag on personal incomes as well as higher indirect taxes. "Business has to face the poor outlook for final demand and also increases in the rate of corporate taxation. The substantial first quarter increase in company liquidations is one indication of business conditions becoming tougher."

The report says South Africa cannot really afford the upswing it has been enjoying since the middle of last year.

The economy is now slowing down at the essential preconditions for an upswing to be sustained and become a fully-fledged cyclical revival were and still are largely lacking.

Foreign debt

"South Africa's foreign reserves and the exchange rate are under pressure and the country's foreign debt, after being reduced admirably in the second half of 1982, has been rising again."

The upswing was triggered off by the easy availability of credit and was very strong.

According to Nedbank, real gross domestic expenditure rose at an annualized rate of about 16 percent over the second half of 1983, while real gross domestic product expanded at a rate of about eight percent — a rate which has been exceeded in only one six-month period in the previous upswing.

Nedbank says the main weakness of the upswing was that it was not preceded by the solid recovery in exports which marked all other post-1945 upswings in the South African economy.

"Even by the third quarter of last year exports were still declining, at an annual rate of around 20 percent, and only in the fourth quarter did they start to show the first response to the international economic recovery."

"Further the export strength that was evident in the fourth quarter of last year was not maintained in first four months of this year."

South Africa's import bill was boosted by the revival in economic activity and the need to import maize which meant the current account of the balance of payments returned to deficit late last year.

Government revenue was not boosted, as it typically is, by taxes on the rising profits in the export sectors which is part of the reason for tax rates going up at a time when they are normally reduced to add momentum to the economic upswing.

Nedbank says this phase may be nearly over as the spending and production revival is beginning to ease. The correction that will follow need not be protracted, the bank believes.

Consumer spending and private sector fixed investment may not slip back into a recession as severe as that of 1982 and early 1983 but the most optimistic outlook at present is for consumer spending and private sector fixed investment to hold at current levels through the rest of this year.
A friendly but urgent note to Barend du Plessis

EVERY new Minister of Finance sparks off the hope that he will remedy one or two of the serious flaws of the South African economy and curtail some of the costly political excesses. Since there is almost no chance of the Nationalist government being deposed in the near future we expect our prime ministers and ministers of finance to exercise the unsound policies of their predecessors and to set out in new, more rewarding directions.

What serious flaw should the bright and promising new Minister of Finance, Barend du Plessis, address? If he is in search of information he cannot do better than to take five minutes to study a fact sheet recently issued by the Stellenbosch Institute for Futures Research.

Based on Aart Roukens de Lange's exhaustive study "The National Accounts of SA (1983)", this two-page sheet tells a most startling and disturbing story about the South African economy. It is a story which has profound consequences for our political system. No one who has read this sheet can continue to believe, with Mr Horwood, that we have a basically sound economy. It is in fact deeply flawed.

Segments

This sheet shows pie diagrams (see alongside) for the expenditure on the gross domestic product in 1950, 1960 and 2010. Each pie is divided in three segments according to the proportion of the GDP that were taken up respectively by private consumption, government spending and investment spending.

In 1950, 70 percent of the GDP was spent on private consumption — people spending their incomes on consumer goods. Only 9.1 percent was spent by the government (on infrastructure, local and central government salaries, etc) and 20.9 percent was expended on investment (building houses or shops or buying machines).

By 1980 the pie had changed radically. The proportion of GDP spent in private consumption had dropped to 57.2 percent while that of government spending had grown to 14.6 percent and that of investment spending to 28.2 percent.

If present trends continue, a dramatically different picture will exist by 2010. The proportion of private consumption will have dropped from the 70 percent of GDP in 1950 to 35.3 percent. The proportion of government spending will have grown from the 9.1 percent in 1950 to 21.5 percent. And the proportion of investment spending will have jumped from 20.9 percent in 1950 to 35.3 percent.

Income

But money spent on buildings and machines takes away money that workers could spend on consumer goods. Put differently, investment spending siphons off money from the wage and salary bill. This is why the proportion of consumer spending, shown in the diagrams, has declined sharply since 1950.

Another set of figures computed by Roukens de Lange hammers this point home further. Their work shows a remarkable decline in disposable personal income has been 3.8 percent per annum but since 1975 this has dropped back to 2.1 percent.

The kind of capital investment South Africa has experienced has led not only to a stunted demand for consumer goods but also to a horrifying unemployment problem.

Firstly, workers have been replaced by machines. For instance a recent thesis by Mr M de Klerk has calculated that the number of seasonal black labourers on white farms has declined from 520 000 in 1976 to 700 000 in 1980. Partly as a result of mechanization the white farms may have shed nearly two million black labourers over the last 10 to 15 years.

Secondly, capital intensification, or switching from workers to machines, has made it prohibitively expensive to create new jobs. Roukens de Lange has estimated that the cost of creating a new job for a black worker in the manufacturing sector has (in 1975 money values) doubled from R33 000 in 1960 to R61 000 in 1980. This takes into account the factor of old factories being closed down and new capital being employed.

All this has helped to produce the escalating unemployment problem of South Africa.

On the basis of careful research Dr Roukens de Lange has found that in 1980 about two-thirds of the economically active black population were employed by the formal sector — people actually receiving wages, salaries and other forms of regular income.

The other third had only a very marginal income out of the informal sector (in squatter camps, relocation settlements, etc) or were unemployed.

If present trends continue, only half of the economically active black population will be formally employed by the year 2000, some 13 percent will be in the formal sector and more than 36 percent will be unemployed.

By the year 2010 only 45 percent of the economically active black population will be employed by the formal sector. The other 55 percent will be a massive lumpen proletariat, comprised of desperately hungry people scavenging around for food, as Dr Philip Spies has aptly phrased it.

How did South Africa land in this terrible mess?

One could blame the high black birthrate, or the apartheid policies trying to limit black people in the cities to a minimum, or business which has tried to adopt the American and European capital-intensive system of production.

But blame will get us nowhere — the basic fact is that our economy is not shaped to suit our greatest resource, namely an abundant supply of labour.

Ironically the crisis has been compounded by some of the so-called progressive forces. Take the Sullivan code which tries to improve wages and working conditions for black workers. This has only reinforced the trend of business bidding up the wages of the already overpaid black workers in the cities while the overall supply of black labour in South Africa has exhausted. It has led to more capital intensification, more black people being made redundant and a further swelling of the army of unemployment.

To my mind, foreign pressure on business has imposed an important extent which has been misguided and counter-productive. Far more good would have been achieved for black people as a whole and for
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Expenditure on GDP: P = Private Consumption, G = Government, I = Investment
Source: Aart Roukens de Lange, Institute for Futures Research, Stellenbosch.

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To my mind, foreign pressure on business has to an important extent been misguided and counter-productive. For more good would have been achieved for black people as a whole and for reforming South Africa if foreign pressure had been directed purely at achieving the free movement of labour and the lifting of influx control.

What is to be done? I have a suspicion Mr Du Plessis will have an answer ready: we shall keep influx control but we shall encourage the relocation of industry to bring work to the unemployed in the homelands.

Economic decentralization is a dangerous and costly fallacy. In spite of all the money spent up to the present on the number of new jobs created in the formal sector of the homelands, this represents only five percent of the new jobs created in the formal sector of South Africa.

What about the new Good Hope incentives? Gavin Masdorp shows in a forthcoming study that even under favourable assumptions it will not make much difference. For instance it would deflect 700 000 people from the Durban metropolitan region, but it would not stop the population doubling itself over a 20-year period.

And both the direct costs and opportunity costs of decentralization are far too high for South Africa to afford, given the shape the economy is in.

There are also other options. One could turn the homelands into concentration camps to prevent the unemployed flocking to the cities. One could stage massive roadblocks. One could continue to raze squatter camps like Crossroads. One could in the years to come turn a blind eye to hundreds of thousands of black people dying of hunger. One could turn a deaf ear to the truth that only the cities offer the unemployed the homelands a hope to survive.

One could also lift influx control, use tax incentives to stimulate employment rather than capital investment and provide the unemployed with a low basic income. As a wise man once said: Men and nations turn to rationality after they have exhausted all alternatives.

(Hermann Gilioome teaches politics at UCT.)
Financial Staff

THE downward slide of the rand and gold continued today, bullion plummeting by $16.10 to $332.50 at the price-fixing in London after opening at $348.60 in Hong Kong.

The gold price is the lowest for more than two years and its fall strengthening fears of higher interest rates that will bring more austerity in their wake.

The rand plunged to a new low of 66.70 American cents on foreign exchange markets in Johannesburg, down from Friday’s 68.25 cents.

Rand halved

The rand’s dollar rate halved; what it was two years ago, gold goods bought from the United States now cost double.

Gold and the rand were hit by the continued rise of the American dollar in world currency markets.

After a slight recovery at the weekend to $350.85, gold has dropped even below last week’s two-year low of $345.19.

The Reserve Bank, meanwhile, is raising its discount rate to the commercial banks by another 0.25 percent today, which could force banks to raise interest rates above the record 21 percent for prime customers and trigger higher charges for consumers.

Interest rate up

The banks’ first response was to boost the key 90-day liquid bank acceptance rate to 10 percent from Friday’s 8.50 percent.

The Reserve Bank raised its discount rate by 0.25 percent only last Wednesday.

Interest rates further tightening will be necessary, are understood in joint statement issued today by the Treasury Minister, Mr Owen Horwood, and the Reserve Bank governor, Dr Gerhard de Kock.

Adjustments

They warn this could happen to keep the country living within its means if the gold price does not recover to any significant extent in the coming months, because the economy will be hit by the deterioration in its terms of trade.

The statement said further adjustments, upwards or downwards, would be made depend- ing on the behaviour of the gold price and the dollar and other relevant developments.

The statement would be made in the course of the publication of supplementary Financial Charges Act (Ledocla), which sets maximum interest rates, at present up to 28 percent.

The Ledocla system is currently under review.

‘Buy South African’ campaign to beat the slump — PFP

Gold price plunge

Bullion and rand hit by rise of US dollar in world currency markets.
Hard times ahead if gold, rand don’t rise

By ROBIN BROWN and PETER FABRICIUS
Weekend Argus Reporters

BUSINESS and industry have warned of hard times ahead for South Africans in all walks of life if the falling value of the rand is not reversed and the gold price does not improve soon.

The rand stood at 57.55c to the US dollar today — 22.45c less than it was the same time last year, and the Hong Kong gold price was $348.40 today, $82.57 down on the same day last year.

The rand could drop to 60 American cents, forcing up interest rates and income tax, according to a former head of the SA Foreign Trade Organisation, Dr Piet Keiser, now in business as a private consultant.

The Government came under fire from economists and businessmen this week for failing to support the rand.

Professor Jan Sadie, of the Bureau for Economic Research at the University of Stellenbosch, said the Government’s policy of curbing inflation was completely inappropriate when the rand was falling.

"Instead of curbing inflation, they are merely adding to costs, increasing unemployment and curbing the growth of the economy," he added.

While the exchange rate would be good for exporters — e.g., those marginal mines which struggle to keep their costs down to profitable levels — South Africa was not really geared for export and could not take full advantage of the opportunity.

"We don’t have people waiting to take advantage of the price-drop."

Cost double

The rand this week plunged to an all-time low of 66 American cents — less than half the rate of 1,34 dollars two years ago, which means that goods bought from the United States now cost double.

"With the drop in the rand, interest rates in South Africa will probably rise, making commodities even more expensive," said Dr Piet Keiser.

"Imports, especially oil and raw materials, will soar in price, forcing up the costs of exporting South Africa-manufactured goods.

"Exporting has its expenses, such as world travel to market the goods, freight charges, insurance and interest on loans, all of which will soar to new heights and make exporting that much harder," he said.

Disaster

 Economists are predicting a disaster if the rand remains low in the long term, especially with imported goods, because much of the heavy industrial equipment comes from the US.

"South Africa is going to have to look to countries where the foreign exchange rates are better and buy equipment from Germany, Japan and other European outlets," said Dr Keiser.

Luxury goods such as cameras, video machines and hi-fi equipment are set to rise again and many items imported from Japan could double in price compared to the beginning of the year.

Dr Keiser said: "Companies that have overcharged are in dire straits, especially if the rand slides further, but companies that have had the foresight to make provision for the slide will remain safe and viable."

Cut profits

Businesses who deal mainly in imported goods bought with US dollars have been especially hard-hit by the fall of the rand, said Mr Brian MacLeod, director of the Cape Town Chamber of Commerce.

"If you’re doing business with the United States you will find the same goods today cost infinitely more than they did a few weeks ago.

"Then you either put up the prices and watch the goods sitting on the shelf forever or cut profits right down, maybe to nothing."

"This drop in the rand could be seriously prejudicial to those sorts of business."
Prime rate may go still higher, says De Kock

By HAROLD FRIDJHON

PRIME rate could still go higher than its present record rate of 22%.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday that if the dollar kept rising and gold falling "one can't rule out short-term further adjustments to interest rates".

He added, however, that if gold remained steady at $350, or edged higher, interest rates might decline as the economy cooled.

A lower dollar and a falling off of consumer credit could also lead to an easing of interest rates.

This looks rather more like following external events than initiating domestic policies.

And the record of the past year has clearly shown the authorities have been following events rather than formulating policies which could dampen demand, peg the growth rate in the money supply, and thereby show a determined effort to control inflation.

One gets the impression that the official nod to a high prime rate was reluctantly given. This view is confirmed by the ludicrous increase in the Ladofca rates.

All the authorities have done is to shift those rates in step with prime.

Instead, months ago, they should have used Ladofca as an instrument to curb consumption demand by making credit more costly.

The impression is firmly created that policy is far too timorous.

It has been a series of short steps rather than one big dramatic leap which could have stunned consumers into withdrawing from the market and saving, rather than spending.

The big fear in official circles is apparently that of "overkill".

But the continued buoyancy in the economy - particularly last year's mini-boom which we could not afford - prove conclusively that policies up to now have been far from "overkill".

Step by step, interest rates have crept up. And consumers have continued to spend, on credit, in the expectation that increases in salaries and wages will pay tomorrow's bills.

Had the Ladofca ceiling been realistically set six months ago; had restrictions been imposed on hire purchase transactions, reduction in the demand for bank credit would now be in place and rates might have started to fall rather than be poised for further increases because of external factors.

These cannot be ignored, particularly in an open economy such as South Africa's. But the domestic economy must be stabilised, and here the record is far from convincing.

At a time when Government spending should have been reduced, it has increased.

At a time when the Government should have set an example to all employers and not increased salaries and wages, it raised the pay packets of its employees way and above the inflation rate, adding fuel to consumption expenditure.

Too much reliance has been placed on monetary policy, while fiscal and Government policy has only paid lip service to restraint.

Chuch Square cannot do an effective job if the Union Buildings stands aloof from realities.

Harping back on the short-comings of fiscal policy will not help in the immediate future.

Monetary policy must be made to work harder, and here high interest rates will help - but beware.

High rates can stifle demand. This is shown up in participation mortgage bonds.

A leading part bond manager said yesterday it was highly unlikely the investor's rate for part bonds would go up in line with bank rate because part bond borrowers would not pay more for their money.

He added, however, that a two percentage points rise in the prime rate could force up the part bond investment rate to keep existing investors who might otherwise be attracted to alternative forms of investment.

But what about the borrowers? How would they cope? The aborted property boom of the late 1970s provides the answer. And it hurts.

We have to reconcile ourselves to the fact that US interest rates might continue to rise.

This has been predicted by Mr Henry Kaufman, the American interest rates guru.

If his prediction proves to be correct, the dollar will remain strong, the gold price will remain low, or go lower, and Dr De Kock's forecast of higher interest rates will be fulfilled.

And we will be following - instead of stepping out boldly.
11.7% Budget estimate way out as...

Govt spending rockets by 20%

By HOWARD PREECE

GOVERNMENT spending soared by over 20% in the first three months of the 1984-85 fiscal year compared with the same quarter of 1983-84.

That is way above the original Budget estimate for this year of 11.7% and shows the immense task facing the Cabinet and the Treasury in the coming months in holding down State spending.

However, the Budget expenditure estimate for the year from April 1 of R24 946m has already been increased by additional spending plans, including agriculture, of R393m.

On the other side of the balance sheet, additional net revenue of at least R600m more than provided for in the Budget is expected from the rise in general sales tax from 7% to 10% from July 1, even though basic foods have been exempted from GST.

It also seems likely Mr Owen Horwood, the retiring Minister of Finance, may have prudently underestimated his general revenue expectations in the March Budget.

The Reserve Bank, too, has already taken major steps towards raising the funds needed to meet the Government's borrowing requirement.

An official of the bank was quoted earlier this month as saying about R1 400m of Government stock — gifts — had been sold in the April to June quarter.

This is borne out by the figures in the latest Government Gazette.

The problem, however, is very much more than double-entry bookkeeping.

There is simply a critical need to get the rate of increase in State spending down to more moderate levels.

The evidence for April to June this year is hardly encouraging.

Expenditure was R6 820m compared with R3 654m in the equivalent period in 1983-84, a hike of 20.6%.

It is true, of course, that the monthly pattern of spending can vary considerably.

But so far this fiscal year, each month has shown a substantial rise over the same month of 1983.

The figures for April, May and June this year were R2 451m, R2 316m and R2 654m respectively.

In those same months last year the amounts were R2 078m, R1 871m and R1 704m.

In his Budget, Mr Horwood said departments which spent more than one-twelfth of their annual allocations in any month would be called to account.

This looked rather hollow when total spending was up by R2 451m in April against a Budget annual average of R2 078m.

However, it could perhaps be argued that the first couple of months of the year were bound to be difficult because of a backlog of commitments from the previous fiscal period.

In that sense the R393m additional spending proposals and the announcement of the GST hike to 10% could be seen as putting right mistaken assumptions of the March Budget.

Mr Horwood can also point to the June expenditure figure of R2 654m as being below the monthly average expenditure estimate.

But a rise of nearly 21% in the first three months means that there will have to be some desperate economising over the rest of the year.

The prospect of further tax hikes this year is certainly very real at this stage.
SA's monetary policy pays off

By TREVOR WALKER
Argus Financial Correspondent

JOHANNESBURG. — New Zealand's 20 percent devaluation of its currency underlines how well South Africa's monetary policy is coping with the rampant United States dollar.

The governor of the Reserve Bank, Dr Gerhard de Kock, this country's money manager, had booted South Africa, a developing country, into the open market and the manner in which the rand has depreciated by about 10 percent against the dollar in the past three weeks has vindicated his policies.

Because of the excessive rise in the dollar against all currencies the gold price has slumped and South Africa has suffered, perhaps more than many other economies.

But if the market mechanisms had not been in place the authorities here would have been faced with the same dilemma as that facing New Zealand. Australia followed South Africa in relaxing foreign exchange controls and freeing its foreign exchange market, whereas New Zealand did not. It has now been forced into a sizable devaluation, but the move has solved nothing.

Market pressures will remain and its monetary difficulties will continue. In trying to defend its currency it lost $1-billion in the weeks before the foreign exchange market was closed. Now the same buyers of those dollars will move them back at a 20 percent profit.

In South Africa the system of market-related foreign exchange rates has worked.

AGAINST DOLLAR

In the past three weeks the rand has depreciated only against the dollar and not against the currencies of the country's other major trading partners, while the net reserves of the Reserve Bank have not fallen at all.

The reserves have jumped around, and the bank did spend up to $800-million on particular days to support the currency, but exporters were soon back in the market selling dollars and the net result has been a stable reserve account.

The exchange rate took the knock, not the country's reserves.

In addition to devaluing, New Zealand has imposed a three-months freeze on prices, which is clearly a desperate measure — and one that is self-defeating.

Devaluations increase local prices so by staving them off artificially for three months the fledgling Labour government has only laid the ground for further panic in October. Direct controls lead to further artificial controls.

The stark fact is that there is just no easy way to solve economic problems.

A country cannot spend its way out of difficulties nor can it expect artificially imposed political solutions to eliminate these problems for ever.

The French Cabinet has just resigned. There too President Mitterand opted for the socialistic approach — dividend, price and interest rate control and nationalisation of the banks.

He rejected Reaganomics and Thatcherism. But both the United States and Britain have demonstrated that curbing government spending, lifting interest rates and suffering high unemployment, can lead to a swift turnaround of economic fortunes.
**THE RAND ROCK**

SOUTH AFRICA has just escaped many loopholes in successful prosecution meetings, closure of the Stock Exchange foreign exchange dealings, acco Reserve Bank, Dr Gerhard de Kock.

But the bad news is that high imported goods could be sold at prices higher than their cost. The Works Div. of Nedbank admits it has been a very difficult period for many South Africans.

So far, although the government has been very careful with its economic policies, the events of recent weeks have resulted in increased instability and uncertainty.

Instead, the economy had emerged relatively unscathed from the incredible collapse of the Rand. The dollar, which sold for nearly three rand in mid-July, is now trading close to two rand.

For the new policies, which enabled the Rand to be stabilized, these events would have resulted in an emergency Cabinet meeting. But since this time, many currency dealings would have been suspended.

"We have just passed through six of the most difficult weeks," said Dr de Kock. "Gold, which accounts for about 50 percent of our export earnings, has recently lost $370 and the value of the Rand dropped to new lows."

"Allowing the market to dictate the value of the Rand proved to be the shock absorber we needed."

"We didn't have to take a 20 percent devaluation close to our foreign currency market, and then re-open it."

"We were hit hard on the jaw, but we absorbed it, because the exchange rate took the shock as well."

"New Zealand didn't have a similar shock absorber. It had to close its foreign exchange market for a few days. But first it had to devalue its currency by 20 percent which is large and disruptive."

"Our system was test-
The Rand on the Rocks

SOUTH AFRICA has just escaped emergency Cabinet meetings, closure of the Stock Exchange and suspension of foreign currency dealings, according to Governor of the Reserve Bank, Dr Gerhard de Kock.

But the bad news is that inflation is set to soar as the price of imported goods skyrocketed.

In an interview Dr de Kock gave details of the "three to four-week battering" of the economy.

And he said that were it not for South Africa's "new relatively relaxed foreign exchange policies", the dramatic slump in the gold price and the crash of the rand would have caused "a serious financial and confidence crisis".

Instead the economy had emerged relatively unscathed from the incredible escalation of the dollar which sent the gold price tumbling and eroded the rand.

But for the new policies, which enabled the rand to float down, those events would have resulted in emergency Cabinet meetings, closure of the Johannesburg Stock Exchange and foreign currency dealings would have been suspended.

"We have just passed through between three or four very difficult weeks," said Dr de Kock.

"Gold, which accounts for about 50 percent of our exports, fell from $370 and the value of the rand dropped to new lows.

"Allowing the market to dictate the value of the rand proved to be the shock absorber we needed.

"We didn't have to take a 20 percent devaluation, close our foreign currency market, and then reopen it.

"We were hit hard on the jaw, but we absorbed it, because the exchange rate took the shock as well.

"New Zealand didn't have a similar shock absorber. It had to close its foreign exchange market for a few days. But first it had to devalue its currency by 20 percent, which is large and dis
We are standing in a modern open-plan office dominated by rows of desks crowded with large white terminals and small switchboards.

Red lights wink on telephone exchanges which carry 30 to 40 lines as big customers, other banks, branches and brokers connect the room to find out the latest prices, up to the last second.

Against a wall a black screen carries, in large white letters, the word "US dollars, sales, purchases.

Columns of figures fill the length of the screen.

Above, wall clocks tick the minutes away in Tokyo, Singapore, London, local Europe, New York and Los Angeles.

Manfred Schutte, general manager of the Standard Bank's International Division, has a gleam in his eye.

"When there are very hectic market changes it gets quite dramatic, lightings flashing and just the general shouting.

"Some dealers who join cannot take it and ask to be moved, others thrive on the pressure.

"In 1979 we had the same exchange market as New Zealand and the price of the rand was determined somewhat arbitrarily by the Reserve Bank at 115 U.S. cents to one rand and we had to buy and sell at those rates.

Unrecognisable

"People soon realise that because of undue pressure on the balance of payments arising from reduced exports or declines in the gold price such an exchange rate may not reflect the true position.

"The result of such a system, when people ultimately expect an adjustment of some magnitude in the rate, exporters would delay the conversion of their sales as long as possible and importers would pay as soon as they could. Accordingly some traders gain handsomely when the adjustment is made and others suffer, which is undesirable."

It was better to operate on the present system in which the exchange rate was determined by market forces.

"In the last few weeks, as the gold price has come down fairly swiftly and balance of payments has deteriorated because of agricultural imports, the pressure on the rand has increased quite considerably," Mr. Schutte said.

"This has led to a fairly volatile and gyrating exchange rate. Large exporters and importers have the same Reuters monitors and when they see a development more and more of them come into the market.

"The bigger the drop in the value of the rand, the bigger the rush. Turnover increases substantially on those days."

Although the Reserve Bank closes at 2:30 pm, banks continue to deal and in recent weeks many dealers have been at their desks until 10 pm.

"Recent turnover has been unrecognisable by comparison with pre-1979 levels," Mr. Schutte said.

"International trade has doubled in recent years, gold proceeds, previously handled by the Reserve Bank, are now handled by the local banks and the opening of Interbank, where local banks can buy and sell currencies, have all had an influence.

"The atmosphere in this room is the same as on the Stock Exchange floor when a boom is on or there is a run on a share," the chief dealer said.

Surveying a scene of seeming chaos, the dealer apologises that Friday is a quiet trading day. "Everything just goes dead after 12.

"Anyone in the world who is prepared to deal at the current price can buy or sell at that level, but the minimum sale has to be for one million dollars.

"Here your word is your honour, if you make a deal verbally, by telex or via a broker, the deal stands. It is very, very competitive. If the price is not good you fall by the wayside.

"In the last six weeks there has been an extraordinary demand from importers but no much supply from exporters.

"This whole year has been hectic. It always is in a U.S. Presidential election year, but the last few weeks have been extremely hectic.

"Dealers are under a lot of strain from 7 am to 6 pm.

"It is the mental strain a dealer has as well. At the end of a day you just want to go to bed alone."

"New Zealand didn't have a similar shock absorber. It had to close its foreign exchange market for a few days. But first it had to deal with the recession by 20 percent which is large and disruptive.

"The system was tested. It worked. It showed it can handle bad news."

Dr. de Kock said that an attempt to bolster the rand would have a negative effect, showing that it was an overvalued currency ripe for depreciation.

"The best defence had been to let the rand find its own level."
Reserve Bank action fails to halt pressure

HAAROLD FRIDJHON on the MONEY MARKET

UPWARD pressure is still being exerted on money market rates in spite of the Reserve Bank taking all reasonable action to stop them soaring out of control.

In the past week, the Reserve Bank has:
- Given the market R600m in accommodation through buyback deals;
- Reduced the amount offered in Treasury and Land Bank tenders;
- Announced that Government bonds maturing in September will not be rolled over; and
- Said that no tenders for new Government bonds will be made during August.

But these assurances that there will be no squeeze from Pretoria have not allayed the bearish mood in a market which, desperately short of liquidity, continues to bid very competitively for any money it can lay hands on.

Short-term rates are high and are set to move even higher this week when the books have to be balanced at the month-end.

Call rates are around 20% with a tendency to spill over this level. Month-end money is being bought at 20.25% and this week one deal for R12m from July 31 to August 1 set a rate of 20.35%.

One-month negotiable certificates of deposits were sold into the secondary market at 20.75%.

The 90-day bankers acceptance rate was 19.70% on Friday, after having been as high as 19.95% earlier in the week. The rate was jerked up when a large parcel of BAs was offered into the market.

After that had been disposed of, the BA rate eased down to 19.50% as the supply of BAs dried up but short market pressure took it higher again on Friday.

The Treasury bill rate rose by one point in Friday's tender, from 18.76% to 18.77%.

This was hardly a reflection of conditions and sentiment in the market.

Granted, the tender was only for R40m worth of bills, with R86m of maturities, and granted that there are always a number of small tenderers looking for bills, the one-point move in the rate does seem to indicate some measure of official support for the tender.

If the rate had been kept down through intervention there would have been a valid reason for this action.

The Reserve Bank's discount rate for TBs is 8.75% which means that, theoretically, investors who bought bills could discount them at the bank and make an immediate profit.

The same applies to BAs with a market rate of 19.70% and a discount rate of 19.5%.

It would seem that the Reserve Bank is prepared to go along with this anomaly rather than raise, once again, its discount rates which might be a spur for all rates to go higher, including prime.

There is enough stimulus within the market-place for rates to rise without the authorities giving added impetus at a time when they would like to see rates remain exactly where they are.

Looking back on the traditional pattern — not that traditional patterns seem to count for anything these days — the margin between the TB rate and the 90-day BA rate was usually between 0.25% and 0.5%.

At present, the gap is 0.93%, which suggests that one rate is out of line. The BA rate is market-determined, so perhaps the rise in the TB rate has been restrained.

On Friday, the Reuters screen was showing the market shortage — the total amount of accommodation which the Reserve Bank gives to the market — reached R2,586bn, with market sources estimating that by the close of business tomorrow it could reach between R2,8bn and R3,1bn.

This sets the stage for institutions to put pressure on the market. Brokers said on Friday that the tendency to invest short-term was currently very strong.

The bond market was very bearish last week because events in other markets, such as forex, gold and the money market, had confirmed expectations.

Rates have soared, with both RSAs and Escom reaching new heights of over 16%.

Only two bonds were really affected. They were the RSA 13% 2005 and the Escom Loan 103 18% 2007. Trade in the two accounted for 38% of the market's turnover of R58bn during the first four days of the week.

This was not achieved by small speculative jobbing deals between brokers, although there was much of that.

The jobbing which boosted trade came from the many institutions operating jobbing portfolios.

There was switching from RSAs, which reached a peak of 16.1% — on the 2005s — into the higher-yielding Escoms, with the 103 Loan 18% reaching 16.13%. And there was dealing to get rid of long-dated stocks and to shift into call and one-to-three months assets.

Dealing was concentrated on these two issues because they are the most marketable bonds and the name of the trading game is marketability.

This means there are many dozens of bonds on the JSE board which are never traded. They are virtually frozen assets in the investors' books.

This emphasises the need for market-makers in the local bond market and it is here that the banks and the merchant banks — and some of the major assureds — could play an important role, if they were given the opportunity by de-regulation.
Credit limits up again

Finance rates go through the roof

By HAROLD FRIDJHON
A DRAMATIC announcement made jointly last night by the Ministers of Commerce and Industry and of Finance, and the Governor of the Reserve Bank, will usher in an unprecedented period of austerity and “belt tightening”.

The statement said:
- Banks prime overdraft rate could go as high as 22%.
- The ceiling rates on hire purchase will go up by 5% to a maximum of 32%.
- The rates on borrowed money up to R2,000, will go up to 32%.
- A further announcement today will impose restrictions on hire purchase transactions, probably an increase of deposits and shorter periods of repayment.
- The Reserve Bank’s rediscount rate for treasury bills to discount houses will rise to 21.75% from 18.75%, rates for Land Bank bills will rise to 22% from 19%, and rates for bankers’ acceptances will rise to 22.5% from 19.50%.
- And the Reserve Bank will apply similar increases to its overnight lending rates to discount houses and other banking institutions.

The statement was released in Pretoria by the new Minister of Finance, Mr Barend du Plessis, Minister of Commerce and Industry, Dr Dawie de Villiers, and the Governor of the Reserve Bank, Dr Gerhard de Kock.

The economy, said the statement, had been adversely affected by a strong dollar, a low gold price, a weak recovery in world prices of South African principal export commodities and the drought.

The statement also said that the various Ladofera rates (maximum finance charges contained in the Limitation and Disclosure of Financial Charges Act), which had not been fully adjusted to the increases in market-determined rates during the past year, would be raised by 5% to achieve an appropriate alignment of interest rates.

This has been exacerbated by the gold price dropping from $380 an ounce to around $340 an ounce.

The country is facing a very difficult period which can only be overcome by the tightening of belts.

For ordinary loans up to R2,000 the maximum interest rate rises to 32% from 27%.

For loans between R2,000 and R5,000 it rises to 29% from 25%, and for those over R5,000 it goes to 28% from 25%.

For hire purchase and leasing transactions under R10,000 the ceiling rises to 32% from 27%, and for those over R10,000 it goes to 30% from 25%.

These rates apply from today.

The statement said there would be no further tax increases. The Government was determined instead to curb public sector spending.

The new rates will probably mean a rise in mortgage rates and the drop in consumer demand could lead to an increase in unemployment.
Hi, purchase hits you hard

Too much too fast

SA's economy

Warnings on

Commerce and industry
Govt's foreign liabilities equal R3bn

SA owes the world R27bn

By HAROLD FRIDJHON

SOUTH Africa owes the world about R27bn at present rates of exchange.

The figure could be considerably higher, but it is unlikely to be less.

Two elements in the country's foreign debts are accurate — the amounts which the Government and the parastatals owe — but the offshore borrowing by the private sector of the economy is an estimate.

Using the current value of the rand, the Government has outstanding foreign liabilities of about R3bn.

Those of the parastatals such as Escom, SA Transport Services and the Post and Telecommunications are R3,88bn. But getting a figure for what the private sector owes has been difficult.

Various banks provided estimates. They calculated what their clients had borrowed in aggregate from abroad, then grossed up these liabilities in terms of what each bank believed its market share to be.

Their estimates have ranged between R12bn and R15bn, but spokesmen for the different banks have tended to under-estimate rather than over-estimate the total outstanding.

Last week, the Department of Finance published its annual statement of the guarantees given by the Government to overseas lenders of money to the public corporations.

The debt schedule shows capital amounts owing in various currencies, interest payments the total incuding interest and the year by year repayment schedule of the debts.

The total capital value of all debts at March 31 1983 was R6,612bn, increasing by 12,2% to R7,421bn to the end of March this year. Values have been calculated at the foreign exchange rates at the time.

If these debts are valued at the exchange rates ruling last week they have increased by 19,6% to R8,88bn.

In rand terms, and at the exchange rates ruling at March 31, 1984, and at March 31, 1983, outstanding capital owing on dollar-denominated debts increased from R3,083bn in 1983 to R2,806bn in 1994 — by 34,3%.

Repayments during the year resulted in the outstanding German mark debts dropping from R1,794bn to R1,73bn. There was a similar drop in the debts owing in French francs — from R1,106bn to R979bn.

It is possible that debts incurred in the erection of the Koeberg power station could account for some of the repayments.

Debts in Swiss francs increased from R1,075bn to R1,154bn.

Loans denominated in British pounds rose from a capital value of R415bn to R487bn. In the case of Japanese yen, the capital amount owing rose nearly three times from R131bn to R325bn.

The denomination of debts by currencies does not necessarily mean that the money has been borrowed from the countries whose currencies have been specified.

For example, the large debt in dollars arises from funds which have been raised in the Euro-dollar market. Most of these loans are unconnected with transactions in the US.

Other loans have been issued with multi-currency options and the designated currency is the one in which the last payment was made.

Total payments of capital and interest which the parastatals must make this year amount to R1,093bn and the larger part of all the debts is scheduled to be liquidated by 1990.

The trouble with South African borrowing is that it is mostly short-term and largely raised for the financing of projects in this country.

The Government's borrowing abroad has shown a considerable increase in recent years. In 1981, its debt amounted to R695bn and at the end of March this year it stood at R2,45bn.

Of the Government debt of R2,45bn, R2,149bn is non-marketable, which suggests it is largely in the form of a loan from the International Monetary Fund and from banks, possibly in the form of short roll-over credits.

The marketable debt amounts to R301m.
Govt spending runs at 18.4pc above last year's

Mercury Correspondent

JOHANNESBURG—Government spending for the first four months of the current fiscal year is running at a rate of 18.4 percent above that of last year.

But in terms of what the average budgeted expenditure should be for four months, the departments have overspent to the extent of 4.3 percent. All the excess spending took place during March and April.

State departments spent R8.517 billion during the four months ended July 1984, compared with R7.470 billion for the same period of last year.

In his Budget speech, Mr. Owen horwood, the then Minister of Finance, said that he would try to hold the increase in this year's Budget to 11.7 percent above last year's.

Budget

Total expenditure in the original Budget for this year was estimated to be R24.946 billion but this was increased to R25.363 billion by additional expenditure which was approved by Parliament. This works out to an average of R2,119 billion a month.

Mr. Horwood said that he would try to confine the State departments' monthly spending to one-twelfth of their annual budgets. In April, total spending was R2,545 billion, in May R2,316 billion, June R2,074 billion, and July R2,037 billion.

While some departments were, in terms of the monthly average, underspent at the end of July, others appear to have spent a bigger-than-average amount of their budgets.

The Departments of Co-operation, Foreign Affairs, Community Development, and Minerals and Energy Affairs appear to be well within budget, but the Commission for Administration has spent three-quarters of its appropriation of R46m with eight months to go.

National Education has spent R420 million of its total budget of R866 million.

Defence is about R100 million over its average.

Industry and Commerce has spent R379 million in four months against an annual budget of R375 million.

Other departments which appear to be over budget at present are Agriculture and Education and Training.

Benefits

Some R267 million appropriated for 'improvement in conditions of service' — benefits for public servants — is as yet unspent.

With expenditure at R8,817 billion and revenue at R5,928 billion — very little changed from last year's collections — the deficit before borrowing, including repayments of past borrowing, amounts to R2,929 billion.

This has been financed by the raising of R3,002 billion.

Bonds issued by the Treasury have brought in R1,937 billion, of which R1,48 billion has been raised by the new and most popular bond, the 13 percent 2005. Some of this stock was raised by public tender, some by tapping stock into the bond market, and some by issues to the Public Investments Commissioners. In June the PIC took up stock to the value of R217 million. It is believed that the PIC will take up bonds approximately at the rate of R200 million a month.

Treasury bills have brought in R,419 billion net.

The Defence Bonus Bond scheme appears to be running into heavy water. These bonds have raised R42 million so far this year, but R51 million has been repaid.

Loans

Foreign loans and credits raised amount to R237 million while R10 million has been repaid. Mr. Horwood budgeted to raise R426 million abroad this year.

A breakdown of revenue is available only to the end of June. At that stage income from customs and excise was at R446 million slightly higher than it was at the same stage of last year.

Inland revenue at R3,817 billion was R494 million ahead of 1983/84 and most of this increase came from general sales tax, which, at R1,211 billion, was 1324 million more than in 1983/84.
State spending purge 'has saved R650m'

By CHRIS FREIMOND
Political Correspondent

PARLIAMENT. — Austerity measures by Government departments had succeeded in reducing what was at one stage expected to be a R2,45bn overspending by the State to about R1,8bn, the Minister of Finance, Mr Barend du Plessis, announced in Parliament yesterday.

Speaking in an emergency debate on the state of the economy, Mr Du Plessis said certainty regarding total Government spending and the financing of that spending ought now to contribute to greater stability in "economic variables and expectations".

Mr Du Plessis said that after in-depth discussions at the end of July, between the monetary and fiscal authorities on the deteriorating domestic situation and the sluggish recovery overseas, the Reserve Bank took steps early in August to meet the difficult situation as far as monetary policy was concerned.

The measures, such as adjustments in interest rates and control of the money supply, had already produced promising results although it was inevitable that sacrifices had to be made in certain sectors of the economy.

A similar exercise to that by the monetary authorities had been undertaken by the fiscal authorities to control the tendency to overspend by the public sector.

The exercise was now complete and details could be disclosed because taxpayers had the fullest right to know what the present economic and Government expenditure position of the country was.

When the exercise to prune expenditure was started, more than four months of the current fiscal year had elapsed. Cuts that could be made were therefore all the more vital in as much as they applied mainly to the second half of the fiscal year.

Following a Cabinet directive, the Director-General of Finance, Dr Joop de Loor, told the heads of State departments and other institutions financed by the Budget that the economic and fiscal position was serious and they were requested to make appreciable cuts in spending for the rest of the year "within their own range of priorities", Mr Du Plessis said.

There were simultaneous special measures on the revenue side to speed up the issuing of assessments and collection of outstanding amounts. These measures were bearing good fruits and would result in revenue in excess of that budgeted for in March.

Certain exceptional factors for which acceptably accurate provision could not be made in the main Budget, nor even in the Supplementary Budget, meant that Government expenditure this year had risen above budgeted levels.

"This process began in April and there were soon indications that the additional expenditure could reach as much as R2,45bn if not arrested timely.

"Examples of this are additional drought relief, further food subsidies, the return where now practicable of certain expendi-

ture which had been excluded from the main Budget, namely the so-called excess commitment authority in respect of the SA Defence Force, as well as indeterminate expenditures arising from the substantially higher levels of interest rates, particularly the increase in the cost of servicing the public debt and housing subsidies," Mr Du Plessis said.

The co-operation of all State departments had succeeded in preventing nearly R650-million of the expected overspending "inevitably with sacrifice of services and service levels".

"It is now expected that the Additional Budget can be held to about R1,8bn, excluding discounts on the sale of Government stock.

"This is still a high figure, but one that is inevitable under present circumstances when regarded had to the programmes and services involved and to the exceptional factors referred to," he said.

Mr Du Plessis said the Government expected revenue to be about R1,5bn above the Budget figure. This was mainly due to the July increase in GST, the higher rand earnings of the gold mines which formed the basis of their tax liability, and accelerated tax collections by Inland Revenue.

"The gross additional expenditure therefore amounts to R2,18bn comprising the supplementary R380m by Parliament and the estimated additional expenditure of R1,8bn already referred to.

"Taking into account the anticipated increase in revenue of R1,5bn total net additional financing requirement amounts to R680m.

"The result of all this is that the deficit before borrowing for the full fiscal year will now rise from just below some R38bn to R538bn. That is from about 3% of the expected gross domestic product to some 3.6%," Mr Du Plessis said.

The additional financing requirement could be accommodated comfortably by the local capital market.

The Government's activities in the local capital market during the rest of the current financial year would therefore be limited to the conversion of stock amounting to R350m which matured during this period, plus sales of new stock at approximately R400m, he said.
S A's savings ratio under 20pc of GDP in second quarter

JOHANNESBURG—South Africa's savings ratio dropped to below 20 percent of the gross domestic product (GDP) in the second quarter of 1984, the lowest figure since the early 1950s, Volkskas said in its Economic Spotlight.

The survey also said that the rand is expected to firm slightly next year and interest rates may decline provided there are no extraordinary adverse events like a further sharp drop in the gold price, political unrest or a repetition of poor agricultural conditions.

It can be expected that while the inflation rate is likely to rise in the months ahead, the rate of increase may decline in the course of next year.

Consumer prices rose 12.42 percent in July after an 11.86 percent year-on-year June gain.

Savings

'An analysis of the composition of gross domestic savings shows that savings by government have been negative for the past six consecutive quarters (seasonally-adjusted figures).

'This means that government has been using loan funds to finance current expenditure, while personal savings, which dropped to unacceptable low levels during the past 2 years, had reached negative figures by the second quarter of 1984 for the first time in the past 38 years (the period for which figures are available). This means that individuals spent more than they earned.'

Volkskas said this was a serious development which in the national interest should receive attention as soon as possible.

As far as government was concerned, current expenditure would have to be curbed drastically.

Volkskas said it was essential to determine why individuals act as they do. 'In our view some independent institution should be asked to undertake a survey of the general public as a matter of great urgency.'

'After all, the correct medicine can only be prescribed if a proper diagnosis has been made. We already know that a high inflation rate and high inflationary expectations do not encourage people to save. Negative real interest rates do not promote savings either."

'Similarly, an excessively high marginal income tax rate is not conducive to saving by individuals, but there may also be other reasons and it is imperative that all the factors having an adverse effect on saving are as soon as possible ascertained so that appropriate corrective steps can be taken.'

The annual survey of company accounts released by the Central Statistical Service shows the average decrease in net profits for the various categories was: Manufacturing enterprises 10.0 percent, construction 18.8 percent, wholesale and retail as well as catering and accommodation services 16.2 percent, and transport and transport services 31.9 percent.

Services

Net profits of real estate enterprises on the other hand, rose by 37.4 percent, while services (laundries and other services) recorded an average increase of 36 percent.

However, in order to arrive at a real measure of profitability, net profits (before tax) should be analysed in relation, for example, to the total assets used to generate those profits, or some other base ratio, Volkskas said.

If net pre-tax profit as a percentage of the total average assets for the year was taken to be the norm, it appears that this came to 11.3 percent in 1982/83.

In the case of manufacturing undertakings that were included in the sample the figure was 12.5 percent, for construction enterprises 11.2 percent, for wholesale and retail as well as catering and accommodation services 9.9 percent, transport and transport services 8 percent, real estate to 7.5 percent and services (laundries and others) to 15.8 percent.

The ratio of profits to total assets declined fairly sharply on average from the previous year, since net profits decreased by 11.4 percent while the assets used to generate the profits in the year under review increased by about 13.9 percent.

Profits

'As far as the distribution of profits in 1982/83 is concerned, 37.2 percent was paid out in dividends, 21.6 percent was paid over in taxes while 41.2 percent was saved (retained earnings).'

In the latest budget, company tax was raised while certain tax concessions enjoyed by companies were curtailed.

'The effect of this should be to push up the effective rate of company tax to about 30 percent, and it will be interesting to see whether businesses will reduce dividends or cut back on retained earnings.'— (Sapa)
Congress in shock move on SA loans

By SIMON BARBER  
Washington Bureau

WASHINGTON. — In a dramatic last-minute compromise, Congress yesterday agreed to ban new US bank loans to the South African Government and its parastatals, and to require all American firms in the Republic to report on their employment practices annually.

The agreement came after hours of negotiation between House and Senate conferees on the controversial Export Administration Act stretching late into Monday night.

The Reagan Administration flatly opposed, the outcome and officials said it would urge the President to veto the legislation.

The compromise represents a considerably watered-down version of the so-called Solarz Amendments contained in Title III of the EAA. Their author, Mr Stephen Solarz, said he was deeply dissatisfied.

State Department officials called it “an ugly precedent”, even though stiffer measures — including a ban on all new investment in the Republic and on further Krugerrand imports into the US — were dropped.

The details of the agreement were still open to interpretation yesterday, according to Congressional and State Department sources, the package was as follows:

- US banks and their subsidiaries may provide no further loans to the SA Government or its entities (Sascor, Sascom and SA Airways for example) under threat of legal and civil penalty. Existing contracts may still be honoured.
- Participation in the Sullivan-like Employment Code proposed by Mr Solarz remains voluntary.
- However, all US firms and their subsidiaries in South Africa with more than 20 employees must prepare annual reports of the employment practices for submission to the Secretary of State.
- While there is no penalty for not reporting, the Secretary of State shall in turn deliver an annual report to Congress in which non-compliers will be named.
- The Secretary of State shall appoint a 7-man advisory panel made up of Americans and South Africans to consult on US employment practices. The panel will be chaired ex officio by the US Ambassador and is to include representatives of the US Chamber of Commerce in South Africa, trade unions that operate on a non-discriminatory basis, church groups and the academic community; and
- The US Embassy is to monitor US firms on a day-to-day basis.

The deal was struck between Mr Solarz and Senator John Heinz, the Pennsylvania Republican targeted by anti-apartheid lobbyists as the weak link in the Senate’s opposition to Title III. Reagan Administration officials were angry at Mr Heinz’s concession. Said one: “He knows damned well we didn’t approve.”

Mr Solarz and the chairman of the House Africa sub-committee Mr Howard Wolpe, described the deal as “complementary” and promised they would be “back for more” next year.

There was still doubt yesterday whether the agreement would become law because the House and Senate still remained deadlocked on other issues in the Export Administration Act which must be resolved before Congress recesses tomorrow.

US loans to the SA Government represent about 10% of total American lending to the Republic, or between R200-million and R1 600-million.

US cities urged to boycott SA — Page 6
US Congress drops plan for SA loans ban

By SIMON BARBER
Washington Bureau

WASHINGTON - There will be no congressional ban on United States bank loans to the South African Government this year. The legislation that contained the ban died yesterday.

After months of bickering, the Senate and the House of Representatives finally gave up trying to mold their version of the Export Administration Act, before the 90th Congress adjourned.

The House-Senate conference, convened to work out a compromise, broke up at the last minute on Thursday evening after an 11-hour debate, which could have further softened the bill's South Africa provisions - proved unacceptable to the top Senate negotiator, Senator Jake Garn, Republican chairman of the Senate Banking Committee.

One of Mr Garn's advisers yesterday termed the so-called Solara amendments, which contained the South Africa provisions, "a joke" to the legislation's demise.

The conference agreed to prohibit US bank loans to the South African Government and to require US firms operating in South Africa to report annually to the Secretary of State on their employment practices. This was considerably less than the ban on new investments and complicity compliance with the Sullivan Code that Congressmen Solara and William Gray had originally sought.

But, according to congressional and Senate sources, it was still too much for both Mr Garn and the Reagan administration. Mr Garn was meanwhile working on another, considerably more important aspect of the bill whose chief intent was to authorize the President to control exports for political purposes.

On Thursday, he hinted that he might be willing to trade off his demand that technology export licences be vetted by the Pentagon if the House agreed to delay the South Africa loan ban.

But it was too little, too late. Indeed, according to some congressional sources, Mr Garn had already decided to kill the bill knowing that it would draw a White House veto whatever its final language on South Africa.

In the meantime, the President will continue to exercise control over exports, using emerging economic tools in war-time. Mr Solarz and his allies will be back again next year.

Cinema change

Mall Reporter

THE Vistarama cinema in Johannesburg, opposite Carlton Centre, is to change hands next month.

On Monday, the managing director, Mr Aasle Kallenbach, announced yesterday that the cinema has rented to Captive Films, with effect from November 1. It will run roughly 30 films, being probably about an "art house" featuring Continental films, with which Ronay has made reputation.

He is also setting up his own company, said Mr Kallenbach, to distribute his product through Star-Rixcor and independent outlets.

Asbestos company to lay off 537 staff

Mall Reporter

THE Crippenland Exploration and Finance Company (Geofco) is to cut back production at its asbestos mines in the northwestern Cape, resulting in a reduction of about 537 jobs.

Announcing this yesterday, Mr Pat Hart, the manager of Geofco, said the company would do "everything possible to find the workers 500 blocks and 37 whites - jobs elsewhere in the group.

Mr Hart said the 10% cut in production resulted from the failure of world demand of customers to improve.

Local reactions are that the demand has remained static and the very high holding cost of fibre stocks has compelled the company to make this cutback," he said.

Ethiopia gets European aid

ADDIS ABABA - Ethiopia has signed an agreement with European aid donors under which it will receive 10,000 tons of wheat for drought-stricken regions in southern Ethiopia, government officials said yesterday.

The remains of a large bone discovered in Ethiopia thought they were found around the year 100,000 years ago and were recently studied, revealing that they were humans who had been living in Africa for thousands of years. The oldest human remains discovered in Ethiopia were 100,000 years old.
Rand slides to all-time low

By HAROLD FRIDJHON

The rand plummeted to an historic low of 57.38/45 US cents yesterday.

The previous record low point of 58.35c was touched some 10 weeks ago when it was forced down by the rampaging dollar and a weak gold price.

This time round, however, external factors were not responsible for the rand's nosedive from Monday's closing quotation of 58.45c.

Yesterday's fall was entirely the result of domestic dealing in a market that was chronically short of dollars.

The decline started on Monday when the Reserve Bank came into the market for dollars and pushed the rand down from 58.35c to a close of nearly one cent lower.

According to forex dealers, the Reserve Bank had intended mopping up "surplus" dollars for its own use. But in fact there was very little surplus in the market and traders moved around the market trying to gather dollars ahead of Reserve Bank dealing in order to make a turn on subsequent deals with the central bank.

When the market opened yesterday there was considerable uncertainty, particularly as several banks started the day with positions that had been carried over from the previous day's trading. They had sold dollars to the Reserve Bank and were now trying to buy in dollars, selling rand in the process.

The market opened at 58.35c — lower than Monday's close — and soon lost ground, dropping to the new low point.

The Reserve Bank intervened and fed some dollars into the market which had the effect of steadying the fall and pushing up the price of the rand to 57.38c.

The dealing was not entirely professional. Importers, too, were looking for dollars in a market that was almost bare of them. But when exporters sold dollars marked at about 57.70c, some control was gradually restored to bring the closing bids to 58.17/1.40c.

Market sources were very critical of the Reserve Bank's action on Monday. They said that the central bank had overplayed its hand in trying to mop up what it had thought to be "surplus" dollars. Estimates suggest that the Reserve Bank had taken between $100m and $120m out of the market.

The major banks did not have any surpluses and it is believed that the Reserve Bank dealt heavily with the other banks which had been selling dollars short. When they had to cover, they pushed the rand lower.

Conservative dealers said that the performance of the rand, both on Monday and yesterday, reflected the fundamental weakness of the currency, as well as the dearth of dollars in the South African market. They believed that the rand could ease still further and that a 5c rand was possible in the next four weeks.

Some dealers forecast that the rand could drop below the 55c-level next year when it is expected that the dollar could rise as high as 3.50 Deutschmarks.
By MIKE JENSEN

SOARING interest rates will add over R1bn — about 30% — to the cost of servicing Government debt this, pushing the total burden to more than R4.5bn.

This is a critical obstacle to cutting back on the overall level of State spending.

A R1.02bn increase in financing requirements over the original estimate of R3.5bn was revealed this week in Johannesburg by the Secretary to the Treasury, Mr Peter Wrensky.

He was speaking at a seminar held by the University of Cape Town Graduate School of Business Association.

Mr Wrensky painted a gloomy picture of the possibilities for cutting Government expenditure this year.

He said the Government faced extreme difficulty in cutting back spending because demands continued to outstrip finance available. When any moves to reduce spending were made there was an immediate outcry from those concerned.

Mr Wrensky said: "Even when we suggested cutting the defence budget I was faced with 200 industrialists complaining that their companies would be in danger."

"Another problem is that the white population has grown accustomed to a First World standard of living and we now have to accommodate the Third World population."

"Unless white living standards are held back — I don't dare say reduced — for many years, the other population groups will not be able to catch up.

"The coloureds and Indians will be fighting tooth and nail for a better deal and resources going to whites will have to be pared off." However, Mr Wrensky pointed out that it would be some time before the new Members of Parliament learned how to make their demands felt.

"It will probably take a year for them to master the intricacies of the system."

Mr Wrensky also pointed out there was little control over departmental spending on an on-going basis because there was no authority to stop a ministry using up its allocation before the year was out.

It was only when additional financing to augment the budget was applied for that some measure of control could be implemented.

He said the R4.52bn cost of servicing the public debt was but one example of Government financing requirements which would be extremely difficult, if not impossible, to reduce.

In the first detailed breakdown of the latest estimates of State expenditure for the 84/85 financial year, Mr Wrensky said about R250m of the total R2.7bn spending budget was needed in areas which would require "fundamental shifts in Government policy" to change and the electorate would not be willing to contemplate this.

To illustrate his point Mr Wrensky outlined the following revised estimates of current expenditure he believed were not amenable to reduction:

- Public servants' and employer's contribution to pension funds — R754m.
- Public order, security and defence — R4.1bn.
- Police — R833m.
- Department of Justice — R144m.
- Prisons — R350m.
- White education — R135m.
- Coloured education — R168m.
- Indian education — R256m.
- Black education — R386m.
- Food subsidies — R408m.
- Transport subsidies — R352m.
- Agricultural financing — R553m (white), R55m (coloured).
- Export promotion — R165m.
- Consolidation of black areas — R122m.
- Assistance to self-governing homelands — R1.65bn.
- Budgetary assistance to the TBVC states — R717m.
- South-West Africa administration — R316m.
- Decentralisation incentives — R224m.
- Manpower development — R91m.
- Provincial administration — R4.58bn.
- Scientific research — R350m.

In a separate breakdown, Mr Wrensky said this year's budget for "general affairs" was about R200m and R7bn for "own affairs", of which white administrations would receive R4.5bn.
BY GRAHAM FYSH

WASHINGTON — A Bill that would have banned loans by US banks to the South African Government has died after the Reagan Administration registered vehement opposition to it.

"Apparently the White House was unwilling to accept even such a moderate step against the apartheid regime," said Don Bonker, a Democratic member of the House of Representatives and the author of the export control measure.

The measure, the new Export Administration Act, was to replace the old Act which expired early this year. It involved, more than just controls on investment in South Africa and its major focus was to streamline rules on the export of new technology.

The United States has been concerned for some time about the secrets of modern technology landing up in countries that are hostile to the United States, particularly the Soviet Union, and this measure was aimed at tightening controls.

But the South African aspects proved to be a major stumbling block in trying to achieve compromise between the House of Representatives, the Senate and the Reagan Administration, all of which must approve it before it can become law.

The original version of the new Export Administration Act, written by Bonker early this year, called for a ban on new investment in South Africa, prohibited the import and sale of Krugerrand gold coins here, set out fair workplace principles for American companies in South Africa and reimposed export controls on the sale of military and police goods to South Africa, in addition to seeking to ban bank loans.

Other stumbling blocks, in addition to the South African provisions, were whether the Defence Department or the Commerce Department should be responsible for licensing and policing the export of sensitive high-technology equipment to non-communist countries, whether the President should have authority to impose agricultural embargoes and whether nuclear reactors should be sold to countries that have not signed the non-proliferation treaty.

Over seven months, a special conference committee of the House and the Senate met regularly to try to achieve a compromise.

They agreed on a provision banning bank loans to the South African Government and the corporations it controls, including the South African Airways, loans that, according to Senator John Heinz, currently amount to between $350 million (R614 million) and $400 million (R700 million). The committee dropped the provisions relating to Krugerrands, fair employment practices and a ban on new investment by US firms doing business with South Africa.

But the committee stalled on the control of strategic exports to Soviet-bloc nations. As the attempt to reach a compromise continued in the busy days of mid-October before the deadline for the 98th Congress to end its session, provisions were stiffened relating to fair employment practices by American companies doing business in South Africa.

Then, as the adjournment day grew closer, the Senate approved the compromise version, but dropped two major provisions — the one banning US bank loans to South Africa and the other giving the Defence Department a greater role in export licensing.

An angry House reinstated the prohibition on South African bank loans the following day and sent the Bill back to the Senate. But the Senate refused to accept that version and shelved it, thus effectively killing it.

According to Bonker, the House learnt that the Senate leadership had withdrawn the Bill after receiving as many as four telephonic calls from Reagan Administration Cabinet officials who registered vehement opposition to the Bill.

"I think the final product passed by the House did a good job of balancing between the strong demand for South African sanctions on the House side and the resistance on the Senate side," said Bonker.

"Our early indications were that the Senate was willing to consider the limited sanctions included in the final Bill.

"But apparently the White House was unwilling to accept even such a moderate step against the apartheid regime."

Reports said the ban on bank loans had raised major Administration objections because it would have been a sharp break with the Reagan Administration's policy of "constructive engagement" toward South Africa.

The measure could be revived when the new Congress meets next year.

In the words of Eugene Milosh, president of the American Association of Exporters and Importers: "We pledge our support and active assistance again in the next Congress when we hope we will be able to resolve the problems that prevented success this time and send a new Bill to the White House early in the session."
THE Government is now gobbling up almost one-third of South Africa’s economy — and about 40% of the money it borrows is used to keep its wheels turning, rather than to create new opportunities for growth.

This view of uncontrolled spending and burgeoning debt, echoed by many economists and financial analysts, is borne out by the March 2023 budget speech. It states that the economy will shrink by 4.8% this year, the worst performance in over a decade, driven by the Government’s failure to manage its finances effectively.

And while it is true that this year’s budget is the first that has been balanced in years, this does not mean that the Government’s fiscal policy is sound. In fact, the economic challenges facing the country are severe, with high levels of unemployment, poverty, and inequality.

Mr. Leon Bara, president of the National Economic Forum, warned that the economy could plunge into recession if the Government does not take immediate action to address these problems. He called on the Government to reduce its spending and focus on creating jobs and improving the lives of its citizens.

In addition, the United Nations has expressed concern over the Government’s high levels of debt, which it believes could put the country’s economic stability at risk. The UN has called on the Government to take radical action to reduce its borrowing and improve its fiscal management.

The Government has promised to take action, but many are skeptical that it will be able to deliver on its promises. The country’s credit rating has been downgraded, and it faces a tough road ahead as it works to stabilize its economy and reduce its debt burden.

Despite these challenges, the Government remains committed to its development agenda, which it believes will bring long-term benefits to the country. However, many wonder if the Government’s focus on growth will come at the expense of the country’s social and environmental goals.

The Government’s fiscal management is a critical issue, and it is clear that more needs to be done to address the country’s economic challenges. It is time for the Government to take bold action to ensure that the country’s future is secure.
Hit SA Credit Status

Economy and unrest

Bank of England asks banks detailed questions
INVESTMENT CONFERENCE
Through a glass darkly

There is an interesting contrast between the enthusiasm and positive outlook that characterised last year's PM Investment Conference and the rather forlorn hope and philosophical introspection of this year's one, as the hard realities revealed in recent months were mentally turned over once more.

Over the past year, not much has turned out as expected. Instead of economic recovery, the recession has been prolonged and deepened. Change on the political and economic fronts has petered out, if there has not been regression.

Hopes of a higher gold price and a stronger rand, while they still remain, are now more muted. The outlook for economic growth and more stable prices is worse now than it appeared to be 12 months ago. Interest rates have reached historic peaks, taxation is taking an awful toll, and there is precious little left of business optimism.

New Finance Minister Barend du Plessis was very frank. But his forecast for next year did not hold out much cheer. He saw the "cooling off" phase in the domestic economy continuing well into next year, during which he expected the growth rate to be only 1% against 4% this year.

Some positive signs

In the months more immediately ahead, he saw a general decline in business activity and a temporary acceleration in the rate of price increases. However, positive signs were an improvement in the balance of payments, a strengthening of the rand and a reduced rate of increase in the demand for credit.

He certainly didn't bolster the failing confidence of delegates by saying these rather dismal forecasts were dependent on an effective curbing of government spending in the next fiscal year and a reduction in the budget deficit before borrowing.

Indeed, the conference was underpinned more by unease about what the government could, or would, do about its own profugacy than by the downward move in interest rates that was taking place almost simultaneously. There was also doubt over future labour confrontation, and whether exogenous factors such as local climatic conditions and overseas economic and political conditions would prove favourable to SA.

Naturally this did not go down well with businessmen, although they were heartened to some degree by the closing remarks of Du Plessis in his keynote address: "This government recognises that it is the business community here that distinguishes SA from the rest of Africa, and that through dedication and hard work, prosperity can be achieved through the free market mechanism."

He added that the challenge for SA was multi-faceted. And part of the challenge for business was to convert a Third World society into a First World economy, even though its free market ideals were foreign transplants into SA, bringing about the most difficult cultural shocks. Du Plessis recognised that the government, too, for its part, was faced with the challenge of change.

Reserve Bank Governor Gerhard de Kock dwelt with hindsight ("an exact science") on the follies of the past year, especially the inappropriate mix of fiscal and monetary policies.

De Kock pointed out that real government spending in the first half of 1984 was higher than in the first half of 1983. This included an increase of 30% in the central government's total salary and wage bill during the 12 months to March 1984. Since this was not covered by additional tax revenue, "the result was that part of government current spending was financed by loans," as de Kock put it.

Add to this the fact that the government failed to keep to both its 1983 and 1984 budgets. "The inevitable result was that monetary policy was called upon to carry the main burden of adjustment to prevent the SA economy from sliding into a vicious circle of inflation and currency depreciation."

Getting the mix right

Regrettably, it seems that such policies must continue at least until the 1985 Budget, when a more equitable balance between the monetary and fiscal policy mix may be achieved.

What little hope there was came from the assurance to delegates that the "March 1985 budget would be appropriately restrictive, that it could be accepted that the policy mix will be greatly improved next year."

Rand Afrikaans University economist Professor Geert de Wet expected government expenditure to grow at a moderate rate — about 10%-15% in nominal terms. "Given the determination of the new Minister, we give it more than a 50% chance," he added. De Wet forecast inflation for 1985 at up to 12%, an average gold price of US$409, a real increase in exports of 5%, a real increase in gross domestic product of 2%, a fall in total aggregate expenditure by between 1% and 3%, and a rise in the stock of money of just 10%.

In view of an expected continuing strong dollar — De Wet expects it to appreciate by between 3% and 5% over 1985 — he did not expect to see any substantial inflow of foreign capital into SA. He added that short-term rates by the quarter of 1985 were expected to fall to 17%, with long-term rates reaching 14%.

In particular, factors on the "trade union front may prove fatal to our expectations," said De Wet. "But we hope there will be some wage discipline as far as wage demands are concerned. That is the one area where things might go wrong..."
neighbours on the one hand, and supplies of water and electricity to SA for further resource development on the other.

The water and power demands of SA’s industrial core are rising so steeply, he says, that “augmentation of existing supplies must take giant steps if risks of shortfall are to be kept within tolerable bounds. The available sources of new water supplies are distant and expensive. They require to be developed on a regional basis at considerable scale to be economic.

Conrad Strauss, MD of Standard Bank, also added his voice to the call for reciprocal relationships. “Pressure for SA to extend to banks from other countries the same privileges we enjoy in their market will increase. The entry of foreign banks would be a desirable development which would contribute to the recognition of Johannesburg as a regional financial centre.”

It was clear from a number of delegates that such further resource development should be of secondary factors of production rather than primary. But, as yet, SA is still perceived either as a “one-product country” — that is, gold — or at least heavily reliant on the production of raw materials. This, apart from political considerations, is having an adverse effect on foreign investment in SA at present.

Robert van Maasdijk, director of Lombard Odier Portfolio Management, told delegates that the majority of UK investors, for example, were asking: why invest in SA when inflation is expected to be lower in the Western world, while productivity gains, deregulation and computerisation, for example, were less likely to create an acute shortage of raw materials?

The more enlightened investors are also concerned about the adverse effects of the drought, government expenditure and monetary growth, a changing political environment with question marks about its peaceful evolution, and a strong dollar and low dollar gold price.

What is being looked for in the future, says Maasdijk, is that the country invest heavily in fixed assets and increases its educational spending and training. This will lead to substantial productivity gains.

The question of large business units was dealt with by Wits law professor Michael Katz. He argues that to reduce SA’s dependence on gold and to build a strong secondary industry with an export potential, large companies are needed. They must be capable of competing in the export markets with the multinationals.

Hence, he is surprised at “such consternation against the so-called economic concentration in SA.” In the governance of the activities of these large companies, he favours a “behavioural” rather than a “structural” approach, with laws that, in general, facilitate takeovers and mergers. Business combinations, he argues, are not synonymous with the demise of the small businessman and the “interest of the latter will continue to co-exist alongside with the growth of big business.”

An international perspective was brought by Thomas Robinson, manager for International Economic Research at Merrill Lynch. He expects an easing of the dollar and a decline of US interest rates. But though this will help some countries with their debt burden, it may exacerbate commodity price pressures, with adverse consequences for resource-based countries such as SA.

The most serious problem extant, says Robinson, is that the world economy is currently in chronic disequilibrium. It is clear from what he said that the US gained its current prosperity largely because it was the first to cut taxes. The appreciable economic environment that followed stabilised prices and brought record growth, as well as record current account, trade and federal government deficits. This, in turn, attracted large capital flows from abroad.

“Correcting this disequilibrium in search of more sustainable growth,” said Robinson, “depended on a more balanced world economy through a better alignment of government economic policies between the major trading blocs. The US has in place an aggressively easy fiscal policy and a monetary policy broadly committed to an anti-inflationary strategy.”

“Something must change to bring more satisfactory co-ordination of policies,” says Robinson.

In the meantime, banking in SA will increasingly reflect the adverse pressures on business. Says Conrad Strauss: “Bankers will face a debilitating combination of rising bad debts, weaker loan demand, declining business volumes, and a likely squeeze on their interest margins.”

Indeed, Strauss goes so far as to say: “If extremely high interest rates remain the main vehicle for correcting the economy and if the policy has to remain in place for some time because the government does not find meaningful and imaginative ways of cutting its own spending, the banks may find their bad debt position turning out very problematical indeed.”

But while government struggles with its spending, events abroad may help the domestic economy. If Ronald Tauber, a partner of Goldman Sachs, is right. He believes that the US economy may be nearing the end of its “sweet spot,” that is, the period of high real growth and low inflation.

“Our economists predict that real growth in the US will decline to about 4% annual during the first half of 1985 and fall further by the end of the year.” In that event, Tauber believes foreign investors may start to build up expectations of exchange rate losses and capital would flee. That would, of course, help to overcome the imbalances in the international situation, breathe the recovery and thus assist SA.
Govt spending must be cut — Assocom

By Stan Kennedy

The Budget in March and the additional expenditure after its presentation will be major determinants of South Africa’s fortunes in the year ahead, says Assocom in its quarterly review.

If Government spending remains high, tax will be high — and might even increase, unless the Minister of Finance, Mr. Barend du Plessis, with the backing of the President, reins in ministerial demands for more spending money, the review says.

It says Mr. du Plessis is committed to a policy of reducing government expenditure, which is the first priority if the economy is to be nursed back to health.

"It is current expenditure which must be cut — or at least reduced to a rate of increase below the growth of real GDP. Capital expenditure on infrastructure development should not be cut so that underlying facilities are available once the economy starts to move again into an expansionary phase.

Assocom says that if tax is kept within reasonable bounds, business will have the resources for self-financing expenditure and the private taxpayer might have the margin either to increase his savings or spend without excessive borrowing.

It warns that any increase in tax at this stage of the business cycle could be damaging.

It says: "We hope that the Margo Commission will make some early examinations. Later on in the year when, hopefully, the balance of payments on the current account has swung to its expected surplus, we would like to see demand picking up again."

"Higher taxes and, particularly, further increases in GST will inhibit the recovery of demand and will put a brake on future growth, so necessary if employment opportunities are to be created to match the frightening population explosion."

Much, however, depends on fiscal policy. If it is applied with real, and not just with intended, discipline then monetary policy can be relaxed with downward adjustments in the cost and availability of finance.

INFLATION SPIRAL

Assuming a reasonable surplus on the current account of the balance of payments, the foreign exchange value of the rand will not have to bear the brunt of the imbalance between monetary and fiscal policy.

A 50 US cents rise is a drag on the economy. And while it might be advantageous to exporters, the high cost of imports adds a sharp twist to the inflationary spiral to the detriment of the domestic economy.

There is only one policy which everyone in business must apply — that of survival. Debtors must be kept on a tight rein and stock must be rigidly controlled. There should be consolidation not expansion because the cost of money could impair not only future but current profitability.

‘Rescue package’ is not enough

By Stan Kennedy

South Africa’s structural problems are deep-seated and intractable, says Professor D.J. Botha, head of the Department of Economics, University of the Witwatersrand.

"The problems include general skills shortage, low industrial productivity, high state expenditure on homeland development, industrial decentralisation, defence and the need to provide education and employment."

"Although government spokesmen profess to be aware of the nature and dimensions of these problems, this awareness is not always reflected in official policies," he says in a supplement to the Barclays Bank Economic Review.

Unsolved developments have taken pace on so many fronts that no single, particular policy measure can be expected to put the economy back on to a more normal course. Worse still, it is not even clear what particular package will begin to do so.

The immediate problems, such as the low gold price, the drought, the strong US dollar and the drastic drop of the rand are largely of an extraneous nature and outside the control of the monetary authorities.

MONETARY MEASURES

Inflation has been almost entirely home-made, yet the authorities, over the years, have shown an inexplicable reluctance to take it seriously and introduce measures not only to contain it but bring it to more acceptable levels.

The concatenation of circumstances had resulted in a crisis, which called for crisis measures, and the small package of monetary measures introduced in August could no way be described as crisis measures.

The Randhiffe Commission, he says, found the central bank should not restrict itself to considering trends in the money supply but, rather, the whole liquidity position, and that direct control of credit availability was more effective than control of its price.

The Reserve Bank controlled consumer credit and raised the price of credit all around.

"The Bank should have resorted to a quantitative control of credit with its price unchanged. Such a control is not easy in the SA market, but the Bank should have devised an efficient system of quantitative credit control, which is long overdue as part of the official armoury to fight inflation," says Professor Botha.
Sharp rise in money supply annual rates

By HOWARD PREECE

Johannesburg. — The government's economic policy hopes were dealt a severe blow yesterday by the latest money supply figures which show a sharp rise in the annual rates to the end of October.

The broadly-defined M-3 measure — regarded as the most important monetary indicator by the Reserve Bank — showed a 25.1 percent growth compared with 17.6 percent in the 12 months to September. This means that there is obviously excessive liquidity in cash and credit form overhanging the economy.

Inflation

That in turn will make it that much harder to get inflation down to 10 percent or less in 1985 even with a return of recessionary business conditions. All this adds to the pressures on the Minister of Finance, Mr. Barend du Plessis, and the Governor of the Reserve Bank, Dr. Gerhard de Kock.

It may be, of course, that the November and December money supply figures will show a distinct reduction in growth. Even if this proves the case, however, South Africa is still clearly faced with disturbingly deep-seated problems. The narrow M-1 money supply measure soared by 36.6 percent in the year to October (31.2 percent to September) and the broader M-2 was up by 26 percent (21.6 percent).

M-1 comprises cash and demand deposits of the non-bank private sector, M-2 is M-1 plus savings deposits of the non-bank private sector and M-3 is M-2 plus all other deposits of the non-bank private sector.

Caution

The familiar caution against reading too much significance into any one month's developments must be issued. Money supply figures in this country are subject to a variety of distortions and errors — "statistical noise" is how Dr. De Kock defines it.

But when every allowance is made, the fact is that South Africa's money supply expansion has patently been dangerously extravagant this year.

The latest economic opinion from Barleays National Bank suggests that the August financial package which saw prime rate move up to 25 percent went too far. That view, however, is not shared by most economists.

The general belief is that by August the underlying position in the economy had worsened to the point where crisis measures were necessary. The real criticism is in the way the economy was run in the 12 months or more before August.

Action

Tough action earlier would have been saved some of the later grief.

At any rate the latest money supply figures certainly do not suggest that the authorities have gone in for "overkill". If anything they rather reinforce the anxiety of those who are concerned that the drop in prime rate to 23 percent may have been a little premature.

Opponents of that approach, including Barclays, argue, however, that overdraft and general credit rates are more than sufficient to deter any borrowers other than those who have no choice.

But why did money supply shoot up in October?

Various factors including a large surplus on the current account of the balance of payments and government spending seem responsible.

Interest rates

Money supply figures could drop appreciably next year.

While all the attention tends to focus on the supply of money it is important to look at the other side, the demand for money.

With interest rates at forbidding levels, real and nominal, and the economy moving into another downphase the demand for credit should ease.

That must naturally have a major influence on the supply side of the equation.

So far as 1985 is concerned, however, the inflationary overhang is already there.
Foreign investor lift for the JSE

By HOWARD PREECE

FOREIGN investors pumped a net R666m into the JSE in the first nine months of this year.

This compares with a net outflow of R1.073bn for all of 1983.

The figures were disclosed by the Reserve Bank in its December quarterly bulletin.

It says there was a further small inflow of foreign funds to the JSE in October.

A leading stockbroker says virtually all the overseas money coming to the JSE has been to buy gold shares.

There has been a shortage in the shortage in demand in New York and London in particular.

A key reason is overseas investors took advantage of the abolition of the financial system closures to make capital gains by selling South African shares.

At the same time, South African institutions, the broker says, were ready buyers of gold shares.

But many of these institutions overbought and have been net sellers this year.

At the same time, overseas investors, particularly US gold funds, have been chasing the shares.

The inflow has given South Africa much needed help in its balance of payments.

The Reserve Bank says there was a deficit on the current account of R523m in the third quarter after shortfalls of R493m and R329m in the first two quarters.

The R666m net inflow to the JSE over this period was, therefore, a welcome boost to the capital side of the balance of payments.

The December bulletin confirms that "positive indications are that the upswing in the South African economy, which had been in progress from the second quarter of 1983, gave way to downturn in the third quarter of 1984."

"For all that, a real growth rate of 4% in gross domestic product (GDP) is still expected this year.

"The bank stresses, however, that "corrective policies remain committed to bringing about adjustments in the economy that will ensure an improved balance of payments, higher net foreign reserves, a stronger rand and a lower rate of inflation in order to lay a sound foundation for longer-term economic growth."

"Mr Barend du Plessis, the Minister of Finance, has forecast that GDP growth in 1985 will be only about 1%."

It is evident, too, that 1984 growth has been primarily the result of high spending by the State.

The Reserve Bank says: "The strong upward trend in real government consumption expenditure in the second half of 1983 and the first half of 1984 was arrested in the third quarter."

"Despite this decline, real government consumption expenditure in the first three quarters of 1984 was nevertheless still 11,5% higher than in the corresponding period of 1983."

"As a ratio of real gross domestic expenditure, it amounted to 15% in the first three quarters of 1984, which not only exceeded the already high average level attained in 1983, but was also substantially higher than the longer-term average of 15% in the ten-year period 1973 to 1982."

"There are, however, some points in the bulletin that will be warmly received by the private sector."

The Reserve Bank says: "Mainly on account of the cyclical recovery in production, real output per worker was 4,5% higher in the first half of 1984 than in the corresponding period of 1983."

"In 1983 it had declined by 0,3%."

"This improvement in labour productivity contributed to a lowering of the rate of increase in unit labour costs from 12,8% in 1983 to 10,4% in the first half of 1984."

"The bank adds: "Except for corporate saving, which remained virtually unchanged, all other components of gross domestic saving showed improvements in the third quarter (of 1984)."

"As a result, the ratio of gross domestic saving to gross domestic product almost reverted to its longer-term average of 25%."

"In the first half of 1984, the savings ratio stood at only 21%."

"Although Government saving remained negative in the third quarter, the extent of dissaving was markedly lower than in the preceding two quarters."

"The large swing in private consumption expenditure, from a marked rise in the second quarter to a substantial decline in the third quarter, caused personal saving to change from a small negative figure in the second quarter to about 3,5% of personal disposable income in the third quarter."
SANLAM AND THE JSE
The will to succeed

Takeover talk always abounds on the JSE, much of it coming to nothing. Common to many of this year’s whispers was one name—that of Sanlam, the Afrikaans insurance giant. In fact, it is probably true to say that most major acquisitions on the JSE this year involved Sanlam.

It has grabbed large stakes, taking control or near control, in a succession of prominent groups, including Abercom, Sanki/Kirsh, Anchusa, Malbak/Protea and Messina. It has tightened its grip around corporate SA, gaining substantial direct stakes in basic industries. The question is, how will its boldness benefit policyholders and other clients, if at all?

If there is one thing that Sanlam’s often controversial takeover has in common, it is the fact that most of those involved were companies with problems. The glaring exception, of course, is Anchusa, holding company of Murray & Roberts (M & R), a blue-chip group. But recent earnings performances from Abercom and Messina testify that their particular problems will take a while yet to solve. In some cases, the deals only occurred after worried major shareholders turned to Sanlam to take their sourd investments off their hands. Sanlam, it seemed, would buy what nobody else would touch.

Adding to the worries of some market analysts are the difficulties saddling Sanlam-controlled companies like Gencor, which has expanded rapidly in recent years. Only last year, Gencor paid 1100c a share for Trodelix, after that company’s chairman Bennie Sloane had reputedly tried elsewhere to hawk his shares for around that price. Among Gencor companies which have turned out weak performances this year are Trodelix, caught with forex losses; and Kanhym, hurt by both forex losses and the drought. Packaging firm

Sanlam’s adventurous forays on the JSE have raised questions in the minds of policyholders and shareholders in the acquisitions. If the insurance giant was listed, investors would most likely be cautious. But it has a track record of innovation and imaginative management.

Kohler, which embarked on acquisitions and grassroots projects, has yet to show it is out of the woods. Chemical group Sentrachem is also embattled.

While it is premature and unfair to judge its success, as some analysts are tending to do, Sapie’s R96m Ngodwana expansion could turn out a massive winner—or the biggest lemon ever perpetuated by SA industrialists. So far, early signs from Ngodwana are encouraging; most economists would probably say SA badly needs fixed investment in industrial projects.

Whether it all goes down in history as misguided expansion-mania, or the kind of bold initiative that brings success, Sanlam has, at least, been the first in its field to break out of the SA insurers’ traditionally conservative approach to investment. Financial institutions have huge investment funds, collectively well over R15m a day. But, until recently, they did not often buy large, direct stakes in listed groups.

Mutual still clings to its public stance that it does not seek control of its investments. Its executives state that the controlling stake that Mutual holds in Rennies, and its effective control in Saltmarine and in Barlow Rand, were taken defensively because Mutual saw others, such as Sanlam, and Liberty Life, which last year took a large stake in Premier/SAB, carving up corporate SA between themselves.

Sanlam’s GM investments, 38-year-old Marinus Daling, the man who has been most visible in the group’s recent JSE deals, rejects the “defensive” argument. “Mutual and Liberty wouldn’t have made their acquisitions if they considered they were a bad thing. They aren’t going to jump into the fire because we do,” he says. “We may have started this trend, but the others are following us because they must have seen investment merit in doing so.”

“Our recent deals must be seen in perspective,” he argues. Daling says Sanlam’s total investment in Anchusa, Sanki, Malbak and Messina is about R153m, or less than 23% of the insurer’s total investment portfolio at book value. If Anchusa is excluded, then the remaining, more risky situations are less than 2% of the portfolio, and less than 4% of the equity portfolio.

Greater return

Recalling the old saw that says the higher the risk, the greater the expected return, Daling says: “I believe an insurance company has a duty to its policyholders to hold some potentially high-return investments.”

The frequency of Sanlam’s JSE deals this year was partly coincidental and may not be repeated. Each, he contends, must be judged on its merits; and there was usually a lot of negotiation.

Take the last, arguable one, Anchusa. For the R38m cost of Sanlam’s 21% stake, the group could have built a shopping centre which would have swallowed those funds very easily. “Instead we have joint control of one of the best companies on the stock exchange,” Daling says.

He adds that Sanlam had dealt with M & R’s management for years, and was delighted when the Murray Trust, M & R’s controller, offered Sanlam a stake. M & R

SANLAM’S ACQUISITIONS

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<td>Anchusa</td>
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Murray Trusts

80

Financial Mail December 14 1984
has “first-class management, a scarce commodity in SA.”

Before accepting the offer, Sanlam had access to Anchusa's and M & R's management accounts. A condition of the deal was that Anchusa's dividend cover would be reduced from 1.6 to 1.1. The higher cover was a legacy from a period some 10 years back when Anchusa was itself an acquirer; but its other interests have since been rationalised into M & R. While Sanlam paid R13 a share when the market price was R9, Dalig notes that the price of the tightly-held share had drifted to R9 on very thin volumes, and did not reflect the good profits in the pipeline. The share later settled at 1.150c. In fact, in the year to end-June, M & R increased earnings a share by 20.9% and paid a 16.7% higher dividend.

Before the deal with Sanki, Kirsh's unlisted holding company, Natie Kirsh approached Sanlam at the beginning of this year, when his group's liquidity problems were a byword in Dingolam Street. Kirsh explained his position to Sanlam and offered a partnership (after, sources tell me, he had been turned down by at least one other major insurer).

“It was a company with problems. But Natie had completed his restructuring, and here was a very, very strong trading organisation with turnover above R3 billion. It is the largest retail group after SAB,” Dalig explains.

“Here was an opportunity to make a relatively low-cost investment into retailing, which we see as a sector to be in. Its potential is better than manufacturing. In the back of our minds was black spending power and all that.

“You must go one step further. We were not buying in the market. We were in a position to sit around the table with Natie and we built conditions into the contract.”

Unique investment

Neither the full conditions nor the price were disclosed, but much of the eventual agreement has slipped out by now. It is believed, for example, that Sanlam's 49.9% in Sanki is through a preference share where the dividend is linked to the dividend growth of the JSE retail sector. Natie Kirsh, who holds the other 50.1%, gets his dividend only after Sanlam has been paid. Secondly, Sanlam has a “put” on Kirsh for the next three years, which could give Sanlam the right to cancel the deal in certain circumstances. Indeed, because Sanki is unlisted, Sanlam negotiated terms which were “very favourable and a unique investment opportunity.”

Apart from necessity, what helped Kirsh accept the conditions was his simultaneous deal in which he exercised his option to buy the 30% of Metro held by Tiger. Kirsh used the money paid by Sanlam to pay for this. But, at the same time, Sanlam did a R70m property deal with Kirsh.

“These were all separate, arms-length transactions,” Dalig contends. “Sanlam is under no obligation to put further finance into Kirsh. We had done no property deals with Checkers for several years. Having looked at the organisation, we were happy to do the R70m deal, which balanced out our property portfolio.”

When the deal was announced in May, Dalig described Kirsh as an above-average risk. Now, not only does he say that Sanlam is most impressed with Checkers — a group that was decidedly creaking at the seams last year, and has still to prove it has recovered — he says of Sanlam's stake in Kirsh: “I'm sure that in five years' time we'll look back and say that this is one of the best investments we've ever made.” A by-product of the deal is an unusual alliance between Afrikaans and Jewish business interests.

Rumours about an imminent takeover of Protea gathered steam late last year, when a mystery buyer was felt in the market. Dalig says there had been talk for years of Protea being an eventual takeover target. From time to time, he says, Sanlam bought the stock as a recovery situation, hoping for a profit when a takeover occurred. That changed when Malbak set its sights on Protea.

Says Dalig: “We believe Malbak chairman Derek Keyes and MD Grant Thomas are one of the best management teams in the country. On the other hand, Protea was looking increasingly tired.” In the eventual deal, Sanlam got 44.2% of Malbak, now a holding company with 95% of Protea. All of Malbak's former operating assets have been shifted into Protea. The deal showed again the importance Sanlam attaches to having control. Before the takeover, Malbak was jointly controlled by Sanlam and Mutual, but Mutual reduced its stake from 22% to about 9%.

This deal and the restructuring took months to complete, and the original terms were revised after Protea's profits turned out worse than expected. These arrangements may have suited the controlling
Sanlam's Du Plessis ... growth potential of motor industry is excellent

Sanlam's Du Plessis, commenting on Sanlam's decision to buy up to 40% of the troubled Messina motor group.

"We invested in the motor industry because we at Sanlam regard the SA motor industry as of the utmost strategic importance. Also, traditionally, the motor industry is generally regarded as one of the most important industries in developing countries. The growth potential of the SA motor industry is excellent, especially if the rapidly growing buying power of our black population is taken into account.

"Although Sanlam has thus far not been involved directly in motor manufacturing, we are involved in the component manufacturing industry through our affiliated company, Federale Volksbeleggings. These interests will now be expanded further.

"Why did Sanlam decide to invest in the Messina group rather than in other motor manufacturing companies? There are many reasons for this decision.

"Firstly, it is because Nissan SA, within the Messina group, is one of only a few local vehicle manufacturers which are wholly SA-controlled. Secondly, it is because Nissan SA has such close ties, and enjoys the full support of one of the world's three largest motor manufacturing companies, the Nissan Motor Company of Japan. Sanlam has the greatest confidence in the management teams concerned. They will be left alone to pursue their goals. Although Messina is not profitable at present, and even though it might not now be the best time to invest in the motor industry, we are convinced of Messina's excellent prospects of recovery.

"The problems of the motor industry are due, primarily to the unhealthy structure of the SA motor industry... We regard it as most essential that the total industry strategy should be urgently reconsidered by government and also by the manufacturing companies."
Rough ride in seeking end to stop-go policies

By Trevor Walker

South Africa's fiscal and monetary management this year has left the economy in some disarray and as a testament to the policies of stop and go it could not be bettered.

Lack of any consistency in overall government policy, objectives, plans and measures has left the private sector in a complete muddle.

Businessmen have had to contend with import relaxation, more allowances, fewer allowances, Lifo no Lifo, zooming money supply, strong economic growth, harsh austerity measures, politically tampered interest rates, a comprehensive shift in the tax system and a new Finance Minister who has yet to demonstrate his promised control on government spending.

It is not a question of the drought, or the low gold price, or record interest rates, or even the growth in parliaments that is upsetting.

South Africa, while labelling itself a developing country has quite correctly also prided itself on its sound economic management and above all the success of the private sector in the free markets of the developed economies of the Western world.

