FINANCE - GENERAL

1987

SEPT. — DEC.

week. nadian gold stocks offer the same potential for world equity markets.

INVESTMENT

ARGUS 1/9/87 (58)

Black workers want pension funds directed into housing — Old Mutual

From TOM HOOD,
Business Editor

JOHANNESBURG. — Black workers want insurance companies and pension funds to put more money into houses instead of into high earning investments on the Johannesburg Stock Exchange and multi-million rand office and shopping developments.

Mr David Motau, an Old Mutual pensions manager, told a symposium here that companies justified these investments by saying they were obliged to seek the highest possible return for their beneficiaries.

Retirement needs were becoming a big issue with black trade unions, he said.

"They complain that most funds are invested in cities and the JSE and not much is invested in Soweto.

"They also believe pension funds should negotiate with workers about accepting a house now and a smaller pension at retirement if a low return would be obtained if money was invested in developing underprivileged areas."

Investing in black houses would also release State funds that currently went into housing and that money could be diverted into State pensions.

"Perhaps our investment strategies should be looked at in order to invest where the need is."

Black workers also believed both employees and employers should be represented on the management of pension funds

Unions were demanding a lump sum on retirement from provident funds rather than a monthly payment from a pension fund.

But black salaries were increasing rapidly and a pension fund might provide better value in the end.

Another demand was that employers' contributions should be paid out when a worker withdrew from a pension fund.

Among other demands by unions were provident funds with:

- A Savings element built in.
- A minimum pension from member and employer contributions.
- Member control or equal representation on management of funds and more member involvement.
- Members informed regularly about their money in the funds.
- Members rights clearly spelt out.

"It is no good waiting till stones start flying — employers must involve black workers in pension fund management.

De Beers quits Govt-linked body

ARGUS 1/9/87

The Argus Correspondent

KIMBERLEY. — The De Beers company has withdrawn from the Diamond Producers' Association, and the Government-linked marketing body is faced with a major crisis.

With De Beers having almost total control of the DPA agency, its withdrawal places the agency in jeopardy.

Neither De Beers nor the DPA would comment on the move. It is believed, however, that the move is part of De Beers' strategy to distance itself from any Government-based agency which could affect its marketing policies.

Several key officials in the DPA in Kimberley could be affected by the De Beers action.

VENTURES

'Unique' sports store for Bellville

By ADA STUIJT

FORMER Springbok rugby player Mr Dave Stewart has signed a R3,4-million, 15-year lease for a gigantic and unique sportsman's store in Bellville — another branch of his successful Logans Sports warehouse in Rondebosch.

The store's free services will include shower and changeroom facilities for business people keen on running during the day, and a free sauna for the health conscious.

Mr Stewart said as far as was known, this was the first time a sports store would provide such facilities — certainly in the Tygerberg area.

CENTRAL BUSINESS DISTRICT...

was "not well" and he wished the ab- ... Peter Pullen insisted the move was "quite normal".

Jump in Trust Bank's profits

B/day 2/9/87

58

TRUST BANK, in spite of an almost non-growth balance sheet, increased disclosed earnings by 22% to 36c a share from 29,5c and raised the annual payout for the first time since the resumption of dividends in 1985.

With a final of 6c a share, total dividends for the year rose to 10,5c from 9c. Cover was 3,4 times. At last night's closing price of 270c, the earnings yield is 13,3% and the dividend yield is 3,8%.

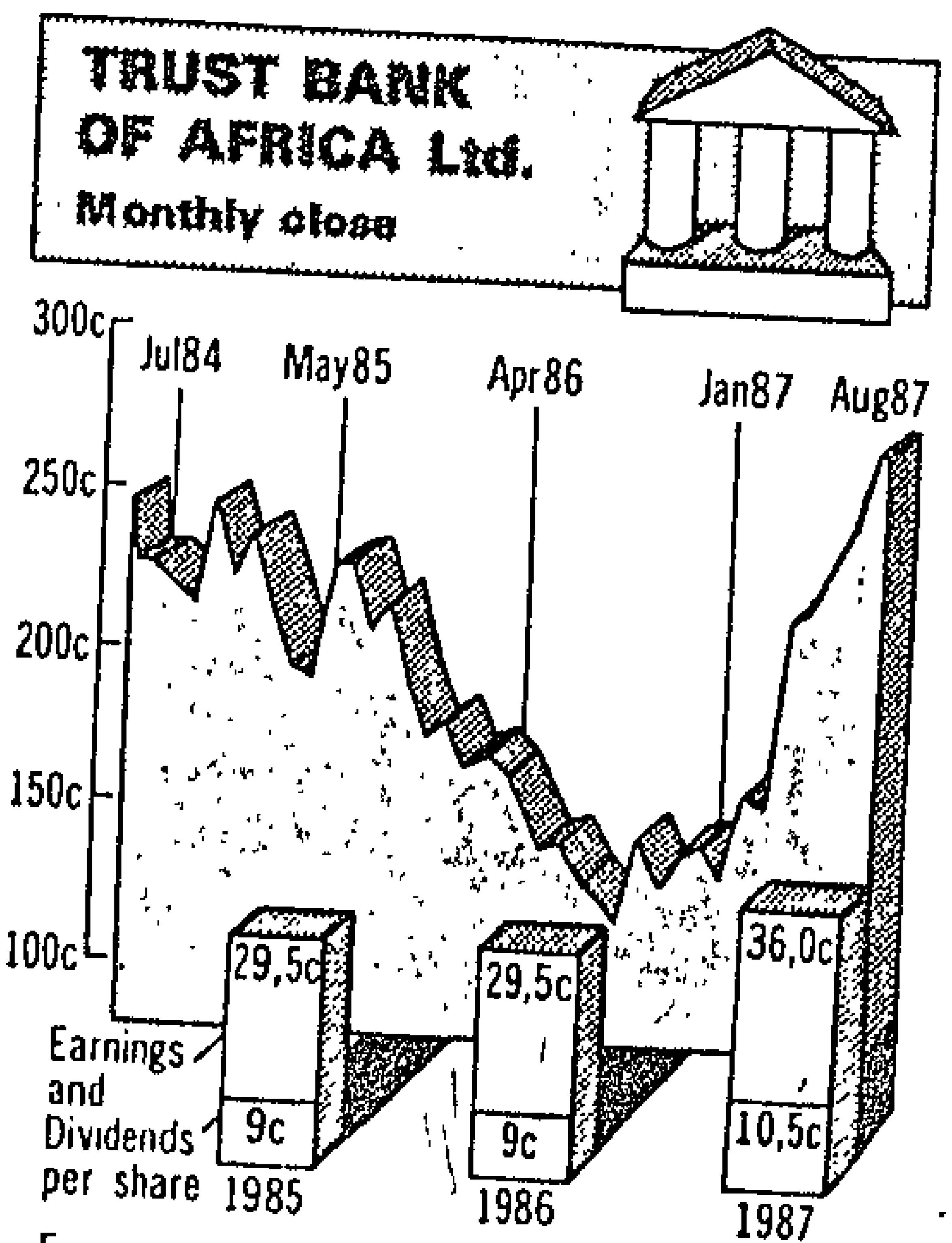
MD Chris van Wyk attributes the bank's improved profit performance during a period of muted demand for banking facilities entirely to a large leap forward in staff productivity — "right down to branch level".

Operational costs, excluding interest paid and bad debt provisions, rose by 4,6%.

Van Wyk said yesterday total profit per employee had been doubled.

Of the taxed profit of R47,8m (after undisclosed transfers to hidden reserves), R33,8m was added to disclosed

● To Page 2



Earnings prior to 1985 not comparable because preference shares were subsequently converted into ordinary shares.

Source. JSE & TRUST BANK Graphic: JOHN McCANN

Trust Bank improves profits

reseves, raising shareholders' funds to R289,8m from R255,9m. Capital requirements under the Banks Act have been "comfortably" exceeded, Van Wyk said.

● From Page 1

Deposits and "other accounts" declined to R6,5bn from R6,7bn but advances rose by R50m to R5,9bn. Van Wyk disclosed the bank had been giving "a lot of personal loans" and added scrutiny was very strict.

Cash and liquid assets were R200m lower at R337m and investments in gilts and other stock were marginally lower. Van Wyk pointed out the portfolio profile had been drastically changed during the year.

Deducting the contra items, total assets were marginally lower at R6,8bn.

The directors reported that the bad debt position had improved.

Van Wyk described the overall position as "comfortable", with the corporate book "very clean"

□ Holding company Bankorp produced an attributable profit, after tax and the usual hidden reserves transfers and excluding extraordinary items, of R83m (R56m in 1986), giving earnings on the increased capital of 93,2c (102,2c) a share, from which dividends of 31c (30c) a share are being paid.

Trust Bank's contribution, after minorities, was R37,5m, Santambank's was R27,3m (up R6m) and Senbank's R19,8m, an increase of R3,4m. The Mercabank loss was reduced to R2,2m from R3m.

The factoring and confirming subsidiaries are still suffering from bad debt losses.

DMB&B S4756

THE RAND

How long will it hold?

(58) FM 4/9/87

The present relative steadiness of the rand may be delighting traders and officials, while frustrating dealers and commentators; but a longer-term view paints a different story.

True, the currency has experienced novel stability over the past eight months or so, and popular opinion is that relative calm will continue into 1988. But commentators expect a downward drift next year to around US47,50c — even 42c, according to some.

Also, analysts detect moves into rand-hedge stocks by some large financial institutions. These are SA companies that would benefit from a weakening rand, and include gold and mining shares, large exporting concerns, and companies with large foreign assets, such as Liberty Life and Rembrandt.

Talk is, this strategy reflects a belief the rand will go as low as 33c within three years.

But for the moment, all is calm. After recovering to 48,5c by the end of January from its 36,4c low in June 1986, the rand has traded between 48,5c-49,5c most of this year — the high being 50,4c in May and low 47,1c. This is in stark contrast to wide fluctuations in previous years: 36c-51c in 1986; 36c-55c in 1985; 50c-84c in 1984; 82c-94c in 1983; 85c-\$1,05 in 1982; \$1,01-\$1,35 in 1981; and a less erratic \$1,21-\$1,34 in 1980.

Similarly, the Reserve Bank's trade-weighted index of 25 currencies with a base of 100 in 1967 (this differs from the *Quarterly Bulletin* which uses 1979 as base and calculates quarterly averages, not daily rates) has fluctuated between 40,9-42,9 this year, 32,9-46,2 in 1986, 34,5-56,9 in 1985, 50,9-73,9 in 1984, 73,1-79,6 in 1983, 70,8-79,3 in 1982, 77-91,7 in 1981 and 83,1-91,5 in 1980.

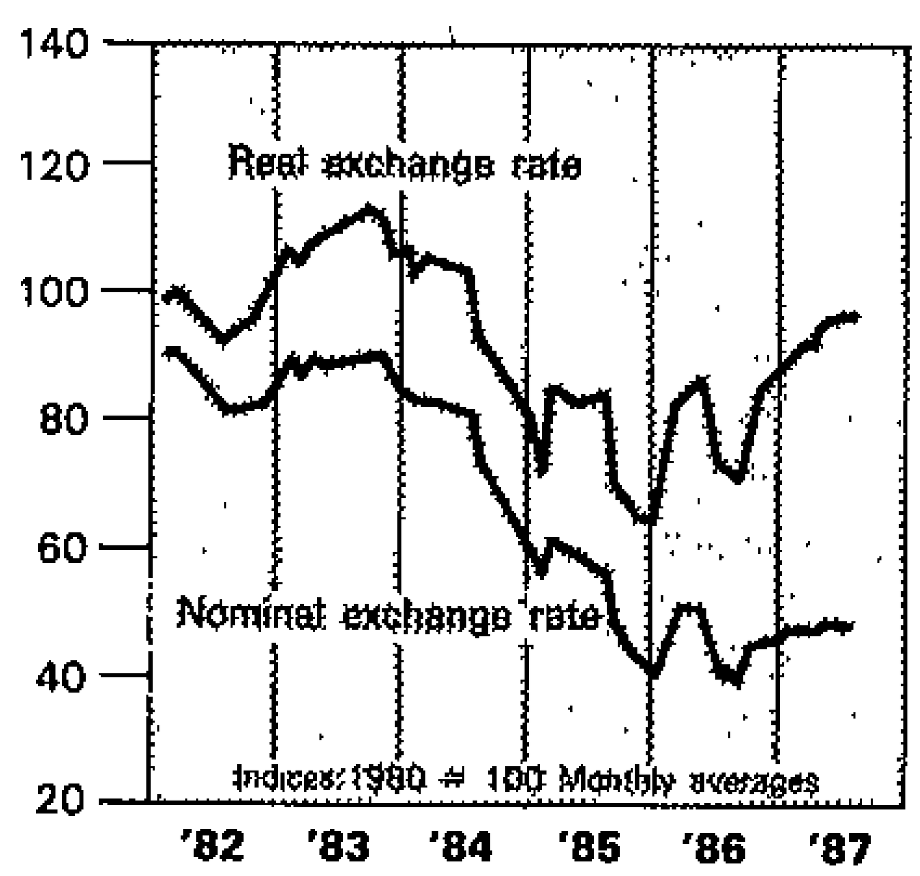
A major factor in the new-found stability lies with the Reserve Bank. As Governor Gerhard de Kock noted in last week's annual address, it has not only prevented the rand from falling, but under pressure from exporters and local producers has "at various times during recent months" prevented it from appreciating. "It will do so again if necessary."

Some speculate the rand could have reached 55c on occasion. But the rand/dollar rate has not been the Bank's priority. It appears that under its more professional and sophisticated market management the Bank has concentrated on the value of the rand on the crosses (against major non-dollar currencies), particularly the DM.

De Kock made it clear that policy will "remain one of managed floating," saying that while the Bank welcomed the rand's appreciation as an "important disinflationary influence," with the present priority of economic growth "excessive or unduly rapid appreciation . . . is to be avoided" as it would harm both exporters and local industry.

A basket case

Effective exchange rate of the rand



Source Reserve Bank

However, it is doubtful whether the governor will have to worry much longer about putting the lid on the rand. Conditions and pressures will probably require a supportive forex policy rather than a restrictive one.

As always, the direction of the rand will depend on the balance of payments, and inflation and developments in international forex markets. What will happen to these?

SA could experience a rising import bill as the economy gains momentum. This would exert downward pressure on the rand, especially given present low inventory levels and SA's high propensity to import in times of economic expansion.

SA must also nurse its current account surplus, given debt repayment obligations.

On the other hand, economists and officials talk about a weak recovery, threatening to fizzle out. So, for the time being at least, none of the expected current account pressures will build up against the rand.

Even so, it is generally expected that SA's large current account surplus — De Kock is looking at R5 billion-R6 billion for the year — will be smaller next year.

It appears that SA will remain a net capital exporter in 1988, though to a lesser extent than the R15,5 billion that poured out in 1985-1986.

In the first half of 1987 the net outflow slowed to R500m. From 1988 to June 1990 \$1 billion is due to be repaid under the foreign debt arrangement. The Bank does not disclose what this means per year. In July \$300m was repaid with a further \$200m due in December.

So the current account surplus will be partly offset by a net capital outflow. The problem comes in determining the magnitude of these movements, which largely depend on the gold price. No guesses on what this vitally important joker throws up. What is known is that gold can cause the balance of payments to fluctuate wildly and wreak

P.T.O

DE KOCK FOR *FM* CONFERENCE

It would be hard to imagine an *FM* investment conference without Reserve Bank Governor Gerhard de Kock's scene-setting assessment of what economic trends lie in store.

Virtually each year since inception, De Kock has taken the floor to deliver a keynote address on the state of the nation's finances, a task he invariably accomplishes with charm, wit and insight.

November, the month of the *FM*'s annual investment conference, is open season for economic forecasters. Few possess the feel for the economy and perception of its international role of our world-renowned central banker.

Always good value as a speaker, De Kock has been associated with the Reserve Bank since he joined as an economist fresh out of university in 1956. He was appointed deputy governor in 1971, senior deputy governor in 1976 and governor in 1981.

He is on the State President's Economic Advisory Council and chaired the Commission of Inquiry into the Monetary System and Monetary Policy.

To hear De Kock's views on "Inflation and Growth in 1988" call Yvonne Courtney, (011) 710-2134/5 or write to Box 9959, Johannesburg 2000.

havoc on predictions on both the balance of payments and the rand.

Another major issue is inflation. With the huge gap between SA and its main trading partners unlikely to narrow significantly (despite the probability of international inflation rising), the rand's purchasing power parity will continue to be steadily whittled away. SA's annualised rate is some five times the OECD average. The currency is no longer thought undervalued on political factors; rather its present rate is a reasonable reflection of purchasing power.

Returning to the Bank, its ability to support a currency under modest pressure looks fine given its vastly improved reserves position. But, of course, nothing can cushion a run on the rand.

De Kock did note the Bank both has more dollars and can borrow dollars more easily than in the past. But it is unlikely to support an overvalued currency, given its belief in certain advantages of an undervalued one.

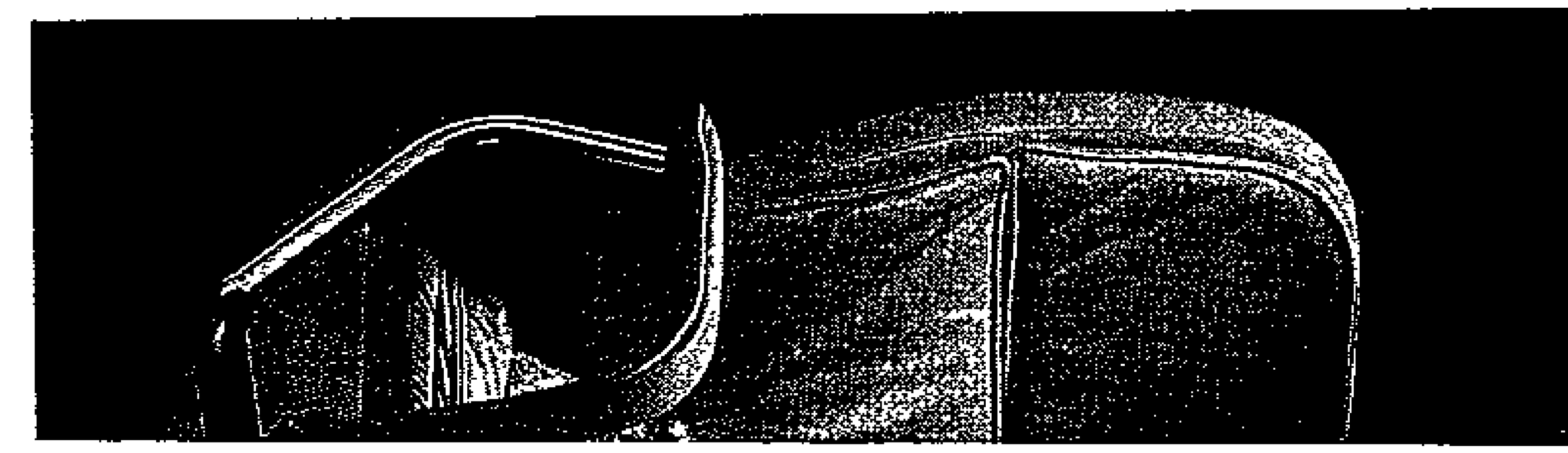
Putting the picture together, expectations are that a smaller current account surplus and continued net capital outflows and large inflation differentials will exert downward pressure on the rand's trade-weighted value in 1988 and beyond.

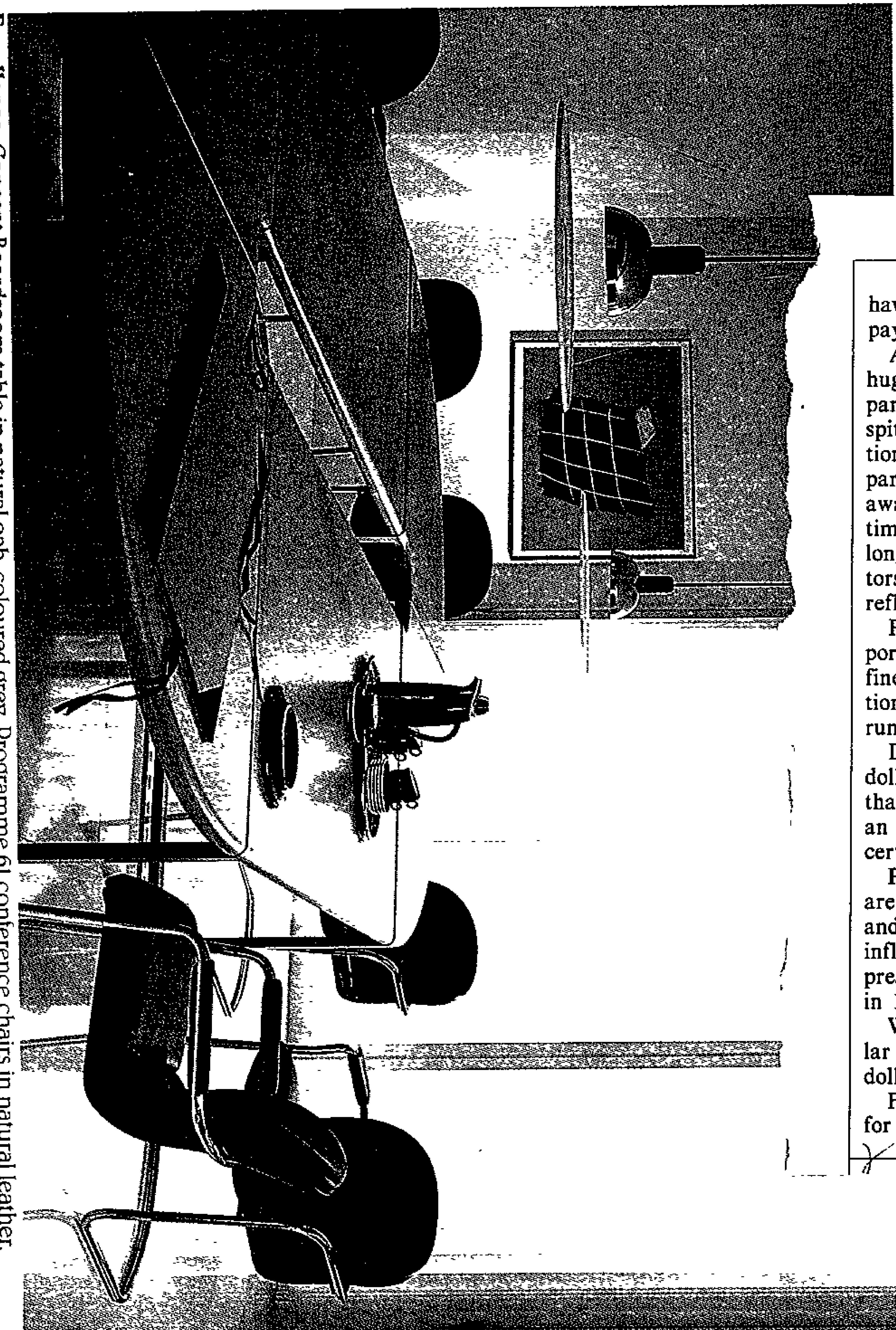
Within this declining trend the rand/dollar rate depends on what happens to the dollar in international markets.

For what it's worth, looking at forecasts for the year ahead, Barclays is the most optimistic, suggesting 47,5c by the end of 1988; Standard Bank reckons 45c; Old Mutual economist Dave Mohr says it will go below 45c; Sanlam picks 44c; while Volkskas' economist Adam Jacobs is talking of as low as 42c. And in 1989, who knows?

Remember that the quotation of the rand is to be reversed. So by the end of next year we will be talking about \$1=R2,10, R2,20 or, if the pessimists are right, even R2,50. ■

Just think





Norwich Union buys R23,5m development

CMC Trans 9/9/87 (58)

By AUDREY D'ANGELO
Financial Editor

INSTITUTIONS are moving their money back into the property market — a sure sign that an improvement is under way.

But Cape Town-based Norwich Union Life Insurance Society, which has just bought a R23,5m shopping and office project in Pretoria, says it has never curtailed its investment in property and has therefore done very well out of the downturn.

Estates manager Rodney Squire-Howe said yesterday:"There is more interest in the property market now but we did not stop developing when things were quiet, and were therefore able to take advantage of very attractive prices.

"We have tended to go for bigger schemes and have been carrying out developments over the last three or four years including our own head office in Claremont. This has office and retail space which is very well let.

"We found that, even in the recession, we could get a good return from a good property in a good location."

Squire-Howe said the new Hatfield Plaza development in Pretoria, which Norwich Union has bought from builder and developer C J Irons, was started in July and is due to be completed by September next year.

The purchase was negotiated by Pat Flanagan, MD of project co-ordinators RMS Syfrets. Norwich are not prepared to disclose the yield.

"To protect the long-term nature of the investment," Norwich has also acquired the remainder of the block, a further 1 ha on top of the original 1,4 ha, for R2,5m to cater for future expansion.

Short-term future of civil service pensions assured


● VAN NIEKERK

HOUSE OF ASSEMBLY — There was no need for concern in the short term about the Civil Service pension fund because its income easily exceeded its expenditure, National Health and Population Development Minister Willie van Niekerk said yesterday.

Speaking in the debate on his budget vote, he said the interest alone accrued by the pension fund amounted to R1,336bn, whereas the expenditure was R206m.

This was without touching members' contributions.

At this point, Harry Schwarz (PFP Yeoville) interjected that Van Niekerk was misleading the public.

Van Niekerk said he would reply to Schwarz at the end of the debate.

He continued that the pension fund's income had increased by R1,5bn since April 1985.

In a statement read in the House, Van Niekerk said the establishment of a pension provision system for the whole of the South African community would be investigated by a representative committee.

He said the Meiring Committee which had been appointed to inquire into the matter had pointed out it was of a sensitive nature because of the unique composition of South African society.

A large degree of consensus between all interested parties was essential before a pension system for all the country's population could be implemented.

He said government placed a high premium on labour relations and it was obvious that nothing should be done to endanger the situation. — Sapa.

Is it worth taking out insurance, S Africans ask?

(8) WPOST 5/9/87

By DENISE BOUTALL

IS insurance worth it? That's what South Africans are asking in the face of drastic rises in insurance premiums over the last 18 months.

And complaints about insurance are getting more attention from the SA Co-ordinating Consumer Council.

"We're fighting the insurance companies all the time," said the director, Mr Jan Cronje, adding that insurance complaints formed a substantial proportion of the 1 500 complaints the council investigated each month.

Although spokesmen for the insurance industry are confident that the worst is over, insurance companies are still upping their premiums by as much as 17% — and when this is added to an inflation-adjusted increase in cover it can mean as much as 40%.

Along with higher premiums have come changes in cover, increased excesses and a pile of paper explaining the changes.

Some insurance companies are loading the premiums of clients in suburbs that have a higher crime rate and brokers are also having difficulty obtaining cover for holiday homes.

But according to SA Insurance Brokers' Association executive director Mr David Alston, insurance premiums were artificially low in 1985.

Speaking from Johannesburg, he said a series of natural catastrophes, escalating crime, an "appalling" incidence of claims, combined with the collapse of the AA Mutual last year, had "scared everybody" and premiums had started rising.

In an effort to allay strong public reaction, insurance companies started encouraging people to be more security-conscious in the hope of reducing crime.

This would reduce claims and eventually stabilise premiums.

SA Insurance Association chief executive Mr R Schneeberger said claims that people were paying more for less were unjustified.

He said the recession had caused unemployment, which had led to increased crime and massive claims by policyholders.

At the same time the police were thinner on the ground because they were dealing with unrest.

Mr Schneeberger said claims were now fewer and lower.

The return of police to normal duties and breakthroughs in areas like car theft had helped to reduce the crime.

Why were insurance companies now making big profits? Mr Schneeberger said most companies had not been profitable in six years.

Mr Leon Britz, senior manager in Port Elizabeth of an insurance company with a major share of the short-term insurance market, said the premiums in the householder's package would increase by 7% on October 1, although some individuals could face increases of up to 13%.

In October, 1986, premiums went up by between 25 and 30%.

That increase, he said, should be seen against the socio-economic climate in Port Elizabeth which had resulted in a rise in crime and claims.

Mr C Dowthwaite, assistant manager of another insurance company active in the short-term insurance market, said his firm's premiums had gone up by 17% in July.

However, when combined with a 20% increase in the cover provided, this meant increases of 40% to 45%.

In Pretoria meanwhile, the Registrar of Financial Institutions is planning to replace the existing legislation governing short-term insurance.

Deputy Registrar Mr Piet Badenhorst said the Acts governing insurance dated from the 1940s and had to be brought in line with more recent legislation.

Policyholders pay 'more and more for less and less'

Weekend Post Reporter

"IF the insurance companies don't do something to cut their premiums, they'll price themselves out of business," a Port Elizabeth man warned this week.

His was among a number of cases of dissatisfied policyholders which have come to the attention of Weekend Post. His household and car insurance has increased by 30% in the last 18 months.

"We're paying more and getting less because more clauses recording exclusions of cover are constantly being added."

Between March and June he received three schedules — and ended up with an increase of 11,5% in three months.

Meanwhile the excess on claims on his car has been increased by 50% from R200 to R300. He could get around this by fitting an approved anti-theft device — "but again it's more money".

Like others, he has considered cancelling his insurance and putting the R130 monthly premium in the bank as a form of "self-insurance".

Other consumers are finding that increased excesses — the amount the client has to pay himself in the case of any claim — mean that they have little chance of making a claim unless they suffer major losses.

In a second case a man who has had the same policy for at least 22 years complained that his policy seemed to be changing at the whim of the insurance company on a month-by-month basis. His premiums, as well as excess amounts, have changed twice in recent months.

Since the collapse of the AA Mutual last May, which had insured his motor cars, it seemed to him that: "We are now at the mercy of the industry."

Even going on holiday can cost money. A third person was recently notified that if the family home was unoccupied for more than 30 days an excess of R1 000 would apply if there was any claim under the homeowners' policy which protects the actual building.

The Star

The way to a better state pension fund

STOP-GAP emergency action to cut a potential shortfall of billions of rands in the Government pension scheme is all very well. It makes a start at correcting serious miscalculations of the past. But it should only be the beginning of a major reassessment of the viability of the fund as presently structured and of the whole pay and service benefits package enjoyed by the country's public servants.

The Minister concerned, Dr van Niekerk, has announced a change in the controversial pension buy-back scheme, a plan to get higher returns on the fund's investments, and a decision to subject the fund to fresh actuarial scrutiny every three years. These moves go some way to meet a problem that has caused a wave of concern among taxpayers and a ripple of panic among public servants.

It is still not enough. The formula by which buying back pension service will be calculated in future has not been disclosed and has thus not passed the test of public scrutiny. Pensions will still be calculated on a public servant's final salary rather than on an average of the last few years of service — a quite exceptional pension perk. And the consequences for public servant and taxpayer alike have not been spelt out.

It took the sharp insight of retired insurance magnate Dr Andreas Wassenaar to uncover the major flaw in the actuarial basis of the fund — a flaw that had the potential to bring down the fund itself and the country's taxpayers with it.

Government acknowledgement of Dr Wassenaar's service in exposing the deficiency has so far been lacking. Yet he deserves the highest praise from the public and the State. After what he has done to reveal the fund's shortcomings, it would be wise for the Government to heed the criticisms he still levels at the structuring of the fund.

Enough has emerged to make a full-scale, expert inquiry essential. Taxpayers want proof of the fund's viability. They must also be assured that the cost is acceptable. Any changes bear directly on service conditions of public servants compared with the private sector.

Until the Government provides these answers, through the work of an independent specialist examination of the fund, it remains in the dock.

Merger creates banking giant (68) B(anq) 7/9/87

Firstcorp aims to serve SA's top companies

LINDA ENSOR

FIRST National Bank's (FNB) new corporate bank, Firstcorp — a merger of its merchant bank and the recently acquired Citibank — will serve SA's blue-chip companies with turnover in excess of R250m a year.

Vice-chairman and CE of the new bank Peter Springett says it will have a client base of about 150 and will contribute significantly to FNB's overall profits. An after-tax profit of about R12m by the end of 1988 is anticipated, he says.

Firstcorp, or First National Corporate and Investment Bank, will have assets of more than R1,6bn once all the off-shore facilities at present with Citibank's former parent, Citicorp in New York, have matured and come on its balance sheet.

FNB MD Chris Ball is chairman of the new bank.

Springett says the strength of the new bank will be its international cash management services — still linked with Citicorp — and its ability to bring innovative products developed overseas to its top-notch clients.

He says Firstcorp now has about 10% of the business in its specific target market, but that this will increase significantly as a result of the merger. This is because Citibank's ability to write business will no longer be restrained by Citicorp and because FNB's Merchant Bank, which has been under-capitalised in the past, will be able — as part of a merged operation — to take up the lending opportunities which emerge in the course of its investment banking activities.

Springett concedes there will be an overlap with FNB's existing corporate division which will not be incorporated into Firstcorp. This division will continue to service the much larger client base of companies with turnover of over R50m.

He would not disclose the long-term plans for the division, but it is likely it will ultimately be merged with Firstcorp so that this bank becomes the major corporate thrust of FNB. The treasury department of FNB will continue to exist separately from that of Firstcorp as Springett says it is essential that each bank have one.

The two line operations will be merged over the next few months and there will be a rationalisation of the personnel departments, financial management and accounting systems. However, Springett says there will not be any staff redundancies.

Pensioners take a beating from inflation

STAR 9/9/87

By Magnus Heystek, Finance Editor

Pensioners are significantly worse off than they were three years ago, says insurance giant Sanlam in its latest pension benefits survey.

This is due to the ever-widening gap between increases granted to pensioners and the inflation rate.

The survey, conducted every two years and purporting to be the most comprehensive of its kind, reveals a generation of pensioners who are staring poverty and penury in the face, mostly as a result of pension benefits not keeping pace with inflation.

Mr Desmond Smith, senior general manager at Sanlam, points out that the average increase granted to pensioners in 1984 amounted to 9,2 percent, against an inflation rate of 11,7 percent.

The 1987 figures, however, reveal that increases last year averaged only 11,5 percent, against an inflation rate of 18,6 percent.

"Should this trend continue," he says, "the state, already burdened with funding for civil servant pensions, could face the awesome task of having to provide for occupational pensioners who are forced into penury."

Desmond Smith ... govt facing awesome task

The survey has been expanded this year to include a section on internationally controlled companies operating in South Africa.

This section reveals that foreign-controlled companies tend to provide lower benefits than their South African counterparts.

The discrepancy, according to Mr Smith, probably stems from the fact that most Western countries provide significantly higher levels of social security than does South Africa.

"This results in overseas pension design consultants drawing on home criteria when designing benefit structures for subsidiaries.

"They therefore incorporate inferior employee benefits into the South African subsidiary's programmes," he says.

On the positive side, the reports says there is a noticeable move towards improving the rate of pension accrual.

About 86 percent of funds now provide a pen sion scale of between 2 and 2,5 percent for each year of pension fund membership.

According to Mr Smith this indicates an awareness among funds that it is necessary to provide members with a pension which, at least initially, is adequate.

Also of interest is the tendency towards non-discrimination in the retirement age of males and females.

In a previous survey in 1985, only 27 percent of females retired at age 65. However, this percentage has now increased to 42 percent.

SATS' TARIFFS

Coal shocker

South African Transport Services (Sats) has stunned coal exporters by imposing a further hike on Richards Bay rail tariffs with effect from September 1. It has serious implications for revenues from coal exports and, in turn, coal share prices.

Sats' move appears to be a unilateral action because it has apparently been taken before the findings of a government inquiry into the issue of the Richards Bay rail rates have been finalised. The coal exporters and Sats fought a running battle over rail tariffs for the past two years; they appeared to have reached a temporary truce when Sats agreed to impose interim increases in April this year. These were to run initially for three months while the government inquiry probed the issue and came up with recommendations on a solution.

The interim increases (*FM* April 3 and April 10) pushed the average rate for railing coal to Richards Bay from the Black Hill station near Witbank to about R19,50/t, and from Broodsnyersplaas between Middelburg and Ermelo to about R18/t.

Neither Sats, the coal exporting companies, nor the Transvaal Coal Owners' Association (TCOA) will reveal the new rates. However, my information is that Sats has bumped these rates up another 20% to give averages of about R23,40/t from Black Hill and R21,60/t from Broodsnyersplaas. A year ago the average rates were about R14/t from Black Hill and R12/t from Broodsnyersplaas.

Attempts this week to get comment on the increases from Sats and the Department of Economic and Technical Affairs failed.

Rand Mines coal division chairman Allen Sealey has confirmed that Sats has upped its rates, but would not disclose the new tariffs.

"I received a telex from Sats yesterday (Sept 7) informing me of the higher rates," he tells me. "I am ignoring that telex pending clarification on the matter from the Minister for Economic and Technical Affairs because this action by Sats does not accord with what we had been led by government to believe would be the outcome of the rail tariff debate."

Sealey says that if the new Sats tariffs take effect, they would have serious implications for the coal companies which would incur losses on exports because of them.

"While we would meet our obligations to ship coal to contractual customers, there would be an immediate adverse effect on export tonnages sold from SA on the spot market," he adds.

Another coal exporter commented: "After actions like this, one wonders if the government has any real concern for the situation facing the coal exporters.

"Sats is trying to get back the money it has spent on expanding the capacity of the Richards Bay line for new exporters who are now unable to use it because of the surplus of coal on world markets," he says. "In the process, Sats is killing the existing coal export industry."

A coal share analyst points out that, before this latest increase, those mines still profitable at that stage were making about R4/t-R5/t on export sales; this means that most of them will now be unprofitable or marginal propositions.

Implications for coal shares are serious. There has been some buying of shares on the grounds that conditions cannot get worse and there are good recovery prospects. But, as the new Sats tariffs indicate, things can get worse and 1988 coal company earnings could drop further on 1987 earnings.

An indication of how bad the 1987 earnings could be was given recently by the final results from Trans-Natal. These showed a 37% drop in distributable income to R76,6m or 98c a share in the year to end-June (previous financial year — R120,7m or 161c a share), while dividends were slashed by 33% to 60c a share (90c).

That meant Trans-Natal made just 31c a share in the second half of its 1987 financial year, compared with the year-ago 67c. One analyst estimates that Trans-Natal's earnings could drop to 70c a share in the current year and its dividends fall to 40c.

Surprisingly, Trans-Natal's share price jumped on release of the final results from 550c to current levels around 675c. If Sats gets away with the latest rail hikes and conditions on the coal market remained unchanged, those shares could well weaken again. Anyone buying on recovery prospects faces a long wait.

Brendan Ryan

FIRSTCORP MERGER

Debt recycling

The merger of the operating divisions of First National Merchant Bank and Citibank NA — the former South African subsidiary of Citicorp of the US — has been announced by First National Bank (FNB). The new bank — to be called First National Corporate & Investment Bank — will specialise in merchant banking and corporate activities. Its assets exceed R1,6 billion.

According to Peter Springett, vice-chairman and CEO, the new bank will be known as Firstcorp, "to reflect its parentage and the role it will assume in local and international banking markets."

Firstcorp's Springett . . . caught in the debt standstill

Citibank NA "has long been active" in the major corporate sector, and has "substantial Treasury and corporate banking operations which focus on international financing and cash management, foreign exchange markets, domestic wholesale banking, and financial structuring."

It is intended that these will be supplemented by the traditional merchant bank activities of First Merchant in areas like stock exchange listings, mergers and takeovers. These have recently "been significantly extended" through the emergence of management buy-outs, in which field "it has played a leading role."

The investment division manages assets worth R2 billion.

Springett expects that Firstcorp will be a "significant contributor" to group profits.

He tells the *FM* that the key to the formation of the new group has been the availability of substantial funds (including Eurocurrency deposits) advanced by Citibank NA to South African borrowers and now — as they mature — caught in the debt standstill. These funds will now be remarketed locally.

In terms of the new structure, as offshore funds are repaid by local borrowers to Citibank NA — and barred from expatriation — they will be readvanced to Firstcorp for "on-lending" to local concerns.

This factor must be read with the formerly parallel operations of First National and Citibank NA in merchant banking and international corporate financing, which added to normal corporate logic for a merger.

The Board of Firstcorp — apart from Springett — comprises Chris Ball (chairman), Rod Zank (vice-chairman), and Stuart Jones and David Lawrence (directors and executive vice-presidents). ■

11/9/87

FM

RESERVES

Going for a dip

While still managing to stay above R7 billion (by some R5 000), Reserve Bank gold and foreign assets have dipped marginally from July's R7,1 billion. But the position in rand terms is still strong, considering July was the first time reserves exceeded R7 billion.

The major reason for the decline is the lower valuation of gold — R839,10/oz compared to R851,59 for July. Holdings were little changed at 6,2m oz, so their value dropped by R70m to R5,23 billion. Foreign asset holdings fell by R30m to R1,77 billion, bringing the total decline to around R100m.

This is only the second monthly decline this year. Last August reserves were R4,55 billion which was a sharp rise from R3,9

FINANCIAL MAIL SEPTEMBER 11 1987

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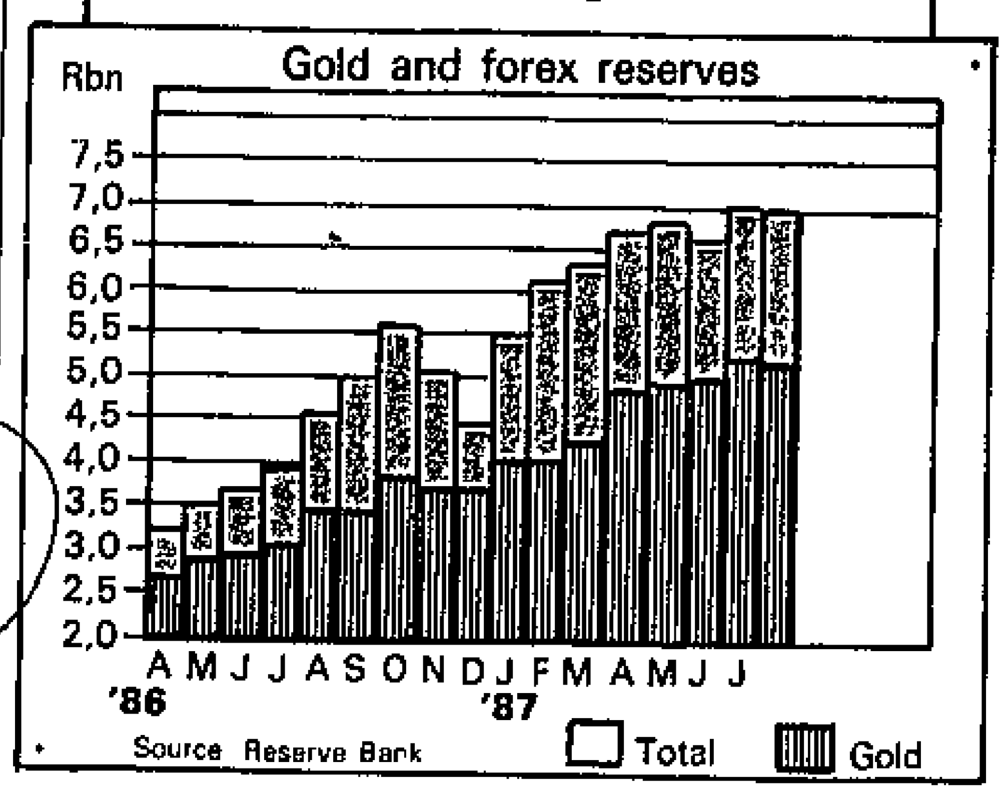
Levelling off



billion in July 1986. As recently as April 1986, reserves languished at R3,2 billion.

Once again it is worth stressing that such a performance is far more impressive in rand terms. Standard Bank's dollar reserves index in real terms (1980=100) was only 34,71 at the end of July. While this is more than double last June's 15,17 bottom, any improvement off such a low base looks good in percentage terms. ■

'No insurance for AIDS victims'

Own Correspondent

LONDON — Insurance firms should avoid covering anyone known to be suffering from AIDS or carrying the AIDS virus, the Institute of Actuaries here has said.

A report by an institute working party predicts a sharp rise in the number of AIDS deaths. Its most optimistic forecast is that 14 000 people a year could be dying of the disease by the turn of the century; but the figure could be as high as 55 000.

(58) B/day 14/9/87

The report says: "While life officers must face up to the social dilemmas arising from AIDS, it is important for the security of existing policy holders for insurers to exercise care in offering life cover to new policy holders.

"Insurers also need to treat low-risk groups as fairly as high-risk groups."

Task could take up to two years

'Patched up' Banks Act set for redrafting

58

B(dg) 14/9/87

HELENA PATTEN

THE BALL has started to roll on overhauling the Banks Act, but the task is expected to be a lengthy one and might take as long as two years.

The Reserve Bank's sub-committee appointed for this purpose met representatives from clearing, merchant and commercial banks as well as discount houses last month to launch the project.

Chairman of the committee Chris de Swardt said initially a comparison would be made between principles embodied in the SA Banks Act and contemporary legislation in certain other reference countries.

He said the committee was not trying to initiate major revisions — "just a redraft". The Banks Act was looking "a bit patched-up at the moment", with very many ad hoc revisions having been made to it over the years.

In revising legislation, De Swardt said, recognition should be given to the trend tending to blur differences between financial institutions. The worldwide tendency to legislate functionally rather than institutionally should also be kept in mind.

The problem of banks lending off balance sheet (disintermediation) to avoid costly capital requirements would not be easily solved. "It is a worldwide phe-

Revisions would have to be made to control escalating risks in an increasingly competitive market.

Japie Jacobs, chairman of the newly reconstituted standing committee on banking and building society legislation, said building societies would have to be consulted on revision to the Banks Act, but a stage had not yet been reached when one Act could govern all deposit-taking institutions.

□ The standing committee on banking and building society legislation was reconstituted recently to accommodate the transfer of the control of banking to the Reserve Bank.

New members are De Swardt, D W Goedhuys, G Steenkamp and recently appointed Registrar of Financial Institutions Theo van Wyk, who replaces former Registrar Robert Burton.

Jacobs remains chairman of the committee, while members staying on are Barend Groenewald, J H Meijer, Gerhard Croeser and Piet Badenhorst.

nomenon and part of structural changes. One cannot really stem the tide."

It was unlikely capital requirements would be relaxed to reverse the trend.

WORLD B/day 14/9/87

Central banks in Europe get more muscle

(58)

COPENHAGEN — European Community governments, in an effort to foster greater currency stability, have adopted a series of measures that will give European central banks more clout when they operate in foreign exchange markets.

Calling the accord "a milestone for co-operation in the international monetary field", Danish Finance Minister Palle Simonsen said the package of measures would strengthen the operating mechanism of the eight-year-old European Monetary System (EMS).

The agreement, reached on Saturday in Nyborg, Denmark, at an informal meeting of finance ministers and central bank governors from the 12 EC member states, will:

☐ Extend the maximum period that central banks are allowed to repay loans under the short-term credit mechanism of the EMS to 3½ months from 2½ at present;

☐ Double the amounts EC central banks can borrow under the short-term monetary support mechanism;

☐ Allow central banks to repay borrowings completely in European Currency Units, compared with the previous limitation of 50% in ECUs; and

☐ Institutionalise a procedure for monitoring economic performance of EC member countries using a series of objective indicators.

The moves will generally make it easier for central banks to carry out intervention. But Jacques Delors, president of the EC Commission, said "the idea is to reduce, rather than increase, the overall amount of intervention".

The measures will apply mainly to intra-marginal intervention — intervention carried out before currencies in the EMS reach predetermined floors and ceilings.

It is hoped that timely intervention will head off speculative runs and limit the kind of tension that led to a messy realignment of the EMS parities in January.

British Chancellor of the Exchequer Nigel Lawson said after the meeting there had been no discussion of Britain joining the EMS. — AP-DJ.

Spirit of hope as UN opens

UNITED NATIONS — The 42nd UN General Assembly opens tomorrow in an atmosphere of hope that better East-West relations this year will lead to a smooth 13-week session.

Representatives of the 159 member states will be keeping their fingers crossed for the Gulf peace mission of Secretary-General Javier Perez de Cuellar, which ends this week.

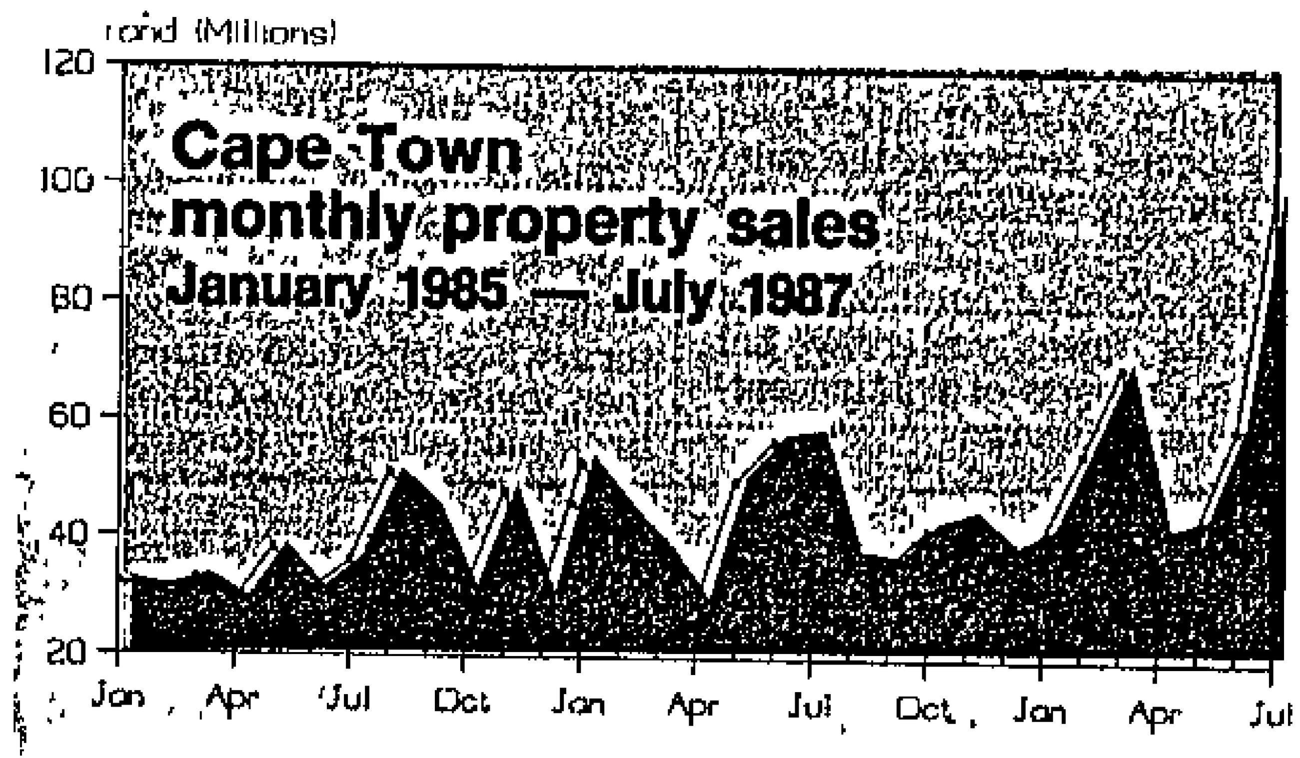
Many speakers will focus on apartheid and the refusal by South Africa to give independence to Namibia. South Africa has been barred from the Assembly and its committees since 1974.

Diplomats will be closely watching talks next week between US Secretary of State George Shultz and Soviet Foreign Minister Eduard Shevardnazde.

The outcome of their talks could well decide whether President Ronald Reagan and Soviet leader Mikhail Gorbachev hold a third summit.

The first three weeks of the session are devoted to a general debate in which more than 100 foreign ministers or senior officials will speak.

The 140-item agenda covers most of the word's trouble spots, from Afghanistan to Kampuchea and from the Falkland Islands to the Western Sahara. Disarmament will again receive close attention. — Sapa-Reuter.



Property sales in Cape Town reached a record 1 770 in July as the housing boom accelerated in all areas.

Bank's new bond policy expected to boost sales

ARGUS 15/9/87 (58

By DEREK TOMMEY
Financial Editor

A DRAMATIC increase in the sale of "expensive" houses is forecast by Cape Town estate agents following the revolutionary changes in the Standard Bank's mortgage loan policy, announced today.

In view of the general shortage of better quality housing available for sale, it could also lead to a rise in house prices, they add.

The Standard Bank, for the first time in South Africa, is offering house buyers 100 percent loans for R100 000 or more at rates of interest as low as 11,5 percent.

The Standard Bank is also offering "young achievers" — successful up-and-coming professional businessmen and women — with a satisfactory credit rating, 100 percent mortgages of up to R100 000 and 90 percent bonds thereafter.

These moves will open up a new market for property — young couples with high incomes but no capital — and should lead to an upsurge in property transactions, said Mr Samuel Seeff, director of a Cape Town estate agency.

DIFICULT TO SAVE

In today's conditions of high inflation and high taxes, young couples found it extremely difficult to save the R20 000 or so deposit needed to buy a house in a desirable area.

The problem was even greater in Johannesburg — the country's biggest property market — where about the lowest price for a reasonable house in the northern suburbs was R160 000 and the prices of most houses on the market started at R200 000.

"Young couples — even with good jobs — can't get the deposit together for these houses, but could afford to repay the bonds, especially as many received housing subsidies

SUBSTANTIAL MARKET

No survey has been done on the size of the young people's market, but it could be substantial, he said.

As there already was a shortage of houses for sale throughout the country it could have an influence on house prices.

Bankers see the move by the Standard Bank as an attempt to lend some of its surplus funds and also to build up a long-term relationship with people who could be worthwhile clients in the future.

With companies reluctant to borrow money at today's high interest rates, bank lending which provides their bread and butter has not shown much increase.

Lending on property, where the risks are far lower than lending to businesses, seems a profitable alternative.

In addition, as it creates a long-term relationship between the Standard Bank and its thousands of bond holders, it also creates a substantial market for the bank's other products.

BETTER TIMES

Meanwhile, Dr Ockie Stuart, one of the Western Cape's top economists, has predicted that better times are ahead for the ordinary South African.

In the latest report of the Bureau for Economic Research at Stellenbosch, he predicts increased consumer spending and an upturn in new investment which should give the economy a substantial boost.

The bureau reports that businessmen are expecting the economy to continue to improve. But although increased overtime is being worked, there has not as yet been much increase in employment.

However, expansionary factors in the economy, and the increase recently in the salaries of public servants, should give the economy another boost, he says.

Although private sector fixed investment had shown little increase, he said this could not be expected at the start of the economic upswing when there still was surplus capacity.

Bank gives 100% bonds

68 Nday 15/9/87

Own Correspondent

CAPE TOWN — The Standard Bank is now offering 100% home mortgage bonds — some at an interest rate as low as 11,5% — on loans of R100 000 upwards, if the borrower meets high credit standards, Standard home loans division deputy general manager Terry Power said yesterday.

The new offer forms part of a package of several developments being introduced by the division.

He said the 100% bonds would be available in two sectors:

- Under a Prestige Plan Account, the loans would be made available to borrowers who wanted "a little extra" and who qualified through assets and income.

"We will provide not only a 100% bond in excess of R100 000 on a reasonably unlimited basis but the interest rate will be 1% below the current rate," said Power;

- A second plan is for "young achievers" — through the Achiever Plan account for successful up-and-coming professional or businessmen and women who would be granted 100% bonds for loans up to R100 000, then a 90% bond thereafter — subject to the applicant's credit standing.

The Standard Bank caused a flurry of excitement at the inception of its Home Loans Division in December 1986, when it announced mortgage loans at 12,5% — then well below the ruling average rate offered by building societies.

It guaranteed the mortgage rate would remain unchanged until December 1987. This promise was later extended to June 30, 1988, for approved and registered bonds.

Power said the bank would not exceed the average rate charged by the major building societies, and this undertaking wouldl remain in force until the end of December 1988.

Power said since the bank had launched its home loans division 8 500 applications had been approved by the end of August, involving loans worth R850m. This put the bank slightly ahead of its target of loans worth R1bn by the end of the year.

Building societies criticise bank's 100pc home loans

98 16/9/87

Daily Dispatch Correspondent

JOHANNESBURG — Two major building societies have criticised as "unfair competition" the Standard Bank's move to grant 100 per cent home mortgage bonds — because the Building Societies Act is stricter than the Banks' Act in this regard.

The general manager of United Building Society Home Loans, Mr Piet Kruger, says the Building Societies' Act stipulates that societies cannot provide loans exceeding 90 per cent — unless extra collateral is provided by the borrower.

Banks, by contrast, can offer 100 per cent loans without requiring additional collateral.

In Mr Kruger's view, this gives them the competitive edge over building societies which ask extra security for a 100 per cent loan.

Echoing Mr Kruger's response, the general manager of the Allied Building Society's marketing division, Mr William Wolke, said:

"Even if we wanted to offer 100 per cent loans, we might be precluded from doing so by the Building Societies' Act."

The societies are watching the Standard Bank's moves very closely — ready to fire their own shots in the home loans war.

Putting the competition into perspective, Mr Kruger said the UBS granted an average of between R220 and R250 million worth of loans a month.

He compared this monthly average with the Standard Banks's total book of R850 m, from December 1986 to August this year.

"The building societies are holding their own," Mr Kruger said. However, he acknowledged the competition was fierce.

Reacting to the Standard Bank move, the Natal Building Society said it was monitoring the situation and would take action immediately once a market response became necessary.

So far, this had not been called for — "but we are well aware we are operating in a highly competitive and volatile situation which could change very quickly."

The general manager of the Permanent Building Society, Mr Hugh Maclachlan, said institutions had taken advantage of prevailing economic conditions and were able to offer low rates.

But, he cautioned, borrowers should bear the long-term picture in mind.

(58) B/Day 16/9/87

Unfair competition — NBS, Allied

Standard 100% mortgage bond offer criticised

GRETA STEYN

TWO major building societies have criticised as "unfair competition" Standard Bank's move to grant 100% home mortgage bonds — because the Building Societies Act is stricter than the Banks Act in this regard.

UBS home loans GM Piet Kruger says the Building Societies' Act stipulates that societies cannot provide loans exceeding 90% — unless extra collateral is provided by the borrower. Banks, by contrast, can offer 100% loans without requiring additional collateral.

In Kruger's view, this gives them the competitive edge over building societies, which ask extra security for a 100% loan.

Echoing Kruger's response is the Allied's marketing GM William Wolke, who says: "Even if we wanted to offer 100% loans, we might be precluded from doing so by the Building Societies Act."

The societies are watching the Standard's moves very closely — ready to fire their own shots in the home loans war.

Kruger adds the UBS granted an average of R220m-R250m worth of loans a month. He compares this monthly average with the Standard's total book of R850m from December 1986 to August this year.

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Santam 'fight'

Business Report

Societies slam 'unfair competition'

58

From GRETA STEYN

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● Sapa reports that a First National Bank spokesman yesterday said: "We had already put together a new exciting home bond package which we were planning to launch at the end of this week. We are going ahead with the launch anyway, but we would just like it clear that this is in no way a reaction to the Standard's scheme.

"In any event, all they (Standard) seem to be doing is reinforcing the upper levels of the market."

Standard home loans division deputy general manager Mr Terry Power said the bank was not making any aggressive launch of its New two-pronged scheme, which had been available for about three months.

UIF racket: 8 held

58

17/9/87

STAR

Eight people have been arrested accused of involvement in the Unemployment Insurance Fund (UIF) racket.

They are expected to appear in the Wynberg Magistrate's Court in Cape Town next Friday.

They allegedly stole unemployment relief cheques amounting to R200 000 during the past five months.

Mr Jack Scheepers, UIF commissioner in Pretoria, said the syndicate, which included five post office employees, was smashed by police in Cape Town recently.

He said Cape Town police were investigating dockets involving more than R80 000 in unemployment relief cheques stolen over the past five months.

Mr Scheepers said this week that to eliminate the interception of cheques, the department had instructed claims officers in 400 outlets to ask beneficiaries to collect their benefits personally.

He also said that the department, was working with the SA Police, in investigating reports about a highly-organised gang which has allegedly netted large sums of money through the UIF blue card racket.

ay be restricted

Bank gives R50 000 to SAP widows, orphans

CAPE TIMES 17/9/87

Crime Reporter

THE First National Bank announced yesterday that it had donated R50 000 to the South African Police Widows and Orphans Fund as a token of appreciation for the police action during a robbery at their Mowbray branch on September 3.

During the robbery, the leader of the gang shot dead a policeman and wounded a second policeman before he was shot dead several blocks from the scene.

Speaking at a small function at police headquarters in Cape Town yesterday morning, Mr Brian Forbes, the acting manager of the bank at the time of the robbery, said the decision to make the donation had been taken the day after the robbers were foiled in their attempt to steal R57 000 cash.

He said the donation would express the bank's appreciation for the action of the police and their excellent work in apprehending two of the three robbers.

During the robbery, Constable Martin Cockrell was shot dead. Reservist police constable Wayne Schluter was wounded in the chase. The gang leader, Jabu Dube, was shot dead soon afterwards.

Mr Jimmy McKenzie, First National's senior general manager, explained yesterday that the bank had been very distressed at the death of Constable Cockrell.

He said it was felt that it was indiscreet to publicize details of this donation at the time of Constable Cockrill's unfortunate death.

w/t ARGUS 19/9/87 (58)

SATURDAY SEPTEMBER 19 1987

JSE share boom runs out of steam

By DEREK TOMMEY
Finance Editor

SHARE prices on the Johannesburg Stock Exchange have stopped rising.

The overall index is no higher than it was at the end of July. Industrial shares, after a 60 percent rise earlier this year, have run out of steam and appear to be going along a plateau (see graph), while the gold share index is now eight percent below its July high.

Cape Town stockbrokers ranged from the cautious to the quietly optimistic when asked this week how long they expected the stock market to remain in the doldrums.

The general expectation was that industrial profits would continue to rise, but possibly not as strongly as the market was expecting and that this could lead to a change in industrial share ratings. The biggest difference of opinion was on gold shares and whether they would continue to offer the value investors expected.

Reduced dividend

The belief that industrial profits will continue to rise comes out strongly in the latest issue of *Nominal Values*, prepared by the investment research team at Cape Town-based Simpson McKie.

The team forecasts that industrial share earnings will grow by about 30 percent during the next 12 months. However, as many companies need to build up their capital, they believe dividends will grow by only about 26 percent.

A member of the team, Mr Peter Trengove Jones, said the reduced dividend yield expectations, from 3,3 to 2,8 percent, had accounted for the recent record-breaking spurt in the financial and industrial index.

However, failing a better than expected increase in the rand price of gold, he did not see company profits growing fast enough to justify these low dividend yields. Financial and industrial shares would not be far from their ceiling if this were to happen.

The financial and industrial bull market should continue for the rest of the year, he said.

"Share markets are almost inevitably driven too far at the extremities of major cycles," he said. "The trick is to retain a sense of 'value' near the top, for only hindsight will show when it was reached."

Another broker said the main problem facing the market is justifying current share prices, either on a tangible basis or on attractive prospects.

"If you look at historical comparisons the market is in high ground," he said.

"Institutional cash flows may appear to be endless, but this cannot be taken for granted."

Many of the institutions were starting to look again at property development, which could take a substantial part of their funds available for investment.

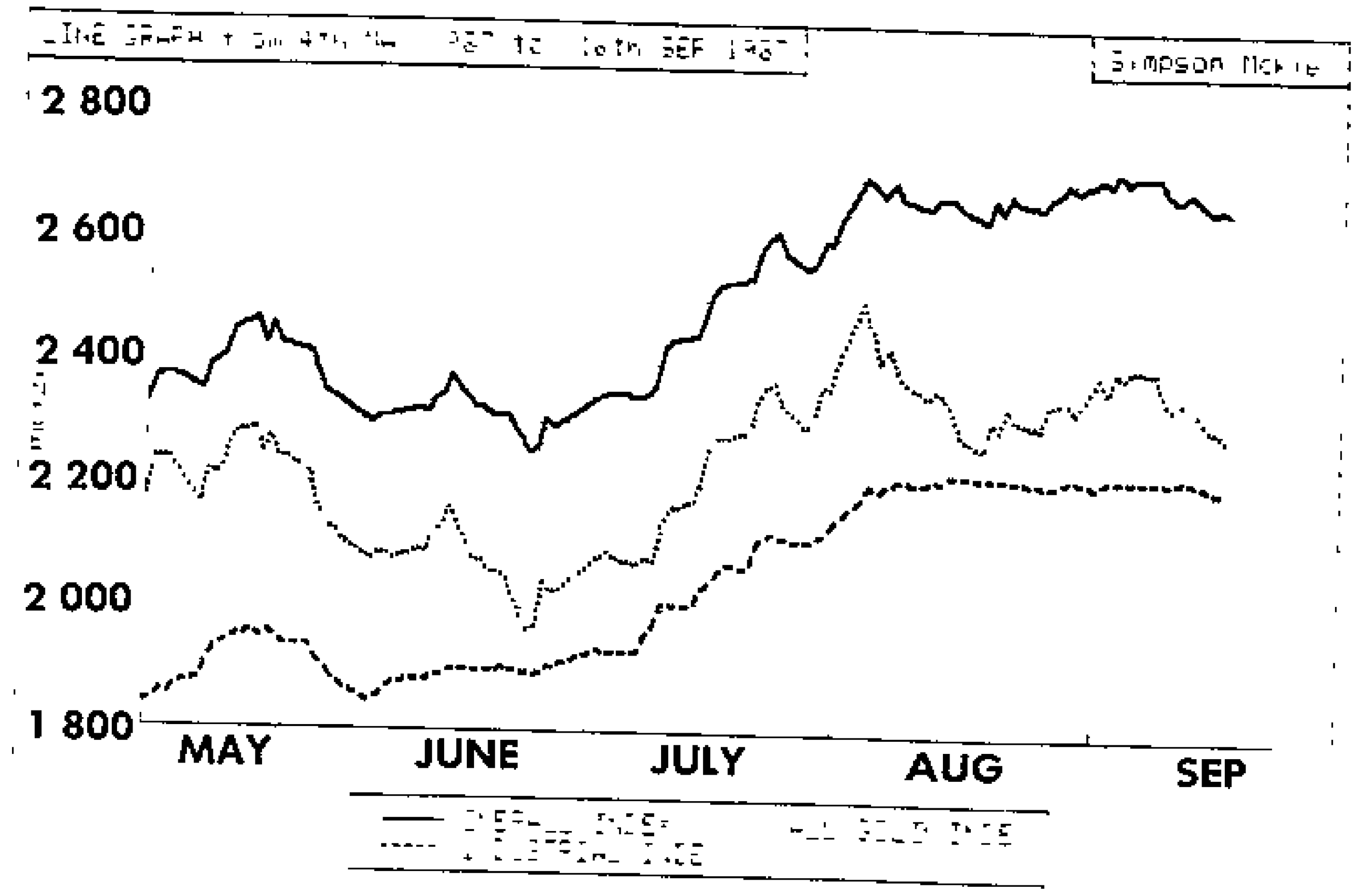
"Initially the investment may be small, but as the property develops the amount will get bigger," he said.

Because of the sharp jump in share prices the proportion of funds invested in property had also fallen below traditional levels, he said. This could also stimulate institutional investment in property in order to bring the portfolio ratios back to previous levels, leaving less funds for the share market.

Another disturbing factor was that the small man had arrived in the market, and could tumble out if it encountered a setback. Although new issues were being heavily over-subscribed, the liquidity was in the banking sector and not in the hands of the small man.

"When a market starts to slide, good shares go down as quickly as bad ones."

He was treating gold shares with caution. Gold shares have virtually doubled in price, mainly because of a change in the way investors have been rating the market.



Simpson McKie's analysis for the period May 4 to Sep 16.

BUSINESSMAN OF THE WEEK

Flying a desk in the wheels business

By DEREK TOMMEY

A DESIRE by young men to fly quite often leads in time to their rising to top positions in their air force or an air line. But for former SAAF pilot Glenn van Heerden the outcome was somewhat different — though just as distinguished.

His wish to fly turned out to be the first step in his becoming chairman of Avis, the country's biggest car hire and car leasing firm.

Like many other young men in the 1950s and 1960s he wanted to learn to fly and if possible at the Government's expense, he explained this week.

He was also influenced by the fact that his father had flown for the SAAF during the war and had then become an airline pilot with KLM.

He applied in Johannesburg to become a pupil pilot in the Active Citzen Force training scheme and was accepted. But he was told he would have to do his training in Bloemfontein to which he immediately went.

His instructor, discovering he had no job, arranged an interview for him with Lamdons, the city's leading Ford dealer. They took him on and one of his tasks was looking after its three hire cars and developing the service. And this was the virtual start of Avis in South Africa.

Initially Lamdons used the name "Zeda", derived from South Africa's ZA international registration. Subsequently the right to use the name "Avis" was acquired and the Zeda name discontinued.

It was not long before Avis was making its mark in the car rental market. "We were small, lean and hungry and we gave unequalled service," said Mr van Heerden.

"We introduced the car hire credit card and we pioneered the scheme where you could leave your hired car at your destination. We also introduced many other services now taken for granted. And we ensured that Avis cars were available for hire wherever there was a scheduled airline service."

However, Avis and the rest of the industry have not been without problems recently.

One was the major downturn in foreign tourism to South Africa.

This hit the industry hard, but it had one good effect, Mr van Heerden. Avis turned its attention to developing the local market. It devised a number of special deals including low rates for one, two, three, four or five-day hires, it introduced special weekend rates, it aranged package deals for holiday makers with SAA so that either the plane ticket or the car hire came free.

These schemes worked well and helped take up the slack caused by the loss of foreign tourists. In fact business in the past three months in Cape Town had been 29 percent higher in real terms than a year ago.

Businessmen were travelling by air in something like their usual numbers again, and the volume of holiday makers coming to the Cape by air and train and bus was also increasing.

And to add to Mr van Heerden's pleasure foreign tourists, particularly German tourists, are coming back as well.

Partly because of this bookings for the Christmas season were running 70 percent ahead of last year, said Mr van Heerden.

To meet this increase Avis was planning to have a fleet of 1 200 cars in Cape Town in December — a 20 percent increase on last year's figure.

To help handle the increased load in Cape Town Avis has bought a building in Strand Street — the first time it has bought property anywhere in South Africa.

Glenn van Heerden . . . unequalled service.

AVIS

P.T.O. To Page 2.

Flying a desk in the wheels business

From Page 1.

The R1,2-million building, which should be ready for occupation early next year, has been designed in the Cape Georgian style to fit in with the Bo-Kaap character of the area, said Mr van Heerden.

Customers will be able to drive right up to the counter. The building will house 50 rental-ready cars. It has its own washing and fuelling facilities.

However, the need to increase Avis's Cape Town fleet raises another problem constantly facing the company and other car hire concerns — the high investment required to stay in the car hire business.

Two months ago Avis was planning to spend R17-million buying 5 400 new cars, said Mr van Heerden. Among these purchases were 400 Nissan Sentras, 300 Mercedes Benzes and 250 VW Jettas. But this figure for new car purchases would now have to be increased — possibly to about 7 500, which is about 5 percent of the country's total new car production.

Because of the steep increase in car prices — some rose more than 80 percent in two-and-a-half years — car hiring had become highly capital intensive, he said, and only companies with strong financial backing could continue to operate in these conditions. Because of the high cost of cars it was probably impossible for a private individual these days to run a car hire fleet, he said.

However, the high cost of cars had not been a complete loss for Avis, as this has opened up a new market for the company — the leasing of cars.

Companies normally had more profitable things to do with their money than investing it in cars for their staff. The result was that they were increasingly leasing cars and Avis was involved in this market in a big way, said Mr van Heerden.

Getting a car on a full maintenance lease meant that all the user had to pay for, over and above the lease charge, was petrol, oil and insurance.

Avis had 4 500 cars leased in this way and this business was growing rapidly, he said.

The tourist industry was also expanding again.

All that was needed was for the Japanese, who were the world's biggest travellers after the Germans, to start coming here and the tourist industry would be booming.

Now it's a '90% plus' bond

SB

19/9/87

WREST

JOHANNESBURG — A new mortgage bond scheme offering a "90% plus" bond was announced today by First National Bank.

The new home-loans package is designed to give home buyers the opportunity of buying "more home for the same monthly outlay", said the senior general manager, Mr Jimmy McKenzie.

"We are offering buyers the unique facility of obtaining a 90% bond and also exercising the option of adding all bond and transfer costs to the amount of the bond — thus the 90% plus bond," Mr McKenzie said.

"In addition, we are offering buyers an extra 10% of the bond amount on top of the '90% plus' to make immediate improvements to their homes.

"Our interest rate remains a very competitive 12,5%, for both existing and new customers.

"The new package is available to all our customers regardless of the size of the bond taken out."

Further benefits in the First National home-loan package include:

- A decision in principle within 24 hours, and a final decision within three business days.
- An optional three months' grace before starting repayments.
- Bonds for the purchase of holiday or second homes.
- Calculation of bonds on 30% of joint income.
- An optional repayment period of up to 30 years instead of the more common 25 years. — Sapa

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Economy in trouble, warns Volkskas

BOB KERNOHAN
Business Editor

THE economy has "started to flounder", but could be put on course again by a boost of consumer confidence, in which reduced taxation must be the key element.

This is blunt message from Volkskas Bank in its latest economic report, issued today.

It stresses that it does not wish to be "alarmist" — but the bottom line is that its contents are cause for grave concern.

Using the annual meeting of the Reserve Bank as the source for drawing its conclusions, the Volkskas report on economic highlights states that the information released at the meeting confirms the standpoint "that the economy, on the basis of a number of economic factors, has started to flounder".

And it adds: "This trend has been particularly obvious since the first quarter of this year when business activities could no longer maintain the rate of increase of the second half of 1986.

"In reality, the economy has run out of steam to such an extent that the official projection of a 3% growth rate is probably no longer attainable."

After achieving a real growth rate of around 3,5% for both the third and fourth quarters of last year, the economy "has forfeited a considerable degree of its buoyancy since the beginning of 1987".

Growth dropped to an estimated 1,5% in the first quarter this year.

"The marginal growth in the second quarter," the report adds, "was influenced to a reasonable extent by the loss of production as a result of strikes and an exceptional number of official holidays.

"At the same time it must be borne in mind that the growth that did, in fact, take place in the second quarter was almost exclusively attributable to the significant increase in agricultural production.

"If agriculture is left out of the account the rest of the economy recorded a growth rate of a mere 0,2% in the second quarter."

Volkskas says the volume of factory production increased by only 0,9% compared with an increase of 2% in the first three months.

The reasons are "insufficient domestic expenditure together with more sluggish export volumes".

Behind the slow spending lurk several causes.

One of the most significant is that people are having to dig into their savings to balance the books from month to month.

"The moderate increase in real private consumption expenditure is still associated with with a lower tendency in personal savings," says the report.

"In the first six months of 1987, this figure amounted to a mere 1,5%.

"In its turn, this did not go hand in hand with an increase in outstanding consumer credit.

"In actual fact, the ratio of outstanding consumer credit to personal disposable income is on the decline — an average of approximately 25% was recorded in the first half of 1987 as against a figure of 33% for the corresponding period in 1985.

"The only conclusion that can be reached is that individuals are drawing on their accumulated savings to a considerable degree."

A root cause of the economy running out of steam is lack of optimism despite there being many pointers to improvement.

These include the more favourable position of the balance of payments, relatively low interest rates and the expansionary fiscal policy.

Why, asks Volkskas

Echoing the words of Reserve Bank Governor Dr Gerhard de Kock, the economic report says:

"The answer is still to be found largely in the lack of business and consumer confidence, which in turn arises out of the uncertainty on the political front and the negative perceptions abroad about South Africa and its future."

It looks to the Government to point the way to recovery by using "its economic management instruments timeously and in a more expansionary manner, in an effort to alter the course of the economy".

"... without an acceleration in private consumer spending — preferably supported primarily by reduced tax pressure — we can hardly expect the prevailing deceleration of the economy to be checked".

20/9/87 ST (58)

SUNDAY TIM

Banks step up battle of the housing bonds

Jimmy McKenzie ... R1,5bn on the books

THE two major banks in the home loan market, Standard and First National, have intensified the race for market share, each introducing new products this week.

Standard has announced a 100% bond for all prestige and achiever plan account holders, and First National has countered with a 90% plus bond.

But prospective house-buyers owners should think carefully before applying for one of the packages. Standard's 100% bond is riddled with qualifications.

To qualify for the full bond the borrower must have either a prestige or achiever plan account.

Improvements

The criteria for a prestige plan account are an annual income of R75 000 and net assets of about R200 000. Clients with prestige accounts are offered the lowest bond rate in the market of 11,5% on loans of R100 000 and upwards.

The achiever plan account holder must earn R36 000 a year and will be granted a 100% bond up to R100 000. Payment is the current rate of 12,5%.

By Stephen Rogers

First National's scheme is slightly different. All borrowers will be offered a 90% bond plus the option of adding the bond and transfer costs — about R700 on average — to the capital amount.

Proviso

In addition, the borrower will be offered a loan of up to 10% of the 90% of the bond, paid over its lifetime, for home improvements. This effectively results in the borrower being advanced almost the total amount of the bond.

The bond rate will remain 12,5% and the package is available to all customers regardless of the size of the borrowing.

But neither package is likely to be available to all people.

First National's scheme is available to all customers but subject to the usual banking proviso of "branch manager's discretion". Any branch manager worth his salt will not grant a 90% plus bond easily.

However, the competition between the banks will benefit those customers who qualify for the packages.

They spotlight an increasingly intensive campaign between the two banks. First National says its new product came first and that the 90% plus bond was in the pipeline for weeks. Standard says its offer has been available for about three months.

Jimmy McKenzie, senior general manager at First National, says: "Our home loan book is already more than R1,5-billion and we intend to increase it dramatically in the next 12 months."

Standard's book stands at R850-million and is expected to exceed it target of R1-billion for this year.

(8)

All set for an Islamic bank

By Stephen Rogers

A BANK, run according to Islamic principles, could be incorporated in South Africa soon.

The Reserve Bank has approved in principle the bank's establishment.

Most Islamic business is conducted through the Islamic Corporation, which was given special permission by the Reserve Bank to accept long-term funds.

However, it was not allowed to attract short-term deposits and Ebrahim Kharsany, chief executive of the corporation, believes that a lot of business could come from this area.

Mr Kharsany says: "Islamic businesses have no place to put their funds in the short term. We expect to attract a lot of short-term Islamic money from the other banks."

According to Islamic principles the bank will not pay interest on deposits.

Mr Kharsany says the bank will meet the capital-assets requirements under the Banks Act through holdings of cash and gold coins.

Investors will receive their return in the form of capital appreciation on the bank's investments. However, the large holdings of cash and investments in mainly private companies instead of listed companies may make the return less competitive than from the commercial banks.

Kharsany says the bank will not invest in listed companies that earn interest, directly or indirectly, on their funds.

This qualification excludes the bank from investing in most companies quoted on the Johannesburg Stock Exchange.

However, the bank is intended to serve the needs of the Islamic community more than the general public.

The Islamic Corporation has an asset base of R11-million. With the restrictions on short-term deposits lifted, Mr Kharsany predicts that it will improve to about R100-million in five years.

Assurance in the gold league

S/T 20/9/87 58

Dorian Wharton-Hood

By David Carte

IN a record year to June, South Africa's life-assurance companies increased their assets by R19-billion, or 41%, to R65,7-billion.

The assurers were boosted by premium income of R10,8-billion, investment income of R4,6-billion as well as a buoyant stock exchange.

Total income at R15,4-billion was not much less than the R17,4-billion earned by SA's biggest industry — gold.

The value of the life companies' shares rocketed by R11,2-billion, or 66,8%, to R28,1-billion, and their fixed-interest investments gained R6-billion (33%) to R24,2-billion.

Dorian Wharton-Hood, chairman of the Life Offices Association, says: "Critics may say these figures show the industry is too powerful. But these are the savings of South Africa. Our long-term liabilities, as assessed by actuaries, are perhaps 10 times the assets reflected. We need these assets plus good growth to meet our liabilities."

Mr Wharton-Hood also makes the point that in 1977 rands, total assets are only R20,8-billion against R5,7-billion in that year, indicating that inflation is partly responsible for growth.

Because the second-biggest life company, Sanlam, values its investments at cost not market value, the official Life Offices Association figures understate rather than overstate growth.

Another reason the figures are conservative is that Liberty Life has deconsolidated its offshore associate TransAtlantic, which is worth R1,5-billion.

Assurers' expenses including commission and tax rose by 30% to R1,9-billion. No net profit figure is given for the industry because these figures are for the end of June and many life companies have different yearends and do not do actuarial valuations in June.

Large gap

The outstanding feature of the revenue account last year was a 280% rise in single-premium business to R3,1-billion (R824,6-million).

Mr Wharton-Hood ascribes part of the growth of single-premium business to the success of insurers in selling investment products to non-taxpaying organisations, such as municipalities, welfare organisations and churches.

"They took advantage of the large gap between short- and long-term rates, offering municipalities a much higher return on their cash than the 7% or 8% they could get in a building society.

"Assurers took large amounts from these organisations, and incidentally from building societies, and invested them in gilts and the stock exchange, earning up to 30% for non-taxpayers.' These schemes were available only to non-taxpayers, or the proceeds would have been taxable.

"Unfortunately, some assurers guaranteed minimum returns, which meant that if they did not achieve them, other policyholders would have been prejudiced. After complaints from the building societies, the Registrar stopped this type of business."

The Registrar also intervened to stop "Fenton" investment schemes, whereby investors in syndicates borrowed from banks and invested in the stock exchange through single-premium policies. There might have ben guarantees on this type of business as well.

The assurers thus took a lot of business from banks and building societies — but have been prevented from doing so again.

Mr Wharton-Hood believes the only objectionable aspect of these investments was the guaranteed return,

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□ From Page 1

Assurers in the billions

58

which left them vulnerable to a lower stock market and caused a severe risk of mismatching assets.

Had they been permitted to continue without guarantees, they would eventually have helped to narrow the gap between long- and short-term interest rates.

Annuities

Another outstanding feature on the income side was "other recurring premiums", which doubled to R3,1-billion (R1,5-billion). This reflects effective selling in an inflationary environment.

Death and disability claims rose by 23% to R1,1-billion and annuity payments by 69% to R718,4-million.

Total benefits paid increased by 30% to R1,7-billion.

The industry's tax bill fell to R242,6-million (R283,8-million) because the one-off levy imposed by the Minister of Finance fell away.

The life companies' stock market investments at R28,1-billion exceed their fixed interest portfolios of R24,2-billion. At the end of June, they had 42,8% of their assets in equities against only 19,3% in 1977. Fixed-interest securities made up 37,2% of the total portfolio compared with 45,5% 10 years ago, GM Times 2/9/87 (58)

Bank steps up home bonds battle

JOHANNESBURG. — First National Bank announced a new mortgage bond scheme at the weekend offering "90%-plus" bonds.

The bank's senior general manager, Mr Jimmy McKenzie, said the new home loans package was designed to give home buyers the opportunity of buying "more home for the same monthly outlay".

Buyers were being offered a facility of a 90% bond with the option of adding bond and transfer costs to the amount of the bond.

"Thus the 90%-plus bond," Mr McKenzie said.

They were also offering buyers an extra 10% of the bond on top of the "90%-plus" to make immediate improvements to their homes.

"Our interest rate remains a very competitive 12,5%, for both existing and new customers. The new package is available to all our customers regardless of the size of the bond.

"Payments are credited on a daily basis, and the borrower therefore receives immediate benefit for all payments, effecting a substantial saving over a period of 20-30 years.

"This is in contrast to many bond repayment systems in which deductions are made on a fixed date each month. In these schemes, late payments are credited only on the next fixed repayment date, incurring extra interest costs."

Further benefits in the First National home loan package include:

- A decision in principle within 24 hours, and a final decision within three business days;
- An optional three months' grace before starting repayments;
- Bonds for the purchase of holiday or second homes;
- Calculation of bonds on 30% of joint income;
- An optional repayment period of up to 30 years instead of the more common 25 years.

Standard Bank recently announced 100% loans for over-R100 000 homes and offered 11,5% rates for "special" customers. — Sapa

Lack of confidence, financial position of consumers retarding progress

Growth rate unlikely to meet expectations, says Sanlam

GROWTH in real gross domestic product will almost certainly be below 3% this year, says Sanlam in its latest Economic Survey.

In the first quarter of the year, annualised growth dropped to about 2% and to an estimated 1,5% in the second quarter. Thus there would have to be an exceptional acceleration in growth for a final figure of 3% to emerge, says Sanlam.

Despite many factors which should promote growth — easy availablity of money, low interest rates, surplus capacity in many sectors of the economy, considerable surpluses on the current account of the balance of payments, and the expansionary nature of the government's fiscal policy —

HELENA PATTEN

it seems the lack of business and consumer confidence and the poor financial position of the private consumer is the cause of the struggle of the economic revival to gain momentum.

Sanlam estimates real gross domestic product will grow by about 2,5% this year.

The survey predicts inflation will gradually tend lower during the rest of the year and that the average inflation rate for 1987 will about 16% compared with 18,6% in 1986. "This deceleration in the rate of price increases is the result of technical causes rather than an improvement in the underlying tendency."

Sanlam says the generally favourable balance of payments position has made possible within the past 18 months the Reserve Bank's redemption of R3 300m in loans previously negotiated to support the reserves, as well as the payment of R1 300m on the IMF loan.

"We do not anticipate large fluctuations in the exchange rate of the rand in the next few months and estimate the average dollar/rand exchange rate for 1987 will be about $0,48."

Sanlam also points to generally liquid conditions and believes short-term interest rates will be subjected to downward pressure rather than to noticeable upward pressure in the next few months.

Home loans war hots up

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23/9/87

Daily Dispatch Correspondent

JOHANNESBURG — Standard Bank fired the latest salvo in the home loans war yesterday when it announced an "instalment capping option" which effectively fixes monthly instalment payments for five years.

The bank's move follows last week's announcement that it offered 100 per cent bonds in certain cases.

Meanwhile, First National Bank has joined the fray by advertising "a unique new home loans package" — which includes a 90 per cent bond plus an option to add all bond and transfer costs.

FNB also offers "the immediate benefit of having your bond payment credited on day of deposit". But yesterday the Standard announced that it, too, would credit bond accounts immediately with any funds deposited.

Mr Von Brumsen said home owners should bear in mind that a mortgage was a long-term commitment, and that paying cheap rates now could mean paying dearly later.

Prospective home owners should carefully consider the long term picture, he said.

Turning to the competition between banks and building societies, Mr Von Brumsen said banks could take advantage of cheap short-term funds, which enabled them to cut mortgage rates. But building societies were legally restricted as to the amount of short term funding they could use.

Reacting to the Standard's move to cap instalments, the UBS home loans general manager, Mr Piet Kruger, said building societies already had schemes whereby home owners paid only the interest due on their bonds for a period of five years. During this period the capital amount owing remained the same.

By contrast, the Standard's "instalment capping" scheme increases the capital amount owed while borrowers continue to pay the same instalment.

Business D

0c (45c + 5c tax)
For other prices, see Back Page

Natal, Western Province, Eastern Province 80c (71c + 9c

58 24/9/87. B/day.

Perm introduces service charges

GRETA STEYN

PERM depositors who use their accounts for current financial needs and not for savings are to pay service fees from next month — but savers will not be charged.

In a notice to depositors, the Perm says many people are not saving, but are using their accounts for transaction purposes only. "It has now become necessary for us to charge them fees for our services," the notice says.

It urges "transactors" to qualify themselves as savers to avoid paying fees. To qualify a depositor should maintain a balance of R200 or more throughout the month, or he should have R200 or more in total invested in special savings, shares or fixed deposits throughout the month.

Explaining the Perm's need to change its "no charges" policy, assistant GM marketing Peter von Broembsen said it had become expensive to accomodate the burgeoning number of transactors.

In the past two years, Von Broembsen said, the number of non-savers had grown faster than the number of savers.

When asked whether the announcement was not too sudden, Von Broembsen pointed out that Perm chairman Alistair Macmillan had warned in July that service fees were on the cards.

He said the Perm's method of charging fees was different to that of other building societies, which made it difficult to compare charges. However, the minimum balance of R200 was very low when compared with other societies.

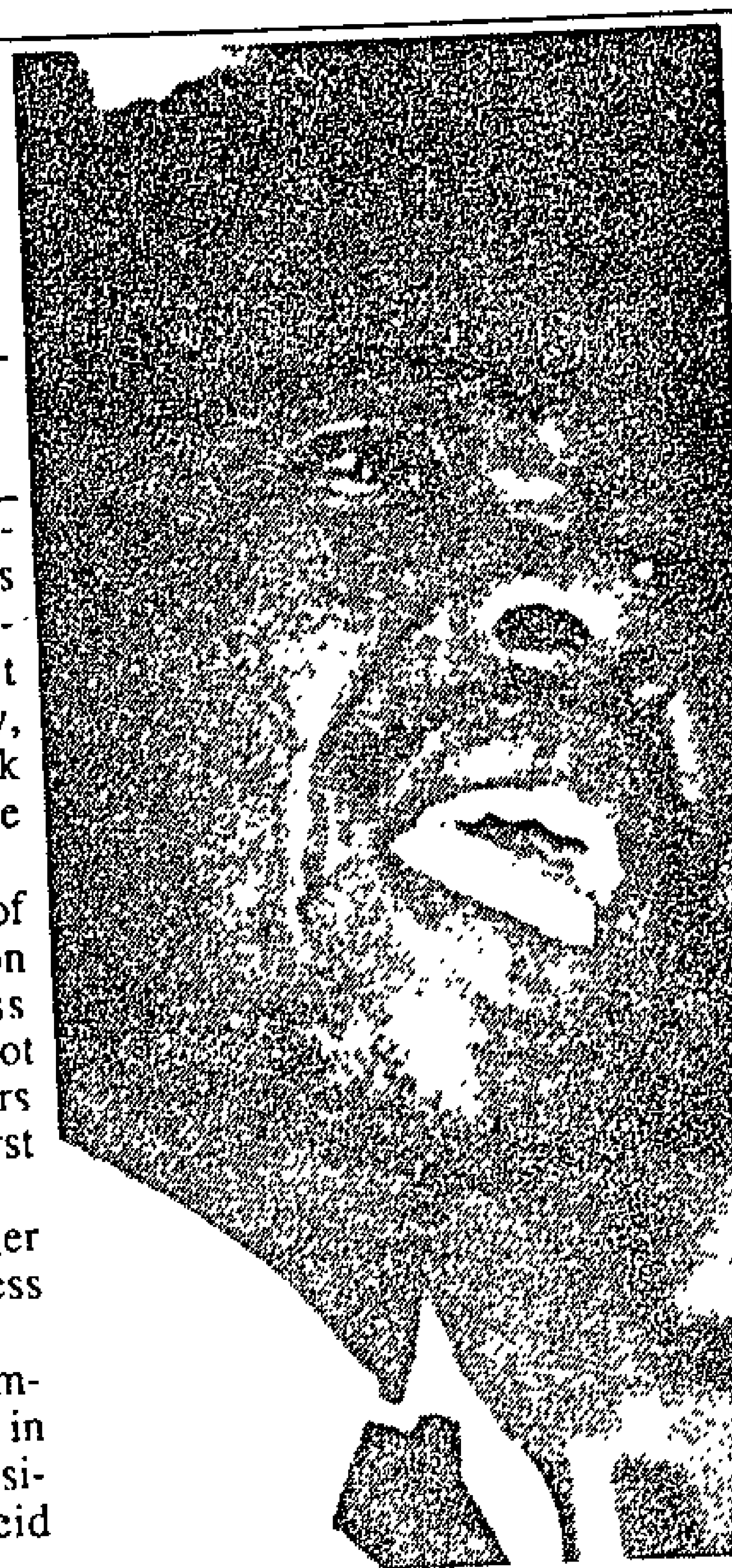
Brokers case drama continues

W Mail 18-24/9/87

THE ECONOMY

Managers talk of being black — and capitalist

By MBULELO LINDA, Port Elizabeth



Nzimande ... BMF must contribute

THE role of black managers, balancing upward mobility with the expectations of the community, was debated at the annual conference of the Black Management Forum in Port Elizabeth on Friday.

Under the banner "The role of the black manager in a changing socio-economic and political environment in Sout Africa", ways black managers could remain part of the "struggling popular masses" and yet rise in the corporate world were discussed.

Keynote speaker Bonginkosi Nzimande, a senior lecturer at the University of Natal, asked whether black managers and their communities were reconcilable. He questioned whether the upward mobility of black managers was perceived by the community as part of and consistent with the national "liberation struggle".

Attention was also focused on whether the free market economy, irrespective of its political context, was capable of redressing current inequalities as well as meeting a demand for the redistribution of wealth.

Delegates also discussed whether black managers would be able to meet the demands of the workers and the community when they finally arrived in the corridors of corporate power.

According to Nzimande, "It is not good enough for instance to say the BMF must play the role of 'catalyst' (the dominant theme in their black advancement seminar in Durban this year), but contribute and fully participate in the struggle to bring about economic and political democracy, not as understood by individual black managers but as understood by the struggling masses."

For the former national president of the Azanian People's Organisation and present Soweto business manager, Khehla Mthembu, the pivot of his argument for black managers was "You should be a black man first — then a manager".

"Only when the black manager takes himself seriously can business take him seriously," he said.

He said black managers had an important role to play in the economy in the event of an outflux of white business persons in a post-apartheid South Africa.

It was a blessing in disguise, he said, that South Africa would be the last country on the continent to achieve freedom, for South Africans could learn from the mistakes made by black people throughout Africa. "We must create our giants of Biko, Mandela and Sobukwe. They have shown us the way; they did not wait until liberation before they came with documents like the Azanian People Manifesto or the Freedom Charter.

"Now when we talk in the politi arena we know what people want · their demands are well document But we as black managers do i know what kind of economy want." — Ecna

Dream becomes reality

IT IS now a fact that soccer will have a new home. Mr Abdul Bhamjee, NSL's PRO, Mr Chris Ball, MD of the First National Bank, and Mr Cyril Kobus, general manager of the NSL, pose with a model of the proposed stadium.

SOCCER TO GET R25-m

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Sowetan 24/9/87

By MOLEFI MIKA

THE South African soccer scene yesterday received a R25-million boost from the First National Bank for a national stadium, Soccer City, to be built at Crown Mines, Johannesburg as from November.

The money will go to a trust that will monitor the construction of the stadium as well as managing it after completion.

This announcement was made by the bank and the National Soccer League (NSL) in Johannesburg.

Mr Chris Ball, managing director of First National Bank, said the bank will pay an initial R5-million cash to the trust and later R1-million annually for the next 20 years.

Mr Ball said: "It is hoped Soccer City will improve the standard of soccer to its full maturity.

"The cash flow from the stadium will be used to provide facilities for both amateurs and professionals in the country."

Tour

The first phase of the stadium, scheduled to be completed in a year, will seat 75 000 spectators. The second phase will see the stadium seating 120 000 spectators.

An excited Abdul Bhamjee, public relations officer of the NSL, explained that their league and its mother-body, the Soccer Association of South Africa (Sasa), would lease the stadium from the trust.

Mr Ball's bank is partly sponsoring the controversial rugby tour by the Fiji players.

Mr Cyril Kobus, general manager of the NSL, said: "Our philosophy has not changed ... we made this clear to the FNB."

SANTAM

Spring cleaning?

The Civil Servants Association (CSA) received quite a shock recently when members were presented with premium increases of as much as 44% by Santam.

So much so that the CSA had its business re-broked by Bancura to ACA Insurers Ltd (previously called Atlantic & Continental), and now headed by former State Actuary Willem Swanepoel. It means that from October 1, Santam loses at a stroke no less than 37 000 policyholders, worth a current premium income of R38m.

On the other hand — and perhaps more significant — is that the new deal will amount to a fantastic increase in ACA's business, from about R1m of total premium income as at the year ended December 31 1986, to about R48m.

Some suggest there's quite a storm brewing, given the traditional links the Santam/-Sanlam camp has with Afrikaner business and with the ranks of government and semi-government employees.

One publication embellished the speculation by mentioning Andreas Wassenaar's book where he recently criticised the government pension scheme. Wassenaar was a previous chairman of Sanlam.

However, Pieter Louw, Santam's GM marketing, is reconciliatory. "Each year Bancura has always reviewed the position. It is encumbent on any broker to obtain the widest possible cover for the lowest premium for his clients.

"This year we quoted a premium that was not acceptable to them and so they decided to move the business. This is unfortunate, but we hope to tender for their business at next renewal."

As CSA general manager Hans Olivier says: "For the last seven years we have had an arrangement with Santam whereby we look at the premium income and the claims and then agree on a premium rating. It's worked well up to now, but this time round for the October renewal, in our view, Santam's request was simply not realistic."

Apart from this, the CSA was not the only business affected by what appears to be a spring cleaning operation thought to have cost Santam about R50m in premium income, or some 7% of its total business.

Its lengthy list of group schemes business cancelled involves around 65 000 policyholders, ranging from Hoëveld Personnel (now Bancura), the Cape and Natal Provincial Administrations, to a number of government departments.

For insurers generally, group schemes have not been that successful. One criticism is that such packages bring similar employees together motivating a collective attitude toward claiming, while at the same time the quality of risk tends to be more homogenous.

Instead, policies on an individual basis, such as Santam's Multiplex, can more easily be underwritten; risk assessment is improved; while the overall risk profile can be spread more evenly over the populace.

At the end of the day those insurers that no longer want group schemes business are obviously taking a well-considered underwriting decision.

Meanwhile, loyalties run deep. It is understood that some civil servants are not happy with the move despite a saving in premiums. When their group scheme goes to ACA in October, they will leave and purchase an individual Multiplex policy.

And that may well be precisely what Santam wants. ■

LIFE ASSURERS

Riding high

There's always a sense of the inevitability these days when the Life Offices' Association (LOA) announces its accounts for the industry. Year after year they reflect growing inflationary expectations as desperate savers seek to preserve future earnings.

And so it is with the latest batch of figures for the period to June 30 1987. Total assets leapt by 21% in just six months to R65 749m, amounting to an accrual of R89,3m per working day.

Single premiums business was R1 956m for the six months. This was four times the figure for the same period last year, and reflects, in large part, the dramatic fall in interest rates which encouraged the transfer of savings into the life assurers' coffers.

Total premium income from individual and group pensions business stood at R5,9 billion, up by 55% on the same period last year. Including investment income this brought total income to R8,4 billion for the six months, or R67m per working day.

Out of this, of course, benefits were paid, expenses incurred and taxes accrued, leaving some R4,9 billion to be invested for future benefits. Considering the asset accrual was R11,2 billion, this suggests that some R6,3 billion was added to assets in respect of revaluations of one sort or another over the six-month period.

FM 3/9/87

Shares accounted for 42,8% of the industry's investments as at June 30. A year before the percentage was just 36,4%.

Comments the LOA: "In recent years the industry has increasingly shifted its investments towards growth or equity-type holdings to counter the erosive effects of inflation on policyholders' funds."

With such fast growth in business it is difficult to get a clear idea of the impact of pension fund withdrawals, and policy lapses and surrenders.

These totalled about R974m for the six months, up by 30,5% on the previous year. This is certainly significant by any standards, and reflects persistent employment problems following the economic recession.

Taxation rose from R117,9m to R123,5m for six months under review, apparently small considering the enormous asset base of R65,7 billion.

Nevertheless, it is an abiding problem for the industry, and chairman of the LOA, Dorian Wharton-Hood, comments: "It is profits that should be taxed, not assets. Besides, more than half our business is pensions and retirement annuities, which is not taxable in our hands.

"It would be wrong at this stage to discuss our precise recommendations prior to submission to the Margo Commission, but in principle we will be working for tax neutrality between financial institutions."

Whatever tax the industry pays at present is, of course, on the policyholders' behalf, but it has always been difficult to agree on the rate that should apply.

Another method would be for the funds to build up in the hands of life assurers free of tax and for policyholders and beneficiaries to pay the tax on receipt of the proceeds. But this is unlikely to be adopted since the fiscus "won't want to wait that long."

Another issue, that focuses more on the asset build-up is the Competition Board's investigation into concentration of power in the financial sector (see next story).

Wharton-Hood points out that the CB is looking, not at the existence of power per se, "but at the abuse of power."

"Power is inevitable, it will always be there," he says, "given the huge flows of funds. In my view, there is no evidence of power being abused in the industry. Indeed, life assurers operate in a highly competitive environment, and there is no room for market agreements or collusive practices." ■

COMPETITION FM 23/9/87

Warning brokers

Towards the end of 1986 the Competition Board was instructed by government to investigate concentration in the financial sector. Since then the insurance industry, for one, has become increasingly anxious about whether its affairs will stand up to scrutiny.

Keen to pre-empt "wrong conclusions," several spokesmen for the industry have been quick to answer informal criticism that, for example, insurance intermediaries are guilty of "conditional selling," or that life offices are becoming too large and have started abusing their powers.

Last week Competition Board chairman Stef Naudé expressed the position of the authorities in an address to an SA Insurance Brokers' Association dinner. He included comments on "tied" insurance brokers and anticipatory measures against mergers likely to restrict competition.

Conducted under Section 6 of the Act, he said this signified "that the board is acting purely as the government's adviser" on competition policy.

Moreover, in relation to the current enquiry, Naudé notes that the board has in the past avoided "punishing success or protecting competitors instead of competition." And it understands "the realities of any given situation, including the influence of technology."

He emphasised the position of the broker as an independent intermediary, whose relationship with the insured is determined by a contract of mandate.

His duty is to "negotiate insurance contracts in the interests of the insured." The broker may have a separate legal relationship with the insurer, "but this is not necessarily the case."

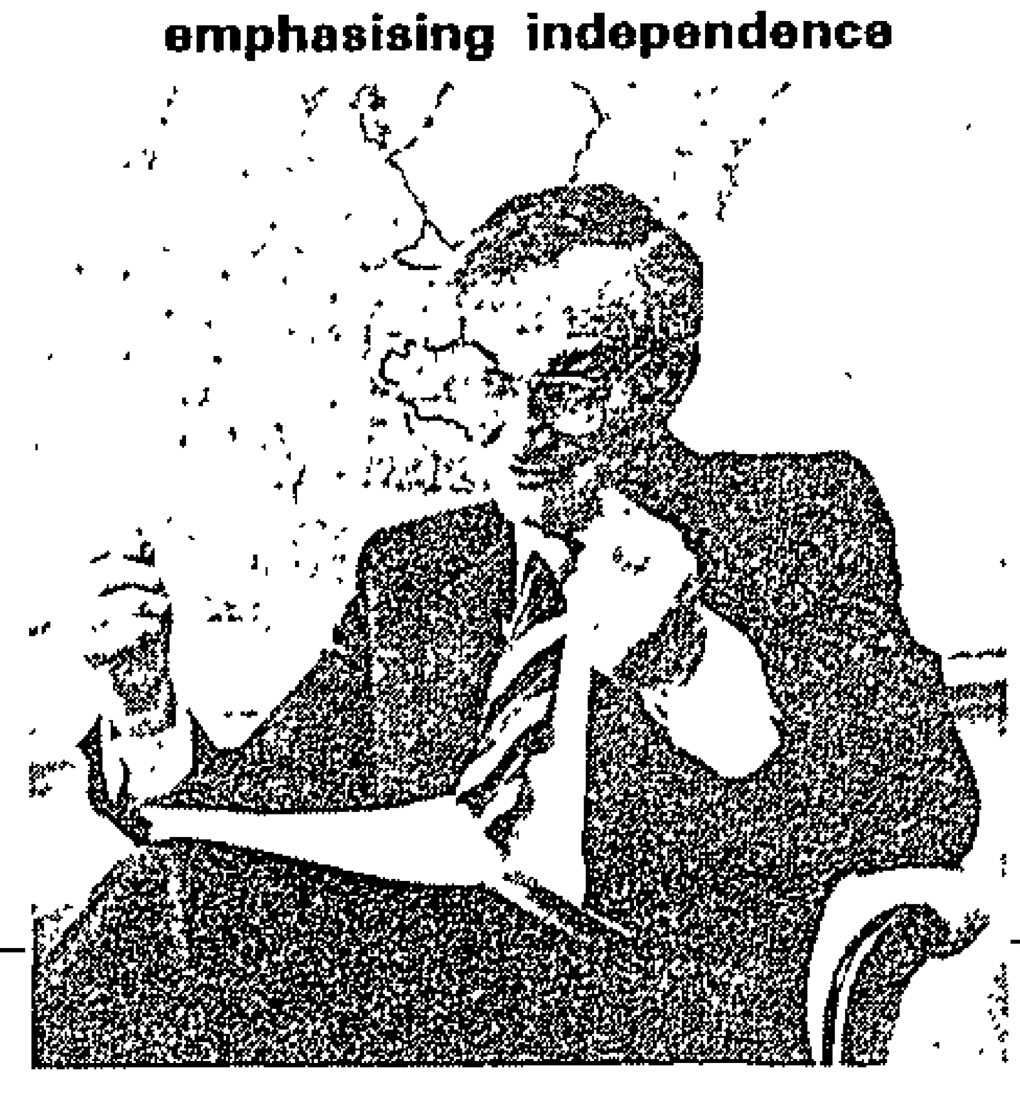
Important common law duties arise from the contract of mandate, says Naudé. These include the duty of good faith and the duty to act with the necessary care and skill. But from the substance of his contract and his fiduciary position in relation to his client, it is the insurance broker's independence that is "of fundamental importance."

In commercial reality, however, each of the five large banking groups has a "close connection" with one or several life assurers. In three of these cases, an assurer actually controls the banking group in question. And each of these banking groups has "one or more" insurance broker firms, mostly firmly controlled or even owned outright by the bank.

The Life Offices' Association, Naudé understands, while regarding this form of vertical integration "as an issue of concern," sees no objection in principle to vertical integration provided (inter alia) that the objectivity of the broker is not biased to the detriment of the insured.

Naudé feels more concern about the issue, noting a letter to the board from "a respected head of a financial institution," who complained about the "increasing linking of theoretically independent intermediaries" to life assurers and other financial institutions. Seen in perspective, there is "an absolute necessity," says Naudé, for the authorities to act in an anticipatory (preventive) manner. He believes that experience since 1980 has "strongly vindicated" this argument.

Competition Board's Naude ... emphasising independence



SIT (58) 27/9/87

House-bond war hots up with new offers

By Stephen Rogers

THE housing-bond war between banks and building societies intensified this week when both Standard and Trust introducing packages to tempt the undecided.

Under Standard Bank's latest package, the borrower will be given the option of accepting a fixed monthly repayment over the next five years.

If interest rates move up in this time, the difference between the new rate and the fixed repayment will be debited to the borrower and will accumulate.

Capitalised

At the end of the five years the accumulated interest will be capitalised and repayments will be calculated on the new amount.

The house-owner gains by paying a fixed amount for five years and the increase in his income will place him in a good position to pay future higher repayments.

But Standard gains if bond rates rise. The capitalisation of accumulated interest at the end of five years means that the borrower will be paying interest on the deferred amount.

Furthermore, if bond rates are higher at the end of five years he will be paying a higher rate of interest on the accumulated sum. Economists expect interest rates, on the back of a new business cycle, to rise in 1992 to much higher than present levels.

"If this capping option is widely adopted, Standard stands to increase its profitability on these bonds," says a building society. But this assumes the borrower will be able to pay.

The property market is starting to recover, so the risk of large bad debts seems low — though five years is a long time in the SA economy.

Dennis Matfield, managing director, Standard Bank Financial Services, says: "We have looked at the possibility of bad debts and do not see a problem."

Difference

Standard's is not the only fixed bond available.

Allied Building Society offers a fixed bond rate of 15% over three years and 16% over five years. The difference between its bond and Standard's is that Allied has fixed the rate and not the repayment. So there is no accumulation of interest after five years.

Trust Bank has joined the fray with the introduction of a 100% bond, the Ultimate, which will be offered to all new borrowers at the present interest rate of 12,5%.

Senior general manager Kobus Roetz denies that the bond was introduced in reaction to similar packages from Standard and First National, saying, "it has been in the pipeline for about six weeks".

He declines to say what Trust Bank's home loan book is. But commenators say the bank has been making inroads into the home loan market and estimate that its book is not far behind Standard's R850-million.

Trust also offer fixed bonds at similar rates to Allied. But Mr Roetz says there is little demand for them.

BoP surplus to 'remain healthy'

Bank forecasts continued growth in SA economy

28/9/87 B/Day

HELENA PATTEN

SA's economic climate remains favourable for continued growth, says Trust Bank in its latest Economic Report.

It says despite signs that this year's surplus on the current account will be smaller than that of 1986, it is still expected to be at a healthy level.

"While it was initially feared the capital account of the balance of payments would be a heavy drag on the growth prospects for the current and coming years, latest indications are that this problem would be less intense — particularly if the political situation could be controlled."

Trust Bank says it seems foreign trade credit will be more readily available if the need for such credit arises from a deficit on the current account of the BoP. It ascribes this development to the assiduous manner SA has adopted in settling its foreign liabilities.

The report says the higher average level and stability of the exchange rate should continue its positive effect on the inflation rate for the rest of 1987. "The year-on-year rate is forecast to ease lower to between 14% and 14,5% by the end of the year."

It says the latest survey of the trade sector by the Bureau for Economic Research shows credit sales have grown faster than cash sales, indicating consumers have regained confidence to such an extent they are willing to buy on credit again. "A further improvement in consumer demand is therefore envisaged for the rest of the year."

Trust Bank says the fact that money supply growth keeps falling short of the targets set for 1986 to 1987, can be attributed to the effects of various kinds of "disintermediation".

Bank seeks stabilising of rates

(58) 9/den
28/9/87

GRETA STEYN

THE RESERVE Bank is signalling its desire to maintain interest rates where they are at present, Senbank says in its latest capital market report.

This was evident from the Reserve Bank's efforts to contain the money market shortage through its discount policy.

Senbank says the Reserve Bank is trying to keep the shortage close to nil during the course of the month, while at the month-end containing the shortage at a reasonable level.

Highly

"It seems the Reserve Bank was highly successful in its efforts to contain the shortage fairly constantly close to nil from the end of January to mid-April," Senbank says.

However, since mid-April the Reserve Bank's efforts to keep the shortage stable were less successful and fluctuations occurred continually — accompanied by fluctuations in short-term interest rates, the report says.

There are a number of factors which could have caused the Reserve Bank to be less successful in its attempts to keep a stable money market shortage.

One is the fact that government spending in the second quarter usually exceeds its revenue considerably.

Spending

Increased government spending leads to high liquidity in the money market — but the Reserve Bank has to sell large quantities of government stock in the market to finance the government's deficit.

"The considerable fluctuation in the shortage at times may therefore be the result of poor synchronisation between the inflow of liquidity into the money market and the withdrawal thereof by the selling of government stock," the report says.

(58)

ST 28/9/87

Debt is IMF's biggest problem

WASHINGTON — Sharp differences are emerging between Brazil and the United States as the focus of the International Monetary Fund (IMF) annual meeting here switches from currency questions to ways of tackling Third World debt.

Brazil's Finance Minister, Mr Luiz Carlos Bresser Pereira , told the IMF's policy-making interim committee yesterday that time was running out for a long-term debt solution.

"No longer can a solution be postponed. Many debtors have exhausted their internal and external adjustment capacity," said Mr Bresser Pereira, who won support from the Finance Ministers of Mexico and Argentina last week for the principle that debtors should pay no more than they can afford.

Brazil has just begun tough negotiations with creditor banks for easier terms on its $113bn (R226bn) debt, the developing world's largest.

The US Treasury Secretary, Mr James Baker, who shot down a radical Brazilian debt plan earlier this month as a "non-starter", said he would outline on Wednesday to the annual meeting of the IMF ways in which the agency could do more to help debtors boost their economies. But he insisted there was no magic formula.

"There are no quick-fixes that can solve the debt problem and dramatic solutions won't appear overnight," Mr Baker told the Interim Committee in voicing his nation's concern over the situation.

The Canadian Finance Minister, Mr Michael Wilso,n agreed. Blanket solutions had not worked in the past and were unlikely to do so in the future, he told reporters.

Unlike last year, when Mexico faced a deadline to reschedule its debts, no imminent crisis is overshadowing this year's IMF meeting.

But the group of 24 developing countries warned on Saturday that more and more debtors might have to limit or suspend payments unless the debt strategy wass improved. — Sapa-Reuter

ARGUS 28/9/87 (58)

Trust Bank offering 100 % home loans

By TOM HOOD
Business Editor

TRUST Bank is the latest to join the battle between banks and building societies by offering no deposit, 100 percent loans to homebuyers.

Both Standard and First National banks have come out with offers of lower bond rates while Standard and Allied Building Society have packages that peg bond rates for as long as five years to guarantee fixed monthly repayments.

The flood of money into the home-loans business and low bond rates have given a boost to the housing market since the beginning of the year.

Trust Bank said today its new package was not limited to specific income groups and removed a major obstacle for potential home-owners — getting a deposit together.

PLOTS

The bank's new bonds may also be used to buy plot and build houses.

"It does not make sense that people who can afford bond repayments should be kept out of the housing market purely because they do not have deposits," said Mr Kobus Roetz, Trust Bank's senior general manager, banking services.

Monthly payments may not exceed 30 percent of a married couple's income.

Mr Roetz said bond rates would be "competitive".

"Our personalised banking style makes us sensitive to client needs and abilities and permits us to put together a financial package which will responsibly and effectively meet client requirements."

Wassenaar slams pension fund laws

Development capital drained from economy

CAPE TIMES 30/9/87

58

By AUDREY D'ANGELO
Financial Editor

THE real purpose of forcing pension funds to invest in low-interest government stock is to make large quantities of cheap money available to the Treasury, former Sanlam chairman Andreas Wassenaar said last night.

In a hard-hitting speech in a city hotel, he said this policy had caused the taxpayer to subsidize the public service pension fund heavily and had drained development capital from the economy.