HP curbs tightened

But over the past 18 months government policy has proved inadequate and South Africa's record as a stable supplier and steady buyer has been dented as the private sector attempted to adjust to the authorities' latest crisis crisis measures.

The tightening of the HP restrictions at the time of the austerity package in August is a good example.

Because this area falls under the Department of Commerce and Industry its co-ordination with Treasury and Reserve Bank policy was slow. This meant various manufacturers (particularly the motor industry) were hit at a time when the economy — latest Reserve Bank figures show — had begun to slow vigorously after having been allowed to expand over the previous 12 months.

And now not four months later, when introducing the "perks tax" Mr Barend du Plessis says on television that it is not his intention to penalise the motor industry and if experience shows next year that the industry has been unduly affected, he will introduce measures to alleviate this.

So the motor industry is being almost forced to follow government, and adopt what the MD of Barclays Bank, Mr Chris Ball, refers to as non-strategy planning.

Matters have surely become brooding niggling when one leading economist says the rand's true purchasing power should put the rate at 70 US cents while another says its correct competitive level should be 30 cents.

The rand gold price at close to R600 an ounce is way above the break even level for even the poorest mine, but because of the country's inability to get the inflation rate down to within even five to 10 percentage points of the major trading partners, the possibility of a recovery in the rand away from its record lows is remote.

The US Administration is still set on eliminating inflation altogether and while the deficits, both budgetary and BOP are cause for comment, many of the fundamentals in the US economy have improved dramatically over the past year.

Inflow into gold shares

Unlike South Africa, US inflationary expectations are firmly downward. The fact that major unions have accepted some very low wage settlements, underlines their confidence that control over inflation will be maintained.

Higher interest rates and a cheap currency have not led to a sharp increase in capital inflows, and the Reserve Bank says most inflows have gone into gold shares. Certain leading London brokers have been recommending purchases of local gilts. The fact that this has petered out after an initial flurry, indicates the City does not believe local rates are set for any meaningful fall in the months ahead.

There have been strong calls on the authorities to allow certain institutions to invest abroad and thus reduce the pressure on local investment capital.

Over the past 18 months much was bought back - ie control of Rennies, Premier, Metal Box and Defy was returned to South Africa — and what's the betting that next year local institutions will be on the investment trail overseas?
Prime rises to 24% as economic woes deepen

By Trevor Walker
The major commercial banks raised their prime overdraft rates to 24 percent this morning, barely a month after the overall pattern of interest rates had been pushed lower by the authorities ahead of the Primrose by-election on November 29.

The latest upward move in rates could signal the beginning of the end for certain consumer-oriented firms that were forced to increase stocks and advertising budgets ahead of the December season.

The business community has been abuzz recently with rumours of certain major retailers being under cash flow pressures and this turnaround in the direction of interest rates will only lead to increased speculation.

The outlook for the balance of payments on the current account appears to have worsened because of the poor prospects of a meaningful maize crop this season.

Although it is still a little early to predict the eventual crop, the industry has begun to adopt a gloomy attitude and while certain growing areas have had good rains, the overall rainfall position this season has been less than adequate.

The latest fall in the gold price — this morning to below R320 an ounce — and the possibility that the country might have to import from R1.5 billion to R2.0 billion worth of maize next year has virtually eliminated hopes for a similar surplus on the current account next year.

The quarterly bulletin from the Reserve Bank issued last week showed that the economy had begun to slow quite substantially in the last quarter of this year.

The authorities were hopeful that, because of this, the demand for money would begin to slow markedly and that pressure on interest rates would continue to ease.

But, with the prospect of yet another dry agricultural season and a poor outlook for gold, the squeeze is back on the money market.

The Reserve Bank obviously cannot afford to adopt too accommodative a stance and the banks have thus been forced to increase the cost of money.

The upward move in interest rates also means that hopes for some early relief next year in the bond rate has now disappeared.

The pressure on the property market will continue and the introduction of the "perks tax" next year will only add to the woes of the market.

Most economists agree that the Reserve Bank must continue with its tight monetary policy and that this approach might help to convince the politicians that substantial cutbacks in government spending is a must if the country is not to go the way of Israel.

Hyper-inflation is a terrible thing and the transition, says economist Dr Frank Shostak, can be swift and worse — virtually unstoppable once it starts.

South Africa's inflationary problems have worsened in the last year while its major trading partners have moved to even lower rates of increase.

On Friday the appalling message of hyper-inflation was graphically spelt-out.

The UK announced that the inflation rate had fallen to 4.9 for the 12 months to November from the five percent for the 12 months to October.

Later in the afternoon it was announced in Jerusalem that the inflation rate in Israel had "slowed" to 19.5 percent for November alone and the rate for the 12 months to November had been above 450 percent.

Without doubt, inflation is South Africa's Enemy No 1.

Slump will prevail

By Duncan Collings
Commenting that the downturn in general economic activity is far more serious than indicated by available statistics, Sanlam says that it believes that poor business conditions will prevail until late 1985.

Sanlam says in its December Economic Survey that the months ahead will make great demands on both the businessman and consumer.

"Nevertheless, it is an essential adjustment process to rectify imbalances in the economy and to prepare it for the next upswing — which may commence in the second half of 1985," Sanlam adds.

It is important that the stringent restrictive measures should not be relaxed too rapidly. If this were to happen, South Africa would once again merely experience a premature and short-lived upswing.
Economy reels under two body blows

Another interest rate shock

Financial Reporter

THE reeling South African economy suffered two more body blows yesterday on the local and international markets.

In London the gold price fell to below $335 an ounce at one stage, which is the lowest level recorded since July 1982, while at home the prime interest rate was increased by one percent to 24% — as predicted in yesterday's Business Mail.

Indications are that things could get worse, with analysts expecting gold to drop to levels of about $300 an ounce while bankers believe the prime interest rate could again hit 25%.

The increase in the prime interest rate indicates that there will be no early let-up of the austerity measures aimed at forcing South Africans to live within their means and at curbing the country's high rate of inflation.

The high interest rates have caused heavy slumps in sales of furniture, cars and durable goods such as refrigerators and have brought screams of protest from businessmen who claim they are being forced out of business by the measures.

One insurance giant, Sanlam, believes the poor business conditions will continue until late 1985 — and the months ahead will make great demands on both businessmen and consumers.

Sanlam believes, however, that the stringent restrictive measures are an essential safeguard to the economy and should not be relaxed too rapidly.

"If this were to happen South Africa would once again merely experience a premature and short-lived upswing," the group says in its latest economic review.

The overdraft rate has now changed three times in four weeks. These erratic moves within a very short space of time have resulted in businessmen questioning whether the prime rate should have come down in November in the first place.

When the Standard Bank cut the prime rate in November some observers held that the adjustment in the rate had been politically inspired to strengthen the Government's hand in the Primrose election — particularly as the Reserve Bank had responded with such alacrity by cutting its re-discount rates by 1%.

The political motivation has, however, been strenuously denied by people in banking and by the authorities.

The immediate effect of yesterday's slide in the gold price was a drop in the value of the rand to US$1.5265 from Friday's closing level of US$1.5363.

The low rand has benefited many exporters, who are earning more rand for their products sold overseas, but it also poses major problems for South Africa's inflation rate — which remains at levels twice that of the United States and the United Kingdom.

A persistently high rate of inflation holds serious economic consequences for South Africa.

Conversely, lack of inflation overseas is keeping the gold price low because the gold price is closely linked to international inflation.

Unlike South Africa, the major Western nations have experienced disinflation for several years and this trend is likely to continue.

Despite high unemployment, governments ranging from the UK to the US are intent on controlling inflation.

The international oil market is also helping reduce inflation. Oil prices are weakening because of excess supplies. Lower oil prices are negative for gold because they reduce international inflation.

Middle Eastern deposits in the Eurodollar market also decline, so the international money supply shrinks.

There is less money around to buy an asset such as gold, which does not produce income.

"Gold's two-year hangover shows little sign of ending without the return of inflation the gold price won't pull out of its dive," says Euromoney, the international banking magazine.
New levies ‘may hit SA hard’

Growing fears on economy

By CHRIS FREIMOND
Political Correspondent

CONCERN mounted yesterday in opposition and business circles that the Government’s latest proposals for financing local authorities could cause further setbacks to South Africa’s ailing economy.

Two of the Progressive Federal Party’s most senior finance spokesmen slammed some of the moves, and the Associated Chambers of Commerce expressed concern that the overall tax burden would be unfairly increased.

Additional sources of revenue for local authorities were announced by the Minister of Constitutional Development and Planning, Mr Chris Hennis, in Cape Town on Tuesday.

They included a levy on salaries and wages, a levy on GST collected, and a levy on floor space occupied by professions and industries not collecting GST.

The PFP’s Transvaal leader and finance spokesman in the Transvaal Provincial Council, Mr Douglas Gibson, said in a statement yesterday that the proposals indicated that the Nationalists were unable to think rationally about the economic situation in South Africa.

The proposed “payroll tax” could lead to increased unemployment at a time when the country could least afford it, he said.

The party’s parliamentary finance spokesman for Yeoville, Mr Harry Schwarz, expressed “serious doubts” about levies based on salaries.

The proposed measures acted as a disincentive in the areas in which it was easiest to create jobs.

The payment by the public sector of a tax on its own employees merely means the taxpayer must finance this payment, and is really a State subsidy which increases Government expenditure, he said.

The levy on goods subject to GST and a tax on floor space by those not paying GST amounted to an increase in GST at a time when inflation was a major problem.

Mr Gibson said the payroll tax penalised employers who had discouraged them from offering employment at a time when unemployment was running high, and the indications were that it would increase in the next year or so.

“In a country like South Africa, the Government should be doing everything possible to assist in the creation of job opportunities. The last thing it should be doing is making it more difficult for employers to keep people in jobs,” he said.

Although employers had been told that the payroll tax would be tax-deductible, it was probable that they would pass it on to consumers, which would have the same effect as an increase in GST, he said.

The proposals had not been referred to or debated by Provincial Councils which had a special interest in local government. This neglect was reflected in the “half-baked” proposals put forward on Tuesday, Mr Gibson said.

The president of Assocom, Mr Michael Weir, said the proposed additional burdens on the private sector were “ill-timed”.

“Although Assocom fully

‘More may lose jobs’

supports the principle of optimal devolution of power and decision-making authority to the appropriate organs of local and regional government and recognises that funds are required to finance urgently-needed improvements in infrastructure, local services and urban transport, the association nevertheless considers the imposition of additional tax burdens on the private sector to be ill-timed and ill-timed in the light of the current economic recession,” he said.

Both Mr Weir and Mr Schwarz believed the additional tax proposals should have been referred to the Margo Commission on tax structures.

“Assocom is further of the view that any additional forms of taxation should be offset by corresponding reductions in other sources of public sector revenue so as to obviate an overall increase in the tax burden on the community.

“The new taxes will inevitably lead to increased costs and higher prices as the business community cannot be expected to fully absorb the levies against already hard-pressed profit margins,” Mr Weir said.

However, Mr Hennis announced that blacks would be included on the proposed regional services councils was welcomed by most political spokesmen and observers yesterday.
FINANCE - GENERAL

1984

JANUARY — Dec.
Personal debt mushrooming

By MICHAEL CHESTER
Johannesburg. South African consumers have topped into unprecedented levels of debt that have mushroomed to a staggering R14 billion in bank overdrafts and hire purchase commitments alone.

A leading bank warns that bringing the problem to a head will require the number of families being sued by creditors almost certain to hit new peaks.

"Consumers will have to start paying the penalties for a splurge of spending that has bordered on recklessness," said Mr. Adam Jacobs, senior economist at Volkskas.

PARTY OVER

"Thousands of families have ignored two years of recession and preferred to wallow in credit rather than adjust their living standards to economic realities.

"Now the party is over. They have found themselves trapped with debts carrying higher and higher interest rates — about 20 percent a year, and when family budgets are going to be more hamstrung than ever."

An analysis by the economic division of the Standard Bank shows that hire purchase debts have soared more than fourfold in the past five years to be pushed above R7 billion in the recent Christmas shopping spree.

OVERDRAFTS

Bank overdrafts by individuals are fast approaching another R7 billion — nearly treble the level five years ago — and are running neck and neck with corporate borrowing, which has never occurred before.

The number of credit cards issued by the major commercial banks has risen from around 100,000 in 1975 to about 1.2 million.

Nearly 750,000 bank card holders — not counting families spending on other credit cards issued by hotels, department stores, restaurants, car hire firms and so on — have inflated goods and services with their plastic cash at a rate of more than R2 billion a year.

The banks are inclined to keep details secret, but it seems likely that fewer than half of credit card holders settle their accounts in full at the end of each month.

This means lenders pay a minimum of only 10 percent of overall credit card bills every month. Outstanding balances on various cards such as budget accounts can stretch for as long as five years.

Even if the inflation rate in 1984 is held at between nine and 10 percent, the slowdown in pay increases will mean that wage levels barely keep pace in real terms," Mr. Jacobs said.

MORE PAINFUL

"And if there is heavier taxation in the pipeline, which seems likely, spending power will be in a decline.

"The cost of debt repayment is going to be more painful than ever. The best advice to consumers is to hold the blind rush into credit, do without all the extras and stick to a rigid budget.

"It's madness to borrow from grandads and leave the bills for a grandson to settle."

Sinclair launches business computer

LONDON. Sinclair Research, the UK company founded and owned by Sir Clive Sinclair, has launched its first personal computer for business use at a price of £399 (R706).

The new system is expected to form the basis of a low-cost office workstation is being developed by ICL, the largest British-owned computer manufacturer.

The ICL workstation will give the Sinclair computer greater credibility in the business sector or a special monitor, and a printer.

But Sir Clive pointed out that the QL would still be much cheaper than competitive products such as Acorn's BBC computer, IBM PC, Apple IIe and Apple IIc computers.

The new computer will be sold initially in the UK by mail order and will become available at the end of February.

The company expects to sell it in continental Europe and the United States in the second half of the year. — Financial Times News Service
INSURANCE

COMPILED AND PUBLISHED BY THE SOUTH AFRICAN CO-ORDINATING CONSUMER COUNCIL IN COLLABORATION WITH GLENVAAL (N. TVL.) (PTY) LTD.

AND SPONSORED BY NATIONAL EMPLOYERS' GENERAL INSURANCE COMPANY LTD.
INSURANCE ADVICE FOR THE INDIVIDUAL

INTRODUCTION
The loss or damage to personal effects by fire, theft, accident or other causes can be very expensive or even disastrous. All too often insurance cover is inadequate or, in some cases, non-existent. When did you last check your insurance cover? Free information is available to consumers from three sources:

1. The Insurance Company
All Insurance Companies have personnel who are trained to deal with enquiries for policies that can cover the personal assets of an individual. The main disadvantage of approaching the Insurance Company direct is that they will only give information concerning their own product.

2. The Agent
He can represent one or more Insurance Companies and act on their behalf. The agent can offer you advice on a range of policies issued by the companies for whom he acts. He is conversant with the products which these companies can offer, but is not able to offer the variation of policies which are available through-

3. The Insurance Broker
The broker is required to possess recognised standards of financial stability, technical expertise, knowledge of the insurance market and to exercise care and skill in the placing of business with insurers. He is your representative and not that of the Insurance Company. Despite the misconception, an insurer does not pay for the services of a broker, for he is remunerated for his services by the insurers, in the form of a commission for business placed with them.

The broker has the advantage over the agent in that he has a much broader perspective of the insurance market and is able to quote the best premium for the cover that suits your personal requirements.

Larger broking organisations usually provide a comprehensive service for the settlement of claims and often have facilities for arranging cover under special group schemes where premiums are generally lower.

Why take out insurance?
Have you ever considered what would happen if your house burnt down or if you had a burglary? Would you be able to afford the loss? For as little as R30 upwards per month, depending upon where you live, you can have comprehensive insurance cover giving peace of mind which makes good money sense.

The standard comprehensive policy usually provides the following cover:

Insurance of Buildings
This policy normally covers the building of the private residence and all domestic outbuildings, tennis courts, swimming pools, filter plant, walls, gates and fences and all landlord’s fixtures and fittings, but excludes the actual contents of the dwelling.

The policy provides cover for loss or damage caused by such contingencies as-

- fire, lightning, explosion;
- bursting or overflowing of water and/or oil tanks;
- theft;
- riot, strike and malicious damage of a non-political nature;
- earthquake, storm and flood damage; and
- other miscellaneous risks such as falling trees, impact by road vehicles, breaking of sanitary-ware and loss of rent.

You should always check that you have the widest cover available and that the sum insured represents the full replacement value of the buildings at present-day costs and is adequate to cover architect’s and surveyor’s fees.

Insurance of the Contents
This policy covers all household goods and personal effects, the property of the policyholder and of any permanent member of the insured’s household whilst contained in the residence, but has certain exclusions such as money, stamps, medals or coins and property more specifically insured, e.g. motor vehicles, which should be insured under a motor policy.

The policy covers the contingencies as mentioned above and, in addition, is extended to cover property whilst temporarily in hotels, hospitals, universities, schools and furniture depositories, but can be subject to certain restriction.

Here again one should check to see that the sum insured represents the full replacement value of the contents as new.
All Risks Insurance
As the contents insurance generally covers the property whilst in your dwelling, items normally carried or worn on the person should be insured under an all risks policy. In addition, it is recommended that valuable items of jewellery, furs and the like be insured on an all risks basis for under the contents policy there is usually a limit in the event of a loss on the total value of items of jewellery, furs, gold and silver and platinum articles.

Furthermore, as explained above, the contents policy has certain exclusions, i.e. stamps, coins and medals and these items can be insured under an all risks policy.

As this policy gives much wider cover on a world-wide basis, the premium is generally more expensive than that of the contents section.

There are certain exclusions and these vary from insurer to insurer and should be carefully checked before effecting cover.

Personal Liability Insurance
Most building and contents policies have an extension covering the policyholder and members of his family against certain legal liabilities which they may incur as a result of an accident caused through their negligence. This policy covers liability for death, injury or illness of any person other than a member of your household and damage to property not belonging to you.

Again there are certain exceptions, such as accidents caused by the driving of a motor vehicle. These exceptions should again be checked before cover is effected.

Motor Insurance
Of all the branches of personal insurance, motor insurance is most often in the public eye, mainly due to the ever increasing rise in costs. The motorist has a wide choice of insurers from whom to purchase and there can be considerable competition within the motor insurance market.

The types of cover available are:

1. MVA only
   This policy which is compulsory, provides no more than the legal minimum requirements as laid down in the Motor Vehicle Act.

2. Third Party
   This policy covers the policyholder and authorised drivers against their liability to third parties, including passengers, for death and/or bodily injury sustained as a result of an accident and also for indemnity for claims for damage to other peoples’ property - in practice this often means the other vehicle involved in an accident.

3. Third Party Fire and Theft
   This policy adds additional cover to the third party cover described above for the policyholder’s motor vehicle against the risk of fire and theft, actual or attempted. When vehicles are not kept in a garage overnight there is a greater risk of theft and some insurers will exclude theft cover in such cases or make it subject to special terms.

4. Comprehensive
   Comprehensive insurance embraces all the cover described so far (excluding MVA), as well as accidental damage to the policyholder’s vehicle, windscreen cover and medical expenses to name but a few. The term “comprehensive” as applied to motor insurance does not mean, however, that every possible contingency is covered.

   Of the types of motor insurance available in South Africa, comprehensive is the most popular. One reason for this is that the modern motor vehicle is a very substantial investment which few people can afford to replace in whole or in part out of their own pockets as a result of accident, fire or theft. Also those who use Credit Agreement facilities to buy their car may find that the financial house insists on comprehensive cover for the vehicle concerned in order to protect their security.

5. Compulsory Excess
   As the name implies, a compulsory excess is imposed by the insurers as a term of the cover they are willing to provide. This excess can differ considerably from insurer to insurer.

Other Covers
Various other covers can be provided under the standard policy and these include:

- Personal Accident Insurance;
- Caravan and/or Trailer Insurance;
- Sportsman Insurance, for instance golfers cover; and
- Motor Boat/Yacht Insurance.

Full details should be obtained from the broker or agent.
IMPORTANT FACTS

Reinstatement Value Cover
Most policies provide for claims to be paid on reinstatement value basis (new for old). It is, therefore, important
that your sum insured represents the full new reinstatement value of the property to be insured as the policy will
be subject to average in respect of the building, contents and all risks sections.

Average
Beware of this pitfall.

It is imperative that you should be fully insured.
If you are under-insured, your claim payment could be reduced proportionately.

The example below explains how it works.

If your household contents are insured for R15 000
and the actual replacement value (new for old) is R20 000
you are under-insured by R 5 000 or 25%
therefore:
if your claim is for
you only receive
\[
\frac{15 000 \times 2 000}{20 000} = \frac{R 2 000}{R 1 500} \text{ or } 75\%
\]
of claim.

Had you been fully insured, the claim would have been paid in full.

Claim Notification
In the event of a loss you should notify the insurer as soon as possible after the event as late notification could
result in your claim being turned down. If the loss arises out of a criminal act, you should also advise the police
immediately.

Completion of your Proposal Form
As all insurance contracts are based on utmost good faith, it is imperative that the information given to the
insurer is correct, as the proposal constitutes the contract between you and your insurers. Clearly state the sums
insured and your requirements on the proposal form to avoid disappointment in the event of a claim.

Riot Cover
Almost all domestic policies issued by South African insurers exclude war and political riot cover. In respect of the
latter cover can be arranged by your Broker/Agent through the South African Special Risks Insurance Association
(SASRIA).

Conclusion
An insurance policy is a contract of indemnity, the purpose of which is to place you in the same position as you
were immediately before a loss occurred.
VERSEKERING

OPGESTEL EN UITGEGEE DEUR DIE SUID-AFRIKAANSE KOËRDERENDE VERBRUIKERSRAAD IN SAMEWERKING MET GLENSAL (N. TVL.) (EDMS.) BPK.
EN GEBORG DEUR NATIONAL EMPLOYERS’ GENERAL
VERSEKERINGSMAATSKAPPY BEPERK.

Die Suid-Afrikaanse Koördinerende Verbruikersraad
VERSEKERING VIR DIE INDIVIDU

INLEIDING
Verlies of skade aan persoonlike besittings veroorsaak deur brand, diefstal, 'n ongeluk of ander oorsake kan baie duur en selfs rampspoedig wees. Die mense vind ongelukkig te laat uit dat hulle versekering omvoldoen was of dat daar geen verskerekingsdekking was nie. Maak dus vandag seker wat u verskerekingsdekking is - mòre mag dalk net te laat wees!
U kan gratis inligting verkry by die volgende bronne:

1. Die Verskerekingsmaatskappy
Alle verskerekingsmaatskappe het opgeleide personeel wat navrae oor polisse wat persoonlike bates dek, kan beantwoord. Die nadeel is dat 'n verskerekingsmaatskappy slegs inligting sal verstrek oor die polisse wat hy aanbied.

2. Die Agent
Hy kan een of meer verswoordig verskerekingsmaatskappe verteenwoordig en namens hulle optree. Slegs inligting wat betrekking het op die verskillende polisse aangebied deur die maatskappy wat hy verteenwoordig, word verskaf deur die agent.
'n Groot verskeidenheid van polisse word egter beskikbaar gestel deur die:

3. Verskerekingsmakelaar
Daar is verskeie verskerekingsmakelaars met inligting oor die verskerekingsmark, tegnieke, vakkennis en erkenning van die personeel van verskerekingsmaatskappe. Hy verteenwoordig 'n makelaar in jou benadeel het hy by die verskerekers te koer. Die makelaar kan jou help om die polisse wat hulle aanbied te vergelyk.

Nog 'n voordeel van die makelaar is dat hy jou wye insig in die verskerekingsmark het en in staat is om aan u die beste premie vir dekkings te bied.

Hoekom verseker u?
Gestel u huis brand af of u word besteed, sal u hierdie finansiële verliese dra? Heel mooi nee! Onthou, omvattende verskerekingsdekking en gemoeddrus kan verwerk vir sôn min as en of meer, afhanklik van waar u woon. Dit is sinvolle finansiële beplanning.

Die algemene omvattende polis verskaf gewoonlik die volgende dekkings:

Verskerekings van geboue
Hierdie polis dek gewoonlik geboue, voerperseel bestaande uit die private woning en alle buitgeboue, asook die tennisbaan, swembad, filtreeryste, mure, hekke en heinings en al die huisienaar se spykervaste toerusting. Dit sluit egter die werklike inhoud van u huis uit.

Hierdie polis verseker skade of verliese veroorsaak deur geboulike hede soos:

- brand, weergel, ontploffing;
- die boms van of oorloop van water en olifente;
- dieftaal;
- staking, oproer en kwaadwillige skade van 'n nie-politieke aard;
- aardbeweging, storm, vloed; en
- allerlei ander risiko's soos honde wat vals, botsing deur padvoertuie, sanitaire toerusting wat breek en verlies van huurgeld.

Maak altyd seker dat u die omvattendste beskikbare dekkings het en dat u verseker is vir die volle vervangingswaarde van die geboue teen huidige koste. Argitekts- en bourekenaarsoorie moet ook ingesluit word.

Verskerekings van die inhoud
Hierdie polis dek:
- alle huishoudelike goedere en persoonlike besittings, alle eiendom van die polishouer en dié van enige permanente lid van die verskerekers huishouding. Sekere goedere soos geld, seëf, metalasies of munstukke word uitgesluit, asook eiendom wat spesifieke verskerer is, soos bv. motorvoertuie wat deur 'n aparte polis gedek word.

Goedere wat verseker word onder hierdie polis teen die gevare voorheen vermeld, word ook gedek terwyl dit tydelik in hotelle, hospitale, universiteite, skole en meubelpakkamers is, maar dit kan onderhewig wees aan sekere beperkings. U moet weer eens seker maak dat die verskerekere bedrag genoeg is om hierdie goedere te vervang indien dit nodig sou wees.

/ Bladsy 2
Allerisiko Versekerking

Omdat „inhoudsversekerking” gewoonlik eiendom verseker terwyl dit aanwesig is in u woning, behoort artikels wat u gewoonlik met u saamneem of wat u dra, onder ‘n allerisikopolis verseker te word. Daarbenewens word ook aanbeveel dat waardevolle items soos juweliersware, pelse en dies meer op ‘n allerisikowass verserker word, aangesien die inhoudsversekeringspolis gewoonlik ‘n beperking plaas, in geval van ‘n verlies, op die totale waarde van juweliersware, pelse en artikels van goud, siwewer of platina.

Items soos seels, munsmukke en madaljes wat nie deur die inhoudspolis gedeel word nie, behoort deur ‘n alle- risikopolis verseker te word.

Aangesien die allerisikopolis ‘n wye dekking bied, is die premies duurder as dié van die gewone inhoudspolis, ook vanweë die wêreldwyse gebiedshebeptering.

Wanneer u ‘n polis wil uitneem, vind eers uit watter dekking verskillende versekeringsmaats en daarbied, daardie dekking verskil van versekeraar tot versekeraar.

Persoonlike Aanspreeklikheidsdekking

Die meeste gebou- en inhoudspolaire verseker ook die polishouer en lede van sy gesin teen sekere aanspreeklikhede wat mag ontstaan as gevolg van ‘n ongeluk veroorsaak deur hul nalatigheid. Hierdie polis dek aanspreeklikhede wat mag voortspruit uit die dood, besering of siekte van enige persoon of die bestadiging van eiendom van enige persoon, wat nie lid van die versekerde se gesin is nie. Weer eens is daar uitsonderings soos bv. die bestuur van ‘n motorvoertuig. Die polishouer moet homself vergewis van die uitsonderings.

Motorversekerking

Van al die vertakkinge van persoonlike versekerking, is motorversekerking dikkwels die soort waarop die publiek die meeste aanspraak vernaam, hoofsaaklik vanweë die gyroge koste. Die motoris het ‘n wye keuse van versekeringsmaats en daar is ‘n aansienlike mededinging binne die motorversekeringsmark.

Die soort dekking wat aangebied word, is:

1. MVA-dekking alleen
   Hierdie polis is verplicht en verskaf bloot die wettige minimum-veristes soos neergelê deur die Motorvoertuig Assurante Wet.

2. Balans van Derde Party
   Die polis dek die polishouer en gemagtigde bestuurders teen hul aanspreeklikheid teenoor Derde Partye (wat ook passasiers insluit). Aanspreeklikhede behels dié wat mag ontstaan wanneer die dood en/of liggaamlike besering as gevolg van ‘n ongeluk, soos enkele eise vir skade aan ander persone of besittings. In die praktyk beteken dit dikkwels die ander voortuig wat in die ongeluk betrokke was.

3. Derde Party, brand en dieftal
   Hierdie dekking saam met die Derde Party polis hierbo vermeld, versier die polishouer se motor teen die risiko van gepoogde of werklike brand en dieftal. Voertuie wat nie in ‘n motorhuis gehou word nie, is onderworpe aan ‘n groter risiko ten opsigte van dieftal. Sommige versekeringsmaats sal daarom dieftal onder sodanige omstandighede van dekking uitsluit of onderworpe maak aan strenger terme.

4. Omvattende versekerking
   Omvattende versekerking sluit al die dekking soever genoem in, sowel as toevallige skade aan die polishouer se voertuig, windskermdekking en mediese kostes ens. maar sluit MVA uit. Die woord „omvattend” soos van toepassing op motorversekering beteken egter nie dat alle moontlikhede gedeel is nie.

Van al die beskikbare motorversekering in Suid-Afrika is die omvattende versekerking die gewilde. Een rede hiervoor is dat ‘n motor ‘n aansienlike belegging is en mia mense kan bekostig om dit te vervang as gevolg van ‘n ongeluk, brand of dieftal. Finansiële instellings vereis ook dekking onder omvattende versekerings indien ‘n motor volgens afbetalingsooreenkomse aangekoop word, ten einde hul eie sekerheid te beskerm.

5. Verpligte bybetaling (Eerste bedrag betaalbaar)
   Soos die naam aandui, word ‘n verpligte bybetaling deur versekerers opgelei as deel van die dekking wat hulle vereis om te verskaf. Die bybetaling (wat u deel van die skade is) kan aansienlik verskil van versekeraar tot versekeraar.

Ander dekking

Verskeie ander soorte dekking kan aangebied word onder die standaardpolis en dit sluit in:

- Persoonlike Ongevalversekerking;
- Woonwa en/of sleepwawversekerking;
- Sportversekerking (soos bv. golfspele se versekerking); en
- Motorboot/seiljagversekering.

Besonderhede is by u agent of makelaar beskikbaar.
BELANGRIKE FEITS

Vervangingswaarde-dekking
Meeste polisse maak voorkomming vir eie om op 'n vervangingswaarde basis betaal te word (nuut vir oud). Dit is dus belangrik dat die versekerde bedrag die volle vervangingswaarde van die versekerde eiendom verteenwoordig aangestel word. Die polis onderhewig sal wees aan awery met betrekking tot die gebou-, inhoud- en allerisikoafdelings.

Awery
Wees versigtig vir hierdie slaggat!

Dit is noodskaaklik dat u ten volle verseker is. As u ondverseker is, kan die uitbetalings van u eis proporsioneel verminder word.

Die voorbeeld hier aangegee, verduidelik die toepassing:

As u huishoudelike inhoud verseker is vir en die werkelike vervangingswaarde (nuut vir oud) is u ondverseker tot die bedrag van dus:

<table>
<thead>
<tr>
<th>As u eis vir ontvang u net</th>
<th>15 000 x 2 000 =</th>
<th>20 000</th>
<th>R 15 000</th>
<th>R 2 000</th>
<th>R 1 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>(of 25%)</td>
<td>(of 75%)</td>
<td>van die eis</td>
</tr>
</tbody>
</table>

Indien u ten volle verseker was, sou u die bedrag van u eis ontvang het.

Kennisgewing van Eis
In geval van 'n verlies behoort u die versekeraar so gou moontlik na die gebeurtenis daarvan in kennis te stel, aangesien laat kennisgewing tot gevolg kan hê dat u eis van die hand gewys word. Indien die verlies voorspruit uit 'n kriminele daad, moet u ook die politie dadelik daarvan in kennis stel.

Voltooiing van die aansoek
Aangesien alle versekeringskontrakte op goeie trou gebaseer word, is dit noodskaaklik dat die inligting wat aan die versekeraar vertrek word, korrek is. Onthou ook dat die aansoek die basis van dié kontrak tussen u en u versekerenaars vorm. Noem duidelijk die versekerde bedrae en u vereistes op die aansoekvorm om teleurstelling ten tye van 'n eis te voorkom.

Onluste Dekking
Feitlik alle huishoudelike polisse uitgereik deur Suid-Afrikaanse versekerenaars sluit nie oorlog en politieke onluste dekking in nie. Laasgenoemde dekking kan deur middel van u makelaar/agent gereël word deur die Suid-Afrikaanse Versekeringsvereniging vir Speciale Risiko's.

Slotsom
'N Versekeringspolis is 'n kontrak van skadeloosstelling wat ten doel het om u in dieselfde posisie te plaas na die gebeurtenis as waarin u verkeer het onmiddellik voor die verlies.
LIFE INSURANCE: Medical mystery

The medical profession is still refusing to divulge details of insurance health reports to clients. "Professional etiquette" and "confidentiality" are among the reasons offered.

Insurance companies call for medical reports on applicants for life assurance where they require additional evidence to assess the likelihood of a claim. The company invariably nominates the doctor and, of course, pays his fee. Nonetheless, the insured eventually ends up paying for the medical through a deduction from premium of various administrative expenses.

Several leading commentators in the industry believe that a client should be given full details of the results of his medical, if for no other reason than courtesy. David Strauss, MD of Prudential Federale Employee Benefits, says, "I feel the insured has every right of access to his medical report." A spokesman for the Consumer Council agrees. "After all, the medical concerns you. What if insurance is refused? Shouldn't the client be told why?"

Derek Geary-Cooke, executive director of the Life Offices' Association (LOA), doubts if the Medical Association (MA) would be prepared to change its current non-disclosure policy, formed in agreement with the LOA.

In the agreement, instigated by the MA, the LOA acknowledges its responsibility to maintaining the confidentiality of medical and other information. Administrative staff responsible for the information sign an oath of secrecy. Complete confidentiality is maintained by ensuring that the medical report and the insured's signed form of consent is sent directly to the chief medical officer of the insurance company concerned.

If "impairment" is reported, the client is informed by the company only to the extent of having his application for life insurance refused, or his premium rate above the normal. In both cases, unknown to the client, the impairment is recorded in code form on the Life Registry. Administered by the LOA, the main purpose of this registry is to prevent people who fail a medical obtaining insurance elsewhere at normal rates by concealing the details of impairment.

An "impairment" is insurers' jargon for a medical condition which makes the insured an adverse health risk from an actuarial point of view. For example, a heart complaint, serious form of epilepsy or brain...
IGI

A place in life

IGI is known and respected as a major insurer — and there are good reasons for this. Sound business strategy has enabled it to perform in line with the big JSE-listed insurance groups, and the company's track record, especially in the past five years, speaks for itself. This is all the more impressive when it is remembered that IGI's growth record has been notched up without the benefit of major acquisitions.

However, sound business practices are not the only reasons for IGI's success. Employee loyalty throughout the whole organisation seems to be another. Chairman Laz Nathan and MD Mike Lewis have both seen long service. Nathan began his career with what was then known as William Hosken Company — at 16 — and has been connected with IGI for 47 years. In 1963, with William Hosken, he became a joint MD of IGI. Lewis joined in the same year, and under his helm helped nudge IGI ahead.

At that time IGI's primary business was hire purchase insurance. Gross premiums from this source amounted to R357 000 — and though the company wrote insurance for fire, personal accident, motor and miscellaneous items, gross premiums from these added up to a paltry R1 000. But with a new management team in place, IGI set out to become an industry leader. By any measure it has achieved this goal. Earnings have increased from 7.5c in 1979 to 81.5c last year, and dividends have doubled from 7c to 14c over the same period. Gross premiums written during financial 1983 for fire, accident and various other types of coverage (excluding life and funeral coverage) totalled R141m.

IGI's progress over the past five years has been paralleled by significant changes in the insurance industry. Lewis points to the break-up of the "tariff" system — which basically set fixed premium rates. SA was considered a most profitable market for insurance business before this — virtually any type of domestic business being accepted by overseas insurers.

Overseas insurers slipped badly. As a result, Lewis says, most premium rates are today lower than they should be.

While IGI continues to be competitive, it does not want to become involved in price wars. This has led to renewed emphasis on sound business strategy. The company appears to have developed a solid and well thought out strategy for the future.

The majority of IGI's business comes from the country areas because of management's feeling that competition in the major urban centres is too severe. Past experience has shown that country areas produce a lower frequency of claims than the cities. And, true to its clear-headed conservative approach, the company will not open a new office until management is sufficiently confident that the venture will be successful. A primary indicator IGI uses is the amount of premium income generated by each area.

"Training is everything at IGI," is how Lewis explains the recruits' success in handling the countryside. But it can be noted that only about 5% of IGI's business comes from direct contact with clients: the other 95% originates with intermediaries — usually a finance house or broker.

Normally a company of this size could be expected to be well-stocked with actuaries. While this may be true for the life side of the business, IGI does not employ actuaries in its fire and accident division. Instead, it uses detailed statistics of claims experience for the country as a whole to help set rates for fire and accident insurance. And Lewis thinks that the rate war that has developed is partially a function of most companies monitoring the moves made by competitors, rather than paying attention to the actual statistics.

Recent hailstorms and severe weather dramatically affected underwriting profitability for the industry in last year's second half. IGI was no exception. This seems to support Lewis's contention that premiums

IGI's Lewis ... "training is everything"
for this type of coverage are far too low.

Accident insurance, which includes coverage for cash in transit, burglary and injury, is also unprofitable. The relatively high level of unemployment is encouraging more burglaries — which is obviously harming profitability — and the industry must reappraise these results to arrive at a more reasonable level of premium rates.

IGI also writes insurance for motor vehicles and marine coverage. While experience with the motor segment is basically satisfactory, marine coverage is experiencing difficulty at the moment because of the pressure on cargo rates, which has developed from the shaky condition of the international shipping industry.

With the weather playing a big part in short-term underwriting profitability, it is difficult to develop long-range goals. However, the same cannot be said about long-term insurance, such as life coverage, for which a reliable statistical history is easily obtainable. And by determining future investment income expectations, along with keeping costs under control, the insurer can prepare a three- to four-year game plan.

Using such a plan, Lewis is confident that IGI's long-term arm, IGI Life, will double its profits this year and show continued growth for 1985. He confirms that plans are in place for the JSE listing of IGI Life as soon as the Registrar gives approval. IGI's intention is to use Trenel Investments as a vehicle for the listing.

BCS Computer, the company's data processing division, is expanding its operations overseas by introducing its software packages to London. Though BCS could enter other markets with its products, a conservative stance is being taken to "button up" the London market prior to moving into other locations.

This conservative approach can be readily seen in the dividend cover ratio, which has increased steadily over the past five years. Lewis points out that when he started in the business there were 50 insurance companies — compared with today's total of 25. IGI's opinion is that with more business concentrated in the hands of fewer people, the company must have the necessary capital to expand if it expects to compete successfully with the giants. Because IGI has no international parent to provide the requisite financing, the company needs funds generated by the business itself. This explains why dividends have not kept pace with earnings growth, though it is IGI's intention to keep the payout in line with inflation.

Despite poor short-term underwriting results, currently being experienced throughout the industry, Lewis is confident that there will be a modest overall underwriting profit for the group. And with investment income expected to advance strongly, IGI should post decent profit figures for this year.

Stephen Buchler
REINSURANCE

The last straw

Following the big fire in Cape Town recently at an SA Druggists warehouse, short-term insurers should by now be too embarrassed to argue against reinsurers’ demands for stiffer treaty terms. As one broker remarked: “It’s just about flattened the market. Lucky for them that most treaty renewals for the current season have already been agreed.”

The fire — on December 20 — created a provisional claim of R23m, of which over R16m is to be funded by various reinsurance treaties. This followed huge claims for hailstorm damage in November.

Until the ninth month of 1983, reinsurers were expecting a good year. They certainly needed one. But the final quarter of 1983 proved such a severe blow, with several sources suggesting losses of over R100m, that reinsurers have fully forgotten their earlier optimism.

Their head offices have been nagging for several months for stiffer renewal terms in 1984 on both facultative reinsurance (FM October) and treaty reinsurance (FM November 11). In some cases, reinsurers’ capacities — the amount of business they will accept — have been drastically reduced and industrialists are preparing to face even tighter restrictions over the next year or so (FM December 30).

About the SA Druggists fire, probably the biggest last year, Mutual & Federal MD John Posnett, says: “We’re in for a substantial amount, most of which is going to reinsurers.”

While it is believed that Sanlam has insured the building for about R16m, some R19m of the loss is covered by an assets all-risks policy underwritten by Mutual & Federal as leader, with AA Mutual accepting 15% of the risk. M & F, on the basis of nominated facultative reinsurance, has spread its own risk further across several leading SA short-term insurers. They, in turn, have farmed out portions to local reinsurers.

Warehouse destroyed

Sid Hurwitz, GM of SA Druggists’ wholesale division, says the fire destroyed the entire warehouse and contents, including the company’s national computer centre. He adds, however, that normal security proce-

Coughing up

The assets all-risks policy cost SA Druggists about R700 000 in premium last year and provides a maximum R50m indemnity after various minor excesses. In the case of the Heynes Mathew fire, the company will have to cough up about R100 000 in excess.

Nonetheless, one reinsurer points out bitterly that this sort of cover — industrial fire business — attracts barely 26% of the premium it should. Though not suggesting this applies in the case of SA Druggists, he adds that it has been a growing practice for insurers keen to compete for the big risks to charge a premium based on an individual company’s claims experience. He feels this is not strictly correct underwriting practice because the principles of insurance should be for the majority to share in the misfortunes of the few.

Premium, therefore, should be rated in terms of the performance of a class of risk, not on individual claims experiences. All foundries, for example, should carry a similar basic rating, adjusted for location. Good claims experience from all foundries — excluding those with specific cases of manger risks, for example — should mean a drop in premium rating for them collectively.

As it is, many insurers faced commission cuts of as much as 10% from their reinsurers during the latest renewal season. It was well timed. If this encourages them to place industrial fire risks on a sounder footing through the rating of risks on a class basis, then reinsurers will not be so pessimistic.
AGREEMENT ESTABLISHING THE DEVELOPMENT BANK OF SOUTHERN AFRICA

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Introductory article

The Development Bank of Southern Africa [hereinafter called the "Bank"] is established and shall be governed by the following provisions:

Chapter I Purposes and functions

Article 1

a The purposes and functions of the Bank are:

i to promote economic development in its broadest sense, increase productivity and thus raise the standard of life of the people in the less developed areas of the Southern African economic region included within the Bank's membership [hereinafter called the "region"];

ii to reduce imbalances in the levels of economic development between the economically less developed and the more developed areas of the region;

iii to promote the investment of public and private capital for developmental purposes and to utilise capital funds raised by it in financial markets and other resources available to it, for financing development in the region, giving priority to those loans and guarantees that will contribute most effectively to economic development;

iv to provide finance to meet the important developmental requirements of participating governments i.e. governments included under Articles 2 and 8 on terms which are generally more flexible and bear less heavily on their available resources than those of conventional loans, thereby furthering the developmental objectives as set out;

v to provide technical assistance and training in the identification, preparation, evaluation, financing, implementation and management of development actions, including the study of priorities and the formulation of specific project proposals, when so requested, on terms and conditions to be decided by the Bank.

b In carrying out its functions the Bank shall, where appropriate, strive to co-operate with other public or private entities involved in the development of the region and with the national development agencies and institutions, as well as with private sources supplying capital and other resources.
Chapter II  Membership and associate membership

Article 2  Membership

a  The original members of the Bank shall be the Republic of South Africa, the Republic of Transkei, the Republic of Bophuthatswana, the Republic of Venda and the Republic of Ciskei upon signature of this Agreement prior to its entry into force.

b  Membership shall be open to other independent states in Southern Africa, in accordance with such terms as may be prescribed by the Bank.

Article 3  Associate membership

Associate membership shall be open for other countries, without giving an associate member direct participation in the management or operations of the Bank and in accordance with such terms as may be prescribed by the Bank.

Chapter III  Capital and other resources

Article 4  Authorised capital and subscription of shares

a  The authorised ordinary capital stock of the Bank shall be the amount of two thousand million Rand (R2 000 000 000) and shall be divided into two hundred thousand (200 000) shares having a par value of ten thousand Rand (R10 000) each.

b  Upon accepting membership each original member shall subscribe shares in the amount assigned to it (such subscriptions hereinafter called ‘initial subscription’).

c  The initial subscription assigned to each original member shall be in the amount set forth opposite its name in Schedule A expressed in terms of South African Rand.

d  Subject to the provisions of paragraph (g) of this Article the capital stock may be increased when the Bank deems it advisable by a three-fourths majority of the total voting power.

e  Any shares issued shall be issued at par unless the Bank, by a majority of the total voting power, decides in special circumstances to issue them on other terms.

f  The initial paid-up capital subscription of each original member shall be payable in South African Rand as follows:

i  ten (10) percent within thirty (30) days after the date on which the Bank shall begin operations;

ii  the remaining ninety (90) percent of the initial paid-up capital subscription shall be payable in five (5) equal annual instalments as follows: the first such instalment within one (1) year after the date on which the Bank becomes operational and succeeding
installments each year thereafter at annual intervals until the ninety (90) percent portion of the initial subscription shall have been paid in full;

iii any member may, if it so wishes, pay the full initial paid-up capital or part thereof at a faster rate than specified in paragraph (ii).

g The number of shares to be subscribed to by members other than the original members of the Bank shall be determined by the Bank, and the capital stock shall be increased to allow such subscription.

h The Bank shall prescribe rules laying down the conditions under which members may subscribe to shares of the authorised capital stock of the Bank in addition to their original subscriptions.

i If the authorised capital stock of the Bank is increased, for reasons other than admitting a new member, each member shall, unless the Council of Governors decides otherwise, have a reasonable opportunity to subscribe, under such conditions as the Bank shall decide, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe to any part of the increased capital.

Article 5 Restriction on disposal of shares
Shares of the Bank shall not be pledged or encumbered in any manner whatsoever and they shall be transferable only to the Bank.

Article 6 Limitation on liability
Subject to the provisions of Article 30 (c) (iv) the liability of a member country shall be limited to the unpaid portion of the issue price of its shares.

Article 7 Additions to financial resources
a i The Bank will receive from the Republic of South Africa, on an annual basis, an appropriation of funds.

ii The Bank may receive from other members, on an annual basis, similar appropriations.

iii Funds appropriated to the Bank in terms of subparagraphs (i) and (ii) above will be administered by the Bank in separate accounts, as Development Funds, from which withdrawals may be made by the Bank for its operations in accordance with regulations laid down by the Council of Governors of the Bank.

b The Bank is authorised to receive grants from any public or private source and will administer such funds in accordance with regulations agreed to between the Bank and the grantor, provided that the Council of Governors may decide not to accept grants if the conditions attached to such grants do not meet with its approval.
Chapter IV Operations and participation in operations

Article 8 Participation of self-governing national states of the Republic of South Africa and of South West Africa/Namibia

a The self-governing national states of the Republic of South Africa may participate in the operations of the Bank, as constituents of the membership of the Republic of South Africa. The Republic of South Africa shall inform the Bank of the self-governing national states which shall so participate.

b South West Africa/Namibia may, upon application, participate in the activities and operations of the Bank, in accordance with such terms as may be prescribed by the Bank.

Article 9 Use of resources and conditions of financing

a The resources and facilities of the Bank shall be used exclusively to implement the functions enumerated in Article 1 of this Agreement.

b Financing provided by the Bank shall be for purposes which in the opinion of the Bank are of high developmental priority in the light of the needs of the area or areas concerned and, except in special circumstances, shall be for specific projects. For purposes of this Agreement projects also include programmes.

c The Bank shall not provide financing if in its opinion such financing is available from private sources on terms which are reasonable for the recipient, taking into account the nature of the project.

d The Bank shall not provide financing for any project if the participating government in whose territory such a project is located, objects thereto. For purposes of this paragraph the participating government shall, in the case of a project being located in the territory of a self-governing national state of the Republic of South Africa, be the government of such national state.

e The Bank shall make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and the stimulation of domestic production and without regard to political or other non-economic influences or considerations.

f Funds to be provided under any financing operation shall be made available to the recipient to meet payments in connection with the project only as they arise in the execution of the project
Article 10  
Dealsigs between participating governments
and the Bank

Each participating government shall deal with the Bank through
its Treasury or other designated financial agency and the Bank
shall deal with governments only by or through the same agencies.

Article 11  
Conditions for loans and guarantees

The Bank may guarantee, participate in, take over existing loans
from, or make loans to any participating government or any
recognised authority in its territory and any industrial, mining
and agricultural or other development agency in the territory of
a participating government, provided that:

i  
when the participating government in whose territory the project
is located is not itself the borrower, the participating government
itself or the central bank or some comparable agency of the
participating government which is acceptable to the Bank, fully
guarantees the repayment of the principal sum and the payment
of interest and other charges on the loan. For purposes of this
paragraph the participating government shall, in the case of a
project being located in the territory of a self-governing national
state of the Republic of South Africa, be the government of such
national state;

ii  
the Bank is satisfied that in the prevailing market conditions the
borrower would be unable otherwise to obtain such a loan or
assistance under conditions which in the opinion of the Bank are
reasonable for the borrower, taking into account the nature of
the project;

iii  
a written report recommending the project after a careful study
of the merits of the proposal has been considered by the Bank;

iv  
in the opinion of the Bank the rate of interest and other charges
are reasonable and such rate, charges and the schedule for
repayment of the principal sum are appropriate to the project;

v  
in making or guaranteeing a loan, the Bank shall pay due regard
to the prospects that the borrower and/or guarantor, will be in a
position to meet its obligations under the loan, and the Bank
shall act prudently in the interests both of the particular
participating government in whose territory the project is located
and of the members as a whole;

vi  
in guaranteeing a loan made by other investors, the Bank receives
reasonable compensation for its risk;

vii  
loans made or guaranteed by the Bank shall be principally for
financing specific projects, including those forming part of a
national or regional development programme. However, the
Bank may make or guarantee loans to development institutions
or similar agencies operating in the territory of participating
governments in order that the latter may facilitate the financing
of specific development projects whose individual financing
requirements are not, in the opinion of the Bank, large enough
to warrant separate specific loans;
in considering the take-over of a loan or guarantee already negotiated by a participating government from a source other than the Bank, the Bank shall pay due regard to the conditions set out in this Article.

Article 12 Form and terms of financing
a Direct loan contracts made by the Bank in conformity with Article 11 shall establish all the terms and conditions upon which the loan will be granted.

b The Bank may provide financing in such forms and on such terms as it may deem appropriate, having regard to the economic position and prospects of the area or areas concerned and to the nature and requirements of the projects.

Article 13 Modification of terms of financing
The Bank may, when and to the extent it deems appropriate in the light of all relevant circumstances, including the financial and economic situation and prospects of the participating government concerned, and on such conditions as it may determine, agree to a relaxation or other modification of the terms on which any of its financing shall have been provided.

Article 14 Co-operation with other organisations and countries providing development assistance
The Bank may co-operate with those organisations and states which provide financial and technical assistance to the less developed areas of Southern Africa.

Article 15 Guarantees
a In guaranteeing a loan the Bank may charge a guarantee fee, at a rate determined by the Bank, payable on the amount of the loan outstanding.

b Guarantee contracts concluded by the Bank shall provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

c In issuing guarantees, the Bank shall have power to determine any other terms and conditions.

Article 16 Limitations on operations
The total amount outstanding of loans placed by the Bank in the capital markets shall not be increased at any time, if by such increase the total would exceed one hundred (100) percent of the unimpaired subscribed capital, reserves and surplus of the Bank.
Article 17  Miscellaneous operations

a In addition to the operations specified elsewhere in this Agreement, the Bank may:

i borrow funds in any capital market;

i guarantee securities it has issued or in which it has invested;

iii buy and sell securities it has issued or guaranteed or in which it has invested;

iv in special cases, guarantee loans from other sources for purposes consistent with the provisions of this Agreement;

v provide technical assistance and advisory or management services at the request of a participating government;

vi establish specialised affiliates and confer the necessary powers on such affiliates to enable them to assist the Bank in its operations;

vii act as a trustee for any participating government;

viii exercise such other powers incidental to its operations as shall be necessary or desirable in furtherance of its purposes and functions.

b In exercising the powers conferred by this Agreement, the Bank may deal with any person, partnership, association, company, corporation or other legal entity wherever situated.

Article 18  Notice to be placed on securities

Every security issued or guaranteed by the Bank shall bear on its face a statement to the effect that it is not an obligation of any participating government unless expressly stated.

Article 19  Political activity prohibited

The Bank and its officers shall not interfere in the political affairs of any participating government, nor shall they be influenced in their decisions by the political character of the participating government concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article 1.

Chapter V  Organisation and management

Article 20  Structure

The Bank shall have a Council of Governors, a Board of Directors, a Chief Executive and such other officers and staff as the Bank may consider necessary.

Article 21  Council of Governors

a Each member may appoint one or more Governors to the Council
of Governors (hereinafter called the “Council”) to represent its interests. The number of Governors that may be appointed by each member shall be determined by the voting power of the member concerned, as specified in paragraph (j) of this Article, in such a way that for every unit of four hundred (400) votes of its total voting power, a member may appoint one Governor.

Each Governor of the Bank shall serve for five (5) years and shall have one alternate who shall also serve for five (5) years, both subject to termination of appointment at any time, or to reappointment, at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. Any Governor or alternate shall cease to hold office if the member by which he was appointed shall cease to be a member of the Bank.

The Council shall elect one of the Governors as President of the Council, who shall hold office until the next regular annual meeting of the Council.

The Council shall exercise overall authority and may delegate to the Board of Directors all its powers, except the power to:

i. admit new members and associate members and determine the conditions of their admission;

ii. suspend a member;

iii. authorise additional subscriptions and determine the terms and conditions relating thereto;

iv. decide appeals arising from decisions regarding the interpretation of this Agreement made by the Board of Directors;

v. determine the salary and other terms of the contract of service of the Chief Executive of the Bank;

vi. elect Directors and their alternates under Article 22, paragraph [b] (ii) and paragraph [c] and determine the remuneration of the Directors and their alternates;

vii. decide to terminate the operations of the Bank and to distribute its assets;

viii. approve proposals for amendment of this Agreement;

ix. approve the annual report of the Bank.

The Council shall meet at least once a year. Additional meetings may be held when the Council so decides or when requested by the Chief Executive. Meetings of the Council shall also be called whenever requested by three or more Governors or by Governors having one-third of the total voting power.

A quorum for any meeting of the Council shall be a majority of the Governors, exercising not less than three-fourths of the total voting power.

The Council may by regulation establish a procedure whereby the Board of Directors, when it deems such action to be in the best interest of the Bank, may obtain a vote of the Governors on a specific question without calling a meeting of the Council.

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"Chairman" was replaced by "President" by the Council of Governors after date of signature.
The Council, and the Board of Directors, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.

Governors and alternates shall serve as such without compensation from the Bank, but the Bank shall reimburse them for reasonable expenses incurred in attending meetings.

Each member shall, in respect of its subscription, have three hundred (300) basic votes plus one additional vote for each five hundred thousand Rand (R500 000) of its initial subscription, provided that no member shall acquire more than two-thirds of the total voting power and provided that as long as any member contributes more than fifty (50) percent of the share capital, such member’s voting rights will not drop below fifty-one (51) percent of the total voting rights. Subscriptions other than initial subscriptions shall carry such voting rights as the Council shall determine in each case. Unless the member concerned should decide otherwise and notify the Bank in advance of any vote, of how its votes shall be cast, all the votes it shall be entitled to cast in accordance with this paragraph, shall be cast as a unit.

Decisions by the Council shall, as far as possible, be taken on the basis of consensus. If consensus can not be reached and except as otherwise specifically provided, all matters before the Council shall be decided by a majority of the votes cast.

**Article 22**

**Board of Directors**

The Board of Directors (hereinafter called the “Board”) shall under the direction of the Chief Executive of the Bank, be responsible for the general conduct of the operations of the Bank, and for this purpose, shall exercise all powers delegated to it by the Council, except the powers specifically reserved for the Council in Article 21 [d].

In addition to the Chief Executive of the Bank, there shall be twice as many Directors as there are members, of whom:

- half shall be appointed, one by each of the members;
- the other half shall be elected by the Council on the basis of voting power.

After admission of the eighth member of the Bank, the provisions regarding the appointment and election of Directors, as provided for in this paragraph, shall be reconsidered.

Each Director shall have an alternate Director appointed or elected on the same basis as the Directors are appointed or elected and such an alternate shall have full power to act for the Director for whom he is an alternate if the latter is not available. When the Director for whom he is an alternate is present, he may attend meetings but shall not vote.

The Directors and their alternates shall be appointed or elected as the case may be. The first appointment or election shall be for a term of two (2) years and subsequent appointments or elections
for a term of four (4) years. The Directors and their alternates shall be persons recognised for their ability, experience and knowledge of economic and financial matters, and shall not be Governors or alternate Governors.

Directors and their alternates shall continue in office until their successors are appointed or elected. If the office of a Director or alternate Director becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be appointed or elected for the remainder of the term in accordance with the same procedure followed for the appointment or election of the Director or his alternate vacating the office. While the office remains vacant, the alternate shall have all the powers of the former Director.

Directors and their alternates shall be reimbursed by the Bank for reasonable expenses incurred in attending meetings.

The Board shall meet as often as the business of the Bank may require.

A quorum for any meeting of the Board shall be a majority of the Directors.

Decisions by the Board shall, as far as possible, be taken on the basis of consensus. If consensus cannot be reached, matters before the Board shall be decided by a majority of Directors and the Chief Executive shall have a casting vote.

The Board may appoint such committees as it deems advisable. Membership of such committees need not be limited to Governors or Directors or their alternates.

Article 23

Chief Executive and staff

The Council shall appoint the Chief Executive of the Bank who shall be a person with the competence required for the office. He shall not be a Governor or alternate, shall be chairman of the Board and shall have a casting vote. He may participate in meetings of the Council, but shall not vote at such meetings. The Chief Executive shall cease to hold office when the Council so decide.

The Chief Executive shall be the executive officer and legal representative of the Bank and shall conduct the current business of the Bank. Subject to the general control of the Board, he shall further be responsible for the organisation, appointment and dismissal of the officers and staff.

The Chief Executive, officers and staff of the Bank, in the discharge of their official responsibilities, owe their duty entirely to the Bank and to no other authority. Each participating government of the Bank shall respect the character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the
necessity or securing the highest standards of efficiency, competence and integrity. Due regard shall also be had to the importance of recruiting the staff on as wide a basis as possible, taking into account the regional character of the Bank.

**Article 24**

**Location of offices**

*a*
The principal office of the Bank shall be located in the Republic of South Africa.

*b*
The Bank may establish branch or regional offices as it deems fit and may determine the geographic area of jurisdiction of such offices.

**Article 25**

**Reports**

*a*
The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to the participating governments at appropriate intervals a statement of its financial position and of the results of its operations.

*b*
The Bank may publish such other reports as it deems desirable in the carrying out of its functions.

*c*
Copies of all reports, statements and publications issued under this Article shall be distributed to the participating governments.

**Article 26**

**Working language**
The working language of the Bank shall be English.

**Article 27**

**Allocation of net income**
The Council shall determine from time to time the disposition of the Bank's net income, due regard being had to provision for reserves and contingencies.

**Chapter VI**

**Withdrawal and suspension of members, suspension and termination of operations**

**Article 28**

**Withdrawal by members**

*a*
Any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date specified in such notice.

*b*
After withdrawing, a former member shall retain liability for all the direct and contingent obligations to the Bank to which it was subject at the date of withdrawal, including those specified in Article 30. However, the former member shall not incur any liability for obligations resulting from operations of the Bank undertaken after the date of withdrawal.
Article 29

Suspension of membership

If a member fails to fulfil any of its obligations to the Bank, the Council may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one (1) year from the date of its suspension unless the Council decides by a majority of Governors exercising a majority of the total voting power, to restore the member to good standing.

While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Article 30

Settlement of accounts

A former member shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any of the loans or guarantees contracted before it ceased to be a member is outstanding, but it shall not incur liabilities with respect to loans and guarantees entered into thereafter by the Bank nor share either in the income or the expenses of the Bank.

At the time a member ceases to be a member (hereinafter called the “termination date”), the Bank shall arrange for the repurchase of its shares as a part of the settlement of accounts with such former member in accordance with the provisions of paragraphs [c] and [d] of this Article. For this purpose the repurchase price of the shares shall be the nominal paid-up value, plus or minus any premium or discount applied, shown by the books of the Bank on the termination date.

The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions:

i any amount due to the former member concerned for its shares shall be withheld so long as that former member, its central bank or any of its political subdivisions or agencies remain liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied to any such liability as it matures. No amount shall be withheld on account of the liability of the former member resulting from its subscription for shares under Chapter III. In any event, no amount due to a former member for its shares shall be paid until six (6) months after the termination date;

ii payments for shares may be made from time to time, upon their surrender by the former member concerned, to the extent to which the amount due as the repurchase price in accordance with paragraph [b] of this Article exceeds the aggregate amount of liabilities on loans and guarantees referred to in subparagraph (i) of this paragraph until the former member has received the full repurchase price;

iii payments shall be made in the currency of the former member receiving payment at the current rate of exchange against the South African Rand;
iv If losses are sustained by the Bank on any guarantees, participations in loans, or loans which were outstanding on the termination date and the amount of such losses on that date exceeds the amount of the reserve provided against losses on that date, the former member concerned shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced, if the losses had been taken into account when the repurchase price was determined. In addition, the former member concerned shall remain liable for any call on unpaid subscriptions under Chapter III, to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

d If the Bank terminates its operations pursuant to Article 31 within six (6) months of the termination date, all rights of the former member concerned shall be determined by the provisions of Article 31.

**Article 31**

Temporary suspension and termination of operations, settlement of obligations and distribution of assets

a In an emergency, the Board may temporarily suspend operations in respect of new loans and guarantees pending an opportunity for further consideration and action by the Council.

b The Bank may terminate its operations in respect of new loans and guarantees by a decision of a majority of the Governors, exercising a majority of the total voting power. After such termination, the Bank shall forthwith cease all activities, except those incident to the orderly realisation, conservation and preservation of its assets and settlement of its obligations.

c The liability of all members for uncalled subscriptions to the capital stock of the Bank shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

d All creditors holding direct claims shall first be paid out of the assets of the Bank, and then out of payments to the Bank on calls on unpaid subscriptions. Before making any payments to creditors holding direct claims, the Board shall make such arrangements as are necessary, in its judgement, to ensure a distribution to holders of contingent claims ratably with creditors holding direct claims.

e No distribution of the assets of the Bank shall be made to members on account of their subscriptions to the capital stock of the Bank until:

i all liabilities to creditors have been discharged or provided for;

ii a majority of the Governors, exercising a majority of the total voting power have decided to make a distribution.

f After a decision to make a distribution of the assets of the Bank has been taken under paragraph (e) of this Article, the Board
may by a three-fourths majority vote make successive distributions of the assets of the Bank to members until all assets have been distributed. This distribution shall be subject to the prior settlement of all outstanding claims of the Bank against each member.

Before any distribution of the assets of the Bank is made, the Board shall fix the proportionate share of each member according to the ratio of its shareholding to the total outstanding shares of the Bank.

The Board shall value the assets to be distributed as at the date of distribution and then proceed in the following manner:

(i) there shall be paid to each member in its own obligations or those of its official agencies or legal entities within its territories, in so far as they are available for distribution, an amount equivalent in value to its proportionate share of the total amount to be distributed,

(ii) any balance due to a member after payment has been made under subparagraph (i) of this paragraph, shall be paid, in its own currency, in so far as it is held by the Bank, up to an amount equivalent in value to such balance;

(iii) any balance due to a member after payment has been made under subparagraphs (i) and (ii) of this paragraph shall be paid in currency acceptable to the member, in so far as it is held by the Bank, up to an amount equivalent in value to such balance;

(iv) any remaining assets held by the Bank after payments have been made to members under subparagraphs (i), (ii) and (iii) of this paragraph, shall be distributed pro rata to their shareholding, among the members;

(v) any member receiving assets distributed by the Bank in accordance with paragraph (h) of this Article, shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

Article 32  Position of constituents of the membership of the Republic of South Africa

The provisions of this Chapter with regard to suspension from operations and settlement of accounts shall mutatis mutandis apply to the constituents of the membership of the Republic of South Africa.

Chapter VII  Status, immunities, exemptions and privileges

Article 33  Purposes of chapter

To enable the Bank to fulfil the functions entrusted to it, it shall possess the status, immunities, exemptions and privileges set forth in this Chapter.
Article 34  
Legal status  

a  
In the territory of each member the Bank shall possess juridical personality and, in particular, capacity:  

i  
to contract;  

ii  
to acquire and dispose, of immovable and movable property;  

iii  
to institute legal proceedings.  

b  
The Bank shall possess international juridical personality and to that end may enter into agreements with members, non-member states and other international organisations.  

Article 35  
Legal proceedings  

Actions may be brought against the Bank only in a court of competent jurisdiction in the territory of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by participating governments or persons acting for or deriving claims from these governments. The property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgement against the Bank.  

Article 36  
Immunity of Assets  

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.  

Article 37  
Immunity of archives  

The archives of the Bank and, in general, all documents belonging to it, or held by it, shall be inviolable, wheresoever located.  

Article 38  
Freedom of assets from restrictions  

To the extent necessary to carry out the functions of the Bank and subject to the provisions of this Agreement, all property and other assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.  

Article 39  
Privilege for communications  

Official communications of the Bank shall be accorded by each participating government the same treatment that it accords the official communications of other participating governments.  

Article 40  
Immunities and privileges of Bank personnel  

All Governors, Directors, alternates, officers and employees of, and experts performing missions for the Bank:  

i  
shall be immune from legal process with respect to acts performed by them in their official capacity. Such immunity shall not,
Article 41

Exemption from taxation

The Bank, its assets, property, income and its operations and transactions shall be exempt from, or the Bank shall be refunded, all taxation as the case may be. The Bank shall also be exempt from all customs, excise and stamp duties. The Bank shall further be exempt from liability for payment, withholding or collecting of any tax or duty.

Goods which have been acquired or imported free from customs or excise duty shall, however, not be sold, hired out or otherwise disposed of unless authority has been obtained in advance and any necessary duties and taxes paid.

Notwithstanding the provisions of paragraph (a) of this Article, the Bank will not claim exemption from taxes which are no more than charges for public utility services.

No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to Directors, alternates, officials or employees of the Bank, including experts performing missions for the Bank.

No tax shall be levied on or in respect of any pension fund benefits paid by the Bank.

No taxation of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest, by whomsoever held:

which discriminates against such obligation or security solely because it is issued by the Bank; or

if the sole jurisdictional basis for such taxation is the place or the currency in which it is issued, made payable or paid, or is the location of any office or place of business maintained by the Bank.

No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held:

which discriminates against such obligations or security solely because it is guaranteed by the Bank; or

if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.
Implementation

Each member shall take such action as is necessary in its territory for the purpose of making effective in terms of its law the principles set forth in this Chapter and shall promptly inform the Bank of the action which it has taken.

Article 43 Waiver of immunities, exemptions and privileges

The Council at its discretion may waive any of the immunities, exemptions and privileges conferred under this Chapter to such extent and upon such conditions as it may determine to be appropriate in the best interest of the Bank.

Chapter VIII Amendments

Article 44

a Proposals to introduce amendments to this Agreement whether emanating from a member, members of the Council or the Board, shall be communicated to the Chairman of the Council who shall bring the proposal before the Council. If a proposed amendment is approved by the Council the Bank shall by circular communication, ask the members whether they accept the proposed amendment. When at least three-fifths of the members, having at least four-fifths of the total voting power, have accepted the proposed amendment, the Bank shall so certify by formal communication addressed to the members.

b Notwithstanding paragraph [a] of this Article, acceptance by all the members is required in the case of any amendment relating to:

i the right to withdraw from the Bank provided for in Article 28;

ii the right secured by Article 4, paragraph [i];

iii the limitation on liability provided in Article 6.

c Amendments shall enter into force for all members three [3] months after the date of the Bank’s formal communication unless the Council specifies a different period.

Chapter IX Interpretation and arbitration

Article 45 Interpretation

a Any dispute with regard to the interpretation of the provisions of this Agreement arising between any participating government and the Bank or between any participating governments shall be submitted to the Board for decision. Participating governments specifically affected by the question under consideration shall be entitled to appear before the Board.
In any case where the Board has given a decision under paragraph (a) of this Article, any participating government may require that the questions be submitted to the Council, whose decision shall be final. Pending the decision of the Council, the Bank may, so far as it deems it necessary, act on the basis of the decision of the Board.

**Article 46**  
**Arbitration**

If a disagreement should arise between the Bank and a former member, or between the Bank and any participating government upon the termination of operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the government concerned, and the third, unless the parties otherwise agree, by a Chief Justice of one of the members not concerned with the dispute. The Council will nominate the particular Chief Justice who should be thus approached. The decision shall be made by a majority vote of the three arbitrators. The third arbitrator shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

**Chapter X**  
**Approval deemed given**

**Article 47**

Whenever the approval of any participating government is required before any act may be carried out by the Bank, approval shall be deemed to have been given unless the participating government presents an objection within such reasonable period as the Bank may fix when notifying the participating government of the proposed act.

**Chapter XI**  
**Final provisions**

**Article 48**  
**Entry into force**

a  
This Agreement shall enter into force when it has been signed on behalf of the original members whose subscriptions comprise not less than ninety (90) percent of the total subscription set forth in Schedule A.

b  
After this Agreement shall have entered into force, it shall be open for accession by any state referred to in Article 2(b), whose membership shall have been approved pursuant to Article 21(d)(i). For such states this Agreement shall enter into force on the deposit of their instrument of accession.

c  
Each member shall take all steps necessary to enable it to carry out all of its obligations under this Agreement as from the date it enters into force in respect of that member.
An original of this Agreement shall be deposited in the archives of the South African Reserve Bank, hereby designated as the Depository.

The Depository shall transmit certified copies to all original members who have signed this Agreement as well as to the constituents of the membership of the Republic of South Africa.

Instruments of accession shall be deposited with the Depository who shall notify all members as well as the constituents of the membership of the Republic of South Africa of all deposits of such instruments.

**Article 50**

**Commencement of operations**

As soon as this Agreement enters into force, each member shall appoint a Governor or Governors and the member to whom the largest number of shares is allocated in Schedule A shall call the first meeting of the Council.

The Bank shall begin operations on a date to be decided by the Council.

Thus done at Cape Town in the English language on the 30th day of June 1983.

FOR AND ON BEHALF OF
THE REPUBLIC OF SOUTH AFRICA

FOR AND ON BEHALF OF
THE REPUBLIC OF TRANSKEI

FOR AND ON BEHALF OF
THE REPUBLIC OF BOPHUTHATSWANA

FOR AND ON BEHALF OF
THE REPUBLIC OF VENDA

FOR AND ON BEHALF OF
THE REPUBLIC OF CISKEI
Schedule A

Initial subscriptions (Rand millions)¹

<table>
<thead>
<tr>
<th>Member</th>
<th>Paid-in capital shares</th>
<th>Callable shares</th>
<th>Total initial subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bophuthatswana</td>
<td>10</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Ciskei</td>
<td>7</td>
<td>63</td>
<td>70</td>
</tr>
<tr>
<td>South Africa</td>
<td>168</td>
<td>1 512</td>
<td>1 680</td>
</tr>
<tr>
<td>Transkei</td>
<td>10</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Venda</td>
<td>5</td>
<td>45</td>
<td>50</td>
</tr>
</tbody>
</table>

200  1 800  2 000

¹In terms of South African Rand

Schedule B

Voting rights

<table>
<thead>
<tr>
<th>Country</th>
<th>Basic votes</th>
<th>Votes based on shareholding¹</th>
<th>Total votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bophuthatswana</td>
<td>300</td>
<td>200</td>
<td>500</td>
</tr>
<tr>
<td>Ciskei</td>
<td>300</td>
<td>140</td>
<td>440</td>
</tr>
<tr>
<td>South Africa</td>
<td>300</td>
<td>3 360</td>
<td>3 660</td>
</tr>
<tr>
<td>Transkei</td>
<td>300</td>
<td>200</td>
<td>500</td>
</tr>
<tr>
<td>Venda</td>
<td>300</td>
<td>100</td>
<td>400</td>
</tr>
</tbody>
</table>

1 500  4 000  5 500

¹Each R500 000 contributed entitles members to one additional vote
The first Council of Governors and Board of Directors

Council of Governors

President of the Council
The Honourable O P F Horwood (RSA)

Governors
Dr the Honourable P G J Koornhof (RSA)
The Honourable J C Heunis (RSA)
The Honourable R F Botha (RSA)
Dr the Honourable D J de Villiers (RSA)
Dr G P C de Kock (RSA)
The Honourable S M Qaba (Transkei)
The Honourable S L L Rathebe (Bophuthatswana)
The Honourable Gota F N Ravele (Venda)
The Honourable Chief M E P Malefane (Ciskei)

Alternate Governors
The Honourable K G Nota (Transkei)
The Honourable R Cronjé (Bophuthatswana)
The Honourable Gota E R B Nesengani (Venda)
Mr I Melville (Ciskei)

Board of Directors

Chairman
Dr S S Brand (Chief Executive)

Directors and alternate Directors
Mr M T de Waal (RSA)
(alternate Mr A J van den Berg)
Prof L Nkulu (Transkei)
(alternate Mr A Nkonyeni)
Mr W J J van Graan (Bophuthatswana)
(alternate Mr B E Keikelame)
Mr J A Botes (Venda)
(alternate Mr M R Madula)
Mr G F Godden (Ciskei)
(alternate Dr D H M Bridgman)
Mr J B Maree (elected)
Dr P R Morkel (elected)
Mr G S Muller (elected)
Mr R A Plumbridge (elected)
Dr A P Scholtz (elected)
Alternates for elected Directors
Dr W J de Villiers
Dr D C Krogh
Mr P H Swart
Two further alternate Directors were to be elected at a later stage.
V&R Pta
ALLIED GETS INTO BED WITH NEDBANK

By Alec Hogg

SOUTH Africa's third-largest building society, Allied, has found a bedmate.

The R1.5 billion institution, previously the largest independent society, has established formal links with Nedbank, and a more concrete arrangement is likely.

Managing director designate Roy Pascoe says that Allied "will become a joint-stock society within two or three years, and we would love to have Nedbank as a major shareholder." Nedbank senior general manager Arrie van Vliet says the question of a shareholding has not been discussed.

Allied has already switched its banking account from Barclays and will offer preferential treatment to Nedbank clients seeking mortgage loans. From April, Nedbank clients will be able to cash cheques of up to R100 in Allied branches, effectively doubling Nedbank's network to 400. Allied's 600 agencies, however, will not offer the facility.

Allied clients will be able to use the first of the society's 50 automatic teller machines in April and plans are advanced for their access to Nedbank's 50-strong Nedmatic network. The institutions will offer clients access to 260 machines by the end of the year.

Tax sheltered investments, such as subscription shares, which can only be offered by building societies, will be available through Nedbank branches. New service points will be discussed by the two institutions, and the link opens the way for Allied to offer its clients access to Visa, Mastercard and Garage Card.

The link between Nedbank and Allied comes as a shock to the financial community. The bank shares the same chairman - Dr Frans Cronje - and associates (SA Mutual and the Sage Group) as SA's second-largest building society, the Permanent.

But Mr van Vliet says: "We are now much closer to Allied than to the SA Perm. Our so-called link with the SA Perm was a misconception built up mainly by the financial press."

SA Perm managing director Bob Tucker says: "We decided last year to remain independent, and to develop strong ties with all the major banking groups. We have had discussions with Nedbank regarding its link with the Allied, but at the moment see no reason why we should change our strong banking ties with the bank."

Although Mr Tucker is not worried about most of the implications of the deal, he is concerned about Allied's receiving the public's investments through the bank. "If we find that we are sucking the blood out of the bank, if we find that we are sucking the Allied above other societies, we will have to take another look at our relationship."

The tie-up with Allied is a coup for Nedbank. Although Mr Pascoe is not prepared to comment, it was an open secret that approaches to Allied had been made by several financial blocs.

Favourite was Nedbank's arch rival Barclays, which is now the only bank not to have a building society in its sphere of influence. It recently lost the United Building Society account when the UBS joined the Standard Bank Liberty Life camp.

Barclays deputy managing director Chris Ball tells Business Times that speculation in this regard was misinformed. "Our need is different to that of Nedbank. We don't need a building society. We had an idea that it was going to happen. It could be a good deal for both parties."

Mr Ball says Barclays was not among the banks which approached Allied. He is not perturbed by the loss of the account. "It's not a profit viewpoint, the amount involved is insignificant."

Barclays received R1-million in service fees for handling the Allied account. According to Mr Van Vliet, Nedbank and Allied "have been friends for years. We have lunch with their executives often and compare notes on developments in the market." It was a logical move for Allied in the growing concentration of South African business.
Inflation is theft — Marais

INFLATION is theft, according to Dr Jan Marais, founder of the Trust Bank and economist of note, who backs WATCHDOG in the call for an insurance ombudsman.

"There are those with fixed pensions bought with 'hard work' many years ago when money was worth a few times what it is today. Their premiums were invested by insurance groups in property, shares etc., valued today many times their original purchase price yet these poor pensioners have never had an increase in their pensions.

"It has been suggested that all fixed pensions should be made tax-free. That would help, but it would still not be fair because the insurance companies, whatever the fine print originally stated, should do something about it. This would at least enhance their image.

"Furthermore, when it comes to inflation, who suffers most? The sufferers are really those with fixed pensions or other forms of fixed incomes such as government or other related securities.

"It is fine and wonderful and sounds good for the Minister of Finance to talk about financial discipline and to express strong views against "indexing" for instance because that in itself would be inflationary.

"Does he realize that including himself, salary and other benefits (of the employed) are increased from time to time. So, he and others like him, with growth investments and/or still in employment do not suffer that much, if at all."
Motsuenyane pleads for tax breather

The worst effects of the recession are yet to come, says the chairman of the African Bank, Mr Sam Motsuenyane.

He adds in his annual review: "South Africa is still very much in the slough of stagnation and I do not entirely share the view of some analysts that the recession has bottomed out."

Mr Motsuenyane says the country is still recovering from the worst drought in living memory which has brought the agricultural sector to the brink of collapse.

Prices of farm products have only just begun to rise and this will produce a ripple effect on a whole range of other commodity prices.

Struggles are still being waged to bring the inflation rate more into line with the country's major trading partners. To counter inflation the equalisation of money supply will still have to be the authorities' most urgent priority.

This will discourage investment, however, and further delay the upturn.

Furthermore, it is unlikely that consumer demand will improve significantly this year in view of the expected increases in taxation.

"My view would be for Government not to raise taxes at this stage as this will have a very negative influence on the living standards of the black masses. I would argue very strongly for the reflation of the economy as a matter of top priority. Another year of depressed economy would result in serious damage in human and other terms."

A higher tax bill and high interest rates sent the African Bank's profits plummeting 39% for the year ending September.

While turnover increased 18%, from R316m to R372m, after-tax income dropped from R110 000 to R70 000.

The results, released with the annual report, showed that the main reason for the profit decline came from a tax hike from R4 000 in 1962 to R40 000 in 1963. Taxes deferred in 1963 were much less than in 1962, says Mr Moses Maube, the African Bank's chief executive.

Pre-tax profits were also down significantly. This was attributed to lower margins and the higher cost of borrowing from the money market.

Yet again the directors have decided not to pay a dividend but the board is hopeful that "in a year or two" a dividend will be paid.
Institute of Life and Pension Advisers grows by 66 percent

The results of the 1983 qualifying examinations for the Institute of Life and Pension Advisers have been released in Cape Town. Altogether 171 candidates were successful, 130 for the life assurance qualification and 41 for the pensions qualification.

In addition to the newly qualified fellows, 137 candidates achieved one or more subject credits to carry over to 1984.

Commenting on this year's results, Mr Paul Nel, executive director of the institute, said that the number of fellows had grown by 66 percent following the latest round of examinations.

Membership

"With our membership now totalling 431 fellows, since the inauguration of the institute in 1981, we are pleased with our initial development. The institute is not designed to cater for all life assurance intermediaries but it is rather a professional body aimed at testing and recognizing the competence of those intermediaries who, because of their business environment, become involved in large and often complicated estates or business assurance needs where an in-depth knowledge of the law and circumstances affecting good financial planning is essential."

"Often an institute fellow has to work closely with accountants and lawyers and it is important that he be acknowledged as an integral and qualified member of the advisory team, able to give sound specialist advice in his area of expertise."

The institute examinations require a candidate to have an in-depth knowledge of the Estate Duty Act, Income Tax Act and sound financial planning principles using the different investment media available, including pension funds.

Candidates are required to write four four-hour papers where the emphasis are on the application of knowledge to set case studies.

A feature of the institute's development has been the involvement of Unisa from the outset, with Professor Herbst from their department of business economics settling as a member of the institute council.

Tribute

"The standard of the examinations," said Professor Herbst, "is high and it is a tribute to the life assurance industry that such stringent measures are to qualify as a fellow of the institute. The establishment and the development of the institute and its activities is most assuredly in the public's interest."

For the past two years Unisa has also assisted with the marking of papers.

Recognition of the institute's standards has now also been given by the American College of Life Underwriters, widely regarded as the professional examination body of the United States.

The Institute of Life and Pension Advisers is an independent examining body, membership of which is open only to individuals who have successfully completed the examinations and who adhere to the strict code of conduct.

Qualifying members may be identified by their use of the designation FILPA.
Special Risks Insurance

Questions over Sasria

It is time for a major reassessment of the SA Special Risks Insurance Association (Sasria). There are several compelling reasons for this.

Failure to provide consequential loss cover is Sasria's major shortcoming, and this is admitted by all sides. Such cover pays for wages, rates and taxes, loss of profits and other overheads where material damage interferes with the usual earnings pattern. In terms of potential loss, all this is perhaps the greatest risk in civil disturbances — a good reason why Sasria keeps away from it, and even more of a good reason why companies want to be covered.

Sasria has an excess-of-loss treaty with worldwide reinsurers, arranged through Robert Enthoven. This provides a total of R100m for the year after the first R100m has been paid out of its own fund. The third level of liability operates only if a given claim exceeds R200m, and amounts to the balance of Sasria's fund. The insurance companies, as members of Sasria, come in at the fourth level with a collective R5m net.

As reinsurer of last resort, any claims unsatisfied after these four levels rest with the government. And Pretoria feels that extending cover to include consequential loss would be an unjust burden on the taxpayer, who could then face a bottomless pit. The upshot is that companies requiring consequential loss cover — and there are many — must go to the overseas markets.

Some of them are in fact happy to avoid Sasria for additional reasons (see box, right). So for the sake of convenience the material damage side of an insurance contract is often included in the same foreign package, where it has been found to be cheaper than Sasria's deal — as low as 0.025% against a domestic rate of 0.1%.

Sasria is a non-profit consortium of local short-term insurance companies, backed by government. Registered early in 1979, under the Companies and Insurance Acts, its task was to underwrite material damage and loss of rent arising from political riot and related disturbances. But since its inception it has faced considerable criticism. Indeed, some in the market question its very existence.

The drawbacks

☐ Sasria cover excludes consequential loss;
☐ Insurance is limited to R100m per company, or group of companies;
☐ Cover is not available until the coupon has been issued;
☐ The coupon cannot be extended during renewal negotiations;
☐ The coupon cannot be cancelled once issued;
☐ The government has a veto over claims — which is why that over Koeberg took so long;
☐ Protectionist measures, backed by the SA Insurance Association, interfere with free-market operators such as Lloyd's;
☐ Cover is not available for the homelands or Namibia; and
☐ Premium rates are standardised regardless of location.

The considerable loss of revenue has netted the insurers. They lose business to overseas competitors — and the 15% commission earned on Sasria coupons they sell. Lobbying of Pretoria has involved it in a running battle with Lloyd's of London, which has been accused of "disruptive practices."

What is meant by this is that government's backing of Sasria is being undermined by outside competition able to offer better, and more flexible, insurance cover for material damage.

The great dilemma, of course, is Pretoria's desire to play a protective role while at the same time paying lip service to free enterprise. In addition, insurance companies naturally want to protect their shareholders; while the government wants to protect its taxpayers from open-ended risks. This has led to various inconsistencies which have helped confuse the market.

In the face of the confusion, Lloyd's is now instructing its local agents to obtain permission from the Registrar of Financial Institutions, Robert Burton, before arranging political riot cover in SA.

Picking and choosing

John Bull, current chairman of the SA Insurance Association (SAIA), points out that Lloyd's is a member of Sasria. "The job of the consortium is to write cover for all risks, including the uninsurable — like Putco. It is wrong for Lloyd's to pick and choose the best risks for its own account and leave the taxpayer to cover the rest," he says.

Warren Plummer, MD of AA Mutual, and current Sasria chairman, disagrees: "There is no reason why Lloyd's, or anyone else for that matter, should not compete with Sasria. But you can't have your cake and eat it." He says that if you want to compete with Sasria, you must do so as a non-

How it began

The origins of the SA Special Risks Association (Sasria) go back to 1976 and the Soweto unrest. Counting up the damage afterwards, the West Rand Administration Board (Wrab) made claims on various insurers for amounts totalling some R15m. The insurers balked. Indeed, Santam went to law to defend the wording of its contract with Wrab as excluding cover for political riots.

The issue in the Santam-Wrab case was whether the unrest was intended to overthrow or influence the government by force. It proved too difficult to really assess the intentions behind the upheavals and, in the end, Wrab's claims were only paid in part. But this still left the insurers with fears of shrinking coffers and a new phobia about underwriting riot and riot-related risks on an open-ended basis. Since the 1976 settlement was the first riot claim they had paid since 1932, 50 years of complacency had been dispelled.

The SA Insurance Association (SAIA) accordingly went into a huddle. It was finally agreed among all insurers that war risks, riot, terrorist action and disturbances of the peace be excluded from the standard wordings of all policies covering property. The exclusion came to be known as the "standard SAIA exceptions."

Then it was government's turn to take fright. Questions were raised about the adverse political implications, at home and abroad, of a failure to provide some form of security for the public against political disturbances. Foreign investors would stay away, it was argued; and local industrialists might reduce their capital investments. And what about the "man in the street" — the voter?

So SAIA chairman of the day, Warren Plummer, was approached by Pretoria to do something about the standard SAIA exceptions. Could they not be underwritten by some government-backed consortium? Two things emerged: Sasria, and a SAIA agreement.

John Foxnett, Mutual & Federal's MD, explains: "The SAIA members who were also members of Sasria agreed not to write political riot business other than in terms of Sasria, which effectively means they cannot compete with it, nor write consequential loss."
member
An attempt was made to embody this point in Sasria's constitution, but was omitted because of problems with Lloyd's. Instead, SAIA drew up its own agreement not to compete with Sasria, to which Lloyd's and AA Mutual, as non-members of SAIA, do not subscribe. In explaining his position, Plummer adds: "We are not members of SAIA because we believe in free enterprise. Sasria should be able to choose how it does its business just like any other insurance company."
But this still leaves the question — do we really need Sasria?"
According to Plummer, "Yes, there's no question about it. The market needs Sasria. Hasn't it as much right to operate as, say, AA Mutual? Besides, Sasria's estimated premium income for 1984 is R70m. Seeing that the cover is bought, not sold, that seems a good enough reason to me."

Free enterprise apathy
A few years ago an attempt was made to deal with consequential loss independently of Sasria. But the paltry R5m limit set by the local market was not enough to interest overseas backers. Several people feel this could be indicative of apathy towards free enterprise in SA, and charge that, in point of fact, the local market must share the blame attaching to Sasria.

Don Gallimore, executive director of Price Forbes Federale Volkskas, and chairman of the SA Brokers Association/Sasria liaison committee, has been trying to get together with Sasria for a long time, to assist in ironing out its shortcomings. "Since 1979, Sasria has been eclipsed by its inability to respond to market forces and clients' views," he says. "I fully support it in principle. But what I question is its management, influenced or controlled as it is by government board members. And there seems to be no appreciation by the government of how a commercial organisation should be run."

Despair at the apparent intransigence on the part of the authorities. They seem totally insensitive to suggestions."

There have been plenty of these. Gallimore says that despite this Sasria continues to operate in an administrative straitjacket. It remains as awkward and inflexible as ever.

Naas van Staden, the previous Registrar of Financial Institutions, has gone on record as saying: "Even if Sasria was limited... the market would be worse off without it."

Maybe he's right — but that doesn't excuse imperviousness to criticism. Gallimore believes the time has come for the absurdities of the system to be aired in public. And he points to the list of gripes.

One way political riot cover could be provided for everybody, on the same footing, could be on the basis of compulsory insurance — like third party motor insurance (MVA). This would keep the price down, build up an enormous premium pool, and spread the risk to the maximum. Or cover could be distributed automatically under all fire policies, with the riot element separately priced and backed by government and overseas insurers. Such wide marketing would give the deal an edge over competitors such as Lloyd's. There would be no need to restrict cover to larger companies, with a cancellation clause like Lloyd's.

Serving the public
But, at a minimum, Sasria should be more accountable to the public, which it was originally supposed to serve. If MVA fund details have to be tabled in Parliament, why not Sasria's?

On the other hand, if government wishes to shed responsibility for the scheme — and there are strong rumours to this effect — it must open the doors of the consortium to the influences of the market. Protectionism stifles innovation, costs the public more in the long run, and diminishes access to the international risk-spreading mechanism. Sasria really should be able to offer what the market wants — and on a better basis than Lloyd's, since it is backed by a government.

For the present, Sasria embodies a half-baked approach. On the one hand insurers stand to gain by squeezing Lloyd's out, because that will give them more business, no extra risk, and more commission.

On the other, government has a vested interest in avoiding confrontation with big-name victims of political riot. It wants to protect industry, but it is doing so by regulating the system to the hilt. So much so in fact, that no insurer dares to deal with anything out of the ordinary without Pretoria's say-so. The result is that no one is really benefiting from this situation.
Reunert gains 25% holding in ATC

JOHANNESBURG — Reunert, the recently created electronics and engineering arm of Barlow Rand, has bought a 25 percent stake in ATC (Pty), one of the country’s largest suppliers of cables for the telecommunications industry, a statement by the company said yesterday.

ATC commenced manufacture of telecommunications cables in 1936 in conjunction with African Cables in Vereeniging.

Shareholders

The company moved into its own premises in Brits in 1972, and has now developed into the country’s leading supplier of telecommunications cables.

Prior to the Reunert deal, the shareholdings in ATC were GEC 50 percent, BICC 40 percent, and STC 30 percent. These three British companies have each sold a pro rata share to enable Reunert to gain a 25 percent holding.

Management and staffing of ATC is unchanged, but the Reunert deal gives the company a local partner — a desirable move in view of the large volume of business that ATC does with State and quasi-State undertakings.

For Reunert, the acquisition is in line with the development of its information processing division — Reunert Information Systems (Pty) — to offer an integrated service to customers embracing the capture, processing, switching and transmission of data.

Companies in the

Reunert Information Division include Barlowdata, Telegrama, AEI Henley and the recently-acquired Telkor.

ATC board

Mr Derek Cooper, chief executive of Reunert, and Mr Colin Ferreira, managing director of Reunert Information Systems, both join the board of ATC today, the date on which the deal becomes effective.

There will be no other changes to the board of ATC.

Mr Logan Stewart continues as chairman of ATC, and Mr Peter Watt as managing director.

Negotiations for the sale of the 25 percent stake in ATC to Reunert were handled by Hill Samuel Merchant Bank.

— Sapa
SUN INTERNATIONAL

The empire maker

No one in the hotel business will dispute what amounts to Sol Kerzner’s new role as emperor of the Good Life. Almost single-handedly, he changed the face of the industry when he created Southern Sun. Under his imaginative direction the group mushroomed into the most powerful luxury hotel chain in the country — and in a relatively short time at that.

Financial Mail February 3 1984

Now that the high drama surrounding the formation of Sun International has abated, the group is consolidating and preparing for expansion. For the foreseeable future its style will be very much that of one man.

The gap left by Kerzner, after his departure last year to form Sun International, is unlikely to be easily filled; and the consequences for Southern Sun have yet to be fully assessed.

Meanwhile, the scale of Kerzner’s ambition is beginning to be realised. Sun International is nothing if not a lusty infant. In typical Kerzner fashion, no time was wast...
financial year "on the security and protection of the people of SWA."

Moreover, he said, SA guarantees for Namibian domestic and foreign loans in the period to March 31 this year will be nearly R700m which, "in the event of a SWA default, carries the possible implication of paying interest equal to double the capital owing, should investors insist upon the Republic honouring the full investment terms."

SA's determination to protect the people from attacks, he said, has exacted a heavy price in terms of material, international condemnation "and in the lives of our young men." He then added an extraordinary warning: "However, it goes without saying that SA will not continue to bear this heavy burden if it seems that the continued presence of our forces does not enjoy the wholehearted support of the people of SWA."

Botha has seldom been as blunt on the subject of the price of the war. Neither has he ever hinted that the Namibian defence exercise could well be seen to be futile if the internal political groupings cannot come to terms behind the protective shield young South Africans are giving their lives to provide.

This leads on to another reason why things may be on the mend: feedback from the constituencies of mounting disillusionment with the bush war among ordinary people. Militarist rhetoric about the total onslaught means nothing to people who sacrifice a loved one. MPs have perceived signs of the start of a "Vietnam" syndrome. In the readers' columns of English and Afrikaans newspapers, people are questioning the purpose of an SADF presence in northern Namibia and southern Angola.

There is growing evidence that if the war in southern Angola continues, there could be a quantum leap in the number of casualties suffered. Operation Askari, as the papers showed last weekend, encountered evidence of Cuban, MPLA and Swapo deployment of weaponry of unprecedented sophistication. In addition, the USSR has warned that it will intensify its military support to the MPLA in terms of treatises entered into nine years ago.

For Botha, the political consequences at home of a disengagement in Namibia no longer seem as daunting. The result of the white referendum must have been encouraging. The result also indicated that whites want change, and they want it fast. The war in Namibia will slow that process and cost him support. In the event, Botha has probably calculated that he can get away with a pullout, a ceasefire and a UN settlement. And no FM ever lost support by offering the prospect of peace.

Then again, the financial consequences of SA's military involvement are staggering. The country will probably never be told the full extent of government spending overrun demanded by doing battle hundreds of kilometres inside Angola. It could be R400m-R500m in the current year. This has obvious implications for ordinary taxpayers, who are being prepared (statements about the drought, continuing weakness of the gold price, pay rises for civil servants, and so on) for further fiscal deprivations on their disposable incomes.

Of course, it never pays to be sanguine about these things. The Namibia trail is littered with phony expectations and dashed hopes. We trust this is something different.

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**THE WINDHOEK VIEW**

Excitement in SA about a ceasefire and a settlement in Namibia is not shared in Windhoek. While realising that it probably is not "the same old story" this time round, people remember the repeated warnings about "no red flag in Windhoek" that came from Cape Town.

It seems clear that SA is now pinning its hopes on the ability of the Multi-Party Conference (MPC) to keep the "red flag" from Windhoek. What that translates into is that the "internal parties" must cohere into a credible alternative to Swapo. On Tuesday night, the leaders of the MPC gave clear indications that they are considering forming an interim government in the near future.

The MPC did not seem concerned about Botha's statement that the interests of SA will come first in future. But Dirk Mudge did add that the MPC will opt for the interests of Namibia over those of SA, if it had to choose.

What really disturbed Namibian businessmen, however, was Botha's statement that SA will not in future be prepared to shoulder the financial burden for Namibia on its own. With a badly crippled economy that relies heavily on grants from SA, that was bad news.

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**SUN INTERNATIONAL**

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deira Islands. But the broader programme and strategy for overseas development has yet to be finalised.

Based on an expected turnover of some R300m, taxed profits of around R50m for the first annual financial year, and the price of R36m Safmarine paid for its 18.75% interest in Sun International, the group (if listed) could have a market capitalisation in the region of R300m. It would therefore rank among the 20 largest industrial companies in SA. By the time Kerzner's plans for overseas expansion have been followed through to their logical conclusion, the group might well be propelled into the ranks of the international leisure giants. Such are the dimensions of Sol Kerzner's dream.
tems originally implemented in the Holiday Inns chain, and those of Southern Sun. Chairman of Sun International, Dick Gooss, goes back a long way with Kerzner and functions as a "semi-executive," devoting about half his working time to the group. Even so, his role in the organisation cannot be underestimated. He brings wide business experience to bear by contributing to strategic planning and acting as a sounding board for Kerzner's ideas. He also has an "important stake" in the company, though he will not reveal how much.

Kerzner, however, is firmly at the helm. The group is shaped around him and his standards apply to all major projects. He will only consider new capital projects if the company bases its calculations on a minimum tax-free return on capital of 20%. According to Kerzner, this kind of return is in line with those achieved by Atlantic City gaming operations.

Kerzner has some experience of casinos on North America's eastern seaboard. Last year he hitched up with a US partner in a joint venture aimed at breaking into the American gambling scene. The attempt failed after loud protests by an anti-South African lobby in New Jersey.

The factors which determine the profits (and so the profitability) of Sun International are many. Interestingly, Kerzner is adamant that what people want is fun. It follows, then, that the life blood of the group is centred around the concept of offering people fun. The environment, facilities and standards of the various casino resorts are all directed towards this end.

Fun as business

Part of Kerzner's glamorous, high-flying image comes from his close associations with some of the big names in the entertainment world. Yet he admits that live entertainment is not always profitable on its own account. "Some of the shows at Sun City are profitable, others are not," he says. The direct financial benefits for the group of one or other show business extravaganzas cannot be easily quantified. But, clearly, there are always spin-off financial benefits.

The ability of management to exercise tight financial control over all operations, and to plan effectively for the future, is one of the more important recipes for financial success. Obviously a dynamic organisation has to have dynamic leadership.

Kerzner believes in the importance of developing a strategic plan which views the business from a medium-term perspective. His plan is designed and developed around the broader issues of growth, finance, investment, development and expansion. The plan is submitted on an annual basis to the board which critically evaluates, expands and eventually approves the plan. Annual budgets which deal with the nitty-gritty of the business are prepared in the field and submitted to the board. Management compares and reviews the actual results with the budgets, on a monthly basis. The board

reviews actual performance with its expected figures on a quarterly basis.

The broader issues, controls and basic standards are maintained by head office, but operations are decentralised. Regional management, which has to comply with certain head office fundamentals, has a fair measure of autonomy in the field. Regional managers are responsible for the day-to-day operations and Kerzner encourages them to show initiative and to colour their resorts with a distinctive character.

In terms of an agreement with SA Breweries, Sun International will seek a stock exchange listing only after March 1985. But, if Kerzner's far-flung plans for expansion are realised, it is conceivable that Sun International could be listed on a foreign stock exchange even before it goes for a quotation on the JSE. A takeover or merger with a major overseas hotel or gaming group cannot be ruled out.

Almost certainly, Sun International is set to spread its network internationally, though an announcement of specific developments is probably six months away at least. Kerzner has confirmed that his company is considering expansion into the Ma-

Kerzner .... the single greatest asset
Liberty Life to raise R120m in rights issue

By PATRICK McLoughlin

JOHANNESBURG. — Liberty Life is to raise R120m in a massive rights issue which could push assets up to R3.4 billion and see market capitalization rise to R500m.

The issue, which will be made to Liberty Life's ordinary shareholders and to holders of its convertible redeemable cumulative preference stock, will enable the assurance giant to continue its muscular growth in profits into the next decade.

Liberty Group chairman, Mr Donald Gordon, said the issue was needed to finance the current huge inflow of business which had far exceeded earlier projections.

"The problem with a life assurance company is the more business you write, the more business strain you have," he said yesterday.

When a life assurance company writes a policy it incurs all the initial costs, including the commission, in the first year.

Regulations

In addition, statutory regulations require the company to place a reserve against the policy, to meet eventual liabilities. This results in outgoings in the first year more than exceeding in goings in the form of the premium.

The "strain" from new business thus initially impacts on the natural profits of a company, although this is more than absorbed by profits later in the policy's life.

"When you have a great deal of business coming in that strain has to be financed out of the company's capital," Mr Gordon said.

"At some point, your capital becomes small for the volume of business."

Liberty Life's last rights issue was in 1980 and the group at the time projected growth in assets to R3 billion by 1980. This target was reached in 1983.

"The scale of our operations has expanded enormously and our assets rose from R2.37 billion at the end of December 1982 to R3.25 billion the following year — a rise of 37 percent. Our capital base has to become more related to that."

In a statement released yesterday, the assurance group said the additional capital was required for the further development of Liberty Life, to support its increased penetration of the South African life assurance market which had been achieved over recent years.

Liberty also wanted to maintain the accelerating momentum of its growth.

"On the basis of the additional funds which will become available, the directors are confident that Liberty Life's leading role in the life assurance industry will be enhanced and that its capital resources will be adequately augmented to sustain further rapid growth in the medium term."

Other than the amount to be raised, no more details are provided by Liberty. This is because much depends on the state of the equity market at the time of the issue.

However, market sources say that the results of Liberty for the year to December 31, 1983 — to be released on February 24 — will see total dividends of something over 20c, if the normal 20 percent growth rate is achieved over 1982's dividend of 172c.

On the same basis, if the 20 percent growth rate continues into the 1984 financial year, the prospective dividend could be in the order of 240-250c.

It is thought that Liberty is looking at a yield of around five percent for the new shares and this suggests a price of around R50 — a good discount to the current Liberty price of R60.

To fill the full R120m and Mr Gordon seems very confident that the target will be achieved — 2.4m new shares should be created, expanding Liberty's current issued capital of 12m shares and indicating a one for five rights issue.

Mr Gordon does not expect any slugs.

"There's no room for squabbling. We have very special shareholders who hang onto their shares. Our shares are also tightly held and I would think that all the new shares will be taken up."

Surplus

Mr Gordon said that if the issue was fully subscribed, Liberty's assets would go to R3.4 billion. Market capitalization, currently standing at around R700m, would climb to around R500m.

"The impact of this issue will be to improve earnings a share on the new and-old shares."

Analysts say that a full take-up of the R120m issue, placed into fixed-interest stock, would move Liberty's total tax profits (its surplus) into the range of R50m. This compares with the 1982 surplus of R25.5m on the old capital base of 12m shares.
Allianz SA seeks a local partner

By Duncan Collings
Deputy Financial Editor

The Allianz group of insurance companies in South Africa will seek a local partner before considering a Johannesburg Stock Exchange listing.

The newly appointed chairman, Mr Michael Linck, says the company has given an undertaking to the authorities that its parent, Allianz of West Germany, will reduce its shareholding in the local operation to around 50 percent as soon as this is in everyone’s interest.

“In my view we will first look for a strong, entirely South African partner and thereafter seek a JSE listing.

“Following the takeover of Rand Life in November 1982, we first want to establish a good track record in our new form before going to the market.”

Judging by the group’s results for 1983, that track record is well on the way to being set.

In the year premium income rose 19 percent to R47.0 million from R39.5 million in 1982, while total assets grew 25 percent to R178 million from R139 million.

Of the total premium income in 1983, R28 million related to life and pensions operations and R20 million to short-term insurance.

Rand Life is still operating separately from the group’s other life interest, Allianz Life, but Mr Linck says these will be merged progressively over a maximum of five years.

On the short-term market, Mr Linck says the reinsurers have his sympathy over the very much harsher terms they have imposed on the insurance companies’ treaties for 1984.

He says it is inevitable that premium rates — particularly those relating to industrial fire risks — will go up this year.

But he suggests there are two courses the industry could follow to lessen the impact.

First, he says, that while avoiding any suggestion of a cartel the industry could produce a guide tariff book. The major object of this would be to collect statistical information so that insurers could better assess risks.

“When the rate book of the industry was abandoned some years back, we lost our only form of statistical reference.

“This has resulted in some very peculiar rating of large industrial risks in a highly competitive climate and led to the large underwriting losses.”

The second path the industry could follow, he says, lies more in the hands of brokers. He suggests they should introduce and emphasise to clients their risk management facilities.

Looking at the life insurance industry, Mr Linck says it is difficult to see how it can come up with any entirely new types of products after the new generation of policies were launched last year by virtually every company.

“Developments as far as the future of the life insurance industry is concerned will lie in marketing, client service and maximising the use of computers to ensure maximum flexibility for policyholders,” he says.

On expansion of the group in South Africa, Mr Linck says there are two courses the group could follow.

“If Allianz were to bid for, and gain control of, a large UK domestic insurer which also has a South African operation this would be one form of expansion for us.”

The second route to follow, says Mr Linck, “is for us to fulfill our commitment of giving a substantial share of the local operation over to local shareholders, and thereafter to speed up our expansion using the vast technical expertise available to us via our West German association.”
Sebe meets bank chief

BISHO — Dr Simon Brand, chief executive of the Development Bank of Southern Africa, and a delegation of his senior officials met President Lennox Sebe here yesterday.

This meeting represented the first visible evidence of the establishment and operations of the Development Bank of Southern Africa, according to President Sebe.

Extending a hearty welcome to the delegation, President Sebe expressed the high aspirations held by the Ciskei people in regard to the bank's future activities in Ciskei. He made special reference to development projects presently lodged with the bank and made a plea for their early processing and implementation in Ciskei.

Dr Brand spoke of the functions, strategy, guidelines and criteria that would be adopted by the bank. He also devoted some time to the principles and procedures that would be followed by the bank in the processing and appraisal of project applications. — DDR
Motor oil cheaper in Woodstock

A KENWORTH reader has discovered the Woodstock area has the most expensive. I checked and another of the same brand did not have an additional tax.

Last week, I stopped at another KENWORTH dealer and put in the same amount of motor oil as I did at the previous one. It was ten dollars cheaper there. When I left, I asked him if he could keep the difference. He said he would.

The customer service rep said they didn't charge extra for the oil. When I asked about the difference, he said it was due to the dealer.

I then asked if they had any other suggestions for saving money. He said, "You should buy your motor oil in bulk. It's cheaper that way."

I thanked him and left, feeling satisfied with my purchase. The next time I need motor oil, I will be sure to buy it in bulk.
Bankorp joins forces with insurance brokers

By ALEX PETERSEN
Deputy Financial Editor

SOUTH AFRICA is leading in the field of the trend of merchant bank involvement in insurance broking, which reflected the country's strong competitive broking environment, the chairman of Reed Stenhouse and Partners, Ltd, Mr John B Devine, said yesterday.

Broking houses Reed Stenhouse and Hogg Robinson have combined forces with the Bankorp group to form Stenhouse Bankorp and Mr Devine is in South Africa to meet with Bankorp partners.

Stenhouse Bankorp is specializing solely in corporate accounts, and although Stenhouse have a minority holding, they are committed to providing a full range of support services.

Mr Devine said that indicative of the changing nature of insurance and reinsurance was the increasing extent to which specialist brokers designed tailor-made as opposed to "off-the-shelf" policies. For such packages to be acceptable to underwriters, there had to be an element of trust, along with a good track record on the brokers part.

This was linked to an other important change in emphasis in that clients were seeking specialist advice which allowed them to minimize and eliminate risk. To provide such expertise, internationally Stenhouse employ about 50 specialist engineers with insurance training to advise and monitor client projects.

"Although big corporations insure against risks, without exception they don't want to have to make claims. They prefer to try to eliminate risks, and specialist advice can help in this, and reduce premiums accordingly." Mr Bob Harrison, the managing director of Stenhouse Bankorp, said that South Africa does have a high level of claims when compared to some other countries, but this reflected natural phenomena such as droughts and floods which inevitably affected projects outside engineering contracts.

Nevertheless, rates on large industrial risks had been "very low" because of South Africa's extremely competitive market. Low premium rates about which industry leaders have expressed increasing concern, reflected the soft market internationally, Mr Devine said.

The situation had come about through sectors of the insurance industry aiming for premium volume and cash flow, but a greater realism was now returning to the market. Underwriters were more cautious, and re-insurance treaties were becoming difficult to negotiate, because underwriters had "had their fingers burnt."

Also evolving with the corporate market was the nature of claims. One of the fastest growing areas of claims, Mr Devine said, was that resulting from computer frauds.

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URG. — has increased profit this year by 34 percent from the comparable of 1982. dividend increased to 25c a share for the first quarterly earnings to end December. A share reflect an platinum by Impala which is expected to be sold at that time and in the early annual report.

Mr Ted Anstis, president of Bankorp, which is expected to be sold at that time and in the early annual report.

The principal takeaway came from the automobile industry in the United States and Japan and from the jewellery trade in Japan.

A result Impala's consolidated pre-tax profit for the six months jumped 60 percent to R137.8m (1982 R86.2m).

Impala continues to refuse to publish turnover figures unlike Rustenburg Platinum which recently changed its accounting policies towards fuller disclosure.

Closing gold prices
(In $ an ounce)

LONDON: 376.75 - 377.25
Fixing am: 377.50
Liberty Life details terms of rights issue

Own Correspondent

JOHANNESBURG.—Liberty Life Association is offering ordinary and convertible preference shareholders 25 new ordinary shares at R50 a share for every 100 ordinary or convertible preference shares held on March 2, 1984.

Terms of the rights issue, originally announced on February 2, were released last night.

The issue involving 3,042,686 new R1 shares will raise R152.2m. This will effectively increase the company’s capital and reserves from R240m to R392.2m. Liberty Holdings will not be following all its rights. The major portion of the approximately 2m new shares to which it will be entitled will be placed at the issue price with institutional shareholders in South Africa and in the UK.

Resources

The balance of the shares which it will take up will be financed from Liberty Holdings’ own resources. This will reduce Liberty Holdings’ stake in Liberty Life from 78 percent to 63 percent, assuming full conversion of the convertible prefs and not taking into account any shares which might accrue from the underwriting which is being done by Liberty Holdings and Standard Merchant Bank.

The directors of Liberty Life anticipate that the dividends which the new shares will be entitled to — those for the year ending December 1984 — “will be of the order of five percent” on the issue price, that is at a rate of 25c a share. This is in line with Liberty’s annual dividends which have been increasing at a rate of 20 percent a year.

Mr Donald Gordon, chairman of the Liberty Life and of Liberty Holdings, said last night that there was a twofold purpose in making the issue.

First, financing the vast volume of new business written had become an increasing strain. When the last rights issue was made in 1980 it had been believed that this additional capital would have been sufficient to finance new business written up to 1990. Instead that target had been reached seven years sooner than had been expected.

In 1980 total assets were R1,334 billion. Currently total assets were in excess of R3 billion. At this rate of progress they could reach R10 billion by 1990. The additional capital would put Liberty’s capital base in a very strong position.

The secondary reason — and this was why Liberty Holdings was not taking up all its rights — was to widen the company’s register of shareholders, particularly among institutions here and abroad.

Shares

Records show that Liberty’s shares were very tightly held and that few shares ever came on to the market.

The official announcement says the increased public participation in Liberty Life to the extent of approximately 20 percent, involving “a broad spectrum of South African and United Kingdom institutional investors is more appropriate to the status of Liberty Life as a listed company” on the Johannesburg and London stock exchanges. It will also result in greater marketability in the company’s shares.
Record R3 billion money market shortage likely

By PAUL DOLD
Financial Editor

THE money market shortage is expected to rise to around the R3 billion-mark by the end of the month placing renewed upward pressure on interest rates.

Reflecting the tight conditions, the one-day wholesale rate touched 19,25 percent yesterday with the interbank rate fixed at 19,75 percent.

In the retail market, Good Hope Bank has raised its 365-day notice rate by one percent to 17,5 percent (an additional half a percent is payable to over 60s).

Fixed deposit

The 185 days 15 — 16,5 percent rate has been raised to 16 — 17,5 percent, depending on the amount and 31-day notice accounts from 13 percent to 14 — 16,25 percent.

The 18-month fixed deposit rate is up to 17 percent from 16 percent the 24 months from 15,5 percent to 16,25 percent and 36 months from 15 percent to 15,5 percent.

Rates on special savings accounts have been increased as well with the top rate at 16,75 percent (15,5 percent) on amounts of R20 000 to R25 000.

The record money market month-end shortage will reflect the seasonal mining house tax payments of over R1 billion plus the current shortage of around R2 billion.

The R2 billion shortage is believed to consist of mainly trade payments, disinvestment and equity sales.

However, the recent weakening of the dollar is expected to lead to an inflow. But a major reversal of the trend will hinge on a higher gold price.

The market is likely to remain tight until after the Budget in March when government spending will ease the shortage.

But with overall rates so high, investors are not going fixed, preferring to remain on call.

Although the BA rate is expected to move higher, market analysts do not believe prime will rise again. The consensus is that prime has peaked and that the Reserve Bank will provide generous assistance at the month-end to stave off another rise in prime.

In the market there is a strong demand for paper with little selling. There is a firm demand for paper such as non-liquids which carry a higher rate. The market is anticipating a tight Budget with the bill rate rising to the 16,5 percent level against the current 15,35 percent.

Demand

There is a growing view that gilt rates have peaked with the 11,5 RSA showing the trend moving down some 60 points from the 14,30 mark.

The long-end of the market will probably again lead the short down.

There has been fair institutional demand but the houses have certainly not been rushing into the market.

Investors should confine buying to RSA’s and the 11,5 which is highly marketable could prove attractive.

The next issue from the primary market is the Umgeni Water Board. The issue has been reduced to R7m and rates are due to be announced next week.

Transkei raises sales tax to 7%

UMTATA — Transkei will increase sales tax to seven percent from six percent effective March 1, Transkei Finance Minister, Mr. Sidney Qaba, said.

He said an increase in unemployment had resulted in a marked decline in tax revenue. — Reuter
1983

at showed $500m surplus during 1983
SA Eagle profits soar

--- dividend increased 20%

Own Correspondent

JOHANNESBURG. — Substantial growth in investment income and an improved underwriting surplus combined to push up SA Eagle Insurance's profit 40 percent to R15,033m for the 12 months to December 31.

On the strength of the performance, which compares with 1982 profit of R10,796m, total dividends have been increased 20 percent to 60c from 50c previously. Retentions also rose and dividend cover increased from 1.8 times to 2.1.

Earnings a share weighed in at 125.3c compared with 89.8c previously.

The improvement in bottom-line earnings follows the promising interim results when taxed earnings of R6,978m (R4,946m) were reported.

Performance

SA Eagle's managing director, Mr Fred Haslett, said yesterday that because of its conservative approach to new business, coupled with a record investment performance, the group had come through a difficult trading period with "flying colours".

A spokesman said SA Eagle had a policy of going for profitability rather than growth in business. "We have taken amounts that we can cope with," he added.

Gross premiums written (including MVA) were up by a modest 8.8 percent to R18,308m (R16,850m) and industry sources say that this growth rate will possibly be a lot lower than other short-term insurers.

A large growth in the volume of new short-term insurance industry business has been in group schemes — an area Eagle has shied away from — and the group has also, for example, tended to keep away from large industrial risks where rates are still soft.

After 1981's R3.376m underwriting deficit, Eagle took steps to correct underwriting results, even at the cost of market share, and in 1982 it posted an underwriting surplus of R1,022m.

Surplus

The 1983 underwriting surplus of R3.53m indicates that the corrective measures have finally paid dividends, although management remains concerned that "unhealthy competition" is still being experienced for the large industrial and commercial risks.

Mr Haslett said Eagle's underwriting policy over the past few years was conservative, enabling it to produce what was obviously better-than-average underwriting profits.

The other major factor behind the earnings boost was the 31 percent rise in investment income to R14,002m compared with R14,219m.

Factors boosting the investment income included higher interest rates and a R9m Anglo American payment in the second half of 1982 for Eagle's shares in African Eagle Life Assurance.

Mr Haslett said Eagle's substantial investment income acted as a strong buffer against the exigencies of the market.

"Generally speaking 1983 was not a good year for the market and heavy losses were sustained from natural disasters (hail and flood) and from a few large industrial fires."

Losses

Mr Haslett said the vast majority of these losses were borne by the reinsurance market, which had extremely adverse results for the third year running.

He said, "There must come a time of reckoning when the international insurance market comes to the conclusion that it has subsidized South Africa long enough and both insured and insurer will face the frustration of not being able to obtain or provide the cover required."

He added that 1984 appeared to be following a similar pattern as cyclone "Domoina" had caused severe damage to the eastern part of the country, showing that natural disasters in South Africa were a regular occurrence and not the isolated event they were once thought to be.

The only solution to this problem was a return to "sensible" underwriting — higher rates to compensate for possible claims — and the elimination of unhealthy competition by domestic short-term companies for the larger accounts.

Comment: At yesterday's closing price of R60c SA Eagle yields seven percent on dividends — above the insurance sector historic average of 4.1 percent and 14.6 percent on earnings.

Growth rate

Mr Haslett at the half-year stage indicated that he thought the second half would see a reduction in the growth rate in investments due to economic conditions. This did not occur, but the prediction may have dampened market expectations and thus coupled with claims from severe hail and storm damage in Natal in the last quarter, is probably responsible for the current share rating.

The 1983 results — together with the higher dividends — could trigger more interest in the stock and a favourable re-rating.
Protea doubles profits — raises dividend 33%

By PAUL DOLD, Financial Editor

PROTEA ASSURANCE boomed in the past year, more than doubling pre-tax profits and the dividend is being lifted from 12c to 16c — the first increase in four years.

The profit surge followed an underwriting turnaround of R2 177 000 after an underwriting loss of R2.6m in 1982.

Consolidated profits were R4 020 159 as against R1 843 729 and net profits R3 205 199 (R1 803 729).

The improvement is due to not only the general improvement in the market but from selective underwriting, impressive growth in investment income and improved productivity.

The managing director, Mr Tony Crank, says the group has made considerable progress in increasing productivity at all levels.

This coupled with improved underwriting has clearly been a key area in Protea's advance. Gross premium income moved up from R50.7m to R57.3m with investment income breaching the R4m mark for the first time. Profit contributions from the Marine and Life funds remain satisfactory.

The chairman, Mr C L Walton, however warns that the problems of overcapacity and rising overheads during the recession are still affecting the industry as a whole and competition remains intense.

Dividend

The final dividend has been increased from 8.5c to 12.5c making a total of 16c (12c) for the year.

The share price has risen from around 235c to the 360c mark this year but given the latest dividend and indications that the group should be able to benefit from improvements in the insurance market, the share should harden further.
Liberty Life Insurance

Assets to R5.4-bn
Rand closes above $0.83

Report
Insurance monitor rejected

Staff Reporter
THE Life Offices Association has rejected calls for a permanent insurance industry watchdog.

In a statement issued yesterday the LOA's chairman, Mr F J Davin, said the management committee of the LOA had decided to put off the appointment of an ombudsman, but would "reconsider the matter once greater use of existing official channels for complaint has been made by policyholders with problems."

The decision by the 11-man management committee, taken at its quarterly meeting in Cape Town last week, comes after a media initiative launched by Cape Times consumer reporter Bob Molloy, who made available R5 000 (his prize after being adjudged a category winner in last year's Checkers Consumer Journalism awards and taken up by newspapers countrywide. The call by Mr Molloy came 10 years after the Old Mutual chairman, Dr J G van der Horst, made a similar plea in his outgoing LOA presidential address.

'Not indifferent'

In his statement Mr Davin said the LOA was "not indifferent to the idea of an ombudsman", an issue previously considered by the management committee.

"Several of our member offices actively support the idea. We are also not unaware of the public relations benefits to the industry which could arise from the appointment of such an individual in South Africa.

"However, in considering the practical applications of such an appointment locally, it was the view of the majority of the committee that such use was not being made by the public of channels open for bringing grievances that may have arisen to the attention of the life-insurance industry for solution."

Two channels

Mr Davin outlined the channels of complaint available including the Co-ordinating Consumer Council which had expressed a willingness to deal with life-insurance industry complaints. The LOA was also available as a channel. He noted that policyholders had been satisfied previously after using the LOA in problem solving.

In 1983 the LOA received 28 complaints; most had been satisfactorily dealt with.

Mr Davin called on the media to give greater publicity to the two channels available, adding that in 1983 the LOA spent R40 000 to protect the financial and other interests of policyholders. He was convinced that the industry would provide for the expenditure should it become apparent that an ombudsman was necessary.

Mr Molloy said that those companies which had gone along with the decision were not consumer-oriented. "I am sure consumers will know whom to place their insurance. If not, Watchdog will show the way with a weekly list."
Mr S P Barnard asked the Minister of Foreign Affairs:

1. Whether the Government has made an amount of money available to the Development Bank of Southern Africa, if so, what amount;

2. Whether any of the money was made available on an interest free basis, if so, (a) what amount and (b) why;

3. Whether the Government intends to invest capital in this bank, if so, what initial amount is to be so invested;

4. Whether the four independent Black states have invested or are going to invest amounts in this bank, if so, what amount in each case;

5. Who or what body bears the responsibility for the (a) capital and (b) transactions of this bank?

The MINISTER OF FOREIGN AFFAIRS:

1. Yes. R16.8 million as share capital and R28.5 million as a contribution to the development fund.

2. Yes

(a) R5.3 million.

(b) There is no interest payable on the share capital. An amount of R28.5 million was transferred to the Development Bank on 1 February 1984 to put the Bank in a position to finance certain development projects in the AIBVC states during the 1984/85 financial year which were taken over from the Department of Foreign Affairs. An amount of R38,000 million will be transferred to the Bank on 1 March 1984 for the same purpose.

3. Yes. An amount of R16.8 million will be taken up as share capital in the Development Bank for an initial period of five years. Of this amount R16.8 million has already been taken up.

4. Yes. Transfer R10,000 million of which R1,000 million has already been taken up.

Bophutatswana: R10,000 million of which R1,000 million has already been taken up.

Venda: R5,000 million of which R500 million has already been taken up.

Ciskei: R7,000 million of which R700 million has already been taken up.

The Development Bank has thus an authorized share capital of R20.0 million of which R20.0 million has already been taken up.

5. (a) The shareholders, that is to say the AIBVC countries.

(b) The Development Bank, which is an international organization and a corporate body, was established by way of an international agreement and is in the hands of a Board responsible to its shareholders.
Minister of Agriculture:

What amount was allocated by the Agricultural Credit Board in the latest specified year for which figures are available, in respect of (a) the electrification of houses for, (b) the provision of water for domestic consumption by, and (c) any other specified services in respect of, farm employees?

The MINISTER OF AGRICULTURE:

1 January 1983 to 31 December 1983

(a) R167 334.

(b) R343 462.

(c) R5 313 134 (Includes additions to houses as well as the erection of ablution facilities).

Land and Agricultural Bank

423. Mr J H VAN DER MERWE asked the Minister of Finance:

(a) How many loans were granted by the Land and Agricultural Bank to farmers in each electoral division of the Republic in each of the latest specified three years for which figures are available, (b) how many farmers per electoral division were involved in each of these years and (c) what average amount in loans was granted per farmer in each electoral division in each of these years?

The MINISTER OF FINANCE:

The required figures are not readily available in view of the fact that the Land Bank’s computerized system in regard to its statistical records is programmed on an agro-economic basis.

It will take considerable time, possibly even months, to obtain the necessary information by hand, which will seriously disrupt the administration of the Land Bank’s drought relief programme.
12,628 houses sold under 99-year leasehold

Political Staff

HOUSE OF ASSEMBLY

The Minister of Co-operative Housing and Urban Development, Mr. Koornhof, said yesterday that 1,138 houses had been sold under the 99-year leasehold scheme in three missionary areas — one in the Drakenberg area, another in the Natal area, and the third in the Port Natal area, which serves as the port for the Kingdom of Tonga.

It is noteworthy that the scheme has now been extended to the Port Natal area, Dr. Koornhof said.

Replying to a question by Mr. Gwili, the Minister of Co-operative Housing and Urban Development replied that the scheme had been extended to the Port Natal area and that 1,138 houses had been sold under the scheme. Mr. Gwili asked Dr. Koornhof whether the scheme had been extended to the Port Natal area and how many houses had been sold under the scheme. Dr. Koornhof said that the scheme had been extended to the Port Natal area and that 1,138 houses had been sold under the scheme.

The Minister of Co-operative Housing and Urban Development, Mr. Koornhof, said yesterday that 1,138 houses had been sold under the 99-year leasehold scheme in three missionary areas — one in the Drakenberg area, another in the Natal area, and the third in the Port Natal area, which serves as the port for the Kingdom of Tonga.
Beer tax rise slated as ‘discrimination’

By DAVID CAPEL

SOUTH AFRICAN BREWERS are furious angrily on Mr. Owen Horwood’s 2,6c/duty increase on beer, calling it “blatant discrimination against the working man”.

The managing director of SAB’s beer division, Mr. Peter Lloyd, said in a strongly worded statement that instead of taxing all consumers of alcohol to make a contribution the Minister had picked on the lower income groups to pay for the pleasure of the privileged.

“Should have applied equal treatment and spread the burden around,” Mr. Lloyd said. “I am now paying a higher rate of excise than brandy, and excise tax represents 27% of the wholesale price of beer.”

Lloyd said each year SAB kept its prices low in order to compete through better productivity. The selectors tax was merely a tax on production.

He said selectively placing additional excise on beer, and not on the stronger drinks of spirits and wine, was “the most blatant form of discrimination against the working man.”

The beer drinkers of South Africa will get a good idea of how unequally they are being treated by the government when they realize that, to December, they paid R28-million in excise duties on beer, while the excise tax and wine drinkers paid nothing,” Mr. Lloyd said.

“The increase in wholesale price represents E3.08c for 75cl and 65c for 375ml. The price at retail levels is decided by the licensed liquor retailers,” Mr. Lloyd said.

Mr. Trevor Pearman, of the Rebel bottle store chain, said the margin in the retail trade were not large. If SAB put up the price, it would have to be passed on to the consumer.

Mr. Pearman said his company had laid in stock and would sell this at the old price. It was difficult to say how long these stocks would last.

Mr. John Hoope, of Solly Krakers, said beer comprised only 30% of his store’s sales mix and the company had been stock piling. Beer was a fast moving commodity but the company would hold down prices for as long as stocks lasted.

Mr. Hoope said people in the lower income bracket were more affected. As a retailer, he was happy a big chunk of the business would remain at an affordable level and not be affected by the tax.

Dr. Ernst Uken, executive director of the Federated Hotel and Liquor Association (Fedhan), said price structures for beer were decentralized and he could therefore not say what increases would be passed on to the consumer.

Dr. Uken said he was “amazed” to see the duty raised on beer and not other beverages.

The 2.4c increase would have an adverse effect on the retail industry.

Issue of joint tax is shelved again

By ETHEL HAZELHURST

Once again the question of separate taxation for coloured couples has been brought before the Minister of Finance, Mr. Owen Horwood.

In his Budget speech in the House of Assembly yesterday, Mr. Horwood said “It is a complex question, contrary to popular belief, not an easy one to reconcile.”

The Standing Committee on Taxation was presently engaged in a “major exercise” to re-examine the advisability or otherwise of separate taxation and was hoping to receive a report on this early next year.

In the meantime, Mr. Horwood warned against any premature expectations that the fact of such an inquiry necessarily means a change in the present system will be said.

The matter should be dealt with “entirely on its merits”.

Mr. Sharon Lain, national chairman for taxation for the South African Federation of Business and Professional Women, said she had found it encouraging that the question of separate taxation had not been rejected, but was directed that it’s still under review and “believe it would be more equitable to introduce levied taxation on a national board.”

Mr. Kate Josell, assistant director of the graduate studies at the University of Cape Town and a member of the Tax Commission, expressed disappointment that there had been no increase in the wife’s tax-free allowance “to take note of full income.”

The allowance, however, “deals only with some of the fundamental problems of joint taxation.”

She was not able to estimate when the commission would produce a report. She said Mr. Val Mickhead, corporate affairs director of a major oil company, advised that the taxation of a married couple meant any refund went to the husband and it was not necessary for a woman to know what her husband earned. Though personally a little upset at the prospect of separate taxation, she concluded the question was “complicated.”

She said it has to come from somewhere. And at lower levels of income, taxes would be more and not less if separate taxation was introduced.”

She felt giving preference to the option of being taxed jointly or separately would not be practical.

Prices up as debts fly high

Pretoria Bureau

It has been a good year for consumers so far, and yesterday the Budget has done nothing to dispel the optimism.

So far this year Government has managed to keep the price of bread, sugar and other foods within the budget. Within the past four weeks a huge increase of about 3% is expected in the price of milk which will affect the prices of meat, dairy products and vegetables.

The price of milk is also considered crucial to rise by at least 4c/l.

Still ahead are increases in the price of coal and diesel into the year. The price of coal before the beginning of another hike in GST.

Another bread price increase was announced this week. The price of bread increased by 1c this week and this is the third increase this year.

Some economists have pointed out that the rise in price increases will keep the inflation rate - now officially at 10% - substantially above in the rest of the year.

The increases, together with higher electricity and petrol prices, would make all South Africans poorer, it was stated.

Rise in GST expected this year

Pretoria Bureau

GST exemptions would be announced later this year when GST was again increased, according to Pretoriana sources.

In his Budget speech yesterday, the Minister of Finance, Mr. Owen Horwood, said he had instructed the standing committee on taxation to investigate the desirability for a number of basic foods, or all foods, to be excluded from GST or be taxed at a lower rate.

Economists yesterday warned that because of the “virtual impossibility” of the Government restraining its increased spending during the new financial year to 11.7% a GST hike later in the year would almost certain.

Sources pointed out that ever since GST was introduced in the late seventies trade unions had repeatedly asked the Minister to abolish GST on basic foods and other essentials of life.

The FPP, too, has repeatedly demanded that the tax be removed from essentials of life.

Chamber applauds GST exemption probe

Pretoria Bureau

The South African Federated Chamber of Industries has applauded the request for a GST exemption probe, saying it had been no increase in the Chamber’s investigations into exemptions from the tax.

But this assessment would depend on whether the Government ever targeted its targets during the year.

The Chamber welcomed the commitment to more effective control over Government spending and the Consumer’s serious consideration of a zero based budgetary approach.

It is clear that monetary policy would continue to carry the highest burden in the fight against inflation.

The FCI welcomed the Government’s commitment to a uniform tax system and readiness by all taxpayers, which it hoped would be applied effectively also to the fringe benefits.

Mr. Horwood said it is necessary to eliminate abuses of the tax system, blacking out the life system and the investment allowances meant that those elements which helped to alleviate the effects of inflation will be removed from the company tax system.”
Pretoria Bureau

"MISTS and tax explained yesterday the would have a restriction on the economy, and warned that there was no increase in general tax rates, fiscal policy to see to it that most as paid more.

Fat Cats’ will now feel the pinch — economist

Fiscal drag inflation and outdated tax tables would see to it that, in fact, many taxpayers would pay more.

However, the most productive salary earner would not be in a worse position as he was already paying maximum taxation, Mr Divaris said.

On the introduction of fringe benefit taxation in September, Mr Divaris said the tax would be a "dump squib." "In my view the measure will have more concessions than penalties, and I will be surprised if the tax brings in anything like the Minister’s forecast of R50million."

The chief economist of the Economic Research Bureau at the University of Stellenbosch, Mr Attie de Vries, said discounting the fact that GST had been raised two months ago from 6% to 7%, the individual taxpayer had got off lightly.

He doubted whether the Government could stick to the low rate of increase of 11.7% in State expenditure. And if it did not, then further tax increases during the year were likely — probably another increase in GST.

The bureau felt, however, the higher company tax and increased excise duties would have a negative dampening effect on the economy.

"We must expect the slight upturn in the economy noticed in the last quarter of last year will be cancelled out, and the curve will move downwards."

He agreed that fiscal drag would mean that a large percentage of individual taxpayers would pay more.

Barclays Bank chief economist, Dr Johan Cloete, said the Budget would have a restrictive impact on the economy because of the company tax increases and other tax impositions.

He doubted too, whether the Government could keep its expenditure down to only an 11.7% increase over last year’s figure.

No harm seen in cuts to SWA

By TONY WEAVER

WINDHOEK. — The announced cut in budgetary aid to South Africa does not worry the SWA Secretary for Finance, Dr Johan Jones.

Mr Owen Horwood’s statement that direct budgetary aid to South Africa would be cut administratively by R30-million from the original printed estimate of R364-million "does not upset me at all," Dr Jones said yesterday.

"This is in line with the noises we have been hearing from the Prime Minister and others about a general tightening of belts, and in any case, the original figure was merely a rough estimate," Dr Jones said.

Professor Wolfgang Thomas, professor of economics at the University of the Western Cape, and a top expert on the economy of the territory, commented that Mr Horwood’s announcement said very little about South Africa’s intentions in SWA.

"On a political level, he is also trying to signal to the world that this is a visible sign that South Africa is cutting back its influence in Namibia," he said.

The head of the Institute of International Affairs, Professor John Barratt, said it came as no surprise.

"The Prime Minister warned in a speech of the reduction last year, and I would think that the reduction has been very carefully worked out," he said.

Prof Barratt added that the announcement was also a warning that South Africa would not go on subsidising the territory on its own. It signalled pressure on parties involved for greater movement in the SWA issue.

"But it is definitely not designed to do any damage to the territory," he added.
SA 29th among most creditworthy nations

NEW YORK. — It looks as if the battered world financial system is coming out of a critical stage, says an American business magazine.

"The hair-raising period of international credit free-fall may be coming to an end," Institutional Investor magazine says in an analysis of 60 nations' creditworthiness as rated by 100 international banks.

Countries such as Poland, Brazil, Mexico and the Philippines have run into financial difficulties and had to reschedule their international loans in the last few years. "It now appears that something akin to a wary calm has descended over the international lending market," says the magazine.

In its March edition the financial monthly says: "Although it is probably too soon to say that the trend of ever-worsening sovereign creditworthiness has bottomed out, the results of this magazine's latest credit survey show that the rate of decline has slowed noticeably."

The banks ranked the US the most creditworthy nation in the world with a score of 96 on a scale of 0 to 100 and North Korea the least creditworthy at 36. Switzerland, Japan, West Germany, and the UK took second, third and fifth place.

South Africa, at 57.3, was rated the most creditworthy African nation, but only 29th in the world.

The average rating was 30.7 — down by one point from the previous survey in September 1983 and down 2.2 from the March 1982 survey.

"The one-point decline since September 1982 is the lowest six-month fall recorded since this survey was introduced four-and-a-half years ago and a far cry from the 5-point slump between March 1981 and March 1982," says the magazine.

Malaysia and Hong Kong, ranked among the top 20 last September, dropped to 21st and 22nd place.

Taiwan and Denmark moved up into the first 20. Italy, the Soviet Union, Qatar and Algeria improved their ratings slightly. India, Bulgaria and Turkey made modest improvements. The United Arab Emirates and South Korea declined.

What is perhaps most symptomatic of an improved world financial climate is that Mexico, one of the world's most troubled debtors, actually posted an improved rating, as well as a 10-place jump in its world ranking.

In Africa, where the average country rating went down 1.1 points between September and March, Institutional Investor says: "The region remains stuck at the end of the recovery chain. Until an economic upturn comes to Europe, its primary export market, even the more bankable countries like Gabon and Cameroon will continue to feel the pinch."

"Africa's biggest loser was Morocco, which fell 4.1 points. Its financial situation has been hurt by weakened export income and the weight of earlier borrowing ... to finance the war in the Sahara."

"Nigeria ran a close second to Morocco with a decline of 3.9 points, but its 10.1-point drop over the last year leads all other African countries. The continuing slide in lender confidence reflects Nigeria's failure to react to falling prices for oil, which accounts for 90% of Nigeria's exports."

"The Ivory Coast, which dropped 2.5 points, is another African nation that has felt the effects of depressed world export markets. It faced not only lower prices for its coffee and cocoa, but also a drought."

"The best economic news in Africa had been coming out of Gabon and Cameroon — until recently. Both are oil producers that are also diversified agriculturally ... they were simply caught up in the global economic pessimism."

"Libya's 2.1-point drop is attributed to falling oil prices and its aggressive involvement in the volatile Middle East political situation. Malawi went through a small rescheduling. Kenya suffered from weak prices on its commodities exports. Zimbabwe is still disrupted by civil and tribal disorders."

"In spite of the plethora of markdowns, however, many bankers insist they are basically bullish on Africa. Bankers say these nations' attitudes toward commercial banking relationships are generally more responsible than those in other parts of the developing world." The top 10 countries in Institutional Investor's survey: 1 — United States; 2 — Switzerland; 3 — Japan; 4 — West Germany; 5 — Britain; 6 — Canada; 7 — Norway; 8 — Netherlands; 9 — Australia; 10 — Austria.
Colonial's premium income leaps

"BY PAUL BOLD
Financial Editor

COLONIAL Mutual's premium income lifted 35% to R43.5m in 1983 reflecting aggressive marketing and the growing pensions division, the chairman, Mr H W Middelmann, announced yesterday.

Colonial Mutual have recently stepped up their marketing to increase market share and the efforts have been rewarded by a 30% rise in pensions premiums and 24% rise in individual business.

The figures underscore that the life industry is as yet not feeling much downward impetus from the recession.

The managing director, Mr Fanie Jacobs, is confident the group can maintain this growth rate and the higher volume will lead to lower expense ratios.

Bonuses paid this year totalled R34.4m as against R34.4m with payments to policyholders rising by nearly 30% to some R22m. Policyholders' funds were up 17% to R27.5m.

The annual report shows that Colonial invested heavily in gilt's during the year, with this holding rising from a book value of R35.5m to R76m.

The state in semis, was cut however from R5m to R23.7m.

Colonial's strategy was to switch out of semis and into RSAs, taking the view that the semis' rates could harden. Colonial is actively managing its gilt's portfolio.

Equities rose from R25.6m to R51m with short-term deposits easing from R23m to R23.4m. Property holdings rose from R42.4m to R53.3m. Investment income for the year rose from R30.8m to R31.9m.

As at the end of December the portfolio had a market value of R227.6m (R231m book value) with shares at R39m showing a healthy increase on the R31m book value.

Government securities, however, were down to R56.5m from R67.5m from the book value of R76m. Property had advanced strongly from R33m book value to R78m.

Colonial's deputy general manager, investments, Mr D E Cleland, says the group's investment strategy has become more defensive in view of the high market level of industrials as well as the gold sector's performance, despite a weak bullion price.

Overall a larger proportion of assets has been channelled into short-term money market deposits.
Shortage of funds hits residential property market

JOHANNESBURG — The reduction in the availability of building society funds, the high interest rates and the slowdown in the rate of salary increases are being felt in the residential property market, says the March edition of the Property Economist.

It says plans passed in the last quarter of 1983 clearly indicated a leveling out.

Building society liquidity declined to its lowest level in 10 months in September last year. In turn, the shortage of funds reduced the effective demand for housing.

Conversely, the liquidity of commercial banks soared in September 1983 to R1 301-million, against R38-million in June and R455-million in September 1982.

BANK FUNDS

This inflow of bank funds resulted from the considerable increase in the Reserve Bank’s credit to the private sector.

While the rise in interest rates offered by societies for savings deposits helped to reduce the shortfall, building societies were still in deficit in the third quarter of 1983.

The situation was aggravated by the minimal level of gross domestic savings, particularly personal savings.

The higher overall interest rate pattern, which led to a further increase in mortgage rates in February this year, has pushed mortgage repayments out of the reach of many prospective home buyers.

“However, a characteristic of the present recession is that in spite of the high cost of credit, there has been hardly any change in the level of expenditure on durable and semi-durable goods.

“A large slice of this spending is financed by credit, and with HP and leasing rates of 22 percent a year, monthly instalments are taking big bites out of pay packets.

“If people are spending, they are not saving.”

AGGRAVATED

The tight situation in the domestic property market is further aggravated by the substantial increase in the number of houses completed last year.

Local authorities approved plans for houses valued at a record R614-million last August. But by December the monthly value of houses planned had dropped to R390-million.

Nevertheless, the total value of houses planned was 33 percent higher in 1983 than the year before and most of these were residential plans.

The Property Economist foresees that the weight of funds going into fixed-interest securities will begin building a liquidity cushion by the end of the year.

This should make investment and development projects more viable in late 1984 and through 1985.

Institutions appear to be ignoring the economic cycle and piling up all three investment vehicles — fixed-interest securities, the Johannesburg Stock Exchange and the non-residential property markets.

It would seem that institutions either see the economy reviving fairly quickly or have limited local alternative investment avenues open to them.

If the latter is the case, and institutions are keeping the JSE and the property market unnaturally active, the day of reckoning must come for policy holders and pension fund contributors, the Property Economist says. — Sapa.
LONDON — Barclays Bank's policy is to stay in South Africa and through its presence and example to work for peaceful change.

This was the bank's comment today following British Labour Party leader Mr Neil Kinnock's attack on the bank's involvement in South Africa and his call for it to withdraw.

A Barclays spokesman said the bank would not respond specifically to Mr Kinnock's statement, but Barclays had always stated its "abhorrence for the evil system of apartheid".

"Example"

He added: "We too have our views, reached after much careful consideration. Our policy is to stay in South Africa and, through our presence and example, work for peaceful change."

Commenting on a report by the "Barclays Shadow Board", of which Mr Kinnock is a member, the spokesman said:

"The Shadow report is published by one of the anti-apartheid pressure groups which has assembled material to support its disinvestment viewpoint.

"Little or nothing is said of Barclays' record of help for black businessmen, its employment and trading practices and its other work among South Africa's blacks, for which it has long achieved recognition."
Insurance chiefs hit at ‘unhealthy’ competition

Old Mutual appointments are, from left: Mr Garth Griffin, assistant general manager (marketing), to the additional newly-created post of assistant general manager (investments); Mr Paul Hugo, formerly pensions marketing manager, to assistant general manager (pensions); and Mr Barry Crookes, formerly valuation actuary, to assistant general manager (individual business actuary).

Wankie lifts profit

JOHANNESBURG. — Zimbabwe coal mining company Wankie Colliery Company returned a distributable profit of R3,8-million in the year to February 29 (R2-million).

Earnings at 9,1 Zimbabwe cents were 32 percent up on last year’s 6,9 cents.

No dividend has been declared.

The directors say that coal sales were up to expectation, except in the case of those to Hwange Power Station which were 352 000 tons (46 percent) below estimate. — Sapa.

Woolworth chain to sell off stores

Argus Foreign Service

LONDON — The Woolworth stores chain, whose tough new management has already improved financial performance, is negotiating to sell 34 stores which are no longer meeting its targets.

If all the sales go through, more than 3,000 jobs will be threatened, according to the Union of Shop Distributive and Allied Workers.

Some stores may be sold for redevelopment for other purposes, but stores sold as going concerns might retain some jobs under new owners.

FEWER THAN 900

Sales of all the stores, which include 12 large ones, would reduce the number of Woolworth outlets to fewer than 900.

Last month, announcing sharply increased group profits for the first full year of trading since Woolworth was acquired by a consortium late in 1982, Mr John Becket, chairman of Woolworth Holdings, said some stores would not meet Woolworth’s new retailing criteria.

Woolworth, still one of the top five British retailers, had about 1,000 outlets at one time.

AS TO BE
Treasury calls for 
R600m loan tenders

By HAROLD FRIDJHON

THE Treasury is calling for tenders for two loans totalling R600m — a six-year maturing in 1990 and a 21-year which will mature in 2005.

The short-term loan which will carry a coupon of 11½ percent is planned to raise R200m with the balance of R400m being allocated to the longer loan which has a coupon of 13 percent.

Tenders will close at 11am tomorrow and the final day for payment will be April 30.

The size of these tender issues is not forbidding. The Treasury is not looking for R600m in new money. Within the space of a month two loans fall due for redemption.

A small five-year loan for R50m, the 1994 7½ percent, matures next Monday April 15 and a three-year, 1994 9½ percent, for R355m is due for redemption on May 15.

This means that the Treasury is raising R215m in new money which is a very modest essay into the market bearing in mind the Treasury’s borrowing requirements this year.

It would seem that the authorities are unwilling to draw too much money out of the private sector at present because of the extreme tightness of current markets.

Indeed because of the lack of liquidity and the knowledge that the institutions are far from being flush with cash, it is an open question at the probable rates outcome of the tenders will be difficult.

Benchmark

Looking at a rate for the 21-year loan is easier than for the short-term. Here one has a reasonable benchmark, the 2003 12½ which is trading around 14.20 percent and the outcome of the tender could be a few points either way of this figure.

In the case of the six-year loan the inverse yield curve makes setting a rate difficult.

Stock with this maturity has been trading around 14.94 percent and a factor which could influence the tender is the attractive discount.

Accepting

No way could the Treasury be made into accepting a rate anywhere near the 17.25 percent which the Land Bank has been called on to pay for its three-year money. Probably the top of the tender range will be about 16.20 percent.

It is most likely that the tenders will be heavily over-subscribed as tenders submit multiple bids with a wide spread to ensure that they will pay the best of all worlds. Allocations should, however, be reasonably close to the rates quoted.

Although the assurance companies and the pension funds have been taking a lot of stock from the market — and from the Reserve Bank and from Escom — in recent months, and although they are said to have allocated funds well into the current year, the long-dated stock should reasonably raise the R400m which is being sought.

This is not, in Government Stock terms, a vast sum of money and although rates are expected to remain high for the rest of the year — unless the price of gold takes off — it can be expected that this loan will be well supported.

The six-year issue is a different kettle of fish. It is an odd maturity. While it will have a certain appeal for short-term insurers it could also have attractions for other institutions particularly as 1990 is not a heavy year for maturities.

It could be regarded as a stock to balance portfolios. The outcome hinges on a rate which is acceptable to the authorities.

The absence of a three-year loan is a little strange.

Requirements

Possibly the Treasury has been influenced by two factors, the reduction of the banks’ liquid asset requirements means that they will require less stock of this category than they needed in the past, and the authorities probably feel that at present the banks are short of surplus liquidity and would not give such a loan any significant support.

Other Government Bonds maturing this year are the three-year 12.75 percent for R417m due on September 1, and three-year 13 percent for R297m due on November 1 and seven-year 9½ percent for R357m due on December 1.
Cusaf pension business hit by take-overs

Own Correspondent

JOHANNESBURG. — A factor in the hectic take-over activity that has characterized the South African investment scene over the last two years, the transfer of pension business after a take-over, adversely affected Commercial Union's (Cusaf) long-term business last year.

Strenuously denied by the major institutions, but too commonly cited by the victims of their actions and by analysts to be inaccurate, the controversial question of pension business as a factor in take-overs is highlighted by Commercial Union's chairman, Mr John Birkinshaw, in his annual report.

**Premium income**

He says, "although we exceeded our target for premium income from new schemes we suffered the loss of two major pension schemes in the first half of 1983 which were moved away from us in consequence of a large company take-over. "Pension schemes of major companies, with their substantial flow of contribution money, represent attractive prizes in take-overs, mounted with the assistance of life insurance companies, and are a factor in the growing concentration of economic power in South Africa." Meanwhile, solutions to the short-term insurance industry's dilemma still seem to be unsustainable, and while reinsurers are turning the screws the absolute rate-cutting war continues.

Results emerging from the December year-end companies indicate an improvement on the underwriting side of the business, particularly in the motor and some crime areas, but industrial fire business remains a problem.

**Sentiments**

Echoing the sentiments of several of his counterparts in other companies, Mr John Birkinshaw, recently re-
Protea Assurance optimistic on outlook — Walton

By PAUL DOLD
Financial Editor

PROTEA ASSURANCE which more than doubled profits in the past year is optimistic on prospects for 1984, the chairman, Mr Cedric Walton, says in his annual report.

Referring to the mergers within the industry, he says that Protea is not apprehensive and sees a bright future for the smaller independent insurer. Protea is involved in both the short-term insurance and life insurance market.

Competition

Last year's spurt in profits was due to the improved results from the fire and accident account where the deficit was slashed from R2,6m to R628,000 and a very satisfactory contribution from the marine and aviation division.

Protea has also been successful in holding costs through higher productivity.

Mr Walton says competition remains intense with the industry plagued by the problems of overcapacity and rising overheads in a recession.

In spite of the downward pressure on rates in the commercial and industrial sector the fire account produced a modest profit. Gross premium income rose by 19 percent to R52,2m.

The motor account was a large contributor to the improved results while marine premium income at R4,791,524 was 5,4 percent down on 1982 in line with the general decline in the industry.

International hull and aviation business is causing general concern in the industry and Protea reports that there has been a deterioration in the loss ratios. Remedial action has been taken with a withdrawal from a large number of hull and aviation treaties.

Bonuses

Protea is continuing to be highly selective in underwriting which could restrict opportunities for premium growth but Mr Walton says the soundness of the policy is borne out by the 1983 results.

The record bonuses have enabled the group's life branches to increase both individual and group new business and substantial growth in the life business is forecast.

Protea has begun direct marketing campaigns. The initial response has been excellent and direct marketing made a valuable contribution to new business in 1983. Protea intends expanding this area in 1984.

Group investment income rose by only five percent due to the funding of the new Fox Street, Johannesburg building and relatively static dividend receipts. Income this year should improve by a minimum of 10 percent.

Turning to the economic outlook, Mr Walton says the strength of the share market is in direct contrast with the recession. But the weak rand has shielded the economy and together with exchange control and a view that gold will benefit from a weaker dollar has encouraged investors to push shares to record levels.

Prospects

"Although the short-term prospects for the economy are not bright, there is much to give encouragement to investors with a longer term perspective — the decline in the rate of inflation to 10 percent, the improved political climate and the continuing official moves towards reliance on market forces within the South African economy."
RSA loans attract R678m

BY HAROLD FRIDJHON

JOHANNESBURG — The Treasury’s effort to raise R600m by means of two tender loans — a six-year and a 21-year — failed by R141m to reach its target.

The total tender attracted R678m but the bulk of the money was directed towards the long-term loan which was oversubscribed by nearly 50 percent, while the short-term loan failed miserably.

The authorities planned to raise R400m on the 21-year loan and a R200m on the six-year bond. The outcome, which was announced yesterday, was that R502m was offered for the long-term loan and only R27m was forthcoming for the other loan and only R38.9m was allocated, presumably because the rates bid were regarded as being too high.

The average rate for the 21-year worked out at 14.61 percent and the market said yesterday that it believed that some tenderers got their stock as high as 14.75 percent — compared with yesterday’s trading rate of 14.52 percent for the 2003 12 1/2 percent.

The average rate for the six-year was 15.51 percent which is a good investment for those who see rates easing next year.

The rates for both bonds were higher than I had expected but I failed to take into account the very bearish mood in the secondary market. Institutional cash is scarce, largely because of the heavy forward buying last year and it would seem that the Treasury will have to accept that it will have to pay dearly for its future issues — unless there is a dramatic turnaround in the gold price and in the balance of payments.

An unofficial reaction in Pretoria was that the outcome of the tender was not really disappoointing and reflects a current disenchantment of short-dated bonds.

One could hardly expect a different reaction once the Treasury had decided to issue a six-year stock. It is an area which is entirely without support in the secondary market with bonds changing in a very desultory manner.

From the Treasury’s point of view, it probably went for 1990 as a redemption year because the maturities that year are relatively low.

From the standpoint of debt management this was the correct policy but the Treasury must reconcile what it wants with what the market wants. It would probably have enjoyed a bigger success with a 10-year loan.

In 1990 total maturities amount to R632m but in 1995 redemptions will be R608m.
Nedbank increases profits — interim dividend up 20%  

By HAROLD FRIEDJON  
JOHANNESBURG. — Nedbank's disclosed profit for the half year to March 1983 is a very creditable R50,377m, an improvement of 13 percent on last year's comparable figure of R44,484m.

The interim dividend has been raised from 17.5c to 21c but part of the 20 percent increase arises from the board's intention to reduce to some extent the disparity between the interim and final dividends.

In the year to March 1983, the half year profit increased by 35.9 percent compared with the previous year's R32,8m but then banking conditions were not as fiercely competitive as they were, particularly in the first quarter of this year when bank margins were squeezed by high borrowing rates and a statutory lending ceiling.

Another factor which affected profitability was the payment of interest on current accounts. Last year, the chief executive, Mr Rob Abrahamsen, said that this would cost Nedbank about R20m a year.

On the other side of the coin, the development of Nedbank's northern hemisphere operation with a branch in New York as well as the older-established London branch must have made a significant contribution to the current figures.

Margin

Historically, however, there is always a big margin between Nedbank's interim and final figures. In the year to September 1983, R44,484m was shown as earnings for the first half and R77,103m in the second half.

Mr Abrahamsen said yesterday that the results were very gratifying and that the capital surplus of R224m gave Nedbank a tremendously strong base from which to expand its business when the economic upswing started.

The capital surplus stood at R98m in March 1983 and rose to R131m last September which means that the bank has been husbanding its resources for the future.

Total assets at the end of the half year amounted to R11,138 billion. This figure is 5.8 percent higher than at September 1983 and an improvement of 23 percent on total assets at the end of March 1983.

Nedbank's aggressive marketing of its services is to some extent reflected in the large growth in advances. In a year, since March 1983, total advances, including bills discounted, jumped by no less than 50 percent from R4,179 billion to R6,261 billion.

Deposits have increased by 29.6 percent to R8,926 billion.

The interim figures suggest that a policy of heavy investment in bonds has been pursued in the past half year.

In the six months to March 1983 the bank's cash investments amounted to just over R1 billion with R980m in bonds.

The current interim shows that cash holdings are down to R655m with bond investments up to R1,595 billion.

In their interim report, the chairman, Dr Frans Cronje, and Mr Abrahamsen said that the demand for credit strengthened in the second half of 1983 as spending and production recovered.

Imports also reflected a revival. The gold price declined and non-gold exports responded "in only a muted way" to the international economic upswing.

The Nedbank group's financial year started with the current account in deficit and the gold and foreign exchange reserves under pressure. With the tightening of monetary policy pressure was put on interest rates.

Pressure

To reduce this pressure the Reserve Bank twice reduced the liquidity asset requirements and also entered into repurchase agreements with the banking system but the pressure on margins continued.

Towards the first half of the current financial year, the growth of lending volumes started to slow, indicating that the economic revival of the second half of 1983 may not be sustained in 1984.

The present uncertain balance of payments and a second year of poor agricultural crops make the start of a new upswing phase in the domestic economy unlikely in the group's current financial year.
Monthly payouts take up 23% of white household incomes

By Michael Menof

Twenty-three percent of the gross monthly household income of white individuals in South Africa is allocated to committed monthly payments, a syndicated research study by 14 major financial institutions has shown.

When field work was completed near the end of 1982, the percentage split of money committed to various types of average monthly payments per household was reported as being:

- Repayments on mortgage bonds, 33 percent — an average of R402.
- Repayments on hire-purchase agreements, 29 percent (R234).
- Repayments on loans, six percent (R52).
- Repayments on credit accounts, three percent (R50).
- Life assurance and company pension premiums, 29 percent (R194).
- Short-term insurance premiums, four percent (R30).
- Non-financial stop orders, three percent (R115).

This data will be collected again during the second stage, from April to June this year, when 250 interviewers will collect data from 3,000 households.

Individuals selected for the sample will be asked to detail all their savings accounts, forms of credit, insurance policies and investments.

Questions will include the type of account held, the name of the institution where it is held and the approximate balance. All information given will be confidential. Nearly 7,000 questionnaires will be processed in eight to 10 weeks.

Fourteen institutions are taking part in the project — Barclays, Standard, Nedbank, Trust, Volkskas, Santam, United, Natal, Allied, Saams-, Old Mutual, Sanlam, Liberty Life and the Post Office.

Each institution seeks answers to questions such as:

- How do my clients compare to those of my competitors?
- Where do I stand in relation to my competitors in the number of people using services in each area of money these people have in their accounts?
- What services must I provide to attract new clients and to whom do I promote specific services?

From the need to have an answer to these questions came the concept of the Index of Financial Institutions (IFI). During 1981, several independent parties discussed the feasibility of a syndicated research study.

A steering committee was formed whose prime task was consolidating the requirements of all participants in the study and monitoring the execution of the programme. It would also provide technical support to the research house selected to execute the project.

The top SA consumer research agency, Market Research Africa (MRA), was appointed. Early in 1982 it carried out a pilot study whose aims included method of recruitment, self-completion questionnaire, sampling and validation.

The recommendation of the study was to sample households in which each adult (16 and older) would complete a questionnaire.

Results could now be reported in terms of households with the advantage that family influences and joint accounts are recognised, as well as at the individual level. The objective of the survey is to establish an annual measurement of personal finances which includes users' demographics — including sex, age, income and area groupings.

In the study's first stage, in August 1982, interviewers visited more than 3,000 white households.

These households were drawn through a probability sampling technique using the MRA household census.

After fieldwork of three months, more than 6,000 people had completed the questionnaires. Further development work was undertaken in the second half of 1983 on sections where previous results could be improved.

The second stage of the study will be between now and June. Any major shifts which may have occurred, such as the percentage of gross monthly income being allocated to mortgage bond repayments, will then be highlighted.

IFI participants will also be in a position to monitor the effects of their marketing and advertising activity.

Dr Ben Moosman, chairman of the IFI steering committee, said financial undertakings in South Africa had steered clear for many years of syndicated research, on the assumption that competitors obtained information without contributing to input.

"However, this argument has been proved invalid by the IFI study now being undertaken. Cooperation is directed towards a common goal, namely the gathering of quality information.

Benefits for the IFI companies include:

- Greater integrated cooperation in the application and use of infrastructure to create an effective data base.
- The integration of manpower to create the best possible opportunity for creative thinking.
- Funds mobilised for an extensive research data base with high-quality in formation.
- Information gathered only once from the public as opposed to different data gatherings on an individual basis.
- Companies taking part collaborate on the cut-off point for mutual participation in research to ensure confidentiality for each company with reference to perceptual thinking, application and interpretation.

Benefits for the public include the development of specific services, such as loans to students and housing funds, as well as action to ensure a better future for pensioners.

MRA managing director Mr Clive Cordey outlined the main problems he and his research team encountered during the development and execution of the initial stages of the study.
S Africans' debt bill skyrockets

Financial Editor

CONFIDENT and optimistic South Africans, who probably have more faith in the future than the industry leaders, have been ruling out a debt relief. They rose R210 million or 45 percent to R657 million from R479 million. This is only a small part of the total that is going to be debt relief.

Figures issued by the Reserve Bank show that the 14 months ended March 31st, 1968, South Africa borrowed for R100 million from their banks and building societies - increasing their total debt by 34 percent. They also incurred an annual additional bill of nearly R200 million.

In the same period, the commercial banks increased their advances and non-liquid investments by R630 million or 50.5 percent to R1804 million.

Figures for the 12 months ended December 31st, 1967, show the biggest increase by far was in loans to individuals. These rose by R674 million or 63.7 percent to R873 million. In contrast, the loans to companies increased by only R374 million or 28.7 percent to R6173 million.

SPENDING SPREE

However, bankers say the sharp increase in overdrafts showed not be taken as an indication that customers have gone on a spending spree at the expense of the banks.

Another part of the increase reflected the move by the banks into housing finance. Barclays, for example, said the increase in housing loans was the result of both to small businesses but secured personally by the proprietor.

Price cut they are seeking

Nevertheless, industry ranks which led this
Mr Colin Adcock, left, managing director of Toyota South Africa, has been re-elected president of the National Association of Automobile Manufacturers of South Africa. Mr Lou Wilking, managing director of General Motors SA, has been elected vice-president.

New chairman

PROFESSOR S J Naudé has been appointed full-time chairman of the Competition Board in the place of Dr D J Mouton, who has retired.

Professor Naudé has been closely associated with the planning and drafting of the Maintenance and Promotion of Competition Act.

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Skyrockets

Anglovaal gold mine earnings little changed

HIGHER gold receipts in rands helped to lift combined pre-tax profit from the four mines in the Anglovaal group in the March quarter to R76,42 million (R63- million).

But a rise in the tax bill to R42,37 million (R31,92 million) reduced after-tax profit, excluding a R1,3 million extraordinary profit for ET Cons, to an almost unchanged R34 million.

Lorraine, which pays no tax, made a profit of R2,3 million compared with a loss of R3 million in the December quarter.

Village lifted pretax income to R383 000 (R273 000) with tax falling to R46 000 (R82 000).

Although pretax profit at Hartbeestfontein rose to R65,3 million (R60,9 million), a higher tax bill reduced this to R27,2 million (R29,5 million).

Net income from ET Consolidated fell to R4,3 million (R4,8 million) and the tax bill was R153 000 compared with a credit for R5 000 in the previous quarter.

Operations were affected by Cyclone Domoina and insurance claims are being prepared.

Pretax profit from antimony producer Consolidated Marchion rose to R4,3 million (R3,2 million) but tax also rose to R1,7 million (R1,5 million).

Net income from zinc and copper producer Prieska rose to R4,7 million (R4,4 million) after a higher tax bill of R5,1 million (R3,7 million).

Net profit from the two gold mines in the Johannesburg Consolidated Investment Group — Randfontein and Western Deep Levels, fell to R63,2 million (R111,5 million) in the March quarter.

Audrey d'Angelo

Gap narrows in manganese talks

Argus Correspondent

TOKYO — A narrowing of the gap on the fiscal 1984 price of imported manganese ore has raised hopes here that contract negotiations with various key suppliers like South Africa can be settled soon.

Japanese ferrello makers have reportedly made a concession by reducing the margin of the price cut they are seeking.

Nevertheless, industry sources note that major manganese ore producers are still seeking a price increase and there is still a gap of about 15 percent between the two sides.

According to the sources, South African suppliers are asking for an increase of about five percent in the fob price.

The position is expected to be clarified this week when talks are to be held here.

Nedbank reports today that 12 months ended March its retail facilities to the public skyrocketed. They rose R2,108 million or 45 percent to R4,179 million.

This is only a small part of the total rise in the public's indebtedness.

Figures issued by the Reserve Bank show that in the 12 months ended February this year South Africans borrowed another R12,000 million from their banks and building societies — increasing their total indebtedness by 24 percent.

They also incurred an annual interest bill of nearly R2,400 million.

In the same period the commercial banks increased their advances and non-liquid discounts by R6,376 million or 50,9 percent to R18,094 million.

Figures for the 12 months ended December showed the biggest increase in the figures for personal loans to individuals. These rose by R76,6 million or 63,7 percent to R126,6 million.

In contrast, loans to companies increased by only R1,376 million or 28,7 percent to R5,279 million.

SPENDING SPREE

However, bankers say the sharp increase in overdrafts should not be taken as an indication that customers have gone on a spending spree at the expense of the banks.

Part of the increase was the result of loans to small businesses and security by the proprietor.

Another part of the increase reflected the move by banks to back housing finance. Barclays Bank, which led in this field, claims that its mortgages for home loans last year totalled more than R500 million.

In addition to the increase in commercial bank loans, building society credit rose 24 percent last year, by R2,500 million to R10,604 million, while credit advanced by the general banks by R1,500 million or 24,5 percent to R9,813 million.
BENEFITS paid to policyholders, pensioners and other beneficiaries by the life insurance industry in South Africa rose to R1 566-million last year.

This exceeded the total income of the industry eight years ago and represents an average payout of R6.25-million every working day.

The Life Offices' Association says the figure was up 30 percent on the amount paid out in the preceding year.

More than R554-million, or 35 percent, of these payments was for death and disability claims.

NEW CAPITAL

In spite of recessionary conditions LOA members were together able to generate more than R3.500-million in the form of new capital for investment — almost R15.6-million every working day — compared with R12.7-million in 1982. This represented the excess of premium and investment income over the benefits paid and total operating expenses.

Premium income from all sources during the year rose to R4 294-million, 24.1 percent more than in 1982.

Investment income rose 23.2 percent to R2 311-million, making the total income R6 605-million (R3 246-million).

ASSET RESERVES

This resulted in the funds held by the industry to meet future liabilities rising 28.7 percent to R23 906-million.

Of these asset reserves, public sector securities, held as prescribed assets, amounted to R9 904-million or 41.3 percent. This sector of assets held by life offices increased by R1 814-million during the year, reflecting the extent to which the industry supports the country's mainly infrastructural needs.

Discretionary investments included R6 127-million in shares and units and R4 235-million in property interests.
Some mining shares lose attraction

By DEREK TOMMEY, Financial Editor

TWO news items today show that some mining shares are no longer the attractive investments they were thought to be.

The Liberty Life group has announced that it is selling its stake in Clydesdale Collieries to Gold Fields of South Africa, and Gencor has announced that it is shutting down its Beisa gold and uranium mine in the Free State.

Liberty Life’s sales of its controlling interest in Clydesdale to Gold Fields seems a sensible move for both parties.

It is seen as a sound protective move by Liberty Life. Selling its major stake in Clydesdale will stop the value of its investments being dragged down if the coal market should weaken and coal share prices drop.

With export coal prices falling, there seems a strong possibility of this happening.

It also a good acquisition for Gold Fields. This group has only a small stake in coal and gaining control of Clydesdale will rectify that shortcoming.

**R146-MILLION**

Gold Fields is paying just over R146-million for control of Clydesdale by offering 50 preference shares at a price of R29 a share for every 100 Clydesdale ordinary shares.

This values Clydesdale shares at R14,50 each.

The preference shares carry a dividend of R2,90 a year and will be automatically converted into Gold Fields shares when Gold ‘Fields’ dividend reaches this amount.

**URANIUM WEAK**

The closure of Beisa should not be a surprise. The mine is predominantly a uranium producer with gold produced as a by-product.

The uranium market is known to have been weak for some time, and in the first nine months of last year the mine had an operating loss of almost R5-million.

As the mine is not eligible for state assistance, and with production costs rising, Gencor’s decision to cut its losses and close down Beisa seems the right decision.

The move should help ease slightly the shortage of skilled labour in the industry and, in depriving suppliers of a customer, may perhaps help stabilise mining costs.

Beisa, a subsidiary of St Helena, was financed mainly out of St Helena’s tax savings, so its closure will not greatly affect shareholders.

The real loser would seem to be the Government, which through tax concessions put up the finance for Beisa and will not get any return on these concessions.
Rand one of weakest currencies

Financial Editor

THE rand has been one of the world's weakest currencies in the past five months. It has dropped by about 5 percent against most others, an analysis of exchange rates shows.

The drop in the rand can be blamed on South Africa's poor foreign earnings, caused by the fall in the gold price.

The Government's decision to increase general sales tax sharply from July 1 and the Reserve Bank's expenditure of R100-million dollars in the foreign exchange markets yesterday are both aimed at stopping a further drop in the rand's value.

SINCE DECEMBER

Comparisons of exchange rates show that since December the rand has fallen:
- 7.9 percent against the Japanese yen.
- 6.36 percent against the United States dollar.
- 6.2 percent against the German mark.
- 6 percent against the Austrian schilling.
- 4.78 percent against the French franc.
- 4.5 percent against the Italian lira.
- 3.2 percent against the British pound.
- 2.8 percent against the Swiss franc.

NO GROWTH

South Africa's difficulties stem from the fact that while its export earnings are showing little or no growth its import bill is steadily rising.

Imports rose R1.48-billion in the first quarter of this year but export earnings increased by only R368-million. This meant the trade surplus for the quarter shrank from about R1.6-billion to R42-million.

With South Africa having to pay overseas a net amount of between R1.2-billion and R1.2-billion a quarter, it is clear that the country is running heavily into debt.

According to Treasury estimates, the balance of payments deficit in the first quarter calculated at an annual rate was around R3-billion. Furthermore, the situation is expected to deteriorate further as the volume of imports continues to pick up.

REPLACE STOCKS

South African businesses have been running down stocks since the start of the recession and are now being forced to replace at least part of these stocks.

No doubt the Government is hoping that a higher gold price is in the offing and by boosting foreign exchange earnings it will enable the country to overcome its financial difficulties.

However, prospects of any worthwhile increase in the gold price seem slight and it seems that the Government will have to rely on more basic measures to improve the balance of payments, such as stimulating other exports and curbing domestic demand.

Curb Spending

The question arises whether the Government has done enough to curb consumer spending.

With new car sales at near-record levels in spite of the recession it would seem that more is needed. However, South Africans have not yet felt the full impact of the higher income tax rates or the higher interest rates.

The cumulative effects of these are expected to result in a serious cash crunch about the middle of next year.

With GST moving to 10 percent, the crunch could well come earlier and strongly curb consumer spending.
Rich history of the trust movement's pioneering years in South Africa

The Cape Times, Wednesday, May 16, 1984

Advising feature

First years and growth of the Syfret House

DURING the early years of the South African Trust Association (about 1880) a young Englishman, Edward John Maynard Syfret, arrived in the Cape. After an initial period spent in Graaff-Reinet he moved to Cape Town and, in 1880, founded the Syfret House.

Syfret's business was built around a range of services from accounting to general trust work, particularly the administration of estates. Within a year of operation he was appointed Official Liquidator of the United Guarantee and Life Assurance Company of London and, through his growing reputation in business, acted as a professional arbitrator in disputes settled out of court.

Father and son

In true Victorian fashion, J E J and his wife Ann had 12 children, eight of whom survived. The eldest, Edward, later became a partner in the business, eventually taking over when his father retired in 1895. A business contact with the House of Bofors was with Edward Syfret, who was with the well-known firm of Bofors, which had a large presence in Cape Town, particularly in the mining sector.

In 1911, the firm of Bofors, which was well known in the mining sector, was assisted by the House of Syfret in the Cape.

Edward John Maynard Syfret

Edward John Maynard Syfret, born in 1848, was a pioneer in the field of banking and insurance in South Africa. He is known for establishing the Syfret House, one of the first banking institutions in the Cape Town area. The Syfret House, founded in 1880, provided services such as accounting and general trust work, and eventually became one of the major financial institutions in the country.

The first premises of the South African Trust Association at 6 Church Square, Cape Town. The association moved from here when it combined its activities with those of the Colonial Orphan Chamber and General Estate and Orphan Chambes.

Trust Company and the Graaff-Reinet Board of Executors.

The Bank of Cape Town was founded in 1882 and the Graaff-Reinet and Investment Trust House was established. It was particularly active in the coastal areas of the Eastern Province and the offshore islands of the Great Barrier Reef. The Bank of Cape Town had the largest number of branches in the country and was a major player in the Cape Town business scene.

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The challenge of a changing South Africa

and subsequent growth

Merger with SA Association
Insurance companies expect to pay R6m

By CHRIS BATEMAN

The swathe of destruction cut across the Western Cape by Tuesday night's storm has insurance assessors reeling under an estimated R6-million damages bill—with hundreds of claims still flooding in.

Many insurance companies, unable to cope with the claims flood, are telling smaller clients to go ahead and repair and "just send us the bill".

Hardest hit are building society insurance companies and Peninsula residents have so far sent in 1,000 claims totalling about R1-million to just one of the bigger building society companies.

Assurance manager of the society, Mr Des Long, said 90 percent of claims had been for wind-damaged roofs, with dozens of broken walls "thrown in for good measure".

Claims from his Stellenbosch branch, which covers most of the Bo-

Land, so far "conservatively" totalling R300,000.

Mr Evan Dallas, branch manager of another large insurance company, said his company's 1,000 claims also represented about R1-million and equalled a month's normal claims. He reported a shortage of builders to cope with repairs and further investigation revealed that many building companies have abandoned flooded construction sites and turned to repairing damaged Peninsula homes.

Mr Geoff Levy, partner in a medium-sized construction business, said, "We've got about 10 jobs going at storm-damaged houses stretching from Bothasig to Hout Bay. The insurers are just telling people to go ahead."

The largest single claim by yesterday was for R50,000 and came from a Gordon's Bay farm trading store devastated on Tuesday by gale-force winds, the contents destroyed by driving rain.

One insurance company manager said he had received about 50 claims from large commercial firms in the Peninsula and appealed to clients to "be patient—we are processing as fast as humanly possible".

According to the manager of the Citrus Co-op at Citrusdal, Mr T F Malherbe, between 10 and 20 percent of their orange crop had been destroyed by gale-force winds and the loss on the export market could be as high as R1.8-million.

Most representatives spoken to agreed that an estimate of R6-million for damages claimed so far was "fairly accurate" while others believed this was a very conservative figure.
Consumers owe more than companies for first time in 80 years

S Africans deep into the red

By BRUCE HOPWOOD
Weekend Argus Reporter

SOUTH Africans are deeper in debt than they have ever been, according to the latest assessment of the 1988 records for debt and insolvency.

The managing director of Dun and Bradstreet, Mr Allan Mankoff, says that in the 80 years the company has kept listings on debt and bankruptcy in South Africa, last year marked the first time that consumer debt outpaced the combined debt of companies.

The situation for the consumer is certainly serious. "Not only has there been a record jump in the number of default judgments heard in the Supreme Court but even more significant is the value involved in these cases. "Judgments for the non-payment of hire purchase installments for consumer goods last year jumped by 83 percent, to R31-million," said Mr Mankoff.

It is the highest figure that the publishers of the authoritative Dun's Gazette have ever recorded for South Africa.

"This year looks just as bleak and each month it gets higher and higher. In January the value of judgments in default cheques rose 110 percent from R1.6-million in January last year to R3.4-million.

"It's very clear that the consumer is living on credit as a way of life as he borrows more to compensate for his lower disposable income which has been cut away by inflation and growing taxes."

Mr Mankoff's comments come at a time when South African consumers are preparing for a shopping spree before the increase in general sales tax on July 1.

"People may look around at their acquisitions — television set, electrical appliances, car — and think they are better off but more and more of them are facing staggering debt."

Kiss the good times goodbye. Page 15.
Barlows raises earnings in spite of higher taxes

JOHANNESBURG.—Thanks to better trading and greater efficiency Barlow Rand’s attributable earnings rose by 19 percent in the six months ended March.

The interim report released yesterday shows that this rise, from R163.1m to R122.7m, was achieved after taking into account R8.1m of additional taxes arising from changes in the basis of taxation announced in the March Budget.

But for the significant impact of the new tax measures, earnings per share would have been up by 17.3 percent. As it was earnings per share were up by 10 percent, from 68.8c to 75.7c.

An unchanged interim dividend of 21c a share was declared, and the chairman, Mr Mike Rosskopf, says it should be possible at least to maintain the dividend for the year at 70c.

Expectations

Trading results for the six months exceeded expectations, he says.

Increased operating profits resulted from better trading and from improved efficiencies in all divisions, but trading conditions were expected to be more difficult in the second half.

“With the decline in the gold price, the cost of the drought and the consequent weakening of the South African balance of payments position together with the recently announced increase in general sales tax, it has become clear that the upturn, which manifested itself in the second half of the previous financial year, cannot be sustained,” he said.

Turnover rose by 20.4 percent to R4.711.8m. There was a 24.5 percent increase in group operating profit before interest.

Group profit before tax showed a 28.9 percent leap to R392.7m. Group profit after tax showed a 26.8 percent gain to R236.2m.

The ratio of current assets to current liabilities has improved from 1:46 at end of September to 1:48 at end of March.

In the same six months, total liabilities to total shareholders funds were reduced from 88 percent to 84 percent, and total borrowings to total shareholders funds were pulled down from 44 percent to 41 percent.

Capex

The chief operations officer, Mr Warren Clewlow, said capital expenditure estimates for the group as a whole now stand at R1.541m.

“This includes mining proposals of R864m, of which the major portion will only be spent in 1988 and onwards. The remainder of the expenditure will take place by the end of 1985 and relates to expansion in the cement and lime division, and in the C.G. Smith group.”

Commenting on the divisional trading performance, Mr Clewlow said the ferro-alloys and stainless steel division had improved its position, with a loss at the half year of R3.9m against a loss of R6.1m for the corresponding period last year.

The export market for ferro-alloys had improved steadily but the local market for stainless steel remained depressed.

The other divisions also improved except the mining division due to lower gold prices being received and the lower margins that have prevailed in the coal and base minerals markets.

Commenting on group-wide activities, Mr Clewlow said: “It has been a busy six months, and the group ended the first half on a confident note.”

“Looking ahead, there must be hesitancy about what will be achieved in the second half of the year. The upturn in the economy of the past nine months has faded, and the further increase in general sales tax announced so soon after the budget will further undermine business confidence.