If the regulations were changed to make it no longer compulsory for 100% of the money in the public service pension fund and 50% of that in private pension funds to be invested in government stocks, more would be available to stimulate the private sector.

Private pension funds would be able to provide a better hedge against inflation and the taxpayer's exorbitant contribution to the public service pension fund — 21,9% of salary for male public servants and 16.5% of salary for female public servants — could be reduced.

Discussing the public service pension fund, Wassenaar called for a commission of inquiry by independent pension fund experts to investigate the manner in which the regulations had been amended to give unrealistic benefits.

He said pensions were based on salaries at the time of retirement. Unless this were changed it could be confidently predicted that thousands of civil servants would be promoted with appreciable increases in their salaries in the last month of service.

Not only that, but public servants could, until recently, buy back pension rights from the age of 16. A recent change to make this from the age of 18 only meant that "fewer civil servants will be working towards their pension while they are still at school".

Until recently, the purchase price for buying back pension rights was based on the salary at which the public servant started. This had been amended — but it was still not based on salary at retirement but at the time when the public servant decided to buy back

"In a time of inflation there is not even a remote connection between the salary on which the purchase price is based — even after this change — and the salary on which the benefits are ultimately determined," said Wassenaar.

"It is to be regretted that the Minister of Finance apparently does not appreciate that it is a farcical practice to permit 'pensionable service' to be acquired in any way but to work for it.

"However, he should be warned that juggling with the price formula will not solve the problem as long as he uses a certain salary to determine the purchase price but a different salary — that on the last working day — for pension purposes."

Discussing the advantages of doing away with compulsory investment in prescribed assets for pension funds, Wassenaar said the higher interest rate the government would then have to pay would act as a brake on its spending and encourage privatization.

"Borrowing is not an alternative to taxes. It merely represents a tax on future generations. To finance expenditure in this way must stimulate inflation, particularly in the long run."

There would probably be a general rise in interest rates at first as a result of keener bidding for available funds.

This would encourage saving and there would be "a stronger flow of capital to the private sector and into venture capital and therefore a more private sector orientated economy."

In the long-term he thought it would lead to downward pressure on inflation.

Cape Times 30/9/87 (58)

Islamic Corporation expects full banking status soon

From HELENA PATTEN

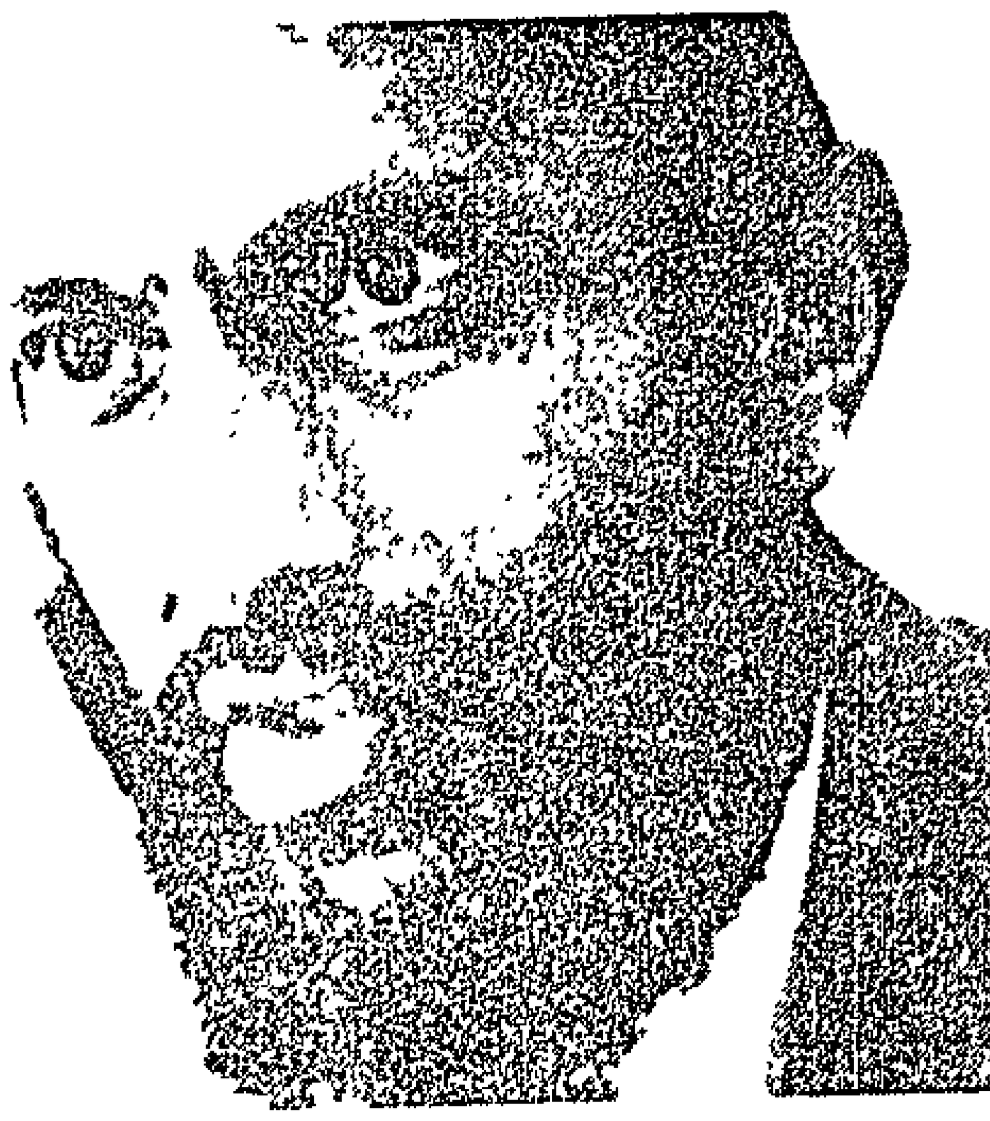
JOHANNESBURG. — The Islamic Corporation expects to graduate to full banking status in the next few months, following six years of rejection by the Reserve Bank of its 11 applications for the right to such status.

It has been confirmed that Foreign Minister Pik Botha's recent statements in the House of Delegates played a critical role in tipping the scales in favour of the Muslim business organization's suit.

Botha said his "many Muslim friends" had urged him to assist in the establishment of a bank run according to Islamic principles, which do not allow the payment or earning of interest.

An Islamic bank in SA would improve relations with Islamic countries, he said.

Chris de Swardt, registrar of banks, said yesterday Botha's interest in the issue had certainly influenced the central bank's thinking, but he emphasized that approval for the granting of the licence would depend on the financial soundness of the institution and compliance with the requirements of the Banks Act.



Mr Ebrahim Kharsany of the Islamic Bank

"No pressure was brought to bear on the Reserve Bank," he said.

MD of the Islamic Corporation Ebrahim Kharsany said yesterday while he was happy with the latest developments, he wished to make it clear that the Corporation had not been in contact with Botha.

"We're a business organization, with a business approach. We do not get involved in politics."

He said individuals in the Islamic Council had approached the minister, but not on behalf of the corporation or with the intention of helping his particular cause.

De Swardt said the Reserve Bank was satisfied the corporation — granted limited banking status in 1982 when it was allowed to accept deposits of five years or more — carried out meaningful business and that its management ran a profitable organization well.

However, the condition of a broad spread of shareholders required by the Banks Act still had to be satisfied.

Kharsany said the Islamic Bank would have a sound capital base with an authorized share capital of R50m, paid up share capital of R20m and assets which are currently standing at over R11m.

(58) ST 4/10/87

Old Mutual gives U.K. a lesson in life policy sales

By Richard Rolfe
London

"AFTER a year of sweat, I think the Mutual made a fine buy," says Garth Griffin, joint chief executive of Providence Capitol Life Assurance, the UK subsidiary of Old Mutual.

The price tag for Providence, which the Mutual acquired in January 1986, has never been disclosed, but it was, says Mr Griffin, below the lower end of the £30-£50-million suggested in reports at the time.

Old Mutual has always been the most outward-looking of the SA mutual life assurers, with long-standing offshoots in Zimbabwe, Zambia and Kenya. It decided in principle to try and break into the London market early in 1985.

Mr Griffin and colleagues looked at three or four life company propositions before lighting on Providence, which was originally part of the Slater Walker group, but by 1985 was under the control of Paul Dupee, a US entrepreneur. The Mutual worked closely with merchant banks S G Warburg and Morgan Grenfell in evaluating possible buys.

"It was a crazy time," Mr Griffin recalls. Several small companies changed hands as international groups like Allianz of Germany and Lincoln National and Metropolitan Life of the US also bought into the UK sector. The UK merchant banks promoted the idea of buying small life assurers on agreed terms rather than mounting contested bids for big groups.

Growing

Providence consisted of a life assurance company selling a range of life and pension products — investment bonds, single premium bonds and annuities — mostly in the form of unit-linked business. It began a unit trust division just before the Mutual takeover and this, says Mr Griffin, is "a very rapidly growing part of the company", with £150-million now under management in eight trusts and sales to the public currently running at around £2-million per week.

"We have been quite aggressive in extending the range," Mr Griffin notes, including a Hong Kong trust and, earlier this year, the first UK unit trust specialising in Swiss equities.

A separate company, Guernsey-based Providence Capitol International, sells investment-linked policies to UK expatriates under the direction of Bill Langley, late of the Mutual's investment staff in Cape Town. PCI, which operates in a large number of countries, uses brokers rather than a tied sales force.

The Mutual itself has no UK presence and transacts no business in the UK. Providence refers enquiries on Mutual policies back to SA.

Reflecting on the differences between running a life assurer in the UK and in SA, Mr Griffin mentions the vastly smaller scale of the UK company. In SA, the Mutual's market share is 25% and there are 30 life assurers. But in the UK, Providence's market share is hardly measurable and it is one of about 150 life assurers, with eight out of more than 1 000 unit trusts.

The regulatory structure is both familiar and different, Mr Griffin says: "Viewing the UK from Cape Town, it seemed much less regulated — particularly the absence of prescribed asset requirements." But in the UK, "the hand of the Government Actuary rests very heavily" and the new Financial Service Act is "mind-boggling", especially, Mr Griffin feels, the requirement to retain details of point of sale discussions with the client for three years and the possibility of being policed and made to justify recommendations made.

On management generally, he finds that staff works as hard in the UK as in SA, but detects less ambition among those in clerical jobs. "One has to work harder to get people to identify with the company," Mr Griffin observes. "They have no difficulty grasping problems intellectually, but often lack drive."

Where Old Mutual has made a real contribution to Providence is in its motivation of the sales force. Providence salesmen have gone out to SA for training and there has been "quite a traffic" of Mutual marketing staff to London for seminars and special projects.

The impact on productivity appears to have been gratifying. Under the previous management, Providence sales people were writing 3½ to 4 policies each per month. "We did our nuts," Mr Griffin says. "At the Mutual, we're used to over 7." By exposure to Mutual methods, the level of output has been lifted to 6½ policies per man per month. While there were 350 salesman at Providence, there are now 250, but they sold 20% more policies in the first half of this year.

The SA connection, which might have proved troublesome, in fact has had little effect. About 10-15% of the Providence clerical staff are black or Asian. There were, says Mr Griffin, about 20 resignations among the 500-strong staff on the takeover and perhaps a dozen policy surrenders.

Sponsor

Bolstering its non-racial credentials, Providence was a major sponsor this year of Imran Khan, the successful captain of the Pakistan cricket side, although the Mutual has no track record of sports sponsorship in SA.

Mr Griffin is one of just three Old Mutual staff seconded to Providence, the others being Dave Hepburn, head of the direct sales force, and Bill Langley, chief executive of PCI.

Mr Griffin's secondment ends at the earliest in mid-1989, after which he will probably return to SA. For the moment, he is relishing the freedom his job in London confers.

He reports directly to Mike Levett, the Mutual's managing director, who visits Providence quarterly to agree on direction and strategy.

"Beyond that, his usual reaction when we discuss decisions is 'Go and do it'," Mr Griffin says. "That's his style."

Insurers face claims flood from Natal

4/10/86 ST 58

SHORT term insurers are bracing themselves for claims totalling R350-million-R500-million following the Natal floods.

After doubling premiums in the past year, the industry was just recovering from underwriting losses amounting to tens of millions of rands when the worst natural disaster in SA's history struck.

Total taxed profits of the industry last year were R120-million — only a quarter of potential claims.

Fortunately reinsurers overseas carry a large part of the risk, so the loss to the local industry will be a fraction of the total.

Hard hit

Guardian National is believed to have been hardest hit among local insurers. It covers major corporate accounts such as CG Smith, Tongaat Hulett and David Whitehead.

General manager Keith Nollson says it will be at least another week before the total damage caused by flooding and sewage spillover to plant, machinery, buildings and stock can be assessed.

Claims arising from water cuts will be substantial, he says.

Business Times Reporters

"It is early days and we cannot put a figure to it. But the losses will be big, not only to us as a company, but to the country and the international insurance community as well," he adds.

He warns it will, inevitably, take time to pay out the bigger claims as there are funds only for small household policy claims at this stage.

Consequential losses arising from the damage will add immeasureably to the bill. It will be months before all claims are submitted.

And for the country, of course, there will also be the cost of replacing the province's ravaged road and rail infrastructure, much of which is uninsured.

But insurance shareholders have not over-reacted to the industry's blow. Hardest hit share price was Mutual & Federal which lost 125c over the week to close at 650c. Santam was another heavy loser down 50c to 190c.

But IGI lost only 10c to 560c, SA Eagle and Guardian both held their ground and Commercial Union actually firmed 150c to 1 500c.

An analyst warned: "It takes only one catastrophe to knock the industry back to square one."

Any expectations of a major boost for the construction and civil engineering industries from reconstruction also appears misplaced, in the short term at least.

SA Federation of Civil Engineering Contractors executive director Kees Lagaay says: "Don't think we are rubbing our hands."

Municipal and government authorities are likely to deviate from budgets allocated earlier this year, dropping or shelving development plans in favour of emergency projects.

However, the stock market apparently has a different perception.

Most of the leading counters moved up by Friday, led by Grinaker which firmed 75c to hit 1 050c after the magnitude of the disaster had been assessed. LTA was up 10c to 295c, Group Five was up 20c to 470c and Goldstein improved 15c to 385c.

Rate war

Ironically, the disaster occurred as the short term insurance industry was poised for another rate war after last year's return to profitability.

Fortunately for the industry, more than half the total loss amount will probably fall in the catastrophe category of agreements with foreign reinsurers, as a result of which more than half the amount of claims will eventually be paid by the international short term insurance market.

Loss adjusters and support teams have moved into Natal to help assess damage to buildings, industrial plant, stock in trade, vehicles, roads and bridges. But their priority is to help industrialists get their manufacturing, supply and delivery operations going to keep consequential losses to a minimum.

"It's impossible to say at this stage what the total cost will be," says Don Gallimore, managing director of PFV, South Africa's largest short term insurance broking organisation.

"The extended loss of water, gas and electricity could lead to enormous claims. One can only guess at consequential losses caused by the business disruption."

The flood damage is ten times worse than that caused by Cyclone Demoina.

Minet managing director Barry Jenkins believes most major risks on the North Coast and in Durban have come off relatively lightly.

"But the feedback is devastating. Those who have suffered most are the smaller commercial risks and householders."

Mr Jenkins believes the promised rate war will be delayed by a "sobering pause".

Fred Haslett, MD of SA Eagle, is pessimistic. He says that while most well-run companies will have limited exposure, perhaps in the R500 000 to R1-million range, premiums will increase.

LIABILITY INSURANCE (58)

Going to London

As predicted, local reinsurers' attempts to limit the South African market to liability insurance on a claims made basis have failed. Increasing numbers of insurers and brokers have resorted to alternative channels to obtain their liability covers on the traditional losses occurring basis.

The differences between the two systems, at times subtle, often confusing, nevertheless materially influence the manner in which claims are handled, and can prejudice the insured considerably.

Losses occurring policies will meet any claim where the injury or damage occurs during their currency, regardless of when the insured becomes aware of the loss. So there is no time limit to claiming.

Claims made policies only respond to losses that occurred after a so-called retroactive date, and provided they were first reported during the currency of the policy, or during an agreed extended reporting period. After this date the cover ceases.

The most significant turnaround in approach has come from Commercial Union (CU). Previously, MD Bill Rutherford said: "We were told if we wanted to enjoy local reinsurance facilities in future we would have to go the claims made route this year. And that's precisely what we did."

But that was two months ago.

Swiftly reverted

Now the company has swiftly reverted to square one. "We had arranged our treaties with local reinsurers on the new basis — it's part of our policy to let them fill their books. Besides, we thought if we've got to change over, then we must change.

"But then other companies started making their own arrangements for losses occurring. Some brokers started cutting it rough. And we then found we were at a disadvantage because we only had our own net retention available for writing business on a losses occurring basis. This put us in a cleft stick.

"In the end we went to London to get losses occurring cover and were successful through a number of companies including CU's head office in the UK." Ironically, CU in London had never changed to the claims made system.

South African reinsurers had tried to push the market on to a claims made basis from June 1 this year, believing it was "in the long term interests of the industry." At the time, about half the market complied, and not all as willingly as CU.

Commercial Union's Rutherford ... in a cleft stick

The prime objective of the move was to avoid the "long tail" problem experienced with losses occurring policies. Under this method, claims on expired policies could still be reported and would have to be paid, even if it was many years after the event. Insurers, and therefore reinsurers, often found themselves paying tomorrow's inflated claims at tomorrow's scale of damages, but out of premiums collected previously.

Yet despite this problem many direct companies are reverting back to the tried and tested method of losses occurring.

For one thing, on a sheer matter of principle, insurance brokers did not like being told what to do; for another there were some compelling reasons for underwriting many types of liability covers on a losses occurring basis. The proposed changeover was causing a number of administrative hassles. And, among a number of disadvantages, it was clear many insureds would have difficulty in notifying potential claims. For once a claims made policy expires then so does the cover, even for events that occurred during the currency of the policy but which were not notified, either through ignorance, or because the event was not considered material at the time.

But Rutherford emphasises he hasn't ditched the local reinsurers altogether. "Our London treaty provides only liability cover — on a losses occurring basis with certain classes on a claims made basis." CU will continue to use local reinsurers for the rest of its accident business, and for fire, catastrophe and storm covers. ■

within your rights to limit the number of supplementary questions. Are you now setting the precedent that you are only allowing four or six or a specific number of questions?

Mr SPEAKER: I am not setting any precedent. I have decided to allow five supplementary questions as a maximum and that is the basis upon which I said that I had allowed the maximum number of questions. My ruling is that five supplementary questions are allowed.

Mr D J N MALCOMESS: Then, Sir, it is in fact a new ruling from the Chair that five supplementary questions will be allowed?

Mr SPEAKER: The hon member can accept it as a ruling from the Chair that five will be the maximum number of supplementary questions in respect of a particular question.

Mr D J DALLING: Mr Speaker, is that five per person?

Mr SPEAKER No, I am talking about five supplementary questions per question.

Mr D J DALLING. Per question, Sir?

Mr SPEAKER. Yes, I hope that is clear.

Mr D J DALLING: Yes, Sir, it is very clear. [Interjections]

Declared cultural institutions

*2 Mr R M BURROWS asked the Minister of Education and Culture:

(1) Whether any of the persons who are members of councils of declared cultural institutions are not White; if not, why not;

(2) whether he will appoint persons who are not White as members of declared cultural institutions; if not, in terms of what statutory provisions or authorisation;

(3) whether he will make a statement on the matter?

†The MINISTER OF EDUCATION AND CULTURE:

(1) No, since the institutions which fall under the Department of Education and Culture are classified as White own affairs. Although the services of those institutions are available to all population groups, control is vested in the Whites;

(2) no, in terms of section 14 (1) of the Republic of South Africa Constitution Act, 1983 (Act 110 of 1983), matters which specially or differentially affect a population group in relation to the maintenance of its identity and the upholding and furtherance of its way of life, culture, traditions and customs, are own affairs in relation to such population group. Paragraph 3 of schedule 1 of the Act stipulates that art, culture and recreation (with the exception of competitive sport) which affect mainly the population group in question, are own affairs in relation to that population group. In paragraph 23 of a Government Notice dated 15 September 1984, the State President assigned the administration of the Cultural Institutions Act, 1969 (Act 29 of 1969), to the Minister of Education and Culture in respect of those institutions under his control;

(3) no.

Mr R M BURROWS: Mr Speaker, arising from the reply of the hon the Minister, he will be aware that the control of the declared cultural institutions falls under the Cultural Institutions Act which is an Act falling within the ambit of the hon the Minister of National Education. As I understand it, the Act contains a reference to the election or appointment of persons to the council and does not restrict the election or appointment on a racial basis in any way. Does the hon the Minister still aver that he has the powers to restrict the election or appointment of persons on a racial basis?

†The MINISTER: Mr Speaker, the hon member heard my reply to the question he has put. If he wants to put another question, he is free to do so.

White schools: other pupils

*3. Mr R M BURROWS asked the Minister of Education and Culture:

(1) Whether, during the latest specified period of three years for which information is available, his Department received any requests for pupils who are not White and who are not the children of members of the diplomatic corps to be admitted to schools falling under his control; if so, (a) how many such requests were received, (b) in respect of what provinces were these requests received and (c) what was the result;

(2) whether, during the above period, any instances occurred where school committee and/or school board approval was granted for the admission of non-diplomatic non-White pupils and where departmental permission was refused; if so, (a) what were the circumstances in each case and (b) on whose decision was each request for admission refused;

(3) whether he will make a statement on the matter?

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes,

(a) 56,

(b) Natal, OFS, Cape, Transvaal,

(c) the requests were not acceded to;

(2) school committees and/or school boards do not have the authority to grant approval.

The hon member is also referred to the reply to Question 4 on 4 August 1987.

(a) and (b) fall away;

(3) no.

For written reply:

General Affairs:

Natal: resettlements

343. Mr P C CRONJÉ asked the Minister of Education and Development Aid:

(a) What total number of Black persons had been resettled in Natal since 1 January 1982 upto the latest specified date for which information is available, (b) from what specified places had they been moved, (c) where were they resettled and (d) why were they moved in each case?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) 7404 Persons—members of three different groups—were resettled up to 28 August 1987.

In the interests of clarity particulars of these groups are numbered (i), (ii) and (iii) hereunder.

(b) (i) Upper Tugela Location.

(ii) Inanda.

(iii) Winkelspruit.

(c) (i) On the farms The Downs 6580, The Lake 11408, Oliviershoek 14071, Lente 14820, The Wedge 8177, Second 5882, Groot Geluk 1283, Duddington 4887, in the District of Bergville.

(ii) In the Inanda tribal area and in Ntuzuma Township

(iii) In Inanda Township.

(d) (i) Due to the building of Woodstock Dam by the Department of Water Affairs.

(ii) Due to the building of the Inanda Dam by the Department of Water Affairs.

(iii) These persons were Pondo refugees who squatted on private land close to Winkelspruit, alongside the N3 South Coast Highway.

Political riot: insurance policies

388. Prof N J J OLIVIER asked the Minister of Finance:

Whether the State subsidises insurance policies for political riot cover; if so, by what amount were these policies subsidised in respect of (a) Whites, (b) Coloureds, (c) Blacks and (d) Indians in 1986?

The MINISTER OF FINANCE:

No. (a), (b), (c) and (d) fall away

Aircraft registered in USA

462. Mr C B SCHOEMAN asked the Minister of Transport Affairs:†

(a) What is the monthly average number of aircraft registered in the United States of America that make use of facilities at airports falling under his Department, (b) for what purposes are the flights concerned undertaken and (c) in respect of what period is this information furnished?

The MINISTER OF TRANSPORT AFFAIRS:

(a), (b) and (c). It is not in the interest of the Republic of South Africa to divulge information of this nature.

SABC: meetings of Board

514. Mr S C JACOBS asked the Minister in the State President's Office entrusted with Administration and Broadcasting Services:†

(1) Whether he is notified of meetings of the Board of the SABC, if not, why not; if so,

(2) whether he was notified of a meeting of this Board about the continued employment of the present incumbent of the post of director-general of the SABC; if so, (a) by whom, (b) (i) when and (ii) where did the meeting take place or will it take place and (c) (i) who called the meeting and (ii) why was it called;

(3) whether he will make a statement on the matter?

The MINISTER IN THE STATE PRESIDENT'S OFFICE ENTRUSTED WITH ADMINISTRATION AND BROADCASTING SERVICES:

(1) No. Because I don't require to be notified.

(2) During the discussion of my budget vote, the Chairman of the SABC informed me in passing that an ordinary meeting of the Board was to take place on 2 September 1987 in Johannesburg. This was a routine meeting and was not specially convened for a specific matter.

(a), (b) and (c) fall away

(3) No.

Economic summit conference

531. Mr C J DERBY-LEWIS asked the State President:

(1) Whether he intends holding an economic summit conference; if so, (a) when and (b) where;

(2) whether he intends inviting representatives of small and medium businesses to this conference; if not, who will be representing the interests of such businesses, if so,

(3) whether these representatives have been requested to obtain a specific mandate from the businesses concerned, if so, what are the relevant particulars;

(4) whether it is the intention to invite representatives of the agricultural sector to this conference, if not, why not?

The STATE PRESIDENT:

(1) Yes. I refer the honourable member to my address in the House of Assembly on 13 August 1987 and my press release of 10 September 1987.

(2) Yes.

(3) No.

(4) Yes.

Contact with ANC

586. Mr C J DERBY-LEWIS asked the State President:

(1) Whether any members of the Cabinet have been authorized or instructed to make any direct or indirect contact with officials or members of the ANC and/or their intermediaries; if so, (a) when and (b) for what purpose; if not,

(2) whether any members of the Cabinet have made such contact without their having been authorized or instructed to do so, if so,

(3) whether he supports the action taken by the Cabinet members concerned in this regard;

(4) whether he will make a statement on the matter?

The STATE PRESIDENT:

(1), (2) and (4) No.

(3) Falls away.

Own Affairs:

Funds to certain company

106. Mr M J ELLIS asked the Minister of Education and Culture:

(1) Whether his Department has made any funds available to a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply; if so, (a) what total amount, (b) when, (c) for what purpose and (d) what is the name of this company;

(2) whether this company is still operating; if not, (a) when and (b) why did it cease operations;

(3) whether he will make a statement on the matter?

The MINISTER OF EDUCATION AND CULTURE:

(1) No, not according to available records.

(a), (b), (c) and (d) Fall away.

(2) Has no knowledge about the firm's present position.

(a) and (b) Fall away;

(3) No.

WEDNESDAY, 7 OCTOBER 1987

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†Indicates translated version.

*For oral reply

Written reply to question set down for oral reply on Tuesday, 13 October 1987.

General Affairs

U 308: transportation by road

*1 Mr P C CRONJÉ asked the Minister of Economic Affairs and Technology.

(1) Whether the Nuclear Fuels Corporation (Nufcor) has a licence to transport U 308 by road; if not, why not; if so, (a) when was the licence granted, (b) what is the licence number and (c) what are the conditions of this licence;

(2) whether the vehicle transporting the U 308 which was involved in an accident at the Majuba Pass displayed this licence information as required by sections 30 (1) and 37 (2) of the Nuclear Energy Act, No 92 of 1982, as amended; if not, why not;

(3) whether any approaches were made to the Atomic Energy Corporation, Nufcor or the Council for Scientific and Industrial Research by any fire or traffic departments regarding the properties and hazards of U 308 and the action to be taken in the event of spillage thereof; if so, (a) when and (b) what was the response to these approaches;

(4) whether he will make a statement on the matter?

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(1) Bearing in mind the relatively low hazard potential of this material, the AEC did not issue a licence in terms of section 30 of the Act. NUFCOR was granted an authority to export uranium oxide in terms of section 49 of the Nuclear Energy Act (No 92 of 1982).

Pension fund shows R1,5 billion deficit

Cape Times 6/10/82 58

By CHRIS CAIRNCROSS

THE much-criticized practice accorded to State employees to buy back pensionable service to age 16 has caused the Government Service Pension Fund to record a current deficit of R1,5 billion, according to National Health and Population Development Minister Willie van Niekerk.

Answering questions put to him in Parliament by Roger Burrows (PFP Pinetown), Van Niekerk failed to also to reveal what costs the other four State pension funds have incurred through these buy-back practices.

These four funds include the Associated Institutions Pension Fund, Temporary Employees Pension Fund, and Authorities' Service Pension Fund.

Van Niekerk was unable to provide any information on what income has accrued to these pension funds through buy-backs since the concept was first introduced in 1955.

In that year State employees were permitted to buy back pensionable service to age 25. The age level was further reduced to age 18 in 1966, and finally to age 16 in 1980.

In his written reply, Van Niekerk said that in terms of this provision State employee were not required to pay immediately the full amount of the cost of buy-backs.

Life assurers 'advantaged' — UBS chief

Cape Times 6/10/87 58

Own Correspondent

JOHANNESBURG. — The chief executive of the United Building Society, Mr Piet Badenhorst, said yesterday that life assurers were unfairly advantaged, enabling them to expand their stake in South Africa and foreign companies and in many cases "to obtain control of such companies".

Mr Badenhorst said: "This is the high road to the concentration of economic power exploited by life assurers and, in many cases, funded with 'deposits'."

He said life assurers had become "deposit-taking" institutions without the regulations associated with that function. They also had virtually unlimited powers of diversification and paid a fraction of the rate of corporate tax.

It is understood a government committee under the chairmanship of Finance director-general Mr Chris Stals has been set up to look into the matter.

Responding to Mr Badenhorst's attack, the chairman of the Life Offices Association, Mr Dorian Wharton-Hood, said: "Mr Badenhorst has the bull by the tail. He argues that life assurers have favourable tax treatment and, hence, there is a flow of funds from building societies to assurers.

"He is missing the point. The reason for the flow of funds has nothing to do with tax. Rather it is a function of inflation and marketing.

"Building societies have a problem in that they are over-regulated. They do not have the freedom to market products that life assurers have.

"Mr Badenhorst should be asking for societies to be deregulated. I would support that plea. All financial institutions should operate under the same rules and on a level playing field."

He said the Minister of Finance, Mr Barend du Plessis, had given an undertaking at the last LOA management meeting to convene a round-table conference to thrash out the confusion surrounding the differences in taxation of financial institutions.

"We are waiting for him to come back to us on this. The ball is in the minister's court."

In his speech, Mr Badenhorst said because of lower inflation in Europe and the US life assurance was not as popular as in SA and there were more companies and, therefore, investment outlets for their funds.

"Consequently, they tend to concentrate on management of their portfolios rather than acquiring portfolios of things they manage."

He also said inadequate reporting requirements made it difficult to analyse assurers' performance and to deduce the extent of power concentrations through the vehicle of major investments.

The heated debate between the two institutions comes against the background of the Margo commission report, which has now been fully digested.

Building societies out for blood

UBS chief slams life assurers

58

B/day 6/10/87

GERALD PROSALENDIS
Financial Editor

A SHOWDOWN is looming between the powerful life assurance industry and the prime mover behind the building society movement, outspoken UBS CE Piet Badenhorst.

Shots were fired yesterday at the Life Offices Association (LOA) annual sales managers' forum meeting, in what promises to be a prolonged and bitter struggle with far-reaching ramifications.

In the strongest attack yet by a CE of a financial institution on the life assurance industry, Badenhorst claimed assurers were unfairly advantaged, enabling them to expand their stake in SA and foreign companies and in many cases "to obtain control of such companies".

Badenhorst said: "This is the high road to the concentration of economic power exploited by life assurers and, in many cases, funded with 'deposits'."

Life assurers had become "deposit-taking" institutions without the regulations associated with that function. They also had virtually unlimited powers of diversification and paid a fraction of the rate of corporate tax.

It is understood a government committee under the chairmanship of Finance director-general Chris Stals has been set up to look into the matter.

Responding to Badenhorst's attack, LOA chairman Dorian Wharton-Hood said yesterday: "Badenhorst has the bull by the tail. He argues that life assurers have favourable tax treatment and, hence, there is a flow of funds from building societies to assurers.

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● See Pages 2 and 7

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● To Page 2

Insurers 'unfairly advantaged'

● From Page 1

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He also said inadequate reporting requirements made it difficult to analyse assurers' performance and to deduce the extent of power concentrations through the vehicle of major investments.

The heated debate between the two institutions comes against the background of the Margo commission report, which has now been fully digested.

Badenhorst blasts life assurers' 'power'

B/Day 6/10/87

GERALD PROSALENDIS/Financial Editor

YESTERDAY's attack on the life assurance industry by UBS CE Piet Badenhorst has the makings of a bitter confrontation within SA's financial sector.

Coming after the recent recommendations of the Margo Commission report, Badenhorst has gone further and claimed the present situation — which allows assurers to expand their stake in South African and foreign companies — "is the high road to the concentration of economic power" and is exploited by life assurers and in many cases funded with "deposits".

Central to his argument is the contention that life assurers have become deposit-taking institutions.

"Life assurers have switched the focus of their main business from that of providing for the problems arising from premature death to products catering for the needs of investors in general and to providing tax shelters for the affluent or relatively affluent.

"They have become deposit-receiving institutions without the statutory restrictions and obligations applying to these institutions in terms of the Building Societies and Banks Acts," he said.

This lack of regulation has given them unlimited powers to diversify.

Also, argues Badenhorst, assurers are paying a fraction of the corporate tax that companies — and, in particular, building societies — pay.

An important driving force behind this trend towards the imbalance between financial institutions has been rising inflation and its effect "on the investment needs and perceptions of investors"(see graph).

Coupled with this has been "the unfairly-weighted ability of particular types of institutions to offer investment products which provide protection against the ravages of inflation and tax".

Also, "the regulatory process by the authorities over the years has been extremely slow in keeping up with the dynamic changes that have been taking place in the market, and government has been very heavily influenced by powerful lobbies making direct representations to it."

That the life assurance industry has political influence is beyond doubt. Possibly the bad blood between the industry and building societies, and Badenhorst in particular, has its roots in the attempts by some life assurers to influence the present Building Societies Act while it was being drafted.

Some believe that the reason for the delay in the implementation of this Act — which, among others, allowed societies to switch from being mutual based to equity based — was that powerful lobbies headed by mutual assurers created doubt in the minds of government.

Many of the arguments forwarded at the time against allowing societies to become listed joint stock companies — among them higher costs, which would be passed on to bondholders and investors — have proved to be false, at least in the short-term.

But there is one which has not been disproved. At the time it was argued that mutual assurers saw the equity route for building societies as the thin edge of the wedge for all mutual institutions. Those who held this view believed that large mutual insurers were trying to bury the legislation as the front line of their own defence.

Nonetheless, the present battle promises to be protracted, bitter and uncommonly public.

Badenhorst argues that the present imbalance between institutions offering fixed interest investments and life assurers has been exacerbated by a number of developments.

More seriously, however, he charges that assurers have succeeded in transferring the benefits applicable to life assurance business, such as no or low taxation, to pure deposit-taking business.

"The result has been that life assurers have been highly favoured and building societies severely penalised in their competition for the custom of the household sector.

"Pure life assurance today is an ever-decreasing element of their business, and the main focus has switched to that of being a deposit-receiving institution."

Although their is sufficient competition to rule out the suggestion that monopolies exist in the financial services industry, Badenhorst believes certain institutions have grown at the expense of others. He uses the following examples to back his argument:

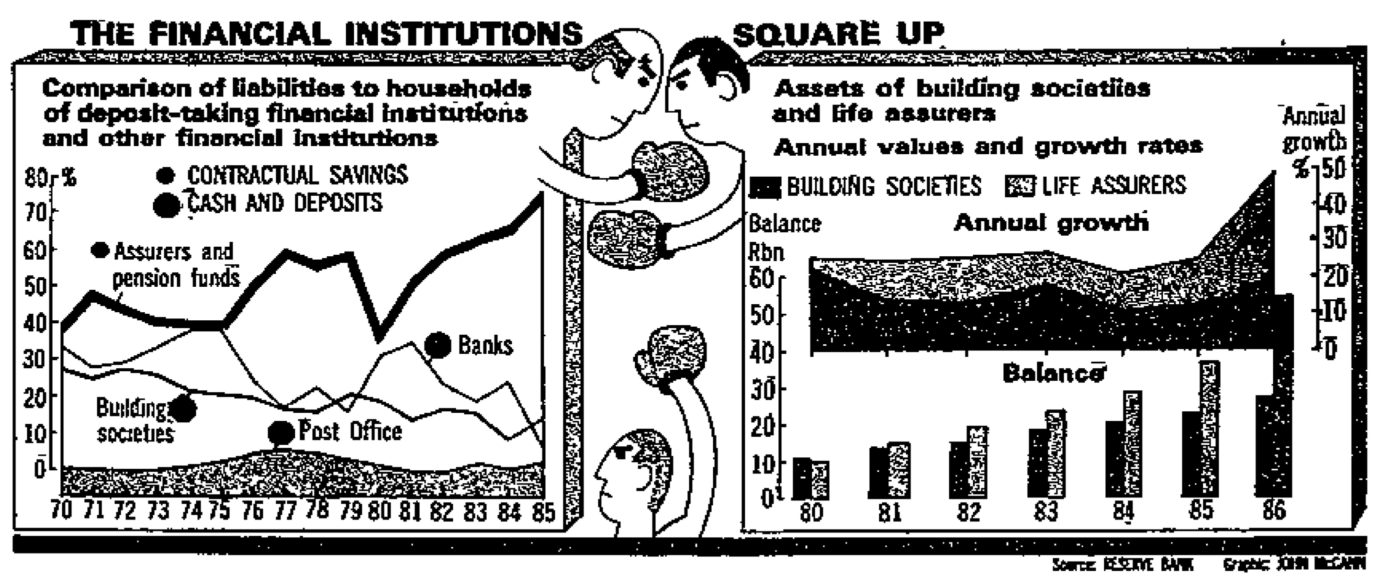
☐ The combined liabilities to the household sector of life assurers and pension funds account for some 76% of the liabilities of all financial institutions to households (see graph);

☐ The gross premium income of life assurers and pension funds and the net sale of units by unit trusts were more than double the flow of funds to deposit-receiving institutions between 1981 and 1986; and

☐ Of the proportion of new investments flowing each year to the different types of financial institutions, life assurers have attracted some 42% of the average from 1981 to 1985.

"The result of the favours which have been heaped upon life assurers is the formation of monoliths in the personal financial services industry. It is evident that marketing muscle is used through cross shareholdings and interlocking directorates with banks and building societies to further exploit the competitive advantages already enjoyed," said Badenhorst.

"I submit that this flow of funds, which contributes little to real economic growth, if allowed to continue unchecked, will cause even greater imbalance in the economy and further concentration of power than present."



VITAL QUESTIONS

BADENHORST has posed some questions which will in time need to be answered. Among them are:

☐ Whether it's in the national interest to allow the present imbalance between life assurers and other financial institutions to continue or grow;

☐ Whether the funds deposited with life assurers are invested in a manner which creates new investment for production and job-creation;

☐ On what grounds can the products of competing institutions be accorded different tax treatment;

☐ Whether it is reasonable, fair or essential that there should be equal corporate taxation of the various types of competitor in the financial services industry; and

☐ On what grounds the advantages enjoyed by life assurers or investors in the tax-exempt products offered by them at the cost of the general body of taxpayers can be justified.

TAX DISPENSATION

THE Margo Commission report said it was the opinion of the majority of commissioners that the present tax dispensation for long-term insurers had contributed to the channeling of savings towards these institutions. It could also be a significant cause of the concentration of power in the SA economy. It said that in the 1986 tax year, life insurers paid R288m in tax on an investment income of R3,65bn — or 7,9%.

"The tax-favoured treatment of life insurance business, which appears to be universal, actually arises from the problem ... of determining the 'profit' of a long-term insurer on which to base its taxable income. The trend of recent tax reforms is nevertheless towards greater fiscal participation in the profits of long-term insurers," the report said.

However, the LOA — quoted in the report — said that, allowing for certain qualifications and setting expenses as an arbitrary 60% of income, their effective tax rate would be just under 30%.

Corporate tax: acid test for life assurers

LIFE ASSURERS pay a minute percentage of their net profit by way of corporate tax, Piet Badenhorst said yesterday.

"Whatever the present basis of calculation of tax applicable to life assurers, the acid test is whether or not at the end of day the amount of tax paid expressed as a percentage of the real profit/operating surplus of these institutions bears any relationship to the rate of tax generally applicable to companies," he said.

If an institution succeeded in paying a lower rate of tax than the company rate, they had a significant competitive advantage.

"Ordinarily, lower costs are achieved only by superior management. Thus the tax privileges being discussed impart to those organisations an improper degree of efficiency."

Building societies were taxed on the following basis:

☐ Interest and dividends paid on tax concessionary deposits were allowed as a pre-tax expense in the same way as interest;

☐ They were exempt from undistributed profits tax; and

☐ They were allowed to offer certain tax-free or tax-concessionary deposit products. These, however, were to be phased out.

Life assurers were taxed on a different basis:

☐ Retirement annutiy funds were entirely exempt from tax in the hands of recipients;

☐ On other insurance business, life assurers were taxed at normal rates of company tax on 40% of their gross investment income, an effective rate of 20%. Capital profits were tax-free;

☐ They were exempt from undistributed profits tax; and

☐ Pension and annutiy business was entirely exempt from tax.

"Most organisations are levied with taxation on their 'bottom line' at the corporate rate. Building societies fall into this category."

Badenhorst said his analysis of the tax position of life assurers was not necessarily totally accurate — "but the paucity of information made available leaves me no alternative".

The profits of life assurers for non-pension business:

☐ Included dividends earned;

☐ Excluded realised capital gains for most assurers, which are by and large credited to general or investment reserves or directly to policyholders' funds. These were taxed in the hands of banks and building societies;

☐ Took into account all net premiums, benefits, annuities, surrenders and maturities, irrespective of whether they relate to 'deposit-taking' acitivities or not; and

☐ Represented for business other than pension business merely a prorated portion of the total pre-tax surpluses disclosed.

In 1985 life assurers were charged tax of R288m, against a pre-tax surplus of R6,53bn, an effective rate of 12,1%. Contrasted with this, the five major building societies had paid an effective tax rate of 48%. If assurers had paid tax at the rate of building societies in that year, they would have paid R1,14bn. This represented a loss of R853m to the fiscus, said Badenhorst.

He asked if life assurers, which had argued that building societies' taxable income was only 15% of investment income, compared with the 40% legislated for the assurance industry, were unhappy about this disparity why did they not complain?

He would also welcome taxation of life assurers on the same basis as building societies.

"The deposit products of life assurers — sometimes disguised as life assurance, other times not — have no limits attaching to the premiums payable by any single person or the rate of return offered." This should be related to a maximum of R70 000 per taxpayer at a tax-free rate of 7,5% for building societies.

With building societies, the tax-free rate attached to its products was decided by the Minister of Finance. Life assurers decided for themselves what tax-free returns they would offer and, in addition, taxpayers could invest as much as they liked and from year-to-year extend their holdings.

"After taking into account statutory liquid assets and interest-free cash reserves with the Reserve Bank — which average about 10% of liabilities — building societies must invest 80% of their operating capital in loans against mortgage of urban residential dwellings. This does not leave much for discretionary investment."

A building society had to observe a capital gearing requirement equal to at least 4% of its liabilities.

"By comparison life assurers in respect of all business, excluding pension and retirement annuity fund business, after investing 33% of their funds in prescribed investments — which from time-to-time provide generous returns and capital profit — are free to invest the balance in equities, deposits, fixed property, industry in every size and form.

"Coupled with the tax advantages attaching to the products offered by life assurers, it is starkly evident that there is no contest."

BETTER BALANCE NEEDED

BADENHORST has made the following recommendations to address what he calls the "imbalance" between various financial institutions. These are:

☐ Ensure reasonable equity in the effective taxation of insitutions in the financial services industry;

☐ Balance or eliminate the tax advantages relating to the products marketed by financial institutions;

☐ Ensure a better balance of investment powers. Only equity capital, and not funds received on deposit, should be available for diversification;

☐ Standardise and improve reporting requirements of all financial institutions;

☐ Prohibit life assurers from operating as deposit-taking institutions. If these activities were undertaken they should be subject to the same financial obligations as banks and building societies; and

☐ Ensure detailed monthly reporting for all deposit products to the Registrar of Financial Institutions.

58 (USA)

Standard offers shares to clients

By DEREK TOMMEY
Financial Editor

THE Standard Bank announced today that it was offering a million of its shares to clients of 10 years' standing at a price that should ensure them a 33-percent profit.

The bank is also offering a million shares on the same terms to its staff and is placing a further million shares with its black, coloured and Indian customers.

The shares, which have a market value of R25, are being offered at R18,75 each.

Altogether, it is offering R75-million worth of shares for R56,25-million, which means it will be putting about R18,75-million in the pockets of its customers and staff.

In a statement, the bank said the future economic and political stability of South Africa would be largely influenced by the degree of understanding and trust that could be engendered among all people towards a market-orientated economy.

Ownership of equity, as well as houses and trading entities, must become more widely accepted as a legitimate form of private ownership.

Share application forms will be available at branches of Standard Bank from Monday, October 19.

1m shares for black customers

SBIC offers R3m shares at R18,75 each

Cape Times 7/10/87

From GERALD PROSALENDIS and HELEN WISHART

STANDARD BANK INVESTMENT CORPORATION (SBIC) is offering 1m shares with a market value of R25m to its black customers.

This offer, made possible by the disinvestment of Standard Chartered PLC, is part of a package which will see staff, excluding executives, receiving 1m shares and customers who have been with the bank for more than 10 years, as well as Prestigeplan account holders, the other million.

In all, the 3m shares have a market value of R75m.

The shares will be offered at R18,75, a substantial discount to yesterday's closing price of R25.

SBIC directors say in a press release: "Ownership of equity, as well as houses and trading entities, must become more widely accepted as a legitimate form of private ownership.

"It is in this context that SBIC, after consulatation with members of the black community, has arranged for shares to be privately placed with black, coloured and Asian customers."

The directors said that the future economic and political stability of SA will be largely influenced by the degree of understanding and trust that can be engendered among all people towards a market-orientated economy.

Share application forms will be available from October 19.

The share scheme takes after similar offers to employees by Amalgamated Beverage Industries — 11m shares offered to dealers and staff at R1 each — and a scheme recently announced by Pick 'n'Pay, in which more of its employees will be ~~offered~~ a stake in the business.

Hawm...

to the latest specified date for which information is available, (b) what are their names and (c) from which countries did they come;

(2) whether these visitors were afforded the opportunity of meeting members of the official opposition in this House, if not, why not?

The DEPUTY MINISTER OF INFORMATION:

(1) (a) The Bureau for Information handles guests of the Department of Foreign Affairs on an agency basis. 183 Guests of the Department of Foreign Affairs were received between 7 May 1987 and 30 September 1987 in this way by the Bureau.

(b) It is not the policy of the Bureau to divulge the names of guests without their approval.

(c) It is not in the interest of the RSA to name individual countries.

(2) It is practice to arrange interviews with members of political parties from all three Houses of Parliament. From time to time appointments cannot be arranged with members of all political parties as the representative of a specific party is not available or the itinerary of the guest does not permit it.

Aircraft on charter: maintenance

548. Mr C J DERBY-LEWIS asked the Minister of Transport Affairs:

Whether technical personnel of the South African Airways are responsible for the maintenance of Airways aircraft while they are on charter to other airlines or countries; if not, what steps are taken to ensure that such aircraft are returned in the condition in which they were when they were chartered out?

The MINISTER OF TRANSPORT AFFAIRS:

The situation regarding the maintenance of leased aircraft varies from contract to contract.

The airline leasing the aircraft is contractually responsible for ensuring that the maintenance work is performed in terms of the airworthiness requirements of the country where the aircraft is registered.

When the lease period expires the lessee of the aircraft must return the aircraft in technically the same maintenance condition as at the outset of the lease period.

Gold

549. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) Whether the South African Reserve Bank is responsible for the marketing of South Africa's gold; if not,

(2) whether he will furnish the names of the organisations responsible for such marketing; if not, why not, if so, (a) what are their names and (b) with effect from what date has each been permitted to engage in such marketing?

The MINISTER OF FINANCE:

58

(1) Yes.

(2) Falls away.

Officials working overtime

550. Mr C J DERBY-LEWIS asked the Minister of Communications:

(1) Whether any officials of his Department are required to work overtime without being compensated for doing so; if so, (a) what are the relevant details, (b) since when has this policy been in force and (c) what acknowledgement do the officials concerned receive for working overtime on this basis;

(2) whether this procedure has led to any savings in terms of posts; if so, what savings?

The MINISTER OF COMMUNICATIONS:

(1) and (2) In the event of officials being called upon to work longer than their prescribed weekly hours of attendance, e.g. during periods of staff shortages, absences, and seasonal increases in work, they are remunerated at prescribed overtime rates. Situations arise, however, where officials perform extra duty of their own accord without expecting payment for the extra hours worked. During the debate on the Post Office budget earlier this year, I gave credit to the staff for their valuable contribution towards keeping operational expenditure as low as possible. It is impractical without an extensive and protracted investigation to determine the savings in terms of posts.

Redundant naval vessels

551. Mr C J DERBY-LEWIS asked the Minister of Defence:

(1) Whether any redundant naval vessels are being scrapped or about to be scrapped; if so, (a) why, (b) when and (c) how many;

(2) whether any consideration has been given to allocating these vessels to Citizen Force naval units; if not, why not; if so,

(3) whether the South African Defence Force have investigated the possibility of these vessels being used and maintained by Citizen Force naval units without any additional expense being incurred for the Defence Force; if not, why not; if so, what were the findings?

The MINISTER OF DEFENCE:

(1) Yes.

(a) As a result of limited capital and running costs, and also manpower and especially logistic support capability, the battle order of the SA Navy has been reviewed and it was decided to dispose of redundant and obsolescent platforms.

(b) Approval in principal was given on 4 December 1985. The disposal has already commenced but the phasing out will still take a considerable time.

(c) Fourteen.

(2) No. As a result of the age and obsolete technology of the vessels continued logistical support would have been very problematical and in conflict with the decision to dispose of the vessels.

(3) Falls away.

Pharmacies/doctors: subsidization

552. Mr H J COETZEE asked the Minister of National Health and Population Development:†

(1) Whether the State subsidizes (a) private pharmacies and (b) doctors in private practice in respect of (i) medicines supplied and (ii) medical services rendered to pensioners; if so, up to what amount, in each case; if not, why not;

(2) whether he will make a statement on the matter?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) (a) No.

(b) (i) No

(ii) Doctors in private practice appointed as part-time District Surgeons attend *inter alia* to pensioners (all race groups) and are reimbursed for medicine supplied to above mentioned patients for *minor ailments*.

The procedures followed in the 4 Provinces are basically very similar, but differ in detail only, for example:

Transvaal

An amount of R4,50 for medicine is paid per consultation.

Cape

An amount of R5,00 is paid for medicine per consultation.

Hansard

(3) No. For more details the hon member is referred to the Report of the Commission of Inquiry into Secret Organisations, dated 12 December 1964, in which Judge of Appeal D. H. Botha replied in full to the questions now again posed by the hon member.

Council: support to terrorist movement

542. Mr C J DERBY-LEWIS asked the Minister of Law and Order:

Whether the South African Police are engaged in investigations to ascertain whether a certain council, the name of which has been furnished to the Police for the purpose of the Minister's reply, is lending financial or other support to terrorist movements; if not, why not; if so, (a) what is the name of this council, (b) to what terrorist movements is it lending support and (c) what progress has been made in these investigations?

The MINISTER OF LAW AND ORDER:

No

(a) to (c) Fall away.

Gold

543. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) Whether the foreign exchange earned through the sale of gold and other minerals is repatriated to South Africa immediately; if not, (a) why not and (b) within what period is the foreign exchange so earned to be repatriated to South Africa;

(2) whether this period has led to speculation resulting in profits being made on foreign exchange dealings; if so, to what extent;

(3) whether he intends taking any steps in this regard; if not, why not; if so, (a) what steps and (b) when;

(4) whether he will make a statement on the matter?

HoA

The MINISTER OF FINANCE:

(1) Exchange Control Regulations, Orders and Rules, 1961 determines that any person resident in the Republic to whom foreign currency accrues, inside or outside the Republic, must offer for sale such foreign currency to an authorised dealer within seven days after receipt. No person who is entitled to receive foreign currency may do or refrain from doing anything with a view to delay in whole or in part the receipt by him of such foreign currency or waiving such payment.

(2) Within seven days the foreign currency proceeds have to be made available to an Authorised Dealer and if any interest was earned thereupon during the seven days, the interest together with the foreign currency have to be transferred to the RSA. Speculation is thus limited to a minimum and therefore no mention can be made of speculation profits within these seven days.

(3) No steps are currently considered because under current circumstances it won't be practically feasible to shorten the period to less than seven days.

(a) Falls away

(b) Falls away.

(4) No.

Pilots

545. Mr C J DERBY-LEWIS asked the Minister of Transport Affairs:

(1) (a) How many pilots left the service of the South African Airways in each calendar year from 1982 up to and including 1986, (b) what were the main reasons given for resignations and (c) how many of these pilots joined other airlines;

(2) whether the Airways are bound by salary regulations applicable to members of the International Air Transport Association; if not, how do the salary scales of Airways pilots differ

Hansard

from those paid to pilots in countries to which the above regulations are applicable;

(3) whether Airways pilots are members of a recognised trade union; if not, why not; if so, of what trade union;

(4) whether this trade union is permitted to call a legal strike; if not, what recourse is open to Airways pilots to negotiate competitive salaries for themselves?

The MINISTER OF TRANSPORT AFFAIRS:

(1) (a)

1982	12
1983	19
1984	9
1985	14
1986	21

(b) The main reasons given were, inter alia, starting own business, emigrated, political, religious, etc.

(c) As far as can be ascertained, six.

(2) No, the International Air Transport Association does not prescribe salary regulations for members.

(3) Yes, SALSTAFF.

(4) No. Normal negotiating channels are available.

Internal flights: delays

546. Mr C J DERBY-LEWIS asked the Minister of Transport Affairs:

(a) How many delays to internal South African Airways flights occurred during the months of (i) July, (ii) August and (iii) September in 1985, 1986 and 1987, respectively, and (b) what was the (i) cause and (ii) duration of each of these delays?

The MINISTER OF TRANSPORT AFFAIRS:

(a)

	(i)	(ii)	(iii)
1985	474	252	332
1986	341	293	305
1987	590	580	884

(b) (i) Information of this nature is not readily available and it will require much time and expense to gather. However, in respect of the three months in question for 1987 the majority of the delays resulted from technical problems and weather conditions. The upgrading of S A. Airways' computer system also caused an unusual number of delays as particulars of passengers often had to be processed manually.

(ii)

	10-30 minutes	30-60 minutes	more than 60 minutes
July 1985	361	61	52
July 1986	258	42	41
July 1987	446	71	73
August 1985	175	39	38
August 1986	200	59	34
August 1987	437	81	62
September 1985	273	32	27
September 1986	234	49	22
September 1987	618	116	150

Overseas visitors

547. Mr C J DERBY-LEWIS asked the Deputy Minister of Information:

(1) (a) How many overseas visitors were the guests of the Bureau for Information during the period 7 May 1987 up

HoA

Sanctions hardening attitudes

Advancement of blacks retarded — De Kock

Cape Times 9/10/87

From GERALD PROSALENDIS

JOHANNESBURG — Sanctions and disinvestment had brought about a hardening of attitudes in SA and a resistance to external political pressure, Governor of the Reserve Bank Gerhard de Kock said in Zurich last night.

Gerhard de Kock

Speaking at a meeting of the Swiss-SA Association he made a plea for economic realism towards southern Africa.

There was a misconception that political reform in SA would be accelerated by sanctions and disinvestment.

"As a method of expediting the abolition of what remains of apartheid and accelerating socio-political reform, sanctions and disinvestment have proven completely counterproductive."

To the extent sanctions and disinvestment had slowed economic growth, they had retarded the socio-economic and political advancement of blacks.

SA was not on the brink of violent revolution and economic collapse.

"Anyone who has a modicum of understanding of the balance of power in SA knows that there is no question of any revolution or takeover of power under present circumstances.

"Far from facing collapse, the SA economy has just placed on record an almost unparalleled balance of payments and debt repayment performance, and is now growing at a steady if unspectacular rate."

He said the motives of many proponents of sanctions and disinvestment were sincere, laudable and shared by many South Africans. But the methods they had chosen to achieve their objectives were wrong.

In the long term economic isolation and a siege economy would mean lower growth and standards of living than would otherwise have been possible, particularly for blacks.

ISLAMIC BANK (58)

Botha's licence

The long-standing battle to set up a local bank run according to Islamic principles (where no interest is charged) may be over at last, but it was not without some controversy and confusion.

At first it was thought the licence was granted to the Islamic Bank because Foreign Minister Pik Botha had intervened in the matter on September 10. It was then that he issued a statement in the House of Delegates that Reserve Bank Governor Gerhard de Kock was "ready to receive another application from the Islamic Corporation."

In Botha's view such a bank would help "improve relations with Islamic countries."

In fact, this intervention was in response to lobbying, not by the Islamic Bank, but by members of the Islamic Council (ICSA). To make matters worse it appears those members were using the council as a front, saying it would "improve relations" while really trying to promote their personal interests.

The council, as distinct from the bank, is a religious body, called the Jamiatul Ulama, or the Council of Muslim Theologians.

Meanwhile, the Islamic Bank had submitted its eleventh application for a licence to the Reserve Bank months before, in fact on June 2.

Later, in correspondence between the Bank and Botha, according to Ebrahim Kharsany of the Islamic Corporation, only the Islamic Bank was mentioned. Up to now the corporation was confined to accepting deposits from Islamic individuals (no corporate deposits were allowed) which had to be made for a minimum of five years. No advertising for deposits was allowed.

Kharsany emphasises that his own involvement is totally business. "The corporation has had no contact whatsoever with Botha. We are a business organisation, not a political one. Nor have we ever lobbied on a political basis."

He adds that the Bank made it very clear that a business decison was made. Botha's interest in the affair may have influenced thinking, but the approval for granting of a licence depended entirely on the financial soundness of an institution and compliance with the requirements of the Banks Act.

Adding to the controversy is Rashid Saloojee, a vice-president of ICSA, who as an active member of the UDF-affiliated Transvaal Indian Congress clearly wants to distance ICSA from government association: "I am shell-shocked. It appears a few individuals have been using ICSA to lobby for a bank. This is alarming to most members of the executive as it was never discussed."

Saloojee has called for an urgent meeting of the executive as soon as certain members return from overseas.

But after so many refusals why the sudden change on the authorities' behalf? One factor could be the transfer earlier this year of banking supervision to the Reserve Bank from the Financial Institutions Office. It could thus indicate new thinking.

De Swardt, who finds himself in the middle of the controversy, says in the past the authorities hesitated to allow the establishment of exclusive banks for specific communities but "in principle there are no objections to an Islamic bank. The Islamic Corporation is a logical candidate and can meet our requirements."

Kharsany is happy, and expects to be trading as a fully fledged bank by December with a head office in Johannesburg (a R6m development is planned in Main Road) and a branch in Durban. The bank will have an authorised share capital of R50m, paid-up share capital of R20m and assets of over R11m (up from R200 000 when it started four years ago) which are expected to exceed R100m within five years. Profits will be distributed among investors whose return so far has been 12%-14% each year.

The bank will be providing a "viable investment alternative" for 500 000 Muslims who are not allowed to receive or pay interest under Islamic law. Services include buying and selling permissable commodities (Murabaha) and investment in business and industry independently (Mudaraba) or on a partnership or profit/loss sharing basis (Musharaka) The bank will also be involved in housing and property development. ■

FM 9/10/87

Floods bill now put at R700m

S/day

58

9/10/87

HELENA PATTEN and Own Correspondent

ESTIMATES of the insurance bill resulting from the Natal floods have been revised upwards to "a conservative R600m", SA Insurance Association CE Rodney Schneeberger said yesterday.

And at least R100m would be needed to repair all the bridges damaged, the province's executive director of roads, Ray Smith, said yesterday.

The bill for road, rail, public works and uninsured property damages are not included in those figures.

Initial estimates of insurance losses were put at about R200m, but estimates kept climbing and could still exceed the latest figure.

"The situation is getting worse every day," said Schneeberger.

Insurers most affected are believed to be Mutual & Federal (M & F), SA Eagle, Guardian National and Commercial Union, as well as Protea, Aegis and some US companies such as Signa and American International.

M & F and SA Eagle are joint lead insurers of worst-hit paper manufacturer Mondi, which by latest estimates has suffered R182m damage.

M & F MD Ken Saggers said the company was involved in all the big risks — Mondi, Barlows, Toyota and SAB — and had already received a "good 3 000 claims".

He said things were still so "muddy" it was not possible to be sure of the extent of claims. However, M & F's exposure would probably cost it between R30m and R40m — "if not more".

He said M & F had adequate reinsurance, which would help curtail losses. Depending on individual contracts, claims would cover damage to physical property and loss of stock, production time and profits.

An SA Breweries spokesman said plant, equipment and stock had not been damaged, but SAB had incurred production losses, the extent of which was not yet known, because of the water supply problem. It was insured against such losses.

He said brewing was expected to resume at the weekend with the plant in full production by Monday.

Nampak MD Donald McCartan said apart from having to write off a "smallish" plant which manufactured basic cheque forms, damage was minimal.

Smith said it could be more than two years before flood-damaged bridges were repaired.

He hoped most bridges would be repaired by the end of March 1989.

MUTUAL & FEDERAL

Heavy blow

Activities: *Short-term insurer.*
Control: *Ultimate holding company is South African Mutual Life Assurance Society.*
Chairman: *J G van der Horst; managing director: K T M Saggers.*
Capital structure: *46,5m ords of 50c each. Market capitalisation: R326m.*
Share market: *Price: 700c. Yields: 2,3% on dividend; 10,3% on earnings; PE ratio, 9,7; cover, 4,5. 12-month high, 775c; low, 310c. Trading volume last quarter, 8 700 shares.*
Financial: *Year to June 30.*

	'84	'85	'86	'87
Total Assets (Rm)	313,7	398,2	508,6	814,4
Net Premium Income (Rm)	203,2	248,2	245,5	424,0
Underwriting Profit (Rm)	2,2	(22,9)	(8,9)	13,6
Investment Income (Rm)	20,4	24,7	30,1	39,2
Pre-Tax Profit (Rm) ..	22,5	2,9	21,1	52,8
Earnings (c)	37,4	16,9	40,0	77,0
Dividends (c)	10,5	10,5	13,1	17,0
Net worth (c)	324	383	589	1026

The recent floods in Natal are bound to hit the short-term insurance sector hard. Mutual & Federal (M & F), which has a substantial amount of business in Natal, according to MD Ken Saggers, will be no exception.

M & F is probably as well placed as any company in the industry to ride the disaster. It has a financial base of 173% and a solvency ratio of more than 90%, which should put it close to, if not at, the top of the industry. This means that the high percentage of income which comes from investments (R39m last year compared with an underwriting surplus of R13,6m) will help offset the underwriting loss resulting from the floods.

Saggers makes no bones about the size of the loss. "It is the worst disaster the industry has ever experienced," he says, "but it is far too early for any estimate of its size. Our underwriting will be hammered and it is even more disturbing as this is only the beginning of the rainy season. We still have the whole season ahead, so the industry could yet face huge losses."

A disturbing factor is reinsurance. After disasters in recent years, the industry was having trouble obtaining overseas reinsurance. It was only last year, with the end of the price war, higher premiums and no disasters, that the local industry was getting on to its feet and finding a higher degree of acceptability with reinsurers.

Most of the Natal loss will be carried by the reinsurers, especially overseas reinsurers, but there are serious implications for local companies (see *Leaders*). "Reinsurance will certainly cost a lot more and we can't exist without catastrophe back-up cover from overseas," Saggers points out.

Though investors will pay little attention to the historical result in view of the floods, M & F — like most of the industry — reported greatly improved results for the year to end-June. Investment income rose 30% and the underwriting results changed from a loss of R8,9m to a profit of R13,6m.

The reason for the improved performance can be seen from the increase in net premium income (NPI) of 73% and the reduction in expenses as a percentage of NPI from 11,5% to 8,1%. The net commission expenses ratio also fell, from 16,3% to 13,5%. All of this shows a tight rein was held on expenses, though Saggers points out that "the huge growth in premium income, most of which came from old AA business, must bring with it economies of scale. The important question is whether this can be maintained."

He says that the company plans that the increase in costs should not be much more than 20% in the current year. The inflationary factor should ensure that NPI continues to rise at a fairly rapid pace, but a large number of clients are still underinsured, which only becomes apparent when a claim is made.

Saggers does not expect investment income to rise at the same rate as last year. The rate of increase will depend partly upon cash flow and the demands which are made upon it in terms of claims.

Like all insurance companies, M & F has enjoyed considerable benefits from the rise in share prices. "The higher equity market has meant an increase in assets and in the solvency margin and financial base. If the JSE falls 20% this could take 20% off our solvency margin," says Saggers. Even so, with its extremely high solvency margin, the company will still be in excellent shape.

M & F is the blue chip of the short-term insurance sector, but there is no avoiding the fact that the short-term sector has suffered a heavy blow. It cannot be regarded as a good investment at present. *Pat Kenney* not be able to predict them yet with any finite degree of accuracy — and even when they do their warnings tend to be met by a general air of complacency. This attitude has to change.

If there is anything at all that we can learn from the devastation that surrounds us it is that we should take their warnings seriously. Planners, especially those in Natal, should be less dismissive with clichés like "once-in-a-lifetime-event" and pay more attention to the outside parameters of possible flooding.

If nothing else the flood damage in Natal should leave us all with renewed respect for the power of the elements. ■

SHORT-TERM INSURERS

Into the storm

The short-term insurers are going to come under severe pressure because of the Natal disaster. Reinsurance is going to become more tricky, and premiums will inevitably rise. Another blow can scarcely be provided for.

It was perhaps too much to expect that insurers would suffer so few storm losses a second year running. But this year, as we now know, the losses have shot up with a vengeance.

The Natal storm on September 28 was so severe that it will cost the insurance industry more than it paid out for the entire eight-year period 1979-1986 (see graph). Yet it is only the start because underwriters have yet to face the hail season on the Reef.

During the last few years the industry has had a welcome respite from major catastrophe. Total losses under this category touched a peak of R107m in 1984 — the year of cyclones Demoina and Imboya — and fell to R61,2m in 1985 and to just R32,7m in 1986. Catastrophes include losses from storm, flood, earthquake, and hail.

At this early stage underwriters can only guess at the damage done by the Natal storm to their portfolios. The last disaster in the area was cyclone Demoina, at the end of January 1984 — and that cost insurers R34m.

Says Don Gallimore, executive director of Priceforbes Federale Volkskas: "It's too early to give an accurate loss picture. But I'd be surprised if the insured losses were not at least 10 times that caused by Demoina." Taking inflation into account, that suggests R500m. But even half that would be the worst in South African insurance history.

"Remember," adds Gallimore, "Demoina mainly went through the more rural areas, while most of the physical damage affected government buildings and infrastructure, much of which was not insured."

This time there have been a lot more insured losses to private dwellings and factories. To the cost of flood damage must also be added the costs of compensation for loss of profits through machinery breakdown, and disruption to supplies of materials, electricity and water.

As for the infrastructure (roads and bridges, for example), as one insurer comments: "I'd be surprised if there was any insurance on them."

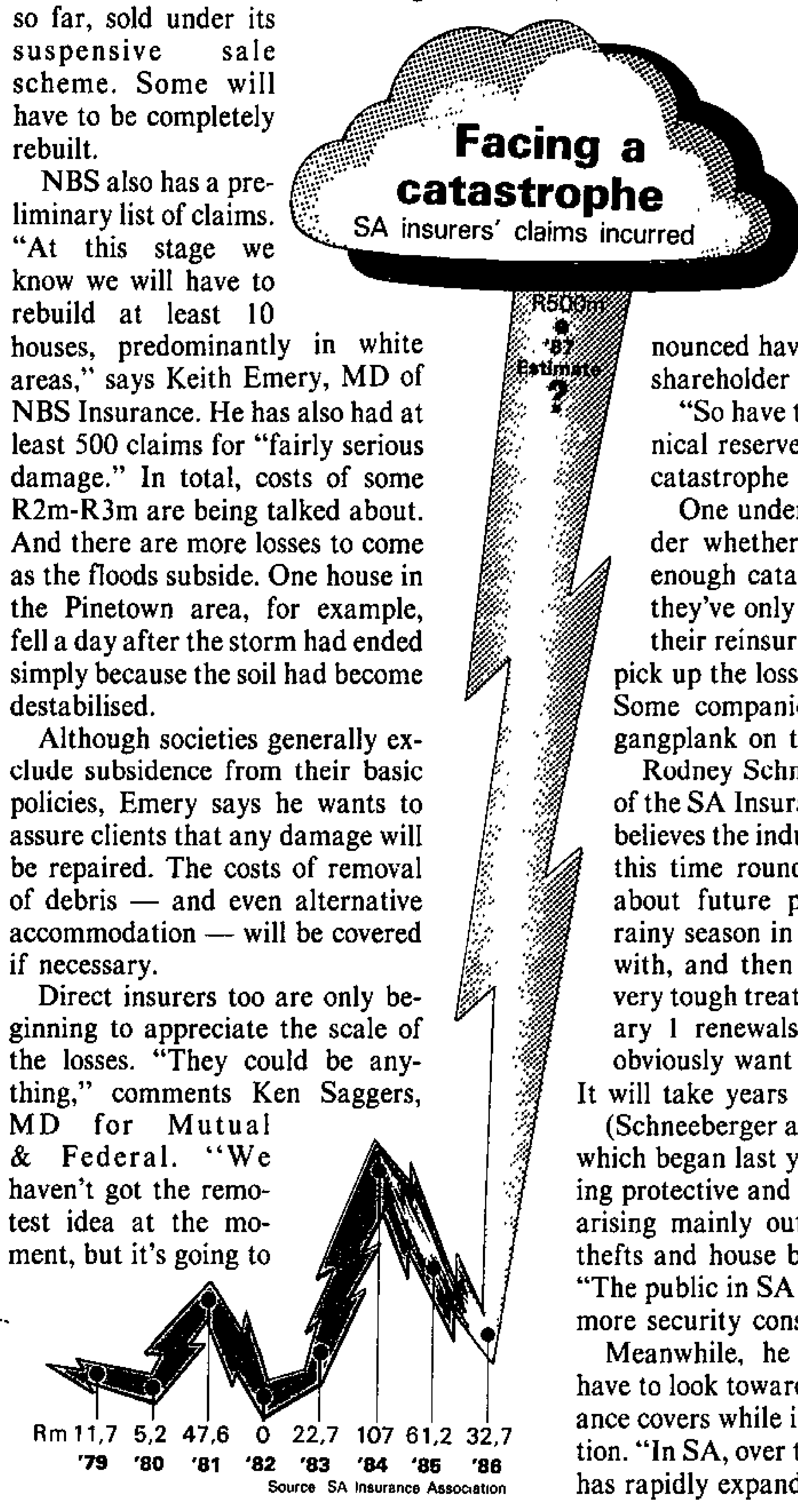
Rex Henning, the financial officer for Durban Municipality, says: "We are generally self-insured, although we take out our own reinsurance on world markets." What the city is able to claim, however, will depend on the excesses applicable for the relevant risks.

Henning has no damage reports as yet, let alone an indication of whether a loss is insured or not. "Our resources are strained and the priority is to restore essential services and ensure safety and security." However, Durban does have 85 claims for damaged houses so far, sold under its suspensive sale scheme. Some will have to be completely rebuilt.

NBS also has a preliminary list of claims. "At this stage we know we will have to rebuild at least 10 houses, predominantly in white areas," says Keith Emery, MD of NBS Insurance. He has also had at least 500 claims for "fairly serious damage." In total, costs of some R2m-R3m are being talked about. And there are more losses to come as the floods subside. One house in the Pinetown area, for example, fell a day after the storm had ended simply because the soil had become destabilised.

Although societies generally exclude subsidence from their basic policies, Emery says he wants to assure clients that any damage will be repaired. The costs of removal of debris — and even alternative accommodation — will be covered if necessary.

Direct insurers too are only beginning to appreciate the scale of the losses. "They could be anything," comments Ken Saggers, MD for Mutual & Federal. "We haven't got the remotest idea at the moment, but it's going to be severe. We've had thousands of claims already."



But the estimates for losses are not as important as the implications for the industry. "I have no doubt there will be a major impact on reinsurance treaty negotiations," Saggers adds.

Gallimore says reinsurers will pick up most of the bill for the storm under their catastrophe treaties. Of the R500m, perhaps R375m will be for their account, with around 70% of that going to overseas reinsurers.

"I've been concerned about insurance companies showing such good results so soon after making losses in previous years," he adds. "And while they've been caning the consumer through the very high premiums, the profits that have been announced have been aimed more at the shareholder than at the policyholder.

"So have they put enough into technical reserves to cover for this sort of catastrophe now and in the future?"

One underwriter also asks: "I wonder whether some insurers have got enough catastrophe cover anyway. If they've only bought, say, R10m from their reinsurers, then they will have to pick up the losses that come in over that. Some companies could be walking the gangplank on this one."

Rodney Schneeberger, chief executive of the SA Insurance Association (SAIA), believes the industry can handle the losses this time round, but is none too happy about future prospects. "We have the rainy season in the Transvaal to contend with, and then of course we can expect very tough treaty renegotiations for January 1 renewals, because reinsurers will obviously want to start recouping losses. It will take years to sort this lot out."

(Schneeberger also believes that the trend which began last year in SA towards inducing protective and preventative measures — arising mainly out of the increases in car thefts and house burglary — will continue. "The public in SA has simply got to become more security conscious.")

Meanwhile, he says local insurers will have to look toward increasing their reinsurance covers while improving their asset position. "In SA, over the last 20 years, suburbia has rapidly expanded so that we have much more housing and manufacturing in the hail belt. At the same time rates on industrial risks in particular have reduced considerably. The upshot is that the asset base of the insurance industry is no longer adequate to cover the vast exposures."

This problem has added fresh resolve to the SAIA's desire to have tax relief from government on funds credited to a special "fluctuation reserve" to boost solvency margins up to 20%.

There's another hazard for insurers. Though its excess on household insurance has been jacked up to R500, Aegis expects inflated claims. Says MD John Bull: "We're going to get a lot of people claiming for more than they should."

Gallimore adds: "Who's going to check in every circumstance how much of the claim being made concerns historical things like wear and tear and maintenance problems?" This will also add to an upward pressure on premium rates for 1988. And, "No doubt companies will be paying severe increases in reinsurance premiums," says Saggers. The other worrying aspect is that any storm-related catastrophes normally occur in Natal during March-April. Then the Transvaal tends to produce its own batch of storm losses through hail during November-February.

Let's hope the industry has enough reserves to weather the storm — *and* be able to fund higher net retentions, *and* pay higher reinsurance premiums. ■

☐ See ***Business*** **and** ***Current Affairs.***

INTERNATIONAL MONETARY FUND

When America went broke

It was all there, to be read in the figures in 1987, when the International Monetary Fund held its meeting in Washington. Few foresaw that, when they next met in Washington two years later, the US would have been forced to borrow from the fund and submit to its disciplines.

This "fantasy" about the IMF and US debt is by Christopher Fildes, writing in the *Daily Telegraph.* Fildes is an award-winning UK financial writer.

The 1987 meeting missed the clue. Concerned as it was with poor debtor countries in black Africa and middle-income debtor countries in Latin America, it overlooked the high-income country with the world's largest international debt. Rich and poor alike were already caught in the trap of compound interest, continually borrowing more to service debts which continually increased.

The US was running a large trade deficit, and a large "invisible" deficit on top of that, because of the cost of servicing international debt. It had been estimated that by 1989 this debt would reach a net $1 000 billion and the annual interest cost would be $100 billion.

Who was going to finance these deficits? The Japanese, long content to do so by buying US government bonds, retired hurt in the spring of 1987, after the dollar's collapse against the yen had left them with a loss of $20 billion. The central banks of the world then took up the task, buying tens of billions of dollars to hold the exchange rate steady. They had to pray that their demonstration would convince the market of their capacity and willingness to buy dollars.

Overseas investors had been financing not only the US deficit on the current account of its balance of payments, but also its budget deficit. At the time of the 1987 meeting, the fund's economists forecast that the budget deficit would fall smartly that year, helped by one-off effects in President Reagan's tax reforms. Some of those effects would reverse themselves in 1988, and the deficit would stop falling, and be rather higher again by 1990. A deficit between $160 billion and $180 billion seemed to be here to stay. That deficit (again on the fund's figures) already absorbed one-third of American savings, the highest ratio in any major economy for more than a decade. The rest had to come from abroad.

No wonder that, in the months after the meeting, the dollar came under pressure again. Now the central banks had an unwelcome choice: would they dig in to support the dollar where it was, and write blank cheques in its defence? Or would they, since they said that they were running a regime of "managed floating," let the dollar float down? They acquiesced in its fall, making US exports more competitive but immediately making the balance of payments even worse.

An embattled US Treasury was reduced to financing itself in other currencies, borrowing yen and marks — loans which would become more burdensome if the dollar fell further. Dollar interest rates were forced up in defence.

The president complained that the government in Washington was losing control of its policies, that the creditors and the market had taken charge. An infuriating message of sympathy came from the British. They could remember just how it felt in the Sixties and Seventies.

It made a dark background to the US election campaign in 1988, and the election itself predictably made matters worse. Candidates saw no more votes than usual in promises to cut public spending or to raise taxes. The markets waited uneasily for the next congress and the next president. He emerged as a new figure, limited in his experience but plainly sincere. He had a general commitment to economy, particular commitments to spend, and an uneven team. He reminded some people of Jimmy Carter. He soon fell out with Alan Greenspan, his predecessor's choice as chairman of the Federal Reserve. The dollar slipped again.

The president announced a patriotic programme, encouraging American companies to bring their money home from abroad, and urging American citizens to spend their holidays in New Jersey. The markets were underwhelmed.

The Treasury, this time with more difficulty, raised another hard currency loan (pounds and Swiss francs) and the US for the first time drew out all its automatic entitlements from the fund.

By the summer of 1989, half US export earnings went on servicing its debts. Bankers who had lent to Poland and Zaire and 20 others recognised the classic point of no return.

The dollar spiralled, markets panicked, the central banks would do no more, the jig was up. The Secretary of the Treasury drove four blocks across Washington to call on Michel Camdessus at the International Monetary Fund, the world's lender of last resort.

Camdessus would lend to the US, as to any other member country, on conditions. They were, as usual, painful and politically difficult. They amounted, as usual, to a commitment to policies convincing enough to bring commercial lenders and investors back in.

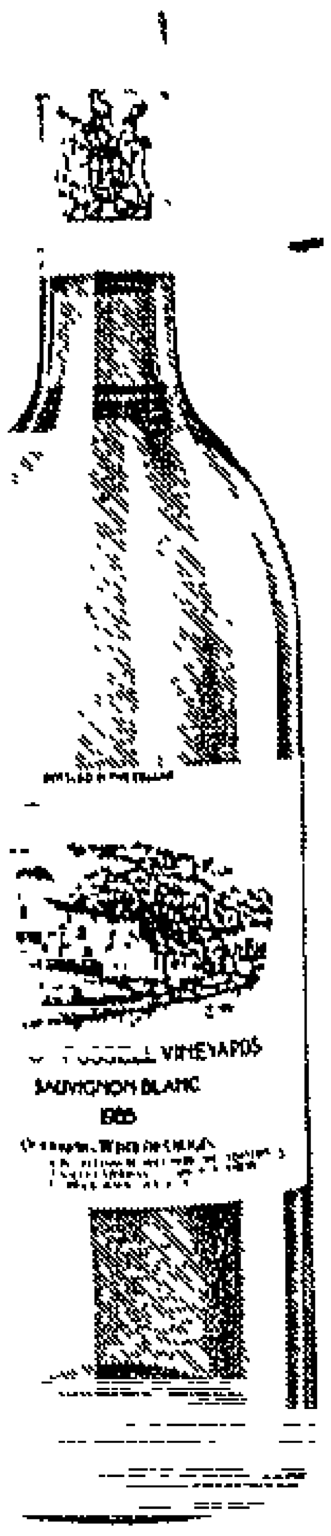
The negotiations were desperate, but Camdessus held all the cards. The administration had no effective choice but to sign up on his terms. President and congress could then agree on blaming him as they finally settled down to cut spending and raise taxes. In Washington and across the country the shock was appalling and effective.

Privatisation came to America. The Tennessee Valley Authority was first to be sold off, followed by Nasa and Fort Knox. Some debt was reconstructed, and the payments spread out. Some was exchanged for equity, in everything from IBM to oil shale and motels.

Some holders of junk bonds found them converted into junk. It was a financial solution to what was a financial problem — that of an immensely rich economy which, too used to the idea that its own credit and currency were always good, found itself strapped for cash.

Once that was clear, dollar assets looked cheap. New investment flowed in, and the highly competitive exchange rate now had its chance to pull the balance of trade back into surplus, and so start to pay off the creditors, starting with the fund. ■

☐ See ***World.***



UBS chief 'misread' the life assurance issues

Badenhorst's attack unfortunate — Ilpa

(58)

B/day 9/10/87

THE INSTITUTE of Life and Pension Advisers (Ilpa) has described the attack on the life assurance industry by UBS CE Piet Badenhorst as "unfortunate".

Council member Paul Clipsham said yesterday Badenhorst had misread the issues. "This has nothing to do with the way assurers are taxed and by picking on this he is confusing the issue.

"In the long term, building societies have not offered yields to investors greater than the rate of inflation. If investors get a negative return they will tend to invest in the short end of the market or alternatively look long term and go to life offices or unit trusts, which offer them the opportunity for capital growth. It is the capital growth that allows them a real rate of return.

"The real problem which building societies have experienced worldwide is how to give their depositors equity participation. And this problem will continue until it is addressed, or until inflation drops and the problem becomes disguised.

Valuable place

"We recognise building societies have a valuable place in the financial markets."

Clipsham said he had noted a statement from Allied CE Alan Tindall, reported earlier this week, which quoted him as saying the building society industry as a whole was not at loggerheads with life assurers. "This was a positive statement," he said.

Allied takes off the gloves

ST 11/10/87 (58)

By Ian Smith

THE gloves are off in South Africa's bitterly competitive financial services field.

Three years of planning pays off this week with the immediate merging of the operations of Allied Building Society and Allied Bank to form a new R6-billion giant offering one-stop service.

The move follows the remarkably rapid growth of the Allied Bank since its formation a year ago. With the share exchange with the Sage insurance group, it puts the newly-listed group in a strong position to capitalise on deregulation in the financial institutions sector.

The restructuring, which also involves major changes in the Allied Group's top control, means the distinction between bank and building society will disappear, says Alan Tindall, whose title changes from group managing director to chief executive officer.

Legislation

Also promoted are Ian Fraser, who becomes deputy chief executive, and Kevin de Villiers, the first managing director of the bank, who becomes managing director of the Allied Group with a seat on the main board.

Mr de Villiers says that the legal and accounting distinctions between the building society and the bank will be preserved as long as legislation makes this necessary.

"In all other respects, the operations will run in combination. There will simply be Allied outlets providing the entire range of financial services, including our own insurance products."

Mr Tindall says the merger had been planned from the time Allied entered the banking arena. "It was always the logical progression to a full financial services group.

"But we did not expect it could happen so fast."

He says the Allied Bank's balance sheet of close to R600-million is already three times the size of the original estimates at this stage.

The Bank faced high startup costs, particularly in the consumer division with its heavy infrastructral and technological demands.

"However, these have been offset by successful trading in all other divisions and the bank, overall, will at worst break even in the year to next March 31," says Mr Tindall.

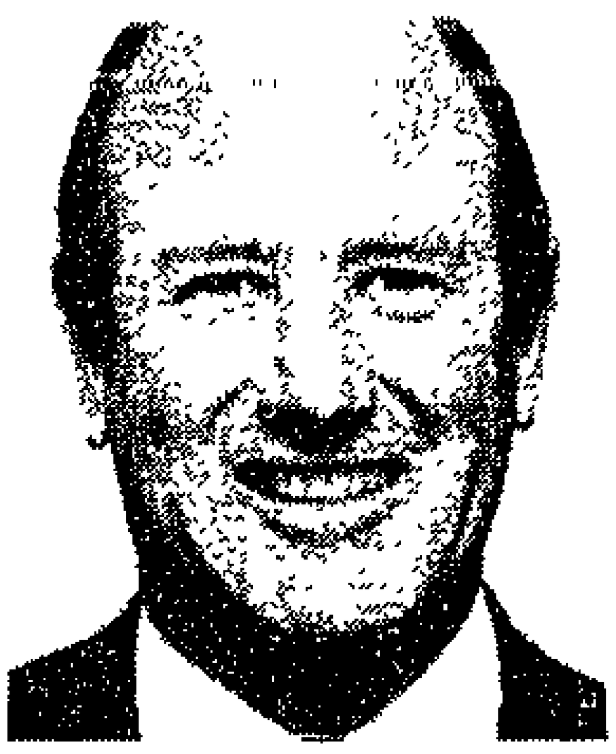
The programme of bank branch openings is a year ahead of schedule, and training has gone ahead so rapidly that all main branches can handle the full range of consumer services.

The first three bank branches opened in January, and then there was a pause to evaluate their performance. By the beginning of October 76 branches had opened and by the end of the month 100 will be operational. All 150 Allied Building Society branches will offer the banking service by the end of March.

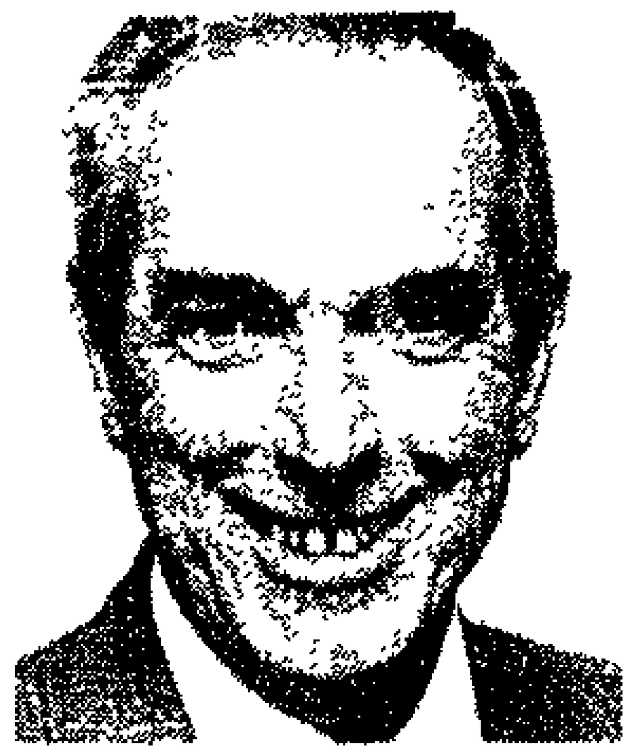
Mr de Villiers says he is very pleased with the prospects for corporate banking. The bank has already identified R60-million of attractive business for advances in the R100 000-R2-million bracket and another R250-million at the low-yielding triple-A end of the market.

"We are very happy at the quality and the level of corporate business. We had under-estimated the value of the Allied name in this field."

In the consumer field the Bank has looked first at the Allied's 1,1-million customer base. About 50% of customers already have Allied bonds, while 25% have bonds with other institutions and the remaining 25% do not have bonds at all.



ALAN TINDALL



IAN FRASER

KEVIN DE VILLIERS

Cheque services are still a little way off. "The introduction of cheques is a major exercise, but they will be offered in a small way next year," says Mr de Villiers. Full cheque services will be phased in over the next five years.

But it's not just the bank that's doing well. Mr Tindall says Allied's traditional operations are also growing.

He says: "There has been a lot of speculation about the possible adverse effects of the rate competition in the market place.

"In fact, Allied's lending is well ahead of budget — and that has been achieved without slashing rates.

"As for liabilities, any reduction in retail business has been more than offset by the ability we now have to obtain a reasonable share of wholesale business from the commercial banks, which previously dominated that sector. That, after all, is one of the main reasons for us being in banking."

Broader

He says that financial commentators have been concentrating on short-term events.

"It is actually the broader scenario that matters.

"To people who have been asking what we were doing about the so-called competition from the banks, the answer is now obvious. They should ask instead what the traditional banks are doing about the competition they are facing."

Fidelity rewards faithful

By Julie Walker

FIDELITY BANK, one of South Africa's oldest banks, is to become the latest JSE listing in the financial services sector.

Wholly-owned by the Fidelity Group, the PE-based bank will be raising R10,5-million by issuing 7-million units of unsecured convertible voting participating loan stock at 150c each.

After the listing there will be 7-million ordinary shares in issue and 7-million units of loan stock.

Fidelity Group will retain 35% of the ordinary shares and 25% of the loan stock, giving a combined 30% stake.

Shareholders in the Fidelity Group will receive 20% of the ordinary shares and take up 40% of the loan stock, totalling a further 30%.

The EP Building Society will become a major shareholder by ultimately acquiring 3,15-million ordinary shares at 270 cents. This will total 45% of Fidelity Bank's ordinary shares and 22,5% of the total voting power.

The balance of the loan stock will be issued to management and staff.

Fidelity Group recently listed its other subsidiary, The Board of Executors, which is acting as issuing house for the shares and loan stock.

Mr Bill McAdam, managing director of the Board of Executors, says that loan stock bearing a 14% coupon has been issued to enable staff to raise the money required to take an equity stake in the company.

Loan stock can be pledged at a bank and funds raised against it which can be used to pay for the initial issue of loan stock by Fidelity Bank.

On top of this, the Fidelity Group itself is to seek a listing early next year, when its name will be changed to Mercury Trust. At present there are 1 100 shareholders, who were mainly the original shareholders in the Group's subsidiaries.

It intends to raise more capital through a preferential and possibly a public rights issue, restructure the board and apply for a listing as a strategic financial services and investment trust.

Bit claims lead to big excess

11/10/87 ST

(88)

By Stephen Rogers

HOUSEHOWNER insurance policy holders are going to be hit for more.

In the wake of heavy increases in the incidence of claims, two of the biggest companies in houseowner insurance, United Building Society Insurance Company and Mutual & Federale, have introduced excesses to their policies.

Policyholders will now pay an excess of R100 on any claim. The other major actors in houseowner insurance, Natal Building Society, Allied and Saambou, have not followed yet — but the introduction of excess charges across the board cannot be ruled out.

Claims

The UBS is the largest building society in the country, having financed almost one in every three bonded houses. A condition of the society providing a loan is that houseowner insurance is taken out with the UBS insurance company, which means that the excess will affect the majority of homeowners in the country.

Most insurance companies classify houseowner insurance as covering the actual dwelling and permanent fixtures, including a stove, geyser and fitted carpets. Most of the smaller claims involve such items as broken windows and slates.

"Many people could fix these things themselves but, knowing they are copvered by insurance, some people automatically claim for any damage," says Martin Keyser, General Manager of UBS Insurance Company. "This excess has been introduced to persuade people to take more care of their property and not to claim unnecessarily."

Processing hundreds of small claims is also extremely expensive. It is estimated that each claim costs R250 to process.

The UBS has been suffering an underwriting loss on this business for the last three years.

The good news is that Keyser says the excess should obviate the need for a premium increase. Insurance rates were increased earlier this year from 15c to 18c per R100 of the sum insured.

However, being the biggest houseowner insurer brings its problems. Most of the UBS's business is concentrated in the PWV and other urban areas. And it only takes one bad hailstorm in on of these areas for the claims to start flooding in.

Keyser estimates that the UBS has about 2 000 houseowner claims in the Natal region, which will cost about R6-million. But premiums are unlikely to be increased in the next year.

"It could take up to eighteen months for higher premiums to filter through as a result of higher reinsurance premiums. We will have to wait and see."

Mutual & Federale also says that the excess was not introduced because of losses.

"The excess was introduced to eliminate very small claims," says general manager Sean Lehane. However, with the string of floods and storms in recent years, it is believed that an underwriting loss is being made on this business.

Surprisingly, the NBS claims to have made a small underwriting profit on houseowners insurance business in the last five years. This is in spite of its incidence of claims increasing from about one in every 12 policies to one in every seven.

However, with the NBS having the highest exposure — in terms of houseowner insurance — to the Natal flood damage, this underwriting profit could be at risk.

Keith Emery, managing director of NBS Insurance, estimates that claims will amount to between R3-million and R5-million. But he shies away from predicting a premium increase. "It is much too early to say anything with certainty."

'No problems with financing'

Cape Times 12/10/87

Sanctions threat real—Du Plessis

THE threat of sanctions is still real in spite of the general acceptance that they have not worked, Minister of Finance Barend du Plessis said on his return from overseas yesterday. But SA will have no problems with trade financing.

Du Plessis visited bankers in Zurich and Munich before attending the annual International Monetary Fund conference in Washington.

He also visited several South American countries, including Chile, which is in the process of an economic reform programme.

Barend du Plessis

Hopeful

"The good news is that we have no problems with trade financing," he said. "In fact, on a number of occasions, bankers told me that they had very substantial spare capacity."

As far as long-term loans were concerned, he said: "Right now we don't need foreign loans on a large scale."

SA wanted, instead, to encourage foreign investment in job-creating activities and the situation was hopeful.

Du Plessis said he was impressed with Chile's economic recovery. Inflation there had dropped from 1 000% to 20% and state expenditure had been cut to such an extent that revenue not only covered running expenditure but also made a contribution to capital expenditure.

Chile had turned from a food importing country to an exporter.

"When a country is beseiged by external and internal problems, there is no way you can avoid painful sacrifices," Du Plessis said.

Although Chile had a highly regulated economy with a more favourable development ratio, there were strong parallels with SA in the challenges it faced.

Chile had proved that drastic measures could put an economy back on a sound footing, the Minister said.

He noted that there was a worldwide trend towards privatization and deregulation. "The market mechanism is the only mechanism that will get your economy into equilibrium".

The fruits of the change could be seen worldwide.

Du Plessis said it was too early to assess the ultimate implications of a call by the US for a gold-based commodity index, leading to a possible return to the gold standard.

He said that, internationally, there was "great admiration" for the way in which SA handled the debt standstill and for the way its economy was managed despite internal and external problems.

Understanding

In Europe particularly, there was deep understanding for SA's political problems and a realization that there was no "quick fix".

However, there was still uncertainty over the political situation in SA.—Financial Staff and Sapa.

Business Report

Allied Building Society and Allied Bank merge

Cape Times 12/10/87 (58)

JOHANNESBURG. — Operations of the Allied Building Society and Allied Bank will merge with immediate effect. The distinction between bank and building society will disappear, Allied announced at the weekend.

Kevin de Villiers is moved up to the position of MD of Allied Group, with a seat on Allied Group's board. He will now be responsible for the operations of the combined R6 billion joint enterprise.

As a result of the restructuring, Alan Tindall's title changes from Group MD to CEO, with particular responsibility for overall direction and strategies, together with the vital information services and internal inspection divisions.

Also promoted is Ian Fraser, at present deputy group MD, who now becomes deputy CEO, with responsibility for most other Group activities. The chief executives of the insurance and property development companies, as well as the finance and group marketing divisions, will report to him.

De Villiers explained that the legal and accounting distinctions between the building society and the bank would be preserved as long as legislation made this necessary. "In all other respects, the operations will run in combination.

Move anticipated

"There will simply be 'Allied' outlets, providing the entire range of financial services, including our own insurance products and the very wide range of financial products now available to us from our shareholding in the Sage Group."

Tindall said the merger had been anticipated from the outset, when Allied entered the banking arena a year ago.

"We did not anticipate that it could happen so fast. But the bank has grown at a highly satisfactory rate. The balance sheet is already three times the size we had estimated at this stage."

Main branches could now offer the full range of services.

Allied Bank now had a balance sheet of more than half-a-billion rand.

The bank, overall, would at worst break even in the year to 31 March 1988.

Meanwhile, Allied's traditional operations had also been growing.

Tindall commented: "There has been a lot of speculation about the possible adverse effects of the rate competition in the marketplace. In fact, Allied's lending is well ahead of budget and that has been achieved without slashing rates.

"As for libailities, any reduction in retail business has been more than offset by the ability we now have to obtain a reasonable share of wholesale business from the commercial banks which previously dominated that sector. That, after all, is one of the main reasons for us being in banking." — Sapa

58 B/Day 13/10/87

Floods: 'insurers will not go under'

HELENA PATTEN

THE COLLAPSE of any of SA's insurance companies as a result of huge claims following Natal's floods is not on the cards, say industry leaders.

The general consensus is that adequate catastrophe reinsurance taken out by insurers makes collapse highly unlikely.

Deputy Registrar of Financial Institutions Piet Badenhorst says: "It will take a long time for all the claims to come through, but I don't think there is a chance of having another AA Mutual on our hands."

Guardian National chief GM Keith Nilsson says the floods are not the sort of event to put a company under, while Aegis MD John Bull says large companies will certainly not collapse, and it is improbable smaller companies will suffer such a fate.

Nilsson quotes Guardian National's expected gross claims at just under R50m. He says his company is seriously exposed in the sugar industry and also carries a share of the risk of Barlows and SA Breweries.

Mutual & Federal (M & F), joint lead insurer of Mondi (damage to which has been estimated at R182m), is said to be in for at least R40m in claims. SA Eagle, which shares M & F's Mondi lead, is unable to say what its loss will be, but says it is in on most of the large risks.

Commercial Union (CU) MD John Kinvig says the company has already received claims of R25m and expects much more. CU is "well represented on all the large risks".

General Accident CE Clive Dean says maximum claims of R14,5m are expected. Protea Insurance is also said to have been badly hit.

By contrast, companies like Santam, IGI, Federated Insurance and Aegis appear to have got off lightly with expected claims ranging from R500 000 to about R4m.

Warning on insurance premiums

FEARS of nationwide increases in insurance premiums for the man-in-the-street, because of the Natal floods, were unfounded, General Accident CE Clive Dean said in a statement.

Insurance rates in Natal, however, could be expected to rise substantially, especially since until now they had been among the lowest in SA.

He said the increases in premiums would bring Natal rates more in line with those of the rest of the country.

Dean also warned that businesses based in Johannesburg and elsewhere, with susidiaries in Natal, could expect heavy rate hikes.

Unit trusts inflow up by huge R453m

Own Correspondent

JOHANNESBURG — With investor interest fuelled by the launch of a spate of new funds, a massive net R453,8 million flowed into the funds for the three months from July to September.

The big inflow of funds — sales totalled R599,3 million against re-purchases of R145,5 million — came as the number of unit trusts increased to 21 from 14 a year ago when the net flow totalled R169,8 million

The launch by Senbank of two funds at the start of October now gives investors a choice of 23 funds. However, the last two funds are not included.

The figures show that investors who have held unit trusts for the past year have seen a 45% capital appreciation.

With the unit trust capital index at 1 352,33 points at the end of September, more than twice its September 1985 level of 648,96, investors have had their capital doubled.

Assets of 21 funds was R4 882,5 million at September 30, more than double those of R2 400,8 million a year ago.

At the end of the June quarter, total assets of 17 funds was R3 809,6 million.

While the bulk of the industry's assets are held by the seven longer established general equity trusts, assets of the mushrooming speciality funds are growing fast and climbed from R978,3 million to R1 386,8 million in the past quarter.

General equity trusts held 42% of their R3 325,3 million assets in mining related stocks, while the more specialist equity funds held 65% of their R1 286,8 million assets in mining stocks, of which 30% (R418,6 million) was invested directly in gold shares.

However, the general equity trusts have 47% (R1 569,8 million) of their assets invested in industrials compared with only 24% (R332,7 million) invested in industrials by the specialist equity funds.

Funds in both categories were fairly fully invested at the quarter end with an average of only 10% liquid.

The four high income trusts reporting invested 27% of total assets of R170,4 million into liquid assets, 40% into other assets and 30% into approved securities.

The five specialist equity funds which can report for a five year period achieved an average return of 28,5% and the six in existence for the past year show a return of 50,4%.

CAPE TIMES 15/10/87

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Opposition greets Margo tax package

Own Correspondent

JOHANNESBURG. — The Margo Commission's proposed tax-reform package, which has the Comprehensive Business Tax (CBT) as its linchpin, has met strong opposition — even condemnation — from a wide range of commerce and industry.

This has been emphasized in further submissions presented this week to the Finance Department's Margo Task Force.

Yesterday Assocom rejected the report outright, expressing its "very strong opposition" to the CBT.

A spokesman for the Chamber of Mines, which also gave evidence yesterday, said a wide range of issues related to the Margo report had been discussed. He said comment before government's White Paper would be premature.

Soon after the Margo report's release, the chamber expressed disappointment at the commission's proposals that capital expenditure incurred by mines should not be written off immediately but over three years.

The Life Offices Association (LOA) is to meet the task force today.

Up in arms over what it termed "the apparent intention to increase the tax burden of life assurers", the LOA was one of the first to criticize the "main package" of the Margo report.

Meanwhile, Tradegro financial director Mr Bill Chambers added his voice to criticism of the CBT.

He said: "CBT would discriminate against businesses with a high turnover and low profit margin."

It has become apparent since the Margo report was published that government itself is also unhappy with the idea of accepting the Margo proposals in toto — which flies in the face of the commission's representations that the recommendations need to implemented comprehensively if they are to be effective.

The CBT — perceived as a late attachment to the reform proposals — has found few supporters in either the private or public sectors, and the odds are that government will have to go along with this view.

The most common reaction to Margo concerns not its recommendations, but that its investigation was unable also to deal with state expenditure.

The stage is set for fierce debate when President P W Botha meets business leaders for a "summit" on Margo next week, with Assocom's report serving as a valuable curtain-raiser.

LIFE ASSURERS 58

Taxing question

When a government imposes a new tax, it can distort the free market mechanism. Businessmen can lose sight of this when they argue for "more equitable treatment" of their own industry. They often argue not for lower taxes, as they should, but for higher taxes on an opponent.

So it is with financial institutions. The recent attack by UBS CE Piet Badenhorst on life assurers' "preferential tax treatment" is a case in point.

Says Dorian Wharton-Hood, chairman of the Life Offices' Association (LOA): "The problem is that building societies are over-regulated, not that life offices are under-regulated." To tax life offices more is no solution.

Societies and their investors pay less tax as a percentage of gross investment income than life assurers in respect of their taxable business, according to recent figures from an LOA sub-committee based on information from members and the statistician for the Commissioner for Inland Revenue.

Life assurers paid tax of R236m, plus tax by individuals on policy proceeds. With gross investment income derived for members of R1,18 billion, tax as a percentage comes to at least 20%.

Building societies' taxation comprises: tax paid by institutions, R148m; tax paid by individuals on all interest income, regardless of source, R406m (considerably overstated, says Wharton-Hood); and tax paid by individuals on dividends paid out by building societies, R61m. This gives a total of R615m, or just 15,7% of gross investment income derived for members of R3,9 billion, according to the LOA.

The assurance industry has been discussing the matter with the Department of Finance as well as the Margo Commission for some time. "We are aware of problems some building societies have with developments in the financial services industry," says Peter Garthwaite, GM of Norwich Union.

"We would prefer ironing these out in discussion with the societies and the authorities. We are as keen as they are to have different financial institutions compete on a level playing field for the savings of individuals. And we support equal and fair competition in a deregulated environment."

The life industry agrees with the building societies that they are limited now that other financial institutions are increasingly competing for the same savings. Building societies are subject to the major limitation that they have to invest some 80% of assets in housing loans.

Furthermore, the mortgage rate is a political issue. Until it is depoliticised and societies allowed to charge and offer market-related interest rates, "they will be unable to offer a return on savings higher than the rate of inflation."

Life assurers have been able to offer a return better than inflation. However, says Wharton-Hood: "We believe that the angle of the attack from the building societies is wrong.

"They apparently want to see life offices regulated and taxed to the point where nobody can offer individuals a better return on savings than the rate of inflation."

It would be better if societies attempt to achieve greater investment freedom, so that individuals are offered more realistic alternatives.

"Badenhorst appears to be lobbying for tax to be payable in respect of pension funds and retirement annuities. The fact that this business is tax-free is not a concession to the life assurance industry.

"It is socially desirable to encourage people to provide for retirement. The management of pension and retirement annuity business is not the exclusive preserve of life assurers. The life assurance industry would support any move to allow building societies and other institutions to compete on equal terms." ■

16/10/87

(58) FM

ALLIED GROUP

Full speed ahead

The full integration of the banking operations of Allied Bank with the group's traditional building society activities should be seen in the context of the association formed earlier this year between Allied and the Sage Group, via mutual share purchases.

This enables Allied to offer a full range of investment instruments to its clients, including life assurance products and mutual funds.

Allied group MD Alan Tindall will become CEO of the merged operation, while the current head of the bank, Kevin de Villiers, becomes MD. Ian Frazer, currently deputy group MD at the Allied, will be deputy CEO.

Frazer tells the *FM* that the move by the Allied to diversify was motivated by pressures of the marketplace bearing on traditional building society business. In the first place, the banks were encroaching on the upper end of the mortgage lending business — "going for the A and B income groups."

Secondly, the life assurance industry was tapping investment funds through being able to offer products with many advantages — in inflationary times — over traditional fixed interest forms.

The creation of a complete one-stop investment services group will enable Allied to meet this competition on both fronts. Frazer notes too that the establishment of a banking operation has enabled Allied to take advantage of more flexible and permissive governing legislation in certain areas of operation.

The move is the fruit of progress at Allied Bank which has been "far faster than originally anticipated." The banking operation — which started in January — has already achieved an asset base of some R600m. (The Allied group will have total assets of some R6 billion.) Staff at the bank has grown from "a handful" in January to 140.

The bank is already operating "out of all our main building society branches," says Frazer. But the fully fledged operation now inaugurated will require "big infrastructural changes." To launch the bank required an enormous cost in new systems — "software rather than hardware." And staff training was a second major commitment. An interesting aspect of the systems to be used by the group is the integration of the computing function of Sage Life on to the Allied mainframe.

Allied's Frazer . . . facing market pressures

Sage Life had reached the situation where it would soon have outgrown its own in-house computing capacity and would — in the absence of the new arrangement — have had to invest in additional facilities.

In April, the Allied bought a 29% stake in the parent company of the Sage group — Sage Holdings. And Sage has almost brought its stake in Allied up to the 10% level which was set as the target at the time the association between the two groups was formed.

From the customer's viewpoint, there will be one integrated teller system at all Allied branches. The tellers, in turn, will have access to an integrated computer network incorporating information on all aspects of the group's activities. The customer, says Frazer, will not be told which arm of the group is handling a particular transaction. ■

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Fund reaches record R600m total

JOHANNESBURG. — Funds under the administration of Standard Bank Fund Managers reached a record total of R600m in the quarter ended September 30, a 33% increase for the first three quarters of 1987, according to the latest quarterly report.

However, the managers of the Mutual Fund say that, notwithstanding the strong undertone to the JSE, they believe that at current levels the market is overvalued and that a cautious approach should be adopted.

"Currently the industrial sector of the market is offering an average dividend yield of 2,5%," they said.

"This yield is less than half the 5,4% which the industrial sector has averaged over the last 25 years.

"An in spite of the problems facing the SA investor, inter alia, high inflation, pressure on the exchange rate, a closed economy, and limited investment alternatives, we consider investment fundamentals to be mostly unfavourable, and consequently have increased the fund's liquidity over the quarter from 14% to 18,5%."

In the quarter just ended, the managers said, the JSE had continued to show strength, with the JSE Actuaries Index improving by 14,84% from 2 331 to 2 677. The Fund had had a total return of 19%.

The managers of the Gold Fund said the metal still required a primary influence to propel it above $476 an ounce, through to the previous top of $500-$510 last reached in 1983.

It seemed unlikely, they said, that this influencing factor would emerge in the current quarter.

In the quarter the fund was less active in the gold sectors, and most purchases were made in the mining financial and exploration sectors.

Including income, the Extra income fund gave a quarterly return of 14,12% and a year-to-date return of 26,95%. — Sapa

Rand closes firmer

JOHANNESBURG — The rand closed firmer at $0,4880/87 against Wednesday's close of $0,4868/75, in reaction to a weaker dollar and a rise in the gold price to around $465 an ounce, dealers said.

The rand earlier traded a shade under the $0,4900 level, its highest since September 18, in steady deals.

Foreign exchange dealers expect resistance at the $0,4900 level, but said attempts might be made to push up the rand through that mark.

The financial rand was unchanged at Wednesday's closing of $0,2950/3000.

Against other currencies the rand closed at.

USA: 0,4880/87.
UK: 3,4120/30.
Germany: 0,8780/95.
Switzerland: 0,7265/80.
France: 2,9315/30.
Netherlands: 0,9875/95.
Japan: 69,20/30.
— Reuter

Consumers, competition harmed

Call for new banking deal

(58) Cap Times 16/10/87

PRETORIA. — A leading banker yesterday launched a two-pronged attack on "anomalies" in the present financial system, urging that banks should be allowed to deal as principals on the JSE, and that banks should be able to own building societies.

Addressing the banking conference staged by the Pretoria branch of the Institute of Bankers, Andre Hamersma, GM of economics and planning of Standard Bank Investment Corporation, said urgent attention should be given to at least two anomalies in the present system "which distort competition and harm the consumer".

Principals

It was important, he said, that banks should be allowed to deal as principals on the JSE in the same way British banks have been allowed to participate in the London stock market.

"It is incomprehensible that the present commission cartel of stockbrokers is allowed to persist to the detriment of the investing public."

There was no doubt that share dealing expenses would fall once more competition was introduced on the JSE, he said, adding: "What is even more difficult to understand is that this situation is allowed to persist at a time when brokers are invading the traditional capital market activities of the merchant banks on a large scale."

A further important inconsistency was that building societies were allowed to own banks, but banks were not allowed to own building societies.

"This situation is particularly unpalatable to banks in view of the fact that building societies continue to benefit from less onerous capital requirements and the ability to offer clients tax-free savings instruments."

Hamersma said banks were facing a challenging business environment in the next 10 years: "The economy is likely to expand only moderately, inflation could remain high, labour conditions difficult and international economic relations subject to growing interference".

"Such an environment will be unfavourable for banks which usually prosper during periods of rapid economic expansion."

At the same time, the financial services industry would be confronted with ongoing rapid and costly technological change.

Because of its capital intensive nature, banking would progressively become more subject to economies of scale, and optimal capacity utilization would be crucial.

Consequently, banks would endeavour to boost sluggish business volumes by aggressive marketing and highly competitive pricing. — Sapa

'Consolidation'

Further "Consolidation" in the financial sector seemed inevitable, he said. Nevertheless, there would always remain scope for small "Boutique" style operations in addition to the large national "Supermarkets."

It was essential the authorities should understand and encourage these developments.

"They should not try and dismember the larger national banking groups on the grounds of undue concentration of economic power.

"Unfortunately, there is a popular tendency to regard banks as powerful 'fat cats' and manipulators. These accusations are not supported by the facts.

"In comparison with their clients, South African banking groups are small; their financial performances tend to be pedestrian; and their actual competitive behaviour indicates strong mutual competition." — Sapa

AVI a key contributor

Hersov cheered by 44% rise in profits

JOHANNESBURG. — Though he is cautious about prospects in the current year, Anglovaal chairman Basil Hersov expresses delight in his annual review at the 44% increase in attributable profits to a record R133m in the year ended June 30.

The rise, he says, was "particularly pleasing, following as it does the increase of 39% in 1986 and 25% in 1985."

The main contributor to the improved results was Anglovaal Industries (AVI), the share earnings of which increased by 71%. Income from Anglovaal's mining investments rose to R62m (R55m), mainly because of firmer rand prices for both precious and certain base metals.

Turning to the current year, Hersov declared: "The Anglovaal group is as sound financially as it has ever been, and group companies are looking to improved performances."

The directors' report shows gold mining was the largest contributor to profits with 25%. Other minerals and metals followed with 22%, diversified businesses, including the textile companies, with 17%, dry foods and beverage at 12%, frozen food and packaging with 10% each, construction and electronics and sundry interests with 2% each.

Total assets of Anglovaal, its subsidiaries, associated and managed companies rose by 12% to R5 677m, while their total turnover was 18% higher at R5 110m, resulting in pre-tax profits of R1 270m and after-tax profits of R704m. — Sapa

Private sector shackled further

Own Correspondent

JOHANNESBURG. — Sanctions had diminished the already limited ability of the private sector to influence change, Anglovaal chairman Basil Hersov said in his annual review.

He said the abolition of the Group Areas Act must be the next logical step in government's programme to abolish discrimination.

Further delays in the reform process would give SA's overseas opponents more ammunition and time to prepare strategies aimed at destroying the country's economy and its social and political structures.

The business sector lacked unanimity on political issues because its interest were so diverse and thus it lacked the extensive "political clout" many believed it had.

But, he added, that sector still had more influence than many SA businessmen were prepared to admit.

The areas where business should legitimately involve itself were in education and training, threats of sanctions and disinvestment, forced removals and other social issues that impacted on the business community, he said.

The Margo Commission's recommendations concerning the mining industry would have to be studied carefully "to ensure that they do not prove to be contrary to the interests of SA as a whole because the mining industry is the economic flywheel of SA," he said.

Hectic stock trading expected

SM 9/10/87

By Michael Chester

The Johannesburg Stock Exchange was poised for a hectic day's trading today as world gold prices surged in the wake of heavy falls in shares listed on Wall Street and in US dollar exchange rates.

Tensions increased as the gold price in Hong Kong climbed higher to $475,29 an ounce, while the Wall Street jitters spread to the three biggest stock exchanges in the Far East.

Sapa-Reuter reported that the Tokyo share index plummetted in the first session today, that Hong Kong's high-flying shares market also stumbled badly in early trading, and that the Sydney share index showed losses in spite of strong rises in gold-related shares.

PANICKY

In Sydney, one top broker said: "The local market is basically directionless and panicky. With the US market falling through the floor, we just can't expect Australia to go against the trend."

A Tokyo broker said: "It looks like another panic but it does not look as bad as New York. Tokyo and Wall Street are pychologically linked. If Wall Street comes back up, so will Tokyo."