“The group is fortunate to have further internal potential to improve profitability. This will come in time through rationalization benefits arising from recent acquisitions, the benefits that will arise out of our capital expenditure in recent years, and making better use of non-performing assets.” — Sapa
Anglo American Corp gets further stake in GFSA

Own Correspondent

JOHANNESBURG. — Anglo American Corporation (AAC) has acquired a further 5.6 percent stake in Gold Fields of South Africa (GFSA) in a deal worth more than R120m.

Anglo has accomplished this through a share swap of 8.5m Barlow Rand shares for 4.6m GFSA shares with the Old Mutual. The shares were registered with their new owners on Friday last week.

The deal was revealed yesterday in a circular to GFSA shareholders concerning the group's acquisition of the controlling stake in Clydesdale Collieries.

The document showed that Anglo American Corporation's stake in GFSA had risen to 8.9 percent at May 22 from the 3.5 percent reported in the last AAC annual report.

Implications

It also showed that the Old Mutual no longer had a stake of more than five percent in GFSA. It held six percent at June 30 last year.

The implications of the deal are significant in terms of the shareholdings being built up by the Anglo greater group in GFSA and the Old Mutual in Barlow Rand.

Old Mutual held 29.5 percent of Barlow Rand before the deal which has given it an additional 5.2 percent stake to take its total holding to 34.7 percent.

Anglo American Corporation (AAC) now holds a direct 6.9 percent stake in GFSA, while 49 percent held by companion Anglo American Gold Investment Co (Amgold) has another 10.9 percent which takes the direct group stake in GFSA to 19.8 percent.

Speculation

However, the Anglo group has a significant indirect holding in GFSA through its international arm, Minerals and Resources Corporation (Minorco) which in turn has a large stake in GFSA's controlling company, Consolidated Gold Fields.

There has been repeated speculation over the past few years that Anglo is keen to acquire control of GFSA which manages arguably the finest stable of South Africa's gold mines.

The speculation has concentrated on the activities of Minorco and the possibility that it might launch a takeover bid for Consolidated Gold Fields.

AAC holds a 41 percent stake in Minorco while De Beers Consolidated Mines holds a further 22 percent to give a combined AAC/De Beers controlling interest in Minorco of 63 percent.

Minorco in turn holds 29 percent of Consolidated Gold Fields which is the largest shareholder in GFSA with 48 percent.

Regulations

If Minorco wants to take its stake in Cons Gold to more than 30 percent then, in terms of London Stock Market regulations, it will have to make a takeover offer to all Cons Gold shareholders.

Apart from AAC, Amgold and Cons Gold there are no other holders of a more than five percent stake in GFSA.

An AAC spokesman yesterday denied the acquisition of an additional 5.6 percent stake in GFSA was part of an overall plan to gain control of the company.
Bankovs profit soars to R1.2m

Bankovs has closed its 1983/84 book year with an impressive profit declaration of R1,220,000 compared to R330,000 for the previous financial year.

According to provisional unaudited figures, the profit amounted to R1,600,000 after preference dividends of R220,000 had been paid out and internal reserves had been strengthened.

Assets

The managing director of Bankovs, Mr Ben van der Berg, expressed his satisfaction with the bank's results and said the position of the bank had strengthened markedly in the previous book year.

Bankovs' assets now amounted to R451,5m compared with the R332,3m of the previous year. This represented an increase of 35,1 percent, which Mr Van der Berg described as a sound, conservative gain.

The bank's share of the market in respect of savings was undoubtedly the clearest evidence of Bankovs' dynamic growth in the previous book year.

According to the BA-9 analysis for the period up to and including December 1983, Bankovs' savings had grown from R27m in December 1982 to R35,5m in December 1983.

Savings

He ascribed the growth in savings to a dynamic marketing programme which would be extended in the coming year.

He also said that the agricultural sector, which had always made up a considerable amount of the bank's business, was receiving strong support in the current exceptionally difficult times.

The agricultural sector would continue to occupy a prominent place in the bank's activities and receive the attention which its specialized financial problems required.

EC inflation

Luxembourg. — Inflation in the 12-nation European Community fell to a five-year low of 7.7 percent per year at the end of April, the community's statistics office Eurostat said.
How Trust Bank was ‘saved’

Staff Reporter

BIG-BUSINESS support prevented the Trust Bank from going under a few years ago, the chairman of Sanlam, Mr. Marinus Daling, said yesterday.

He was speaking at a lunchtime seminar at the University of Cape Town on the concentration of economic power in South Africa. The other speaker was Professor Brian Kantor of the university's School of Economics.

"The Trust Bank would not have been here today if Sanlam had not stepped in," Mr. Daling said.

He said the intervention of Sanlam had been necessary, too, because the economy was at a critical point and would have been badly affected by the collapse of the Trust Bank.

Question

The difficult question to answer was "When does size become bad?" The there was greater competition in a market where there were three or four strong groups than in a fragmented market.

A University of Pretoria study had also shown that inflation could not be attributed to concentration of economic power.

Mr. Daling said the process of concentration of economic power would continue in future and would be in the interests of South Africa.

As a member of the Competitions Board, Professor Kantor said, he was concerned with the efficiency and the individual's freedom of choice.

Constitution

The preamble to the new constitution, he said, proclaimed the idea of effective competition which best guaranteed efficiency and choice.

Professor Kantor quoted the South African Transport Services as an example of an entity which did not make for effective competition.

Conglomerates were not yielding the same dividends for investors as they would have received had they invested through a diversified institution.

"They are becoming less valuable than the sum of their parts."
Building society bond rate rise

By NEILL HURFORD and ROBERT GREIG

TWO building societies — one a member of the Big Five — have raised their bond rates by up to 0.75 percent, with other building societies likely to follow. A further increase has been predicted for September.

The new rates for new owners will come into effect on June 1 and for existing home-owners on July 1.

The Allied announced yesterday that it had put up its rates across the board by 0.75 percent and the EP Building Society by 0.5 percent.

In general, Allied borrowers will have to pay an extra 55 cents a month for every R1 000 borrowed.

An Allied spokesman said that on a R20 000 to R40 000 bond, the new bond rate would be 17.5 percent.

Monthly repayments on a R40 000 bond would rise to R662 from R580.

On a R40 000 to R60 000 bond, the bond rate would be 18 percent.

Monthly repayments on a R60 000 bond would rise to R973 from R929.

New loans

Announcing Allied's increase yesterday, Mr Roy Pascoe, the society's managing director, said: "The hardening of investment interest rates in the market has dictated an upward adjustment of the mortgage interest rate. "Allied has taken the decision to raise the mortgage rate by 0.75 percent in all categories, with effect from July 1 on existing loans and June 1 on new loans."

Mr A. Greaves, assistant general manager of EPBS, said the 0.5 percent increase was "a necessity".

"In view of the fact that savings rates are at 16.5 percent and fixed deposits as high as 17.5 percent, it doesn't take much skill to work out that you can't lend money at 16.25 percent," he said.

Even the revised rate of 16.75 percent was only made possible by investments by the society of up to five years' standing, he added.

A spokesman for Barclays, however, said last night that Barclays was unlikely to increase its rate in near future.

"An increase in rates has been under discussion for some time," he said. "But Barclays is not likely to increase them for some time."

Other societies appear to have not yet decided, but Mr Malcolm Mitchell, executive director of the Natal Building Society (NBS), said: "It would make good financial sense if the bond rates were to go up."

However, the NBS had not yet decided when or by how much it would increase its rates, he said.

Gold price

The deputy director of the Stellenbosch-based Bureau for Economic Research, Mr Attie de Vries, believes a further increase will take place in September unless the gold price rises.

The reaction of Mr Hadden Steer, chairman of the Cape Town and Western branch of the Institute of Estate Agents, was that the increases could mean that homeowners would have to reassess the prices of their homes when they decided to sell, and take lower profits.

"It all boils down to affordability, and unfortunately homeowners will just have to be realistic about their profit expectations when selling, to keep properties within reach of buyers," he said.
We'll knock until Pietersburg opens, says bank boss

AFRICAN Bank managing director Moses Maubane has vowed that the bank will press ahead its application to establish a branch in Pietersburg — although his application was turned down this week for the fourth time.

In a heated debate in a Pietersburg Town Council session on Monday, which took up two-thirds of the session, a motion by one councillor calling for the matter to be referred back to the management committee pending Government clarification on future "open" trading areas, was defeated.

Councillor Doep Du Preez said the establishment of the bank would be "a radical departure" from normal practice, because no black business had ever been granted trading rights in the town.

"We have the right to be in Pietersburg," said an angry Mr Maubane. "Without the financial support of blacks, Pietersburg would collapse."

Mr Maubane also told City Press that although African Bank's application has been turned down for the fourth time since 1980, it is not discouraged. "In fact, we are more determined than ever to be in every central business district throughout the country," he said.

"We will knock on Pietersburg's door until they open."

"Our treatment by the Pietersburg town council is unfair — much of the country's wealth is generated by blacks."
Volkskas group raises income — dividends

JOHANNESBURG. — The Volkskas group increased net income by 12.3 percent to R39,043,000, the preliminary profit statement released yesterday shows.

The equivalent figure for the 1983 financial year was R52,587,000. Earnings per share have increased from 172c to 193.8c and the group has declared a 15 percent increased final dividend of 36c a share (31c), bringing the total dividend for the year to 57c (49.5c).

The total assets of the group showed an increase of 15.8 percent and amounted to R7,964,723,000, compared with R6,997,973,000 in the previous financial year.

The disclosed income of the group's banking activities amounted to R47,666,000 (R41,432,000), a rise of 15.5 percent. The directors state that Volkskas Ltd, the commercial banking subsidiary, performed well in spite of stiff competition, by increasing its disclosed income by 15.2 percent from R3,285,000 to R2,544,000.

Subsidiary

Its wholly-owned subsidiary, Bankovs, was operated at a profit in the year and its disclosed income of R1,220,000, after transfer to internal reserves, was a considerable improvement on the figures for the previous year of R330,000.

Volkskas Merchant Bank continued its positive growth pattern and its disclosed net income of R6,000,000 was 33.3 percent higher than the figure for the previous financial year of R4,500,000.

Notwithstanding the high cost of funds and stiff competition in the instalment credit market, Volkskas Industrial Bank maintained its position with a disclosed income of R2,796,000 (R2,756,000).

In a year in which business conditions were still unfavourable, the disclosed income of non-banking institutions before extraordinary items increased from R1,155,000 to R1,177,000.

Property market

Volkskas Commercial Properties capitalized on the favourable conditions in the property market and its profit for the year under review was R7,438,000, compared with R1,974,000 of the previous financial year.

"In industry, specific activities are sensitive to cyclic trends, with the result that, in the downward phase of the business cycle, certain activities exerted a curbing effect," say the directors.

"Nevertheless, the results of the Bonuskar group of companies showed a positive trend in that Volkskas group's interest in the loss amounted to R565,000 as against R2,794,000 in the previous financial year.

"The serious drought conditions of the past season, however, had an adverse influence on the results of Transvaal Sugar Corporation Ltd. Nevertheless, owing to a favourable upswing in the price of sugar, a profit after taxation was obtained of R6,245,000 (R9,069,000). — Sapa
Stormclouds gather again over Peterburg Council
African Bank raises profits

JOHANNESBURG. — The African Bank’s pre-tax profits in the six months to March totalled R273,678, the interim report released yesterday shows.

The figure for the equivalent period last year was R64,034 and that for the 11 months to September last year was R107,461.

In the review period the contribution by banking to total pre-tax profits was R260,616, with the balance coming from insurance broking.

In their comments accompanying the report, the directors state:

Interest rates

"Although economic conditions generally have not been buoyant, there has been, however, an encouraging upward rise in interest rates. While demand for bank credit has continued unabated, new deposits on the other hand have been difficult to come by."

The group profits for the half year (net of provisions) have increased by 334 percent as compared to the same period last year.

Provisions on the other hand have increased by 32.5 percent to R798,665. This figure is net of actual write-offs of bad debts.

Provisions

In view of prevailing unfavourable economic conditions, the board of directors has continued its conservative financial policy by increasing the provisions from profits by 25 percent.

"Provided the bank continues to trade as profitably in the next six months as it did in the past half year, your directors are considering declaring a dividend. This will represent a very important milestone in the bank’s history." — Sapa
3 building societies increase bond rates

Staff Reporter

THREE more building societies, including two of the country's largest, the Perm and the UBS, have raised their bond rates.

The Perm, UBS and Provincial increases follow similar ones by the Allied, Saambou and the Eastern Province Building Society last month.

The Natal Building Society and Trustbou - the only two societies which have not increased their bond rates - are likely to soon, their spokesmen say.

One of the two banks in the home finance market, Standard Bank, was considering raising its rate, a spokesman said from Johannesburg yesterday. A decision was due by the end of next week.

Barclays Bank was not considering an increase, a spokesman said in the City yesterday.

Perm, UBS and Provincial increases are between .50 and .75 percent - or an extra 55 cents for every R1 000 borrowed.

The Perm's new rates are: 17 percent for up to R20 000; 17.5 percent for between R20 000 and R40 000; 18 percent for between R40 000 and R60 000; and 18.75 percent for more than R60 000.

The new rates of the UBS and the Provincial are the same, except for amounts of more than R60 000, where the rate is 19 percent.

The Perm's new rates will apply to new bonds immediately and those of the UBS to new bonds from Monday.

Existing Perm borrowers will pay the higher rates from July 16 and the UBS's from August 1.

The UBS has not yet raised its rate for commercial property or flats - 20 percent and 19.5 percent respectively. The Perm has, to 20 percent and 19.5 percent respectively.

Building society spokesmen predict further bond rate rises this year because of the shortage of money.
SA banks in loan agreement

JOHANNESBURG.—A consortium of four South African banks yesterday finalized a major loan agreement with the Government of Bophuthatswana.

The loan, for a seven-year period, is for the equivalent of 50-million US dollars (more than R62-million). The money is to be used for the development of economic housing near the industrial areas of Garanksia and Mabopane in eastern Bophuthatswana near Pretoria, as well as in Thabanchu near the Lesotho border.

President Lucas Mangope, his Minister of Finance, Mr Leslie Young, and other members of the independent state’s cabinet met top managers of the four banks in Johannesburg yesterday to finalize the deal. The banks are the Standard Bank of SA, Barclays National Bank, Trust Bank of Africa and Standard Bank of Bophuthatswana.

Dr Conrad Strauss, managing director of Standard Bank, said yesterday that this was the first time a consortium of South African banks had raised money for a national state in the rand currency area.

He said banks in South Africa did not often get the opportunity for international sovereign risk lending but now that the first had been negotiated, others would probably follow.

“Bophuthatswana has set a good example in introducing disciplines in managing its financial affairs. It has a good image in the money market in South Africa,” he said.

For this reason there had been no difficulty in putting together a consortium of banks to raise the funds needed.

Economic houses

Mr Young, Bophuthatswana’s Minister of Finance, said that between 1 800 and 2 400 self-financing economic houses would be built with the loan funds.

“For us this is a massive development which will support many other developments. The existence of appropriate middle-level housing in the areas concerned will induce further development,” he said.

Mr Dennis Madfield, a general manager of Standard Bank who was closely involved in the negotiations for the deal, details of which still have to be finalized, said the loan was unsecured, in line with loans granted to major corporations.—Sapa
State warned over move to curb tax-free savings

The chairman of the Eastern Province Building Society, Mr H P C Almon, has warned the Government that the building societies would be hard-pressed to provide housing loans if they lost their tax advantages.

Addressing the society's annual general meeting in Grahamstown last night he said if these advantages were lost the funds would merely go elsewhere where such benefits existed. He asked why should the building societies be the whipping boy?

Mr Almon said the authorities were planning to remove the tax advantages because they believed that the investors who benefited the most were the more affluent.

But as almost the entire savings of the lower income group lay in pensions and insurance, the major portion of savings and investments came from people in the higher income bracket.

These people had in the past been attracted by the tax concessions. While the loss of these concessions could be partly offset by offering higher interest rates, the attraction of other investment opportunities would still make it extremely difficult for the societies to meet the growing demand for home finance by all population groups.

He referred to the tax concessions offered by insurance companies, the Post Office, the Government and the equity market, and said that ending the building societies' concessions would cause the flow of funds to be disturbed — unless the other organisations also lost their concessions.

LIMITED CONTRIBUTION

Tax-free savings in the Post Office were used to subsidize postage and telephones while insurance companies offered schemes that were patently capital investments with considerable tax benefits, he said.

Furthermore, insurance companies could invest their income to the best advantage on the stock exchange and elsewhere, and their contribution to housing was extremely limited.

Mr Almon said that it appeared that the societies would be expected to compete with the banks but would not be entitled to spread their activities across the financial board, as the bulk of their funds had to be spent on housing.

If, in addition to this, the societies lost their tax benefits on investments, the future for borrowers was serious.

Mr Almon said his society could not satisfy the demand for loans in spite of a slowing down in the property market. Gross loans granted reached R97 million, a 51 percent increase on the previous year's R64 million.
Hickman replies to LOA challenge

I AGREE with Mr Dave that there are very few complaints.

However, it appears that Mr Davin and LOA members do not understand, nor wish to, why there are so few complaints. For their information, and that of the average policyholder, I will tell them.

It is because the insurance buying public believes that insurance lawyers have drafted documents, proposal forms and policy contracts legally and correctly. Given that assumption, policyholders feel there is little they can do to influence or affect the outcome of such contracts.

Mistaken belief

Nothing could be further from the truth than this mistaken belief.

I maintain that policies which do not include the rights of the insured, and conform to the principles included in the Insurance Act, Contract of Insurance Law and other laws which affect life insurance, are invalid.

No policy issued by the life industry in South Africa conforms to these requirements.

First-year law students learn that both parties to a contract must have identical documents in their possession, each of which records the rights and duties of one to the other.

The Chairman of the Life Offices Association (LOA), Mr Frans Davin, recently challenged life insurance policies to deny that there are very few complaints from policyholders. Insurance consultant Mr Isaac Hickman has taken up the LOA's challenge.

South African life insurance policies do not attach a copy of the proposal form and declaration of health signed by the insured to the policy contract.

This leaves the insurer in the position where the claimant (usually the widow) - who has no idea what particulars her late husband gave on his proposal form - can be lobbed off by a simple statement that the insured withheld information.

Case books

As the claimant is not in possession of all the facts, she has no means of testing such statements. There are few ordinary people who would venture to take an insurance company to court on suspicion that they might be blinding, particularly if they have no written records to go on.

My case books, collected in a lifetime of battles with the life industry, record 18 cases where the insurer said that he did not have to pay the claim. When I insisted on copies of the forms signed by the insured, the insurer turned out to be wrong and had to meet the claim.

There are just the few cases in which I came across such policyholders in the industry. The lawlessness in this case might be a matter of only one or two cases. But the result would be disastrous.

To give the more extreme example of what I see as the "lawless" industry.

Medical history

The proposal form of a policy which grants authority by the insured to his doctor(s) - should also give the insurance company information up to that date of the proposer's medical history.

This authority is limited. The insurer has to draw information to any other insurance company, yet is done this every day as no attention of industry practice.

One company can always call another company's medical records of an insured. This can produce insurance because the original policy loading is carried on to other companies, often without any further examination.

First-year law students also learn that on the death of any party to a contract, the contract does not terminate. The rights of the deceased are transferred to his executor or next of kin.

That means that the insurance company has no right to demand from the doctor the medical history of the man who died. Yet the industry does so because it claims that the authority given by the proposer is "irrevocable and binding after his death".

Proposal form

In fact, every doctor who supplies insurance companies with information on the basis of an "un-authenticated" proposal form signature (which it claims is irrevocable after the death of the insured) must be aware that he could be sued for giving that information without the executor's authority.

This is specifically found in an order pre- served by the Minister of Health in 1965. This lays down that doctors may only give information to any third party about a patient who has died after the doctor has first been instructed by a judge or magistrate to comply.

Otherwise it may not be done.

I am presently compiling a buyers guide to life insurance. It will certainly include a chapter on the lawlessness which is rife in the insurance industry. The lawlessness may be more a matter of attitude than content, but the result — prejudice to the consumer — is fatal.

Lawful rights

Until the insurance-buying public takes steps to demand that the State provide protection by legislation, the insurance consumer and particularly those with wives and orphans will continue to be deprived of their lawful rights.

I think I have said sufficient to answer Mr Davin. Had there been considerably more space it would have been easier to tell him that it is not my function to educate insurance laws and their functions to their complete ignorance of the rights of the insured set out in existing legislation.

I look forward to Mr Davin's and the LOA's challenge to the policy I gave Davin in his challenge about this trust. This is a one-sided view of trust in which the insurer trusts the client to give all relevant details for insurance so that the risk can be properly assessed.

The law insists that "trust" between the parties applies equally to the insurer.

Public interest

The industry has forgotten that the public holds the trust in these policies. People trust the company to look for reasons not to deny the claim rather than seeking ways of avoiding the claim.

Insurance has been defined as "a business locking insurance is a business of importance to so many that it is in the public interest that laws are necessary to assure that the good trust placed in insurance companies is not abused.

I cite the following examples from my case books of two approaches to the public interest.

A dentist insured with an overseas insurer changed the policy to another policy with the same company. Six weeks after the new policy was issued committed suicide.

Policy contract

The insurer was legally entitled to deny the claim, as suicide is excluded in the first two years of the policy contract. However, after investigating the policy holder's lifelong record, the insurer cancelled the new policy, re-instated the old and paid the claim.

Most overseas insurers attach a full photocopy to the proposal form which is a legal requirement in Western countries. South African insurers do not believe that they must comply with such legal requirements. This left the insured with a full legal right to deny the claim but did not do so. This insurer's practice was at all times to seek ways to pay claims, rather than to avoid them.

Such an attitude betokened a sense of responsibility to moral obligations as well as his social conscience. This insurer and others with the same attitude no longer operate in South Africa. Legislation having phased them out.

Change of address led to premiums being two months in arrears. Insurer accepted both arrear premiums and cancellation of policy. Insurer denied widow's claim alleging that policy had lapsed and tendered a refund of arrears.

Liability

After lengthy discussion of the insurer's liability, then changed tack. It was then claimed that the deceased had obtained a copy of the proposal form certain information to which the company was entitled. After some pressure, a copy of that form was obtained. The insurer was incorrect and the claim was ultimately paid.

This insurer had no legal or moral right to deny the claim but did so. In case the decision has been given, I can speak of past history, the most recent example of this practice was after the claim was denied the insured was covered — occurred a few days ago.
Fidelity Group predicts further increase in profits

THE Fidelity Group — formerly The Board of Executors and Fidelity Bank Group, which recently announced a 64.4 percent increase in after-tax profits — anticipates a further increase in profits for the Financial Bank chairman, Mr Alex McGregor, says in the group's annual report.

This disclosed profit is arrived at after making transfers to internal reserves. Net profit after tax rose from R1,06m in 1983 to R1,75m in 1984.

The surplus of R760,000 arising out of its disposal of its majority stake in insurance brokers Robert Entzwen & Co has been transferred to general reserves, while the retained income from traditional trading has risen from R274,000 to R383,000.

Dividend policy

Mr McGregor says the group intends to pursue a conservative dividend policy in order to meet the demands for working capital which are impounded by rising costs, the growth in assets under administration and expansion plans for the Transvaal and Natal. Earnings per share rose from 80c to 1.32c.

The dividend was increased by 10 percent to 66c a share, and dividend cover increased from 1.3 to two. The group is aiming to cover the dividend 2.5 times. A promising start has been made in the new financial year but warns that he expects a higher overall rate of tax so that shareholders should not expect after-tax profits to increase at the same rate as last year.

"We nevertheless look forward to a satisfactory year and a further strengthening of the group," he says.

At the year-end the group managed assets of R2 billion and the market value of R610m, which establishes the group as one of the largest independent financial services companies outside the major banking and insurance groups.

Changes

The report highlights a number of changes taking place in the group's directorate. An age limit of 70 has been set throughout the group with the result that two directors reaching this age by the end of the year will be retiring from office.

Mr S Lewis, Mr A D P Ovenstone, Mr W T Neil Boss and Mr E H R Womersley have been appointed to the board of Fidelity Bank together with Mr W J MacAdam, managing director of The Board of Executors, and Mr M Antonieich in his capacity as managing director of Fidelity Bank.

Previously all were directors of their respective operating companies.

The chairman, Mr McGregor, has also announced his intention to retire from group having an age in the course of the year.

Mr Andrew Ovenstone will succeed him as chairman of The Board of Executors, while the chairman of Fidelity Group will be announced in the course of the year.

It also notes that Mr Michael Antonieich retires as managing director of Fidelity Bank. It is fitting that his retirement comes at a time when Fidelity Bank has made record profits.

Competition

The Cape Town branch of Fidelity Bank is due to move into new premises at 4 Wale Street, the historic site of the Netherlands East India Co hospital. The Bank now has branch representation in Port Elizabeth, Cape Town, Durban and Johannesburg.

The Board's activities, although facing increasing competition, produces very satisfactory results. Assets under administration had a market value at the year-end of R540,6m.

In the year under review, The Board acquired a 26 percent stake in Yellowwood Property Fund Managers Ltd, which is the management company for the Umdoni Property Trust. Umdoni was listed in October 1983 and The Board was one of the issuing houses for the listing.

The Board also has an interest in Global Investment Management Ltd of London. Its partner in this venture is Lombard Odier International Portfolio Management of London Global was recently appointed investment adviser to First Southern Investment Co, which has a $40m investment in South African industrial shares.

Asked to comment on the outlook for the Board, the managing director, Mr Bill Adam, said, "we are running according to plan. Management has placed strong emphasis on maintaining a high standard of service in our traditional areas of activity. This coupled with our new marketing drive appears to be paying dividends, the inflow of new business is heartening."

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Haynes.
Du Plessis backs 10 percent GST

By BARRY STREEK

THE decision to introduce the new 10 percent General Sales Tax, which came into effect yesterday, was defended by the incoming Minister of Finance, Mr Barend du Plessis, at the weekend.

His defence of GST comes after speculation that the government may increase GST again later this year.

Mr Du Plessis said at a press conference that the acceptable level of GST was "the delicate balance of what the consumer can pay and what the country needs".

Good form

This country right now needs revenue. It also needs to cool down expenditure in certain consumer lines."

After due consideration, the cabinet had decided on the 10 percent GST, he said.

He shared the responsibility for the GST increase, as this was a "cabinet decision and certainly not Minister Horwood's personal responsibility".

GST was accepted worldwide as "a good form of taxation. It's fair in the sense that one has a choice to buy or not, to a degree, except when it comes to life-essentials."

Although the cabinet had decided to increase GST, it had decided to "alleviate the burden on those essentials".

GST was relatively easy to administer throughout the economy and was a useful instrument for both revenue and the State, he said.

GST achieved certain monetary objectives, such as helping to curb spending, thus arresting the outflow of capital.

It could be used as a remedy for a poor balance of payments position, he said.

He felt the rate of inflation in South Africa was inordinately high.

There were factors beyond South Africa's control which affected this, "but the government is not satisfied with the present level of inflation."

He also called for a speeding-up of the government's decentralization programme.

The expense of creating further infrastructure in metropolitan areas made it "sound economic policy to decentralize our economic activity away from the PWV (Pretoria-Witwatersrand-Vereeniging) area."

One of the main constraints in this area was the shortage of water.

If the PWV area were overdeveloped, water supply would be extremely expensive, which would be detrimental to the consumer, he said.

Pledge

The budgetary procedures in the new constitution would be different, but not much different from the present procedure with the provinces, where sums were budgeted and the provinces had power to regulate their own revenue.

"The same broad principle will prevail in the new constitutional dispensation, where certain centrally-accumulated amounts will be decided upon and dispersed."

The various chambers would be empowered to generate their own funds to a degree, he said.

Mr Du Plessis also pledged himself to increased spending on black education, and said the Department of Education and Training had its own internal momentum, which would require a larger budget.

Defence

But, with "the difficult times we have now and we may have for some years to come, black education will find it difficult to increase to the extent it would like to do."

He said that as a general comment, "it will be extremely foolish to decrease dramatically the budget for defence in South Africa."

The fact that South Africa was economically and militarily a force to be reckoned with contributed substantially towards negotiating strength both locally and internationally, Mr Du Plessis said.
Rand up slightly after early record low

Financial Staff

THE rand moved up marginally to close at 66.05 American cents from this morning's record low of 66.45 cents.

Bullion traded at $337.50 in post-fix trading. This morning it was fixed at $335.75 in London, down $0.75 from yesterday's London close.

In New York, bullion closed over $4 lower in fairly active trading in reaction to the dollar's renewed strength after Monday's sell off.

Renewed buying interest helped the dollar to close near the day's highs.

In Britain, the pound fell to a new low of 1,297.50 dollars today, firming later to 1,230.00 dollars, and bringing the possibility of banks raising interest rates again.
A friendly — but urgent note to Barend du Plessis

EVERY new Minister of Finance sparks off the hope that he will remedy one or two of the ills that plague the South African economy and curtail some of the costly political excesses.

Since there is almost no chance of the Nationalist Government being defeated at the polls, we expect our Prime Ministers and Ministers of Finance to exercise the amount of political courage their predecessors and to set out in new, more rewarding, directions.

What serious flaw should the bright and promising new Minister of Finance, Mr Barend du Plessis — address?

If he is in search of ideas he can do no better than to take five minutes off to study a fact sheet recently issued by the Steenberg Institute for Futures Research. Based on Aart Roukens de Lange’s exhaustive study “The National Accounts of SA,” this two-page sheet tells a most startling and disturbing story of our economic system.

It is a story which has profound consequences for our political system. No one who has read this sheet can continue to believe, with Mr Hendrik Groenewald, that we have a basically sound economy. It is, in fact, deeply flawed.

The sheet presented above shows pie diagrams for the expenditure on Domestic Product (GDP) in 1959, 1969 and 2010.

Each pie is divided into three segments, according to the proportions of the GDP which were taken up — respectively — by private consumption, Government spending and investment spending.

In 1959, 70% of the GDP was spent on private consumption; people assigning their incomes on consumer goods.

Only 8.1% was spent by the Government (on infrastructure, local and central Government services, etc) and 20.8% was expended on investment (building factories or shops or buying machines).

By 1969 the pie had come literally into orbit. The proportion of GDP spent in private consumption had dropped to 65.4% but that of Government spending had grown to 14.6% and that of investment to 20.8%.

If present trends continue, a dramatically different picture will exist by 2010.

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Consumption</th>
<th>Government</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>70.0</td>
<td>8.1</td>
<td>20.8</td>
</tr>
<tr>
<td>1969</td>
<td>65.4</td>
<td>14.6</td>
<td>20.8</td>
</tr>
<tr>
<td>2010</td>
<td>65.2</td>
<td>35.3</td>
<td>9.5</td>
</tr>
</tbody>
</table>

Expenditure on GDP: P = Private Consumption. G = Government, I = Investment
Source: Aart Roukens de Lange, Institute for Future Research, Stellenbosch.

HERMANN GILIOME

A WEEKLY FEATURE PRESENTING A WIDE VARIETY OF VIEWS

Partly as a result of mechanisation, the white farms may have shed nearby two million black labourers over the last 10 or 15 years. Secondly, capital intensification — or switching from farming to machines — has made it prohibitively expensive to create new jobs.

Roukens de Lange has estimated that the cost of creating a new job for a black worker in the manufacturing sector is (in 1959 money values) doubled from R33 000 in 1960 to R15 000 in 1980.

This takes into account the factor of old factories being closed down and new capital being employed.

All this has helped to produce the escalating unemployment problem of South Africa.

On the basis of careful research, Dr Roukens de Lange has found that, in 1960, about two-thirds of the economically active black population was employed by the formal sector. People actually receiving wages, salaries and other forms of regular income.

The other third had only a very marginal income out of the informal sector (in squatter camps, relocation settlements, etc) or were unemployed.

If present trends continue, only half of the economically active black population will be formally employed by the year 2000, some 15% will be in the formal sector and more than 50% will be unemployed. If we are to avoid a suspension Mr du Plessis will have an answer ringing in our ears; we shall keep inflation control but we shall encourage the relocation of industry to bring work to the unemployed in the homelands.

Economic decentralisation is a dangerous fallacy. In spite of all the money spent up to the present the number of new jobs created in the formal sector of the homelands, this represents only 0.7% of the new jobs created in the formal sector of South Africa.

What about the new Good Hope incentives? Gavin Mieder shows, in a forthcoming study, that even under favourable assumptions it will not make much difference.

For instance, it would destroy 700 000 people from the Durban metropolitan region but it would not stop the population doubling or trebling itself over a 20-year period.

Economists say that the direct costs and opportunity costs of decentralisation are far too high for South Africa to afford; given the state of the economy it is in.

There are also other options. One could turn the homelands into concentration camps to prevent the unemployed flocking to the cities.

One could stage massive roadblocks. One could continue to raze squatter camps like Crossroads.

One could, in the years to come, turn a blind eye to hundreds of thousands of black people dying of hunger.

One could turn a deaf ear to the truth that only the cities offer the unemployed of the homelands a hope to survive.

One could also risk inflation control, use tax incentives to stimulate employment rather than capital investment and provide the unemployed with a low basic income.

As a wise man once said, men and nations turn to rotunteness after they have exhausted all alternatives.
Financial Staff

The decline followed a dip in the gold price today and the continued upsurge of the unstoppable dollar on world markets.

Three years ago the rand was worth $1.34, so that American goods bought today cost more than double.

Gold was fixed at $335.25 an ounce in London today, a drop of more than 15 dollars since last Thursday. It opened earlier at $339.25 in Hong Kong, and in London later plunged to a two-year low of $328.50. However, the metal recovered slightly to $335.50 after midday.

10-year high

The dollar, meanwhile, climbed to a 10-year high against the German mark in London and hit a 110-year high against the yen in Tokyo.

South African short-term interest rates also came under pressure today with the key-90-day bankers acceptance rate soaring to a record 19.50 percent from Friday’s 19.00 percent.

This raised the spectre of yet another hike in interest rates for consumers after last week’s surge of the banks’ prime rate to a record 22 percent.

Dealers

Money market dealers told Reuters that hardcoded rates were putting the prime rate under pressure. They expect money market rates to rise further under inflationary pressure and an unexpected demand for borrowing from the public sector.

Some dealers expected the Reserve Bank to raise lending rates to prevent further speculation against the rand, a move which should push rates higher.

The Allied Building Society warned at the weekend that mortgage rates could go higher still and when the removal of building society investment tax concessions comes it could add two percent to mortgage rates.

Open market

Mr. C. L. F. Borckenhausen, Allied’s chairman, said at the annual meeting that the impending changes in legislation meant building societies would have to compete in the open market with other financial institutions without tax and other concessions.

To survive under these conditions, building societies would have to improve their profits considerably. Already the cost of money had risen alarmingly. It would be a brave man who predicted that interest rates had peaked.

“I am not so brave. They could go higher. In due course they must come down, but we do not know when.”

* Inflation was given another twist when the South African consumer price index rose 1 percent last month to hit 11.86 percent.
Gold's fall dents confidence — at last

R10bn lopped off shares on JSE

By HOWARD PREECHE

ABOUT R10bn has been lopped off the value of shares listed on the Johannesburg Stock Exchange over the past five weeks.

But the total value is still around R100bn.

The latest fall in the gold price has not deterred, however, the remarkable confidence which the JSE had shown during 1983 and most of the first half of 1984 in spite of a series of major economic setbacks.

It is true, of course, that there was something of a mini-boom in the economy in the last two quarters of 1983 and the first three months of this year.

But that was more of a mistake — the result of extravagant increases in Government expenditure and a consumer spending spree fuelled by too low interest rates than the product of deliberate policy.

As such it was seen by most economists, but not so much investors, as almost certainly making things worse for South Africa in the longer-term.

The country's biggest single financial threat — including the whims of the gold market and the crippling drought — is an inflation rate that has been entrenched above 10% each year since 1973.

The mini-boom has made much more difficult any major progress in tackling this crisis.

But in mid-June the JSE was still riding high.

The Rand Daily Mail 100 industrial share index was around 1,050, some 5% off its record level of 1,053.

The RDM gold index was also around 1,450, slightly further away from its record but still astonishingly high — more than twice the level of the end of June 1981, for example.

Gold shares fared, of course, been buoyed by the slump in the rand against the dollar which has kept the rand gold price at a high level.

Even so, the resilience of the JSE only made sense — questionable at that — on the assumption of another early gold boom.

It finally seems to have dawned on the Government, business and investors alike that there is actually no guarantee of this.

Hence the decline in share prices — though there has certainly been no panic and even today general levels are still remarkably firm.

But all the weaknesses of the country's economy, long apparent to those who cared to look, are now painfully evident.

South Africa, for all its trumped-up diversity of resources, is still essentially a one-crop economy.

Gold accounts for almost half the country's total exports.

With two years of crippling drought to contend with as well as the gold slide, the economy has not surprisingly gone painfully backwards since 1981, even with the recent mini-boom.

Real gross domestic product fell by 3% last year after a 1% drop in 1982.

The first-quarter surge in 1984 and the buying orgy ahead of the July 1 general sales tax rise should be enough for a token rise in real GDP this year, perhaps 1.5%.

But when an annual population growth of 2.6% is taken into account, it is clear that a hefty drop in average per capita living standards has occurred over 1981-84.

Unemployment is naturally rising among blacks.

The Government's own Manpower Department admits that by 1987 the effective jobless rate could reach 22%.

Many companies, battling to stay afloat, are clearly not in the mood for expansion.

From early 1983 to now the prime overdraft rate has soared from 14% to 22%, and it is still under upward pressure.

This severe economic downturn — the worst since the 1930s — might not have been so bad, perhaps, if it had been accompanied by substantial long-term benefits.

But there is precious little evidence of that.

Inflation, the most deep-seated financial problem, is currently running at 11% a year as measured by the consumer price index,

It seems certain there will be a double-digit rate for 1984, the eleventh year in succession.

The balance of payments is also a constraint.

The current account showed a deficit of almost R1bn on a seasonally adjusted annual basis in the first quarter of the year.

For the six months January to June the actual shortfall must have been around R1bn.

South Africa has suffered cruelly, of course, from events outside of its control.

The two years of drought devastated agriculture, putting great strain on the current account of the balance of payments.

The slumping rand will basically look after this, but at the cost of a further sharp twist to the inflationary screw.

In any case, South Africa has much to blame itself for.

Mr Owen Horwood, the retiring Minister of Finance, has long preached the gospel of "financial discipline".

The practice has been rather different.

In 1982 and 1983 the broadly-defined M2 money supply measure increased by 17.4% and 16.5% while the narrower M1 bounded up by 16.2% and 26.5%.

For the 12 months to May this year the rates are 18% and 32%.

That is alarming by any standard.

So has been the persistent heavy overshooting each year in the 1980s of the State spending estimates in the various budgets.
Rand dives and inflation soars

BY HOWARD PREECE

The rand shed two US cents yesterday in heavy trading sessions to plummet to a new official low of 64.82/72 US cents — and gold tumbled to its lowest fixing level of the year in London, as the dollar continued to strengthen on foreign exchange markets.

Simultaneously, Pretoria economists warned that South Africa's battered economy is on the way to a record 14% inflation rate.

Gold was fixed at $336 in London in the afternoon, compared with $335.25 in the morning and $322 at the second fixing on Friday. The closing range was $336/336.50.

"The bigger than expected rise in the US gross national product, giving rise to fresh fears of higher interest rates, undermined confidence in the metal," London dealers said yesterday.

The rand fell to a record low of 64.82/72 US cents in early trading as the dollar soared and the price of gold dropped, foreign exchange dealers said.

They said the Reserve Bank intervened and sold dollars in support of the rand.

The closing price was 64.70/80c. And market sentiment suggests that the rand could ease further today.

GERALD REILLY reports from Pretoria that the economy is on its way back to a 14% — and even higher — inflation rate, economists warned yesterday.

They were reacting to the latest Consumer Price Index released by Central Statistical Services, which showed a 1% increase during June with a 12-month figure of 11.7%.

The food only index also rose sharply in June — by 1.7% — with a rate of 15.7% for the 12 months to the end of June.

Economists warned of a big acceleration in the inflation rate during July.

A University of Stellenbosch Bureau for Economic Research economist, Dr O D J Stuurt, said the combined impact of the 3% GST increase — to 10% — from the beginning of July, as well as the higher mortgage rates and doctors' and dentists' fees, would add up to 1.5% to the index for July.

This would take the inflation rate to more than 15%. And with the threat of further increases in mortgage rates, following the prime rate increase to 23%, inflationary pressures would remain strong — too strong even for a deepening recession to counter.

Because of the devalued rand, another maize price rise was also on the cards.
Motor
industry braced for depression

KEITH MACFARLANE

THE rise in interest rates announced by the Reserve Bank last night will have a depressing effect on the South African car market, according to both the motor industry and the motor trade.

"I would say the rise in rate will have a depressing effect on business," Clive Warrilow, marketing director of Volkswagen South Africa, told me today. "It must dampen consumer demand, and remember that more than half our business is done with private buyers; and most of them will have a car that they want to trade in.

"This is just another straw for the camel's back, another blow for the consumer whose after-tax salary anyway has not been keeping pace with inflation. I think that all consumer goods are going to be hit — white goods, radio, television, appliances ..."

OPTIMISTIC

"South Africa is traditionally optimistic, but there have been a lot of things recently — the gold price, interest rates, the falling rand — to affect that optimism.

"It's still a little early to make a considered judgment. What we're building we're selling. But it's not going to be easy. And what about the small businesses who work on borrowed money? Times are going to become very difficult for them."

Spence Stirling, managing director of Amcur — the new title for Sigma — told me: "The new measures will undoubtedly have a dampening effect on the new vehicle sales, which will be reflected in lower production rates — which in turn must have an effect within the industry on employment levels.

BANKS' VIEW

Dealers were not entirely pessimistic. Brian Porter, chairman of the Porter Group and one of the country's biggest motor dealers, told me that prospects depended on how the banks saw the new situation — whether they were prepared to take greater risks at the lower end of the market to get higher profits. ..."
4 000 go back at Volkswagen

Argus Bureau

PORT ELIZABETH. — The Volkswagen plant in Uitenhage reopened to 4 000 workers today after being closed by the management for a week.

An agreement between management and trade union officials has been reached whereby a white and a black employee involved in a disagreement on the shop floor will both be suspended until the matter is decided by the Industrial Council.

Previously only the black worker was suspended.

An urgent meeting of the council has been convened for Friday to consider the case, while other worker grievances — over pay and job evaluations — would be resolved through normal agreement procedures, said Volkswagen public affairs manager, Mr R Kruger.
Firm bent on uplifting the workers

As an equal opportunity company, VWSA are making a massive contribution towards the training, development and upliftment of their employees as well as the significant improvement of the quality of life within the local community.

The company known as Volkswagen of South Africa produced the first two black artisans in the motor industry in South Africa in 1981. The company has trained many others.

The Employee Advancement Programme, instituted in 1979, is committed to providing equal opportunities for all employees of the company. Education and training are two of the fields where Volkswagen is making rapid strides in a bid to provide black workers with the skills necessary to meet the needs of a 200 million rand expansion programme.

Apprentices

Their Apprentice Training Centre is at present training 36% of all apprentices in the motor industry in South Africa.

VWSA has 300 full-time trainees as against 124 in 1980 with training expenditure currently exceeding R5 million as against R1.3 million in 1980. In terms of apprentice recruitment, VW intentionally pursues the policy of selecting equal numbers of white, black and coloured apprentices and this highlighted certain inadequacies in the fields of mathematics and physical science during selection.

As a result, VW co-sponsored a project whereby video training facilities were donated to black schools in the Uitenhage area.

Centre

A similar endeavour saw the establishment of the VW/Goodyear Technical Centre in 1979 which is run by the Department of Education and Training.

The Centre provides compensatory technical education for local black schoolchildren in standards four to eight. Groups of children are transported to the centre on a daily basis to receive theoretical and practical training in bricklaying, welding, electrical work, metalwork and woodworking.

Educational assistance from Volkswagen also includes the donation of several libraries to black primary schools while black employees are given generous subsidies for the purchase of school books.

Donation

A substantial cash donation towards the building of a black pre-primary school, a comprehensive bursary and scholarship programme, extra lessons programmes for matriculants and the donation of academic prizes are further examples of Volkswagen's educational assistance to the black community.

The Volkswagen Housing Scheme, after an initial investment of one million rand in 1982, has already provided over 50 homes for employees in the black township of Kwanobuhle in Uitenhage.

These upgraded facilities feature electricity and running water and are a significant improvement on existing homes in Kwanobuhle. The total cost of this housing initiative has already reached 2.9 million rand.

An unexpected ancillary benefit has been the dramatic increase in the number of black employees who are utilizing the VW Home Improvement Scheme.

In this regard, VW provides both technical and financial assistance and the company is currently establishing a self-help building programme which will further serve to act as a catalyst to the housing activities.

Concern

Volkswagen's interest and concern with matters relating to the quality of life of its employees and the local community is also reflected in the initiation of a number of projects.

A sports complex presently being built in Kwanobuhle, the erection of bus shelters in the township, a new access bridge built over the Swartkops River, the maintenance of school playing fields and the encouragement of the Limekilns High School are examples of these projects.

While the above account is by no means exhaustive, it does serve to illustrate the philosophy and direction of Volkswagen of South Africa with regard to community matters outside the confines of normal day-to-day business.
A PORT ELIZABETH woman claims to have been acutely embarrassed because she was refused an application for insurance from a nationwide company on the grounds that she lived in a coloured area.

The woman, Mrs Patricia van den Berg, of Cleary Estate, said she applied for insurance in response to an advertisement circulated with a local newspaper.

Mrs Van den Berg complained to the Evening Post that she was acutely embarrassed by the company’s explanation and felt other coloured people would also be hurt.

She said she phoned the company’s representative, who took all her particulars "and told me he could cover only our car for R24 a month".

"He then told me the policy was for whites only and not non-whites," she said.

"I said I wasn’t interested in this policy if it applied to race and I put the phone down."

"I was embarrassed. Why didn’t they advertise that it was for whites only? How many other coloured people are going to be embarrassed?"

However, Mr Andre Heydenryk, marketing manager of Multiplan Insurance Company in Johannesburg, said the company did not refuse Mrs Van den Berg’s application on the grounds of her race.

He said all clients were asked to fill in a comprehensive application form. Answers to certain questions determined the risk factor of that particular client's portfolio.

These risk factors were ascertained when the insurance statistics for a particular geographical area were examined.

Where there were a high number of insurance claims in an area and a high rate of housebreaking or car theft, for instance, the company charged higher rates for household and car insurance.

In certain areas, certain types of insurance were not offered to clients because of the high risk factor.

"Mrs Van den Berg lives in an area were there is an extremely high incidence of housebreaking and car theft," Mr Heydenryk explained.

He said his company had not intended to discriminate in any way.

"On our advertising cards, we state we have the right to refuse any application for insurance.

"No racial discrimination is meant. We do not state ‘whites only’ because we insure people of other race groups."

"Before the campaign began, we took our literature to the Newspaper Press Union, who examine advertising materials, and explained to them the possible problems we could have when refusing a client a policy. The racial aspect was discussed and our material was approved.

"If we have, in fact, upset a client, we apologise. We do our utmost to satisfy and treat our clients on exactly the same basis."
Pretoria Ministries

Runaway Spending by Departments well over budget despite directive

By Harold Prudden

The budget, as approved by Parliament, was for the current financial year ending March 31, 1979. The total budget was R2.5 billion, with an estimated shortfall of 10% due to inflation. The actual expenditure for the year was R2.7 billion, an increase of 17% above last year.

April

The budget was approved in March and spending occurred in April and May. The excess of 12% was due to the increased cost of materials and labor, as well as the need for additional equipment. The shortfall of 10% was due to the contractor's failure to complete the work on time.

The contract for the current year is for R2.5 billion, with a contingency fund of 10% for unforeseen expenses. The actual expenditure was R2.7 billion, an increase of 17% above last year.

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State set to rake in extra R1-bn

JOHANNESBURG. — The Government will earn an additional R1 000-million in the present fiscal year, while its spending will be R1 450-million above Budget, estimates Central Merchant Bank in its capital market report for July.

Senbank's estimates indicate that the increase in general sales tax from 7 to 10 percent as from July 1 should bring the Government an additional R600-million.

Other revenue (personal taxes and taxes on the gold mines) should provide further additional income of about R400-million, which makes an increase of 18.8 percent in income for the 1984/85 financial year possible.

The growth rate of 18.5 percent in expenditure from April to July 1984 is exceptionally high and it is to be expected that the budgeted amount will be substantially exceeded.

**SALARIES, WAGES**

Recent assurances by the Minister of Finance, Mr Barend du Plessis, that expenditure will be cut wherever possible may result in the increase in expenditure for the full year being less than the 18.5 percent for the first four months.

However, it seems unlikely that an increase of less than 15 percent will be achieved.

This 15 percent increase nevertheless implies an excess of R1 450-million over the initial Budget figure.

The lack of flexibility in reducing expenditure is, however, a limiting factor since salaries and wages represent approximately 60 percent of current expenditure and these are not likely to be cut back.

As a result the increase in expenditure may be somewhat higher than the 15 percent expected. — Sapa.
Bread price crisis looms as subsidy runs out

By GERALD REILLY
Pretoria Bureau

THE R20-million allocated in this year’s Budget to subsidise the bread price is running out fast and “financial adjustments” are urgently necessary, say Pretoria sources.

The Cabinet is expected to approve an increase in the wheat price within the next 10 days.

The Minister of Agriculture, Mr. Groenewald, told the Rand Daily Mail yesterday that if the Cabinet decided to increase the wheat price, either the bread price or the Government subsidy would have to be increased.

Pretoria sources said R50-million of the original R120-million bread subsidy had already been spent.

The remaining R50-million was insufficient to hold bread prices at the present level.

Political observers said yesterday the Government could not afford to increase the subsidy because of the critical nature of State finances. But if it raised the bread price there would be angry reaction from an already disturbed black population.

Pretoria sources pointed out that wheat farmers were last granted an increase two years ago. It was extremely unlikely the Cabinet would reject Wheat Board recommendations for a price rise.

The baking and milling industries are also expected to be granted increased margins, even though they were given increases earlier this year.

Uninformed sources said even if the Government rejected the demands for producer price rises, and higher margins for bakers and millers, the subsidy would still have to be raised to the price of bread increased.
Some departments off target, but ...

Govt spending nears budget

By HAROLD FRIDJHON

IN spite of total Government spending being bent into line with budgeted monthly targets, some departments have “over-spent” by about R800m in the first five months of the fiscal year.

During June, July and August, total outlays by the Exchequer have been below the monthly average of R2,113bn, which was the target set by the former Minister of Finance, Mr Owen Horwood.

For the period April to August, the State spent R10,996bn, compared with R10,566bn which would have been the average for the five months, and with R8,664bn spent during the first five months of the last fiscal year.

This means that so far this year spending has deviated by 3.8% against the average, but it is 29.3% higher than it was in the fiscal year 1983/84.

When he introduced his Budget in March, Mr Horwood said he hoped that the current year’s Budget would be only 15.4% above the previous year’s figure.

But while one hopes that total expenditure will at least continue to run at the consistent and relatively low rate, the signs point to the contrary.

At this stage of the fiscal year, many departments have over-run the five-twelfths proportion of their budgets by about R800m, while others are underspent to the tune of about R430m.

In addition, the Budget contains a provision of R287m for “improvements of conditions of service”, which has yet to be drawn upon and which, presumably, is further for increases in public service pay and allowances which will come into force in October.

What gives grounds for concern is whether the departments which have over-spent in the first five months of the current year will be able to bring their spending into line by March 31, 1985.

On the other hand, those departments which are currently showing an underspent position, might accelerate their outlays as the year advances to catch up with their budgets.

If the “over-spent” departments cannot cut back and if the spending of the “underspent” departments quickens, there is a grave danger of the Budget over-running its inflated total of R25,357bn.

It looks as if the new Minister of Finance, Mr Barnard du Plessis, will have his work cut out to trim the current Budget with almost half the year already run.

Some of the departments whose spending is running ahead of budget were: Finance R397m, National Education R128m, Defence R110m, Agriculture R86m, Constitutional Development R60m and Industries and Commerce R38m.

Among those which are “under-spent” are:

- Co-operation and Development R290m
- Foreign Affairs R60m
- Community Development R44m
- Transport R50m.

So far Government expenditure is being financed in a non-inflationary way.

With expenditure at R10,96bn, revenue is running at a rate of R8,554bn for the first five months. This leaves a deficit of R2,396bn.

The Treasury has been able to raise R2,737bn by the issue of marketable stock, as well as by foreign loans and non-marketable securities.

During August, R361m was raised by the issue of the 13% 2005 RSA bonds.

As there was no public issue and as the Reserve Bank tapped no stock into the market, it seems as if this bonds were issued to the Public Investment Commissioners.

Details of revenue collected are available only to the end of July. These show that customs duty for the four months amounted to R463m, compared with just under R300m for the same period of the previous year.

This suggests that imports were running at a higher rate than the state of the economy would have warranted.

GST brought in R1,688bn in the first four months of the current year, compared with R1,219bn for the same period of the previous year.

GST was raised by one percent to 7% early in March.
This is the first of two articles by Derek Tomney, Financial Editor of the South African Taxpayer and the Prospects for any alleviation in the weight of taxation in the future.

Why we are poorer
The R180 m cut in defence spending announced by Mr Barend du Plessis yesterday will probably be accomplished by making a multitude of small cuts at home rather than slashing at expenditure on the border war.

Last night observers felt it was unlikely the counter-insurgency campaign in South West Africa would be pruned to any significant extent, since a combination of pressures had brought Swapp military activity there to virtually nothing.

The timing, rather than the announcement itself, came as a surprise. Observers have long believed that next year's defence vote would see spending either held at the 1984 level — which would have meant an effective cut of up to 14 percent, depending on the inflation rate — or even a reduction.

R180 m is a modest sum in the context of a defence budget running at more than R3 000 m annually and can probably be achieved mainly by cutting personnel running costs and procurement of non-essential equipment, such as:

- Pruning training call-ups to the minimum consistent with operational efficiency;
- Reducing the number of man-hours allocated to units and formations for part-time service;
- Freezing Delaying or reducing purchases of vehicles or other equipment;
- Trimming SAAP flying hours as far as possible;
- Ensuring that border call-ups are held to a strict necessary minimum;
- Strictly monitoring use of official transport;
- And freezing non-essential capital works and development or training programmes.

An inherent danger in any such cost-reduction programme is the risk of cutting into the bone instead of carving away some fat.

One observer pointed out that many Nato countries had recently shown substantial military savings, but at the cost of perilously depleting their war reserve stocks.

The R180 m cut is clearly only an interim measure. For several months a committee chaired by the Chief of the Army, Gen Jannie Geldenhuys, has been investigating ways in which the Defence Force and the Armscor can be adapted to meet financial and other problems.
Many SA companies potential failures, varsity probe claims

Argus Correspondent

DURBAN. — An alarming proportion of South African companies are potential failures, while more than half are deteriorating financially.

According to a model developed by the Bureau for Financial Analysis at the University of Pretoria, and applied by an independent researcher to 283 quoted companies, 168 (58 percent) are deteriorating and 28 percent (77) "would normally fail financially".

Published in the latest edition of Takeover Talk, the statistics reveal that the worst position is to be found in the steel sector where 75 percent of companies could fail.

This is followed by furniture (44 percent), industrial holdings (41 percent) and motor manufacturing (40 percent).

The following companies performed positively against the trend: Otis (building), Searles (clothing), Woolworths-Truworths (stores), Powertech (electronics), Vereeniging Refractories (steel) and industrial holdings group Rentmeester.

The university's model takes into account several factors, including a company's risk of financial failure, its ability to honour financial obligations on time and to pay dividends to shareholders.

The figure, however, is distorted by the fact that account is not taken of the influence of holding companies and strong financial groups that might support firms.

ROUGH GUIDE

As a result the survey should be used only as a rough guide for investors.

Zero is the point of separation between sound businesses and those which the survey believes have a tendency towards financial failure.

Takeover Talk says "a borderline classification could be those businesses that fall between -0.2 and 0.2".

Some interesting extracts from the 283 company list include (figures in brackets after ratio indicate year):

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<th>Company</th>
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<th>Ratio (84)</th>
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<td>Woolru</td>
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Fate of US ban on loans to SA in the balance

By SIMON BARBER
Washington Bureau

WASHINGTON. — The fate of a congressional ban on United States loans to the South African Government hung in the balance yesterday as the Senate and House of Representatives continued to haggle over other sections of the bill to which the ban is attached.

The loan measure — the first real economic sanction ever voted by Congress against South Africa — was accepted in a compromise between House and Senate after six months of deadlock over the deeply contentious Export Administration Act.

The main purpose of the act is to renew the President's power to control US exports for national security and foreign policy purposes. Representative Mr. Stephen Solarz persuaded the House to include a stiff series of provisions concerning South Africa in April.

The last obstacle to passage of the act concerns a bitter and complex debate over which government departments are to control and enforce the export licensing process.

The Senate, led by Mr. Jake Garn, chairman of the Senate Banking Committee, wants more authority for the Defense and Treasury Departments.

He is particularly mindful of an incident last year in which the Commerce Department allowed a sophisticated computer system to be smuggled through South Africa to the Soviet Union.

The House, under Mr. Don Bonker, chairman of the House Trade Subcommittee, favours the Commerce Department.

Neither side was prepared to budge yesterday. Reaction to the South Africa compromise has been mixed.

Mr. Solarz said: "It's not as far as I would like, but we think it will be warmly welcomed by blacks and all others working for fundamental change in South Africa." Mr. Lionel Olmson, Undersecretary of Commerce for International Trade, said the new rules would hinder the administration's flexibility in dealing with Pretoria, and could deter US investment.
Tighter
HP takes
a heavy
toll

BY PRISCILLA WHYTE

TOUGH hire purchase controls threaten to send many companies out of business, says Mr Arthur Soloman, the OK Bazaars' general manager for furniture and appliances.

Other major furniture retailers are also worried.

Mr Soloman says: "I would like the Government to change the regulations on hire purchase before we go out of business at the retail and manufacturing level."

He says there has been a dramatic downturn in the big-ticket market with a 25% fall in sales from a year ago.

"If manufacturers start closing down and laying off staff, this gives us a more limited choice of merchandise from which to choose when the upturn comes," he says.

In August the Government introduced legislation increasing furniture deposits from 10% to 15% and cutting the repayment period to 18 months from 24.

The deposit on video recorders was doubled to 30% and repayment limits halved from 24 months to 12.

HP buyers of domestic appliances needed deposits of 15% instead of 10% and repayments were spread into 18 months instead of 24.

Mr Soloman defines a big-ticket item as merchandise with a price tag of $500 and more.

"We are very concerned as an industry with insolvency and unemployment levels," OK finances customers itself. Personal debt statistics at this stage seem much in line with those of last year.

Mr Soloman believes Christmas will stimulate sales but there will not be a dramatic upturn because of smaller bonuses, rising inflation and higher food prices.

The consumer is changing buying patterns and spending elsewhere on big-ticket items.

The consumer has been psychologically affected by the restraints on HP facilities.

"We are moving from selling goods with a higher profit margin to those with a lower profit margin," he says.

OK has introduced specials at reduced prices.

There is the concern that because of the downturn, manufacturers are not investing in plant and machinery and could be caught short when the upturn comes.

Mr Ron Cohen, executive chairman of Amrel, says: "Over the last two months sales have gone down 95%. Furniture factories are going out of business with regular monotonies. I have heard of fire going into liquidation in the last 18 days." 321 801

"Mr. Cohen would like to see the HP restrictions eased.

In 1971 a similar situation existed when the Government applied stringent restrictions on furniture, appliances, cars and light delivery vehicles. They were eased after three months.

The difference is that prime interest rate was then 10%, against 25% now.

"I think the Government is discriminating against the furniture trade. This is unjust. The sector is carrying the can for the whole economy," he says.

The sale downturn is much worse in the middle and upper white-income groups. Sales to blacks have not been as badly affected.

He says the three different HP deposit rates have saddled retailers with an administrative burden. Video cassette recorders are being sold at cost to cut stocks.

Mr Geoff Austin, managing director of Beares, the furniture group, says: "Our September turnover was very much lower in real terms than a year ago.

"The worrying factor is the number of telephone calls we are receiving from suppliers wanting us to bail them out with cash up front for goods."

Beares' approach is to be selective in the firms it will help. "In January a number of smaller firms will not be around."

He says the change in HP requirements close on the heels of the increase in GST to 10% was overkill.

He says the country could move from recession to uncontrolled depression.

He expects reasonable trading at Christmas but believes retail turnover figures will return to September levels in January and February.

There is the fear in the market place that suppliers will go to the wall and that massive unemployment will result.

Rend Daily Mail Business Day Friday, October 12, 1984
30 June 1983. The Articles of Agreement are signed by the five original member governments in Cape Town.

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2146

West Street, Sandton
Transvaal

Telephone:
(011) 783 8600

March 1984
Some features of DBSA participating states

<table>
<thead>
<tr>
<th>Country</th>
<th>Population ('000,1982)</th>
<th>Area km²</th>
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<td>RSA</td>
<td>25 500</td>
<td>1 179 900</td>
<td>Pretoria</td>
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<th>GDP per capita (R,1980)</th>
<th>Pupils &amp; students ('000,1982)</th>
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Source: DBSA estimates, 1 February 1984

Background

The need for a multilateral institution to serve as a catalyst for development in Southern Africa became obvious in the late seventies. Development programmes were not producing the desired results and the circumstances under which existing development institutions had been set up, had changed, so that new initiatives were needed to meet new challenges. A programme of institutional and policy reforms relating to development was initiated by the Prime Minister of South Africa on 22 September 1979. A number of those initiatives, including the launching of a comprehensive new regional development programme, were aimed at multilateral decision-making and at expanding the scope for private sector participation in the economic development of the subcontinent.

After an extensive process of and negotiations along these guidelines, accompanied by a thorough rationalisation of existing development institutions and agencies, the Heads of Governments of the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei, signed the Articles of Agreement establishing the Development Bank of Southern Africa (DBSA), on 30 June 1983, becoming the original member countries.

The Agreement provides that other independent states in Southern Africa can also become members. The self-governing national states whose governments also gave their consent to the Articles of Agreement, participate in the Bank as constituent parts of the RSA and their development requirements receive the same priority as those of the full-fledged members. Provision is also made for associate membership for countries outside Southern Africa who may wish to contribute to the resources of the Bank. DBSA started operating on 1 September 1983.

The establishment of the Bank was a logical institutional development in the process of giving effect to the policy of achieving a more balanced geographical distribution of economic activity in Southern Africa, and of decentralising the participation in decision-making on matters relating to that policy, towards the various governments in Southern Africa and their respective development agencies.

Objectives and financial resources

The objectives of the Bank are to:
- promote economic development, increase productivity, and thus raise the standard of life of the people in the less developed areas of Southern Africa
- reduce imbalances in the levels of economic development between the various areas
-- promote the investment of public and private capital and to utilse capital funds for development purposes
-- provide flexible and moderate finance to meet the important developmental requirements
-- provide technical assistance and training

The financial resources of the Bank consist of its share capital, loans raised on the local and foreign capital markets and contributions made to a development fund by its members. Of the initial authorised share capital of R2 000 million, R200 million is to be taken up by the five member states in the first five years, leaving R1 800 million as a liability of the member governments against which loans can be raised in the capital markets. For the first five-year period of the Bank's existence, the RSA Government has pledged an amount of R1 500 million to be paid into the Development Fund. This commitment will be extended annually in the form of a five-year cycle.

Management and operational activities

DBSA has a three-tier management structure, consisting of an appointed Council of Governors which exercises overall authority; a Board of Directors, partly appointed and partly elected, and responsible for the general conduct of the operations of the Bank; and a staff under the direction of a Chief Executive who is also Chairman of the Board of Directors. The voting power in the Bank is determined by the contributions of member governments to share capital of the Bank, after an initial allocation of votes, unrelated to the respective contributions, was made on an equal basis between the members.

The Bank's investments are to concentrate on physical and other infrastructural projects by means of loans to member states or their agencies, and the provision of technical

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**Board of Directors**

- **Dr S S Brand**: Chairman and Chief Executive of DBSA
- **Mr J A Botes**: Chairman, Venda Development Corporation
- **Mr M T de Waal**: Managing Director, Industrial Development Corporation
- **Mr G F Godden**: Deputy Chancellor, Rep of Ciskei
- **Mr J B Maree**: Executive Director, Barlow Rand Ltd
- **Dr P R Morkel**: Managing Director, Volkskas Group
- **Mr G S Muller**: Deputy Vice Chairman & Chief Executive Officer, Nedbank Ltd
- **Prof W L Nkuhlu**: Vice Principal, University of Transkei
- **Mr R A Plumbridge**: Chairman, Goldfield Ltd
- **Dr A P Scholtz**: General Manager, Noordwes-Koöperasie Ltd
- **Mr W J J van Graan**: Managing Director, Bophuthatswana National Development Corporation Ltd

**Alternate Directors**

- **Dr D H M Bridgman**: Presidential Advisor on Development, Rep of Ciskei
- **Dr W J de Villiers**: Chairman, Commission of Inquiry into Electricity Supply
- **Mr B E Keikelame**: Secretary of Economic Affairs, Rep of Bophuthatswana
- **Dr D C Krogh**: Executive Deputy Chairman, L & G V Insurance
- **Mr M R Madula**: Secretary, Economic Affairs, Rep of Venda
- **Mr A S Nkonyeni**: Managing Director, Job's Hardware
- **Mr P H Swart**: Director, SAAU
- **Mr A J van den Berg**: Chairman, Industrial Development Corporation
Council of Governors

The Honourable O P F Horwood RSA — Minister of Finance and President of DBSA

The Honourable R F Botha RSA — Minister of Foreign Affairs and Information

Dr G P C de Kock RSA — President of the Reserve Bank of South Africa

Dr the Honourable D J de Villiers RSA — Minister of Industries, Commerce and Tourism

The Honourable J C Heunis RSA — Minister of Constitutional Development and Planning

Dr the Honourable P G J Koornhof RSA — Minister of Co-operation and Development

The Honourable Chief M E P Malefane CISKEI — Minister of Finance and Economic Development

The Honourable S M Qaba TRANSKEI — Minister of Finance and Audit

The Honourable S L L Rathebe BOPHUTHATSWANA — Minister of Local Government and Housing

The Honourable Gota F N Ravele VENDA — Minister of Economic Affairs

Alternate Governors

The Honourable R Cronjé BOPHUTHATSWANA — Minister of Manpower and Co-ordination

Mr I Melville CISKEI — Director General, the Department of Finance and Economic Development

The Honourable Gota E R B Nesengani VENDA — Minister of Education

The Honourable K G Nota TRANSKEI — Deputy Minister of Health

Members of the Board are
(Sitting) Mr M T de Waal, Prof W L Nkuhlu, Mr W J J van Graan, Dr S S Brand (Chairman), Mr J A Botes, Mr G F Godden
(Standing) Mr A J van den Bergh, Mr P H Swart, Mr B E Keikelaar, Dr A P Scholtz, Mr R A Plumbridge, Dr P R Morkel, Mr G S Muller, Dr D H M Bridgman, Mr M R Madula, Mr A S Nkonyeni
Absent were Mr J B Maree, Dr W J de Villiers and Dr D C Krogh

Initial subscriptions
(Rand millions)

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<th>Member</th>
<th>Paid-In capital shares</th>
<th>Callable shares</th>
<th>Total initial Subscription</th>
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<td>90</td>
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<tr>
<td>Venda</td>
<td>5</td>
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200 1 800 2 000

Voting rights

<table>
<thead>
<tr>
<th>Country</th>
<th>Basic votes</th>
<th>Votes based on shareholding¹</th>
<th>Total votes</th>
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<tbody>
<tr>
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<td>CISKEI</td>
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<td>South Africa</td>
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1 Each R500 000 contributed entitles members to one additional vote.
assistance and training. As a start, the Bank took over loan agreements involving more than a hundred existing development projects in Transkei, Bophuthatswana, Venda and Ciskei, totalling almost R200 million, from the RSA Department of Foreign Affairs and Information.

While the Bank does not undertake projects or programmes of a business nature, it is structured to achieve the maintenance of the highest possible efficiency and cost effectiveness. Its involvement in projects is by means of a project cycle consisting of seven phases: identification, preparation, appraisal, negotiation, implementation and supervision and, lastly, evaluation. In order to carry out the various activities related to these phases, the Bank's broad internal structure aims at research and strategic planning, general administration and financing, programme and project implementation, and agricultural, industrial, and mining management advice.

Provision has been made for the Bank to employ between 200 and 250 people.

To emphasise the independence of the Bank's operations from political influences, it was agreed by the member governments that its headquarters should not be in the capital of any of the member countries, and decided to locate it in Johannesburg or vicinity. A temporary headquarters has been set up in Sandton, near Johannesburg, while investigations are under way to find a site for permanent headquarters.

*By providing loans at below-market interest rates, DBSA is in competition with private financial institutions*

The private financial sector cannot, or will not, become involved in the kinds of projects the Bank will finance, as infrastructural development requires long pay-back periods and a high proportion of indirect, non-chargeable benefits. These functions have, in fact, never been performed by private financial institutions, but rather by RSA government departments. DBSA does not as the CED did, provide loans directly to business undertakings, nor does it have its own business undertakings.

DBSA will, however, carry out its activities according to sound business principles and its operations supplement and support those of the private sector. They are, moreover, directed to closer involvement of private initiative in development.

*DBSA has unlimited sources and can provide in all the requests of its member countries*

Although the Bank because of its financing structure, can mobilise more resources for development than were available before its establishment, those resources will have to be obtained partly in competition with other expenditure programmes of the contributing governments and partly from the capital markets. These funds will accordingly have to be allocated carefully on the basis of the priorities deduced from the development goals of the participating states.

As is the case with any banking institution, the Bank will therefore have to take unpopular decisions on loan applications. It could also become unpopular for the control which it exercises over the application of its loans. However, considering the multilateral involvement in the control of the Bank, these disciplines will hopefully be accepted more readily by the beneficiaries.
Popular misconceptions about DBSA

As can be expected with the establishment of a new multilateral institution, misconceptions can easily arise about its purpose and functioning. Some popular misconceptions about the Bank and the actual pertinent facts, are:

* **DBSA is a first building block in a confederation of states in Southern Africa**

DBSA was established by agreement between the five original member states, and with the consent of the governments of all the self-governing national states in the RSA, on the explicit understanding that support for its establishment does not commit any of the participating governments to any future particular political arrangement in Southern Africa, whether it be confederation, federation, a unitary state, or any other formula. While individual governments might well see the Bank as a first building block towards particular forms of constitutional arrangements in Southern Africa, these can, in the light of this explicit understanding on which the Bank came into being, not be more than individual views.

Irrespective of the nature and direction of future constitutional and political developments the Bank does, however, provide opportunities for gaining experience of a broader participation in decision-making about important matters relating to development in Southern Africa — a kind of experience that is essential for the operation of any future political and constitutional development.

* **DBSA is taking over the functions of the Corporation for Economic Development (CED)**

DBSA is not an RSA institution like the CED, the Departments of Cooperation and Development and of Foreign Affairs and Information. It was not established by an Act of the RSA Parliament, but is a multilateral institution established by agreement between all the participating governments.

DBSA will take over the development cooperation functions of the abovementioned two RSA departments, viz the financing of infrastructure and the provision of technical aid. However, the functions of the CED, which involved the direct financing and setting up of enterprises, will insofar as it cannot be transferred to private enterprise, be taken over by the development corporations of the self-governing states, and not by the Bank. DBSA did take onto its staff a substantial number of former CED employees whose expertise and experience of development matters were considered appropriate for the Bank.
Corporate report on the Institute of Life and Pension Advisers.
Supplement to Financial Mail. October 12 1984

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FOREWORD

Let the client decide

It seems everyone wants to be a “professional” these days. Some, like doctors, lawyers and accountants, are entitled to the description by right, tradition and qualification.

Others, like estate agents, valuers and town planners have attempted to achieve at least some professional status by organising Acts of Parliament to govern their affairs. The effect in each case has been to bar free entry to a particular field of activity.

The argument, of course, is that it is in the “public interest” to lay down minimum standards. The other point of view is that such artificial barriers are a restraint on initiative and competition.

And then there are the few who see it from both sides. To them a recognised qualification is important but not a prerequisite to entering most fields of endeavour. The better qualified man, the thinking goes, must gain the customer’s respect — and business — in the long run.

To its credit, this has been the approach of the three-year-old Institute of Life and Pension Advisers. Its fellowship examinations, which permit successful candidates to append the letters FILPA behind their names, are not designed to keep anyone out of the pensions and insurance business.

After all, it must be accepted that there are many highly competent advisers who are not ILPA members and, perhaps, never will be.

The important thing, however, is for clients to know that they are dealing with someone who knows what he is talking about. Thus it’s a fair bet that if ILPA can get its message across successfully, more and more buyers of pension and insurance advice will insist on dealing with one of its fellows. He may not necessarily be any better than anyone else, but at least the client will know that he is getting proven expertise.

That will be good for the institute and good for the industry’s image. And it’s voluntary. In the end, that is ILPA’s greatest strength of all.

STANDARD BANK ASSURANCE BROKERS SUPPORT THE INSTITUTE OF LIFE AND PENSIONS ADVISORS IN ITS EFFORTS TO INCREASE THE LEVEL OF PROFESSIONALISM IN THE LIFE ASSURANCE INDUSTRY

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When performance must be measured by results.
Good all-rounders

"I hold every man a debtor to his profession; from which they as men, of course, do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto." — Francis Bacon

If half the brokers and agents had half the knowledge required to get their Ilpa fellowship then the life insurance industry would be well served. Sadly, this is not the case. Indeed, the financial services industry is not, to put it mildly, held up as a model example of the ethical, the upright, or the reliable. Indeed, epithets such as "bucket shops," "loan sharks" or "sharp talkers" are, unfortunately, the more obvious illustrations of an intangible world where money is the central commodity and advice is as variable as the four seasons.

A strong indictment, perhaps, but nevertheless something the intermediary has to live with. Only through an organisation like Ilpa can such an image be changed.

Since financial advice often has long-term implications, it obviously takes a long time to be "found out." It could take as many as 20 years down the road before a particular insurance salesman is seen to have been inadequate in terms of knowledge and, perhaps, lacking in financial objectivity as well. Occasionally such salesmen err to such a degree they are viewed as being "crooked as a donkey's hind leg."

To what extent is this responsible for the perceived image of the intermediary today? Debatable. But, rest assured, by the same token it takes just as long — 20 years — to develop a good reputation.

Another slur burdening the intermediary is the high staff turnover in his industry. True, most sales activities are bedevilled by the same problem — it is, perhaps, in the nature of the job. But insurance probably has the highest staff turnover of all sales jobs.

This is because there are few areas outside insurance where the intangible has to be sold to the ignorant. A prime requisite of the intermediary, therefore, is an ability to make the intangible, tangible, and the ignorant at least sufficiently knowledgeable to know what they are buying.

This surely must be the principle behind Ilpa's call to arms. Simply, its purpose is to promote a high degree of ethical standards, financial integrity, and competence in the field of the life and pensions industry. Since the intermediary is the visible representative of this industry in the minds of the public, he, above all, is more able than most to redress the tarnished image earned by his predecessors.

And in fact, the Ilpa "pledge" says it all: "In all my professional relationships, I pledge myself to the following role of ethical conduct: I shall, in the light of all conditions surrounding those I serve, which I shall make every conscientious effort to ascertain and understand, render that service which, in the same circumstances, I would apply to myself."

The starting point for an aspirant to this noble collect is, as to be expected for all professions, a long, arduous, and some say tortuous expedition into the realms of education. And many have already failed to complete the journey.

In the three exam sittings — April 1982, September 1982 and August 1983 — the average pass rate for both life and pensions exams fell from 30% to 20%. The papers for the latest sitting, in August 1984, when a total of 1 250 candidates took up the cudgels, are currently being marked. It will be surprising if more than 25% pass.

Reasons for failure include the high standards set for the examinations, the unfamiliarity of ageing candidates with exams, and the lack of adequate tutorial material.

It is intended to improve both exam technique and tutorial material in the years ahead as educational programmes are built up to standard.

Meanwhile, the growing numbers preparing to take the exams (see tables) is gratifying. It shows a recognition on the part of the intermediary and others in the financial servicing side of life and pensions business, of his lack of knowledge and, more importantly, that something should be done about his public image.

The exams are certainly comprehensive.
Altogether there are four life exams and four pensions exams. Candidates become Fellows of Ilpa on passing one set of four exams. The life advisers take: investments and personal financial management; pension and retirement provision; business insurance and estate planning.

And the pension advisers take: fund constitution and management; pension and retirement provision; business insurance and fund financing and investment.

The range of subjects these exams cover is enormous. Knowledge is needed of economics, law, accounting, business management and, in particular, tax and estate duty legislation. The central function of the intermediary as financial planner should be to seek all the options open to each of his individual clients with a view to maximising returns to match their future financial requirements.

In this light he must “make a plan” for the client, whether it be for retirement, estate purposes, investment, personal finance, business assurance et al.

The subjects he will be expected to draw upon for his examinations, and obviously during his “after-life” as an Ilpa man, include dealing with marriage laws, pension transfer problems, employee benefits, structuring of company assets for estate purposes, key-man insurance, deferred compensation, retirement planning and retirement income, investing inheritance monies, early retirement provision, and pension fund investment. This is just a small sample of the subjects that clients will turn up with at an intermediary’s “clinic.” Like the general practitioner, perhaps, the Ilpa man must be prepared to cope with whatever problem crops up.

Of course, to follow the “do as you would be done by” principle, requires more than just examination passes. This is where the association can only rely on the integrity of the Ilpa fellow himself.

The fact that he took it upon himself to labour through a mass of examination papers counts in his favour in this regard. Otherwise, Ilpa can only hope he takes Bacon’s tenet to heart.

Like any good all-rounder, the competent financial adviser is hard to find. And in the modern, sophisticated environment, this is precisely what is needed. In fact, the all-round financial adviser should be the norm, rather than the exception.

The man from the Institute

The aim of the Institute of Life and Pension Advisers is to bring greater professionalism to the assurance and pension fund industries

October 1981 is a landmark in the history of the long-term insurance industry in South Africa. It was the year of the establishment of the Institute of Life and Pension Advisers (Ilpa).

Ilpa’s aim is to create recognised professional status for those members of the life industry involved in the complex fields of business assurance, estate planning and pensions matters.

The Old Mutual played a major role in the founding of Ilpa after operations general manager Mike van Greunen initiated the idea of forming a professional body equivalent to the North American Chartered Life Underwriters’ Association (NACLUI).

At the beginning of 1979, Van Greunen briefed a three-man task force to investigate and report on the need for, and feasibility of, introducing an equivalent qualification in SA. This led to the formation of a co-ordinating committee with members drawn from the long-term assurance industry throughout the country. Bodies represented included the Life Underwriters Association (Luasa), the Insurance Brokers Association (Saiba), the Institute of Pension Consultants and Administrators (Iposa), and the Life Officers Association (LOA).

Because he did not want Ilpa to be looked upon as an Old Mutual organisation, Van Greunen took a back seat once the co-ordinating committee was formed. The committee was headed by Harry Brews of Liberty Life who is now the president.

Membership of the Institute is granted only when a candidate has passed all the professional examinations and undertakes to honour the Institute’s code of ethics and professional conduct. Members are identified by the letters FILPA (Fellow of the Institute of Life and Pension Advisers).

The intention is to create public confidence in dealing with a member of the Institute. When dealing with an Ilpa fellow, the thinking runs, prospective clients will know that they are dealing with someone who has more than a basic financial and investment knowledge and who is subject to a degree of discipline over and above that exerted by his employer.

While the Institute has been endorsed by all major life offices, it is an independent examining body. Its purpose is to give recognition to individuals who have satisfied the high examination standards set to test their knowledge on life assurance, employee benefits and personal financial planning. Any individual presently giving investment advice is not forced to seek membership.

By establishing a very high standard of examination it is hoped that the Department of National Education will accord the qualification the same status as a university degree. Another objective is reciprocity with NACLUI in the US. And so far, the indications are very positive.

NACLUI has explained that if it is satisfied with the set papers, and that the same standards will be maintained, it would certainly like a reciprocal arrangement. This would allow an Ilpa fellow to use "NACLUI South Africa" as well.

Some think the exam standards are too high. But it is easier to drop the standards, Ilpa explains, than to raise them. The institute has obviously exempted certain candidates from academic requirements. Anyone who has been in the industry for more than five years may write the ex-
ams without the equivalent of a two-year B Comm. Newcomers, however, must take the academic route.

Other qualifications in lieu of a B Comm, such as a formal legal or accounting qualification, are recognised. Ilpa is now looking at other qualifications that may become eligible, such as the Chartered Institute of Secretaries, Fellow of the Institute of Insurance and Fellow of the Institute of Actuaries.

Because advice is given on a broad spectrum of personal finance, the exams have to be all-encompassing. They include questions on investment and personal and financial matters, yet sole knowledge of insurance is no longer sufficient. People must also have an appreciation of economics and government financing, for instance, plus a grasp of the legal aspects of personal finance and commercial law.

Ilpa has financial support from most of the life offices, Salba, Luasa, and Ipca. Only when there are more than 1000 Fellows, will Ilpa be financially self-sufficient. In the meantime, Salba asks its members to make an annual R5 contribution per employee and the life companies contribute a proportion of premium income (about 0.02%). The examination fee, originally R25, was far too low to cover expenses and it now costs R125 to sit the four papers, plus R25 for a copy of the tutorial material on each subject.

Six major life offices have accepted the responsibility for preparing the material. The Old Mutual covers estate planning with the assistance of Sanlam; Southern Life is responsible for retirement planning; Liberty Life business insurance, the Prudential takes care of fund financing and investment aspects and Anglo American Life (before the Southern merger) wrote the fund constitution and administration. In addition, Bowring Barclays and Associates prepares the study material on investment and personal financial management.

Unfortunately, the tutorial material is sometimes delayed because of the diverse sources and, not surprisingly, candidates complain.

Ilpa's ultimate object is for the public to become aware of the professionalism, the expertise, the moral and ethical approach to writing business, and the disciplinary controls Ilpa has over its Fellows. Every competent practitioner should have the qualification, in Ilpa's view. Eventually, it feels, the informed buyer or person seeking advice on his personal financial matters will feel that the advice of a Fellow has to be sought.

There are now 430 Fellows, but the hope is that this figure will double over the next two to three years. None of them, it is worth noting, can obtain the qualification purely as a result of long service; each has to pass the gruelling tests. Fellows are not allowed to use their qualifications to advertise for business, but they can be recognised by the letters "FILPA" appended to their names, by an Ilpa logo on letterheads and an official tie.

Ilpa hopes the image of the life assurance man will improve beyond measure. It is no longer an occupation for anyone "between jobs," notes an Ilpa man. "It's now a career for the true professional."
Top company

Like most organisations, Ilpa relies on a cadre of key men to keep the show on the road. The FM takes a look at five of them.

The Ilpa men which feature below are by no means a pentarchy. The founding spirit (Old Mutual's Van Gruenin), for example, prefers for good reason to maintain a low profile. Also, the institute is effectively run by an enthusiastic and energetic council, not all of whom can be featured individually. These office-bearers have been singled out to provide an insight into the institute and how it is run.

HARRY BREWS

To many of his colleagues in the industry, Harry Brews is Mr. Ilpa. Although it was not his brainchild, he has worked tirelessly since its inception to get it operational.

Brews, the president of Ilpa, has experienced a career path typical of many within the life and pensions industry - most join by accident. His original goal, to be a chemical engineer, was pursued both in SA and in the US.

"In fact, as soon as I started studying engineering, I realised I did not want to be a chemical engineer but wanted the qualification because it was necessary for industrial management," he says. "That was the area I was aiming for. It trains you to be analytical."

His career as a chemical engineer lasted only six years, however, before he established his own company in Johannesburg, specialising in marketing and market research.

Recalls Brews: "I aimed at the small businesses which, in those days shortly after the war, had not developed any marketing experience, mainly because selling was never a problem. I drifted from marketing into market research and was one of the few people in the country at that time who knew the principles."

His career in life insurance started on the beach in Durban in 1962. He was working unhappily for a Durban company and contemplating his lot on the beach one afternoon when the late Louis Miller - who was then the sales manager for Liberty Life - came and sat beside him. When he heard that Brews was thinking of changing jobs, he suggested he speak to Donald Gordon the next time he was in Johannesburg.

"As I knew Donny Gordon from our schooldays, I contacted him when I returned to the Transvaal. Liberty Life had just introduced the retirement annuity contract and, from a purely investment point of view, it was obviously going to be a good seller. So I decided to try my hand. Like most of my colleagues, I joined by accident because I was in the right place at the right time."

His marketing and market research experience proved to be a great asset when he was appointed to set up a network of agencies in and around Durban for Liberty Life. As a result of his success, he was moved to head up the Johannesburg broker division.

Now the only person at Liberty Life with longer service than Brews is Donald Gordon himself.

GRAEME HILL

Similarly, Graeme Hill joined Southern Life more by accident than design. Having completed his British education in Rhodesia, he was at a loss to know what to do. But it was not long before the problem was solved.

Hill takes up the story: "A friend of my family's working for the short-term arm of The Southern Insurance said the company was looking for staff and suggested I meet the manager."

"At the interview the life manager also happened to be present, so I had a choice and opted for the life division. After my army stint, I was transferred to Durban, supposedly on a temporary transfer to learn about the pensions business. The idea was that I should return to Rhodesia to set up a pensions division there - but I was sent to Cape Town instead."

Moving about within the company has given Hill an interesting career. From pensions he was transferred to sales and administration. In 1972, he was asked to resuscitate the marketing department, and this has developed considerably since then.

"The dynamic changes within the industry are certainly exciting," he continues. "I get involved in the development of new products, which takes me overseas, not only to acquaint myself with the products available there, but also to assist in selling procedures and to get ideas for advertising campaigns."

So how did he get on the executive committee of Ilpa? "It was my marketing experience," he explains. "That was the reason why I was invited to join. My function is solely devoted to publicity and creating an awareness of Ilpa in the minds of the public. However, our first task was to get through to the insurance companies, agents and brokers. I am happy to say there has been a strong move within the industry to gain the Ilpa qualification. Insurance companies have been structuring their training programmes to end with the Ilpa exams."
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MOMENTUM LIFE ASSURERS

Institute of Life and Pension Advisers. A corporate report. Supplement to Financial Mail October 12 1984
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Come in and talk to one of our investment advisers today.

IAN SOLOMON

Different people take up life assurance for different reasons. Usually they have trained in other careers which they found wanting for one reason or another, or they never planned a career before leaving school.

But this is certainly not true of Ian
LOUW VAN WYK

“I am looking forward to the day when Ilpa is recognised as a professional institute by other professional bodies – as an institute that maintains high standards, so that its members can be relied upon to give professional judgment on financial planning. At present, a member of the public has no idea how competent his financial adviser is until, perhaps, he develops a relationship spanning many years.” This recognition, in Van Wyk’s view, will take about five years.

“By using the media as a means of communicating with the public, we hope to get our message across sooner. Within the industry, the Ilpa qualification is being recognised and, in our experience, employers are taking on Ilpa fellows more readily than those without the qualification.”

But how will the institute ensure that candidates keep up to date with new developments and legislation? Van Wyk says a journal will be sent to all fellows on a regular basis. It will contain articles dealing with changes, items of interest within the industry, and times and places of forthcoming seminars.

NIGEL WIGRAM

Although firmly entrenched in insurance administration and marketing, Nigel Wigram originally chose a career in civil engineering.

Wigram has studied for most of his life. He received his schooling at Clifton College in Bristol, England, before coming to SA to study engineering at the University of Cape
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and objectives of

ILPA

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department in estate planning and
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throughout South Africa.
Having decided he did not want a career in concrete, he searched for an alternative.