Johannesburg gold shares normally move in unison with movements in world gold prices, but the new element in the equation is that the gain in bullion goes hand in hand with a sharp decline in the dollar exchange rate against the West German D-mark.

This morning, local brokers were also awaiting the reaction of the London stock market.

● See Page 16.

GOLD ZOOMS

ARGUS 19/10/87 (58)

By TOM HOOD
Business Editor

GOLD jumped to $482,15 an ounce in Hong Kong today, up $16 since Friday to the highest price for almost five years, after a share-selling binge on world stock markets.

After topping $482 in Hong Kong, the price eased later to $476,25 in London.

At the latest price, equal to R978 an ounce, the country could rake in billions more in export earnings and give the gold mines a high price of about R31 500 a kilogram — 12,5 percent more than the average of R28 000 they received for the first nine months of this year.

In Johannesburg the rand rose to 49,40 US cents this morning from 48,72 cents on Friday.

Gold shares and Krugerrand prices moved ahead on the Johannesburg Stock Exchange and stockbrokers' telephone exchanges were inundated by investors trying to track the reaction of shares.

Record fall

Immediate reasons for the sudden surge in the gold price are fears about the American dollar, the Wall Street crash and escalating tension in the Gulf.

The dollar was hit by a huge fall in share prices on Wall Street on Friday.

The Dow Jones average of 30 industrial stocks, America's best-known indicator, plummeted a record 108,36 points to 2 246,73 on Friday in the busiest trading session so far on the New York Stock Exchange.

When the stock markets opened in Tokyo, Hong Kong and Sydney today investors lost their nerve and dumped shares, sending markets reeling.

The dollar slipped early today in Asian currency markets and stabilised at 141 yen and 1,77 German marks.

Analysts are uncertain if the tumble in stock prices marked only a temporary retreat or "correction" that could preface further gains and a continuation of the five-year-old bull market.

News 20/10/87 (58)

GOLD BOUNCES BACK . . .

By TOM HOOD, Business Editor

THE world share market crash continued today with the important Hong Kong stock exchange suspending trading until Monday and prices in Tokyo and Sydney falling drastically.

But gold bounced back to $481,60 an ounce at the London fixing today after dropping overnight to $470 in Hong Kong. Gold closed at $482,50 in New York last night.

Prices of gold shares opened mostly lower on the Johannesburg Stock Exchange in sympathy with an earlier gold price.

Anglo American eased R3,25 to R92, Vaal Reefs shed R7 to R463, while De beers dropped R4 to R53,50.

Investors on the Johannesburg Stock Exchange today held thumbs that gold would keep Diagonal Street immune from fresh shock waves that hit world share markets this morning in the repercussions of Wall Street's steepest decline in decades.

Hong Kong ordered a closedown until next week in a bid to protect investors from even worse losses. Tokyo was hit by another deluge of selling orders and the Sydney stock market fell a further 20 percent in the first 45 minutes of trading.

Wiped off

So far, the JSE, dominated by the influence of gold, the traditional haven of investors in political and economic turmoils, has been the only major exchange in the world not to join almost universal panic over the implications of massive retreats on the New York Stock Exchange.

Analysts estimate $500-billion was wiped off the overall value of shares on Wall Street yesterday as the exchange plunged by 508 points — even more than the losses suffered in any single day during the disastrous crash of 1929.

The Tokyo market was deluged with sell orders today and the market quickly plunged more than a 1 000 points to 24,711 — a steeper decline than yesterday.

Stock analysts in Asian capitals said markets may fall further but the worst may already be over.

"The Hong Kong economy is still buoyant," said an investment director. "Corporate earnings are still good."

Hong Kong today suspended trading for the week after the main market index yesterday absorbed its worst one-day loss ever in absolute terms.

Wall Street prices tumbled as the Dow Jones Industrial Average lost more than 500 points.

Prices slumped today in Tokyo, Sydney and Singapore.

In Sydney, a senior analyst said the Australian share market had seen the worst hours of trading in living memory. But there was evidence that major institutions had started to buy in blue chip stocks which lost 50 percent of their value this morning.

In London, the stock exchange's key index opened sharply lower today and plunged 9,8 percent in the first half-hour of hectic trading.

Confidence among brokers about the chances of JSE immunity from the panic has been bolstered by evidence that foreign investors joined the buyers of South African gold shares late yesterday in a search for shelter from the devastation of industrial shares overseas.

South African gold shares were among the precious few shares on Wall Street that escaped huge losses — and were actually marked higher.

Against tide

A final count shows that the JSE overall index, which measures total local share price movements, moved against the tide and rose to a new record high of 2804 in trading yesterday — hoisted upwards by jumps in gold shares that also pushed the all-gold index to a new record.

As the stock markets free-fell and bonds staggered, the strength of the US dollar was the only good piece of news around.

As Wall Street trembled, the White House said President Reagan was concerned about the decline but still maintained that the economy was sound.

● The flight by investors out of share markets and into gold follows tension in the Gulf, fears for the American economy — with its poor trade figures, over-valued dollar — and pessimistic prospects for inflation.

'Five million guys have lost their shirts' — page 11

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Natal flood claims to affect premiums

20/10/87 By Martin Challenor

The major impact of the estimated R500 million loss to the insurance industry in the Natal floods will eventually fall on the industrial and commercial sectors, Mr Bill Rutherford, chairman of the South African Insurance Association (SAIA) said yesterday.

"In the long run, premiums reflect losses, and losses have to be paid for," Mr Rutherford said, "but it will not be immediate."

It is the biggest insurance claim for a natural disaster in Africa. In South Africa, the previous largest insurance claim was for R48,4 million following the Reef hail storms in October/November 1985.

Insured damage caused by the Laingsburg disaster was R47,6 million and Cyclone Demoina cost the insurance industry R35 million in 1984.

Mr Rutherford said: "The Natal disaster shows dramatically the enormous exposures our industry now faces after years of extensive industrial and commercial expansion, coupled with growing urban sprawl."

Mr Rutherford said industry and commerce would claim for material damage caused by the floods, and also for the resulting loss of business and profits — consequential loss.

"This is far more serious than the material damage in most instances," he said.

Claims would also be made for the loss of business when the taps serving industry in Durban dried up.

"Everyone wants to know what the likely increase in premiums is to be now. Most of the bigger losses have arisen from industrial risk. The cumulative effect of domestic risks might be large, but is not in the same league as the industrial losses," Mr Rutherford said.

Possibly as much as 90 percent of the direct insurance loss would be recovered from reinsurers — about a third of this by South African reinsurers and the rest overseas reinsurers.

Move towards broader banking

B/day 20/10/87

HELENA PATTEN

AFTER far-ranging changes to the financial system, the Reserve Bank has taken a preliminary decision to recognise banking as a broader sector than only deposit-taking institutions and operators of the payment system.

This emerged in an address at an Institute of Bankers seminar by registrar of banks Chris de Swardt last week.

He said although the Reserve Bank had not reached firm conclusions on the future shape of regulation and supervision of deposit-taking institutions and near-banks, the inclination was to accept the role of banking as including off-balance sheet business.

A major change in the financial system had been a growing trend towards "disintermediation" in the sense that direct credit-borrowing had replaced bank loans, he said.

Some of these off-balance operations included foreign currency and interest rate options, currency and interest rate swaps, financial futures, forward rate agreements and credit-enhancing guarantees.

De Swardt said translating the Bank's new view of the role of banking implied several things, including allowing financial institutions the freedom to choose their position on the financial services landscape.

"Regulation and supervision should be along functional rather than institutional lines, and the financial system could be strengthened by a higher degree of self-regulation."

Other guidelines to adopt included building sufficient flexibility in the regulatory system to cope with a rapid pace of financial innovation, and more specific regulation of off-balance sheet transactions.

SHARES PANIC

(58) Eve Post 20/10/87

LONDON — World stock markets plunged again today as aftershocks from yesterday's huge fall on Wall Street ran round the globe.

The Tokyo exchange, the world's largest, took a record dive that wiped almost 15% off its value.

Panic selling took nearly 25% off the value of Sydney's market.

Hong Kong officials shut the exchange there until next Monday.

Then the London market opened 10% down, extending a stunning drop on Monday.

United States Treasury Secretary James Baker cut short a European tour and returned to the United States from Sweden for crisis talks on the chaos in the financial markets.

After Wall Street's 22,5% tumble yesterday and the global sell-off which resumed today, there were calls for governments to act to calm the markets.

Some analysts say a more stable dollar may help restore stock market investors' nerves.

The right-wing French daily, Le Figaro, close to Government thinking, urged Finance Ministers of leading industrial nations to meet quickly.

The new fall in London today stripped 9,9% off the value of the Financial Times-Stock Exchange 100-share index at the opening, after a 10,84% fall yesterday. The FTSE index fell 186 points at the opening to 1 866,3 and later went below 1 800 for the first time since late January.

British Chancellor of the Exchequer Nigel Lawson said: "My advice to small investors is to remain calm."

● South Africa obviously finds itself in a unique situation following the panic share selling on Wall Street, and the consequent gold price hike, the Minister of Finance, Mr Barend du Plessis, said in a brief statement today.

"We are watching it very closely and will issue a full statement at a later stage when trends become clearer." — Sapa-Reuter

Gold share prices drop

JOHANNESBURG — Gold share prices continued to skid lower in moderate trading at midday after an easier opening that reversed yesterday's sharp rise in defiance of the crashes on other world markets, dealers said.

Gold shares fell on a broad front in line with an unexpected decline in the gold price to around $478 an ounce.

Most of the market's bellwether stocks were markedly lower, dealers noted. — Sapa record 500 points

— SEE PAGE 4

Big rise in public sector jobs

— SEE PAGE 11

Jan Pickard slates pro rugby plan

— SEE PAGE 16

BUSINESS BRIEF

Gold (Ldn close)	$482,75
Gold (NY close)	$482,15
Rand	$0,4973/80
FT index (close)	1629,20
BD 100	2466,60
Dow Jones	1738,74

World share panic

Cape Times 20/10/87

58

PANIC EXCHANGE ... Money brokers in Tokyo jostle in hectic trading yesterday.
Picture: REUTERS

GOLD soared on international markets yesterday — gaining more than $15 an ounce on the day — as investors dumped the fast-weakening US dollar and turned to precious metals as a safe hedge against inflation. And while stock markets all over the world fell at frightening speed, sparking off fears of a second Great Depression, the Johannesburg Stock Exchange (JSE), alone, climbed to record heights.

In New York, the Dow Jones index of 30 leading shares dropped an incredible 508,32 points — the steepest fall in modern times, greater than that on the Black Monday on October 28, 1929.

In stark contrast to what was happening in other parts of the world, handsome profits were made by local investors as some gold shares gained as much as R22 on the day on the JSE. Industrial and other shares rose as well, giving new life to the JSE and banishing all fears that a fall might be imminent.

By AUDREY D'ANGELO

Every $10 rise in the gold price is worth about $200m to the South African economy, according to government and mining industry analysts.

Significantly, the rand rose against other major currencies as well as the weakening dollar.

This, and spectacular falls in share markets all over the world, have sparked hopes of a substantial rise in the price of gold in sterling, yen and West German marks.

If this were to happen, it would do far more than a higher dollar price for gold to strengthen the South African economy, wipe out international debt and reduce the price of imports.

Investors all over Europe and the Far East scrambled to buy gold yesterday and it rose briefly to $490 an ounce in Zurich before profit-taking set in.

Meanwhile, in New York, the Dow Jones index continued its alarming slide last night.

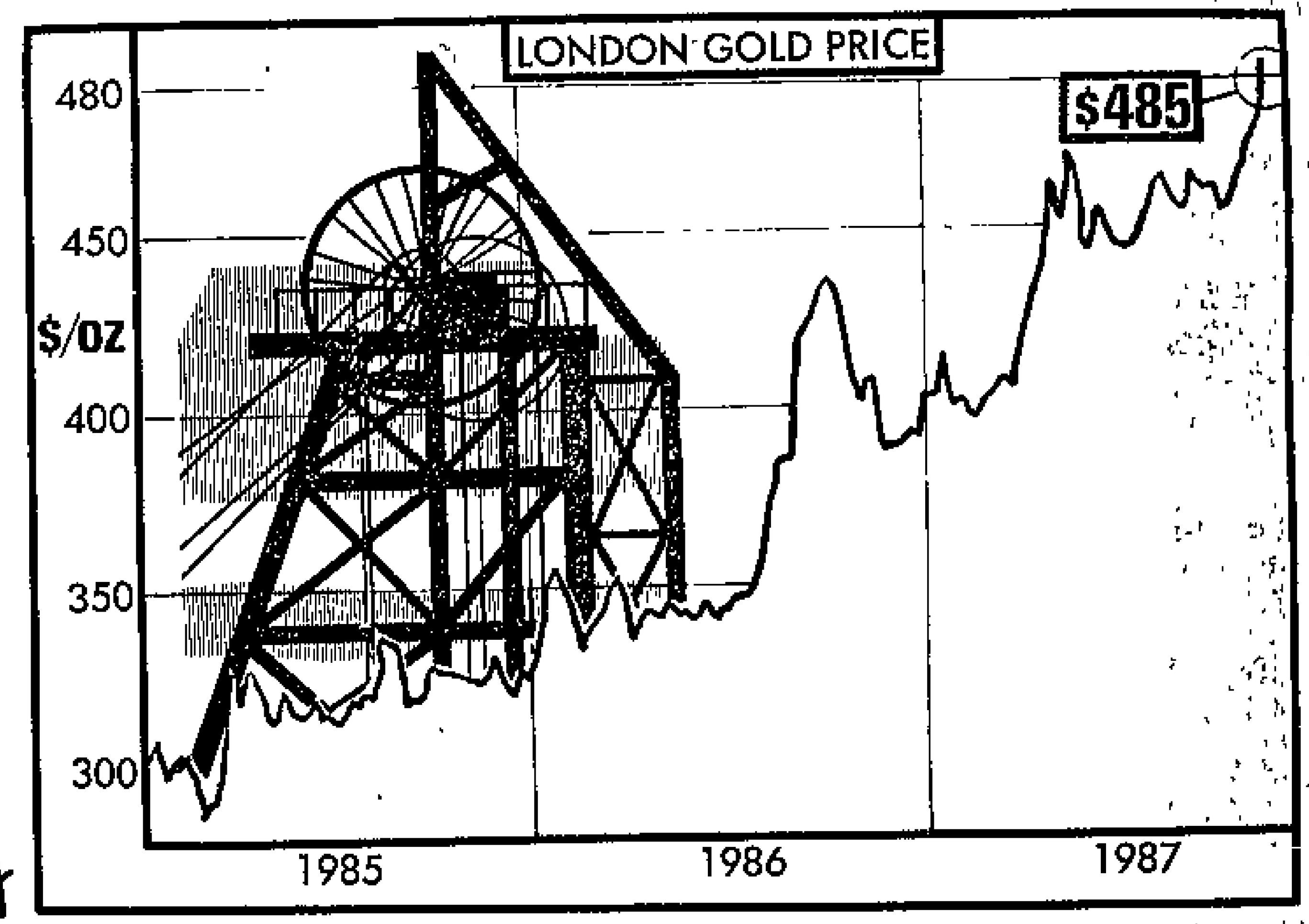
See Page 4

Bloodbath on world markets but . . .

Diagonal St looks to gold for investors' salvation

58

20/10/87



There was hectic activity on the floor of the New York Stock Exchange during a rapidly swinging market yesterday. Mr John Phelan, chairman of the exchange, described the wiping out of $500 billion from the total value of Wall Street shares as "the nearest thing to a melt-down I'd ever want to see."

By Michael Chester

Investors on the Johannesburg Stock Exchange today hoped that gold would keep Diagonal Street immune from the shock waves that hit world share markets today in reaction to Wall Street's steepest decline in decades.

Mr John Phelan, chairman of the New York Stock Exchange, described the wiping out of $500 billion from the total value of Wall Street shares yesterday as "the nearest thing to a melt-down I'd ever want to see".

The plunge of 508 points in the Dow Jones index was worse than any of the single-day losses suffered in the crash of 1929.

Wall Street was in consultation with officials in Washington throughout the day but it was decided not to close the market because that would have had even worse effects.

More heavy losses were suffered in early trading in the Far East and the Hong Kong market closed until next week in a bid to protect investors from even worse losses.

Sapa-Reuter reported that Tokyo was hit by another deluge of selling orders and the Sydney stock market plummeted 20 percent in the first 45 minutes of trading.

So far, the JSE, dominated by the influence of gold, the traditional haven of investors in political and economic turmoils, has been the only major exchange in the world not to join almost universal panic over the implications of massive retreats on the New York Stock Exchange.

Confidence

Confidence among brokers about the chances of JSE immunity from the panic has been bolstered by evidence that foreign investors joined the buyers of South African gold shares late yesterday in a search for shelter from the devastation of industrial shares overseas.

It was also noted that SA gold shares were among the few on Wall Street that escaped huge losses — and were actually marked higher.

A final count shows that the JSE overall index, which measures total local share price movements, shoved against the tide and rose to a record high of 2 804 in trading yesterday — hoisted upwards by jumps in gold shares that also pushed the all-gold index to a record.

All eyes remain riveted on the world gold price which, at one point last night, surged as high as $491 an ounce before easing back to close in New York at $481,70, its highest in more than four years.

In Hong Kong today, gold eased to $476,47.

● See Page 12.

Gold price soars as traders panic

DD 20/10/87

Daily Dispatch Correspondent

JOHANNESBURG — Precious metals soared on bullion markets yesterday with traders reporting panic buying in gold as collapsing world stock markets ignited a flight into hard assets.

The gold price surged $17 to peak at $491, its highest level since February, 1983, before closing in London at $484,50.

Silver climbed 41,4c to $8,29 and the thinly traded platinum market rose $18,20 to $615,50.

The rise in precious metal prices came as Wall Street took another battering yesterday with the Dow 30 Industrial Index never recovering from its initial 210-point plunge.

The index was down 300 points off Friday's 2246,73.

Selling came from all sectors of the market with investors accepting almost any price, dealers said. Volume topped Friday's record total of 338,5-million shares.

Bedlam reigned in Wall Street as traders worked frantically to keep up with the millions of sell orders.

In London, equities crashed to a record one-day decline with the FTSE 100 down 301,7 at 2000,2.

All the European and Asia's three biggest stock markets — Tokyo, Sydney and Hong Kong — went into a free-for-all with investors scrambling to sell their shares, Sapa-Reuter reports.

The dollar was sharply lower in New York against the mark after comments by the United States Treasury secretary, Mr James Baker, reinforced the belief that international co-operation to foster exchange rate stability has ended.

The dollar was trading at 1,7740-5 marks, down from 1,7975-85 at Friday's close.

In stark contrast, the rand closed sharply higher at 49,73-80 US cents against Friday's 48,72-79c close.

The financial rand closed lower at 29,38-88 US cents against Friday's 29.63-30.13c.

While welcoming gold's surge as having an anti-inflationary effect due to the stronger rand, the executive director of the South African Foreign Trade Organisation, Mr Wim Holtes, also sounded a note of caution.

"The danger is that when gold rises, the local economy booms, which could mean an easing in exports. This unfortunately is traditional and tends to drive partial rally as bargain hunters entered the market.

But that attempt at a rally soon failed and prices again slid lower.

At midday, the index of 30 leading shares was down 175,59 at 2071,15. All other indexes also posted steep declines. Transportation stocks were down 85 points at 856. In the broader market, only 34 stocks of the more than 1 500 listed on the exchange managed to show gains.

If sustained through the session, the fall would easily surpass the biggest point drop in history — the 108-point decline on Friday. It would also approach the market's biggest fall ever in percentage terms — the 12,8 per cent panic on October 28, 1929 that began the Great Depression.

Volume exceeded the previous record, also set on Friday. With three hours of trading still left, volume hit 340 million shares, higher than the 338 million in all of Friday.

"There's bedlam and panic out there right now," said Larry Wachtel of Prudential-Bache Securities. "At some point somebody will take a stand. But at this point it's hard to say who will come in and support it."

It was Wall Street that began the international sell-off last week, with the Dow, sparked by renewed trade fears, falling a record 235 points in the week.

In yesterday's trading, the panic appeared to be everywhere.

"I'm cleaning the blood off my hands," said one Hong Kong broker as the market's Hang Seng index took its biggest drop on record, losing 10 per cent of its value.

The Tokyo market took its sixth-largest fall ever, with the 225-share market average nosediving 620,18 points to 25 746,56.

Adding to the international fear was news that the United States had retaliated against Iran, attacking an Iranian oil platform.

"Fears over higher interest rates, coupled with higher inflation, have been a major worry in the financial markets. Higher rates make stocks less attractive investments and would cut company profits as bor-

Miss Patricia Feinauer came out well prepared after heavy showers fell in East London yesterday.. but by then the rain had stopped. However, she may well need her brolly again today as the weatherman has predicted more rain and cloudy conditions for the Border region. More than 19 mm was measured in the city yesterday.

Ciskei court orders the release of church worker

20/10/87 DD

Daily Dispatch Reporter

EAST LONDON — The Chief Justice of Ciskei, Mr Justice Pickard, yesterday ordered the immediate release from detention of a Border Council of Churches worker, Mr Boyce Soci.

Mr Justice Pickard said in the Ciskei Supreme Court in Bisho that he would release the reasons for his decision at a later date.

Mr Soci was detained in July this year, and the point of law argued in the case concerned the legal manner in which a person in Ciskei can be detained for longer than 30 days.

The decision follows an application by Mr Soci's wife, Mrs Anita Soci — citing the Minister of Justice, Police and Prisons and the Commissioner of Police in Ciskei as respondents — no force and effect; why Mr Soci should not be released immediately and why the respondents should not be ordered to pay the costs of the application.

In legal argument before Mr Justice Pickard on Friday, Mr T L Skweyiya, for Mrs Soci, said there was nothing in the respondents' answering papers to show that they had complied with the provisions of the National Security Act, which required that after 30 days a detainee could be held only under the written authority of the Minister of Justice, Police and Prisons.

Mr Skweyiya argued further that the minister could grant such authority only on being satisfied with reasons furnished by the Commissioner of Police as to why the detainee should not be released.

the affidavit of the Commissioner of Police that he had furnished the minister with the reasons why the detainee should not be released, nor did it appear from the affidavit of the minister that the detainee was being detained, after 30 days, on his written authority, Mr Skweyiya said.

The onus was on the respondents to justify the detention, and the respondents had failed to do so, he said.

Mr Richard Quinn, for the respondents, argued that the applicant could not rely on such a contention because such contention had not been raised in the applicant's founding papers

Mr Skweyiya had replied that all the applicant had to show was that a detainee was being deprived of liberty and required release.

Commenting on the

Savage prowl

Daily Dispatch Reporter

EAST LONDON —Killer dogs are roaming the streets of Vincent by night.

That's the conclusion some residents have reached following a fresh outbreak of animal mutilations in the surburb.

Early yesterday, a cat was reportedly savaged and killed by two dogs near Frere Road — a week after two dogs killed and mutilated another cat in the same area

Earlier this year, a killer dog went on the rampage in the Woodleigh area, killing and devouring two Maltese poodles. The dog was never traced

A Frere Road resident, Miss Karen Wes.., said she was awakened at 1.30 am yesterday by screeching and saw two dogs attacking a cat in Frere Road

By the time her father

almost any price, dealers said. Volume topped Friday's record total of 338,5-million shares.

Bedlam reigned in Wall Street as traders worked frantically to keep up with the millions of sell orders.

In London, equities crashed to a record one-day decline with the FTSE 100 down 301,7 at 2000,2.

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In stark contrast, the rand closed sharply higher at 49,73-80 US cents against Friday's 48,72-79c close.

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While welcoming gold's surge as having an anti-inflationary effect due to the stronger rand, the executive director of the South African Foreign Trade Organisation, Mr Wim Holtes, also sounded a note of caution.

"The danger is that when gold rises, the local economy booms, which could mean an easing in exports. This unfortunately is traditional and tends to drive those without a 100 per cent committment to exports to seek easier, local markets.

"When the gold price goes up, the South African economy goes up and exports go down," he said.

In New York, stocks, the dollar and bonds all tumbled in frantic selling as investors around the world dumped their holdings, forcing the Dow Jones industrial average down an unprecedented 200 points in early trading.

The Dow index of 30 leading stocks slid 210 points to a low of 2 036, losing nine per cent of its value in just 90 minutes, before staging a would also approach the market's biggest fall ever in percentage terms — the 12,8 per cent panic on October 28, 1929 that began the Great Depression.

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Adding to the international fear was news that the United States had retaliated against Iran, attacking an Iranian oil platform.

Fears over higher interest rates, coupled with higher inflation, have been a major worry in the financial markets. Higher rates make stocks less attractive investments and would cut company profits as borrowing becomes more expensive.

"All you can hope for is that this is an emotional over-reaction," said one bond salesman. "It's hard to know how much the market is discounting in terms of anticipated events and how much is simply fear," he added.

Treasury Secretary James Baker has hinted the United States will not push up interest rates to defend the dollar. West Germany has recently raised some rates. To defend the dollar under the Louvre accord, the United States would normally follow suit.

Editorial opinion P10

STAR 21/10/87

Public fear — the unknown factor

By Ramsay Milne, The Star's Foreign News Service

NEW YORK — The New York Stock Exchange produced a roller-coaster ride yesterday that saw the Dow Jones blue chip indicator open Wall Street's early morning proceedings with a phenomenal comeback of 200 points over Black Monday's disastrous 500-point loss, and end the day with a record-breaking daily climb of 102 points.

It was a mystifying yo-yo, in which, after its 200-point opening surge, the Dow dropped to a net loss of 24 points at noon, before ending the day in a handsome position — but one that has done little to allay fears that the US economy, and possibly the world's, is heading for serious trouble.

But the market rebounded yesterday because of three main factors. The first was the assurance given by Mr Alan Greenspan, chairman of the Federal Reserve, that the institution would guarantee any required loans to banks and other financial bodies who needed funds to meet their short-term commitments.

The second was the announcement of a cut in interest rates by two major banks, Midland and Chase Manhattan.

The third and, possibly, more important reason was the reaction of the "ordinary" American investor.

SAVING GRACE

In a day in which very little was clear, stock market analysts agreed that one of today's most significant factors — and saving graces — was that the holders of mutual funds did not sell.

That was taken to imply a basic confidence in the economy by the average consumer and investor.

In a market manipulated by the "big guys", it was the one note of stability and rationality in a market that many had been warning for sometime was hugely over-valued — one that was clearly heading for the fall that finally arrived on Monday.

Had there been a concerted selling of mutual funds, say the experts, Monday's collapse would have been even more catastrophic than it was.

Nonetheless, after these events that are reminiscent of the worst days of 1929, many are asking whether the after-shocks will be as devastating to nations and to individuals. Most economists say no.

There are many safeguards in place today that did not exist in 1929. They are intended to prevent the cascading financial collapse that characterised the crash that impoverished millions of Americans, and spread round the world like wildfire.

GUARANTEED

In 1929, for instance, 5 000 US banks went broke. Now the survival of banks is guaranteed through Federal funding.

"A stock market crash doesn't ripple out into the economy with the same force as it did in 1929," says Mr Geoffrey Moore, an economist at Columbia University.

Yet there are unsettling similarities between this week's events and the immediate pre-Depression years.

Like the Roaring Twenties, the 1980s have seen an astonishing boom on Wall Street.

Now, as then, individual and company debt is high, and some sectors of the US economy are extremely weak.

Trade relations are strained, with protectionist sentiment growing. And there are those frighteningly big US trade and budget deficits.

All these contribute to the one element economists and other experts cannot measure — public fear.

Just how frightened Americans have been by the events of this week — and how frightened the rest of the world ought to be — may become evident only in the next few months.

(58) B/day 21/10/87

FOCUS ON MONDAY'S WALL STREET 'MELTDOWN'

Economists don't see crash as start of new Depression

KENNETH BACON in New York

ON OCTOBER 29, 1929, the New York stock market fell 12,82%, ushering in the Great Depression. While Wall Street plunged 22,62% on Monday, economists generally don't expect a repeat performance.

"I don't think the economy looks like it did in 1929," says George Stigler, winner of the 1982 Nobel Prize for economics and a University of Chicago economics professor.

"The most violent and urgent of factors in the great crash was the collapse of the banking system. That can't happen anymore because of the Federal Deposit Insurance Corp and other safeguards."

Stigler, like other economists, stresses that today's financial system and economic policy mechanisms provide considerably more protection against the type of cascading economic collapse that crippled the US during the Depression, which lasted from 1929 to 1933.

During that period, the value of America's output contracted by more than 50% and unemployment rates rose to nearly 25%.

The fundamental difference between today and 1929, Stigler says, is that "you won't get the pyramiding effect" that cracked the financial system in 1929.

Aside from deposit insurance of up to US$100 000 on bank accounts, banking and securities laws passed in the Thirties have sharply reduced financial risk by building walls between commercial banks and brokers and by limiting how much an investor can borrow to buy stocks.

As a result, the US has created a banking system that is much safer than the securities markets, which are subject to greater risk and to speculative excesses, says Barry Bosworth, an economist at the Brookings Institution.

The Federal Reserve Board's margin rules, which regulate borrowing to buy stock, represent another change. Today, margin buyers can borrow only 50% of the value of the stock they buy. In 1929, they could borrow up to 78%.

'By 1929, a full 40% of all investors were margin buyers, many of whom pyramided their paper profits, accumulating hundreds of thousands of dollars in profit on comparatively minuscule investments," the US Securities and Exchange Commission (SEC) noted in its 50th anniversary publication in 1984.

Although the market's decline is forcing investors to sell shares to meet margin calls today, the financial system's safety margin is much greater because the margin rules are tighter.

Of course, the sharpness of Monday's decline is taking the stock markets — and the US itself — into uncharted territory. Nobody knows how the sudden loss of wealth — about US$500bn on Monday alone, Bosworth estimates — will change America's confidence and buying habits.

Nobody knows whether Monday's plunge is the end of a correction in the greatest bull market in history or just part of a downward spiral.

The Federal Reserve Board holds some of the answers to these questions. In 1929, there was "gross mismanagement by the Federal Reserve", Stigler notes. As America slipped into depression, the Fed slowed money-supply growth, thus choking off credit at exactly the time when the country needed more liquidity.

The Fed steadfastly resisted pleas from President Herbert Hoover for faster monetary growth.

'That's not happening today," Stigler says, "though I don't rule aside the prospect of error at the present time, either."

Recently, the Fed has been resisting pressure from abroad and from the financial markets to increase interest rates. In general, the Fed has far greater flexibility than it had in 1929 to use monetary policy to influence the economy.

However, an event as sudden and shocking as Monday's decline can reduce the Fed's margin for error, particularly at a time when the US is highly dependent on attracting foreign capital to finance its budget and trade deficits. AP-DJ.

Reagan: 'Indicators are solid'

NEW YORK — As Wall Street stock prices collapsed on Monday, the US government stood by — powerless.

President Reagan cautioned against panic "because all the economic indicators are solid", and attributed the plunge to profit-taking.

"Everyone is a little puzzled," he said. "There is nothing wrong with the economy."

Officials met at the White House, the Federal Reserve and the US Securities and Exchange Commission (SEC). But as the market continued falling, they concluded there was little they could do other than try to stay calm in the face of Wall Street's panic.

Government officials made another round of upbeat comments, arguing that the economy's fundamentals were solid. A statement from the White House acknowledged that Reagan was concerned, and said he had directed members of his administration to consult with the chairmen of the Federal Reserve Board, the SEC, the New York Stock Exchange (NYSE) and the Chicago Commodities and Futures exchanges, as well as other leaders of the investment community.

Unprecedented

Those high-level consultations, the White House statement said, "confirm our view that the underlying economy remains sound".

In an unprecedented statement to Merrill Lynch's staff, released to the public shortly after the close, chairman William O Schreyer and president Daniel P Tully expressed their confidence in the financial markets "and in the underlying value of financial assets in this climate".

The executives added that "now is the time when it is critical that reason and objectivity prevail. America's economic system is the strongest in the world, with great inherent ability to correct itself, and it remains fundamentally sound".

HECTIC ... money brokers at a Tokyo foreign exchange jostling with telephones as the US dollar falls sharply on speculative selling after Monday's Wall Street crash

But the optimistic statements rang hollow as sell orders poured in on Wall Street. "After the 1929 crash, the universal phrase was: 'The economy is fundamentally sound'," said a sceptical John Kenneth Galbraith, the Harvard economist. "Expect to hear that out of Washington over the next few days."

The reaction around Wall Street — from traders, money managers and securities analysts — was mostly of stunned disbelief.

"We're in the midst of a crash," said Jon Groveman, the head equity trader at Ladenburg Thalmann in New York.

Added Edward Macheski, a partner with Macheski/Pappas Asset Management in Wilton, Connecticut: "We are frozen. We don't want to sell what we have, and we don't want to spend the cash that we have."

In Japan and Europe, stock markets dropped precipitously in a reaction to last Friday's plunge in New York, and they reacted further yesterday to Monday's crash.

There was some selling by foreign investors as the US market opened, but not enough to suggest they were bailing out completely. That, coupled with the dollar's firm tone in New York trading on Monday, suggested to some observers that foreigners might not rush to liquidate their US financial assets.

Early on Monday, SEC chairman David Ruder suggested he might call for a temporary suspension of trading if the market fell too rapidly. But that idea was immediately blasted by other administration officials and private analysts.

"It seems to me that's a crazy thing for the chairman of the SEC to ever talk about," one White House official said. And Sanford Grossman, a financial economist at Princeton University, called Ruder's idea "the most frightening idea I've heard in a while. Shutting the market down for a half-hour is a sure way to cause a panic."

Unusual

Later in the day, the SEC issued an unusual statement saying it "is not discussing closing the market or the nation's securities market".

At the Fed, officials likewise had no immediate response. In a luncheon address, vice-chairman Manuel Johnson made it clear he saw no reason for the Fed to push interest rates higher.

He said "we are satisfied" with the developments on inflation since the Fed raised the discount rate — its rate on loans to member banks — last month to 6% from 5½%.

And on Capitol Hill, legislators likewise felt powerless to act. "I don't know what kind of legislative reaction you can have to a stock market decline," said House majority leader Thomas Foley.

Monday's thunderous collapse smashed whatever life was thought still to be in the bull market of the previous five years. Stock prices had more than tripled, from 776,91 on August 11, 1982, to the record high of 2 722,42 on August 25 this year.

The upward drive had been largely fuelled by declining inflation and interest rates. It ended as interest rates were climbing again, raising investor jitters about prospects for renewed inflation and a recession that might come sooner rather than later.

These concerns became increasingly widespread about a month ago as bond yields approached and then surpassed 10% — the first double-digit rate in two years.

Stock prices began falling in earnest this month; over the past two weeks, the Dow Jones industrial average registered the sharpest weekly point-drops on record, setting the stage for Monday's crash.

When will the crash end? When either the selling slows from its current torrent or when buying picks up sharply. At the same time, a complete drought of purchase orders would also halt the price declines simply because there wouldn't be any transactions.

There were indeed buyers on Monday, and they seemed to have enough cash to take on all sellers. Having big sums of money to invest — a condition that market professionals term liquidity — was as much a driving force in the market crash as it had been during much of the five-year bull market that preceded it.

Robert Farrell, chief market analyst at Merrill Lynch, said his firm's third-quarter survey of a cross-section of US equity-investment institutions, taken in the middle of September, showed an extraordinary polarity on investment strategy.

Some 44% were holding more than 15% of their assets in cash or cash equivalents, and a hefty 39% held less than 10% in cash.

The implications of that split are that the number of institutions holding back investment funds — presumably in the belief that prices would go lower and bargains could be found — was about offset by those that had already put about all their available assets into the market.

Sidelined

"The buying in this market is coming from that (the 44%) group with high liquidity," Farrell said. These buyers were the so-called value players, who search for bargains and avoid stocks whose prices have risen to levels that seem high relative to the market as a whole.

Farrell believes much of the selling came from the 39% group with relatively small amounts of cash. "From the indications I get, a large number of institutions — especially the truly long-term investors — are on the sidelines."

Near Monday's close, at the peak of the selling melee, the NYSE's high-speed transactions tape, which can report 900 trades per minute, was running 135 minutes late, a NYSE spokesman said.

This article was prepared by Wall Street Journal staff reporters Tim Metz, Alan Murray, Thomas E Ricks and Beatrice Garcia. — AP-DJ.

Dollar near 'guidelines'

FRANKFURT — Deutsche Bundesbank President Karl Otto Poehl said yesterday that the dollar is close to the "guidelines" set at the February Louvre Accord of six major industrialised countries to stabilise exchange rates.

In an address at an investment forum here, Poehl commended the international policy co-ordination that has taken place since this agreement. Without the stabilisation of exchange rates, the economic recovery in West Germany wouldn't have occurred, he said.

Poehl didn't make any reference to Monday's talks with US Treasury Secretary James Baker and West German Finance Minister Gerhard Stoltenberg. — AP-DJ.

Lawson rejects controls

LONDON — British Chancellor of the Exchequer Nigel Lawson said yesterday that the British economy was "fundamentally sound" and advised investors to remain calm in the face of plunging stock markets worldwide.

The Chancellor, speaking on a BBC radio news programme, rejected calls for control over international stock markets, but reiterated his support for international co-operation on foreign exchange stability.

He said the strength of the British economy has been reflected "for long time" by a strong stock market, but he added that markets were always "infallible". — AP-DJ.

JSE opens late after overload

21/10/87

By TOM HOOD, Business Editor

THE Johannesburg Stock Exchange opened 90 minutes late for trading today after panic-selling by small investors knocked about R42-billion — 12 percent — off the market value of shares yesterday.

No official statement was made this morning but stockbrokers said the JSE computer was unable to handle the volume of work and broke down yesterday evening.

The closure was to give everyone time to overcome the backlog of orders and administrative work.

After reopening today, early trading showed gains were made by the Rembrandt Group 75c, Powertec 30c, Anglo American R2, Vaal Reefs R5, Kloof R1,50, Allied 10c, SA Breweries R2,50, while UBS fell another 20c.

Meanwhile, the New York market showed a 5,9 percent recovery in share prices last night. Other recoveries reported today were: Tokyo 9,2 percent, Sydney 1,2 percent, Wellington 3,9 percent.

In London, share prices were marked up sharply at the start of business and the Financial Times-/Stock Exchange 100-share index began 112,8 points up at 1 914,4.

Dealers said the tone was cautiously optimistic and reported brisk two-way business.

Back to July prices

The London exchange's computerised network opened early.

Brokers believe a dramatic recovery today on world stock exchanges could soothe the nerves of investors and strengthen the JSE.

The market is still valued at R313-billion, back at mid-July levels and ahead of prices a year ago.

Only four shares showed increases yesterday, while 434, mostly industrial shares, posted losses, with speculative shares and new listings taking a pounding.

Hardest hit by the sell-off were new investors.

The plunge yesterday was nothing like the collapse of share prices in London, Wall Street and other world markets.

More than 19½ million shares worth R170-million were traded yesterday, compared to Monday's 20 million valued at R130-million.

This was below the record R203-million of shares which changed hands on September 9.

Mr Mike Daly, economist at Southerm Life, said the South African stock market could drop by up to 25 percent in the next few days or weeks, in spite of good fundamental economic indicators.

"Hold on to gold shares"

"Sentiment will drive the market no matter what the fundamentals are and there could still be a lot of blood," he said.

"If people believe they are going to lose money, sentiment rules. I don't know where it's going to end."

Mr Daly said much depended on the gold price and he cautioned against selling gold shares until things became clearer.

Even if there was a big correction on the local market, perhaps a much-needed one, this would take it back to June levels, which constituted "a high market then".

Although the economy had slowed across a broad front, now was not the time to give in to despondency.

Fixed investment, in particular, was likely to emerge from a five-year decline.

There was also an encouraging outlook in the sharp pick-up in international commodity prices, "of vital importance for the country's export performance and balance of payments in the year ahead". said.

Yesterday's 330-point crash on the JSE represents a great buying opportunity for the investor who has guts and cash, say institutions and stockbrokers.

But the investor who has guts and cash tends to be the institutional investor

Brokers call for calm among stockholders

Cape Times 21/10/87 (58)

From LIZ ROUSE

JOHANNESBURG. — Investors in quality stocks should keep their heads amid small investor panic, which caused a blood-bath on the JSE yesterday.

This was the consensus among leading brokers on strategy in times of violent market swings.

JSE chairman Alistair Martin said investors should think soberly before selling quality shares. While it was inevitable that Johannesbaurg would be caught up in the aftermath of major equity market collapses, investors were for once in a unique position, because of the JSE's isolation.

South African investors should take comfort from their isolation and they certainly have better prospects here than investors in the rest of the world, said Martin.

First, major foreign markets had become closely linked with huge cross-holdings. Second, due to computerization, price swings were magnified on major boards. None of these factors applies in SA.

Finally there was no economic reason for a market collapse. The mines would be insulated against a gold price decline by a fall in the rand.

Martin said that ultimately the equity market was a haven for SA investors against a background of negative interest rates in other areas.

He forecast that the stock market would be jittery for a day or two, but advised against hasty selling.

JSE president Tony Norton said in London that a market correction was inevitable and had been foreseen for some time. It just happened to be triggered off by the foreign market collapse.

He hoped that the JSE's main support, the institutions, would once again restore order in the market.

Consensus among brokers was that small investors over-reacted to the debacle on foreign markets and to yesterday's gold decline to as low as $458 after a day's high of $481,50.

Richard Jesse of Martin & Co said that irrational elements were apparent in the US and UK slides. Evidence that Monday's selling had been overdone was reflected in yesterday's quick recovery on the London market and the bounce in the US bond market following US bank prime rate cuts and support from the Federal Reserve Bank.

He said that the market offered good value if average dividend yield widened to 5% from the 3% and lower during the bull run. Institution would be back in the market for shares offering good value. "Some shares with PE ratios of 25 deserve to come down and do not deserve to go up again."

A leading broker said the extent of the damage should be assessed by share volumes and the number of deals.

An analysis shows that the high flyers favoured by small punters took the biggest battering on share volumes and number of deals. New mining and mining exploration stocks such as Southgo and Rhoex fell 18% and 27,6% respectively on volumes of 513 500 shares in 306 deals and nearly 600 000 shares in 277 deals

The punter's industrial favourite, Powtech, shed 75c with nearly 558 000 shares changing hands in 309 deals.

Quality gold stock Vaal Reefs, on the other hand, moved down R50 to R420 on only 17 875 shares in 40 deals.

Panic sellin

GOING DOWN ... Dealers on the Johannesburg Stock Exchange floor \
yesterday's panic selling.

Cape Times 21/10/87

58

g hits JSE

atch prices tumbling on the board during

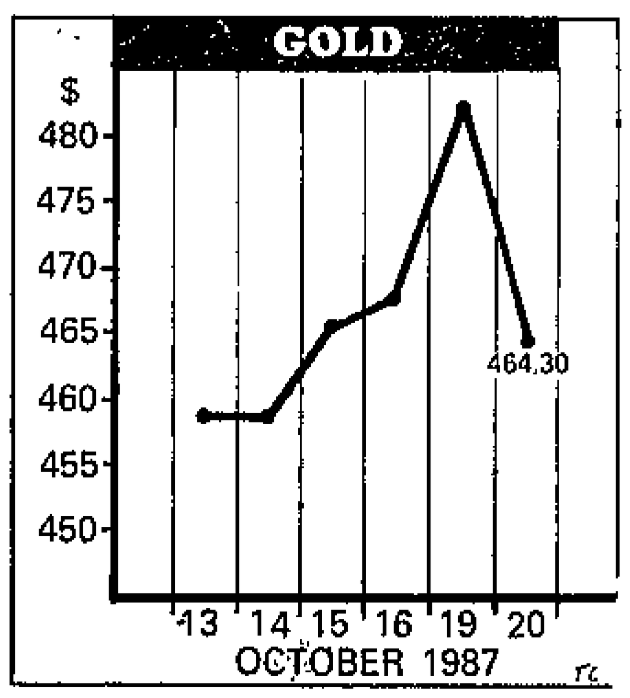
Picture: ROBERT BOTHA

Millions wiped off value of SA shares

By AUDREY D'ANGELO
Financial Editor

PANIC selling by the man in the street caused millions of rands to be wiped off the value of shares in South African companies yesterday, in line with what was happening in the rest of the world.

The Johannesburg Stock Exchange (JSE) overall index fell by 328 points, the gold index by 237 points and the industrial index by 259 points.



But stockbrokers and investment analysts said there was no sign of selling by the big institutions in this country, unlike the situation overseas.

Many described what was happening in South Africa as an overdue correction to an overheated market rather than a disaster and advised investors with shares in soundly based companies or units in unit trusts to hang on until their value came up again.

Chaos prevailed in international markets as gold, to which investors had turned as a safe haven when stock markets were falling, shed $20 an ounce on the day after gaining $15 yesterday.

The fall in the gold price began with profit-taking and intensified when Wall Street seemed to be recovering from yesterday's crash, only to fall again in afternoon trading.

The Dow Jones index of leading US industrial shares, which had plummeted an incredible 508 points on Monday, sparking fears of another Great Depression, gained 200 points in morning trading before losing nearly all these gains as panic set in again in the afternoon.

Mr James Baigrie, chairman of Cape Town investment consultants Personal Trust, said by telephone from New York: "Wall Street is like a circus. There are sightseers stretching round the block waiting to get into the visitors' gallery of the stock exchange and there are TV cameras everywhere."

● Collapse may be blow to Republican hopes — Page 10

crack of dawn

I believe there are so many sob stories in the Wall Street Journal that they're renaming it the Wail Street Journal.

P.T.O.

From page 1

Mr Baigrie said the media in New York advised shareholders yesterday morning to sell to avoid bigger losses. "But by the afternoon they were advising investors that it had gone too far and they should rather sit it out until share prices come up again."

Mr Baigrie said there was no sign of despair in New York and he thought comparisons with the Great Depression were "ill-informed because the socio-economic situation is different now".

"And so far the losses have only wiped out gains made in the last 20 months. What they really mean is that anyone who invested in the last six months has got two-thirds of it left."

Mr Baigrie said he thought the situation had nothing to do with economic fundamentals. It had been triggered off by rises in interest rates, the escalation of trouble in the Persian Gulf and the lack of strong political leadership in the US which made people feel uncertain.

"But the stock market is now running itself. The institutions and the dealers have a strong vested interest in testing it until they are sure they have reached rock-bottom — prices at levels below which no one will sell.

"I think they will test it again and again until they are sure it has found its feet."

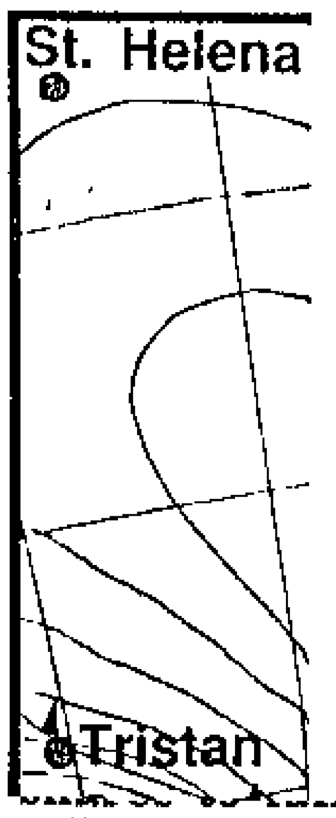
Mr Baigrie said that South African investors, who were isolated, did not realize that all the major financial centres outside this country were linked by cross-holdings so that the stock exchanges in London, Europe and the Far East were directly affected by anything that happened in Wall Street.

Meanwhile, in Cape Town, Syfrets' Managed Assets director Mr Neil Cochrane and Southern Life chief economist Mr Mike Daly said the economic fundamentals gave no reason for shares to fall.

"Let us hope sanity will prevail and calm return to the markets," Mr Cochrane said.

He said there had been no significant selling of units in Syfrets Growth Fund (Sygro) and there had been some new investment.

Many investors in Australia saw up to half the value wiped off their shares in a day of



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Many investors in Australia saw up to half the value wiped off their shares in a day of plummeting prices that pushed the key share index down almost 25%.

In Tokyo, prices slumped 14,9% in the worst ever decline in one day. In Frankfurt shares ended with further losses in another day of hectic activity, but dealers said there were signs of recovery. The Commerzbank index, set at mid-session, fell 74,7 to 1669,4 after a drop of 132,5 points on Monday.

In Zurich, shares closed mixed after recovering from a lower opening in hectic trading in an extended session. In Paris shares recovered strongly in trading just after the close of the official Bourse session to show a rise of 1,5% following the sharp early rise on Wall Street.

And in London, prices rose in late trading after a statement by US Federal Reserve Board chairman Mr Alan Greenspan and news that two major US banks had cut their prime lending rates.

In Tel Aviv, an investor threatened by telephone to blow up the stock exchange if trading did not stop. It carried on.

And the Cairo stock market, the oldest in the Middle East, traded normally with dealers oblivious to what was happening elsewhere in the world. In the dealing room, a dozen brokers in comfortable chairs dealt in shares of local companies quietly and with no panic.

"Our stock market is unique. Companies in Egypt are not listed anywhere in the world ... any recession around the world will not affect us," said one broker, Mr Nassef Guirguis.

5.05: Ushishin

SHARES RUSH

Post Reporter

BARGAIN hunters were out in force in Port Elizabeth today, eager to snap up shares discarded in panic selling on the Johannesburg Stock Exchange yesterday.

"Yesterday was the busiest day I've known," said a city stockbroker, who asked not to be named but who handles business from private individuals and banks in the area.

Trading was so furious that the computer at the JSE could not keep pace. During the course of the day, R170m in shares was traded.

This morning the JSE could not open at its usual time of 9.30am and remained closed while officials handled the backlog of transactions.

It opened "with a flourish" at 11am.

A JSE spokesman said the delay had been brought about by the "tremendous volume" of deals yesterday.

She said the problem was not so much the R170m worth of shares traded, as the number of deals — 9 000, which is more than twice the computer's capacity. The backlog of deals had to be matched before trading started again today.

It was anyone's guess what would happen today, she said — adding that she would not be surprised if people with money moved in to snap up bargains.

Yesterday's slide on the JSE followed

Investors scramble for low-priced bargains

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similar rapid falls in New York, London and Tokyo.

By today these markets appeared to have halted the drop and recovered a little.

In Port Elizabeth, investors ditched shares at a rapid rate yesterday.

"There was a great deal of selling, but nobody was throwing himself off the rooftops," the stockbroker said.

"I don't think I would call it panic selling."

He said there had been a lot of interest in buying this morning. But the market was closed earlier because of the computer problem.

"The volumes yesterday were more than it could handle.

"We have had a spate of buying orders in the city this morning — reflecting the improvement in New York overnight, the recoveries on London and Tokyo and the fact that the gold price is a little bit better," he said.

"People feel the drop was overdone yesterday and there are bargains to be had.

"Yesterday, people didn't sell at all costs, but there are a number of bargain hunters today.

"I don't know if it's a good day to buy today I haven't a clue what might happen — it depends on the gold price."

● See Page 3

PRIVATE MOTORISTS PUT DOWN?

NIL

No widespread ruin ahead, say analysts

58

By Alan Dunn,
The Star Bureau

WASHINGTON — The breathtaking 508-point plunge on Wall Street has widely stirred chilling memories here of The Great Crash of 1929, but economists and market analysts believe it will not again sow that widespread ruin.

They say Monday's pandemonium will not trigger another Great Depression. While there are similarities between this week and October 28/29 1929, they say the differences outweigh them.

Investor safeguards, many of them built into the system because of the Depression, now protect people and make Monday's single 22,62 percent slump far less damaging than the 12.8 percent free-fall of October 28 1929.

Rules have changed since then — many of the stock manipulations which contributed to the Big Crash are illegal today and market mechanisms provide a safety net preventing a replay of people throwing themselves from New York's skyscrapers.

While a lot of investors lost a lot of money on Monday, most were not devastated.

"I think individual investors are in much better condition now than they were in 1929," said a former deputy secretary of the US Treasury, Mr Richard Darman.

Banks closed by the hundreds then, leaving savers penniless. Now investors' savings are protected by government backing: "The most violent of factors in the great crash was the collapse of the banking system," said 1982 Nobel economics prize-winner, Professor George Stigler.

"That can't happen any more because of the Federal Deposit Insurance Corporation safeguards and others," he said. Bank accounts of up to R200 000 enjoy this shelter.

LESS CREDIT

Investors needed only 22 percent cash to buy shares then. The rest they could owe and many did. Now credit is legally allowed for only 50 percent of purchase. Today less than 10 percent of all securities customers are said to use margin debt.

Another change in practice is the US government taking far more responsibility for managing the economy.

Today's economy is also far stronger than that of 1929 and the Great Crash represented 90 percent of the Dow Jones's value. So far, since August 25 and the peak of 2 722 42, it has fallen 36,14 percent. Then it rallied yesterday, as Americans swooped for Blue Chip bargains.

Political jitters in US capital

The Star Bureau

WASHINGTON — The stock market crisis has brought a serious case of political jitters to leaders of the Republican Party who fear it could help the Democrats in next year's presidential election.

Republican election successes are based on promises of prosperity. A collapse of the system during a Republican administration is a gift to the hard-pressed Democrats.

The Wall Street crash also cast a dark shadow over President Reagan's leadership and policies, raising questions about his ability to calm a nervous nation.

Yesterday, President Reagan worked hard at easing fears about a market collapse and looming recession, stating publicly that US economic fundamentals remained sound and telling Americans not to panic since he had great confidence in the future.

The President also took the unusual step of agreeing to a meeting between his top economic advisers and a bi-partisan group in the Congress to explore ways of compromising on a national budget.

Agreement to the meeting came late in the day.

Essentially, the meeting will boil down to a clash over whether the enormous US budget deficit — seen by analysts as a contributory factor in this week's crash — should be reduced by tax increases.

"The Congress is responsible for the deficit," an obviously irritable Mr Reagan told reporters at the White House yesterday.

Panic selling sparks record fall on JSE

(58)

21/10/87

JOHANNESBURG — More than R42 billion was wiped off the total capitalisation of the Johannesburg Stock Exchange yesterday in panic selling by small investors.

In the heaviest price fall ever on Diagonal Street in one day, the overall index plummeted by 11,7 per cent (330 points) to 2 479.

Shares across all boards were sharply lower as small, speculative investors reacted to the collapse of world stock markets.

Gold shares came under severe pressure as the gold price tumbled $20 in a matter of minutes from a London morning fixing of $481,60 to $461,50 on a firmer dollar. The financial rand slipped to $0,28 from $0,2988.

The all-gold index slumped 9,2 per cent (224) to 2 205 points, but came off its lows towards the close as institutions nibbled at selected stock at lower [illegible]

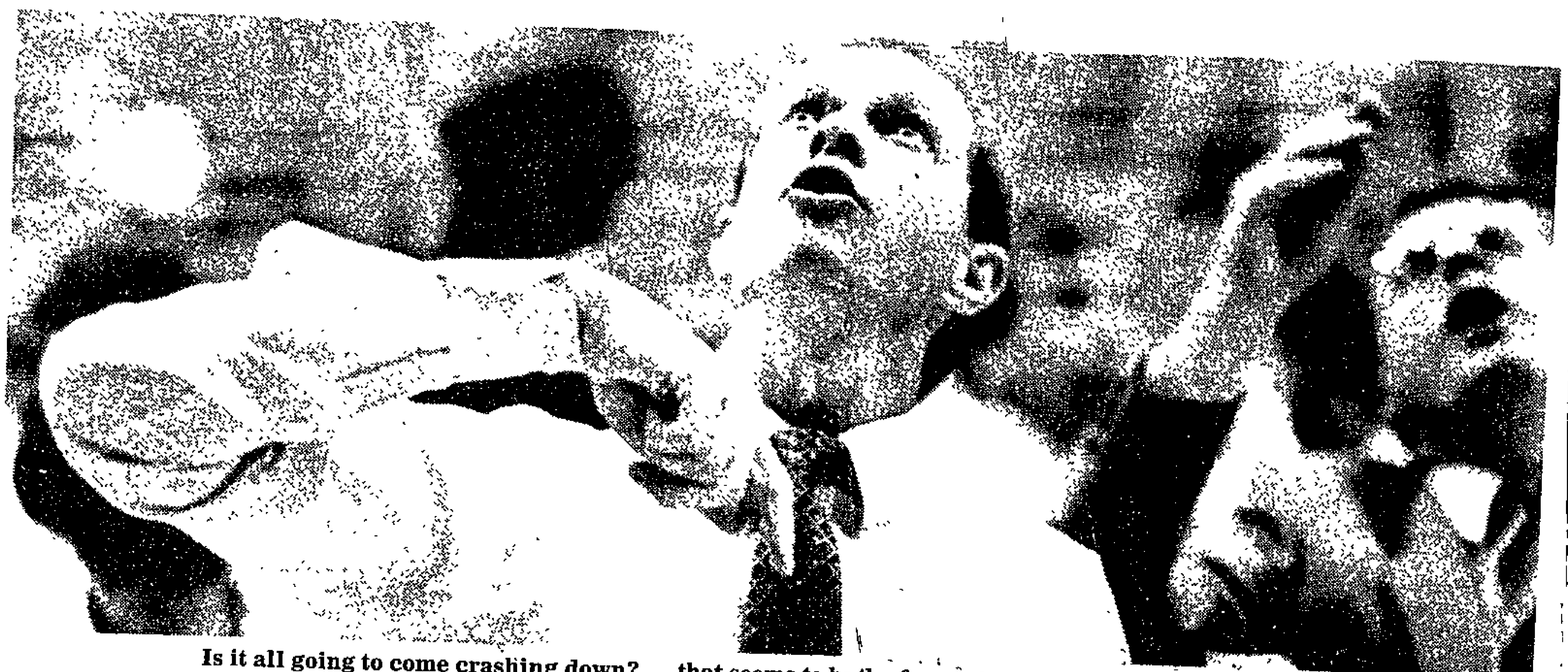
away by a record sell-off that took the Nikkei 225-share index down 3 836 points to end at 21 910.

Hong Kong authorities simply closed the market there. Sydney and Singapore showed record falls.

The London Financial Times-Stock Exchange 100-share index, after a 10 per cent fall on Monday, was at one point down almost 15 per cent more yesterday at a low of 1 748,2.

Then, in London in the afternoon, it rose fast to 1 985. Then it slid again, as Wall Street eased, finally ending at 1 801,6, down 250,7 or 12,2 per cent on the day.

Paris also rallied and its Bourse indicator ended 0,79 per cent up on the day after being eight per cent dow[illegible]



Is it all going to come crashing down? . . .that seems to be the fear written on the faces of traders on the floor of the Johannesburg Stock Exchange yesterday.

Fears of further drop

CAPE TOWN — The South African stock market could drop by up to 25 per cent in the next few days or weeks de-[illegible]

they are going to lose money, sentiment rules. I don't know where it's going to end," he said.

hold on the JSE" until things became clearer.

"I'm not panicking. I'm [illegible]

420 HOTEL+ LIQUOR

SECTOR: CATERING AND ACCOMODATION SERVICES
AREA: SOUTH AFRICA

tors were generally absent from the market.

Commenting on the day's hectic selling, brokers maintained that small investors had overreacted to events on foreign markets and to the decline in the gold price.

However, institutional fund managers remained confident about the long term prospects for the market and dismissed the day's activities as a much needed correction.

The industrial index fell 12,5 per cent (283 points) to 1 982 as even such blue chip shares as Barlows were battered by heavy selling.

More speculative shares showed the biggest price declines and a record 65 shares hit new lows.

Only one share on the whole market, Focus, registered a price gain, rising 5c to 75c a share.

Analysts believe shares could offer excellent buying opportunities at the lower levels.

The panic selling was an international trend and share prices across the world were hard hit.

London slipped back as an early Wall Street rebound lost momentum and it ended 12,2 per cent down — a bigger percentage fall than Monday.

Japan ended the day with almost 15 per cent of the value of the huge Tokyo market wiped

The Amsterdam and Zurich markets also had erased some of the day's losses when they closed.

Earlier, as brokerages were left holding the shares which investors had unloaded, a London dealer said: "It's a bit like shovelling 50 pound notes down a mine shaft."

And in Israel, an investor threatened to blow up the Tel Aviv Stock Exchange after officials refused to halt frantic trading. Police were called, but found no sign of a bomb.

Wall Street's recovery gained momentum late yesterday and the main index soared more than 150 points as bargain hunters grew more confident that the worst of the biggest market collapse in modern times was over.

The Dow Jones industrial average, which lost a record 508 points on Monday, was approaching the session high in late-afternoon trading, showing a gain of 157 at 1 895 after a day of wild swings that reflected deep crosscurrents within the market.

In other developments, US Treasury Secretary James Baker broke off a European tour to return home after talks with West German Finance Minister Gerhard Stoltenberg and Bundesbank president Karl Otto Poehl. — DDC-Sapa-RNS

More reports P11
Editorial opinion P12

spite good fundamental economic indicators, a Southern Life economist, Mr Mike Daly, said yesterday.

"Sentiment will drive the market no matter what the fundamentals are and there could still be a lot of blood.

"If people believe

Mr Daly was asked to comment on this week's dramatic market movements.

He said much depended on the gold price and he cautioned against selling gold shares.

This was "the one

Mr Daly said the hammering on the Dow Jones could not have been predicted.

The big worry in the last few weeks had been the rising interest rates in the United States — a trend over the past year, he said. — Sapa

Sunday work rate : 0.00
Public Holiday rate : 0.00
Maximum hours o/t per week : 10

5. Allowances
Shift allowance : - Trave :
Inconvenience allowance : - Long nce :
Clothing allowance : - Atten :
Subsistence allowance : - Produ :
Night shift allowance : - Holid :

6. Paid Leave
Leave days for 5 day week : --
Leave days for 6 day week : 18
Annual sick leave 5 day week: -- days Cycl -- mon
Annual sick leave 6 day week: 12 days Cycl 24 mon

7. Paid Public Holidays
New Years Day : No 2nd No
Founders Day : No Good No
Family Day : No Asce No
Republic Day : No Krug No
Day of the Vow : No Chri No
Day of Goodwill : No Othe No

8. Piecework etc
Piecework : --
Skilled/unskilled ratio set : Yes
Protective Clothing : Free

9. Notice
Notice per weekly paid : 1 week(s) / -- hour(s)
Notice peri monthly paid : - week(s) / -- day(s)

10. Trade [illegible] atus
Closed [illegible] : --
Union [illegible] mployment first : --
Stop O[illegible] cilities for subs : --

Reagan assurances soothe the investors' nerves

Gold price slumps as markets recover

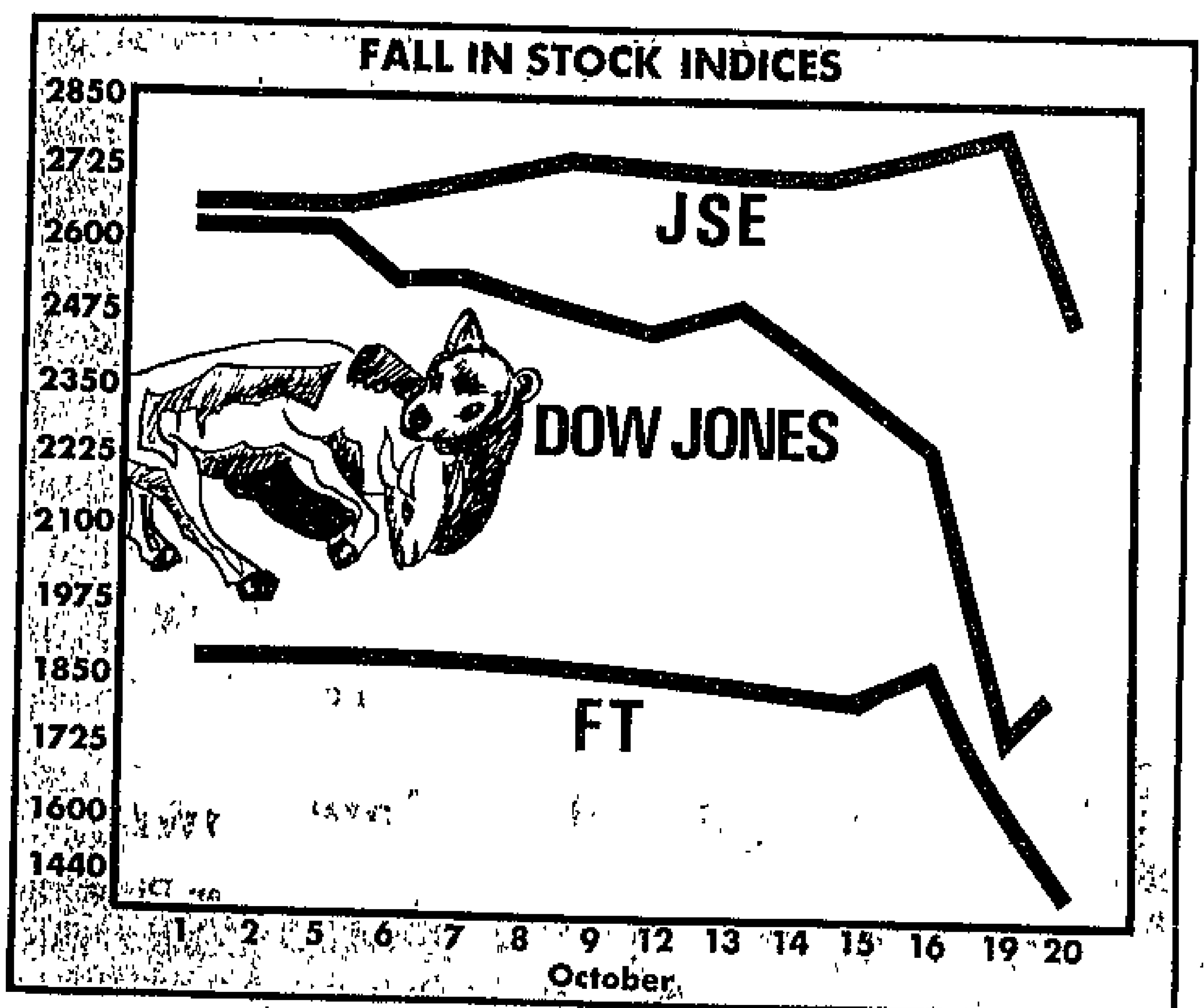
(58) mm 21/10/87

By Michael Chester

There was a dramatic reversal in the retreats on world stock exchanges today as record gains on Wall Street soothed the nerves of investors and inspired markets in the Far East to follow a new upward surge.

On the Johannesburg Stock Exchange, which plunged nearly 12 percent in late trading yesterday, all eyes were fastened this morning on gold prices which have been forced lower in see-saw response to signs of recovery of the US dollar on currency markets.

In New York, where the price moved as high as $491 an ounce earlier in the week, gold shuffled down to $463,20 by the close last night, although it picked up a little to open in Hong Kong today at $465,45.



The global stock market panic subsided when the New York Stock Exchange, the main pace-setter of world trends, yesterday made a record one-day advance of 102,27 points in the Dow Jones index.

The recovery came on the heels of assurances by President Ronald Reagan that the economic fundamentals in the United States were sound and that investors should stay calm.

Mr Reagan also hinted at moves to reverse the recent slide of the US dollar which had hit its lowest in several months and whose weakness was among the key factors behind the Wall Street crash.

And he agreed to meet Congress at a domestic economic summit to seek ways to slash the US budget deficit — also a major factor in the massive stock market decline.

Investor nerves were also calmed by assurances that the Federal Reserve Board, the US central bank, would take "whatever steps are necessary" to ensure the soundness of the economy.

Dollar recovers

The immediate recovery on Wall Street went hand in hand with upward moves of the US dollar on currency markets, with exchange rate gains against the German D-mark, Japanese yen, British pound, Swiss franc and Canadian dollar.

In turn, the rebound of Wall Street triggered a record climb in share prices on the Tokyo Stock Exchange where, in early trading today, more than a third of losses suffered in yesterday's panic were wiped out.

And, in Sydney, hit by a 25 percent tumble yesterday, shares also marched back higher although trading was still volatile.

Unhappily for South Africa, as the US dollar gained ground and became more attractive to international investors, so the magic began to rub off gold as an automatic investment alternative.

● See Pages 15, 16 and 19.

JSE trading delayed after record sales

By TOM HOOD
Business Editor

ARGUS 22/10/87

58

TRADING was delayed for several hours on the Johannesburg Stock Exchange today after the administration was overwhelmed by an all-time record of R213-million shares bought and sold yesterday.

JSE general manager Mr Richard Clarke said he was unable to say if the exchange would open today.

Investors were unable to do business with stockbrokers except through the London Stock Exchange.

But unit trusts were permitted to buy and sell at yesterday's prices.

Reuter reported the JSE opening had been "delayed indefinitely" and a JSE spokesman said a statement would be made later today.

"There was a huge number of deals yesterday and the computer is running behind. The load was too great for our computers and we feel we must clear up the backlog before we can reopen."

The JSE opened 90 minutes late yesterday.

The volume of shares traded yesterday jumped to 21 056 415 from 19 569 907 on Tuesday and the value of R213 149 165 was sharply higher than Tuesday's R170 036 051. This beat the previous record of R203-million in mid-September.

Brokers were today wary about forecasting a rally on the Johannesburg Stock Exchange today after yesterday's secondary wave of selling.

They said it seemed that people and institutions who had not been able to sell on Tuesday when the market plunged had used yesterday's rally to get out of the market.

Wall Street rebounds

From RAMSAY MILNE
The Argus Foreign Service

NEW YORK. — In an impressive rebound from the abyss of Black Monday, shares on the New York Stock Exchange surged back by 186,84 points on the Dow Jones index.

In doing so the Dow yesterday regained much of the ground it lost in Monday's nosedive — and provided some convincing evidence that fears of a 1930s Depression might be groundless.

From Tokyo, Sapa-Reuter reports that the stock market powered ahead strongly for the second day running, gaining an impressive 792 points in the first hour of trading to reach 24 739.

The Sydney market, which lost 25 percent of its value on Monday, also continued to climb back, gaining 134 points to stand at 1 702,9.

London notched up its own record of 142 points to finish at 1 943,8.

Gold $468,50

GOLD traded at $468,50 an ounce in London today, up from last night's $467,75 New York close. The rand was quoted at 48,58 US cents in Johannesburg, against 48,80 yesterday.

● See page 17.

Sit tight, brokers tell JSE clients

Cape Times 22/10/87 58

By AUDREY D'ANGELO
Financial Editor

OVERSEAS share markets began to recover yesterday from the wave of panic selling which brought them crashing down at the beginning of the week. Most of them closed higher on the day and some reported bargain hunting with big institutions buying up shares sold by small investors.

But in South Africa renewed selling on the Johannesburg Stock Exchange (JSE) — where about R42 billion was knocked off the value of shares on Tuesday — caused the overall index to drop to 2 447 from yesterday's 2 474 shortly before the close.

However, some local investors recovered their confidence. Stockbrokers in Cape Town reported some buying back of shares off-loaded on Tuesday.

And Mr Phillip van Zijl, who heads Sanlam unit trusts, advised clients that this was a good time to buy, while prices were lower.

But most stockbrokers and investment analysts in the city advised their clients to sit tight and wait until the market had settled.

Unit trusts, on average, have dropped by 10%, although some were affected less than others.

Ms Geraldine Milne, senior investment consultant at Personal Trust, said: "We are advising everyone to sit tight. We are not encouraging either selling or purchasing."

- Govt keeping watch, says PW Botha — Page 2
- JCI chairman on share price collapse — Page 4

Mr Neil Cochrane, of Syfrets Managed Assets, said that he did not encourage immediate new buying.

"The sell-off has only brought shares on the JSE down to their mid-July levels and those who put their money into good shares are still better off than if they had made any other type of investment.

"But I would not advise anyone to start buying aggressively at this stage. A couple of people phoned me today to ask if I saw the drop as a good opportunity to buy."

In overseas markets many investors partially recovered their losses.

Wall Street's recovery gained momentum in early trading and the Dow Jones index of leading industrial shares jumped 170 points, to regain the 2 000 level surrendered during a massive sell-off on Monday.

Stock markets around the world rallied even before Wall Street opened for business, with strong gains reported in Tokyo and London.

In several cities, brokers said big institutions snapped up bargains after the panic selling by small investors and there was hectic trading by bargain-hunters in Zurich.

In Australia, the key Sydney index closed 19,7 points higher on the day at 1 [illegible], after shedding a breathtaking 25% of its value on Tuesday.

BUSINESS BRIEF

Gold (Ldn close)	$466,50
Gold (NY close)	$467,75
Rand	$0,4875/85
FT index (close)	1627,80
BD 100	2205,90
Dow Jones	2027,85

ANC kidnap case: Charges dropped

Cape Times 22/10/87

~~IIA/16/327/329~~

From IAN HOBBS

LONDON. — Scotland Yard's Anti Terrorist Squad (ATS) last night dropped the charges against three men accused of plotting to kidnap the ANC's key leaders in London.

The dramatic development is likely to spark accusations that the British government is involved in a massive cover-up because the men are secret service agents.

The move was confirmed in a formal statement by Mr Stephen Fiddler, solicitor for two of the mystery men, known as Mr Frank Larsen, 53, and Mr John Wheatley, 28, who have been in a high security prison since July 9.

The third accused, Welshman Mr Evan Denis Evans, 49, who served as a sabotage expert in the Rhodesian and South African armies for 15 years until 1985 and is separately represented, has been on bail for the past month.

Evidence submitted to the police claimed that Evans had for many years been a British MI6 senior agent who had worked as a double-agent.

In the statement released by Mr Fiddler, Mr Larsen and Mr Wheatley indicate publicly for the first time that they too were acting as undercover British agents when arrested by the police "accidently stumbling across" events.

During remand hearings this month Mr Benjamin Conlon, counsel for Mr Larsen and Mr Wheatley, claimed that the alleged ANC kidnap plot and a

To page 2

(58) Eve Post 22/10/87

JSE closure leads to an emergency meeting

JOHANNESBURG — The Johannesburg Stock Exchange's steering committee was meeting this afternoon in an emergency session to discuss whether trading was possible on the JSE at all today.

The exchange was closed this morning, with the computers unable to handle the huge volume of trading this week.

Spokesman Mrs Ann Done said: "The problem has been the compounding of deals not processed because of the excessive trading carried over from Tuesday into yesterday — when record business was handled — and the need to clear the system before trading resumes." — Sapa

Shortened day of hectic trading

Recovery on JSE runs out of steam

58 B/day 22/10/87.

MERVYN HARRIS
and LINDA ENSOR

SHARE prices remained under pressure on the JSE yesterday after earlier showing faint signs of recovery in a shortened, but hectic, trading day.

The overall index fell another 34 points to 2 440 after climbing 64 points at the opening on bargain hunting.

Dealers described the market as jittery and vulnerable and some believed the selling could continue today before the market showed signs of settling down.

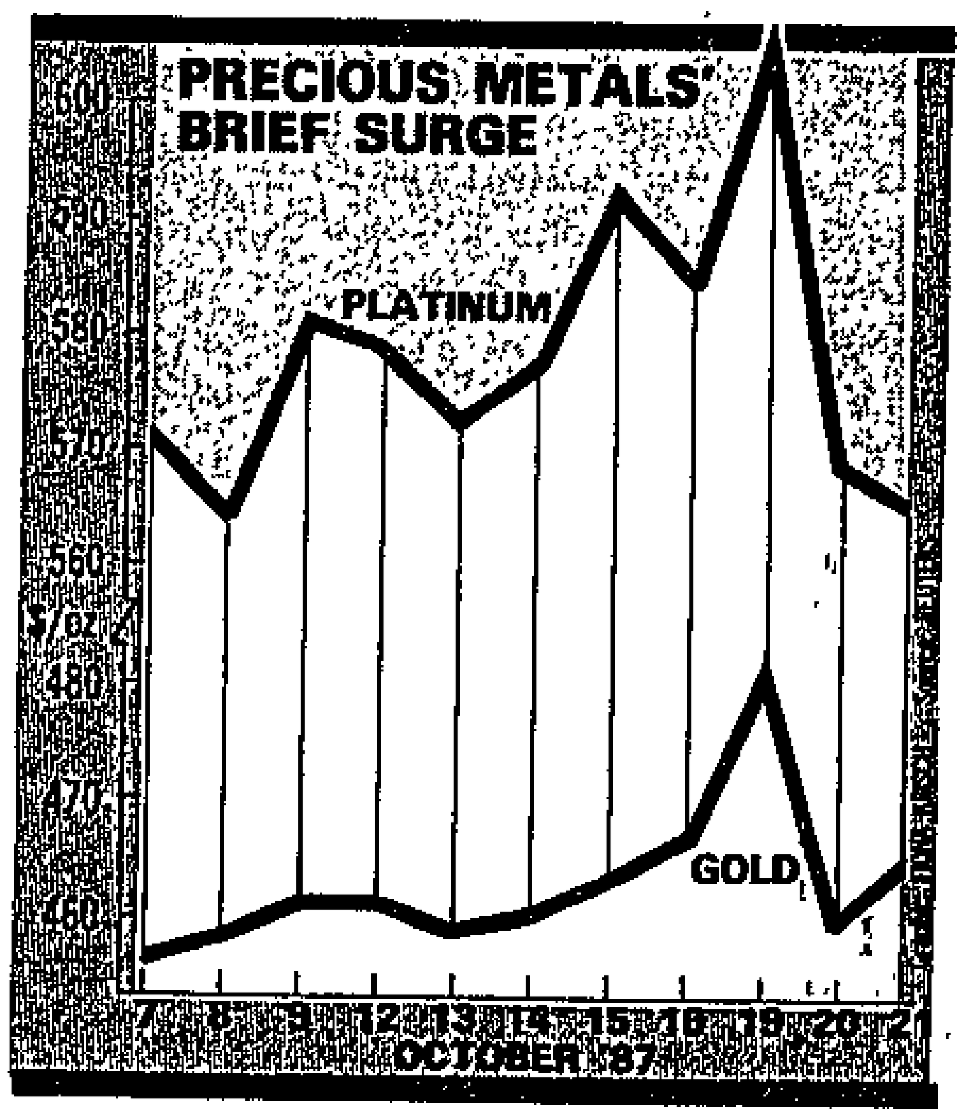
Although the gold price continued to consolidate at around $466 an ounce after the volatile swings of the previous two days, another drop in the prices of heavyweight gold shares led the decline.

The industrial index firmed seven points but shed its early 89 point surge as some leading industrials extended Tuesday's heavy losses.

After being on the sidelines, institutions came back into the market and were believed to be off-loading selected blue-chip industrial shares in favour of golds.

More than an hour of trading time was lost due to more computer problems as the exchange's computer programme could not cope with Tuesday's record volume of business, the largest in 15 years. Trading had to close for about an hour in the morning and again in the afternoon while corrective action was taken.

Overworked brokers, already over-



PLATINUM fell back to $566 an ounce yesterday as world stock markets recovered some losses. Platinum's movement has been more volatile than that of gold, which was trading at $466 in London yesterday.

● To Page 2

World stock markets recover some losses

58

● From Page 1

hausted. They need to reassess what has happened," he said.

Other markets were even less enthusiastic.

In Hong Kong, where the stock exchange suspended business for this week, share prices dropped 20%-25% yesterday in the unofficial, or so-called "grey market".

"Some sellers were desperate," said one foreign broker. The stock exchange stopped all official trading after the Hang Seng index plunged 420 points, or 11%, on Monday.

Sydney's All-Ordinaries index rose 19,7 points, after Tuesday's 515,6-point drop.

"The next few trading sessions are not going to be for the faint hearted. It's a good time to buy, but there is still pressure to sell," said one Australian broker.

In Frankfurt, share prices moved sharply higher in hectic trading as investors went bargain-hunting after Monday's massive sell-off, dealers said.

"There are a lot of orders, particularly from private investors," one Frankfurt dealer said But he added that the market was still very nervous, worried that some further shock might send shares tumbling again.

Dutch and Swiss shares opened higher but quickly eased to lower levels. — Sapa-Reuter.

JSE jitters show signs of settling

(58)

DD 22/10/87

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Trading had to close for about an hour in the morning and again in the afternoon.

Overworked brokers had the additional burden of identifying accounting errors and correcting journal entries.

Tuesday's 8 911 deals was beyond the capacity of the programme.

The JSE's general manager, Mr Darryl Till, said the programme was being re-designed and the new programme should become operative next year.

The malfunctioning caused some entries in the accounting in the equity clearing house to be duplicated and the JSE had to ensure that these would be corrected by brokers before the market opened.

The error was thought to be small relative to the total number of deals handled.

The need for a new computer programme was highlighted by the dramatic 300 per cent growth in on-line usage over the last 15 months and the 100 per cent growth over the last three months, Mr Tills said.

Meanwhile, in New York, Wall Street's recovery gained momentum yesterday.

The Dow Jones industrial average jumped 170 points to reclaim the 2 000 level surrendered during the big sell-off on Monday.

World markets rallied before Wall Street opened for business, with strong gains in Tokyo and London.

The key Dow average was 170 points ahead at 2 010 shortly after midday, overcoming resistance which had forced it to seesaw at the 2 000 level, before noon.

The index has now bounced back some 270 points from the 1 738 close reached in Monday's 508-point fall.

However, the market is still down 600 points from the level at the start of October.

Only about 100 stocks were lower while 1 400 were higher on the New York Stock Exchange.

The recovery took place as the White House talked about the possibility of bipartisan action to cut the US budget deficit.

The Reagan administration said that in talks with Congress it would consider all options and all proposals for cutting the deficit.

A White House spokesman, Mr Marlin Fitzwater, said President Reagan remained opposed to a tax increase.

Mr Reagan yesterday bowed to pressure to enter talks on the budget.

See also page 21

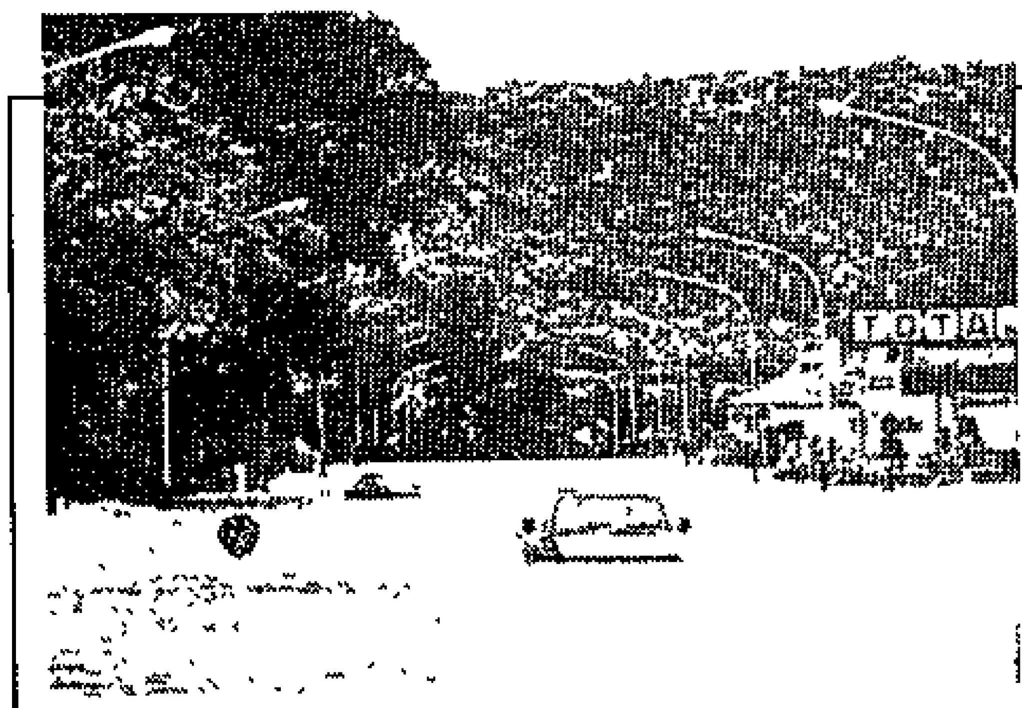
velopment of a national strategy of economic growth and development."

SHORT-TERM INSURANCE 58

FM 31/10/87

Losses flood in

As claims pour in from the worst disaster in South African insurance history, it is clear the R500m total insured losses initially estimated were on the conservative side (*FM* October 9).



Natal storms . . . water shortages hit insurers

Already the SA Reinsurance Offices' Association has identified R420m in major industrial losses alone. To this must be added building society claims under homeowners' policies, plus standard householders' policies.

"The major problem," says Ernst Kahle, MD of Munich Re, "was the lack of water supply to industry." Companies that escaped physical damage were brought into the loss picture simply through business interruption. This alone cost insurers as much as R20m a day. Though supplies were resumed by October 11, most companies were not back in full swing until three days later.

Latest estimates for big losses put Mondi at R150m, Toyota R40m, Barlow Rand (Brown Davis) R37m, Sapref R20m, and Saicor R17m.

John Bull, MD of Aegis, says he's "fairly happy," with some 98 claims in so far from commercial risks. Overall he is looking at R2,5m gross loss before reinsurance, covering householders', motor and commercial.

The big imponderable is loss of profits. Insurers can only make vague estimates.

Says Bull: "Generally companies insure for loss of profits on, say, a six-month or yearly basis. Shortfalls a company makes up over the indemnity period effectively reduce the claimable loss." The insurer would pay "extras" such as overtime and additional electricity consumed, the idea being to return the insured to the position he would have been in had the loss not occurred.

So loss of profits is tricky to estimate.

Insurers have generally not been hurt as badly as might be expected, however. SA Eagle, for example, estimates a gross loss of about R30m, but will probably only take R2m for its own account with the balance for reinsurers.

Kahle points out that the reinsurance industry had barely recovered from its traumatic past with 1985 and 1986 the only "reasonably profitable years.

"It will take years for reinsurers to recoup the Natal losses," he says, "provided, of course, we don't have any more serious natural catastrophes." Yet that is unlikely, given the cyclical frequency of heavy storm losses.

Insurers will have to consider other cost factors, too. While reinsurance rates are likely to move up for January 1 renewals, their need for "topping up" will have to be considered.

What happens here is that an insurer buys "excess of loss cover" from his reinsurer to pay for any loss over, say, R1m up to a total of R20m — that is, R20m in excess of R1m. But whatever is paid out by a reinsurer for the Natal loss is deducted from that R21m, and it would be imprudent for an insurer not to buy back up to the previous safety limit. And that won't be cheap. ■

Stock market yuppies may face extinction

23\10 87

LONDON — The plunge in stock market prices has created a new endangered British species — city yuppies.

These yuppies (young upwardly-mobile professionals) work in London's financial district, the city, and could be among the casualties of the chaos there this week, stockbrokers say.

One bank analyst said: "There'll be a lot of second-hand Porsches and BMWs going cheap and people looking for jobs."

When the London Stock Exchange was deregulated in the "Big Bang" a year ago, stockbrokers saw their clubby pinstriped world opened to scores of brash new recruits.

Many were wooed fresh from university with huge salaries and shiny company cars.

The press began to track the extravagant lifestyle of the new rich, who were spotted talking on car phones and spending their wages on cashmere suits, trendy nightspots and flats.

Middle-aged veterans of old brokerages complained their favourite parking spots and tables at winebars were being taken by aggressive youngsters wielding the yuppie trademark of a leatherbound combination address book and daily planner.

But some of the young talent, hired in droves by stockbroking firms to keep ahead of the new local and foreign competition, are wondering how much longer they will be needed after the plunge in tens of billions of sterling were wiped off the market.

One young share dealer said: "We were all braced for a fall but not one this bad. Some firms are going to lay off people and the juniors go first."

Stockbrokers say that even if there is a yuppie exodus, they will have left a permanent stamp on the 214-year-old Stock Exchange.

The Big Bang ushered in the modernisation of London trading and moved dealing from the Stock Exchange floor to telephones and electronic screens in company dealing rooms.

With it came increased internationalisation, competition and round-the-clock trading between New York, London and Tokyo — and longer working hours.

The new way of life can involve starting at dawn, when Tokyo closes, and ending 12 hours later to keep an eye on New York.

Leisurely lunches are no longer the norm; most people opt for a bite at the pub or desk.

One share analyst said some older colleagues, committed to stay with their firms with "golden handcuffs", planned to retire once their lucrative contracts expired.

— Sapa-RNS

CAPE TOWN, FRIDAY OCTOBER 23 1987

Major firm freezes its new JSE listing

ARGUS 23/10/87 58

By TOM HOOD,
Business Editor

A MAJOR Cape company, Seartec Industries, is among several to cancel plans for a listing on the Johannesburg Stock Exchange in the wake of the share market's nosedive.

Seartec, with a R72-million market capitalisation, was due to be listed next month after an offer of shares pitched at 140c.

The company, chaired by Mr Aaron Searll, is part of the giant Seardel Investment Corporation, the country's largest clothing group, and is the newly-formed holding company of market leaders Sharp Electronics and Prima Toys.

"It's just been put on hold for a while," said a Seardel spokesman.

"Would you go and list in this market?"

"We are still going ahead with the listing. But, we will wait until the market is more stable," he said.

Another casualty is Natal-based Umgeni Foods, processor and marketer of dry products, due to be listed on the development capital market on November 27.

This week's new listings barely maintained their issue prices — one, Dispatch Holding, even slipped to 5c below its issue price of 75c.

Brokers and bankers believe the cancellation and deferment of listings could be the beginning of a major reassessment of the current frantic race for listings.

Some companies, such as the Cape's Disa Development Holdings — due to be listed today — are still going ahead.

Mr Gordon Polovin, chief executive of Columbia Consultants, which has listed six companies over the last year, estimates that almost 50 percent of the 90 companies which intend to list during the remainder of the year could withdraw their application.

Many analysts have warned for months that a share market "correction" was inevitable, but were surprised by the speed and size of the downturn.

Share prices continued to slide in early trading today despite the high gold price, with losses as high as R3 (Vaal Reefs).

Other losers were Gencor (R1,50), Loraine (75c), SA Breweries (50c), Barlows (50c),Anglo American (R2,25) and Rustenburg Platinum (50c).

This followed yesterday's selling blitz on the Johannesburg Stock Exchange which saw R125-million of shares change hands in the two hours the market was open for trading. This exceeded the average of about R100-million traded each day last month.

The market closed for 4½ hours yesterday to allow the JSE catch up with a backlog of paperwork from the stampede to sell earlier in the week.

So far this week, the crash has wiped 27 percent off the market value of shares.

Reversing their earlier rush to get into high-yielding unit trusts, many small investors, frightened by the downturn, are clamouring to get their cash, forcing the mutual funds to sell off shares.

- Stock markets in in Tokyo and Sydney slid back today due to a new fall on Wall Street.

- See pages 14 and 15.

Short-lived rallies end on main markets

US probes cause of 'Black Monday'

58

STAR 23/10/87.

By Michael Chester

Amid renewed tensions as all the main overseas stock markets went back into retreat today, President Ronald Reagan has appointed a special task force to investigate the causes of the global stock market chaos triggered by the crash on Wall Street on "Black Monday".

Probes into the reasons for the wild gyrations in share prices have also been launched by the Securities and Exchange Commission and by two special committees appointed by the US Congress.

The White House task force, headed by Wall Street investment banker Mr Nicholas Brady, has been assigned to examine stock market procedures and recommend any changes that may be considered necessary to avert a repetition of the pandemonium.

The moves came after Wall Street dipped again last night and lost 77 of the 290 points it recouped in a short-lived midweek market rally that was assumed to be the start of a solid recovery.

Only slightly encouraged

Brokers said the market had been "only slightly encouraged" by President Reagan's pledges to tackle new plans to reduce the chronic US budget deficit, a major factor behind the Wall Street collapse, and assurances about the basic soundness of the American economy.

The renewed retreat on Wall Street was also blamed as the principal cause of today's reversals of rallies on key Far East markets.

The Tokyo market, now the world's largest, tumbled by 3,2 percent this morning. Brokers said Japanese investors were snapping up shares at lower prices but there was heavy selling by foreign investors.

In Sydney, new falls wiped out all the gains made at midweek and sucked the main market index back below the level to which it sank in a 25 percent nosedive on Monday.

As South African investors today awaited the opening of the Johannesburg Stock Exchange — which dropped another 32 points yesterday — eyes were fixed on the steadiness of the world gold price. In New York last night it lifted from $467 to $469 and in Hong Kong this morning it was up to $470,55.

● See Pages 2, 17 and 18.

Computer failure in US as well

The inability of computer systems to keep pace with hectic trading in the global share market panic is not confined to the Johannesburg Stock Exchange, which was forced to a temporary standstill yesterday for the second day in succession to allow backlogs in paperwork to be cleared.

Even the huge computers at the New York Stock Exchange have started to founder under the crush of paperwork.

Wall Street, where two billion shares have changed hands in the last four days, has alerted dealers and investors that the market will close two hours earlier than usual today.

Dealers on the main trading floor at the Johannesburg Stock Exchange were back in action with buying and selling orders yesterday afternoon — but only after waiting for four and a half hours while the market was closed to allow the computer system to catch up with earlier unprecedented trading volumes.

JSE indices drop after late opening

By Magnus Heystek

After opening several hours late because of more computer-related problems, the Johannesburg Stock Exchange dropped back further yesterday. But stockbrokers were pleased with the measure of relative calm returning to the market.

The overall index closed 23 points down at 2 417 and the industrial index fell 13 points to 1 976. Some mild institutional demand for blue chips helped to keep the market on an even keel.

Broking firms struggled throughout the morning trying to match the huge volume of shares traded on Wednesday.

The JSE computer was unable to match all the corresponding deals, and administrative staff worked late into the night in an effort to do this.

The solid peformance of property-related shares was a feature of the market. These rose by nine points to 437, probably in expectation of an upturn in the property market as a result of the downturn in equities. Property trusts were also firm.

Analysts were uncertain about the future direction of the market and looked for a further rise in the gold price for support.

● See Page 17.

Uncertainty continues to dog markets

Cape Times 23/10/87

58

- World market reaction varies — Page 4
- JSE listings postponed — Page 4

By AUDREY D'ANGELO

UNCERTAINTY continued to hang over international share markets — and the Johannesburg Stock Exchange (JSE) — yesterday with the situation changing by the hour as recoveries started only to be wiped out by profit-taking.

Investors all over the world waited anxiously to see what would happen on Wall Street, which see-sawed violently. Share prices fell sharply in early trading but then began to recover after intervention by the central bank only to fall again later.

Trading on the JSE opened late and lasted only two hours because of trouble with the overloaded computer system.

Shares closed mostly lower, but there were some gains. Although the bullion price was higher, the All Gold share index slipped 22 points to 2 136. The Industrial Index dropped by 13 points to 1 976, resulting in a further 23-point drop in the Overall Index to 2 417.

Dealers said there was no clear pattern to trading. There was selective buying and selling by some institutions while others waited for further developments.

Stockbrokers and investment consultants in Cape Town advised clients to be calm, and neither sell at a loss nor make new purchases till the market settled.

At least one proposed new company listing — Umgeni Foods — was postponed "until a more favourable time". But a spokeswoman for the JSE reported: "There was quite a spate of new listing applications today."

The chairman of a Cape Town company due to be listed on the main board of the JSE today, Mr Theo Stergianos, of Disa, made a confident statement: "Everything points towards the market recovering strongly with prices returning to earlier levels. The serious investor, who is looking for a good return in the long term rather than a quick profit, will not be put off by the upset in the market."

SA economists' warning of worldwide collapse

W887 24/10/87

Weekend Post Correspondent

JOHANNESBURG — Several local economists here believe that the global collapse in stock markets could be the prelude to a worldwide economic depression similar to the Great Depression which choked world trade in the 1930s.

The Star reported today that the economists confirmed that such a scenario was a distinct possibility if the current turbulent financial markets did not calm down soon.

A similar stock market crash on Wall Street in 1929 was the forerunner to events that eventually led to the greatest economic contraction in modern times.

In less than four years, world industrial output shrunk by nearly 40% with resulting world-wide unemployment, hunger and starvation.

The financial world was yesterday still reeling from the effects of "Black Monday" on Wall Street, which saw unprecedented panic among investors resulting in the Dow Jones industrial index dropping a record 508 points in one single day.

Wall Street, the American stock exchange, was still buffeted by uncertainty yesterday, with shares recovering slightly in the afternoon session after opening sharply lower.

Beeld reported that South Africa was among the countries which suffered when share prices plunged yesterday, but a good indication was that gold had passed the test.

The newspaper added that the turbulant conditions could continue for several more days.

The one encouraging sign was that in the week of slumped shares and panic-selling, gold had stood the test and had performed well in the last few days.

● **1982 Nobel prize winner for economics. George Stigler doesn't anticipate a crippling worldwide collapse. See Page 14 for Focus on Wall Street 'Meltdown'.**

JSE's basis 'still strong'

B/day.

LINDA ENSOR
and LIZ ROUSE

THE JSE will see-saw in the next few weeks on further shakeouts, but background factors are more favourable than for overseas markets.

Inflation and excess liquidity in the economy will ensure that last week's crisis was not the beginning of a crash, says JSE president Tony Norton.

But one long-term effect of what, in Norton's view, was a healthy correction will be that institutions will increase their already large share of the stock market. Before last week, they held about three times more than individual investors.

"We really needed a correction. It's a healthy shakeout. I was worried about the rise in the stock market because it was fueled by negative interest rates and a low economic growth rate. Shares are now getting back to their fundamental values," says Norton.

Norton, speaking to Business Day after his return from London, says he expects the indices to drop a few percentage points each day over the next two to three weeks. If the declines were to reach a magnitude of about 10%, he would be concerned.

A result in this trend will be that the price of blue-chip shares will become so low that the institutions, with their enormous cash flows, will be enticed into buying again. The market will then enter a period of consolidation and stabilisation, he predicts.

"The institutions will just have to come back. What are they going to do with their money? They have to protect their portfolios against inflation. Money market rates are still way down and property is not such a great idea and, in any case, takes time to get going. They

● To Page 2

JSE basis still strong — Norton

● From Page 1

will be back in due course," he says.

The reason for their waiting is that they will want to see small investors drive prices down before moving in to pick up the shares.

It is in this context that Norton advises investors to hold on to their stock and not sell in panic.

However, he does not believe the present climate is an auspicious one for companies planning to come to the market for the first time, and says they could be well counselled to defer their decision to do so until the market settles.

Nevertheless, many of the 87 companies scheduled to be listed before the year-end will be forced to go ahead because their prospectuses have already been printed and distributed. For most of them it is too late to withdraw.

Brokers noted selling of units trusts last week — another sign that the shakeout was mostly small-investor inspired. When prices went too high for the small man, brokers advised them to go for unit trusts instead.

Asked to what extent investors who bought on 14-day settlement faced hazardous times, a broker said big firms did not indulge in such business.

Overseas markets faced the week with trepidation, not knowing which way Wall Street would go.

However, gold firmed on another wobble in the dollar over the weekend to $475,25/$476 in Hong Kong before closing at $474,75/$475,50 on profit-taking.

Dealers said there was renewed interest in gold by Far East investors following the crash in equity markets. They expected the metal to break through resistance at $475 this week and foresaw a possible rise to $490.

● See Page 5

● JSE prices, page 23

Shares: Boom, crash — What now?

When Wall Street crashes, so does Reaganomics together with the popularity of the President's cronies. They are in for a long hard winter. There are going to be a lot of bankruptcies, suicides and layoffs, writes PATRICK BROGAN in Washington.

President Reagan

ON October 13, President Reagan boasted that "at the end of this month, we will complete the longest peacetime economic expansion in history".

That same day the Dow Jones index dropped 57 points and a week later the Reagan economic miracle was in ruins.

Cassandras have been bleating for years that what goes up must come down, that an economic expansion based on borrowed money was not to be tolerated and that Reagan's mulish refusal to compromise with Congress on revenue and spending policies was leading to disaster.

They said Reagan was the worst president since Coolidge, sleeping through the build-up to an economic catastrophe.

Coolidge was lucky. The stock market went on rising for exactly six months after he left office, and crashed on October 24, 1929, burying his successor, Herbert Hoover, in the wreckage.

Now the Cassandras have been proved right, except in one important detail. The smash came a year short of the next presidential election.

Mr Reagan, and his Vice-President George Bush, cannot escape responsibility for what happened. They will try to blame Congress, but Americans have a healthy tendency to point the finger at the man on top.

It was Ronald Reagan who embraced "supply-side economics" (Mr Bush called it, correctly, "voodoo economics"). It was Reagan who promised a "shining city on a hill", peace and prosperity. It is Reagan who will be blamed for war in the Persian Gulf and the collapse of the stock market.

In democracies, people get the government of their choice and Americans chose unfounded optimism. They won't do it again. The Wall Street debacle is very bad news for George Bush.

The Depression was a long time ago. Since then, there has been a victorious war, huge prosperity through the 50s and 60s and rapid recoveries from minor recessions since. But the Depression remains deep-rooted in American folk memory.

Only the most incorrigibly flaky baby-boomers or blinkered yuppies don't know in their bones that complete disaster is possible.

The stock exchange may recover a bit, but the shock won't wear off. Indeed it may prove salutary: forcing citizens, government and President to grapple with the real, underlying problems of the economy.

On Monday Americans looked into the abyss. They knew what their fathers and grandfathers faced in 1929. They know what can happen next unless some very serious measures are taken.

The Democrats, under Franklin Delano Roosevelt, pulled the country out of the Depression, and they are lining up to offer their services again.

Does any of them have the courage to spell out what is involved: increased taxes, cuts in social security benefits, a redirection of income from consumption into investment.

FDR eventually found the way out of the Depression through deficit spending. Ronald Reagan led the country into deficit spending on a scale Roosevelt never imagined. His successor will have to find a more painful alternative.

These are bad times for Reagan. First, the Iran-Contra hearings revealed an astonishing degree of incompetence and dishonesty in the Reagan administration. Then his nominee to the Supreme Court, Judge Robert Bork, was rejected.

There was a sudden escalation in the Gulf war, with America now in a shooting fight with Iran. His wife contracted breast cancer and the stock market collapsed.

The only bright spot on the horizon is the possibility of a summit meeting with Mikhail Gorbachev and an arms control treaty. It will not save Reagan's bacon any more than the last Washington summit, when Leonid Brezhnev's visit in 1973 to sign a treaty saved President Nixon.

The whole ethos of the Reagan era has been represented by Wall Street. Take-over battles, corporate raiders, T Boone Pickens and Ivan Boesky are the great symbols of the 80s.

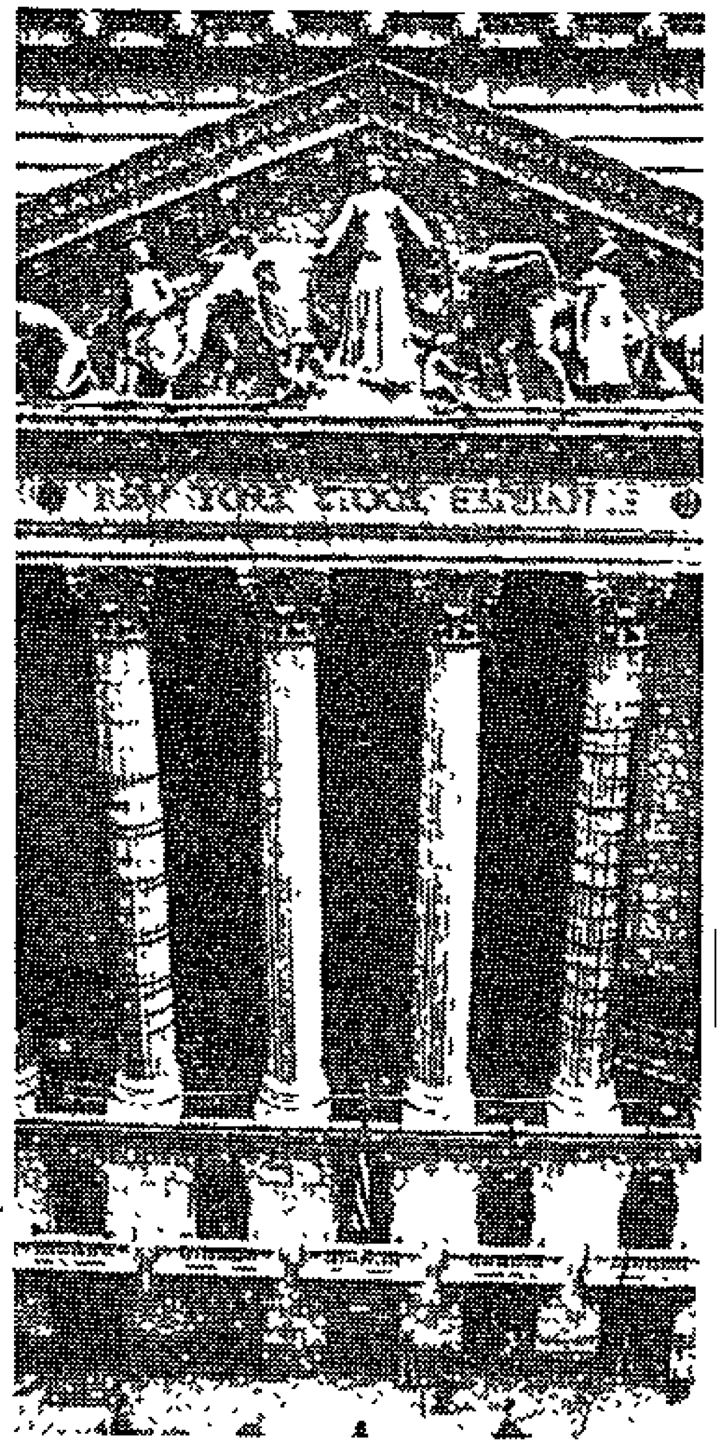
The argument was that, sure, greed was institutionalised and the big boys made billions — but, hey, all that wealth trickled down, created jobs, pushed up the value of everyone's house. So when Wall Street goes, so goes Reaganomics and the popularity of his supporters. They are in for a long hard winter. Some are in for more than that.

Forbes magazine has just published its annual list of the 400 wealthiest people in America. It is heavy with people who made billions or hundreds of millions on the stock market and in real estate. A new list would look very different.

Rupert Murdoch jumped from R1,4-billion a year ago to R4,1-billion two weeks ago on the strength of the rise of share values — all now back where they were two years ago. There are going to be a lot of bankruptcies, a lot of suicides, and a lot of lay-offs. It's not just the millionaires who will suffer.

The whole world will be affected by an American recession. It's a big price to pay for believing in Ronald Reagan's bromides about shining cities on hills.

— *London Observer Service*



New York Stock Exchange

Wits Argus 24/10/87

58

Bloody Monday — the big difference

The Argus Foreign Service

NEW YORK. — The Bloody Monday massacre on Wall Street was not like the Black Friday of the 1929 crash that caused despairing investors and ruined businessmen across America to jump from windows — a day of disaster that ushered in the Great Depression.

This time, though the world held its breath for 48 hours in mortal fear that history would repeat itself and another cataclysmic slide into economic disaster was about to begin, things were different because the one crucial element in the events of 1929 was absent.

That was the decision by the Federal Reserve to tighten credit, thus forcing over 4 000 US banks into banruptcy and millions of Americans into unemployment queues.

Support

After this week's stock market crash, the Federal Reserve stepped in instantly to provide support, increasing the cash available to the banks and so cushioning the shock.

Most of the world's major central banks did the same.

The results were spectacular, with the Dow Jones Index — which provides a measure of the country's 30 leading blue chip investments — quickly regaining much of that frightening first-day loss of 500 points by steady, careful growth.

Between 1929 and 1933, the "real" (inflation-adjusted) US gross national product fell by a catastrophic 30 percent.

Nothing like that is in prospect now. Most experts say that the GNP might fall only to 1,5 percent — at the very worst.

FOOTNOTE: Not only were there no window-jumpers in Monday's Wall Street debacle. None jumped from bridges — another favourite spot for despairing investors in 1929.

In San Francisco this week, the Pacific Stock Exchange, fearing a 1929-style panic, asked for a special suicide watch on the city's famous Golden Gate Bridge.

But no-one jumped.

"As a matter of fact, it was a real quiet day,' said a bridge security guard.

JSE: Now it's time for Mr Big

CMC Times 24/10/87

58

BLACK MONDAY has ushered in a new era on the Johannesburg Stock Exchange, enter the bear market.

The stakes: Billions of rands. The outlook: Worrying. The lesson: Don't panic.

The giant financial institutions which control some 70% of the shares on the JSE with a total value of about R300 billion are the key to what happens next. If they sell ... MELTDOWN. If they don't, and they probably won't, selling shares could prove an expensive mistake.

So far the institutions confide a gut feeling that the decade-long bull market is probably over. Some investors will lose still more money, and others will still make it, but the JSE is a new ball game.

Most activity this week has been confined to the man in the street. In terms of the overall index of share prices he has lost about 20% in the past four days. Now some operators of highly popular unit trusts are being forced to sell into the declining market. New listings which only days ago offered vast stagging profits by soaring to far higher values on the JSE than the price at which they were offered to initial investors are at a standstill.

● See Top of the Times — Page 15

Markets close to get their breath

Financial Editor

A DISASTROUS week for investors ended with most of the international share markets closing early to catch up with the enormous backlog of deals.

Wall Street, whose wild swings in share prices have been mirrored worldwide, closed yesterday with prices mostly lower. According to preliminary figures, the Dow Jones index of leading industrial shares fell a record 295,98 points over the week.

Dealers said activity was slower yesterday, but some believed the fireworks were [illegible]

Share prices closed sharply lower on the Johannesburg Stock Exchange (JSE). Prices moved steadily down during the day, as investors watched continuing falls on the London and Far Eastern markets.

Although the gold price remained above $470 an ounce, some heavyweight gold shares lost as much as R22 on the day.

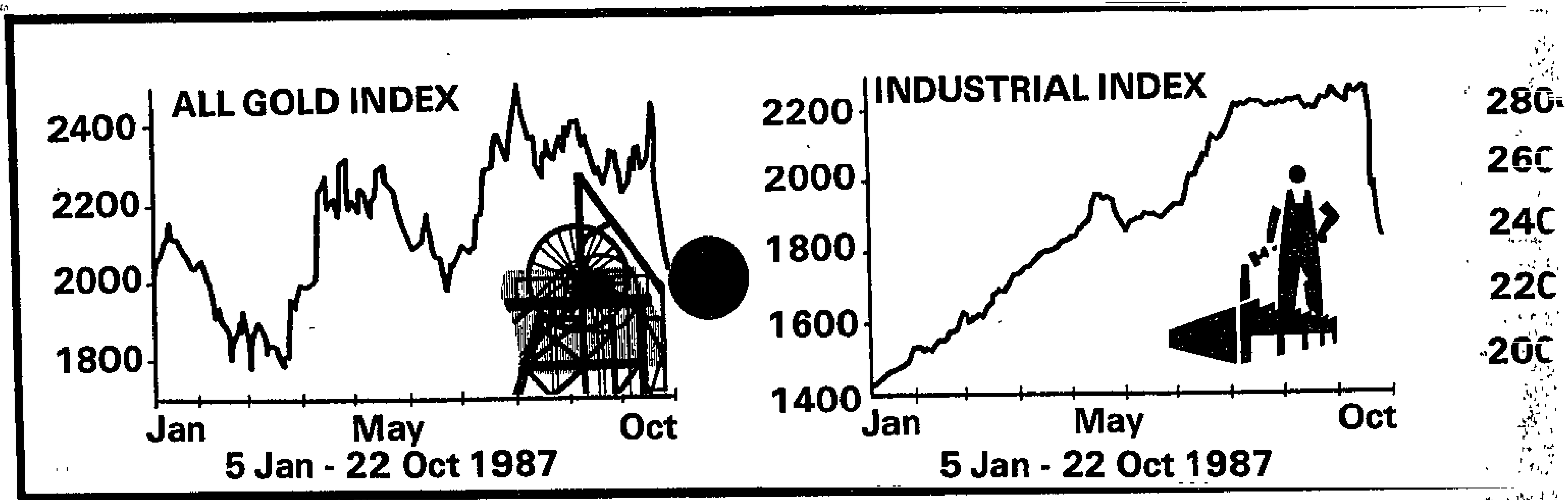
Shortly before the close the JSE overall index was down to 2 277 from yesterday's 2 417, the all-gold index to 2 018 from 2 136 and the industrial index to 1 844 from 1 986.

In London the Financial Times index of 30 industrials closed 38,5 points lower at 1 396,8.

● Gold hopes dashed — Page 17

BUSINESS BRIEF

Gold (Ldn close)	$472,25
Gold (NY close)	$473,60
Rand	$0,4887/94
FT index (close)	1396,80
BD 100	2048,20
Dow Jones	1950,76



After rising to record levels for over four years, share prices last week recorded their worst slump in history. Almost R67 billion has been wiped off the market capitalisation. The slump hit all sectors of the JSE, but in particular the industrial sector. The industrial index has dropped by 18,6 percent ... the week, and closed on Friday at 1844. ... all-gold index dropped 12,5 percent to 20

'Black Monday':

What happened on Wall Street in 1929

Panic that launched a depression

MICHAEL SHAFTO

Fifty-eight years ago today the world staggered under the force of an economic right cross that was to have huge repercussions for the economy and lifestyles all over the world.

One reporter's first dispatch read: "Wall Street was in panic today with no one to guide it ... demoralisation of the market was complete. Many lost all their money."

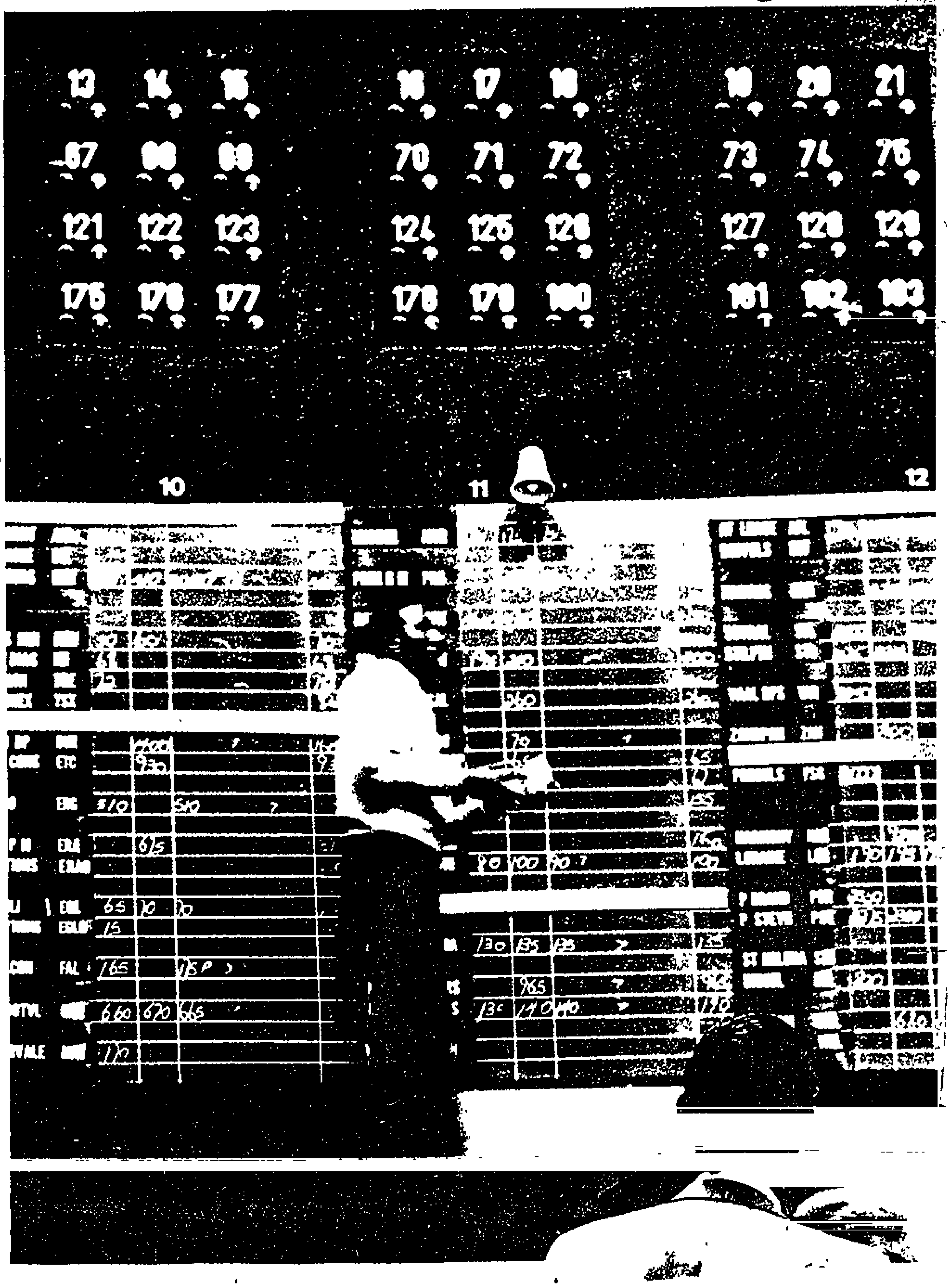
Until Monday this week, that was *the* Wall Street crash. October 24 1929 would be known as "Black Thursday".

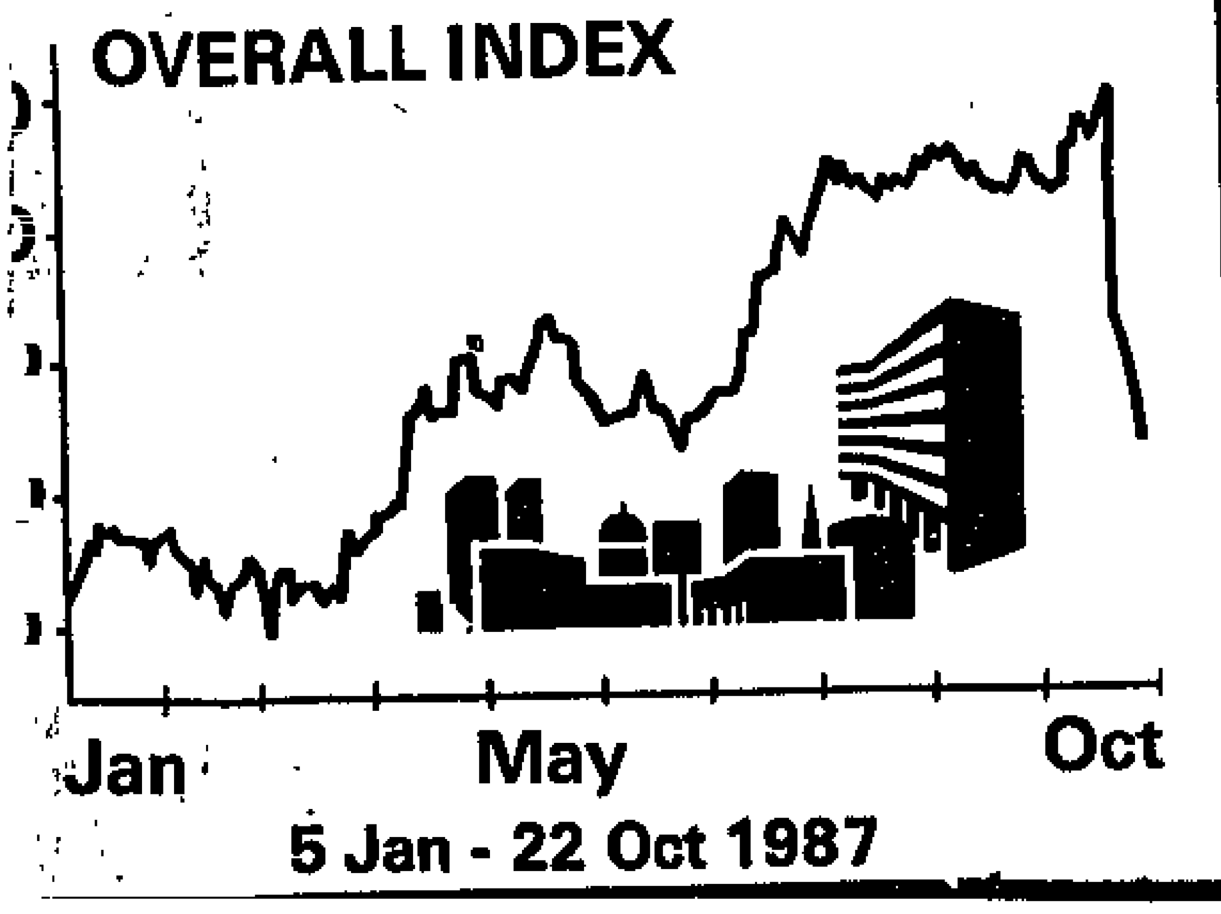
It would signal the end of an era of great wealth and waste in the United States, the "Flapper Era" so graphically portrayed by F Scott Fitzgerald in writings like "The Great Gatsby", which captured the decadence, irresponsibility and utter selfishness of the period.

It was financial turmoil that was to presage scores of suicides as fortunes crumbled.

It was a day on which stock values on the New York Stock Exchange fell rapidly. The market rallied slightly on the Friday and Saturday. But on Monday prices again took a tumble — and on Tuesday October 29, real disaster struck.

Stockholders panicked. They sold a record 16 410 030 shares, plunging Wall Street and the international markets into chaos. Thousands of people lost huge sums of money as stock values fell far below the prices paid for the stock. Banks and businesses had also bought stock, and many were brought to their knees and forced to close.





TOP SIX SHARE GAINS OVER THE WEEK	% Rise
Adcock	8
Maryvale	52
Veka	25
Samstel	16
Uniserv	15,6
Ensign	14,3

TOP SIX SHARE LOSSES OVER THE WEEK	% Drop
Minorco	26,3
Discount House	27,8
Saficon	27,3
Springs Dagga	27,1
ABS Computers	26,9
Botrest	26,7

MAJOR JSE SECTOR LOSSES	% Drop	Index on Fri
Overall	17,05	2 277
All Gold	12,5	2 018
Metals + Minerals	23,7	1 263
Diamonds	30,05	7 343
Platinum	27,22	3 044
Financial	10,7	1 401
Banks	12,88	1 340
Industrial	18,6	1 844

Graphic: Nicky Taylor

while the overall index, which reflects the performance of all share prices, was 17,05 percent down over the week.

Rises were limited to a few companies. Up to 30 companies recorded share price drops of over 20 percent. Particularly hard hit were platinums, down 27,2 percent, and diamonds, where the index dropped by over 30 percent.

the crash of '87

SVEN FORSSMAN

What the experts advise

Stay away and wait for the dust to settle

Stay away from the stock market until the dust settles if you are a new investor. But if you already have stocks there's no need to indulge in panic selling.

This is financial analyst Mr David Southey's advice to the man in the street.

"Although there are a lot of buying orders, there is also a lot of nervousness and confusion about the market. But the market will stabilize and then there'll be further growth.

"I would wait for indications of what is going to happen to markets abroad and see what the economic growth rates in those countries are before buying. That will tell us if gold could fall further and have a dampening effect on our market."

However, Mr Southey believes now is the time for the small investor to buy Krugerrands.

"In these uncertain times, there is an increase in the buying of hard assets and gold is obviously the most important in that category.

"Also, we're expecting the rand to ease over the next 12 months and we don't see interest rates picking up while the growth rate remains low."

Mr Southey doesn't see any need for investors in unit trusts to "sell out", in spite of the volatility of the market.

"Mutuals are linked to what is happening on the market and although unit trust prices have shown signs of weakening, they won't drop as dramatically as share prices.

"People who invest their money in unit trusts are more cautious by nature and are taking a longer term view.

"There have been a few sellers, but no really big sales to speak of."

Many pensioners who rely on dividends from shares for their monthly income are worried that they will be affected by the fall in the share market, but Mr Southey says they have no need to fear.

"Most listed companies have shown a good earnings growth between 20 and 25 percent and the dividends are set to rise in line."

Financial consultant Mr Ronnie van't Hof says the man in the street should be looking at his overall portfolio and making sure he has the right balance.

Said Mr van't Hof: "The small investor should also be looking at his cash reserves, property and other areas of investment."

An experienced dealer at the Johannesburg Stock Exchange says there are many good buys on the stock market for the man in the street if he looks at the marginal gold shares.

"But for the buyer who can't take a big knock, stay away from the heavyweights," he said.

"The heavyweights are value for money but they have been fluctuating quite violently on the current market and some people have been burning their fingers — you can lose as much as R7 500 on 100 shares in one day if prices fall.

"The marginals (between R300 and R800 for every 100 shares), on the other hand, have attracted a lot of interest and are reasonably priced."

He said the market was very mixed at the moment.

"The man in the street with no stock has been doing a lot of buying, the man in the street with lots of stock has panicked a little and has been selling and the big institutions have been buying selectively at lower levels."

The dealer also recommends that the man in the streets looks at buying certain industrial shares.

"It's not wise to keep all your eggs in one basket," he said.

BANKS WENT UNDER

This was the start of the Great Depression, a period of complete economic breakdown. Large numbers of US banks had invested their depositors' money in stocks. When stock values fell, many of these banks lost such money and had to close because they could not make good the losses to the depositors.

Some 1 350 banks failed in the US in 1930. About 2 300 were forced to close down the next year and in 1932 another 1 456 went under.

A typical chronicle of desperation of the times is provided by "Hard Times: An Oral History of the Great Depression". Says a Chicago businessman, Mr Ben Isaacs: "I was in business for myself, selling clothes on credit. Banks closed down overnight, we lost everything. I couldn't pay the rent. I sold the car for $15 to buy some food for the family. I would bend my head low (in the food relief queues) so nobody would recognise me."

With the Depression came a completely new lifestyle for a nation whose rich only a few years before had literally bathed in champagne. The restless roaming in search of something better, which became so much a part of American life, started in the early 1930s.

By 1932 about 25 000 families and more than 200 000 young people were wandering the country, jumping freight trains and living in camps near trainyards known as "hobo jungles".

These times of despair — in New York City it was estimated that 7 000 people over the age of 17 were shining shoes for a living — would be reflected in the nation's cultural life from sombre jazz tunes like, "Brother, Can You Spare a Dime?" to the John Steinbeck classic "Grapes of Wrath", which depicted the plight of migrant farm families trekking about the country after being wiped out by the severe droughts of the 1930s which followed the stock market crash.

The Depression was a direct forerunner of World War 2. The poor economic conditions of the time caused some nations to change their leaders and type of government. This was particularly so of Germany and Japan.

The German people supported Hitler because of his promises to make Germany a world leader, and the depression led to the Japanese invasion of China. Their militarism led directly to the war.

But the depression would lead to the election in 1932 of Franklin D Roosevelt as President, and the introduction of his "New Deal", which would gradually pull the US economy out of the cart.

This Monday's crash, with the wiping out of $500 000 million from the total value of Wall Street shares was worse than any of the single-day losses suffered in the 1929 crash.

For all its magnitude, at least one expert doesn't believe Monday's drop on Wall Street is the start of another depression. Not yet, anyway ...

The expert is economist Mr Ravi Batra, who believes the "Big One" is still to come.

"This is only a mini-crash," he says. "Before a hurricane starts there are many storm warnings."

The big bust, he says, is overdue. Cold comfort!

Who is being held responsible?

Yuppies take a bashing as the fast life fades away

RAMSAY MILNE

NEW YORK — Blame it on the Yuppies. They're the scourge of Wall Street now that many angry investors are accusing them of having facilitated, if not caused, the avalanche of selling that this week came close to bringing Wall Street to its knees.

The Yuppies are a new breed of young urban, upwardly mobile, professional, free-wheeling, big-spending Americans who have been the delight of car-dealers, restaurant owners, fashionable clothiers and real estate agents throughout the 1980s.

The fierce outburst of anger against the Yuppies — what has been described as "a frenzy of Yuppie-bashing", has been caused by two factors. One is the need of stockholders, who watched their savings vanish overnight, to vent their anger on someone, anyone, and the Yuppies of Wall Street are an obvious target.

The other is new knowledge of the extent to which these young whizz kids, most of them becoming millionaires several times over in their first five years out of college, have solicited money through massive "hard-sell" campaigns waged against potential investors — and then, through high-speed computer networks, have "managed" the market.

Most were reared on a climbing Dow Jones Index during the past five balmy years of Wall Street's surging bull market.

Fresh out of business school, they found earning commissions up to R600 000 in their first year of trading "child's play". It was just the first step to making R6 million or R8 milllion by the age of 25.

"Yuppie is spelled 'G-R-E-E-D'," was how one disgruntled investor described the Wall Street whizz kids.

The Yuppie syndrome has had a pervasive psychological effect on an entire generation of young Americans, all trying to emulate life in the Yuppie fast-track.

Typical of the big-buck world in which they live came in a single example described to me by a real estate broker. With a luxury apartment in Manhattan and two mansions in Florida and California, a Yuppie client called to ask her to find him a "weekender" in Greenwich, Connecticut.

"I don't want to go above $5 million (about R10 million)," he told her. She found his little weekend retreat. Price? $5,7 million (about R11,4 million). He signed for it by cheque. The new owner was a relatively old Yuppie, aged 41.

America's best-known super-Yuppie is a boyish billionnaire, Mr Bill Gates, who dropped out of Harvard business school to start a computer software company with a fellow Harvard dropout.

The company notched up a gain last year alone of about R1,5 billion, in the process making Mr Gates, now 31, America's youngest billionnaire.

But the warning signals are out. Ms Faith Popcorn, who despite her unusual name is a highly respected financial consultant, has some harsh things to say about these money geniuses.

"They're compulsive spenders and I think we are going to find out that now they are compulsive non-spenders," she says.

"People have suffered from a Yuppie glut — too much, too soon, too disgusting."

She predicts that after taking a beating this week, a lot of young professionals will be forced to trim back on items that used to be part of their fast life.

...ming place it can lar[redacted]
personality. It can D[redacted]

How crisis hits Britain

Maggie now has a BP headache

LONDON — The global stock market crisis is threatening a government sale of British Petroleum Company (BP) shares and leaves Prime Minister Mrs Margaret Thatcher with a major political headache, financial analysts say.

The government said on Thursday that it would carry on with the sale — ending on October 28 — of nearly R25 000 million worth of BP stock, comprising its remaining 31,5 percent stake.

But analysts said plunging prices on the London Stock Exchange over the past week bode ill for the sale, the latest step in Mrs Thatcher's plans to create a nation of shareholders.

"Before, I would have expected some five million small shareholders to take up what was then an attractive offer.

"Now I doubt it will be more than a few hundred thousand — and they will be very foolish," said one share analyst.

The shares are on offer at about R11. That had been 6 percent below the price for BP shares on the stock exchange last week — a discount aimed at making buying the shares more attractive.

But by midday yesterday BP shares were traded at only about R9.

"You'd be mad to buy on those terms," said one analyst.

The government knows it will get its cash no matter how many investors take up its offer, because the investment bankers underwriting it have guaranteed to buy any unsold stock.

"After this, it will take a lot to persuade people to try again," said one analyst.

The government could still call off the sale, although the feeling among most analysts is that it would take another major plunge in stock prices for it to take that decision. — Sapa-Reuter.

Paying a high price for sheer gambling

58 ~~East~~ w/c 4/6/5 24/10/87

Trading is often seen as high-tech gambling in Hong Kong. There can be few places where the carnage has affected so many small investors, writes STEVE VINES.

HONG KONG. — The stock market is a traditional pastime for people in this British colony.

The lunchtime crowds peering at flickering screens in bank windows watch closely to see what happened to their investments in the morning.

Much of the trading is sheer gambling, a markedly Chinese interest.

Punting on shares is, for many, like their weekend mahjong game (a complicated game of skill and chance often carrying high stakes), a bet on the horses or an occasional foray into gold.

Legal betting through the Royal Hong Kong Jockey Club totalled R6-billion in the first half of this year, average daily trades on the Hong Kong stock market have been running above the R900-million mark in the past few weeks and banks report a new form of currency speculation by customers opening foreign currency accounts.

Hong Kong therefore is both a place of considerable speculative activity and formidable financial sophistication — on average monthly wages of R800.

Even some of the lowest-paid workers try their hand at making a bit extra through the markets.

Borrowed

Small local investors tend not to be bothered by stockbroker's analysis. They react to rumours and market gossip. For that reason many are disproportionately heavily invested in second and third line stocks which took the heaviest hammering in the recent collapse.

Many of the smaller trades were carried out by investors on borrowed money. Margin trading in which the buyer pays only a percentage of the share's price, was also gaining in popularity. While the market was zooming up these practises looked very attractive indeed. With it plummeting, things look very different.

Loans which seemed cheap because interest rates were far below the rate of increase in share prices, now look rather demanding. Worse, for some, is their position with margin trading because so many people are holding more shares bought on the margin than they would ever have contemplated buying outright. They took the margin positions on the confident assumption that prices would rise and they would never need to pay up the balance.

On Tuesday the stock exchange took the extraordinary decision to close for the rest of the week.

For small investors, this was a body blow. Not only did they have to find the money to pay the balance on margin positions but also short-term loans to repay. With no way to sell the shares, they were strapped for cash.

It will take time to assess the damage but there is little doubt that there will be a lot of bad loans and increased businesses for the gangster-controlled loan sharks. — *London Observer Service.*

Depression possible if markets don't calm down, say economists

The Crash: world holds its breath

58
SAR
24/10/87

/HAT A BAWL: It wasn't little Deidre S... took a lot of love from mom before... outdoor '87 Show at the Field and Stud...

MAGNUS HEYSTEK,
Finance Editor

The global collapse in stock markets could be the prelude to a worldwide economic depression similar to the Great Depression which choked world trade in the early 1930s.

Many local economists spoken to by The Saturday Star confirmed that such a scenario was a distinct possibility if the current turbulent financial markets did not calm down soon.

A similar stock market crash on Wall Street in 1929 was the forerunner to events that eventually led to the greatest economic contraction in modern times.

In less than four years, world industrial output shrunk by nearly 40 percent with resulting worldwide unemployment, hunger and starvation.

The financial world was yesterday still reeling from the effects of "Black Monday" on Wall Street, which saw unprecedented panic among investors resulting in the Dow Jones industrial index dropping a record 508 points in one single day.

Wall Street, the American stock exchange, was still buffeted by uncertainty yesterday with shares recovering slightly in the afternoon session after opening sharply lower.

On the international forex markets the US dollar came under heavy selling pressure and was trading at below the psychological important level of 1,80 West German marks last night.

Panic-stricken investors worldwide followed the advice of their computer programmes which automatically gave selling orders once certain price-levels had been breached.

The end-result was a snowball effect which thus far has wiped out hundreds of billions of dollars in market capitalisation.

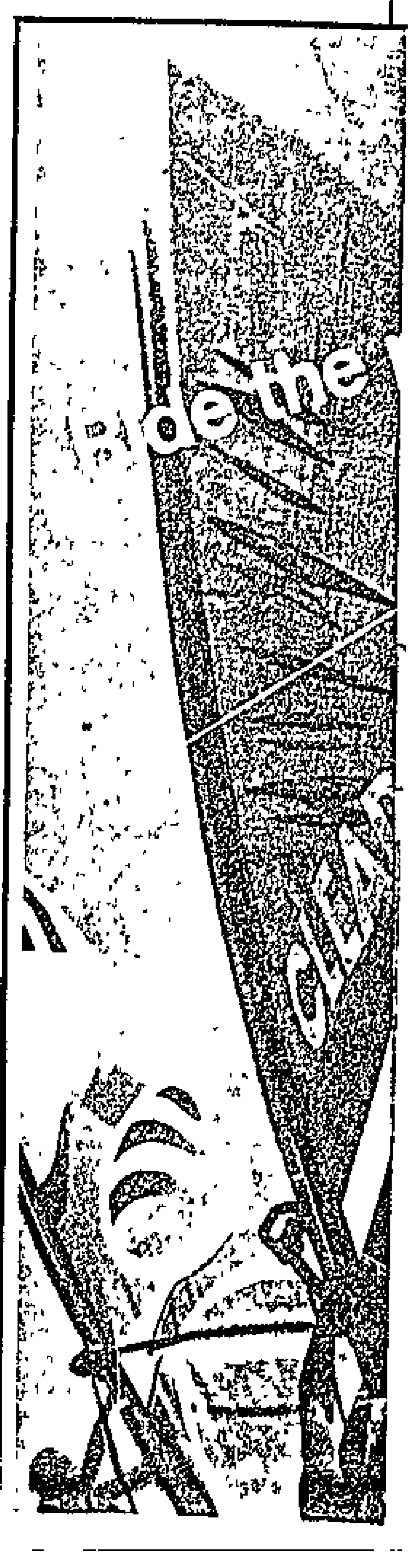
South Africa, despite its apparent isolation and preponderance of factors that many experts thought would isolate the country from international financial collapse, also suffered.

More than R67 billion in market capitalisation was wiped off share values in only four trading days.

South African investors stood helplessly by as the overall index of the market dropped by 18,7 percent — the largest one-week drop in history with many shares losing up to 40 percent of their value.

Despite the firmness of

● To Page 9



Big crash will hit jobs

24/10/87 (58) SAR

● FROM PAGE 1.

the gold price on international markets, rising to above the $470 an ounce mark yesterday, gold shares tumbled on average by more than 16 percent since Tuesday morning.

Shell-shocked investment analysts and portfolio managers stood by as share prices tumbled, seemingly with no end in sight. Holders of unit trusts were involved in a mad rush to sell back their units, with many management companies having to sell shares to raise cash to pay for these transactions.

The speculative bubble that burst this week is bound to have many casualties. In the end almost everyone is bound to be affected, whether a direct investor in the market or not. Performances of pension funds, life insurance policies and other stock-market related investments are bound to suffer.

Many, perhaps hundreds, of extremely well-paid jobs are at stake.

Twins' mot...

...new drama has entered ...e life of Mrs Sophie ...athibela (33), the mother ...South Africa's famous ...amese twins: she is ...ought to have chicken ...x, a condition that pre...nts her from seeing her ...bies in Baragwanath ...ospital's intensive care ...it. On Tuesday the twins ...derwent the first of a se...s of operations to sepa...te them.

SARA MA...

According t... man for the ho... being kept in is... is crucial at t... safeguard ... Mphonyana ag... fection.

The babie... tracted chick... age of six mo... was followed...

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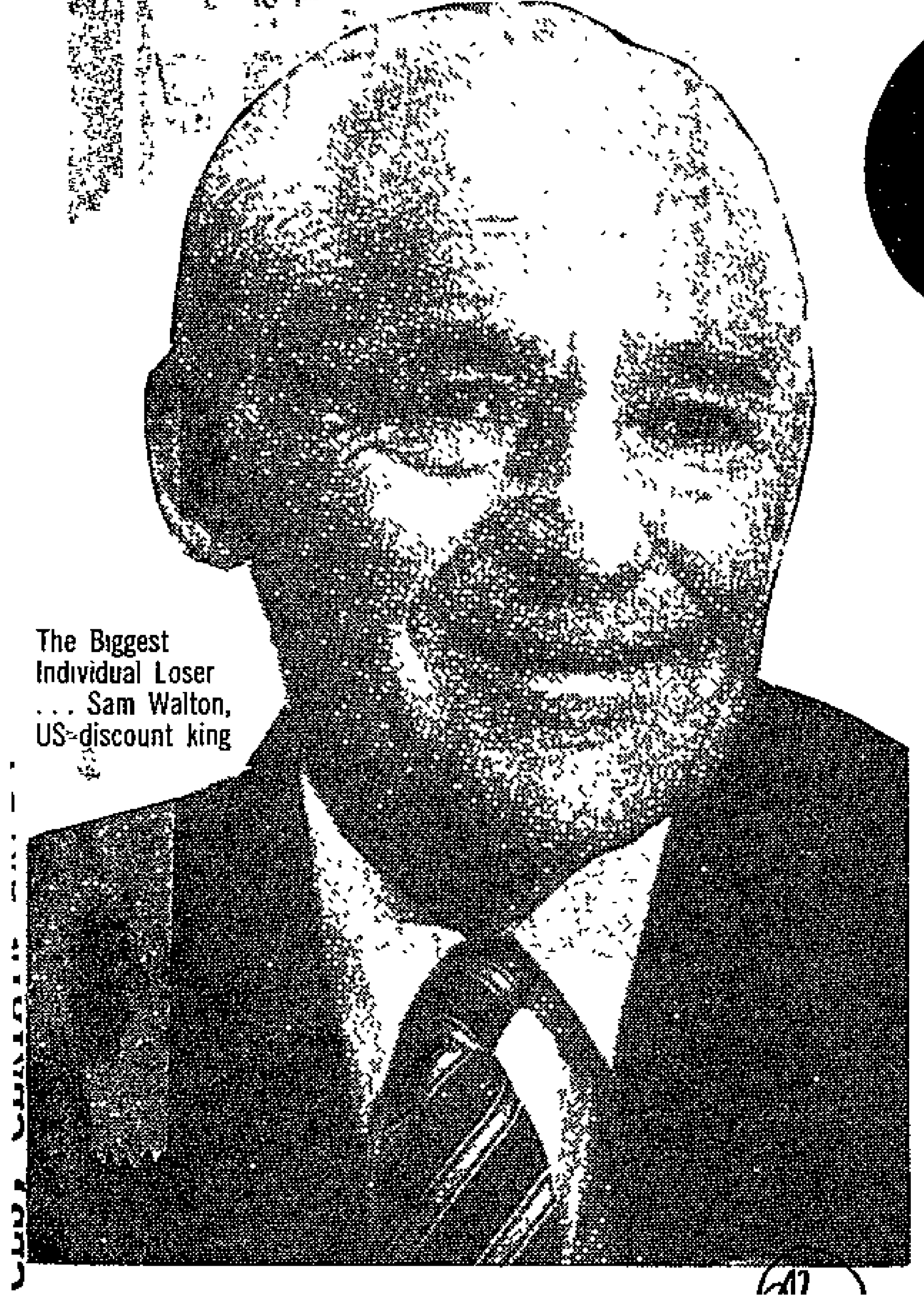
CRASH! But megarich shrug: It's only paper . . .



The Biggest Individual Loser . . . Sam Walton, US discount king

WORLD NEWS THIS WEEK WAS DOMINATED BY THE HELTER-SKELTER DOWNWARD SPIN OF STOCK SHARES. APART FROM THE ABSTRACT ASTRONOMICAL SUMS THAT WERE WIPED OFF MARKET VALUES, EQUALLY MIND-BOGGLING AMOUNTS WERE LOPPED OFF PERSONAL FORTUNES . . .

By IAN BALL: New York

SOME of the world's richest men took a drubbing this week in the great stock market crash of '87.

At his modest home in Bentonville, Arkansas, a thousand miles from the frenzy of Wall Street, 69-year-old Sam Moore Walton, the richest American of all, took it philosophically.

After the stock market's Black Monday, he had just acquired a new title: Biggest Individual Loser.

On Friday, his family's holdings in the Wall-Mart chain of discount stores were valued at $632-billion, already a $2-billion drop from the market's high point this summer. And when the closing bell had tolled on Monday, "Mr Sam" had lost a further $517-million.

"It's paper anyway," said the founder of America's most successful cut-price retail chain. "It was paper when we started and it's paper afterwards."

If others were talking recession, Sam Walton, married with four children, was thinking of adding to his chain of more than 1 000 stores in rural America. He graduated, after all, in the Great Depression.

"As far as I'm concerned we're focusing totally on the company doing well — and taking care of customers."

Mr Walton was not the only billionaire to suffer staggering losses.

Mr Rupert Murdoch, publisher of a string of newspapers ranging from the London Times to the Sun, is believed to have lost at least $1-billion through the collapse in his News Corporation shares. Their market value fell about $1,8-billion in a few minutes' trading in Australia.

A leading Sydney broker, Rene Rivkin, said Mr Murdoch's personal loss would have been about $1-billion.

In London, Mr Murdoch's sprees have cost him dearly. He recently spent about £270-million buying a stake of nearly 15 percent in Pearson, the publishing group spanning the Financial Times and Penguin, the Lazard merchant bank and Madame Tussaud.

Winner

Pearson's shares plunged to 790p compared with last Thursday's pre-storm price of £10, when Mr Murdoch's stake was worth £300-million. Yesterday it was down to £249-million.

He paid more than £80-million for a 2,5 percent shareholding recently in Reed International, now down to £55,6-million.

News director Mr Peter Stehrenberger was taking a sanguine view yesterday.

"We are not sellers. We look to the long term."

Another Antipodean to be caught by the rout is the quiet, equally acquisitive Mr Robert Holmes à Court.

He quickly lost his title as Australia's billion-dollar man. In less than half an hour, his fortune fell by almost $500-million to just under $1-billion as the shares of his Bell Group plunged.

His London investment fared just as badly. His holding in Morgan Grenfell dropped from £41-million to £28-million.

Another unlucky Australian, John Elliott, the ebullient Foster's lager boss and chief of Elders IXL, flew back from a honeymoon in Monaco to disaster. The market value of Elders plunged more than $1-billion to $3-billion just a few weeks after Mr Elliott handed over a parcel of shares in the group to management.

Many Americans, too, have made the news through their considerable losses.

Mr William Hewlett, of the Hewlett-Packard electronics firm, saw his personal worth slide by about $263-million.

And Mr Leslie Wexner, who heads a trendy retail chain, The Limited, lost $196-million on paper.

Some of the foam was off the beer for Mr August Busch, chairman of the Anheuser-Busch brewing conglomerate, when his shareholdings dipped by $189-million in a single day.

But one big winner emerged — Mr Donald Trump, the 41-year-old New York real estate mogul.

Mr Trump rubbed salt in many wounds by announcing that he had pulled out of the stock market completely over the past four weeks — for a profit of about $200-million.

Why had he sold his stocks and shares when he did? The big tip-off, he said, came when America's Federal Reserve was "foolish enough" to bolster the dollar at a time when Japan was finding it harder to compete with American companies.

He said: "I listened to all the economists — and when they said the market could only go up, I got out.

"I tend to do the exact opposite to what they say."

Tanker blasted in hit-and-run raid

Sunday Times Reporter: Bahrain

An Iranian speedboat fired machine gun rounds and rocket-propelled grenades at the Panamanian 38,000-ton tanker Prosperventure 1 in a pre-dawn attack off Dubai.

There were no casualties but the crew battled a fire which damaged the engine room and spread to the tanks.

The hit-and-run attack appeared to be in relaliation for an Iraqi air raid on the Iranian tanker Khark 4 in the central gulf on Oct. 21.

The Iranians last attacked a vessel on October 14, when they hit the Liberian-flagged tanker Atlantic Peace off Dubai.

'Don't get scared: It's not like 1929'

CHARLES LAURENCE reports from New York

STOCKBROKER George Ferris Snr, at 94 one of the few who have seen it all before, had a little advice for the young blades of Wall Street this week.

"Don't get scared to death. I don't think this sell-off is really like it was in '29."

He was choosing his words with care.

The vision of bankrupt brokers leaping to their deaths from the skyscrapers of southern Manhattan is, after all, one of the enduring images of capitalism.

"It was mostly myth, but I knew Mr Keep, Mr Martin and Mr Potter, and they all took the jump.

"They wouldn't have this time. The market will come back good in three or four months' time."

Mr Ferris was at his desk early, as he is every day, dispensing crusty optimism and picking a few likely winners from the stock indices, while outside on the pavements the bleary-eyed veterans of Black Monday were returning to the fray at the Stock Exchange and financial institutions.

For some, the omens were bad as frantic crushes at the news stands revealed the Wall Street Journal had sold out.

They were soon cheered by news flashes relayed to the breakfast bars that the markets had opened to a sudden boost.

By the time the last cups of black coffee had been drained, trading was back to record pace. Nobody was sure which direction it would take.

"Sure, anything could happen in the next few days," said Mr Ferris. "It went up as well as down last time.

"But in '29 we were in a bad position from the standpoint of money and the tightness of credit. This time the economy is quite good."

The main lesson learnt from Mr Ferris's generation was diversification, and very few Wall Street investors had all their eggs in the Stock Exchange basket when the new record drop came this time.

There were some boasts from those who had got out in good time.

Irving Lazar, an 80-year-old literary agent with vivid memories of his family's bank in Brooklyn going to the wall in 1929, said: "I sold 80 percent of what I had in the market six months ago."

But there were other tales to illustrate a real nervousness — behind the gallows humour — to do with windows of office blocks being sealed these days and walking close to the buildings to avoid falling brokers.

When two maintenance men clambered on to the roof of the Dow Jones Building, an emergency call went up from the Securities Exchange building next door. Word had gone out that two brokers were about to do what they could no longer do from the windows.

The shoeshine boys in front of Trinity Church, in the heart of the financial district, staked a claim as the first to feel the pinch.

Panic . . . the New York Exchange

'Rough'

Without a customer all morning, one said: "When stocks go down, shoeshines go down. It's rough."

It was left to an outsider to pass the final comment on the traumas of Wall Street.

Arnie Smith, a packer at the Fulton Fish Market, which abuts the financial district, knew enough about the stock market to know that investment was a gamble, and had little sympathy for the harassed looking men in suits and ties hurrying by.

"You go to Atlantic City, you shoot craps," he said with a shrug.

In spite of more steep falls on the Far East markets...

JSE chief remains optimistic

58 SPM 26/10/87

By Michael Chester

Key share markets in the Far East were in renewed retreat in early trading today but Mr Tony Norton, executive president of the Johannesburg Stock Exchange, forecast that the JSE would be "back on an even keel" inside the next week or two.

Mr Norton said the price tumbles on the JSE which, so far, have pulled the overall shares index down by 19,4 percent since Black Monday on Wall Street a week ago, were an "overdue correction — an inevitable shakeout to cool down an overheated market".

The comments came as Sapa-Reuter reported that the Tokyo stock market, now the largest in the world, took more steep falls in trading today and was knocked another four percent lower in the morning session.

In Hong Kong, where the market was closed early last week after its heaviest one-day plunge on record, shares fell 25 percent when trading resumed today.

In Sydney, where share prices last week dropped 30 percent of their value in a four-day wave of panic selling, more losses were recorded today.

Brokers in Tokyo said that, despite the new falls, actual trading volumes were low because investors were reluctant to buy until they saw new guidelines from Wall Street when it opened later today.

In Johannesburg, Mr Norton said: "Investors on the JSE should not be over-alarmed. We have been in a bull phase since the late 1970s and the incredible bullishness of the past two years made a correction inevitable.

"The psychological impact of Black Monday on Wall Street finally triggered the correction. The market had over-reached itself.

Healthy

"So far, it has been a reasonably healthy shake-out. What is important for investors to remember now is that all the market fundamentals are still intact on the JSE — the underpinning as a result of the need to find shelter from high inflation, and the high liquidity of the major institutions.

"Also, gold makes it a special market. True, there was disappointment last week when bullion prices didn't hit the 500-dollar level.

"But we should anticipate a time lag between stock market collapses and a rush by international investors into bullion.

"The fundamentals here must make the JSE more stable than most overseas markets. And there will be no surprises if the big institutions are back as buyers in the next few days."

Congress meets over deficit

Markets — the blood still flows

(58)

B/day 27/10/87

MERVYN HARRIS and CHERILYN IRETON

STOCK markets around the world — including the JSE — continued to tumble yesterday as traders anxiously awaited moves to curtail the US budget deficit.

However, Wall Street's decline yesterday afternoon underlined scepticism that positive moves such as tax hikes would emerge from President Ronald Reagan's meeting with the US Congress.

The Dow Jones index plunge of 162 points shortly before the close seemed to have dashed hopes of global stock markets recovering today. Wall Street blue chips dropped further after their second rally of the day collapsed.

● See Comment — Page 6
● Market Focus — Pages 14, 15

On Diagonal Street share prices took another hammering yesterday. The JSE overall index slumped another 6,1% bringing its decline during the past five shortened trading days to 24%.

With trading characterised by investors off-loading small parcels of shares at any price, there was little reaction to the higher gold price of around $477.

All major JSE indices have now shed most of the gains made this year.

REUTER reports yesterday's global share slide was set off by Hong Kong's own Black Monday, when the exchange re-opened after a four-day cooling period with a crash that slashed one third off share values.

Tokyo, the world's largest stock market, fell nearly 5% despite the absence of institutional selling.

In Australia, shares dropped 6,7% with blue chip industrial shares especially hard hit.

In London, the Financial Times Stock Exchange 100 share index plunged another 6,2% to close at 1 684 after a mid-morning low of 1 645. The decline in share prices came as the dollar took another battering, dropping below

● To Page 2

Markets: blood still flows

● From Page 1

DM1,77 to a low of DM1,7655, prompting the Bank of England and West German Bundesbank to buy dollars. It later recovered early losses to trade above DM1,77.

London dealers said selling was emotional and that it would take some fairly dramatic news to stop the rot.

Linda Ensor reports that on the JSE brokers were reported by Reuters to be blaming part of the decline on comments by JSE president Tony Norton which were reported in Business Day yesterday.

Brokers said Norton's comments had contributed to the continued selling-off of shares and had exacerbated the already hectic trading conditions.

A broker said the comment was "foolish" as it implied a decline of between 30% to 40%.

Business Day reported Norton as saying that he expected the indices to drop a few percentage points each day over the next two to three weeks. If declines were to reach a magnitude of about 10% he would be concerned.

Clarifying his statement, Norton said yesterday he meant a couple of percentage points could be lost on any one day — not every day — and that there would be cause for concern if indices cumulatively dropped by as much as 10%.

No interest paid, say granny bondholders

Cit Times 27/10/87

58

JOHANNESBURG. — Many holders of granny bonds — the special pensioners' bonds issued between July 1 and August 8 this year — are complaining that they did not receive interest payments by October 15 as the Treasury promised.

But a Treasury spokesman said yesterday that many bondholders would have had interest credited directly to their building society and bank accounts.

The Treasury spokesman said there had also been problems with the building societies and banks where interest payments had not been credited.

Building societies said credits were made to bondholders' accounts if the clients had arranged with Treasury for payment into their accounts.

Bank and building society branch offices have, however, also received complaints of late payment.

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Traders anxious as markets tumble

58 NO 27/10/87

Daily Dispatch Correspondent

JOHANNESBURG — Stock markets around the world — including the JSE — continued to tumble yesterday as traders anxiously awaited moves to curtail the US budget deficit.

Wall Street's decline underlined scepticism that positive moves such as tax hikes would emerge from President Ronald Reagan's meeting with Congress.

The Dow Jones index plunge of 162 points shortly before the close seemed to have dashed hopes of global markets recovering.

Wall Street blue chips dropped further after their second rally of the day collapsed.

On Diagonal Street share prices took another hammering.

The JSE overall index slumped another 6,1 per cent bringing its decline during the past five shortened trading days to 24 per cent.

With trading characterised by investors offloading small parcels of shares at any price, there was little reaction to the higher gold price of around $477.

Major JSE indices have shed most of the gains made this year.

Some JSE brokers blamed part of the decline on comments by the JSE's president, Mr Tony Norton.

Brokers said Mr Norton's comments had contributed to the continued selling off of shares and had exacerbated the already hectic trading conditions.

Mr Norton was quoted as saying he expected the indices to drop a few percentage points each day over the next two to three weeks.

Clarifying his statement, Mr Norton said yesterday he had meant that a couple of percentage points could be lost on any one day — not every day — and that there would be cause for concern if indices cumulatively dropped by as much as 10 per cent.

Economists said panic selling on world stock markets could cause problems for the South African economy, affecting export growth and consumer spending.

An economist for Old Mutual, Mr David Mohr, said a crash in world stock markets suggested a world recession which, in turn, meant reduced demand for South African exports.

His concern over export volumes was echoed by Mr Aubrey Dickman of Anglo American, who said much would depend on the gold price.

Describing a worst-case scenario after a stock market crash, a Volkskas economist, Mr Adam Jacobs, said consumer spending could plummet.

Yesterday's global share slide was set off by Hong Kong's own Black Monday when the exchange reopened after a four-day cooling period with a crash that slashed one third off share values.

Tokyo, the world's largest stock market, fell nearly five per cent.

In Australia, shares dropped 6,7 per cent.

London dealers said selling was emotional and it would take some fairly dramatic news to stop the rot.

The Chancellor of the Exchequer, Mr Nigel Lawson, agreed yesterday to meet underwriters who are urging him to delay tomorrow's £7,2 billion offer of British Petroleum shares.

The BP share price continued to fall yesterday and closed 21p down at 266. The issue was priced at 330p just days before the panic began.

New York financiers warned the BP offer could mean a disaster for fragile world markets.

World markets P8
Editorial opinion P12

ons

Price

You're still better off — De Kock

Flight of capital 'more serious than JSE shock'

CAPE TIMES 27/10/87 (58)

From GERALD PROSALENDIS

Gerhard de Kock

JOHANNESBURG. — The flight of capital from SA over the past two years had more serious implications for the economy than the present drop in prices on the Johannesburg Stock Exchange, Reserve Bank Governor Gerhard de Kock said yesterday.

While the JSE was attracting substantial attention, SA experienced its shock two years ago when capital fled the country, De Kock said. This did not mean he did not sympathize with equity investors.

"The present situation is unfortunate for those who bought equity on credit. On paper all are a little poorer, but are still more wealthy than they were two years ago.

"However, at some stage institutions will buy up shares that are worth the paper they are printed on."

Earlier this year in his annual address, De Kock referred to the imbalance in the SA economy with share prices soaring while the real sector remained stagnant.

On that occasion he said: "Money is chasing paper in the financial markets instead of bricks, mortar and steel. The financial sector is experiencing high bold pressure while the real economy suffers from low blood pressure."

Yesterday he said: "I am grateful that we find ourselves in a position of strength which will enable us to cope with the present difficulties. The balance of payments is sound, interest rates low and reserves adequate."

He foresaw no change in monetary policy.

"At present we have an easy policy. Interest rates and rediscount rates at the discount window are low. There is an ample supply of liquidity.

"If this had occurred while we were applying a credit squeeze we might have eased up a little to accomodate the JSE, which is more or less what some other Western countries have done."

If the world economy slowed down it was obvious that present circumstances would have some impact. If confidence took a knock it could hold back the recovery at a time when there were encouraging signs.

However, there was little chance of the dollar rising and the average gold price for the present quarter would be higher than it had been for some time. He said he was pleased with a gold price of around $475.

He said historians would have difficulty pinpointing what had triggered off the present crash in world equity markets.

JSE cautious after 6-day, R80-billion share slide

AKG45 27/10/87 (58)

Finance Editor

THE Johannesburg Stock Exchange opened cautiously today after a six-day slide which has knocked more than R80-billion off the value of shares.

But possibly as a result of the improvement in share prices in Tokyo and Hong Kong today, selling pressure was light. Although blue chip mining financials and golds opened below last night's levels, buyers began to emerge and in early trading share prices gave the appearance of bouncing along the bottom.

De Beers, which dropped to 3 500c at the opening, later recovered to 3 625c, which was a drop of 35c from last night's close.

Anglo American, which had closed at 7 150c last night, dropped to 7 050c before recovering to 7 100c.

Share prices are back to February's levels.

In London today share prices also opened slightly higher but Reuter reported that investors were selling into early strength.

Share prices in Tokyo and Hong Kong recovered strongly this morning in spite of a sharp fall in US share prices last night.

The Hong Kong stock market, which lost 33 percent of its value in Monday's panic selloff, dropped a further 11 percent immediately after opening today but quickly rebounded well past its opening level.

The Tokyo stock market has fallen least of all the world's major markets, and brokers say this underlying strength was at the heart of today's rise.

In New York last night Wall Street suffered its second-worst points drop. The Dow Jones industrial average fell 157 points to 1 793 points, just 55 points above the close on "Black Monday" last week when the index fell 508 points.

Meanwhile, pressure is building up on America to take action. Businessmen and politicians in every country want a major signal that the US is ready to cut its huge trade deficit with a big tax increase.

● Gold traded at $474 an ounce in London today, down from last night's $476,40 New York close. The rand was quoted at 49,48 US cents.

● Stockbroker shot dead — page 4. Gold — page 20.

No recession, says De Kock

GM Tnifs 27/10/87

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By AUDREY D'ANGELO
Financial Editor

AS PRICES continued to plummet on international share markets, including the Johannesburg Stock Exchange yesterday, leading economists and Reserve Bank Governor Dr Gerhard de Kock dismissed suggestions that this was the beginning of a serious world recession.

Dr De Kock said that although equity investors were now poorer on paper than a few days ago, they were still "richer than two years ago". **(Full report — Page 8.)**

Professor Paul Sulcas, director of the University of Cape Town Graduate School of Business, said he saw the fall as a market correction.

"I think the JSE will fall a little more and then people will be tempted back," he said.

"We have been in a very strong bull (rising) market and share prices were unrealistic in terms of yields and earnings.

"I hope people will see that this is a correction and not the beginning of the end. I do not see this as the beginning of a world-wide recession."

Professor Attie de Vries, of the University of Stellenbosch Graduate School of Business, said he did not believe this was a repeat of 1929.

But it would be a setback to world economic growth, with lower prices for SA exports, he said.

On the JSE the all-gold index dropped 104 points to 1 903, compared with 2 007 on Friday.

Some quality gold shares dropped by as much as R16 a share.

But others were unchanged and the gold bullion price rose on international markets to close $4 higher on the day in London, at $476,25 an ounce in active trading.

The JSE overall index dropped 134 points to 2 127 and the industrial index 117 points to 1 712.

In the United States the gold price touched a high of about $480 an ounce at midday in response to aggressive buying just before the Wall Street opening, in anticipation of a further fall in share prices, but it dropped again on profit-taking.

TOTAL

day, October 27 1987

Traditional pattern of funds allocation 'distorted' (58) Bday 27/10/87

UBS launches further attack on life assurers

HELENA PATTEN

THE United Building Society, whose CE Piet Badenhorst recently criticised the life assurance industry in a sharply-worded address, has launched a further attack in its publication Economic Perspective.

It says more than 75% of the liabilities to households are now at life assurers and pension funds, constituting a serious distortion of the traditional pattern of the allocation of funds.

"SA desperately requires grass-root investments in order to stimulate economic growth and employment opportunities. Unfortunately recent history has proven such investments are seldom performed by the life assurers and pension funds on any significant scale, as they consider it too risky."

It says the detrimental impact of tax and inflation on personal savings has caused individuals either to abandon savings or turn largely to life assurers for investment products, virtually all of which enjoy some tax advantage.

"The average tax paid by life assurers as a percentage of their combined net operating surplus in respect of non-pension business (where income is defined to include premium income net of claims and other benefits paid) amounted to only 11% during the period 1980 to 1985, while building societies paid approximately 48%."

The publication says it is of the utmost importance for deposit-receiving institutions — which include the life assurers *de facto* — to receive equal treatment on a level battlefield.

"If life assurers were taxed along the same lines as building societies, the Treasury could reduce personal taxation by R1bn, implying a reallocation of sources that would boost sector investments more meaningfully."

no buyers," he says. "People are more vested since.

No selling yet in wake of JSE fall

(58) 8/8ON 27/10/87

Banks keep scrip against overdrafts

HELENA PATTEN

BANKS holding scrip as pledges against overdrafts for share purchases have not resorted to selling in the wake of the past week's 24% fall in the JSE overall index, bank spokesmen said yesterday.

The consensus was that rigorous lending criteria and a general minimum requirement of double cover — whereby borrowers have to finance at least as many shares as the bank and leave them in the latter's care as pledges — meant the JSE would have to fall by 50% before the situation became an issue.

Standard Bank's credit division GM Ian Gilbert said the bank did not readily sell up customers. "We would not sell scrip without consulting our clients."

He said in the 1969 crash, each case had been individually negotiated with the client and sometimes the bank had had to ride the storm with the client. "We lost nothing significant then."

First National Bank's centralised advances GM Jimmy Lane said the situation was not presently a problem. The bank was not drawing in overdrafts.

Nedbank MD Anton van der Merwe-Vance said the standard demand for double cover implied that unless the stock market fell 50%, the bank would suffer no ill effect.

Volkskas' credit GM Johan Lubbe said overdraft loans for share buying were granted only on a limited scale by Volkskas. "We don't lend solely for the buying of shares. We look at the overall financial position of an individual."

A city bank manager said the availability of new advances for share-buying was now limited, but existing clients' scrip was not being sold and no pressure was being placed on them to cut losses by selling.

Banks were, however, watching the situation closely, he said.

Argus 28/10/87

Shares gain on JSE, but world markets fragile

By DEREK TOMMEY, Finance Editor

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AFTER several days of falls, share prices on the Johannesburg Stock Exchange opened firmly today and by the end of the first two hours' trading many shares were showing gains. Some were showing gains of between eight and 30 percent, while only four shares were showing losses.

"We are getting far more buying orders than selling orders today," a Cape Town broker said.

"What is also encouraging is that they are all 'at best'. Clients are not specifying a price. They want the shares."

Other brokers also reported an increase in buying orders, though some said they thought it too early to start buying.

But the better values being offered — at today's prices investors are getting 30 percent increase in dividends than they were two weeks ago — has clearly encouraged bargain-hunting.

Among the early gains were New Wits, up 200c to 3700c, Sappi up 25c to 2200c, Elcentre up 50c to 325c, Messina up 200c to 1400c, M&R up 150c to 1350c, Sasol, up 115c to 1100c, Leslie up 65c to 700c, Rusplats up 100c to 3900c and Barlows up 100c to 2200c, Joel up 100c to 1850c, Freddev up 50c to 1950c, Lefko up 50c to 1250c, and Western Areas up 50c to 1700c.

Shares of two building societies, Allied and UBS, also improved. This was possibly in response to comment on TV1 last night when a broker suggested that they were "good buys".

But investor confidence worldwide is still fragile.

HOPES DASHED

Hopes that the major share markets would recover strongly today after the dramatic falls of the past week were dashed by a sharp drop in share prices on the Tokyo Stock Exchange, the world's biggest share market.

But the volatile Hong Kong market was exuberant and prices were sharply higher in early trading, reports Sapa-Reuter.

In New York last night the Dow Jones industrial share average rose 52 points to 1 846, to recover a third of the 156 points lost on Monday.

But the advance was narrow. For every nine shares showing gains, eight showed losses.

Share prices on the Johannesburg Stock Exchange closed lower yesterday, some industrial shares showing huge losses.

But gold shares showed greater resistance.

As markets start to recover . . .

Reagan says crash is 'a warning'

B/day 24/10/87

CHERILYN IRETON

US PRESIDENT Ronald Reagan, calling the drop in stock markets a warning of potential economic danger, yesterday called for bipartisan efforts to reduce the US budget deficit.

His call came as stock markets around the world showed faint signs of stabilising — despite another drop in the dollar to DM1,7593 from DM1,7730 — a seven-year low against that currency.

Analysts expected the dollar to fall further if the US were to boost exports and cut the budget deficit.

At midday, Wall Street showed signs of firming with the Dow Jones index up 26,86 points to 1 820,79. However, most of the early gains were eroded as shares fell with the dollar, which received no central bank support.

AP-DJ reports that in London share prices ended higher, but well off their peaks, yesterday after a thinly traded but volatile day.

The market swung back and forth as it responded positively to gains made on the Hong Kong, Tokyo and New York stock markets, but was held back by signs that the British government planned to go ahead with the £7,2bn BP issue.

The FT-SE 100-share index ended up 19,2 points at 1 703,3.

Earlier in the day, overseas stock exchanges gave promising signals with the Japanese and Hong Kong exchanges surging.

Sapa-AP reports that Tokyo's 225-share Nikkei stock average regained more than half its steep loss from yesterday, rising 632,40 points or about 2,9% to close at 22 834,96. It was the index's third-largest single-day gain ever.

The index had dropped 1 096,22 points, or 4,7% of its value yesterday.

Share prices on the Hong Kong Stock Exchange tumbled, then recovered sharply as the government and banks announced new measures to prop up the market.

The Hong Kong market's prime gauge of blue chips, the Hang Seng index, closed at 2 395,72 — a gain of 154,03 points or nearly 7% from yesterday's close of 2 241,69.

The index had declined to 2 118 within 40 minutes of morning trading and, at

● To Page 2

Markets start to recover

● From Page 1

one point, was down to 1 980.

In Europe, share prices dropped an average 2% in early trading on the Milan market after an initial rally.

And the Australian market continued its downward plunge, dropping 7% by yesterday's close.

The all-ordinary shares index, the broadest indicator of the market, slid 91,9 points to close at 1 323,1, after falling to 1 300,3 in the first hour of trade. The index closed yesterday at 1 414.

Share prices fell on Taiwan's stock market in thin trading, despite new government measures to stabilise activity.

The average stock index dropped 57,98 points, closing at 2 836,92 points.

Prices on Thailand's exchange also continued falling. The exchange's 100-share index fell 31,50 points to close at 336,68, the second steepest fall ever.

CAPE TIMES 28/10/87 L

58

Buyers move back into share markets

By AUDREY D'ANGELO
Financial Editor

BUYERS were moving back into international share markets yesterday and although there is still some nervousness, the panic of the past few days seems to have subsided.

On Wall Street, where the fall began two weeks ago, the Dow Jones index of leading industrial shares rose 52 points, to close at 1 846.

This followed a day when Tokyo Stock Exchange — the biggest in the world — rose 2,8% and London and most Continental European markets firmed. The recently battered Hong Kong Stock Exchange rose by 7%.

Prices fell on the Johannesburg Stock Exchange (JSE), although there were signs of returning confidence towards the end of the trading session. The all-gold index was 53 points lower near the close at 1 849. The overall index was 65 points lower at 2 0572,75.

Cape Town stockbrokers and investment analysts said they expected to see more buying by the institutions now that quality shares, which had been over-priced two weeks ago, offered good value.

● Shares dip again — Page 12

(58) Sunday 28/10/87

Share prices recover on JSE today

JOHANNESBURG — Share prices were higher at midday on the Johannesburg Stock Exchange with interest by foreign buyers in gold investments contributing to the rise, dealers said.

Issues, recovering from yesterday's losses, were higher almost across the board at noon.

Dealers said it was too early to say if a broad recovery was under way.

The market remains on a shortened trading day of 5½ hours. Yesterday, the overall index finished 58 points lower at 2 064 after dropping 139 points on Monday.

"It's still too early to say if this is an indication that the market is recovering but dealers are still awaiting fresh overseas leads," a dealer added.

In London today, share prices were lower in early business.

However, they showed signs of rallying after news that Japan's Economic Planning Minister said his country was willing to boost its economy should US growth stall after the recent world share market collapse, dealers said.

Prices were marked down in earliest trades with investors unimpressed by Wall Street's higher close overnight and the loss of early sharp gains in Tokyo and Hong Kong.

Stock prices in both Tokyo and Hong Kong rose strongly and then fell just as quickly today as investor confidence wavered.

Tokyo's 225-share index closed 257,43 points down at 22 577,53, well off the morning peak. Brokers said rumours that the US dollar would be allowed to slide below current levels were largely to blame.

The volatile Hong Kong stock market, which dived 33% in value on Monday, looked strong for most of the morning then fell sharply. It ended down 29,09 points at 2 366,63, according to preliminary figures.

In Tokyo, brokers said the early rise was boosted by gains yesterday in New York and London. But a rumour in the afternoon that the Louvre agreement on currency stability would be scrapped helped to wipe out the gains.

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Business Report

CAPE TIMES 29/10/87

JSE stages first rally since Oct 19

JOHANNESBURG. — The Johannesburg Stock Exchange staged a mild rally yesterday with prices rising for the first time since October 19, led by good gains in the industrial sector.

"Possibly, the market has found the intermediate-term bottom it's looking for," commented analyst Paul Gray at Frankel Kruger Inc in Johannesburg.

The All Gold Index near the close was up 54 points or 2,7%, while industrials climbed 107 points or 6,5%.

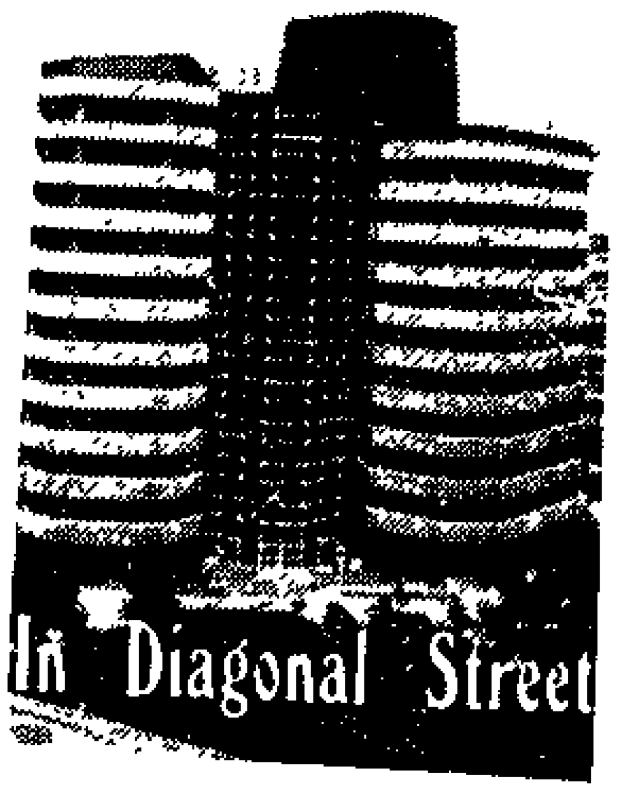
Gray said individual investors were the dominant buyers as the market followed the advances on Wall Street.

"It was 'sell' at any cost on Tuesday in the industrials but they bounced back yesterday," he said.

Gray said there was evidence of some institutional selling amid the rally.

"The psychology is very volatile. The professionals are just standing back waiting to see what leads the overseas markets provide," he said.

In golds, heavyweight Vaal Reefs closed R15 higher at R383, after opening R18 down to R368. Southvaal gained



In Diagonal Street

R10 to R186. Randfontein and Western Deep both were R5 higher at R355 and R165 respectively.

Lightweight Leslie was 65c higher at R7 and Harties gained 75c to R26,25 but Kinross lost R1 at R61 and Libanon was 1,50 down to R74,50.

In platinums Lefko and Rustenburg both gained R1 to R13 and R39 respectively and Lydenburg was R2 higher at R38.

De Beers was down R1,50 to R35,50 after a high of R37,25.

In other minings Samanco was 25c higher at R8,25, Vansa Vanadium up R1 to R6 and PGA up 80c to R6.

Mining financial leader Anglos gained R3 to R74. Amgold and Gencor also rose R3 to R50 and R63 respectively.

In mining exploration Freddev gained R3 to R22, Randex was R1 higher at R5,10 and Rhombus was 75c higher at R5,60.

In the Industrials, Barlows was R1,50 higher at R22,50 and Messina up R2,50 to R14,50.

Anglo Vaal Industrial jumped R7,50 to R38 and Safren was R2 higher at R25.

The Overall Index rose to 2 134 from Tuesday's 2 064. The Industrials Index finished at 1 758 and All Gold Index at 1 908.

● Capital market rates closed lower yesterday, as the gold price traded above $479, dealers said.

The Escom 11% 2 008 closed lower at 15,30% against Tuesday's 15,33% and the RSA 13% 2 005 at 15,32% against 15,34%.

Stocks at the short-end had the SATS 7,5% 2 004 slightly lower at 15,22% from 15,28% on Tuesday, and the SATS 12,5% 2 006 at 12,11% against Tuesday's 12.16%, dealers added.

Tuesday's volume was about R782m. — Sapa-Reuter.

Selling frenzy eases as JSE prices rally

29/10/87 DD

Daily Dispatch Correspondent

JOHANNESBURG — Led by a dramatic recovery in industrials, share prices rallied across the board on the Johannesburg Stock Exchange yesterday to halt the downward trend of the past week.

The JSE industrial index shot up 112 points (6,8 per cent) to 1 763 but the sharp rises in share prices came on small volume as individual investors re-entered the market.

While dealers believe the wave of frenzied selling is now over, they were cautious about the strength of the upturn as a falling dollar put a damper on global stock markets.

Gold shares were bolstered by a firmer gold price and a softer financial rand and the all gold index climbed 54 points (2,8 per cent) to 1 907.

However, the JSE overall index gave up 16 points of its early rise to close 3,4 per cent up at 2 133.

The decline came towards the close of trading on foreign selling of arbitrage stocks such as De Beers and Anglos on the justified expectation that Wall Street would open lower.

Stock prices closed lower yesterday in Tokyo and Hong Kong and fell in European trading, as investors worldwide watched to see whether Tuesday's advances in Europe and America would be duplicated.

The decline in overseas markets spilled over into Wall Street, where stocks plunged at the opening. The market later recovered smartly but then wavered uncertainly, with the Dow Jones average of 30 industrial stocks up a meagre 0,33 points to 1 846,82 at the close of its abbreviated session. The market as a whole showed a preponderance of losses.

In Tokyo, the 225-stock Nikkei average, which posted a 632,40-point gain on Tuesday, lost more than a third of that increase yesterday.

Traders attributed the downturn to general nervousness about the market, and to a weaker dollar exchange rate yesterday.

In afternoon New York trading, the dollar fell to 1,7360 West German marks, from 1,7565 marks on Tuesday.

Cape Times 29/10/87 (58)

JSE enjoys share-price boost

PRICES rose on the Johannesburg Stock Exchange (JSE) yesterday for the first time since Monday, October 19, with overseas investors among those who bought quality gold shares.

The all-gold index was up 54 points near the close, the industrial index was up 107 points and the overall index up 70 points.

Quality gold shares gained as much as R15 on the day and industrials as much as R7,50.

The Dow Jones index of leading US industrial shares closed fractionally higher. But for every share closing higher, two closed lower.

● See Page 9

Div raised after 4 stagnant years

CAPE TIMES 29/10/87 58 209

FNB profits soar to R185m

From HAROLD FRIDJHON

JOHANNESBURG. — First National Bank (FNB), flying high under its new name and banner, produced excellent results for the year to September 30 1987. Attributable profit is 29% higher at a record R184,6m, with dividends raised to 105c from 95c after four stagnant years.

Net income for the previous nine-month accounting period was R107m which annualized is equivalent to R143,1m. All relevant comparative figures have also been annualised.

Earnings a share last year were 254,6c compared with 197,3c and dividend cover, including that for the preferred ordinaries, has risen from 1,8 times to 2,2 times, the highest for four years.

Return on shareholders funds has increased to 20,5% from 15,8% and the return on total assets has improved from 0,76% to 0,90%.

Total assets have expanded by 13,1% to R20,6 billion from R18,2 billion. The acquisition of the local operation of Citibank, renamed to FirstCorp, accounted for just under R1 billion of this increase, the balance being generated by the rest of the group during a year not entirely conducive to growth in the banking industry.

First National does not include contingencies such as guarantees, acceptances and credits in its assets.

Deposits up

Deposits were 12,7% higher at R18,4 billion, while total advances gained 15,2% to R16,6 billion from R14,45 billion. Advances to customers rose to R11,3 billion from R9,8 billion, home loans were 47% higher at R1,43 billion (and still rising fast, said MD Chris Ball yesterday) and installment credit loans improved by 6,2% to R4,18 billion from R3,93 billion.

Net imcome before tax jumped 25,3% to R301,9m from R240,9m (annualised), as doubtful debt provisions reduced to R128,7m from R190,7m largely because of sharply lower provisions for specific doubtful debts . (Ball said that none of these debts exceeded R2m). Better asset management earned an improved interest turn and operating costs were tightly controlled.

Bottom line profits after tax and before extraordinary items was R184,6m, 29% higher than the previous R143,1m (annualised), including R23,2m being share of income from associated companies, principally from Southern Life.

Extraordinary items accounted for a debit of R106,6m and consisted largely of writing off R117,6m goodwill, rising from the acquisition of FirstCorp which had been bought on a ten times earning basis..

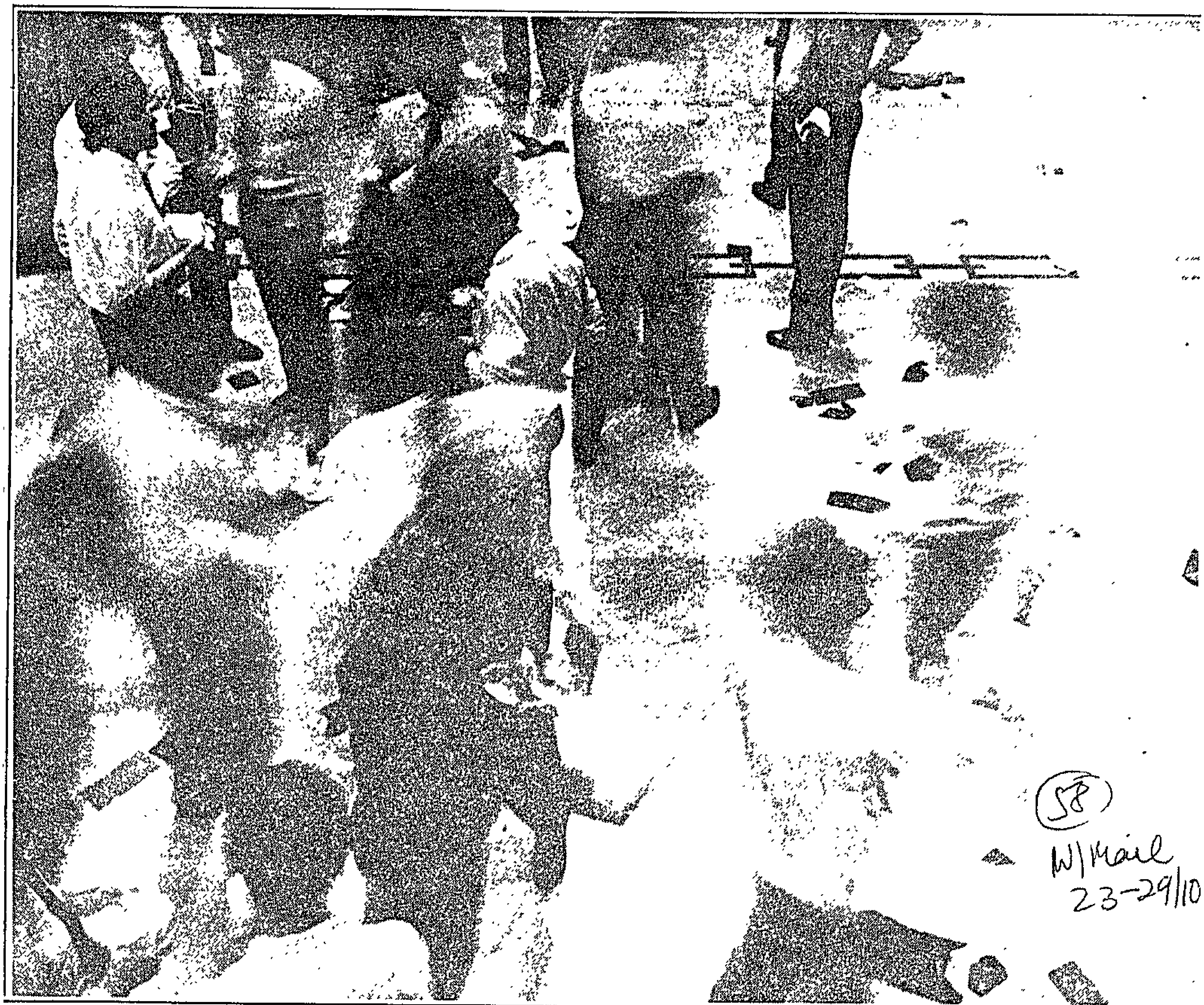
Ball said that all subsidiaries contributed to the groups improved profit performance.

The commercial bank's net revenue was 11,1% higher at R121,8m. Western Bank maintained its leadership in the "wheels" market in spite of intensive competition and earned a net R40,2m, a 31,2% improvement, partly from a sharp reductioin in bad debt provisions and partly from an improved interest rate turn.

The Industrial Bank's profits were 75,5% higher at R11,7m and the merchant bank's contribution rose by 52,2% to R5,5m.

Newly formed Persam which absorbed the former Trustee Divisison had a profitable year, Ball said, and so did FirstCard which earned its first profit.

At present First National has surplus capital amounting to R223m which was adequate to meet the requirements of the Banks Act. But Ball warned that one could not foresee what might be required in the future.



(58)

W/Mail 23-29/10/8

on oil depot heats Gulf tensions

inside Kuwaiti waters last

issile strike on Friday hit one ankers Kuwait recently re- under the Stars and Stripes to Navy protection. Eighteen n, including the American were injured.

owned supertanker was hit revious day, causing minor The missiles in both instanc- fired from Iran-held territory. acks provoked the US into ry action on Monday this week when four US destroyers bombarded an oil platform in Iran's *Rostam* offshore field and sent special forces to raid a second nearby platform, destroying equipment.

"It is not going to impress Khomeini," said one senior Arab diplomat after the attack. "The Gulf is like a bull ring. All the Americans are doing is sticking pins into a bull and that makes the bull madder."

Iran's leaders swiftly vowed revenge and undertook it on the Kuwaiti terminal undeterred by warnings that further attacks would bring a tougher response.

Asked if the US was prepared for a major war with Iran, Weinberger said: "Well, we are prepared I think for whatever eventualities emerge from this situation, but we don't look on it as war."

Meanwhile, Lebanon's pro-Iranian Jihad (Holy War) organisation threatened yesterday to launch attacks against the US and Europe and said Muslims were preparing for suicide missions. — Sapa/AP

The JSE joined in the world-wide financial panic this week after the Dow Jones index in Wall Street crashed by 500 points in a single day. When gold failed to cushion the blow, frenzied activity spread through Diagonal Street. New York Stock Exchange chairman John Phelan described the crash as "the nearest thing to a meltdown I ever want to see".

Picture: ERIC MILLER, Afrapix

The contents of this newspaper have been restricted in terms of the Emergency Regulations

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THE ECONOMY

Wall Street falters and young bulls age in a morning

When world stockmarkets wobble, South African traders smile contentedly behind their battlements of gold and exchange controls. But not this week. By HILARY JOFFE

ONE investment manager explained the crisis this way: "The stock exchange is performing its traditional function of turning young men grey and old men bald."

The Johannesburg Stock Exchange had managed to disappoint even its optimists, who predicted that South Africa would be insulated from the world market tidal waves by gold, exchange controls and the cautious behaviour of our financial institutions.

Instead, paper fortunes were lost in Johannesburg as share prices plummeted following the Wall Street crash.

It was mainly the "man in the street", as brokers put it, who was offloading his/her shares as a record 19,6-million shares were traded on the JSE on Tuesday, cutting more than R42-billion from the total value of shares listed on the exchange.

The big investors, the financial institutions such as the life assurance companies, were reported not to be doing much selling: if anything they were picking up shares at bargain prices, according to some brokers. For the most part, though, they were apparently standing by and adopting a wait and see attitude.

But the nervous selling by smaller investors took the JSE all market index, which reflects share prices across the market, down by 11,7 percent on Tuesday and almost two percent further down on Wednesday, despite a surge in buying as the market opened on Wednesday morning.

Prices of all shares fell, though those of the more solid "blue chip" companies fell by lesser percentages than those of the more "speculative" stocks such as those in mining exploration, electronics and in the Development Capital Market.

The early optimism of some observers that South Africa would cash in on the crisis on world stockmarkets via a soaring gold price were dashed. They had expected gold to play its traditional role of "safe haven" in times of world economic instability — but while the gold price went up to $481 on Monday morning it dropped again to the mid-$460s, only slightly higher than last week.

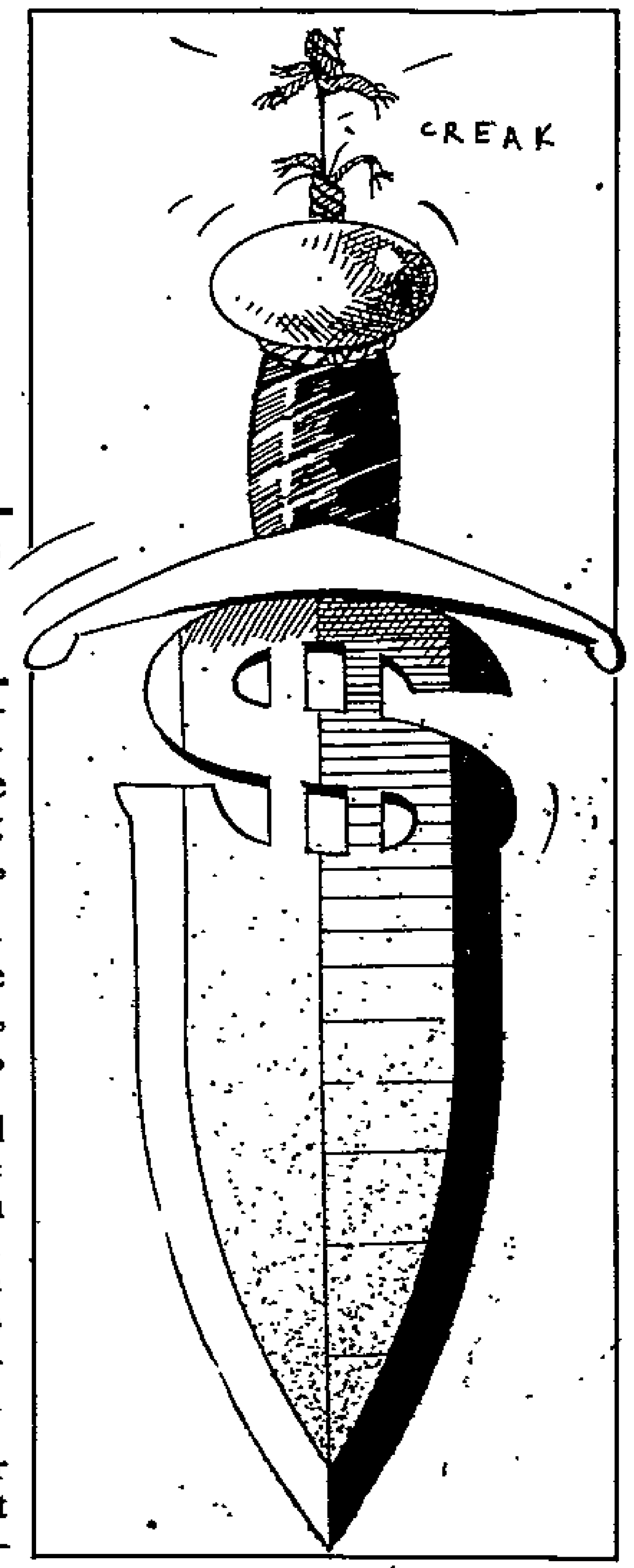
And early reports of battered foreign investors staggering onto the safer stock market in Johannesburg, bringing their money with them, proved too optimistic.

Opinions are divided as to what will happen next. Some argue that while prices will continue to drop for a while the market will go up again. Others are treating any short term rise in share prices as an opportunity to sell and get out for good, on the assumption that the long term trend will be downwards.

But whatever happens in the paper trade on the JSE the question is what happens in the real economy. It's become commonplace in South Africa to point to the apparent paradox of a stock exchange daily reaching new highs while the economy is only stumbling along.

Economists are now forecasting a two percent economic growth rate for this year — having revised their estimates downwards. Although the latest inflation figure is 15,5 percent for September, the average for this year is likely to be around 17 percent. Unemployment is estimated by the President's Council at 3,3-million.

And while investors have been pouring money into the stock exchange and making profits, there has been little investment in new fixed assets. Gross domestic fixed investment for the second quarter of this year was four percent down in real terms on the first quarter — and 25 percent lower than the level in the



second quarter of 1984.

But the paradox is not so mysterious: the lack of real investment and the boom in paper investment go together in important ways. Lack of confidence is the link.

"This is a political market," said one stockbroker of the JSE.

Investors are uncertain about the future and rather than commit their money to long term projects they use it to buy shares, which can be sold more easily than factories. Investors are staying liquid.

But the boom has not been a straightforward result of uncertainty about the political future.

From the viewpoint of the big investors, the alternatives to equity, or stockmarket, investment have not looked appealing for economic and political reasons. Investment fund managers are hesitant about investment in commercial and industria property, which is not expected to b that good a bet until the economi growth rate picks up. South Africa' interest rates are running below th rate of inflation — so putting mone in the bank, or in the financial institu tions, does not yield good returns.

Which leaves shares, specificall shares traded on the JSE, since Sout African investors are prevented b exchange control regulations fro trading on world stockmarkets. An so a lot of money has been chasin limited paper.

From the viewpoint of smaller i vestors — once the market's boom ing why not gamble to win. Priva individuals investing relatively sm sums have increasingly bought in the market. And they are the mo volatile part of it — as this week developments proved.

And the boom meant large paper profits, too, for the more than 120 companies newly listed on the JSE already this year. Not that these companies were necessarily going to the stockmarket to raise new capital which they would put into more fixed investment. Much of the capital raised from institutions and the public by newly listed companies has simply replaced bank borrowing on their balance sheets.

But what are its likely implications for the South African economy?

The crash in world stockmarkets hasn't come as a surprise to Azar Jammine, chief economist of Econometrix, who says he has been predicting it for more than a year. He has also been arguing that our market is overpriced.

But, he says, the downturn in the stockmarket is not necessarily disastrous for the economy. It could be good for property — and "investors might switch and start buying goods and services for a change".

In contrast to markets overseas, where there has been a lot of share buying with borrowed funds, Jammine says South Africans had been buying for cash. As a result the banking system is not threatened here the way it is overseas. In the short term, he argues, there's not much cause for panic — and lots of people will still have made profits on the stock market. In the longer term, however, if what's happened on Wall Street is the prelude to a world depression, "South Africa will not be left untouched". And Jammine is pessimistic about the world economy, arguing that this week's events could have far reaching effects.

The world recession which should have happened in 1985, has been prevented by an expansionary monetary policy on the part of the US government, which in the process has destroyed the capital base, Jammine argues. "But you can't create economic activity out of thin air by printing money," he says. It was too early.

insulted to some extent by gold, he said.

Most economists say the drama on the stockmarkets will not seriously affect the real economy in South Africa in the short term. It's unlikely that the financial system will suffer. And in the shorter term it is possible, some argued this week, that the crisis on world markets could be good for precious metals, which could boost the South African economy.

Once again, opinions are divided as to the likelihood of world recession. But if, as seems likely, a downturn in the world economy is on the cards in the longer term, it would have adverse consequences here too. As one economist said: "In the longer run if the world isn't well then South Africa can't be well. We're just a small part of a bigger international scene."

Why the roof blew off the world

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"The economic fundamentals in this country remain sound and our citizens should not panic": Ronald Reagan on the Wall Street crash.

"I think Americans have to realise that the kind of economic policy that we're conducting means that over an eight or 10 year period, we're not going to have the history of 'every day in every way we're getting better and better' that we've had in the past": Robert Solow, winner of 1987 Nobel Prize for economic sciences.

AFTER the event, it was easy for observers of world stockmarkets to say that they had predicted the crash. Many economists had said the stock exchanges of New York, London, Tokyo and other cities were "overheated", "overbought" and due for a breather after a five year boom when the value of shares in New York, for example, had tripled.

Perhaps no-one could have predicted the extent of what New York Stock Exchange chairman John Phelan described as "the nearest thing to a meltdown that I ever want to see".

The Dow Jones industrial index, a measure of share prices on the NYSE in Wall Street, plummeted by 22,6 percent on Monday: a drop almost double that of the Wall Street crash in October 1929 which heralded the Great Depression of the Thirties.

The panic in New York had a domino effect on world stock markets, with London prices as reflected in the Financial Times index down by 13 percent on Monday, Tokyo down and the Hong Kong stock exchange closed to prevent panic selling.

One difference between 1987 and 1929 is people now make only some of the decisions: the computers' panicked. They are programmed to sell shares on behalf of some investors if the Dow Jones index drops by a certain amount. A drop in the index sets

● Continued overleaf

P.T.O.

INSURANCE ACCOUNTING

Wheel of fortune

When AA Mutual Insurance (AAMI) ceased trading on May 26 1986, 600 000 policyholders were sent scrambling for replacement cover. While some were caught in the middle of submitting claims, many more lost substantial sums on unexpired premiums.

Blame was cast in several directions. One group that drew much flak was insurance brokers. Why did they encourage people to buy policies from AAMI? Didn't they see the crash coming?

The authorities were also blamed for failing to appreciate the warning signs, while insureds were blamed for switching to AAMI simply to save on premiums.

Clearly, ignorance played no small part. Few people understand insurance company accounting and would probably fall into similar traps again.

But the loss of AAMI at least started the ball rolling, so to speak, in tightening up monitoring of insurers. It also encouraged insurance brokers to take a greater interest in insurers' financial affairs.

One way to start the journey into the mysterious world of insurance finances has been provided by Quest Insurance Advisory Service. Called the "Q Wheel," it amounts to a wheel enclosed in a glossy two-card report showing key financial statistics for 1986 of the major 19 direct general insurers. ACA (previously Atlantic & Continental) is

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excluded since its short-term premium was minimal.

Taking Aegis as an example, for the year to December 1986, it brought in gross premium income of some R155,6m, giving it 5% of the market. Net premium income was only 4,3% of the market, suggesting that it reinsured more than average; that is, took on less risk, relatively speaking, for its own account.

Acquisition costs are shown, indicating efficiency and how much of premiums goes to expenses. Solvency margins, investment income, and reserves are also shown and explained.

It's not so much an accountants' analysis, but at least the at-a-glance card is a simple start for brokers and anyone who feels that an insurer's financial position is as important as his premium rating. ■

THE JSE

Not just a bad dream

(58)

Despite the trauma, there are some opportunities for the serious investor. It still remains to be seen if — and at what level — heavy institutional buying could salvage the fall. Meanwhile, prospective listings are feeling the cold.

For thousands of stock market players the events of the past 10 days have hammered home harsh lessons. Myths have crumbled and a lot of boots have been lost by small investors, particularly speculators who blithely continued to chase the quick buck.

Stockbroking firms and institutional fund managers certainly warned often during this year that the JSE was fundamentally expensive. About three weeks ago we were told that a large broking firm had been calling clients and recommending that they sell their equity portfolios. If that is true, the firm deserves accolades for courage.

Few were prepared to look critically at the conventional wisdom which maintained that the JSE works in a virtual vacuum, insulated from other world market and economic trends, and that institutional cash flows would prevent any large-scale downturn in share prices. A correction was certainly forecast, but these predictions were usually in terms of a 10%-15% fall. On October 19, when Wall Street's Dow Jones fell by 508 points, gold shares rose on Diagonal Street, where the JSE Actuaries All Gold index closed at 2 429, within a whisker of the all-time high of 2 499 set on August 3. The All Gold index was then 21% higher than the January 5 record level of 2 013.

Major shock

In just six trading days the index slumped by 25,9%, reaching 1 851 on Tuesday. The industrial index also reached an all-time high on October 19, when it closed at 2 265 — 60% higher than the January 5 level of 1 434. On Tuesday the index fell to 1 643, having shed 622 points or 27,5%.

A drop of this magnitude in a week, triggered the day after world stock markets nosedived, does not square with the notion that the JSE can remain insulated from economic and market trends abroad. It's happened, and the shares are down. As Sanlam investment GM Ron Masson says: "You cannot hope to wake up in a few weeks and believe this was all a bad dream."

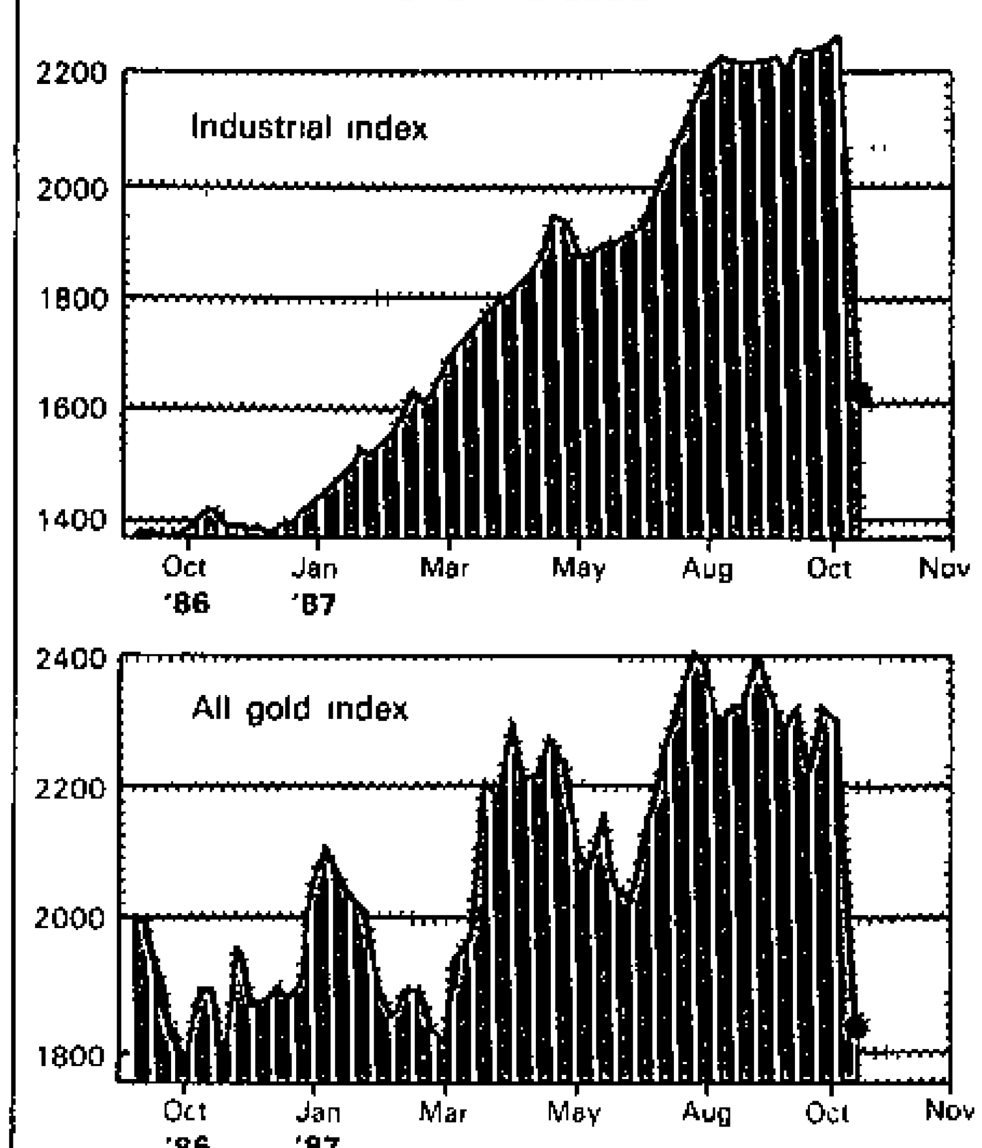
"One of the lessons to come out of this is that the market was dangerously overheated. It only required a small crack to cause panic selling," says Fergusson Bros Hall Stewart's William Bowler. "You have got to respect the mood of the market."

It is true that many economic and investment fundamentals have not changed. At US$474/oz, the gold price remains encouraging, although so far doing little for those who have pinned their hopes on bullion. In the past week the rand gold price moved above R960/oz, close to the highest levels this year. Company profits should keep growing, with annualised figures forecast at about 20%-25% for those reporting over the next few months. In contrast to 1969, the local economy is just beginning to move up.

But this is only part of the story. The psychology of the market has changed radically: sentiment is driving the market downwards, and few professionals are willing to predict how much further it will fall. They are nervous about the global economy, and implications for SA. Institutions have largely remained sidelined; but prices could fall until they become solid buyers. There is nothing to stop the institutions from building up liquidity — or finding other investments — for many weeks or months if they think that continued sales by small investors will push prices lower.

A number of institutional fund managers say that some shares already offer excellent value. By the criteria applied earlier this year, heavyweight stocks such as Barlow Rand, Amic, Remgro, Sasol, AECI, and SA Brews must be cheap — all 30%-42% off peak. These six stocks, incidentally, collectively comprise as much as 50% of the industrial index, so if they recover they could influence the rest of the market. But criteria have changed: the shares may have been rerated down to levels where they will stay for some time.

Free fall



Source: JSE Graphics

Masson says institutions may be tempted to bid for stocks at lower prices, but while the weakness continues they would probably be low-volume buyers, bidding for only part of the stock they actually want. Once they start nibbling, though, they could help to stabilise the market. Southern Life investment GM John Scott doubts that the institutions will be able to remain sidelined indefinitely. "I cannot believe we will see a return to significantly higher dividend yields," he says. Already the average yield on industrial shares has climbed back to nearly 4%, and the yield on gold shares to about 5%; at the beginning of July the figures were 2,7% and 4,4%.

Clearly bluechips stand the best chance among industrials of making a comeback. But even small, newly listed shares could recover. "Virtually all the institutions have been holders of these shares and could come in and buy more cheaply," says Martin & Co's Winston Floquet. "Some of them are very good little companies."

Boom on ice

Many of the new stocks are now trading below issue price. Even highly rated mining issues have plunged. So the seemingly endless listings boom is bound to go onto the back-burner, at least until the market stabilises; it may come to an abrupt end next year.

Those whose prospectuses have been issued and whose listings are underwritten probably have little option but to go ahead. Several which were due to be listed soon, including Seardec, Umgeni Foods, Mieliekip and SA Bias Binding, have delayed the listing dates.

Most merchant banks tell us they are watching the receptions being given to new listings before advising companies on whether to stick to listing schedules. JSE listings manager Doug Gair says that if present conditions continue, a lot of companies still in the early stages of preparing for listings could withdraw. If so, that could mean an end to the listings gravy train for bankers, brokers, PR firms and media.

The shake-out of world markets will have other repercussions. Wall Street broking firms had already been retrenching staff in recent months, and the trend could spread to countries such as Australia and Britain. It is virtually certain that emigration from the investment community will wind down.

What should investors do now? There is no glib answer: a lot depends on when shares were bought and why. Anybody who has held shares for years is probably justified in retaining them as long-term investments. Those who came into the market recently as short-term players may continue taking profits. After falling more than 25%, the market is likely to rebound soon, but that could trigger a new wave of selling before there is renewed support. Investors should be prepared to see volatility for some time.

Those who do buy in the next few weeks should stick to quality shares, particularly golds.

Andrew McNulty

■ See *Economy*

THE CRASH OF '87 — 1

Guilty men and consequences

While Black Monday is being blamed on a variety of factors, the underlying cause was inadequate policy management at the US Federal Reserve and Treasury. Now the dangerous instability of the American deficits will ripple out into the world economy.

After the fall, in a normal parliamentary democracy, both Alan Greenspan and James Baker would be driven from office for their actions leading up to the international stock market convulsion of the last fortnight. Indeed Ronald Reagan himself might then face a vote of no confidence before the US Congress instead of facing it on the trading floors of the world's stock exchanges.

For, make no mistake about it, it was no eccentric stock market analyst or the villainies of computer-driven program trading that caused investors all over the world to bail out of equities. The long-overdue repudiation of the American government's failed economic policies raises much more serious problems.

For one thing, it is not now just the failed policies of Washington that threaten the world, it is the character of the American government over the next 14 months or so that is at issue.

While comparisons are odious, can one envision the late Arthur Burns or Paul Volcker sending such a barrage of mixed signals on US inflation and interest rate prospects to the world audience?

And what is to be done about a US Treasury that is capable of disasters such as the Netherlands Antilles tax decision, not to mention such press gallery pleasers as the "Baker Plan" on Third World debt, the "Plaza Hotel Agreement," the "Louvre Accord," and, most recently, the "Son of Baker Plan" — the golden basket of commodities prices?

The real threat posed by the situation in Washington is that the Reagan administration is in a deadlock with the congressional Democrats over economic policy for the simple reason that that issue appears to be the one that most concerns voters in these opening weeks of the 1988 presidential campaign. And the deadlock is not over how to best reduce the US$155 billion budget deficit (and tandem $168 billion trade deficit) but whether to make cuts in the Pentagon budget or to raise taxes, with both sides dug in behind their respective positions.

One conclusion is inescapable. While the stock market sell-off was probably inevitable, it need not have been so destructively violent if it had not been for the inexperience of the Greenspan and Baker team and their staffs in the ways of the global economic arena.

Another point is that the US government now appears locked into a set of policy responses which may prove more dangerous than the disease it is trying to cure. For, having abandoned the historic policy of monetary restraint, the Federal Reserve is now guaranteeing that the money supply creation machinery is about to give the American economy a hypodermic full of liquidity which will, a few months hence, turn into a spike of hyperinflation just as surely as a carelessly excessive injection of glucose turns insulin shock into diabetic shock.

And on the fiscal side, Baker's Treasury is about to slam on the brakes — via its agreeing to a tax increase this year — that could return the US to the good old days of Jimmy Carter-style stop-and-go economic performance.

How quickly one misses the firm hand of Paul Volcker.

It is not overstating the case to argue that in the days of the Volcker (or Burns) Fed chairmanship, it is unlikely that we would have had the Central Bank making the same technically orthodox but politically confusing moves this autumn that the new Fed chairman and his relatively inexperienced board of governors did.

A case in point was the September Fed decision to raise the discount rate to 6%. The Fed at the time said the move "reflects the intent of the Federal Reserve to deal effectively and in a timely way with *potential* inflationary pressures."

Foreign money market analysts took Greenspan and his advisers at their word: inflation was on its way up, and so were US interest rates.

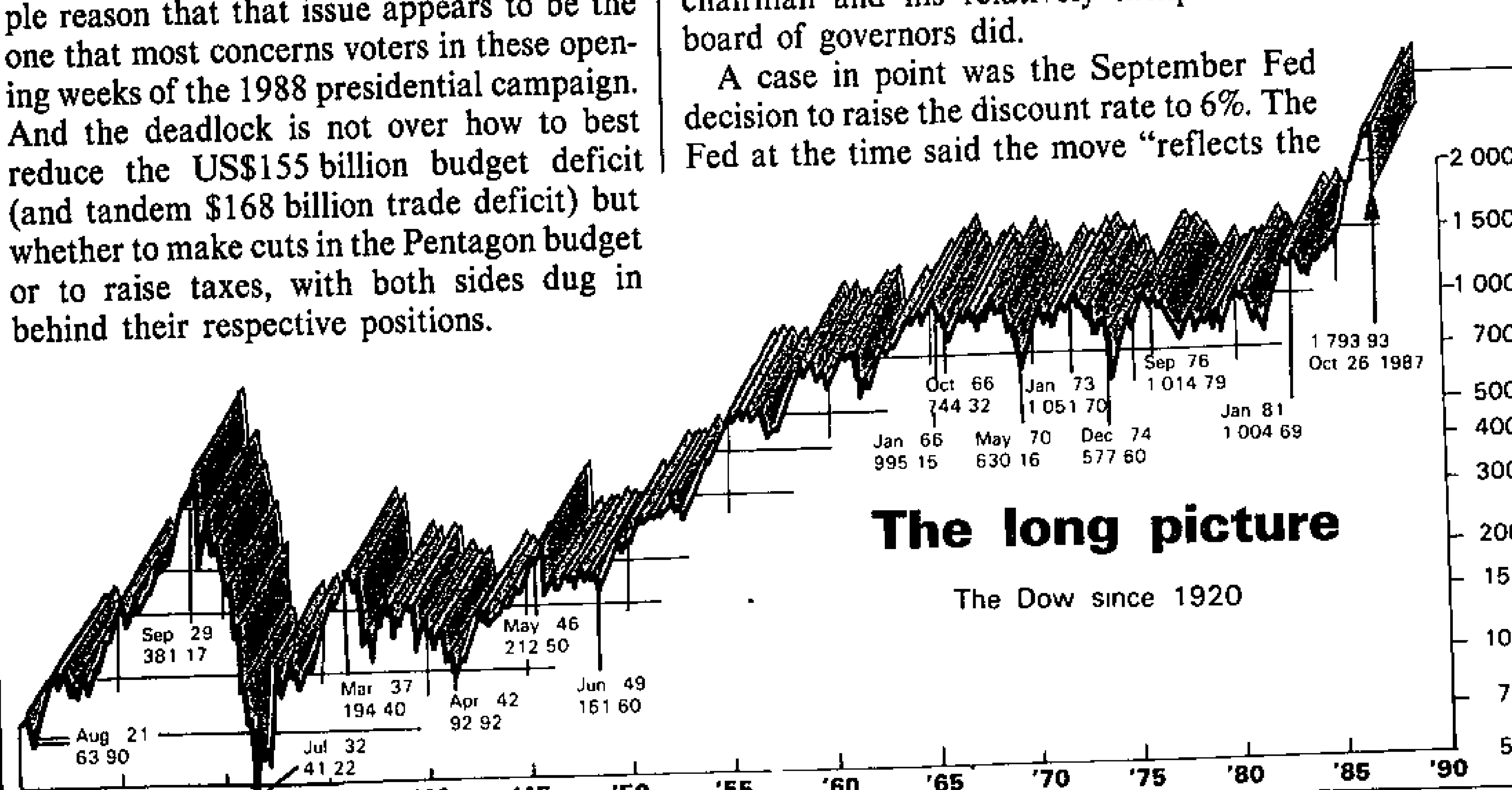
But that was not necessarily the case. Later, Fed spokesmen (including Greenspan in a number of interviews) took pains to justify the discount rate hike as being merely a technical adjustment that reflected the earlier upward move in money market interest rates. The Fed was merely catching up with reality, the argument went. It was *not* a signal that Greenspan anticipated rates would go still higher later this autumn.

Yet that is exactly the interpretation that foreign money market analysts gave the Fed action. Their view was ratified in their minds when the US trade deficits did not narrow by anywhere near the amount that they should have. Nor was there any evidence to dispel the fear that the continued flood of imports would not fuel an inflationary run of economic expansion that would, in turn, further devalue the dollar without doing anything more about the American deficits. Foreigners, tired of financing America's excesses, saw the Fed's actions as confirmation of their worst fears and made adjustments accordingly.

The end result was that the Greenspan Fed gave an interest rate signal that was at the same time both too much, too soon and too little, too late. The Fed tried to have it both ways, being tough on inflation without scaring the market into fearing a credit crunch. But the world market was more scared of inflation and a falling dollar, and the Fed signal merely ratified that fear without reassuring. Perhaps if the Greenspan board had really cracked down on rates by pushing the discount rate up a full percentage point . . .

"It has been fairly amateurish. There have been too many contradictory statements," says Lawrence Kudlow, who was at the Reagan Office of Management and Budget and who has returned to Bear Stearns as chief economist. Kudlow, being more conservative than orthodox, would have preferred more dramatic action against the interest rate rise of September-October: "People are afraid the Fed has lost its nerve against inflation."

But if the Greenspan Fed can be charged with helping create the climate of uncertainty that led to the Black Monday stock market meltdown, Treasury's Baker is the man who fired the shot heard around the world's



The long picture

The Dow since 1920

(58)

exchanges.

The fact is that Baker has had a relatively easy time of it from the American financial press. He is certainly more popular than his predecessor Donald Regan, whose short fuse and thin skin created a number of media enemies. Also, Baker has had some skill in making those dramatic gestures that are often confused by the press with substantive action. The Plaza Hotel Agreement on exchange rate co-ordination, the Baker Plan for Third World debt relief and, most recently, his proposal to install a basket of industrial commodities including gold as an exchange rate early-warning system have all been the stuff of which newspaper feature articles are made.

The debt crisis is now really upon us in earnest in this post-crash environment. And the Plaza Agreement, which led to the Louvre Accord of this spring, was effectively threatened by Baker's own warnings that the US would not be pressured into raising its own interest rates in order to cure its trade deficits — the Treasury would rather see the dollar devalued some more, Baker warned.

It was just such an explicit warning, on the October 18 "meet the press" show, that caught the stock market between its Friday 108-point record plunge and the Monday meltdown of 508 points. Baker had been publicly warning that West Germany would have to ease its own monetary policies or risk another round of devaluation of the dollar.

"We will not sit back in this country and watch surplus countries jack up their interest rates and squeeze growth worldwide in the expectation that the United States will follow by raising its interest rates," Baker said. That was all it took, really. When the Hong Kong and Tokyo markets opened for business a few hours later, the bear market stampede was on in earnest.

All of this, in a sense, is water over the dam. It is what lies ahead that is so worrying. The crash will have a profound impact on a wide number of weak points in America's overall economy.

Consider these rather obvious ripple effects: a sharply lower level of share prices makes it harder for corporations to raise the money they need for capital improvement, technology development and other productivity enhancing investments. This is especially so when a lot of the corporate capital that remained was promptly invested in buying back shares for the firms themselves.

And with at least a *trillion*-dollar shrinkage in American personal wealth since the August high-water mark for share prices, US consumers are scarcely going to be spending and running up debt the way they had planned to for the rest of this year.

Even the good news is bad news. Critics of the US trade deficit will probably see American imports contract sharply in the months ahead — business and consumers will not be needing foreign goods or have the money to pay for them. That means bad things for the foreigners who have been reinvesting their surplus dollars in American capital markets and *that* probably means interest rates will go up — both in the US and abroad. The latter is doubly ominous for the Third World debtor nations which now face reduced demand for their exports and higher rates on their debt.

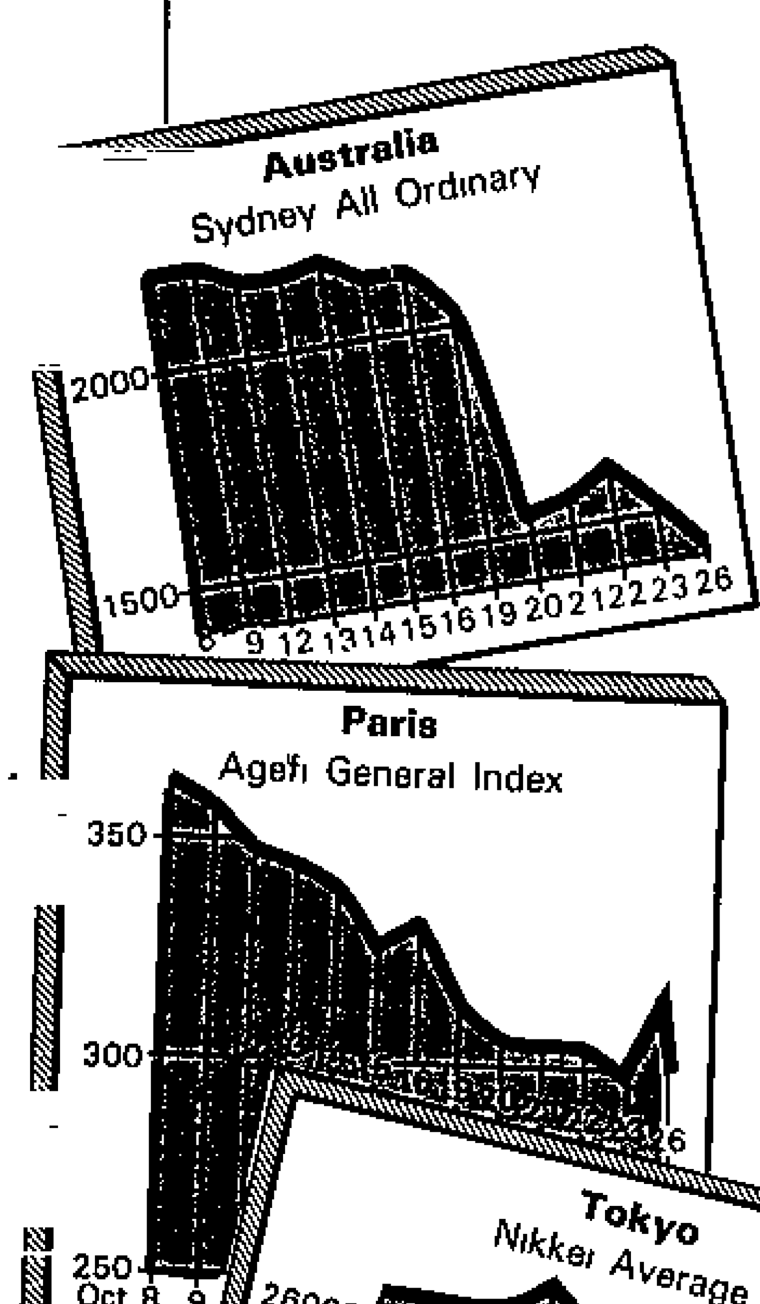
It is against this background that the Greenspan-Baker response of monetary stimulation and concessions to the congressional income tax boosters looks pretty dangerous indeed. It may be short-term *realpolitik* but it also carries the seeds of a return to the kind of economic convulsions that made the Seventies such hell for both corporate planners and the middle-class investor.

We're well aware that 1988 is an election year and a stock market crash followed by a sharp recession is not what the Republicans want for a campaign environment next year.

Yet they may get even worse if their two principal economic policy leaders keep forgetting that their policy actions have a profound impact on the policy responses of other nations. The US is no longer comfortably isolated from the world arena by its own booming domestic market. America's market is the world and the world is very much in its backyard. Beggar-thy-neighbour is a form of suicide — so it is announcing one set of policy responses when you intend just the opposite. ■

THE CRASH OF '87 — 2

No place to hide



America's years of over-confidence are over. The bubble of Reaganomics has been pricked, and corporate and public policymakers are resorting to stop-go tactics reminiscent of the unstable investment climate of the Seventies.

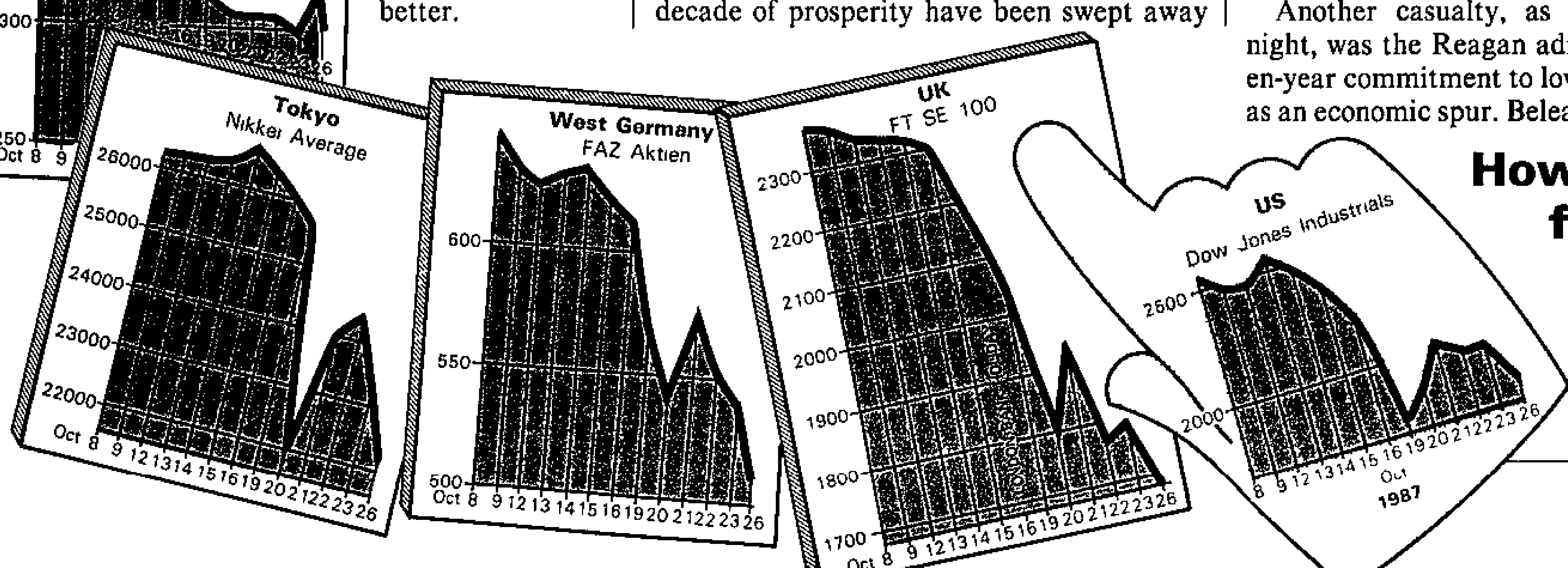
America's economic landscape — like that of rural England — will never appear the same after the hurricane that blew last week. Whatever happens, the wonderful five-year-old rally on Wall Street will never be the same again — indeed it could get a lot worse before it gets better.

While New York's stock exchanges and Washington's market regulators proved they could keep panic-stricken investors from running completely amok, the fact remains that many of the ingredients which contributed to the share market's remarkable half-decade of prosperity have been swept away in the tidal selling wave.

Worse still, there is concern that both government policymakers and corporate strategists have been panicked into solving yesterday's problems when it is today's vastly damaged economy that should be dealt with. For with the plunge in share prices and the evaporation of nearly US$1 000 billion in wealth in a fortnight, a lot of economic assumptions were mortally wounded as well.

Among the casualties are a lot of corporate investment attitudes and strategies which were predicated on the assumption that American issues were underpriced in relation to the amount of liquid (or easily liquifiable) assets held by the company.

Another casualty, as of last Thursday night, was the Reagan administration's seven-year commitment to low income tax rates as an economic spur. Beleaguered by his own



How they've fallen

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advisers and truly frightened by the threat of being tarred as the president who presided over Wall Street's worst crash, Ronald Reagan has caved in and signalled his opposition leadership in congress that he will not resist some form of tax increase this year.

Yet another constant of the American economic scene of the Eighties — a sternly restrictive Federal Reserve Board — has been knocked computer-over-tea kettle by the horrifying prospect that all those lovely billions of dollars that have flooded into America all these years are about to go flooding out, unless something dramatic is done.

So in the space of one — admittedly traumatic — week, Wall Street, Washington and corporate America have had to change their ways of thinking. Dramatic policy changes will be occurring, indeed are occurring even now. Whether they bring about the kind of balanced economy that foreign observers and domestic critics of Reaganomics say they want, remains to be seen.

One of the most visible counter-forces during the past week's "meltdown" of share price indicators was the mass of share buyback announcements by major US corporations. Literally hundreds of companies bought scores of millions of their own shares off the market — hastening a rush to "privatisation" among US firms that is just the opposite of what Margaret Thatcher prescribes.

USX Corp, the steel giant, bought 20m of its own shares; Bristol Myers bought 25m; Ford and General Motors bought 5m apiece; Delta Airlines, Greyhound Corp, Minnesota Mining and Manufacturing, TRW Inc, Federal Signal and so on all bought in the million share ranges — all operating as if the dynamics of takeover strategy were still at work.

But if the market slide continues, then the share repurchasers will have thrown increasingly valuable cash into diminishing assets — good money after bad. At the best, market analysts claim, a company that buys back its own stock in a steady market can expect a 3% price rise for every 5% of its own shares that are repurchased. Whether that makes sense remains to be seen.

Another argument can be raised as to whether this is just the time for Reagan to be agreeing to raise taxes — even if his objective is to lower the budget deficit and the American trade deficit.

After all, the stock market crash should take care of a lot of the trade deficit in the months to come. A fall-off in American imports will almost certainly result as consumers buy less, manufacturers need less, and importers import less in their newly straitened situation. Without the dollar earnings from import sales, foreign investors are unlikely to flood Wall Street with the amounts of investment capital they have wanted to put there, thereby completing a circle.

Raising tax rates is hardly going to make the US more attractive or more vibrant an economy for citizen or foreign investor.

Indeed the spectacle of the White House agreeing to new taxes while the Federal Reserve turns on the money supply and credit taps (as it did this past week) brings one back to the almost forgotten days of stop-go economic policies as devised by Jimmy Carter and his predecessors.

Reagan's problem is that having cut $12 billion in domestic programmes last year and gained $21 billion more from tax reform loophole closing, he cannot repeat the performance this year and hope to reduce the deficit. That means either the Pentagon budget has to be hit heavily or American income taxes have to rise. A tax increase just as the economy reels from the impact of a trillion-dollar stock market loss is hardly Keynesian in its intentions.

The question now is: can Wall Street and Washington wake up to the new post-crash world in time to devise the proper policy responses? ■

SHORT-TERM INSURANCE

Musical chairs

Short-term insurers have had a game of musical chairs recently. Five have had top management changes already this year, with at least two more to come.