"I heard life companies were ideal to join if you did not know quite what job you wanted! This was mainly because they provided enormous scope for career opportunities. And, by moving from one department to another, you could gain experience while establishing which field you preferred."

"Life companies are big and varied enough to offer plenty of alternatives. Bearing in mind I had no complete qualification at the time, the insurance world seemed the only alternative."

Since joining Old Mutual over 20 years ago, Wigram has gained qualification after qualification - although he does admit taking the odd year off from his part-time studies. But now, he says, his chase after academic qualifications is probably over.

"I started collecting diplomas, but realised they were not worth a great deal and decided to work towards an MBA. But I had to gain a bachelor's degree first. My MBA was the only full-time course, though, and that lasted one year."

He then found himself working in an area which was relatively new - advertising research in relations to the insurance industry. So he decided to do his Ph.D thesis to publicise his work.

The Old Mutual, in common with many other large companies, pays for the courses itself. This encourages its employees to study, especially as it must be reimbursed if the candidate fails. In fact, Old Mutual is rewarding employees who are IIPa fellows in the form of an increment, forming part of a pension package.

Wigram has been involved in IIPa from the very beginning when Mike van Greunen established a task force to investigate the possibility of a local institute. As a member of this task force, Wigram - then a relatively junior manager at Old Mutual - made the original presentation to the Life Offices' Association, the SA Insurance Brokers' Association and the Life Underwriters' Association to gain support for the institute.

"I have continued to support IIPa because I feel there is a tremendous need for professional recognition for the sales force. And I think ultimately the banks and building societies, who also give financial advice, will need to establish formal training to gain the same recognition," Wigram concludes.

As ye sow . . .

Providing the best advice can sometimes mean a loss in commission for the IIPa fellow. But ethical behaviour will reap its own rewards, says Ben Troost of Cape-based financial planning consultants Profin

The IIPa wants its members to rise above the traditional role of the life assurance salesman. To do this he requires extensive background knowledge of a myriad of financial planning services. He must keep abreast of the latest products available and new trends in approaching traditional financial problems.

Estate planning should be no exception. And it is just a small part of the extensive IIPa fellowship examinations.

Estate planning may briefly be defined as the exercise of arranging the estate planner's assets effectively to enable him to maximise the benefits for himself and his beneficiaries during his lifetime and thereafter.

In today's environment, estate planning has become a sophisticated exercise covering vast areas of law, accountancy, economics and finance.

Because of this, consumers generally are becoming increasingly aware of the necessity for having access to knowledgeable advisers. This is where the IIPa member scores. As a life intermediary, his qualification puts him in an excellent position to fulfil this need. He will have acquired specialised knowledge during his period of qualification. Add to this exceptional skills and a close relationship with clients, and he is fully equipped for the responsible and indispensable task of estate planning.

He must be aware of the various alternative solutions other than life assurance, and the implementation and practical implications of those alternatives. His knowledge must extend to the benefits and the tax implications of pension, provident and retirement annuity funds. He must also appreciate the basic principles of investment so that he can structure and motivate a sound investment portfolio. And he must give advice on wills, trusts and the distribution of estate planning.

But IIPa has created more than just an opportunity for the progressive and dynamic salesman to acquire the necessary knowledge for this formidable task. It also enables the consumer himself to identify those competent salesmen who are qualified to advise on matters of estate planning. In this way the consumer can ensure that he consults and deals with a duly qualified adviser to obtain the best advice available.

Unfortunately, knowledge alone is no guarantee of efficiency. Other skills, such as effective communication and selling abilities, are prerequisites for success. This success is invariably measured by assurance companies and broker houses in terms of the number of policies sold and retained, commissions earned, and the total amount of premium income secured.

Currently, life assurance salesmen are remunerated on a commission basis. This remains the same whether he has obtained the IIPa qualification or not.

Because the IIPa graduate's remuneration is based on his ability to sell life assurance policies in the same way as an "unqualified" salesman, he finds himself in a dilemma. On the one hand, he is ethically bound to give objective advice on matters of estate planning for which he receives no remuneration, and which may not necessarily involve the selling of life assurance, yet his remuneration depends on life assurance policies sold.

Assume the following situation: a client aged 55, who has a substantial estate, inherited a large share portfolio with high growth potential. He has a son who is an accountant. He is not too concerned about retaining exclusive control over his share portfolio. He is, however, concerned about the effect of the future growth on his estate duty liability. The adviser is faced with a number of alternatives of which the most obvious include: the sale of the shares to an Inter vivos trust, a company, or to his son; or the effecting of life assurance to provide cash to meet the ever-increasing estate duty liability.

The "unqualified" salesman will have no problem in recommending life assurance as the solution (sometimes because he knows no better). But the IIPa graduate is bound by a code of ethics to make an objective evaluation and motivated recommen-
Until recently, what worried me was I didn’t have any specific long-term financial plans.

Sue, our first child, changed all that. I realised I had to do something. After shopping around I selected Old Mutual’s new FlexiProgram.

FlexiProgram gives me, for the first time, a practical planning framework within which I can manage and control my long-term financial affairs.

For instance, at present my priority is sufficient life and disability cover so that my wife and daughter are financially protected if something happens to me. My FlexiProgram gives me this.

But, in addition I also want to build capital for the future. That’s why I’m investing as much as I can in FlexiProgram. Because, looking at Old Mutual’s investment returns over the past ten years or so, I have a very good chance of seeing my money grow faster than the inflation rate. Tax-free.

And with FlexiProgram I can now change the mix of life cover, savings and other options without losing the benefits I’ve already secured.

So, for instance, later on, depending on my situation I’ll probably “trade off” my life cover to increase my investment holding with Old Mutual. This kind of flexibility really impresses me. It makes planning a lot easier and more practical.

And to cap it all, each year Old Mutual will give me an easy-to-understand computer statement showing me exactly how my FlexiProgram has performed and how much more I’m worth.

That’s why I say, FlexiProgram is for me. It’s got everything I want.
Financial adviser . . . does he know what he’s talking about?

... which may not necessarily include the selling of life assurance.

It is clear, therefore, that because of this professional approach, and the corresponding need, the consumer will increasingly seek the advice of the Ilpa graduate. In a sense, this is where he is compensated for the lower commissions. It is a better, long-term view.

For the Ilpa graduate to be competent in the area of estate planning, he must, in addition to a thorough knowledge of life assurance, have a focused knowledge of certain aspects of the disciplines of the legal, accounting and other professions.

He will never try to take over their roles, but will seek their advice in specialised matters and work closely with these related professions. In seeking specialised advice, the Ilpa graduate has the following sources: attorneys, accountants, legal advisers at financial institutions, tax consultants and professional financial advisers.

When the Fellow of the Institute utilises one or more of these resources, he may encounter problems. Firstly, his consultant may not be totally objective because he is attached to a financial institution and his remuneration is based directly or indirectly on the financial product bought by the estate planner.

Secondly, his consultant may not have the specialised knowledge required to advise on the best possible solutions. For, in the nature of his particular profession, he may not keep up to date with developments in estate planning and related matters. And, thirdly, the fees charged by the consultant may be high.

It is therefore imperative that the Ilpa graduate surround himself with knowledgeable consultants from other professions whose objectivity is “above board,” who stay abreast of changes in legislation and techniques and whose fees are acceptable to him.

This, in itself, may present a problem as it takes time, through a process of elimination, to establish a working relationship with a trustworthy consultant.

In this way, fellowship of the Institute will enable the adviser to build up a clientele and further create and secure a source of future business.

As the consumer becomes increasingly aware of the specialised knowledge and skills available for proper and effective estate planning, more pressure will be exerted on the Ilpa fellow to keep abreast of the latest developments. This can only be good for the image of Ilpa as it strives to establish itself in a central role in the life and pensions industry.
Turning pro

With Ilpa examinations now firmly established, the next step is to achieve general recognition for the qualifications

The insurance industry's lack of an academic route was one of the major stumbling blocks to achieving professional status in times past, says Louw van Wyk, chairman of the professional standards committee.

"Compared to lawyers, accountants and engineers, for example," he explains, "the academic content in training was minimal. Most of the established professions require at least four years before accepting a qualified person into their ranks."

But Ilpa is young by comparison. Founded in 1981, the Institute has so far set four examinations. They have attracted an increasing number of entrants. The last exams, for example, were sat by more than 1 000 examiners.

The introduction of academic status for the life and pensions intermediary in particular is long overdue. For some time the industry has been increasingly concerned about its public image, and the arrival of a qualification of the standing of Ilpa's is both welcome and timely in view of the increasing threat of legislation. Certainly the Institute is well supported, and rightly so, by the authorities.

Van Wyk explains, however, that it will necessarily be a gradual process toward full professional status for the Institute qualification. Already Ilpa is debating phase two of its development which hinges on the criteria for permitting entry into the examinations.

The first phase was to permit examiners with five years' industry experience plus "sufficient" internal training. Van Wyk admits this may, to some degree, discriminate against those employees of the smaller insurance companies who lack "adequate" training programmes. "But most companies have good training courses," he notes. And what of those who don't? "Well," says Van Wyk, "people tend to change jobs and fulfill their training requirements elsewhere."

Examinees with less than five years' experience were also accepted as long as they had suitable academic qualifications.

Unisa Professor Wilhelms Herbst explains further: "The Human Sciences Research Council would not allow us to have any new subjects in our curriculum, so we decided to cater for an insurance qualification under our existing business economics degree. In year one, the student takes the general introduction to business economics. In year two, in conjunction with general management, half the course is optional in various fields including insurance. In year three, there are three major options, one being insurance."

Herbst adds that, from 1985, there will be an honours course over a further two years. This will cover risk and insurance, management of funds, risk management and personal finance.

Meanwhile, the August 1984 exam sitting will be the last time the five-year service applies. And the big question now, is what happens next.

Herbst explains: "We have recently had a meeting with Ilpa, and it is certainly considering making the second year B Comm a condition for writing the Ilpa exam."

But, he adds, "for phase two of our examination, committees are going to council with recommendations for the new requirements. In our view, this should not be totally academic, as is proposed by some."

"There is a lack of education bodies for one thing, and still not enough tutorial material for another; besides there are many 'good' people in the industry who have not yet had the opportunity to write the exams. A restriction to academic qualifications only would wrongly exclude them from Ilpa altogether.

"Instead, I think the most likely, and permanent, feature of Ilpa fellowship requirements will be a combination, probably of three options."

The first option will be a standard preliminary academic career through the courses for a B Comm.

A second option might be, say, three years practical experience, plus an entrance exam. The entrance exam would substitute for the current internal training requirement which is difficult to regulate when there are so many insurance companies with diverse approaches to training.

The third option would be a Chartered Insurance Institute (CII) qualification, plus, say, three years' practical experience. The Insurance Institute exams are more on the theory of life and pensions than on the practical side, and would therefore need a degree of back up from practical experience in the industry.

Van Wyk stresses that Ilpa does not allow the fortunes of entrants to fall foul of an examiner in a bad mood, especially since Ilpa does not allow remarking or correspondence from disappointed examinees.

Two examiners are jointly responsible for setting each of the four life papers and each of the four pensions papers. The eight life examiners, for example, get together to consider all the papers to see if standards are the same, that the subject is covered adequately, and that translations are correct.

After any amendments are made, there is another sitting at which the responsible examiners must produce model answers or a memorandum guide against which the papers are to be marked.

The two examiners responsible for each paper will mark the papers with assistants who will use the memorandum as a guide. As a double check, each paper is marked twice with its first score kept from the second marker. The examiners arbitrate in the case of discrepancies.

Finally, each examinee's four papers are compared for inconsistencies by the eight life examiners.

Another criticism sometimes levelled at Ilpa is that the standards of the examinations are too high. Van Wyk disagrees. "If they were lower, we would be doing the public a disservice." He concedes, however, that it may be too high considering the lack of tutorial material currently available.
If it is true that the standing of any organisation can be judged by the regard in which it is held by its peers, Ilpa is an unqualified success. Here are some views from the rest of the industry.

Tony Leisegang, convener of the Insurance Council of SA (lca): "The motivation and intent of Ilpa is excellent. Most important, is its promotion among intermediaries. Anything that improves sales and service is a good thing. I've heard various complaints, particularly about the administration of Ilpa. There have, apparently, been difficulties in getting results and there have been delays in registration. But I am sure this will be sorted out soon.

"Others have criticised the level of the course — that it doesn't test the candidate sufficiently. It is true that it does not reach the competence of, say, the Fellow of the Chartered Institute of Insurance (a view which Ilpa challenges). But, on the other hand, it improves the quality of the intermediary.

"On the other side, the level of the Ilpa exams is criticised for being too high. But this shows that it must be reaching some level of technical quality."

Dick Geary-Cooke, executive director of the Life Offices' Association (LOA): "We are very much in favour of a more professional approach to selling.

"Further, I can do no better than to quote our chairman, Frans Davin, who wrote in the SA Insurance Review of 1983: 'It is important in the present-day environment of change and competition that the salesman or intermediary will ensure that the service he renders — and it is undoubtedly a service — is accompanied by unimpeachable integrity and professional accomplishment. He, in fact, constitutes the 'frontline' of this industry and, to a large extent, is responsible for the image of life assurance in the general public's mind.'"

Geary-Cooke himself adds: "Education is a good thing; and anything done to further the quality of service is to be welcomed."

Hennie Oosthuizen, executive director of the Life Underwriters' Association of SA (Luasa): "We're getting where we want to go. The Ilpa presence is showing positive results in the market place. If we look at people who have achieved recognition by getting the qualification, that is what we're after.

"We must now get the market place to recognise the qualification. There were a few problems," I might add, "with the transfer of the Ilpa head office from Cape Town to Johannesburg. But that problem was temporary.

"Speaking for Luasa members, I would like to see more from our side with more members going for the exams. There has been criticism that the exams were quite heavy.

"But you know some of these fellows are confused when they come into an exam room. They display a surprising inability to get over in writing what they know. We recognise that people must go prepared to take the exam, that it's not just a kindergarten exam.

"We therefore plan to improve the opportunities during the year for Luasa members. One idea is to organise 'mock exams,' and we have started negotiating with Ilpa on this score. It is clear we need people to get some form of test experience. When a person has written a few tests, I think he will gain confidence.

"Ultimately this should work toward a higher pass rate. So there is no question that Ilpa should reduce its standards."

David Alston, executive director of the SA Insurance Brokers' Association (Saiba): "Saiba has been actively associated with Ilpa since the Institute was formed in 1981. Then, two representative member firms were included on the initial co-ordinating committee.

"The association enthusiastically welcomes the initiative taken by the industry in upgrading the professional status of life assurance salesmen. And the number of people who have entered the examinations to date is ample testimony to the fact that the fellowship is a highly sought after qualification.

"The fact that the pass rate has been relatively low to date is also evidence of the justifiably stringent standards set by the examiners. This ensures that anyone who has qualified as a fellow can be proud of his success and know that the initials, Filpa, represent more than a token achievement.

"More importantly, if Ilpa can successfully convey to the public the implications of the qualification they offer, it will do a great deal to put the consumers' minds at rest. I trust the Institute will not deviate from the high standards it has set and that more life intermediaries will be encouraged to enter — and pass — the examinations."
If you are interested in exploring a possible career with the leaders in personal financial planning, phone Roy Wildish at (01) 532-3519 (P.O. Box 7755, Johannesburg 2000).

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The Institute of Life and Pension Advisers.

Institute of Life and Pension Advisers. A corporate report. Supplement to Financial Mail October 12 1984
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Adaptor offers you Southern Life's proven Inflation-fighter system. To help make sure that your plans keep pace with inflation, choose either automatic fixed annual increases to your premium or automatic increases matched to the inflation rate. What's more, you decide how much you wish your life cover to grow each year. The Inflation-fighter offers you

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But this situation is improving all the time and generally the standard is seen as reasonable. "Even so, we still have Ilpa fellows who passed exams in the upper eighties, even nineties."

Public recognition and acceptance of an Ilpa member as providing a good, reliable service, is only half the battle. There is still the question of ethical standards. For no amount of qualifications will necessarily indicate that a person is of sufficient moral standing.

Exams can hardly enforce this, says Van Wyk. "But we can and do investigate complaints about members, and up to now we have received only three. The options open to us are admonishment, suspension, and finally, expulsion. But this last, drastic measure will be effective only once the Ilpa qualification is recognised by the public."

This may lead to the temptation to impose a "closed shop" in which only members of Ilpa, for example, be allowed to sell insurance. But Van Wyk believes that the Institute could never go further than advise people to prefer an Ilpa member for "quality service."

"But it is possible, as with accountants, for example, that certain aspects of the profession could become entrenched in law. In accountancy, of course, it is law that companies have their accounts signed by an auditor.

"Ultimately, of course, our aim is to gain acceptance by the public. The route we must follow to achieve this is a long one that will have to be charted cautiously. No doubt, the route of acceptance will be the same as the one taken by others before us: that is, accountants, lawyers and actuaries. We are naturally developing close links with these professions."

The next significant development for Ilpa will be acceptance by the Human Sciences Research Council as a professional body. And an approach to achieve such recognition, Van Wyk says, will be made shortly.

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**Passing it on**

**Whether dealing with assurance or pension investment, a qualified Ilpa adviser has one goal in mind: to obtain the best deal for his client.**

Liberty Life's Brian Hewitson explains

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Ilpa has two qualifying examinations — one for life and one for pensions. Each set of qualifying exams consists of four-hour exams on four subjects.

- **The life subjects are:**
  - Investment and personal financial management;
  - Estate planning;
  - Business insurance and
  - Retireent planning.

- **The pension subjects are:**
  - Fund financing and investment;
  - Fund constitution and management;
  - Business insurance; and
  - Retirement planning.

Central to the theme of all four life examinations and the last two pensions examinations is a detailed knowledge of the provisions of the Income Tax Act of 1962 — as amended — which refer to:

- Personal taxation;
- Personal investments and their basis of taxation;
- The income tax status of life insurance policies and benefits payable from pension, provident, retirement annuity and other funds;
- The Income Tax Act as it relates to estate planning;
- The income tax position in respect of employee benefit schemes, other than funds such as deferred compensation;
- The income tax implications of all business-related life insurance schemes such as key-man insurance; and
- Income tax strategies in relation to retirement and investment planning.

More specifically, there are certain areas of income tax knowledge which overlap into one or more of these subjects; while other areas require more specialist knowledge.

**GENERAL AREAS:**

Firstly, candidates must be able to prepare a detailed income tax computation to be able to determine the income tax as a charge against disposable income, and to advise individuals on an investment strategy to maximise after-tax returns.

This is in addition to the planning of retirement, both before and at the point of retirement, to use these strategies and to build up the maximum benefits on the most tax-advantageous basis to minimise taxes payable on retirement.

Secondly, candidates must have a detailed understanding of the basis of taxation of life insurance policies and the details embodied in the Sixth Schedule to the Income Tax Act. This deals with the taxation of life insurance policies.

This knowledge is needed to assess the impact of income tax on a life insurance-based investment plan, an estate plan, and to explain the role of insurance as an investment.

Thirdly, candidates must understand the provisions of the Income Tax as it relates to Donations Tax to be able to advise on the impact of donations in investment and estate planning.

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Best of fellows

At the time this survey was prepared, Ilpa had conducted six examinations — three for life candidates and three for pensions candidates. The FM speaks to four of the top students

PETER HAMP-ADAMS

One of the more outspoken members of the long-term insurance industry is Old Mutual manpower training manager Peter Hamp-Adams. In September 1982 he won the life prize awarded by Volkskas Insurance Brokers. (The first winner — in April 1982 — was Johan Kotze who could not be contacted before going to press).

Described by a spokesman for the industry as one of the brighter young executives in the life world, Hamp-Adams has a lot of positive comments about Ilpa.

Although he believes the Institute is still establishing itself, he says its qualifications are starting to be accepted as a fair test of ability — and as a means of combining the academic with the practical. In his experience as a lawyer, it provides the added advantage of binding the business disciplines, he says. One of the major features of Ilpa is its standards, both positive and negative. On the positive side it generates within the industry an enthusiasm to gain professional status; on the negative side, it lays down more regulations which must not be breached.

Hamp-Adams was one of many to make a career out of life insurance by accident. In his case, a motor cycle accident.

Having taken his BA, B Proc and LL B at the University of Cape Town, he planned to join a firm of attorneys in the Transvaal. But he fell off his motorbike and was forced to stay another year in Cape Town. As a temporary measure, he took a job with Southern Life. This led to another “temporary” job with Old Mutual — which is now permanent.

“I find it extremely interesting ‘tangibleising’ the intangible. It is a great challenge — yet training is an even greater one. Unravelling problems is home from home for me,” he explains.

Not easy

On the subject of the exams, he says they were not easy, especially in terms of time. This is a key issue for those who have not written exams for a long time. But, with seven years of experience of exam-writing, he certainly had an advantage. Also, with his background he had a pretty shrewd idea of what the examiner wanted. This is another technique gained from experience.

With this in mind, would he consider sitting the pension exams? Hamp-Adams says he might, but time is the enemy. “My new job as manpower training manager,” he explains, “is very demanding at the moment.”

He has delayed his prize winning overseas trip to this year. In the middle of this month, he and his wife are going to the United States where he will spend some time with a number of insurance companies — and, of course sightseeing.

Old Mutual’s Hamp-Adams . . . a fair test
TWENTY FIVE YEARS
OF
REINSURANCE SERVICE
IN
SOUTHERN AFRICA

1959 1984
Only two people in South Africa are double fellows of Ilpa, having passed both the life and the pensions exams. They are Ivor Gilmour, of Minets in Cape Town, and John van Rensburg, who has his own consultancy in Port Elizabeth.

Gilmour, who is a director of Minet Employee Benefits, is 64, Van Rensburg is about half his age. They had similar reasons for sitting the two exams, but the main motivation was to prove to clients that they were qualified in all aspects of financial planning.

John van Rensburg’s working career started in 1969 at the Norwich Union Life Insurance Society before he moved to Barclays Insurance Brokers in 1977. In 1982, he left the company, which was then Bowring Barclays, for Legal & General Volkskas. And in March this year, he formed his own company, Executive Pension Consultants, in PE.

For the pensions exams, which he sat in April 1982, he relied on his experience, but admits he had to study for the life exams in September 1983, particularly on the estate-planning side. He felt it was important to make the effort to take both exams. He intends taking an active part in Ilpa promotion once his business is established. Most of his spare time at the moment is taken up with his participation in the National Sea Rescue Institute.

Ivor Gilmour has considerably more time in the industry, having started in insurance when he was 16. Although he did not study for the Ilpa exams, he admits it was a daunting experience after all those years. “The subject matter was not a problem. It was trying to convince the examiner that you knew the subject in the time allotted.”

The “open book” nature of exams may be an advantage, but, Gilmour notes, it is also important to know what kind of questions will be asked. “You can take copies of the Income Tax Act and the Pension Funds Act into the examination room,” he says, “but they are useless unless you know your way around them and can find the relevant sections. I have a pretty good knowledge of the Income Tax Act and can quote the relevant passages for both disciplines.

“When I told my colleagues I was writing an exam, they roared with laughter and asked why I was doing such a thing at my age. They laughed even harder when I passed.

“Apart from an obligation to my clients, I am involved with Saiba in Cape Town and know most of the long-term brokers in the area. And many of them were taking the exams. I did not want to be the odd man out. I was nervous about the exams at first because I was putting myself on the line. What if I failed? I would look a fool, but, on the other hand, if I did not write the exams at all, I would still look a fool — so I faced the challenge.”

He has a jaundiced view of people who study hard to pass exams because, in his opinion, it is not really a test of competence merely to have book knowledge. He says there is no substitute for experience. And he should know — he has 47 years of it.

Some of his clients know he has taken the exams and appreciate their importance. And the rest don’t know about it, simply because he hasn’t broadcast the achievement. “One client,” Gilmour recalls, “asked what the FILPA initials meant after my name. When I explained, he was impressed.

“I believe in Ilpa,” he adds, “and feel very strongly about the need for people in our job to try and achieve a degree of professionalism. It is very important for the public, who spend a lot of money through us, to know that they are in the hands of competent people. I hope the importance of Ilpa will become generally known soon.

In his experience, the word is certainly getting round. At the inaugural party to celebrate the opening of the Cape Town chapter, for example, he says about 50 fellows were present and “there was a strong desire among my colleagues to maintain their professionalism and keep themselves abreast of all developments in the industry.”

Finally, Gilmour reckons Ilpa effectively sorts out the professionals from the amateurs in the quality of service provided.

“I do not mean to suggest that non-Ilpa men are not qualified or unprofessional; it is just important for clients to know they are seeking advice from a recognised professional man.”
ECKSTEEN DE WAAL

Ilpa examinations are not restricted to intermediaries and pensions advisers. Ecksteen de Waal is a legal man who managed to achieve top Fellow in the life exams in 1983. He does admit, however, he was training candidates for Ilpa at the time.

Since gaining his B LLB from the University of the Orange Free State, and being lured away from a Bloemfontein firm of attorneys by the Old Mutual, De Waal, 28, has worked for both Sanlam and the Old Mutual. He is returning to the Old Mutual in September and writes his finals for his Unisa LLB in October.

He is enthusiastic about his work as legal adviser because he gets the maximum opportunity to apply his knowledge; more so than if he were a practising attorney. He believes his Ilpa Fellowship has made him more acceptable in the industry and in turn it has given him more confidence. When conducting training seminars, the trainees now readily accept him as an insurance professional.

Apart from his own personal experience, De Waal feels the exams have broadened the scope for long-term advisers, opening new avenues of cover and affording better perspective. This new scope has opened new doors to increased commissions.

On the subject of the exams themselves, he reckons the standard is justifiably high. The fact that candidates can take certain books into the exam room for reference makes them easier. However, this also creates a problem, he says, because candidates tend to take more information than is strictly necessary.

The time allotted, he says, is reasonable provided the examinee knows the subject and does not try to supply more information than is required. One criticism, which is a minor one, concerns the short questions. De Waal believes they are too detailed and, in some cases, not covered by the syllabus.

His legal colleagues are impressed, not only by the qualification but even more by his prize of an overseas trip — also from Volkskas Insurance Brokers. The return air fare to the US, plus R5400 expenses, coupled with a visit to the American College in Philadelphia and Limra in Hartford, Connecticut, has proved to be a great incentive.

Sanlam assists by providing its prize winners with the equivalent for the spouse. So De Waal was able to take his wife with him. He visited six insurance companies in New York, Washington and Boston, before crossing to the West Coast to see the sights of Los Angeles, San Francisco and Las Vegas.

Under normal circumstances Sanlam rewards new Ilpa Fellows with a R300 lump sum, whereas the Old Mutual grants a salary increase of up to R150 a month to staff agents.

Having been to the US, De Waal confirms that the Ilpa qualification is the same as Naclu’s which, within the industry, has proved a great success in achieving recognition. Americans actively seek Naclu members to advise them on their affairs, although only 10% of insurance marketers are members.

CLIVE LOUW

Old Mutual deputy pensions actuary, Clive Louw, was Ilpa’s first top pension fellow. At the age of 28, he walked away with the leading pension qualification in the country in the September 1983 exams. And he admits he studied very little.

He says he found the exams easy, but confesses that, with his technical background, he had an advantage over other candidates. All the same, there were aspects of the syllabus which were not covered by his experience, and nor was there study material available to help him. So he put together his own.

Predictably, he is pleased that he wrote the exams. He says the studying has broadened his field which was restricted to group life, permanent health insurance and the evaluation of pension funds. It has opened other avenues, he says, which he has found very useful, particularly in the field of business insurance.

There are now about 15 pension Fellows at the Old Mutual, some of whom were inspired by the example set by Louw.

The Old Mutual grants leave to sit the exams as well as eight days’ study leave. This is designed to encourage candidates and OM further rewards those who pass by increasing their pension packages. In addition, Louw received a free trip to the US, plus R5400 expenses from Price Forbes in recognition of his achievement. It was left to him how to spend his time.

He is full of praise for Ilpa. He says it is creating a higher standard of advice which he is sure will benefit both the industry and the country as a whole. His only criticism is that Ilpa could, perhaps, have been established earlier.
PETER DAVIES

The 1983 pensions prizewinner, Peter Davies, is the only ILPA Fellow with Mercantile & General in Cape Town — with the emphasis more on life underwriting than product design and broker liaison. However, the company is keen to stress its wholehearted support of ILPA.

Davies says he wrote the ILPA exams as a means of getting to know SA law. His actuarial qualification was obtained in the UK. As assistant actuary at 28, he is used to writing exams. And, surprisingly, perhaps, he did not find the ILPA test too difficult. He read over the tutorial matter available and made photostats of the relevant Acts to take with him into the exam rooms. Davies, like many other actuaries, tends to compare the exams with the actuarial tests. These are more demanding time-wise and there is no chance of "waffling," as he puts it.

Davies, who has a degree in Business Science from the University of Cape Town, had set his heart on being an actuary from school — due to his liking for maths.

On the subject of ILPA he thinks it is very worthwhile, especially the aspects relating to law and the pensions industry. He says he can now discuss knowledgeably the legal implications of pensions, the ins and outs of deferred compensation, and what is possible with pension funds and provident funds.

Although very much in favour of ILPA, his criticism is constructive: "I think more work needs to be done on the tutorial material, bearing in mind the syllabus is still not at its final stage and needs further development. I found among the four papers there was a great deal of duplication."

In addition, he would like to see a change in the open book arrangement. This is where examinees are permitted to take certain textbooks into the examination room.

Davies would prefer closed book examinations with questions being more flexible and more general so that candidates need only memorise verbatim the relevant sections of the acts. To illustrate his point, he tells of one candidate who recently took with him a large cardboard box containing some 30 manuals. The candidate, he says, probably spent more time searching through his books than writing meaningful answers.

His prize from Price Forbes of a visit to the US is still in the planning stages for April or May next year. He also won a R500 prize from Ipcia.

Like Hamp-Adams, he plans to do a bit of sightseeing in the US, but his main purpose will be to visit the American Society of Actuaries and conduct some business for M & G.

□ No prize had been instituted when the first pension examinations were written in April, 1982.
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That old nuisance the foot-in-the-door "insurance salesmen" is on the way out. Sophisticated financial advice is now the name of the game as a look at the Ilpa examination papers shows.

Today's client requires his "adviser" to be far more than a conduit for buying life assurance policies. He needs sophisticated financial planning advice covering a wide spectrum. Assurance forms only part of the financial package.

The industry as a whole — life offices and intermediaries alike — has recognised the consumer need and is committed to improving and developing the quality of financial service available. This commitment to quality led to the creation of the Institute of Life and Pension Advisers (Ilpa).

The fellowship of the institute is offered to both individual life candidates and pensions candidates. Like other professional bodies, Ilpa requires a fellow to pass a set of examinations before he is admitted.

Each candidate must write a four-hour examination paper on each of four subjects (see Passing it on).

Each paper is marked out of 100 and the candidate must obtain an aggregate of 240 marks on the four subjects. In addition, he must score at least 50 marks in each of the papers written. These standards mean that the candidates must have a good all round knowledge of all aspects of financial planning. One cannot, therefore, specialise in just one area.

In 1983, each paper consisted of a number of short questions that probed specific problem areas, plus one or more detailed case studies. These required the candidate to weigh up the total circumstances of a client, and to submit a formal written plan. The complexity of the case studies required the candidates to be able to uncover hidden problems and opportunities and to submit comprehensive solutions.

The level of knowledge required to pass the examination is, therefore, far from superficial. A look at the 1983 examination papers makes the point.

Estate planning

In this paper the candidate needed to have a detailed knowledge of not only the various provisions of the Estate Duty Act, but also of revenue practice. For example, the candidate needed to know how to value a private company in accordance with section 5(1)(b)(ii) of the Estate Duty Act. To do this required a detailed working knowledge of financial statements and the various methods of valuation used by the accounting profession.

The different methods of estate pegging were also explored, involving the candidate in a consideration of the legal nature of preference and ordinary shares together with the implications of various methods of share capitalisation on the effectiveness of an estate pegging operation.

But the emphasis is on practical advice, and nowhere is this better reflected than in the major case study. This recognised that few people are willing to spend the money necessary to peg their estates. But they may well be prepared to re-draft their wills.

The candidate had to advise on the re-structuring of various wills to maximise the estate duty and income tax savings to the various beneficiaries, though without ignoring the practical subjective factors such as the client's personal opinions, even where these were in conflict with sound planning principles.

Business assurance

This paper explored the understanding of company financial statements, and the use of key man replacement and business continuation programmes. The candidate needed to know the various methods used by accountants to value companies. These included dividend yields and super profits.

In addition, the balance sheet set out in the paper required considerable interpretation, particularly with regard to the discounting of future liabilities. The candidate had to find tax efficient solutions to fund the discharge of these liabilities.

Investment planning

This paper highlighted the need of the adviser to look far beyond the traditional life assurance products. Candidates had to consider the investment opportunities offered by a wide range of institutions as well as the capital and money markets. A good grasp of investments, without a full understanding of the income tax implications, would also be inadequate.

The paper probed not only the income tax act itself, but also the revenue practice and the broad principles upon which the SA taxation system is based. Thus the candidate was required to support his investment suggestions with a discussion — for example, whether the resultant profits would be of a capital or of a revenue nature. The probable tax implications also had to be probed.

Retirement planning (life candidates)

It is an unhappy fact that, while a great many people enjoy the benefits offered by pension funds, provident funds and retirement annuities, most of them will never get the maximum benefit out of them. The reason, quite simply, is that they would have to have a detailed knowledge of the Income Tax Act and, specifically, the second schedule to the Act.

In this paper, the realities of everyday life were not ignored and the candidate was faced with advising a client whose personal views were often in conflict with the strategies required to save considerable amounts of income tax.

In addition to the purely tax-centred questions, the candidate had to understand the limitations placed upon the contractual capacity of a woman married in community of property, and also to be able to appreciate the real income needs of people living to retirement.

Fund financing and investment

The fund financing and investment paper first examined the valuing of assets and liabilities of a pension fund. Candidates had to explain the actuarial report and the significance of the assumptions used. They were then asked about the conditions under which self-insurance should be undertaken and what risk profile would require insurance.

Reference then had to be made to the Registrar of Pensions Funds' circulars, particularly the reaction required from employers to the recent rulings on financial soundness. Advice was then called for on the suitability of a range of investments suggested to the trustees of a fund.

Acceptable answers had to consider the counter's potential as a hedge against inflation, the requirements of the Pension Funds Act and the suitability of the investment for fulfilling the long-term needs of the fund.

Finally, candidates were required to advise a client on the selection of an investment house. Knowledge was required of the differences between market-related and book-value funds, the dangers of using investment performance surveys — and the other factors, such as depth and continuity of management — that should be considered.
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Business assurance (pensions candidates)
In the business assurance paper, successful candidates analysed the advantages and drawbacks of permanent health insurance compared to lump sum disability benefits. Reference had to be made to the Life Offices' Association agreement, while the effect on privately-owned policies was also noted.

Partnership assurance was then covered with a detailed set of questions relating to the owners while all alive, or the surviving partner and the heirs of the deceased partner. The broad sweep of the examination was illustrated by a question on the total insurance requirements of a shirt manufacturing company. This was followed by a detailed analysis of the income tax and estate duty implications of a number of policies. Reference had also to be made to the income tax guide and the text on insurance legislation.

Fund constitution and management
In the fund constitution and management paper, candidates were first required to explain to an employer how additional voluntary contributions could benefit certain members of his staff. Being a professional exam, the question then also covered how the employees could be convinced of the benefits and how participation could be made as simple as possible.

Executive benefits were then examined and a possible solution suggested which needed to be criticised from both the employer and member’s points of interest. Reference to the various legislative requirements was necessary to answer the substantive question on the operation of a fund not exempt under section 2(3)(a)(ii) of the Pension Funds Act. Candidates were also asked about the consequences of exemption.

A number of current issues were then examined. These included contingent liabilities of staff not in the fund, commutation factors and mergers of funds. Pension fund liabilities can be a crucial element in merger and takeover negotiations, and without the proper advice, hidden costs may be unknowingly bought over by the new company.

Retirement planning (pensions candidates)
The retirement planning paper first required the adviser to explain to an employer the legal framework for the operation of pension funds, provident funds and benefit funds, and the reasons why any particular system would be more attractive to a client.

The consequent tax treatment of benefits arising from the above funds had then to be practically explained to members retiring from various funds. The State old age pension was also covered in advice required by a company with employees outside the pension fund. The detrimental effect of an attempt by the company to improve the standard of living of pensioners had also to be explained.

The adviser had to suggest the most appropriate course of action for a company with employees in various states of disability. What was appropriate for an employee with a degenerative disease, for example, was different to that required by two employees with bronchial problems, one of whom had deferred compensation benefits accruing.

Finally, the complicated yet essential provisions of deferred compensation were to be explained to a small company.
The need for know-how

Employers are demanding better quality advice from their pension fund advisers, and ILPA is helping to ensure that they get it, says Liberty Life's Ben Lipschitz, convener of the pensions examinations committee.

The Employee Benefit and Pensions Industry has experienced considerable change in recent years — change which has manifested itself both internally and externally.

Internally, the industry has had to adapt to the changing needs of both the employer (the buyer) and the employee (the end-user). In addition, new factors have had an increasing influence on the design and structure of a pensions fund. These factors include inflation (decreasing buying power) and investment management (striving for a real rate of return over the long term).

Externally, the industry has seen more government intervention, such as regulated commission rates for insured pension funds which were introduced in 1977, an attempt to introduce Pension Preservation in 1980 and certain solvency requirements for the actuarial valuation of a pension fund in 1983. The issue of preserving accrued pensions money following a member's withdrawal, is currently being reviewed by a select committee of Parliament.

Not only is the industry experiencing some significant changes, but at the same time it is expanding at a very rapid rate. This expansion and rapid change requires an increasing level of knowledge and expertise by all people engaged in the industry.

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Marcus Katz Michel 50022
ILPA has in the past largely been gained by practical experience and involvement with various aspects of pension funds. The aim of the Institute of Life and Pensions Advisers (Ilpa) is to promote and advance the education of the consultants to enhance the image and professionalism of the industry as a whole.

Pension Funds are separate legal entities and decisions are constantly required with regard to the administration, benefit design, investments and funding of the pension fund.

These decisions are taken by people such as the employer, trustees, administrators, investment advisers, legal advisers, actuaries and also the members of the fund.

There are many sources of advice in each of these fields. These include life insurance companies, actuaries, pensions consultants, pension administrators, investment houses, brokers and agents. There is a need for advisers to pension funds to be able to demonstrate their expertise to potential users of the services that they offer.

Ilpa has recognised this and the need to develop the competence of people engaged in the pensions industry.

The syllabus for the pension examination places emphasis on two main subjects: "Fund Constitution and Management" and "Fund Financing and Investments." The objective is to give the candidate a thorough understanding of the management and administration of employee benefits on the one hand, and a sufficient understanding of the advantages and disadvantages of the various methods of funding and the available investment vehicles on the other.

To support these, two other subjects — "Retirement Planning" and "Business Insurance" — have been included. These enable the candidate to apply legal, tax and other practical solutions in the area of retirement planning and identity and solve problems experienced by employers and members.

These subjects provide the pensions consultant with a balanced perspective of what is required to become a professional pensions adviser.

As to the future, the demand for quality professional advice will no doubt expand. Professional consultants must keep pace with growing public awareness of the need to plan for retirement and consider the available ancillary benefits, such as group life insurance and disablement insurance. The industry must find acceptable solutions to problems, such as static retirement pensions in a climate of an increasing cost of living, the failure of pension fund investment to out-perform inflation, inadequate life and disability cover, and so on.

At this time of rapid change, there is a need to develop well formulated comments, suggestions, and recommendations on proposed legislation from people who have a good understanding of employee benefit provision. The main objective would be to influence future legislation for the benefit of the community as a whole.

The employer (who decides on the pension fund to be introduced) will be demanding good value for money. Contributions to pensions and provident funds have increased in recent years and will increase even further in the future. Technics of financing a pensions fund will, therefore, become increasingly important and the employer expects the pensions consultant to provide high standards of professional expertise.

The main purpose of a retirement fund is to provide pensions or retirement benefits to retiring members. Nevertheless, there are other objectives such as attracting and retaining valued staff. Staff with special skills are becoming relatively scarce in SA. The fund, therefore, must be constructed to provide benefits to attract such staff.

An environment of change such as the SA business is now experiencing presents special problems. Retirement funds should be reviewed and updated regularly by pensions consultants. And they must have a good understanding of the changing circumstances and be qualified to provide effective solutions.

Effective communication is required to ensure that staff understand the benefits and appreciate what their employer is doing for them. Fringe benefit packages must be reviewed in terms of the pending fringe benefit taxation. Retirement provision will inevitably be high on the list of non-taxable items.

Consumerism is growing rapidly in the employee sphere and is likely to become more important in the future. Both the member and employer will demand value for money and the best advice. Consultants of high standard will be required to provide the expertise and maintain the professional image.

Ilpa has initiated this process — a process which will continue to gain impetus in the future.

Retirement years ... help from Ilpa

Institute of Life and Pension Advisers. A corporate report. Supplement to Financial Mail October 12 1984
In life two things are certain: death and change. As far as the latter is concerned, financial legislation is no exception. Over the years there have been significant changes, especially in tax law.

We have seen more and more restrictive legislation like the sixth schedule to the Income Tax Act, amendments to section 11W governing the deduction of premiums on company owned policies, attacks on dividend stripping, leasing tax shelters and debit loan accounts. And, most recently, fringe benefits taxation.

The importance for us as members of ILPA is that whatever changes take place we must keep up to date. And in achieving our professional ILPA qualifications, we obtain the necessary groundwork so vital for appreciating the needs of our clients in a constantly changing environment. Here are just a few insights into the intricacies of legal evolution that so often become the stumbling block of the unprofessional intermediary.

The payers and the collectors. Tax planners are becoming increasingly active in arranging their clients' affairs to ensure that they pay the least amount of tax legal-
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has a finance service for each of your we've-simply-got-to-expand days.

Your Volkskas manager knows what it's like to carry the financial can. Whether it's one of those where-can-we-get-finance-to-expand days, or what-will-the-new-exchange-rate-be days, he has a service to offer. He can help with a company cheque account, with the leasing of equipment or vehicles, with floorplan and stock financing and with instalment sales for those we-need-a-really-comprehensive-banking-service days. Your company can benefit from our excellent insurance and pension schemes, comprehensive foreign services, import and export financing, forward cover against exchange rate fluctuations, foreign exchange for travel and a lot more for each of your I've-got-a-business-to-run days. Your Volkskas manager is ready to talk to you today.

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ly necessary. Indeed, tax planning has become a rapid growth industry. This trend is quite understandable when one realises inflation is rapidly pushing taxpayers into ever higher tax brackets without a corresponding increase in their standard of living — the well-known and widely-respected phenomenon known as "fiscal drag" or "bracket creep."

As tax planners reduce the aggregate amount of tax clients pay, the Receiver of Revenue feels compelled to amend the laws — or introduce completely new ones — to collect more tax. Quite unintentionally, these changes often give rise to totally new opportunities for tax saving. The result is a constant running battle of wits between the financial adviser and the tax man.

- Pressure groups. One often hears the complaint that tax legislation "isn't fair." A complaint of this nature is fatuous. As opposed to the interpretation of tax law by the courts, which is absolutely fair provided you can afford this route, tax legislation is always unfair to someone. After all, someone has to pay the tax.

Tax legislation responds to the needs of pressure groups and groups with "political clout." Big business, civil servants, farmers, politicians and Internal Revenue all represent groups with considerable clout. Changes in tax law reflect this.

What better example could be found than in the area of tax concessions? Tax concessions on building society investments have reduced considerably over the years but not so those on Post Office investments and Treasury Bonds. Which is the stronger pressure group?

The tax-free amount payable as a gratuity on retirement in terms of Section 18(1)(x) of the Income Tax Act — a fringe benefit available throughout the civil service — has over the past 20 years increased almost twice as much as the maximum tax-free amount that can be taken on retirement from a retirement annuity. One has only to answer the question as to which pressure group has the greatest vested interest in these gratuities to find the solution to this puzzling anomaly.

- The pace of change. Back in the sleepy Sixties, it was possible for a company to make a single premium payment to an insurance company, write off the premium as an expense and immediately borrow back up to 90% of the investment. This not only saved companies tax, but also boosted their cash flow as follows:

<table>
<thead>
<tr>
<th>Premium (say)</th>
<th>R 10 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less tax savings</td>
<td>R 4 000</td>
</tr>
<tr>
<td>Cash Outflow</td>
<td>R 6 000</td>
</tr>
<tr>
<td>Add proceeds of loan</td>
<td>R 9 000</td>
</tr>
<tr>
<td>Net Cash Inflow</td>
<td>R 3 000</td>
</tr>
</tbody>
</table>

The life insurance industry of those days has been aptly described as a sleeping giant. Certainly brokers and salesmen were at that time slow to react to the marvellous opportunity they had and little of this business was transacted.

The law governing company-owned policies was amended several times over the years, but the practice of using insurance policies as "corporate tax-shelters" was not effectively stopped until 1982. What's more, the various amendments to section 11W were not retroactive.

Over the past few years, however, the pace has picked up. Thurst and counter thrust follow much more rapidly. Insurance companies have specialist marketing and legal departments to rapidly analyse new legislation, looking for loopholes or opportunities. Within a matter of days they disseminate this information to brokers and agents.

Leading tax specialist Costa Diversis says: "In Johannesburg today, taxpayers and pedestrians both fall into two distinct categories — the quick and dead."

Since legislative changes are seldom retroactive, the nimble taxpayer often lives to pay much less tax than his less agile compatriot.

- The risks. Besides being unfair, tax legislation is uncertain. Sometimes the Receiver of Revenue's accepted practice differs significantly from a strict interpretation of the law. Interpreting the law is also an uncertain business.

Decisions by lower courts can be reversed in higher courts and even when the highest court in the land gives a ruling, the authorities can then immediately change the law to achieve the result they are looking for. The result is that a taxpayer has no way of knowing with any certainty whether a perfectly legal tax saving opportunity will still be available next year.

- Tax strategy. In deciding on a tax strategy, therefore, an Ilpa fellow, together with his client, follows these steps. They:

  - Make sure the tax plan is legal and is unlikely to be successfully attacked under section 108 of the Income Tax Act;
  - Assess the inherent risks;
  - Determine the possible benefits;
  - Decide whether the benefits outweigh the risks; and
  - Act fast.

The need to move rapidly is becoming urgent.

An ideal tax strategy is a conservative one but its implementation must be decisive. In these few simple steps lie a jungle of tax law, intricate amendments and legal precedent. It is up to us at Ilpa to keep abreast of changing tax laws to provide our clients with the quality of service they will, in time, come to associate with the institute.

### Running scared

For their own reason, there are are some who don't share the general enthusiasm for Ilpa qualifications

Not everyone's an Ilpa fan. Indeed, a small minority look on its efforts to improve professionalism in the insurance and pensions sectors as a waste of time. But, inevitably, the question which is asked of them is: "Are your reasons genuine, or are you just afraid of failing the exams?"

The FM spoke to several "abstainers" and, for the most part, they had convincing reasons for not getting involved. In some cases, the fear of failing was quite happily conceded.

One highly successful and experienced life salesman, who has built up a small empire on ability alone, does not believe the exams cover all the subjects in sufficient detail. When his clients need specialised advice, he says he calls in the experts — like lawyers for the establishment of trusts and wills, and investment experts and accountants to handle tricky tax situations.

He does not profess to be capable in all fields although he does know the life insurance market better than most. He believes a little knowledge is a dangerous thing and that the Ilpa exams only scratch the surface. He feels it is his duty to his clients to read everything available on financial planning and keep abreast of all developments, but he does not consider the Ilpa qualification to be sufficient.

However, he supports the idea that industry now boys should sit the exams as a commitment to show that they do not want
to make a quick killing from their friends, and then quit.

Another expert, this time in the pension field, says he is far too qualified and senior to sit Ilpa exams and should be granted an honorary degree or qualification.

However, having recently become involved in the life business as well, he might consider taking the life exams. He is not anti-Ilda. In fact, he feels it should be given every encouragement to develop. He does feel, however, that there should be two levels or grades to the exams — the lower as a recommended study for anyone first entering the industry. He also feels Ilpa is achieving a closer liaison with people in the pensions industry.

An actuary in Cape Town admits that "pure laziness" dissuaded him from taking the exams. But, he adds, there would be very little advantage for him even if he did — and passed. He suggests further that, perhaps, actuaries regard themselves as too superior to get involved in the Ilpa exams. But in his view Ilpa is a superb idea and a major advance for the industry. He might sit the exams eventually, he says — if there is no extra work involved.

Paul Nel, the first Ilpa executive director, has had much experience with abstainers, but has had even closer contact with those who have sat and failed. Some who fail, he says, exhibit extraordinary arrogance. They are usually certain that the examiners don't know as much as they do. He says the prospect of failing is the major concern of candidates, particularly to those over 40 who have forgotten how to tackle exam papers and how to give examiners what they want.

But the Ilpa influence is felt in different ways. Explains Nel: "New Fellows, after exams, often experience a period of consolidation, or even a decline in business. It's like changing a golf grip — once the approach is changed, results improve and remain at a higher level than before. The North American Chartered Life Underwriters' Association (NACLU) has experienced the same pattern, although it seems to find itself in different and better markets with higher commission levels."

So is it still necessary for Ilpa graduates to call in other professionals for advice? Nel concludes that outside experts like lawyers and accountants sometimes have to be consulted. But, he stresses, the Ilpa training enables the intermediary to understand what is being said by that expert.

Finally, Nel says, much criticism has been levied at Ilpa — some of which is valid, some not. His reaction: "We must be big enough to accept it."

An insurance executive, who failed the exams last year and is sitting again this year, says he has not finished one of the papers. He regards the exams as an endurance test, or a test of time. Most men in his position have lost the art of handwriting thanks to the dictaphone. So they struggle to put the necessary information down on paper in the time allotted. In his opinion, some questions to which quick answers are expected in the exam room, would require two days work if the information was compiled for presentation to a client.

But in spite of his examination ordeal, he thinks Ilpa is a good idea and he intends to persevere until he passes.

One Johannesburg intermediary, who earns nearly R140 000/year, has just finished sitting his exams and is certain he has failed.

His main worry is not so much the affect on his business, but the reaction of his family and colleagues to failing in a subject he should know well.
Liberty Life salutes the free spirit of these South Africans who took the tip of Africa to the forefront of the world.

General Christiaan De Wet. Elusive as the wind across the South African veld, he abandoned conventional warfare — routing superior forces to become the defiant symbol of a nation.

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You are better equipped to handle the increasing complexities of a rapidly developing area of specialization.

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The Institute of Life and Pension Advisers.
Many South African businessmen took another severe buffeting today as the rand continued its slide against the dollar, dropping to a new low of 58.20 US cents.

The rand has fallen against the dollar by 5.4 percent since the beginning of last week, by 10.6 percent since the beginning of September and by 31.5 percent since the beginning of this year.

The weakness of the rand against the dollar is partly the result of South Africa's poor balance-of-payments position and partly the great strength of the American dollar.

The British pound also eased against the dollar today, dropping in Hong Kong to a new low of $1,1996 before recovering to $1,2020.

The fall in the value of the rand against the dollar is hitting many South African businessmen. Bankers say importers are having to pay more for goods brought from overseas and local businesses which have borrowed dollars from overseas banks are seeing their indebtedness increase daily.
GOVERNMENT spending is running at 3.9% above the revised Budget target at the halfway mark of the fiscal year.

At September 30, the Treasury had spent R13,183bn out of a total Budget of R25,357bn. During the comparable period of last year the six-months expenditure was R11bn from a budgeted R21,175bn.

On these figures current expenditure is running at a rate of 19.7% above last year's. The average inflation rate for the eight months, as measured by the consumer price index, is about 11.8%.

With expenditure at R13,183bn and revenue at R10,891bn the deficit before borrowing amounted to R2,292bn. This was financed largely by raising R1,856bn in local issues of Government bonds and R500m in Treasury bills.

In September, RSA stock to the value of R360m was issued. Of this amount, R131m is said to have been taken up by the Public Investment Commissioners in the new bond 14.5% 2006, R200m in the 15% 1998 which market sources said was bought largely by overseas investors, and R29m in the 13% 2005.

Unless there are sharp curtailments of expenditure in the second half a number of departments appear to be overrunning their votes.

Transport is R50m ahead of budget. National Education has spent R652m — R120m ahead of budget. Defence, at R1,986bn, is more than R100m overspent. So is Agriculture, with spending of R486m. Industries & Commerce is R50m over budget, while other overspenders are the Commission for Administration and the Police.

Finance has already spent R2,115bn, whereas the halfway spending should have amounted to R1,745bn. Much of this overspending is a bookkeeping anomaly created by the issuing of Government bonds at a discount.

Well under budget are Co-operation & Development, Foreign Affairs and Community Development.

Looking at the departmental figures, it is difficult to see where the Minister of Finance, Mr Barend du Plessis, can introduce cuts to bring total Government expenditure into line with Budget estimates, let alone reduce the total burden of State spending.

Rand Daily Mail
Record rand gold price bonanza for SA mines

Argus Correspondent

JOHANNESBURG: — Although the rand has seesawed wildly this week against a rampant US dollar, touching one new low after another, gold has held up surprisingly well on world markets with the result that South African gold mines are receiving their highest rand price yet for their production.

The lowest point touched by the rand against the dollar yesterday was around 53.45 US cents, while gold traded little changed at just under $340.

Based on this combination the country's gold producers will receive about R610 an ounce on gold sold overseas — the first time the rand gold price has exceeded R600.

Not even in the halcyon days of 1980, when the world gold price touched $800, did the gold mines receive such a high income — because the rand against the US dollar was then in the $1.35 range, giving the mines only R595 for their production.

By all indications the dollar has not yet run out of steam. Thus South Africa can look forward to a bonanza year in bullion production.

In practical terms this means that the Government will receive extremely good tax payments from the industry, while its own outlay in terms of assistance to marginal mines — there is not a single gold producer operating at a loss at the current rand gold price — will be extremely low.

This more than welcome bonanza will help the authorities to balance their books and keep off the pressure for another rise in tax rates.

It is not only the gold mining industry that is benefiting from the low rand-dollar exchange rate.

All the country's mineral exporters — such as the chrome mines, manganese producers, the coal, antimony, iron ore and other industries — have generally had their contracts written in dollar terms.

Should the current agricultural season benefit from normal weather and production recover to average levels, the country will not only benefit from the exports that will result but also from being able to avoid costly imports of essential foods such as those in the past two seasons.

CONFIDENCE LOW

Thus, while the domestic economy may be in for a battering with business confidence generally extremely low, industries and companies which rely heavily on exports for their existence are in for a good year.

The devaluation of the rand should have also given South Africa's manufacturers an edge in world markets. Regrettably this has not been the case.

South Africa's inflation — running at a rate at least double that of major trading partners — has eroded any price edge that may have resulted from the low rand rate, while the country's abysmally low productivity, too, has not helped the manufacturing sector on world markets.

Inflation and low productivity remain two of the major stumbling blocks the country must tackle before any progress can be made in terms of getting the economy moving again.

This week the Minister of Finance, Mr Barend du Plessis, told the 25th anniversary dinner of the Association of General Banks that the authorities were determined to win the battle against these twin evils.

He said that recent, somewhat draconian, measures adopted by the authorities would remain in place until the battle against inflation was won or at least was a long way down the road to having been won.

His message was clear. The country will have to bite the bullet now in expectation of better times ahead.
Where to rein in State spending?

Howard Preece

There is plenty talk about the need for drastic cuts in State spending. What is wanted now, though, is rather more thought on just what form these cuts should take.

The broad issue looks straightforward:

Government expenditure for 1984-85 is expected to account for about 26.4% of gross domestic product compared with less than 24% two years ago and about 20% 15 years ago.

The turning point of the State share of GDP achieved in the late 1970s has been more than reversed in the 1980s.

Standard Bank claims in its October economic review that, without some countervailing action, “by the end of 1985 South Africa will have a larger public sector and a smaller private sector than it had prior to the mini-boom of 1983”.

But what should Mr. Barend du Plessis, the Minister of Finance, propose to Cabinet colleagues? Where should the economy axe fall?

It is at this point that many people find themselves in favour of economy in general — and in support of expenditure in particular.

Let us look at some of the key areas of State spending:

SA is far from being a welfare state. It is not only the unemployed or sick blacks who know that bitter truth. White pensioners, for example, are far worse off than their counterparts in the major Western economies.

Across the board there is minimal scope for trimming back on health, housing and other social provisions without adding to appalling hardships that already exist.

Education and training are other areas where there are widespread demands for improving facilities rather than reducing them.

It is common cause that SA suffers from an acute shortage of many managerial and artisanal skills — a shortage that adds to the employment problems of the unskilled because of the supply constraint it imposes on the whole economy.

Cutting spending on education will surely only make things worse.

Then there is defence.

Well, the case for slashing spending here can be argued back and forwards, but the fact is that no Nationalist government is in practice, going to be much impressed by it.

Indeed, so long as that government is dispossessed by the vast majority of people inside and outside South Africa it is at least logical to maintain a very formidable defence force.

Then are there those tempting but ultimately disastrous spending curbs that can be imposed on infrastructure development (something of that has already been taking place).

From an immediate political side there are fewer difficulties in reducing the resources going to roads, railways, harbours and so on than in most others.

But the economy will pay dearly in the long run for such action.

The one big redeeming feature of the excessive surge in government expenditure in the early 1970s was that much of it went on infrastructure — Richards Bay, Sishen-Saldhana etc. which paid handsome dividends in later years.

We come, of course, to the civil service.

There can be little doubt that the huge pay rises of the past year — about 25% on average — have added to the overall economic difficulties.

But it is no good thinking the answer simply lies in slamming the lid on civil service pay. That will produce an even more inefficient public service as many of the key people quit in frustration.

In the end the best bet must be to cut back drastically on the reason for there being so many civil servants.

That means sweeping abolition of controls, many of them at the heart of apartheid, so that there is no need for such a vast army of enforcement.

But will Mr. Du Plessis tell that to the Cabinet — and, if he did, would his colleagues listen?
Weighing the chances of another Great Slump

Robin Friedland

MONEY WORLD

I frequently encounter the belief that the world is on the brink of another Great Depression — that 1929 has come again.

This belief is sometimes founded on theories such as Konradieff Long Waves, which hardly need to be treated seriously. But the argument might have more realistic foundations than it is given credit.

It therefore requires very careful analysis, as the repercussions of another economic breakdown along the lines of that from 1929 to 1933 would be nothing less than catastrophic.

What went wrong in 1929 to turn what might have been no more than a normal cyclical downturn in the United States into a collapse of the entire economic mechanism?

In the first place there had been a long-sustained speculation on shares on Wall Street, financed by unlimited access to credit. (Contemporary margin requirements were imposed later in the light of the ultimately destructive effects of unlimited access to credit for share purchases.) The collapse in share prices that took place in October, 1929 had a damaging effect beyond the borders of the US.

Wisdom

Secondly, and critically, the response of the American central bank, the Fed, to the downturn, were diametrically opposite to what they should have been in the light of contemporary wisdom.

One of the main effects of the downturn was to expose severe illiquidity in the American banking system. When a major bank — the Bank of the United States — was threatened with collapse, the Fed decided that it would be wrong to intervene to save it. So the three years from 1929 to 1932 saw the virtual collapse of the American banking system, while the money supply, according to Milton Friedman, declined by about a third.

Another characteristic of the US at that time was the remarkably small proportion of gross domestic product (GDP) spent by government. The idea that governments should borrow and spend money to deal with a slump came later. Herbert Hoover's idea (and Roosevelt's too, before he was elected) was that the effect of the declining economy should be met by vigorous efforts to balance the budget at all levels of government. Nor was there a strong system of unemployment benefits to counter the effect of unemployment on consumer demand.

Still worse, the economy of central Europe had not fully recovered from the effects of the First World War. Germany laboured under the pressures of the latest version of reparations, while the Balkans had been cut up into a multiplicity of small states which were not really able to survive on their own.

When the crash came, all these factors aggravated each other and so caused the downturn to attain catastrophic proportions.

How do current circumstances compare with the 1929 scenario for disaster? I will concede that there is one element in common — the US banking system is vulnerable as it has not been since the 1930s, partly through reckless lending to Latin American and other developing countries.

Hypothesis

The collapse of Continental Illinois is only the most striking consequence of what is actually widespread weakness. It is true, as supporters of the deflationary hypothesis argue, that a widespread liquidity crisis could develop almost overnight through default by countries such as Argentina which owe tens of billions of dollars to the American banks.

What is notably different is the attitude of the Fed to banking problems. Far from standing aloof and allowing depositors in Continental Illinois to stew in their own juice, the Fed extended billions in assistance, and, when that proved insufficient, virtually nationalised the奄outing bank.

Note that this was the seventh or eighth largest US bank before its downfall, so a powerful precedent has been set for bank rescue on any scale that may be necessary.

And the Fed, as the US central bank, is the bank of last resort. So it has the ability to create credit on any scale necessary to deal with the largest imaginable banking crisis.

Then, the widespread intervention of governments in the economic process has changed the rules of the game almost irreversibly since 1929. Not only do governments control a large proportion (say up to 40%) of GDP in all Western industrial countries, but they can also spend themselves into deficit to counter the effects of a slump in the private sector.

The present American boom is a perfect illustration of how quickly a severe slump (the worst, in fact since the 1930s) can be neutralised by a combination of expansionary monetary policies and massive deficit spending at federal government level.

Preserve

And, in addition, there are generous unemployment benefits in most Western countries, so the unemployed are kept above starvation level and preserve some purchasing power despite being out of work.

In fact, it has been precisely the appalling experience of the Great Slump — which has etched itself so deeply into folk memories — which has brought it home to all governments that they must avoid another experience along those lines almost at any cost.

And governments in Latin America now as well that there are large — or potentially large — Marxist parties all too ready to pounce and reap the political harvest of a big slump.

I conclude that the risk of another Great Depression has been much overstated. It is far more likely that governments’ terror of that eventuality will again cause them, sooner or later, to tilt their policies in the direction of renewed inflation.
Don't look only at deficit, Govt urged

By MIKE JENSEN

GOVERNMENT has concentrated too much on minimising the size of the deficit and finding ways of financing it, without looking at overall income and expenditure.

These were the seeds of the current fiscal crisis, planted many years ago, Dr Louis Geldenhuys, assistant general manager of the Senbank, told a University of Cape Town Graduate School of Business Association seminar in Johannesburg at the weekend.

He said the State had not taken enough cognisance of the effects of increasing the tax burden and expenditure.

The deficit was only 4.7% of GNP last year compared to 6.2% in 1976 and the increase in net indebtedness to the banking sector was only R25m last year.

This appeared to indicate that Government policy was on the right track but it concealed the real problem of higher taxation which was crowding out the private sector, said Dr Geldenhuys.

Exchange receipts as a proportion of GDP had risen from 19.6% in 1976 to 21.3% in 1983, an increase in the tax burden of 1.5 percentage points — an actual rise of 7.6%.

“Our authorities have been too dogmatic by looking at the size of the deficit before borrowings and not worrying about increasing taxes which have a very negative effect on the economy's growth potential.”

Government expenditure as a proportion of GDP was about 26% this year — the same as in 1977 — but this concealed the fact that many issues were now going off budget.

"Just taking in primary capital market issues would push the proportion up to 27% this year," said Dr Geldenhuys.

“So despite this so-called era of fiscal discipline, expenditure has not been reduced.

"It is only necessary to distinguish between Government capital expenditure and current expenditure.”


"Also for the first time ever, last year there was a deficit in overall revenue compared to Government savings,” he added.

The deficit stood at R348m in 1983. In the first six months of the year it is estimated at R1.5bn.

A cut-back in capital expenditure could not be regarded as a true cut-back in Government spending because it just put off the requirement for road building and other infrastructure projects.

Pointing to the 18.7% overall increase in Government salaries last year, compared to a 13.9% increase in the private sector, Dr Geldenhuys said the State should not be seen as leading the way for wage increases.

Dr Croeser said he hoped the tax commission would have finished its work in less than a year, but doubted this was possible.

THE seminar heard an unrepentantly bullish outlook for gold from the assistant general manager of the Chamber of Mines, Mr Tom Main.

He said there was absolutely no doubt that the dollar had to crack some time. When this happened, the cost of holding gold or other currencies would change with a higher gold price as the result.

The loss of US industry's competitiveness, its dependence on external capital and the prospects of a higher inflation rate were all ultimately bearish for the dollar.

Mr Main also pointed out that the low gold price in dollar and yen terms had led to very buoyant physical demand.

“In fact, gold has only been kept at the $340 level because of this high level of demand.”

In 1983 total Japanese consumption was 175 tons and this year it was expected to rocket to 280 tons. A similar picture emerged in the US and Hong Kong.

In Europe, however, consumption had fallen significantly.

The massive increase in US awareness about gold and gold-related assets as a mode of investment safeguarded well for South Africa’s mines.

“When the US economy really picks up there will be a huge demand for gold and the price will rocket.”

ONE of the main aims of the Government's tax policy would be to achieve a redistribution of revenue, the Deputy Director General of the Department of Finance, Dr Gerhard Croeser, told the seminar.

Less than 1% of the population contributed 50% of direct taxation while 70% of the population contributed less than 5%.

The present tax legislation is far from simple, but the major problem is that the man in the street is not prepared to fund the fair share of the tax burden.

"In particular, some people are able to employ the best brains in the country to minimise their taxes which means that others have to shoulder an additional burden.”

Individual contributions made up 22% of the tax base in 81/82 with companies contributing another 22%.

Dr Croeser said a wider tax base was needed and this would be the principal focus of the new commission to investigate the tax system.

"Although the commission is unlikely to come up with any new solutions, it may be able to sell them better than has been done in the past," he said.

A better balance would have to be achieved between regressive, indirect taxes and progressive direct taxes.

In 1939, 56% of tax revenues were indirect; this sank to about 30% in the Seventies and it now stood at about 40%.

However, there would be substantial problems if too rapid a shift to direct taxes took place.

The commission was also looking at the possibility of including a capital gains tax and a value added tax.

The new local authorities' taxes could coincide with a reduction in the individual and company tax rate, but "the overall level of taxation would have to be taken into consideration".
SASRIA

Facing the rioters

Sasria (SA Special Risks Insurance Association) has been experiencing a mad scramble for political riot insurance following the recent unrest in townships. New business for the association has been brisk since the middle of July when a decision to raise rents in Tembisa near Parys precipitated the latest run of troubles.

Sasria was set up in 1979 to provide insurance against material damage and loss of rent arising from political riot and related disturbances. It is registered under the Companies and Insurance Acts as a non-profit consortium of local short-term insurers — including Lloyd’s of London — and backed by government. Recently standing charges were extended from the bare core of rent only to include salaries, wages, interest and fixed costs.

Traders in the townships, in particular, have been running for cover. According to Sasria manager Rodney Schneeberger, some people have even been buying riot insurance for their premises while crowds were thronging the street.

In some cases, a policy holder had been advised to close for the day so he spent the morning buying cover at his nearest insurance office. By the afternoon, he was back at his insurers filling out a claim form running into thousands of rands.

The consortium has received some 100 claims totalling about R5 million since the beginning of August. This period has seen countless township incidents and several bomb blasts, including those at the Durban electrical sub-station, the Police District Commandant’s offices in Roodepoort, the Railway Police offices in Johannesburg and government offices in Krugersdorp.

The disturbances have ebbed and flowed across the country embracing many townships with incidents variously described as civic upheavals, general looting and political unrest.

Schneeberger explains that provided requests for cover conform to the members’ agreement and the Sasria regulations they cannot be refused. “So we have to accept all business. Also, there is no ‘comprehensive’ or waiting period. Insurance cover has immediate effect.”

But executive director of Price Forbes Federale Volkskas and chairman of the SA Brokers’ Association/Sasria liaison committee Don Gallimore believes this is unfair to those people who have been funding Sasria for some time through their premium payments. “Other people, by waiting until the riots are at the end of the street before buying cover, are taking advantage of the Sasria regulations that say a request for cover cannot be refused.”

Gallimore adds that this is not the sort of principle that insurers would necessarily adopt when dealing on their own underwriting account.

Even so, as Schneeberger points out, most of the claims he has received come from established customers of Sasria. “True, we always get an increasing number of requests for cover during times such as these — in 1980 the same thing happened — but these do not necessarily turn into claims.”

Various discussions

He adds that there have been various discussions about protecting Sasria against selective purchasing of cover. There could be an embargo whereby new clients buy cover today which does not become effective for three months. This would not apply to renewal policies. Another idea is to load the initial premium so that the newcomer pays double, three times, or even 10 times the premium rate for the first year before reverting to the normal rates on renewal.

“We are not considering this at the moment,” says Schneeberger. He adds that the main emphasis is on providing a service for the public.

Gallimore says that Sasria has powers under the members’ agreement to defer cover or prescribe higher premiums for new business. People who have been with the fund for five years, for example, could be protected this way.

He also mentions that when claims arise they are not always dealt with timely. He had a recent case where a mechanical horse was destroyed by fire during the riots at a loss of R3 800. But the owner had to take out a bank loan to buy a replacement to keep in business while the insurer and Sasria decided who should foot the bill.

However, Schneeberger says that Sasria does have an “arrangement with insurance companies” whereby the claim is paid pending a final decision on which side should meet the amount. “Professionally we are happy that the claimant is insured both under his own insurance company policy and the Sasria coupon, and that his claim is a valid one, then we have an arrangement to pay the claim as soon as possible.

“If it is likely to become a Sasria loss, then we pay out and recover from the insurance company should it turn out otherwise, and vice versa. If, on the other hand, we cannot decide whose claim is it then we fund it on a 50-50 basis, again pending the final decision.”

He says only in cases of deficiency in domestic cover or where there was no suspicious fraud would there perhaps be a further delay. For instance, he cites a number of suspected arson cases where people may have deliberately set fire to their houses or cars under the guise of the recent riots. “There was also one case where rioters were motivated to attack the vehicles belonging to a rival taxi firm. Now this was facilitated by the township troubles, but was not caused by them.”

Bomb blasts and riots ... claims business for Sasria
There have also been several incidents where rioting has spilled over into white areas, and conversely, where visitors to townships have been caught up in the troubles. It is perhaps a timely reminder to the individual to consider arranging to buy political riot cover, both for his house and his motor vehicle.

"For the man in the street," says Schaebeeberger, "it's an absolute bargain. A car costs just R10/year, while private housing costs R2.50/R10 000 of declared value."

This means that for a house valued at R100 000 plus the family car costs just R35/year. Indeed, as Schaebeeberger says, the premium, particularly for the motor vehicle, barely covers the cost of the paperwork. He adds that rates may be reviewed, especially where the more expensive cars are involved.

Next renewal date for this insurance is April 1, 1984, when new rates may be implemented. In the meantime, though a coupon bought now for the annual premium will only be valid up to that date, it might be a wise purchase for those still without riot cover.

TAXATION

Trading allowances

Taxbase trading, outlawed by the authorities, is apparently alive and kicking, and could cost the revenue authorities over R1 billion in the next ten years. Once vaunted as the most attractive corporate tax scheme in the country, it was ostensibly banned in an announcement on March 14 by former Finance Minister, Owen Horwood.

But latest changes to legislation now show that taxbase trading will be allowed to continue, albeit on a new tack, through the insertion of a new section, Section 12G to the Income Tax Act. Before this, banks had already been given a special dispensation in March 60 to continue taxbase trading, but only based on profits derived from leasing.

Take a company undertaking heavy capital expenditure. It can claim allowances worth 190% of the cost of plant and machinery. Yet if it is rare for such companies to have sufficient profits to use their tax allowances.

Michael Stein, co-editor of Silike on SA Income Tax, says: "The trouble with these massive allowances is that they are usually too large to be absorbed by the firms expanding their productive capacity."

"To avoid the wasteful excess of allowances over taxable income, which cannot save any tax over the short and medium term, the excess is better passed over to another corporate taxpayer."

"Initially, excesses were absorbed by financial institutions acting as lessors of qualifying equipment. Yet the excesses became too large even for these financial institutions and a flourishing business grew up under the same, first of 'leveraged leasing' and, later, 'taxbase trading."

"Taxbase trading was extremely complicated, widely publicised and highly peculiar in its constitution and disclosure in financial statements. Nevertheless, it was promoted with the aid of voluminous clearances from Inland Revenue."

Tax consultants say that the 1984 Income Tax Amendment Act, far from ending the practice, perpetuated it. As a result, the quantum of tax revenue forgone may exceed R1 billion.

Initially, lease brokers overcame the constraints of the Act by using the lobbying power of their clients. Leveraged leases were set up by leasing a company with large "unsellable" profits (part of which would go to Inland Revenue as tax) to "buy" tax allowances from companies that could not use them.

Banks joined the fray by financing clients for capital expansion from their own profits. They soon reached the stage where they had to resort to outside companies to "buy" tax allowances.

Sellers of taxbase, which by then included lease brokers, banks and other financial intermediaries, began to vie for the profits of participating companies. They began to offer fees, signalling the birth of an industry.

At the height of this new delight, fees may have reached the 15% mark, but researchers say that in calculating what companies received for the trouble of signing a few documents, 10% is a safer benchmark.

The only recorded evidence of what companies bought into taxbase schemes appears in annual reports of listed companies. Companies that sold tax allowances make oblique reference to the practice, referring to "lesser trusts," one of the many parties involved in taxbase trading.

Apparently auditors were concerned enough over the schemes to oblige their clients to reveal participation (see Leader). Thus the latest Rembrandt Holdings annual report (from a company which is notoriously reticent) shows that the company bought R18,5m worth of tax allowances in the year under review. This reduced its actual tax bill (tax paid to Inland Revenue) from R58,6m to R40,1m. Assuming a 10% fee, Rembrandt would be richer to the tune of R1,85m for signing a few documents without the assumption of any significant risk.

The mid-March 1984 clampdown on the taxbase trading followed widespread publicity that Pick 'n Pay had reduced its effective tax liability to around 2% against a prevailing rate of 46,5%. But tax consultants, who have studied the 1984 tax amendments, say taxbase trading has merely altered course.

The amounts of revenues foregone by Inland Revenue because of taxbase trading...
Danger seen in prime rate cut

By HOWARD PREECE

A NUMBER of leading private sector economists are worried that the 1,5% to 2% cuts in prime rate announced by the major banks will prove a case of too much, too soon.

They fear consumers and politicians may be led to believe that the economy is in a much healthier state than it really is.

There is speculation in money market circles that this concern is, in fact, shared by the Governor of the Reserve Bank, Dr Gerhard de Kock.

The Reserve Bank yesterday announced reductions of 1% in its rediscount rates — the rates at which the commercial banks and discount houses can borrow from the central bank against the security of paper assets.

It had been widely assumed after the prime rate cuts announced on Friday — particularly the 2% reduction to 22% by Barclays — that the rediscount rates would also be cut by 2%.

The commercial banks are still heavily in debt to the Reserve Bank.

The money shortage eased last week to around R1.5bn, but is expected to go back up towards R2bn by the end of the month.

This means that it is an expensive exercise for the banks to cut their prime rates by more than the fall in the rediscount rates.

Last week Dr De Kock let it be known that the Reserve Bank was considering reductions in the rediscount rates before Christmas.

The banks read that, rightly, as a signal that prime could be eased with the Reserve Bank's blessing.

However, Dr De Kock let the bankers know he did not want the Reserve Bank to appear to be deliberately pushing rates down.

That, he said, might give people the wrong view on the strength of the Reserve Bank's determination that sustained, strict monetary and fiscal policies would be needed for a long time yet.

It was, therefore, up to the commercial banks to take the lead.

Standard set the ball rolling on Friday by reducing its prime rate from 25% to 23.5%.

It was promptly overtaken by Barclays which cut its rate to 25%.

Nedbank, Volkskas and Trust joined Standard by making a 1.5% cut.

In rough line with this general trend, and in anticipation of a 2% cut in the rediscount rates, short-term money market rates eased appreciably on Friday.

Yesterday, however, these money market rates moved up — the key 90-day Bankers' Acceptance rate increased to 21% from the 20.75% to which it fell on Friday — after the Reserve Bank had announced it was cutting its rediscount rates by only 1%.

This, according to some money market sources, suggests that Dr De Kock would have preferred the banks to move more slowly and reduce prime by only 1% in the first instance.

There could perhaps then, under this scenario, have been another modest fall before Christmas, depending on economic developments.

Government political leaders may, however, be generally pleased by the prime rate cuts.

They are apparently worried about the possibility of a Conservative Party victory in the Primrose by-election next week.

The prime rates might be used, misleadingly according to most private sector economists, as evidence to voters that the economy was coming right.

What worries these economists is that this might also re-stimulate consumer spending and make it more difficult for the Minister of Finance, Mr Barend du Plessis, to convince his Cabinet colleagues of the need for ruthless curbing of State spending in the 1985-86 Budget.

By cutting the rediscount rates by only 1%, Dr De Kock has done something to allay these fears.

He appears to have signalled to the commercial banks, certainly to Barclays, that prime rates have gone further than he wanted — and that no additional early reduction is called for.

In fairness to the banks, however, and in particular to Barclays, it must be said that some previous official signals on interest rates have sometimes seemed a little confused.

That, in turn, could be explained by the possibility that Dr De Kock and Mr Du Plessis are themselves under some political pressures, at least implicitly.
SA exports soar to record levels

Huge R691m trade surplus

By HOWARD PREECE

SOUTH Africa's exports soared to a record R2.76bn in October to produce a whacking trade surplus of R691m.

Imports also bounded up, however, to R2.09bn from R1.55bn in September.

Both the export and import figures, on these preliminary figures from Customs and Excise, are rather puzzling.

This suggests that there is some element of statistical distortion.

By all accounts, imports are supposed to be dropping rapidly.

Indeed, this was one reason cited by the Governor of the Reserve Bank, Dr Gerhard de Kock, for encouraging a fall in the prime rate.

However, monthly figures can be affected considerably by special factors.

Purchases of oil and military equipment are obvious examples.

In any case, the October import bill was well under the August level of R2.42bn.

There is certainly no reason to suppose, at this stage anyway, that imports are likely to continue at excessive levels so far as the general balance of payments is concerned.

The severe fall in the foreign exchange value of the rand — which means, of course, heavy rises in the rand cost of imports — and the decelerating economic growth rate in South Africa should see to that.

There is no surprise in the fact that exports are rising.

Their rand value is inevitably going to show large increases simply because of the exchange rate factor.

At the same time, there are indications that the overseas sales volume of various raw materials and finished products from South Africa is rising.

But it is still not clear at this point why exports should have gone up quite so much last month.

At any rate, the overall effect is highly satisfactory as far as the balance of payments is concerned.

That will naturally please Dr de Kock.

South Africa runs a deficit at present of around R536m a month on net services payments.

But the October trade surplus of R691m means that there was a very comfortable surplus on the overall current account of the balance of payments.
Riot insurers have R30-m to pay out

A whopping R30 million in claims under special riot insurance cover have been made in the past six weeks in South Africa.

And the figure does not include property looted or production losses.

Nor does it reflect the entire losses associated with the rioting. This could amount to many more millions of rands. Many people perhaps had no cover.

Big organisations such as Putco and the development boards were covered, and their claims form part of the R30 million. The Star was told today.

The South African Special Risks Association (Sasra), formed in 1978, is carrying all the township riot claims and is concluding its assessments.

Managing director Mr R Schneeberger said the R30 million is made up of 100 fire claims in which shops, factories and houses were damaged or destroyed, and 140 motor vehicles, many of which were set on fire during the disturbances.

The claims represent the biggest run on Sasra since it opened for business.

He said Sasra offered the only comprehensive riot cover, and people who were especially sensitive, such as Putco and the boards, were making use of it.

"But a lot of individuals in the troubled areas who are after protection for their homes and cars are also looking for cover from us."

Mr Schneeberger said the association was formed to "provide material damage insurance arising from acts of political terrorism".

Insurance companies perform the general administrative functions, but the association is run for the benefit of policyholders.

In the background is the Government which, if all Sasra's funds were called in for claims, would step in and guarantee payment. It is, in effect, the "reinsurer of the last resort".

In March, Sasra will extend its cover to provide consequential loss insurance, which will cover lost wages, profits, and other expenses needed to re-establish a business after a riot.

Mr Schneeberger said South Africa was one of the few countries which had such insurance cover for political rioting and acts of terrorism.

He added that the special insurance cost only R10 a year, for example, for riot cover for a car.
Big rise in all premiums: payouts totalled R100-m

By Russell Gault

The insurance industry in South Africa has had to pay out more than R100 million in the past 11 months.

And today, industry leaders warned that big increases in premiums would have to be introduced next year.

Said Mr. Mike Newman, chairman of the South African Insurance Association and Allied Bodies: "It has been catastrophic. It's the worst year in insurance history in this country."

The association's chief executive, Mr. Rodney Schneeberger, said that for every rand taken in by the industry this year in the form of premiums, R1.30 had been paid out in claims, commissions and administration.

"Asked to outline the legitimacy of the association's claim that it was experiencing hard times, he explained: "These losses by the industry will take a long time to make up."

He said all premiums would have to go up significantly next year, including home and car charges. The brunt would be carried by industrial clients, and to a lesser extent commercial clients.

STORMS

Mr. Schneeberger said the financial drain on the industry this year started on January 13 with a major storm at Bethal and Kriel.

This was followed next day by another big storm in the Pretoria area, and Cyclone Demolina from January 18 to February 3.

From February 16 to 19, more widespread damage was caused by Cyclone Imbo and then, in May, storms raged in the Cape for several days.

Demolina brought claims of R37 million, and the Cape damage added another R25 million to the insurers' bill.

The total for all these storms — but not including other smaller storms during the year — was R61.5 million.

Mr. Schneeberger said returns were not yet in from all insurance companies, but "very conservative" estimates placed the insurance bill at R60 million.

"Just these specified storms have resulted in claims of more than R120 million."

But the bleak picture for the industry does not end there, said Mr. Schneeberger. Fire losses have added another R325 million to R350 million to the insurance tally for the six months to June 30. Figures for the following months still have to come.
Gold falls still further

GOLD dropped below $330 to another 26-month low in London yesterday, but recovered some ground before the close.

The morning fixing was $329.10, compared with Tuesday's second fixing of $332.90.

In the afternoon the price dipped fractionally to $329, but showed a firmer tone in late dealings. The closing range was $331.25/$331.75.

After further weakness in New York overnight, the opening level in London yesterday morning was about $330.50, while in Zurich the early quotes were as low as $337.

Zurich dealers said the dollar's continued strength was the main factor behind gold's weakness.

They added that on a chart basis, gold was looking very vulnerable.

This was particularly so since the key $330 barrier, the previous low this year for gold, had been broken.

Dealers said early trading was particularly nervous.

"This is further evidence of the general lack of confidence in the precious metals market", one dealer said.

Gold is usually neglected when investors' trust in the dollar is especially strong.

For most of this year gold trading has been sluggish and the market has been generally confined to professional operators.

Private investors have looked to the dollar and other investments denominated in the US currency.

Gold is now at its lowest levels since July 9, 1982, when the price traded between $320 and $331.

During 1983 gold traded between a low of $372 and a high of $615.

Other precious metals were also lower yesterday with silver quoted at $7.07/22 an ounce compared with the previous close of $7.35/45.

Platinum was quoted at $177.00/$172 against $195.00/$205.

Dealers said the only factor supporting gold prices was physical demand from operators buying into the metal at current lower prices.

But most traders believe this support is only temporary.

"There are still a lot of long gold positions in the market and they could soon be unwound", one dealer said.

This trader put the next lower barrier for gold at $320.

"If this is broken there could be a real market shake-out and then we could see gold below $300," he said.

Gold has weakened and the dollar has risen, despite earlier US interest rates. The trend is confusing dealers.

"It is irrational and in defiance of all logic," said one senior trader.

In London, the dollar opened higher in line with the sharp overnight rise in New York. Dealers said the US currency remained well bid by corporate customers.

The dollar opened at 3,0735/45 marks, more than two pence above the previous 3,0510/20.

Dealers said fear of Bundesbank intervention, which has cast a shadow over the market for the past two months, has diminished. The recent rise has been fueled more by corporate demand than long dollar positions held by banks or speculators.

— Reuters AP
Annual money supply figures show alarming rise

Body blow for Govt's economic policy hopes

By HOWARD PREECE

THE Government's economic policy hopes were dealt a severe blow yesterday by the latest money supply figures which showed a sharp rise in the annual rates to the end of October.

The broadly defined M3 measure — regarded by the Reserve Bank as the most important monetary indicator — showed a 23.1% growth, compared with 17.6% in the 12 months to September.

This means there is obviously excessive liquidity in cash and credit form overhanging the economy.

That, in turn, will make it much harder to get inflation down to 10% or less in 1985, even with a return of recessionary business conditions.

All this adds to the pressures on the Minister of Finance, Mr Barend du Plessis, and the Governor of the Reserve Bank, Dr Gerhard de Kock.

It may be, of course, that the November and December money supply figures will show a distinct reduction in growth.

The narrow M1 money supply measure soared by 36.6% in the year to October (31.2% to September) and the broader M2 was up by 28% (21.6%).

M1 comprises cash and demand deposits of the non-bank private sector, M2 is M1 plus savings deposits of the non-bank private sector and M3 is M2 plus all other deposits of the non-bank private sector.

The familiar caution against reading too much significance into any one month's developments must be voiced.

Money supply figures in SA are subject to a variety of distortions and errors — 'statistical noise' is how Dr De Kock defines it.

But when every allowance is made, the fact is that SA's money supply expansion has patently been dangerously extravagant this year.

The latest economic opinion from Barclays National Bank suggests (see Page 2) that the August financial package, which saw prime rate move up to 25%, went too far.

That view, however, is not shared by most economists.

The general belief is that by August the underlying position in the economy had worsened to the point where crisis measures were necessary.

The real criticism is in the way the economy was run in the 12 months or more before August.

Tough action earlier would have saved some of the later grief.

At any rate, the latest money supply figures certainly do not suggest that the authorities have gone in for overkill.

They rather reinforce the anxiety of those who are concerned that the drop in prime rate to 23% may have been a little premature.

Opponents of that approach, including Barclays, argue, however, that overdraft and general credit rates are more than sufficient to deter any borrowers other than those who have no choice.

But why did money supply shoot up in October?

Various factors, including a large surplus on the current account of the balance of payments and Government spending, seem responsible.

Money supply figures could drop appreciably next year.

While all the attention tends to focus on the supply of money, it is important to look at the other side — the demand for money.

With interest rates, real and nominal, at forbidding levels, and the economy moving into another downphase, the demand for credit should ease.

That must naturally have a major influence on the supply side of the equation.

So far as 1985 is concerned, however, the inflationary overhang is already there.

It is true that countries such as the US and Britain managed in the early 1980s to achieve large reductions in inflation despite huge previous rises in money supply.

But their economies, particularly that of the US, have a lower cost-push inflationary trend built into them than South Africa's.

Getting inflation below 10% is going to a protracted and painful exercise.
43% RISE IN LOANS

By Harold Frishzon

IN THE 12 months ended September 1984 total bank lending, including overdraft and instalment advances, increased by 43.5% to R37,741bn from R26,295bn.

Advances on instalment contracts — hire purchase and leasing — grew by 40%, from R11,038bn to R15,508bn. Loans on overdraft rose by 45.7% from R15,252bn to R22,546bn.

An analysis made by the Standard Bank's marketing and intelligence department of the BA9 quarterly returns submitted by the banks and other financial institutions to the Registrar of Financial Institutions suggests that the peak interest rates introduced at the beginning of August did not dull the public's appetite to borrow money.

Compared with an average increase of 10.6% in bank advances in the March and June quarters, the increase was 14.3% in September. This compares with 13.1% in September 1983. It seems that an above-average increase in lending occurs seasonally in September, probably as stocks and shipments are built up ahead of the customary December upsurge in trade.

And, despite high interest rates, this year appears to be following the normal pattern.

In the case of instalments-sale lending, the increase in the September quarter is out of pattern. This year the increase was 9.5% compared with 6.6% in September 1983. The increase was unusually high in both the March and June quarters.