Not that there's a clearing-out operation in progress, nor anything questionable in the men taking over. But it highlights the pressing need for skills in the industry. As every-

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one moves up one rung so potential management material must be brought on. The amount of head-hunting makes it evident insurers are hard put to find new recruits.

Says one: "Head-hunting has been increasing. There's been a steady drain overseas." He says there has also been a "fair bit of movement between various sectors of insurance, especially insurers and brokers. You can only solve this in the short term by recruiting from competitors and offering as high salaries as possible."

Allianz MD Basil Fussell, who left on September 1, has been succeeded by Tileman Fischer.

Hans van der Walt recently stepped down as MD of Federated, to be replaced by Ron Carter, ex-GM of Standard & General. Van der Walt stays on as executive director to concentrate on marketing and development. No one is set to replace Carter at Standard, where George Cavalieri — 70 next January — remains chairman and MD.

State Actuary Willem Swanepoel resigned towards the end of 1986 to become MD of Atlantic & Continental, now known as ACA. Piet Robbertse moved in to take his place, having resigned as MD of President Insurance. New President MD Johan Wasserall took over in August.

The end of the year will see the retirement of Fred Haslett, MD of SA Eagle. He becomes non-executive chairman, and will be replaced as MD by Peter Martin.

Roy Cain, MD of National Employers' General, leaves in January to become a GM at UK associate National Employers' Mutual. Peter d'Arcy-Jones will succeed him.

"I think it's essential to have some sort of mobility," says Cain. "I've been doing this job for seven years. If people see their jobs as calcifying and don't see avenues for advancement, they will simply leave."

He adds that the real problem is that there simply won't be enough whites to staff insurers in future. "Most of us have a sufficient supply of middle-management staff for the next 10-15 years," but increased training of blacks will be needed.

"The industry has a shortage of skilled people right across all ranks and age groups," says Allianz MD Fischer. The problems are becoming more difficult to solve.

His approach is to train in-house. "This is the name of the game. We really don't gain anything by pinching people from other companies." They will simply reciprocate. "We also send trainees overseas to broaden their knowledge. We intend to try and find local people to run local companies."

Last year, things were not so active. Ken Saggers took over from John Posnett as MD of Mutual & Federal in March. A month later, Bob Greenwood replaced Cigna MD Chris Meller, who went to the US.

The industry admits it does little to encourage new recruits. Says Greenwood: "Though the College of Insurance does a good job, we don't do enough. And small insurers can't afford in-house training."

Meanwhile, according to Standard Bank, in 1985 the estimated ratio of managers to non-managers in SA was 1:42. One research organisation predicts this will soar to 1:76 by the turn of the century. In contrast, the ratio for the US is just 1:16, Australia 1:14 and Japan 1:12. ■

ALLIED GROUP FORMS 'SUPER BUREAU'

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As part of the Allied group's restructuring, involving largely the consolidation of its building society and banking divisions into a single entity.

It has been decided to "hive off" the information services division into what Allied clearly feels will become the country's first "super bureau."

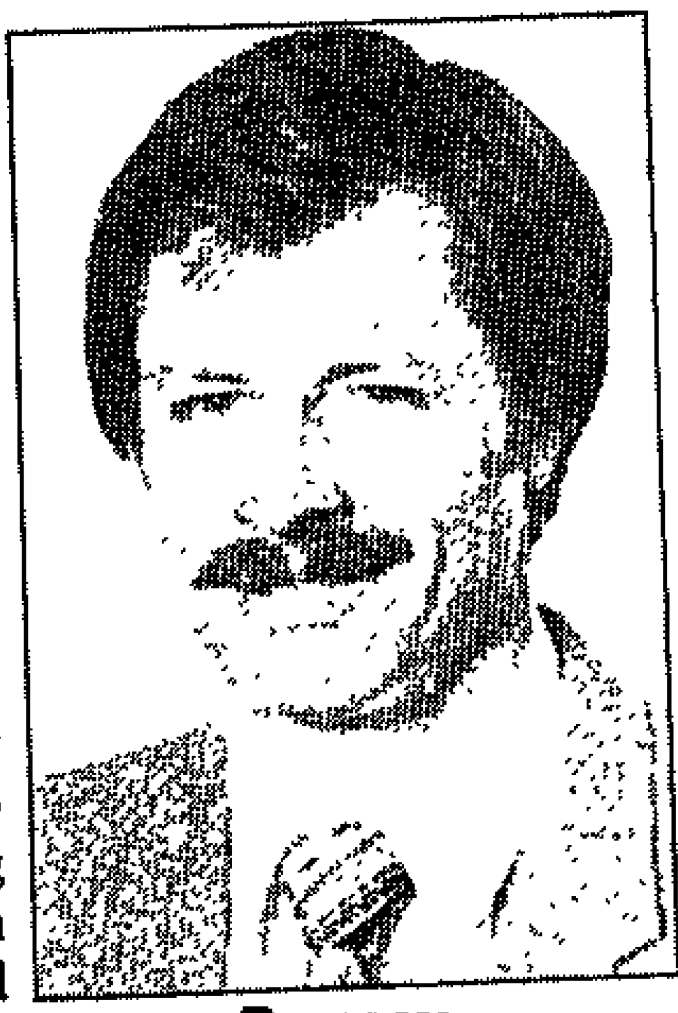
Called Allied Information Services (AIS), the organisation is headed by MD Stewart Ramsey and staffed by 260 people.

It has already found its first outside customer — Sage Life.

Ramsey is adamant that AIS's installed computer base, which has a replacement value exceeding R200m, can more than cope with Allied's and Sage Life's needs, and is already touting for new external business.

"In practice there are scores of companies which must choose between installing their own mainframes and associated software.

This must be updated about once in three years, or buying time on existing facilities," Ramsey tells the *FM*.



Ramsey

The success of AIS will hinge on just how cost effective its service will be. "That essentially comes down to quality and transaction unit costs."

Explaining the super-bureau concept Ramsey says South African bureaus have traditionally been associated with relatively small processing volumes whereas it is an established business in the US.

One such bureau, Mtech of Texas, serves 1 100 corporate clients, most of them financial institutions.

"The weak rand, the threat of sanctions and the continuous rise in capital costs means SA cannot afford to continue unnecessarily duplicating capacity," says Ramsey. "That means optimising computing resources." ■

FM 30/10/87

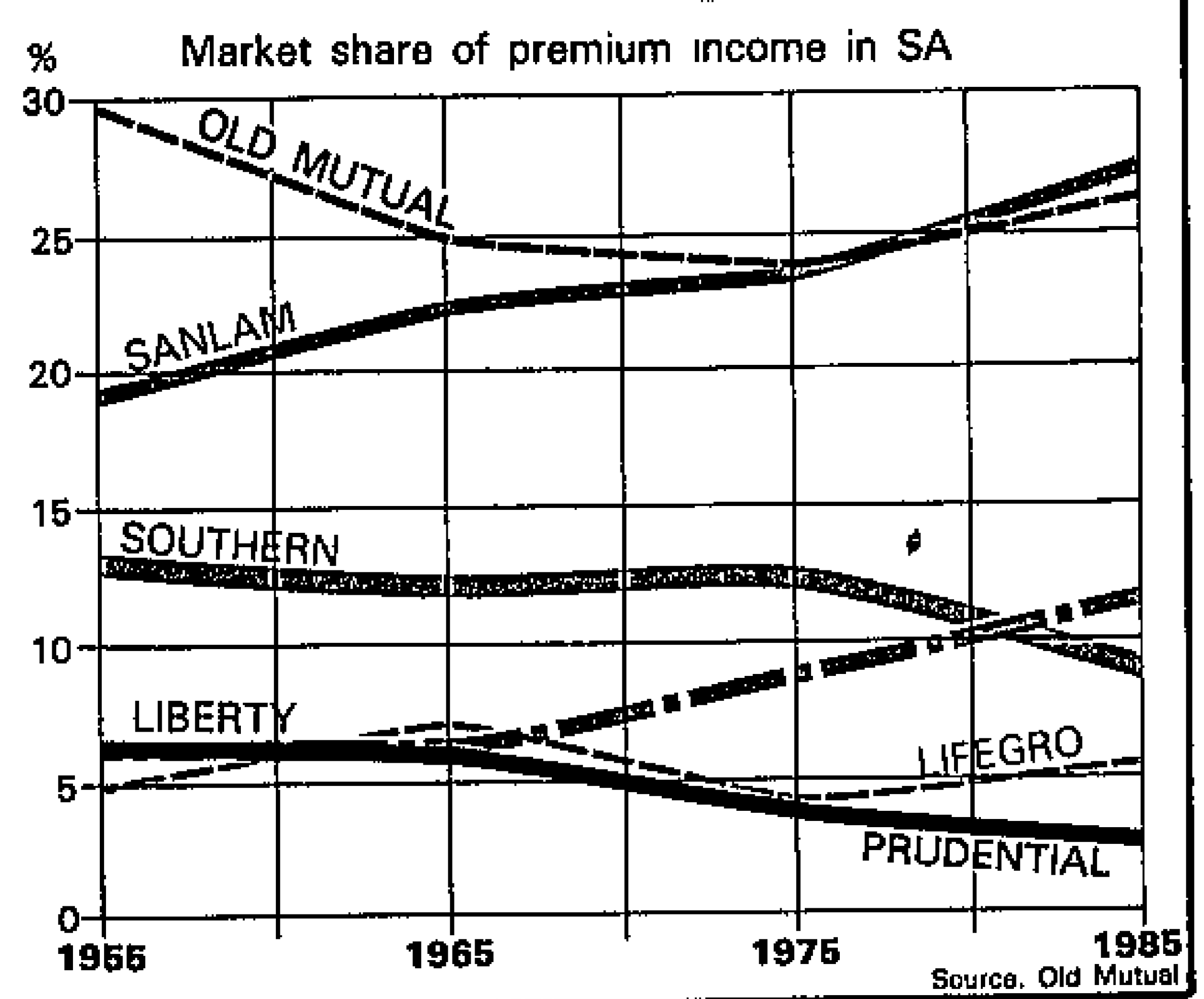
Who's getting the cake?

In this two-part feature we examine the change in market share of some of the large life assurers over the last 30 years.

The life assurance industry continues to face criticism for its gargantuan size — some claim at the expense of other financial institutions, and largely because of tax advantages.

A life of competition

Market share of premium income in SA



Critics also say the industry continues to swallow up vast quantities of shares, thereby extending its grip on the economic fabric of society to the detriment of the individual investor.

According to research carried out by Sanlam individual premiums paid to the life assurers as a percentage of personal disposable income increased every year from 3,5% in 1980 to 5,2% in 1985.

To grab a larger slice of the cake, surely life assurers have had to be highly competitive? While there may be some truth in what has been said, such criticism should take cognisance of this. Indeed, fierce competition exists, not only with those outside the industry, but between the life assurers themselves.

No two are greater protagonists than Old Mutual and Sanlam. Both take their size very seriously and some would say, to the exclusion of all else.

Commenting on the fight between the two for market share, one life assurer says: "Old Mutual and Sanlam are involved in a power struggle, which is why they put everything into growth." Another says that they both have an obsession with one another.

And yet another asks: "To what extent does a mutual office distribute its estate to its policyholders and to what extent does it use the money for advertising campaigns on television?

"Sanlam has been very aggressive on this score. I don't think it is right to spend so much on advertising. Though it does have an effect on market share, I think it is for the wrong reasons. I believe Old Mutual is behaving more sensibly than Sanlam which may be spending more than it can justify in the long run."

To which Sanlam ripostes as follows: "This amounts to gross ignorance. The latest Abindex figures (for the nine-month period ended February 28 1987) show that Old Mutual spent almost double the amount we did on advertising."

As for reasons for advertising, Sanlam says it has a tacit mandate from its policyholders to be successful and to operate profitably. "Anyone who knows anything about marketing will agree that to do this, one is virtually compelled to advertise."

The accompanying table 1 and graph 1 show the relative market shares of these and other large institutions over the thirty-year period, 1955-1985. The details are based on figures drawn by Sanlam from the returns made by life assurers each year to the Registrar of Financial Institutions. They show premium income, net of reinsurances for SA, SWA and TBVC countries. The percentages have been determined by aggregating the premium incomes of all companies at their respective year ends.

On the face of it, Sanlam gained market share enormously during this period, notably to the detriment of Old Mutual.

Why was this? And do the figures reflect the true position?

Admits David Hudson, marketing promotions manager of Old Mutual: "Sanlam has grown faster than Old Mutual for the first 20 years of the survey period, 1955-1985.

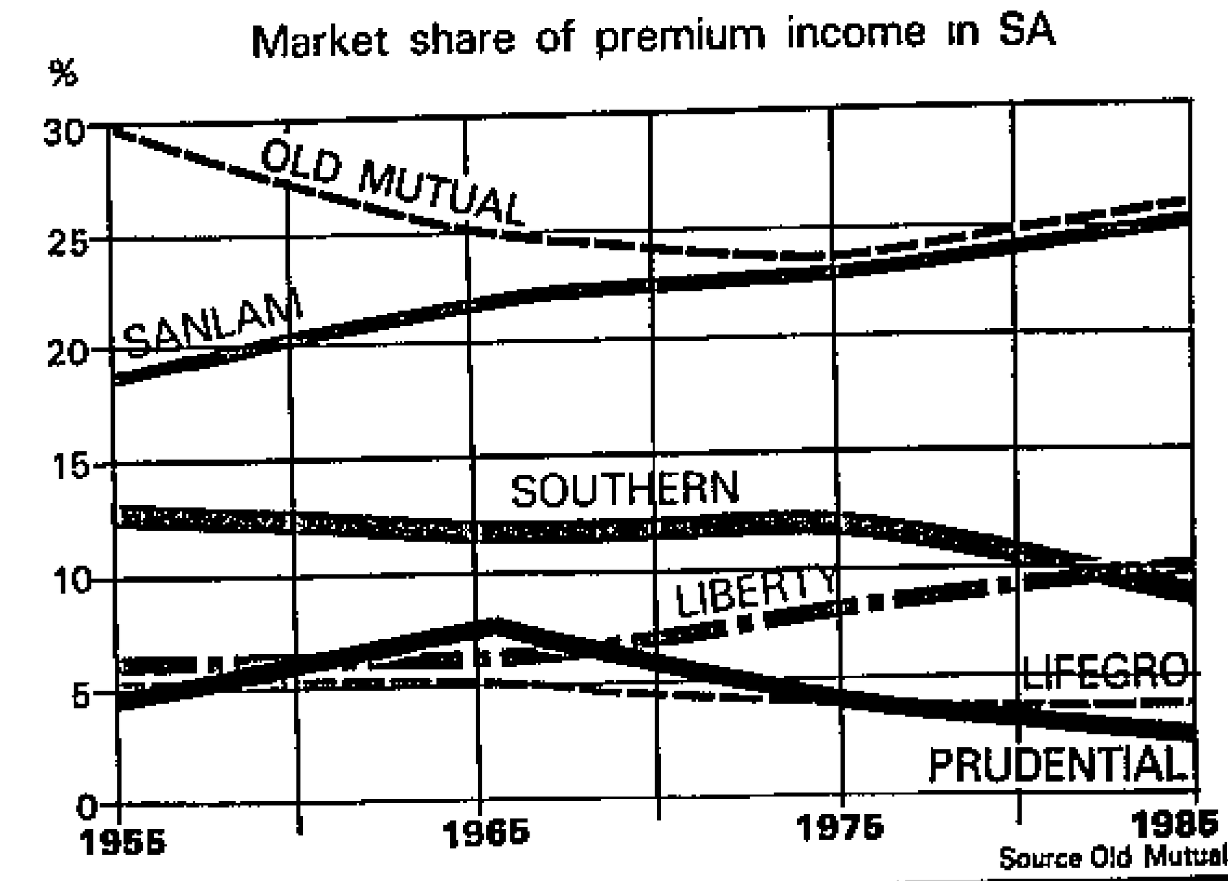
"It appears from the graph that we continued to lose ground. But remember our financial year end is three months earlier (June 30) than Sanlam's and this creates a statistical disadvantage, especially in times of very fast growth."

Indeed, growth of the life industry has been quite remarkable. According to figures from the Life Offices' Association (LOA), total income for the industry has doubled every three years since 1977, while total assets have risen tenfold to R65,7 billion as at June 30 1987.

So, says Hudson, "It would be better to measure market share by measuring each life company's year-end figure as a percentage of the LOA's industry total for the same 12-month period."

A better reflection ?

Market share of premium income in SA



He concedes Sanlam has a problem because its year-end is September 30, "but I think you can make a very good estimate by interpolating the LOA's figures."

The result is the second graph which shows Old Mutual and Sanlam at least neck and neck."So the gap between us at the end of the survey period is entirely due to strong growth in the industry underlying the three-month difference between the financial year ends of the two assurers."

Sanlam disagrees with the basis saying that "such unaudited figures are not acceptable. But even on that basis it has consistently increased its market share — probably at the expense of Old Mutual."

FIGURING THE PROTAGONISTS

Market share of premium income in SA

	1955	1965	1975	1985	% change	1985 Premium income (Rm)
Sanlam	19,4	22,5	23,4	27,3	7,9	1 584,6
Old Mutual	29,7	24,9	23,7	26,2	−3,5	1 524,0
Liberty Life	6,6	6,5	8,8	11,8	5,2	686,9
Southern	13,1	12,3	12,7	9,1	−4,0	578,4
Lifegro	5,0	7,4	4,3	5,5	0,5	319,7
Prudential	6,2	6,3	4,1	3,0	−3,2	174,0
Others	20,0	20,1	23,0	17,1	−2,9	947,0
	100%	100%	100%	100%		

Source: Registrar of Financial Institutions.

FIRST NATIONAL

Setting the pace

First National has come through a very difficult year remarkably well. Despite disinvestment, a name change and politically-inspired problems, it has succeeded in maintaining the improving profit trend it showed in the previous two years. It was helped by an easing in the bad debt situation, but margins remained static — the main reason for the surge in earnings was a tight rein kept on costs.

For the 12 months to end September, EPS were up no less than 29% against the annualised nine months to end-September 1986. But a reason for pride, which MD Chris Ball obviously feels, is that this was achieved on an increase in net interest and other operating income of only 16,7%, showing that the improvement resulted essentially from cost controls (up by 14%), and lower doubtful debt provisions (down 33%). Pre-tax income rose by 25% while net interest income improved by a more sedate 10,3% to R80,6m.

Ball says that net interest is a function of market rates, but points out that all divisions are doing well for the first time in a long period. First Industrial improved no less than 75,5% off a low base, but far ahead of the market average. First Merchant also did extremely well, achieving a 52,8% rise in net income. "Its reputation is very high," says Ball, commenting that the merchant bank never had an "accident" and lost money for clients. Though new listings have played an important part, First Merchant has practically cornered the market on management buyouts.

Home loans growth

Home loans was another successful area. At end-September 1986, loans of R950m were registered; at the end of the 1987 year the figure had risen to R1,4 billion plus R350m in the pipeline.

The commercial bank, First National, grew 11,1% and includes the treasury division and Barclaycard. The latter last year turned profitable for the first time in its history, thanks to a new cost structure and a higher yield on its portfolio from the introduction of revolving credit accounts.

"Our margins were the same as last year," says Ball. "But we have a system of asset and liability management which is as good as that of any bank in the world." It was dubious management in this area which resulted in the 31% drop in taxed profit in 1984. Ball is emphatic that this could not happen again with the new systems, which detect and stop loss-making policies.

Income from associated companies leapt 77%, part of which is due to the inclusion of 12 months' of Southern Life's earnings after

First National's Ball ... all divisions doing well

only six months' was included in the previous year. The sharp climb in associates pushed profit growth from 24,2%-29%.

An important factor behind the earnings advance was the reduction in bad debts. Amounts written off were up from R142m annualised to R200,2m, but the charge to the income statement was only R128,7m compared with the previous year's R143m. Total specific provisions were reduced from R213,6m to R162,1m and general provisions were up only R10m to R110,7m. Ball says that bad debt provisions for Wesbank are at a record level and those for the banks are "acceptable."

The good results have enabled an improvement in return on assets from 0,76-0,9, with return on shareholders' funds up from 15,8%-18,2%, without taking the Citibank acquisition into account. Figures for Citibank have been included from the beginning of July: the acquisition has added R1 billion to assets, raising them to R20,6 billion and placing First National well ahead of Standard by this measure.

Ball says that activity in Citibank has increased substantially since the takeover. Reaction has been excellent from existing customers as well as from others with whom the bank has not yet done business. "Firstcor has a great future, with the banking skills of the old Citibank, which we shall keep as it is, and the addition of the merchant bank corporate financing team," Ball comments.

What is important, he says, is that for the past few years the focus of First National has been inwards. The asset and liability management system is in place and the group has completed the installation of its new computerised information system, which has been in progress since 1984 and cost R300m.

BETTER GROWTH

Year to September 30	1986*	1987*
Pre-tax (Rm)	240,9	301,9
Attributable (Rm)	143,1	184,6
Earnings (c)	197,3	254,6
Dividends (c)	95	105

* 9 months annualised

Computerisation benefits

"This gives us remarkable flexibility and will reduce operating costs in future," says Ball. "We are way ahead with computerisation, which will give us a competitive edge." It will still take a year for all the data to be entered, but benefits should be seen thereafter. "The Bob T card took six months to organise, but on the new software, it would take three days," Ball estimates. He has been told the system should not be out of date for another 20 years.

The outlook for the present year, as for all banks, will depend on the actions of the authorities. First National intends to concentrate more on service. Ball says that confidence among staff has increased. He thinks next year's economic growth rate will be comfortably higher than in 1987 and demand for credit will pick up; this will be boosted by the considerable number of projects in the pipeline, and companies will have to increase stock levels, restocking when the economy picks up.

He sees little change in interest rates in the next couple of months. "Rates will stay where they are into the new year and then go up gently," he says. He expects a positive effect upon margins in the commercial bank as rates rise because of the impact of checking account balances, but there will be a negative effect in Wesbank over time, resulting in overall margins being the same as this year.

The JSE's fall should not impede management buyouts, though the p:e's at which deals are struck may change. Loans are only extended to the value of 50% of any equity security so the stock market retreat should not hurt the bank. An advantage for banks is that lack of equity finance could mean companies will again turn to banks for funds.

Ball says First National has met the year-end capital ratios required by the new Banks Act, and that it should meet those for the end of next year, but he is non-committal on the question of raising additional finance. Dividend cover has been increased to bolster capital, but Ball emphasises that earnings will not be suppressed to conform to the requirements.

Until Tuesday, First National's share price held up well against the market fall, but a drop in the price from R23-R17 (on very low volumes) in one day meant a fall of 32% from the peak, against 30% for the Bank's index. The latest results place First National on a p:e of 6,7, against 9,2 for the index and 8,8 for Standard, though this refers to the 1986 year. In the present market, it is imperative to look for earnings capabilities: it seems that First National will be one of those to produce a healthy increase next year.

Pat Kenney

CAPE TIMES 30/10/87 (58)

Boland Bank profits up 40%

THE Boland Bank Group has increased its after tax profits by 40% in the six months to the end of September, MD Gert Liebenberg said yesterday.

An interim dividend of 18c has been declared. Liebenberg said income after tax and and transfer to internal reserves amounted to R4,98m, compared with R3,56m for the same period last year.

He said this year's firm growth was achieved after making ample provision for bad debts.

Operating results should be seen against the background of the rights offer which doubled the Bank's issued capital as from May this year.

"Economic prospects are improving as the year progresses and we expect income levels for the full financial year to correlate with the results achieved up to September," he said.

The dividend is payable to shareholders registered at the close of business on November 21 and will be posted about January 4 next year. — Sapa

(Piggy), Dominique Bush (with firem

JSE living 'from minute to minute'

(S8) SAM 31/10/87

TEIGUE PAYNE

Nervous investors had a brief respite yesterday as volumes and price movements on the Johannesburg Stock Exchange declined from their recent heady levels.

The all-gold share index was a miniscule four points higher, although the industrial share index was 18 points lower and the overall index was 12 lower.

The smaller movements, along with more news of higher share prices on the Tokyo and Hong Kong exchanges, both of which open earlier than Johannesburg, lent a veneer of stability to the local market.

News that Tokyo had closed on a strongly optimistic note with the Tokyo Stock Exchange index 731 points up at 22 765, and that London and Wall Street were trading at higher prices, gave cause for optimism.

Some observers said the quieter tone on the South African market was simply a plateau on which investors are adjusting after the turmoil of the past two weeks.

The worst of the panic which followed the crash has now been replaced by fear — fear that the market will not recover, that there will be further crashes and that there will be a deep bear market. Worldwide, there is fear of a depression, which doomsayers say must follow a world crash such as this.

A leading broker commented that the Johannesburg stock market was living from minute to minute.

This short-term horizon may explain the limited view investors are taking on gold. While the outlook for gold

● TO PAGE 2.

Gold should soar

● FROM PAGE 1.

in anything but the short term is generally regarded as bullish, Thursday's drop of about $12 in the gold price sent shock waves through the local market. The partial recovery of gold by $4 yesterday morning restored some fragile confidence.

Conventional wisdom that gold should rise if there is turmoil and lack of confidence in paper currencies has not been fulfilled since the crash.

Immediately after the crash it was reported that gold had not soared to expected heights because investment houses were selling the metal to cover their stock market losses.

Yesterday, it was reported that central banks around the world were selling gold in an attempt to shore up the dollar.

The strength of the dollar is central to the health of world stock markets as a weaker dollar should result in a recession in the American economy, which would severely affect the economies of its other major economic partners.

Along with official buying of the dollar, news that prime interest rates are being lowered in Europe indicates the determination of the authorties in the West to limit the damage of the crash.

Observers say once central bank and forced-sale gold is cleared from the gold market, the strong buying pressure should send the gold price soaring — once again throwing out the lifeline to which the South African economy is so accustomed.

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BUSINESS

INVESTMENT

Paper moguls' wealth slashed

The Argus Correspondent

JOHANNESBURG. — The stock market crash has slashed hundreds of millions from the wealth of South Africa's paper millionaires.

Until a fortnight ago, new millionaires proliferated in the wake of the country's biggest-ever new issue boom, which saw more than 100 companies floated on the Johannesburg Stock Exchange in the first 10 months of 1987.

Small business went to the market and their owners became paper moguls overnight as the JSE bull market carried their shares to undreamed-of heights.

But the past fortnight's share devastation has brought these paper empires crashing down, with most of the new millionaires, precluded from selling their shares in terms of contracts with their companies, looking on helplessly.

Some no longer enjoy millionaire status, some have seen the value of their shares drop by more than half and some have been relatively lightly hit.

GOING PUBLIC

On May 17 this year, the sister paper of The Argus, The Sunday Star carried a list of the new millionaires — those who had made the shares in their private company businesses marketable by going public between January 1986 and March 1987.

At that stage, the identifiable paper fortunes of more than 100 businessmen ranged from a top figure of R51,3-million right down to a "lowly" R1-million. Those fortunes expanded yet further in subsequent months.

The list has been updated to reflect the peaks they achieved and the levels to which they plummeted on October 27.

Milton Levine, leading millionaire on May 17 with Reichman shares worth R51,3-million, has shed a cool R19,6-million from his R53,2-million peak. In spite of the paper losses he has had, he remains top of the paper millionaires league — a measure of the severity of the stock market crash.

If Mr Levine has lost any sleep, he can draw consolation from the horrendous hammering taken by Times Holdings' Colin Hibbert. Worth a hefty R44,1—million when his shares peaked, Mr Hibbert's paper wealth has collapsed to a figure of R14,3-million — R29,8-million less than it was a short few weeks ago.

But Mr Hibbert's nightmares pale into insignificance in relation to those of Long Distance's Marius Els.

For, the shares of Long Distance have plummeted by 74 percent since they hit their high earlier in the year. Those of Times Holdings have fallen by a "mere" 68 percent.

Worth a "comfortable" R32,8-million when his shares peaked, Mr Els's fortune has slumped to R8,5-million — a paper loss of R24,3 million.

Nor is Mr Els the most hard-hit. That distinction goes to the Brokers duo of Hugh Courtney and Archie de Jongh. At the height of their short-lived rise to stock market fame their shares were worth R28,2-million and R26,1 million-respectively.

Brokers was suspended from the JSE a couple of months back — never to return, many contend. Thus, Messrs Courtney and de Jongh might between them have let all of R54-million slip through their fingers.

The several millionaire shareholders in Columbia may have experienced considerable paper losses but their consolation is tangible, since they have acquired rights to shares in other group companies as a result of their Columbia shareholdings.

Also enjoying material consolation is Punch Line's Barry Schechter, who exchanged his shares for those of Fintech. And while Fintech shares have fallen with the rest of the market, they haven't dropped as far as Punch Line.

Emerging relatively unscathed from the rout are the millionaire shareholders in Imperial, PGA and Quality Tyres. Indeed, the Abelkop and Wilder families of Imperial are worth more now than they were on May 17, although their fortunes are obviously lower than they were when Imperial shares peaked.

ALL-TIME HIGH

And the same goes for PGA's James Wilson, Chris von Christierson and Ken Cunningham-Whyte.

Happiest of all the paper millionaires, though, are Quality Tyres' Alexander Hawes and Bazil O'Ehley. In spite of the carnage on Diagonal Street, their shares are only 17 percent below all-time highs.

As a result, Mr Hawes, worth R9,5-million in May, is richer now than he was then and only R2,1-million poorer than when his shares peaked. Mr O'Ehley's smaller shareholding yields proportional results.

Many a small investor has lost money in the past two weeks. It might comfort them to know that while they have been mauled by the bear, it also has scant respect for those better endowed than they are.

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The Reserve Bank helping to balance

IN THE MONEY MARKETS

Harold Fridjhon

TO ALL intent and purposes the banking system, as indicated by the money market, was in balance on Saturday morning when the shortage was a mere R5m.

We will only know final end-of-month book-balancing this morning, but judging by the Reserve Bank's accurate fine-tuning last week the outcome for the month should not differ too widely from this figure.

Of course, the "real" figure is probably up to the R700m mark if the assistance given by the central bank is also taken into account, which it must be. Part of the Reserve Bank's function as the banker of last resort is to help the banking system balance its books.

That assistance does not come cheap, but it is cheaper than the interest the banks pay for wholesale call deposits and it is much cheaper than the cost of re-discounting, say Land Bank bills, at the Reserve Bank's discount window.

Call money

Last week, the banks and the discount houses were paying 10% plus for wholesale call money, with the "plus" reaching as high as 10,60%. In contrast, they got R300m at a rate of 9,82% in a tender for deposits from the Corporation for Public Deposits. The tender attracted bids amounting to R825m.

In addition, the central bank advanced R350m at a rate of 9,55% in buy-back deals which mature today.

The 90-day bankers acceptance (BA) rate is back at 8,85% from the previous 8,90s and Friday's tender for R40m Treasury bills (TBs) attracted aggressive bids of R89m, bringing down the rate from 8,70% to 8,68%.

Trading in the market is quiet and uneventful. The banks are borrowing very short term, probably because they do not see rates hardening this side of March 1988. By the same token, they do not expect the authorities to reduce the current rates pattern; stimulation of the economy will not come from cheaper money. Private sector investment is contingent on factors other than the cost of money. And cheaper money would do nothing for the economy other than to penalise private depositors and savers already ball-chained by the inflation rate.

Unless monetary policy is changed, rates will remain riveted to Bank Rate and its concommitant gold price and the movements in the discount rates, and Reserve Bank, open market operations will be directed at keeping the market just marginally short so that Bank Rate, as set by the Reserve Bank, is effectively the determinant of rates, not the market.

'Managing' the rate

This control stems from the foreign exchange rate. Once that rate is being manipulated — or perhaps managed is the word preferred in Pretoria — other rates in the system cannot be free. And there Governor Gerhard de Kock is deserving of sympathy. In accordance with the recommendations of the commission report which bears his name, he partly dismantled exchange control, he did try to establish a more market-related value for the rand.

The report said ... "financial markets will function best ... if they are reasonably free, competitive, active, broad and if they produce realistic market-related interest rates."

But the swing in the world's perception of SA and its policies closed the once-open forex door, which was further sealed by the debt standstill and subsequent re-payment agreements.

In the past two weeks, SA has good reason to be grateful for its monetary barriers, exchange control and the financial rand.

If foreign investors had been free to dump their gold and other shares on the JSE without restraint, the gold and foreign exchange reserves would have been drained, the monetary resources in the country would therefore have been diminished, the exchange value of the rand would have slumped, interest rates would soared as the country would have headed into a devastating recession.

□ □ □

Bond market activity on the JSE chalked up a turnover estimated to have been between R3bn and R3,5bn last week — a total which is said to have astonished even the participating dealers.

As far as can be ascertained, it was entirely a professional market which means that the jobbers went in and out, taking a point or two profit as yields seesawed

Gold price

The trigger mechanism was the commercial rand. As the gold price edged upwards taking the rand with it, yields on long-dated stock eased. On Monday, the RSA 13% 2005 shed 6 points on balance to 15,39%, not without considerable volatility and excited churnover.

On Tuesday, the uncertain gold price saw yields go up again only to be trimmed sharply as gold climbed a dollar or two on Wednesday. But Thursday and Friday, when gold dropped at the same time that the dollar slumped, these conflicting signs appear to have stymied dealers. They became cautious. These were new phenomena, related to the bigger world outside. Turnover slumped and yields rose.

The institutions appear to have been out of the bond market for some weeks and it would appear to be highy improbable that they will return this side of the new year.

Marketability

Customarily, institutional fund managers start doing their sums and packing up their books from the middle of November, leaving caretakers to watch the shop.

The RSA 13% 2005 and the Escom Loan 168 11% 2008 are being priced on a par at 15,33% without differential status, but the Sats 7,5% 2008 is trading 11 points lower at 15,22%. More than anything else, this emphasises the shallowness of a market which does not mark a stock on ranking status but on marketability. According to the market, the Transport Services has a higher credit rating than the government which guarantees its debt.

sitors to SA

THEO RAWANA

sold the largest number of bed-nights to foreign tourists.

The total number of bed-nights sold to foreign tourists decreased considerably from April (86 580) to the winter months of June (47 557) and July (58 145), but improved during August (70 307).

The five-star hotels attracted mainly visitors from the UK, the US and Germany, while visitors from the TBVC countries and other black African states also tended to stay mainly in five-star hotels.

AND SILENCERS

Achievers Foundation.

discount on initial charges.

CAPE TIMES 2/11/87

Corbank — R1,5m profit

58

Own Correspondent

JOHANNESBURG. — Corbank, the Corporate Merchant Bank, formerly Hill Samuel, has declared a net profit of R1,5m for the six months ending September 1987, after tax and after transfers to inner (contingency) reserves. This equates exactly with the declared profit for the year ended March 1987, after a first half which earned a profit of R1,254m.

The interim dividend is 4,5c (5,5c last September on almost half the number of issued shares).

At September 1987, the renamed bank is a totally different animal from that of last year.

Executive chairman Laurie Korsten says that the reserves have been "meaningfully" reinforced. No new provisions have had to be made for bad debts.

With the former retail operation disposed of, Corbank is now essentially a merchant bank, with a small skilled staff, and has managed a number of transactions and listing on the JSE.

Korsten says that after the current shakeout on the JSE, merchant banks will become more active than ever, negotiating mergers and takeovers which must follow.

(53)

No-interest banking for SA

HELENA PATTEN

THE BANKING licence which the Islamic Corporation expects to obtain soon will introduce the concept of interest-free banking to SA for the first time.

The Corporation has unsuccessfully applied to the banking authorities for a licence 11 times, the objection apparently having been to the concept of a bank serving an exclusive section of the community.

However, since the Reserve Bank has taken over control of banking and certain Islamic lobby groups have been active, a change of heart has taken place and the 500 000-strong Muslim community looks set to have its own bank.

Ebrahim Kharsany, MD of the Islamic Corporation, said devout Muslims in SA have used conventional banks till now, but donated interest payments to charity.

The development of an interest-free Islamic banking system is a relatively recent event, coinciding largely with the boost given to economic activity in many Muslim countries by the 1973 hike in the oil price. The support of these oil-rich Arab governments has made Islamic banking a powerful force in international banking.

The Islamic Corporation says the "investible" or surplus cash of the 55 Muslim countries, from West Africa to Malaysia, runs to many billions of dollars.

Islamic banking started in Egypt in the early Sixties, when with the help of the late King Faisal of Saudi Arabia, an Islamic savings bank was established to finance a textile factory at Myt Gamt. It proved highly profitable, but political opposition caused it to close in 1977.

The Corporation says this experiment was valuable in drawing attention to the possibiity of achieving healthy profits by the establishment of Islamic institutions in the field of saving and investment.

The *modus operandi* of an Islamic bank differs from that of a conventional bank in that it neither pays nor earns any interest on its deposits and loans.

Depositors are instead offered a *pro rata* share of the bank's profits from its investments, and loans are made on the basis of shared ownership and risk.

Various instruments used include "Muharabà," which is the financing of trade by a bank actually buying a commodity, transporting it to the customer and selling it to him at a markup. "Mudaraba" is a bank loan where the bank sets up and owns a project but agrees with the independent management on a split of the profits and on a way for the management to eventually buy it out.

"Musharaka" is similar to "Mudaraba," but the investor has an equity in the venture and participates in the risk undertaken and the profits earned or the losses incurred from the outset.

Islamic banks also enter into renting contracts of lease or hire, known as "Ijara," and grant interest-free loans for consumption purposes called "Qard-al-hasna".

The Koran expressly forbids the payment or earning of interest, condemning the practice as usury. Although the Holy Book gives no reason for the injunction, it is interpreted as being an integral part of Islam's emphasis on social justice.

Objections are raised to the payment of a pre-determined rate of return, irrespective of the actual productivity or profitability of the funds on loan. A flat interest charge is also rejected, on the basis that it disregards the character of the borrower, his individual financial position and the need or desirability of the project to be financed.

The movement to set up Islamic banking as a world force was fuelled in March 1970 by a conference of Islamic foreign ministers held at Jeddah. In February 1973 a committee consisting of Saudi Arabia, Libya, Jordan, Sudan, Morocco, Yemen, Iran, Afghanistan, Pakistan, Indonesia, Malaysia, Turkey, Senegal and Mali met in Cairo to consider the development of an Islamic economic system, and the utilisation of surplus capital within the Islamic world.

Islamic banks are now numerous — there are some 40 in the world at present — and they are not exclusive to Islamic countries.

The new type of banks have been established throughout the Middle East, North Africa and Asia, and are expanding into Europe, and Africa south of the Sahara.

The complex legal and technical requirements laid down by the Bank of England has forced many of the prospective banking institutions in the UK to form holding or investment companies.

DENNIS ETHERIDGE

Debt provision down to R58,7m

Nedbank's after-tax profits soar

Cape Times 4/11/87

58

By AUDREY D'ANGELO
Financial Editor

THE Nedbank group lifted taxed income for the year to September 30 by an impressive 77% to R140,8m compared with the R79,7m achieved a year ago. The final dividend is 22c (20c) a share, making a total of 33c (30c) for the year.

Operating income was 21% higher at R243,4m, provision for bad and doubtful debts was R58,7m — substantially lower than the R95m considered necessary last year — and assessed tax losses meant a tax rate of only 24% compared with 25% in 1986.

But the bank elected to transfer R8m to a tax equalization fund. This, together with the higher number of shares in issue following the rights offer in 1986, limited the rise in earnings to 85,1c (74,8c) a share. Before the transfer, earnings were 90,3c a share.

Chairman Owen Horwood says that all companies in the group performed as well or better than in 1986, which was "characterized by correction and consolidation".

The commercial bank, Nedbank, was again the biggest contributor to group profits with R86,1m compared with R55,1m in 1986.

The directors say that although its provision for bad debt is still large it reflects a continuing improvement in "the exceptional incidence of bad debts experienced in the previous two years."

The past year also "saw the final resolution to the bank's situation relating to the Triomf Fertiliser Group".

UAL Merchant Bank contributed R22,3m (R13,8m) to group operating profits and Cape Town-based Syfrets Trust R14,3m (R13,5m).

Finansbank, which is new to the group, contributed R9,1m. This includes profits from its subsidiary the Cape of Good Hope Bank.

Nedfin Bank, which specializes in lease and instalment credit to the corporate sector, achieved a profit of R3m compared with a loss of R5,8m last year. Nefic, which provides medium-term finance, contributed R7,6m (R7,7m).

Other companies in the group made a net loss of R1,6m compared with a loss of R3,5m last year. Horwood says the reduction in losses was due to an improved performance by Nedbank Factors which expects to return to profitability in the coming year.

Group assets at the year end were R14,3 billion compared with R13,7 billion the previous year.

Nedbank's taxed income soars 77%

S Star 4/11/87

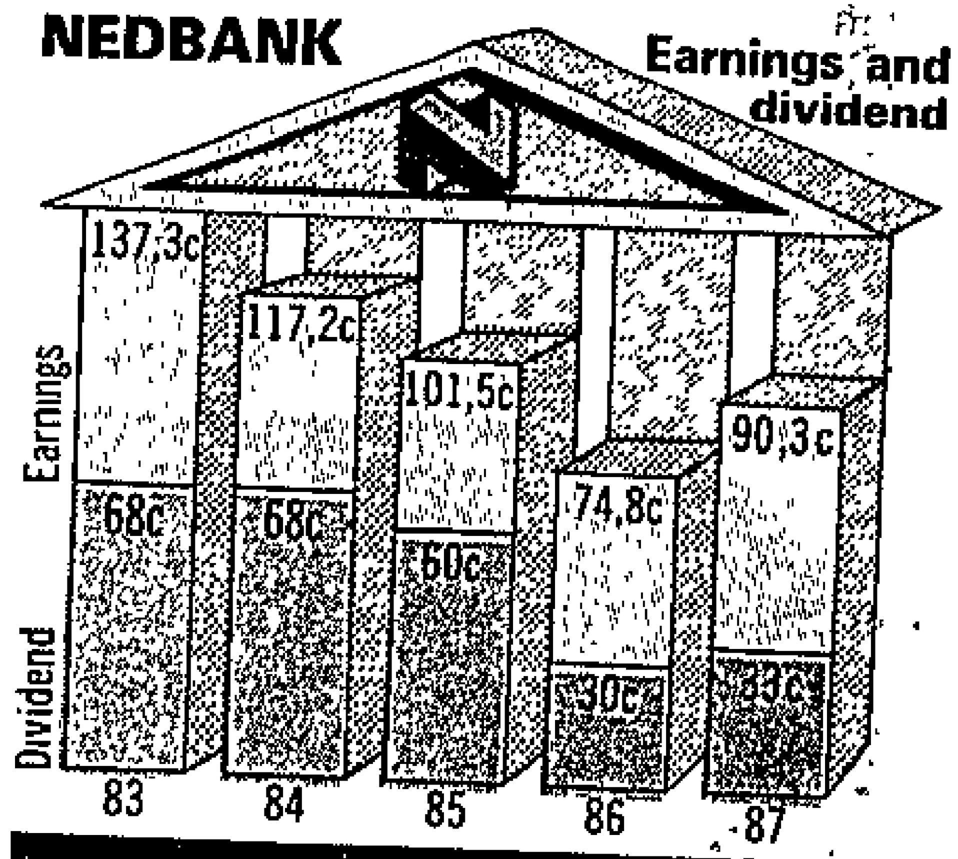
HELENA PATTEN

THE NEDBANK Group announced a 77% increase in taxed income to R140,8m for the year to September 30, despite an unexciting 7,95% growth in advances and a minimal 3,8% rise in the overall value of assets.

The rise in attributable profit was, however, lower than that of taxed profits because of a transfer of R8m to a tax equilisation reserve, and the sharp increase in issued share capital as a result of the 1986 rights issue.

Before the transfer, EPS amounted to 90,3c, but accounting for the transfer, the figure drops to 85,1c a share — still 14% up on 1986.

A final dividend of 22c a share has been declared, bringing the total dividend for the year to 33c — a 10% increase over last year.



Source: NEDBANK Graphic: JOHN McCANN

Group CE Piet Liebenberg said last night all the companies in the group performed well but the biggest contribu-

● To Page 2

Nedbank's taxed income soars

● From Page 1

tions to profit came from commercial bank Nedbank, which earned R86,1m — a 56% improvement — and UAL Merchant Bank, which boosted its profit 62% to R22,3m

A substantial 38,2% reduction to R58,7m in the provision for bad debts can also attribute for better profits.

The group's tax rate at the year-end was a low 24% (25% in 1986) because of assessed tax losses, so the tax equilisation reserve serves both as a provision against a sudden reduction in earnings, when the group returns to normal taxation, and as a source of free cash.

Liebenberg said he expected a return to full taxation "a few years down the line", but this would depend on the rate at which the group grew, as well as the mix of income.

Liebenberg also referred to the significant reduction in Nedbank's non-performing and under-performing assets, saying this had contributed to an improvement in margins.

Operating income rose 21% from R200,8m to R243,4m.

CNG Times 4/1/87 58

Home loans competition on the boil

Financial Editor

COMPETITION between banks and building societies in the home loans market is still intense.

The latest move to make buying a house easier comes from First National Bank, which has announced a flexible bond repayment system.

This, it says, will enable home-owners to "vary their monthly bond repayments to suit their financial circumstances".

Mr Chris Vitri, head of home loans, explained: "People who want to pay less for a certain period — such as young couples starting out or a professional person who has just bought a practice — can choose to pay only interest.

"We do not allow the instalment to be less than the interest because this would mean adding to the capital sum owed, which should remain the same."

Mr Vitri said that, since house prices can be expected to rise with inflation, home buyers who sell within a few years without having paid off any of the capital can still expect to make a profit.

The Standard Bank and leading building societies said that although they do not advertise it they are usually willing to let a buyer pay only interest for a certain period.

"We also have a 'capping' scheme under which a buyer can fix the interest rate for a maximum period of five years," said Mr Terry Powers, head of the Standard Bank home loans department.

"This means that if the interest rate goes up from 12,5% to 14,5% a borrower making use of the scheme can go on paying 12,5%."

The snag to the "capping" scheme is that although the monthly instalments remain the same, the closing balance rises.

However, a spokesman for the Standard said many people buying a house prefer to know that the monthly instalment will never rise during a period when their expenses will be high.

CMC 7.1B 5/11/87

UAL improves taxed profits

JOHANNESBURG. — UAL Merchant Bank achieved a 61% improvement in taxed income in the year to September.

Net income was R22,3m, compared with the previous year's R13,8m.

Assets rose 29% in the year to R1 253m, while the bank's return on average shareholders' funds rose from last year's 26,6% to 36,4%.

UAL's MD, Geoff Richardson, said: "Total assets increased by 29%, with both lending and stock holdings showing significant advances."

The past year was characterized by continued buoyancy in the financial markets, which gave rise to conditions particularly suited to merchant banking activity.

For the corporate finance division, the year proved to be one of unprecedented activity with the division handling assignments for clients valued at over R1 340m.

"Confidence has improved from a year ago, but the real barometer, private sector investment spending, remains in a state of virtual paralysis.

This clearly places major inhibitions on much of our business endeavour. Buoyancy in the financial markets and some increase in real economic activity, particularly fixed investment, would be most helpful," he said.

"The outlook for financial markets is a little confused and so to realise our aim of real profit growth from the base achieved this year will be particularly challenging." — Sapa

London stocks afterhours: Blyvoors 512, Bracken 182, Driefontein 19¾, E Rand Pro 9⅜, Freegold 11, Grootvlei 21⅟₁₆, Harmony 11½, Leslie GD 150, Randfontein 85, Southvaal 46½, Stilfontein 5⅝, Venters 11½.

Cape Times 5/11/87 58

JSE dives in panic selling

By AUDREY D'ANGELO
Financial Editor

MILLIONS of rands more were wiped off the value of South African shares yesterday in a renewed bout of panic selling which brought the Johannesburg Stock Exchange (JSE) overall index to its lowest level for more than a year.

The index fell 147 points to close at 1 812. The all gold index fell 156 points to 1 578 and the industrial index 78 points to 1 537.

As the dollar continued to fall and there was no compensating rise in the bullion price — which meant lower export earnings for South African gold mines, investors unloaded gold shares on the JSE and international markets. Quality gold shares fell by as much as R40 on the JSE.

But a hopeful sign that the market had bottomed out came at the end of the disastrous day, when bargain hunters found a shortage of quality shares on the JSE, indicating that their owners were not prepared to sell at current prices.

Brokers said there were signs that institutions considered shares were now good value.

However, two of the companies listed yesterday — the Cape Town-based Strebel group and Alex White — opened below their issue prices.

The JSE was following a worldwide trend as investors dumped shares on concern about the falling dollar, which will hit exporters to the US.

The possible loss of the US as an export market for industrial countries in Europe and the Far East revived the spectre of worldwide recession. But the dollar began to recover, bolstered by central bank intervention.

And share prices began to rise again on the London Stock Exchange after a half-percent cut in the British bank rate.

After the cut the Financial Times 100-share index recovered about half its losses to end at 1 608,1.

There were signs of recovering confidence in the US on news that President Ronald Reagan had appointed four top business executives to a commission studying the current turmoil in the financial markets, and had met for the first time with the group.

Wall Street, which had seesawed throughout the session, closed 18 points down at 1 945.

JSE prices take 'terrible licking' — Page 6

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FOCUS

What comes after markets' crash?

By an Economist

EVERYONE knew that stock-exchanges across the world had been a bull's market for some time. Huge profits were being reaped and share prices seemed invincibly biased upwards. It was also clear that the share price often did not represent its true intrinsic value. All the same, no one wanted to lose out on the ride. Players calmly ignored the red flag that market-commentators waved in front of the bull as they warned of an impending stock-market crash.

On Monday, October 19, after five years of growth, the lively pulse of Wall Street stopped beating, sending panic across stock-exchanges from the Atlantic to the Pacific.

It was a bloody day. The Dow-Jones Industrial Average dropped 22,62 percent. The Japanese stock-exchange shed 14,9 percent.

In the United Kingdom and South Africa share prices slumped 12 percent. The Australian and Hong-Kong stock markets sustained losses of over 20 percent. The US dollar took a dive and gold surged to 491 dollars an ounce.

Recession

It was certainly a manic Monday but suddenly on Tuesday markets somersaulted back as a kind of perverse logic began to take hold. The US, the supposed precipitator of a potential recession was suddenly seen as the saviour to prevent one. The dollar resumed its "safe-haven" currency status with added glory.

Central Bankers started talking currency stability once again. Reagan began sweet-talking the market and earnestly promising to solve the budget deficit problem — perhaps even with taxes. The Federal Reserve Bank pledged to supply ready money to the system so as not to put any upward pressure on rates. US Banks dropped their prime rates and the Japanese began buying US bonds. The result: bond, currency and precious metal markets began bouncing back from where they had been a week earlier. Only the stock market remained jittery.

After the initial over-correction which followed Monday's massacre, the jitters became shakes as a second wave of declining stock prices set in bringing with it a renewed pessimism which began to hit markets. On Monday 26, the Dow Jones Industrial Average shed a further 156 points.

The Johannesburg Stock Exchange (JSE), crumbled a further 6,1 percent bringing the total losses to 24 percent in just 5 days of trading. The Tokyo and Hong Kong stock markets closed higher, injecting confusion into the market. In London share prices dipped on Monday and gained on Tuesday.

Now, over two weeks later, we are still asking the same questions. Was Monday's crash the beginning of the end or the end of the beginning for stock-markets? At this point in time the answer remains unknown. However, it is certain that time will heal investors' wounds and that stock-markets will again regain their sparkle. The movement of stock-exchanges at present is still very uncertain. Whatever the outcome of share prices will be over the next few weeks, the effect on the world economy will certainly be felt.

The loss of wealth that has been incurred is substantial. The psychological and emotional damage cannot be measured. The financial markets remain fluid and any rebound of prices will be fragile and unreliable.

It seems that bond markets which had been dampened due to an expected loss of consumer and investor spending.

The direct inflation reduction is likely to be limited although an impact has already been made on the bond markets. Lower inflation together with a weaker world growth will encourage a further decline in interest rates in the short-term.

Interest

The decline will however be tempered by the US as it needs a higher interest rate differential to attract capital funds to finance its trade deficit. It is also probable that a tightening of monetary policy will follow this period of accommodation as soon as conditions have stabilised in order to be more vulnerable than Europe or Japan. In part, this reflects the stronger link the US economy has between changes in wealth and consumer expenditure. Moreover, the historical memory of the 1929-1932 period will weighs heavily on the market. The inferior fiscal starting position ahead will limit the degree to which "automatic market stabilisers" could be helped to support activity. Growth will thus be affected.

The lack of trust in shares and general uncertainty in markets has caused investors to seek safe havens for their money, e.g. gold. Precious metals tend to gain ground in a jittery market.

The rate at which precious metal prices rise

TWO London stockbrokers look gloomy after shares fell in the London Stock Exchange. It was one of the exchanges that suffered a ripple effect of the New York Stock Exchange crash.

demanding compensation in the form of higher yields as a security for investing in the "high risk" US economy, with its fundamental problems, had been correct all along. The stock-market losses have been mirrored in bond-market gains, especially since the much feared inflationary prospects have been allay inflationary expectations. Immediate tightening of German or Japanese monetary policy will be postponed due to fragile financial confidence.

Economic activity in the main industrial countries will be significantly but not catastrophically affected. The US seems initially to will be influenced by the attractiveness of bond markets to investors. At present bond markets are looking rosy with prices up and yields down. However should stock markets stabilise soon and inflationary fears begin to seep in again, we may see a faster flow of funds into the precious metal market.

Although the gold price has picked up significantly, it has failed to insulate the JSE against further falls as was initially thought.

The world has suffered a major loss of confidence. If a potential recession is to be avoided the US Government and other policy makers will have to come up with a plan that gives the market the strong dose of trust and direction it needs.

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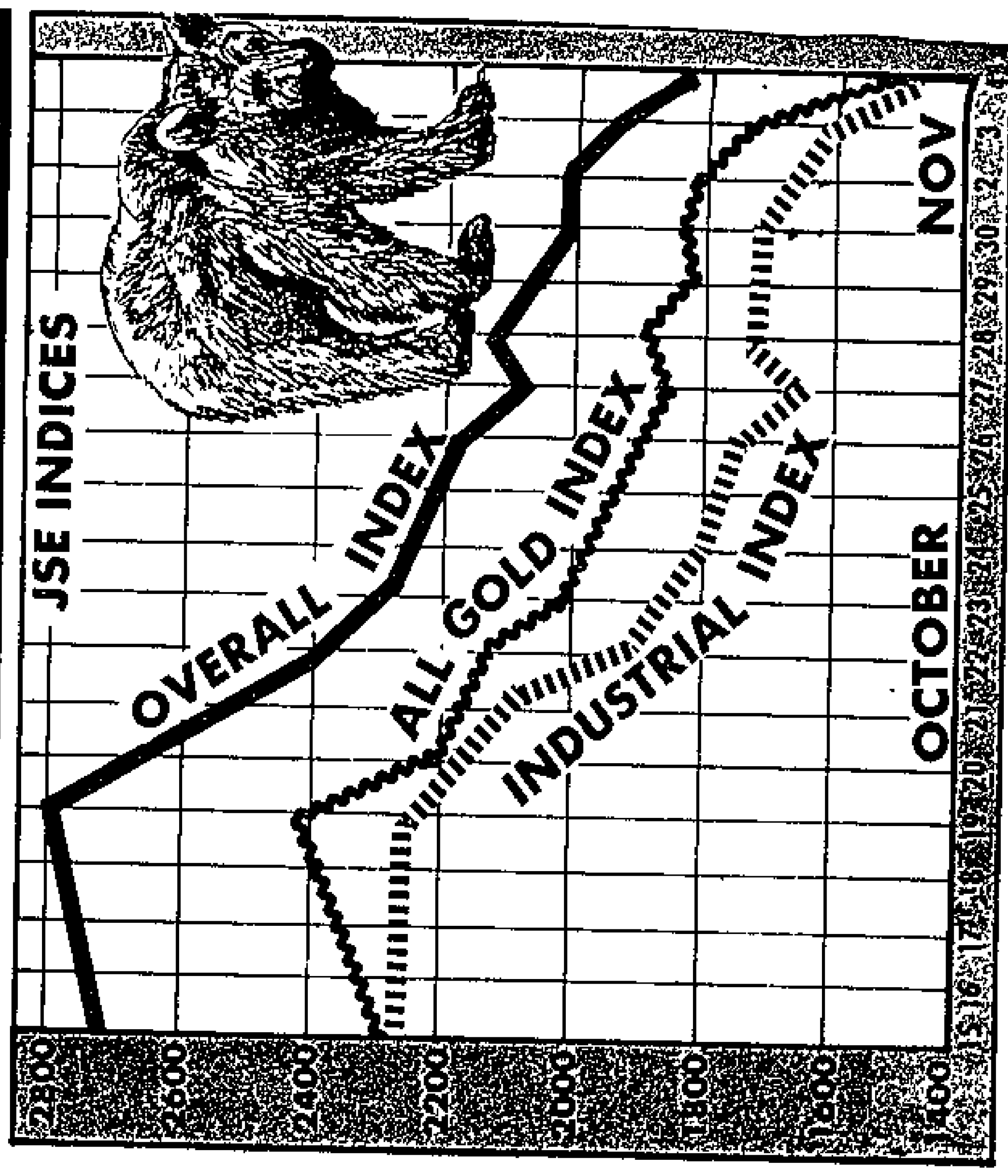


World stock market plummet continues

R100-bn slashed off the JSE board

Staff Reporters

The global stock market decline resumed today in Tokyo amid growing tensions about the world-wide repercussions of a collapse in the US dollar to its lowest level in decades.

Share prices on the Johannesburg Stock Exchange crashed by a further 7,5 percent yesterday in hectic trading. Shares valued at R105 million changed hands.

Fresh falls in share prices on the Tokyo market, now the largest in the world, were triggered this morning when the first time since World War 2.

The dollar has also plunged to its lowest in years against such key international currencies as the West German D-mark and British pound.

There was growing alarm on the heels of warnings delivered by West German Finance Minister Mr Gerhard Stoltenberg that falls in the dollar exchange rate would hit the economies of all the leading Western industrial nations if they worsened.

The renewed retreat in share prices followed more declines on the key London and Wall Street stock exchanges late yesterday. The London FT 100-share index fell another 46 points and the Dow Jones industrial index dropped more than 50 points.

Since the October 19 "Black Monday", share prices have plunged by more than 35 percent on the Johannesburg Stock Exchange, wiping more than R100 billion off the market capita[illegible] of JSE stocks. Prices, on average, have returned to their level of more than a year ago.

One analyst described the rush to sell as "herd instincts overturning common sense".

The panic hit share prices across the board yesterday. The JSE all-gold index dropped by 9,3 percent to 1 573 and industrial stocks fell by almost 5 percent.

Panic selling

Deputy chairman of the JSE, Mr Paul Fergusson, said: "Unless overseas markets show a substantial upswing, panic selling by private investors will continue to push the market down."

Private investors have been largely responsible for the collapse in prices, but stock analysts are now convinced the big institutions are joining the selling spree.

"Some institutions have been selling portfolios valued at up to R2 million because share prices are approaching the levels at which they bought them originally," said Mr Keith Goode, analyst at stockbrokers Frankel Kruger.

"If this continues, the situation will really begin to look messy," he said.

Mr Rudolf Gouws, economist with Rand Merchant Bank, said share prices were getting closer to representing good value but added that, in the long run, the drop represented a reflection of the volatile international economic situation.

"International economic stagnation will hurt all our exports, including gold, and this will inevitably lead to a tightening of the economy," Mr Gouws said.

Gold is also not likely to give South Africa any protection. Mr Goode said: "Since the crash, people overseas have been postponing their pre-Christmas spending spree on goods, including gold products, so we could well see the gold price drop."

Minister says economy will improve

Political Correspondent

In the face of yesterday's sharp drop in share prices on the Johannesburg Stock Exchange, Deputy Finance Minister Mr Kent Durr said the South African economy was at the end of a recession and was moving into an era of better performance.

"There is no reason at all why one should not have the fullest confidence in the economy and therefore in the good companies participating in the economy," he said last night.

"There have been fluctuations caused by fluctuations elsewhere in the world, but then our economy is an open economy with 60 percent of all economic activity made up of exports and imports.

"If you look at the yield compared with those on the other markets of the world then the yields on the JSE are reasonable."

Mr Durr said he was pleased by the rising level of business confidence in South Africa, despite developments on the stock market.

58 5/11/87 B/day.

Awareness of money of the aged

HELEN WISHART

BUILDING societies and banks are more aware of providing a better service to senior citizens since the advent of government's "granny bond" scheme, says SA National Council for the Aged director Syd Eckley.

Commenting on the effect on the market of the over-60s scheme — launched on July 1 and effectively withdrawn on August 8 — he said insurance companies were "encouraging their agents to tap the aged money market and get information on how to handle the aged".

This was since institutions had recognised these people had more money to invest than they had given them credit for.

Eckley said the financial houses realised the aged required schemes tailored to their investment needs. For example, they should not find themselves tied into long-term investments or experiencing cash-flow problems, particularly as medical costs escalated.

Eckley said many aged people made ill advised decisions, and the vast inflow of money into granny bonds highlighted how "incomplete" information for the aged was. People saw what they thought was a tailor-made home for their money, without investigating alternatives.

If investors were fortunate, their children usually queried financial problems with relevant authorities.

Eckley said granny bonds highlighted the devastating effect inflation and rising costs had on the aged and their struggle for survival. The concept proved viable as a vehicle to help the aged by providing fixed interest as a buffer against declining interest rates. It meant the aged could stay economically active for as long as possible and maintain their quality of life without burdening government.

But government had committed itself to the scheme and should accept expectations had been created. He said the council had made recommendations to government that the same sort of scheme should be reintroduced — but on a different basis.

"Private business must also accept responsibility. Banks should recognise their loyal aged clients and have a moral obligation to plough back a bit."

He said more innovative products were needed — for example, old people should be able to make their houses "work" for them as investments.

Assistance should be provided to create "granny flats" so that the aged could rent out the rest of their properties, and building societies should take the initiative by advising clients on maintaining the value of their properties.

JSE prices fall in selling frenzy

Daily Dispatch Correspondent

JOHANNESBURG —Share prices plunged on Diagonal Street yesterday in a renewed wave of frenzied selling which swept the JSE overall index down 7,5 per cent (147 points) to close at 1 812 after the index had sunk to the 1 800 level.

The falls took the decline in the overall index to 35,3 per cent from its October 19 peak and the index is now below the level of November last year.

The slump was led by gold and mining financial shares but the negative sentiments affected all sectors.

The JSE all gold index tumbled nine per cent to 1 578, the mining financial index shed 10,8 per cent to 2 451 while the industrial index dropped to 1 537.

The 14 trading days settlement factor was believed to have accelerated the downtrend.

However, share prices recovered from their [illegible] towards the close of trading.

A feature of the market yesterday was the shortage of quality stock which developed as people who wanted to buy shares found that sellers were no longer prepared to sell at the lower price levels.

New listings were battered yesterday as two of the three newcomers opened well below their issue prices.

The Strebel Group entered the clothing board at an opening price of 165c, 21,4 per cent below the issue price. The price fell to 115c.

Alex White was quoted in the paper and packaging sector at its issue price of 100c but fell back to close at 65c.

Retail Management Services opened in the DCM sector at 20c, 15c below the issue price of 35c but recovered to close at 25c.

Five new listings will test the icy waters of the JSE today — The Movie Camera Company (Movicam), PDS Holdings, Prestige, Buildcor and Marlin.

Markets worldwide were still numbed by "Black Monday" on October 19 on Wall Street and anxious about the prospect of recession developing.

The dollar clawed back to close yesterday above its recent lows, but Asian and European stock exchanges fell sharply and Wall Street was lower at midsession.

Britain decided yesterday to follow a Dutch cut in interest rates as part of efforts to help prevent the worldwide financial market slump from sparking a global recession.

By PIETER LE ROUX
Director of the Institute for Social Development at UWC

No jobs behind stock exchange crash

IN the past week or two the value of stocks sold on the world markets dropped by anything from one quarter to more than one third.

In the case of the Johannesburg Stock Exchange the value of stocks was slashed by R70 billion. Headlines have screamed out messages of despair: "Chaos! Crash! Meltdown!".

For those South Africans who dabble in the stockmarket it has been a traumatic two weeks indeed. But what does all this mean for the ordinary South African who is struggling to eke out a living? What needs to be done if a depression like that of the 1930s is to be avoided? The answer depends on what one sees as the causes and the possible consequences of a stockmarket collapse.

Some have blamed US Treasury Secretary James A Baker III for causing a collapse in confidence when he criticised West Germany for violating a recent agreement to keep its own interest rates low in return for stability in the dollar's exchange rate. Although this remark may have been something of a trigger, it was, however, clearly not the fundamental cause.

Crash

That Baker and the West German officials subsequently emerged with an agreement, did nothing to restore confidence.

Most financial commentators blamed the crash on the dual deficits of the United States. Every year the American government is increasingly spending more money than it collects through taxation. This deficit has to be funded by loans to the American government, with the result that it has fallen deeper and deeper into debt.

The United States is importing far more than it exports. Generally, it is argued by members of the conservative financial press, these problems can be dealt with if the Americans cut their government expenditure. At the same time, it is often added, Japan and Germany will have to lower interest rates to stimulate consumer expenditure. These two countries are left with the task of pulling the world out of any recession which may threaten if the United States cuts back on its expenditure. The old Keynesian formula of demand management, now only on a world scale, is seen as the solution to the economic ills the world faces.

The problem goes much deeper than the idiosyncratic economic policies of a geriatric lame duck president. His deficit spending hides a deeper malaise. In most countries unemployment is today more than three times what it was a decade ago. The growth of the past five or six years has been very sluggish and the rate of overall unemployment is often in excess of 10 percent. Among certain groups, for example the teenagers in Britain's northern cites and the urban black youth in the States, the rate of unemployment is as high as 40 to 50 percent.

Blame for the extremely poor performance of the world economy was at first placed on the sudden increase in oil prices. However, there has now been a period of relatively low oil prices, and growth has remained sluggish. To argue under these circumstances that the American or English economies are "fundamentally sound", as Reagan and Thatcher have done, is to ignore the serious failure of Western economies to provide employment for all. These economies are similar to a six cylinder engine which limps along on five.

Bravado

Unemployment higher than 10 percent does not only imply that many potentially productive people are not able to contribute to economic growth, but it also places a high burden on on the economies that provide financial support for the unemployed.

In the case of South Africa people such as Dr Gerhard de Kock, president of the Reserve bank and Professor Brian Kantor of UCT, proclaim that the economy is fundamentally sound. Die Burger when it initially seemed as though

Pieter le Roux

the South African stock market would not collapse, published a cartoon of South Africa being a lighthouse of stability in an ocean of chaos.

This self-confidence shows a total ingorance of the fundamentals of the economy.

Responding to this bravado, Professor Colin McCarthy of the University of Stellenbosch argued that complacency because of the then high prices of stocks ignored some fundamental problems. He pointed out that during the past five or six years there has been a decline in per capita income in South Africa, that unemployment and underemployment have shown rapid increases, that the inequalities in income and wealth in South Africa were among the highest in the world and that for many South Africans conditions were as bad as the worst that is portrayed in other African countries

In the light of his comments, the collapse in the stock market was not that unexpected. It simply brought the financial world in line with economic realities. The poor have long known that all was not well with these economies. Now at last it has been brought home to the rich that the economy is not as healthy as they pretended when stock prices were sky high. Unfortunately, the collapse of the stock markets will not only hurt the rich. Indeed, if it leads to a deep recession, the poorer classes will suffer most.

American magazines have argued that there is no danger of a great depression. The Federal Bank will never again permit banks to go bankrupt as happened after the last big crash in 1929, they say.

However, this argument ignores the world economy's debt burden. If more and more of the debtor countries default on their payments, it will become an impossible task to shore up the banks.

Potentially, the situation is as dangerous as it was in 1929.

Revolution

As we have noted, right wing economists believe that the solution is simple. They blame the economic sluggishness on too much government involvement in the economy. Clearly some types of government expenditures are too high — the US deficit can partly be blamed on too high defence expenditures.

However, as the example of Sweden shows, where government expenditure is proportionally higher than in any other country in the world and unemployment is virtually non-existent, it is not government expenditure as such which is to be blamed for unemployment. On the contrary, correctly targeted expenditure is essential to overcome the structural problems the economy is facing.

The world is going through another technological revolution. The computer age is upon us. This new age calls for far greater levels of organisational and mathematical skills than what sufficed before. As a consequence, countries that provide unequal eduction and inadequate or no retraining facilities for their workers find that an increasing proportion of the workforce can no longer profitably be employed.

Redistribution

In Western countries, with their welfare systems, this places an increasing burden on government for welfare expenditures. In other countries, such as South Africa, the increasing unemployment is one of the causes of political instability, which also undermines economic confidence.

Only by a radical redistribution of opportunities can this malaise be overcome. In some countries this implies significant increases in expenditure to equalise educational opportunities and large scale programmes to incorporate those who have earlier been denied a proper education. This will call for more left wing governments. Now that the false bubble of economic confidence has burst, it is unlikely that a Thatcherite type of government will survive in any of the Western countries.

In South Africa the short run picture may not be quite so bleak if the gold price increases, but once the demand for South Africa's other exports fail, South Africa will also be hit by the full force of the recession. And here the structural economic problems are far worse, for generations of apartheid education have ensured that a large proportion of the population do not have the skills required to face the challenges of a computer age.

To rid ourselves of this sad heritage, a radical transformation needs to take place not only in the economic, but firstly in the political sphere. Only then is it likely that the policies needed to face the new age will be adopted.

In the meantime one can only hope that further educational upheavals do not forever destroy the possibilities for South Africa to wipe out the disasters of an apartheid system.

Wall St picks up after fears

Cape Times 6/11/87 58

By AUDREY D'ANGELO
Financial Editor

WALL STREET showed signs of recovery late yesterday and the US dollar began to strengthen after a day in which renewed fears of recession caused further falls in stock markets all over the world — including the Johannesburg Stock Exchange (JSE).

Finance Minister Mr Barend du Plessis said last night that he was confident there would be no recession. He said South Africa would have to "wait and see how difficulties in other parts of the world will affect us".

Leading South African economists also said they did not expect a recession although Mr Mike Daly of Southern Life and Professor Brian Kantor of the University of Cape Town warned that our export markets would be harmed by the weaker world economy.

As the dollar fell further against major currencies yesterday, reaching a new record low against the West German mark and the Japanese yen, the gold price also fell, closing in London at $460,50 an ounce and causing more panic dumping of gold-mining shares. Gold fell further to $457,75 in late bids in London.

Quality gold shares fell by as much as R15 on the JSE. The Business Day indices showed the top 100 shares dropping to 1 678 from 1 759,8; the gold index dropping to 1 373,7 (1 499,8) and metals to 708,1 (759,7).

Throughout the world, investors continued to watch the US as the weakening dollar sparked fears of a recession there that would spread to other countries with the loss of this vast export market.

But the dollar began to strengthen and in late trading on Wall Street share prices rose across the board.

The Dow Jones index of leading industrial shares rose 43 points to 1 988. More than two shares rose for every one that fell.

● Heavy losses on JSE — Page 12

THE executive president of the Johannesburg Stock Exchange, Mr Tony Norton, is the guest speaker at the next meeting of the Seeff/Cape Times Executive Breakfast Club at 7.30am on December 8 at the Mount Nelson Ballroom. Bookings: 44 9175.

BUSINESS BRIEF

Gold (Ldn close)	$460,50
Gold (NY close)	$458,50
Rand	$0,5025/32
FT index (close)	1287,90
BD 100	1678,60
Dow Jones	1985,41

first six months of the current fiscal year — year follow the same pattern ...

Rates to all borrowers cut

Bond wars: NBS fires latest salvo

(58)

B/Day 11/11/87

HELENA PATTEN

COMPETITION in the financial service sector continues to escalate with building societies squaring up to meet the challenge of banks in the home loan market.

Yesterday, the Natal Building Society (NBS) announced it was cutting the cost of home loans to all borrowers from 14,5% to 13,5%.

Banks are at present charging a mortgage rate of 12,5% for home loan finance.

In a separate development, banks granting 100% home mortgage bonds were yesterday accused of indulging in a "questionable practice" by Building Society Association president Mike de Blanche.

The NBS move follows the Allied's weekend decision to chop its rates to 13% from 14,5%. However, unlike NBS, Allied's new rates are only offered to new borrowers.

NBS assistant GM: loans Trevor Olivier said in a statement new borrowers would start with the new rate immediately, while existing borrowers would start benefiting from February 1 next year.

He said: "We feel strongly it is important to maintain the same rate for existing borrowers, many of whom have remained loyal to the society for years."

In addition, he announced there were plans to introduce other benefits for existing borrowers.

The United Building Society presently charges 12,95% on new loans — existing bond holders pay an interest rate of 13,5%.

De Blanche, also MD of UBS Holdings, speaking at a Press conference at which the association's annual report was released, said the building society movement had for many years "placed a high premium on the principle that sound lending policy demands that a homeowner should have a personal stake in his property, failing which it is self-evident that mortgage finance becomes increasingly exposed to abuse".

He said despite severe competition from commercial banks, building society mortgage lending was expected to top the R10bn mark for the year ending March 31, 1988. Of that amount, some R8bn represented mortgage finance secured by domestic residential property.

In the year to March 1987, the building

● To Page 2

In view of the conflict of interests arising from UBS Holdings' relationship with Volkskas and Liberty's relationship with Standard Bank Investment Corporation, Liberty chairman Donald Gordon and UBS CE Piet Badenhorst have amicably agreed, in the interests of all concerned, to withdraw from each others' boards from the end of this year.

UBS has recently acquired a 30% share in Volkskas and Liberty upped its stake in Stanbic to 30%.

Home loan competition hots up

● From Page 1

society movement's total assets were R28,3bn, compared with R23,7bn in the previous year.

De Blanche said the increasing proportion of funding derived from the corporate sector was a manifestation of the growing erosion of the man-in-the-street's ability and propensity to save. "Whatever measure of personal saving is still taking place tends to flow largely into investment instruments sheltered from taxation or hedged against inflation.

"This has proved highly beneficial to the life assurance industry which has considerable investment discretion and enjoys substantial relief from taxation. These institutions have, to all intents and purposes, become deposit-receiving functionaries with a decided competitive advantage over building societies in vying for savings in the retail market," De Blanche said.

"In the interests of all concerned, there is clearly an urgent need to address these issues with a view to establishing an equitable dispensation across the financial services industry."

De Blanche said the movement's overall recent results, achieved in the face of adversity, bore testimony to the wisdom of the decision taken by some of the major societies to seek stock exchange listings.

He added an increasing need for simi-

It was agreed a joint working comm...

Overall index plunges 147 points

Prices drop in frenzy of selling

58

B/day 5/11/87

MERVYN HARRIS

SHARE PRICES plunged on Diagonal Street yesterday in a renewed wave of frenzied selling which swept the JSE overall index down a massive 7,5% (147 points) to close at 1 812 after the index had sunk to the 1 800 level..

The falls took the decline in the overall index to 35,3% from its October 19 peak and the index is now below the level of November last year.

The slump was led by gold and mining financial shares but the negative sentiments affected all sectors. "The market has taken a terrible licking," a dealer said.

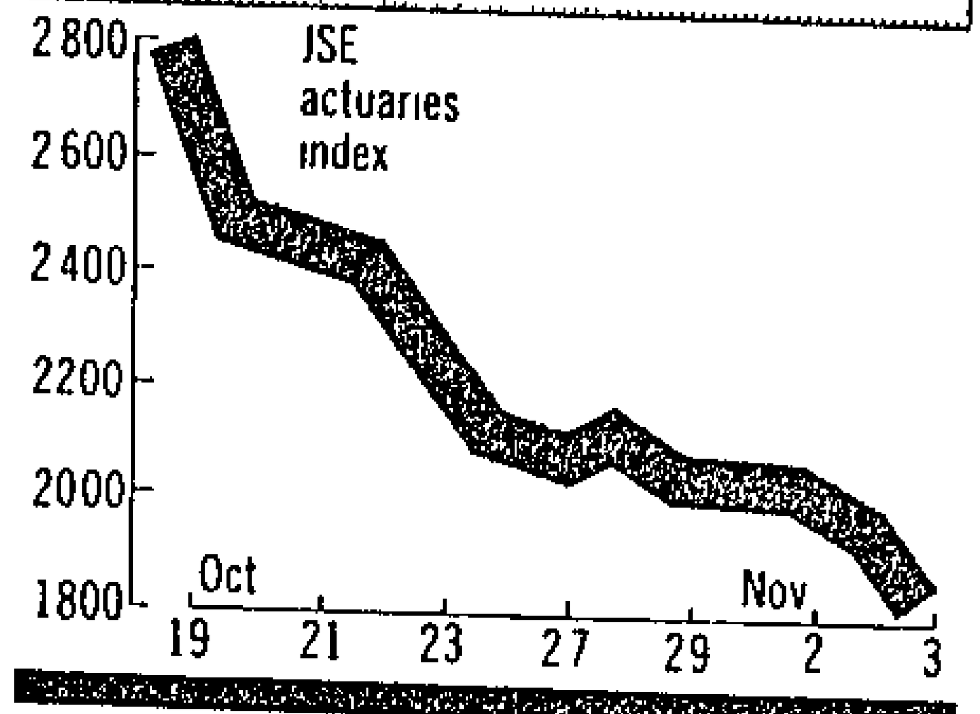
The JSE all gold index tumbled 9% (156 points) to 1 578, the mining financial index shed 10,8% to 2 451 while the industrial index gave up a fuirther 4,8% to 1 537.

The 14 trading days settlement factor is believed to have accelerated the downtrend. However, share prices recovered from their early lows towards the close of trading.

A feature of the market yesterday was the shortage of quality stock which developed as people who wanted to buy shares found that sellers were no longer prepared to sell at the lower price levels.

"The declines have been so great that institutional sellers are pulling back as they believe that at current levels the shares represent good value", said a dealer who was unable to fulfill certain

JSE Overall Index



Source JSE Graphic JOHN McCANN

orders.

New listings were battered yesterday as two of the three newcomers opened well below their issue prices. The Strebel Group entered the clothing board at an opening price of 165c, 21,4% below the issue price of the shares which were privately placed at 210c each. The price then plummeted to close at 115c.

Alex White was quoted in the paper and packaging sector at its issue price of 100c but fell back to close at 65c. Retail Management Services (RMS) opened in the DCM sector at 20c, 15c below the issue price of 35c but recovered to close at 25c.

Liz Rouse reports that five new listings will test the icy waters of the JSE today — The Movie Camera Company (Movicam), PDS Holdings, Prestige,

To Page 2

Prices plunge in fenzied selling

Buildcor and Marlin,

From Page 1

Black granite producer, Marlin, has already tested the market. The nil paid letters closed at 1c yesterday. Marfin started with a 50-for-100 rights offer to Johannesburg Corporation/Consolidated Corporation shareholders.

Diesel engines and transmissions group PDS, whose private placing of 2,84-million shares at 50c each was fully taken up, is projecting earnings of 6c a share for the year to June 1988, which makes prospective yield 12%, substantially higher than the DCM average.

Movicam, which privately placed 2,5-million shares at 85c each, is hoping that investors will take a long-term view of burgeoning foreign film-making in SA.

Prestige Group comes to the furniture and household sector through a preferential offer of 100c each.

Buildcor comes to the building and construction sector through a public offer of 15,9-million shares at 55c each of which 1,9-million shares were privately placed.

Mast Holdings reports that its public offer of nearly 2,7-million shares at 50c each, has been fully subscribed. It comes to the DCM on Friday, November 13.

Grant Andrews Holdings' private placing of 2-million shares at 125c ecah has been fully subscribed, wiht institutions taking up a large proportion of the offer.

MD Mike Edwards is confident that the public offer of 1-million shares will be take up with a slight oversubscription. The offer closes tomorrow. (Friday).

TRUST BANK

More efficient

Activities: *Bank providing full range of financial and investment facilities.*

Control: *Holding company is Bankorp and Sanlam has ultimate control.*

Chairman: *F J du Plessis; managing director: C J van Wyk.*

Capital structure: *132,9m ords of 50c each. Market capitalisation: R332,2m.*

Share market: *Price: 250c. Yields: 4,3% on dividend; 14,7% on earnings; PE ratio, 6,8; cover, 3,4. 12-month high, 300c; low, 128c. Trading volume last quarter, 3,2m shares.*

Financial: *Year to June 30.*

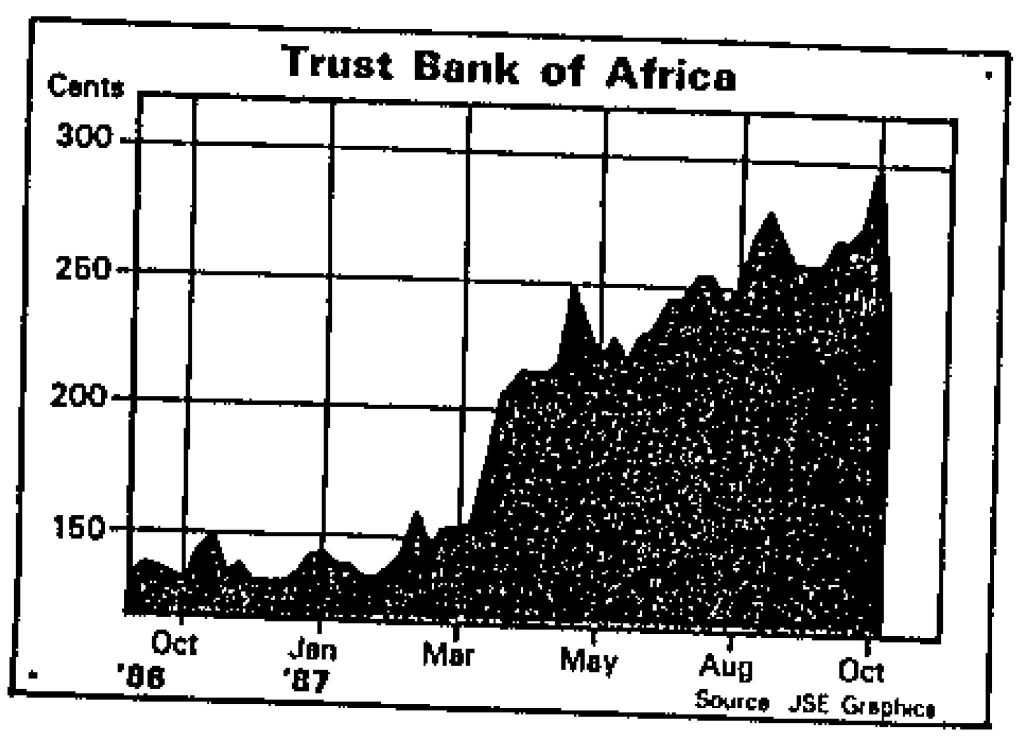
	'84	'85	'86	'87
Advances (Rm)	4728	5565	5873	5926
Total assets (Rm)	5383	7277	8886	9258
Taxed profit (Rm)	42,9	39,2	39,2	47,8
Attributable profit (Rm)	n/a	n/a	12,0	14,0
Earnings (c)	32,3	29,5	29,5	36,0
Dividends (c)	—	—	9,0	10,5
Net worth (c)	164	172	193	218

Trust Bank is one bank which the investor has to take on trust, as it remains on limited disclosure. It would appear from the annual report that the performance improved in the 1987 year, but this is after transfers to reserves and, as usual, no details are given about the level of bad debts or provisions.

One can pick up certain trends, though. Advances climbed less than 1%, total assets by only 4,2% and clients' liabilities by 27%. Chairman Fred du Plessis attributes the less-than-inflation growth to concentrating on improving overall quality of outstanding loans and advances, and to the economic climate and the JSE boom.

Du Plessis says a better quality of loans contributed to an improvement in bad debts, but also led to low growth in assets. The second factor depressing growth in loans is something all banks have experienced: businesses have recapitalised balance sheets with equity and repaid debt; those requiring new capital have also turned to the JSE.

Trust's considerably improved efficiencies can be seen from the low rise in operating expenses (4,6%). Pre-tax profit per employee was 94,6% higher than in 1986: employee remuneration rose only 3% and the number of employees dropped 8% last year, and 16% since 1984. Increased automation is one reason for shrinking the payroll — operating costs of electronic data processing and communication technology rose by 16%.




Trust's Du Plessis ... improved quality

Many banks are divesting outside interests. Trust last year sold Suzuki Distributors and the Capetonian Hotel. Du Plessis says long-term strategy is to sell all non-banking interests. The one left at present is Protea Hotels, which is still making a loss, though less than in 1985-1986.

With the stock market uneasy, and large amounts of banking paper circulating, it is reassuring to know that Du Plessis considers there is no reason to make provision for strengthening the bank's capital in the foreseeable future. Trust has already exceeded the capital requirements of the new Banks Act for 1987. The general reserve was increased R33,8m last year "in accordance with the group policy that capital formation is funded primarily out of own resources."

As with most companies at present, fundamentals look better than the outlook for the share price. The JSE slide could make more companies turn to banks for funds, but is also bruising bank share prices. Trust has done well in the past year, but it is anyone's guess what will happen to the price. *Pat Kenney*

Sizing up the competition

In this, the second part of our feature on life assurers, we examine some of the issues concerning their enormous growth.

Another factor for which life assurers are criticised is their size which, people say, is against the policyholders' interests because it reduces the competition.

Their growth has been phenomenal, as represented in the accompanying graph. It shows the total annual premium income for the industry as collated by the Life Offices' Association. Each half year assurers report their premium income for the previous 12 months as at June and December.

Morris Bernstein, deputy chief executive officer of Southern Life, disagrees with the criticism. "In fact, with big groups coming together, you can actually have an increase in competition. It is good to have big players from a resource point of view and a reserves point of view."

He says with the increased need for computer power and the economies of scale both possible and necessary if you are a large company these days "you can't compete unless you are of a reasonable minimum size."

Comments Old Mutual MD Mike Levett: "We don't see growth as our primary business objective. Our first priority is to give our clients excellent value for money, and we work very hard indeed at our investment performance. We view growth and gains in market share as an indication that we are doing a good job.

"But size is obviously important," he says. "As well as offering greater financial security to all of its clients, a larger office can afford to place really powerful resources at the disposal of its investment team."

Old Mutual and Sanlam each comprise about a quarter of the industry. Yet it is clear that size is not necessarily a recipe for success in the long term. Old Mutual, a large Cape-based mutual company has lost market share, while Sanlam, another large Cape-based mutual, has gained market share.

It is also clear from the graphs published last week that a smaller life assurer, Southern Life, lost market share over the period. Similar-sized Liberty Life gained. And while a medium-sized assurer, Lifegro, gained slightly over the full period, another similar sized assurer, Prudential, lost considerable market share.

It is also known that a number of very small assurers captured market share during the period to the detriment of others.

On Prudential's position, Mark Winterton, joint MD of Liberty Life, says the company has had problems over the years. "It did not have much success in conserving its agency force. And it lost a large chunk of business because many of its agents banded together to form North City Brokers. Liberty Life was a major beneficiary because of this."

He says that universal life products had considerable influence on market shares more recently. "Prudential was out of the market for a while which didn't help them. Now they are in gear but it is perhaps a bit late."

In March the merger between Liberty Life and Prudential was ratified.

Talking of Southern's performance, Bernstein says: "Market share does not necessarily mean profitability. Some have gone for market share at any cost, and have been very successful at it. On the other hand, others have gone for specific areas of the market. Southern does not want to be all things to all people; although maybe all things to some people."

Now that the Southern-Anglo merger has settled down well he says, "We are poised to increase market share in the years ahead. A meaningful increase has already taken place in the second half of 1986," says Bernstein.

Chris Cunningham-Moorat, senior GM operations of Lifegro, says to the end of 1984 his company "was the fastest growing of any of the significant sized companies. We prefer innovation. But after this period we were dealt a set-back by the authorities following changes to tax legislation."

He says that Lifegro is now in a "unique" position, however, being the "only medium-sized company left in the market. So we are small enough to react fast and flexibly, and yet we have the size to get a return on innovation."

He believes Lifegro can exploit the profit opportunities "better than larger or smaller companies" because of this. "Profit share, not market share is the key," he says. He also believes that "mergers give indigestion" and thus are not a recipe for growth.

Dorian Wharton-Hood, joint MD of Liberty Life, says: "Not every life office has the same objectives. The race for size may not mean that benefits flow through to the policyholders. So growth alone is not necessarily the criteria. You must grow profitably for the benefit of both your policyholders and shareholders."

He points out that there can be a major shift in the mix of business written. "It is a lot easier to grow when you obtain group pensions business, for example, whereas it is difficult to grow on individual life business."

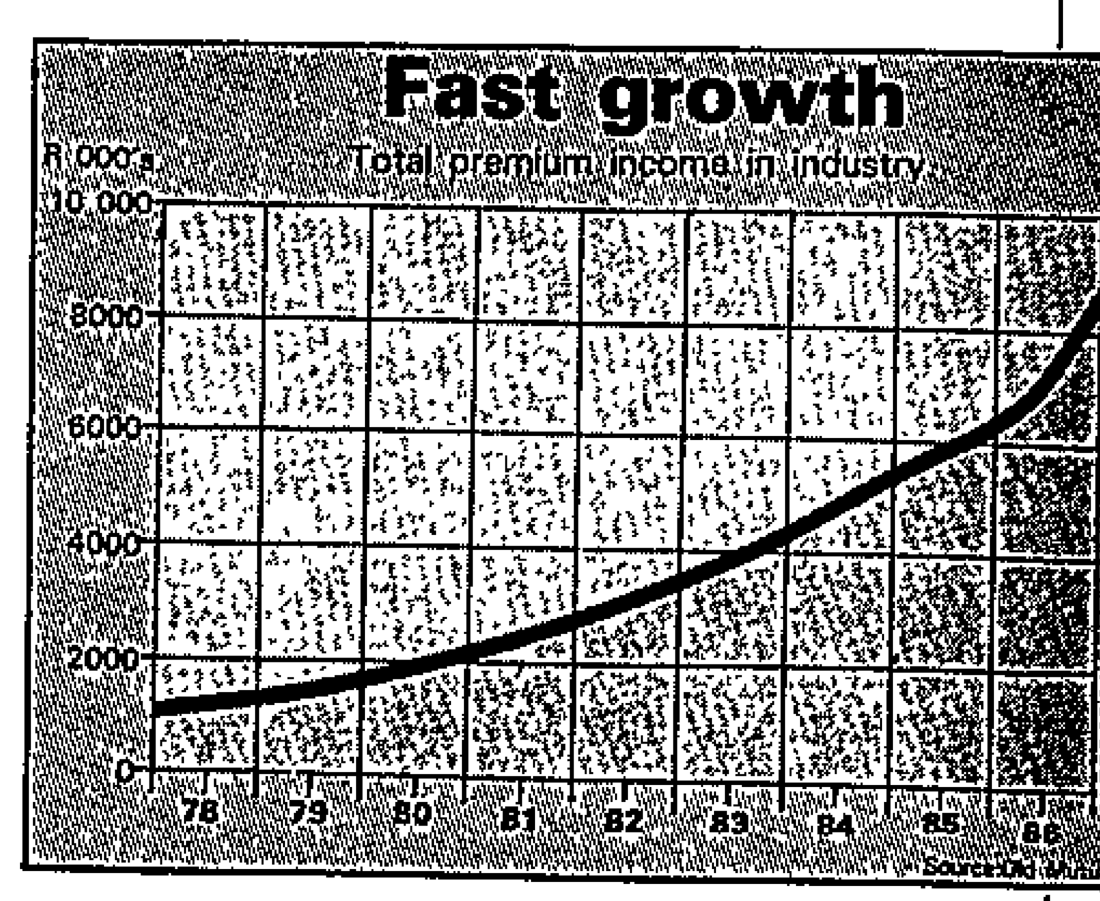
The fact that an assurer is a mutual company or a company with shareholders, is also not necessarily a criterion for success. What is probably the deciding factor is the quality of management.

Over the 30-year period only two of the larger assurers steadily improved their market shares: listed Liberty Life and mutual office Sanlam.

While Sanlam's traditional strength and support came mainly from the broad Afrikaans-speaking community, Liberty Life concentrated particularly on the more affluent English and Jewish market segments. Although the two companies applied fundamentally different strategies in the various segments of the market, both managed to progress more successfully than other assurers.

And in the table, showing growth in premium income in 1985, Liberty Life took a larger slice of the increase in net premium income than Old Mutual, over double its size in terms of assets.

As to the future, Wharton-Hood expects more mergers, and not only for economies of scale. "The skills shortage won't go away, one reason for the Liberty Life—Prudential merger. We're hedging our bets against a further loss of skills."



Those that have skilled management, the best products and good service, will continue to grow faster than those that do not. Companies that deploy their resources simply to gain market share in the short term, may lose in the long term. But which life assurers will progress most over the next 30 years — and indeed which ones will still be around — only time will tell.

Meanwhile, Old Mutual and Sanlam will continue to thrash it out. Says MD of Sanlam, Pierre Steyn: "During the past two years we increased our market share substantially, and we are confident that we will increase it even further in the next few years in a manner which will benefit all our policy owners."

Fighting talk indeed. ■

MUTUAL COMPETITION

SA premium income growth 1985

	Amount Rm	Market Share
Sanlam	291,2	33,2%
Liberty Life	176,6	20,2%
Old Mutual	155,5	17,7%
Southern Life	56,1	6,4%
Lifegro	19,7	2,2%
Others	178,1	20,3%
		100%

Source: Sanlam

GROUP SCHEMES

Merry-go-round

It was a close shave for some 46 000 policyholders recently when their business was rebroked by Bancura. They were technically without insurance for about a week, when at least 400 claims would have arisen.

As it turned out, says Willem Heine, a director of Bancura, "Clients lost nothing."

Originally ACA Insurance had accepted R48m group schemes business (*FM* September 25). Only when it came to signing on the dotted line did the company withdraw, accusing Bancura, among other things, of failing to supply the necessary information, and failing to fulfil certain conditions.

In essence, ACA wanted 100% of the premium paid, without deduction of commissions, before October 7 for cover that month. Commissions would then be paid to the broker within 48 hours.

But, as Willie Smit, non-life manager for ACA, explains: "In fact Bancura only paid us 85% of the premiums and after the cut-off date." Nor did the broker supply a borderaux to detail the individuals covered. He says this meant ACA was never at risk, and that it was Bancura's problem.

As it turned out, Mutual & Federal accepted the business backdated to October 1, "for the same terms, conditions and premiums," says Heine. He also claims he supplied ACA with all information requested.

For members it's been quite a merry-go-round. The business originally came onto the market following Bancura's rejection of hefty premium increases from the previous underwriter, Santam. Some members would have faced increases of as much as 44%. They almost faced the additional hazard of claims repudiation.

Heine says the group schemes comprised the Public Servants Association (PSA), with 37 000 policyholders, and the balance was made up of the Cape Province Teachers' Association, Hospital Association and Somchem.

Analysts suggest ACA also withdrew from the contract because "with an annual premium base of about R1,5m, it could not have had the necessary administrative resources to take on such a sudden surge in business, especially considering the possibilities of handling large numbers of claims estimated at some 2 000 a month."

Despite the size of ACA, Hans Olivier, manager of PSA, says: "We weren't much worried about it taking on our business, even though the huge increase in premium may have disturbed its solvency margin. Also, Bancura is geared to deal with all the claims and administration work on behalf of ACA — so again we had no worry."

Denzil Curgenven of Quest Insurance Advisory Service points out that ACA is owned by a powerful international composite, Assurance Generale, which is number two in France with total group premiums in excess of SA's entire short-term market.

He also says that ACA's solvency margin would not have been in danger. At December 31 1985, it was no less than 537,7%.

"If, for example, it had retained R36m for net account, the solvency margin would still have been 20%. The problem was the administrative side. I don't see how any insurer can go from R1,5m to R50m and have the wherewithal to cope."

Sias Scott, the underwriting manager at ACA who negotiated the deal, left the company before October 1. Smit says this had nothing to do with the group schemes, and that Scott left for personal reasons. Besides, he says, ACA was well-placed to handle the administrative work and that it "had been agreed with the brokers they would handle claims up to a certain point."

He stresses the real problem was that Bancura would not pay the full gross premium over timeously. ■

(8)

6/11/87

SHORT-TERM INSURANCE 58

Treaty dilemma

FM

6/11/87

Insurers, squaring up for year-end treaty negotiations, are heading for an interesting dilemma. On the one hand, they will be anxious not to upset local reinsurance loyalties, given the persistent spectre of sanctions; on the other, they could find softening overseas markets so irresistible they will press existing reinsurers for improved terms and conditions or go elsewhere.

What hangs in the balance is whether both private and commercial insureds can look forward to lower premiums next year.

Reinsurers acknowledge they've had two "reasonably profitable years." Swiss Re, for example, enjoyed an underwriting profit for the year ended December 31 1986 for the first time in 15 years (*FM* June 12).

But that was before the Natal floods, which will cost reinsurers both here and overseas at least R375m, according to preliminary reports. As Ernst Kahle, MD of Munich Re, makes clear: "Reinsurance is, of course, a shock absorber, and we will expect the Natal losses to be repaid over time." Currently, he says, there's no fat for local reinsurers to live on — which suggests they will take a firm line for January 1 renewals.

Insurers generally expect the going will be tough, though they will point out that 1985 and 1986 were good years and, in the words of one insurer, "we will use that as our bargaining chip."

An important factor, as mentioned, will be softening overseas markets. According to US reports, there has already been a 20% reduction in rates for general liability, motor and workers' compensation; excess covers are down between 10%-30%; while aviation rates are down about 25%. On world markets marine rates have also plummeted.

Priceforbes Federale Volkskas reports that most risk managers are coming back from July property/casualty insurance renewals with "almost all the coverage they sought, and change in their pockets."

The dilemma for insurers with December year-ends is whether they could or should go fishing overseas for cheaper covers and thus improve their competitive edge for 1988, or remain with existing reinsurers. Taking the wrong course now will give insurance companies with treaty renewals later in the 1988 season a distinct advantage.

Capacity has increased abroad and there are indications that foreign reinsurers are taking more interest in South African risks. Already, increasing numbers of companies have gone to London for "losses occurring" liability insurance (*FM* October 2).

Comments John Bull, MD of Aegis: "I'd be disappointed if South African insurers take advantage of the softening market. If anything, fire rates are still on the low side."

Another insurer warns that some local reinsurers were on the verge of pulling out two years ago. "If we don't support them now, it will make life difficult for them: they could withdraw on the back of a softening London market."

One major reinsurer, however, discounts this. "I doubt if this was ever a possibility."

Insurance brokers will exert pressure too. Mindful of the need for a strong local market with sufficient reserves, they will nevertheless press for premium reductions, and not only for commercial clients.

Personal lines customers with householders' and motor insurance policies are well aware of the swingeing premium increases they've had to face doring the past two years. Brokers are looking with a keen eye at those companies that have reported much improved underwriting accounts. Although Bull says that household and motor profitability is still marginal if anything. "And the better results published by insurers for the first half of 1987 were due mainly to a big reduction in fire claims."

Besides, although underwriting accounts have improved, reserves of many insurance companies are insufficient to survive fierce competition, particularly given the growing skills shortage in the industry. The fall in the JSE is also putting pressure on solvency margins. Indeed, with hail, the continuing high crime rates, and fraudulent claims, insurers are hardly out of the woods.

Comments Gareth Bradburn, assistant GM Swiss Re: "It's too early to tell. Five weeks ago I would have said that overseas reinsurers would start undercutting the market. But they will now pick up a fair amount of the losses from Natal. Also, they have had recent storm losses in northern France, northern Holland and southern England.

"The impact of these losses should not be underestimated. I am now a little dubious that overseas reinsurers will be so keen to take on more South African risks."

Adds another insurer: "If competition hots up too briskly before insurers have built up sufficient reserves, then the whole cycle will start again: rates will be slashed; cash flow underwriting will return to the market; and people will be able to buy more for less. That may seem attractive to hard-pressed consumers, but will only cause even worse problems than we had a few years ago."

Says Bull: "If some insurance companies do go to London to fill their reinsurance facilities, and are successful, it will create pressures on others to follow suit."

And that could be dangerous. ■

Barend: We will beat the market

58 ST 8/11/87

Business Times Reporters

THE Government pledged this weekend that it would protect South Africa's fledgling economic recovery which is threatened by a plunging JSE and other world stock markets.

Finance Minister Barend du Plessis said: "Macro-economic policy will be used responsibly to encourage the recovery."

This suggests that any slowdown in economic activity resulting from the stock-market crash will be countered with lower interest rates, taxes and increased Government spending.

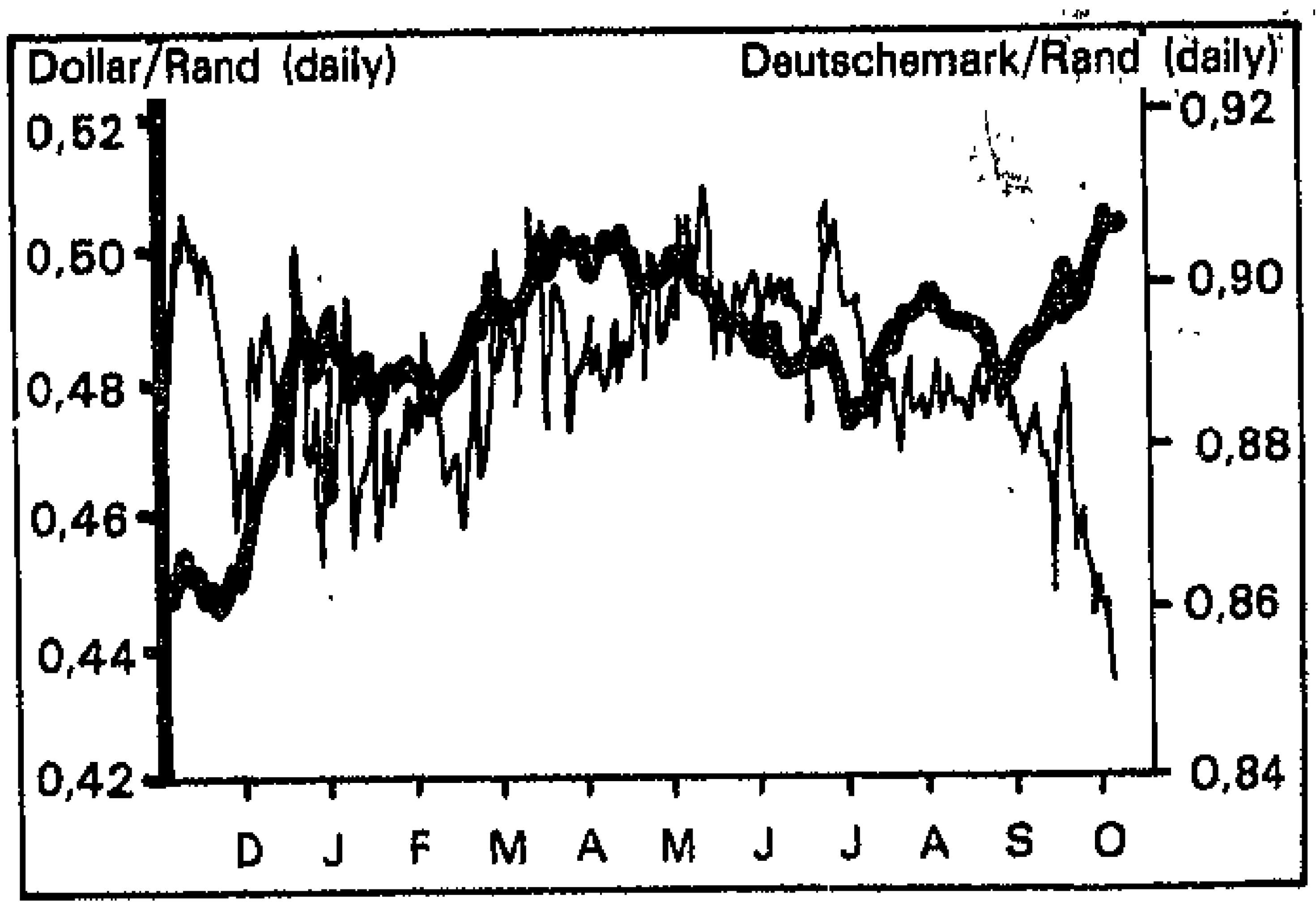
Mr du Plessis said the 40% decline in JSE prices was generally not justified and ascribed it to "psychological factors".

The upturn, won at great sacrifice, would be protected and he appealed to investors to take a long-term view and consider the economic fundamentals.

SA was lucky in that institutional investors preponderated and that relatively few shares were bought with borrowed money.

A JSE dealer said there was "blood all over the floor" on Friday as a bell was rung at the close of trading to signify 100 years of trading.

As many of its members and clients were smarting from huge losses, the JSE held a lavish banquet last night to celebrate its centenary.



If you think the rand is looking strong, look at the D-mark

In another development on Friday, Stocks & Stocks postponed its listing, which, after that of Saambou, was scheduled to be the biggest still to be launched. The issue price valued Stocks at R135-million.

"We have not cancelled the whole thing," said managing director Reg Edwards, "We will wait for the market to settle down and think again after the builders' December holiday."

This brings to 14 the number of companies that have postponed listings. Others are Sanchem, Hyprop, Nuplate, Decor, Win Holdings, Frog Electronics, RMB Clothing, Tie Man, Embroitex, Proprop, Umgeni Foods, Seartec and Senmag.

The JSE Actuaries overall index gained 49 points on Friday after another disastrous week. The index closed at 1 721 — down 15,6% on the week and 39% on the all-time high of 2 804 on September 19.

Ironically, profits of listed companies continued to soar. Thirty

□ To Page 3

P.T.O.

project, which was announced this week, was prompted by a growing local de-

announcement today the com-

Allied drops rate: societies back in a spot

S8 9/11/87 BDay

JENNY BOBERG

BUILDING societies are again caught in the crossfire of the mortgage bond rates war after the Allied Group's decision at the weekend to cut its bond rate for new borrowers from 14,5% to 13%.

This means Allied's building society competitiors (except the UBS) are now all charging higher rates, which could force further rate cuts — particularly in the face of the traditionally more favourable rates offered by banks.

Trust Bank senior GM Kobus Roetz said: "This ever increasing competition may be a factor in forcing interest rates down even further."

The level of liquidity in the market also had an important bearing on rates.

"The JSE slump has meant improved liquidity, and this might put downward pressure on interest rates. On the other hand, if the number of investors seeking refuge in property increases, then interest rates will get higher."

But SA Perm senior GM Hugh Maclaghlan said yesterday he could not yet comment on whether the Perm would follow the Allied's cue. "There are many questions to consider. I doubt we would want to jeopardise our existing client base by offering a more favourable rate to new clients."

FINANCIAL SERVICES

General connection

Another piece of the puzzle in one-stop financial services fell into place recently when First National Bank acquired 20% of General Accident. All five major financial groups now have a short-term insurance connection.

They are:

- ☐ Sanlam-Trust Bank-Santam;
- ☐ Old Mutual-Nedbank-Mutual & Federal;
- ☐ Liberty Life-Standard Bank-Guardian National;
- ☐ Lifegro-Volkskas-Aegis; and now,
- ☐ Southern Life-First National-General Accident.

While all five also have strong insurance broking connections, as can be seen in the accompanying graph, First National has not yet linked up with a building society. It may never do so, of course, since it could be argued that its in-house home loan department amounts to the same thing.

Says Jimmy McKenzie, senior GM at First National: "So far we have R1,5 billion outstanding in mortgage finance with another R360m in the pipeline."

Another commentator says a link with a building society may be something for the future, though with the move towards a "level playing field" where all institutions will have to compete on the same footing "this may not be necessary."

It is to be noted also that Anglo American, through various shareholdings, effectively controls 35% of the short-term insurer.

For its part General Accident can expect distinct benefits from the new deal as was the case with Southern Life.

Says Morris Bernstein, deputy CE at Southern: "Being closer in a group like this makes it a lot easier to put something together." For example, jointly with First Bowring, the "Futura" policy was developed.

Since its launch in August 1986 Futura has produced R200m of business through both Bowring and First National branches. It is a "back-to-back" policy requiring a single premium payment into an annuity. Out of this is paid regular premiums to a 10-year endowment policy.

In the same way, says McKenzie, "First National branches will promote sales and products of General Accident." He adds that the bank has long promoted Old Mutual products, "and in turn we have a substantial slice of its banking business."

Alan Wilson, First Bowring MD, stresses his "avowed independence as a professional broking house. Whatever the shareholdings in our company we always work independently. We don't want to think we are in anyone's pockets. General Accident has got to give us the service and the product." Of course, as part of a bigger family, Wilson says, at least "we will look kindly on them."

Black market

Also in the group is African Life, specialising in life assurance for the black market, and three finance arms: Wesbank, First Consolidated Holdings and Southern Life Equipment Finance.

The First National-General Accident deal was for "an undisclosed sum" and will be effective January 1. General Accident's UK parent company will hold 51% of the equity; the transaction is "in line with the company's philosophy of creating broader local bases in the countries in which it operates." Significantly, it retains control; which discounts suggestions of disinvestment for political reasons.

Says Clive Dean, MD of General Accident: "In addition to an investment offering a favourable return, First National will have a direct interest in a reputable short-term insurer. This will not affect its existing relationships with other short-term insurers." ■

Allied drops rate: societies back in a spot

(58) 9/11/87 B/day

JENNY BOBERG

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But SA Perm senior GM Hugh Maclaghlan said yesterday he could not yet comment on whether the Perm would follow the Allied's cue. "There are many questions to consider. I doubt we would want to jeopardise our existing client base by offering a more favourable rate to new clients."

Matter of fact

(58)

THE Insurance and Allied Workers' Union of South Africa has changed its name to Banking Insurance Finance and Assurance Workers' Union.

The *Sowetan* erroneously referred to Bifawu as the Black Insurance Finance and Assurance Workers' Union in a report published on November 7.

We wish to apologise to the union for any inconvenience that may have been caused by the error.

Sowetan 10/11/87.

ARGUS 10/11/87 (58)

FINANCE

Allied move could spark bond rate war

The Argus Correspondent

DURBAN. — A new round of mortgage bond rate cuts is due to follow the Allied Building Society's weekend announcement that its rates for new borrowers will drop to 13 percent from 14,5 as from yesterday.

However the cuts, which should further stimulate a recovering property market, will tend to help new buyers rather than existing bondholders.

Mr John Bennett, managing director of the Natal Building Society, said that his board was to meet yesterday to decide on possible cuts.

He felt strongly it was wrong to penalise existing customers by giving new borrowers cheaper finance — even though it might be necessary to offer this option for a short while.

Mr Bennett noted that the Allied had not announced a date when existing borrowers would also enjoy an equivalent rate cut.

He said the NBS, like the Allied, had been "watching the recent market position carefully."

The building societies' cost structure has been reducing because older investments at higher rates have been maturing — which now makes it a little easier for them to offer a lower bond rate.

The banks, with rates at 12,5 percent and the United, at 12,95 percent for new borrowers, have been worrying the other societies which at present offer 14,5 percent.

The Allied said in its announcement that from yesterday it is offering bonds of 90 percent and an option to peg rates for as much as five years.

PEGGED RATE

Existing borrowers can also take the pegged rate option — at 14 percent for one year, 14,5 percent for two years, 15 percent for three years, 15,5 percent for four years or 16 percent for five years.

Meanwhile, other building societies said they were not planning to follow the Perm's lead in opening banking halls on Sundays.

"People really just want to obtain money on Sundays and our automatic teller machines already provide that," Mr Bennett said.

The Perm move, which initially drew some negative reaction from staff but has been placed on a voluntary basis, sees roughly 18 out of 55 Natal outlets open on Sunday mornings.

The move is partially seen as an effort to limit the costliness of computer problems which have resulted in Perm customers using the automatic tellers of other institutions through the Saswitch network. The Perm has to pay other institutions a fee for the volume of Perm business which they handle.

Mr Brian Whitfield, general manager (marketing) at the Perm, said there had been computer "teething problems" but it was "simplistic" to say the cost of ATM use was behind the Sunday move.

In fact, the Perm had identified a real customer need to have branches open on Sundays.

"They want to be able to come in and discuss their needs without the pressure on time." He said at present the Sunday openings were only in Natal but might be extended elsewhere.

₌ttle for home nds hots up

DD 11/11/87

(58)

Daily Dispatch Correspondent

JOHANNESBURG — Hundreds of rands a year are being lopped off bond repayments as the battle for custom between banks and building societies hots up.

Estate agents said last night that lower interest rates on bonds announced in the last few days would stimulate already buoyant property sales.

But some warned that the lower rates could also have the effect of pushing up house prices "since people will be able to afford to pay more".

The latest to cut its interest rate on home loans, from 14,5 per cent to 13,5 per cent, is the Natal Building Society Unlike other societies which have recently announced cuts, the NBS is bringing down its rate for existing as well as new borrowers. Rates on new loans will drop immediately and those on existing loans from February 1.

An industry executive said the average bond was R40 000 over 20 years and on that a cut of one per cent in the interest rate worked out at R30 a month.

The cheapest bond rates are offered by the commercial banks at 12,5 per cent and by Saambou, which announced yesterday that it would match that rate on loans up to 50 per cent of the purchase price.

Saambou's rate for 80 per cent mortgages is 13 per cent — in line with the rate for new borrowers announced by the Allied at the weekend.

The Allied is also offering existing borrowers the option to change to a fixed rate of interest for up to five years. These rates rise progressively according to the length of the period chosen from one year at 14 per cent to five years at 16 per cent.

In a separate development, banks granting 100 per cent home mortgage bonds were accused yesterday of indulging in a "questionable practice" by the president of the Building Society Association, Mr Mike Blanche.

Mr De Blanche, who is also managing director of UBS Holdings, said for many years the building society movement had "placed a high premium on the principle that sound lending policy demands that a homeowner should have a personal stake in his property, failing which it is self-evident that mortgage finance becomes increasingly exposed to abuse."

He said despite severe competition from commercial banks, building society home mortgage lending was expected to top the R8 billion mark for the year ending March 31, 1988.

Cheaper money on way — top banker

By TOM HOOD
Business Editor

ARGUS 11/11/87

THE cost of home loans has been slashed by about 46 percent in three years and may become cheaper if, as top bankers believe, the prime overdraft rate is cut.

Money market managers say the market is awash with funds and more cash is expected to be switched from the stock exchange by large investors who were heavy sellers of shares in the past few weeks.

Some inter-bank rates have already dropped.

The managing director of Syfrets, Mr Brian Button, said pressure was building up in the market for a cut in the prime rate.

Cheaper imports

Also, with the increase in the value of the rand imports were expected to become cheaper.

Other bankers believe the Reserve Bank is not keen on a cut, as it might be short lived.

However, a cut in the prime rate, the rates banks charge their best customers, could result in the banks lowering their home loan rates.

Aggressive competition by banks and building societies has trimmed bond rates substantially this year.

And an inflow of money from the stock exchange could help to keep rates low for the next few months, building industry spokesmen say.

Bond rates vary from 12,5 to 14,5 percent, the lowest in years. In some cases transfer and bond fees can be included in the loan.

Many builders and estate agents offer a no-deposit package, which effectively means a 100-percent loan.

A home-owner with a R50 000 bond will pay R603 a month at the current 13,5 percent charged by most building societies. Repayments on a R50 000 loan would have been R885 three years ago, 46 percent more, when rates hit a peak of 21 percent.

Rates charged

The highest rate, the 14,5 percent charged by the Perm and EP societies, could also tumble.

Lowest rates today were 12,5 percent, the same as the prime overdraft rate, charged by Standard and First National banks. Next comes UBS with 12,95 pecent.

Allied, Saambou and Boland Bank charge 13 percent — with Saambou charging 12 percent on a new loans of half the purchase price and Allied offering a fixed rate of 16 percent for three years.

On 13,5 percent are NBS, Trustbou, Syfrets Bank and Good Hope Bank.

Several institutions will tailor monthly repayments to suit the buyer's cash flow — he could arrange to skip two instalments, for instance, if he is going on an overseas holiday.

Institutions have money "practically coming out of their ears", according to estate agents, who claim bond applications are practically granted "yesterday".

The millions of rands diverted from building societies into unit trusts in the stock exchange bull run earlier this year could be reversed, says Mr Kevin de Villiers, Allied's managing director.

"With the decline in JSE prices and the shock effect on small investors, it is probable that a good deal of traditional money will revert to the home loan and property sectors," he says.

It was still too early to measure such an inflow, but it would probably be enough to maintain the pressure for the base mortgage rate to stay low for the next few months.

He believes the price of money will stay low in the short term but will gradually increase.

Battle of the bonds hots up

cmc Times 11/11/87

By AUDREY D'ANGELO
Financial Editor

HUNDREDS of rands a year are being lopped off bond repayments as the battle for custom between banks and building societies hots up.

Leading estate agents said last night that lower interest rates on bonds announced in the past few days would stimulate already buoyant property sales.

But some warned that the lower rates could also have the effect of pushing up house prices "since people will be able to afford to pay more".

Rates to drop

The latest to cut its interest rate on home loans, from 14,5% to 13,5%, is the Natal Building Society (NBS). And unlike other societies which have recently announced cuts, the NBS is bringing down its rate for existing as well as new borrowers.

The regional manager, Mr Kingsley Loney, said yesterday that rates on new loans would drop immediately and those on existing loans from February 1.

"We could have brought our rates for new borrowers below 13,5% if we had let existing borrowers go on paying 14,5% to subsidize the new business," he said.

"But we believe in looking after our existing borrowers and have therefore taken a more balanced view which we believe will be more acceptable in the long-term."

Mr Lawrence Seeff, managing director of the Seeff Organization, said the average bond was R40 000 over 20 years and on this a cut of 1% in the interest rate would work out at R30 a month.

"This competition between banks and building societies can do nothing but good for home buyers and the property industry," he said.

Mr Storm Durr, chairman of Durr Estates, said he hoped the competition would lead to more cuts in bond rates.

He said the property market was already busy and there was a shortage of houses in the medium-price range "because so few have been built in the last few years".

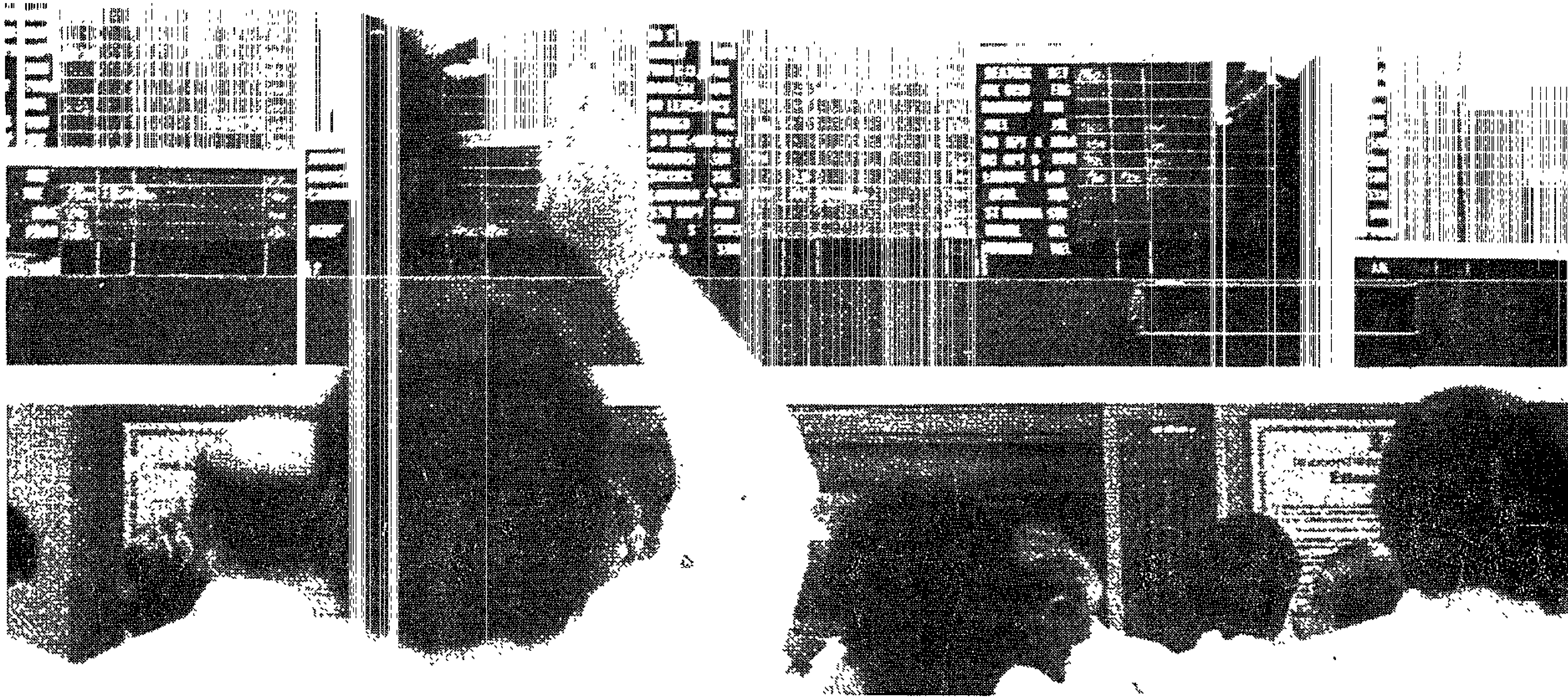
But Mr Durr warned that lower interest rates tended to push up prices, particularly as demand increased.

The cheapest bond rates rates so far were offered by the commercial banks at 12,5% and by Saambou, which announced yesterday that it would match this rate on loans up to 50% of the purchase price.

Saambou's rate for 80% mortgages was 13%, in line with the rate for new borrowers announced by the Allied at the weekend.

The Allied is also offering existing borrowers the option to change to a fixed rate of interest for up to five years. These rates rise progressively according to the length of the period chosen, from one year at 14% to five years at 16%.

Syfrets Bank, which charges one percentage point above Nedbank's prime lending rate for favoured customers, is currently charging 13,5%.



HIGH FINANCE: up on their catwalk, JSE price recorders scramble to keep pace with stockbrokers' calls.

'Chalkies' take the pressure as stock market boils

SARA MARTIN

With all the attention that has been focused on the Johannesburg Stock Exchange lately have you ever wondered who those men are who stand in front of the giant blackboard writing up all those figures?

They are the "chalkies", or the stock exchange's price recorders.

Balancing on a catwalk, facing a sea of agitated faces and straining to catch and record the calls from the crowd of men keenly competing for one's attention is daunting enough. The trick, however, is not to make a mistake. If you do, you can wreak havoc on the share market.

For the JSE's eight price recorders, this is a daily way of life.

"Most people aren't aware that without us, the JSE would come to a standstill," says Mr Mafa Maseko, a 29-year-old recorder who joined the organisation in March.

This is not immodest talk.

He explains: "That's where it all starts ... up there on the catwalk. We are the ones who have to capture any change in shares as directed by the authorised dealer on the floor."

And since the Wall Street collapse two weeks ago, the "chalkies" have really been rushed off their feet.

"I found I had to write 10 prices in five minutes. The concentration wore me out. By mid-afternoon I was exhausted," said Mr Maseko.

An understatement when one considers the JSE recorded the trading of more than 79,2 million shares worth R414,7 million in the week ending November 6 alone. The number of transactions involved was 32 637.

"But I enjoy every minute of it," says Mr Maseko.

So much so that he has bought several shares himself — the best ones, according to his supervisor.

"I have always had an aptitude for figures, and after working as a learner craftsman I decided to join the JSE. I was given an aptitude test along with 14 other candidates and came out tops," says Mr Maseko.

But then came the hard part.

"The first two weeks were tough," he says. "When you stand up on that catwalk and look down at the sea of faces shouting figures at you, you suffer a kind of vertigo and very real stage fright.

"But like everything in life, you soon learn. And as a chalkie you learn rather fast by sheer practice. Now I know the brokers by name and can identify their voices immediately."

One of the most important aspects of his job, Mr Maseko learnt quickly, is accuracy.

"A serious error on that board could lead even to suicide," he says.

"And of course we are only human, so mistakes do happen — most of them I have had so far are from the dealers and not from me. But it can happen ...."

Mr Maseko has become so interested in his work that he is hoping to start studies for a BCom degree next year.

"I want to be the first black stockbroker on the JSE floor," he says.

Mr Maseko may not realise his ambition because, as reported in The Saturday Star earlier this year, Mr Camuel Dikotla, a property appraiser and auctioneer, looks likely to win that race.

However, Mr Maseko is sure to be in the forefront of a growing number of ambitious men who are eager to step up the ladder of high finance.

Banks and societies woo borrowers

Bond rate war will benefit home owners

SM 1/11/87

By Frank Jeans

Home owners could soon have more money in their pockets as banks and building societies square up to each other in a "bond war".

Banks and building societies have been vying for each other's business and competition has become sharper since the collapse of prices on the stock exchange.

A range of home loan packages is now available, widening benefits to existing and new bond holders.

Competition has centred on new business with banks cutting the rate to 12,5 percent.

The banks are making big inroads into the traditional society business with their 12,5 percent rate and two major building societies have cut their rates to be competitive.

One of them has restricted the cuts to new bonds, and existing borrowers are disgruntled that they are not benefiting.

Allied made its move at the weekend with a cut from 14,5 percent to 13 percent for new borrowers only.

Then the Natal Building Society cut its rate from 14,5 percent to 13,5 but extended the concession to its existing home owners, a move which could spark similar action by the other major societies.

Mr Trevor Olivier, assistant general manager (loans) of NBS, also hinted at further benefits on the way for its existing borrowers.

"Details of these will be announced in the near future," he said.

A decision is also expected soon from the Perm on a bond rate reduction.

A spokesman for the society said: "We are watching the situation carefully and we are involved in discussions at boardroom level after which an announcement will be made."

No decision from United

There has been no decision yet by the country's largest society, the United, on a bond adjustment, but Mr Mike de Blanche, managing director of UBS Holdings, in his role as president of the Association of Building Societies, has no doubt that the building society movement will remain a force in the lending business.

"We will soon regain our competitive mortgage position and, as the cost of funds reduces, bond rates for existing borrowers are sure to drop," he told a press briefing.

Looking at competition from the banks, he said building societies remained a dominant force in home lending.

This was substantiated by the latest figures which showed that up to the year ending next March, total mortgages were expected to hit R10 billion, with about R8 billion in residential property.

Hitting at some major banks' "questionable practice of granting 100 percent bonds", Mr de Blanche said the building societies had al ways placed a high premium on the principle that sound lending demanded that a home owner should have a personal stake in his property.

"Bonds at 100 percent should not be encouraged," he said.

58 12/11/87 B/day

BU

100% bonds: banks reply

GRETA STEYN

BANKS yesterday rejected accusations that granting 100% bonds was a "questionable practice", saying they made sure the loan was not open to abuse.

They were reacting to UBS Holdings MD Mike de Blanche's statement that mortgage finance was exposed to abuse if a homeowner did not have a personal stake in his property.

Standard Bank financial services MD Dennis Matfield said possible abuse was so minimal it was irrelevant. "We only grant 100% bonds to top customers, who have to meet stringent requirements to qualify for a full bond. As far as we are concerned, this is very good business indeed."

Also emphatic that banks were not exposing themselves to undue risk was Trust Bank Senior GM Kobus Roetz. "For us to stay in business, we have to do a professional job. Trust Bank's recent financial results speak eloquently enough of astute credit management."

The Trust Bank found, Roetz said, that clients displayed a healthy respect for credit. "Most people have learnt a lesson from the spate of liquidations and insolvencies over recent years, and who are we to buck the trend?"

Bond war 'will be end of some institutions'

By Michael Chester

Financial institutions are "bleeding" because of bond war competition — and casualties look certain, Mr Alan Tindall, managing director of the Allied Building Society, warned today.

"Every seasoned manager in the financial services sector knows that a shake-out is inevitable and that some household names will disappear," he said.

25 percent prime rate

Home owners and consumers were reminded of the climb in interest rates in 1984/85: "The lessons of a 25 percent prime rate are still engraved on many a cheque book," Mr Tindall said.

"Competition may appear to offer short-term benefits to the consumer, but it actually impairs the longer-term ability of certain of the institutions to offer service," he said.

Current competition for the favours of home owners formed part of a far wider battleground.

Mr Tindall said: "One should not be completely fooled by short-term blandishments, whichever sector of the financial services industry is offering them.

"There has never been such competition for the favours of the client, both personal and corporate.

"In fact, bankers are having such a difficult time persuading corporate clients to borrow money that a great deal of this pent-up flow of funds is now on offer to consumers — and it may be that the quality of lending, the moral risk element, is suffering."

The withdrawal of money from the stock market in search of so-called safer investments could well mean large inflows of deposits that would add to excess liquidity and mean even more pressure on consumers to accept credit.

In the end, it was the client and consumer who would have to pay for the current crop of attractive blandishments.

There had already been some drastic changes in home lending, and there were more changes to come.

"What you are witnessing," Mr Tindall said, "is a trial of management. And if you're looking for survivors, watch the campaign closely to help identify which institutions have got their strategic game plans in place.

"It will take no more than a year — two at most — before it becomes only too obvious which captains can navigate.

"By 1995 you'll walk along High Street and recognise no more than five of the financial service organisations you know today."

Mr Tindall was speaking at the *Financial Mail* 1987 investment conference in Johannesburg.

WHAT THE BONDHOLDER PAYS EACH MONTH ON R50 000 MORTGAGE OVER 20 YEARS

		Old Rate	Now	Old Payment	Now
Saambou	Existing borrowers	14,5	14,5	R640	R640
	New borrowers	14,5	13,0	R640	R586
	New borrowers (50% of property value)	14,5	12,5	R640	R568
NBS	Existing borrowers	14,5	13,5	R640	R604
	New borrowers	14,5	13,5 (Feb 1)	R640	R604
Allied	Existing borrowers	14,5	14,5	R640	R640
	New borrowers	14,5	13,0	R640	R586
United	Existing borrowers	13,5	13,5	R604	R604
	New borrowers	12,95	12,95	R584	R584
Perm	Existing borrowers	14,5	14,5	R640	R640
	New borrowers	14,5	14,5	R640	R640
BANKS	All borrowers	12,5	12,5	R568	R568

Riot insurance made difficult, claim brokers

By Sven Forssman

The South African Special Risks Insurance Association (Sasria) is making it "difficult and unattractive" for clients to take out riot cover, claim insurance brokers.

"Purchasing riot cover, in the form of Sasria coupons, through the insurance company from which they bought their fire insurance is a sensible and convenient system, but the problem arises when the client wishes to move his fire insurances from one company to another," explained Mr Frank Ash, a director of Mackenzie Ash & Partners.

"A client is forced to abandon his Sasria coupon, even though he has paid for a year in advance, and the coupon may still have 10 months to run."

Mr Ash said he could not understand why the client could not be permitted to retain his coupon until the premium term expires, and then renew it through the new fire insurance company upon renewal date.

"I have no argument with Sasria's decision not to allow clients to surrender a coupon to obtain a pro-rata refund — such a concession would push up Sasria's costs — but the present system merely encourages insurance companies to use Sasria to force clients to remain with them."

Mr Ash said that while riot cover is relatively inexpensive to the man in the street — it costs him about R20 a year — it costs the average company anything up to R10 000 a year.

Another broker said he had asked Sasria to explain this policy and was told: "One of the basic principles of Sasria is to discourage the availability of the cover whenever it is convenient to do so. By allowing pro-rata considerations this object would be defeated.

"Similarly, a change of insurer in 'mid-term' has the same implications and to obviate this full annual premiums are payable."

SBD 2/11/82

JSE prices firm, but economists gloomy

12/11/87

While prices on the Johannesburg Stock Exchange firmed during early morning trading, economists painted a gloomy picture of the market and the current state of the economy.

Addressing the *Financial Mail* conference in Johannesburg this morning, Reserve Bank governor Dr Gerhard de Kock said initial estimates showed economic growth to have increased at an annual rate of only 1,5 percent in the third quarter of 1987.

Stockbroker Mr David Gleason added that the JSE was clearly in a bear market and further falls in industrial share prices had to be expected. He said the industrial index could drop from the current 1500 level to 1200 over the next year.

On the JSE this morning the overall index gained 33 points, to 1747, while gold share prices rose by about 3,4 percent to an indexed value of 1547, as the gold price improved by $2 to a midday level of $464 in Zurich.

The JSE movements largely reflected international stock market movements, which were generally firmer in anticipation of a better than expected US deficit for September.

Analysts generally expect the September deficit to be much narrower, but note that another poor set of trade figures could trigger further market turmoil. "Last month's disappointment was not just the figure, but that the backdrop was so negative. The figures were just a reminder that huge trade deficits are here to stay," said Mr Allen Sinai, chief economist for Shearson Lehman Brothers Inc.

In Tokyo the US dollar, rebounding for the second consecutive day from record lows against the Japanese yen, closed today at 134,80 yen on the Foreign Exchange Market, up 0,45 yen from yesterday's close of 134,35 yen.

● See Page 12.

Re-examine Land Acts: DBSA official

ROBYN CHALMERS

A SENIOR Development Bank of Southern Africa (DBSA) official has called for SA's Land Acts to be re-examined as they hampered the growth of "emerging" black farmers.

DBSA divisional manager of agricultural development Johan van Rooyen said that on economic grounds alone, inappropriate legislation jeopardised optimal land usage and undermined private enterprise initiatives.

"Regardless of the political sensitivity of the issue, one must look at the economic implications of black farmers being denied access to agricultural resources. Land issues will receive increasing attention in the future, and should be placed on the agenda," he said.

Van Rooyen was interviewed by Business Day after he delivered a speech at the Techno-Economic Society of SA in Johannesburg recently.

Van Rooyen said farmers in developing areas experienced many constraints which acted as disincentives for increased production.

He said black farmers were faced with limited availability of credit, poor infrastructural support — such as roads and electricity — lack of skills, education and inappropriate policies and legislation.

To allow emerging black farmers to compete effectively in the market place, Van Rooyen said that the present distribution of land must be looked at within a sound economic framework attending to efficiency and equity criteria, and not solely in terms of its political considerations.

B/Day 12/11/87

Saambou joins bond rates battle

HELENA PATTEN

SAAMBOU joined the battle of mortgage bond rates yesterday when it announced it was reducing its interest charge for new borrowers to 13% from 14,5% previously.

And those who can afford a deposit of 50% or higher on the valuation of a property are offered rates as low as 12,5%.

Allied started this round of rate slashes at the beginning of the week, when it announced a 1,5% reduction in its rate to 13% for new borrowers.

100% loans

NBS quickly followed with a 1% cut to 13,5% with immediate effect for new borrowers and a lag until February 1 for existing borrowers.

The Perm has yet to make a move, but an announcement in this regard is expected next week.

Saambou chairman Hendrik Sloet said the building society had compiled various loan packages to meet the needs of clients, including granting of 100% loans for "qualified applicants".

He said a decision would be made later concerning lower rates for existing borrowers.

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BD 12/11/87

LIFEGRO GOES SHOPPING

Lifegro is to make its largest single investment yet in retail property by financing the Quaggasentrum, Pretoria West's new R36m regional shopping centre.

Developers Clifford Harris, a member of the Basil Read group of companies, have sold the project to Lifegro. The terms of the deal are that Clifford Harris will deliver to Lifegro a fully-let centre, completed and ready for trading, in October 1988.

The 22 500 m^2 centre, designed by architects Bentel, Abramson and Partners, will be situated at the intersection of Quagga Road and Church Street West — the major arterial linking Church Street and the Pretoria CBD with the western surburbs.

The 7,4 ha site is also immediately south of the planned PWV1, a major east/west motorway already under construction.

Quaggasentrum has been designed as a single level centre with parking for 1 350 cars.

Major tenants are OK (5 500 m^2), Pick 'n Pay (4 850 m^2), Edgars (1 000 m^2), Ackermans (800 m^2) and Russells (800 m^2), with the remaining 9 000 m^2 divided into approximately 60 satellite stores which will include a number of national traders.

Basil Read MD Chris Jarvis says progress on site is good and that earthworks have been completed on time in spite of the recent heavy rains. Building work is

FM 13/11/87

Gold could save SA from worst effects of crash

By an Economist

MOVING out of spring and into summer one becomes acutely aware that "the heat is on." Suddenly markets are buzzing with an air of uncertainty with players unsure which direction to take. Currency, bond and precious metal markets moved in defiance of all expectations over the past few weeks since the collapse — correction collapse-consolidation saga of Wall Street. There are still many doubts whether in fact another 1929 depression is not on the cards.

The approximate 20% collapse of the Johannesburg Stock Exchange brought shell-shocked investors to their knees. Even gold shares which everyone presumed would be insulated, lost significant ground. After plenty prophecising, the speculative bubble finally burst destroying huge amounts of wealth and confidence in the economy.

The capital market in South Africa which, prior to the crash, was just beginning to look slightly bullish, reacted very negatively to the fall in shares despite the steady gold price. This was fundamentally different to the reaction in overseas markets, where investors flocked into bond markets thus boosting bond prices and putting downward pressure on the yields. The inflationary fears which had previously plagued the bond market dissolved as people believed that the vast losses in wealth would greatly reduce investor and consumer spending and therefore also dampen imports.

Collapse

The collapse or euphemistic "melt down" of shares worldwide (which incidentally caused the Singapore and Hong Kong stock exchanges to close down) poses severe problems for growth and confidence in all economies affected, not least of all South Africa.

The long-term average real rate of growth in South Africa was approximately 4 percent a year for the 40 years between 1946 and 1986. During the sixties, the average gross domestic product was 5,8 percent a year. In the seventies it was 3,1 percent a year. It has since declined to an average of 1 percent a year between 1980 and 1986.

General business mood and market sentiment concerning the growth potential has drifted down considerably in line with this trend over the past 10 years. An economic indicator which reveals this trend very clearly is the investment behaviour of the private sector as well as government fixed investment in the economy.

The average real growth in fixed investment by the public authorities decreased from 6,3 percent a year before 1970 to 0,3 percent a year in the seventies and eighties. The average annual real growth fixed investment in the private sector showed a similar trend. Real domestic fixed investment was 29 percent lower in 1986 than in 1981.

Depressing

The past decade has certainly revealed a depressing economic scene. Yet recently, or at least prior to the shake-up of the Johannesburg Stock Exchange, prospects were looking a lot brighter. We were slowly beginning to enter a phase of a cyclical upswing. Economists have for some time been talking of a "consumer-led" recovery where an increase in personal disposable income would filter through into real expenditure and an upsurge in confidence would channel itself into fixed investment or at least into a build-up of inventories. Estimates of a potential 3-4% growth rate for 1988 were forecast.

The picture, although not entirely changed, now needs some touching up. The depressive atmosphere of negativity and nervous behaviour still lingers in markets. This is certainly not the kind of sentiment one would ideally choose to invest in. Moreover, the economic growth in the countries of our major trade partners will be affected. This in turn will impair our export-growth which is already beset by severe problems due to sanctions and a relatively higher exchange rate presently over $.50.

Erosion

This renewed pessimism in markets is further agitated by a tense socio-political situation which has partially resulted in severe structural problems. When dealing with growth in South Africa one also has to contend with the systematic erosion of international relations, a moratorium of South Africa's foreign debt, sanctions of various degrees and divestment.

But as the saying for South Africa goes, every cloud has a golden lining. This is particularly true when we examine the potential of the precious metal markets. Gold has always benefitted in a world of uncertainty, and has served as a hedge against the unknown.

For that reason alone we can expect the gold price to rise. In addition, the gold price and the dollar have traditionally moved in opposite directions. With the "safe-haven" currency now on the decline, investors are going to want another "sanctuary" in which to place their funds. There is speculation that bond-markets at present may be overbought. If this is so, the precious metal market becomes a very viable option especially since players are still nervous about investing in shares.

It is important to note that none of the fundamental problems in the US economy have been adequately addressed eg. the budget and trade deficits. For this reason there is a possibility that another big correction in market is due.

This could also be bullish for gold. Lastly, speculators' interest in the metal may also contribute to its upward momentum. However one should bear in mind that if the gold price is eroded by the winds of a world recession, South Africa's economic prospects will be profoundly alarming.

To date we have witnessed a steady gold price of around 470 dollars for the last while, which together with the weaker dollar has boosted the rand's exchange rate to over $.50.

Importers are obviously excited at this development although exporters will be hard-hit as their products become far less competitive. Inflowing funds from gold sales abroad are needed to contribute to our balance of payments surplus especially to compensate for reduced non-gold export earnings.

Another positive factor for now is the declining year on year consumer price (CPI) although it is only in the short to medium term that we can expect such declines to continue. CPI for September was 15,5 percent vs. 16,3 percent in July and August and 17,2 percent in June. This trend of declining prices is expected to reverse itself by the end of 1988 as the higher cost of imports, increased wages and a rise in domestic demand for goods and services feeds through into the price structure.

(58) SPR 13/11/89

The Perm to decide on its bond rate

By Frank Jeans

The Permanent Building Society will make a decision next week on its bond rate following downward adjustments by other major societies.

Mr Bob Tucker, managing director of The Perm, says: "There is no doubt that competition from the banks is vigorous and has had an impact on the financial position of all building societies."

The society's existing borrowers must also wait to see if they will benefit from an interest-rate drop, for so far only the Natal Building Society has made any commitment to its old customers.

"It is most unfortunate that existing bondholders have recently not benefited from the trend towards lower rates."

As new president of the Association of Building Societies, Mr Tucker sees as a priority the mobilisation of savings.

Mr Tucker said the playing field between different financial institutions should be levelled off, to give everyone an equal opportunity.

Cape Times, Friday, No

Cape Times 13/11/87

'Too many banks in SA' — Tindall

58

Own Correspondent

JOHANNESBURG. — The role of technology in the financial services sector means there will only be a handful of very large institutions in the future, Allied Group MD Alan Tindall told the Financial Mail's annual conference yesterday.

He said while a few specialized institutions might survive to serve local or specific markets, there would be no medium-sized institutions.

"When an institution designs and launches a new product, one of its objectives is to use its own technology to create a barrier to entry, so that the rest of the competition cannot be in the market the next day without a tremendous investment."

He said SA probably had too many banks, "too many financial service institutions".

"There has never been such competition for the favours of the client, and it may be that the quality of lending — the moral risk element — is suffering."

He said competition might appear to offer short-term benefits to the consumer but it actually impaired the longer-term ability of certain of the institutions to offer service.

De Kock leads the bulls, but

Bears hold the floor

(8)

S/Times 15/11/87

WHILE a nervous JSE was stabilising this week, bears prevailed at the influential Financial Mail investment conference in Johannesburg.

By David Carte

David Gleason, of stockbroker Matheson & Hollidge and chief speaker on industrial shares, predicted another 20% fall in the industrial index.

Michael Coulson, of London stockbroker Kitcat & Aitken, forecast that gold could strengthen in the next few months, but after that deflation and rising output would "hit the gold price hard".

Imbalances

Rimmer de Vries, senior vice-president of Morgan Guaranty Trust Co of New York, said the world's economic imbalances could be corrected by reduced growth in the US and accelerated growth in Japan and West Germany — another negative scenario for gold.

Ever an optimist, Reserve Bank Governor Gerhard de Kock said SA could still aim for 3% growth, although it was estimated at only 1,5% in the third quarter.

The Reserve Bank believed monetary policy should be expansionary. It had kept interest rates down and moderated the appreciation of the rand against the dollar.

He said the world stock-market crash would exert at least some contractionary influence on economic activity.

US factors

Without addressing prospects for the gold price, Dr de Kock said SA's real economy was less threatened than others. Although many other countries could expect lower growth and higher inflation, SA could achieve higher growth and lower inflation.

Mr Gleason argued that gold linked the performance of JSE industrials to that of Wall Street.

He said gold was driven by US inflation, US real interest rates, the dollar-mark exchange rate, political tension and banking solvency.

The great crash on Wall Street was a threat to the solvency of US banks. Whether banks crashed or not would determine if the US was going into a recession or a full depression.

Because the US had eased monetary policy with low real interest rates and the Federal Reserve stood by as a lender of last resort, there would not be a depression.

He contended, however, that there would be consumer-led recession. The only question was whether it would be short and sharp or mild and long. He believed it would be severe in the US and milder in the rest of the world. Higher taxation and defence of the dollar would aggravate recessionary tendencies.

The negative impact of low inflation on gold would outweigh the positive effects of low interest rates and a declining dollar. Mr Gleason said his fundamental reasoning was backed by the charts.

Ceiling

He then examined how a lower gold price affected industrial shares through gross domestic expenditure (GDE) and higher interest rates. The recovery in SA would continue, but the ceiling on growth had been lowered.

He predicted that because black consumers were unaffected by the lower stock exchange that GDE would peak in the first quarter of 1988 and then start falling.

The four major influences on industrial shares were earnings growth, interest rates, institutional cash flows and sentiment. Earnings growth, now running at 40%, would fall to 22% in 1988 and to 15% in 1989.

Mr Gleason showed a chart indicating that industrial shares rise and fall a year ahead of moves in profitability. He expected the bankers acceptance rate to rise from the present 8,8% to 11% at the end of the year.

He believed institutions would not put money into the market so long as they thought a bear market was intact. They would prefer sub-inflation returns to the possiblity of capital losses running to 40%.

Mr Gleason said earnings and dividend growth was slowing, interest rates were ready to rise, cash flows were neutral as an influence and sentiment was "dismal".

Bounce

There were three phases to a bear market. The first was characterised by a 50% fall in the index, a fall in the number of new listings, long lists of new lows and news that was basically still good.

The second phase was often characterised by a bounce, a "mid-phase rally" and a 200-day moving average that was still falling. Clever people would use this to get out of the market.

The third phase of the bear market he described as "Armageddon in the door" where there appeared to be no hope ahead. This was when bull markets generally started.

The JSE was in a bear market. The industrial index would fall from the present 1 494 to 1 200 and the dividend yield would rise from 3,9% to 6%.

Mr Gleason said investors could make money in the bear market and they would eventually be able to "buy cheaply for an incredible future". Because of the speed of the fall so far, this bear market would not last as long as previous ones.

Mr Coulson said the gold price could fall hard in the medium term, and SA gold shares had been relatively neglected because of the attractions of North American and Australian stocks.

The expected fall in the gold price could actually benefit SA mines because profit margins would be squeezed much harder elsewhere. The SA gold-share market, although it might be in for a volatile time, could well regain some foreign support.

Bearishness was not unanimous. A stockbroker said gold shares looked

□ To Page 2

P.T.O

□ From Page 1

Bears hold the floor

far more vulnerable than financial and industrials, many of which offered excellent value.

"Gold shares need a much better rand gold price. But it is a mistake to look at the market as a whole and be mesmerised by movements in the index. The index comprises only 100 out of more than 600 stocks and is heavily weighted with Barlows, SA Breweries, Rembrandt and Sasol.

"Investors need a rifle shot approach. While SAB on a PE of 13,7 might have some scope to fall, I doubt that Barlows or Safren on forward PEs of six or so have much downside.

"Look at First National. There is 70c of dividend in a share price of 1 850c, so effectively you are getting the share for 1 780c. We reckon First National will earn 310c and pay 120c next year. That is a forward PE of 5,7 and a yield of 6,7% in a company that has never chopped its dividend.

"I don't care if the index does go down a bit more. Right now that share is cheap on a long view."

Local staff buy Cigna Insurance

B/day

16/11/87

LINDA ENSOR

THE management and staff of Cigna Insurance Company have acquired the short-term insurance company in a management buy-out from the US Cigna Corporation — one of the world's five largest insurance groups — which has decided to disinvest from SA after 40 years here.

A Cigna Corporation spokesman said the decision had been difficult and had been delayed until an equitable and workable solution could be found to meet the interests of the company's insureds, brokers and employees.

The name of Cigna Insurance has been changed to Concord Insurance, which has assured clients there will be continuity of coverage and service. Also, capacity for accepting insurance risks and underwriting flexibility will remain unchanged.

This is because Concord will benefit from a new reinsurance treaty programme and a stop-loss treaty which has been introduced to protect its underwriting results and solvency margins.

Concord's paid-up capital has been increased from R3,2m to R10m. Its unaudited results for January 1 to October 31 show a gross written premium of R92,5m and a pre-tax profit, including investment income, of R13,6m. The underwriting profit was R8,4m.

Its financial base, says a statement, was 176,5% of net premium income as at October 31.

The approval of both the Insurance Registrar and the Reserve Bank has been obtained for the arrangement.

Listings falter as JSE interest ebbs

B/day 18/11/87 (56)

MERVYN HARRIS

INTEREST is ebbing from the JSE as bruised speculators dress their wounds, and the longer-term investors are in no hurry to go bargain-hunting: time is on their side.

The JSE is split basically into a clearly defined mining section, which will always attract speculators, and the industrial section, which is lapsing into what is basically an investment market from which stags and speculators have withdrawn.

The lack of interest in industrials is reflected in marked-down, rather than sold-down, prices and little interest in new listings. But gold shares tended firmer, in line with a slightly higher gold price.

The JSE overall index, heavily gold-weighted, ended the session with a marginal gain of one point to 1 765.

Investors' reluctance to support new listings shows no signs of abating. All yesterday's three newcomers traded well below their issue prices.

Long Mile opened in the industrial holdings sector at its issue price of 230c but slipped to close at 185c, with only 11 200 shares changing hands in 17 deals.

Barnetts entered the furniture and household sector at its issue price of 110c and quickly fell to close at its low of 70c, with 36 700 shares traded in 14 deals.

Control Instruments, in the electronics sector, was first called at 150c, 40c below its issue price of 190c, and plunged to a low of 120c before recovering slightly to close at 123c, with 36 000 shares changing hands in nine deals.

This marked lack of buying interest does not bode well for today's four new listings.

● See Page 14

tee made its recommendations.

Policy for pensioners

B/day

19/11/87 JENNY BOBERG

AN insurance policy designed specifically for pensioners was launched by the Auto and General Insurance Company yesterday.

The policy is available to retired people over the age of 50 and whose spouse is over 40. The types of insurance available under the policy include "motor", "contents of house" and "personal accident".

MD Douw Steyn said pensioners were stuggling to keep their heads above water so "we are glad to announce a product designed for retired people which will carry extremely low rates. We know of no other policy in the country which can compete".

19/11/87 SOWETAN, Thursday

Rand's strength still depends on dollar

58

By an Economist

MOST noticeable on the international scene since the stock market collapse on October 19 has been the dollar's decline against major currencies.

Since the week prior to the crash, the dollar has depreciated around 8% against the pound, Germany's Deutschmark and the Japanese yen.

Central banks which ardently supported the dollar at levels which were fundamentally unjustified have finally succumbed to the inevitable dollar decline. The dollar is thus continuing its march downwards as its defendants lessen their intervention giving the currency support only to slow the slide.

Markets remain jittery and uncertain. The bottom end of the dollar's range remains a mystery although there is fair amount of market consensus that at least another 5% decline is on the cards.

Stock

The sharp downwards correction of over-valued stock markets provided a "suitable" time for the dollar to realign itself at more realistic levels with the other major currencies.

With inflationary fears being temporarily allayed and a resultant take-off in bond markets, the time seemed almost right.

There is always a time lag before we can see the longer term effects of any major adjustment in an economy. The extent to which growth will be affected or how much inflationary fears will be allayed in the longer term will reveal themselves later.

The Federal Reserve pumped enormous sums of money into the US economy as a pledge of support ot the system and in order to stave off any potential rush on the banks.

The huge increase in the money supply is bound to have inflationary implications at a later stage.

Meanwhile, nothing much has emerged from recent talks on how to cut the US's budget deficit. Although Reagan is now prepared to open discussions about possible tax hikes, he remains adamantly opposed to taxes especially at a time when markets are fearing recesssion.

If Congress and the President have not agreed on measures to reduce the fiscal 1988 deficit by at least $23 billion by November 20, the Gramm-Rudman mechanisms would come into effect where across the board spending cuts totalling that amount would automatically be made.

The US trade deficit (export minus imports) which totalled 15,7 billion dollars in August, improved to a deficit figure fo 14,08 billion dollars for September.

The improvement will probably be short-lived as a seasonal increase in imports as well as a rise in petroleum imports was expected in October.

Moreover the Japanese and German bilateral trade surpluses with the US have to decreased. Although a lower dollar should discourage the US from importing foreign goods and encourage exports to its trading partners, it is unlikely that this will make a significant dent.

The German and Japanese have been slow to stimulate thier economies. The Japanese propensity to import is far lower than its propensity to export and the Germans have shown no willingness to greatly increase their imports from the US.

The twin deficits of the states remain problematic. With interest rates falling and a lower dollar, there are worries that the US will have difficulty in financing its deficits through the capital account.

Prior to the crash, the interest rate differential between the US and its trading partners greatly favoured the US. It has since narrowed considerably.

However, the relatively healthy state of the US economy should not be forgotten among this quagmire of negativity. A recession, although a possibility, is not yet intact.

The dollar losses have been reflected in rand gains. The struggle of the dollar to remain above certain key support levels was mirrored by the rand struggling to break through certain key resistance levels.

The beginning of November saw the rand penetrate the top end of its trading band at $.50. It continued crawling steadily higher peaking at an all year high of over $.5100 against the dollar, which fell to its lowest level in 40 years against other major currencies.

The appreciated dollar/rand is significant when considering that gold, which towards the week's end traded at below 460 dollars, gave no support to the currency. The bullion price has come under severe pressure following speculation of central bank selling, fears of a recession which will affect the gold jewellery trade and investors who are liquidating their precious metal assets after getting their fingers burnt in the stock market crash.

It has since recovered following the favourable US trade deficit result on Nomember 12 to around 464 dollars.

The psychological barrier of breaking through $.50 has dissipated and the Reserve Bank appears willing to allow the rand to remain above the figure although any sharp rise above $.50 is unlikely irrespective of what gold does.

Gains

Although the rand has gained significant ground against the dollar, the gains never quite compensated for the dollar's losses against the Deutschmark and yen. This means that the rand has suffered losses on the third currency leg eg. on Friday October 30 1987 the Dm/Rand was 3.4412. .8644, the yen/rand was 69.10 and the rand/pound was 3.4412.

By Thursday November 5 1987 the crosses were Dm .8499, pound 3.5159 and yen 68.10.

The losses are substantial when considering the high close of the rand on the Thursday at .5020. In fact, since the beginning of August 1987 the rand has declined approximately 5% against the Dm, 6% against the yen and 6% against the pound despite its appreciation against the dollar.

The general outlook for the rand continues to hinge on dollar movements. Since a further dollar depreciation is anticipated, further rand strengthening will occur although it will be met by resistance at each chartpoint.

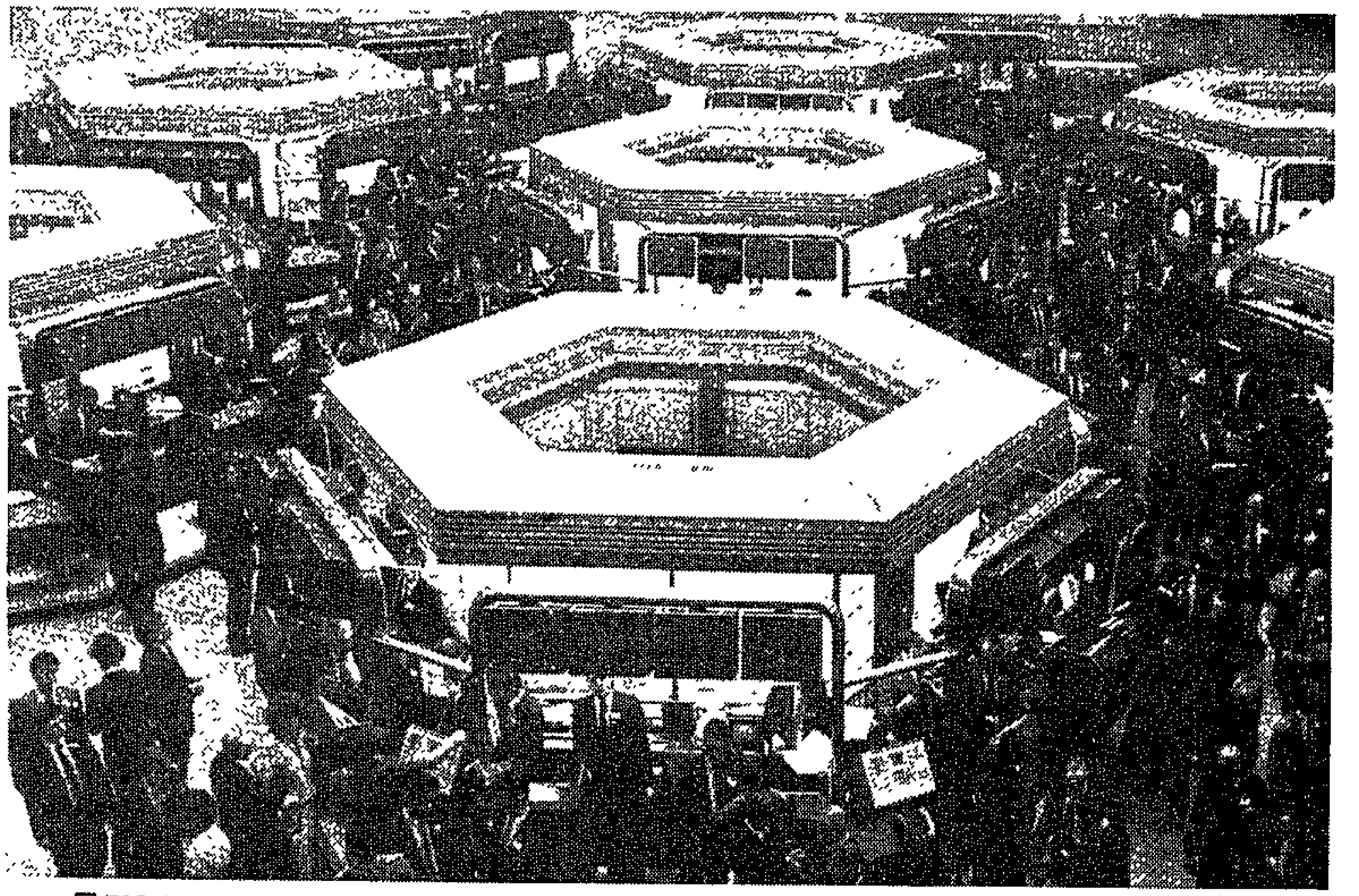
Any upward momentum will be tempered by import demand and also sharp rise.

The scenario for gold is mildly bullish with 460 dollars still recognised as a floor. Steadiness around this level should help to underpin the rands value whereas any rise closer to 470 or 480 dollars should accentuate the rands appreciation.

(58) 19/11/87 Biday.

Big Bang systems meet challenge

SIR NICHOLAS GOODISON
Chairman, International Stock Exchange, London



☐ BIG BANG SURVIVOR ... the new-look trading floor at the London Stock Exchange

THE TURMOIL on the world's stock markets which began on October 19 has been a test for them of the utmost severity. It has tested the efficiency of the way they are organised, it has tested the technology of the systems that serve them and it has tested the nerves both of those who manage the markets and those who operate in them.

In one major market, trading in the stocks of some of the largest companies proved impossible for a while, and another market closed altogether.

The London International Stock Exchange not only kept trading all its major stocks and stayed open for its normal hours, but its electronic systems handled successfully a record level of business.

On three consecutive days more than 100 000 bargains were struck, which is more than twice the daily average. Heavy trading was not confined to British stocks — turnover in non-British securities broke all records.

This was not the kind of prelude to the October 27 anniversary of London's Big Bang I had hoped for. But it was the most convincing proof imaginable that the systems we put in place at Big Bang could handle splendidly the most severe of tests.

Some commentators were slow to realise this. They blamed computers for the extent of the fall in prices, because they believed — quite wrongly — that computer-assisted program trading was in wide use in London, which it is not.

Some spokesmen for industry claimed the stock market was acting irrationally, in a fit of self-induced panic, cut off from reality.

These are myths. The truth is that the fall in the market did not drop out of the clear blue sky. Any attentive newspaper reader will have read many warnings over the past months and years that sooner or later the fundamental unsoundness of US fiscal policy would hit the financial markets.

America's twin deficits — budget and trade — were a timebomb ticking away at the heart of the world economic system. The British and other governments friendly to the US had been warning of this for years.

I myself made my own misgivings known to the chairman of the President's Council of Economic Advisers when I was in Washington just 10 days before "Black Monday".

The fall in the market was sudden, and spectacular, in its extent — but it was not irrational or self-induced. For years it has been a platitude to say we live in an interdependent world economy. The markets have given us all a painful demonstration of that reality.

When the events of recent weeks have become a memory, albeit a bitter one, the development of London's stock market over the past 12 months will be seen in a clearer light.

For us it has been a year of revolution and growth, in the course of which our exchange has become the first major one to transfer its trading in equities and government bonds from a physical floor to an electronic display and telephone-dealing network.

It has also become the world's first truly international exchange.

On November 12, 1986, the LSE agreed to merge with the International Securities Regulatory Organisation, an association of major international securities houses.

From this marriage was born the International Stock Exchange, which thus combines the virtues of the old LSE with the global reach and strong capitalisation of the biggest banks and securities houses from around the world.

London has long been the world's foremost centre for international banking, foreign exchange dealing and the Eurobond market.

The factors that gave it pre-eminence in these fields will ensure that more companies will see their shares traded more heavily on our exchange than on any other, apart from their own national exchange.

More international companies will raise equity capital through London. More international investors will invest in equity capital through London.

The application of new technology is playing a key role in our pursuit of these goals. Our systems for displaying prices in equities and gilts — SEAQ (Stock Exchange Automatic Quotations) on the domestic front and SEAQ International for overseas stocks — have demonstrated their worth.

SEAQ is a more efficient and accessible market than the old trading floor, showing its users a complete list of all market makers in a particular security together with the buying and selling prices they are quoting, and the number of shares for which that price holds.

SEAQ is networked throughout the UK and, thanks to modern telecommunications, is available to users overseas as well.

During the market swings of recent weeks, they proved robust and coped with a record number of price changes which on one day even exceeded their planned capacity.

The benefits gained from the new systems have been substantial. Transactions costs in the market have been reduced. Institutional investors' commissions have fallen by 40% to 50%, while much business is now being done between institutional client and market-maker at no commission.

Competition in the market has increased. There are far more market-makers than there were before Big Bang and they are quoting fiercely competitive prices.

These downward pressures on costs of dealing have stimulated market activity. In the third quarter of last year, the last before Big Bang, an average of 20 000 equity deals were made daily in our market: in the first nine months of 1987 the daily average almost tripled to just under 59 000.

We are now transacting as much equity business in a month as we used to do in a whole year before 1983.

Trading in non-British securities is currently running 70% higher than last year at £500m a day. Most of the business is done on the basis of SEAQ International prices in stocks with no London listing.

The success of the new system has brought some problems in its wake, notably in the area of settlement. Although the exchange upgraded its own systems to meet anticipated workload, there have been problems in some member firms and registrars' back offices.

Ultimately, the answer will be to eliminate much of the paperwork associated with share dealing and to simplify the whole transfer process.

We have created a high level task force to monitor the situation and to help those member firms with the worst problems to overcome them. We believe that the settlement problem is past its peak, but we are keeping up the pressure on our members.

In the last 12 months, British companies have raised some £20 000m through the stock market — £14 000m of it through the issue of equity. Privatisation issues have raised a further £9 000m.

These are record figures by a long, long margin. They show that the UK and its capital market are both in excellent shape. I am confident that we will see the record continuing if the world can be restored to stability.

To sum up, I believe London's reputation as a liquid, efficient, competitive and trustworthy stock market has not only stood the very difficult test of the last few weeks but has come out of it greatly enhanced.

THE CRASH

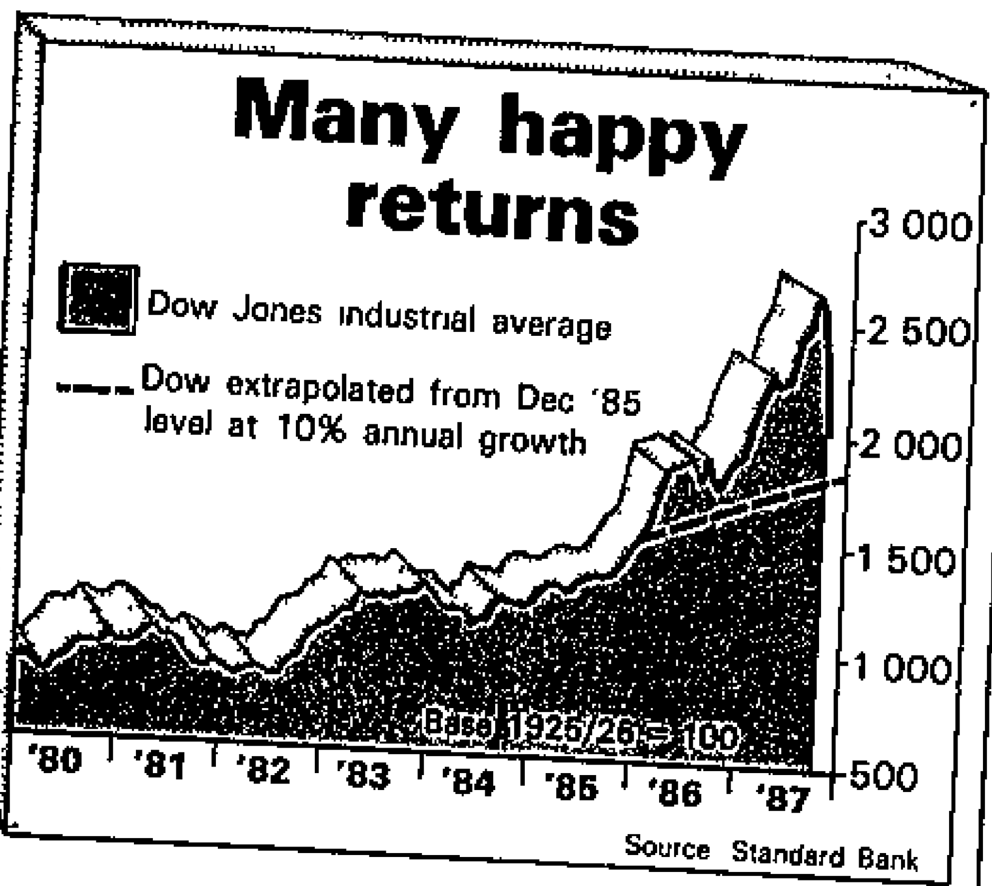
The bright side

49

Cheer up. A Wall Street investor who bought a basket of Dow Jones industrial stocks at the end of 1985 would enjoy an annual return of greater than 10% if he were to sell today — despite the October crash.

The November *Standard Bank Review* illustrates the point by showing how the Dow Jones industrial average would have moved in the past two years if it had simply increased at a 10% annual rate.

In real life, of course, Wall Street didn't move up smoothly: it overheated and then



plunged. But unless investors bought this year, they're probably not too badly off.

"Were investors to put the recent collapse into perspective they would realise that their wealth has appreciated at a reasonable rate over the past two years," the *Review* says. "In most cases investors lost only the paper profits accrued during 1987; they are still well off compared to their 1986 position."

Nonetheless, there were people who lost money on stocks, and individuals and governments are reacting.

Standard outlines some of the repercussions it expects from the stock market crashes on Diagonal Street and abroad:

- ☐ As long as the bull run in the bond and money markets lasts — maybe as long as a year — there will not be a strong movement into gold. But many countries are responding to the crash by inflating their currencies, and the resulting inflation is bound to lead to a higher gold price;
- ☐ In SA, some spending on consumer durable goods and private fixed investment will be postponed, but large public-sector projects are not likely to be affected;
- ☐ Sharply higher interest rates are unlikely in SA, and the Reserve Bank will try to maintain stable interest rates until at least the middle of 1988; and
- ☐ Demand for South African coal, base metals and ferro-alloys will weaken as world growth slows. ■

FM 20/11/87

CIGNA INSURANCE

US manoeuvres

After considerable speculation one of the largest US short-term insurers, Cigna Corp, has finally made a move regarding its wholly owned South African subsidiary, Cigna Insurance.

Political pressures have encouraged the company to remove its name from SA. With effect from November 5, Cigna Insurance has been renamed Concord Insurance. Though accompanied by a management buy-out, in fact staff paid only nominal amounts into a share profit scheme.

Meanwhile, from the same date, the corporation injected a further R6,8m to bring Concord's capital base up to R10m. Approval for the deal was obtained from the Registrar of Insurance and the Reserve Bank.

Bob Greenwood, who remains MD of Concord, says: "Nothing changes." For management, staffing and reinsurance arrangements it's business as usual. Concord will continue to specialise in small to large commercial and industrial risks.

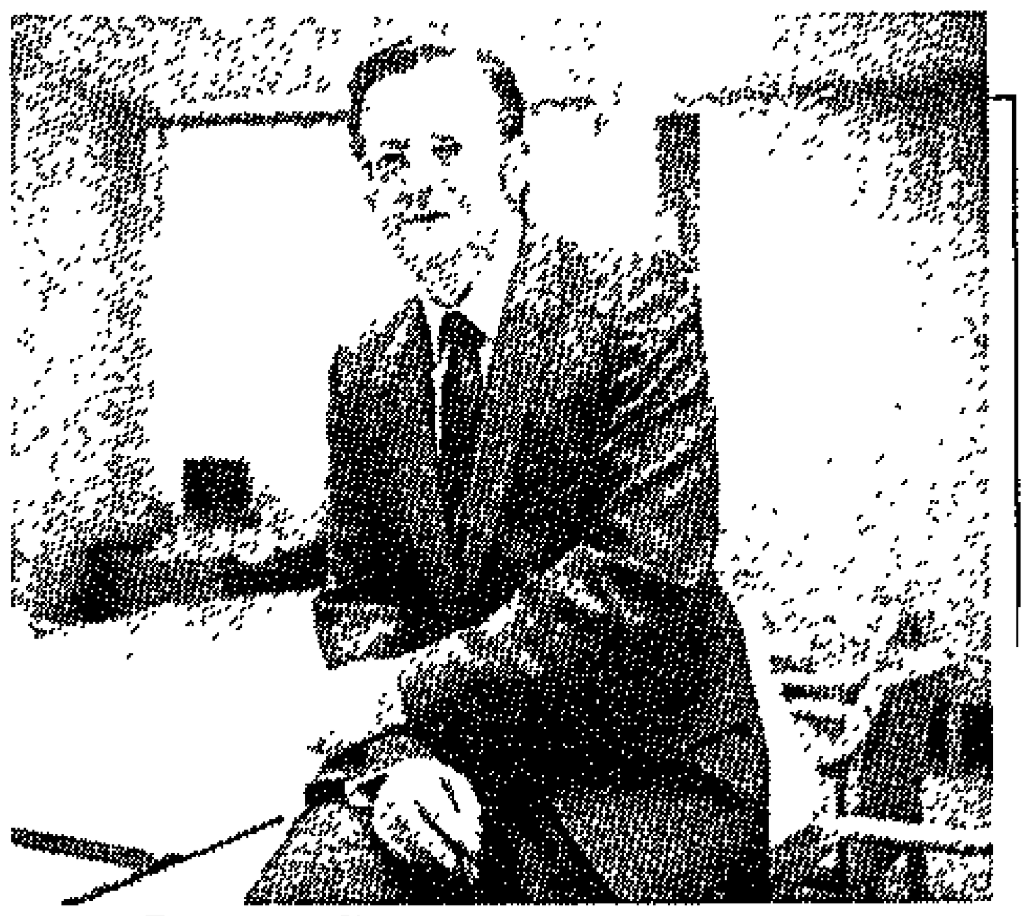
Cigna's compatriot, American International Insurance, made a similar move, effective July 1, though it obtained outside shareholders with a buy-back option. The local company was renamed AI Insurance.

"Cigna also has a buy-back option," says Greenwood, "but outside shareholders did not suit us. We have certain management styles." Thus it would appear that Cigna is keen to maintain a common culture so that if the buy-back option were exercised, the matter would run smoothly.

Concord was the product of a number of international events, aside from more recent political pressures. Cigna was formed out of the US merger of Connecticut General and Insurance Co of North America (INA).

In 1983 the enlarged group bought American Foreign Insurance Association, represented in SA by Monarch Insurance. Subsequently, INA and Monarch in SA were merged and renamed Cigna.

Denzil Curgenven, of Quest Insurance Advisory Service, says Concord has made a



Concord's Greenwood ... business as usual

remarkable recovery in the past two to three years. He says it previously caught a cold with personal accident business and has since corrected its position. Now, he says, it has a financial base of 176,5% of net premium income as at October 31, rating it among the top three in SA.

Financial base is a pot of reserves comprising free reserves, reserves for claims unpaid and unexpired premium reserves.

Meanwhile, Eddie Rodd, MD of AI, has almost completed negotiations for local shareholders for his company. Rand Merchant Bank has taken up 30% and Bonuskor 30%, with the other 40% still to be finalised. ■

FM 20/11/87

REINSURERS (58)

Looking at perils

Concerned at the apparent softening of overseas markets, local reinsurers are trying to bring the market together to address problems concerning the heavy storm losses. In effect the industry wants to tighten the underwriting of "special perils" — which include water damage, storm, flood and hail. They are generally covered under the fire account or the accident account.

Rates for special perils were revised upwards by the market effective July 1 1985. This followed a bad year for storms in 1984 when a total of R110m was lost.

This year, as the table indicates, is already much worse. By November 16, storm losses reported under the special perils category arising out of the Natal floods reached R378,7m, compared to R5,7m in 1986.

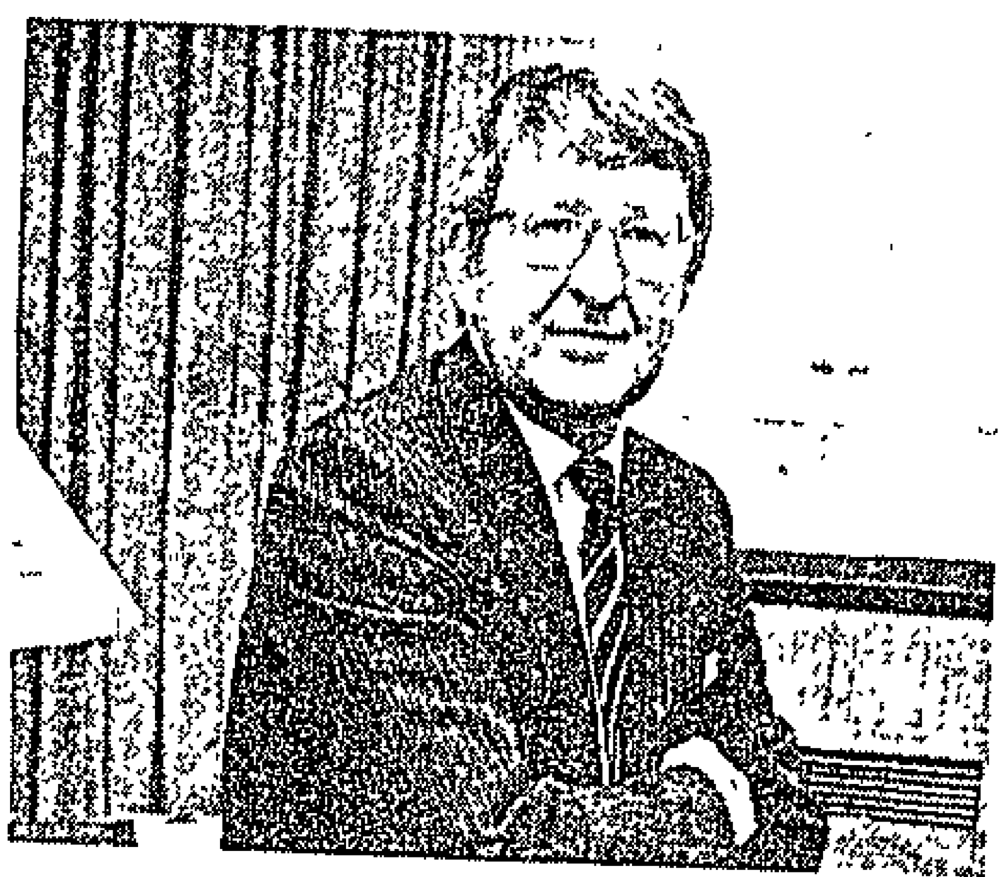
For the first nine months of this year, fire and other perils for claims over R250 000 each have leapt by 50% on 1986 to R59,7m, according to figures from Saroa.

PRICE OF PERIL

Fire and storm losses

	Rm 1986	Rm 1987
Fire and other perils*	39,7	59,7
Special perils (storm)	5,7	378,7
Total to date	R45,4m	R438,4m

*For claims in the over R250 000 category
Source: SA Reinsurance Offices' Association



SAIA's Schneeberer ... rates now too low

Assuming total losses from the Natal floods, from September 26-29, rise to R500m, reinsurers here and overseas will pay the bulk, estimated at about R375m..

"As a national disaster in terms of loss of life, property and consequential loss the floods in Natal are without precedent in SA and indeed in Africa," comments Saroa.

Rodney Schneeberger, CE of the SA Insurance Association (SAIA), agrees that rates are now too low. "But there's more to it." He says SAIA's special perils committee is examining the matter and will also consider evidence that catastrophes are increasing both in volume and number.

A main reason for this is the concentration of values, and that there has been growing urbanisation and industrial development in exposed areas.

Saroa is also calling for further "transparency," or separate accounting of risks, plus a "proper uniform loss accumulation control for all areas within SA." It wants special attention to be given to "public utilities, and suppliers' and customers' extensions. Each risk exposed to loss by storm or flood requires to be separately underwritten."

Schneeberger says that the 1985 special peril ratings are "obviously now inadequate, including the extension aspect."

Ernst Kahle, MD of Munich Re, sees a number of other worrying factors. "Indications are that business is deteriorating independently of the large claims. There is a significant increase in arson. Also the market is softening. We know a large number of risks are being rebroked overseas for wider covers and lower rates."

He says local reinsurers work on a "continuity basis" and see every treaty relationship with a direct insurer as long-term. It is the job of reinsurers to smooth out catastrophe losses and spread them over several years. The Natal losses, for example, should be recouped over a number of years.

But this needs continuity, something that would be disrupted if direct insurers went overseas for cheaper cover. It may be a short-term advantage, but over a longer term the dangers of "uncollectable reinsurance payments" have to be considered.

In the US, for example, Kahle says that reinsurance recoverables for claims in 1985 totalled $72,2 billion. It is variously estimated that as much as $14 billion, however, may never be recovered — for example, because of poor reinsurance security.

So despite increasingly tempting offers from abroad, local reinsurers will not only be encouraging direct companies to remain with them but to re-rate special perils business upwards.

BOND RATES

Perm demurs

After being the first to raise its bond rate to 14,5% in May, the SA Perm's board decided on Tuesday not to reduce its rate even though other major societies have cut theirs, some to as low as 13% for new loans.

But the Perm has dropped deposit rates across the board and now pays its depositors the lowest rates of all societies (See P 120 Statistics).

The move is bound to fuel concern that the society is facing problems largely because of its policy of supporting smaller but more homeowners, which increases its cost structure and thus affects the bottom line. But: "We do not wish to enter public discussion over the issue," says GM Peter von Broembson. "We leave the conclusions to you."

As the bond war heats up, the question is how long will bondholders enjoy the benefits? Will they have to cough up for today's follies of building societies and banks?

The more intensive the war, the more fancy the gimmicks and marketing ploys for dressing essentially the same products in different guises. Press releases are being issued almost daily — some announcing the "launch" of what amounts to an old scheme or package; others trumpeting schemes that on sober reflection amount to little.

In the past few days Allied claims it is "unveiling a new approach to bond rates — a financial supermarket for home buyers." First National heralds a "flexible bond repayment package" — but has allowed varying monthly payments in the past. Natal Building Society reckons it is the first to bring parity in lowering its bond rate for new and existing borrowers, which "contrasts sharply" with other societies, despite its rates still being higher than banks and United.

Both Allied and United — like the banks — are using cheaper short-term money from their banking arms to finance long-term bonds. As Allied Group MD Kevin de Villiers admits: "Though retail deposits from traditional depositors remain important, they are no longer crucial."

It is all very well setting such a pace when funding is cheap and credit demand weak. There is, however, the long-term side to the equation — bonds, after all, are long-term investments. This side of the equation reads that as sure as all markets go down at some stage, so they will rise. Institutions will see their margins squeezed.

It is merely a question of when. The answer, at present, is not in the near future.

Despite bond rate cuts, embattled societies still can't match bank bonds of 12,5%, the cheapest society being UBS at 12,95%.

In his presidential address to the Association of Building Societies last week, Mike de Blanche noted: "It is a source of concern that an increasing proportion of funding re-

quirements are derived from the wholesale or corporate market. Funds from this source are at all times acutely rate-sensitive and could become highly volatile during an economic upswing of any consequence."

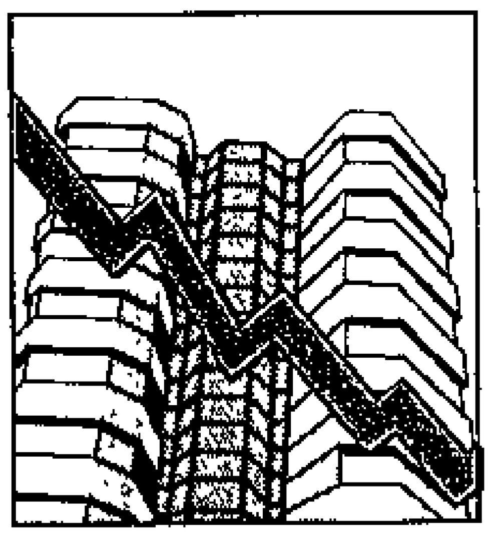
Despite the dangers, homeowners in higher income groups can obtain a good deal, and structure investments as they wish. Lower income earners are being bypassed, few institutions targeting this market. De Blanche said an estimated 50% of blacks "cannot afford the most basic housing." ■

FM 20/11/87 (8)

THE JSE

In search of safe harbour

A month after Black Monday, JSE investors find themselves at sea — seeking direction. Some pointers exist as to what to buy and sell, but that the trading environment is now squarely a bear one is in little dispute.



Four weeks after the October crash, most stockbrokers and the investing institutions agree that the JSE is firmly in a bear market. A 40% slide in share prices, weak buying pressure and battered confidence have left no doubt about that. There is less agreement on how long it will last, or how much further share prices may yet fall.

Nobody can answer these questions with any great confidence yet. Uncertainty and nervousness still hang over the stock market. People are uncertain about the gold price, the economic and political actions that will be taken in the US and other leading economies, the outlook for the US deficits, exchange rates, world inflation, interest rates — and now attention is even being given to the Angolan war.

It is this kind of uncertainty — and of course, uncertainty about actions that might be taken by other investors — that is depressing sentiment. Without a view on these variables, it is impossible to draw firm conclusions on future share prices. After the past month many former shareholders may want to avoid trying to anticipate events.

Right now the JSE is linked closely to events overseas — it is not enough that the economy is growing and could quite possibly gain pace during 1988. "More than ever the gold price is crucial for local share prices," says Max Pollak research partner Alan Hill. "If gold moves either way it could cause sharp moves up or down in the shares."

One of the messages that came out of last week's *FM* Investment Conference was that analysts are not particularly bullish on gold. Michael Coulson of London stockbroker Kitkat and Aitken noted that gold needs rapid inflation and negative interest rates to give it its best chance — "and then, as in 1979-1980, it will perform irrespective of what the dollar is doing."

But there does not appear to be much expectation of that combination reappearing In Coulson's view, short-term fire-fighting activities have recently affected the gold price. Over the next few months, he says, the price could move upwards, the most likely time being in the first quarter of 1988, as the shock waves from the traumatic, global market collapse manifest themselves. Over the medium term (into 1988-1989), he sees gold heading back towards US$400/oz and even $300/oz as the combination of rising supplies and a deflationary environment takes effect.

Some local analysts feel that is too bearish. One gold analyst feels that Coulson was placing too much emphasis on expanding supplies of gold, and too little on the broadening demand. But he is not a lone bear — even if there are differences over degree. Mathlson & Hollidge research director David Gleason, who spoke on the outlook for industrial shares, drew bearish conclusions for industrials, after taking a fundamentally negative view on the gold price.

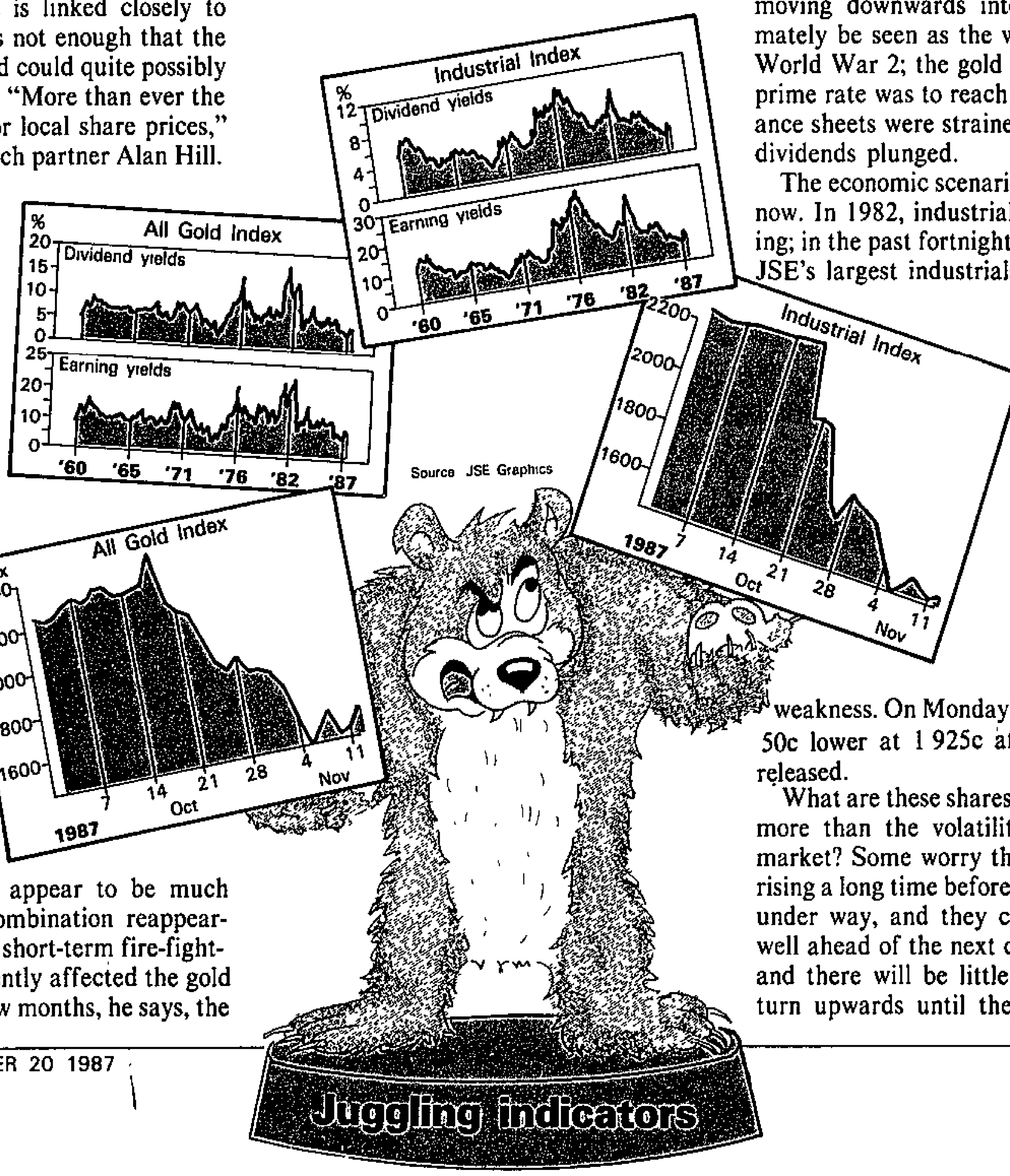
His scenario for gold was that — assuming it avoided the dangerous technical pitfall of a break downwards through $450 — it would track sideways for a period in a band of $455-$475, and then break out in 1988 and move upwards. Gleason sees the rate of growth of industrial company earnings falling during next year from the current level of around 40% to about 22% next year, and 15% in 1989. This outlook, he suggests, implies investors will expect an average dividend yield of about 6% next year, and the JSE Actuaries industrial index could be expected to plunge as low as 1 200 — some 19% below Monday's close of 1 479 — before levelling out.

Others doubt that yields will remain as high as 6% for long. And, gold price aside, this is a major problem for anybody attempting to decide how shares should be evaluated throughout next year. The big question is, what is a realistic yardstick to use? In the past, yields have risen a lot higher than they are at present (see graph). In October 1976, for example, the average earnings yield for industrial shares was 31% and the average dividend yield above 11%. That was after the Soweto riots and in the trough of a recession.

In mid-1982, after the bottom had fallen out of the 1979-1980 gold boom, the average dividend yield was 9,3% and the earnings yield 25%. In that case, the economy was moving downwards into what would ultimately be seen as the worst recession since World War 2; the gold price stagnated, the prime rate was to reach 25%, corporate balance sheets were strained, and earnings and dividends plunged.

The economic scenario is nothing like that now. In 1982, industrial earnings were falling; in the past fortnight, to take three of the JSE's largest industrials, Barlow Rand announced that its earnings for the end-September year were up by 30%, Premier lifted its interim earnings by 49%, and SA Breweries' interim earnings rose by 32%. What's worrying is that shares are often reacting to these good results with weakness. On Monday Barlow Rand closed 50c lower at 1 925c after its figures were released.

What are these shares telling us? Is this no more than the volatility of an early bear market? Some worry that the shares began rising a long time before the profits boom got under way, and they could now be falling well ahead of the next cyclical downturn — and there will be little reason for them to turn upwards until they start anticipating



THE FALL OF UNIT TRUSTS

	Selling price Oct 19	Selling price Nov 13	Change (%)
General Equity Funds			
Guardbank	1 485,74	1 010,98	−32,0
Metfund	*102,62	92,58	−9,8
Old Mutual Inv	1 863,93	1 230,14	−34,0
Sage	1 542,91	1 045,65	−32,2
Sanlam	1 243,26	809,09	−34,9
Standard	770,54	546,26	−29,1
Sygro	154,17	103,73	−32,7
UAL	1 435,54	918,27	−36,0
Specialist Equity Funds			
Guardbank Resources	141,06	92,18	−34,7
NGF	884,07	563,60	−36,2
Old Mutual Mining	334,85	225,28	−32,7
Sage Resources	134,24	87,63	−34,7
Sandiv	394,26	265,07	−32,8
Sats	632,80	410,30	−35,2
Standard Gold	318,14	211,09	−33,6
Trustgro	353,04	219,41	−37,9
UAL Mining & Resources	382,97	254,96	−33,4
UAL Select	1 348,61	958,35	−28,9

*Listed on 2.11.87

Note: In the same period, the JSE Actuaries Overall index fell by 37,3%, the All Gold index by 35,3%, the Industrial index by 34,3% and the Financial and industrial by 33,1%.

the next economic upturn. It is a truism that historical trends are not necessarily repeated. Stock market indices are best treated as barometers of the future.

In fact, there are plenty of more sanguine views around. The research director of another large broking firm feels that "the steepness of the fall precludes the likelihood of a really long bear market." He doubts that dividend yields on industrials will revert for long to 6%-7% unless the gold price takes a bath.

In about six months, he says, institutional cash flows will have risen enough to bolster shares again, although in the short term there is "little need to rush to pick up even institutional stocks showing good value." Another investment manager doubts whether institutions would be willing to sell many of their heavyweight or blue-chip shares at present prices.

Sanlam investment GM Walter Scheffler says that short-term technical indications look "quite favourable," but thinks any upturn is unlikely to be sustainable for long. "There must be a lot of nervous people out there waiting to sell scrip," he says. As a long-term investor, however, he feels that the fall was a good thing.

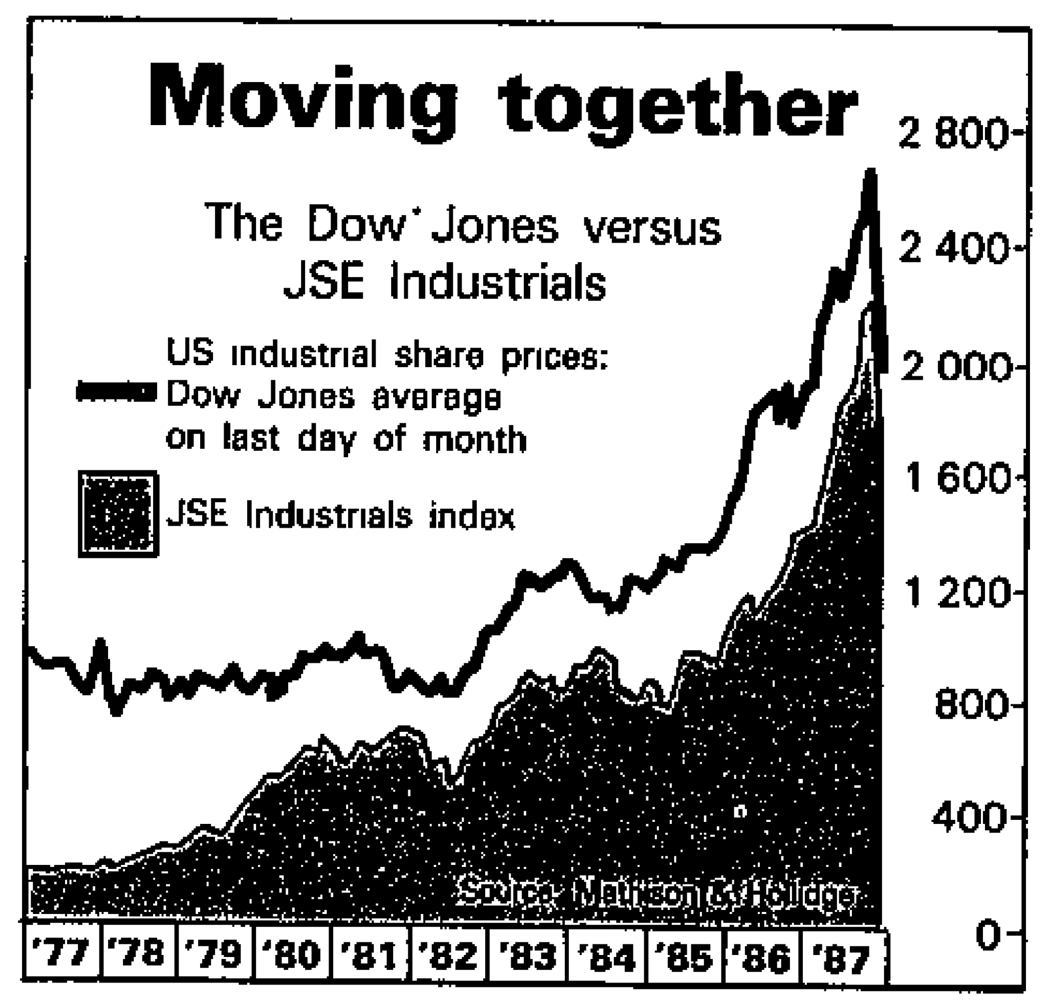
"Up until October 19 most investments looked unattractive — fixed interest did not offer real returns, good property was not readily available, and the share market looked vulnerable," he says. "Many shares now offer good value but the problem has become one of timing."

He stresses, that anybody investing now in equities should assess each share on its merits. Be cautious, he says, of generalisations about sectors, so-called institutional stocks or other simple criteria. Shares that might do better in the current market are those that stand at high dividend yields and, most importantly, that can at least sustain their dividends. Such stocks should offer some protection if the market falls further.

Profit outlook is also important. Some companies which lag the business cycle are only now seeing their profit upturn, or have yet to do so. These typically include building, construction and civil engineering companies. Industrial conglomerates such as Barlow are still operating well below capacity, and would benefit from further growth in sales volumes next year.

Balance sheets are worth considering. After torrid experiences during the recession, most companies moved as quickly as possible to repay borrowings and reduce gearing ratios. But dozens still carry fairly high debt:equity ratios. While these must be viewed against likely future earnings and dividend covers, high debt is likely to be seen as an undesirable risk factor. Scheffler points out that in a nervous market the negatives tend to be overemphasised.

Mining shares are even more directly linked to precious metal prices than are industrials. If gold goes nowhere, many gold dividends will come under pressure. Dividends could be squeezed next year by rising costs and lower production at some mines, while short-term distributions will still be hurt by the August strike.



Virtually all the gold shares are now substantially down on end-December levels. With the gold sector currently yielding an average 5,7%, the more stable mines do have income attractions. Some heavyweight golds are showing notably high yields, possibly because the market is anticipating dividend cuts or is at least building in the risk of future labour or grade problems. Freegold, for example, yields 7,5% and Vaal Reefs 7%. Against this (the largely non-unionised) Kloof and Driefontein have held up with yields of 4,1% and 5,1%.

For those looking further ahead, a number of gold mines are involved in major spending programmes which should substantially boost gold production by the end of the decade. Outstanding examples are Elandsrand (yielding 5,8% and down by some 46% in the year); Western Deep Levels (yielding 4,8% and down by 23%); Kloof (still up by about 2%); and, among currently more marginal producers, Durban Deep (yielding 3,8% and down by 47%).

Elsewhere on the mining board, liquidity, mineral rights and favourable sentiment will distinguish the stocks worth considering. Cash-rich groups such as Minorco (US$1 billion was available a few weeks ago) and Anglo American are cushioned against downturns and can afford to keep expanding. Mining financial Freddies, Amgold and Mid Wits should be supported by their mineral rights.

A firmer rand and uncertain foreign economic prospects could mean that coal stocks, ferro-alloys exporter Samancor, Palabora and even platinums will remain under pressure. Both sentiment and, at least in the short term, the fundamentals, have turned against leading international stock De Beers.

After 17 years of steady growth in retail sales of polished diamonds — sales fell only once, and stagnated in one year — the supposed linkage to the US economy is dubious. Year-end results will offer few pointers for the share price; good profits are in the pipeline, and the December sight of rough diamonds is expected to be conservative. Firmer indicators of De Beers' share outlook should come with the sights during the first half of next year, which means the share could remain weak until well into the second quarter. Whatever the underlying outlook for the diamond market, analysts are concerned that overseas investors may continue to avoid the share.

What should investors do now? Those who did not sell during the first 10 days of the fall may achieve little by doing so now — there is no point in selling at the bottom. But this is no time to be holding highly speculative shares, even if capital losses have to be faced. So it may be wise to improve the quality of portfolios.

Holders of unit trusts have not fared too badly, although perhaps not as well as many had hoped. As the table shows, most of the equity trusts have so far fallen almost as much as the JSE indices. Fund managers may argue that it is not realistic to make direct comparisons with the indices as the trusts were pitched for different investment objectives, and some are specialist funds.

The price performance does not suggest large net redemptions so far.

In the trusts' favour, many small investors who bought speculative shares before the crash would have seen their prices fall by greater percentages than either the unit trusts or the equity indices. And, if the market does fall further, then the trusts' generally high-quality investments should offer some protection.

Whether deliberately or not, the trusts had started increasing liquidity before the crash. At end-September the general equity funds held liquid assets of R346,5m compared with R284,3m at the June quarter; the specialist funds had increased liquidity to R130,4m against the previous R98,3m. The fund managers have always argued that unit trusts should be seen as long-term investments over a number of years. On that basis this may not be a bad time to invest. The high-income or gilt funds have been virtually unaffected by the JSE slide, and could be attractive investments on a short-term basis.

Anybody who buys into equities now should be aware of the likely market fluctuations, and that a rally may be followed by a renewed fall. The rule is to buy into weakness and sell into strength — and be very careful of giving a stockbroker sell orders which do not carry a price limit. It is possible that a strong and protracted rally may occur, but nobody can rule out a further crack in Tokyo or New York which would send a new tidal wave over world markets. Unless the gold price picks up, many investment managers will probably turn their attention to year-end holidays and spend the next few weeks gathering their thoughts — it is difficult to see the market going anywhere in a hurry.

Effects of the crash will take some time to be seen. And a list of winners and losers has yet to be compiled.

Andrew McNulty

FM 20/11/87

HOLLANDIA RESHUFFLE

Behind the latest results for Hollandia Reinsurance is a veiled disinvestment. Since 1980, capital injections have progressively diluted the 100% control of former parent, Netherlands Reinsurance.

As the Dutch have been leaving, the Germans have been moving in. Hanover Reinsurance of West Germany, ranked sixth or seventh largest in the world, now has a controlling stake of 53,7% in Hollandia Holdings, which owns both Hollandia Reinsurance and Hollandia Life Reassurance. Netherlands is left with 16,4%. AA Mutual Insurance still has 10,3%, which has to be disposed of.

Interestingly, in addition to its recent interest in Al Insurance (**See P48**), Rand Merchant Bank has also bought into this group. Just before the financial year ended on June 30, it paid about R2m for an 18,3% stake in Hollandia Holdings. With another R4m from Hanover this represented a further capital injection of R6m, to bring Hollandia's stated capital to R9,3m. Non-distributable reserves, plus the equalisation reserve, bring shareholders' funds to R13,3m.

GM of Hollandia, Steve Murphy, believes SA offers tremendous opportunities for the reinsurer. "The local reinsurers' market share of the total reinsurance premium available moved up from 32% in 1973 to 42% in 1982. Since then the percentage dipped, but I believe it is now back over 40%.

"We have argued for some time that prospects for the reinsurance market are good. We want to play a bigger role."

Of course, the company needs cash to expand. And clearly the latest injection comes from shareholders keen to support Hollandia's plans for growth.

But it won't be easy. The reinsurance market in London and Europe has been softening for some time, and representatives have been calling on SA for business. This is despite heavy storm losses in Natal. With such a trend it is dangerous to go for growth.

Murphy acknowledges this, indicating the company's plans are longer term. Meanwhile, Hollandia will continue to specialise in the liability market, and excess of loss reinsurance.

Saambou enters bond rate war

(58)

SM 20/11/87.

By Dan Side

The mortgage bond war between building societies took a new twist today when Saambou National announced categories of bonds that rival the 12,5 percent interest offered by major banks.

Allied Building Society fired a fresh salvo in the rates battle on November 8 by reducing interest from 14,5 percent to 13 percent for new borrowers.

This followed a decision by the Natal Building Society to pare its rates from 14,5 to 13 percent.

Today Saambou's chairman and managing director Mr Hendrik Sloet announced his society was going into direct competition with major banks in offering certain homebuyers a rate of 12,5 percent.

Saambou also comes into line with the more competitive building societies with a maximum rate of 13 percent for all new applications.

Bond bonuses

He said the bid to firmly entrech Saambou in the bond market included perks such as making available personal loans at differentiated interest rates to cover bond and registration costs or the purchase of new curtains or furniture, deferral of payment for up to three months under certain circumstances, bond payments available over 11, instead of 12 instalments a year and taking combined incomes of a married couple into consideration in calculating the instalment ratio.

Applicants can obtain a decision in principle within 24 hours and a final decision within three days.

Said Mr Sloet: "The conversion of Saambou to a public company has enabled the building society to review its complete range of home ownership services with a view to greater flexibility."

But the banks are still the trailblazers with a flat rate of 12,5 percent.

Mr Barry Swart, deputy-managing director of First National Bank, said his institution alone had boosted its outlay on home loans from R950 million last year to more than R1,4 million.

SA Permanent is the only home loan facility with rates still pegged at 14,5 percent.

BANKING SECTOR

Safer haven?

As mentioned in Market Talk last week, banking shares are being seen by a number of analysts as potential investments. As one analyst points out, the earnings yield for the Banks index is 13,2% against 10,2% for the Financial and Industrial index.

But it is not only on the basis of historical performance that banks are interesting. Though the stock market crash should limit, if not end, the new listings boom and hurt a number of banks through their merchant banking arms, for most this should be more than offset by the expected swing to mergers and acquisitions, and by the effects of companies turning to loan rather than equity funding. The economic upturn could boost demand for loans, even without the equity effect.

And the banks are generally in good shape to expand. Most have been through a pretty tough rationalisation programme and made large investments in computer equipment and software. With this capital expenditure and the heavy provisions for bad debts behind them, they are ready to reap the benefits of past difficult years.

The orientation towards "one-stop banking" and financial institutions rather than pure banks has opened a number of avenues. Most banks insist they will stick to traditional business, aiming particularly for better quality clients, despite their links with building societies and insurance companies. For most, the new developments offer possibilities for synergy rather than changed directions for the banks.

The question hanging over some is whether rapid growth in assets means they will have to raise additional capital themselves to meet the requirements of the new Banks Act. Some succeeded in overcoming the problem by a connection to another institution. However, the shareholdings of large financial organisations mean that any banking rights issue is bound to succeed.

"With the biggest bank in the country (First National) on an historic dividend yield of 5,8%," says one analyst, "how can you go wrong?" He puts the forward yield at 6,5%, rather lower than some others, which go as high as 7%. But most agree that the "sitter" is National Discount House. Never a favourite with investors, who still seem unsure what it actually does, it is trading on a forward dividend yield of about 10%.

But most banking shares look attractive. "You can buy almost all of them now," say a number of analysts. There are some exceptions. High investor expectations of investment bank Corbank makes that expensive at an historic dividend yield of 2,5%, though this figure includes substantial write-offs. Another thought to be high is Standard, which stands on an historic yield of 4,4% against the sector average of 5,8%. Sage, yielding 4,7%, could fall.

Some analysts say building societies are interesting, but they are concerned that there are still many individual shareholders who are potential sellers. *Pat Kenney*

FINANCIAL MAIL NOVEMBER 20 1987

The week when the JSE joined the world's worst-hit

The JSE has plunged even further than New York, London and Tokyo. Gold, our traditional safety valve, has become a liability instead. HILARY JOFFE reports

THE fall in share prices on the Johannesburg Stock Exchange has been among the world's worst.

By Tuesday this week, the JSE all market index was 36 percent lower than its peak on Monday October 19, having risen from being 40 percent under the peak. In contrast share prices in both London and New York were under 30 percent down on their peaks for the year and Tokyo's stock exchange had fallen least.

The Dow Jones index of New York share prices was down about 29 percent from its peak. Tokyo's Nikkei index had fallen by only 19 percent by last week. The exception was Australia, where share prices in Sydney are almost 50 percent lower than they were before the crash.

Analysts are baffled — some say there is nothing to justify share prices falling by more in South Africa than anywhere else.

But there are factors which differentiate the JSE from other markets. Chief of these is the dominant role of gold, crucial to South Africa's export earnings. Mining shares make up 60 percent of the market value of shares on the JSE, according to one analyst.

The gold price has not soared over the $500 mark as many had hoped and expected. By the middle of this week it was fluctuating around $463. The gold price in non-dollar currencies has weakened in the weeks since the crash began.

Gold has often acted as a "safe haven" in times of uncertainty — and analysts initially expected a rush into gold by investors wanting to get out of the world's stock markets. Many expected, too, that the gold price would go up as the dollar went down to record low levels against the yen and the German mark. But the world's investors and central banks were selling gold in the wake of the crash. Investors needed to raise all the cash they could to cover stockmarket losses.

But Standard Bank's economists, in the latest Standard Bank Review, say although gold's failure to respond as expected has been attributed to forced liquidation of speculative gold holdings and central bank sales to support the dollar, "probably more important is that the prospect of rising world inflation has diminished, and that declining interest rates have meant that profits are there for the taking in the world's bond and money markets".

They say it's unlikely investors will rush into gold under these circumstances although the gold price will eventually rise with "a generally reflationary economic policy stance in major countries".

David Gleason, of stockbrokers Mathison and Hollidge, took a similarly bearish view on the gold price at last week's *Financial Mail* investment conference. He said low inflation and low interest rates in the US were negative influences on the gold price, which he predicted would remain at between $455 to $475 for the time being. He said industrial share prices in Johannesburg, which he predicted would drop lower, were influenced by gold price trends.

So investors in Johannesburg have not been able to take comfort in gold saving the South African economy and cushioning it from shocks in world financial markets.

South African investors can't be deriving much comfort either from the performance of the South African economy which, according to Reserve Bank governor Gerhard de Kock, grew at a rate of only 1,5 percent in the third quarter of this year.

"We've had nothing to inject any confidence into the markets," says the economist at a stockbroking firm.

In Japan and Britain, by contrast, the stockmarket crashes came in the context of economies with relatively high growth rates. Britain's gross national product has been growing at a rate of 3,5 percent and is expected to grow by four percent next year.

In the US, investors have been hoping White House and congress negotiators meeting in Washington will come up with a plan to cut the budget deficit. And US interest rates have been reduced.

In South Africa interest rates are already way below the rate of inflation.

There are other factors which have stopped the slide in share prices in some of the world's markets. In Japan the central bank encouraged the large financial institutions to buy up shares and in both Tokyo and New York companies can buy up their own shares to prop up prices. In South Africa the Companies Act prohibits a company buying its own shares on the market.

Compared with Wall Street, the world's largest stockmarket, the JSE is tiny. But more to the point, the JSE is regarded as a small market in the sense that only about seven to eight percent of its shares are traded. Most of the shares are tightly held — particularly by financial institutions who are reluctant sellers for reasons to do with tax, brokerage charges and the possibility they won't get their good shares back in the future if they sell now. By contrast, 25 to 35 percent of shares get traded in New York.

What this means for the JSE is prices can shift significantly on low volumes. The price of a share is set by the last trade — a "marginal" market. Thus a share price can drop by 50 percent on two deals involving only a few hundred shares — the kind of thing which has happened on the JSE in the past few weeks. It only needs a few panic stricken individuals wanting to sell at any price to substantially push down the prices of at least some companies' shares.

Gerhard de Kock

David Gleason

But despite the extent of the crash in share prices on the JSE, and despite the fact that much paper wealth has been lost, the crash is not expected to affect the South African economy in a direct way.

As Gleason pointed out, the majority of South Africans don't own shares. In the US, by contrast, 60 percent of households have been involved directly or indirectly in the stockmarket. The decline in consumer confidence there is likely to have recessionary consequences, as is the dent to investor confidence. With the crash, say Standard's economists "it is now necessary to make a fundamental re-assessment of world growth prospects".

It's in this indirect way that South Africa's economy is likely to be affected. the fall in JSE prices is unlikely to have a direct effect on the lives and jobs of most South Africans.

But the fall in world stockmarkets could affect lives and jobs here if it signals recession in world economies. There would be less demand for South Africa's exports and possibly less potential for economic growth. How bad a world recession may be depends on economic policy decisions taken by the government's of the major industrial countries.

De Kock sees the cheery side

SOUTH Africa's economy may be relatively better off than other economies in the wake of the world stockmarket crash — mainly because it was so badly off to start with.

That was the suggestion of Reserve Bank governor Gerhard de Kock in his keynote address to last week's Financial Mail investment conference.

"Call it irony, call it fate, call it justice," he said, "but the very fact that the South African economy was forced to adjust to a unique combination of adverse extraneous economic and political developments after 1981 and again from 1984 onwards, has placed it in a relatively favourable position to cope with possible adverse developments in the world economy in 1988."

He said the economic growth rate was likely to be two percent for this year, rising to 2,5 percent in 1988. This follows a rise in real gross domestic product of less than one percent last year. In 1985 and 1986 real gross national product per capita declined by an average of about 2,2 percent a year.

Like everyone else, De Kock wants to see a reversal of these trends.

Despite all odds, he still believes that a growth rate of three percent should be possible in 1988, he told the conference. But since exports would not stimulate growth much next year, this would have to come from an increase in gross domestic expenditure.

De Kock called (again) for an increase in investment spending to make this possible. He said a significant revival in capital outlays on plant equipment and construction was needed to boost growth.

He has drawn the contrast between the "high blood pressure" in the financial markets, for example the stock exchange, and the "low blood pressure" in the real economy where productive investment has declined. He has also in the past criticised investment in paper assets instead of in productive, job creating bricks and mortar.

He clearly doesn't see the stockmarket collapse as the chief of South Africa's economic problems.

What the Wall Street crash means to the Third World

No Third World exchange followed Wall Street downhill. The fall in Western interest rates lessens the burden of Third World national debts. ROY LAISHLEY reports

AS leading industrial countries try to stop the US dollar following world stock markets in a downward plunge, the Third World is once again steeling itself to face up to the consequences of a global economy in trouble.

The frenzied selling on Wall Street, Tokyo and London which signalled the end of 12 years of continuously rising share prices has not been repeated in the Third World.

With the exception of Hong Kong — where the exchange was closed — Third World exchanges have been doing good business. Indeed many countries have been bouyed by the fall in interest rates which has accompanied the gyrations in industrial country financial markets.

For Third World countries, massively indebted to industrial country banks, the fall in interest rates lessens the burden of interest payments.

By the beginning of this month, falling interest rates had knocked an estimated $3-billion (R6-billion) off the amount developing countries pay every year in debt interest.

Any relief from the increasingly crippling debt burden will be welcome. Zambia broke away from the International Monetary Fund over the Fund's prescribed debt remedies while Brazil has been forced to call a moratorium on interest payments. A host of others from Nigeria to the Philippines have been compelled to seek rescheduling deals.

But the current fall does not obliterate the three percent rise in interest rates earlier this year, when Western economic prospects began to falter.

Zimbabwe's finance minister Bernard Chidzero, chairman of the joint development committee of the World Bank and IMF, has warned Western attention could be diverted from Third World debt problems by the need to put its own house in order.

Novel attempts to ease the debt burden could now be put in doubt. Already negotiations have been delayed on a debt-equity swap for a significant part of Mexico's debt.

Privatisation drives in many developing countries could also find themselves starved of foreign capital.

But it is the West's struggle with its own economies which has most implications for Third World prospects. A cheaper dollar will please countries who buy their goods in US currency but will cut the income of oil producers like Nigeria who are likewise paid in US funds.

Attempts by the US to reduce its budget deficit could affect Third World countries adversely. It's likely that one outcome of present negotiations will be further reductions in the already truncated Foreign Aid Bill.

The economic growth rate in the US is likely to fall — the IMF had forecast 2,7 percent growth but this will have to be revised downwards. And although the economies of West Europe and Japan will do better, their growth rates in 1988 may not compensate for the US fall.

That means a similar easing back from the projected developing country growth next year of 4,4 percent. Lower growth in industrial countries means lower demand for developing country products and a probable squeeze on aid.

The crash in the stock markets has played havoc with commodities, with copper and aluminium prices fluctuating wildly.

For developing countries, dependent on commodity exports, gains from lower interest rates in the industrial countries will mean little if the cash from export earnings is reduced even more than it has been already.

The "worst-case" scenario — which would probably lead to major debt defaults — would be a repeat of the 1981/82 recession when slower growth was combined with higher interest rates. — Gemini.

Building Societies cut fixed deposit rates

NEWS 20/11/82

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By TOM HOOD,
Business Editor

PENSIONERS and small investors who depend on income from their savings will be hit by cuts in fixed deposit rates paid by two front-runners in the savings movement, the United and Permanent building societies.

The rates have been lowered by as much as 0,75 percent.

Among changes in United's rates are that deposits up to 12 months will attract 10,5 percent interest instead of 11,25.

The Perm's rate for 12-month money is down by a half-percent to 10,25.

INCOME SLASHED

With inflation running at more than 15 percent, the best rate that savers can get is down to 12,5 percent on a five-year investment — and that is taxable.

Savers have seen their income slashed by around 25 percent this year as rates tumbled.

The UBS top rate is now 12,5 percent on money deposited for three to five years while the Perm's top deposit rate is 12,1 percent. Senior citizens receive an extra half-percent.

Metboard has cut the rate it pays investors to 13,51 percent from 14,95.

Cape Times 20/11/87

30 R1m policies a week

Own Correspondent

JOHANNESBURG. — Life policies with sums assured of R1m or more are being written at a rate of at least 30 a week, industry sources say.

Sanlam, which writes an average of three big policies a week, finds, in common with other life offices, most of these policies are taken out by businesses to insure their key people, said Jacques de Villiers, Sanlam's senior manager: marketing.

Federated Life's Bernie Goldman, senior assistant GM: sales and marketing, said the tax implications of taking out keyman insurance also forced up the values of policies.

This is because, although premium payments were tax-deductible expenses for a business, the benefits were treated as ordinary taxable income. This meant sums assured had to be double the actual amount needed.

BANKORP 58 20/11/87

New structure

Changes which have taken place in Bankorp in the past two years have led to a sharp improvement in revealed earnings, but the final restructuring has just taken place and should show its benefit in the coming year.

The group now consists of five main subsidiaries: Trustbank, Santambank, Senbank, BankFin and BankBes. BankFin is a new subsidiary, containing all non-banking financial service subsidiaries. Included are life assurance broking, short- and medium-term insurance broking, estate and trust services, factoring and trade financing services and comprehensive property services.

BankBes contains certain management and shared services of the group, including the computer division.

A major move in the restructuring was the reduction of Mercabank's assets to a portfolio of property investments, which will in turn be realised subject to market conditions. On July 1, 1987, Mercabank and Santambank were merged. According to chairman Fred du Plessis, "the negative influence of Mercabank on the profits and image of the Bankorp group should now finally be eradicated." Mercabank has been a problem child for some time and has drained not only Bankorp's profits but also its capital, absorbing most of the receipts from the rights issue of 1986.

The rights issue increased the number of issued shares sharply from 55,6m to 89,1m. This led to an eps fall from 102,2c to 93,2c, though attributable profit increased 54,8%.

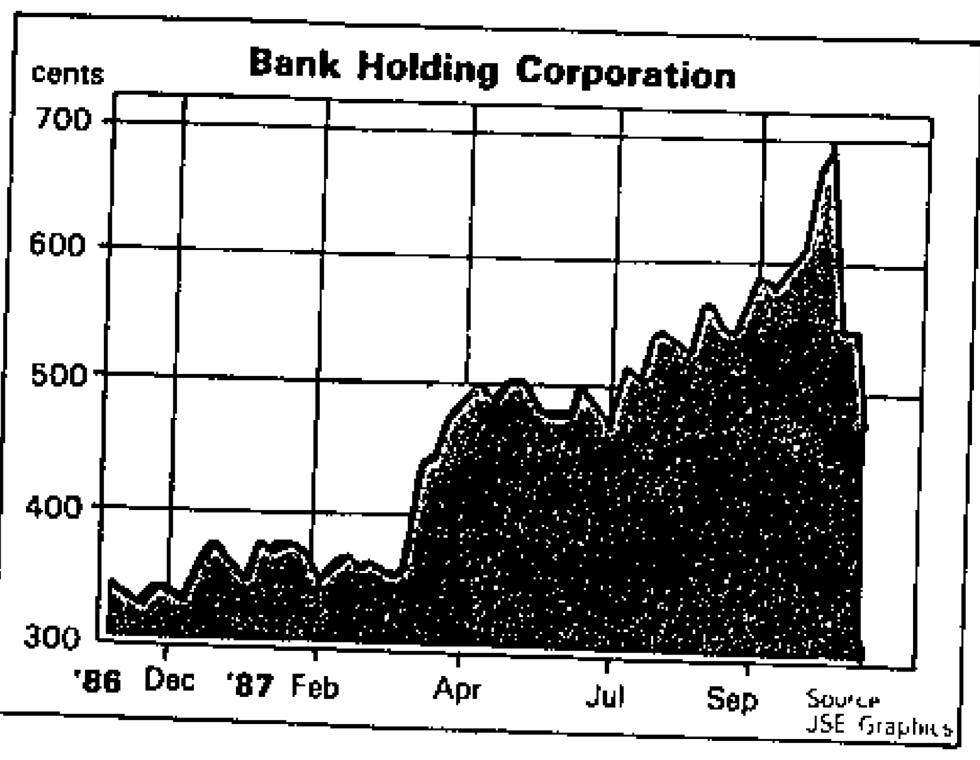
Biggest contributor was TrustBank (see *FM* November 6). Bankorp's portion of net income after tax and transfers to contingency reserves amounted to R37,5m, while that from Santambank amounted to R27,3m and Senbank R19,8m.

Santam performed well, with a 22,4% increase in assets and disclosed profits rising 29,5% according to MD Roland Perold, the bank has grown into a new giant in motor financing, and is approaching the position of market leader. As for the Bankorp group as a whole, the capital requirements of the amended Banks Act for the end of this year have already been exceeded.

Merchant bank Senbank managed asset growth of 7% to R1,9 billion, while the acceptance book rose 32,6%. Project finance has provided a large amount of work, but the corporate finance division may be hit because its main thrust has been in the areas of new listings and rights issues.

Despite the sale of assets which are not performing, such as Protea Hotels, Miller Weedon group, Suzuki motorcycle agency and Capetonian Hotel, Du Plessis makes a conservative forecast that "it is anticipated that 1988 profit will at least equal the 1987 profit." This should be well exceeded, with Mercabank sorted out and the possibility of increased bank lending now that the stock market has fallen.

Pat Kenney



Activities: *Bank controlling company. Subsidiaries provide comprehensive range of banking and supplementary financial services.*
Control: *Sanlam has control.*
Chairman: *F J du Plessis.*
Capital structure: *89,1m ords of R1 each. Market capitalisation: R463m.*
Share market: *Price: 520c. Yields: 6% on dividend; 17,9% on earnings; PE ratio, 5,6; cover, 3. 12-month high, 705c; low, 320c. Trading volume last quarter, 2,4m shares.*
Financial: *Year to June 30.*

	'84	'85	'86	'87
Total Assets (Rm)	10,7	13,6	14,4	16,1
Taxed Profit (Rm)	52,5	25,7	58,8	84,9
Attributable profit (Rm)	50,5	53,1	56,0	86,7
Earnings (c)	107,8	109,0	104,9	93,2
Dividends (c)	27,0	29,0	30,0	31,0

Bankorp's Du Plessis ... Mercabank effect eradicated

EEC TRADE FALLS

European Economic Community (EEC) imports from SA have fallen by 40% since 1985, according to an EEC report issued last week. The fall is general, not just for banned iron, steel or gold coins.

In January-March 1985, EEC imports from SA were nearly ECU2,3 billion, or US$2,9 billion. In the first 1987 quarter they fell by 40%, to $1,7 billion.

Exports to SA also fell dramatically from $2,2 billion in first-quarter 1985 to $1,4 billion for first-quarter 1987. Imports of SA gold coins into the EEC have come to a complete halt.

In June-July 1987 imports of SA iron and steel stood at two-thirds of the monthly average for 1985.

56A FM 20/11/87

CIT Times 25/11/87

Merger sanctioned by Supreme Court

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By AUDREY D'ANGELO
Financial Editor

THE merger of the Old Mutual and Colonial Mutual — without money passing on either side — will be of benefit to policyholders with both institutions, Old Mutual MD Mike Levett said yesterday.

He issued a statement that the merger had been sanctioned by the Supreme Court.

Asked to comment on suggestions that the merger had been arranged with Colonial Mutual's parent company in Australia — and that the SA board of Colonial Mutual had wanted payment for assets worth more than R600m — Levett said the fact that no money had changed hands meant it was all in the joint pool from which bonuses would be paid to policy holders.

"Nothing could have been done that was more in the interests of policy holders," he added.

Levett said the merging of the two oldest mutual insurance societies in SA meant that more expertise would be available and costs would become a smaller percentage of income.

"All policyholders will reap the benefits of these facts."

He said the former CE of Colonial Mutual in SA, Doug Cleland, had been made an attractive offer to join Old Mutual but had declined. "We are very sorry Doug did not stay."

Cleland, who confirmed that he had been asked to join Old Mutual, said: "I have heard the Supreme Court took about 45 seconds to agree to the merger. It is all over now. There is no point in saying anything."

In yesterday's statement Levett said Colonial Mutual policyholders would become members of Old Mutual, and all assets and liabilities would be transferred to Old Mutual.

"The transfer has retrospective effect from January 1, 1987.

"Colonial Mutual was established in 1873 in Melbourne, Australia, and has been operating in SA since 1883.

"At the time of the merger it was the 12th largest assurer in the country, with total assets of over R600m.

"Premium income last year was R80,7m. Old Mutual has the largest asset base in the SA insurance industry and even before the merger was ranked No 1 in terms of both premium income and total income."

Levett added that no staff members would lose their jobs as a result of the merger.

Stockmarket crash foreseen

Santam earns record profits

Cape Times 24/11/87 (58)

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based Santam Insurance had only R6m knocked off the market value of assets worth R415,8m by the stockmarket crash, MD Cornelius Oosthuizen disclosed yesterday.

The GM investment, Roy Justus, explained: "The crash justified our investment policy. We foresaw the crash coming, and stayed relatively liquid.

"Although we had discretionary funds available we didn't want to go into the market at the levels it reached in the last 12 to 15 months."

Drop again

Justus said Santam was "in no hurry to go back into the market. I think it will take at least two or three months to evaluate the situation. This is how I see it at the moment.

"The market might rise only to drop again as people make sure of taking a profit.

"But I still think the equity market is the best place for our funds once the situation has settled."

The short-term insurance company achieved record profits in the year to September 30 and improved its solvency margin.

Gross premium income rose by 17,1% to R642,6m (R548,5m) and net premium income by 18,5% to R577,1m (R486,9m).

Earnings per share soared to 41,5c (21,5c). The final dividend is 9c, making a total of 15c (13c) for the year with increased cover of 2,8 (1,7) times.

The amount of cash paid out on claims increased by 10,9% to R448,4m (R404,2m), but there was an underwriting profit of R20,3m compared with a loss of R700 000.

Premium income

Pre-tax profit rose to R47,2m (R21,8m). Pointing out that this was equal to a return of 8,17% on net premium income, Oosthuizen said: "This is almost exactly in line with the accepted international standard of an 8,2% return.

"In spite of our net premium income increasing by 18,5%, we were still able to improve our solvency margin. This now stands at 23,9% (22,7%)."

Net asset value per share rose to 196,9c (157,8c).

Insurance funds rose by 36,1% to R221,5m (R162,8m).

Oosthuizen said that although the Natal floods occurred only two days before the end of the financial year "the losses incurred have been fully provided for.

"We have processed all claims received so far and our losses total only R5,3m. We have, in fact, provided for more than this amount to cover any claims not yet reported."

Oosthuizen said he did not expect the company to have to adjust its Multiplex premiums before October 1988, "and I see no reason why the results in the coming year should not be better than those of the past year."

(58)

Nedbank poised to benefit by conditions

HELEN WISHART

THE Nedbank group is in a sound condition and on target to enhance shareholders' earnings, says chairman Owen Horwood.

Addressing shareholders in the group's annual report, Horwood says Nedbank is well-positioned to take advantage of the improvement in business conditions, which began to show in the September quarter.

Commenting on an income of R86,1m — 56,3% up on last year (R55,1m) — Horwood says, "Nedbank still enjoys the benefit of certain tax losses which could provide interesting profit and tax planning opportunities."

Meanwhile, deteriorating international indebtedness and persistent external deficits are likely to dominate the world economy "for years to come".

The most important danger of this scenario is the threat of renewed world inflation which could, in turn, have adverse effects on economic growth and international trade.

Looking at the SA economy against this background, Horwood says the outlook is for modest growth of volumes and possible improvement in prices.

"Obviously, there are special considerations for some of SA's major export commodities, particularly the precious metals and coal."

He says there are encouraging signs in the pro-sanctions lobby abroad of "an increasing awareness of the ineffectiveness of the punitive measures adopted against SA".

"Nothing has contributed more to the decline of American influence in southern Africa than the campaign directed at SA by way of the disengagement of (predominantly) American companies from this country."

He says the rand should be kept under-valued to promote exports and because domestic industries benefit from being more competitive against higher-priced imports.

Also, there are signs of an improving trend in purchases of household goods, white goods and motor vehicles.