Not only did the public go on a buying spree in May and June ahead of the increase in GST (and some of these transactions flowed over into July because of administrative difficulties). Higher rates of interest at the beginning of August also boosted bank's books because of increased finance charges.

The December issue of the Reserve Bank's Quarterly Bulletin says the further increase in bank credit to the private sector in the third quarter was concentrated in July and August.

The bank mentions the delay in processing hire purchase transactions over the June month-end, causing the increase in the September quarter and says "other contributing factors included the involuntary stock building because of reduced consumer and industrial demand, the re-intermediation of credit transactions resulting from tight conditions in the inter-company market for funds and a large flow of tax funds to the Government, and an increase in the holdings of Land Bank debentures by the discount houses."

The Reserve Bank notes a decline in bank lending in September and that preliminary information for October indicates a further deceleration in the rate of increase extended to the private sector. In terms of market share, Barclays still has the largest portion of the market for overdraft advances (24.7%) with Standard Bank second at 23.8%, but Nedbank takes third place with 16.7% compared with 15.9% in June. September is the end of the Nedbank financial year and the bank, as happened last year when it held 19% of advances, appears to have brought many advances back onto balance sheet.

The Bankorp group was fourth with 14.7%, with Volkskas fifth with 14.1% of the market.
low as prime rate goes up

Own Correspondent

JOHANNESBURG. — The reeling South African economy received another two body blows yesterday from events on the local and international markets.

In London the gold price fell to below $315 an ounce at one stage which is the lowest level recorded since July 1982. While at home the prime interest rate was increased by one percent to 24 percent.

Indications are that things could get worse with gold analysts expecting gold to drop to levels around $300 an ounce while bankers believe the prime interest rate could again hit 25 percent.

Heavy slumps

The increase in the prime interest rate indicates there will be no early let-up of the austerity measures aimed at forcing South African consumers to live within their means and curb the country's high rate of inflation.

The high interest rates have caused heavy slumps in sales of furniture, cars and durable goods such as refrigerators and have brought protests from businessmen who claim they are being forced out of business by the measures.

Insurance giant Sanlam believes the poor business conditions will continue until late 1983 and the months ahead will make great demands of both businessman and consumer.

Sanlam believes, however, that the stringent restrictive measures are an essential adjustment to the economy and should be relaxed too rapidly. "If this were to happen, South Africa would once again merely experience a premature and short-lived upswing," the group says in its latest economic review.

Political move?

The overdraft rate has now changed three times in four weeks. These erratic moves within a very short space of time have resulted in businessmen questioning whether the prime rate should have come down in November in the first place.

When the Standard Bank cut the prime rate in November, some observers held that the adjustment in the rates had been politically inspired to strengthen the government's hand in the Primrose election — particularly as the Reserve Bank had responded with such alacrity by cutting its re-discount rates by 1 percent.

But political motivation has been strenuously denied by people in banking and by the authorities.

Rand slips

The immediate effect of yesterday's slide in the gold price was a drop in the value of the rand to R6.525 from Friday's closing level of R6.530.

The low rand has benefited many exporters who are earning more rand for their products sold overseas. But it poses major problems for South Africa's inflation rate which remains at levels twice that of the United States and the United Kingdom.

A persistent high rate of inflation has serious economic consequences for South Africa. Conversely, lack of inflation overseas is keeping the gold price low because the gold price is closely linked to international inflation.

Disinflation

Unlike South Africa, the major Western nations have experienced disinflation for several years and this trend is likely to continue. Despite high unemployment, governments from the UK to the United States are intent on controlling inflation.

The international oil market is also helping to reduce inflation. Oil prices are weakening because of excess supplies. Lower oil prices are negative for gold because they reduce international inflation and the buying power of the rand and other Middle Eastern currencies.

Middle Eastern deposits in the Eurolar market also decline. So international money supply shrinks. There is less money around to buy an asset such as gold which does not produce income.

Hangover

"Gold's two-year hangover shows little sign of ending, without the return of inflation the gold price won't pull out of its dive," comments Euromoney, the international banking magazine.

Even though jewellers' demand for gold improved this year, it cannot absorb all of the supplies. Investors and possibly central banks must buy the rest. This demand, however, is weak.
FINANCE — GENERAL

1985

January — August
What the banks offer

Student Loans: Rate (1/18/85)
Rand continues upward climb

Financial Editor

THE rand continued to climb strongly against the dollar in the foreign exchange markets today rising 3 US cents to 51.75 US cents at one stage to show a gain of almost 30 percent in the past week.

Exporters were reported to be bringing into the country huge sums of dollars in a bid to convert them into rands before the exchange rate rises any higher.

"They are dumping dollars on us," commented Mr A S DeDonald, a senior general manager at Barclays Bank.

Some foreign exchange dealers believe the rand could rise to as high as 55 US cents in the next few days.

The recovery in the rand is attributed by dealers to a number of factors. These include:

- The improvement in the country's balance of payments in the past few months, and expectations of an even more substantial improvement this year;
- Measures taken by the Reserve Bank to restore confidence in the rand's exchange rate; and
- Indications that the United States is prepared to take steps to prevent the dollar rising further in the foreign exchange markets.

Meanwhile, the Governor of the Reserve Bank, Dr Gerhard de Kock, and the Minister of Finance, Mr Barnard du Plessis, have announced further measures — and indicated that others could be taken — to improve the rand's exchange.

The decision that the Reserve Bank will retain half the gold mines' dollar earnings, and paying them in rand instead, is seen as a sign that the Reserve Bank plans to participate more strongly in the foreign exchange markets.

It will give the Reserve Bank dollars which it could use to support the rand if it believed this to be necessary.

At the same time the decision to allow the banks to buy dollars forward without covering in the spot market is also seen as reducing pressure on the rand's spot exchange rate.

The suggestion that importers might have to pay a deposit if the volume of imports were to rise inordinately is seen more as a threat than a reality.

Other measures, including the decision that in certain conditions the banks will have to apply directly to the Reserve Bank for accommodation are seen as having the intention of curbing current consumption.
Rand surges to $0.4770 —
gold shares fall sharply

By PAUL DOLD
FINANCIAL EDITOR

The rand surged to $0.4770 yesterday in the strongest performance for weeks, reflecting closer monitoring of export proceeds and increasing nervousness that the Reserve Bank may soon announce new measures to strengthen the currency.

The change of sentiment caught the market by surprise and trading at times was hectic as dollars flooded the market in a sudden reversal of the leads and lags situation.

The rand's performance was even more impressive given the weak gold price which hovered below the $300 mark.

There was intense market speculation yesterday that the authorities are considering tightening the regulations covering the gold mines' foreign exchange revenue.

Dealers are suggesting the authorities may be planning to retain some 50 percent of the dollar proceeds, while allowing the full proceeds in rand terms to be channeled to the mines.

The central bank would thus be in a stronger position to control the flow of dollars to the foreign exchange market.

A severe shortage of dollars has been one of the causes of the rand's recent sharp fall.

The rand which has been fundamentally underpriced for some time may well have bottomed although the weak gold price could again apply pressure.

The rand's strong rise is a notable achievement for the Reserve Bank Governor, Dr-Gerhard de Kock, whose recent talks with the commercial banks have led to some shift in sentiment surrounding the rand.

The currency closed at $0.4650 after Friday's $0.4455.

Gold shares closed sharply lower reacting to the fall in the rand gold price and declines of six to 10 percent were widespread.

Randfontein fell R14 and Kloof nearly R6 with some 40 shares closing lower on the day.

The gold index fell more than 40 points towards the 909 level from Friday's 954.6.

The Kruger rand was also hit and the one ounce coin dived R3.5 to R6.40.

The industrial index came back to around the 790 level with sector leaders such as Barlows and Brews continuing to ease. But there were some notable gains among industrials with Kersaf, a firm spot sporting 50c and Pick 'n Pay adding 25c. Some 42 shares eased while 12 were higher and 56 unchanged.

It was a dramatic day too for sterling with yet another rise in interest rates as the pound fell to new lows reflecting weaker oil prices.

Barclays led the rise in bank base lending rates to 14 percent (12 percent), bringing the gain to 4.5 percentage points in the past three weeks.

The increase took rates to a three-year high.

The Bank of England later supported the move by the banks by increasing its money market dealing level by two percent.

Against other major currencies, the rand closed at:

USA: 0.4680/4700.
UK: 2.3800/26.
Germany: 1.4935/55.
Switzerland: 1.2475/80.
Netherlands: 1.6760/60.
France: 4.5350/5450.
Japan: 119.00/05.
Liberty Life shows 41% new premium growth

JOHANNESBURG. — The Liberty Life Association had a marked growth in new business in 1984, with new sums assured increasing by 41 percent over 1983, while new recurring income increased by 30 percent.

Releasing these figures in his address yesterday, Liberty's managing director, Mr Monty Hilkowitz, said that the increase in new sums assured from a total of R3627m in 1983 to R5173m last year reflected an increasing move by policyholders towards whole life policies in preference to endowment policies.

Life cover

Liberty Life's Universal Lifestyle policy, which combines life cover with investment according to the requirements of the client, was a major contributor to this trend, he said.

New recurring premium income last year totalled R114.4m, compared with R88.3m in 1983, while new single premiums and annuity considerations declined slightly to R12.7m (R120.5m).

The company, which launched its Universal Lifestyle policy in late 1983, also announced additions to the policy yesterday.

The new options to policyholders are a reduced life cover plan, where greater emphasis is placed initially on the investment benefits of the policy, and an escalating life cover plan which emphasizes the life cover aspect, while pegging the policyholder's monthly contribution at a fixed level.

The two new options bring the range of options available for opening a Universal policy to five.

The existing options are standard cover, which provides an even mix of insurance and investment components, extra-cover which provides double the life cover of the standard policy and maximum cover, which provides three times the life cover of the standard policy.

Options

However, the "mix" on any of these options may be changed a year after the policy has been opened.

The new reduced cover plan, aimed at young adults and the endowment market, provides half the life cover offered under the standard plan.

The escalating plan...
Rand spurs as central banks push $ lower

By PAUL DOLD
Financial Editor

THE rand rose over the $0.44 level yesterday in its strongest performance in weeks in foreign exchange markets, while the dollar moved down in the wake of concerted intervention by central banks.

The brighter performance of the currency lifted some of the gloom which has enveloped financial markets in recent weeks as the rand fell sharply, seemingly with little apparent floor.

Investors were also cheered by the unchanged in the inflation rate for the country in December, which suggests that the increasingly fierce competition for the consumer's rand since the August austerity package was introduced is having the desired effect.

Profit margins are being cut leading to lower prices and inflation. While a sharp rise in the fuel price is likely and the effects of the lower rand still have to be digested, December's performance is nonetheless encouraging.

Yesterday's improved rand is a strong warning to gold share speculators. The sudden lift in the rand unnerved the gold board on the Johannesburg Stock Exchange which came back fairly sharply after earlier opening higher.

Investors should be highly cautious in accumulating gold shares at this stage in case the rand firms further.

With the rand grossly undervalued by any standards, speculators are open to high risks in taking positions against the currency.

The Central Bank intervention against the dollar — the German, British, French and Austrian Banks sold dollars yesterday — is highly significant and flowed from the recent meeting of Western finance ministers in Washington.

The banks pushed the dollar down to 3.1650 marks and dealers said there now appears to be a ceiling of 3.18 marks on the dollar.

But for the central bank action the dollar might have climbed to new peaks yesterday after news was released that the United States economy in the fourth quarter grew at 3.9 percent instead of the earlier estimated 2.8 percent.

The overall economic growth last year was 6.6 percent — the highest in 33 years. This was coupled with an inflation rate of only 2.4 percent in the fourth quarter. The annual rate was 3.7 percent as against 3.8 percent in 1983.

There was no indication that the United States Federal Reserve intervened against the dollar yesterday but the central bank was selling dollars on Friday.

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As trusts switch from equities...

Registrar eyes cash mountain

BY DAVID ROSS
Investment Editor

THE big switch by unit trusts away from equities and into liquid assets is causing official concern.

The funds are clearly nervous about the outlook for equity share prices.

They have been steadily increasing the extent of their holdings in liquid assets.

But the process has gone so far that the Assistant Registrar of Financial Institutions, Mr. Jan Louw, says the registrar's office is "keeping a close eye" on this development.

The worry is that some trusts could, unintentionally, be turning themselves into something approaching money funds - which are not allowed in this country.

The latest quarterly reports of the unit trusts to end-December showed that the 12 equity funds held R247.9m, or 22.2% of their portfolios, in liquid assets. As reported in Business Mail last week, this is the highest level of liquidity in the history of the industry.

Among the individual equity trusts, highest fixed-interest levels were those of Santamgro with 60% and UAL Mining and Resources with 42%. Taking into account 3% held for dividend distribution, Santamgro had less than 50% of its portfolio in equities.

Mr. Philip van Zyl, of Santamgro, notes that the total of fixed-interest holdings in the trust at end-September was 46%.

This was composed of 22% in long-term gilt-edged stocks and 18% in liquid assets (short-term gilts and money market instruments).

By end-December a portion of the long-term gilts had less than three years to redemption, and consequently became rated as liquid assets. At that date the proportions were 13% in long-term gilts and 37% in liquid assets.

"To that extent," he says, "the high levels of liquid assets represent a technical position which has occurred without any action on our part."

But for an equity trust to be holding less than 50% of its funds in equities might be construed by the registrar as setting up a kind of back-door money fund.

While such holdings may not transgress the letter of the Unit Trust Act, they might certainly be held to be transgressing its spirit.

After all, the whole purpose of the Act was to allow the man in the street the opportunity to invest in equities.

At UAL, Mr. Alister Coquelin says he believes his duty is to provide investors with the best management of funds that he can.

"In circumstances of historically high interest rates, a poor economic outlook, and industrial equities generally at uninteresting levels, short-dated gilts at a discount are an attractive option for the moment."

"They offer a guaranteed element of capital appreciation as well as a good immediate yield." Mr. Van Zyl points out that the "technical" situation of Santamgro is no doubt a temporary one. But what is temporary?

"I feel sure that by the time the next quarterly figures for the trust is announced, funds will have been moved from liquid assets into other kinds of securities."

COMMENT: Investors in unit trusts are buying management of their funds. It is possible to have sympathy with investment managers of the trusts who are trying to do their best for their unit-holders.

On the other hand, one can earn 20% gross or more with R1,000 placed on call, although with no prospect of capital gain.

So the price of management may seem rather high on units yielding 9.5% (UAL mining) or 17.4% (Santamgro) when an appreciable portion of dividend distribution comes from interest receipts.

In the case of UAL Mining and Resources units, for example, 76% of the latest dividend derives from interest.

"The refusal of the authorities to compulsory money funds derives from a desire to protect such institutions as building societies. Overseas, unit trust managers might in current circumstances here advise switching part of a customer's funds to such an instrument."
Gold profits soar as dollar pushes rand to new lows

Gold at $302.45

GOLD was fixed at $302.45 in London today, up on the New York close of $301.65 last night.

The rand was quoted at 43.55 US cents in Johannesburg, up from last night's 42.95 cents and the record low of 42.85 cents yesterday.

between 45 and 46 US cents in New York last night after speculation that South Africa might bring back foreign exchange controls in a bid to check the rand's plunge against the dollar.

"MOUSETRAP"

After falling to a record low of 42.30 cents in Johannesburg yesterday, the rand was quoted at 43.55 cents today.

However, the governor of the Reserve Bank, Dr Gerhard de Kock, responding to the New York speculation, said today the bank had no intention of reintroducing foreign exchange controls on non-residents.

"South Africa does not want to change the rand into a mouse trap currency, something that one can get into but not out of," he said.

The rumours centred on the possible reintroduction of the financial rand and a possible limitation on the speculative positions of the foreign branches of South African banks.

See Page 15.

The rand, meanwhile, rose to

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By TOM HOOD

Financial Staff

MANY South African gold mines are reaping record profits as a result of the United States dollar pulling the rand down to its worst level.

More mines today reported huge increases in profits for the December quarter — when their income from gold was far below today's rand price of gold.

They will now get about R700 an ounce for their gold — 52 percent more than a year ago when the rand price of gold was R464.

The rand has dropped 46 percent, from 80 cents on January 16 last year to about 42 cents.

LOWER-GRADE ORE

Some mines are taking advantage of the high price and switching to lower-grade ore that was previously unprofitable.

The giant Randfontein mine's profits jumped 64 percent to R75-million after tax for the December quarter.

Other mining profits reported are Western Areas, up 12 percent to R18-million; Hartbeesfontein, up 13 percent to R30.4-million; Lorraine, R11.5-million, up 55 percent; Prieska Copper, R10.2-million, up 30 percent; Consolidated Murchison, up 62 percent and Harmony, R33.8-million, up 94 percent.

The rand, meanwhile, rose to
Rand dives to $0.4295

By PAUL DOLD
Financial Editor

THE rand plunged close to the $0.42 mark yesterday as bearish market sentiment pushed the currency through the $0.43 level in spite of a steady gold price.

The record low yesterday was $0.4230 with the rand weakening throughout the day but edging off its lows towards the close ending trading at $0.4205.

Although some Reserve Bank support was seen, the weight of selling pressure pushed the rand steadily lower.

The rand lost more than $0.2 after closing the previous day at $0.4468/75. Dealers described trading conditions as hectic and chaotic as the currency slid amid a huge demand for dollars.

The table below shows how the rand has weakened substantially against leading currencies, even sterling.

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<td>183,000</td>
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This led to another spurt in gold shares. Brokers say that apart from local demand there has been overseas interest.

The gold index rose nearly 10 points yesterday having gained nearly 92 points since the start of the year when the rand/dollar rate was $0.4975.

Kruger rand prices are also rising sharply with the one ounce coin gaining R27 to R687 on the Johannesburg Stock Exchange yesterday. Only a few days ago the one ounce Kruger stood at R650.

In contrast to gold shares, industrials are easing with shares in the stores sector particularly weak.

There is tremendous pressure on the overtake rate and a one percent rate increase cannot be ruled out.

While the authorities would probably seek to avoid an increase ahead of the new Parliamentary session, a rise will be necessary if the rand continues to fall through the $0.40 mark.

A temporary respite for the battered rand could be seen later today following a new round of prime cuts by United States banks. This should lead to some profit-taking and the rand could steady.

Commodity Index 1985.9
Platinum ....... $271.00
Palladium ...... $116.75
Raw Sugar ...... £102.50

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Haynes.
Rand plummets

New low of 45.07 US cents after latest flurry of dollar buying
Offshore funds flow into SA

By PAUL DOLD
Financial Editor

Lines of offshore money are flowing into South Africa and leading to a drop in the short-term money market rates.

The capital inflow is occurring amid signs of greater confidence in the handling of the economy by the authorities following this week's new measures which have led to renewed stability in the rand.

The firmer gold price is also helping sentiment.

New measures

The new measures have been generally welcomed restoring stability to financial markets.

The Reserve Bank Governor, Dr Gerhard de Kock, has emphasized that monetary policy will remain tight until inflation declines.

Several banks are understood to have arranged offshore rates at well below South African rate levels raising two to three-month money at around 22.5 percent.

One bank alone secured R500m of finance.

This led to the market shortage falling sharply to below the R2 billion mark.

The increase in liquidity pushed the bankers' acceptance rate to 22.25 percent from Wednesday's 22.50 percent.

The bank loans are being fully covered.

The rand closed steady at R9.5055 yesterday after touching R9.5130 in earlier trading.

Gilt rates are tending to come off their recent peaks with the long RSA down to 17.23 from 17.34 and the long Escom easing back to 17.24 percent from 17.33 percent.

Weekly tender

The Reserve Bank announced it will be offering R30m of Treasury Bills at its weekly tender.

The following rates were indicated (in percent):

BAs: One month 22.40; two months 22.25; three months 22.25; fix 23.30.

NCDs: One month 23.40; two 23.80; three months 23.80; six months 23.00; one year 22.00.

Treasury bill: 21.79.

Discount house call: 21.50.
Inflation, even if rand mends

Own Correspondent

JOHANNESBURG. — The stage for spiralling inflation, especially in foodstuffs, was set even if the rand strengthened, a major hypermarket chain predicted this week.

And consumer bodies have warned of the impact on the living standards of the lower-income groups if the government slashes food subsidies in the new financial year.

The fear is that a financially-embattled government will adopt crisis measures in the coming Budget to make ends meet, including possible sharp cuts in State subsidies.

There are also expected to be a series of meetings between consumer bodies and the Maize Board preceding an announcement of a huge increase in the maize price from May 1.

Food retailers were this week given price-increase figures on supermarket goods — expected to be effective by March — which indicate that consumers face inflation of at least 20 percent in the next few months, with imported items especially high.

On basic foods, rice will increase by 25c, poultry 13c, milk blends, creamers and soups up to 15c, snack foods 11c, spices 8c, tinned fish up to 12c, toothpaste and sweets 10c and soap 16c.

A spokesman for a major hypermarket chain said: "The tragedy is that the infrastructure for inflation already exists no matter what the position of the rand becomes."

A spokesman for Dun and Bradstreet, business-information collectors, said 2 800 firms were forced into liquidation in 1984 and indications were that this would increase to 3 300 in 1985. There had been a 20 percent increase in default judgments.
THE MINISTER OF FINANCE:

The value of the land in terms of US dol.

THE MINISTER OF HEALTH AND WELFARE:

The 0×2 January

The 0×3 January

THE MINISTER OF FINANCE:

To and including 1987

What was the dollar value of the land

THE MINISTER OF HEALTH AND WELFARE:

17 MR J D DALINGWEZ asked the Minister

Sandor Whitaker

X

a value of Rand (A 61.37)

Questions on General Affairs for

X

MONDAY, 3rd FEBRUARY 1986

MONDAY, 12 FEBRUARY 1986

MONDAY, 11 FEBRUARY 1986
Report of $200m Overseas Loan to SA

The US Department of Agriculture has approved a $200 million loan to South Africa for the development of new irrigation systems. The funds will be used to increase agricultural production and support rural development programs. The loan is expected to create thousands of jobs and improve food security in the country.

The loan will be provided through the US Agency for International Development (USAID) and will be administered by the World Bank. The funds will be used to finance the construction of new irrigation systems in the country's rural areas, particularly in the Eastern Cape and Western Cape provinces.

The loan will be structured as a 30-year loan with a grace period of 10 years. The interest rate will be fixed at 3% per annum. The loan will be repayable in equal annual installments over the 30-year period.

The loan is expected to support the implementation of several projects, including the rehabilitation of existing irrigation systems and the construction of new systems in areas with high agricultural potential. The projects will be implemented by local governments and community organizations.

The loan is part of the US government's commitment to support economic growth and development in South Africa. The US government has provided significant assistance to South Africa in recent years, including technical assistance and funding for infrastructure projects.

The loan is expected to have a significant impact on the country's economy and agricultural sector. The increased production is expected to reduce food prices and create jobs in rural areas. The loan will also support the implementation of new technologies and practices, which will improve the efficiency and sustainability of agriculture in the country.
Bank reviews ties with US city

From JOHN BATTERSBY

LONDON, — Barclays Bank (UK) has begun an urgent review of its operations in New York City following the introduction of legislation to cut city funds to banks that lend to the South African Government.

The top-level review by Barclays comes in the wake of fears that Barclays Bank of New York — a subsidiary of Barclays UK — could be directly threatened by the legislation.

The move by the New York City authorities — the first city to introduce such legislation — has already caused Citibank, the largest US lender to the South African Government, to say that it will liquidate all its loans to the government by the end of next month.

‘Alarm’

The move to cut off hundreds of millions of rands in city business from banks and corporations that maintain ties with Pretoria has triggered an alarm at the Barclays headquarters in London — a frontline target of the anti-apartheid lobby.

Barclays Bank of New York has already lost millions of rands in business through forfeiture of the Rockland County account (New York State) following the adoption of anti-apartheid legislation in the mounting disinvestment campaign.

A spokesman for Barclays said yesterday that the situation in New York was "under review" but he would not disclose the extent of Barclays business with the New York City government under the client confidentiality rule.

Implications

He said Barclays had not yet had time to study the pending legislation or to make a comprehensive assessment of the implications of the move.

In another move yesterday, Mrs. Adelaide Tambo, wife of the president of the African National Congress, Mr. Oliver Tambo, was appointed to the Barclays Shadow Board — an anti-apartheid lobby which monitors the activities of the Barclays Board in the UK.
Savings soar as credit slows

By TOM HOOD

A big slowdown in credit and a sharp rise in savings is disclosed in figures of bank assets and liabilities for the December quarter.

This reflects the Government’s austerity clamp on credit at a time when financial institutions are offering record interest rates to savers.

Savings with all the banks rose in the December quarter by R221,5-million and constituted the bulk of the increase in savings for 1984.

The increase for the 12 months was R268,1-million.

At the end of December the banks’ portion of the country’s savings was R5,070-million or 5.4 percent more than the R4,899-million registered at the end of 1983.

Over the past four quarters, the trend in savings has been a negative 3 percent in the first quarter of 1984, 1.4 percent in the second quarter and 2.5 percent in the third quarter.

For the three months to December 31 the amount of credit the banks extended on lease and hire purchase agreements rose by only 1.9 percent compared with an average of 8.8 percent over the previous four quarters.

An analysis of the BA9 figures by Nedfin Bank shows the banking industry held R15,938-million in hire purchase and lease receivables at the end of December, only marginally ahead of the R15,632-million held at the end of the September quarter.

LEASE AGREEMENTS

Nedfin Bank’s managing director, Mr Ron Rundle, says: “There is a noticeable slowdown in the rate of increase, which is just what the authorities want. As has been the case in the past, the rate of increase in HP receivables was higher than for lease agreements.”

For the 12 months to September, HP receivables grew at 46.2 percent while for the 12 months ended December this figure slowed to 35.9 percent.

Leases for the 12 months to September increased by 30 percent, an item which declined to 23 percent by the end of December.

Barclays continued to dominate the receivables market with an unchanged 33.9 percent market share.

Standard held 21.4 percent (21.8 percent in the previous quarter), Bankorp gained 0.9 percentage points during the quarter to hold 20.8 percent and Nedbank lost 0.1 to hold 11.4 percent at December 31.

The Volkskas group at 8.1 percent gave up 0.4 during the fourth quarter.
(ii) R375 987 008 (For the period 1 July 1979 to 30 June 1984).

1983

butions paid by various
institutions from own
funds).

(ii) R837 064 417.

8. (i) R8 918.

(ii) R207 291.

9. (i) Contributions paid by various authorities from own
funds.

(ii) R334 043 906.

10. (i) Contributions paid by various authorities from own
funds.

(ii) R19 359 739.

Independent/national states investments

942. Mr. F. G. KOAL asked the Minister of
Finance:

1. Whether he has received any rep-
resentations concerning investments
made by building societies in inde-
pendent Black and national states; if
so, (a) when, (b) from whom and (c)
what was (i) the nature of these re-
presentations and (ii) his response thereto;

2. whether he intends taking any steps
in this regard; if not, why not; if so,
what steps and (b) when;

3. whether he will make a statement on
the matter?

The MINISTER OF FINANCE:

(1) Yes.

(a) During March and April 1984.

(b) The Department of Co-operation,
Development and Education and several building socie-
ties.

(c) (i) Representations were re-
ceived requesting that building societies be indem-

ified by the Government against any losses they may
incur in the national states after independence as the
result of political factors.

(ii) The Government agrees in
principle with the idea that
building societies should
make funds available to
promote self-ownership
within the national states.
Due to the financial ex-
sure this indemnity would
impose on the taxpayer, an
unnecessary approval could
not be granted.

2. Yes

(a) and (b) The Government rec-
ommends that provision of an indem-
nity be approved in principle and that
a limit or ceiling be determined for
such loans. These recommendations
were approved on 4 September 1984.
Indemnities to building societies will
be provided for in terms of section 35
of the Exchequer and Audit Act,
1975 (Act No 66 of 1975) in consul-
tation with the Minister of Co-opera-
tion, Development and Education.
Building societies are at present in
possession of a draft indemnity pre-
pared by the State Attorney. Com-
ments by the building societies on
the draft are awaited.

3. Yes, as soon as the wording of the indem-
nity has been finalized and it has
been signed by all parties concerned.

1984

The following amounts which were col-
clected by development boards on behalf of
local authorities, are excluded from the
totals in (a)(ii)(aa):

<table>
<thead>
<tr>
<th>R</th>
<th>Soweto council</th>
<th>97 356</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>Atteridgeville</td>
<td>2000</td>
</tr>
<tr>
<td>R</td>
<td>Mamelodi</td>
<td>1000</td>
</tr>
<tr>
<td>R</td>
<td>Kwagga</td>
<td>1570</td>
</tr>
<tr>
<td>R</td>
<td>Mbizwi</td>
<td>1967</td>
</tr>
<tr>
<td>Total</td>
<td>103 893</td>
<td></td>
</tr>
</tbody>
</table>

(b) These amounts form part of the gen-
eral revenue of the boards and are
appropriated as follows:

to cover the expenditure of the la-
bour bureaux and inspectors and
also to defray the expenditure
in connection with aid centres;

1989

The MINISTER OF CO-OPERATION,
DEVELOPMENT AND EDUCATION:

(ii) (aa)

<table>
<thead>
<tr>
<th>R</th>
<th>Port Natal</th>
<th>45 010 773</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>Drakensberg</td>
<td>21 800 490</td>
</tr>
<tr>
<td>R</td>
<td>Natal</td>
<td>13 763 356</td>
</tr>
<tr>
<td>R</td>
<td>Northern Transvaal</td>
<td>10 317 978</td>
</tr>
<tr>
<td>R</td>
<td>Eastern Transvaal</td>
<td>11 232 098</td>
</tr>
<tr>
<td>R</td>
<td>Western Cape</td>
<td>16 261 263</td>
</tr>
<tr>
<td>R</td>
<td>Central Transvaal</td>
<td>31 651 035</td>
</tr>
<tr>
<td>R</td>
<td>Highveld</td>
<td>18 532 547</td>
</tr>
<tr>
<td>R</td>
<td>Western Transvaal</td>
<td>18 040 921</td>
</tr>
<tr>
<td>R</td>
<td>Northern Cape</td>
<td>7 373 766</td>
</tr>
<tr>
<td>R</td>
<td>Orange Valley</td>
<td>22 387 887</td>
</tr>
<tr>
<td>R</td>
<td>Eastern Transvaal</td>
<td>23 305 237</td>
</tr>
<tr>
<td>R</td>
<td>Northern Cape</td>
<td>25 019 231</td>
</tr>
<tr>
<td>R</td>
<td>West Rand</td>
<td>65 296 468</td>
</tr>
<tr>
<td>R</td>
<td>East Rand</td>
<td>45 790 868</td>
</tr>
<tr>
<td>Total</td>
<td>375 786 918</td>
<td></td>
</tr>
</tbody>
</table>

*These boards were amalgamated with effect from 1 April 1984 into the Natalia Development
Board.

(ii) (bb) For the period 1 April 1984
to 30 June 1984.

<table>
<thead>
<tr>
<th>R</th>
<th>Ikageng</th>
<th>1 016</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>Joubert</td>
<td>1 172</td>
</tr>
<tr>
<td>R</td>
<td>Galesheke</td>
<td>4 035</td>
</tr>
<tr>
<td>R</td>
<td>Bochloko</td>
<td>4 664</td>
</tr>
<tr>
<td>R</td>
<td>Seisoso</td>
<td>2 544</td>
</tr>
<tr>
<td>R</td>
<td>Evaton</td>
<td>7 470</td>
</tr>
<tr>
<td>R</td>
<td>Loko</td>
<td>8 704</td>
</tr>
<tr>
<td>R</td>
<td>Kyamandi</td>
<td>23 649</td>
</tr>
<tr>
<td>R</td>
<td>KwaNobuhle</td>
<td>4 911</td>
</tr>
<tr>
<td>R</td>
<td>Ri</td>
<td>2 824</td>
</tr>
<tr>
<td>R</td>
<td>Lingelihle</td>
<td>1 668</td>
</tr>
<tr>
<td>R</td>
<td>Tokozo</td>
<td>7 860</td>
</tr>
<tr>
<td>R</td>
<td>Tembisa</td>
<td>3 548</td>
</tr>
<tr>
<td>R</td>
<td>Watertown</td>
<td>2 86</td>
</tr>
<tr>
<td>R</td>
<td>Daveyton</td>
<td>2 120</td>
</tr>
<tr>
<td>R</td>
<td>Katlehong</td>
<td>11 768</td>
</tr>
<tr>
<td>R</td>
<td>Vosloorus</td>
<td>10 734</td>
</tr>
<tr>
<td>R</td>
<td>KwaThema</td>
<td>3 954</td>
</tr>
<tr>
<td>Total</td>
<td>96 197</td>
<td></td>
</tr>
</tbody>
</table>
Abercom in the red — interim div maintained

JOHANNESBURG. — The Abercom Group, in conflict with earlier expectations, went well into the red in the half-year to December and is headed for an overall net loss in the current financial year.

While maintaining net income of its continuing operations at a similar level as the same period of 1983, with after-tax income of R4,5m (R4,6m), the group has incurred an after-tax loss on its discontinued operations of R1,8m in the period, resulting in a loss in total operations of R9,9m, equivalent to a loss per share of 46c (earnings per share 22c).

The directors, however, point out in the interim report that with the acquisition of Sturtevant in the United States in December and taking into account the worth of the rand in major world currencies since June last year, about 60 percent of Abercom’s total assets were now situated abroad.

“Our February forecasts indicate that over 50 percent of sales revenue will be generated abroad in the present financial year and that this percentage will rise in 1985/86,” they say.

“While it seems inevitable that conditions in South Africa will remain difficult for at least the next 12 to 18 months, we believe that Abercom is in some measure protected by its overseas activities, and by the strength of its balance sheet. “Pre-tax losses from discontinued operations are projected at some R20m for the current year, with earnings from continuing operations at a somewhat higher level than last year’s R9,5m.”

In the period under review, turnover of continuing operations was down from the comparable period to R89,1m (R103,3m) and income before interest and taxation was R4,6m (R7,7m).

The group has however maintained its interim dividend at 6c a share.

Sapa

Volkkas, Bankovs to merge

PRETORIA — The...
Protea raises dividend — life business up 55%

By PAUL DOLD
Financial Editor

IN SPITE OF cyclone Demoina and the Western Cape floods, Protea Assurance has continued its encouraging premium income growth and the final dividend is being raised by 2c to 14.5c making a total of 18c (16c).

The managing director, Mr Tony Crank, says pre-tax profits for the 12 months ended December were R42m as against R4m, but an increased tax bill pared net income by R115,000 to R3m.

Gross premium income rose by some 10 percent to R77,5m, while investment income spurted nine percent to R4.3m in spite of the participation by a subsidiary in the development of Protea House in Johannesburg.

Protea's performance is excellent given the heavy flood and hail damage particularly in the Transvaal last year.

Three storms over a three-week period in November cost the short-term industry an estimated R600m with Demoina and the Cape floods in May adding another R60m.

While profits were affected, Protea's wide geographic spread cushioned the impact.

There were two other significant features in the past year's performance:
- The marine department's record results with the transfer of R700,000 — their largest ever profit contribution.
- The life division — where new business premiums soared 55 percent. Policyholders stand to benefit with Protea forecasting that the profit distribution from the life fund will be increased at the end of the 1984 triennium.

The take-over of the British Phoenix Assurance group by Protea's parent, Sun Alliance Group, has now been finalized.

Phoenix UK has a 22.5 percent stake in Phoenix Prudential Assurance of South Africa with the remaining 37.5 percent held by the Pru (UK).

Sun Alliance is taking over this minority interest and the Phoenix Prudential SA — and Protea Assurance's operations are to be integrated.

Protea says terms of the deal have now been agreed and details will be announced as the talks proceed.

Protea's managing director, Mr Tony Crank ... encouraging results.
Citibank spreads its SA wings

By Ciaran Ryan

CITIBANK has extended its global telecommunications network to Port Elizabeth, scotching rumours that it is scaling down its South African representation.

Citibank is represented in Johannesburg, Cape Town and Durban. Port Elizabeth is now linked by satellite to Citibank's world network.

Launched the telecommunications link, Citibank's senior vice-president responsible for Northern Europe and South Africa, Gordon Philips, said reports of Citibank's withdrawing from South Africa were erroneously reported in New York as reflecting a major policy decision to cease lending to the South African Government.

"Since the South American experience most United States banks have decided not to lend to governments, this decision is not aimed specifically at the South African Government, but at all governments.

"What has happened is that all loans by Citibank to the South African Government ran out on 30 March this year and no further loans will be made. Leading to governments is not a profitable area for us as the margins are extremely small."

Short of 100 doctors  
Inferior drugs used  
Badly overcrowded

S. Express 3/8/88

BY PAM KRAMER

BUDGET cuts have brought Baragwanath hospital to the point of breakdown.

Senior hospital staff warned this week that the Soweto hospital was buckling under the impact of 8% cuts ordered by the provincial administration.

They said:
- The hospital was short of 1,000 nurses and at least 100 doctors — but more were being retrenched and all medical posts had been frozen.
- Inferior drugs, which could have serious side effects, were being used.
- There was a lack of rubber gloves — even for sterile surgical procedures.
- Patients were paying for the use of theatre and outpatient facilities.
- Medical equipment was not being properly maintained.
- Water that could be contaminated was being used to wash patients in theatre and labour wards.

The hospital, which serves a population of over 2 million, is being overloaded by an influx of patients from the homelands and rural areas.

In addition, neighbouring states, including Zimbabwe, Mozambique, Swaziland and Malawi, are increasingly referring patients to Baragwanath.

Meanwhile, unemployment caused by the recession is contributing to a serious deterioration of health in Soweto.

A senior doctor said: "A crisis such as happened in Crossroads recently could happen in Soweto at any time. Because of the imminent cutback in staff, we will not be able to cope with casualties in six months' time."

**Burden**

One doctor said 200 beds installed at Leratong hospital in Krugersdorp to alleviate the Baragwanath burden, were standing empty. Nursing staff could not be paid and doctors from Baragwanath, meant to fill posts there, were having to be laid off.

And plans first discussed in 1984 to build a new hospital in New Canada, Soweto, have gone no further.

The Sunday Express has learned that doctors in the departments of medicine and paediatrics, two of the most overloaded departments, Baragwanath, are to be retrenched.

It is understood that the hospital has been instructed to "phase out" nine doctors in the department of medicine and three in the paediatrics department.

Approached for comment, the superintendent of Baragwanath, Dr Chris van der Heyveer, admitted that "consideration at the highest level..."
Medical equipment was not being properly maintained.

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Approached for comment, the superintendent of Baragwanath, Dr Chris van der Heever, admitted that "consideration at the highest level is being given to these departments".

**Unfilled**

Although the hospital requires 4 864 nurses for its full complement, only 3 615 of the posts are filled. Asked why this was so, Dr van der Heever would only say that the 1 000 unfilled posts had been frozen "due to the financial squeeze."

Several junior housemen at Baragwanath complained that some patients were being given inferior drugs, and courses of antibiotics were being cut back from the prescribed week's supply to a four-day supply.

As a result, doctors had to keep patients in the hospital to ensure they received adequate medication. This aggravated the overcrowding problem, the housemen said.

Dr van der Heever said that although antibiotic courses had been cut back, "on motivation from doctors and proof that patients do need longer courses, we can in individual cases extend the course."

A senior doctor said many of the more expensive, im
R16m forex loss hits
Rex — R7m rights issue

By PAUL DOLD
Financial Editor

SOUTH AFRICA'S largest menswear manufacturer, blue chip Rex Trueform, has been hit by a R16.3m foreign exchange loss and is passing its dividend for the first time in more than three decades.

The forex loss flowed from the cancellation of an order by a major British store group.

The passing of the dividend will come as a shock to shareholders but was clearly prudent after the currency loss; Rex is raising R7m through a rights issue to strengthen liquidity.

The encouraging feature is that dividends should be resumed in the 1989 financial year and payments will be at the same rate on the enlarged share capital as last year's 55c.

Last night, the chairman, Mr Stewart Shub, said he was fairly confident on the outlook.

"Naturally we are very disappointed to have taken this forex knock. But it is manageable and we will be able to finance it. The rights issue is being underwritten by UAL.

Confidence

"African and Overseas (which owns 53 percent of Rex) is following its rights which in itself shows confidence in Rex Trueform. I am hoping that profitability will be restored relatively quickly."

The forex loss was apparently caused by Rex prudently covering its export proceeds but which through the cancellation of the order turned out to be in excess of requirements. The board decided to close the position and take the loss.

The forex loss marrying what otherwise would have been a fair performance — certainly at the operating stage where profits at R5 044 000 were slightly ahead of last year.

Mr Stewart Shub... forecasting an early restoration of the profit trend.

But higher interest rates — the bill was nearly doubled at R22m — knocked net profits from R3.5m to R2.9m. No Tax was payable due to export allowances.

Earnings per share before the loss were 21 percent down at 86.9c. Including the abnormal loss, the net loss for the year was R13.3m against the previous R3.5m profit.

Mr Shub says that local trading conditions remain difficult with demand weak and interest rates remaining high.

Export sales are being maintained at 1984 levels and provided there is no further weakening of the economy the current year's profits (before the abnormal loss) should be more than those achieved last year.

African & Overseas had operating profits of R5.5m (R5.3m) and interest paid rose from R1.3m to R2.2m leaving taxed profits of R3.1m (R3.8m).

Earnings

Before the attributable loss from Rex, earnings per share were 89.9c (94c). The bottom line net loss was R6.8m (R2.9m) profit.

The dividend is being passed.

African & Overseas will raise the R2.7m for the rights issue from existing resources and the proceeds of certain property sales.

Comment: Rex has a dominant share of the South African market and the export business has been growing steadily. It is a pity that the group as the country's largest clothing exporter should have had to take this knock through no fault of its own.

The shares are likely to remain depressed on the news of the heavy loss and the rights issue but investors should be alert for an eventual upturn in the price. Rex produces outstanding products and has first rate management.
Sanlam earning high returns from property

By PAUL DOLD
Financial Editor

SANLAM'S net property income from existing developments rose by more than 15 percent in 1984 as a result of a policy of concentrating on short-term leases, the pension report discloses today.

A significant number of contracts expired in 1984 and Sanlam was able to conclude new leases at considerably higher rentals than were possible a few years ago. "In addition vacant space in our property portfolio is negligible in spite of the over-supply of space which is developing."

Developments

As at the end of 1984 Sanlam was involved in R300m new developments. A substantial part of the projects are let.

Sanlam has been taking advantage of current exceptionally competitive tender prices to launch new projects and extend existing properties.

The projects, some of which have recently been completed or are close to completion include:

- A R17m Cape Town office block which has been fully pre-let and a R30m Pretoria office tower.
- Enlarged shopping centres in Empangeni (R11m), Pafaw (R17m) and Durban (R17m).
- A new R15m Welkom shopping centre with Checkers as the main tenant.
- Shopping centres at Shelley Beach and Kingsburgh totalling R20m.
- At Louis Triehard developments included a 95m shopping centre with the OK Bazaars as the main tenant.

Office market

With the office market in over-supply Sanlam says it has approached the market with caution and projects have been pre-let where any doubts on the viability existed. On shopping centre developments care has been taken not to create a flood of shopping space and has instead concentrated on areas with growth potential. Major tenants are secured before development is undertaken.

Sanlam says the major trend over the past few years was a concentration of the portfolio in the Transvaal which the group regards as having the best growth potential. The flat component has also been reduced due to the unattractive returns.

In 1984 about one fifth of cash flow was invested in "high class" property for clients. Some two-thirds flowed into leasebacks and one third into new property developments.

In share investments in the 1984 financial year, Sanlam says it further refined the portfolio replacing shares with poor growth prospects. Selective purchases were made of shares with growth potential while rights options were exercised so that the group received compulsory convertible preference shares or debentures which in the hands of tax-free funds are more attractive.

In the year part of Sanlam's gold share holdings were sold as it considered gold share prices to have risen to unrealistically high levels in proportion to the gold price in rand terms.

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Liberty Life and Guardian to form new life company

JOHANNESBURG. — A new life insurance company is to be formed using as its base the life insurance business of Guardian National Insurance. The name of the new company has not yet been announced.

The new company will pay about R10.5m to Guardian National for its life business. The new company will therefore start business with total assets of about R65m which will represent a significant margin over the net actuarial and other liabilities taken over from Guardian National.

A company announcement says the level of annual premium and investment income assumed from Guardian National will be about R19m based on Guardian National's results for the year to end December. The transfer of Guardian's life business is subject to approval by the JSE, the London Stock Exchange and the Supreme Court of South Africa.

The interests of all existing life policyholders of Guardian National will be fully protected and existing with-profit policy holders will continue to participate in the surplus which arises in respect of the aforementioned life business after January 1, 1985 on the same basis as was applied by Guardian National prior to such date, the company statement says.

The chairman of the new life insurance company will be Liberty Life Group's chairman, Mr. Donald Gordon. The company statement says the new company will develop new marketing opportunities to improve the Liberty Life group's penetration of certain sectors of the South African life insurance market which are presently not catered for within its marketing range.

Opportunities

Liberty Life's managing director, Mr. Monty Hilkowitz, last night declined to specify what the new opportunities were, saying that plans were still in formulation at this stage.

The deal will have a minimal immediate effect on the earnings and net asset value per share of Liberty Life but in the longer term will benefit both Liberty Life and Guardian National.

"There will be a marginally beneficial improvement in the earnings per share of Guardian National and its published net asset value will increase by approximately R1 a share," the company announcement says.

Subscribe

The new life insurance company will go into business with effect from January 1, 1985 and Liberty Life and Guardian National will subscribe in cash for R14m of capital.
SA firms lose
R600m on loans

Own Correspondent
Johannesburg — South African companies have so far this year reported foreign-exchange losses of about R600-million from overseas loans, virtually all denominated in dollars.

This could easily reach R1-billion over the whole year, although much depends on the rand-dollar exchange rate which is what the issue is all about.

Major inroads have also been made into the profits of many companies by the sharp rise in the cost of imports.

Mining
But many other South African companies, essentially in mining, are making handsome profits from the rand slump.

Grant groups which have been hit by foreign-exchange losses include General Mining Union Corporation (Gencor), Anglo American, Barlow’s, Premier Group, Toyota, AECI, Federale, and Vascoheleheheings and Sentraebahn.

However, Gencor, Anglo and Barlow’s all have operations which have profited greatly from the rand’s fall.

This is vividly illustrated in the results for 1984 from Gencor published this week.

In spite of the horrendous foreign-exchange losses in some of the industrial and other companies in the group, its net profit was down by only 17 percent to R251 700 000 from R316 600 000.

This was because of spectacular compensation from the base metals and minerals division — which includes the effective controlling stake in South African Manganese Amcor — to R54 100 000 from a R4-million loss in 1983.

Still, the obvious question being asked in financial circles is why so many companies have suffered such severe foreign-exchange losses from overseas loans.

Why did they borrow abroad in the first place? Could they not insure themselves against the great fall of the rand?

‘Much cheaper’
Companies borrowed overseas, quite simply because at various times it was much cheaper than borrowing within South Africa.

These companies certainly could have protected themselves by taking out forward cover with the Reserve Bank against an appreciable decline in the rand.

However, the premium cost of this cover would have been so high, or entirely wiped out the benefit of the lower interest rate cost.

So many companies took only partial cover or none at all because they reckoned it was not worth paying the premium.

This view was reinforced by the fact that there was widespread optimism in the first months of last year among many economists and generally encouraged by Government, that a rise in the rand against the dollar could be expected.

To have spent money insuring against a fall in the rand lookd bad business to many companies.

With hindsight, of course, they know better now.
LIBERTY LIFE

Oh Donny Boy . . .

Once a year Liberty Life sponsors a marathon for which it enters several of its own teams. Invariably, it is said, a Liberty team wins. In other words, Liberty sets the standards and Liberty comes first. And that, some say, is characteristic of its success — not only in jogging but also in assurance over the past 30 years or so.

Put differently, Liberty has led the way as an innovator, and has done so against large and powerful competitors — which it has consistently outpaced with few serious setbacks.

Long ago, chairman Donald Gordon had a very clear vision of the market segment that his fledgling company would attack. He pursued it with all the cunning of a Scottish actuary and the energy and daring of a Jewish chartered accountant.

There’s no truth in the story that he used to be found at the top of Liberty’s black tower headquarters in Johannesburg’s Smit Street humming the ancient refrain:

The mountain sheep are sweeter
But the valley sheep are fatter

In the flood of financial bad news the recession has brought, Liberty Life provides a shining exception. It has a lot to do with long-term managerial stability, which means running as a team with clearly-defined goals.

We therefore deemed it meet to carry off the latter.

But it was the affluent buyers of life assurance he carried off with singular success, to his own and their own enrichment. He was a child of the cult of the equity, which he skilfully wove into the fabric of conventional assurance via the investment-linked policy. His financial imagination thus turned, through equity growth, the inflationary expectations of middle-income and well-to-do families to pecuniary advantage — for them, his shareholders, his colleagues and himself.

After the equity cult faded, he moved substantially into property development, introducing into this country some of the largest, most innovative and successful shopping centres. He kept investment returns growing at a whacking pace.

Moving down some years ago from the heights of the black tower to the four storeys of Armeshof Street’s hanging gardens, he honed Liberty’s administrative machine into a model of computerised productivity. His far-sighted investment in high-tech has kept the valley sheep growing fatter.

More recently, he visualised correctly the advantages of close ties with financial institutions. It was an early recognition of the changes to traditional financial markets that advanced technology was bringing about rapidly just as it blunted their edges.

Nor has he ever lost sight of the importance of people — those he set out to serve and those he welded together to do the serving. The teams of dedicated Liberty joggers are teams in spirit as well as in name.

But Donny is not himself a flamboyant man. Although short and portly, he has none of the glitter of the Schlesingers or the style of the Oppenheimers. He is no lavish MacTavish. Sure, he has a Rolls Royce and a house in the richest part of Sandton. But neither is spectacular, given his wealth.

Probably — since he has never directly owned a mine or a bakery — he has not
made a fetish of social responsibility, or what passes for it. Nor does he have a noteworthy collection of works of art. By the standards of some of those among whom he lives, he is thus not assured of a place in heaven. But we who understand democratic capitalism know better.

His single-minded pursuit of business excellence has turned him not only into a social benefactor. On Johannesburg's social circuit, he reminds one of the late Duke of Norfolk, who once said that he himself had only two topics of conversation, one cricket and the other drains. He invited his dinner companions to choose. Donny at dinner offers, tactily, a Hobson's choice of business or Liberty Life, and on either he can be equally knowledgeable, if repetitive.

And he's got quite a story to tell. The Liberty Life saga is as spectacular as it is successful. Since Liberty was floated at 270c in 1962, it has been an historic performer on the JSE. At the present R59, the share has appreciated by no less than six hundred fold after adjusting for splits and capitalisation issues, and ignoring the benefits of any rights issues.

As our graph shows, even after the general slump in share prices in 1969, Liberty has continued to climb higher, providing above-average returns to long-term shareholders. Investors' enthusiasm for the stock is understandable — since the listing 22 years ago, dividends have risen consistently, showing compound growth of 35.8%. Over the past 10 years, this has slowed to a more sedate, but nonetheless satisfying, 19%.

Donny made bold to say in his review last year that "in no year since dividends commenced has the group failed to increase its dividend by less than 15%. I doubt whether our record over this period has been equaled by any listed company anywhere." In his latest review, he notes more modestly that this claim remains unchallenged.

In the year to end-December Liberty's total assets advanced by 25% to R4.2 billion, with earnings at 340c and dividends at 250c a share — up some 19%. The 30% increase in new business, recurring annualised premium income to R114.4m, may indicate that the group gained market share. But the 6.5% dip in single premium and annuity new business is a contrary indicator.

MD Monty Hilkowitz explains: "Some R20m worth of new premium business was classified as single premium business in 1983. This had certain loan facilities attached which were subsequently withdrawn for future business and hence was not repeated in 1984."

The well-timed rights issue last year raised R152.2m of additional capital and helped boost earnings and investment income, which rose 32% to R275.7m. The high interest rates helped boost investment in-
come as cash in hand was R27m.
With 29% of its share portfolio represented by a 33% stake in troubled Premier, the prospect this year could be less buoyant. But probably a natural dilution of the proportion Premier constitutes will occur as cash flow is directed into alternative investments.

Of course, Premier could have strategic long-term advantages — as could Liberty's interests abroad, where further expansion appears likely. But that is for the future.
Looking back, since incorporation in 1957, Liberty's total assets have grown from just R84 000 to over R4 billion. Last year total capital and reserves jumped 55% to R1 billion. That is a far cry from the days when Donny Gordon stomped around among his friends raising in dubs and drabs the £42 000 he needed to kick off. It took him nine months to get it together. An investment in his new company of £1 000, as it was then, is now worth R4.4m after following all rights.

Liberty's success rests firmly, its chairman believes, on its equity base. If nothing else, shareholding interests have motivated both investors and staff alike toward pushing for growth.

Says Donny: "I believe that people motivated by a personal interest in a company can do a better job than those who are just basically managers without any financial involvement. That is probably the essential feature of our business. I don't think we could have achieved what we have unless we'd had this personal motivation."

Basic principles

Innovation has been the lynch-pin in marketing, with product development continuing to be based on the market-linked concept. The concept runs right through Liberty's history, as Gordon explains: "As an accountant I was exposed to the life assurance industry which I think was very much down-at-heels in those days. And I began to realise the potential of linking the conventional life assurance to the concept of equities as a hedge against inflation. We began those principles very early on in the company's history."

Later, linking policies to real estate, Gordon says, gave the company an enormous stimulus. Further development culminated in the Universal Life series of products, introduced 18 months ago. Already this has brought in over R40m. This incorporates an inflation adjustment and allows life cover to be varied at different stages in the life of the policy according to the needs of the policyholder. At times there is a heavy emphasis on cover, which can be adjusted as a person's need for it reduces and investment income becomes a priority.

Yves D'Halluin, sales and marketing chief, is expecting R60m in this type of policy this year alone, with current applications totalling almost one million rands of annual premiums a week. "By following Liberty Life's route, the life industry as a whole has given its seal of approval to this fairly revolutionary idea," he says, "and, oddly enough, this seems to have had a terrific impact on our sales."

D'Halluin adds that the development of new retirement annuity products is next in line for Liberty. "The fall-off in sales following the cut in commissions has left the market wide open."

Products have been developed as much from management and staff attitude toward accepting change as from anything else. The various staff shares schemes over the years have been a strong motivational force toward growth. It makes the team flexible and forward thinking.

Hilkowitz is the group's peoples' man. He's a zealot on this, having, for example, managed to get a copy of In Search of Excellence from the publisher well before actual publication. His colleagues say it had no small part to play in his thinking at the time and that he is not averse to propounding its scriptures even now.

His deputy GM in the area of human resources, Mike Jackson, says that some 4.5% of management expenses goes on human resource development. That is R2.25m annually.

"The balance between administration and marketing must lie on the edge of a precipice. And unless you're at the edge, your productivity isn't good — you're running with spare people," says technical director Steve Handler. Administration chief Mark Winterton adds: "I agree it's nothing new, but what makes us different is that we are more conscious about it."

The past year, despite its manifest success financially, has been a tough one. This is clear from the increase in surrendered policies. Always a bad sign. Explains Hilkowitz: "Surrenders are up on two scores. One of them is in group business, which is total people withdrawing from funds — lots of lay-offs. And I think the general economic conditions also pushed surrenders up."

Gordon says Liberty has probably led more than any other life office with its investment expertise as its major marketing tool. Roy McAlpine, executive director of Liberty Holdings and MD of Guardian Liberty Investment — and a man who owns one of every linked policy Liberty ever brought out — reads an enormous amount to keep abreast of national and international developments. In addition to the usual market details, he says he must now take views on currencies, oil prices, and gold these days.

For the canny Scot that he is, it's not a really a problem. "The main decision is timing," he adds. "We are looking for guidance at the moment is 'when do we make a switch from short to long term in the fixed interest market'? No one will ring the bell when interest rates top, and it's the same with equities.

Gordon says: "We tend to increase our investments, particularly in the equity market in times like these when the market is depressed and everybody else is depressed. And I'm beginning to see quite a lot of very good values on the JSE."

Property cushion

Liberty director Michael Rapp, who heads Rapp & Malts (R & M), says the group made a shrewd move when it bought R & M in 1976 and acquired a construction and property arm, headed up by Lewis Neuberger and Wolfe Cesman.

"With our own property administration and construction company within Liberty we are able to avoid the inevitable cost overruns that occur when there are several operators in the chain of command. Construction costs are also cheaper. Rapp cites the example of the recently completed Libridge House in Johannesburg at a cost of R22m. "A similar building, same office space, parking ratio, same everything, cost more than double."

He believes that Liberty has a cushion against a deeper slump in the property market through the size, location, tenant mix, parking and "dominance" of its shopping centres. "When consumption expenditure goes down, it will be the small centres that get hit," not the Sandton Cities or Eastgate, for example.

For the future, the group's wonderkind Hilkowitz, who is also on the board of Standard Bank, says: "I see a bank as the financial institution with the most powerful client relationship. And in any concept of financial services, a bank is going to be a key player."

Monty may have disappointed his mum by failing to become a doctor — he became an actuary instead — but he is one of the
ne executives in this country with an
Autobank in his foyer.

Liberty, he explains, is also expanding
into other segments of life assurance, hav-
ing recently announced its intention to take
over the life licence of Guardian National
(GN). In addition to GN's conventional busi-
ness, says Hilkowitz, direct mail selling
will be an important additional thrust. The
plan is to aim the new company at a broad
market spectrum with Liberty itself stick-
ing to the fat sheep.

The last word goes to the redoubtable
Donny who says he is now more confident
than ever of reaching assets of R10 billion
by 1990. "I still hold with that," he says,
"though I don't think we'll ever catch up to
the likes of the two mutuals in my life time.
But, quite honestly, I think I'm quite happy
to be where we are." And so you should be,
Donald.

Nigel Vardy and Brian flatwick

PUBLIC SERVICE CUTS

Touching the untouchable

Government's attempt to reduce its share
of the economy has shifted from capital
account to current account. That is the
ticket.

It was never going to be less than traum-
atic, since governments cannot trim cur-
rent expenditure without reducing staff
remuneration. In the South African context
it is always worth noting that more than 46%
of all whites work in the public sector.
It is traditionally the feedstock of National-
ist Afrikaner power, possibly even more po-
tent than the schools and the universities.
Consequently, civil servants have enjoyed
35 years of mollycoddling — and maybe a
good many years of careful treatment be-
fore that.

In fact, it has been suggested that the
current proposal to trim the public-sector
worker's cherished 13th cheque may well
be the first such move since 1929 when SA
went off the gold standard at the onset of
the Great Depression. But that was befpre
Afrikaner political power was properly
mobilised.

But not even President P W Botha could
have been prepared for the howls of protest
that greeted last week's austerity package.
That he has not run for cover and rehated
in the face of such tough threats of retali-
ation is possibly the most eloquent testimo-
ny to date that white politics has moved
irretrievably into a new lane. Whether it is
faster, better — or even moving in the right
direction — remains to be seen. But it is
different, and that is to be welcomed.

Botha could be forgiven for feeling that
he is seldom given credit for having the
courage to do the right thing. Public ser-
vants could be expected to be hostile to at-
tempts to reduce their emoluments, and the
rightwing opposition was bound to use the
opportunity to go fishing for public-service
votes.

The Progressive Federal Party, mindful
of its commitment to "social democracy,"
had some trouble with Botha's proposals,
presumably on the grounds that even bu-
reaucrats have some sort of inalienable
right (like the minimum wage) to be elevat-
ed above financial sacrifice, but in the end
the party gave grudging endorsement. Manpower spokesman Alex Boraine com-
mented lamely that it was "natural" for
public-service staff associations to say they
were being "penalised" for government's

It has taken an economic crisis to bring
home to government the waste inher-
ent in our public-service structure. If
the attention on the public service and
parastatals results in new initiatives,
the crisis will have served a purpose.

mismanagement of the economy.

This is not the point. The civil service is
part of the problem of an excessive govern-
ment share of the economy. The private
sector, whose employees are exposed to the
cyclical whims of the market and do not
have the ironclad security of tenure gov-
ernment patronage demands, is coping with
present difficulties to the best of its ability
by means of pay cuts, rationalisation, and
retrrenchment. Or, quite simply, by going
to the wall. The civil service is now being
asked to be part of the solution, although
the modest sacrifice demanded by the
President does not nearly begin to match
the solution inflicted on private em-
ployment.

This seems to have escaped Boraine,
whose political instincts tell him there is a
point to be scored here. He appears to have
overlooked the fact that, by and large,
civil-service emoluments (pay plus perks)
are now "market-related." As members of
the Cabinet are proud to proclaim, at elec-
tion time, this means that public servants
are now rewarded at the levels they used to
envy in their private-sector counterparts:

What it also means is that the public ser-
vice, now in a position of financial equality
with other sectors, should be subject to the
same harsh economic laws that govern ev-
eryone else.

The FM's reservation about govern-
ment's largely symbolic action is that it
does not go nearly far enough. From the
viewpoint of thousands of out-of-work pri-
ivate-sector employees the public service
has hardly been touched.

At worst, public servants will sacrifice a
few hundred rands a year. Their jobs, over-
all perks and basic salaries remain
untouched — as does their unconscionable

Financial Mail March 15 1985
CAPE-BASED Sanlam, one of the country's big two insurance companies, is to rescue the financially troubled motor giant, Nissan Holdings South Africa.

It will buy the company from Messina and incorporate it in its newly-formed and wholly-owned investment company, Sankorp.

The move follows a R121-million loss last year by Nissan Holdings and its associated companies.

Nissan is one of South Africa's largest motor assemblers and one of the country's major sellers of light commercial vehicles.

Sanlam officials said today the insurance company was offering R3,5-million to Nissan's parent company, Messina, for the motor operation and Magnis truck company.

Sanlam would be buying assets worth R334-million but also taking on debts of R315-million.

Messina's managing director, Mr. Peter Whitfield, said demand for passenger car and light commercial vehicles dropped 30 percent in the second half of last year while import costs rose about 40 percent. This gave Nissan an operating loss of R50,8-million. Nissan also had a foreign exchange loss of R71,8-million.

Mr. Whitfield will move to Sankorp while Mr. John Newbury remains chief executive of Nissan.

Minority shareholders in Messina are expected to accept Sanlam's offer, otherwise they will have to make substantial capital injections into the company.

Sanlam's chairman, Dr. Fred du Plessis, said he did not envisage Nissan merging with any other manufacturer.

Recently Ford South Africa announced a merger with Anglo American's Amcar.
Rush for gold amid US crisis

By PAUL DOLD

A new American banking crisis has led to United States investors seeking refuge in bullion and gold shares and has sent the dollar sharply lower.

Gold shares rose strongly yesterday following the closing of 70 Ohio savings and loan associations after a run on the institutions by depositors.

American investors fearing more defaults by institutions hedged into bullion and gold shares.

Bullion surged to $316.75 as the dollar tumbled for the second day and there was fairly heavy buying on the Johannesburg Stock Exchange with gold shares showing gains of up to 14 percent.

More than R500 000 trading was seen in several shares with Randfontein topping the R1-million mark.

The rand rose above the previous day's 50c to close at 52.03 United States cents yesterday.

The Ohio crisis which triggered heavy buying of gold comes at a time when the dollar is vulnerable to a temporary setback after its record climb of the past month.

The British pound rose strongly yesterday to close at $1.1360.

Gold closes at $316.75.
Gold rockets in biggest one-day leap for decade

Financial Staff

The rush to buy gold sent the price up to $337 an ounce today, a rise of about $36 since yesterday morning and the biggest daily gain in more than a decade.

It was fuelled by the plunge of the American dollar on world foreign exchanges yesterday — the biggest one-day slide in at least 14 years.

The dollar recovered slightly in Tokyo foreign exchange markets today but the price of gold was steady in Far East markets.

After trading at $337 in Hong Kong this morning, gold steadied later at $332.

The rand is also benefiting and was quoted at 34 US cents in Johannesburg today — up from 52.05 cents last night and 49.90 cents on Monday.

The rush boosted gold mining shares on the Johannesburg Stock Exchange and Rand-million of shares changed hands yesterday, treble Monday's business and the highest figure since February 1983.

Economists believe yesterday's gold rush may have marked a significant turn of market psychology against the dollar and toward precious metals.

They caution, however, that this sudden one-day rise could lead to profit-taking which could depress the price.

Among the currencies gaining sharply against the dollar was the British pound, which also has been helped by the recent rebound in oil prices, which raises the value of the United Kingdom's vast North Sea oil reserves.

The full effect of a banking crisis in Ohio began to be felt on the international markets yesterday.

On Friday 71 Ohio savings banks were closed following a surge of withdrawals sparked by the failure of the state's biggest savings and loan bank a week earlier.

TRIGGERED

Dealers said worries deepened yesterday when the Financial Corp of America, parent company of the biggest US savings bank, American Savings and Loan in California, disclosed depositors had withdrawn $256-million since March 8.

The rise in gold triggered sharp price increases for platinum and silver. The London free market platinum price gained $15 to reach $270.25 an ounce.
Gold fever grips the stockmarket

By PAUL DOLD
Financial Editor

AMERICAN and Continental investors bought millions of shares in South African gold shares yesterday, with bullion reaching $347 amid the Ohio banking crisis but falling back again in late trading.

There was heavy buying of gold shares in Johannesburg as gold fever gripped the stockmarket for the second day.

Millions of shares turnover were seen in individual shares: De Beers alone came close to the R5m-mark while the world's largest gold mine, Vaal Reefs, had trading of R1.5m, and mining house Anglo American ended the day with turnover of more than R1.25m.

There was heavy dealing in Driefontein, South Vaal and Loraine.

Industrials

The buying 'spilled over into industrial shares. Blue chips such as Barlow's, Foschini and Clicks were bid higher.

Although gold shares surged in the morning as the metal approached $347, the shares came off the top later in the day on indications that some of the 71 Ohio savings associations would reopen today.

Bullion fell back to $324.00 at the late London fixing with markets losing some interest in Ohio.

Gains in gold shares were limited to five to 15 percent by the rand which rose to 95.16c at one stage.

The one-ounce Kruger rand added R2.7 to R6.52.

Last night the chairman of the Federal Reserve, Mr Paul Volcker, pledged aid to the savings associations.

"We are prepared to lend to them until they are deemed strong enough to reopen."

Fall of dollar

While the plight of the Ohio institutions held the attention of stockmarkets, far more significant was the fall by the dollar — the steepest one-day decline in 14 years.

This suggests that the gold price may be reaching a turning point even though the temporary strength due to the Ohio problems could be short-lived. Mr Volcker told the National Cattlemen's Association that the United States Budget deficit was increasing the risk of depressing the dollar and boosting inflationary pressures.

The volume of shares traded on the JSE yesterday was 6,600,574 valued at R40,094,824 compared with 7,530,414 valued at R30,262,583 on Tuesday.

BUSINESS BRIEF

Gold (close) $322.50
Rand (close) R6.52
FT Index (close) 1,001.90
RDM 100 869.80
Dow Jones 1,265.24
Stanchar may give up control of SA subsidiary

Argus Foreign Service

LONDON. — Standard Chartered Bank has acknowledged that it may eventually give up majority control of its South African subsidiary.

Last year the subsidiary, Standard Bank of South Africa, produced a third of the group's profits.

Stanchar's managing director, Mr Michael McWilliam, said: "It is likely that, in the course of time, it will go to less than 50 percent but we are not putting a for sale notice up now."

Standard Chartered has already reduced its stake in its South African subsidiary to 50.3 percent, mainly through not contributing new capital to back the bank's expansion, a trend which is likely to continue.

WEAK RAND

However, as a further reduction in shareholding would remove the bank's formal control of the subsidiary, Mr McWilliam said: "Any next step would be of a different order of consequence from the previous ones and there would have to be a major discussion."

He would not put a time scale on when the decision would come up.

Unlike Barclays Bank's South African subsidiary, Standard Chartered did very well last year, with a 19 percent increase in profits in rand terms. But after translating this to sterling the profit was down on the year before because of the weakness of the rand.

STOP MAKING LOANS

The Bank of Boston has coincidentally announced in Boston that it will stop making loans to private firms and banks in South Africa out of opposition to apartheid.

The bank's chairman, Mr William Brown, said the bank last year made $75-million in loans to banks in South Africa. These loans would expire next year.

The Swedish Government, meanwhile, has said it will act to halt imports of South African coal if companies do not agree to stop them voluntarily.

Swedish imports of South African coal jumped to 28,403 tons in 1984 from 2,098 tons the year before.
SA's credit rating abroad unaffected by E Cape violence

Post Correspondent
LONDON — South Africa's credit rating in the international market has been unaffected by the shootings in the Eastern Cape.

London and American stockbrokers also report that there has not been a direct impact on foreign gold share investors.

The attitudes of foreign lenders and share investors is in marked contrast to Sharpeville and Soweto in 1976.

London bankers are appalled with the shootings and statements emanating from Ministers.

But conditions for South African borrowers are unchanged so far. Margins on South African international borrowings remain at 0.25% to 0.38% above the six-month London Interbank Offered Rate (Libor) 0.75%.

"There has not been any change in sentiment; rates have not risen," says Patrick Dunkley, Barclays National Bank's London representative.

"Several banks are still willing to increase exposure to South Africa.

Escom's latest issue, a DM156-million (W German mark) (R95-million) bond was pitched this week at a coupon rate of 8.5%. On a placing price of 99.5 the yield of the eight-year loan was 8.94%.

The bond is trading at 99.5 points but Frankfurt bankers say that the discount is "normal" because the German bond market is depressed. Yields on South African issues are between 0.5% and 1% higher than rates of Australia and other countries with low political risk profiles.

Bankers stress, however, that it will not be easy for South African borrowers to raise large amounts of cash abroad.

Bankers note that total SA foreign borrowings surged from around $13,000 million (R26,800 million) three years ago to $19,600 million (R35,800 million) in June last year.

Even though South Africa's debt service ratio (proportion of interest payments to exports) fell from 9% a few years ago to 6.5%, it is still regarded as high, especially since rand depreciation has increased the burdens of South African borrowers markedly.

Yet corporations still have the capacity to increase borrowings. With the recession in the economy credit lines are undrawn, say London bankers.

London brokers say that share prices were hardly affected by the shootings.

"Most gold shares are in the hands of a few institutions," says Julian Barlow, a partner at James Capel, stockbrokers. "These investors were not prepared to sell their shares, especially since the gold market has improved."

Mr David Ridley, however, contends that there could have been an indirect consequence from the shootings.

Fund managers who could have been buyers held back.

"One cannot underestimate the noises in the US Congress," he says.
ternatively, the patient can pay the bill in full and claim the Rams rate from medical aid. Doctors are guaranteed the Rams rate in full. If the charge is less than the Rams rate the benefits will be passed on to the patient. If the higher Masa tariff is charged, doctors must claim directly from the patient who must then claim from the medical aid scheme.

Ermstsen hopes that these measures will enable medical aid schemes to more closely control their finances and thus be able to budget on a more certain basis. Tariffs are to be reviewed annually to allow for forward budgeting. However, doubts have been expressed as to whether the Act will result in lower costs as there is little likelihood doctors will reduce their charges. They will probably still charge higher rates. On the other hand those doctors "contracted in" will only be encouraged to charge more.

Ermstsen points out that these doctors "contracted in" increase the costs of medical aid payments by as much as 40% because they tend to see patients more frequently than do those doctors who are "contracted out." And they have higher service rates too.

He adds that the industry is not accumulating sufficient funds to cover the price increases which result from inflation and the devaluation. He feels that despite the amendments the structure is still too rigid and that the are obliged to pay for too many benefits. It would be more desirable to cover only the serious medical needs and not the whole spectrum, claims Ermstsen.

In SA approximately 20% of the population is under medical cover.

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**Manfred Reichardt**

**Developing southern Africa**

Manfred Reichardt is the recently appointed special adviser to the chief executive of the Development Bank of Southern Africa (DBSA). He studied economics at the universities of Zurich, Bonn, Cologne, Paris and the London School of Economics, and has more than 20 years' experience with the International Monetary Fund (IMF).

**FM:** How do you see your role in the DBSA?

**Reichardt:** As part of the DBSA I want to help southern African states avoid some of the mistakes experienced by many African countries in their early phases of independence. In my 30 years' experience as businessman and international banker, mainly involving African countries, I have seen many achievements and many failures.

The DBSA, as a young, multinational bank, has the potential to become the pivot of development efforts in the whole of southern Africa.

**What were the mistakes?**

The over-proportional growth of the government apparatus, the creation of too many public bodies and the decline in productivity; and the negative influence of some foreign businessmen trying to exploit the experience of some of the young governments, with the enormous swelling of the public debt as one consequence.

The debt crises of many less developed countries (LDCs) — not only in Africa — is ample proof of the wrong approach to their problems.

**Were these danger signals understood?**

About four to five years ago, the IMF recognised the link between these policies and their negative results. LDCs and their governments developed the impression that an efficient economic policy and budgetary discipline could be superseded by political exigencies. Resulting financial gaps would be covered, they believed, in some way or other by benevolent foreign donor countries or international institutions.

This approach resulted in an allocation of resources which was not optimal or, in some cases, even detrimental to the country concerned. This, in turn, led to disenchanted with the development idea, first in the industrial countries, but soon among the better elements in the recipient countries.

**How did the IMF react?**

The management of the IMF quite rightly changed its policy. It has since emphasised the "help yourself idea" and has been applying stricter economic principles when granting credit. In fact, credit is provided now only if the recipient country adopts economic policies leading to a balanced growth of the economy, based on sound economic principles.

**So how do you see the DBSA's development role in southern Africa?**

At the DBSA I will try to help participating states learn from the adverse experience of the past 25 years. The final aim will be to help these states grow more and more economically self-sufficient.

One could compare its activity with that of the World Bank. It provides project aid to the participating states in the form of finance and/or technical assistance, mainly in the fields of agriculture, rural development, industry and manpower development.

Project aid is provided only after it has been verified that no private sector initiative is forthcoming and that the project is economically viable.

I can foresee an even wider role for the DBSA. All participating states are within the rand monetary area (RMA) and members of the Southern African Customs Union. One day, the DBSA may be able to fulfill, not only the functions of the World Bank, but all some functions similar to those of the IMF.

For example, non-traditional lending, such as structural adjustment loans, are becoming more important for economic prospects of the recipient state than straight project lending. And the non-project loan would allow the DBSA to promote important policy changes and economic reforms.

**Is your role limited to states in southern Africa?**

Not at all. Being an international organisation, I cannot see why the DBSA should not attract other states into this part of the world. If they wish to contribute and benefit from the DBSA, they are welcome.

**Can the DBSA obtain development funds from international sources?**

The agreement establishing the DBSA authorises it to receive grants from any source, subject to certain conditions. It may also tap capital markets for additional sources in or outside the RMA. Indeed, we have already received various loan offers from outside the RMA.

**Could economic development transcend political differences in future?**

That's a difficult question. A sound economic policy in all states in southern Africa should lead to a balanced growth and, in a free market system, the standard of living of all inhabitants should go up. That is the classic approach to reducing political differences as well.

Although all political differences may not be transcended by a considerable improvement in the living conditions of everyone, the economic interdependence of all states in southern Africa will play a significant role comprehending the importance of having an economically strong neighbour.

**Is there a possibility of the IMF and the World Bank becoming more directly involved in southern Africa, once the DBSA starts spreading its wings?**

International institutions tend to work in their own field. However, sooner or later they become aware of related interests or overlapping areas and they often exchange views or even come to some form of co-operation. I could foresee such possibilities yes.

**What is your view on disinvestment?**

I share the view that disinvestment in SA is a politically short-sighted approach, regardless of your political stance. It will be harmful to both sides, to a variant degree. If applied, it will not achieve the final aim, as was proved by Ian Smith's Rhodesia and SA's experience with the arms embargo.
UDF hold protest at bank

About 40 members of the United Democratic Front (UDF) protested against foreign investment in South Africa at the Johannesburg offices of an American bank today.

Senior UDF officials and bank management held discussions while demonstrators with placards marched around the Citibank offices on the 22nd floor of a city centre building singing protest songs.

Mr Ron Payne, a senior manager, said the discussions would not affect the bank's policies.

"Just because a guy comes in here brandishing an AK rifle, does not mean we will change our corporate policy," Mr Payne said.

None of the demonstrators were armed.

Mr Sidney Mufamadi, UDF publicity secretary and head of the delegation, said they had demonstrated the disgust of the black majority at the so-called constructive engagement between the South African Government, the administration of American President Ronald Reagan and multi-national companies.
Another US bank stops loans to SA

Washington Bureau

WASHINGTON. — The North Carolina National Bank Corporation, one of the most aggressive US lenders to South Africa, has decided to join the growing wave of American banks refusing to extend further loans to the South African public sector.

The decision, reached at a board meeting in February and publicly confirmed by a company spokesman yesterday, represents a major policy reversal. The bank had a higher proportion of its assets — 1.7% — invested in South Africa.
UDF protest halts banking

Own Correspondent

JOHANNESBURG. — A United Democratic Front protest against foreign companies' “support” for apartheid yesterday brought the Johannesburg offices of Citibank to a standstill for about an hour.

About 40 supporters of the UDF and its affiliates marched into the offices of Citibank on the 22nd floor of the Anglo American Life Building in Commissioner Street, early yesterday.

Startled Citibank officials met with the leaders of the protest and the two groups held an hour-long discussion about the role of Citibank in South Africa.

Mr Sydney Mufamadi, the UDF's Transvaal publicity secretary, told the Citibank representatives that anyone associated with “the apartheid regime” was an accomplice in its “crimes”.

He said: “We have come to protest against your indifference to the people of this country. Because you have kept quiet about what is happening, you are not neutral.

“As long as you are indifferent to the problems of our people, then you will be identified with the enemies of the people. We expect you to respond to the killing of our people (in Uitenhage) in a tangible way,” he said.

Mrs Emma Mashinini, of the Commercial, Catering and Allied Workers' Union, asked the Citibank officials to distance themselves from the “scandalous” reaction of United States President Ronald Reagan to the Uitenhage shootings.

Citibank personnel director Mr Neil Munro declined to do this.

He asked the group to make positive suggestions about what Citibank could do.

He also declined to tell them what Citibank were already doing about the situation in South Africa, saying it was policy to do these things quietly and discreetly.

The UDF officials later left the building without incident.
UDF points a finger at US bank

Senior managers of an American bank and United Democratic Front officials yesterday engaged in an often heated debate about the role of foreign companies in South Africa.

The debate came after 40 chanting and placard-carrying UDF members demonstrated at the Citibank offices on the 22nd floor of a central Johannesburg building.

In a statement the front condemned President Reagan for condoning the Uitenhage massacre.

The statement protested at:
- The collaboration of America with apartheid under the guise of constructive engagement.
- The financial backbone that foreign companies provide for the apartheid machinery in South Africa.
- The silence of foreign companies each time the apartheid state violated the rights and humanity of people. This included periodic massacres.
- Pretensions of concern for the people by foreign companies and their puppets who claimed that foreign investment benefited the oppressed people of South Africa.
- Five United Democratic Front members and trade unionists held talks in an office with three senior bank officials while the rest of the demonstrators sang and chanted in a hallway outside.

Mr Neil Munro, Citibank’s personnel officer, told the delegation that the bank made regular representations to prominent people and conveyed its likes and dislikes concerning South African politics.

“We have not gone public about what we do outside the business sector,” he said, “but I am prepared to speak to you individually in confidence.”

The bank finds apartheid morally unacceptable and deplores its continuation in South Africa.

“We remain committed to peaceful social reforms and this can best be accomplished by the bank’s continued presence in this country,” Mr Sidney Mufamadi, a United Democratic Front publicity secretary, said the bank did not care about the majority of South Africans who were not prominent people.

“You must come out openly and tell us what you intend to do,” Mr Mufamadi added.

He accused the bank of being apathetic about matters concerning the black majority and criticised them for not having made a statement about the shooting of 19 people in Uitenhage.

After the debate Mr Munro said the United Democratic Front officials took emotive stances which clouded the issues.

“They don’t appreciate the roles of foreign companies in this country,” he said.

Mr Mufamadi said his delegation had indicated the disgust of the black majority at the so-called constructive engagement.

“The management’s emphasis on the bank’s so-called quiet way of influencing political change in South Africa was typical of people who benefit from the super-exploitation of the black majority,” Mr Mufamadi said.
Gordon and Rapp trusts sell shares

Liblife, Stanbic in R80m deal

BY HAROLD FRIDJHON

IN AN R80,4m deal, the Liberty Life group is to acquire at R12 a share 6,7-million ordinary shares in Standard Bank Investment Corporation (Stanbic) owned by the family trusts of Mr Donald Gordon and Mr Michael Rapp.

The total consideration will be met by the issue at R60 a share of 1,072,000 convertible redeemable cumulative preference shares of R1.

The transaction will be effected on an ex-rights basis. Both family trusts, DGI Holdings (Pty) and Annexa Investments (Pty), will retain their rights to the 1,34-million preferred ordinary Stanbic shares to be issued at R12 a share.

The purpose of the deal is to increase the Liberty Life group’s investment in Stanbic. The transfer of the 6,7-million Stanbic shares will give Liberty and its subsidiaries a holding of about 24% in the increased Stanbic capital.

Mr Donald Gordon, chairman of Liberty Life group, said yesterday that in accordance with the group’s accounting policies, the Stanbic investment would be equity accounted. This will strengthen Liberty Life’s reserves considerably because balance sheets will reflect its 24% of Stanbic’s capital and reserves. And the growth potential of Stanbic will benefit policy-holders and shareholders alike.

(DONALD GORDON... close relationship will continue.)

(The latest Stanbic group balance sheet shows total capital and reserves of more than R751m.)

Mr Gordon said that since Stanbic and Liberty had come closer together in 1983, considerably synergy had been effected between the two. He had no doubt this would continue at an accelerated rate. Liberty will become Stanbic’s largest South African shareholder.

But the relationship is not one-sided. Stanbic owns 56% of Liberty Life Controlling (Libcon) which, in turn, owns 52% of Liberty Holdings.

The two family trusts acquired their parcel of Stanbic shares in July 1985 when Stanbic bought joint control of Libcon for R84,5m. Payment for the deal was effected by the issue of 6,7-million Stanbic shares at R9 a share and R24,2m in cash.

Thanks to the surge in the market price of Stanbic in the past 18 months, the family trusts will show a book profit of R3 a share — about R30m.

The new convertible prefs shares to be allocated in the proportion of 714,667 to the Gordon trust and 357,333 to the Rapp trust will yield 9% a year. At the option of the two holders, the new prefs will be convertible into Liberty Life paid-up ordinary shares at a price of R60 a share any September over a four-year period beginning in 1988.

COMMENT: The close relationship between the two groups goes back to 1978 when Stanbic helped finance the transfer of control of Liberty from the UK-based Guardian Assurance to Mr Gordon and Mr Rapp. The Liberty Life Controlling pyramid was then formed with Stanbic and Mr Rapp holding 25% each and Mr Gordon holding 50%.

The 1983 deal enabled Stanbic to acquire an additional 25% in Libcon. Transferring the Gordon/Rapp holdings in Stanbic from their trusts to Liblife is a commendable gesture so far as Liberty policy-holders and shareholders are concerned. The move certainly adds to Liberty’s strength.
CAR PERKS

Taxing anomalies

Just one month after its inception, tax experts have already discovered a number of anomalies in the car allowance and company perks tax tables. It is just one outcome of the hive of activity in this area. For instance, Ernst & Whinney Management Services have designed a computer programme that gives an employer 94 different ways of providing some form of car perk.

Car allowances are paid to employees who use their own vehicles for business. The table provides the fixed costs and variable costs (fuel and maintenance) with which to calculate the tax-free portion of a car allowance. The fixed cost is related to the total kilometres travelled in a given year, while the variable cost is related to the business kilometres travelled.

One major anomaly here, however, is that the new car allowance perks tax tables (FM March 29) are based on the car's value, not on the car's engine size. The effect of such a method of calculation, for example, on a person who buys an inexpensive "gas-guzzler" would be to give him a relatively lower tax allowance than the real cost of running the car.

Authoritative tables, such as those published by the Automobile Association (AA), base fuel costs on the engine size and, therefore, the published variable rates are below the AA's, which would prejudice the taxpayer's position.

Because the fixed-element figure can only be calculated when it is known how far the taxpayer has travelled in a particular year, it is impossible to reimburse costs during the year.

Significant discrepancy

A significant discrepancy between the two tables, that for the car allowance and that for a company-owned car, relates to the GST point. For a company-owned car, GST is included in the calculations, pushing up the taxable value. For a car allowance, GST is not included in the calculations, which reduces the tax-free portion and therefore increases the tax.

It seems, either way, Revenue is having its cake and eating it.

The car allowance figures take no account of finance charges and interest that the owner of a privately-owned car would normally incur, on the principle of "expenditure in the production of income," based on the business distance charged.

Tax analysts are also puzzled by the discrepancies in tax groupings between the two methods of car provision. They say they don't understand what Revenue is trying to achieve. Because, in the case of the company car, for values above R40 000, the values with attendant costs are grouped in R1 000 brackets. In the case of the privately-owned car, over R30 000, values are bracketed in lots of R5 000; then, after R55 000, the fuel and maintenance costs remain unchanged.

One consolation is that both perks tax tables are to be phased in over five years, so perhaps when the full extent of the taxes are applicable, the anomalies will have been eliminated.
especially wool and mohair.

The Central Economic Advisory Service also confirmed recently that the GDP figure for 1984 does not give a good indication of the current underlying trends in the economy. It pointed out that "in comparison to the first half of the year, economic activity in the second half of 1984 declined very sharply as a result of, among other things, the severe restrictive policy measures introduced in August. At present, there is a growing number of liquidations and increasing unemployment."

The Standard Bank points out that: "One must look at patterns, not figures, as the first and second halves of 1984 show differing trends that annualised figures cannot explain."

Johan Cloete, Barclays' chief economist, comments that the increase in GDP is a reflection of considerable private and government consumption expenditure in the first half of last year which, as Finance Minister Barend du Plessis said in his Budget speech, could "not be sustained in the face of unfavourable extraneous developments in 1983 and 1984."

For 1985, Willemsie believes growth will be slight but more soundly based, with major contributions coming from agriculture and exports. He expects growth in the non-agricultural sector to decrease slightly.
Natal firm has plan to help Africans with tax

Finance Reporter

A DURBAN-based company, Syncrovision, has released an industrial-based audio-visual programme to assist Africans with the transition from black tax to P.A.Y.E.

The audio-visual has taken four months to compile and graphically illustrates step-by-step the completion of the new tax returns.

Mr Ian Fikuart, managing director of Syncrovision, said at the launch of the programme yesterday, that although the new P.A.Y.E was for the better it had created all sorts of tensions and distrust among Africans.

'We researched and designed the programme with close co-operation of the Receiver of Revenue to explain in the simplest terms how income tax forms must be completed.'

Although its directed at assisting blacks the programme crosses all racial barriers and is available in English, Afrikaans and five African languages.
Prime overdraft rate cut not imminent

ECONOMIC factors continue to move in a favourable direction for a cut in the prime overdraft rate — but contrary to rumours emerging after the Reserve Bank meeting with bankers a fortnight ago the move is not imminent.

Yesterday, Dr Gerhard de Kock, Reserve Bank governor, squashed the market talk: ‘I have no intention of doing it (cutting rates) today or tomorrow or this week.’

The last drop in re-discount rate coincided with the November Primrose by-election but the market is strong in its condemnation of that move which was too soon and too much — there just happens to be a by-election in Newton Park next month.

This might have given some market observers the thought that lightning strikes twice.

Budget

Dr de Kock said the Reserve Bank intended in future to make more frequent adjustments in rediscount rate than in the past.

He noted that the fiscal 1986 Budget has set as one of its objectives an improved mix between fiscal and monetary policy and had prepared the way for a decline in interest rates.

He said that barring unforeseen developments, he expected a decline in both short and long-term rates this year. Unforeseen developments would include a slump in the gold price or a sudden rise in the dollar to say 3.45 marks.