Horwood adds: "The perception of SA's credit rating has improved in European markets and there is an emerging willingness in some quarters to roll over our debt."

24/11/87
(58) B/day

Wits MBA student's survey finds . . .

JSE satisfies most listed companies

ROBYN CHALMERS

MOST listed companies are satisfied with the major roles of the JSE and that these are being efficiently fulfilled.

This was shown in an MBA thesis by Wits student Huntley Harris, titled Management Attitudes towards the JSE. It concludes the JSE fills an essential position in the business community and does so, well.

Harris surveyed 493 listed companies, 27% of which responded. Most were long-established companies on the JSE, but Business Day spoke to some of the more recently listed companies, and had a response similar to the general finding of the survey.

The thesis listed the different roles of the JSE as being: controlling the entry of members; regulating the conduct of members; guaranteeing the quality of delivery; and paying shareholders from the guarantee fund in case of default.

It found the JSE fulfilled all its roles adequately, creating an orderly market by keeping transactions to the trading floor, publishing prices daily and regulating the conduct of members.

The questionnaire for the thesis was broken up into five sections:

- □ The panel for takeovers and mergers — which 62,9% of respondents agreed was necessary for the protection of minority shareholders and to ensure that the rules were applied equitably and impartially;
- □ The listing requirements — which a large percentage disagreed were too onerous on companies seeking a listing, or that the JSE took too long to grant a listing;
- □ Communication with companies — where companies were satisfied in general, but would appreciate more consultation before changes were made to the rules;
- □ Advantages and disadvantages of a listing — where most companies agreed the advantages outweighed the disadvantages, the only disadvantages being the disclosure requirements, the costs and the administration requirements;
- □ Lastly, a general section which reconfirmed that companies were generally happy with the JSE.

Latest

GOLD HITS $480

ARGUS 25/11/87

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By TOM HOOD
Business Editor

SHARE prices surged ahead on world markets today, encouraged by the gold price touching $480 and strong rallies on the New York and London stock markets.

The JSE's gold-share index jumped by 66 points to 1 725 this morning. The overall index rose 33 points to 1 780, while the industrial index gained 10 points to 1 416.

Gold opened at $479,95 an ounce in London, its highest since the Black Monday crash of October 19.

Millions of rands were added to the market value of gold-mining shares on the Johannesburg Stock Exchange yesterday as the gold-share index soared by 8,5 percent.

These gains were extended in early trading today and included front-runner Vaal Reefs, gaining R20 to reach R345 a share after yesterday's R37,50 rise. Another market leader, Anglo American, firmed R1,25 to reach R62,50 after yesterday's R3 rise.

The worldwide surge was fuelled by a wave of interest-rate cuts by European central banks in response to a United States agreement to cut its budget deficit.

But the American dollar eased slightly today to 134,70 yen and 1,669 West German marks.

The shares rally was viewed as a delayed response to the United States budget-cutting effort, which led to the rate cuts as America's trading partners co-operated to hold the world economy together in the aftermath of the October market crash.

● The stock market crash may have been a blessing in disguise, said former Federal Reserve Board chairman Mr Paul A Volcker.

The October 19 crash might have benefited the economy by forcing policy-makers to address long-range economic problems such as the US budget and trade deficits.

Perm odd one out in societies' bond rate battle

58

25/11/87. STAR

By Frank Jeans

The S A Permanent Building Society, the "odd one out" in the latest bond rate battle, is making no change in its mortgage rate at this stage and it remains at 14,5 percent.

Asked to comment yesterday on the likelihood of falling market share, Mr Peter von Broembsen, the Perm's assistant general manager, marketing, said: "The whole question is being considered but we have made no decision on lowering the bond rate.

"Everything depends on what happens in the interest rate market and we are watching the situation on a daily basis."

Question

The question now being asked among home-lending institutions is: How much longer can the Perm stay out of the bond rate race in view of the fact that in the present highly-competitive market, the society's market share must be affected?

On November 13, at the height of the mortgage rate battle, Mr Bob Tucker, managing director of the Perm, was reported as saying: "There is no doubt that the competition from the banks is vigorous and has had an impact on the financial position of building societies."

It was understood then that the Perm would "make a decision next week on its bond rate".

The Perm was expected to follow suit when other major building societies lowered rates in the face of mounting pressure in the home loans business from the banks with their 12,5 percent bond rate.

One industry source said: "The decision by the Perm not to move yet on the bond rate surely raises questions about the wisdom of that society's decision to remain a mutual one rather than taking the equity route along with its major competitors."

No change yet, says society

The bond war was revived when the Allied cut its rate from 14,5 percent to 13 percent for new bondholders.

The Natal Building Society went one better by coming down to 13,5 percent but extending the concession to existing borrowers from February 1.

The largest society, the United, is also at 13,5 percent for its old borrowers but new loans carry a 12,95 percent rate.

Benefit

The all-round lowering of rates is generally seen as being a major benefit to homeowners and Mr Trevor Olivier, assistant general manager of the NBS, hinted at the time that more benefits to borrowers were in the pipeline.

And in line with this thinking, Saambou National came in with a package including a 12,5 percent rate for borrowers, although this covers only loans of 50 percent of a property's value.

Saambou chairman, Mr Hendrik Sloet, said: "The conversion of Saambou to a public company has enabled the building society to review its complete range of home ownership services with a view to greater flexibility."

Interim dividend 35% higher

Cape Times 26/11/87

Southern shows strong growth

58

By AUDREY D'ANGELO
Financial Editor

ABOUT 50% of Southern Life Association's total assets were invested in the stock market when it crashed last month, wiping out "a substantial amount" of unrealized profits.

But the directors say, in a statement issued yesterday, that in spite of the drop in share prices they expect taxed surplus and dividends to "show satisfactory increases over those of the previous year".

"In particular, it is expected that the final dividend will show an increase over last year's figure."

Premium income

Taxed surplus attributable to shareholders for the six months to September 30, rose to R32m (R25,9m) and the interim dividend is 35% higher at 13c (9,6c) a share.

Net premium income rose by 41% to R576,1m (R408,7m) and net investment income to R283,7m (R250,8m), making a total of R859,8m (R659,6m).

Total new business, including single premiums, soared to R321m, which is 93% higher than the figure achieved in the same period last year.

Benefit pay-outs to policy holders and pension fund clients totalled R315m, which is 20% higher than benefits paid in the first six months of the last financial year.

Disclosed earnings rose to R32m (R25,9m) or 19,5c (15,8c) a share.

CE Neal Chapman said he was delighted with the results, which showed "very significant progress" by the Southern in every aspect of its business.

A statement issued by the directors yesterday said that total group assets on September 30 had increased by 39%.

But the statement continued: "Included in total assets were unrealized investment surpluses arising from the valuation of investment assets at market value.

"The fall in share prices on the Johannesburg Stock Exchange subsequent to September 30 will result in a reduction in the balance sheet value of these assets."

Upward movement

Executive director, investments, Jan Calitz said that "any life insurance company has a significant proportion of its assets invested in the share market."

But, pointing out that the market had risen this week as a result of the higher gold price, he said it was impossible to say how much of the Southern's unrealized profits had been wiped out by the crash because "the market is moving so fast".

He thought it was possible there could be another fall. On the other hand, the market had been over-sold and now that the dividend yields had been adjusted significantly there were "nice buying opportunities around".

"A reaction upwards was overdue," he continued.

"The market was waiting for something to give it a push and that happened when the gold price rose.

"But I don't think the jitteriness is over."

Koornhof bail 'excessive', court rules

Cape Times 26/11/87

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Supreme Court Reporter

BAIL set at R150 000 for Mr Anton Koornhof, nephew of ambassador to the United States, Mr Piet Koornhof, was described as "excessive" by the Supreme Court yesterday, and reduced to R50 000.

Summarizing the record of proceedings in the Regional Court where 34-year-old Mr Koornhof appeared on November 18, the day after his arrest, Mr Justice P Tebbutt said it consisted mainly of "factual averments" made by counsel.

Mr Koornhof was not asked to plead and in fact no charge had been formulated. The prosecutor said only that the charge would "probably be fraud".

The factual background which emerged from the averments was that R1,4-million in financial rands was made available for importing certain machinery to a company called Hollyear SA (Pty) Ltd, of which Mr Koornhof is a director.

The State averred that the machinery was not purchased — except for R100 000-worth of Hong Kong computer parts — and that an amount of R670 000 is outside the country and that Mr Koornhof is somehow involved in this.

Bought machinery

Mr Koornhof's counsel told the Regional Court the machinery had been bought. He said it was in Atlantis and earmarked for a company called Welgelegen Investments in whose employ Mr Koornhof was.

The prosecutor retorted that this machinery had been attached by the liquidator of a company called Tiger's Eye and that Welgelegen Investments was "an empty shell".

He said police and the Reserve Bank had not yet had a chance to check whether the machinery had been bought or not, adding that the whole transaction was "a bit complicated", taking place "between and through companies".

Noting that among the factors to be weighed in such appeals were the prospect of the accused failing to stand trial and the strength of the State case, Mr Justice Tebbutt said the allegations against Mr Koornhof were "extremely vague" and the strength of the State case was not known at all.

Mr Koornhof's counsel had said Mr Koornhof's family were "scraping together" R20 000 towards bail, adding later that friends were prepared to add another R30 000.

To fix bail higher than this would amount to denying it, Mr Justice Tebbutt said.

Bail conditions imposed by the magistrate, including that Mr Koornhof reports twice a day to Camps Bay police station, remain.

Mr J Reebein appeared for the State. Mr J E H Smith, instructed by Truter and Partners, appeared for Mr Koornhof

26/11/87 DD

Interest on mortgages reduced says TBNS

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UMTATA — The Transkei National Building Society (TBNS) has announced a reduction in its mortgage interest rates as from January 1, 1988.

The managing director of the TNBS, Mr M. M. Qangule, said the board of directors had decided to lower the rates in the light of falling interest rates in the financial services industry and the building society movement.

"The TNBS could not achieve this reduction earlier for a number of reasons. Further, we believe that this reduction will be a fillip to the home ownership movement in Transkei by enhancing the borrowing capacity of more Transkeians," he said.

Interest rates on all domestic loans, under and over R50 000, will be reduced from 15 per cent and 17 per cent respectively to 14 per cent.

The interest rate on commercial loans will be reduced from 17 per cent to 16 per cent. — DDC

Cusaf, UBS to co-operate

27/11/87.

HELOISE HENNING

COMMERCIAL Union Assurance Company of SA (Cusaf) and UBS Holdings have, in principle, agreed to "possible future co-operation" in the expansion and development of their mutual interests.

The envisaged move will involve UBS in a cash subscription of new ordinary Cusaf shares, but this will not alter the present control in Cusaf.

UAL Merchant Bank and Volkskas Merchant Bank today issued a joint cautionary announcement to shareholders regarding the deal.

Full details of the agreements will be published as soon as approval is granted by the boards of both institutions, relevant authorities and the JSE.

UBS Holdings, which also has a 30% interest in the Volkskas Group, would enhance its investment capabilities through a future involvement with Cusaf which is involved in short-term insurance and life assurance policies and pensions.

Business Report

Trading income down 44%

Anglo's figures 'disappointing'

Cape Times 27/11/87

From ADAM PAYNE

JOHANNESBURG. — Anglo American Corporation has declared an unchanged interim dividend of 62,5c a share and produced figures to September 30 that are disappointing compared with the jumps in profits in recent years.

The corporation was particularly down in trading income at R132m against R235m a year ago — a decrease of 44%. The poor performance was due Amcoal's lower profits.

Anglo's net after-tax income was down 6% at R471m (R498m).

Attributable earnings rose only 1,7% compared with a year ago at R411m (R404m) or 179c a share — only 2c higher than a year ago.

The more important equity accounted earnings rose by 10% to R638m or 279c a share. Since these earnings include the performance of associated companies the improvement is significant.

Income from investments at R430m was only 7,5% higher than the comparable R400m in 1986. The improvement is largely attributable to higher dividends from diamond and industrial interests.

Gold mine dividends income was little changed and since Anglo relies on gold more than on any other source the total performance was not helped from this quarter.

The small change in gold mining income occurred in spite of the gold price averaging R875 an oz in the six months compared with R758 last year, an increase of 15%.

Dividend income in the second six months of the year will be adversely affected by the NUM strike in August.

The lower net income of Amcoal largely accounts for a R79m drop in the tax charge to R101m and a decrease from R93m to R60m in outside shareholders' interests in earnings.

Other net income decreased from R43m to R10m and retained earnings of associated companies, which is transferred to non-distributable reserves, improved by R50m to R227m, the improvement being largely attributable to mining, finance and industrial associates, including JCI, Minorco and De Beers.

On September 15 De Beers issued 20-million new equity shares for the acquisition of Botswana diamond stocks. This diluted the corporation's and its subsidiaries' equity interests in De Beers from 34,3% to 32,5%.

Since September 30 the market value of Anglo's listed investments has fallen sharply because of the JSE crash.

As a result, the net asset value (NAV) per ordinary share has fallen from 12 727c at September 30 to 8 549c at November 19 and the corporation's current share price stands at a discount of about 30% against this lower NAV.

In spite of the adverse effects of the gold mine strike the results for the year to March 31 next year are expected to show a similar trend.

The interim results fall short of earlier expectations, which is understandable because of the poor performance of Amcoal and possibly certain other subsidiaries.

The decline in NAV a share reflects the market crash. Nevertheless, the current figure, compared with the share price, shows that the share is intrinsically under-valued.

Bank society head denies strike plan

DD 27/11/87 (58)

Daily Dispatch Reporter

EAST LONDON — The South African Society of Bank Officials (Sasbo) would apply for the assistance of a conciliation board to settle their pay disputes and was not considering strike action, the Sasbo deputy general secretary, Mr Graeme Rowan, said yesterday.

"Sasbo is absolutely committed to taking all possible measures in terms of the Labour Relations Act's dispute-settling mechanism, before considering any call by the membership to strike," he said.

Mr Rowan was reacting to widespread speculation that the society, which has a multiracial national membership of 34 000, was circulating a strike ballot among its branches with the aim of stopping work for one day shortly before Christmas.

He said rumours of strike action could have stemmed from a poll that had been conducted to test the opinions of members on the course of action that should be followed if conciliation was unsuccessful.

Separate negotiations between the society and First National Bank and Standard Bank, aimed at finalising pay increases for the new year, broke down earlier this month.

Mr Rowan said negotiations with Standard Bank had floundered with Sasbo sticking to a demand of a 16,25 per cent cost of living increase and the bank prepared to pay 12 per cent, as well as a half per cent merit increase and an improvement of 50 per cent on the premium allowance for the PWV area.

First National Bank had proposed the amalgamation of the cost of living and merit increases and this had not been acceptable to Sasbo, he added.

"We have informed our members of the three options open to them if conciliation is unsuccessful. They are: to back down from the Sasbo branch conference resolution and accept the best settlement possible, to adopt a work-to-rule approach, and to take industrial action and stop work.

"The final option would only be undertaken after a proper strike ballot had been circulated and a mandate had been obtained from the membership," Mr Rowan said.

CAPE TIMES 28/11/87 (58)

When to buy on the JSE

IS the worst over now on the stock market and is this a good time to start buying shares? AUDREY D'ANGELO talked to the professionals.

THE Johannesburg Stock Exchange (JSE) is looking decidedly more cheerful now, with shares in some soundly based companies offering better value than a few months ago. So is this the time to hunt for bargains?

Very few people in the financial world are ready to stick their necks out and say yes, especially as no firm action is being taken by the US to curb its budget deficit and international markets are therefore unstable.

One of the few willing to make a prediction is Ridge Riley, MD of Cape Town-based issuing house Quaestor IV, who is confident that the SA economy will soon be booming and investors will be going back into the market by the end of January.

Like others I spoke to, Riley thinks buying of shares will be more selective.

But he points out that, with massive housing developments starting, and companies reporting excellent results, "the economy is buoyant, particularly in the Western Cape".

Blue-collar workers have not been affected by the stock market crash and have just had wage awards increasing their spending power.

"This is a time of year when nothing much happens because people are preparing for the holiday," says Riley.

"When they come back they will have had time to think and realize that the economy is going well and that, except for latecomers to the market, most of the losses have been of paper profits made last year.

"Inflation will still be high. It may drop a bit but it will still be in double-digit figures and people will see no alternative investment but the equity market.

"I do not foresee any tremendous rise in the property market. And people have burned their fingers in the past by borrowing to buy property."

Riley points out that many of the companies listed in the past year are flush with cash at present, with no borrowings, and in a position to take over others less well placed. "I think we shall see a lot of acquisitions."

Neil Cochrane of Syfrets Managed Assets is more cautious. "Company results will continue to be good," he opines. "But market sentiment is very difficult to forecast.

"I think the markets will continue to be volatile until we see what Congress is going to do about the US deficit."

All the same, he thinks the market has already made a reasonable recovery since November 5. But he warns the recovery may be hampered by people selling doubtful shares whenever there is a rally.

However, he says: "We are seeing discriminating buying already. And judging by the market volumes the institutions are not selling.

"One would not expect them to, because they have good portfolios."

Jan Calitz, executive director, investments, with Southern Life, believes the market "may well have settled in three months".

He says Southern Life "has never left the market. We are a major player in the JSE, always looking for opportunities".

He thinks there are already bargains available and "if the market goes down further it will give more opportunities to the serious investor".

Mike Levett, MD of Old Mutual, considers it is already a good time to buy into unit trusts.

"I believe this is the best way to go into the equity market and there is no better time to start than now."

But Levett says that anyone buying into a unit trust should do so on a regular basis, as a long-term investment, without worrying about the top and bottom of the market. In this way, fluctuations in the market will average out.

SA's crash one of worst

Finance Reporter

THE equity crash that has hit the Johannesburg Stock Exchange was one of the worst in the world.

Hong Kong and Australia are the only two countries to be hit harder with drops of 43,3% and 39,9% respectively compared with the 33,2% fall on the JSE.

The following table shows the record peaks of key indices on major world stock exchanges and how share values have fared in the recent market slump.

From left to right, the table shows each index's record peak (with date), the close on October 14 — the day bad US trade figures started Wall Street sliding — the lowest close since October 14 (with date), the latest close available and the percentage drop between October 14 and the latest close.

	Peak	Oct 14	Post Oct 14	Nov 26	%drop
London	2 443,4 July 16	2 322,9	1 561,7 Nov 9	1 660,7	-28,5
New York	2 722,42 Aug 25	2 412,70	1 738,41 Oct 19	1 946,95 Nov 25	-19,3
Tokyo	26 646,43 Oct 14	26 646,43	21 036,76 Nov 11	23 282,18	-12,6
Frankfurt	753,9 Apl 17/86	633,52	400,13 Nov 10	440,81	-30,4
Paris	460,4 Mar 26	387,2	273,6 Nov 10	298,6	-22,9
Sydney	2 312,4 Sept 21	2 184,9	1 149,7 Nov 11	1 311,7	-39,9
Hong Kong	3 939,73 Oct 1	3 844,48	1 960,90 Nov 5	2 179,58	-43,3
Johannesburg	2 752 Oct 13	2 727	1 682 Nov 5	1 821	-33,2

☐ Indices used are: London — 100-share Financial Times/Stock Exchange index; New York - Dow Jones 30-share Industrials Average; Tokyo - Nikkei 225-share index; Frankfurt -FAZ index; Paris - CAC General; Sydney - Australian All Ordinaries Share price index; Hong Kong - Hang Seng 33-share Index; Johannesburg - Actuaries Overall Index; All peaks occurred in 1987, apart from Frankfurt. New York closed for US Thanksgiving holiday. — Sapa-Reuter

UBS interim in line with forecast

(58)

BDay 30/11/87

LIZ ROUSE

UBS Holdings' interim earnings of 21,5c a share and interim dividend of 10c are in line with the prospectus forecast.

CE Piet Badenhorst says in the interim report that results for the six months to September are considered satisfactory when viewed against the keen competition for home loans. Total lending surpassed expectations.

The building society's strength is reflected in a rise in deposits to more than R9bn. Investments have a book value of R1,4bn and shareholders' funds total R1,1bn.

Present indications are that the earnings projection for the year to March 1988 will be achieved, says Badenhorst.

Shareholders will therefore receive a final dividend of at least 14c, making the year's total 24c.

No comparable results for the 1986 half-year are given as this is the first interim statement since incorporation.

Net attributable income for the six months is R51,1m. Interest on advances amounts to R580m, net income of investments R61,7m and other operating income R33,7m, making total income R675,4m.

The UBS/Volkskas agreement — whereby UBS acquired a 30% holding in Volkskas and Volkskas a 10% holding in UBS — was concluded in August by the allotment of shares and the payment of R27,6m to Volkskas by UBS.

Since September 30, UBS and Volkskas have each taken up an additional 17,5-million shares in United Bank, increasing the bank's share capital to R45m.

At 380c, the shares are trading 18,5% below net asset value of 465,9c a share.

Guide planned as victims seek cover

Insurance move to avoid AIDS losses

HELEN WISHART

THE life insurance industry is taking steps to avoid being caught by AIDS sufferers who take out extensive policies when they know they are dying.

SA industry representatives are anxious to avoid the huge payouts made in the US while little was known about the disease. It is estimated AIDS will have cost the US life insurance industry $50bn by the end of the century.

The Life Offices Association — umbrella body for the life insurance companies — has already established an AIDS committee to look at problems peculiar to the disease.

The problems range from the difficulties in identifying the high-risk group to moral issues in telling a client he or she has AIDS, according to a medical check.

While all companies conduct medical tests on clients taking out policies, only some have devised a specific AIDS test.

The LOA is trying to set uniform guidelines for the industry.

Because AIDS-related claims unnaturally increased death statistics used by the life insurance industry, compared with the population in general, the picture would be distorted and the body of funds decreased to the detriment of policy-holders.

Swiss Reinsurance spokesman Douglas Keir said: "The insurance companies suffer from a higher-than-expected prevalence of infected people, but in the US these people also take out higher-than-normal policies".

He said the average size of a policy was three or four times higher than normal. Therefore, life insurance companies were concerned about protecting existing policy-holders.

LOA spokesman Jurie Wessels emphasised existing policy-holders would be fully covered if they contracted AIDS after assuming their life policies.

He said it was difficult, at the underwriting stage, to police the problem of AIDS sufferers taking out policies, because of the nature of the disease.

Blood tests picked up antibodies, rather than the virus. Tests were not foolproof before the antibodies had been built up. This was called the "antibody-free window".

If blood tests were used to test for AIDS, the tests would have to be non-discriminatory and the LOA would recommend such tests for policy applications above a certain amount.

Individual companies could require tests below this guide figure, if desired.

Another industry spokesman said abnormally high policies were being taken out by US AIDS sufferers before the industry woke up to the fact and formulated a covering policy.

Bond wars: banks pick up millions

59

BDay 1/12/87

GRETA STEYN

MILLIONS of rands in mortgage bonds are believed to have been switched to banks from building societies as banks cash in on aggressive marketing of their lower interest rates.

Banking sources said yesterday mortgage holders were switching existing bonds from building societies to banks "in fairly significant numbers". However, they were unable to say how many former building society bond holders were now on their books.

And building societies said they were aware they had lost some bond customers to banks, though they, too, could not put a specific figure to business lost in this way.

Standard Bank's deputy home loans GM Terry Power said: "I have noticed a fairly significant movement from the building societies to the bank. But, because we do not specifically encourage people to cancel their building society bonds, we have no reason to keep figures on bond holders who used to be with building societies."

First National's Norman Axten, too, said he had noticed that "a fair number" of building society customers were

● To Page 2

Building societies losing upmarket clients

59

changing to the bank.

A UBS spokesman confirmed that "a certain amount of switching" was taking place, but said it was "impossible to quantify".

Allied's assistant GM lending Len Greenfield said customers switching to banks were mainly in the A-income bracket. "Banks are very selective compared with building societies which do a far broader spectrum of lending business. What we lose in the A-income bracket, we more than make up in other categories."

● From Page 1

Both the Allied and the UBS said they had no shortage of business.

Building society sources said bond holders changing to banks were often "upmarket" customers to whom the cost of re-registering a bond was small compared with what they would save at lower interest rates. Other customers stayed with the building society when they found that just to make up the cost of switching would take several months.

SA will not make 3% growth — Nedbank

B/day 2/12/87

(58)

GRETA STEYN

CONSTRAINTS on SA's economy preclude achieving even the modest growth rate of 3%, Nedbank says in its latest Guide to the Economy.

The guide says these constraints include exhaustion of the country's taxable potential — which, in turn, limits government-induced growth — and strained household finances.

The long-term growth rate for private consumption expenditure is 1,7% a year. Government consumption of goods and services has been the strongest contributor to economic growth, averaging a 3,5% increase a year, the guide says.

This average was made possible through increases in tax revenue, but is unlikely to continue as tax limits have probably been reached.

So there should be some tapering off of the rate of increase in government spending, unless fiscal deficits are allowed to rise.

The guide says: "Such fiscal adventurism should be unlikely after the experience of the problems of correcting the US federal deficit and the baleful repercussions of failing to do so in good time."

Private consumption expenditure could rise faster in the future only if there was a willingness to incur higher levels of consumer debt.

"Much of this, however, depends on household perceptions of wealth and the recent stock market crash has a bearing on this, although the increasing trend of black credit-buying should be undisturbed by events on the JSE," the guide says.

Other constraints on growth are the low ebb of entrepreneurial confidence, the tendency towards inventory leanness, the long-term decline in gold mining production, disinvestment and sanctions.

● See Page 9

(58) B/day 2/12/87

Big public share offers belong to the past

Bankers search for new equity finance

KAY TURVEY

GIVEN the current trepidation surrounding new listings, merchant bankers are exploring alternative methods of equity financing, as they wait for the market to settle into a trend.

Since October's black Tuesday, no fewer than 16 companies have postponed or cancelled their listings for this year, while plans for further listings in 1988 have also been shelved following the limp performance of the latest arrivals on the boards.

Duros director Charles Turner says they are looking at the situation where listing becomes an investment banking proposal, with good shares taken up as a holding exercise before being released onto the market.

With the individual investor still reeling from the abrupt end to the listings bonanza, big public offers — for other than sound, high profile companies — are now over. Turner says new listings are now being structured towards private placings and selected investors. Institutions with their huge cash flows bottled up will lead the recovery in sentiments with selective, clever buying, say bankers.

Further, Turner says the swing will be away from the issue of ordinary shares, and new share capital will be raised through convertible debentures and instruments offering minimum guaranteed returns.

Underwriters wait

A JSE broker agrees equity financing has now become a more difficult task, as underwriters play a waiting game, hoping to re-assess the situation in 1988.

Senbank GM, corporate finance, John Cutten says the life jacket has been thrown, with the present gold price buoying the blue chips out of their free fall. UAL GM Mike Farrell says his company has shelved over half of its 12 proposed main board listings in the first six months of the new year and is waiting for indications from the market before proceeding.

First National Merchant Bank senior manager Rod Mcleod says his company has advised clients to hold back on new listings until mid-1988, depending on the market.

Yet underwriters, smarting as current listings fail to attain issue price, are looking to mergers and acquisitions, which they believe will inevitably follow now that paper has become cheap.

Merchant bankers believe, with weak economic growth, many newly public companies will fail to achieve targets, turning to growth by aquisition. As JSE assistant GM, listings, Doug Gair points out, there were over 414 takeovers and mergers from 1972 to 1982.

8/day 2/12/87

Volkskas predicts higher long-term rates

Institutions, waiting for stable markets, save cash

GRETA STEYN

INSTITUTIONAL investors are accumulating substantial amounts of cash in anticipation of more stable conditions on financial markets — and, at higher interest rates next year, long-term stock could be a possible drawcard.

That is the view of Volkskas Merchant Bank (VMB) in its Financial Market Review. VMB says long-term rates, such as the RSA 13% 2005, could increase to 16% in 1988.

But during the next month capital market rates should show considerable fluctuation, mainly because of uncertainties prevailing in all financial markets. Next year, though, a moderate uptrend should take place, strengthened by expectations of higher inflation towards the end of the year. Long-term rates should move up against a background of hardening short-term rates.

VMB says short-term rates are expected to harden in the second half after moving sideways during the first six months of 1988. Monetary policy in the second half will be determined to a great extent by the balance of payments — bearing in mind that the surplus on the current account will be lower in the second half of next year than in the first half.

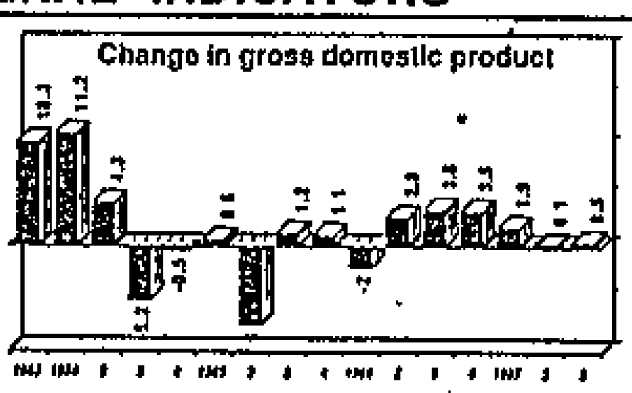
"Monetary policy later on next year could be more limiting in order to protect the balance of payments, given the obligations in respect of the repayment of SA's foreign debt," VMB says.

In view of the narrowing current account surplus, VMB expects the BA rate to harden moderately, to about 10,5% at year-end.

Paper chases paper in the casino economy

BUSINESS BAROMETER

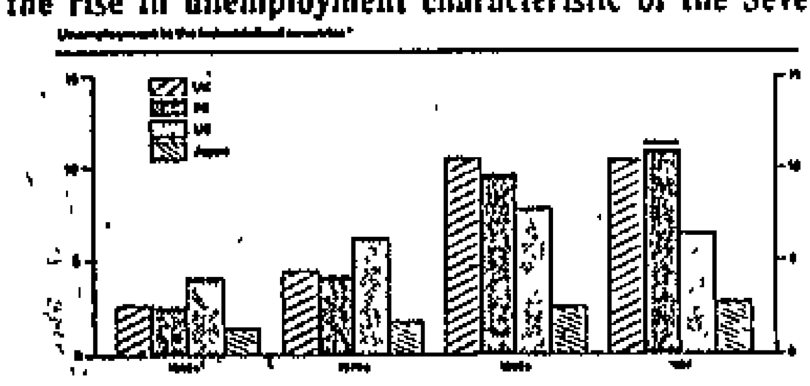
GENERAL INDICATORS



ECONOMIC GROWTH
The rate of growth of gross domestic product in the third quarter of this year was either 1,5 percent or 0,5 percent — depending on which way it's calculated. The 1,5 percent is the more accurate figure. The CSS is revising the way it calculates GDP: it has been using 1980 as a base year but is changing the basis to 1985. This is important because the relative contribution of different sectors to the economy changed in that period. The contribution of general government to total GDP grew from 9,3 percent in 1980 to 12,6 percent in 1985, and of finance and real estate from 11 percent to 15 percent. Agriculture's contribution declined from seven percent in 1980 to 5,4 percent in 1985, while that of gold mining dropped from 16,1 percent to 10,6 percent.

JOB LOSS
Almost a quarter of a million jobs have been lost in four major sectors — manufacturing, mining and quarrying, construction and electricity — over the last three recessionary years. Since July 1984, according to the CSS, employment in these sectors has decreased by nine percent, a total of 224 197, to 2 366 259. The number of mine employees increased by 10,3 percent over the month of July this year, while in September employment in manufacturing was up by 0,1 percent and in construction by 0,4 percent compared with the previous month. In manufacturing, average monthly wages and salaries were 5,2 percent higher in real terms in September than in June.

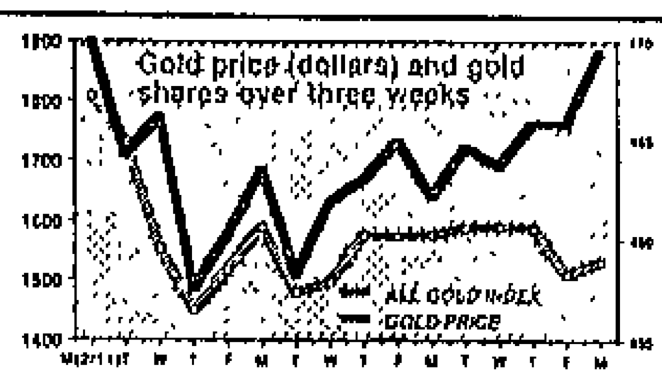
UNEMPLOYMENT — OECD COUNTRIES
Unemployment in Britain, which reached a peak of 11,6 percent in 1986, has fallen to 10,2 percent, according to the Treasury's Economic Progress Report. Since 1983 the rise in unemployment characteristic of the Seventies has slowed down in most OECD countries, but latest figures show little sign of a fall in unemployment rates in Japan, Germany, France and Italy. In the United States and Canada, unemployment has been falling. The Treasury report also says nine million Britons now own shares, compared with three million in 1979



FINANCIAL INDICATORS

Johannesburg Stock Exchange Indices

JSE Indexes	23/11/87	WEEK AGO	% CHANGE
All Market Index	1700	1764	—3,6
All Gold Index	1530	1575	—2,9
Industrial Index	1402	1480	—5,3



Gold Price

23/11/87	WEEK AGO	% CHANGE
469,40	462,10	+1,6

Short-term interest rates

	23/11/87	WEEK AGO	YEAR AGO
Three-month bankers acceptances	8,8%	8,8%	10,5%
Prime overdraft rate	12,5%	12,5%	13,5%

Selling price: Major currencies against rand

	26/11/87	WEEK AGO	% CHANGE
US dollars	50,70	49,97	+1,5
Pounds Sterling	354,14	351,21	+ 0,9
Deutsche Mark	,8447	,8497	—0,6
Yen	68,28	67,91	+0,5
Swiss Franc	,6948	,6965	—0,2
Financial Rand			

US Dollar against major currencies

	26/11/87	WEEK AGO	% CHANGE
Dm	1,6669	1,7605	+1,9
Sterling	1,7945	1 6952	—1,7
Yen	134,65	[illegible]	—0,9
SwFr	1,3705	1,3893	—1,4

Source: First National Bank

Paper profits are the order of the day. Speculators grow fatter and production becomes leaner. FUAD CASSIM of the economics department at Wits University describes the casino economy

THE ups and downs of share prices and exchange rates on the world's financial markets in recent weeks have shown the volatility of the "casino economy" which is today's global financial system

It's a system in which the speculators have grown fatter and production has grown leaner. Paper chases paper and money does not flow into productive activity. Financial transactions have grown far beyond anything needed to support the economy.

Large numbers of economic actors are now placing bets in the casino economy: one built on growing debt and financial speculation, geared more to making money than to making goods The necessary outcome of such a financial system is increasing volatility

For a long time now the global monetary system has been out of control. The unparalleled financial expansion of the Seventies and Eighties and the spread of speculative fever were bound to lead to a fiasco, as witnessed by recent events.

The greatest obstacle today to the development of production lies in the financial pressures produced on a world scale by economic slowdown.

Any major uncertainty in the productive structure releases a huge drive into the safety of financial assets. In the last decade the whole focus of Western economies has been displaced from industrial systems to financial markets and this imposes huge burdens on productive reconstruction: very high interest rates, enormous volatility in foreign exchange and other financial markets, crises of international debt.

As JM Keynes put it as far back as 1936: "When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done".

The slowing down of the world economy in the Seventies, after the long postwar upswing, laid the basis for what can be called speculative stagnation

Until the Sixties, the worldwide expansion of credit was more or less in line with real growth in the world's economies.

But with the stimulus of the Vietnam war, the dominant American economy assumed the burden of providing the Western economies with sufficient liquidity for growth — and thus laid the basis for the financial explosion.

The growing fiscal and international deficits of the US economy were financed by the rest of the world, whose exports to the US have grown faster than American exports, while a growing flow of financial resources has converged on that country from all over the world.

The central role of the dollar and the high US interest rates which attracted money into the US meant the American economy actually benefitted from the sharp transfer of wealth away from productive investment towards financial assets.

The most obvious imbalance is that the world's richest country has become the biggest borrower. Its dominance means it is not subject to the severe controls which the International Monetary Fund has forced on debt-ridden Third World countries

It was really the economic slowdown of the Seventies which fuelled the growth of the "casino economy". The growth in productivity which accompanied the long postwar boom slowed down and so did the growth in industrial investment.

As the demand for investment funds in the advanced industrial countries declined, their banks and other financial institutions had to look for new customers It's no accident that this was when US banks started pushing funds particularly to Third World countries, who took on far more debt than they could ever service, let alone repay.

It was not long before the money creation process acquired a character of its own Financial transactions proliferated and new forms of credit creation became a central aspect of economic activity: commodities, foreign exchange, stocks and bonds, futures and options (even options on futures). Global financial growth exploded well beyond real growth.

The financial sphere has become a sub-system of the economy, with an enormous capacity for self-expansion. Since the commodity that banks deal in is money, the key to their profitability lies in marketing debt.

When things started to go wrong in 1982 (Mexico said it was unable to repay its loans), banks sought other ways to make money, particularly lending to large multinational corporations in the developed world. These companies then sat with massive borrowings, adding to their mark-ups to service rising interest costs. In the process they merely provided overhead to the casino, with no link to productivity

This spelled financial disaster when combined with the monetarist policies adopted by governments in the major Western countries from the late Seventies and the deregulation of the financial sector which accompanied these.

Financial institutions in the world of globalised finance are linked through a network of domestic and international relationships: the activities of one major institution can have repercussions worldwide So, for example, if there is declining confidence in a bank, company or country, money can move out very fast, bringing on a crisis.

Deregulation has profound implications for the stability of the international financial system. No one has ultimate responsibility for regulating the financial system and there is no lender of last resort.

The monetarists and free marketeers also stimulated the growth of the casino economy by raising interest rates and squeezing credit in their attempts to control inflation. But this accelerated the process of de-industrialisation in which manufacturing and real productive sectors lost ground to service, trade and finance.

The real economy was declining, but high interest rates made it profitable for bankers to provide credit. But the funds generated this way remained in the financial sector. The price of money was supported by strict money policies, not by the development of new sectors or technologies that could generate the profits required for such financing.

This is what has come to constitute the major source of economic imbalance that has promoted the global rot.

South Africa has some of the same problems, brought on in part by the financial liberalisation policies chosen by the South African Reserve Bank.

The real economy has been eroded and demand has contracted. Large firms have become larger as the weaker ones have failed, and as the large firms have engaged in an unprecedented wave of mergers and acquisitions

With total output in the economy falling since 1981, the demand for funds has been for paper assets on the Johannesburg Stock Exchange. The astronomical rise in share prices was not an indicator of business confidence but precisely of investors' lack of confidence in the real economy and its stability.

Coupled with political uncertainty, the switch from production to finance and from long-run security to short-term paper profit intensified the slump, which can only be overcome by massive structural change.

The world-wide liberation of money has imposed high human costs, as the world's dole queues indicate. To quote S Strange in a book titled *Casino Capitalism*: "The great difference between an ordinary casino which you can go into or stay away from and the global casino of high finance is that in the latter all of us are involuntarily engaged in the day's play.

BUSINESS

Argus 3/12/87

FINANCE

Bond battle: Banks ahead of loan targets

From MICHAEL CHESTER

JOHANNESBURG. — All three banks engaged in bond war battles with the building societies have claimed to be ahead of the home loan targets they set when they broke into the market.

The 12,5 percent interest level set by the trio is still below even the lowest rate fixed for new borrowers by the building societies, in spite of the recent round of reductions announced by most of them.

But Mr Mike de Blanche, managing director of the giant UBS, hit back with forecasts that total loans issued by the building societies would climb from a current R8-billion to as high as R10-billion by March 31.

"One must assume the banks have enjoyed successes from their aggressive marketing campaigns," he said.

"R800-MILLION A MONTH"

"However, one can put the situation into better perspective by comparing bank business with the fact that the building societies are pushing out new loans at the rate of no less than R800-million a month."

At First National Bank — which as Barclays was the first bank to challenge the building societies on its launch in 1983 — general manager Mr Norman Axted said the total of approved loans was now above R1,6-billion. Another R500-million in applications are being processed.

"We have readjusted our targets upwards time and time again — and we're still running ahead of them," he said. "By the end of our financial year next September we expect the total to be at least R3-billion."

Loans issued by Standard Bank since it followed First National Bank into the house mortgage business have swollen to R1,35-billion, well above the 1987 target.

Moreover, new loans are being granted at the rate of around R150-million a month, according to deputy general manager Mr Terry Power.

"We decided at the outset not to make deliberate efforts to persuade existing bond-holders to switch their business to us from building societies, but many switches have been made recently nevertheless — and the trend has gathered momentum.

"We have already passed the target we set ourselves for this year and it looks likely that our 1988 target will be higher still."

Trust Bank, said Mr Barry Swartz, senior product manager, was also well ahead of targets set when it entered the bond wars battle in earnest two months ago with 100 percent mortgages.

"Our monthly rate of new bond issues is already not far behind the Standard figure," he said.

Base lending rates cut to boost dollar

World banks try to stave off recession

58

B/day 4/12/87

Business Day Reporters and Sapa-Reuter

EUROPEAN banks yesterday cut base lending rates in a concerted move to stave off recession and prop up the dollar after the global stock market crash.

The British Treasury said its move to trigger a cut of one-half a percentage point in the base lending rate was made in concert with rate cuts in West Germany and France.

The Bundesbank cut West Germany's discount rate by one-half a percentage point to 2,5% yesterday. The discount rate is the rate central banks charge on loans to commercial banks.

The Bank of France cut two key money-market rates by one-quarter point to 7,75%.

Austria, Switzerland and the Netherlands also cut key interest rates.

The Dutch central bank cut three of its key interest rates by one-quarter point, setting its discount rate at 3,75%.

The British Treasury said the cuts "reflected a spirit of co-operation needed for any future group of seven economic agreement".

The move was "taken in the light of financial circumstances".

France's Finance Ministry said it was "pleased with this new sign of close co-operation between French and West German monetary policy in the framework of the European monetary system.

"This new initiative, which was accompanied by the Bank of England's half-point reduction in the rate at which it buys short-term bills, should contribute to boosting the dollar."

British Chancellor of the Exchequer Nigel Lawson has been calling for a meeting of the major industrialised nations to stabilise the world financial markets, and the dollar in particular, after the stock markets' crash.

Lawson has said he would like to see a meeting as soon as Congress passes legislation reducing the US budget deficit.

The British rate cut, which caught the markets by surprise, was the third half-point reduction in the base rate since the stock markets' crash in mid-October.

The dollar rose after the German cuts were announced and continued to rise after the British cuts.

The dollar jumped by more than a pfennig and nearly a yen to around 1,66 West German marks and 132,85 yen. It firmed to around 1,36 Swiss francs and gained about 1,5 cents to trade at $1,80 to the British pound.

However, London Stock Exchange stock prices jumped sharply on the cuts' news, but then fell back sharply. And Wall Street failed to respond as Dow Jones tested its October lows.

GRETA STEYN reports economists say at lower interest rates West German marks and British sterling become less of a drawcard for investors, which, in turn, boosts the dollar.

Anglo American economic consultant Aubrey Dickman said the central bank move indicated a policy direction and should not be seen as a cure in itself for the ailing dollar. He said: "The action shows the major economies are moving to counter a world recession, which, obviously, affects SA as well."

FINANCIAL MARKETS

Restructuring local financing

In what could be a significant move, the Local Authorities Loans Fund Board (LALFB) will, for the first time, borrow in the primary capital market next year. An initial R100m could be involved within the next six months. Knowing the potential of local authorities and RSCs to spend, this will no doubt grow, potentially making the LALFB a significant market participant.

Formed in 1926 to assist small borrowers who struggle to borrow and pay high rates when they do, the LALFB has been funded directly by Treasury and has never tapped the capital market.

Of greater significance than changing the face of the dying primary capital market are the major ramifications this has for local authority financing. It appears that not only RSCs, but *all* local authorities will be able to borrow from the LALFB.

It looks as if one of the most intriguing questions about RSC financing and, more specifically, their capital market involvement, will be answered.

Local authority financing could also be streamlined.

But while the financing aspects might become clearer, the questions of what they will spend the money on and who will be responsible for what (whether they assist local authorities or take over functions) is no clearer — though some RSCs operate with a greater degree of clarity than others.

Unlike local authorities, who will probably still be permitted to raise money from the capital market (in effect only the very large ones can), RSCs are unlikely to be able to raise loans in such a way.

But the President of the Association of RSCs Gerrit Bornman says "investigations are underway as to the possibility of RSCs going to the primary market next year, be it individually or collectively."

Last year more local authorities were brought under the ambit of the LALFB, when authorities with grades up to nine (there are 15 grades) could apply to it for a loan. This made all but 30 authorities eligible. Previously, only those graded four and below could obtain funds from the LALFB.

Unlike stock, such loans are annuity-based. They are like mortgage loans where a portion of the principal as well as interest is repaid at regular intervals, in this case every six months. Interest is linked to prevailing similar-term RSA stock rates.

The LALFB is chaired by Finance Minister Barend du Plessis, who appoints three other government representatives to the board.

There is a representative from the United Municipal Executive (the umbrella body for white local authorities), the Urban Council Association (blacks), and the National Ad Hoc Committee (Indians and coloureds — one representative each). There are five alternate members.

The premium over similar-term RSA rates that the LALFB will borrow at will probably be relatively narrow (only last week SA Housing Trust obtained funds at a mere 30-point premium). Being potentially large, centralised, better managed and backed by Treasury, this new structure should make institutional investors interested. It appears that the LALFB will not, however, make markets in its stock to facilitate liquidity.

The LALFB will certainly obtain funds from the market at a cheaper rate than most RSCs could themselves. This will facilitate regular cash flow to augment money from the two controversial RSC levies. ■

(48) FM 4/12/87

FIRST NATIONAL BANK

New city centre giant

It must be the property deal of the year. First National Bank (FNB) has acquired four city blocks in the western financial district of Johannesburg on which to build a R430m complex to house some 6 000 employees of business units other than its banking branches.

The conglomerate site is bounded by Fraser Street on the west, Harrison Street on the east, Jeppe Street to the north and Pritchard Street to the south.

This brings to an end months of speculation surrounding an assembly by Old Mutual (OM) of city blocks to the north of the City Hall and Library Gardens (*Property* September 18).

The site acquired by FNB is adjacent to OM's 25 000 m^2 Project 1066, a R70m building taken out of mothballs earlier this year and on which FNB held first option.

FNB Chris Ball says: "The site assembly involved delicate negotiations with a number of property owners and institutions. Two blocks had already been assembled by OM, and it has agreed to erect a building on one of these blocks for lease to the bank, and to sell the other for development by us."

The first phase of the FNB development, costing around R250m, will involve the erection of three buildings — including the one to be provided by OM — amounting to some 90 000 m^2 of space.

Architectural design will start in mid-1988 and building in 1989, for completion in 1991.

The phase may also provide 12 500 m^2 of retail space, which could well be taken up by tenants vacating existing buildings on the assembled blocks.

FNB also received co-operation from the Southern Life Association and from Nedbank, while brokers Leadenhall managed the assembly of the remainder of the site.

FNB has also acquired additional land on the two blocks to the west of its site for long-term expansion. This backs on to Ampros' 66 Sauer Street building, and effectively consolidates the district.

The move also puts to an end speculation that FNB was considering developing a new headquarters on the old Newtown power station site behind the JSE, or that it was to move out of the CBD altogether.

Ball says alternative sites were considered, but that the residential distribution of staff — mostly to the east, west and south of Johannesburg — made the CBD an obvious choice for public transport and infrastructural reasons.

At the same time, staff were scattered round the CBD in buildings inconveniently placed in relation to one another, and unsuitable for upgrading to meet the bank's technological, systems and communications needs.

Facilities and space planning consultants Birrer Illig & Partners did research to ensure that the new buildings will be highly advanced technically, and to enable staff to relocate with a minimum of disruption.

The project is now at the urban design and concept design stage, and negotiations are under way with the city council to clear sections of Kerk, Simmonds and Fraser streets for pedestrians.

The overall project has the support of the council, as it dovetails with plans for the redevelopment of the CBD; in particular, it could link the Eloff Street shopping access with the further development of Newtown. ■

R430m FNB offices cheap at the price

(SA) S/T 6/12/87

FIRST National Bank's R430-million head-office complex in downtown Johannesburg will be positive for earnings, says managing director Chris Ball.

Business Times Reporter

Some bank watchers worried that First National would have too much money tied up in land and buildings in the wake of what could be the biggest single property development in SA.

First National also has a commitment running to tens of millions of rands to upgrade its branches all over SA.

Scrutinised

Mr Ball said the impact of the new buildings on the balance sheet and the income statement had been scrutinised.

The cost efficiency of the new buildings together with tax benefits would see to it that earnings were not hurt in the short term.

He said the average amount of space an employee would not be reduced. Less space would be wasted space in service areas. The total amount of space a person would fall by 25% each. The complex would facilitate computerisation.

First National would move out of several buildings occupied by 6 500 staff members in downtown Johannesburg, saving rent. It would also sell old buildings. The R430-million price tag allowed for building escalation costs for the first four years.

In the long term, the "endowment effect" of owning the buildings instead of paying rising rent would see to it that the complex was positive for earnings.

First phases

Mr Ball said R430-million over three or four years was no strain for a bank with assets of R20-billion today and probably R40-billion by the time the complex was finished.

The first phase of the development over four city blocks would cover 90 000m². Eventually the project could cover 140 000 m². The net addition of space would be less than this because, thousands of square metres of buildings would have to be demolished.

First National says it will take care not to upset the office supply situation, but there is a glut of space in the CBD. This will be aggravated by buildings being completed by Standard Bank, Liberty-/Prudential and Old Mutual.

Standard Bank has started moving into its huge second superblock in Simmonds Street. The benefits from its two high-tech buildings could give it a decided edge over First National for the next few years, though its cold, highly practical, mausoleum-like structure does little to enhance the city centre of Johannesburg.

Mr Ball said First National's complex would be "a people place", bringing new life to the city centre. He expected First National's announcement to consolidate the financial heart of the city and to spur development of neighbouring areas, including Newtown.

SIT TOP 100 COMPANIES SURVEY 6/12/87

1987 — The Year of the Unit Trust

(58)

What happened — the picture from 1 October — 13 November 1987.

IF one assumes that each fund had a value of 100% on 1 October (a good fortnight before the market crash), their values at 13 November would have looked like this:

GENERAL EQUITY TRUSTS	
Standard	71,8%
Sygro	69,1%
Guardbank	69,0%
Sage	68,8%
Old Mutual	67,9%
Sanlamtrust	67,4%
UAL	65,2%
SPECIALIST EQUITY TRUSTS	
UAL	72,6%
Old Mutual Mining Fund	70,6%
Standard Gold	69,5%
Sandiv	69,1%
UAL Mining & Resources	69,8%
Guardbank Resources	68,7%
Sage Resources	68,2%
Sats	67,6%
NGF	66,0%
Trustgro	64,4%
HIGH INCOME/GILT TRUSTS	
UAL Gilt	101,5%
Standard Extra Income	101,0%
Corbank	100,9%
Senbank Gilt	100,6%
Guardbank Income	100,6%
Senbank High Yield	100,4%

Considering that the market fell by some 40% over the same period, this means that even those unitholders in funds which experienced the more severe declines are not too badly off

Liquidity raised, but no 'forced selling'

THE decline in market values certainly tested the unit trusts, but not to the point of breaking. And, interestingly, while most fund managers admit to increasing their liquidity levels from September 30, none feel that desperate measures have had to be taken.

"We raised our liquidity not so much because we were forced to, but as a defensive measure," said one.

Portfolio manager Anthony Gibson says that in his fund, Sygro, he has not sold shares. Rather, he has diverted the net cash flowing into the fund to increase his liquidity levels. "We're currently around 20% liquid and I expertise in investing in equities, that he has already allocated his total portfolio and that the portion of his funds coming into a unit trust is the portion that he wants invested in equities."

Having said that, Old Mutual has been increasing its liquidity over the past few months — at September 30 Old Mutual Investors held 13% and Old Mutual Mining Fund 16% in liquid assets. These ratios were higher than the industry average.

□□□

At September 30 the general equity trusts held R358,6-million in liquid or other assets. The specialist equity trusts had 11% of their

ALTHOUGH unit trusts have been around now for more than 21 years, it was really in 1987, the year that the stock market fell by 40% in two and a half weeks, that many South Africans discovered the unique appeal of unit trusts.

During the 12 months to September 30, investors in South Africa poured over R1-billion net new funds into the country's growing unit trust base, while the value of the assets managed by the trusts soared to an all-time high of almost R5-billion at the September quarter end.

These statistics did not sell the concept of unit trusts to the investing public — it was the impressive performance returns achieved by the unit trusts which found appeal with investors hammered by more than five years of stubborn double-digit inflation.

Inflation

For example, over the five years to September 30, the six general equity trusts earned for their unitholders an average total return of 31,5%, compared with an average inflation rate for the same period of 14,5%. It was the fact that unit trusts have so consistently outperformed inflation that became the compelling reason for investing in unit trusts in 1987.

In addition, the unit trust is such a convenient investment vehicle from so many points of view — flexible investment amount, excellent professional management, rapid liquidity, and so on.

So it was really no surprise that unit trust investors did not panic when the share markets collapsed.

The fund managers believe it is an indication of the growing maturity of unitholders that they did not scramble to get out of their holdings in the face of the market's sharp reversal. Fund managers report that net repurchases were minimal — an industry average looks like being less than 3% of the market value of assets on October 19.

In the words of the chairman of the Association of Unit Trusts, Alister Colqu- [...] delighted to say

Business Times Reporter

term investments and to caution investors that unit trust prices fluctuate with share market trends.

"This is probably why unitholders panicked rather less than direct investors in the market — they were not looking for immediate, overnight gains. I guess another reason was that they realised they had professional managers monitoring their portfolios for them."

In canvassing unit trust fund managers about what had happened to unit trusts in the weeks since the market turned, it became clear that there were no large or dramatic withdrawals from the funds which might have forced fund managers to liquidate positions.

Philip van Zijl of Sanlamtrust Managers Limited, the management company of five unit trusts, said: "During the first few days repurchases were higher than normal, but very quickly they returned to their previous levels.

"It is interesting to note that many investors are seeing this period as a good buying opportunity and, while sales are not at their previous highs, they certainly are at two-thirds of the levels of a few weeks ago."

Old Mutual's Jack Mitchell has a similar story to tell about the Old Mutual Investors' Fund (the largest fund in the country) and the recently launched Old Mutual Mining Fund: "We had net outflows for a coupld of days, but for the month of October we had a positive cash flow overall. In fact, for both funds we have had a positive cash flow in November as well."

Opportunity

The fall in the market did not deter the management companies which were marketing new funds. In fact, says Metfund's Dion Metcalfe, "we see this as an excellent opportunity for investors".

"We have been very encouraged by the response to our fund considering that we launched it in the face of the worst of the market's weakness and most investors were shell-shocked. We have established a portfolio but naturally are maintaining a high (around 60%) liquidity content at this stage."

support. The fund's Jan du Buisson reports that Lifegro is not unsettled at all by the market's collapse.

"I suppose you could say that we have been lucky. We believe we couldn't have launched our fund at a better time. After all, unit trusts are medium to long term investments and this makes the present an ideal time to start investing."

While the new funds see current market conditions as appealing for new investors, how do the managers of South Africa's oldest fund — Sage — see things?

Positive

Bernard Nackan: "Sure, the market has taken a crack and values are back to where they were a year ago, but that does not invalidate the reason for investing in a unit trust

"Unit trusts are sold as medium to long term investments and the market does not need to rise to its previous levels before even newcomers to the unit trusts are showing positive returns. On a five to 10 year view, and even taking the recent low point of the market, the unit trusts are still showing relatively good returns.

"Investors have learned that you cannot buy the index of The Johannesburg Stock Exchange — you can only buy a portfolio of shares and the correct way to measure performance of that portfolio is against the inflation rate. And, against that yardstick, unit trusts have shown 'real' and consistent growth over time."

would like to build this up to around 25% in the near term before I start committing funds to the market again."

Old Mutual's Jack Mitchell takes a different view. He feels that unitholders do not invest in unit trusts to have the fund managers invest in cash.

"It is not my job to double-guess the investor. I must assume that the investor has come to us because of our

R1 386,8-million total assets in liquid and other assets. The trusts are statutorily required to hold a minimum 5% of their assets in the form of liquid assets.

With the industry averages being twice the statutory minimum, the funds were all well cushioned in the event of repurchases by unitholders. As a result, few of the funds were forced sellers of stock.

houn: "I am delighted to say that it seems as if unitholders have come to understand that unit trusts are medium to long term investments and not for the speculator.

"In addition, the industry acted very responsibly when the investing public was clamouring to participate in what they saw as a share market that laid only golden eggs. Funds continued to sell unit trusts as medium to long

With this level of liquidity, Mr Metcalf believes Metfund is exceptionally well placed. "We are in an excellent position to bargain hunt in this market — we see it as a very good time to launch a fund, marketed to the serious investor."

Lifegro's fund, which has been in existence for only a few days, is also reporting a strong inflow and investor

THE unit trust industry discloses one year and five year comparisons which show how well unit trusts have performed over time. The Association of Unit Trusts figures for the period ended September 30 show the following:

GENERAL EQUITY FUNDS

Total returns (capital and income) to September 30:

	5 Years	1 Year
Old Mutual	36,6%	61,8%
Guardbank	32,6%	61,8%
UAL	30,9%	37,8%
Sage	30,3%	46,3%
Standard	29,4%	44,3%
Sanlam	29,2%	56,1%

SPECIAL EQUITY FUNDS

	5 Years	1 Year
NGF	32,0%	53,5%
Sats	29,9%	59,2%
Trustgro	28,6%	39,0%
Standard Gold	26,8%	31,4%
Sandiv	25,2%	74,4%
UAL Mining & Resources	—	45,1%

HIGH INCOME TRUSTS

	5 Years	1 Year
Standard Extra Income	10,2%	16,0%
Corbank	—	10,6%

Over these same periods, the average annual inflation rates were 14,2% for five years and 15,5% for the 12 months to September 30. It is clear from this that unit trusts have outperformed inflation by a comfortable margin and remain a most attractive medium- to long-term investment for anyone seeking to protect their capital from inflation.

Is it time to buy?

FUND managers, experienced in reading the changing directions of share markets, say unequivocally: "Buy now."

Bernard Nackan of Sage: "It is in times like these that the merit of rand cost averaging comes into its own. No one could have anticipated the speed and the suddeness of the collapse of the share markets. This highlights how difficult it is to perfect the timing of an investment. Imagine if you had committed a large sum of money to the market on Friday October 16.

"The regular investor in a unit trust does not have to worry about when it is the correct time to invest in a market. By investing a regular sum, he gets more units when the share market is low and fewer when the market is high. But over time this averages out and he does not run the risk of making one large (and expensive) mistake."

Old Mutual's Jack Mitchell has no doubts: "This is the time to buy. I would say that the small investor must move into unit trusts (and shares if he must) in the next 24 months. This is an outstanding market opportunity for both prospective and existing unitholders."

Sanlam's Philip van Zijl is also encouraging investors to commit funds to unit trusts.

His reasoning?

"With the market having fallen some 40%, investors in unit trusts are getting anything between 50% and 70% more for their money than they were a few weeks ago. For example, an amount of R2 000 would have bought you 163,03 units in Sanlamtrust on October 16. Today that same R2 000 would buy you 250,71 units in the same balanced general equity fund. More units for your money!"

Anthony Gibson, portfolio manager at Syfrets general fund, Sygro, puts it this way: "Unitholders should be relaxed. They should be long term investors who can look forward to a growing income stream and rising capital values over time.

"And for those who are looking at coming into unit trusts, now is probably an excellent time to start building up a unit trust portfolio. I certainly wouldn't be a seller."

Hartmut Beckurts

Annualised savings of R1,86-million have been made by Volkswagen SA on previously imported components for cars — and an increase to R11,4-million is possible. Mr Turner says: "If these savings could be achieved by one car manufacturer, one can imagine what the total could be in the commercial-vehicle industry because of the proposed local-content programme. Most manufacturers could achieve well over 40% local content immediately.

"To take advantage of economies of scale, SA industry requires all the support users can provide. Although long-term benefits are obvious, users are still buying imported products and not specifying SA drive-trains."

JULY: Enthusiasm for Lebowa Bakery, the first black-owned company to the boards

Avalanche of new listings

By Ian Smith

THIS year's new listing boom, which eclipsed anything in the JSE's 100-year history, took the market and even its veteran players by surprise.

To be sure, all the signs were in place at the beginning of the year that many more companies would be coming to the boards

And JSE president Tony Norton predicted in his annual report that the previous record of 73 listings, established in the boom year of 1968, would be surpassed.

But — as with Black Tuesday — no-one was really prepared for the avalanche of '87.

Between 225 and 230 companies will have been newly listed by the end of this year, nearly three times the previous record

"We burned a lot of midnight oil," says JSE assistant general manager listings Doug Gair 'But in the end I believe the whole department performed extremely creditably There were no major hold-ups'

The newcomers total could have been higher if the local market had not followed Wall Street and the rest of the world into a slump So far at least 16 companies have cancelled or deferred their proposed listing, because they believe the current situation is not propitious

The last year had seen a revival of the JSE's capital-raising mechanism, with R1.3-billion raised from 68 listings. Over-subscriptions were common and large-scale stagging showed the reappearance of crowds of small investors

Indicative of the increasing momentum on the stock exchange was the fact that some 1.6-billion shares were traded in 1986, valued at R11.5-billion This compares with the 956-million shares with a value of R6.4-billion traded in 1985

Another factor which was adding to the appeal of the JSE was the introduction of the Development Capital Market sector, specifically opened to give smaller, entrepreneurial companies, which could not meet the Exchange's normally stringent rules for a listing, an opportunity to raise capital for new developments

This, in turn, attracted the attention of a new type of investor who was prepared to face higher risks for the chance of a lucky strike

At the end of 1985 there were five companies listed on the DCM at the end of 1986 there were 32 and today there are more than 90 companies in the sector

Early in the year it was apparent that many of the factors which sent equity prices to record levels in 1986 would still be around for much of this year

Among the early motivations for the rush to the JSE was a certain perception of political instability and uncertainty, the relatively high inflation rate, high negative real yields in the money and gilt markets, the low rand and a higher gold price and a lack of confidence in other longterm investments.

Share prices started the new year with a bang on the first day of trading in 1987 Spurred by gold's surge to the $400 level, gold shares raced ahead, with the all-gold index gaining a massive 105 points to breach the 2000 level The industrial index also surged to a new record of 1 436 The sprint boosted the value of JSE shares to a record R230-billion

A study of January's deals showed that small investors were responsible for 24% of total daily trade on the market — double the individual proportionate representation two years before

SEPTEMBER: Excitement on the floor of the Stock Exchange at the start of the Lefko listing

As early as mid-January the cautious were posing the questions

How long will the bull market last? Has the market overheated?

But the boom, underpinned by the vast cash flow of South Africa's financial institutions, which had been estimated at some R15-billion for 1987 continued unabated.

And it was given new impetus by the boost to public and business confidence after the acceptance of the three-year debt rescheduling agreement by South Africa's overseas creditors towards the end of March.

By that month the rush of new companies to the boards had become a stampede, with more than 50 new listings due in the second quarter of the year But even at that time it was still being forecast that new listings would more than double 1986's 68 listings In the glamourous high-tech field four computer companies announced their intention to seek a listing in the last week in March.

By April it was clear the rush was accelerating Twenty companies had already been listed and dates had been confirmed for another 50 by the end of July, confirming that the year would outstrip the previous boom in 1968 when 73 companies came to the boards

By mid-July 53 new listings had raised more than R3.2-billion

The JSE hit its peak on October 19 and on the following day share prices eased from their record levels The panic that hit other world markets in reaction to Wall Street's calamitous plunge took a few days to arrive in Johannesburg

But by November 5 five new listings showed no appreciation on their opening Only one opened at its listing price and it soon fell back 20c

So far 16 companies have already announced their decision to cancel or defer their listings

'But we still have a number of dates through to the end of March next year, says Mr Gair

(58)

Even after crash, spirit is high at New Bernica

Net Asset Value halved, but 'nothing has changed'

BEFORE the crash New Bernica was one of the highest flying shares of 1986 and 1987, emerging number three in Business Times' rankings.

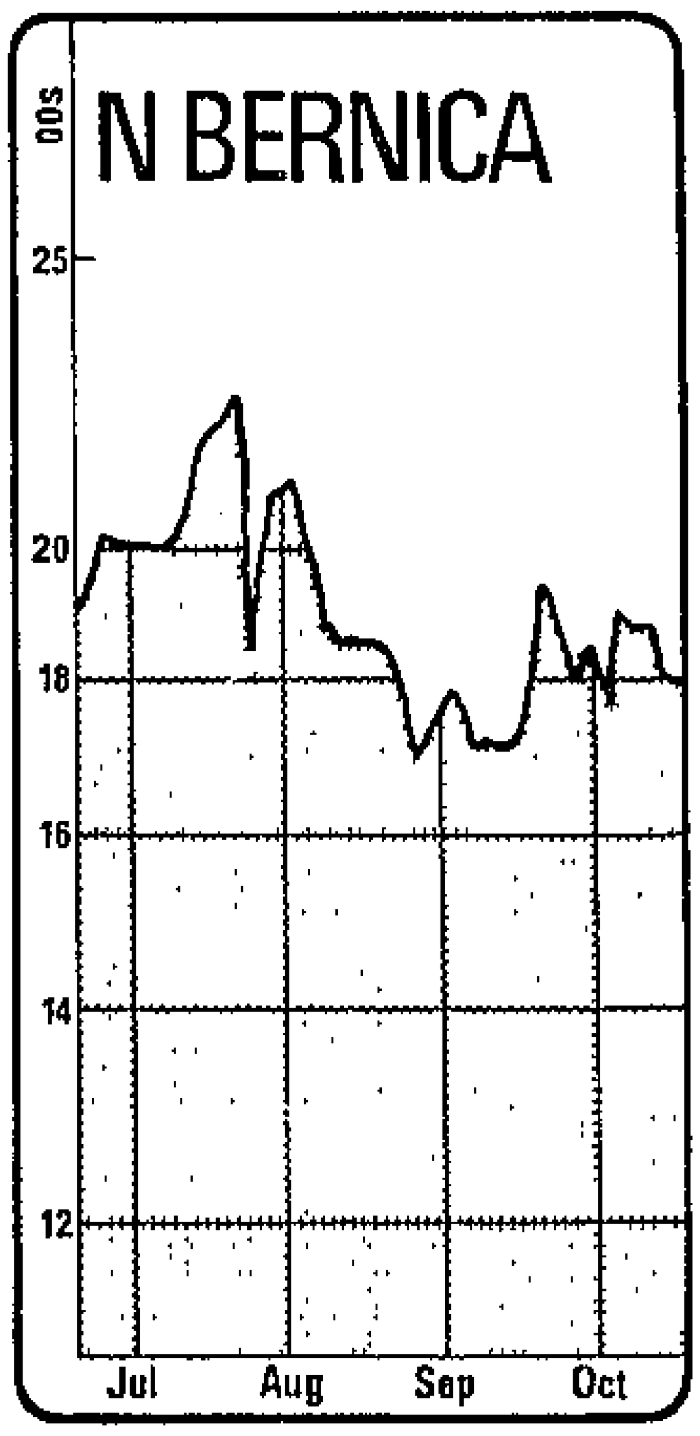
Investors in Arnold Witkin's unusual investment company achieved a return of 70% pa in the five years to end August.

Those who held shares worth R10 000 in August 1982 saw their investment appreciate to R142 000.

Slaughter on Wall Street and eventually Diagonal Street wiped 60% off the share price — but investors who have held the share for more than a year are still well ahead. Chief executive Arnold Witkin is philosophical.

"The market is irrational at the top and irrational at the bottom. After an amazing run during the boom, the share prices of our underlying investments declined sharply.

"Our net asset value before the crash was 1 800c and that was also our share price. After the crash, our net asset value is 700c and that, again, is our share price.



"Operationally, nothing has changed," he says. "All our associate companies are performing well and we are still good for earnings of 70c a share this year, compared to 44c last year."

This means New Bernica is only seven times forward earnings. Columbia at one stage was more than 70 times historical earnings. Now it has a PE of 7 While he generally does not comment on share prices, Mr Witkin reckons unsophisticated investors drove the market too high, then too low.

In 1972, Arnold Witkin resigned as investment manager of Legal & General, today Lifegro, to launch New Bernica. From the outset, chairman Ken White and Peter du Toit, Mr Witkin's successor as investment chief of Lifegro, have been intimately involved.

By David Carte

"I have done the day-to-day running of the company, but we have never done a deal on which we were not unanimous"

The company started life as a portfolio of listed shares worth R1-million The idea was to pioneer venture capital by taking stakes in small developing companies.

"In the first year or so, we were feeling our way and did no deals We administered the share portfolio and did quite well, even though all dealing profits were fully taxable.

"Just when the market was starting to get impatient, David Susman of Price & Pride heard about us from one of the merchant banks. He had the opportunity of buying out his partners on good terms. We hit it off immediately

"New Bernica put up two thirds of the money he needed — R1,2-million — in return for a third stake in the company and some redeemable prefs. That partnership has been a dream ever since and this year Price 'n Pride was listed through Joshua Doore.

"Soon after that, we did two other deals, one in a pipe insulation company that went sour. We sold it for R1 and had to write off R900 000. We also bought and sold a bearing company at a profit that more than made up Our earnings were flat and, never mind the capital gain, the market marked our shares down.

"We felt the market was not interested in long term investments. It was earnings and dividend driven.

"One of the most important events in the evolution of this company was an association with Derek Keys. We were both speakers at the FM investment conference and came to know and respect each other. Derek asked me on to the board of National Discount House. This was eventually floated by means of a rights issue to New Bernica holders.

"After our first mishap in piping insulation, we decided no more small developing companies with uncertain earnings We preferred to enter partnership with good managements, in which we were the minority.

Mistake

"We felt if we did not know how to operate companies, it was a mistake to try to control them.

"I had become a good friend of Nick Frangos through the Young Presidents Organisation. He wanted to raise R9,5-million to buy out his partners in Mercedes Datakor. We liked him and his company and took a minority stake.

"Then last year we did the deal with Columbia. I knew Bernard Herbert, Gordon Polovin's partner, as a top-rate accounting lecturer. My wife, Roni, was selling time management The owners were ready to give up the franchise and she needed a partner to buy it.

"I suggested she talk to Bernard. They entered a 50-50 partnership, which worked very well. I met Gordon Polovin and was most impressed. They are excellent strategists and work very hard. They are decisive and have a clear sense of direction

ARNOLD WITKIN ... market irrational at top

"We took 23% of Columbia, which has subsequently been diluted to 17%. Columbia had a big client base to work from It knew its clients intimately and very quickly made us look slow In no time it had seven to eight listed companies.

"More recently we acquired 20% of Chipkins, a blue chip 54-year-old supplier to the catering industry, and of course there was the extremely promising deal with Derek Cohen and Geoff Grylls"

Together with Southern Life, New Bernica acquired 7,5% of Barney Hurwitz's Clinic Holdings before its listing An important question is whether it will come on at a premium or a discount to the issue price.

"Health care is a steady growth business, like food and beer We are taking a long term view. Clinic Holdings has proven itself over 25 years

Today Lifegro has 42% of New Bernica and Sanlam 11-12% Mr Witkin personally has 7%, which is worth roughly R3,7-million, compared to R9,5-million before the crash

That sort of calculation means little to Mr Witkin, a low-key anti-hero who lives relatively modestly and does not aspire to a Porsche

Bargain bonds all the way

6/12/87

PROSPECTIVE home owners are sitting pretty. Bond-rate bargains are set to continue well into the new year.

By Udo Rypstra

The battle between banks and building societies has hotted up after the entry of Nedbank, the last of the big commercial banks to enter the loans for homes field

Building societies, which have been lagging behind the banks in cutting bond rates because many of their longer-term deposits are still earning high interest, will be able to compete on more equal terms when the deposits mature in the second half of next year.

"We will be able to compete more effectively with the banks," says NBS regional manager Terry Bradshaw. "If the economy picks up, our more stable funds will leave us in a stronger position than the banks."

Nedbank, which was not directly involved in the cut-throat competition until two weeks ago, has introduced a package which could send rivals back to their war-rooms.

It is providing loans of up to 100% at 12,5% guaranteed until the end of September next year. Any subequent increases will be subject to three months' notice.

But Nedbank has stolen a march on rivals by offering a subsidy of up to 50% on the cost of transferring a bond from a building society or another bank to a Nedbank account.

On a bond of R100 000 this would save the borrower about R600 in re-registration fees. If other banks follow suit, the flow of business from building societies to banks would quicken.

Nedbank has introduced its scheme for existing and new customers without any fanfare. It plans to market it more forcefully early next year when people return from holiday. The target market is the upper-income group and "customers with potential". Small loans for, say, R20 000 will be considered.

"We were forced into the field and decided to come out with the best package available," says senior general manager Chris Liebenberg.

The first loan granted under the new scheme two weeks ago was to a customer who wants to design and be paid in tranches as building progresses

Nedbank's foray into the home-loan market comes as thousands of borrowers are transferring their bonds from building societies to banks

Mr Liebenberg says: "We have not shouted about the scheme, but it is pleasing to see the amount of business that is coming over"

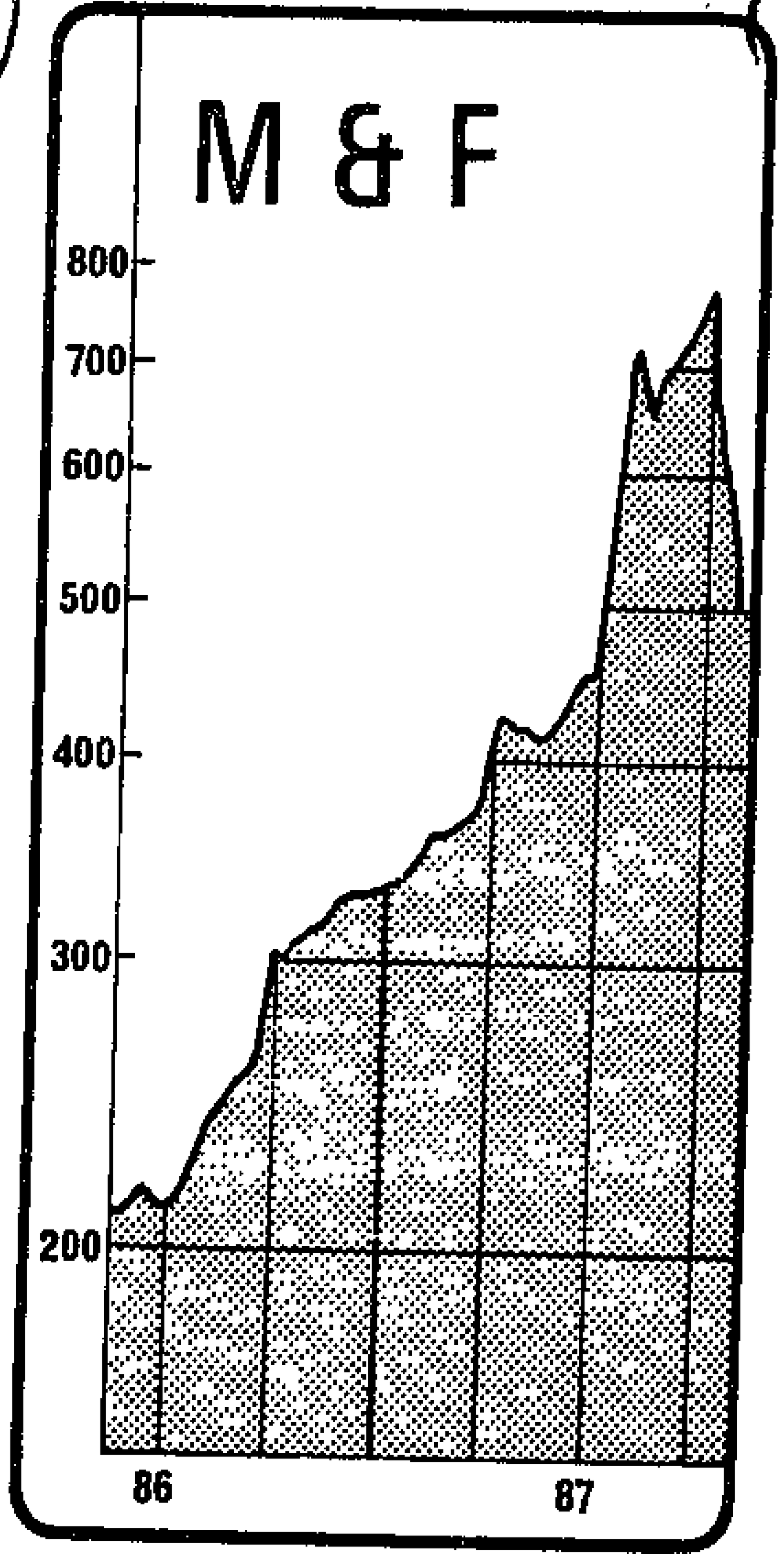
Deputy general manager, advances, Michael Leeming says bond applications were previously passed on to Syfrets, "but this month we started processing them ourselves"

"We've gone a long way to making virtually any bond movable."

by placing orders.

58

M&F takes risk out of short-term insurance



MUTUAL & Federal Insurance, a blue chip in its class, jumped into the Top Ten this year — partly riding on the wave of the recent improvement in the overall short-term insurance industry and the benefits it has enjoyed from a substantial increase in premium income.

It also scored from a better return on investments and a reduction in operating expenses after a campaign to make the company more cost effective.

By Udo Rypstra

M & F, which ranked No. 23 in the Top 100 stakes last year, is in the rather fickle risk protection business, where the absence or occurrence of natural disasters can make a huge impact either way on bottom-line results.

The growth in and interest on premium income, which can also fluctuate, is another major influence.

For instance, in a relatively disaster-free financial year to June 30 this year, M & F turned a 1985 underwriting loss of R8,9-million into a surplus of R13,6-million.

Thousands of policy holders left without cover after the collapse of the AA Mutual short-term insurance company, also contributed to a growth in gross premium income of 58% — from R359-million to R567-million.

Dividends

This in turn helped increase investment income. This income, which often saves the bacon when underwriting results are negative, rose by 30% to R39,2-million following additional investments and higher dividends earned on the equity portfolio.

M & F's underwriting results for the five years from June 1982 still show a net deficit of R12,9-million. But its final pre-tax profit record shows R10-million for 1982, R20-million for 1983, R22-million for 1984, R3-million for 1985 and R21-million last year.

This year, however, pre-tax profit rose by a massive 149% to R52-million. But an increase in taxation, from R2,5-million to R17-million, restricted the rise in taxed profit to 92% — or R35,8-million (R18,6-million).

Earnings were lifted 93% to 77c a share, compared to 40c a share last year (after adjustment for a capitalisation issue).

In July, well before the Natal flood disaster and the stock exchange crash, M & F emerged as one of the financially strongest short-term insurers around.

The criterion for a short-term insurer's financial strength lies in its financial base, which is calculated by computing free and technical reserves as a percentage of net premium income (NPI). Independent Quest Insurance Advisory Services has suggested that the optimum ratio would be in excess of 120%.

M & F's reserves were the biggest, at R328,3-million in July, representing a ratio of 134% — one of the highest among listed short-term insurers. This explains why M & F could strengthen its reserves despite underwriting losses in the past few years.

Managing director Ken Saggers, who has steered the company through one of its most trying times since his appointment 18 months ago, admits to running a fairly conservative organisation from a premium rating point of view. But, having been with M & F since he left school and having experienced how volatile the risk protection industry is, he likes it that way.

"We believe the cheapest is not necessarily the best, as the AA Mutual disaster showed. We intend to be around long after others have fallen out," he says.

Recent developments in the insurance market seem to prove his point. M & F's excellent results had hardly been published when the Natal flood disaster struck, exposing M & F to an estimated R45-million out of a possible R500-million total in claims. This was followed by the stock exchange crash, which reduced the company's solvency margin calculated in terms of the Insurance Act from 95% to about 80%.

KEN SAGGERS
Conservative organisation

Mr Saggers says the solvency margin should be viewed against the statutory requirement of 10%. "As to the Natal floods, that is what we are in business for — to protect clients against financial losses. While our underwriting results will suffer, we have a sound reinsurance programme which protects us against catastrophes of this nature."

M & F is the second biggest in terms of market share with about 50% of its business in the mega commercial and industrial short-term insurance area — the other half being in personal lines.

The share of personal business gained since the insolvency of the AA Mutual short-term division now includes that passed on by Standard Bank (Stansure policy) and that of the Automobile Association (Motorsure).

A more recent gain is that of the Public Servants Association, which has appointed M & F as its official short-term insurers and which has about 44 000 members and a potential of between R50-million and R60-million in annual premium.

Mr Saggers says that, while market conditions have improved generally through better underwriting and higher premium ratings all round, M & F has spent several years improving its infrastructure by investing in computer systems and training its employees, now numbering 2 100. It is currently upgrading its on-line computer system at a substantial — but undisclosed — cost.

Service

"Today," says Mr Saggers, "service is a most important issue. The client is paying for sound advice, financial protection, which is what our business is, and claims settlement."

Mr Saggers believes the economy is still "flat". What worries him most are arson and fraud losses.

"We view fraud losses seriously and are quite happy to institute criminal or civil procedures to counter them. Apart from shareholders, we owe it to our policy holders to combat such claims as, in the end, they bear the cost of such losses."

Before the Natal flood disaster there was talk that the market would be returning to a new era of rate slashing.

Perhaps predictably, Mr Saggers says M & F will have no part of it.

Home loans: Big bank inroads jolt societies

8/12/82

5-8

The Argus Correspondent

JOHANNESBURG. — There is intense boardroom activity among building societies today following the entry into the home-loans business of another major bank — Nedbank.

Adding further grief to the societies has been the bank's target area — existing bondholders and an opening offer to them to cut by half the costs of transferring a bond from a building society.

The cost of changing over is the main stumbling block for building society borrowers who want to enjoy the advantage of the banks' interest rate of 12,5 percent.

Nedbank's drive into home loans follows that of other leading banks, First National and Standard.

Mr Noel Brownlee, deputy-regional manager of the Natal Building Society in Johannesburg, said "Nedbank's move is another jolt to the societies and all we can do is to wait to see if another chunk of our business is going to go."

Fixed deposits

The NBS, with other societies, cut its bond rate to 13,5 percent and might well make further cuts in the months ahead.

"We still have a lot of high-interest fixed deposits on our books and until that money goes out of the system we can make no further change in the mortgage rate," said Mr Brownlee.

"Months from now, however, we might well reassess the bond position."

While the banks were making big inroads Mr Brownlee emphasised the traditional building society expertise in the homes business.

"Even although the banks are taking business away from the societies, we have experienced a trickle of customers coming back as they have not got their bond applications through."

The Allied Building Society has alredy moved to meet the Nedbank threat.

One client who wanted to transfer his bond was told the interest rate on the bond would be cut from 14,5 to 13,5 percent if he stayed with the Allied.

Metpol income rises by 36%

CAPE TIMES 8/12/87 (58

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based Metropolitan Life (Metpol) lifted earnings for the year to September by 36% to R12,7m, or 28,5c per share. The final dividend is 11,5c a share, making a total of 19c (15c).

Total income rose to R392,9m (R332,1m). Of this, recurring premium income accounted for R249,6m — 24% more than last year.

Single premiums brought in an additional R11,3m. Investment income was R13m higher at R132m.

Like other insurance companies Metpol benefited by the stock exchange boom earlier this year.

Total assets increased by 22% during the financial year to R1,5-billion, and MD Willem Pretorius said the results reflected "the improved economic conditions that characterized the reporting period".

But, he said, the company had foreseen a correction in the market and had not been hit badly by the stock exchange crash. Now it was already hunting for equity bargains.

"We are nibbling at the market on the downside," he said, "and are picking up bargains in shares that are fundamentally sound. But we are not in a hurry.

"For the amount of cash that we have we are really only nibbling."

Pretorius admitted that Metpol had lost some paper profits in the crash.

"The equity component of our portfolio did come down substantially, by quite a number of percentage points, although less than the market indices.

"But we had a fair percentage of cash at the end of the financial year so we were cushioned somewhat compared with some insurers we know of.

Pretorius said he had no doubt Metpol would continue to do well in 1988.

Its target market was the middle to upper end of the black and coloured market and the middle-income white.

It also still did a fair amount of home service business, with instalments collected regularly from policy holders.

Bank's bond transfer offer causes stir

58 DD 8/12/87

Daily Dispatch Correspondent

JOHANNESBURG — Existing bondholders have become the prime target in the home loans war, with Nedbank's offer of a 50 per cent reduction in the costs of transferring a bond causing a stir among building societies.

In an effort to retain customers, the Allied is reported to have told clients who wish to transfer their bonds that their interest rates may be cut by as much as 1,5 per cent if they stay with the Allied.

An Allied client said his efforts to transfer his bond had been met with a request to write a letter to his branch manager, stating his reasons for wanting to switch.

"I was told the possibility existed that the Allied would cut the interest I paid on my bond from 14,5 per cent to 13,5 per cent or even as low as 13 per cent," he said.

Allied's senior general manager, Mr Geoff Bowker, neither confirming nor denying the report, said: "There are a number of factors which determine the rate of interest to be charged to any borrower — not the least of which is the total involvement that Allied can have with a client over an above the mortgage bond relationship."

Mr Bowker said the confidentiality that existed between the Allied and its clients had to be respected.

A United Building Society spokesman said he had no comment to make "at this stage" on action to counter Nedbank's aggressive entry into the home loans market. But building society sources said Nedbank's move was "under heavy discussion" at the United.

Meanwhile, Nedbank's advances executive assistant, Mr Wayne Oates, said his division had received "a considerable number" of inquiries about its offer to reduce the cost of transferring a bond by 50 per cent.

"Our first target is the bank's customers who have bonds with other institutions," he said.

Home loans war hots up

Cape Times 8/10/87

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Own Correspondent

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Cape Times 9/12/87 (58)

New bank joins bond costs war

Own Correspondent

JOHANNESBURG. — Competition between banks and building societies for existing bond holders is escalating, with the Trust Bank, like Nedbank, also slashing the cost of transferring a bond to the bank.

The general manager of Trust Bank, Mr Kobus Roetz, said yesterday the bank reduced the costs of transferring a bond from another institution to the Trust Bank "on an ad-hoc basis". Unlike Nedbank, which had specified a 50% reduction, the Trust Bank had no fixed rate of reduction and considered each case separately.

He said many bond holders saw the costs of transferring a bond as an obstacle to switching to a bank, which was why the Trust Bank considered reducing transfer costs.

The managing director of Standard Bank's financial services, Mr Dennis Matfield, said the bank was keeping a close watch on developments in the market.

"If we lose any of the market share we think we should have, we will take immediate action. In this volatile situation, nothing can be ruled out." But, Mr Matfield said, at this stage the Standard did not think it necessary to cut the costs of transferring a bond.

Banking sources said long-standing building society bond holders were becoming increasingly disgruntled because new customers were charged lower interest rates than bond holders who had been paying their instalments for years. This was one of the reasons why certain building society customers wanted to switch to banks.

Meanwhile, the managing director of the Perm, Mr Bob Tucker, newly elected president of the Building Societies Association, has called a press conference for today to discuss developments in the turbulent financial services industry.

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Nedbank: constraints prevent even modest growth

GERALD REILLY

PRETORIA — Constraints bearing down on the SA economy precluded the achievement of even so modest a growth rate as 3%, Nedbank economists say.

In their latest Guide to the Economy, they say "modest", because it was generally accepted this rate was inadequate to keep abreast of the increase in the employment-seeking population, let alone solve the unemployment problem.

The constraints included:

- ☐ The straitened financial position of the household sector;
- ☐ The exhaustion of the taxable potential of the country and, accordingly, a limitation on government growth;
- ☐ The low ebb of entrepreneurial confidence;
- ☐ The completion of major infrastructural programmes of the parastatal corporations;
- ☐ The tendency towards inventory leanness;
- ☐ The long-term decline in gold mining producion; and
- ☐ Disinvestment and international sanctions.

"The constraints are not immutable, but while they continue to apply with any force, growth will be very limited at best," the economists say.

The constraints had applied in varying degrees during the 1980s, accounting for the very poor growth performance this decade, they say.

Aim is more funds for home loans

Societies seek law change in bond war

(58) SMC 10/12/87

Building Societies have appealed to the Reserve Bank for help in their "bond war" with banks.

Mr Bob Tucker, president of the Building Societies' Association, said yesterday that the Reserve Bank had been asked to amend legislation which sets a five percent limit on the amount of short-term funds the societies can use to finance home loans. They want the limit raised to 10 percent.

The Registrar of Banks, Dr Chris de Swardt, confirmed that legislation would be introduced in the next session of Parliament and said the Government was "thinking in terms of 10 percent" although a figure had not yet been decided.

The societies' move came after a furious exchange of words between them and the banks.

Mr Tucker, MD of the Perm, yesterday warned prospective homeowners not to be tempted by the "incredible package of goodies" on offer from banks.

He said: "Bondholders will have only themselves to blame when the economic cycle changes and they are exposed to a sharp increase in their bond rate because of the short-term nature of the funds which are used by the banks to finance the bonds they grant."

The banks hit back at Mr Tucker's claim that they would not be able to maintain their lower rates under economic pressure.

Mr Terry Power, deputy general manager of Standard Bank's home loans division, said: "Standard has guaranteed a 12,5 percent rate until June next year and, although the situation will be revised once market forces drive upwards, our rate will not be higher than the average mortgage rate."

'Will remain competitive'

Mr Chris Vietri, First National Bank's assistant general manager (home loans), added that the bank would remain competitive — "which does not suggest that we would not raise our rate should economic conditions force us to do so".

Said Nedbank's senior general manager, Mr Chris Liebenberg: "We were forced into the home loan market by the building societies who were encroaching on our traditional financial areas."

Mr Tucker said it was precisely because of stability in the form of longer-term funding that building societies' funds were more expensive than those of banks and their bond rates higher.

"In considering a move, homeowners should ask themselves what the lending record of the institution is, and why it is so desperate to get their home loan now, although it showed no interest in the past."

If the Reserve Bank approves the 10 percent level, building societies will have much wider scope in the market for cheaper short-term funds and will be in a stronger position to compete with the banks on bond interest rates.

"Not more than five percent of a society's funds may consist of deposits of less than a one-year term," said Mr Tucker.

"Because the banks are not regarded as a primary source of home loan finance, they are not subject to the same constraints."

●See page 15

Rates will not stay low forever, warns Schwarz

Consumers were today warned to be wary of snapping up low-interest-rate housing loans on offer in the current bond war between banks and building societies.

Progressive Federal Party spokesman on finance Mr Harry Schwarz said low-interest loans should be taken advantage of, but borrowers should remember interest rates would not remain at their current levels.

People who took out large bonds at the rates now being offered could find themselves unable to to make the payments if interest rates rose.

Money row hots up

By DEREK TOMMEY, Finance Editor

BUILDING societies, in a bid to reduce their bond rates in the face of fierce competition from banks, have asked the Government to let them increase their borrowing of cheap short-term money.

The Building Societies Association has asked the Reserve Bank to change the law to allow them to increase the amount of short-term funds they can raise from 5 percent to 10 percent of their assets

Mr Bob Tucker, president of association, said today that this would enable the societies to borrow another R1-billion, probably at about 8 percent. This would help to reduce building society bond rates, though with more than R23-billion in loans outstanding, the overall effect would be small.

He said the present average cost of money to the building societies was more than 10 percent. In contrast the banks were able to borrow at less than 8 percent. When they lent money to house buyers at 12,5 percent there was still a margin of 4,5 percent margin.

Blame

Mr Tucker warned that home buyers, tempted by the low rates offered by banks, could face "real prejudice" when short-term rates rise.

He said: "Bondholders will have only themselves to blame when the economic cycle changes and they are exposed to a sharp increase in their bond rate because of the short-term nature of the funds which are used by the banks to finance the bonds they grant."

The Registrar of Banks, Mr Chris de Swardt, confirmed that legislation would be introduced in the next session of Parliament and said the Government was "thinking in terms of 10 percent" although they had not decided on a figure.

The banks have hit back at Mr Tucker's claim that they would not be able to maintain their lower rates under economic pressure.

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Nedbank's senior general manager, Mr Chris Liebenberg, said: "We were forced into the home loan market by the building societies who were encroaching on our traditional financial areas.

"Of course we want to maintain our client base and once we reached the decision we decided to enter the market aggressively."

Societies appeal to Reserve Bank

(58) B/day 10/12/87

Home loans war of words gets hotter

BUILDING societies, facing fierce competition from banks, have appealed to the Reserve Bank to change legislation which restricts them in making loans.

GRETA STEYN

Yesterday Perm MD Bob Tucker, speaking in his capacity as president of the Association of Building Societies, said building societies had asked the monetary authorities to change the limit on the amount of short-term funds used to finance home loans from 5% to 10%.

He was "reasonably optimistic" that legislation would be changed so that competition in the bond-rates war would be fairer.

Banks registrar Chris de Swardt said legislation would be introduced in the next session of Parliament to increase the amount of short-term funds building societies could use to fund home loans. De Swardt said the authorities had not yet decided on a percentage, but were "thinking in the terms of 10%".

He said this proposed change in the Building Societies Act would give societies greater access to cheaper short-term funds, placing them in a more favourable position to match interest rates offered by banks.

Tucker was emphatic that building societies did not wish to make unlimited

● To Page 2

(58)

Home loans war of words hots up

● From Page 1

use of short-term funds for long-term lending, hitting out at banks for liberally dipping into short-term funds to provide home loans.

He said there was a good reason why the authorities insisted on building societies using mostly long-term funds for home loans. Long-term interest rates were less volatile than short-term rates — thus lending long meant the borrower was not exposed to dramatic rate movements.

"Because the banks are not regarded as a primary source of home-loan finance they are not subject to the same constraints as building societies."

Tucker believed the authorities were becoming increasingly concerned about the banks' practice of borrowing short and lending long. However, a Reserve Bank spokesman denied that, saying the bank's stance on the feud in the financial services industry was neutral. He said: "We are not taking sides."

Referring to people who chose to go to banks for mortgage finance, Tucker said: "They will have only themselves to blame when the economic cycle changes and they are exposed to a sharp increase in their bond rate because of the short-term nature of the funds which are used by the banks to fund the bonds they grant."

Homeowners who wanted to switch to banks should ask themselves what the home-lending record of the institution was. "The banks' track record in home loan finance is most unfortunate."

Citing the example of First National Bank, Tucker said: "Three years ago, Barclays was charging 25% when building societies were at 21%. The bank ceased all new lending and no additional funds were made available to existing bond holders. And homeowners who wanted to sell found that Barclays was not making available takeover bonds to purchasers."

Tucker foresaw the possibility of a repetition of this set of circumstances should interest rates rise substantially. "The track record of banks is entirely consistent with that."

The aggressive entry of banks into the home-loans market was the result of the "unique" state of the economy — negative real interest rates and slack credit demand. Tucker said. "We are uncomfortable about the situation — we do not like losing good clients And it is patently obvious we are losing good customers."

First National's Jimmy McKenzie said bond holders need have no fear that his bank's bond rates would be out-of-line with building society rates in future. "We intend to stay aggressively competitive in this market."

Plan to change home loan law

10/12/87

JOHANNESBURG — Building societies, facing fierce competition from banks, have appealed to the Reserve Bank to change legislation which restricts them in making home loans.

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The registrar of banks, Mr Chris de Swardt, said legislation would be introduced in the next session of Parliament to increase the amount of short-term funds building societies could use to fund home loans. The authorities had not yet decided on a percentage, but were "thinking in terms of 10 per cent".

He said this proposed change in the Building Societies Act would give societies greater access to cheaper short-term funds, placing them in a more favourable position to match interest rates offered by banks.

Mr Tucker was emphatic that building societies did not wish to make unlimited use of short-term funds for long-term lending, hitting out at banks for liberally dipping into short-term funds to provide home loans.

He said there was a good reason why the authorities insisted on building societies using mostly long-term funds. Long-term interest rates were less volatile than short-term rates — thus lending long meant the borrower was not exposed to dramatic rate movements.

Mr Tucker believed the authorities were becoming increasingly concerned about the banks' practice of borrowing short and lending long. However, a Reserve Bank spokesman denied this, saying the bank's stance on the feud in the financial services industry was neutral.

Citing the example of First National Bank, Mr Tucker said: "Three years ago, Barclays was charging 25 per cent when building societies were at 21 per cent. The bank ceased all new lending and no additional funds were made available to existing bond holders."

But First National's Mr Jimmy McKenzie said: "When Barclays first entered the home loans market, borrowers were charged a rate of about 0,25 per cent higher than building societies, as the bank did not intend competing with the societies."

See also page 8

2 Cape Times, Friday, December 11, 1987

58

Short-term loans 'must be limited'

JOHANNESBURG. — The homeowner should not be exposed to the volatility of short-term funding, Mr Bob Tucker, managing director of the Perm and president of the Association of Building Societies, said yesterday.

Therefore the law should only allow limited short-term funding, he said.

He said that while amendment of the Building Societies Act to increase the level of short-term funds which building societies may use for home loans would give them more scope to compete with the banks, it would not put them on an equal footing with banks.

"How can building societies compete with 10% short-term borrowing against the banks who are 100% borrowed in the short-term?"

At the Reserve Bank in Pretoria, the Registrar for Banks and Building Societies, Dr Chris de Swart, confirmed yesterday that the association petitioned several months ago for an increase to the amount of short-term funding allowed to building societies for home loans from 5% to 10%.

Banks hit back at Mr Tucker's claim that they would not be able to maintain their lower rates.

Mr Terry Power, deputy general manager of Standard Bank's home loans division, said: "Standard has guaranteed a 12,5% rate until June next year and, though the situation will be revised once market forces drive upwards, our rate will not be higher than the average mortgage rate."

Mr Chris Vietri, First National Bank's assistant general manager, home loans, said the bank would remain competitive, "which does not suggest that we would not raise our rate should economic conditions force us to do so".

Retiring NBS managing director Mr John Bennet hit out at building societies whose interest rates for new borrowers are higher than those for old customers.

"I am dismayed at this blatant lack of morality and the temerity of these societies in not even attempting to justify their action," he said.

Mr Bennet, speaking shortly before handing over NBS reins to Mr John Gafney, said three of the big five building societies were openly prejudicing their existing borrowers by offering indefinitely a lower mortgage rate to new clients. — Sapa and Own Correspondent

BONDS (58) FM 11/12/87

Too good to resist

With First National and Standard Bank making rapid progress in granting home loans, Nedbank and Volkskas are busy finalising preparations for their launches into the fiercely competitive home loan market early next year. Up to now they have maintained a low profile, restricting home loans to their clients.

Nedbank and Volkskas have been training staff, familiarising their branches with the bond market, and have made arrangements to cope with heavy demand for funds.

While Nedbank declines to say how much money it is budgeting to lend, Volkskas MD Koot van Vuuren is looking at granting R500m-R600m in home loans by end-1988.

Nedbank's Merton Dagut tells the *FM* that bonds of up to 90% of the value of the property will be granted if it is less than R150 000. If over R150 000, an 80% bond will be granted. The rate will be a flat 12,5% — the same rate as the other banks, but below that for societies which vary from UBS's 12,95% to the SA Perm's 14,5%.

The most interesting aspect about Nedbank's package, however, is the offer to pay half the costs of transferring a bond. This could entice existing society bondholders, especially those paying way above 12,5% for the bonds. To further attract customers, Dagut does not rule out the possibility of offering fixed rates (as Allied does), and capping and instalment options.

All Van Vuuren says is that Volkskas will be prepared to grant 100% bonds in special circumstances "to protect our customer base." Standard grants 100% bonds in certain circumstances while First National grants 90% bonds and is prepared to add the transfer costs to this, giving a 90%-plus bond.

This is ominous for societies. Banks, able to grant cheaper loans than societies, have been making great inroads into their business.

From April to October this year societies granted R5,8 billion in home loans. Of this, UBS lent R1,69 billion, Allied, R1,44 billion, and the SA Perm R1,41 billion — or 78% of the total.

While the Allied has overtaken the SA Perm in value terms for the first time (over a six-month period), in line with its strategy of targeting small homeowners, the SA Perm still leads in the number of loans granted (45 000 over this period compared to the Allied's 36 000 and UBS's 41 000).

In the same period Standard lent nearly R500m and First National almost R400m — some 15% of what societies lent.

For the year ending March 1987 societies granted R8,2 billion of which the three largest contributed 80% — UBS and the SA Perm R2,3 billion each and Allied R1,95 billion.

Giving the banks' proportion of loans over this period of a year is awkward as Standard only started marketing its loans last December, which was when First National stepped up its campaign. Their total loans to end-November are R1 billion and R1,6 billion, respectively.

But the next six-month period (November to March 1988) should be interesting in assessing the rate at which the banks are advancing. Their loans are likely to exceed the 15% societies lend. ■

Bennet hits at 'lack of morality' in bond rates

9 B/day 11/12/87

GRETA STEYN

THE bond rates war took a new twist yesterday when retiring NBS MD John Bennet hit out at building societies whose interest rates for new borrowers are higher than those for old customers.

"I am dismayed at this blatant lack of morality and the temerity of these societies in not even attempting to justify their action or setting a date when the discrimination will cease," Bennet said.

"Is it that they have no defence because the policy itself is indefensible?"

And while the war of words continues unabated, rumour is rife that another round of building society interest rate cuts could be on the cards.

Bennet, speaking shortly before handing over NBS reins to John Gafney, said three of the big five building societies were openly prejudicing their existing borrowers by offering indefinitely a lower mortgage rate to new clients.

How home loan rates compare: Page 4

"In one case this policy has been applied for many months without any explanation for the discrimination against clients of good standing."

In his view, there was a risk that building societies would lose their reputation as fair lenders, becoming "branded as exploiters of captive clients".

Reacting to Bennet's comments, Allied spokesman Brian Deans said the society's published rate for existing bond holders was 14,5%, but under certain circumstances rates could be negotiated.

Saambou MD Hendrik Sloet said the cost of the long-term funds used to finance loans in the past had been higher than the cost of funds at the moment. "And the more expensive long-term funds used to finance these loans are not yet out of the system."

W/C ARGUS 12/12/87 58

Banks and societies in vicious war

By DEREK TOMMEY, Finance Editor

THE reaction by the banks to the building societies' entry into the world of banking has been violent, and if the reports of a marked drop in the number of bond applications going to the building societies are to be believed, even threatening.

Any building society official who believed that the move into banking following the change in the Building Society Act last year would not be too difficult or uncomfortable has had a rude awakening.

The banks have acted like angry tigers, slashing the rate of interest on their home loans significantly below the levels charged by building societies and have reduced the deposit required.

The result of these more favourable terms is that they have already taken a considerable amount of new business away from the societies.

And with Nedbank this week offering to bear half the cost of transferring a bond to it, the banks have made it clear that they also have hopes of capturing some of the societies' existing business.

Bankers give four reasons for the onslaught on the building societies' traditional preserve, the home mortgage market.

One is that the banks have money to lend. The extremely high interest rates charged by the banks in 1985 taught many companies that undue reliance on bank credit was dangerous.

The result is that most of them are making strenuous efforts to pare bank lending to the bone. They are being helped here by the widespread use of computers which has led to far more efficient stock and asset control and has greatly lessened the need for cash.

This has resulted in a sluggish demand for bank funds, though recent reports suggest the 'hidden boom' has at last led to a small increase in calls for bank credit.

This leads to the second reason. The demand for house mortgages has remained strong in recent years in spite of the recession, and is expected to grow ever more rapidly in the future.

MAKING PROFITS

Therefore it is a market which any organisation engaged in making profits from lending money has to be in.

The buoyancy of the mortgage market is reflected in the R6,6-billion or 38,2 percent increase to R24-billion in building society mortgage loans in the two years ended June. In the same period bank advances rose by only R3,9-billion or 13.9 percent to R32-billion.

A third reason is the belated recognition that house buyers can be extremely desirable clients.

They usually have a stake in their house or will have in a few years' time which makes them good risks. (Building society officials say that most of the non-payment problems they had in 1986 were the result of an inability by the house-buyers to budget and not to a lack of income.)

And as the value of their stake increases they are likely to increase the size of their mortgages and become bigger customers.

The fourth reason given by bankers is that it is a matter of self-proctection.

"The building societies are after our clients. They are even planning to issue cheque books, and we have to protect our client base," said Mr Chris Liebenberg, senior general manager of Nedbank, adding that Nedbank intended to be extremely aggressive.

He said the bank's decision to bear half the cost of transferring a bond stemmed from its belief that bonds should be freely transferable.

Borrowers should not be locked in with a lender but should be able to take advantage of any decline in rates

He said that Nedbank's house lending scheme had been going for only a month but it was already evident that the bank had seriously under-estimated the demand for its mortgages.

Nedbank, together with the Standard and First National, are charging 12,5 percent for their mortgage bonds, which adds up to a saving of between R50 to R100 a month for the average housebuyer with a building society bond

The building societies have been meeting the attack from the banks in a number of ways. One way, with a look back to 1985 when bank mortgage rates rose to 25 percent and more, has been to hint to bank borrowers that the same might happen again.

But the banks are not particularly impressed with the argument. They point out that the jump in interest rates in 1985 was a most unusual development and unlikely to be repeated.

They agree that interest rates could rise slightly during 1988 if the economy continued to improve. But if this were to attract overseas attention and result in a new inflow of foreign funds, interest rates could even fall.

The building societies are also trying to reduce their cost of money and want to be allowed to increase their borrowings of cheap short-term money.

However, some bankers believe the real answer to the

(See Page 3)

W/C ARGUS 12/12/87

City firm a world leader in 'hi-biotech'

By DEREK TOMMEY

TUCKED away in a side street in Epping is a company which has become a world-beater in the 'hi-biotech' field.

Its outstanding technical ability is enabling it to compete with the world's giant pharmaceutical companies and win.

The company is Serevac, a subsidiary of SA Druggists, which over the years has developed the processes needed to conduct the extremely difficult task of extracting emzymes from animal and vegetable matter and purifying them to exceptionally high standards — without destroying them in the process.

Proof of the company's success can be found in its export record. Since it started its export drive in 1984 its foreign sales have risen more than seven-fold — which earlier this year brought the company the State President's Award for Export Achievement.

Today Serevac is exporting more than 90 percent of its output, says Mr Deryck McCallum, the company's general manager who has played a major role in the firm's success.

Forty-four-year-old Mr McCallum, a University of Cape Town graduate, joined the company in 1965 as production chemist. He subsequently became production manager and then plant manager before being appointed in 1986 to his present post.

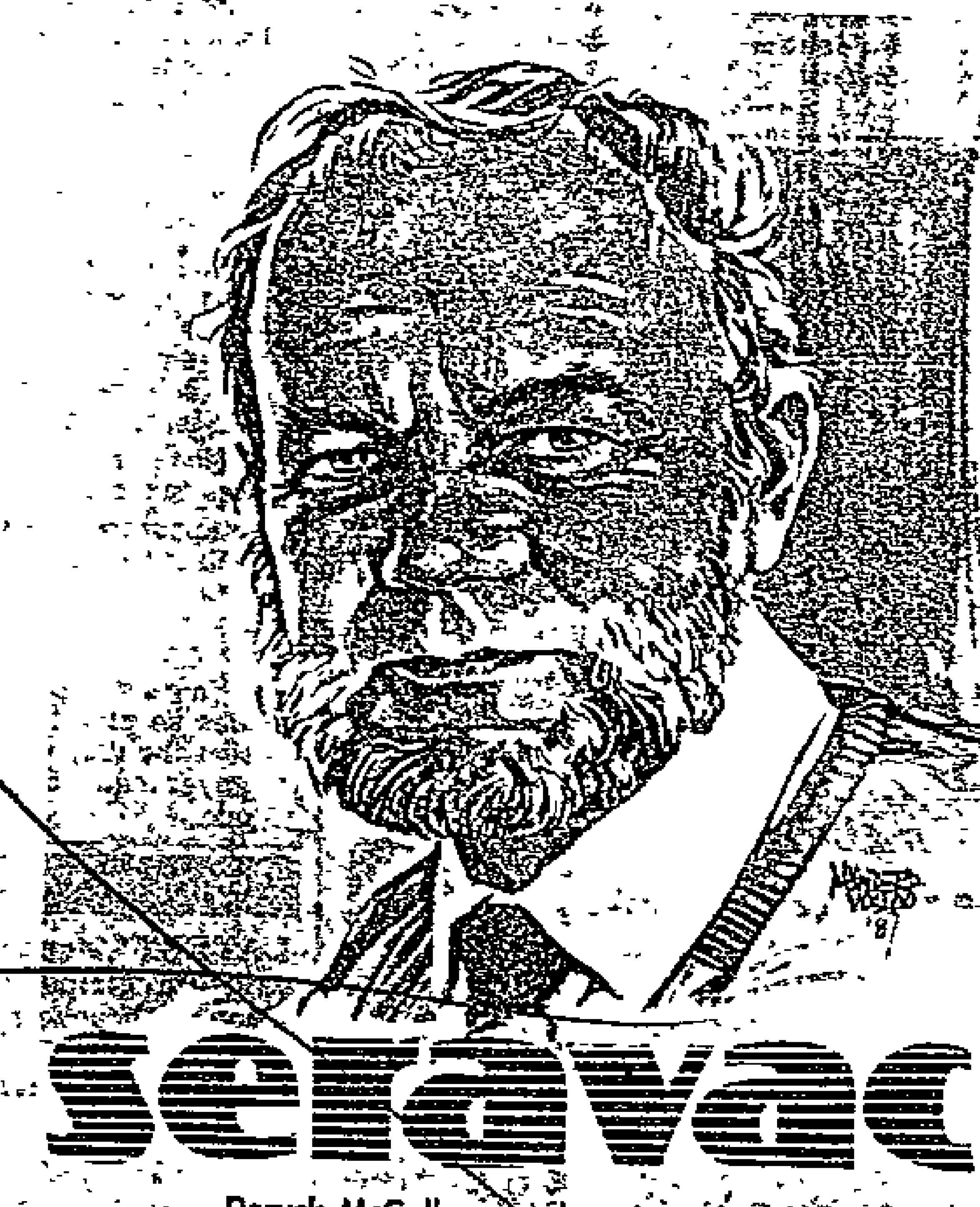
Describing a typical extraction process he said it would start by grinding into fine particles the source of the enzymes, which could range from horse-radish roots to animal pancreas. Liquid was added to the particles and the mixture was stirred after which the solution was extracted in a centrifuge.

"That solution, if the extraction conditions were correct, would contain all the emzymes which you were trying to isolate, plus all sorts of additional proteins which form your contaminants.

"The whole game from then on is to remove the contaminants without destroying your enzymes. These are temperamental creatures, susceptible to high temperatures and have to be maintained in a 'cotton-wool' environment.

Mr McCallum said several different techniques were used to isolate emzymes. Some employed heating, others included salt fractionation and the adding of solvents.

"A more sophisticated and interesting technique was the method of chromatography where you select a resin which has positive and negative charges on it and adjust the conditions of your proteins so they also have positive and negative charges. You can pass the protein across the resin and the protein will selectively bond to the resin. Selectively washing the resin removes the contaminants to one contain and the protein you want to another."



Deryck McCallum ... keeping ahead.

Filtration under high pressure using membranes was also employed.

"The difficulty in this field is that you are always trying to keep that one step ahead of your competitor," he said.

"Everyone in this field is always trying to put out a product of a much high specified activity — that is the highest purity possible and the lowest level of contaminants.

"When I started here if we had an emzyme with contaminants of 10 percent it was considered a great product. Nowadays we consider 0,005 percent as an acceptable contaminant level."

However, this had meant that both the complexity of techniques and manufacturing costs had risen progressively.

"Many years back we had the advantage of low-priced raw materials and low-cost labour. But these items are not so low-cost relatively to world prices today.

"I think our big advantage today is that over the years we have developed technology in the field of protein isolation which is perhaps unique and superior to those of many of the other manufacturers in the world."

He paid tribute as well to his coloured workers for their high level of skills which had also contributed to the company's sucesses.

"Biotechnology is the most rapidly developing field in the world," said Mr McCallum.

"If Serevac is to maintain its growth of the past three years in what is an extremely competitive and technically advanced market it will require innovative thinking and innovative new products."

He said Serevac was seeking raw materials which were unique to South Africa or were abundantly available and regarded as waste products, and which would give it an edge in the world markets.

Mr McCallum is married, has two children and for relaxation does a little sailing. He also, from time to time, spends a weekend on a farm he rents in Karoo near Matjiesfontein enjoying the peace and quiet and the isolation.

Investors scramble for riches

Cape Times 14/12/87

JSE volume rises to 3-bn shares

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From LIZ ROUSE

JOHANNESBURG. — In spite of the October market crash, the volume of shares traded on the JSE in 1987 has risen to over 3 billion shares with a total value of almost R20 billion, topping 1986's record 1,6 billion shares and value of R11,5 billion.

It is a far cry from 1985's volume of 955,8m shares worth R6,4 billion and 1984's 644,4m shares worth R3,7 billion.

During the year records have tumbled in a public investor scramble for paper riches, while the record number of new listings have created instant millionaires as a plethora of smaller companies were floated.

The market has, as in the 1968 boom, been dominated by a man-in-the-street scramble for quick profits, exaggerated by negative interest rates.

The result was that average price a share dealt on the JSE in 1987 declined to R6,20 a share from R7,20 a share in 1986.

New listings

The JSE board swelled to 835 shares as 230 new listings made their appearance, chased by about R1bn funds from the public and institutions — until the crash on October 19.

In 1986, 68 new companies were listed. The late 1960s boom resulted in 73 new listings in 1968.

Massive subscriptions of over 100 times became the order of the day and first days were festive for the stags who reaped profits of as much as 140%.

The spate of listings created a fat-cat financial sector in the economy. Beneficiaries were merchant banks, broking firms, advertising agencies and printers which handled the prospectuses, PR firms which whipped up enthusiasm for the companies, sifting through to newspapers which printed reams of prospectuses.