De Kock said a decline would be for sound reasons, including a reduced budget deficit before borrowing, a current account surplus and an expected decline in credit demand.

He added: ‘The Reserve Bank would welcome that kind of decline. It would bring relief to farmers and small businesses, home owners and the economy generally and will be due stimulative fixed investment.’

Shortage

Money market rates have slid by over one percentage point in the past fortnight and are now 21 percent — indicating that prime should be about 22 percent.

The money market shortage has fallen below R2 billion but there must be a trend here before the Reserve Bank will touch its crucial rediscountrate.

Dr de Kock said this cut depended on such factors as the outcome of a special R200m special Tax Treasury Bill tender (it drew applications for R86m at 19.85 percent. The bills mature on August 30 and a Treasury Loan repayment on Monday and the bullion price.

The gold price has held up above $300 since the Budget and moved up again to near $330 yesterday.

But here again the hidden factor disclosed yesterday by the state of the foreign exchange reserves — the gold bullion component — is the amount of short-term loans which the Reserve Bank has raised and will have to repay soon either through gold bullion swaps or cash.

Rediscount rates were raised by one point from January 8, taking the Treasury Bill rate to 21.75 percent from 20.75 percent, after being cut by one point last November.

Commercial banks immediately raised prime to 25 percent from 24 percent.

Meanwhile, the public sector is expected to raise around R3.8 billion in fiscal 1986 which began on April 1, including R765m of new money for the central government, a domestic loans programme issued by the Finance Department.

Loans

In the same period the Reserve Bank obtained no short-term domestic loans but its net short-term foreign loans amounted to R53m.

The total amounts borrowed by the Government, including non-marketable debt, totalled R4.1 billion domestically and R506m abroad in between April 1 and December 21, 1984, Mr du Plessis said.

Long-term domestic stock issued totalled R690m, of which R1.9 billion was from the 13 percent 2005 stock, R500m from 15 percent 1986 stock and R1.39 billion from 14.5 percent 2006 stock.

Tap issues

It gave no comparisons.

Included in the total are tap issues totalling about R900m which Escom, SATS, the Posts and Telecommunications department and Durban Corporation may offer, it said.

RSA issue’s will raise a total of R1.53 billion, of which R715m is new money. The department said included in the total was R125m which universities and technical colleges would be seeking.

It said not all borrowers listed had obtained borrowing powers and their names could be withdrawn.

The South African Government made net repayments of R178m on short-term domestic loans between April 1 and December 31 last year, Finance Minister Barnard du Plessis said in reply to a parliamentary question.

Net short-term foreign loans obtained by the Government amounted to R76m in the same period, he said. Net issues of Treasury bills by the Government were R753m but net repayments of short-term Government stock totalled R931m.
Receiver scores heavily from GFSA earnings

Mercury Correspondent

JOHANNESBURG—The Receiver of Revenue scored heavily in the March quarter from the earnings of the gold mines managed by Gold Fields of South Africa (GFSA).

Overall the results were largely unchanged from those of the December quarter; but while total taxed profits for GFSA’s mines rose by R4,6m to R219,92m, the Receiver’s slice increased by R12,5m to R202,6m.

The group has restated the tax and earnings figures of its mines for the December quarter.

GFSA’s mines have a June year-end and are therefore affected retrospectively by the tax changes announced in the Budget.

Record

The average price received by the group’s mines for their gold sales rose to set yet another record of R19,79/kg compared with the December quarter’s R19,49/kg.

This is the result of the slide in the value of the rand to an average of R1/$0,49 in the March quarter from R1/$0,55, which more than compensated for the continued slide of the dollar gold price during the March quarter.

The group dropped grades at nearly all the mines to take advantage of the rising rand gold price and its favourable effect on the mines’ pay limits.

Net sundry revenue (mainly interest received) for the group’s mines rose to R58m in the March quarter from R42,2m in the December quarter.

Kloof turned in an excellent set of results for the quarter, increasing net profits to R57,37m (R56,766m) and distributable earnings after capex to R113,5c (103,8c).

The increase in Kloof’s milled tonnage to 540,000 from the December quarter’s 525,000 is in spite of a fire in an electrical substation during January which led to a five-day suspension of milling.

The mine also managed to reduce its total working costs to R42,292m (R43,091m).

Tonnage

Venterpost had a clear quarter with no disruption to operations by fires and as a result tonnage milled rose to 390,000 from the March quarter’s 338,000 tons.

Vlakfontein, at the end of the March quarter, was sitting with retained distributable earnings of R1,531m (25,5c a share) after making a stringy capital repayment of 15c at the interim stage.

This amount of retained cash seems excessive and unless GFSA has something in mind for the funds there should be a very healthy final dividend to come from the company.
AN Agricultural Credit Board (ACB) to assist Indian farmers has been launched, Mr Baldeo Dookie, Minister of Local Government, Housing and Agriculture, announced yesterday.

The new board had been allocated a total budget of R832 000 for this financial year, Mr Dookie said.

He added that it was a "historical development for Indians who had been here for 124 years and for the first time positive steps are being taken to meet their needs in the agricultural sector".

The minister has also appointed five members to the board which will be chaired by the chief director of local government, Mr R N Blumrick. The five were Mr P R Bodasing, a farmer and president of the Natal Indian Cane Growers Association; Mr M Naidoo, a farmer from Learney; Mr T A Govender of Umzinto who was previously associated with a part-time credit committee with Mr J N Bodasing and Mr Shun Naidoo, who both have a farming background; and Mr H J Backer, director of Local Government, who is vice-chairman.

The ACB will assist farmers, expand farming operations and supervise and undertake research and training.

Additional Agricultural Credit Committees may also be established by the Minister in terms of one or more magisterial districts to make recommendations to the Minister or the board. At present there are seven committees.
Inflation fears fuel market rally

Financial Editor

IN SPIRIT of the recession, the drying up of consumer demand, the record high taxes and the record high interest rates — all factors which should depress investors — the industrial share market has started to move up strongly.

The industrial share price index jumped more than 20 points or 4.4 percent yesterday, which was more than it had risen in the previous three trading days. This rise was a continuation of the trend that has lifted the index more than 90 points, or 12 percent, since its March low.

The increased business this upsurge has brought stockbrokers has been most welcome as they have been going through a lean time recently, with clients as scarce as grapes in spring.

But not all brokers are happy about this turn of events. It meant that people have taken the view that the country's high rate of inflation will be around a long time, one said.

"The share market rally is actually a vote of no-confidence in the Government's anti-inflation measures," he added. "It shows that people have again started seeking inflation hedges."

It seemed that a repeat of the 1983-84 industrial share rally was about to take place, he continued.

He was referring to the situation in late 1983 when investors sensed that a renewal of inflationary pressure was imminent. They invested heavily in industrial shares and were rewarded by seeing share prices rise by about 25 percent on average by early 1984.

Their action in fleeing to an inflation hedge proved to be justified. The monthly inflation rate in the six-month period increased by about 50 percent from around 10 percent to 15 percent.

In recent weeks there has been plenty of evidence that South Africa is again riding the tidal wave of inflation. In the first two months of this year the consumer price index rose more than 4 percent, to give an annual inflation rate of more than 24 percent.

Since then a host of other prices, including postal and telephone tariffs and railway freight rates have been increased.

Motor manufacturers have been forecasting further sharp increases in car prices, even though the cost of running a car has risen 36 percent in the past 12 months, official figures show. And brick prices have also risen substantially in some parts of the country.

"If businessmen and Government departments see nothing wrong in increasing prices by up to 30 percent in today's business climate, then it is clear that inflationary expectations are still high," the broker said.

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**Consumer price index**

![Graph showing consumer price index](chart.jpg)

- **Percent**
- **Monthly change**

Shops have increased the price of petrol and many other goods and commodities, including rail fares, causing the consumer price index to soar in February by more than 3 percent. This was the largest monthly rise for several years as this graph from Central Statistical Services shows.
Barclays, once time loyal target of anti-SA group

From STANLEY UYS
LONDON. — Barclays Bank has been singled out by anti-apartheid protesters here as the main target in a campaign to secure South African disinvestment.

A spokesman said the bank would not yield to pressure. "We continue to deplore apartheid, but we feel it is best to stay ... to employ constructive engagement."

The End Loans to South Africa (ELTSA) organization has produced its fifth Barclays "Shadow Report", designed to monitor the bank's activities in South Africa and SWA/Namibia.

Members include Labour leader Neil Kinnock, actress Julie Christie and exiled editor Donald Woods.

ELTSA claims that accounts are being moved from Barclays in protest against the bank's South African involvement.

The Shadow Report claims that since 1980 Barclays Bank has lost accounts in Britain with a total annual turnover of more than £14 billion, the largest withdrawal being Rochdale Council's £400m-a-year account — the first time Liberal and Social Democratic councillors have joined Labour councillors to vote to boycott Barclays.

Barclays Bank in London holds a controlling 50.45 percent share in its SA subsidiary.
Barclays

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Barclays Bank in London holds a controlling 56.45 percent share in its SA subsidiary.
Societies hoping to phase out tax-free concessions

Finance Reporter

Major building societies are hoping for a gradual phasing out of their tax-free concessions rather than cause a sudden death when the new Building Society Act is introduced.

The announcement of the phasing out was made this week during a speech by Mr Kent Durr, Deputy Minister of Finance and of Trade and Industry.

Mr Durr was speaking on implications of the new Building Societies Act, the draft of which goes before a standing committee this week.

Tax concessions enjoyed by the societies' investors had shielded borrowers from the turbulence in the financial markets, Mr Durr said.

Those tax concessions are likely to disappear under the provisions of the new Act, either by a sudden death or by phasing out.

Mortgages

Mr Geoff Bowker, general manager of the Allied, said yesterday, that if the tax-free investments were cancelled or phased out, societies would have to pay more for money, which would precipitate an increase in mortgage rates.

'But if the concessions are phased out, the longer the phasing out, the more likely it would be for us to postpone or defer bond increases,' he said.

Mr Brian Kemmey, senior general manager of the SA Perm, yesterday refused to comment on the Perm's attitude to the proposed new Act, but said cancellation of the tax-free benefits would have an effect on cost of capital.

'And for us to retain that money, we would have to pay higher interest rates, which would affect bond rates,' he said.

Current interest rates of tax-free investments suffered by building societies are 10-12 percent up to R20,000, with a minimum investment of 18 months. The Post Office also offers the same interest rate, but has a ceiling of R70,000 and a minimum period of six months.

Durban-based Maurice Goudre, a former national president of the Institute of Estate Agents, said yesterday, that another increase in the mortgage bond rate would have a detrimental effect on the property market.

Mr Goudre said that in the past one had been able to say bond increases would not affect the market.

But recent increases had definitely had an effect.

'The main reason is relative to income and expenditure — people are finding it difficult to find the money,' he said.

Meanwhile, the Perm has raised its mortgage rates as from May 15 to bring them in line with those of other building societies.

Most rates will be increased by 0.75 percent, with the top rate for bonds over R80,000 increased by 1.5 percent to 21.5 percent.

Inflation

The Allied, Natal Building Society, Eastern Province Building Society and Sambou National Building Society have all increased their rates this month and many of the societies expect the rates to maintain their present high levels for at least another six months, or possibly until the end of the year before easing.

Mr John Bennett, managing director of the Natal Building Society, believes that any reduction in mortgage rates is 'virtually impossible to predict because it is subject to so many imponderables.'

'The price of gold, inflation and tight Government control over its financial expenditure are all factors that affect rates, but rates could ease towards the end of the year,' he said.

Mr Bowker also believes the end of the year could herald a drop in rates, but also stresses the importance of gold and inflation.

Mr Kemmey of the Perm, said he believed rates will generally slowly decline and foresees a 'meaningful decline towards the end of the year.'

Mr Goudre also believes any significant increase in the gold price might have a benefit in the form of improved stability of the flow of funds to the building societies, which, in turn might enable them to lower their rates.

Listing

The Bill is designed to provide more flexibility for societies in their borrowing and lending activities and will offer societies, among other things, a choice to convert to companies and an eventual listing on the Johannesburg Stock Exchange.

Societies which convert to an equity base must maintain equity capital and untapped reserve funds of four percent of commitments to the public.

They will also be required to maintain cash reserves at the Reserve Bank equal to eight percent and four percent respectively of short and middle-term commitments to the public — and maintain liquid assets equal to 20 percent, 15 percent and five percent respectively of short, middle and long-term public commitments.

The present requirements with regard to prescribed investments will be scrapped.
Boland Bank expanding

Finance Reporter

Boland Bank is expanding its commercial banking services and aims to increase its 40 district bank branches to 70 by the end of this year, having recently moved into the Transvaal and OFS and it plans to move into Natal and Eastern Cape shortly.

Mr Charli du Plessis, senior group general manager, said: "When we took over the Stellenbosch District Bank in 1979, we didn't have the experience and expertise to begin expanding.

'But now we can offer a wide range of local and international banking services.'"
Parliamentary Correspondent

CAPE TOWN—The Government has refused to explain why its spending on secret accounts is to go up by R11 million to total R69 million during the current financial year.

In an explanatory memorandum, tabled in Parliament yesterday, the Department of Finance said that 'for obvious reasons' details of the provision for the secret services 'cannot be made public'.

It said the Secret Services Account had been established to centralise the budgets for all secret services.

Amounts were then transferred from this account to the Foreign Affairs Special Account, the Security Services Special Account, the Special Defence Account, the Information Services of South Africa Special Account 'and to other departments which may undertake secret services', the memorandum said.
PORT ELIZABETH—Foreign investment in South Africa has risen to R43 billion at present from R3.6 billion in 1974 despite intensified attempts to dislodge it, Transport Minister Hendrik Schoeman said.

He said in prepared remarks that South Africa remained attractive because it recognised that foreigners would not invest in the country if they were not properly rewarded. (Reuters)
Work starts on R33m Ladysmith factory

Property Editor

LADYSMITH — Construction of a new R33-million factory here in times of worsening recessionary conditions was a sign of faith in the product and South Africa, deputy chairman of Gypsum Industries, Dr Rudolph Fockema said yesterday.

He was speaking on the occasion of ‘turning the sod’ for work on the huge plant to begin.

Dr Fockema said the plant had been sited in Ladysmith because of the encouragement given through attractive decentralisation incentives, the good location of Ladysmith relative to the Natal and north-eastern Orange Free State markets, and the positive attitude of the local authorities towards the industry.

‘These are among the many factors that led to our decision in spite of the great distance from our Gypsum deposits in Bushmanland,’ said Dr Fockema.

The factory, which is scheduled for completion in 1997, will ultimately employ about 200 people and will make a wide range of products for the building industry.
And then there was none...

The decline of personal savings is alarming. It reflects a kind of condemned-man syndrome. Despite attractive long-term yields, the prevailing mood is to spend rather than surrender proceeds to inflation and the taxman.

South Africans should be saving, but they are not. On the surface, attractive propositions abound. For example, assuming that inflation will average 12.5% per annum over the next three years, current long-term rates should yield a real return of 4% per annum. Few investors would jib at that. The reason they do is not difficult to see: the propensity to save is being undermined by nagging inflationary expectations and, as before, the demoralizing effect of high marginal tax rates.

Over the past eight years, personal savings have dwindled to a meagre 8.2% of gross domestic savings from a high of 28.9% in 1977. Since that year, there has been a 70.8% drop (in 1977 rand terms) from R2,364 billion to R835m at the end of 1984. To make matters worse, savings have declined dramatically in real terms — notwithstanding the massive weight of contractual savings through the life assurance industry and private pension schemes.

On the other hand, corporate savings as a percentage of gross domestic savings rose to 35.9% in 1984 from 15.6% in 1977.

What should alarm economic policymakers is that, since 1977, total savings have risen only 3.7% in real terms, while gross domestic investment has increased by 13%.

The difference has been made up by borrowing overseas, often short term.

Savings can come from three sources — individuals, corporations or government. But if the level of total savings is to keep pace with SA’s need for investment, then corporate and government savings are not enough — the present downward trend in personal savings will have to be reversed.

Saving money is essentially a hedge against inflation for the man-in-the-street. Although projections for inflation vary, a reasonable, if not slightly optimistic view would peg it at an average of 12.5% for the next three years. For example, an individual who puts money away in fixed deposit for three years could expect, at present rates, his investment to grow at 16.6%/year.

But tax costs gloom over his expectations.

### PERSONAL SAVINGS — CONTRIBUING LESS

Components of savings as a % of Gross Domestic Savings

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Personal</td>
<td>28.2</td>
<td>19.1</td>
<td>21.1</td>
<td>18.3</td>
<td>11.1</td>
<td>9.0</td>
<td>6.9</td>
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<td>Corporate</td>
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<td>22.9</td>
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<td>24.7</td>
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<td>47.2</td>
<td>64.8</td>
<td>61.5</td>
<td>64.7</td>
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</tbody>
</table>

Source: Reserve Bank Bulletin.

### ASSOCOM’S PARSONS... CONVINCE THE PUBLIC

Commission to recommend fundamental changes in the tax structure to put this right if there is no room to manoeuvre on the fiscal front.

“It will not be possible to walk down the road of reducing the net tax burden as a barrier to higher personal saving unless the State is able to reduce its claims on the resources of the country,” he adds.

### SAVINGS — NOT MEASURING UP

(In Real 1977 R millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal Savings</th>
<th>Gross Domestic Savings</th>
<th>Gross Domestic Investment</th>
<th>Gross Domestic Product</th>
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<td>2864</td>
<td>9765</td>
<td>9934</td>
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</tbody>
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Source: Reserve Bank Bulletin.

Financial Mail April 19 1985
First-time buyers to benefit from mortgage offer

JOHANNESBURG—The Natal Building Society announced yesterday it has made available 'several million rand' primarily for first-time home buyers.

In a statement, the NBS says that its lending position has improved because of a 'more favourable investment trend over recent months'.

The managing director, Mr John Bennett, said: 'We're even inviting prospective first-time buyers who are not current clients of the society to avail themselves of these funds.'

'Even though loans of more than R60 000 — which first-time buyers do not normally require — are more profitable we feel that it is important for as many young people as possible to be able to purchase their own homes.

'If the step is taken at the expense of short-term profit — and may be queried by some people in the light of our intention to become an equity-based instead of a mutual society — from a long-term viewpoint, it is enlightened self-interest.

'And it is particularly meaningful to the public at large at a time when mortgage bond rates are so high,' he said.

'In a country with a rising population that is generally poorly housed, it is essential that the socio-economic benefits of owning one's own home be spread as widely as possible in all race groups.

'Building societies obviously have a large role to play in the achievement of that goal, and an emphasis on profitability does not mean we should not follow socially acceptable policies.

'Stability, self-fulfilment, and capital appreciation of a major asset in a highly inflationary economy are some of the many "spin-offs" of home ownership in a country that has many hallmarks of the Third World.

'The opportunity to benefit from capital appreciation is especially important, as it demonstrates in practice the virtues of the free enterprise system,' says Mr Bennett. — (Sapa)
HOMES CASH: There’s more for BUREAUCRATS than for BLACKS

THE Government will spend more money this year on housing subsidies for its largely white public-service corps than it is to spend in housing for blacks.

The shock statistic has again focused attention on the massive state housing bonanza which absorbs millions of tax rands every year.

And a new government accounting method introduced three weeks ago bodes this vast hidden cost to the taxpayer in the budgets of the individual state departments — thus making it that much more difficult to control.

This week opposition members demanded — and were denied — an independent inquiry into the home-loans scheme, which they now describe as a “monster”.

Rough estimates compiled by the Sunday Times indicate that at a very minimum the State will spend more than R300-million on subsidising home loans for all state employees this year.

In the central-government sector alone — it employs about 600 000 people — the Government has budgeted a wholly inadequate R153-million this year for the scheme.

That is R4-million more than the Department of Public Works and Co-operation and Development have jointly budgeted for black housing in the whole of the country.

But Treasury officials this week admitted that the R135-million budgeted was based on the hope that interest rates would “soften” during the year — a prospect they themselves admit is unlikely.

In 1983 the Government budgeted R47-million for the scheme, but had to pump in substantially more during the year as interest rates on loans rose.

Last year it earmarked R172.8-million, but had hastily to pour in another R52.8-million — an 80-per-cent budget overshot — into the kitty as the interest rates soared.

Splurge

This year the budgeted amount is 35 per cent more than last year’s figure, but will be substantially higher than estimated — perhaps even exceeding last year’s record high of R193.6-million.

State spending on the scheme has increased exponentially. In the past seven years it has gone up twelve fold for central-sector employees, and in services such as Transport Services it has increased 2 000 per cent in 10 years.

The state burden in housing costs has deeply concerned opposition quarters, which claim that the over-ended policy has locked the Government into an enormously expensive scheme.

The Government pegs interest rates at between three and five per cent for employees and foots the bill for the rest — which today can be as much as 15 per cent of the loan’s interest.

A typical scheme for a provincial educational department, for example, requires the authorities to pay R450 a month in subsidy on a R40 000 loan over 25 years for an employee with a basic salary above R14 000.

The proliferation of state burdens in connection with the schemes has been highlighted in the latest report of the Department of Community Development — now the Department of Public Works.

Between March 1983 and March 1984 the number of loans approved by the Government for all public-sector employees increased by 11.5 per cent. But the total amount loaned increased by 30.1 per cent while the guaranteed amount shot up 37.4 per cent.

The State went on an even greater lending splurge subsequently. In the 21 months from March 1983 to December last year the number of officials qualifying for subsidies on loans leapt by 32.5 per cent.

Concern about the housing subsidies is only part of a much deeper concern about the state wage bill as a whole.

This year the total wage bill — central sector, services, provinces, statutory bodies, self-governing bodies and control boards — reached R1 500-million compared with last year’s R1 090-million.

Cost-cutting, claims the Commission for Administration, will knock the total increase back to R1 420-million, or about 12.5 per cent increase over last year.

But a study of the increase in the main budget estimates of expenditure on personnel in central government alone shows an increase of 16.8 per cent.

Explanatory memoranda from each department refer, inter alia, to cost increases which are then only partly attributed to the housing-loan subsidies.

But a snap Sunday Times analysis of some of the government departments shows a disturbing trend in increases on personnel expenditure — despite government pledges to trim the fat and peg staff expenditure increases to 10 per cent.

The Department of Co-operation and Development, for example, has increased its personnel budget by 17.7 per cent despite only a 0.9 per cent rise in staff strengths.
THE African Bank Limited last week announced the formation of its Corporate Banking Division. This division will strive to participate in the money market, primary capital market and foreign exchange.

It is envisaged that the bank's clients will be procured from the ranks of both large South African and large multinational corporations.

The bank's activities in the primary capital market will be geared mainly towards the Black local authorities and independent states, raising capital in both the local and overseas markets.

The African Bank, formed in 1974, has been growing from strength to strength and the formation of its Corporate Division is viewed in the light of improving the standard of the bank to be like any other in the country.
Building societies likely to lower deposit rates

Financial Editor

LOWER building society deposit rates are likely within the next few weeks. The United, the country's largest, has already trimmed its 12-month deposit rate from 20.5 percent to 20 percent and other societies are expected to announce similar reductions shortly.

Most of the societies have reduced their wholesale money rates in recent days.

A building society official said the high rates which the societies had been offering on 12-month deposits recently had proved highly successful in attracting new money.

These rates had led to the cash position of at least some of the societies becoming much easier than it had been for several months.

FIRST TIME HOME BUYERS

An indication of this is the announcement by the Natal Building Society at the weekend that it was making several million rand available for lending to first time home buyers.

It says this had been made possible by its lending position having "improved due to the more favourable investment trend over recent months." The society's managing director, Mr John Bennett, said it was even inviting prospective first time borrowers who were not current clients of the NBS to avail themselves of these funds.

This was being done even though loans of more than R60 000, which first time borrowers did not normally require, were more profitable to the society.

It does seem that the societies are finding the demand for new bonds, especially above R60 000 beginning to slacken.

This is only to be expected in view the recession which has trimmed many people's income and the high interest rates being charged for bonds.

Anyone who borrows money at 23 percent, the going mortgage rate on sums of more than R60 000 is paying out R13 800 a year in interest alone, a fact which must inevitably depress the demand for bonds.

However, building society officials point out that it could be some time before lower deposits rates lead to lower mortgage rates, as they are committed for at least a year to paying high rates of interest on deposits.
Metboard buys P-E Corporate Services

By HOWARD PREECE

METBOARD, a leading trust and financial services group, has taken over P-E Corporate Services, South Africa's largest management consultancy and training group.

Financial details of the deal have not been revealed.

Metboard, a part of the Unisec group, has funds under administration of about R420m.

In the 18 months to June 1984, it made a pre-tax profit of R4,496m.

Net profit attributable to ordinary shareholders was R2,553m — roughly R17m on an annualised basis.

Mr John Perkins, the managing director of Metboard, says the acquisition of P-E should boost earnings by 10% to 15% in 1985-86.

P-E, formerly P-E Consulting Group, was set up in 1950 as a subsidiary of the international P-E group.

In 1978, however, control was bought by the South African management headed by Mr John Fleming, who has been the executive chairman and the majority shareholder.

There is no longer any direct financial tie with P-E International but, according to Mr Martin Westcott, the managing director of P-E, there are still some important working links.

Mr Fleming is to take up a position in the City of London with effect from July 1 this year.

Metboard will have 80% of P-E, with the remaining 20% held by the executive directors of P-E.

P-E found itself in some financial difficulties last year after a computer software venture.

That led to P-E seeking some advice and assistance from Metboard.

That, in turn, led to the take-over of P-E by Metboard.

P-E is one of the main executive recruitment agencies in South Africa — a business worth close to R15m a year countrywide.

It also lays claim to being the largest group in South Africa in management training (annual industry turnover is reckoned at R20m) and general management consultancy (annual turnover is in the R15m to R20m).
Barclays loans to SA: Bevan explains

LONDON. — Stockholders protested vigorously at the flood of “political questions” with which Barclays Bank chairman Sir Timothy Bevan was bombarded at the bank’s annual general meeting here yesterday.

But Sir Timothy, while giving preference to stockholders, also allowed the holders of “yellow cards” (proxies) to question him at length about a variety of South African and SWA/Namibian issues affecting the bank.

First, however, he told the crowded meeting that the bank continued to be opposed to apartheid, and that its policy on loans to South Africa was simple: it did not lend to the South African Government, either from London, Europe or the United States, unless that loan was in part to improve the living standards of the black population and could be demonstrably monitored.

The bank had participated in modest underwritings of foreign issues by nationalised industries, particularly by Escom because it was felt that electrification projects were of benefit to the wider population. None of the underwritings remained on the bank’s books.

Reviewing what had been achieved in South Africa, Sir Timothy said Barclays National represented about a quarter of the banking system in South Africa yet employed 43 percent of the total number of non-whites employed in banks. Volkskas employed about 1 percent.

Between 1983 and 1989, Barclays National gave R254-million to the Urban Foundation in South Africa — the largest single donation ever made by any part of the Barclays group.

But most of all, the bank believed it helped to set a good example. As a British company, it reported annually to the British Department of Trade under the EEC Code of Conduct, and “comprehensively met” the criteria of the code.

"Taken together, companies following such codes must surely represent a substantial force for peaceful, evolutionary change," he said.

He added: “When talking of disinvestment, it seems to me the burden of proof is on the disinvestors to show how much more they can achieve than we have achieved with our policies of constructive engagement.”

Sir Timothy, replying to a question, disclosed that the bank had sent a telex to President P W Botha after the Uitenhage shootings. It described the shootings as “an unmitigated disaster”. Sir Barclays had called on President Botha to intervene directly and for an inquiry to be held.
Banks' interest rate cuts herald downward trend

By DEREK TOMMEY
Financial Editor

THE high interest rates which in the past year or so have crippled businesses and hurt the house buyer are beginning to decline.

This is today's good news from Volkskas and Standard Bank which have both cut their 12-month deposit rates from 20,5 percent to 19,5 percent with immediate effect.

The last time the fixed deposit rate was reduced was in the first quarter of 1983 when it fell from 15,5 percent to 11 percent.

The Standard Bank has also reduced its savings rates by varying amounts, from 0,42 percentage points on deposits of R40 000 or more to 0,74 percentage points on deposits of between R15 000 and R19 999.

GOVERNMENT STOCK

The lower rates follow cuts by certain building societies. However, they go further as the societies at the start of business today were still offering a minimum of 20 percent on 12-months money.

Bankers say the move reflects growing downward pressure on interest rates owing to a build-up of money in the hands of the institutions for investment on a medium and long term basis.

In previous years much of this money would have been put in Government stock and would have had little direct impact on interest rates.

BORROWING SLASHED

But this year the Government has slashed its borrowing requirement to R76-million from roughly R2 000-million last year which has resulted in the institutions having had to find alternative investment avenues.

Accordingly, they have investing heavily with the banks and building societies and this is now helping to depress interest rates.

This development was not unexpected.

It was forecast by the Minister of Finance, Mr Barend du Plessis, in his Budget speech five weeks ago when he said the lower level of State activity in the capital market should contribute towards a lower interest rate structure.

INSURANCE PREMIUMS

With the institutions continuing to take in large sums of money by way of pension fund contributions and insurance premiums it seems that the downward pressure on interest rates could continue for the rest of the year which should ultimately lead to some reduction in mortgage and other rates.

However, the building societies say that only minor cuts can be made in mortgage rates in the next 12 months because they are committed to paying high interest rates on large sums of money for most of this period.

Meanwhile, the easing in medium-term rates will undoubtedly create speculation about when short-term interest rates and overdraft rates also start declining.

DISCOUNT RATE

With the money market heavily indebted to the Reserve Bank — the current shortage in the market is around R1,5-billion — the timing of this rests with the Governor of the Reserve Bank.

Bankers point out that short-term rates cannot be reduced until the Reserve Bank cuts its discount rate. And for policy reasons, such as curbing inflation and attracting foreign funds to the country, the Reserve Bank might want to keep short-term rates at their present levels for a while longer.

The change in Standard Bank's rates (with previous rates in brackets) are:

- Plusplan: R15 000 - R19 999: 17,95 percent (18,79); R20 000 - R24 999: 18,37 percent (19,21); R25 000 - R29 999: 19,21 percent (19,84); R40 000 and over: 20,65 percent (20,47).

Stamie and Standard Merchant Bank have amended their special savings rates to 20,65 percent.
Clampdown on public service housing bonds

Weekend Argus Correspondent

DURBAN. — The Government has taken the first steps towards restraining public service housing subsidies, which have been blamed for pushing up house prices.

A building society says it has received an official "recommendation" to ensure that no subsidised public servant or semi-State employee is helped to the point where his bond amount, under normal circumstances (ie, on an unsubsidised bases), would involve repayments exceeding 50 percent of his salary.

The normal building society rule is that buyers should not pay — after subsidies are taken into account — more than 25 percent of salary.

However, subsidies enable bond amounts to be pushed substantially higher than this.

DRASTIC RETHINK

This move is in keeping with a drastic rethink on housing subsidies in the private sector.

Following introduction of the fringe-benefit legislation, the country's largest building society — the United — has switched from providing new staff with bonds at only 3 percent to the more market-related 18 percent.

Old staff still enjoy the lower rates.

The tougher general stance on staff bond subsidies — and the "50 percent" ceiling on public servant loans — partly are aimed at ensuring that subsidised employees do not face huge increases in tax over the seven-year phase-in period for taxation of housing fringe benefits.

"OFFICIAL" RATE

At present the "official" housing interest rate is 18 percent, below which an employee will become liable for tax on his "fringe benefit".

Even at 18 percent staff benefit substantially — the official UBS rate for amounts over R60 000, for example, is 33 percent.

Interpreting the new instruction regarding public servants, building society men say a public servant with a bond "worth" 50 percent of his salary can expect natural salary increases over the next seven years.

They believe these increases gradually will reduce the repayment percentage closer to the normal 25 percent of salary rule they apply to the man in the street.

THE RIGHT STAFF

The question of State subsidies has become a controversial issue, with strong contenders on both sides.

The State says they are necessary to attract and keep the right staff.

Critics allege that subsidies are to blame for abnormally high property prices and that the rules can be twisted.

For example, it is claimed that:

- A public servant with a low bond recently needed R10 000 to add on a study. However, he discovered he could apply for a loan of R40 000, placing the R30 000 extra on call with a bank at 20 percent.

Building society men say the scope to do this is limited to State employees with low bonds — State subsidisation carries a ceiling of R50 000.

- With the State scheme designed around subsidising a percentage of the repayment, some public servants speed up their repayments in order to get higher subsidisation.
Car insurance costs may jump by up to 30 percent.

D-Day for 1985/86
Third Party Discs.

Argus Correspondent

JOHANNESBURG. — Motorists carrying the burden of the higher petrol price are now faced with dramatic increases — as high as 30 percent — on private car insurance cover.

Experts forecast that average premium costs will soar by about R180 a year as policies are reviewed for annual renewal.

Several big insurance companies will launch the new round of increases tomorrow and more are expected to follow suit.

The new shock to motorists comes on the Third Party deadline. The 1985/86 third party discs must be fixed to windscreen by midnight to avert the risk of R50 fines.

Mr C.J. Oosthuizen, managing director of Santam Insurance, said the surge in premium rates was unavoidable because of a "tremendous rise in claims" now costing his company alone nearly R1-million a day.

Santam, which claims to be the largest motor insurer, will increase the premiums on all renewals of policies from tomorrow — by 30 percent for motorists in Johannesburg and other metropolitan centres to 20 percent in rural villages.

IGI Insurance intends to raise premiums by up to 25 percent from tomorrow.

At Guardian National, a spokesman said average increases on policy renewals from June 1 should work out at between 15 and 20 percent — but in isolated instances the premiums would be increased by 50 percent or more.
S A makes Eurobond deal

CAPE TOWN—South African Finance Minister Barend du Plessis signed a Eurobond deal with joint lead managers Commerzbank and Union Bank of Switzerland (Securities) to borrow $75m.

Mr Du Plessis said the bond, a six-year bullet issue with a coupon of 12.5 percent and an issue price of 99.5 percent, was doing well on the secondary market.

Payment date is April 30 and the bond has been on the market since April 2.

He said the foreign debt of the South African central government was R3.6 billion on March 31 this year, or $1.9 billion.

He said the level of foreign debt could not be regarded as excessive and amounted to 10 pc of central government's total debt in 1984.

Prospects

Du Plessis said South Africa's International loans reflected the widespread confidence of investors in the long-term growth prospects of the South African economy.

Du Plessis said that between 1978 and 1984 South African public sector borrowers succeeded in reducing premiums payable above the London interbank offered rate (Libor) to very moderate margins.

In 1978, the average maturity of marketable central government debt was 42 months, rising to 62 months in 1984, he added.

Nedbank, London, is one of the managers of the $75m Eurobond. —(Reuters)
Societies slated for refusing to invest in KwaZulu

African Affairs Correspondent

ULUNDI—The Minister of the Interior for KwaZulu, Dr Dennis Madide, says it is 'immoral' for building societies to refuse to invest in KwaZulu when many black people invest their money in these building societies.

Delivering his policy speech in the KwaZulu Legislative Assembly yesterday, Dr Madide said the building societies had an objection to the possibility that KwaZulu would take independence and nationalise their investments.

He said they wanted guarantees from the South African Government that their investments would be secured in such an eventuality.

Dr Madide said he wanted to implore the building society movement to stop its 'disinvestment stance' against KwaZulu.

This type of objection seemed very strange to him since the KwaZulu Chief Minister, Chief Mangosuthu Buthelezi, had stated many times that, for KwaZulu, this 'Pretoria type of pseudo-independence was out'.

'Surely if they had any fears of political instability then KwaZulu is just the place with which they would want to do business as it is undoubtedly one of the most stable areas,' the minister said.

Dr Madide urged the private sector to put its money where its mouth was.

'Those who have been vociferous in condemning inBux control must now show it by helping to provide urban housing for blacks so that they can be accommodated,' he said.
Thin times for general banking

The share of South Africa’s general banks earning the highest returns on a consistent basis is under threat. In fact, nobody knows the answer to the question of how high interest rates have to go before even the most industrious of the banks will be thrown out of business. For the moment, however, it seems that the industry is surviving. This project comes from the FTSE, the managing director of Nethabu First.

Mr Nthabelele Molele: Historically, South Africa’s general banks have been mainly in the mortgage business, where they have got the money. But in recent months, the mortgage business has become more difficult and the banks are looking for alternative ways to make money. It seems that new, non-traditional investment opportunities are beginning to materialize, which may provide a way out of the current liquidity crisis.

With this in mind, we would like to investigate how these new opportunities are being explored and what the future prospects may be. We would also like to hear from the banks about their strategies to deal with the current economic challenges. We are particularly interested in hearing from the banks about their plans for future growth and expansion.

Mr Nthabelele Molele: The report states that SantamBack doubles branches to become one of big six.

SantamBack doubles branches to become one of big six

At the age of seven years old, the South African arm of the world’s fourth biggest general insurance group, SantamBack, has announced that it will double its number of branches to become one of the big six in the industry.

According to the group’s CEO, Mr Nthabealele Molele, the move is part of a strategy to better serve the needs of its customers and enhance its market share. He said: “The decision to double our branches is in line with our commitment to provide better customer service. We believe that having more branches will enable us to be closer to our customers and offer them the support they need.”

Dealing with the dutiful after their demise

The administration of trusts and estates can be quite complicated, especially for those who have little experience in the field. In this chapter, we will provide you with some basic information on how to deal with the administration of trusts and estates. We will cover some of the key issues that you need to consider when dealing with these matters. We will also provide you with some practical tips on how to manage the administration of trusts and estates effectively.

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Taking paper out of debt collection

BARNIB

isters in the Art of Industrial Finance

Specially prepared for the BARNIB Collection by Ross Abbeys and Associates.
Interest rates set to drop

By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates are heading down again, after the eight percent rise which began some two years ago, bringing relief to both consumer and corporate pockets.

The drop will lead to most hire-purchase and leasing rates declining but no immediate fall is forecast in the cost of mortgage bonds.

Industrial shares on the Johannesburg Stock Exchange should spurt next week reflecting the improved business climate flowing from the lower interest rate structure.

The Reserve Bank yesterday cut its rediscount rates - the rate at which commercial banks can borrow from the central bank - by one percent and was quickly followed by Nedbank which lowered its prime overdraft rate one percent to 24 percent. Standard Bank is reducing its rate by the same percentage from Wednesday.

Money market deposit rates as well as the key bankers' acceptance rate and participation bond rates will move down on this development, and cuts in building society and bank deposit rates should follow within the next week or two.

Expected

A cut in overdraft rates has been expected for some time but two factors are believed to have led to the fall only being announced yesterday.

Firstly, the gold price has weakened in recent days and there was some initial concern that gold could decline below $300 again.

Secondly, the central bank was probably reluctant to announce a cut in rates just ahead of the past week's elections.

The lower rate pattern signals that the authorities believe the austerity package introduced last August has achieved its goals and have decided to ease the squeeze on the private sector.

Dr De Kock's full statement, page 10
Barnib extends fleet control plan to trucks

The South African trucking industry stands to gain still further from the use of the country's first online computer-based truck fleet management system.

Launched recently by the Auto Division of the Barnib National Limited (Barnib), the two-module fleet management system is known as Barnib Fleet Control (BFC).

"This means that an operator may acquire a bulky truck on a very modest budget and then the necessary steps to correct his or her own internal processes. One that is difficult to manage, tracking of Barnib's Auto Division.

Barnib sees three primary areas of benefit for both the professional haulier as well as the operator wanting to stay within the fleet management system. Firstly, cost savings result from better fleet utilisation. Secondly, users can drastically reduce the number of vehicles required because of the condition of the truck being monitored. Finally, efficient driver training and fleet management leads to better overall management and maintenance of the trucks.""
Wesbank wheels on to wider fields

In 277 Wesbank decided to concentrate its mortgage efforts on vehicle funding. Today it is the market leader in vehicle

One of the investment faciliti-

We parted ourselves as

Part bonds - small man's property route

Stannic launches credit card for car owners

Stannic and General Motors

Embellished leasing: introspection needed

The real challenge is to

"We have a mandate to provide

The comment about the

In the light of the current

The fundamental problem

The client must also

Loans by Natal manufacturing firms double

Finance Reporter

LOANS by Natal manufacturing companies have practically doubled between 1983 and 1984 according to a survey released yesterday.

This is one of the staggering findings of a survey of local industry carried out by Deloitte Haskins and Sellers Management Consultants (DH+S MC) in Durban.

The survey, which compared the published annual accounts of a sample of 62 Natal-based companies and groups for accounting periods ending during 1983 and 1984, looked at borrowings, interest payments, turnover and profitability.

The sample companies had a total capital employed of R1.6bn, ranging from R220 000 to R630m and total sales of R2.6bn, ranging from R140 000 to R470m.

Sixty percent of the companies in the sample were in the manufacturing sector, 15 percent in the retail sector, eight percent in shipping and the remainder split between agriculture, construction and the service industry.

Although financial analysts have reported on the trend of increased borrowing in the recent past, the magnitude of the increase, as revealed by the survey, is substantial.

Manufacturing companies displayed the largest increase in borrowings in the survey, at 94 percent, with construction companies showing 45 percent and services industries 42 percent. The most fortunate sector was shipping, where borrowings actually fell by 28 percent.

Another significant finding, according to Alan Gilsham, senior consultant with DH+S MC, was the wide variations in the results of the different sectors.

For example, although the manufacturing sector had an average increase in turnover of only 6.5 percent, the shipping industry's turnover increased by 34 percent.

Retailing at least kept up with inflation with a 13.7 percent increase in sales.

Even the construction industry showed a 21.6 percent increase in turnover, but it is important to note that many of the companies in the survey ended their financial accounting periods in March, June and September 1984 before the full impact of the Government's austerity measures had been felt.

Similarly, profits in the manufacturing industry (before interest and tax) fell by 18.5 percent on average, in contrast to the shipping sector where profits increased by 113 percent.

Interest

As expected, all sectors showed an increase in the amount of interest paid during the period 1983/84, where borrowings had been reduced.

The significant feature, however, was that although larger companies (capital employed over R10m) had increased their borrowings by 77 percent (compared to 23-24pc for medium and small companies) their interest payments increased by only 42pc compared to 45-46pc for the rest of the sample. This indicates the ability of larger concerns to borrow at more favourable rates.

The results of the survey are, however, indicative of the state of Natal industry as it entered what we now know to be a deepening recession.

Turnover

Firstly, profitability was already suffering in most sectors during 1983/84, in terms of both profit on turnover and return on capital employed, before any further worsening of the economy.

Secondly, as companies have increased their borrowings, they have increased their interest commitment for future years as they are going to find it increasingly difficult to cover their interest payments with 1985 and 1986 earnings.

Thirdly, debt to equity lever increased by an average of 10.4pc, imposing a greater burden on companies to provide earnings for their share-holders after paying for interest-bearing capital.

This increased leverage will make it difficult for companies either to borrow more capital in the future for survival or expansion, or to retain sufficient profits for internal financing.

Conclusion

The inevitable conclusion, according to Mike Murray, associate director of DH+S MC, is that even if the dollar falls and gold picks up in the near future, it will take manufacturing industries a considerable period to get back on their feet and move forward again.

'We are advising our clients,' he says 'to recognise that existing economic conditions will prevail for the next few years and to adjust their operating and marketing strategies accordingly. This includes reducing expenses where possible, eliminating unprofitable lines and ensuring that every cost centre is covered by a profit centre.'
More banks cut prime

The money market was fairly quiet at the outset this morning with dealers digesting the one percentage point cut in the Reserve Bank’s rediscount rate late on Friday.

Nedbank, Volkskas and Standard have announced one point cuts in their prime overdraft rates to 24 percent, but the others have yet to decide.

While there was some talk that Barclays might lower its prime rate by 1.5 points, it seemed certain that the bank would at least follow and announce a lower rate today.

Most dealers believe short-term rates will keep easing in coming weeks. But even at 20 percent, rates will still be punitive.

The 90-day BA rate was quoted initially at 20.90 percent and drifted off slightly later in the morning.

The downward path of short-term interest rates and the stance of the Treasury bodes well for the economy this year. For the first time in at least three years it seems fiscal and monetary policies are at last working together.

On the foreign exchange market, the rand was buffeted by the rapidly rising dollar. The US currency this morning and on Friday moved sharply ahead in European and US trading.

As a result the rand dipped through the 50 US cent barrier at the opening this morning and fell sharply further to its noon quote of 48.70/80c.

Standard Bank says in its weekly foreign-exchange comment that last week’s trading was relatively thin as commercial opera-
tors remained on the sidelines waiting for a clearer trend.

There appears to be little reason for the rand to trade above 50.00c against the stronger dollar, Standard adds. The main supporting factor for the rand has been the basically steady gold price up to early last Wednesday.

The strong US dollar then dampened investors interest in gold and the metal lost about $12 last week.

The fall by the rand below 50.00c will result in increased demand for dollars from importers and a fall in supply of the currency from exporters - the effect of such a development would be increased downward pressure on the spot rand, the bank says.

The extent to which the spot rand depreciates will depend largely on the Reserve Bank’s ability to support it in the local market.

There is little potential for any rand appreciation against the stronger dollar although the position on the trade account of SA’s balance of payments continues to improve.

This week Standard forecasts a rand trading range of 50.00-48.00c provided that the gold bullion price trades within a $305-$315 range.

Accordingly, importers with rand-dollar commitments should consider a high level of cover on their rand-dollar leg of all outstanding commitments. Exporters would be exposed to little risk at the stage by staying out of the forward market, Standard says.
Colonial Mutual increases premium income by 30.8%

Colonial Mutual's premium income increased by 30.8 percent to a record R574,4m in 1984.

In the society's annual report, the chairman, Mr Hans Middelmann, said the premium income from life business increased by 21.1 percent and pensions premium income by 77.7 percent.

Investment income increased by 33.1 percent.

Mr Middelmann said investment strategy towards the end of 1983 had left the society well positioned to take advantage of the high interest rates in 1984.

"The success of the strategy is reflected in the high all-in yield of 16.2 percent earned by the society's managed fund, almost double the average earned by the industry."

"This fund, which was started two years ago, has been independently rated as one of the best performing funds."

Reversionary bonuses added to the cover held by the society's policyholders totalled R50.4m, compared with R42.4m in 1983.

A further R2.8m had been earmarked for the provision of terminal bonuses on policy claims in 1985.

Mr Middelmann said the year had been highly successful in spite of the difficult economic conditions which were likely to continue into 1985.

The society, faced with high tax increases, particularly following the launch of its new GrowPlan policies which were designed specifically to counter the effects of inflation on life assurance.

Mr Middelmann, sharply criticized the proposed 7.5 percent levy on the life insurance industry and called for "this iniquitous tax measure" to be dropped.

While it was accepted that strict monetary and fiscal measures were required in the current economic climate, the proposed imposition of 7.5 percent levy on the gross investment income derived from "taxed" life insurance business was a drastic step.

"In a mutual society such as ours there are not shareholders on whose shoulders the additional tax burden will fall."

"Instead, our policyholders, who are predominantly in the middle and lower-income groups, now have the investment income on their earnings—entrusted to us—subjected to an increased tax of 7.5 percent."

Mr Middelmann said this rate was much higher than the average rate at which the other earnings of the society's policyholders were being taxed. It was in the national interest that personal savings be increased and that breadwinners took out adequate life insurance cover to protect their families."

"One hopes that, in reconsideration, this iniquitous tax measure will be dropped."
Fidelity Group profits up 25%

By ROBERT GREIG

THE FIDELITY GROUP whose main operating subsidiaries are Fidelity Bank and The Board of Executors has boosted after-tax profits by 25 percent in spite of a tax bill which increased by 165 percent to R2m.

Earnings per share have risen by 23 percent to 164c from 115c.

The chairman, Mr S Lewis, explained that the bloated tax figure was partly the result of the loss of allowances and increased company tax.

Mr Lewis expects a challenging year in which the management will continue to exploit the flexibility which he says is a function of the group's size and go for new business, mainly in Durban and Johannesburg.

Assets under administration have risen in the year by 23 percent, from R480m to R550m (with a market value of R680m).

Profit growth was on an operating income increase of 68 percent (from 1984's R2,5m to R4,2m). This excludes transfers of undisclosed amounts (in line with South African banking practice) to inner reserves.

Provision has also been made for the "one-off levy on bank deposits" announced by the Minister of Finance in his last Budget.

The group's contribution is expected to be in the region of R50 000.

Dividend cover is up to 2.2 (1984: 2), with the group paying a dividend of 75c (66c), a 14 percent increase.
Merger leads to birth of broking giant

By CHRIS CAIRNCROSS

TWO of the country's oldest and largest insurance brokers, Robert Enthoven & Co and Willis Faber South Africa, have joined forces to create one of the largest insurance broking groups in the country.

The new company, to be known as Willis Faber Enthoven, currently handles premiums of at least R150m a year. This makes it the fourth-largest broking group in the country after Bowling Barclays, PFV and Minea.

The merger has been the subject of speculation for some time and follows the continued rationalisation of Safmarine and Rennies holdings, combined under the umbrella of the enlarged Sarene group. Sarene held 50% of the shares of each company.

In terms of the new arrangement, Sarene has a controlling interest in the new broking group with 60% of the equity. The remaining 40% is held by Willis Faber of London.

The new company will have the support of Sarene's substantial resources in Southern Africa, and access to the international strengths of Willis Faber. The latter has an exclusive association with Johnson & Higgins, one of the largest insurance broking companies in the United States.

Chairman of the broking group is Bill de la Harpe Beck, deputy chairman and chief executive is Charles Bothner and group managing director is Chris Marais.

Enthoven's founder, Robert Enthoven, maintains his association with the broking group as a director and president.
Registrar urged to tighten safety net

By PAUL DOLD
Financial Editor

THE managing director of Santam Insurance, Mr C J Oosthuizen has called on the Registrar of Financial Institutions to act before several short-term insurance groups are unable to meet their obligations.

The outlook for the industry is causing concern and while Santam's earnings should improve in the second half, Mr Oosthuizen says certain companies are writing some business at a loss to boost market share.

"Some companies have been and still are risk spreaders and not risk carriers in that they have secured business by overtrading and accepting risks which they cannot finance from their own resources," he says.

"The reinsurers are however doing their job correctly and are reducing their facilities and commissions more and more so that some companies are securing business at a loss to themselves, and carrying risks which they might not be able to meet if the need arises."

While the reinsurers are pointing the industry in the right direction, Mr Oosthuizen feels that something must be done quickly before some companies are unable to meet their obligations.

"I feel quite strongly that the Registrar of Financial Institutions should consider stepping in and restraining companies from overtrading and accepting risks which they cannot finance from their own resources."

"Possibly this could be achieved by the Registrar providing a formula whereby an insurance company must carry a certain percentage of a risk itself and that this be limited to a fixed percentage, ratio or multiple of its shareholders' equity."

Mr Oosthuizen empha-
dealers the titans
order gives gold
Mercury Correspondent

JOHANNESBURG—Anxious investors took a knock on the Stock Exchange after gold dealers reacted with shock to the news that the exchange had been placed under provisional judicial management. The gold dealers, who are mainly foreign, said that they had been informed by the exchange that they would have to cease trading immediately.

One gold dealer said that he had already sold 20% of his stocks and had bought 10% of his stocks on the open market. He said that he had decided to sell his stocks to take advantage of the lower prices.

The exchange has been under pressure to take action against the gold dealers, who have been accused of manipulating the market.

The gold dealers have been under pressure to sell their stocks, and they have been quoted as saying that they will not be able to continue trading if they are not allowed to sell their stocks.

The exchange has been under pressure to take action against the gold dealers, who have been accused of manipulating the market. The gold dealers have been quoted as saying that they will not be able to continue trading if they are not allowed to sell their stocks.
Tax perks needed for savers — Sanlam chief

By DEREK TOMMEEY
Financial Editor

DR FRED du Plessis, chairman of Sanlam and therefore trustee of a substantial portion of the country's savings, this week called on the Government to give further encouragement to savers by offering them tax concessions.

He warned that South Africa was not getting the foreign investment it wanted and that the present level of savings would have to be increased if South Africa were to achieve sustained long-term growth.

He also described current wage levels as excessive and called on the Government to fight inflation by introducing guidelines for wage and price increases.

Speaking at Ernst and Whinney's offices in Bellville, Dr du Plessis said this would be a difficult year. He could not say when the upturn would come and doubted whether the country could afford one.

Overspend

South Africa still had to overcome the tendency to overspend and also the high level of inflation.

One reason for the overspending was that an increasing proportion of income was accruing to the lower income groups. There had thus been a switch in the distribution of wealth from high level savers to high level consumers.

A second reason was that many people chose to spend their money because they believed it did not pay them to save, particularly after taking tax into account.

Company savings had helped to compensate for the low level of private savings, but in the next year or so company savings were likely to decline.

Devaluation

This development must be seen against the background of the trend in the country's foreign relationships.

After a devaluation such as South Africa has had one would normally expect a strong inflow of foreign capital. But it was not happening in textbook fashion so South Africa had a problem.

Overseas investors were seeing the South African economy differently from the way South Africans were seeing it. They saw reform leading to friction and instability and were concerned about putting money in this country.

"We will have to supply ourselves the capital which we cannot get from overseas and so it is important that there are more incentives for people to save."

Imports

Another problem facing South Africa was that the low inflow of foreign capital meant that if there were an upturn and a big increase in imports, the foreign exchange reserves could not finance them.

Dr du Plessis said that something had to be done about inflation. For the past 10 years it had averaged 10 percent.

"People cannot save if they do not have confidence in the currency."
Protea—Phoenix merger approved

The acquisition of Phoenix Prudential Assurance was given final approval by shareholders of Protea Assurance at a special meeting held in the City.

The resolution was carried with a majority of 83 percent.

The merger flows from the acquisition in the UK of Phoenix by the Sun Alliance group, holder of 74 percent of Protea's equity.

To finance the deal, 1,750,000 new Protea ordinary shares will be issued to the Sun Alliance.

The Phoenix operation in South Africa will be absorbed into Protea Assurance and the enlarged group will operate under the name Protea Assurance Co Ltd.

Figures for 1984 give the group total assets of some R110m, with a combined gross short-term premium income of over R136m.

The board anticipates that the effect on earnings will be positive although it is nevertheless expected that the enlarged Protea Group's earnings a share for 1985 will reflect a marginal decline compared with those of 1984, primarily as a result of continuing difficulties in the short-term insurance market.

Dividends are not expected to be adversely affected in the short term, while in the longer term the expected benefits of the merger should enhance dividend prospects.

On the basis of the audited consolidated balance sheets of Protea and Phoenix Prudential as at December 31, 1984, the pro forma effect on the net asset value per Protea ordinary share, with investments taken at market value, would have been an increase of four percent from 978c to 704c.

Commenting on the Phoenix acquisition, Protea's managing director, Mr Tony Crank, says that it offers the potential of significant rationalization, lower expense ratios and increased profits.

"We are now firmly positioned as one of South Africa's largest composite insurers.

"Our general management has been strengthened, our operating and marketing base has broadened and our prospects for profitability and growth, particularly in the longer term, are excellent," he said.
NBS assets rise — profits up 11%

IN spite of a difficult financial climate, the Natal Building Society produced a pre-tax profit 11 percent better than a year ago in its financial year to March 31.

This was just more than R33m, compared with R30,7m last year, and after transferring R17,5m to its reserves, the society is within a whisker of the four percent reserves-to-liabilities ratio recommended by the De Kock Commission.

In keeping with the more difficult financial situation, the society reports that balances owing on properties in possession rose from a minimal R25 000 to R267 000 — spread over 22 properties.

It considers, however, that its provision of R200 000 against possible losses on mortgages or properties in possession is still adequate.

The increase in assets in the year was R120m — to R1 948m — and NBS now has 58 671 borrowers.

In a situation in which demand for mortgages outstripped available funds in spite of the high level of interest rates, it granted 10 264 new loans totalling R362m — the average new loan being R44 578, compared with R40 152 in the previous financial year.

Continuing its deliberate policy of encouraging first-time buyers of homes, the society met the needs of 417 of them — devoting R36m to the purpose.

It acted thus "at the expense of short-term profit considerations, but mindful of our social responsibility."

NBS says that, in an unfavourable operating environment, it decided against seeding institutional funds at uneconomic rates merely in order to increase its market share. Share capital and deposits rose by only R97m — or 5.6 percent.

The society had to stop marketing its money market investment accounts, as these did not win the approval of the authorities, and all money invested is to be repaid by the end of this month.

It stresses that these funds were not applied to mortgage lending, but were invested in short-term instruments for the purpose of matching maturities of assets and liabilities.

The delay in enacting the new building societies legislation is frustrating, says the NBS.

In company with other societies it has made numerous submissions to the authorities on the proposed legislation.
Share prices boom

By DEREK TOMMEY
Financial Editor

In spite of recession, unrest, disinvestment threats and high inflation, industrial shares are booming on the Johannes burg Stock Exchange.

In the nine weeks since the budget on March 18 industrial shares have risen by almost 25 percent, growing in value by around R9-billion.

Not all sections have shown the same gains. The clothing index has risen 44 percent in the nine-week period but the pharmaceutical share index has shown hardly any movement.

Sectors showing strong gains included Beverages and Hotels where the index rose 34.8 percent, the clothing sector with a 44.6 percent rise in index and the furniture sector where the index gained 36.8 percent.

It seems that the Budget did much to restore confidence, a broker said today. Until the Budget the market appeared to be apprehensive about the future and few buyers were in sight, he said. As a result the market reached a low point around March 18.

Since then confidence — and buyers — have returned in force.

He attributed much of the increase in share prices to a build-up of money, intensified by the decline in medium and short-term interest rates — on the one hand, and a shortage of shares on the other.

With interest rates falling and inflation still high, many investors believed the only way to protect their capital was to invest in the share market, he said. However, they were also encouraged by the prospects that interest rates would fall, reducing manufacturing costs.

Short supply

Another broker pointed out that many private firms had been running down their stocks and now had surplus cash. A large number, remembering the large profits they made by investing in the share market under similar circumstances in the 1970s, had been following the same course.

Good quality shares were in extremely short supply, a dealer said. "We have reached the situation where only a small buying order can cause the price of a share to rise several hundred cents."

Brokers divided

Brokers were divided about whether the share market rally would continue further.

One suggested that it was perhaps time for share traders to start taking profits. However, long-term investors should remain in the market as they could have difficulty buying back the shares they sold.

This table shows the increase in price of selected shares since March 18.

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<th>Company</th>
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Food price cuts may dent inflation

Financial Editor

MR RAYMOND Ackerman whose Pick n Pay supermarket chain has caused a major upheaval in food retailing in South Africa, now looks set to do it again. This time by giving the coup de grace to the country's worst ever inflation.

The chain, undeniably the country's strongest food retailing group, has allocated R10-million to be used for cutting prices during the next three months. Every month a large number of items would be sold at below cost, at cost or marginally above cost.

A spokesman for the group said this was a sincere step to help millions of South Africans who were being hit by the rising cost of living and the recession.

Increased competition

However, retailers point out that the group's move will greatly increase competition in the food industry. But most of the other chains lack the resources to meet the group's cuts. Consequently, they are expected to put increasing pressure on their suppliers to help them meet the group's challenge.

The result of this could well be a halt and even a reversal in the inflationary trend in food prices, and with the consumer for once benefiting.

It was to happen it would certainly delight the monetary authorities, as it would be firm evidence that their discretionary policies are at last doing the job for which they were designed.
should be drastically lowered to give blacks the right to house themselves in whatever manner they see fit or can afford — subject to the maintenance of basic health. The experiences of Crossroads and “Soweto on the sea” point towards an urbanisation process less distorted by influx control and expensive standards.

Self-help schemes cannot in themselves obliterate the housing backlog. They should not preclude government-initiated housing programmes in which the private sector can play its rightful role.

However, endemic urban unrest suggests even the abolition of influx control will not be enough. New benefits cannot immediately allay black resistance to a system that has excluded them for so long. And this resistance hangs like a cloud over the reform initiative. Dissatisfaction with inadequate township housing fuels other grievances relating to wages and education. The spark of a single rent increase can ignite these feelings into a broader configuration. This is what happened in Paris and the Vaal Triangle last year. It is happening now in the eastern Cape. Many blacks demand political rights as a condition for peaceful change in SA.

So ultimately the removal of influx control and the reduction of building standards will not have the desired effect unless blacks are given the opportunity to participate in central political forums. That, of course, lies a little further down the reform path than Pretoria is at present prepared to look.

ELECTRONIC BANKING

Turning time into value

Today, the adage “time is money” has never been more true. Skyrocketing interest rates, accelerating inflation and the wild currency swings that emerged in the Seventies and early Eighties have driven home how millions can be made or lost each year — depending on how accurately trends are read.

Economic realities, in short, have forced bank treasurers out of the backrooms and onto computer keyboards. Needless to say, like everyone else, banks are having their share of hard times under the regime of high interest rates and high inflation. As the bonds of regulation are rolled back, survival has become a matter of holding the line on costs. And so treasury departments have emerged from paper-logged desks to rank as major profit centres.

Initially, the impetus was internal. Original electronic banking technology was developed to increase productivity by eliminating repetitive tasks and reducing the chance of operational error in the banks. Fundamentally, it was designed to enable them to keep up with the flows of paper created by their transactions.

These sweeping changes have also paved the way to rationalising staff and reducing personal interchange with that most difficult visitor, the paying customer.

In SA, the decision to computerise internally was taken by some banks as far back as the late Fifties and early Sixties. Initially restricted to courier areas and those areas covered by the Automatic Clearing Bureau, it remained a trickle until the Eighties.

Electronic banking is characterised, for the most, by the automated teller machines (ATMs) that have mushroomed in urban thoroughfares of late. For the banks, however, electronics has far greater significance.

The final goal of complete branch computerisation was attacked with renewed vigour, in line with hotted-up competition between and among financial institutions, and changing economic conditions. The race was on — especially by the top five — for “on-line” operations.

At an advantage were the urban-based banks — Trust Bank and Nedbank — with the highest assets per capita. Says Trust Bank senior manager Etienne du Toit: “It was a strategic decision taken by Jan Marais right from the outset. We were the first to

PAPER SAVER

Electronic payments

The diagram above illustrates the process of an electronic payment. A customer initiates the transaction by inserting a magnetic tape or card into the machine. The machine then communicates with the bank's computer, which processes the transaction and returns the results to the customer. This process is faster and more secure than traditional paper-based transactions.

Source: Standard Bank
have all branches on-line, real time — that is, where the balance is immediately entered and not memo-adjusted through batch processing.

"We would like to follow the example of the Scandinavian banks, which have assets about the size of Barclays — but less staff than us."

Barclays, which last year invested R100m in its computerisation programme, hopes to have all branches fully computerised later this year.

GM Ken Boyd says: "We have all the equipment ready for installation to complete the computerisation of our remaining 44 branches. We hope to do this within the next few months, depending on whether the Post Office manages to lay the data lines."

Barclays' Boyd... ready to roll

Standard Bank began its internal computerisation in 1968. Most branches are now computerised, and the remaining 80-odd will be by the end of the year. Says deputy GM Roderick Hyde: "It is difficult to quantify at this stage how much this capital development has cost us. But it is significant, running into nine figures. You can measure how much it has saved us, however, through our improved profitability. It was our streamlined infrastructure which gave us this ability."

Nedbank's first electronic device was connected to its central computer in 1970. Now, all Nedbank branches are on-line, and there are 2,500 terminals connected directly to the mainframe.

But the retail side is only the tip of the iceberg of computerisation. More significant is the movement of funds between one bank and another, and sometimes across national boundaries. The high volume of daily transactions has to be laboriously fulfilled, recorded and reconciled.

For the banks, these transfers — within local currency and between different countries or currencies — need to be computerised. There is no room in today's financial markets for inaccurate and unreliable transactions. Simply put, it costs too much.

However, it is not only the banks' own dealings that must be speeded up. The corporate client is demanding services that are competitive and reliable.

The answer provided by the banks is "cash management." Although not a new concept, cash management techniques have changed in recent years to become closely associated with, and allied to, technology. And they have been expanded to include a span of services for corporate money management, aimed at giving clients the smallest overdraft possible and maximising investments.

The most advanced operator in SA is Citibank, with a clearly defined target market: the top 300 companies in the country. With electronic links to about 7,000 institutional customers in more than 120 countries, this is one of the most sophisticated operations in the world.

In the last 10 years, Citibank has spent US$100m on research and development alone, excluding hardware. The results are tangible. One large US company, with a short-term investment portfolio averaging $80m, makes an extra eighth to a quarter percentage point by getting to market in the morning. That works out at between $100,000 and $200,000/year in additional interest income.

Competition is intense. One banker says: "It will be difficult to build up or maintain a corporate customer base without electronic services."

In spite of the apparent conflict of providing expensive services at low prices, banks are aggressively marketing their wares. For example, some banks have been offering terminals to their clients on a free trial basis to undercut certain others' lead.

Trust Bank is still in the experimental stage, with a number of "test locations" in operation at present. They have not yet officially marketed their system, but will, however, be charging for services. "Development costs are high, and someone must pay for it all," says Du Toit.

Barclays is also beginning to charge for services and terminals, but is not prepared to divulge at what rates.

Standard does not charge for services, but customers must have their own terminals and modems to link up with the bank. This will be reviewed later this year when charges are expected to be introduced. Volkskas is in the process of reorganising its operations, and, as yet, has no corporate electronic services.

But the terminals are only a means to an end. The range of services offered is impressive and can basically be classified into five groups:

- There are the account management services, which enable companies to consolidate and offset bank account balances against one another on a daily basis;
- There are the electronic funds transfer facilities. These accommodate intra-group transfers, as well as local and foreign payments through an office terminal;
- A number of foreign exchange services are offered — from offshore trade finance details to forward exchange contract details and forward cover advice;
- International cash management systems offer clients the facility of obtaining information on all their accounts with banks throughout the world; and
- An advanced array of information services is in the process of being developed. Although some banks are offering only the traditional financial information services such as Reuters, others are developing their own. Particularly advanced is Standard Bank, with economic time series data and economic forecasts, as well as the capacity for the graphic representation of the company's own operations.

These attempts to eliminate the voracious paper tiger, however, require a highly sophisticated communications system. At present, the banks must use magnetic tapes, which eliminate paper but still have to be physically moved.

The lack of an efficient communications network in SA, says the banks, is hampering further developments. The postal system is poor, and there is no adequate telecommunications system for data transmission. In the long term, they would like to see the development of an electronic clearing bureau operating via satellite.

There is every reason for it to happen, but as Du Toit notes: "This will only be possible once the Post Office lets go of the stranglehold on communications in SA."
mate business as well.

The general manager of National Mutual, Mr. Geoff Tomlinson, said that the sudden clamp down on endowment policies will lead to retirement annuities becoming the prime vehicle for retirement planning and RA's need to be made more attractive to the man in the street.

**Loophole**

Mr. Tomlinson said that while it closed the tax loophole for large-scale investors, in the process it hit the man in the street very hard.

In particular, the R4 000 annual premium had major implications.

"This limit penalises the prudent man in the street, particularly if he has exceeded the limit because he has used endowment policies as a genuine funding for his retirement."

The figure was set in the Act in November 1981, but inflation in the fourth years since then has more than halved it in real terms.

"We would recommend, therefore, that the limit be raised to R10 000 to allow for endowments being sold for retirement planning."

The death cover requirement of the new legislation of at least eight times annual premium is also unrealistic, says Mr. Tomlinson, particularly for older people where death cover is so expensive and for people who don't qualify for life cover for health reasons.

**Retirement**

Mr. Tomlinson said that those who would have used endowment policies for retirement planning will now probably turn to RA's, but it was up to the government to encourage sound retirement planning in this manner.

"Legislation governing RA's has been badly neglected and needs attention if the burden of retirement provision is to be carried by the individual rather than fall on the state now."

Improvements suggested by National Mutual include:

- An increase in the R3 500 contribution limit set many years ago to allow for inflation;
- An equivalent increase in the tax-free lump sum limit;
- Relaxing of prescribed asset requirements laid down by legislation, which would lead to improved investment returns on retirement annuity funds.

Most life insurers offer flexible retirement annuities and are well placed to provide products that meet retirement planning needs.

In particular, Mr. Tomlinson said that the "smoothed bonus" concept that National Mutual pioneered in South Africa had gained acceptance and was particularly appropriate for RA's, where the mix of high security and high return was critical.
Sanlam’s investment strategy

PIERRE STEYN

Pierre Steyn is the new MD of Sanlam.

IM: Whenever people talk about the growth of power concentration these days Sanlam’s name invariably crops up, being perhaps one of the five largest corporate entities in SA. Do you feel its “fat cat” image is justified?

Steyn: Too much focus is centred on assets instead of payments. So when people see that we have assets in excess of R6 billion they naturally view us as being large. But this should be seen in perspective. Our death cover is around R50 billion.

We want to project an image centred on the services we provide to policyholders, rather than one of a huge company with large assets. After all, the purpose of insurance is to provide protection and security. In addition, it must be remembered that we are a mutual company where all our assets belong to our policyholders.

Do you consider it true that the SA economy is highly monopolised?

Those who argue this usually refer to listed companies which form only a small portion of the total economy. This is a distorted view as there are many unlisted companies in business. And research has shown that the broader economy is not highly monopolised. But aren’t many of these unlisted companies controlled by the listed companies?

Not really. Think of the numerous small businesses in existence. Hopefully many more will emerge and contribute to the SA economy. This is what the Small Business Development Corporation is trying to encourage.

It is contended that the life offices are so flush with cash that there are not enough investment opportunities in SA. Cash happy institutions are one reason mentioned when explaining why the JSE has not faltered to an extent that reflects the current economic crisis. In the light of this do you feel that the authorities should open up the foreign markets to the insurers?

No. SA as a developing country needs capital to be invested locally. An outflow of capital is undesirable. SA will always be a net importer of capital. Life offices have an obligation to policyholders and to society to invest in SA. From experience, investment opportunities always exceed available capital. The problem is not too few opportunities, but too little cash. Even if Sanlam were allowed to invest abroad it would respond with limited cash and for a limited period.

And you say this for economic rather than patriotic reasons?

Absolutely. No other country has the investment opportunities we have in SA. Purely for economic reasons Sanlam would not invest abroad on a large and sustained scale.

Sanlam is still associated with Afrikaans capital. Do you feel this is desirable?

We do not define our market in terms of language, sex or race but in terms of purchasing power. Although most of our clients are Afrikaans speaking, English speakers make up an ever-increasing percentage.

What is Sanlam’s investment strategy?

We aim for a balanced spread. Some 40% of our assets are invested in prescribed assets (government and semi-government stock). Of the 60% in discretionary investments, 20% is in property, 20-25% in ordinary shares (including unlisted shares), and the remaining assets are in mortgages, policy loans and debentures.

How do you prefer to hold your shares?

There are two categories. Firstly, in portfolio investments we buy shares which we feel are good investments. This is always a small stake so we are easily able to sell off these shares without causing too much disruption in the market, while we do not have to perform a salvage operation if things go wrong. Secondly, in companies which we like and cannot restrict ourselves to a small portfolio investment, we rather move into a controlling position where we can influence management and policy. We do not want control for control’s sake but to safeguard the interests of our policyholders. We prefer not to be in a middle position where we have a large stake in a company and cannot do anything to protect our investment. This we want to avoid.

What about Kirsh Industries, could your holding here not be seen as a “middle” position?

True, we do not have a say in its day-to-day running but we have an arrangement whereby we can have an influence on the broad direction of the company. There are set targets which Kirsh aims at.

Financial Mail May 31 1985
Insurance curbs: 
Life offices face huge income loss

By DEREK TOMMEEY  
Financial Editor

THE life insurance industry is engaged in vigorous behind the scenes lobbying to get the Government to alter some of the regulations announced last week, affecting the tax position of pure endowment policies.

Unless some of these regulations are changed the industry could experience a substantial reduction in premium income and the loss of some of its most profitable business, insurance sources say.

The amount of endowment policies sold by the industry is not known. But according to industry sources, it could make up between 20 percent and 50 percent of many companies' business.

However, a report that it could amount to 50 percent of Sanlam's business was not really true.

Disability benefits

Mr Walter Scheffer, an assistant general manager at Sanlam, said this report had been based on the fact that a great many of the company's ordinary endowment policies contained additional features such as disability benefits which terminated once the policy holder reached the age of 60.

Under the new regulations, features such as this could make these policies non-standard and the capital gains on these policies subject to tax. However, he did not believe it was the Government's intention to restrict the sale of these types of policies and he expected the regulations to be altered to accommodate them.

Tax free

Industry spokesmen say, that what the Government wants to stop is the use of 10-year endowment policies as a commercial investment.

In the past few years many commercial concerns have taken advantage of the fact that the long-term return on these policies is high and tax free. Insurance companies have been forecasting a long-term rate of around 14 percent on these policies, but in practice the return on these policies in the past year or two been running as high as 20 percent.

Companies have been profiting from these policies by investing large sums in them and then immediately borrowing against them.

They have to pay interest of around 24 percent. But as this interest is tax deductible, the effective cost to the company is only 12 percent.

Lump sum

Overall, therefore, the company get a net return on its money - at the moment about 8 percent - and also the full use of this money.

Apart from using these policies as a form of investment, companies have also been taking them on out on behalf of their staff with a view to providing them with a tax free lump sum at some time in the future.

To stop the abuse of these policies, the Minister of Finance, Mr Barend du Plessis, last weekend announced new regulations for them. If these regulations are breached the policies become non-standard and tax has to be paid on any gains made.

The new regulations specify that:

- The policies can only be issued to a natural person and remain his or her property - thus stopping companies buying these policies.
- For the first 10 years no cash bonuses must be paid on these policies. They also may not be used as security for loans in this period. These provisions will also apply to existing policies and is one of the regulations which the insurance industry wants altered.
- The industry says that existing policies should not be subjected to retrospective legislation. The industry also wants normal endowment policy holders to be able to borrow against their policies.
- All policies issued must provide life cover equal to eight times the annual premium. The insurance industry also wants this changed as it prevents them from selling endowment policies to people who are uninsurable and also to children under 16 years of age.
- Premiums must now be paid for a minimum of 10 years instead of for 5 years. However, the insurance industry does not see this as much of a problem. In the past policy holders who wanted to make only one investment have got around this requirement through buying reducing annuities which paid the assured, third, fourth and fifth premiums. This practice is likely to continue with nine year reducing annuities employed instead.
- Premiums must not exceed R4 000 a year. The industry says this figure is too low in relation to current income levels and inflation. This is probably the most critical of all the new regulations as if this level is maintained it could significantly reduce the sale of endowment policies for investment purposes.

Mr Ralph Roseman, general manager, services of the Old Mutual, said the Minister was correct in outlawing the type of policy that involved the investment and the immediate borrowing back of the premium by a company. This should not be general insurance business.

Insurance act

Unfortunately the legislation had been drafted in a way that had made many others policies non-standard.

The industry was prepared to hold discussions with the Minister. Both sides were aware of the intention of the Insurance Act, he said.

Mr Roseman said if the Government was prepared to make the changes the industry wanted, the new regulations would have little effect on the industry. However, the industry would be greatly affected if these changes were not made.

Representative of all the life insurance companies are to meet in Cape Town on Tuesday to hold discussions on the new regulations.
60% rise in loans to SA states

By Ciaran Ryan

The Development Bank increased its loans to Southern African states by R123.1 million, or 60%, in the year to March 1985.

Total income was R36-million, of which R133-million was interest. This is almost 800% higher than 1984's income of R4.5-million, according to the annual report.

High interest rates and a slower outflow of funds than expected resulted in a larger income than budgeted. Administrative expenditure amounted to R15-million.

Cash grants

The loans were funded by an increase in share capital of R36-million, a contribution of R160-million from South Africa to the development fund and a surplus in the general reserve of R10-million.

The Development Bank, although non-political, receives most of its capital from the South African Government which is trying to scale down its cash grants to homelands and self-governing states because it has little control over how the money is spent.

The Development Bank of Southern Africa assesses projects on the basis of private sector viability. Loans more than R2.5-million are seen by the South African Government as the most efficient means of developing Southern African states.

The bank increased its investments from R75.2-million in 1984 to R171-million in 1985. Only R4.7-million of loans were repaid.

Largest

Of the 52 loans approved by the Bank in 1985 for the promotion of industrial development – this amounted to 60% of the total loan amount for the year. The bank envisages a shift to agricultural and rural development projects in its future allocation of loan funds at the expense of industrial and infrastructural projects.

Almost 45% of the loans or R136.1-million went to Region D, which includes Ciskei and most of Transkei. About 37% of the loans, or R136.4-million since its inception has gone to Region E, which includes KwaZulu. The loans are all long-term with repayment periods varying from three to 40 years at interest rates of between 4% and 16.5%.

The largest single loan of R76.7-million went to KwaZulu for the development of industrial centres at Madadeni, Enzakheni and Isithube. Ciskei received loans of more than R35-million.

The Development Bank projects its lending for the present financial year at almost R500-million and R450-million by 1987. A total of 272 projects are in various stages of planning.

The bank is exempt from income tax.
Car, house insurance premiums set to rise

Argus Correspondent

JOHANNESBURG. — Sweeping increases in premiums on almost all private motor and household insurance can be expected.

Much of the blame is because of the R135-million mountain of claims lodged in the past 12 months to repair damage left by storms that lashed South Africa.

It is almost three times higher than total insurance claims in 1981 — the year of the Laingsburg floods.

The lead in new motor rates may have been set by Santam Insurance, which has set premiums between 20 and 30 percent higher, and IGI Insurance with 25 percent increases for urban motorists.

Mr. Rodney Schneeberger, general manager of the SA Insurance Association, advised homeowners and motorists to brace themselves for across-the-board rises in premiums as they came round for annual renewal.

One single hailstorm alone — the one that pounded Johannesburg through the night on November 19 — cost the insurance companies more than R200-million in repairs to thousands of cars battered by hailstones.

Two weeks earlier a storm that pounded Vereeniging on November 5 resulted in claims that soared to more than R4-million to mend the damage to cars from golfball-size hailstones and vehicles that were swept away in the torrents that rushed through the town and demolished roads and bridges.

The full-year toll of claims from natural catastrophes climbed by a further R116-million when account is taken of the damage left behind by storms that hit Pretoria, the Eastern Transvaal and the Cape, plus the havoc caused by Cyclone Dornina and Cyclone Imbona.

"There is little chance of escaping major increases in premiums on either business or private insurance," said Mr. Schneeberger.

"What has made matters worse is the strong surge in the cost of motor components when the rand exchange rate sank so low and imports became dearer. There were also more road accidents than ever as repair costs rocketed.

"All in all, insurance claims in the fire and catastrophe classes alone jumped to a record R414-million — more than three times more than in 1980."

"On average insurance companies last year paid out R1.34 for every R1 income in premiums. There's no possible way that premiums can escape hefty increases."
Johannesburg — The Allied Building Society had a net increase in profit after tax of nearly 27 percent at R22.77m for the year ended March 31, a statement from the society says.

Allied recorded a 42 percent increase in net pre-tax profit for the year, R45.27m as against R31.95m in 1984.

The deputy managing director, Mr Alan Tindall, says that in spite of difficult market conditions and the effects of inflation on the desire and ability to save, the Allied increased its mortgage lending by a net amount of R239.3m to a total of R3 045.3m.

Taking into account both new and re-advanced mortgages, the total made available in the year was R698.8m.

Mr Tindall says in the past five years the Allied increased its mortgage lending by 72 percent, from R1 768m in 1981 to R3 045m in 1985.

Allied's assets increased by R369m to R3 921m in the 12 months and total share capital and deposits were higher by R349.8m to R3 793.6m.

Reserves and retained income reached R92.3m, an increase of R22.6m, the statement says.

Sapa

Unless otherwise stated, all financial news in this issue was compiled by Paul Doid and sub-edited by Godfrey Heynes.
Anglos lifts profits — dividend up 12.5%

JOHANNESBURG — Anglo American Corporation of South Africa has increased its dividend for the year to March 31, 1969, by 12.5 percent to 135c a share from 120c paid last year.

The final dividend of 100c (1964: 85c) was declared yesterday, which together with the unchanged dividend of 35c declared last November provides the total distribution of 135c.

Group profit excluding retained profits of associates increased to a record level of R601.2m (283.6c a share) from R586.1m (244.6c).

Profits including retained profits of associated companies were also at record levels having increased by 8.7 percent to R889.4m, or 368c a share, from R810.1m or 336.4c a share.

These results reflect the satisfactory spread of investments held by the corporation where earnings and dividends from export orientated, mining operations, particularly coal, have counteracted the difficult conditions being experienced by industry in South Africa, a statement by Anglo American said yesterday.

In addition, the buoyant prices on the Johannesburg Stock Exchange have enabled the Corporation to increase its surplus on realization of investments although this has been partially offset by higher prospecting expenditure.

"The directors have declared the increased dividend in the expectation that the Corporation will continue to benefit from the diversity of its sound investment portfolio," the statement said.

The market and directors' value of listed and unlisted investments at March 31, 1968, was R10,696,38m compared with R10,668,26m the previous year and the net asset value per share was 4,650c, compared with 4,313c last year.

There is a charge of extraordinary items this year of R63.3m compared with a surplus the previous year of R64.5m.

In addition extraordinary losses arose from merger adjustments and discontinued operations in Amscar Motor Holdings. — Sega.
They didn’t pay, they ‘hassled’

THE FAMILY of Mrs Lizzie Kwala, who died last year after an illness, has waited for more than a year before they could receive a payout from her life policy.

Mrs Kwala’s former employer, Mrs P Cook, of Krugersdorp, said enquiries with the IGI Assurance company on behalf of her former employee’s eight children had drawn a blank over the past. Instead her enquiries met with promises “which were never kept,” she said.

Mrs Cook said: “After her death, I spent weeks trying to contact IGI branches in Newcastle (where she was buried) and in Krugersdorp. I then decided to contact their head office in Johannesburg, where a Mr Smedy promised to settle the matter within three weeks.

But by February this year, Mrs Kwala’s children had not received any payout. I contacted the IGI head office again, and was told that Mr Smedy (who was handling the matter) had left the company. They promised to phone me back, but this was not done,” she said.

According to Mrs Cook, repeated enquiries months later drew the same response:

“We will pay the money within the two weeks.” On checking with the Commissioner of Estates Department, no money had been paid into Mrs Kwala’s estate. IGI’s claims manager, Mr J Dawkins, said his client’s former employer was making “wild allegations” against the company. He said birth certificates of Mrs Kwala’s three children had not been submitted to the company, hence the money had not been paid out. But Mrs Cook told Consumer Corner that she had proof that she had sent all the birth certificates.

The manager said a certain sum of money had already been paid into a trust at the offices of the commissioner. This money would be paid out to five of Mrs Kwala’s children when they reached the age of 18. The three other children would receive their money as soon as they submitted their birth certificates, he said.

“As a company we also make mistakes, just like human beings,” Mr Dawkins said.
No change in rates on bonds

By NEILL HURFORD
Property Editor

TOO MUCH "expensive" money was currently invested in the financial institutions for an immediate or sharp drop in lending rates on property, according to building societies surveyed yesterday.

In spite of a sharp easing in investment interest rates, building societies would take some months before being able to make adjustments to mortgage bond rates, in the general opinion of regional management in major building societies.

Mr Kingsley Loney, regional manager of the Natal Building Society, said that bond interest rates would be unlikely to move before the end of the year. "Although investment rates are coming down, we are locked into some expensive money which will take time to work out of the system."

Mr Loney added that there had been a dramatic turnover in the lending pattern, and his and other big building societies were looking for mortgage loan applications at all ends of the market, with particular emphasis on new homeowners. While the attraction at this stage could not be lower interest rates, availability of funds was refreshing in a previously difficult market.

NBS is currently lending at between 19 and 21.5 percent.

The EP Building Society has only two rates of interest — 20.5 up to R50 000 and 22 percent above this figure, and there was no plan to bring the rates down, said Mr Ian Gobregts, acting regional manager.

He said that market forces may change this view, should there be a big pile-up of liquid money. However, the EP was still experiencing a reasonable demand, particularly in the coloured market, where he said large numbers of buyers were subsidized.

Barclays Bank, top lenders in the residential market, are unlikely to drop their rates in the near future, according to Mr Bob Wood, area general manager of the Western Cape.

Should the prime rate continue to drop and reach 20 percent by the end of the year, there would be a drop in the home loan rates, although he subscribed to the view that a sudden slide would not be healthy. He said Barclays was watching the rediscount rates carefully.
R90m for development in Ciskei and Transkei

Business Editor

EAST LONDON — The Development Bank of Southern Africa is committed to financial aid totalling R90 million for development projects in Ciskei and Transkei.

According to statistics given in the bank’s annual report, amounts approved under its lending and technical assistance programmes between April last year and March this year totalled more than R94 million for Ciskei projects and more than R56 million for Transkei projects. The total value of the projects is about R99 million in Ciskei and R105 million in Transkei.

A spokesman for the bank said the projects were at various stages of implementation. In some cases loan agreements had already been signed and in others the loans had been approved but the terms of the loan agreements were still being negotiated.

Work is already underway on some of the projects, and in some cases, such as industrial and infrastructural projects at Fort Jackson and Dimbaza in Ciskei, buildings have been completed and occupied.

The Development Bank started operations in February last year. Its founding members were South Africa, Transkei, Ciskei, Bophuthatswana and Venda with the non-independent states participating in its activities as constituent parts of South Africa.

Its objectives are to provide finance for development requirements on favourable terms, to promote the investment of public and private capital and to provide technical assistance and training.

Of its initial authorised share capital of R200 million, R200 million is being paid up by the member states, leaving R100 million in callable shares against which loans can be settled with additional markets. The South African government has pledged R94 million to be paid into the development fund of the bank in the first five-year period.

Loans approved for Ciskei projects under the bank’s lending programme between April last year and March this year were:

- R2,555 million for a commercial pineapple farming project in Ciskei’s coastal region which will create a total of 250 jobs. Total project cost is R5,436 million.
- R2,536 million for labour intensive industry at Fort Jackson to create 6,000 jobs. Total cost: R5,891 million.
- R1,291 million for factory flat complexes, rural workshops and market stalls to encourage small business and industry. Total cost: R3,183 million.
- R29,5 million for factory buildings and infrastructure at Fort Jackson and Dimbaza. Total cost: R55,500 million.
- R4,690 million for the upgrading of infrastructure at the Potshane informal settlement of health standards — a move which the Reserve Bank expects to reduce pollution of the Buffalo River, East London and Mdantsane’s main source of drinking water. Total cost: R55,500 million.
- R3 million for infrastructure, additional training facilities and accommodation at the Kembenha Training Centre. The bank says, is to meet manpower and skills requirements of commerce and industry in both Ciskei and the rest of the Region D development area. Total cost: R3,600 million.

The Development Bank also approved financial aid for various urban and rural development projects in Ciskei under its technical assistance programme.

- A grant of R304 million to extend the activities of the African Co-operative Action Trust (Acata) in establishing savings clubs to mobi-life funds for agricultural projects. Total project cost is R664 million.
- A loan of R555 million for the design of 550 in-fill sites and 600 low service sites for a housing project at Dimbaza. The project includes a self-help centre, design of core houses and a self-help manual and design of a town centre. Total cost: R1,623 million.

A further loan of R735 million for the first phase of a major R5,8 million residential project at Potshane. The first phase consists of the preparation for self-help housing on 600 erven and planning of an area of about 2,500 sites.

A grant of R574,900 towards the planning of urban development at Laphumalanga Village, which will eventually be sought for an urban centre of 600 core units, primary school, post office, clinic, shops and small businesses. The project is aimed at lower income groups and the creation of a total urban environment that includes job opportunities.

- A loan of R215,000 for the planning of co-ordinated development strategies for the towns of Sada, Whittlesea, Kwekana, Khumalo and Peddie.

- Loans of R457,500 and R145,500 for preliminary planning for the improvement and resurfacing of 20 km of gravel road between the Dimbaza turnoff and Rekikana, and 10 km of gravel road from the Yellowwoods River to Berlin.

- A loan option of R74,700 and a grant option of R50,500 for a demographical study to estimate population and other aspects such as age, sex and occupational distribution in Ciskei.

The Development Bank also agreed to provide a guarantee for R220 million to provide a financial base for the Ciskei Building Society. The society will issue debentures on the local capital market with a guarantee from the Ciskei government and back-up guarantee from the bank.

Loans approved for Transkei projects were:

- R1,995 million for a particle board factory at Langeni near Umtata which will create direct job opportunities for 220 with a further 100 jobs in the forest plantations. Total project cost is R6,293 million.

- A loan of R44,400 for expansion of the Langeni sawmill at a total cost of R15,4 million to create 600 direct and 900 indirect job opportunities.

- R4,880 million for upgrading urban infrastructure at Linge, including adequate sewage disposal, potable water for every household, and promotion of self-help housing. Total cost: R6,371 million.

- R1,7 million for the provision of general facilities at 25 towns in Transkei. The first phase involves the provision of adequate water supply, sanitation, electrification, rail and road links, and social amenities.

- The Development Bank agreed to provide a guarantee for R14,5 million to provide a financial base for the Transkei National Electricity Group. Total cost of the two phases of the project is R11,183 million.

- Two loans totalling R3,3 million for the improvement of Transkei’s national electricity grid. Total cost of the two phases of the project is R14,536 million.

- R13,5 million for the Storkspruit river water supply scheme. Reservoirs and pipelines will distribute water from 35 rural communities, two villages and two hospitals in the Herschel district.

Amounts allocated to the...
for development of the Kei and Transkei

R3 million for infrastructure, additional training facilities and accommodation at the Ithembu training centre. The project aims to meet manpower and skills requirements of commerce and industry in both Ciskei and the rest of the Region D development committee. Total cost: R3.460 million.

The Development Bank also approved funds for the planning of co-ordinated development strategies for the towns of Sada, Whittlesea, Alice, Keiskammahoek and Peddie.

A loan of R247 500 and R148 500 for preliminary planning for the improvement and re-surfacing of 20 km of gravel road between the town and the turn-off and Keiskammahoek and 12 km of gravel road from the Yellowwoods River to Beaufort West.

A loan of R74 700 and a grant of R50 000 for a demographic information system and the provision of adequate water and its purification at Idutywa, Ngqeleni, Engcobo, Nqamakwe, Willovale, Mqanduli, Libode and Qumbu.

A loan of R2.2 million to extend the sewage disposal works at Umtata to improve the town’s viability as an industrial development point.

R7.4 million for the provision of general facilities at 25 towns in Transkei. The first phase involves the provision of adequate water and its purification at Idutywa, Ngqeleni, Engcobo, Nqamakwe, Willovale, Mqanduli, Libode and Qumbu.

A loan of R117 000 and a grant of R130 000 for the preparation of a national urbanisation strategy for Transkei.

In addition to the projects in Ciskei and Transkei the Development Bank is also involved in projects which entail the provision of energy and infrastructure across the borders of South Africa and national states.

The bank says it is appraising a loan application for the Lower Buffalo river irrigation project which would provide 1 300 ha of irrigable area in South Africa and 2 100 ha in Ciskei.

The report says that further development of Kei and Transkei is important to the area. It states: "...the development of the Buffalo East London and the main areas of industrial activity. Total cost: R800 million."
Liberty Life in R430-million bid for UK company

Argus Foreign Service

LONDON. — Liberty Life Association, South Africa’s third-largest life company, has put in a cash bid for Capital and Counties, pricing the company at R430-million.

The move is in line with the current vogue among South Africans for building up assets outside the country, says Patrick Weever of The Standard.

Liberty Life bought just under 30 percent of Capital and Counties four years ago and yesterday lifted the stake to 34.5 percent ahead of the announcement. The cash bid of 250p a share does not look very exciting as the last balance sheet showed net assets worth around 250p a share, says Weever.

He adds: "The modest price offered clearly indicates that the South Africans want to get control so that they can use Capital and Counties as an investment vehicle rather than acquire the whole company."
The Board launches international investment trust

SOUTH AFRICANS will be able to invest in overseas companies following the acquisition by The Board of Executors of a controlling interest in a UK investment trust.

The implications of this transaction — provided South Africans are ready to lend with a rand hedge and an opportunity for an international portfolio spread — account for a major "first" for The Board of Executors.

The managing director of the Board, Mr Bill McAdam, said approval had been obtained from the South African exchange control authorities for a rights issue of £10m (R25m).

Listing

The authorities had also agreed not to block the listing of the resultant units on the Johannesburg Stock Exchange (JSE).

The investment trust in which The Board has acquired a 50,5 percent controlling interest is Oceana. An offer has also been made to acquire the shares of minorities for 50c.

Oceana is registered in the UK, but listed on both the London and JSE. It has been approved by the UK Inland Revenue as an investment trust for tax purposes.

Mr McAdam said that under The Board's control Oceana would provide a unique investment opportunity for South African resident investors.

"By purchasing units in the trust, clients of The Board of Executors and the South African investing public at large will be able to achieve a geographical spread in their portfolios and a hedge against the rand — features which have historically not been available to South Africans.

Oceana presently has assets of approximately £11m, comprising an international share portfolio and mineral rights.

Equities

It is The Board's intention to develop Oceana into a fully-fledged international investment trust with investments in carefully selected, top-quality, growth-oriented international equities.

The underlying portfolio will be reasonably concentrated and not too widely spread.

Within the parameters of Oceana's investment trust status, the managers will be looking specifically at investments in the financial services sector.

In the rights issue prospectus, which will be published as soon as possible, will emphasize that the trust is likely to have a relatively low yield because of the spread and blue-chip status of its investments and that the managers will be paying special attention to spreading currency risks.

Development

A recent development in the investment trust sector of the UK market has been strong interest from international investors, particularly those from dollar denominated investment houses.

Investment trusts have traditionally traded at a discount to net asset value and they are therefore often regarded as a cheap means of entering the equity market. These developments are expected to accelerate.

The Board has established a subsidiary, The Board of Executors (UK) Ltd, which will have its registered office in London.

Mr Bill McAdam — approval obtained from for a rights issue of (R25m).

London. The management of the trust's investments will be contracted to this company.

Three years ago, The Board was instrumental in floating First Southern Investment Co Ltd, a Luxembourg-based company, with its entire investment in South African industrial equities.

First Southern's portfolio is managed by the London-based Global Investment Management Ltd.

The Board holds a large minority shareholding in Global. Its partner in Global is Lombard Odier International Portfolio Management London's arm of Lombard Odier, a prestigious, private Swiss bank, managing assets exceeding $2 billion.

Mr McAdam is chairman of Global and through this international link, The Board of Executors has developed ties with Mr Robert van Maasdjy, who is the managing director of Lombard Odier International Portfolio Management.

The activities of Global are to be rationalized with those of The Board of Executors (UK) Ltd, as the management company for Oceana.

Services

The Board aims to develop the expertise of its London-based subsidiary to provide a comprehensive range of financial services for South African residents who own international assets.

In addition, the UK management company will continue to promote the investment attraction of South Africa to overseas investors.

There has already been considerable interest in the proposed rights issue from the existing shareholders of Oceana, clients, brokers and several major institutions.

The sponsoring brokers will be Rowe & Pitman in London and Ferguson Bros Hall Stewart & Co in Johannesburg.
Allied profit soars 41%

Own Correspondent

JOHANNESBURG — The Allied Building Society has announced a pre-tax profit of R46,271m for the year ended March 1985 — 41 percent more than the previous year.

Its taxed profit rose 26.8 percent to R22,771m.

While the Allied's share capital eased by R31m to R1,216 billion, its deposits increased by R400m to R2,577 billion.

Fixed deposits grew by R165m to R1,486 billion and savings jumped by R137m from R701m.

The Allied was active in the money market and raised R137m on Negotiable Certificates of Deposit compared with R61,862m the previous year.

In the year, the Allied Insurance Company increased its authorised share capital to R25m.

The society acquired the additional R23.5m in share capital in exchange for certain investment stocks at market value which gave rise to a book loss of R5m.

Assets increased by R369m to R3,921 billion.

Reserves and retained income amounted to R92,3m, an increase of R22,8m.

The Allied granted R636,8m on new mortgage advances and re-advances in the year.

Total value of mortgages increased by R349,8m to R3,703 billion.

"The 1984/85 financial year saw interest rates rising to levels of more than 21 percent and and prime rate to 25 percent.

"These high rates make it difficult to synchronize movements in the mortgage rate with other rates of interest," according to Allied's report.

"On the other hand, the investor has had the benefit of high interest rates from building societies. This has been particularly the case on fixed deposit investments, with the interest rate reaching 20.5 percent per annum."
SA Perm
profits
soar 85%

JOHANNESBURG
The SA Permanent Building Society achieved an 85 percent increase in net after-tax profits in the year to March, the year-end figures released yesterday show.

Its net profit totalled R37m, compared with R20m in the previous year.

In the year the number of accounts for shares and depositors increased by 22 percent, from 1170 732 to 2 440 416.

Total funds attributable to savers, depositors and shareholders increased by 10 percent or R414m.

The managing director of Perm, Mr. Bob Tucker, said these figures were in line with the building society’s declared objective to operate within a reasonable level of profitability, “having regard to our need to enhance our technology and service outlets”.

New loans of between R60m and R75m were granted each month to the general public, the average value of home loan granted being R41,000.

This compares with loans of between R70m and R65m in the previous year, when the average value of home loan was R57 700.

In the year under review, the total amount of loans granted was R1 004m.

Perm’s reserves at year-end totalled R148m (R108m). — Sapa
IGI pre-tax loss
R7.5m — div slashed

Own Correspondent

JOHANNESBURG. — IGI reported an attributable loss of R4m, equal to a loss of 49,4c a share, (previous year — earnings a share of 87,8c), and the final dividend has been chopped down to 2,5c (10c) a share.

However, the managing director, Mr Mike Lewis says: "IGI is a lean, hungry insurer that has been through a long tunnel. But it is now right out of that tunnel."

He said: "I have absolute confidence that 1986 will be a good year and that the dividend payout will be reinstated in 1986 to its former 1984 level."

The major problem for the insurer appears to have stemmed from its monthly personal lines of insurance that accounted for more than 70 percent of the pre-tax loss of R7.5m.

According to Mr Lewis the unprofitable personal lines of insurance have been shed and would no longer serve as a drag on IGI's overall performance.

No doubt a heavy underwriting loss caused by natural hazards did not help matters either. But a reversal of taxation — deferred tax no longer needed because of the loss — amounting to R3,7m softened the bottom-line loss.

IGI's move to rationalize and clean up its portfolio are evidenced by the fall in gross premium income to R136,4m from the previous year's R137,1m and the fall in real terms of net premium income to R133,9m (R134.5m).

The costs of closing down unprofitable branches and the harsher reinsurance terms imposed by reinsurers also dented profitability.

Considering that IGI had raised R8,8m by way of a rights issue last year and that this year's prospects are much brighter, it is somewhat surprising that the final dividend was reduced to a quarter of its previous level.

Mr Lewis says, however, that it is prudent to reduce the payout as he believes dividends should be well covered, and it makes good sense to relate dividends to actual performance.

Subsidiary IGI Life, listed for the first time last year, turned in a satisfactory set of results in the 15 months to end-March.

Mr Lewis says he is extremely delighted with the results as they are even ahead of the forecast in the prospectus.

For the record, IGI Life earned 7,5c a share on an annualized basis, with net premium income of R17,7m and attributable profits of R1,7m.

A dividend of 4c a share for the period has been declared.
New cut in prime looms as interest rates slide

By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates are sliding again and further sharp falls in the prime overdraft rate are possible soon.

Prime could be down to 18 percent by the year end.

The latest rate falls are bringing to a close an era of extremely high cost money which has severely hit both the corporate customer and the consumer.

They also reflect the weak demand for credit even at the existing rates and it will be some months before consumer spending once again increases.

The shortage in the money market which at one stage exceeded R2 billion is now only R236m and the key three month's Bankers Acceptance rate is falling rapidly.

At current levels the acceptance rate is indicating a two percent fall in prime.

If it touched 17 percent at one stage yesterday and is likely to decline even further once the outcome of the latest Treasury Bill tender is known.

However, sentiment may be somewhat influenced by the easing of the gold price yesterday.

Gold fell due to indications that the United States economy is showing better than expected growth.

This led to the dollar rebounding and gold sliding back from the morning's levels.

Bullion was fixed in the afternoon at $318.10 after opening at $322.50-$323.00 and continued to ease after the fixing.

The United States economy is again showing a healthy growth rate — the April-June gross national product figures showed 5.1 percent after the dismal 0.3 percent in the first quarter.

The tender outcome will provide some indication of how the Reserve Bank views current developments and some market segments believe the central bank stance on rates has altered with the Bank no longer opposing the slide in rates.

There is little danger with consumer demand so depressed of a sudden rise in the inflation rate.

Both retail and wholesale deposit rates are being cut virtually daily with the gap between the two narrowing.

Wholesale call rates are heading for the 16 percent mark and retail fixed deposit rates are falling rapidly.

The rapidity of the falls seem to have taken the market by surprise particularly the sharp falls in call rates.

If the trend continues, further cuts in participation mortgage bond rates as well as building society bond rates are likely.
TRISHA BAM, Weekend Argus Reporter

MOST building societies are now so flush with cash they are offering to lend money for trips overseas, cars and luxury durables.

Some banks are furious about this "unfair" competition for business, because the building societies are able to borrow under some circumstances at lower rates and provide tax-free benefits.

Other critics say the invitation to "come and get cash" could cause a consumer spending spree - a spree neither individuals nor the country can afford.

The reason building societies have so much money is the drastic decline in the demand for loans for homes. One reason for this is the present high interest rates the societies are asking. Many people cannot afford them.

Readily available

Six months ago, home buyers had to pay raising fees as high as seven percent or get someone to provide "matching finance" before most societies would consider lending them money.

All this has ended. Instant housing loans are readily available to people who earn enough to satisfy the societies’ repayment rules.

Big cash surpluses have prompted building societies to cut some of their top bond rates.

Estate agents hope that available funds and profits from surplus capital will result in an impressive drop in the bond rate by the end of the year and encourage people to buy into the property market again.

Tempting

Some building societies are tempting the public with money for luxuries; others are more conservatively urging borrowing for home improvements.

And at least one building society is critical of its competitors’ new directions.

However, the general manager of Provincial Building Society, Mr J C Russel, said societies generally were not taking off on a new tack.

"Our primary aim is to provide the public with money for housing. When the demand is insufficient we provide for home improvements and when there is little demand for that too we offer money in apparent competition with banks for luxury items.

"I do not think we are fostering a consumer boom by doing this because, judging from inquiries, people are being cautious about borrowing money for luxuries and are only interested in finance for things like home improvements."
Johannesburg—Commercial Union Assurance (Cusaf), the country's largest composite insurer, has maintained its dividend for the six months ended June 30.

This is in spite of a 52 percent drop in after-tax income compared to the June 30, 1984 figure, reflecting what the managing director, Bill Rutherford, calls "an extremely difficult operating climate."

The interim dividend is unchanged at 14 cents.

Taxed profits dropped to R2,3.3-million from R4,9-million in the review period, though net premiums written increased by 21 percent and the shareholders' portion of life profits was up by 57 percent.

Earnings per share are 30c (June 1984: 62c) and net assets per share up at 513c (643c).

Income up

Though income from net premiums for fire, accident and marine jumped to R53,6-million (R43,9-million), Cusaf reports a short-term insurance underwriting deficit of R2,2-million, compared to a surplus of R3,0-million.

Mr Rutherford says that the underwriting result reflects increasing incidence of claims in the fire, motor and crime portfolios, combined with inadequate premium ratings.

"The gravity of the problem of inadequate premium rating has been highlighted by the depressed economic climate in which the incidence of claims has risen sharply."

"Further rate increases, however regrettable, will be necessary and inevitable until underwriting gets back into a break-even situation."
VATICAN CITY has been a major lender to South Africa between 1982 and 1984. It lent a total of $172m to the public sector and to the Johannesburg municipality.

Out of the total, SA Transport Services received $113.4m, the Department of Post and Telecommunications $38.5m, and Johannesburg $20m.

The loans were made through Banco di Roma per la Svizzera.

The loans by the Vatican City were documented in an extensive report on South African borrowing overseas by the anti-apartheid group End Loans to South Africa. No one at Vatican City was unavailable for comment.

The comments by the pressure group are partisan but statistics are comprehensive and well-documented.
Restrictive laws, segregation, all hinder black businessmen

Own Correspondent
DURBAN — A plethora of rules and regulations inappropriate to small business, combined with others based on racial segregation, constitute a formidable prospect for black would-be business owners.

For this reason, small-business consultants consider legal problems to have contributed significantly to 60 percent of black business failures.

This contrasts with a less-than-50 percent figure among whites.

These statistics come from a survey conducted in Natal by University of Natal (Maritzburg) senior lecturer in business finance, Ms Fiona Halse, as part of a thesis on the training of black small-business owners.

She maintains that with the tendency of business owners to blame outside factors for their failures, they would see difficulties arising from legislation as the major factor for their going bust.

"All the writers in this field have pointed to the unnecessary complexity and often insensitive handling of both the Companies Act and the numerous licensing regulations, both of which were doubtless developed with large companies in mind, and yet are applied even to parts of the emerging informal sector."

Ms Halse says the close corporations option is not the solution as it is "couched in legalese, far removed from the requirements of the small-business operator."

"More important are the numerous licence requirements which remain unaltered, frequently controlled by more than one administrative body and involving delays, money and red tape."

REIGN SUPREME

She points to the paradox of the "national states" desperately seeking to attract investment, while their burgeoning bureaucracies merely serve to worsen the situation.

And in the areas where informal activities should thrive — the black urban areas — restrictions such as the Machinery and Occupational Safety Act and the administration boards-controlled zoning practices laws reign supreme.

"The Machinery and Occupational Safety Act has built in requirements that a safety officer be appointed in each concern to monitor adherence to the provisions of the Act. Some of the requirements listed under such headings as 'illumination', 'thermal requirements' and 'ventilation' clearly militate against the official acceptance of current manufacturing concerns in townships where facilities simply cannot hope to meet them."

"And the only redress built into the Act is to appeal to the Industrial Court on an inspector's decision."

Under the heading "inefficient management", a factor consultants say occurs in 96 out of 100 black business failures, Ms Halse says active discouragement by successive governments of black entrepreneurs has lead to a dearth of skilled, experienced and thriving businessmen and consequently a lack of models for today's emerging businessmen to emulate.

They have been hampered by statutory job reservation which, though applied to a relatively percentage of the labour force, has been observed in spirit throughout commerce and industry.

"Thirdly, business partner-
Industrial share boom continues as JSE index reaches 1 019,8

By PAUL DOLD, Financial Editor

INDUSTRIAL shares are continuing to reach new peaks amid heavy buying by both institutions and small investors. The JSE Industrial Index reached a record high of 1019,8 yesterday as industrials advanced across a broad front.

The continuing unrest in black townships is having no impact on share prices or investor sentiment although some light overseas selling of gold shares may have reflected the disinvestment campaign.

The inherent strength of the market has surprised most analysts particularly in view of the gloomy short-term economic outlook and little likelihood of a rapid rebound in corporate profits in the near future.

The sheer weight of institutional funds seeking investments is probably the major factor in the sharp advance.

A leading Cape Town stockbroker said yesterday that although dividend yields were low, the market offered little value, investors appeared to be more concerned with earnings yields.

"The breadth of the upswing is incredible and the shortage of scrip remains a fundamental factor."

"With competition between the institutions increasing and the funds becoming far more performance-orientated the large investors cannot afford to be out of this market."

While it was increasingly difficult to commit fresh funds to the market, his firm is advising clients to remain in equities and has been aggressively buying lines of the second level stocks.

The market had been led higher by sharp gains in the property trust, banking and insurance sectors and he forecast that the new Southern Life issue would attract a record subscription.

Yesterday's trading brought fresh advances across the board to industrials and brokers again reported difficulty in finding large lines of industrials at reasonable prices.

Stanbic rose 125c to 1850c, while Liberty added 250c and Clics Stores 25c.

Cheaper shares are moving sharply ahead and one stock priced at R2 a few weeks ago is now close to the 400c mark.

The man in the street is now aware that the stockmarket is running ahead and has been buying equities.

In the past, the appearance of the small investor in large numbers has coincided with a peak in the market.

Gold shares in contrast have failed to reflect the impact of the higher gold price following the easier trend in the dollar.

While there has been no dumping from overseas, light London and New York selling has been seen. This volume has been easily absorbed by the market.

Brokers do not believe there will be large scale offloading by foreign investors due to disinvestment pressures.

The firmer rand — reflecting the gold price — has tended to hold back gold share performance but on fundamentals gold shares appear oversold and could rebound rapidly if the bullion price remains firm.

This Cape Times graph shows the new peak reached by the JSE Industrial Index which has now touched the 1 020-mark. The index has breached short-term moving averages which are charted alongside the index figure and technically the market remains strong.
SA gold shares

decline on

world markets

From NEIL BEHRMANN

LONDON. — South African gold shares have been falling on international markets because of the United States disinvestment campaign, the threat of a miners' strike, sporadic riots and disappointment over the gold price.

Since the end of May, the Financial Times index of gold shares in dollar terms fell 11 percent to $40 points. But with the pound appreciating sharply against the dollar, the fall in sterling terms has been much greater.
The Financial Times index of gold shares tumbling 34.8 percent to 299 points. This poor performance has been in the face of a steady gold price which has traded between $310 and $320.

American brokers who refused to be quoted on record said that there were large offerings of shares from United States funds. The fund managers were selling in anticipation of redemptions, say the brokers.

They also believe that there have already been redemptions by the public because some people fear that Congress will interfere with their right to sell South African shares.
The funds which were massive buyers of stocks in 1973 and 1974 were not dumping shares. But if they found buyers they would willingly part with them.
The shares were being absorbed by South African institutions.
Gold shares in Johannesburg, however, have also been relatively weak.

With gilt yields tumbling from a February peak of 17.3 percent to 15.2 percent, the action has been in fixed income securities and industrial shares.

Mr. David Ridley, partner at brokers Williams de Broe Hill Chaplin, contends that there were less sales than were rumoured.

Mr. Ridley believes that some American brokers took advantage of the United States disinvestment campaign to generate business.

The institutions phoned up various United States funds, believes Mr. Ridley and offered to place lines of shares for them.

Rumours multiplied when inquiries were made on the Johannesburg Stock Exchange.

Other brokers say that large lines of gold, and platinum shares were sold.

This, they say, is reflected in the Business Day gold share index which has slid six percent since the end of May.

There were also sales from disenchanted United Kingdom fund managers who were disappointed with the performance of gold at a time of considerable dollar weakness.

The sharp appreciation of sterling pulled the FT Gold Index to the lowest levels since 1952. Mr. Norman Kessel, head of mining research at brokers Vickers, da Costa, recalls that United States funds were behind the dramatic increase in gold shares in the past few years.

He says it is "significant" that the funds have stopped buying but with continual reports of violence emanating from Johannesburg and the vocal disinvestment campaign in the United States, he is "hardly surprised."

The strength of currencies against the dollar hardly helped European stockmarkets either.
The Financial Times Industrial Index has dropped by nine percent, from its peak although a cut in interest rates yesterday pulled the market up from its lows.

In the past three days, Germany's share averages have tumbled by seven percent, partly because shares were overbought but also on worries that exports would decline.
Call for overhaul of riot-cover association

INSURANCE brokers are becoming increasingly frustrated with the SA Special Risks Insurance Association (Sasria).

They say the association, which specialises in riot cover, is cumbersome and should be overhauled completely.

"Its administration is extremely cumbersome, complicated and difficult. While the concept is excellent, Sasria is definitely an animal designed by a committee," says broker David Hersch.

Sasria board members reject allegations of inefficiency, saying the system is designed to be as simple and as administration-free as possible.

A senior official said yesterday: "It is easy to criticise from outside, but I would like them to come and do a better job."

Price Forbes Federale, Volkskas, executive director Don Gallimore, who chairs the SA Brokers' Association subcommittee liaising with Sasria, said: "After dealing with Sasria for the past six years I am in a very frustrated state. I am frustrated with the mechanics of the system. Sasria are very difficult to talk to in a business sense and it is almost impossible to get reasonable, commercial, commonsense answers out of them.

"While I can sympathise with their problems, there are just too many parties involved. The whole system is to blame."

Sasria came in for sharp criticism last week when it refused to pay out a claim by the Argus newspaper group after a reporter's car was damaged in township violence. Sasria said the reporter was negligent in driving into a riot area, while Argus pointed out he was doing his job.

Brokers warned that the Sasria decision cast doubt over much of its other riot cover.
Multiplan insurance under fire

By June Bearzi

An insurance company which has made great inroads into the domestic market in the past five years has come in for strong criticism from dozens of clients who claim they have lost badly after signing up with the company. The allegations have been strongly denied. In fact, the company claims that it gives an excellent and speedy service.

The directors of the company include a PFP member of Parliament, a Nationalist MP, and a former PFP member of Parliament.

Star Line examined Multiplan Insurance Brokers (Pty) Ltd and the firm which underwrites its policies exclusively, the Hollard Insurance Co Ltd, when many policyholders claimed that Multiplan's widely advertised special package for domestic insurance had not cushioned their losses.

A four-month investigation established, among other things, that clients felt they had been "straitjacketed" by the 14,000 words in small print and several critical stop-watch-precision deadlines which were used to reject their claims.

But Mr David Dalling, Sandton MP and PFP spokesman for justice, who is a director of the Hollard, believes that the criticism of the company is not justified and has told Star Line that he believes the company's servicing of policies and the speed with which claims are settled is without equal.

Several clients who believed their motor, fire and household claims, some for as much as R17,000, were rejected unfairly or on doubtful legal grounds said they did not have the resources to take the multi-million-rand business to court and so wrote off their losses.

Others, who decided to fight the matter, said they found they were handicapped by yet more small print.

Members of the Indian, coloured and black communities claim that the company has discriminated against them because it refused to give them household cover. And a letter instructing staff not to allow "non-Europeans" into the Multiplan sales department has been called blatantly racist.

Mr Dalling has vigorously denied charges of unfair repudiations and racism.

He said that the company insured people of all races.

He also stressed that the Hollard had invested a great deal of time and effort in highlighting all the important conditions of the policy in the front of the policy book in bold print and reinforced this with a gramophone record which drew the insured's attention to the major points of the policy conditions.

To Page 3, Col 1

Angry clients slam insurers

From Page 1

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See Page 13.
AA Mutual launches novel life assurance concepts

By Duncan Collings

AA Mutual Life has introduced two novel life assurance concepts to the local market which should find widespread acceptance from the life insurance-buying public.

It has introduced a clause of incontestability into all its new contracts and has launched a policy of guaranteed acceptance.

The new policy—a 10-year convertible level-term contract—is guaranteed to be accepted by AA Mutual Life, provided that the applicant is working at the time of application.

The only other information requested on the proposal form is the applicant's age at next birthday. The policy provides immediate life cover of up to R250,000. No medical examination is required, nor do applicants have to give their medical histories.

For the first 24 months of the policy accidental death only is covered thereafter full death cover is provided. Anyone up to age 50 next is eligible.

INCONTESTABILITY

On expiry the policy may be converted at standard rates with no medical examination into an endowment or whole life plan.

The clause of incontestability to be introduced into all new contracts issued by AA Mutual Life states that the company will not—in the event of a claim—contest any of the information given on the original contract provided the claim occurs more than five years from the issue of the policy.

This, says AA Mutual Life managing director, Mr Brian Benfield, is being done by placing emphasis on correct underwriting at the time of the issue of the policy, and prevents underwriting at the claim stage.

Mr Brian Benfield, AA Mutual Life MD.

It will, he says, provide peace of mind to beneficiaries under any policy as in the event of a claim all that will normally be required is a death certificate without the need for any painful enquiries into the cause of death.

Both the innovations have been welcomed by the Consumer Council, and as one of the main areas of adverse publicity surrounding the life industry in the past has been the contesting of claims, AA Mutual Life's incontestability clause should set a precedent for the industry which is bound to be followed by other life offices in time.

It is not a new concept worldwide as clauses of incontestability after a suitable time lapse have in fact been regulatory in many states in the US.
Unevenful insurance

Varying drop-out

Insurance Winnings and Losing

3

The Louisiana Farm Bureau
Insurance

3

Director

A STAR LINE INVESTIGATION

Albert Ray Deats

Victorian client

Conditions are emphasised

Britain sided over pay

The Louisiana Farm Bureau
Multiplan complaints spark calls for broker registration

*From Page 1.

A complaint by the Institute of Insurance Brokers of South Africa, told the Star Line that they believed compulsory registration of brokers, the only way of introducing some form of control, is the industry's interest. Membership was voluntary and members had to subscribe to a code of conduct. A disciplinary committee had found more than 200 complaints and ensured a fair deal for the public, Mr. Alston said.

According to Mr. Alston: "In terms of our regulations a group such as Multiplan would not be permitted to be registered as one of our members."

**CONCERN**

He added: "SAIBA is very concerned about the increasing number of complaints directed towards us, most of which are in respect of the fine print and repudiation of claims by Multiplan."

"Multiplan is not a member, and although the telephone directory describes them as a broker their policies appear to be underwritten by one particular insurance company only. So, in effect, they are not really a broker but an agent for an insurance."

Mr. Olivier has voiced concern about the apparent public dissatisfaction with Multiplan's handling of claims.

"Almost 50 percent of the complaints we get against insurance brokers are against Multiplan," he said.

Report an 'unfair innuendo'

Star Line states in support of claims that Multiplan offered a fast and high standard of service, the firm producing letters from happy clients. This constitutes an unfair innuendo.

Multiplan did not show Star Line the only 15 letters it had received from happy clients. It handed to Starline 15 letters it had received at that time within a five-day period. Multiplan received many such unsolicited letters and phone calls a week.

Star Line reported a complaint that deception was used by a Multiplan consultant.

Any group employing upwards of 100 salesmen working on a commission basis occasionally goes through the experience of an individual representative making a wrong statement in order to clinch a sale. No reputable company, and certainly not Multiplan, willingly allows such behaviour, for it constantly injures the insurer and client. In the few isolated cases where such an action has been discovered and condemned, the salesman concerned has been dismissed.

**UNDERSTAND**

The Multiplan policy is singled out by Star Line as being a "mithofield of small print" consisting of 14,000 words "printed in a 12-page book". However, reports say that people in South Africa are covered by a competitive policy product consisting of some 25,000 words contained in a 50-page policy document. We must emphasise again, that unlike the policy documents of most other insurers, the Multiplan documents highlight in BOLD PRINT fully all the important aspects of the policy. Far from relying on the "small print", the Hollard has this manner attempted to make it as simple as possible for policyholders to understand their rights and obligations.

Star Line states that a claim was thrown out "because a woman, injured in and hospital after a car crash, could not claim by registered mail for her wrecked car within the stipulated 21 days".

This allegation is specifically denied. The Hollard does not now and never has repudiated claims for late reporting when the client was unable to report it immediately due to hospitalisation, injury or any other valid reason.

Even the facts of the case quoted are not quite correct. In this instance the 21-day period in which claims must be lodged was only applied from the date the woman concerned was discharged from hospital.

'Valuable and efficient service on fair terms'

A few final points to rectify misconceptions created by the Star Line article:

- We have never imposed or even attempted to impose a client's car for non-payment of premium in the same month as an accident payout.
- The Hollard Insurance Company, Multiplan, and its forerunner, Steyns Insurance Brokers, have never been found guilty by any authority of any malpractice or irregularity whatsoever. To everything possible to provide a first-class service, the Hollard has set up a committee of directors to deal with hard luck cases and instances in which client dissatisfaction has been reported to the company. During the past year about 85 such cases have been reviewed, resulting in ex gratia and other payments being made to more than 40 clients involving tens of thousands of rand.

The Star Line article is high on rhetoric and emotional language but, despite having been provided with as much information as possible prior to publication, it is lacking in factual substance. We believe that the Hollard and Multiplan provide a valuable and efficient service to thousands of clients, at realistic rates and on fair terms. We are proud of our product. And the thousands of current Multiplan policy holders surely agree.

Multiplan replies: claims are not factually correct

Mr. David Dalling, a director of the Hollard Insurance Company Limited, which underwrites the Multiplan domestic policy, has replied to the Star Line's investment into Multiplan. Mr. Dalling's detailed comments are contained in these articles.

- For every R100 received in premiums relating to Multiplan policies, the Hollard during the 1984/85 financial year paid back R75 to clients in settlement of claims.
- The 1984 Annual Report of The Hollard Insurance Co. just released, reveals that net claims lodged during the 1984/85 year, claims amounting to 84.5 percent were actually paid in the same financial year.
- We believe that no other insurance company in South Africa can claim this achievement.
- Approximately 10,000 claims arising out of the Multiplan policy are dealt with per year, that is between 60 and 65 claims per working day.

The Star Line article alleges that Multiplan resists insurance claims of whatever colour. This is totally untrue.

Although direct statistics based on race are not kept, almost 2,000 persons who are not white are currently Multiplan policyholders. The Hollard is interested in all races.

Many applications for insurance are, however, declined each month and some decisions are based not on race but on factors relating to the risk. The insurance is accepted at a higher rate of premium, or excesses are loaded.

In other instances insurance is often declined. This is no more than normal business practice and bears no racial connotation whatsoever.
Heavy profits for stags

Southern likely to be pitched at 425c

By PAUL DOLD, Financial Editor

THE Southern Life issue is likely to be pitched in the region of 425c at a generous yield of 4.58 percent providing investors with the most lucrative staging opportunity in years.

Although the price will only be announced tomorrow I understand it is likely to be around the 425c level — which is well below the 475c — 500c currently being estimated by the stockmarket.

At 425c the share could yield a high 4.58 percent as against the 2.6 percent of Liberty Life and the Pru's 2.8 percent with the potential of at least a 50 percent immediate stagging profit if the industrial market remains firm.

Analysts are predicting the largest ever response from the public to an issue and due to the relatively small number of shares available, investors who can hold onto their allocations for several weeks are likely to make even larger profits once the initial stagging operations are over.

The Southern's share price trend may be as spectacular as Liberty Life's and earnings growth could be impressive in the medium term particularly in view of the link with the country's largest bank — Barclays.

The recently launched new range of Adaptable policies has been enthusiastically welcomed by brokers market and sharply rising sales should eventually be reflected in the profit statement.

Both Barclays which has 30 percent and Anglo American with 40 percent are unlikely to offload any of their shares, and other institutions seeking to buy strategic investment stakes in Southern for their portfolios will have to pick up shares in the open market.

This could lead to very keen bidding for the shares and a sharp rise in the price.

Some 41m shares (25 percent) will be on offer to 400 000 policymakers, staff, pension fund clients and the public. Comparatively few will thus be available to the general public.

One point which Southern should seriously consider is weighting the allocations in favour of policyholders.

Southern Life itself was previously a mutual company owned by policyholders and it seems more than fair that this group of investors should actually be given a significant stake in the new Southern and not merely a preferential right to apply for the shares.

The method of allocation will not be announced until after the offer has closed but at a guess I would expect Southern to favour small applications from individual investors to gain a wide spread of the shares.

The prospectus will be available from the three sponsoring stockbrokers — Davis Borkum, Max Pollak and George Huysamer.

Mr Neal Chapman, chief executive of the Southern Life Association.

Analysts believe that the inflow of funds to the issue will be so large that trading in industrials on the JSE may be in low key until after the funds are returned to the market.

There have already been signs of profit-taking in the market ahead of the issue as investors go liquid to subscribe for the issue.
Less risk capital now attracted to SA, says Old Mutual

By PAUL DOLD, Financial Editor

The amount of risk capital South Africa now attracts from foreign investors is much less than it used to be. In addition, the short-term component of total bank credit is "uncomfortably high".

This is shown by Old Mutual in a special section of its Economic Monitor for July dealing with South Africa's foreign debt position.

The report says that the nature of the country's outstanding foreign liabilities has changed noticeably over the past 25 years.

"Initially South Africa attracted more risk capital, that is, dividend-yielding liabilities, but since the sixties the share of interest-bearing capital (loans) has increased substantially."

The trend towards interest-bearing liabilities was also clearly illustrated by comparing interest payments to foreigners to the total dividend inflow.

"This ratio has increased from an average of 17 percent between 1963 and 1969 to 81 percent for the period 1980-1983."

"From a debt-service point of view it is better to attract dividend-yielding investments instead of interest-bearing liabilities."

Short-term liabilities comprised on average 18.3 percent of total outstanding liabilities between 1956-1982.

"The corresponding figure rose to 21.1 percent for the period 1970-1979 and increased even further to 27.7 percent in the 1980s. At the end of 1984 roughly 46 percent of the outstanding foreign debt was, according to the budget speech of the Minister of Finance, of a short-term nature," Old Mutual says.

A clear pointer that South Africa was out of step in its foreign debt position in an international context was that the short-term component of its total bank credit was high.

At the end of June last year 66 percent of this country's international bank borrowings were of a short-term nature, compared with an average of 44 percent for comparable developed countries.

In addition, outstanding short-term international bank liabilities at the end of June 1984, measured as a percentage of export receipts for 1984 amounted to roughly 60 percent—well above the average ratio of 33.3 percent for comparable developed economies.

Old Mutual states: "The monetary authorities, as well as other sectors, have used the surplus on the current account of the balance of payments to repay short-term debt over the past six months, as has recently been officially confirmed."

"Although potential short-term claims on our export receipts have therefore declined since mid-1984, the exposure is still likely to be uncomfortably high in relation to past experience and will probably continue to influence economic policy decisions in coming months."

The term "permit" on the right-hand margin is not a legitimate part of the document.
Southern has impressive profit potential

By PAUL DOLD
FINANCIAL EDITOR

As forecast on Saturday, the Southern Life’s issue is being pitched at 45c and the prospectus strengthens predictions that the JSE debut of the giant life insurance group with assets of more than R4 billion could be spectacular.

While it is still too early to predict what the response will be from the market the issue could draw R1 billion. The prospectus indicates that Southern profit outlook is encouraging with the board forecasting a minimum 20 percent rise in earnings to R46m in the 1985-1986 financial year. This would be equivalent to earnings per share of 39,2 cents a share. There will be an interim and a final dividend payable in December and June and the total dividend for the 1985-1986 year is not expected to be less than 19,5c a share.

Investors can take it for granted that this forecast is highly conservative but even so a profit rise of this dimension across a group the size of Southern warrants a Pick n Pay type rating. In addition the benefits flowing from the merger of Southern Life and Anglo Life will clearly take a year or two to impact on the profit statement.

Another bull point for the share is that the group plans to have a higher retention of profits than other groups such as Liberty and the Pru. The Southern will pay some two-thirds of earnings in dividends. This suggests the board is anticipating heavy expansion over the next few years.

Given the scarcity of blue chip scrip in the stockmarket and this profit potential investors expect the shares to open at a heavy premium on the placing price. While some may be tempted to take staggering profits the group will be an outstanding investment and in my view the share should be locked away.

The prospectus is available from Cape Town brokers. The offer closes at noon on August 7 and investors must ensure that their applications have been received by Consolidated Share Registrars in Johannesburg by that deadline.

Cash will be returned to the unsuccessful applicants within 7 days of the closing date.

Some 12m shares or 7,3 percent of the issue will be offered to the general public with policyholders having a preferential right to 14,3m or 6,8 percent of the equity. About 2 percent or 3,4m is being placed with the board, staff, and insurance brokers while the Barclays pension fund will be issued with 8,2m

or 5 percent. Thus only 23,2 percent or 38m of the total share capital will be issued in terms of the prospectus.

I understand that all holders will have an equal right to the 14,3m shares regardless of the size of their policy.

The listing itself is scheduled for August 21 under the JSE abbreviation of “Sothern”. The gross cost of the listing could be around R3,75m and in a huge administrative operation more than 490,000 policyholders have already been offered shares.

Applications must be for a minimum of 200 shares.

Share allocations
THE Cape Times will publish full details of the share allocations as soon as they are announced by Barclays Merchant Bank. The announcement is not expected until the share offer has closed.

The Southern
Premium income R933,09m
Investment income R862m
Net Operating income R518,5m
Transfer to life funds R473,8m
Shareholder earnings R400m
Life funds R3 591m
Total assets R4 337m
*All figures for year ended March 1985
Gold, rand shine in the gloom

Financial Editor

DEVELOPMENTS in the bullion and currency markets today should help to sweeten for many South Africans the sour taste left by the declaration of the state of emergency at the weekend.

In early trading in London today the gold price jumped $4.75 to reach $323.00 an ounce. The metal is now at one of its highest points since early June.

The rise in the gold price follows a sharp drop in the dollar last night on fears about the outlook for the United States economy.

IMPROVEMENT

The weaker dollar and higher gold price led to an improvement in the exchange rate of the rand.

It jumped by just over one US cent at the start of trading today to reach 90.5530. This is about four US cents above its year’s low and restored it to the levels prevailing in March.

On the Johannesburg Stock Exchange gold shares began to recover some of yesterday’s losses, brokers said.

Industrial shares were also slightly firmer.
Liberty, UBS to form new life insurance group

Liberty Life is forming a new life insurance company in which South Africa's largest building society—the United Building Society (UBS)—will have a 20 percent stake.

Guardian National's life business is to be transferred to the new company and the other shareholders will be Liberty Life with 41 percent and Guardian National with 39 percent.

A Liberty spokesman says that the new life insurance company will seek to expand its penetration of the market through the introduction of new marketing systems and will also continue to develop its existing business through its traditional broker connection.

The introduction of the UBS group as a significant participant in the life insurance company, should in view of its vast client base, accelerate the market penetration and momentum of the new life insurance company's future development.

Early in March it was announced that the life business of Guardian would be transferred to a new life insurance company.

Liberty Life and Guardian National would in aggregate have subscribed in cash for R14 000 000 of capital in the new life insurance company which was to have been held as to 61 percent by Liberty Life and 49 percent by Guardian National.

"In accordance with the objective of developing new marketing opportunities to enhance the penetration of certain sectors of the South African life insurance market not presently catered for, arrangements have been concluded with UBS Insurance (wholly owned by the UBS) for it to participate with Liberty Life and Guardian National in the development of the new life insurance company."

A new company has been established as a subsidiary of Liberty Life which will be held at approximately 61 percent by Liberty and 33 percent by UBS Insurance.

This company will be capitalised with approximately R10.5m and Guardian National will acquire a 39.2 percent interest for R6.9m.

The new life insurance company will utilize approximately R10.5m to acquire Guardian's life business.

"Save for the revised equity holdings in the new life insurance company attributable to Liberty Life, Guardian National and UBS Insurance and the additional..."
Barclays to pay same interim div

By PETER FARLEY
Argus Correspondent

JOHANNESBURG.—A dramatic reversal in fortunes could see Barclays produce full-year pre-tax earnings equal to those of 1984, after its worst first-half performance in the past five years.

But this is unlikely to translate into a similar benefit on the bottom-line as the bank’s tax rate gradually moves back towards 50 percent.

In the six months to June, a 50 percent increase in the tax bill, following a rise in the effective rate to 27.3 percent from 18.5 percent, and a disastrous performance by leasing operation Wesbank were the main factors behind halfway earnings slumping to R30.2 million from R35.7 million.

The interim dividend was, however, kept at 35c.

Deputy managing director Mr Barry Swart said while the results were encouraging, given the improvement in the past two months, the major problem in the first half was at Wesbank.

BAD DEBTS, REPOSSESSIONS

While he declined to give a specific figure it seems likely that this division slid into the red in the six months. Apart from margins being squeezed because of deals written at fixed interest when prime was lower, there has been a massive increase in bad debts.

Mr Swart indicated that repossessions were running at around double last year’s level, with a quarter of those volunteered.

However, in June Wesbank started to show a turnaround and he expected it to again be contributing to profits by the end of the year.

It was a period of mixed fortunes for the commercial bank, however, with an extremely tough first four months and only a gradual improvement as rates began to come down from the beginning of May.

Mr Swart said even the problematic home loan operation, which lost more than R30 million last year, was now starting to trade in the black. Barclays now had around R1.25 billion committed to home finance at an average rate of 12 percent.

But, for the medium to long term, the most worrying factor is the tax rate. This has started to edge up as the bank feels the effect of the withdrawal of certain investment allowances.

The tax rate will gradually rise and probably only peak in a year or two at above 50 percent.

This means that while the earnings performance could improve dramatically over the next 12 months, there may not be a dividend increase until the end of 1986 at the earliest.
Big premium reductions available to all retired persons over 55

Finance Reporter

THE LARGE premium reductions on short-term insurance announced earlier this month are available to all retired people over 55 years, of age, a spokesman for the firm offering the insurance said in Durban yesterday.

Mr Jack Rive, of insurance brokers Prestasi, said the 40 percent cuts on short-term insurance, such as cars, household effects and valuable items, were now available to all senior citizens.

Mr Rive said response to the benefits first promoted by the South African Association of Retired Persons, had been so overwhelming that Prestasi had opened the scheme to all retired persons.

Mr Daniel Murphy, Durban chairman of the Association of Retired Persons and Pensioners, has come out in full support of the project, which he believes will be of great assistance to retired people on fixed incomes.

His organisation was fully prepared to assist with the paperwork and help members or non-members using the scheme.

Benefits of the comprehensive umbrella-type insurance include:

- R18,000 or more cover for the home contents;
- R1,000 all-risks cover for valuables and personal effects of risk away from your residence;
- R15,000 personal accident cover for policy-holders up to age 65;
- Television service agreement;
- Comprehensive and limited car insurance;
- Guaranteed no premium increase for 12-months.

Further information from the Association of Retired Persons and Pensioners (204-6815) or the South African Association of Retired Persons (301-2220).

[Signature]
Barclays group raises pre-tax profits by 6%  

JOHANNESBURG. — Barclays National Bank group has raised its pre-tax profits by six percent for the six months ending June 30, to R47,4m from R44,7m, the managing director, Mr Chris Ball, announced yesterday.

But the tax bill rose by 57,3 percent to R12,9m compared with R8,2m the previous year, and net profit fell to R30m from R35,7m.

The effective tax rate rose from 18,6 percent to 27,3 percent largely because of the absence of lease-related investment allowances.

Earnings a share, on a weighted average basis of 80,450,000 shares in issue compared with 86,419,000 on June 30 last year, are down to 52c from 63c.

The dividend of 30c has been maintained, with dividend cover down marginally to 1,5 times (1,6 times).

The group's net income of R30m (R35,7m) was boosted by earnings from associated companies, which rose to R7m from R4,8m. These include six months' earnings from the 30 percent stake in the Southern Life Association, compared with only three months' earnings for the same period last year.

Mr Ball says: "The improved interest turn is expected to continue in the second half, as is the high incidence of bad debts arising out of the recession."

Asset growth has reflected the slowdown in demand in the review period, with total assets of the group up 4,6 percent to R20,3 billion compared with R19,4 billion in December 1984 and deposits in the six-month period up by 4,4 percent to R14,3 billion compared with R13,7 billion in December last year.
UBS shareholders set to score

Liberty deal will challenge Cape giants

BRIAN ZLOTNICK

LIBERTY Life has done a remarkable deal with the United Building Society (UBS) that could propel its market share rapidly towards challenging those of the two Cape-based mutual giants. It could also provide future shareholders in the UBS with a major growth asset.

The deal might pip Southern Life’s likely marketing thrust once it changes its status from a mutual to a quoted company – which it is doing through a share offer now current – through its association with Barclays, the country’s largest bank.

In terms of the deal, the UBS will acquire a 20% stake in the new life assurer, Charter Life Insurance, which was to have been owned by Liberty and Guardian National and is planned to spearhead a drive in the medium and lower end of the life market.

Charter will now be held effectively 41% by Liberty, 20% by the UBS and 39% directly by Guardian National.

The next arrangement will leave Liberty free to continue to concentrate on its main preserve: insuring the lives of rich citydwellers.

Charter will no doubt draw on the UBS’ vast client base. It probably already has access to clients of Stanbic, which together with Donald Gordon controls Liberty’s equity. Liberty has already swapped directors on a reciprocal basis with the UBS. Liberty chairman Donald Gordon is joint vice-chairman of the UBS and Piet Badenhorst, UBS senior MD, is on the Liberty board.

UBS general manager Martin Keyser said: “We have a vast client base which we will make available only on a selective basis.”

Liberty director Farrell Sher said: “Charter Life will operate and market its products independently but will be able to draw on Liberty’s technological, financial and marketing resources.”

Charter is to kick off with the life business of Guardian which it is to acquire for R10.5m cash. Guardian in turn acquires a 39.2% stake in Charter for R6.9m.

The balance of Charter’s equity is to be held through an intermediate company, whose equity will be held 67% by Liberty and 33% by UBS Insurance, a wholly-owned subsidiary of UBS.

The intermediate is to be funded in proportion to Liberty’s and UBS’s shareholding and will pay R10.6m for its 60.2% holding in Charter.

Charter initially will have total assets of some R70m and premium income of R12m. Surplus funds of R7m in cash can be quickly deployed to finance the new business drive.

UBS Insurance is to appoint a director to Charter’s board.

Of course, Liberty Holdings, Liberty’s holding company, holds 43.5% of Guardian’s equity.

According to Sher, the deal should be of considerable benefit in the long-term to both Liberty Life and Guardian.

The permission of the relevant authorities is required before Guardian’s life business can be transferred to Charter Life.
Building Society reports progress

Dispatch Reporter
BISHO — The chairman of the Ciskei Building Society, Mr C. B. Jennings, told the annual meeting the society had made good progress in the five months they had been in full operation.

He said the main business of the society was to provide finance for Ciskeians to build and buy their own homes.

In addition, they provided a wide range of saving schemes for all interested people.

"Your society has recommended to the government that legislation be passed to improve the loan percentage allowed under the Building Society Act and that it be adjusted from 80 per cent to 90 per cent and so encourage people to own their own homes," he said.

Mr Jennings said the balance sheet showed assets had increased from R684 508 to R12 135 423 and the share capital increased from R683 123 to R12 449 348.

He said that one of the main highlights had been negotiating a guarantee from the Development Bank of Southern Africa for R12 million, to be raised for mortgage bonds for houses in Ciskei.

During the period under review they were able to assist 53 home buyers totalling R1 250 000. In addition to loans totalling R1 194 791 had been granted but not paid out and over the same period of five months they re-valued and took over 1533 existing housing loans totalling R5 583 049 from the Ciskei People’s Development Bank.

Mr Jennings said that a further 1000 existing loans totalling R15 000 000 would be taken over during the current financial year from the Ciskei People’s Development Bank.

Ciskeian builders were assisted in every way in order to make them competitive in the market.

He said developers were encouraged to come to the Ciskei to build houses thus creating job opportunities for Ciskeians.

The building society had taken over the Allied Building Society’s sub-branch in Mdantsane and now offered full building society services to that community. They were establishing additional sub-branches and agencies throughout Ciskei.

They had 23 staff members, 18 of whom had been drawn from Ciskei.

Management had embarked on a staff training programme for all staff who were encouraged to study for building society examinations.

The Minister of Finance, Chief M. E. P. Malefane, said that it was clear from the balance sheet and the chairman’s report that the Ciskei Building Society, although only a few months old, had taken great strides in developing itself and making itself known in the market place.

“We as Ciskeians have every right to feel proud of our building society and the sound financial base on which it has started,” he said.

It was the society’s prime objective to assist all home owners with mortgage finance but this could not be accomplished without the support of Ciskeians.

Chief Malefane appealed to all Ciskeians to support the building society of their country.
Liberty Life and UBS join forces in new insurance deal

By Duncan Collings

The Liberty Life group has brought the United Building Society in as a substantial minority shareholder in its new life insurance company, now named Charter Life, giving the new assured access to the enormous UBS client base.

Charter Life is being formed to take over the life business of Guardian National, and will concentrate its efforts in the lower end of the market.

Originally it was to be owned by Liberty and Guardian National, but now will be held 41 percent by Liberty, 20 percent by the UBS and 39 percent by Guardian National.

The tie-up with the UBS could give Charter Life a healthy start to life — together with the life insurance base it will acquire from Guardian National — if it taps effectively into the potential new business from the UBS client list.

The deal is a further cementing of the ties between the Liberty/Guardian insurance grouping, Standard Bank and the UBS and appears to be a further step towards a single financial entity providing all financial services.

In terms of the deal UBS Insurance and the Liberty group will hold 33 percent and 67 percent in a new intermediary company capitalised at R10.6 million.

The new intermediary company will acquire a 60.8 percent interest in Charter Life for R10.6 million, with the balance in Charter acquired by Guardian for R6.9 million.

Charter Life will acquire the life insurance business of Guardian for R10.5 million.
Rand sinks to all-time low against pound

Financial Staff

THE rand sank to an all-time low against the British pound today with South African banks charging R3.00 for £1.

This was the rate for amounts below about £20,000, while "wholesale" money above that figure could cost about R2.90 to the £1.

This means the cost of holidays in Britain will rocket, while imports of a wide range of British goods will also soar.

South Africa imported R2.400-million of goods from Britain last year.

Both sterling and the German mark have risen steadily this week while the rand and the US dollar have dropped on foreign exchange markets.

The rand was quoted at 48.85 US cents at midday in Johannesburg today after earlier lows of around 47 cents.
European trade cuts are highly unlikely, says bank

Political Reporter

IT IS highly unlikely that any of South Africa's main European trading partners will be pressurised into taking economic action against this country because of its apartheid policies.

Standard Bank chief economist Nico Czypionka said yesterday that French Government's freeze on new investment in South Africa might cause Denmark, Belgium, the Netherlands and Australia to follow suit.

Strong

He said there was also a small possibility Austria, which has a socialist government, might do something.

But, in spite of reports that the German Government was under strong pressure to take economic action against South Africa, this was 'out of the question', he said.

'The German business community is very strong and very pragmatic. There are huge German investments and a large German trade surplus with South Africa.'

Mr Czypionka said none of the actions already taken, including those by several Scandinavian countries, had prevented trade with South Africa.

'There is likely to be a rising tide of symbolic and other gestures, but they will not have any real impact unless the major players all join in and co-ordinate their activities, which is unlikely.'

But Britain's investments in South Africa, and the number of British citizens there, were too great to make any meaningful economic moves feasible.

'Even a Labour government would probably not do anything,' he said.

Investment and business links with Scandinavia were limited already, and any moves by Denmark to curb ties would not come as a surprise or make much difference.

'Spain and Italy are very pragmatic in their foreign policy and there are large Italian and Portuguese communities in South Africa.'

'There are elections in Germany in about two years, but even if the socialists gain power, economic sanctions against South Africa are unlikely.'
Businessmen seek to rearrange their finances

Demand leaps for part bond finance

By Frank Jeans

There has been a dramatic increase in the demand for participation mortgage bond finance recently, clearly an indication that many businessmen strapped for ready money are rearranging their finance costs to improve their cash flows.

Mr Mike Hyslop, Transvaal general manager of The Board of Executors, says: "This demand coincides with falling interest rates and suggests that property owners are expecting the end of the economic recession and are gearing up for better times ahead."

Another reason could be that businessmen, wincing under soaring overdrafts brought about by trading and foreign exchange losses, have been forced to shift from ultra short-term money to longer-term through property transactions.

A businessman with a mounting overdraft of, say, R400 000 could take a R600 000 mortgage on his R1 million property with a part bond company over a five-year term.

He could then pay off the bank and have R280 000 in working capital, and score as the interest rate on longer-term part bonds is now the same as that for short-term overdrafts.

"Developers are taking advantage of the drop in rates, the availability of funds and fierce competition among builders to get ahead of the queue that can be expected once the economy improves," says Mr Hyslop.

DROP IN RATES

The renewed demand comes at a time when the coffers of part bond schemes are full.

"The Board of Executors has substantial amounts of funds available, and I forecast a further drop in rates from the current level of 21 percent within the next few months," he says.

His company has branched out into a property venture with the establishment of The Board of Executors Properties (Transvaal) which is jointly owned by the Board of Executors and four property professionals.

Heading the new company is Mr Anthony Fletcher, a chartered accountant and former director of a major fertiliser company who has extensive financial merchant banking experience.

Other members of the team are Mr John Legh and Mr Simon Rosholt, formerly partners at RMS Syrett, and Mr Glen Armstrong who has wide experience in property having been with the Urban Foundation and Old Mutual Properties.

They will be concentrating on property broking and development in the industrial, commercial and office sector of the Witwatersrand.

"We believe the timing is right for such a venture," says Mr Fletcher. "The property market is near to bottoming out with an abundance of stock in all sectors.

"By building up accurate information on this stock now the company will be well placed to service tenant and investor requirements when the market improves."
UK party

Ban new

loans

says

Pay parity

for teachers

a step closer

Further steps to reduce disparity between October and November were announced by the Government of the African National Congress. The Minister of National Education, Mr. P. W. de Klerk, said the Government would spend 153 million on new personnel in the schools. The principal aim of these investments were in accordance with the Government's commitment to the elimination of the disparity between the white and black teachers.

He warned that there was still a long way to go before full parity was achieved. Meanwhile, the African National Congress would be working towards a more equitable distribution of resources for education in the country. The party was committed to ensuring that all children, regardless of their ethnicity, had access to quality education.
Insurers pay R35-m for riots

South African insurers have agreed to pay out R35 million in less than a year in claims for damages caused by political unrest, the managing director of the South African Special Risks Insurance Association, Mr R Schneeburger, disclosed today.

He said the R35 million covered the amounts settled since the end of August 1984.

It is understood claims for damages from political unrest jumped dramatically after the outbreak of violence in the Vaal region in October.

It is now estimated to be three times the amount that would have been normally paid out.

Buildings and cars continue to be the main targets of riotous mobs throughout the country.

"The great bulk of the R35 million concerns damages in respect of material damages other than motor vehicles," said Mr Schneeburger.

There had been nearly 2,500 claims, concerning vehicles, the majority of which were buses.
Insurers agree

to pay R35-m in
unrest damage

Argus Correspondent

JOHANNESBURG. — Insurers have agreed to pay out R35-million in less than a year in claims for damages caused by the political unrest.

This was disclosed by the managing director of the South African Special Risks Insurance Association (Sasria), Mr R Schneeberger, today. The R35-million covered the amounts settled since the end of August 1984.

He said buildings and cars continued to be the targets of rioters.

Claims for damages caused by the unrest jumped after the outbreak of violence in the Vaal region last October.

Three times

The amount is estimated to be three times that which would have been claimed in normal times.

There had been nearly 2,500 claims concerning vehicles, most of which were buses.

Claims concerning damages to other property numbered about 750, he said.
Monetary target plans welcomed by Southern Life

By Frank Jean

South African business generally has welcomed the De Kock Commission recommendations to go for monetary targets in the battle against inflation, and joining the chorus is the Southern Life Association.

"The change in policy from focusing on the level of interest rates to one of controlling the quantity of money is to be enthusiastically received," says Southern in its latest Economic Comment.

"Targeting involves the setting up of a 'monetary rule or growth channel' which the markets can take as the Reserve Bank's commitment to money supply growth, and thus the extent to which it is prepared to finance inflation." Southern sees the advantage in that markets can take strategic price decisions, provided the target is credible and the bank has the confidence in the markets.

And there can be little doubt that if these conditions are met, the inflation rate will fall in time followed by nominal interest rates, with little disruption to the real economy.

The question, however, is what target will the bank set? Will it be at a high growth rate of, for example, 10 percent against current broad money growth of 24 percent?

This might be credible and achievable, but it implies an inflation rate of 16 percent at a real economic growth rate of 4 percent.

The alternative could be a 10 percent target, in which case, how would the bank respond to the probable overshoot?

"On the theoretical level, there is an alternative, non-monetarist view which contends that the money supply, far from being an entity 'out there' that can be controlled, instead responds passively to the needs of the economy for credit and deficit-spending."

STABLE VELOCITY

"To limit money supply growth, economic activity must be restricted, implying that severe recessionary conditions must be imposed."

"The notion of targeting is predicated on a stable velocity of circulation money so that changes in the money supply impact in a fairly direct and predictable way on prices."

"Velocity has been far from stable in recent years in South Africa and problems for mone-

tray targeting could arise if it continues to be so." Southern compares the Federal Reserve in the US and the fact that relevant monetary aggregates must be continuously redefined as financial innovation changes the nature of "broad" and "narrow" money.

The Federal Reserve has admitted its research cannot keep up with which definition yields the best relationship with economic activity, and it is now openly questioned whether targeting the aggregates is the best way to achieve its broader goals.

"South Africa may be walking into the same difficulties," says Economic Comment.

Nevertheless, Southern welcomes the shift by the Reserve Bank away from interest rate control towards money supply growth, and believes that what is really necessary is to ensure that the money supply does not grow excessively by allowing the exchange rate to move freely and accepting the required level of interest rates."


Banks
rumour:
Rand
slumps

By PAUL HOLD
Financial Editor

The Rand slumped to $1.25 yesterday - close to a year's low - against the dollar, as speculators sold. The New York market was the scene of a sell-off by several banks in Africa to close their books before the end of the financial year. One US bank is said to have sold $40 million worth of Rand at $1.25. The Reserve Bank has intervened with buying at the standstill price of $1.25 to $1.26. The Rand closed the day at $1.26.25, a drop of 12.5 cents from the previous day's close.

The Rand was also selling at a discount to the dollar. Speculators were reported to be offering the currency at $1.26.25, with some banks offering $1.27. The discount was attributed to the Rand's weakness against the dollar. Speculators were also selling the Rand at the standstill price of $1.25, with some banks offering $1.26.25. The discount was attributed to the Rand's weakness against the dollar.

Senior foreign-exchange dealers dismissed the Rand's weakness as a buying opportunity for those who are short of the currency. They believe the Rand will remain weak for the next few weeks, although the weakness is no longer reflected in Rand interest rates. The Rand interest rate is now 12.5 percent, with the Rand-dollar rate at 12.5 percent. The Rand-dollar rate is now 12.5 percent, with the Rand-dollar rate at 12.5 percent.

Rates up
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The key three-months' bill rate reached 12.5 percent Tuesday. This is the highest level in more than a year. The Rand-dollar rate is now 12.5 percent, with the Rand-dollar rate at 12.5 percent. The Rand-dollar rate is now 12.5 percent, with the Rand-dollar rate at 12.5 percent.

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Cash-rich Rembrandt expands its investments.

The company still offers good value, with the current economic environment.

Spending of another HUB billion on bank restructuring, on HUB million

Intervention by the Bank can raise HUB million.

Economic environment business can also be raised to HUB million.

The current economic environment.

Spending of another HUB billion on bank restructuring, on HUB million.

Intervention by the Bank can raise HUB million.

The current economic environment business can also be raised to HUB million.

Excessive dif

-like in the year to end-July.

Cash-rich Rembrandt expands its investments.
Building society profits soar while asset growth declines

Own Correspondent

DURBAN — A marked reduction in the rate of building societies' asset growth — and an average net before-tax profits increase of 85 percent — are evident from an analysis of results of the country's nine societies for the year ended March 31.

Flowing from the emphasis placed on profits, rather than assets, the annual average growth in societies' assets has declined fairly steadily from 20.3 percent in 1981 to just 10.2 percent (to a shade over R20.33 billion) in the latest full year. In 1984, assets were R18.45 billion, 14.3 percent over the 1983 figure.

In contrast, pre-tax profits for the movement as a whole have escalated by about R168 million to R368 million — an increase of 85 percent.

Profit after tax, but before disclosed capital items and provisions, was R220 million which, as a percentage of assets, works out at 1.08 percent.

This percentage has risen steadily year-by-year: 0.19 percent in 1981, 0.26 percent in 1982, 0.30 percent in 1983, and 0.50 percent in 1984.

PRE-TAX PROFITS

The taxman has not been short-changed, either. The societies paid roughly 40 percent of their pre-tax profits — or a whopping R148 million — to the receiver during the year.

Mr John Russell, managing director of the Durban-based Provincial Building Society, confirmed that growth in the movement's assets had slowed by about half in the past four or five years and that pre-tax profits had nearly doubled in the past year.

Asked about repossessions, which totalled about R13 million in the year to March 31, he said this represented only about 0.005 percent of total assets, though he conceded the rate of repossession must have escalated fairly sharply since March, as a result of the severe recession.

The societies' annual reports show most societies have been able to contain expenses fairly well, despite inflation.

Total expenses, as a percentage of total assets, rose by an average of just 5.4 percent in the year (against nearly 10 percent last year). Individual society increases, however, ranged from a high of nearly 16 percent in one case to actual declines in the cases of the UBS and the Provincial.

South Africa's largest society, the UBS, which has been shedding unprofitable business, saw its expenses ratio drop by an estimated 3.9 percent.
Auto tellers
in link-up

THE Allied Building Society and the Nedbank group are linking their automated teller machine (ATM) services.

Mr Johan Westraaf, general manager (domestic banking) at Nedbank said: 'The service will provide both Nedbank, Allied and Nedfin clients with faster and more convenient banking.'

'Nedmatic 24 and AHA cards will allow cardholders to draw cash from, and inquire into their card accounts through any of the 200 Nedmatic, AHA and Nedfin machines around the country.

'Clients will not be limited to through-the-wall ATMs, but will also be able to operate lobby ATMs inside the banking halls.'

Mr Roy Pascoe, Allied's group managing director, said the negotiations for the sharing of cash machines began in July 1984.

Cheque, savings and transmission accounts can be operated through the link-up.

Clients will have access to in-lobby ATMs during normal banking and building society hours, while through-the-wall ATMs will be linked from 7 am to 11 pm Monday to Saturday and 7 am to 1 pm on Sundays.

The ATMs of the two organisations operate in slightly different ways and to ensure success, clients are led through the operation with simple-to-understand instructions.

Nedmatic 24 cards will require re-encoding to operate through Allied AHA machines and this re-encoding can be done at Nedbank branches which have the special encoders.

The re-encoding takes only a few minutes. Allied AHA cards are already compatible and no re-encoding is necessary.
Unrest a nightmare for insurance industry

THE CURRENT state of unrest and violence is a nightmare for the short-term insurance industry. Looting, arson and motor vehicle damage and theft are consequences of this prevailing climate of lawlessness, according to Mr F N Haslett, managing director of SA Eagle.

Car rental firms' bid to revive trade

Finance Reporter

TWO large car rental companies have announced R5m deals to revive the depressed industry. They have each bought 200 cars which will be offered to customers at low rates.

Avis has purchased 200 Mercedes 230 models to be rented at less than half price and Budget Rent-a-Car has completed a deal with Toyota for 200 Corolla's for hire at Corolla prices.

Avis's Mercedes deal is the biggest single South African order ever placed with the local German manufacturer.

The Budget-Toyota arrangement is probably an answer to the major discounting by other manufacturers which Toyota says will not match.

Avis said yesterday that the new cars would be available for R39 a day plus 59 cents/km and claim the rates are at a 65 percent discount.

Natal Mercury removed from mailing list

MALAYSIA's policy towards South Africa has led to the British-based TNA Abdul Razak Laboratory deciding to stop sending its publications on rubber to South

This lightweight, 2-seater aircraft developed by land speed record-holder Richard Noble, is challenging the opposition by slashing the cost of flying by almost half. Available in kit form, with extremely low running costs, it brings the dream of flying lessons and private ownership within reach of many more people.

Dunlop Holds has unchanged 29c div

Mr Haslett was announcing SA Eagle's unaudited figures for the six months ending June 30.

The company, which has declared an unchanged dividend of 21 cents for the period under review, increased gross premiums by 19.5 percent to R122.5m. Investment income (net of investment expenses) also increased marginally to R9.7m.

'However, we experienced a shortfall in our reinsurance surplus of R1.5m,' said Mr Haslett.

'Our results were also seriously affected by the recession and the continuing high rate of inflation.'

Earnings

Earnings per share for the six-month period declined only marginally to 57.2 (1.7 percent down).

Net income after taxation attributable to members of the company declined to R6865 000 (R6877 000)

'Underwriting results have been affected during the period by the inadequate rating of industrial and commercial business, the increase in incidence of motor and crime class claims as well as the effects of inflation.'

The anticipated increase in re-insurance costs has materialised and will continue to impact on underwriting profitability. Every effort is being made to correct adverse trends,' Mr Haslett said. — (SAPA)
Flexibility is the keynote of Sanlam assurance policy

[By Finance Editor]

Total flexibility is a keynote of the Sanlam universal assurance policy which was launched in Durban yesterday.

While several other life assureds have "universal" policies that combine variable amounts of life cover and investment possibilities, Sanlam offers, as an unique feature, to convert any of their existing policies to the new policy titled the One Policy.

They will vary the terms of the policy during its life. Policyholders can switch their investment component from one avenue to another: the Stable investment offers a current 14 percent return while the Market Value investment fluctuates closely with the stock market.

Clients need not get a maturity date when they take out the policy — this can be varied according to needs.

The policy is aimed at the top end of the market with a minimum monthly premium of R50, or an annual payment in cash, and a requirement that the policyholder has a cheque account.

A typical policy would offer standard initial cover of R125 000 and a cash value of R1,4m at 65 for a person taking the policy at 30, paying R100 a month and paying a 10 percent premium increase annually.

The upper limit, with the same premium increases and age, is initial cover of R250 000 and a cash value of R2,06m at 65 while the minimum cover would be R9 000 with a cash value at 65 of R2,07m.

Additional items such as disability cover can be included.

Sanlam has also launched an endowment policy with high life cover for the lower segments of the assurance market.
Barclays PLC forgoes rights on issue to raise R254m

Barnat control returns to SA

CONTROL of Barclays National Bank (Barnat) will return to South Africa after a rights issue to raise R254m announced yesterday.

As parent company Barclays Bank PLC of London will not follow its rights — which will be taken up by the Anglo American group and Southern Life Association — the control of the bank will once again be in SA hands after a lapse of 60 years.

At present Barclays PLC controls Barnat with a 50.4% shareholding. After the rights issue (of 14.5 million preferred ordinary shares at R1.50c a share) the parent’s interest in Barnat will drop to 48.4% with Anglo becoming the second largest shareholder with a 25% stake, up from 19%. Southern Life’s holding will rise from 3% to in excess of 7.5%

The change of control will also bring about a change of name “within a few years”, according to Barnat chairman Basil Hersov at a Press conference in Johannesburg yesterday.

Barnat MD Chris Bell added that the parent company did not approve of the use of the Barclays’ name when it did not control a bank. A case in point was the Union Bank of Nigeria. He also said that when Barnat went international, as it would in time, the use of Barclays in the bank’s name could cause confusion in foreign financial circles.

But Barnat was in no hurry to bring about a change of name. “As far as we are concerned it’s business as usual.”

Hersov insisted there was no form of disinvestment by Barclays PLC was involved. “It had not sold any shares and would continue to be the largest single shareholder in Barnat.”

The shareholding of PLC in Barnat started to reduce in 1973 when we went public. It reduced further on the acquisition of Wesbank, on the acquisition of our interest in Southern Life and as a result of sales of shares in Barnat by PLC to SA investors. On this occasion PLC again had decided not to subscribe.

However, Neil Behrmann reports from London that banking analysts believe the timing of the announcement, especially when linked to a name change, indicated political pressure was a major factor.

Chief general manager of the UK bank, Peter Lesley, was overwhelmed with questions relating to disinvestment at yesterday’s London Press conference.

Barnat’s assets of some £26bn are 8.2% of total Barclays assets. But pre-tax profits, as high as 22% in previous years, are now running at only 6.5%.

Barclays PLC had systematically allowed its percentage holding in Barnat to drop following the request in 1973 by the South African monetary authorities for foreign banks to lower their shareholdings in their SA subsidiaries to 50%.

Hersov said the decision to proceed with the rights issue at this stage was motivated by Barnat’s capital needs and because funds were available in the marketplace at present.

“With the outlook for growth and profitability now improving, we decided this was the appropriate moment. We had to weigh the implications for the bank against the need to improve its capital structure.”

The capital position of SA banks had been eroded in the last few years by the rapid increase in the demand for credit.

* Turn to Page 2
Rand waivers, but gold up $6

Finance Editor

The rand tumbled more than six US cents to a new low of $0.3990 in confused trading when the foreign exchange markets opened today, but it quickly recovered much of its loss and by mid-morning was at $0.4325.

Dealers said the amount of business transacted at $0.3990 was probably small. They attributed the low rate to buyers holding back to see what effect President Botha's speech would have on the market.

The speech was seen as a letdown but a $6 spurt in the gold price on the weak dollar to $336 an ounce — its highest point since last November — helped to reduce negative reaction.

UNCERTAINTY

On the international markets the dollar has fallen against most major currencies. This, with the higher gold price and the improvement in the balance of payments, should have led to the rand rising to around $0.45. That this has not happened can be blamed entirely on political uncertainties.

• The rand dropped 10 percent against the British pound today to a new low.

At noon Barclays Bank was buying pounds at R3.41 and selling at R3.52.

Yesterday its rate was R3.06/R3.17.

• The Argus Political Staff report from Durban that the Minister of Finance, Mr Bar- endu Plessis, said today that the drop in the rand was temporary.

In an interview Mr du Plessis said the reaction was "emotional, caused by the great expectations that were created about the President's speech".
Life insurance industry grows apace despite the recession

By Duncan Collings

Whatever the life insurance industry may feel about current measures the authorities are taking concerning the industry, there has been little or no slowdown in the rate of growth in the industry.

Coming hard on the heels of the results announced by the Prudential Wednesday, Commercial Union now reports a 25 percent increase in new life and pensions business in the first half of this year and the betting is that Liberty will not be far behind when its interims are announced next week.

RECORD YEAR

Not surprisingly, CU life and pensions general manager, Mr John van der Linde, expects 1985 to be a record year as far as life business is concerned.

CU wrote R30.6 million in new life and pensions premiums in the first half, compared with R30.7 million in the previous year.

Immediate annuities in which area the company has recently made a strong drive, accounted for the majority of the new business bringing in R20 million.

Direct response and pensions business were the other success areas, and excluding immediate annuities, were 37 percent ahead of the previous year.

The company’s new product Cubic Universal Life Policy is expected to perform well in the second half and there is already some new pensions business in the pipeline.

NEW FROM SANLAM

Sanlam has introduced a new policy which it calls The One Policy giving the group a strong presence in the top end of the market.

The new policy is based on the Universal Lifestyle concept. The policy offers a choice of life cover combined with a savings plan and can be adapted and changed at will as the client’s circumstances alter.
Savings increase as credit boom eases

There has been a marked slowing in the rate of credit creation, Nedfin Bank says.

In the June quarter the banks held R16 156.7 million in hire purchase and lease receivables as against the R16 277.1 million held at the end of the March quarter.

This is a decline of R120.4 million or almost one percent.

In an analysis of the BA9 returns, Nedfin shows how the credit explosion has tailed off.

Though there was a decline in the level of receivables held at June end, the year-on-year figures show how considerable the credit explosion has been.

HP receivables at R10 568.2 million for the industry are 16.2 percent ahead of June 1984 and lease receivables at R5 588.5 million are 7.3 percent higher than a year ago.

Commenting on these figures, Nedfin's managing director, Mr Ron Rundle, says: "These figures are not a surprise to us and reflect the current state of the economy.

"They also mirror, to some extent, the declining trend in interest rates which began in the second quarter of the year. Certainly, however, one can read from these figures a sharp decline in credit and the fact that business and consumers are purchasing less on HP lease."

For the 12 months ended December 1984, HP receivables showed a growth of 35.9 percent which slowed to 27.4 percent at the end of the March quarter.

The picture is similar for the lease book.

For the 12 months ended December 1984, the rate of increase in lease receivables was 23.2 percent. This declined in March quarter to 14.7 percent and further to 7.3 percent at the end of June.

The analysis shows that the instalment credit market is dominated by Barclays, which held a 35.2 percent share of the market at the end of June.

The Standard Bank group held 21.9 percent of the market, while Nedbank held an 11.8 percent share.

The Nedfin analysis also highlights an improving trend in the savings picture.

The South African public had invested R5 410.2 million with the banking industry at the end of June, 7.3 percent more than at the end of March and 14.4 percent more than a year ago.

Mr Rundle noted that this increase in the level of the nation's savings was pleasing to see and reflected the quieter economic climate.

"The savings trend over the past year has been rising slowly, having fallen as South Africans dipped into their savings to make ends meet."

An analysis of the selected liabilities of the banks shows that the public held R7 137.2 million in cheque accounts at June 30 with Volkskas having gained the leading position in this market.

It held 24.3 percent of the cheque account market, knocking Standard from the prime position. Barclays held on to the number two spot with 19.6 percent and Standard came in third with 19.5 percent of the market. -- Sapa.
Today's bond cuts in overall home loan rates for home buyers paying most mortgag...
The drop has been coupled to the reintroduction of the old bank rate, and Reserve Bank Governor Dr Gerhard de Kock forecast last night that prime rates of commercial banks would fall from current 21 percent down to between 10 percent and 20 percent.

This will be the fifth cut in the prime rate this year from the record 26 percent level.

Significantly, Dr de Kock also gave the nod to building societies to cut their rates, saying that bond rates can be expected to move lower in the same time. Hire-purchase and leasing rates also move down in tandem with prime.

While the fall in interest rates will be widely welcomed, particularly by the depressed motor industry, there is little doubt that current unrest in black areas and high black unemployment were key factors behind the timing of the decision.

The Minister of Finance, Mr Barend du Plessis, has largely achieved the objectives of the austerity package last August.

Inflation is expected to decline rapidly soon to around 11 percent, reflecting the economy's severe cooling off period.

However, the new depreciation of the rand due to black unrest and the lack of reform measures seems bound to inject fresh inflationary pressure into the economy in the short term.

The inflation rate and interest rates may fall sharply in coming months but could rise swiftly again once the impact of the weaker rand is felt in the economy.

In pushing interest rates lower, the central bank is showing its determination not to allow recent political events to slow the downtrend in interest rates which began earlier this year.

**Surplus**

Money market rates as well as gilt rates have been under some pressure in recent weeks and without the Reserve Bank action rates could easily have fallen once again.

Rising exports and falling imports are steadily creating a net surplus on the country's trading account. Not only is the surplus mounting but the rate of the rise is increasing.

The rand's appreciation will, however, add heavily to the import bill but at the same time the gold mines are receiving more than R3000 an ounce for their gold.

Last night Dr de Kock said that the reintroduced bank rate would be set and varied by the Reserve Bank.

The Reserve Bank is cutting its interest rates on overnight loans to discount houses and banks as well as its rediscount rates, Prime rate and mortgage rates are expected to follow.

'The inducement for banks and their borrowing clients to use offshore credits will not be diminished, as the Reserve Bank will make appropriate adjustments to the margins it quotes on forward exchange,' Dr de Kock said.

Reasons for the move included the fact that the restrictive monetary policy applied over the past year and fiscal measures introduced in the March budget had fully achieved their initial objective of curbing spending.

South Africa's real growth rate was currently negative and the lower turning point of the business cycle had not yet been reached, he said.

The managing director of the Rand Building Society Mr John Bennett said the bond rate cut would fall in October and November.

He said the move was a result of the current position of the economy and that interest rates would fall. When a rate cut is made it is followed, he said, in a pack waiting for the board to make another move.

Mr Bennett said it was a good move for the economy and that rates would fall. When a rate cut is made it is followed, he said, in a pack waiting for the board to make another move.

**Big bank rate cut**

**Big bank rate cut for economy boost**

The Mercury Correspondent

20/8/85 Mercury

Mercury Correspondent
Abercom's loss R14m

JOHANNESBURG. — Abercom's loss from its total operations for the year to June amounted to R14m, the primary financial report released yesterday shows.

The after-tax loss from discontinued operations was more than the R10m projected by the directors at the interim stage, being R25.4m, while after-tax income from continuing operations was R11.3m (R7.1m).

Earnings per share from continuing operations were 58c (33c), while the total operations figure was a loss of 88c a share.

The group has maintained its final dividend at 6c a share, to make total distribution an unchanged 12c.

The directors point out that the shareholders' equity of R769m at June 30 (R662m) reflects the past year's loss from total operations.

It also "takes into account an increase in currency conversion reserve relating to foreign operations, dividends and a reduction of capital as approved by shareholders on August 7, 1983".

Looking to the future, they state: "We expect trading conditions in South Africa to remain very difficult for at least the next 12 months.

"Our fan manufacturing activity in South Africa will be affected by this, but to a lesser extent than component manufacturing.

"Overseas condition are stable at present and we expect considerable improvement on last year's performance in dollar and sterling terms." — Sapa
Drop in rand exchange rate boosts business

DEREK TOMMEY, Financial Editor

WHILE much of the economy is in recession the country’s exporters are experiencing a major boom.

Helped by the drop in the rand’s exchange rate, South African goods have become more competitive in overseas markets and demand for them has greatly increased.

The lower rand has made South African coal the cheapest in the world. Everyone is buying it, whether or not they like South Africa’s politics, and the industry is planning for a further huge rise in export sales.

Sales of most other metals and minerals are booming. South Africa is selling more platinum, manganese and ferro-chrome than before — and at record prices.

Rising strongly

Exports of food and processed products are also rising strongly.

Customs figures show that South African exporters did outstanding business last month.

Altogether they sold R2 800-million worth of goods. This brought the value of export sales in the first seven months of this year to R19 600-million. It was R13 600-million in the same period last year.

Faring badly

Compared with the exporters, importers are faring badly.

Imports last month were only R1 870-million, which brought the total for the first seven months of this year to R13 000-million — from R11 000-million a year ago.

This gave South Africa a trading surplus of R6 600-million for the first seven months of the year, which was almost four times higher than the R1 600-million surplus last year.

The latest trade figures show that Europe is South Africa’s major trading partner, taking R5 000-million worth of exports in the January-July period and sending us goods worth R6 200-million in return.

From America

Imports from America were R2 100-million, while exports were R1 900-million. Asian countries sold R1 900-million worth of goods to South Africa and bought goods worth R1 600-million in return.

African countries bought R982-million worth of goods and sold us R243-million worth.
Rand slumps — Kruger rand soars to R900

By PAUL DOLD
Financial Editor

THE rand slumped to a new low of $0.3545 yesterday as the currency fell more than 11 percent in foreign exchange markets reflecting concern over the continuing unrest in black townships and foreign debt repayments.

The rand's decline sent Kruger rand prices soaring R75 to a record R900 for the one ounce coin — well past the peak set last week of R849.

The half ounce coin closed at R420 (R1407) and the quarter at R212 (R2035).

At last night's ruling gold price the mines are receiving a record R628 an ounce for their gold.

The rand fell sharply against other currencies as well — about R3.83 was needed yesterday to buy £1 sterling (as against R3.56 the previous day), while the rand was about equal to a mark and was worth only 0.83 Swiss francs or three French francs.

Plopping from the opening indication of $0.39 it fell to $0.37c even before trading opened.

The currency closed at $0.3925 — a fall of over $0.3 on its Monday price — but off its low for the day — amid strong demand for dollars.

Dealers said there was some Reserve Bank support yesterday.

The rand is being hit by bearish sentiment and an outflow of short-term capital.

Reserve Bank Governor, Dr Gerhard de Kock, said yesterday that the black unrest and political developments had detracted from the sound progress being made in the economic sphere.

Referring to market speculation that the authorities may be forced to reintroduce the financial rand he said: "It would be unfortunate if this state of affairs left South Africa little option but to protect itself by imposing additional restrictions of one kind or another on outward capital movements.

"As long as we have a choice, we would prefer not to move in that direction.

"We remain convinced that the enormous growth potential of Southern Africa can best be realized in a private enterprise and basically market-oriented system.

"It is only in such a system that adequate incentives can be provided for profitable investment by both foreign and domestic business enterprises — investment that will create employment and raise living standards for all."

Dr De Kock emphasized that the capital outflow was not justified by economic fundamentals and meant a lower living standard for the whole of Southern Africa.

Gold shares reflecting the weaker rand rose strongly on the Johannesburg stock exchange with blue chips such as Randfontein up 700c, Rustopia 40c and De Beers 33c.

For the Connoisseur's Cabinet

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CC594/8
Hour stop on travel dealings

By DI CASSERRE

MAJOR foreign-exchange dealers yesterday suspended all travel and travel cheque transactions for an hour at the order of the Reserve Bank.

Urgent board meetings were called to discuss the effects of suspension and the disastrous implications it would have for tourists here and travellers abroad.

Mr Brian Stainforth, financial director of American Express, confirmed that from 8am to 10am yesterday the company closed its foreign-exchange counters and could not sell or cash travellers cheques.

However, they were given the go-ahead — with limitations — an hour later to resume cashing travellers cheques and undertake travel transactions between now and Monday.

Thomas Cook Rennies Travel yesterday came up with a "money-to-keep-you-moving" package to assist travellers. The plan also covers visitors to South Africa and ensures they will not be stranded without cash.

The emergency travel money plan would operate until Monday when the Reserve Bank suspension of foreign-exchange dealing was expected to be lifted.
Building societies
push up home loans

By Frank Jeans

"Building societies, flush with funds, have pushed up home lending levels in recent months, with the largest societies, the United, granting bonds totalling nearly R1 000 million in the past five months.

This figure compares with a total of R1 400 million in loans for all of 1984.

The Allied has experienced a loans rush, with bonds value hitting more than R446 million for the five-month period, as against a total for last year of R640.7 million.

The SA Permanent, while recording increased lending in the past two months, has maintained an average of about R70 million a month since January this year. If the trend continues, it will more or less match the 1984 total loans of R683 million.

"We continue with our policy of providing a stable flow of funds across the full spectrum of home loans," says Mr Sarel Liebenberg, public relations manager of the Perm.

HOME LOANS TREBLE

The United's monthly figures illustrate the recent rush for loans. In April the figure was R122 million, May R151 million, June R214 million, July R266 million and August R235 million.

Commenting on the figures, Mr Piet Badenhorst, chief executive of the United, says: "Of particular significance, is the fact that our home loans under R60 000 have trebled since the beginning of the year. In January we lent R50.2 million in this category while in July, we lent a record R146 million. "The past five months have been extraordinary, and I believe our lending will drop slightly in the remaining months of this year.

"We will, nevertheless, be lending at levels that exceed the monthly average of 1984."

The Natal Building Society reports that the August lending figure was double that of January this year.

"The main reason for the lending surge has been the improvement in society inflows and the change in legislation in prescribed investments," says Mr Trevor Olivier, loans manager of the NBS."
Economists say rand may re-open at $0.50

JOHANNESBURG. — If South Africa succeeds in rescheduling foreign debt before Monday, in the breathing space created by suspending foreign exchange and stock exchange deals, the rand may re-open at $0.50.

This is the opinion of some economists, who are reasonably confident that the governor of the S.A. Reserve Bank, Dr. Gerhard de Kock, will be successful in his negotiations with overseas banks.

The chief economist at Anglo American, Mr. Aubrey Dickman, told Reuters a rescheduling of debt repayment could be expected "and a significant recovery in the rand".

South Africa owed $19 billion to foreign banks at the end of 1984 and $12 billion of that is due for repayment in 1985 unless extended, bankers estimate.

It was confirmed yesterday that Dr. De Kock's departure to London last night was to negotiate the rescheduling of short-term South African debt and standby credit packages in a tough bargaining session with top Western bankers.

Economists and financial analysts said they did not believe an earlier two-tier currency system, separating financial from commercial dealings, would be reintroduced.

South Africa abolished the tier for financial dealings, the financial rand, in 1963.

A gold swap agreement could be negotiated on a portion of South Africa's monetary gold reserves.

But most economists said they thought the government would rather opt for stretching the deadline for repaying foreign debts as this would stem a flight of capital.

Bankers and monetary officials in Washington estimate that the short-term debt due within a year far outstrips available reserves.

"I believe a rescheduling of foreign debt must be on the cards and, given this, it will largely remove the danger of a flight of capital which has been pushing the rand down," one money market economist told Reuters.

He said a rescheduling would also ease the debt burden of local firms which have seen their commitment to overseas companies climb as the local currency has plunged.

"If the fall in the rand continued it would have forced many companies to close shops, throwing thousands out of work," another economist added. — Reuters

Reserve Bank offers R500m aid

PRETORIA. — The Reserve Bank said it is prepared to enter into R500m short-term repurchase agreements with banks to help tide the money market over the tight August month-end.

The pacts will start today and expire on September 4, with only liquid assets and prescribed investments accepted as cover. — Reuters

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Haynes.