The year was also marked by big mergers and local buy-outs of large international interests.

There were comparatively few rights issues by major league groups, who needed little outside funds for capital spending as most industrial sectors operated well under capacity.

Equity-market frenzy

But it was easy for companies to offer rights in subsidiaries at high market-price levels.

Equity-market activity built up to a frenzy in July when 311,8m shares worth nearly R2bn were traded that month. Dealing fell off slightly to 296,6m shares worth R1,7bn in August, gearing up tp 339,5m worth R2,2bn in September and 354,5m shares worth R2,6bn in October.

But October's record volume also reflected the panic selling which set in on October 20.

Initially it was believed that the SA equity market was not so vulnerable to the computerised world market sell-off triggered by Wall Street.

But Diagonal Street was no island and indices came tumbling. Hundreds of millions were wiped off the ordinary share board, whose value peaked at R300bn in the June quarter and had already declined to R257bn by the end of September.

The platinum sector, where developing mines had been a punters' delight in previous months, shed over 55%. De Beers, strongly linked to the Dow Jones index, lost 54,3%, the all-gold index declined over 42% and the mining house index gave up nearly 49%.

Electronics

The industrial and financial indices held up reasonably well initially as the shares were not subjected to overseas selling. However, the overheated industrial sector had to succumb, if only on technical factors. Some industrials were massively overpriced, in particular certain DCM listings, and hi-tech shares on PE ratios of as high as 70.

The overpriced electronics sector plunged 60% and average dividend yield rose to a more realistic 2,2% from the pre-crash 1,3% while earnings yield increased to 7,4% from 4,7%.

Similarly other industrial sectors reflected better values. The industrial holding sector's average dividend yield widened to 4,3% from 3,3% and earnings yield rose to 7%.

The financial index lost 44,6% and average dividend yield rose to 5,4% (4,7%) while earnings yield improved to 10% (8,3%).

In spite of the savaging of the equities market, in a climate of negative interest rates, most analysts recommend keeping a selective portfolio of golds, mining financials and industrials.

Volkskas enters home loans war

BDay GREETA STEYN 15/12/87

VOLKSKAS is preparing for battle in the home loans war next year — but the bank is adamant competition will not sour relations with UBS Holdings.

Volkskas MD Koot van Vuuren said the bank wanted to enter the market primarily to protect its client base. There was a risk Volkskas clients with bonds at other institutions could be wooed away from the bank through cross-selling, he said.

"Building societies have begun marketing bank products and banks cannot just sit still and watch their client base shrinking," Van Vuuren said. He did not foresee Volkskas would be as aggressive as the Standard or Nedbank, or that it would try to lure away clients from building societies.

The United, too, rejected suggestions that Volkskas's entry into the home loans market was surprising in view of the links between the United and Volkskas.

United Bank GM Arrie van Vliet said United Bank planned to introduce cheque-book facilities next year, which meant another area of competition with Volkskas. "All the institutions are separate within the same family," he said.

UBS Holdings has 20% stake in Cusaf

(58) B/day 15/12/87

CHERILYN IRETON and HELENA PATTEN

UBS Holdings has confirmed the R38m acquisition of a 20% shareholding in composite insurer Commercial Union of SA (Cusaf).

● BADENHORST

A joint announcement says UBS will get its stake through the issue of 2-million new Cusaf shares at yesterday's closing price of R19 each.

Cusaf MD Bill Rutherford says the tie-up — which has been the subject of market speculation for a number of weeks — has been approved in principle by Cusaf's major shareholders, but will be subject to the approval of all shareholders.

A general meeting has been scheduled for February 4 next year.

While the transaction is effective from January 1 1988, UBS will not participate in the group's final dividend for the year to end-December 1987.

Rutherford says the deal will have no immediate effect on earnings for either party but is expected to reap long-term benefits for both.

Rutherford adds the R38m cash injection will be a boost to Cusaf's already substantial financial reserves.

UBS will initially have the right to one seat on the Cusaf board of directors.

The issue of new shares will leave Commercial Union of the UK's holding in Cusaf at 36%, while Goldfields of SA's shareholding will be reduced from 30% to 24%.

UBS CE Piet Badenhorst said last night his organisation's client base would be used by Cusaf to market its products.

UBS is linked to about 30% of existing bond-holders, which will be of tremendous advantage to Cusaf, even if it can only tap into a small percentage of this market.

In turn, UBS will have access to "a pool of insurance expertise".

UBS will continue to run its own insurance company whose business is linked to property.

ARGUS 11/12/87 (58)

Rand hits year's high, gold at $494

Business Editor

THE value of the rand edged up to almost 52 American cents today and was quoted at a 12-month high of 51,65 cents in Johannesburg, up from 51,30 cents. The rand eased later to 51,40 cents.

It was boosted by a rise in the gold price above $490, which followed a fall by the dollar to new lows on news of a record United States monthly trade deficit of $17,6-billion for October.

The rand also gained slightly against sterling being quoted at R3,58 for £1 after last night's $3,59.

GOLD JUMPS $10

The financial rand rose to 33,50 US cents from yesterday's 32,88 cents.

Gold traded around $494 an ounce today in Hong Kong — a $10 jump in 24 hours.

The price slipped to $491,50 later at the opening in London, up $3,75 on yesterday's close.

Bank credit used to finance R1bn of deficit

CAPE TIMES 17/12/87

From HELENA PATTEN

JOHANNESBURG. — Government, going against an accepted economic principle, used bank credit to finance its deficit to the tune of just over R1bn in the first six months of the fiscal year.

Figures in the Reserve Bank's latest quarterly bulletin show the banking sector accounted for R1,073bn, or just over 21% of the deficit financing of R5,049bn from April to September this year.

Davis Borkhum Hare economists describe government's use of bank credit as contravening one of the "sacred cows" of disciplined fiscal financing.

"The use of bank finance, of course, increases the monetary base with an expanding effect on the money supply and possible inflationary consequences," Davis Borkhum Hare says in its latest Economic Research.

Slippery slopes

It warns that the SA economy could "be on the slippery slopes of 'Latin American' deficit financing policies with adverse long-term effects on interest rates, the exchange rate and inflation," and calls for immediate action to restore discipline in State financing and spending.

The Reserve Bank bulletin shows that the quarter-to-quarter rate of increase in money supply has accelerated appreciably from 5% in the first quarter to to 15,9% and 14,1% in the second and third quarters respectively.

As a result, M3 money supply at the end of September fell within the targeting "cone" for the first time in the 1987 targeting year.

In excess

Referring to government spending, the Bank said expenditure for the first seven months of the fiscal year had been "significantly in excess" of the budgeted increase of 16,2%. Government spending increased by 19,1% from April to October this year.

Aggregate government expenditure rose by as much as 23,7% in the first quarter of 1987 compared with the same period last year, and more moderately by 18,7% and 20,1% in the second and third quarters of this year.

Other highlights in the report include:

- The surplus on the current account of the balance of payments declined further to R5,4bn, from R7,2bn in the first quarter of 1987 and R5,8bn in the second quarter. But the third-quarter figure still amounts to more than 3% of GDP, compared with an average 4,5% since the beginning of 1985.

Weakness

- The disappointing overall growth in the third quarter of 1987 was caused almost entirely by weakness in the agricultural and mining sectors.
- Bank credit has remained sluggish despite the seasonally adjusted annual rate increase to the private sector from 8,2% in the first half of 1987 to 13,6% in the third quarter.

Cit Times 17/12/87 58

Building societies lose out to banks

Own Correspondent

JOHANNESBURG. — Three major building societies, after slashing rates for new loans while keeping old bond rates at higher levels, are in a Catch-22 situation as they try to build up market share while losing established customers.

Banking sources say the societies have miscalculated the sentiments of established customers, who are now increasingly switching to banks for lower rates. Nedbank is actively courting building society customers by cutting transfer costs by 50%, and the Trust Bank is reducing transfer costs on an ad-hoc basis.

The three big societies which charge lower rates to new borrowers than their existing customers are the UBS, the Allied and Saambou.

The managing director of Allied, Mr Alan Tindall, said that in the present economic environment it made "fundamental business sense" to charge differing rates to old and new customers.

"The older bonds were financed with more expensive funds which are still drawing interest while new bonds are financed with cheaper funds."

He said Allied did its utmost to keep rates on a par, but could not act against its better business judgment. "We have got to remain competitive; we have got to stay in the race."

Mr Tindall said the present economic environment, with cheap funds easily available, was to blame for the situation.

"But different rates for old and new borrowers are not a new occurrence. Three years ago, when funds were expensive, new customers were charged more than existing borrowers."

But retiring NBS MD Mr John Bennet, who accused the three building societies of being "immoral" in charging different rates, rejects this argument.

"It is sometimes said that old borrowers ought to pay a higher rate because the investors who initially backed those loans were — and some still are — getting a higher return on their money.

"This argument holds only where interest rates are falling and then at best the view is valid for a few months only," Mr Bennet said.

The focus in the bond war is shifting to the existing borrower, with the banks picking up millions in bond transfers from building societies. Exact figures are not available as the issue is regarded as "very sensitive".

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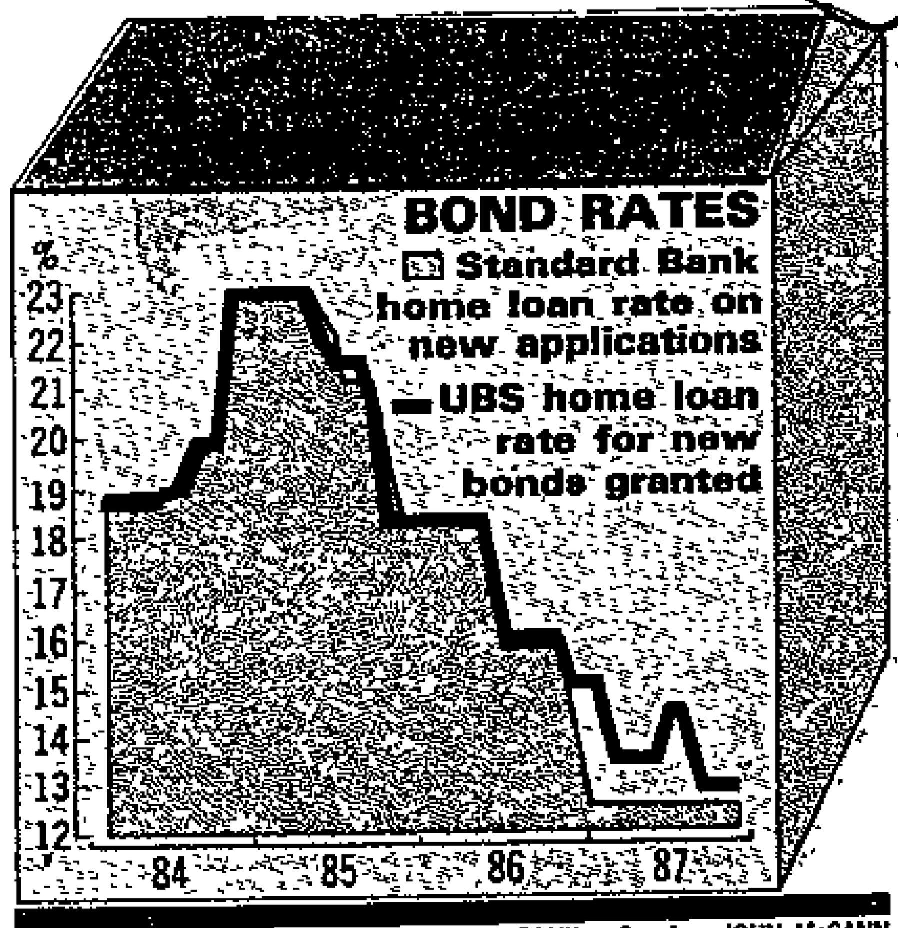
Bond war puts building societies into Catch-22 situation



Source: STANDARD BANK Graphic JOHN McCANN

GRETA STEYN

THREE major building societies, after slashing rates for new loans while keeping old bond rates at higher levels, are in a catch-22 situation as they try to build up market share while losing established customers.

Banking sources say the societies have miscalculated the sentiments of established customers, who are now increasingly switching to banks for lower rates.

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The three big societies which charge lower rates to new borrowers than their existing customers are the UBS, the Allied and Saambou.

Allied MD Alan Tindall said in the present economic environment it made "fundamental business sense" to charge differing rates to old and new customers. The older bonds were financed with more expensive funds which are still drawing interest while new bonds are financed with cheaper funds."

The Allied did its utmost to keep rates on a par, but could not act against its better business judgement. "We have got to remain competitive, we have got to stay in the race," he said.

The present economic environment, with cheap funds easily available, was to blame for the situation. "But different rates for old and new borrowers are not a new occurrence. Three years ago, when funds were expensive, new customers were charged more than existing borrowers."

Supporting Tindall's argument is Saambou MD Hendrik Sloet. "The more expensive long-term funds used in the past to finance loans are not yet out of the system," he said.

But retiring NBS MD John Bennet, who accused the three building societies of being "immoral" in charging different rates, rejects this argument.

"It is sometimes said that old borrowers ought to pay a higher rate because the investors who initially backed those loans were — and some still are — getting a higher return on their money.

"This argument holds only where interest rates are falling and then at best the view is valid for a few months only."

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CORPORATE DEBT LEVELS

Some are still strained

Many of the JSE's industrial companies have continued to hold large borrowings despite the trend over the past few years towards equity funding.

Rights issues, listing of new groups or their subsidiaries, and rising profits have enabled scores of companies to avoid increasing their loan finance and, in many cases, to bring borrowings down during the upturn. The accompanying table shows, however, that debt:equity ratios have in many cases remained high — even though the position may have eased when compared with a couple of years ago.

For most industrial groups, shrinking interest bills have been among the most important causes of earnings growth achieved over the past 18 months. This was derived both from reduced borrowings and from the plunge in interest rates since mid-1985. Further help from lower rates must now be highly unlikely.

Figures in the table were calculated according to the latest available audited balance sheets. It shows companies which had debt:equity of 50% or more when the balance sheets were drawn up, but also includes interest cover for the financial period concerned.

These figures have been conservatively calculated. Serviced debt is the total of interest-bearing long and short-term loans, redeemable preference capital and any convertible loans where there is an option to convert. Shareholders' funds include assets at historical cost basis, where applicable the lifo reserve is included, post-acquisition equity accounted earnings are excluded and cash holdings are not offset against debt. Shareholders' funds are not adjusted for the market value of listed investments. Interest cover is the sum of the interest payable on the income statement plus interest capitalised, dividend into pre-interest profit.

When looking at the table it is important to bear in mind that these figures relate to a particular time. When new balance sheets are published they are bound to show changes, and for some the changes will probably be considerable. The table goes as far back as December 1986 balance sheets. During the almost 12 months since then some will undoubtedly have taken steps to repay debt but the effects will only be shown when accounts are again published in a couple of months.

Some groups have significantly changed their financial structures by listings or assets sales. Among these are SA Bias and the Eureka group; Eureka and its associate Computermatic would have appeared in the top dozen on the list had they not benefited from a cash injection after the sale of Sequel shares to Fintech.

Messina, shown in third place with a gearing of 358%, has announced plans to hold a rights issue which will be used partly to reduce borrowings, but the timing and the method for the issue — it could involve a listing of the platinum interests — have been made uncertain by the stock market's fall. The Pickard group has been changed by a major restructuring, the effects of which probably have yet to be shown.

Another important consideration when considering gearing is the profitability of the group holding the borrowings. Debt:equity ratios are of only limited value unless cash flow is considered too — hence the inclusion in the table of interest cover. SA Bias has maintained borrowings at high levels partly because of the nature of its trade finance business, but its record of strong profit growth, resulting in a high interest cover of 6,7 times, shows it has had no difficulty in carrying its debt.

Gubb & Inggs, which has produced steadily rising profits from exports of wool, is in a similar position with interest cover at 2,9 times. Pepkor undoubtedly allowed its balance sheet to become stretched but did produce good interim figures a couple of months ago. Sappi, shown as having gearing of 127% at end-December 1986, is now benefiting fully from its expansions during earlier years and is in a phase of rapidly rising profits as was again underlined at the interim. Sentrachem

CORPORATE BALANCE SHEETS

	Debt: Equity (%)	Interest cover	Balance Sheet date
Schus	6 142,1	0,6	Feb '87
SA Bias	400,6	6,7	Dec '86
Messina	358,5	1,1	Dec '86
Burlington Ind	308,6	1,3	Dec '86
Gubb & Inggs	294,5	2,9	Jun '87
Rentmeester Beleggings	242,7	1,4	Jun '87
Pepkor	210,0	1,5	Feb '87
Dundee Industries	174,1	0,1	Dec '86
Omnia	171,0	1,3	Dec '86
Sentrachem	160,4	1,3	Mar '87
Advance Industries	149,8	0,2	Mar '87
Micor	139,3	1,6	Jun '87
Seardel Inv Corp	138,5	3,5	Jun '87
Landlock	137,2	1,4	Dec '86
York Timber	135,0	0,9	Dec '86
Pointer Fashions	129,4	5,0	Jun '87
Sappi	127,6	2,7	Dec '86
Amalgamated Retail	123,2	2,7	Mar '87
General Erect	119,8	0,9	Feb '87
Farm-Ag	112,6	3,5	Feb '87
Boymans	111,6	3,2	Dec '86
Punch Line	107,4	8,1	Dec '86
Television & Elec	107,0	2,6	Dec '86
Towles Edgar Jacobs	101,9	3,5	Jun '87
Putco	99,2	4,6	Jun '87
Long Distance	99,0	3,5	Feb '87
Canvacor	98,2	10,1	Nov '86
Masterbore	94,6	16,2	Feb '87
Toyota SA	93,4	1,6	Dec '86
Beares	93,3	2,3	Jun '87
Darling & Hodgson	92,1	0,6	Dec '86
Blue Circle	91,8	1,7	Dec '86
Press Supplies	91,0	1,5	Jun '87
Nictus	90,7	1,5	Jun '87
Laser Transport	89,9	7,4	Dec '86
Berzack Bros	86,1	3,7	Jun '87
Federale Volksbelegging	85,1	3,0	Mar '87
Bradlows Stores	83,8	2,8	Dec '86
Rusfurn	83,1	2,5	Jun '87
Dekro	81,7	2,4	Feb '87
Welfit Oddy	81,7	0,3	Jun '87
Silveroak Industries	79,4	1,5	Jun '87
Berkshire International	79,1	1,2	Jun '87
Basil Read	78,8	4,6	Jun '87
Hiveld Steel & Vanadium	73,5	3,5	Dec '86
Wooltru Ord	72,2	8,8	Jun '87
M & S Spitz Footwear	71,9	3,4	May '87
SA Breweries	70,8	4,8	Mar '87
Sterns Diamond Org	70,2	2,8	Mar '87
Sinclair	69,8	8,5	Jun '87
Mervest	68,0	6,3	Dec '86
Concor	67,7	2,2	Jun '87
Score Food	66,5	8,1	Feb '87
Plate Glass Ind	65,4	4,5	Mar '87
Anglo Alpha	64,7	2,6	Dec '86
Caxton	64,1	5,3	Mar '87
Duros Group	64,0	1,3	Jun '87
Tradegro	63,8	1,6	Jun '87
Pactape	62,1	9,4	Jun '87
Assoc Furniture Co	62,1	3,8	Mar '87
General Optical Co	61,5	6,3	Jun '87
Safmarine & Rennies	61,3	4,8	Jun '87
OK Bazaars	60,9	2,9	Mar '87
Morkels	60,5	2,2	Mar '87
Anglo American Ind Corp	60,3	7,3	Dec '86
Elcentre Corporation	60,0	5,2	Feb '87
Murray & Roberts	58,9	3,1	Jun '87
Delswa	57,3	7,3	Apr '87
Tongaat Hulett Group	56,9	2,5	Mar '87
National Trading	55,9	4,5	Dec '86
Waltons Stationery	52,4	11,7	Feb '87
CTP	52,0	4,2	Mar '87
Carlton Paper Corp	50,8	4,0	Dec '86
W & A Investment Corp	50,5	3,4	Dec '86

Source: Ivor Jones, Roy

is also in a recovery phase, and its position is actually more favourable than may appear from the table because it also held substantial cash balances.

Federale Volksbeleggings, shown as having a debt:equity of 85% but a solid interest cover of three times, is a conglomerate that is steadily recovering and is likely to publish a greatly strengthened balance after its next year end. Punch Line, now controlled by Fintech, is another company that has been earning profits high enough to comfortably support high borrowings. Motor leader Toyota, after taking a buffeting partly from foreign exchange losses, has achieved a powerful profit turnaround on the strength of a rising motor market and firm asset management. When its present financial position is revealed early next year, there will undoubtedly have been major progress from the stituation at end-1986.

However, there are also more than a few cases where weak profitability and ability to service unduly large debt remains a cause for concern. A dour fertiliser market would have constrained Omnia, for example, from reducing its borrowings. Putco, although shown as having an interest cover of 4,6 times, would certainly be better off with lower borrowings in view of the uncertain implications of the continuing deregulation of the transport industry. Engineering group General Erection has continued to struggle.

Not shown are companies in the Barlow Rand group, some of which might have appeared in the table but their latest annual reports were published too late for inclusion. By Barlow Rand's own reckoning, its gearing in the year to end-September has dropped from 63% in the 1986 year to 50%, and the interest cover has risen from 4,3 times to six times. Also excluded is the FSI group, known to be carrying considerable debt; its financial position will be clearer when the W & A offer documents are released.

In view of time lags and possible post-balance sheet events, these figures cannot be regarded as definitive. But they do offer a guide as to which companies have been carrying relatively large debt — and in some cases the amounts are clearly quite excessive.

And there is also a caveat for future earnings: in general, these are the companies which have benefited most from the fall in interest rates; when rates rise again — as they eventually must — the companies with high gearing and low interest cover will be the most vulnerable. On present indications, trading profits are expected to start showing slower growth rates during next year. Those that have not pared their debt sufficiently by that time may find it increasingly difficult to do so — particularly with the stock market no longer welcoming equity issues. In the present market JSE analysts are likely to focus more attention on borrowing ratios than they did a few months ago.

Andrew McNulty

ERGO

Dagga kicks in

The successful commissioning of Ergo's new Daggafontein carbon-in-leach (CIL) treatment plant will soften the forecast drop in the dump retreatment's profits after peak earnings are reached. Present forecasts are that they will peak in the 1989 financial year.

Ergo is not a popular investment choice among gold analysts because of the expected long-term drop in earnings. It results from Ergo's policy of treating the high-grade dumps first, while leaving the lower-grade dumps to be treated in later years.

Chairman Peter Gush, in his 1987 review, pointed out that the in-situ value of slimes delivered to the Ergo division has declined steadily from 0,80 g/t at the start of operations in 1979 to the present 0,58 g/t. The trend will continue, although Ergo has tried to offset this by improving gold recoveries. These have increased from 39% at the start of the operation to 58% at present.

A key contributor to the improved recoveries was the CIL plant built at the Ergo division. This was the forerunner of the CIL plant built at the Daggafontein division to treat the additional slimes reserves Ergo acquired through the joint venture agreement with East Daggafontein.

This plant, opened officially in October, has beaten all production forecasts and is the most successful gold treatment plant based on carbon recovery that Anglo has yet built, thanks in many instances to the experience gained from the first CIL plant built at the Ergo division. "It's a freak," jokes Ergo manager Phil Mostert. "We told everyone to expect all kinds of teething problems and delays in the commissioning process. Instead everything has gone smoothly with the plant exceeding target production volumes and recovery grades."

The Daggafontein plant was expected to reach a targeted throughput of 1 Mt/month at the beginning of July but instead reached that in mid-June and built up to 1,1 Mt/month by late August. These levels have been maintained and fixed as the plant's new rated capacity. Actual gold recovery rates have remained above target since the plant started treatment operations in April.

The result is that monthly gold production hit 260 kg in August, compared with a target of 190 kg, and is maintaining an average of 250 kg/month compared with a target of about 210 kg/month. That means the Daggafontein plant should kick in some 2 500 kg of gold to Ergo's production in the current year to March 31 compared with a forecast 2 000 kg, and should contribute 3 000 kg in the 1989 financial year. Estimates are that this level of gold production could be maintained for about five years before it starts to drop off.

That's good news for East Daggafontein, which gets 50% of the pre-tax profits after

MARKET TALK

Fintech/Computer Warehouse

Latest in the list of companies rumoured to be stalked by **Fintech** is **Computer Warehouse** (CW). This seems rather strange in view of the fact that Fintech took 10% of CW's issued shares before the listing and sold them shortly afterwards. In addition, Fintech subsidiary **Punch Line** took CW to court earlier this year about infringement of copyright.

Fintech CE Marius Furst says he cannot comment: "We have been talking to a number of companies," but Punch Line MD Barry Schechter is more emphatic: "We don't own any of their shares at present and don't intend to."

FSI/Waicor debt

Stockbrokers are curious to see the offer document for the **FSI/ Waicor** acquisition, due to be released on Monday night. Fears about the gearing of the group had again surfaced among market sources, but the press release (the document itself was not yet available at the time of going to press) says that debt:equity will improve from 0,92 to 0,56.

The offer closes on January 13, which should give shareholders enough time to decide what they wish to do. Certainly the offer document will make interesting reading. The W & A price fell by R3 on Monday, while Waicor remained untraded.

Triomf/Fosstik questions

The old **Triomf** shareholders have reason to think that that company takes the prize for lack of communication.

In terms of a circular dated March 20, shareholders were required to send their share certificates in to be exchanged "for certificates in the new name of Triomf." But on July 17 another letter on the Fosstik letterhead was sent stating that replacement would take some time and "we will communicate with you again as soon as possible."

Since then there has only been a reminder to shareholders who did not already surrender certificates that they must do so. A press announcement on July 30 stated that Twins Propan would be reversed into Fosstik, but nothing has been sent to the old Triomf shareholders.

According to Fosstik director K M Davidson, a circular was sent out in October, but secretary H Doeleman says a circular will be sent out when there is confirmation of the date on which the meeting will be held to ratify the Twins/Propan developments. When this will be seems very uncertain.

Hold in there Triomf shareholders — some day you may find out what those shares are worth.

Pat Kenney

18/12/87 FM

SHORT-TERM INSURANCE

Under the weather

Short-term insurers seem poorly prepared financially for the damage which hail and flood claims will inflict on their balance sheets in 1987. A survey of the results of 31 companies, by Quest Insurance Advisory Service, shows that underwriting profits in 1986 were eroded by an increasing ratio of claims to premium income.

Though the market was not hit by any man-made or natural catastrophe in that financial period, direct insurers made underwriting losses of R68,7m — second only to the record losses of R94,6m in 1985.

Of the listed companies, the biggest underwriting losses were those of Guardian National at R8,4m. This included losses of more than R6m in the miscellaneous portfolio on discontinued international professional indemnity business, underwritten by the company's UK parent, and is treated as an extraordinary item in the company's financial report.

Miscellaneous, which covers crime-related and public liability risks, was the industry's most badly hit portfolio, with losses of over R63m.

Also badly hit was the fire portfolio covering all special perils, which lost over R10m.

But this was not the industry's only problem. Underwriting losses were compounded by falling technical reserves which reduced the source of investment income.

Between 1981 and 1986, technical reserves of short-term insurers fell from 64% to 55,3% of net premium income — due to "the growing tendency of most insurers to underwrite monthly policies." This practice eliminates the need to keep funds in reserve for the unexpired portion of yearly insurance cover, thus reducing premium funds (which form part of technical reserves) from 35,3% of premium income to 26,6%.

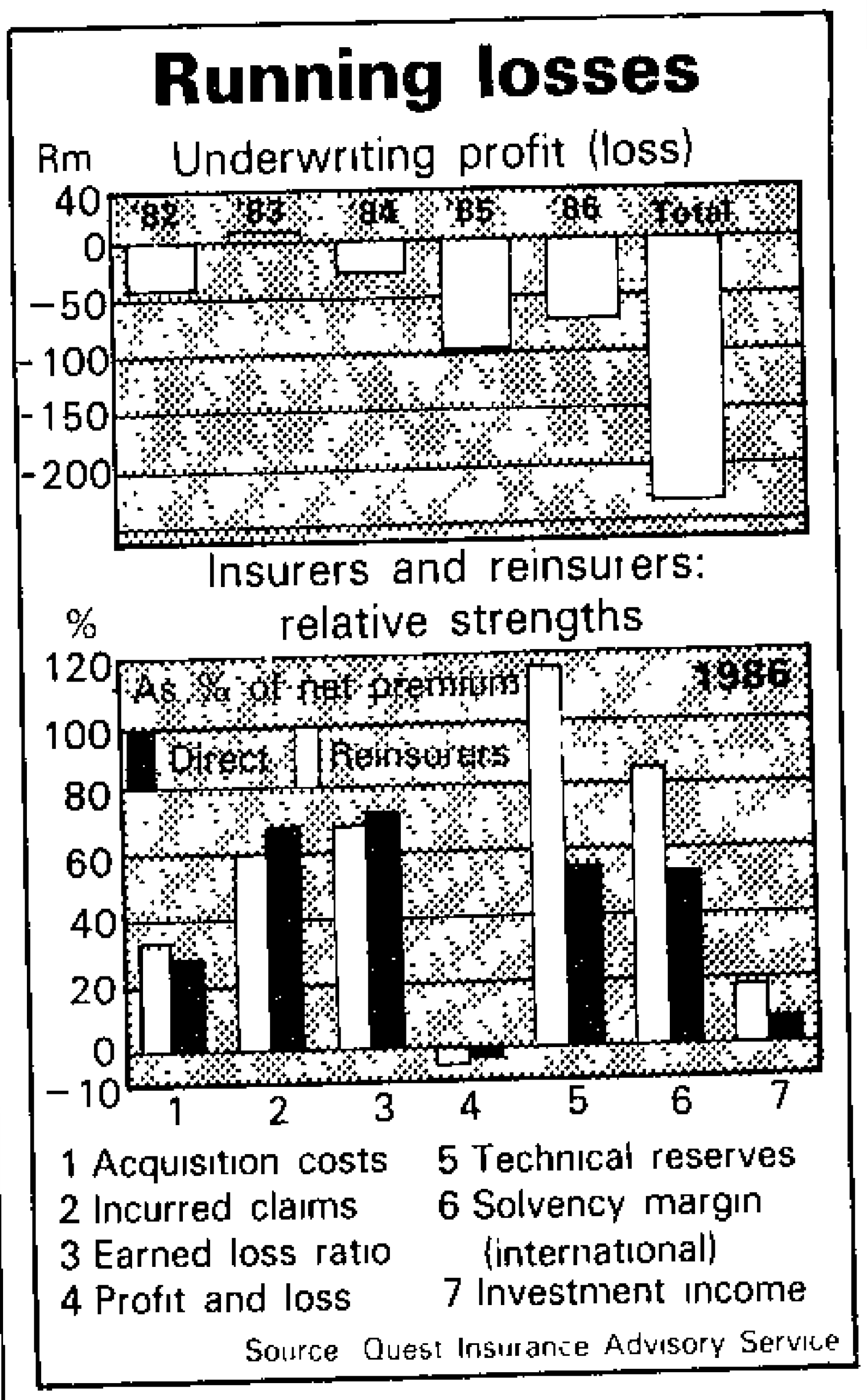
The combined effect, on direct insurers, of underwriting losses and lower investment income was an overall profit of only 4,7%.

Reinsurers, on the other hand, returned their best results since 1979. Badly hit by the ills of the industry in 1984/1985, they imposed more stringent conditions when renegotiating treaties with insurers in 1985. Consequently, underwriting losses fell 29% from R13,6m in 1985 to R9,6m in 1986.

At the same time, their careful husbandry of technical reserves — which rose from 83,5% of net premium income in 1981 to 117,5% in 1986 — generated increasing investment income.

As a result, combined underwriting and investment income produced overall profits of 12%.

Which is as well, because 1987 may prove more trying for reinsurers than insurers.



Until September, the outlook for the latter in 1987 was encouraging. Since then, disastrous events have seemingly marched out of nowhere: floods in Natal, an explosion at Sappi's Ngodwana paper mill in the eastern Transvaal, the Mauritius Boeing disaster, and a series of hailstorms in the densely populated PWV area.

In these circumstances it is reinsurers who absorb the immediate impact of claims. Though they ultimately recoup their losses by increasing premiums, it is (largely offshore) reinsurers who put most of the money upfront to cover the costs of catastrophe.

The direct insurers are cushioned from the blows. Moreover, they have had the benefit of increased premiums and many may well end the financial year still showing an underwriting profit. They will, however, have to face increases in the cost of reinsurance facilities. With no margins in which to manoeuvre, they will doubtless pass this on to the consumer.

So there is no room for comfort: 1988 is bound to see another round of premium increases. ■

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NEDBANK

Recuperation continues

Activities: *Banking and financial services group.*
Control: *SA Mutual holds control.*
Chairman: *O F P Horwood; chief executive: P J Liebenberg.*
Capital structure: *156m ords of R1 each; 1,1m "A" ords of R1 each, partly paid.*
Share market: *Price: 550c. Yields: 6% on dividend; 16,4% on earnings; PE ratio, 6,1; cover, 2,6. 12-month high, 860c low 540c. Trading volume last quarter, 3,5m shares.*
Financial: *Year to September 30.*

	'84	'85	'86	'87
Advances (Rm)	9 088	10 642	9 048	9 768
Total assets (Rm)	12 825	14 561	13 785	14 305
Taxed profits (Rm)	105,1	91,3	79,7	132,8
Attributable profit (Rm) ..	105,1	91,3	79,7	132,8
Earnings (c)	117,2	101,5	74,8	85,1
Dividends (c)	68,0	60,0	30,0	33,0

Nedbank's Van der Merwe-Vance . . . adequate provisions

There is every reason for Nedbank executives to be proud of the group's performance for the year to end-September. Not only did profits increase but so, too, did bottom-line earnings, despite the dilution caused by the large rights issue.

Nevertheless, shareholders who took up their rights, notably major shareholder Old Mutual, must still see the group as having a way to go. The issue was at 630c, some 14,5% above the present 550c, though well below the peak of 860c reached in June this year. Earnings are still way below 1985's 101,5c, let alone the record 121,6c of 1983.

What will it take to get earnings back to their previous highs? That there should be no further increase in issued shares this year should help, as EPS should climb by the same percentage as taxed profit. In the past year, the dilution meant that the 77% increase in taxed income was reduced to a 14% EPS advance.

Another advantage is the improvement in the bad debt situation. Last year saw a sharp fall in provisions from R95m to R58,7m and a further improvement should take place this year. The problems of Triomf have been solved and, according to Nedbank CE Anton van der Merwe-Vance, provisions for this account made in the 1986 financial year were adequate. Though the debts of the Lubavitch Foundation remain a problem, Van der Merwe-Vance considers that these, too, have adequate provisions.

The improvement in the commercial bank's operations was a major factor in the increase in group profit, as Nedbank raised its taxed income by R31m to R86,1m. The expected upturn in the economy and increasing demand by companies for loan rather than equity finance now that the stock market has crashed, should help, though it will be hard to equal the 177% rise achieved last year.

UAL, which managed a 62% rise in taxed profit, could also have a problem in equalling this pace of growth now that the stock market has peaked; CE Geoff Richardson suggests that "our aim to achieve real growth in profits will be a major challenge."

Another important factor will be the profits of Finansbank. These were included for the first time in 1987, adding R9,1m to group taxed income. In the present year, Finansbank expects to show healthy growth in profits, but this will have considerably less impact than the first time inclusion.

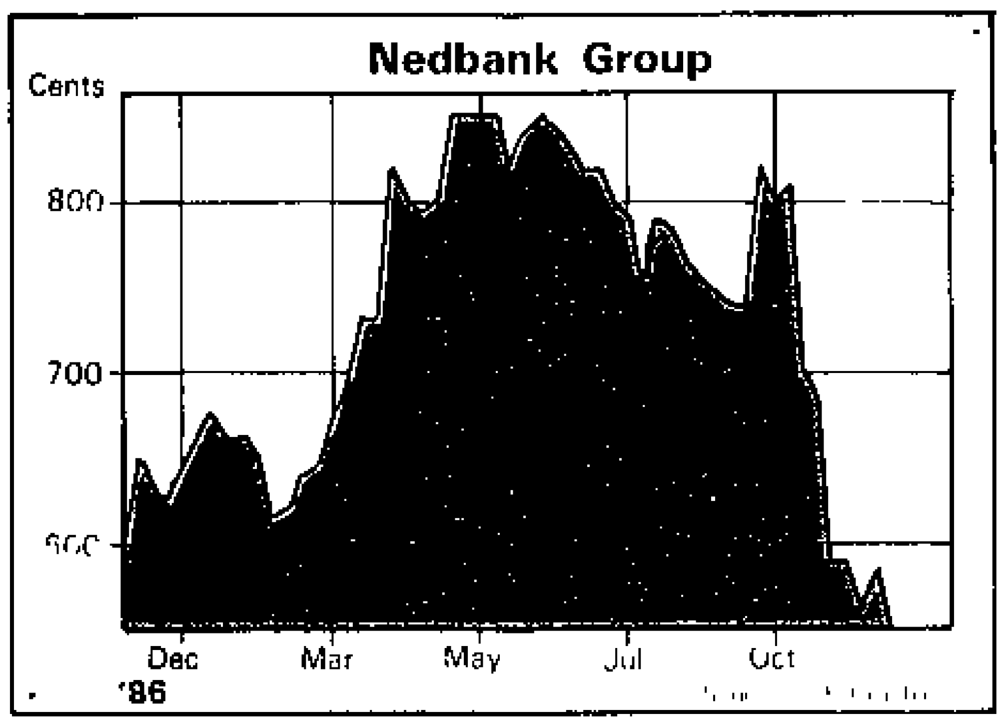
Areas where there is room for major improvement are Nefic and Nedfin, but these contribute only 6% and 2% respectively of group profits. So although sharp rises are expected in these areas, they will not be enough to compensate for lower growth in other divisions.

According to group CE Piet Liebenberg, Nedbank is still at the stage of a very strong consolidation. "There will be no dramatic new development this year. We shall concentrate much more sharply on our traditional markets." The home loan market, which Nedbank is alleged to have entered recently, has actually been a service provided for some time to Nedbank customers. "We are serving the needs of our existing customers," says Liebenberg.

An important factor, especially for the commercial bank, will be interest rates. Liebenberg feels they are likely to stabilise and harden slightly. "I feel on balance that it will be quite a good year," he says. And fortunately that goodness will go straight into EPS increases.

After the substantial weakness of the share, Nedbank yields 6% on dividend, about the same as the banks and financial services sector average of 6,1%, but higher than First National (5,5%) and Volkskas (5,5%) and well above Stanbic (4,3%). Once EPS start showing signs of moving at a significantly faster pace, the share should move closer into line with its major competitors — but that stage may be a while in coming.

Pat Kenney



deducting on-going capital expenditure. Mathison & Hollidge gold analyst Hilton Ashton prefers East Dagga to Ergo, rating the latter a hold but recommending East Dagga as a buy; this is based on the earnings flow from the Daggafontein plant combined with its controlling shareholding in mining exploration company, Rand Extensions.

Ashton says that while Ergo's profit profile looks rather unexciting on the current projects, one attraction of the shares that cannot be accounted for is that Anglo, faced with declining profits from Ergo, could be tempted to tag another new project onto it.

Tax base

"Since it does not have a boundary, Ergo is not constrained by the question of contiguity," he says. "It could, theoreticaly, be used as a tax base for any new venture within SA."

Ergo made pre-tax profits of R118m in the year to end-March 1987. As Ashton points out, this is a useful tax base on which to base a new mining venture. One potential new venture depends on the outcome of the drilling taking place south of Simmer and Jack. Simmers has an agreement with Ergo over the running of the Simmergo dump treatment plant and mining of the shallow ground at the mine, and a separate agreement with Anglo for the deep level exploration work. It is not inconceivable that Ergo could get involved in any development of a deep-level mine should the results of the drilling work justify it.

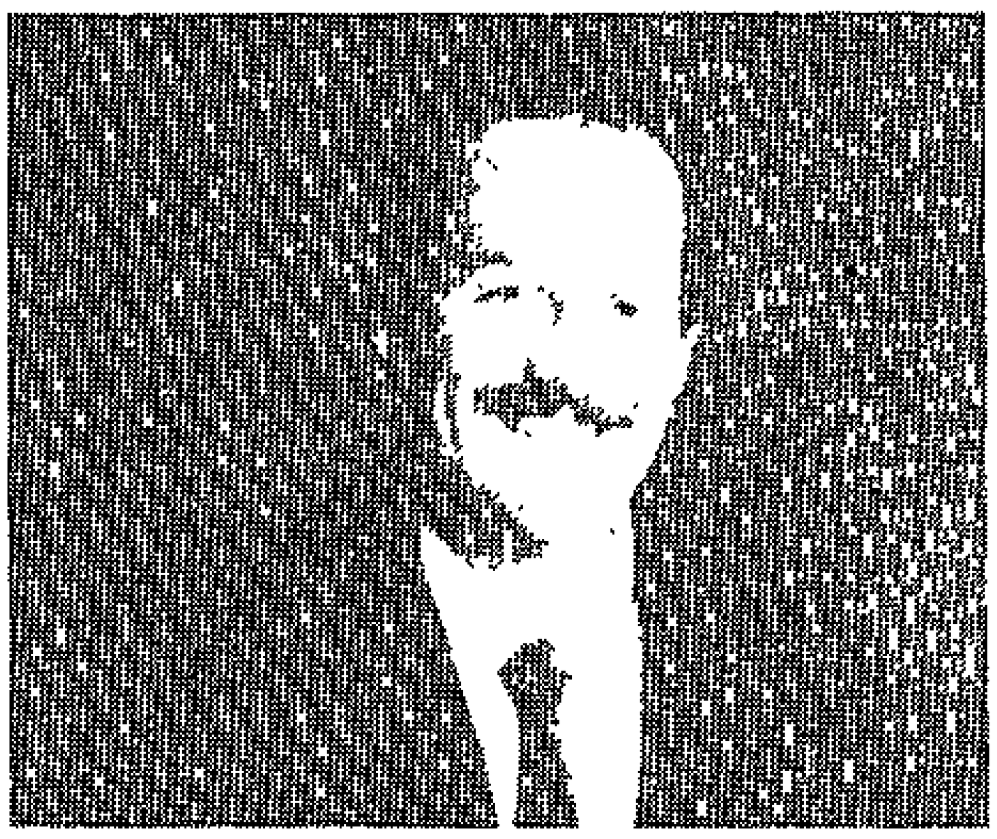
Brendan Ryan

BROKERS

Mystery talks

The Brokers affair appeared this week to be heading towards a climax that would at last offer some form of resolution for minorities. But the limited amount of information so far disclosed was simply raising more questions than answers.

According to the reports published, the controlling directors have agreed to hand over their majority shareholdings to an as yet unnamed consortium. They have apparently reached an agreement to this affect with a lawyer, one C F Myburgh, said to be representing a number of minority shareholders.



Brokers' Courtney ... gone overseas

The extraordinary aspect of this is that the key director, Stephen Courtney, is said to have agreed to give up his interest for no consideration. Whether this suggests that he was concerned to avoid potential insolvency, that there were some even more serious concerns, or that he simply felt he could no longer carry on business is unclear.

Apart from holding the largest stake in the listed Brokers, Courtney also holds some 52% of unlisted Brosec and about 50% of unlisted Brovent. Brokers' share has been suspended since September, when it last traded at 87c. In calculating the value of the Brokers share, the share prices of the group's two listed investments — Long Distance, in which it holds a direct 10% stake, and Transvaal Mining, in which Brosec has a 32% stake — would be important factors.

The decline of the stock market, and the prices of Long Distance and Transvaal Mining since September, undoubtedly mean that Brokers would no longer be valued at 87c. In effect, the market value will remain hypothetical until JSE president Tony Norton and his committee regard the "quality of information" in respect of Brokers as adequate enough to justify ending the protracted suspension. Clearly the JSE will have to give its approval to any final agreement. "Hopefully, it's good news," Norton comments.

Virtually none of the parties concerned was available for comment when we went to press. Notably, Courtney and Myburgh were both said to be overseas, while the lawyer who we were told is representing the consortium said he was going abroad later this week. A major merchant bank is involved in the negotiations but has not yet been identified. Horace Sammel confirms that agreement has been reached for an out-of-court cash settlement to his case brought against the Brokers directors, but denies that he will receive any stake in the company. Meanwhile, a police investigation into the affair continues.

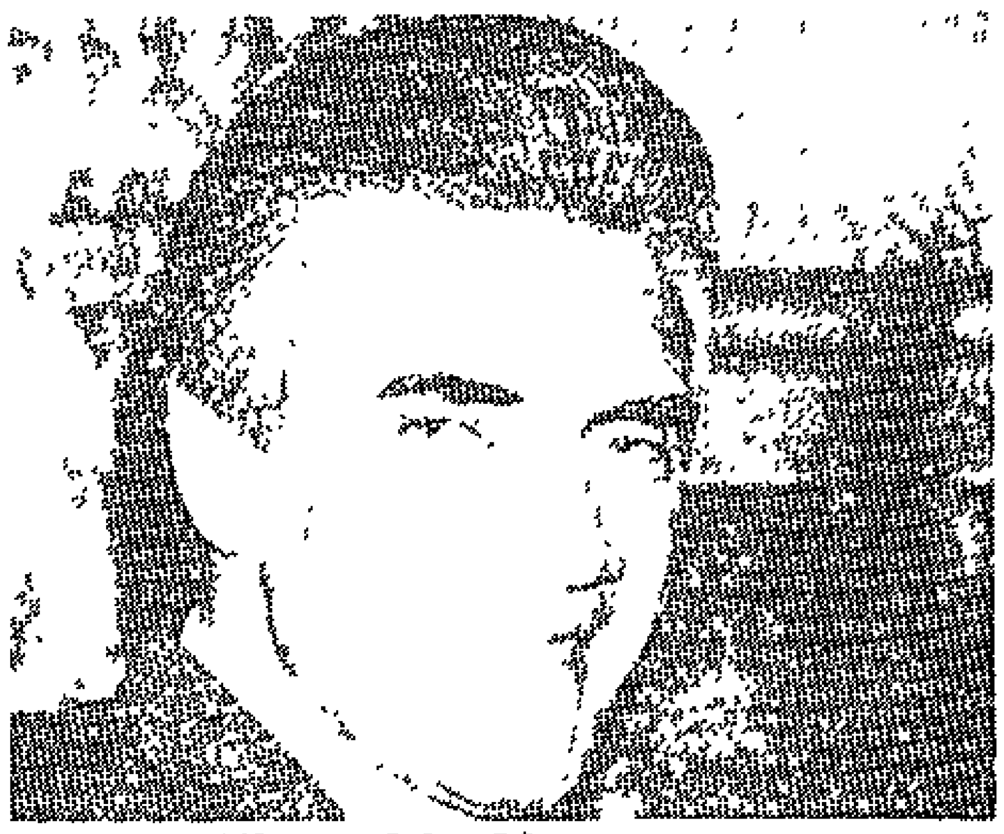
Dave Edwards

FINTECH/SEQUEL

Deal explained

Since the release of results from C-Matic and Sequel, the wisdom of Fintech's purchase of Sequel from C-Matic has been questioned — especially as it happened at the top of the JSE boom C-Matic is now sitting on some R11m cash and Sequel came up with pre-tax interim profits only 48% of the total for the year to end-February 1987.

Fintech chairman Bill Venter says he regards the Sequel purchase as an excellent buy. "We paid part in cash and part in Fintech shares. We also bought another 14% of Sequel from the Sequel Management Consortium. Our total cost was R28m, of which R16m was cash and R12m Fintech shares at a p:e of 40, whereas Sequel was on a p:e of half that," he says. On this basis, the p:e actually paid by Fintech was 19, based on historic earnings for the year to end-February 1987 "The price on the market was R4, but we actually paid R2 per share," says Venter. As the cash was put up by Altech, Altech now owns 36% of Fintech.



Fintech's Venter ... long-term strategy

Industry sources go further — it would have taken five years to build up a company from grassroots. The disappointing interim taxed profit of only R900 000 was made before the deal, and many — some suggest the cream — of C-Matic's activities were only injected into Sequel after March 1. Sequel expects to exceed the R2m prospectus earnings forecast in the current year and to make R4,5m-R5m in taxed profits next year (a forward p:e of nine on purchase price). Further profits are expected from sales of certain Rank Xerox products and STC business systems through Sequel outlets.

Venter says Sequel was bought as part of a long-term strategy for Fintech. "We wanted our own distribution capability in the computer market — companies with significant market share, a high reputation and excellent distribution record in the corporate market, in the retail market and in the wholesale market," he says. "On the wholesale side the answer was Punch Line. Sequel is a leader in the corporate field and, because we bought it, and people realised that we would be a force in the computer industry, we managed to get other companies — Unitech, which we had targeted for our retail operation, and others with whom we are still talking."

He is particularly pleased with the young, aggressive management the group has acquired: six top computer experts in Unitech and another eight in Sequel.

Of course, the cash paid in the Sequel and Unitech deals is not large for Altron, which still has R180m cash, mostly in Altech. Obviously, Fintech's acquisitions have not ended. Venter is believed to be aiming at several other companies. He wants one in the mainframe software field, a mainframe company, a company in super-minis and a data communications company. The mainframe possibilities are limited and speculation is rife about his target.

One thing is sure: there will still be plenty of action in Fintech if Venter and Fintech MD Marius Furst are to succeed in making it into "the IBM of SA." Meanwhile, Fintech's sales should be R250m this year and perhaps as much as R600m next year.

Pat Kenney

Clash threatens Islamic bank

BD 21/12/87

HELENA PATTEN

THE emergence of two groups competing for a licence to operate an Islamic bank in SA has stalled the granting of such a licence by the Reserve Bank and may even wreck the chances for "no-interest" banking in this country.

The two parties — the Islamic Corporation and a party led by Advocate A B Mahomed — have been advised by the Reserve Bank to agree together on a common approach and just one application.

The Reserve Bank might well have to discard the idea altogether if the parties could not come to an agreement, said senior deputy-governor Japie Jacobs.

Ebrahim Kharsany, CE of the Islamic Corporation, said he was awaiting a letter from Mahomed's group requesting a meeting between the two parties. Until then no decisions could be made, he said.

He expressed reservations about suggestions made by Ahmed Elnagaar, chairman of the international Association of Islamic Banks supporting Mahomed's group.

Kharsany is concerned that control remain in local hands and is sceptical about a proposed $100m foreign injection by supporters of Mahomed's group.

The Islamic Corporation would go ahead with its plan to issue new capital next year, "licence or no licence", he said.

Gauntlet thrown down to banks

58 B/day 27/12/87

UBS trims loans rate to 12,5%

HELENA PATTEN

THE United Building Society has thrown down the gauntlet to banks by equalling the cheapest mortgage rates now on offer.

In the latest development in the home loans war, the UBS has matched for new borrowers the 12,5% being offered by the five big banks. The move, which takes immediate effect, has been expected for some time.

Yesterday's announcement that UBS would drop its rate from 12,95% — already the lowest among the building societies — followed less than a week after it said it would be extending lower rates — 13,5% down from 14% — to existing borrowers from March 1 next year.

The UBS move will stiffen competition in an already cut-throat market.

Banks, through their lower rates, have in recent months been able to capture a significant proportion of the new home loan business being written at the expense of the building societies and have indicated they intend to run their collective new business considerably higher next year.

Other societies may find it difficult to match UBS — the SA Perm now charges two percentage points higher than does United on new business.

UBS CE Piet Badenhorst said the new low rate had become possible through a gradual reduction in the cost of financing home loans on the market. "We are the largest provider of home loans and are fully conscious of the enormous franchise we have with the home-owner.

"Providing financing to the broad spectrum of aspirant home-owners in this country remains the United's most important business activity. We will continue to ensure the lowest rates are available and that they are kept at a stable level so home owners are not subjected to insensitive adjustments when they can least afford it."

UBS drops mortgage rate on new bonds

28/12/87

By Magnus Heystek, Finance Editor

The United Building Society has responded to the growing challenge posed by banks by dropping its mortgage rate for new bonds to 12,5 percent. This now matches those generally available at most leading banks.

This follows the announcement last week that existing bondholders will have mortgage rates reduced from 14 percent to 13,5 percent from March 1.

Industry spokesmen say the latest move by UBS, South Africa's largest building society, was in response to apparent large scale switching of bonds — especially larger ones — from building societies to banks.

Nedbank announced recently, in a bid to woo business from building societies, that it would pay 50 percent of the costs to switch bonds of certain clients.

Making the new announcement last night, Mr Piet Badenhorst, UBS chief executive pledged to ensure that the lowest rates were available.

First National Bank chairman Mr Basil Hersov has denied that banks intend withdrawing from the home mortgage market should demand for credit elsewhere in the economy pick up.

Offensive from UBS in home loans war

26645 22/12/87

By TOM HOOD
Business Editor

THE home-loans war intensified today as South Africa's largest building society, the United, joined two small societies, Saambou National and Eastern Province, in offering bonds at 12,5 percent to new borrowers.

This matches rates offered by the commercial banks, except that the UBS and some societies charge more to existing borrowers.

And Mr Basil Hersov, chairman of First National Bank, disclosed that the bank intends doubling its home-loans portfolio to R3-billion by next September from R1,5-billion at present.

UBS's new rates for new borrowers — from 12,95 to 12,5 percent — will take effect immediately. Existing borrowers will receive a cut of 0,5 percent to 13,5 percent from March 1.

Chief executive Mr Piet Badenhorst said the reduction became possible through a gradual reduction in the cost of financing home loans.

The Natal Building Society sees the latest UBS cut as "discriminating against existing borrowers," according to its Transvaal regional manager, Mr Terry Bradshaw. He said the NBS would adjust its rates "at the first opportunity".

The Perm, with an across-the-board bond rate of 14,5 percent, had no comment on the UBS move.

● Property Argus will be published with tomorrow's newspaper.

58 B/day 23/12/87

Crash 'will affect inflation and growth'

LISE BOSMAN

THE recent global share correction has ramifications for worldwide inflation and growth, says Menell, Jack Hyman, Rosenburg and Co in its latest report on the outlook for precious metals.

The two principal factors influencing the prices of precious metals are inflationary expections in the Western world and the global level of economic activity. The price of gold is dominated by the need to hedge against inflation whereas platinum and diamond prices are more dependent on industrial demand.

The report says there are three scenarios for the future after the global stock market crash:

- A large-scale snowballing credit contraction and consequent severe recession, with people reluctant to borrow money for fear of being caught out a second time on the stock exchange;
- Prevention of a downturn in the US economy by the American government before the presidential elections, with people running up new credit;
- Co-ordination of global economic policies by using gold and a basket of commodities as early-warning indicators of inflation, thus reducing the volatility of movements in precious metal prices.

The report says a substantial rise in the gold price will result in a tightening of monetary policy. A drop in the gold price would see a loosening of credit. It would, therefore, be unlikely that the gold price would rise astronomically for the rest of the decade, as it did in the seventies.

"All one can say conclusively is that there is a significant probability of the gold price and other precious metals continuing their bull trend in the year ahead."

The report says that movements in the gold price may provide a lead for either a period of inflation or deflation.

Banks, building societies urge consumers to use credit

23/12/87

Money lending war hots up

Consumers are being inundated with offers to spend more on credit as competition between banks and building societies intensifies.

Spokesman for leading financial institutions say the fierce rivalry is to the benefit of the man-in-the-street who can shop around for the best interest rates.

However, they cautioned against expecting a massive credit-spending spree, saying lenders and borrowers did not want a repeat of the situation a few years ago which saw many people unable to afford repayments when interest rates went up.

In recent weeks, many credit-card holders have received letters from their banks advising them of higher credit limits, while some building societies are heavily promoting their competitive new hire-purchase and personal-loan facilities.

Many retail chains are offering clients easy pay-back facilities, including the Dion group which previously operated on a cash basis.

Campaign to attract borrowers

The cash liquidity of the past few months has also led to an intensification of the battle between banks and building societies in the home loan market, with new buyers now able to negotiate loans of as low as 12,5 perent.

One of the major contenders vying for business is the United group, which has launched an aggressive marketing campaign to attract customers to take advantage of its new banking facilities.

Mr Neels Scholtz, general manager of the United Bank, said the competitive rates being offered on hire-purchase deals were part of the group's broad marketing strategy.

"As a group, home loans are our main business and they are currently under attack by the banks," he said.

"The more successful we are in attracting HP business away from the banks, the more the banks will feel under pressure, and this will obviously help us."

Mr John Rickson, a general manager of Stannic, said there was no doubt that competition was becoming increasingly stiff.

"The economy is not growing sufficiently. All the groups are trying to hold relative market share, and the banks are moving into areas that were not priorities in the past."

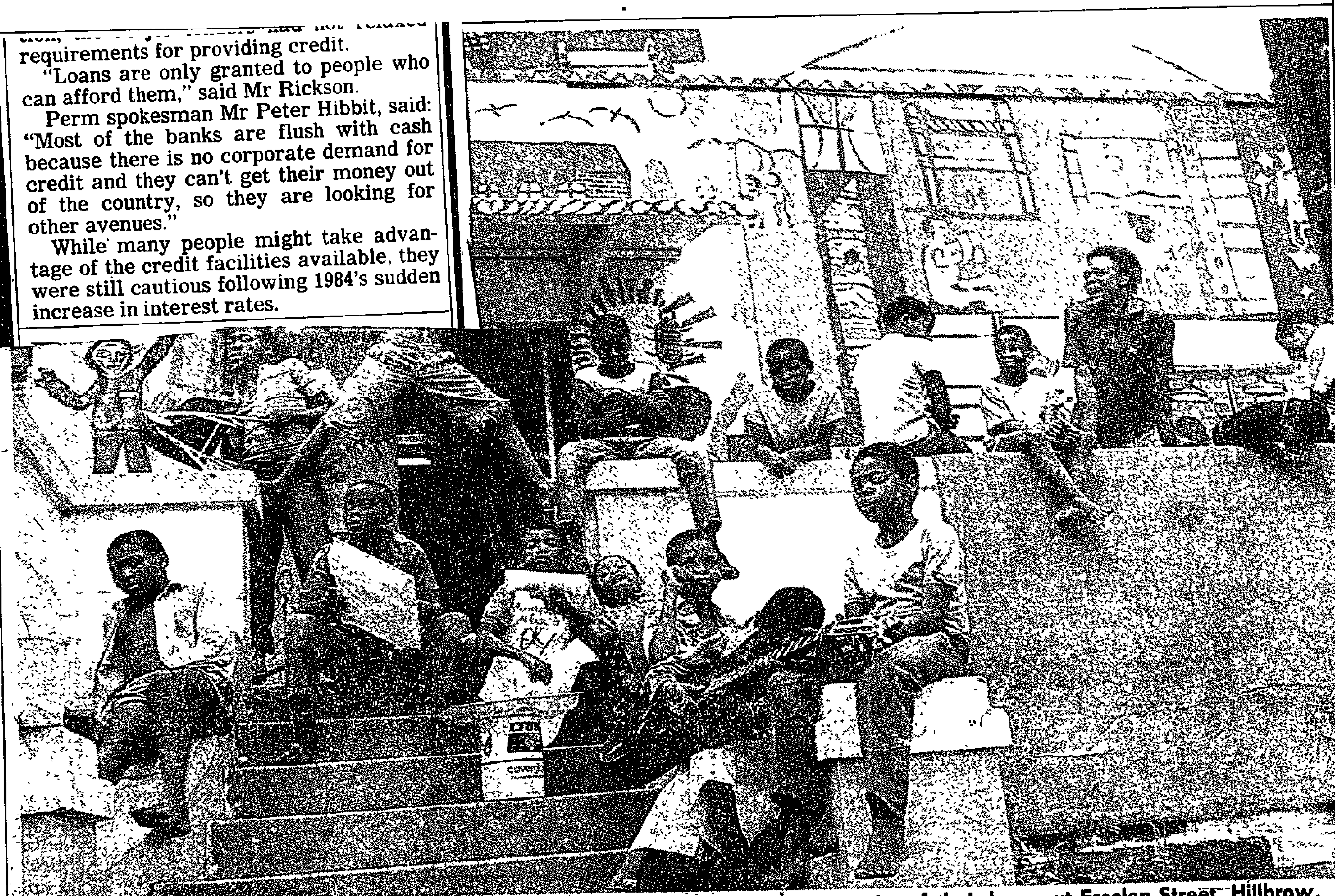
However, in spite of strong competi- [illegible]

[illegible] requirements for providing credit.

"Loans are only granted to people who can afford them," said Mr Rickson.

Perm spokesman Mr Peter Hibbit, said: "Most of the banks are flush with cash because there is no corporate demand for credit and they can't get their money out of the country, so they are looking for other avenues."

While many people might take advantage of the credit facilities available, they were still cautious following 1984's sudden increase in interest rates.



A bright Christmas . . . Johannesburg street children are delighted at the new exterior of their home at Esselen Street, Hillbrow, which members of the End Conscription Campaign helped the paint recently. ● Picture by Alf Kumalo.

SA PERM

Not so permanent

The SA Perm has sold two properties — Perm Corner in Durban, and its Johannesburg property on the corner of Simmonds and Commissioner — for a total of R18,5m.

Despite the timing, the Perm says there is nothing sinister about its decision. However, eyebrows will be raised in the industry, given recent developments in both areas.

Durban seems set for an increase in rentals and property values after the announcement of two government tenders worth R50m (*Property* December 18). In addition, the Johannesburg CBD property picture significantly altered after First National Bank (FNB) disclosed its R430m development plans (*Property* December 4).

Kingsley Rowland, assistant GM (property management) for the Perm, says the decision to sell the properties was taken early this year, before the developments in Durban and Johannesburg. He says other decisions, based on the sales, had already been taken, preventing any reversal of the decision.

Rowland says the sales were not made to convert fixed assets into cash. Management policy prompted the timing. Properties are owned primarily for own use and the Perm has progressively wound down the space it occupied in both buildings.

"We apply certain criteria to our properties. At one time we occupied a large portion of these two, which justified owning them."

Cash realised by the sales, he says, will not be applied to further property investments, but in the normal course of business. But it would be wrong to conclude that the Perm has taken the view that bond finance represents a better home for investment than fixed property. "They're just two different animals," says Rowland.

The Perm has taken a 10-year head lease on the Durban property, so will be able to take advantage of any escalation in rentals. Also, Rowland argues that the value of the Johannesburg property will not be significantly affected by the FNB development, as it is behind the Library Gardens.

For these reasons Rowland says the decision would probably have been the same even if the Perm had had advance warning of the changing situation.

Perm Corner, on the corner of Field Street and Commercial Road off Durban's CBD, has been sold for R13m. The deal is geared to yield its new owner 11%. The building is about 85% let and the Perm will continue to sub-let to existing tenants.

Negotiated by J H Isaacs Group (Natal), the sale of the 9 000 m² office block to Federated Life Assurance represents the biggest single property sale in Natal in the past five years. It comes at a time when pressure on office space is finally set to spill over into higher rentals and new developments (*Property* December 4 and 18).

Details of the sale, negotiated by J H Isaacs' Neil Spaull and John Lomas, were announced this week by the group's Natal MD, Trevor Warman.

"In the wholesale market in Durban, sales have shown a strong trend recently," says Warman. "In August we concluded seven commercial and industrial deals worth R2,1m. We have since sold 25 more properties, collectively worth R13m."

The Commissioner Street property has been sold to Time Projects for R5,5m. The Perm will be an ordinary tenant without responsibility for letting or income participation. The total area of the building is 6 000 m²: the Perm is renting 2 000 m² on a long-term basis and 2 000 m² short term.■

BUSINESS DAY, Tuesday, December 29 1987

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Changes to Act 'tinkering'

Big overhaul for Societies not on cards

GRETA STEYN

CHANGES to the Building Societies Act are likely to be made next year — but a major overhaul is not on the cards, banking sources said yesterday.

The Reserve Bank did not want to disclose details of the proposals, but a banker who is studying them said the Reserve Bank had, among other proposals, suggested that building societies be allowed to issue debentures as part of their capital base, bringing them in line with the system for banks.

Other proposals included redefining "medium-term liabilities", easing stamp duty for societies and increasing the amount of short-term funds societies are allowed to use to fund home loans.

The banking source described the proposals as "tinkering with the Act", saying they were not fundamental.

Meanwhile, the review of the Banks' Act would continue next year but it was unlikely that anything concrete would emerge in the next 18 months.

Banks and building societies are clamouring for major changes to the Banks' Act "to eliminate unfair competition". Latest to call for financial institutions to be placed on an equal footing are First National Bank MD Chris Ball and chairman Basil Hersov, following Trust Bank MD Chris van Wyk and Standard Bank economist Andre Hamersma earlier this year. Building societies, too, say current legislation hampers them.

A financial analyst said yesterday government was dragging its heels on the matter while it was obvious that change was imperative. Present legislation was distorting the market, he said.

Registrar of Banks Chris de Swardt has promised a complete overhaul of the Banks' Act, saying the possibility of including building societies under the new Act will be examined.

See Page 4.

Banks and societies look to new laws to end their fight

29/12/87

Finance Staff

The respective legal frameworks under which banks and building societies operate are becoming increasingly questioned. A new legal dispensation therefore looks in prospect.

The rapid expansion of the mortgage business of banks in South Africa is fostering demands by the building societies for the removal of the alleged competitive disadvantages under which they operate.

In particular, they are keen to have the restriction lifted which allows them to raise only 5 percent of their total liabilities in the form of deposits with a maturity of 12 months or less.

The banks have captured roughly 25 percent of the total mortgage finance extended this year. They have been the leaders in cutting mortgage rates and the building societies are facing financial pressures in the face of this vigorous competition.

Under present circumstances the market position of building societies in the mortgage field could be further eroded. The charges of unfair competition could therefore proliferate.

The banks argue that the tax free investment facilities of the building societies should be removed. This step may not be of great concern to the building societies, since the amount of funds held in these accounts is not as important as it used to be.

From the viewpoint of the building societies, the key is the relaxation or elimination of restrictions on the maturity of deposits which they raise.

A more uniform treatment of banks and building societies in South Africa would be consistent with events in Britain, where competition between these two sets of financial institutions has similarly been intensifying.

Indeed, restrictions on building societies in Britain have been relaxed so as to furnish them with greater flexibility in their funding operations. The latest move has been the decision to give societies greater scope for raising funds from the wholesale markets to fund mortgage lending.

From the beginning of 1988 the maximum amount which British building societies can borrow from wholesale sources, such as the Eurocurrency markets, rises from 20 percent to 40 percent of their total liabilities. This places them more in line with the banks.

If building societies in South Africa were allowed the same freedom as banks in respect of the maturity, size and source of the deposits they accept, they could borrow short and lend long on a much larger scale.

Borrowing on a short term basis from a wide array of small investors at the retail level should not create funding problems, since such deposits in aggregate should be fairly stable.

On the other hand, the risks in borrowing large amounts on a short term basis from business enterprises and financial institutions would be greater even if reasonably strict cash reserve and liquid asset requirements were in force.

Financial commentators contend that the financing of medium and long term mortgage loans with volatile short term deposits on a large scale would not constitute sound financial practice.

Yet the dangers which would face building societies from such a practice need not necessarily be acute.

The large scale nature of their operations, their expertise in assessing credit risks and their diversified portfolio of assets within the specialised sector in which they operate would reduce their risk exposure in accepting short term deposits and employing them in the field of longer term mortgages.

As a supplement, the presence of variable rate mortgage loans reduces the risks normally encountered with this kind of business.

Herein, though, lies another problem. Increased reliance on short term finance would mean that the mortgage rates of building societies would not only be more closely aligned with those of banks; they would also become subject to more frequent changes.

Greater volatility of mortgage rates, in turn, could exacerbate the socio-political problems associated with the provision of mortgage finance.

At present, interest rates in South Africa, after taking account of the inflation rate, are negative. If building societies are allowed to raise more short term finance at relatively low interest rates, further expansion of mortgage lending could ensue.

This could lead to future difficulties for borrowers if interest rates rise substantially.

At the same time, misgivings have arisen in some quarters about the intensified competition between banks and building societies — a trend which has prompted banks to offer 100 percent mortgages.

Such loans may appear relatively safe for banks in comparison with much of their traditional lending. Nevertheless, the presence of large numbers of home "owners" with no equity stake of their own in their homes may create problems of servicing the mortgages if interest rates were to rise significantly.

In addition, fears have been expressed that the availability of mortgage finance could become much more volatile if the banks acquire a dominant position in the mortgage market.

In view of these considerations some analysts argue that the alleged unfair treatment of building societies should be rectified by introducing comparable restrictions on banks as regards the funding of their mortgage business with short term liabilities.

This should temper the expansion of mortgage finance facilities while placing the two sets of institutions on a more equal footing.

'Open the door to societies'

GRETA STEYN

THE Institute of Bankers is considering granting membership to building society employees in an effort to keep up with changes in the banking world.

An editorial in the latest edition of the SA Banker says the blurring of traditional boundaries between financial institutions is a common occurrence.

"The basic question we should ask ourselves is this: do we widen the criteria of the Institute's membership and accept others like building societies, shippers, corporate bodies and those who engage in banking business? Or do we feel so exclusive that we want to continue barring these groups from our ranks?"

The issue of membership is critical to the future of the Institute, the editorial says. The criteria for membership have been reviewed and there is a groundswell of support for the widening of present criteria.

"If the main characteristics of banking are safeguarded and the Institute remains the stronghold of professional bankers, why not liberalise these criteria and open our doors for those who want to qualify themselves through the Institute's professional diplomas?"

Proposals have been drawn up to admit student members who, as non-bankers, would study for the Institute's examinations and who could become members on obtaining the Associate diploma. In the editorial, members of the Institute of Bankers are asked for their views on widening membership in an effort to guage support for the proposals.

Bond rates may drop

GRETA STEYN 30/12/87

LONGSTANDING bondholders at the Allied and Saambou, disgruntled over paying more interest on their bonds than new customers, are likely to see a drop in their rates next year.

Allied home loans GM Geoff Bowker said there was a strong possibility the rate for existing bondholders would be lowered in the new year but he could not say when or by how much.

"During January 1988 we will issue a formal statement outlining our proposals to reduce and possibly eliminate the differential between rates for old and new borrowers," Bowker said.

A Saambou spokesman said the issue would be given "sympathetic consideration" in the new year. "Rates have to be market-orientated," he said.

Both the Allied and Saambou charge existing bondholders 14,5% while their new bond rate is 13%.

The United Building Society has lowered its rate for existing bondholders to 13,5% from 14%, effective from March 1 next year. But older UBS customers are still paying 1% more than new customers, who are charged only 12,5%.

Societies have defended themselves by saying most existing borrowers were financed out of funds raised at higher interest rates prevailing up to 18 months ago, while finance for new borrowers is raised at lower interest rates.

30/1987

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SATS to share housing spoils?

Own Correspondent

JOHANNESBURG. — Banks and building societies are poised to "officially" ask South African Transport Services (SATS) to share the spoils of its multi-million rand housing scheme.

The move follows intensive behind-the-scenes planning by the financial institutions which has culminated in covert approaches to the transport giant to privatize its R3 bn "houses for employees" scheme.

Sources within several of the major banks and building societies said privatization would put millions of rands in cash into SATS coffers.

Escom spokesman Mr Ben Rheeder said the value of the Escom housing scheme when privatization was considered was about R280m.

"Since privatization Escom has saved itself about R100m. The present value of the portfolio is in the order of R350m."

A spokesman from an institution already involved in the Escom housing scheme said: "The institution would very much want to be involved in a scheme which makes good business sense."

Another banking source said the bank would welcome the chance to extend its customer service if the opportunity arose to tender for SATS.

But SATS is digging in its heels, claiming the scheme is so vast it would "hardly" be possible to award the scheme to any single institution.

SATS deputy director of housing Mr Dirk Botha said about R3 000m had been invested in the scheme to date. Although the value of outstanding loans was not available, Mr Botha said about R400m was allocated to the housing scheme annually, depending on funds.

"SATS carries out about 800 or 1 000 property transactions each month."

He said a major difference between the SATS housing scheme and those of other bodies — including Escom and Armscor — related to a subsidization of the whole loan by SATS rather than merely subsidizing the interest on monthly instalments.

"It is cheaper for a SATS employee to be subsidized on this basis rather than on instalment payments."

Properties are registered in SATS's name, unlike other schemes where a bond is registered against a property in the employee's name.

The capital redemption on the property is paid out to an employee on termination of his service if he does not take title in the property.

"There is a legal agreement between SATS and each participant in the scheme — SATS cannot decide one-sidedly to privatize," he said.

"Staff associations have been participating in the decision-making process and it is also on their recommendation that SATS does not wish to privatize its housing scheme."

Banks seek privatisation

Race on for R3bn Sats home funds

(38)

Bday 30/12/87

HELEN WISHART

BANKS and building societies are poised to ask Sats "officially" to share the spoils of its multi-million-rand housing scheme.

The move follows intensive behind-the-scenes planning by the financial institutions which has culminated in covert approaches to the transport giant to privatise its R3bn "houses for employees" scheme.

Sources within several of the major banks and building societies said privatisation would put millions of rands in cash into Sats's coffers.

Escom spokesman Ben Rheeder said the value of the Escom housing scheme when privatisation was considered was about R280m.

"Since privatisation Escom has saved itself about R100m. The present value of the portfolio is in the order of R350m."

Banking sources yesterday expressed enthusiasm for the idea.

A spokesman from an institution already involved in the Escom housing scheme said: "The institution would very much want to be involved in a scheme which makes good business sense."

Another banking source said the bank would welcome the chance to extend its customer service if the opportunity arose to tender for Sats.

But Sats is digging its heels in, claiming the scheme is so vast it would "hardly be possible" to award the scheme to any single institution.

Sats deputy director of housing Dirk Botha said about R3 000m had been invested in the scheme to date. Although the value of outstanding loans was not readily to hand, Botha said about R400m was made available to the housing scheme annually, depending on funds.

"To date 124 000 properties have been acquired under the scheme and nearly 70 000 houses are still in the scheme. About 50% of the houses have already been transferred to participants.

"Sats carries out about 800 or 1 000 property transactions each month."

In addition to the huge sums of money which any pretender to the scheme would have to provide and administer, the expense of privatising the scheme, which has been in operation since 1937, was high.

"Sats would have to obtain a tender from each and every institution — if Sats selected one institution, the rest would also want a share."

He said a major difference between the Sats housing scheme and those of other bodies — including Escom and Armscor — related to a subsidisation of the whole loan by Sats rather than merely of the interest on monthly instalments.

"It is cheaper for a Sats employee to be subsidised on this basis than on instalment payments."

Properties were registered in Sats's name, unlike other schemes where a bond was registered against a property

To Page 2

Institutions bidding for Sats home fund

(38)

From Page 1

in the employee's name.

"The employee does not suffer a possible loss on reselling the house at termination of his contract and provided the employee redeems the outstanding balance on the property, he acquires a title in that property.

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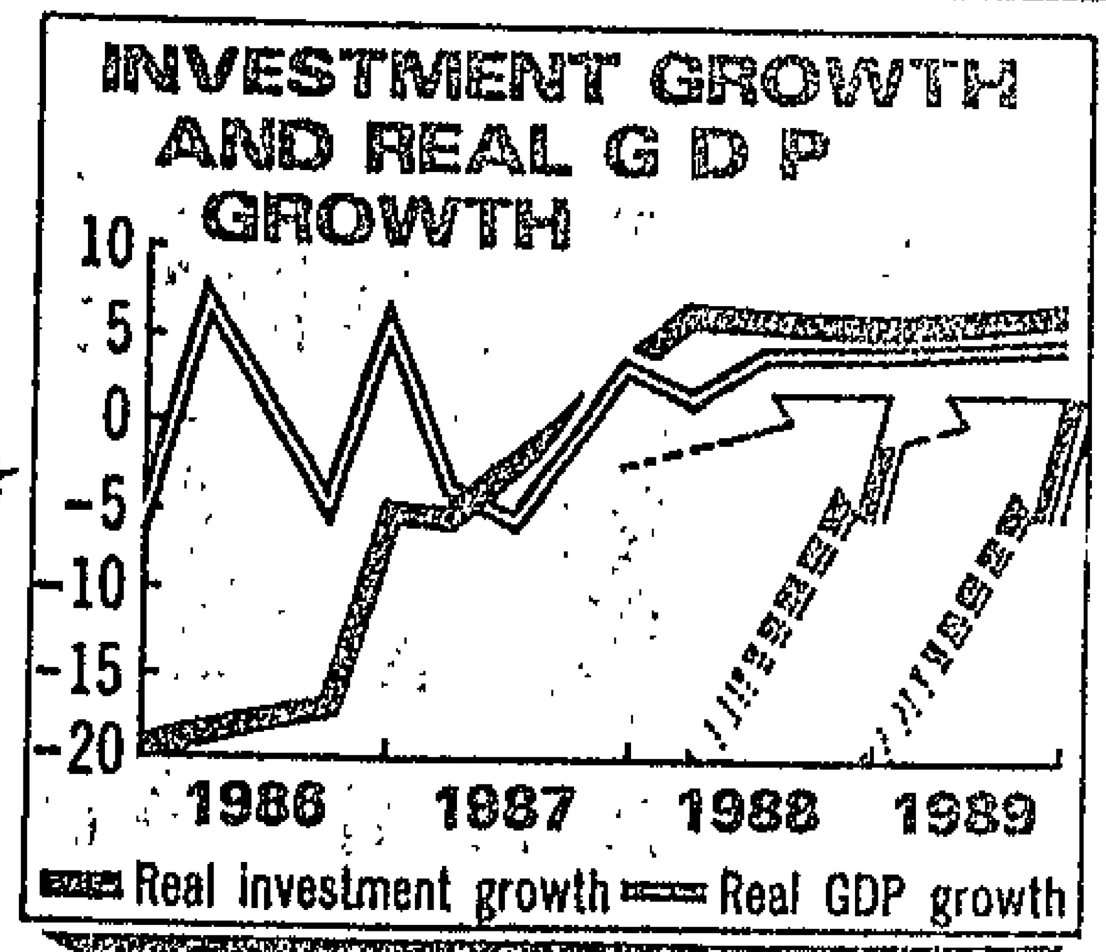
Investment spending set to grow

58 B/day 30/12/87



Graphic: FIONA KRISCH Source: INTERCOM

GRETA STEYN

SPENDING on fixed investment, after many years of decline, is set to grow again in real terms next year, UCT economics professor Brian Kantor says in the latest issue of Intercom.

Kantor, in his forecast for the economy next year, says it should be appreciated that growth in investment spending will be off a low base, particularly in the durable- and investment-goods sector.

"These sectors have particularly high import intensities and so the balance of trade must be expected to deteriorate, as

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Investment spending set to grow

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import demands pick up, also off low levels."

A deteriorating trade balance, in turn, will put downward pressure on exchange rates and upward pressure on short-term interest rates. In this scenario, the chances for any dramatic reduction in the inflation rate are over. "Inflation is likely to continue at high, but not necessary higher, levels."

Kantor's synopsis of how he sees the economy performing up to the end of 1989 assumes that the gold price will rise to $550 and that there will be no dramatic changes in the political situation. He concludes that 1988 is likely to be a good year for SA business, with buoyant demands and relatively low financing costs.

(58) 31/12/87 B/Day.

Societies cut bank gains

Own Correspondent

DURBAN — The advantage banks have in being able to offer lower mortgage bond interest rates, which has gradually been watered down by the societies, is expected to be further reduced towards the middle of next year, says John Bennett, retiring MD of the NBS.

Bennett, who retires after 28 years with the NBS — eight as MD — believes the next six months will be critical for societies in the challenge for new business.

But he is convinced that the cheaper cost of funding for societies and higher administration costs for banks will, towards the middle of 1988, level the playing field and help eclipse the banks' present advantage.

Re-advances, further loans, past reputation regarding very high rates, insurance claims and unsympathetic attitudes towards arrears, will start having an effect and re-establish a swing to societies, he says.

Bennett agrees the bank challenge has been formidable, and the impact of the knife-edge competition on the movement of profits has still to be gauged.

NBS Holdings, the holding company of NBS Limited, has accepted that profit contribution to the group from the building society subsidiary will be less than other subsidiaries in future.

Bennett, who has seen the company's assets grow from R120m to its present R2,75bn and successfully steered it through a JSE listing earlier this year, believes NBS Holdings is well-poised to exploit the benefits of the listing.

So far the company has moved into banking with hire purchase loans, insurance, mortgage participation bonds and consolidated its township development wing.

It is implementing one or two pilot schemes — one a first in SA — based on successful overseas trends.

The company has readied itself for "point of sale" banking, in which shop customers can put their cards through tills and have their accounts debited. It is hoped South Africans will take to this system in two to three years' time.

NBS is also very keen to operate its own credit card instead of acting as an agent for First National Bank.

Cheque accounts and corporate banking are not being considered by NBS, while property selling and travel remain unlikely and home banking via computer terminals has still to prove itself.

One of the biggest impacts in recent years, Bennett claims, has been developments in data processing, which has propelled societies into the electronic age at startling speed.

Services, he says, will continue to improve, but ironically at a slower pace because of the increased sophistication of software packages, which are taking much longer to develop.

The NBS, he points out, has matched the leaders in the creation of an electronic banking hall in Durban termed Gateway and is keen to extend the spread of its technology to other major metropolitan areas.

Top of the list is its new R30m Cape Town headquarters in St Georges Street, which will open for business in April or May next year.

Bennett has often criticised government reluctance in extending the subsidy enjoyed by first-time home owners to all "second-hand" houses and to some extent the NBS has tried to alleviate the discrepancy by introducing its own incentive scheme for first-time buyers.

However, he fully supports government's determination in refusing mortgage interest to be tax-deductable, believing it would give little relief to low-income earners.

Bennett is concerned that most poor people cannot even afford the instalment under the government subsidised home ownership scheme.

Secretaries age like good wines

Own Correspondent

LONDON — Male bosses are shunning highly skilled secretaries in their mid-40s in favour of younger supposedly more glamorous women, says a leading secretarial recruitment consultancy.

So many English employers are missing out on the experience and maturity of the over-40s, says Diana Duggan, 43, of City-based Diana Duggan Associates.

She says those selected generally come from the 22-27 age-group.

"I wonder how many men would object to 53-year-old Joan Collins as their secretary," says Duggan.

While young attractive secretaries are often "whisked off their feet" by young executives, "this tends not to happen with the mature woman".

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FINANCE – GENERAL 1988

JANUARY – MARCH

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Worldwide moves impact on SA

Cape Times 4/1/88 (88)

'Many changes' to hit banking

JOHANNESBURG. — The revolution in banking worldwide will bring about many more changes in banking practices in SA and will also impact on traditional central bank policy, says the United Building Society (UBS) in its Economic Perspective for January.

"Although it is unlikely that the current speed of change will last for much longer, the full implementation of the latest round of innovations will nevertheless imply that the typical banking world as we know it in SA today will change even more during the next few years," UBS says.

Challenges

Many new financial instruments were emerging to meet changing circumstances and demands. The most notable change abroad was the large size of off-balance sheet financing.

This meant that the safety and soundness of the financial system and payments mechanism had become more difficult to control and "posed urgent challenges to the supervisory authorities".

"Although the recent innovations in the financial markets are no doubt improvements in efficiency seen from the corporate sector's point of view, there can be no guarantee that it will necessarily also improve overall economic welfare.

"The progressive blurring of bank and non-bank financial institutions is going to imply that more and more non-bank financial institutions will have to report to the monetary authorities about their affairs.

"And it may well be that the recent deregulation wave in banking will soon come to an end," UBS says.

Because many off-balance sheet transactions are of a complex nature, detailed data would be required to permit the kind of analysis that has been possible with conventional on-balance sheet positions.

"Therefore, the monetary authorities will probably ask for fuller and far more detailed information on banks' involvement in the financial markets."

Shareholders also faced problems of understanding banks' activities fully because of the growth of off-balance sheet transactions.

"In addition, many of the new instruments and procedures in banking have untested legal status, while the absence of accepted accounting techniques with respect to off-balance sheet items allow banks leeway in the presentation of financial accounts.

"The vagueness of definition in off-balance sheet transactions obviously leaves many loopholes," says UBS.

Likely effects of recent innovations on traditional central bank policy included:

"The scope of monetary policy to operate via changes in the availability of credit will become more limited.

"The increased international mobility of capital implies that exchange rate movements will increase in importance.

Technology

"The meaning and usefulness of monetary aggregates, such as M-3, are bound to deteriorate as indicators of monetary policy.

Another implication of the "banking revolution", says UBS, is "technology. (It) has become one of the most powerful competitive weapons". Technical advantage in the form of computer hardware and software were "the big guns in the competitive battle for banking business". — Sapa

Cape Times 4/11/88

Helderberg: R2,8m payout

Own Correspondent

JOHANNESBURG. — Sanlam has paid out at least R2,8m to beneficiaries of the victims of the Helderberg plane crash, bringing the known total payout for the life industry to R13,17m.

Sanlam had previously declined to disclose these figures.

MD Pierre Steyn said the life assurer had paid out R1,3m in 16 individual life claims, while the group-life side payout amounted to R1,4m.

The largest single claim was for R1,2m.

(53b) Bl/dag 5/1/88

Down to earth with the crash

MARGARETA PAGANO of the Daily Telegraph reports on the thousands of jobs at risk in the wake of Black Monday

THE SCENE is London's "Square Mile", May 1988: "Max-a-Million lowered the binoculars. He had seen it all before. It was a popular pastime for the Publikers to finish off City brokers this way — pinned spread-eagled to a cross, naked except for the identifying white socks."

The fictitious Max, who has to camouflage his Porsche Targa in moulded Ford Sierra panels to avoid attack, has become a cult hero in London's bruised securities markets.

Brilliantly parodied in the International Financing Review magazine, the bible of the capital markets, Max and his rocket scientist chum — Quentin Vere D'Arcy Hornsworth III — are two of the few survivors of London's Great Fall who narrowly avoid public lynching or incarceration in the gilt mines

In real life, public resentment towards ludicrous salaries and excess "champooing" has meant that few tears have been shed for the bright young things whose jobs are now on the line after the stock market crash of last October 19 — Black Monday.

Fortunately, they are a resilient lot whose capacity for self-mockery is almost as endless as their black humour. One dealer with a stockbroking firm, just taken over by another, was spotted last week with a tinsel noose tied round his neck. Others joke that they are No 43 567 on the hit list.

But the jokes mask a very real threat of redundancy — if not now, then early in this new year. Because salaries have become the biggest burden since London's Big Bang, staff cuts are the simplest answer

Just two weeks ago pessimists estimated 10 000 City jobs would go because of the stock market crash. Today the Square Mile soothsayers have upped this figure to at least 50 000 jobs vanishing over the next two years. Without exception, the world's financial players are taking the scalpel deep into every part of their business

Entire Eurobond and gilts departments have been closed down Christmas bonuses, which in a good year for bond dealers could amount to several hundred percent of basic salary, were slashed. Brokers in one firm have even been told to share one Financial Times between 10

If the markets do not pick up quickly, experts believe some 4 000 jobs could go within weeks Cutbacks at the sharp end of trading would have a ripple effect throughout the financial community Dealers are the first to go if turnover is low, but support staff are also affected

More than 1 000 people have been dismissed in London since September. In the US, the numbers are already running into thousands.Shearson Lehman's bid to rescue E F Hutton will result in 6 000 job losses alone Shearson, in effect, has closed down Hutton's London office when it made 90% of its 400 staff redundant

American houses such as Salomon, Citicorp and Chemical Bank have been worst hit and have acted quickly to reduce staff world-wide, including drastic cuts in London

The Japanese are keeping their traditional silence, while the biggest British securities firms have yet to reveal significant cuts

To put it into perspective, the job losses bring many firms back to levels of 18 months ago The Square Mile employs some 350 000, while New York has 450 000 people working just in the securities markets

Merrill Lynch, the thundering herd of American retail broking, has put together a package of selective job cuts, a wage freeze and reduced commissions to cut its salary bill by US$300m this year alone Last year's salary costs were $3-$7bn Manufacturers Hanover is said to be considering 2 500 redundancies.

Most of the new wave of City of London conscripts are realistic about their chances of survival One highly-talented Eurobond trader, sacked a few weeks ago, said "You are dealing in high-risk deals which, if they go wrong, could cost the firm a great deal of money

"I don't feel too bad about being sacked It was the market which went sour, not me I actually made them hundreds of thousands of pounds

"None of the people I know resent being sacked at all They know it's a performance-orientated business. There are times when you have to go to sleep knowing that if the market turns you could have lost thousands

"I know that the risk compared, say, to the work carried out by a surgeon or even a fireman is not important, but it can still be difficult But if the market's not there, then you just have to go If they can t find you a job elsewhere in the firm, it's tough."

One 28-year-old trader, who prefers to remain anonymous because he is job-hunting, earned £90 000 (R324 000) basic, with the same again in commission He was paid off handsomely, with a tax-free £60 000 (R216 000) and is investing this in a business venture

He believes the high salaries are justified "The banks perceived dealers were in short supply,' so they paid what they believed to be market rates"

Stephen Rowlinson, MD at the Korn Ferry head hunting firm, disagrees "Dealing skills were not in such short supply as commonly believed" He thinks the banks acted rashly in the run-up recruitment period to the Big Bang, paying unrealistic salaries

"But the banks, most of them foreign, were desperate to get into London and pushed up pay to incredible levels We are now seeing market forces working in the opposite direction The men will be sorted from the boys"

Many companies were pruning their budgets even before the October crash Over-capacity and fierce competition has forced several closures in the Eurobond and gilt markets

The one that got away

. . . and HUGO DAVENPORT meets one of the hundreds who have already been sacked.

AMONG THE casualties of the City's vertiginous ups and downs this year, Andrew Phillips is a relatively rare species. He is, by his own admission, a bit of a maverick and refuses to conform to the popular stereotype — compounded of equal parts envy and distaste — of the new creatures of the Square Mile. He would also be the last person to describe himself as a casualty.

Phillips went into the City with high hopes. At 32, he joined a little later than some; but he had a varied and enterprising *curriculum vitae*. Like many people who heeded the golden promises of the City during the fever of pre-Big Bang euphoria, he found himself out in the cold a year later.

Now 34, Phillips believes what makes him different is "a philosophy" that enables him to review his experiences with a certain detachment. What really sets him apart, however, is the fact that he is prepared to talk about them.

By the standards of some City high-fliers, his salary was hardly in the financial stratosphere. He was working for Shearson Lehman as an international equity salesman, on a trainee's salary of between £20 000 (R72 000) and £25 000 (R90 000), but with the expectation of a much higher basic — plus lucrative commission — after one year.

His career up to that point had encompassed a first degree in languages and economics, a roving management consultancy, a spell flying helicopters for the British Army, a year or so as a financial analyst in Australia, a stint working for the East Anglian tourist board and an MBA business degree. Then, in 1985, he was recruited from business school by American Express.

"At that time, everybody in the stock market and the bond market was being massively overpaid," he recalls "Perhaps this was not altogether a good thing, but it was also glamorous The City 10 years ago was full of grey men in old school ties, drinking bad beer in smoky dive-bars; the City now is young, glamorous, overpaid, rewarding and exciting If you weren't in the City in 1985, you weren't anywhere."

Defection

His own chance came when Shearson moved in on the London market in anticipation of the Big Bang and bought up Messel, a firm of London stockbrokers. Messel, however, had just lost most of its international-equity team by defection and its new owners urgently needed replacements Phillips was attracted to the job by the opportunity to learn the "esoteric" disciplines of finance.

After three months, he was encouraged to start dealing in a small way, after another three, to start creating his own client base It was "a learning curve like the North face of the Eiger" Shearson insisted emphatically on its commitment to international equities and all seemed well with the world.

Then, suddenly, everything changed Research was shifted back to concentrate on the firm's US base and Phillips was told not to talk to his clients Rumours began to circulate

However, Phillips thought he was reasonably safe because, last August, a written memo was circulated stating that international equity was a key expansion area And so he was "amazed" when, only five weeks later, he was called in to a meeting at 4 30pm with a number of colleagues, to be confronted by two senior executives — two "hatchetmen" from Peat Marwick — and an atmosphere like a state funeral

It was "like a piece of theatre" Some of those present were white-faced, others protested loudly It did them no good Phillips left the building with a pay-off of just one month's salary He had a wife and a 13-month baby to support, and they had just moved into a new house

"They fired everybody they could think of firing," he says "I wasn't fired because I wasn't performing, or because I wasn't essential. I was fired because they had a simple cash-flow problem Their building was costing them a fortune, they had to clear everybody out so that they could get them on two floors and rent out the rest"

He also regards the episode as an object lesson in management, American style. "In American management there are two types of executive: the movers and shakers and the clearer-uppers All that happened is that the clearer-uppers moved in What should have happened gradually over 18 months became a complete emergency fire-fight If I had just one word for Shearson's mismanagement, it would be crass"

Phillips was fired before last October's crash, but it was only after Black Monday that he realised he might not get in again Having always intended to run his own company, he resolved to bring his plans forward by a few years to launch a management consultancy and an import export firm

Cushioned

Phillips believes that the people who have suffered so far in the City are the 45-year-old middle managers, too far from retirement to benefit and too low in the hierarchy to get a decent pay-off

"It's not the young Hooray Henrys, because they have money behind them and they are cushioned by it And it's not the barrow-boys To them a market is a market, whether it's an apple or a stock They'll just take it on the chin and say you win some, you lose some But anyone who goes in to the City now expecting easy money is in for a shock"

United Bank throws out bait

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GRETA STEYN

THE UNITED Group, through the fledgling United Bank, is striking back at major banks which have been scoring points off the United Building Society in the bonds war.

Banks are set to lose both customers and staff to the United Bank, which is snapping up experienced bank managers and luring customers away from the large banks.

United Bank MD Nallie Bosman said yesterday: "We have definitely picked up some customers from other banks who want personal loans at lower interest rates to settle old debts."

The United Bank is capitalising on fixed-interest hire purchase (HP) contracts concluded when interest rates skyrocketed two years ago. Consumers, who are still paying up to 23% interest on, for instance, HP agreements, can take a personal loan with the United Bank at a lower rate to pay off their debt.

But the number of clients who had switched banks was not yet significant, Bosman said, as a campaign to attract customers to the United Bank was only launched in mid-December.

Meanwhile, the United is to fill 50 managerial posts in the new year, drawing mostly from staff of other banks. Bosman said the United had hand-picked a number of its new managers from other banks' staff.

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Protea's new bond repayment plan

HELENA PATTEN

PROTEA ASSURANCE has launched a novel bond repayment plan which it says could save homeowners up to 40% of their total mortgage repayments, while at the same time providing life cover to the extent of the amount borrowed.

A statement from Protea's life division says the plan, called the Prospector 2 000 Universal Bond Repayment Plan, could enable a 25-year mortgage to be paid off after only 15 years.

An example shows the savings can be significant: A non-smoking man turning 30 paying off a 25-year bond of R50 000 at 15% interest 10 years early would save R76 850 in bond repayments. Less the cost of Prospector 2 000 — R90 monthly in this case — the net saving is R60 000.

Protea explains that the bondholder pays a monthly premium to an endowment plan from its Prospector 2 000 Universal Series, the term of which coincides with the term of the bond.

The plan has a sum assured equal to the amount borrowed and provides a tax-free cash sum at any time after the end of the 10th year. The amount outstanding on the bond reduces each year and the cash value of the policy grows.

Options are available to increase cover if the homeowner moves to a more expensive house, and the plan can be converted into a savings/investment vehicle after the bond has been repaid.

SHORT-TERM INSURANCE

Lucky break

January has brought short-term insurers an unexpected windfall. Despite Natal flood damage, amounting to an estimated R500m insured loss, and a massive increase in fire claims last year — up 50% the first nine months of 1987 to R59,7m — the round of reinsurance treaties just concluded by most direct insurers has been far more accommodating than expected.

"Mutually satisfactory" is how SA Insurance Association (SAIA) CE Rodney Schneeberger describes the agreements. Though 1987 disasters are bound to impact on business eventually, reinsurers are prepared to delay more stringent terms.

The reason, according to Gareth Bradburn of Swiss Re, is the increase in international capacity. "The London and European market is hungry and rates on non-proportional treaties have been a lot lower, notwithstanding the Natal floods."

Favourable conditions throughout the world in 1986 and the earlier part of 1987 had already drawn back many of the smaller players who retreated in the face of disastrous underwriting results in 1984 and 1985.

Priceforbes Federale Volkskas pointed out last November that reports from the US and Europe show the hard market is definitely over. "Reductions from London of up to 60% for aviation show how soft the market is in certain classes; we have previously reported on the soft marine market."

According to US reports late last year there had already been a 20% reduction in rates for general liability, motor and workers' compensation; excess covers were also down, by between 10%-30%.

Added to this general softening, the fall in the dollar and consequent reduction in (sterling) premium income has sent London reinsurers scuttling round the world for business.

Says Bradburn: "A lot work on premium budgets and not only on capacity. This has created shortfalls in premium targets. SA is attractive from their point of view compared to some overseas markets."

So, despite pressure from the sanctions lobby, local reinsurers have found themselves competing for business with overseas reinsurers. Competition is forcing down rates which might otherwise have gone up.

Rates on catastrophe, covered by non-proportional treaties, are only part of the story, however. Day-to-day cover provided by proportional treaties has absorbed many of the year's losses. Commissions are linked to loss ratios and, in many cases, insurance companies took reductions in commission. Whether gains on catastrophe treaties will be cancelled out by commission losses will depend on individual experience.

Swiss Re's Bradburn ... overseas markets are hungry

Losses relating to the Natal floods were not decisive in the setting of commission rates. According to Commercial Union MD Bill Rutherford, rates and commission changes were based not only on projected 1987 results but on previous track record.

Whether the industry as a whole has come out ahead is hard to assess. But Aegis MD John Bull believes, on balance, that the current renewal season is proving better than January 1987.

What will be the impact on the consumer? Says Bull: "Rates aren't likely to go down but they probably won't go up — except for premises in high-risk areas particularly exposed to storms."

How long the respite lasts depends largely on fortunes in the coming year. Many recent entrants in the international insurance market made their debut before the storms which lashed Britain towards the end of last year, and before the crash of stock markets reduced capital values and investment income round the world.

Should 1988 bring poor underwriting performances, there may be a return to the pressures of 1985 when insurers worldwide were squeezed between increasing underwriting losses and lower investment income.

Wise insurers will protect themselves by judicious underwriting.

CONSUMER PRICES

Grim prospects

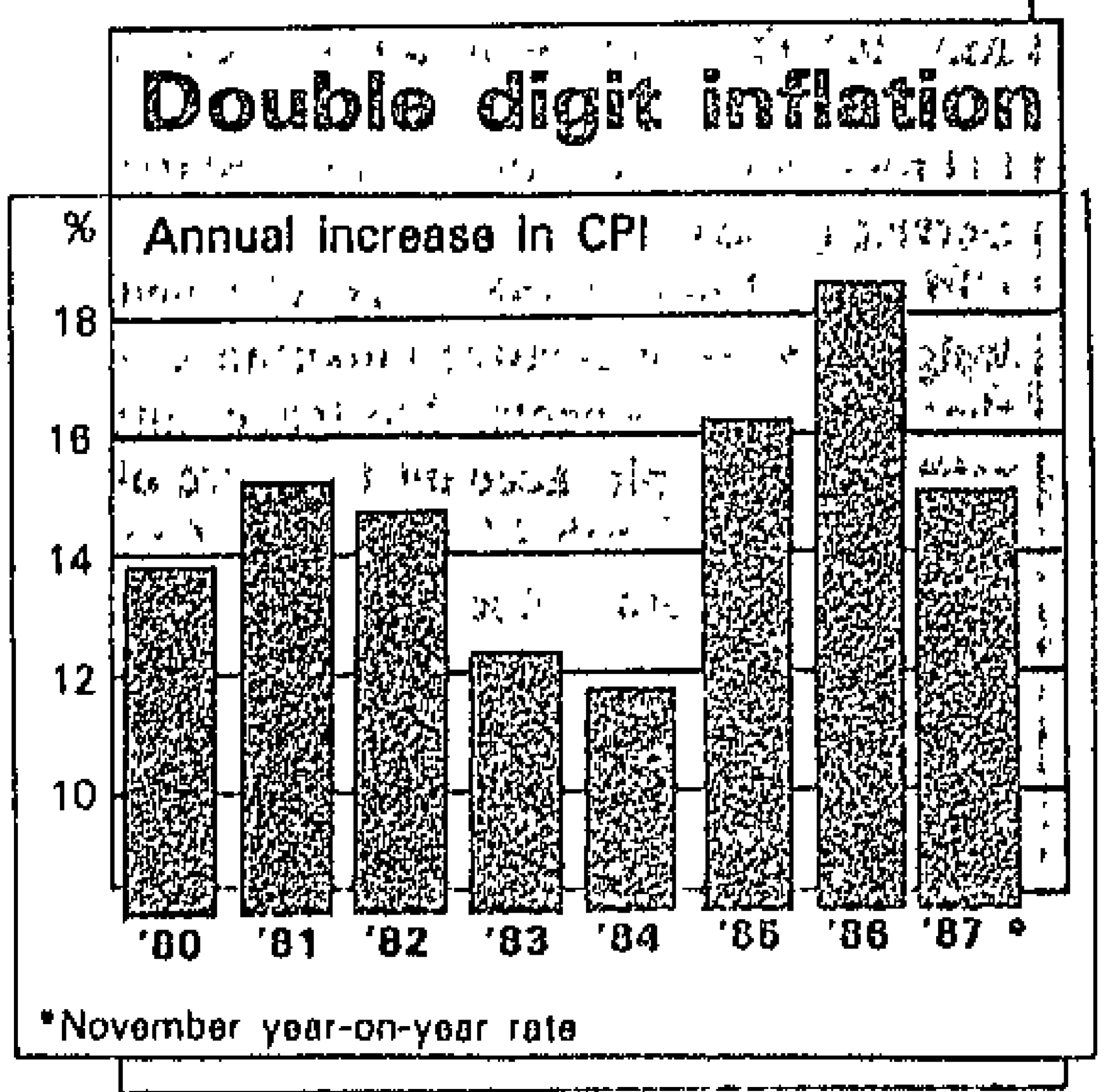
Consumer prices continue to increase at a double-digit rate, and economists see little hope of a slow-down. In the year to November, CPI increased 15%, following a year-on-year increase of 15,5% the month before. CPI rose 18,6% in 1986, 16,2% in 1985 and 11,7% in 1984.

Wits business economist Dan Leach says we shouldn't be surprised that consumer prices continue to go up and up. "As long as money supply increases at 15%-20% a year, you'll have price inflation at about that level. The high growth rate in money supply generates the continuing increase in the price level. There's no mystery about it."

Says Free Market Foundation analyst Nancy Seijas: "It's the same old story of more money chasing about the same amount of goods. Prices must go up, but don't blame businessmen and workers."

For CPI to moderate in 1988, there will have to be less money, more goods, or both, Seijas says. That means Pretoria must take decisive action such as setting lower targets for money supply growth and deregulating to allow more wealth to be created.

Leach says Pretoria could show its commitment to fighting inflation by rolling back spending — both to make the economy more efficient and to remove its temptation to pay off debt by creating money.



"At the same time government curbs monetary growth it should make a large cut in spending," he says. "This would be a strong signal that the authorities mean business. Government spending must be funded somehow, and it is often easier for it to debase the currency than raise taxes directly."

But is a drastic cut in government spending a realistic prescription? Seijas thinks so — if Pretoria packages it right. Government could make big cuts in spending on education and housing, for example, if it would allow private schools to operate freely and strip away zoning and building regulations. In other words, people have to see their aspirations can be met without government spending, or they will resist all cuts.

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After the roller-coaster

Last year was the year of the switchback as the JSE shot up to record highs only to plunge off a precipice. In this environment, it is small wonder that the professionals seem as uncertain about the outlook as everyone else.

Confident forecasts on how the JSE might move during 1988 are rare this January. Too many had their confidence badly shaken during the traumatic events of 1987. As the head of one large institution points out, "all of the institutions made wrong forecasts last year."

He is right there: though most professionals expected the market to rise in 1987, and many said from about midyear that it was overheated, few foresaw either the extent of the rise or of the subsequent collapse — and very few got out in time. The sheer high drama, the severe shocks to professional egos, the ruthlessness of the market in retreat — all brought home lessons about the riskiness of forecasts. One merchant banker found the year fascinating: "This is a once-in-a-lifetime event," he comments.

To many it was more than fascinating — it was traumatic. The JSE Actuaries Overall index leapt from 1 972 to a high of 2 804 on October 19, before dropping 12% on October 20 and ending the year 35% below the peak. Industrial shares did better on the rise, the index climbing from 1 424 to a high of 2 268 (59%), but falling by more or less the same as the Overall index (36%).

Star performer was diamonds. This index led the bull stampede with a climb of 70% in the first 10 months, but had collapsed by 50% by end-December, as overseas investors sold out in panic. Until the market ground almost to a halt in December — generating fears about stockbrokers' profitability in 1988 — the broking firms were enjoying their best-ever year, with trading volumes at 3 038m shares in the first 11 months against the previous high of 1 605m for all of 1986.

These record prices led to a rush of new listings which totalled 201 by the end of November. The level of oversubscription of new issues leapt as potential stags scrabbled for shares and expected to receive only a small percentage of their application.

Unit trusts also benefited. The man in the street who did not trust himself enough to pick his own shares in many cases gave his funds to the trusts to invest. Inflows rocketed from R499,9m for the whole of 1986 to R980,6m for the first nine months of 1987. Figures for the last quarter are not yet available, though most trust managers have made reassuring noises.

But all good things must come to an end and the hangover from the JSE party was harsh. The JSE recorded one of the biggest falls of any stock exchange, as foreign investors sold here to realise some liquidity and local small investors panicked and sold in droves. Brokers' administration systems creaked under the strain and the JSE computer collapsed altogether, resulting in short hours of trading when investors were frantic to sell.

Share prices were marked down on very small volumes and a broker came up with the theory that any publicity for a company was bad, as it brought the attention of investors to that share, which they then sold. Excellent corporate results failed to stem the tide and prices dropped like stones as shareholders told traders to sell at any price.

In the calm after the storm, dealers settled into a pattern of low volumes and few rumours. Volumes dropped from 12m shares per day in July and a high of over 20m in October to about 5m in early December.

Eventually, most of the investing community told everyone to wait until the new year, packed their bags and went on holiday, hoping that some sea and sand would put it all into perspective.

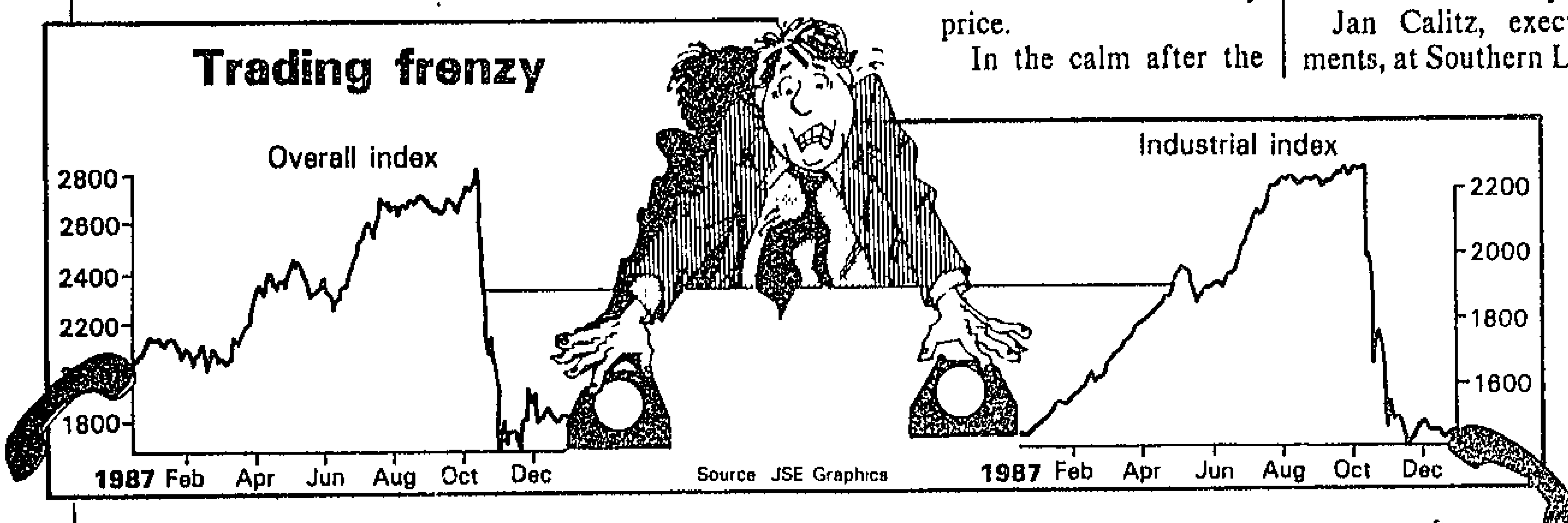
Now that the new year is here, the burning question is what to expect in 1988? A large number of small investors are likely to stay out of the market whatever the prospects, but most professionals remain uncertain too.

The gold price is the crucial factor, all agree, but forecasting this is notoriously dangerous. The prophets of doom, who have for years advanced the theory that world financial markets would collapse, leading to a rocketing gold price and then depression, have been proved wrong until now.

Gold has reacted relatively sluggishly to the major developments of recent months and, with inflation overseas at low levels and the possibility of recession staring investors in the face, there seems little to push bullion up. It is likely that the gold price rise will be equal to the fall in the dollar against other currencies, but few are optimistic about a rise in the gold price in yen or Deutschemarks.

Davis Borkum Hare's David Giese says he is cautiously optimistic, believing the gold price will rise in both rand and dollar terms. But Giese is worried, as are all other analysts, by the high rate of increase in mining costs and the probability of labour unrest. So he suggests investment in mines which are not exposed to the National Union of Mineworkers and which can lift tonnage milled and recovery grades.

Jan Calitz, executive director, investments, at Southern Life, thinks a rise to over US$485/oz is a strong technical buy signal, but Richard Stuart of stockbroker Martin & Co believes the gold mining industry will struggle. "They will need R1 000/oz or more to maintain profitability," he says. He discounts the importance of the rand



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hedge element of gold shares, as he believes the cost of mining an ounce of gold will rise more than the rand is likely to depreciate.

Most analysts agree that industrials will be more attractive than gold shares this year, although virtually all feel that foreigners will be net buyers of gold counters. But Stuart thinks the major factor will be the ratings at which investors are prepared to buy gold shares. Historic dividend yields are 7%-8%, while in the last 18 months yields on many of the better quality mines have been bought down to 3,5%-4%. He thus expects ratings to decline with a consequent fall in prices. Another concern is that the adverse effects of the August strike are still working their way through to shareholders' dividends; and many mines may reduce their pay-outs this year.

Calitz believes the industrial index could move more strongly over the next few months, but thinks this is simply a rally as the long-term trend is downwards. An upwards rally is widely expected and some, such as David Gleason of stockbroker Mathison and Hollidge, believe it has already started. Certainly the fall in the JSE as compared with other world markets has been extremely steep.

This highlights another fear voiced by almost all analysts and portfolio managers. As one puts it: "If a killer wave comes from overseas stock markets, there is no way we can resist it." Charles Booth of broker Simpson McKie says that, if Wall Street is in a bear market, it must have an impact upon SA. "I am not super-pessimistic, but I am cautious," he comments.

Dividend yields are an indicator being given increasing attention since the start of the bear market. Says Calitz: "Dividend yields are too low. They are below the long-term average." A stockbroker agrees, pointing to the fact that the 22-year average on the industrial index is 5,3% against the current 4,1%.

There are other factors he mentions, which should also have a major impact this

On the spot . . . to buy or not to buy?

year. Despite the recognition of the authorities that the economy must grow and that interest rates should be kept low to achieve this, it is generally expected rates will climb in the next two years. A decline in the current account surplus — inevitable when the economy picks up and imports rise, especially when combined with little if any increase in exports, especially gold — must also push up rates.

Rising interest rates will place increasing emphasis on strong company balance sheets. To strengthen financial positions, companies are likely to raise dividend cover. Earnings can be expected to grow at a slower pace — 30% against last year's 38% — now that the full impact of financial reconstructions and rationalisations have been felt. Combining these factors with the need to increase the average dividend yield could mean further price falls next year. But the director of a large financial institution thinks that institutional cash flow is still of major importance. "Most institutions were caught pretty fully invested at the time of the crash," he says, "but the factors which caused the market to rise are still there — high inflation, the rand under pressure, large institutional cash flows and good company profits." He expects a rise in the market and the industrial index to be higher rather than lower by the year-end.

With many holding the view that the industrial sector carries less risk than the mining board, and some still betting that certain shares will rise, there has been no great easing in the number of companies going for a listing. Despite the lower price levels, the anticipated rise in interest rates means there are still attractions in equity finance. Only three companies cancelled their listings after October 19, and 17 delayed listings until this year. So far, according to JSE assistant GM Doug Gair, 50 listings are booked for February and March and, although there has been an increase in reconstructions, the rise in the number of mergers is only expected later in the year.

But what should the average investor do? All are emphatic that potential investments must be examined individually. Not only are there the usual considerations to take into account, but some have stronger balance sheets than others, and dividend cover and policy also differ widely.

As Gleason puts it: "We are conclusively in a bear market. Both industrial and gold shares will experience rallies. These can be bull traps but can be turned to investor advantage."

There are always opportunities on the market. One of the few forecasts of which one can be certain is that it will be a lot more difficult to find them. For the present the market is nervous and uncertain, and this probably implies it will continue to drift for some time.

Pat Kenny

WORLD STOCK MARKETS

Life after October

The effects of the October crash influence all perceptions of market directions this year; but there are surprisingly few economic forecasters who are advising a radical shift out of equities. But conditions vary from one market to another.

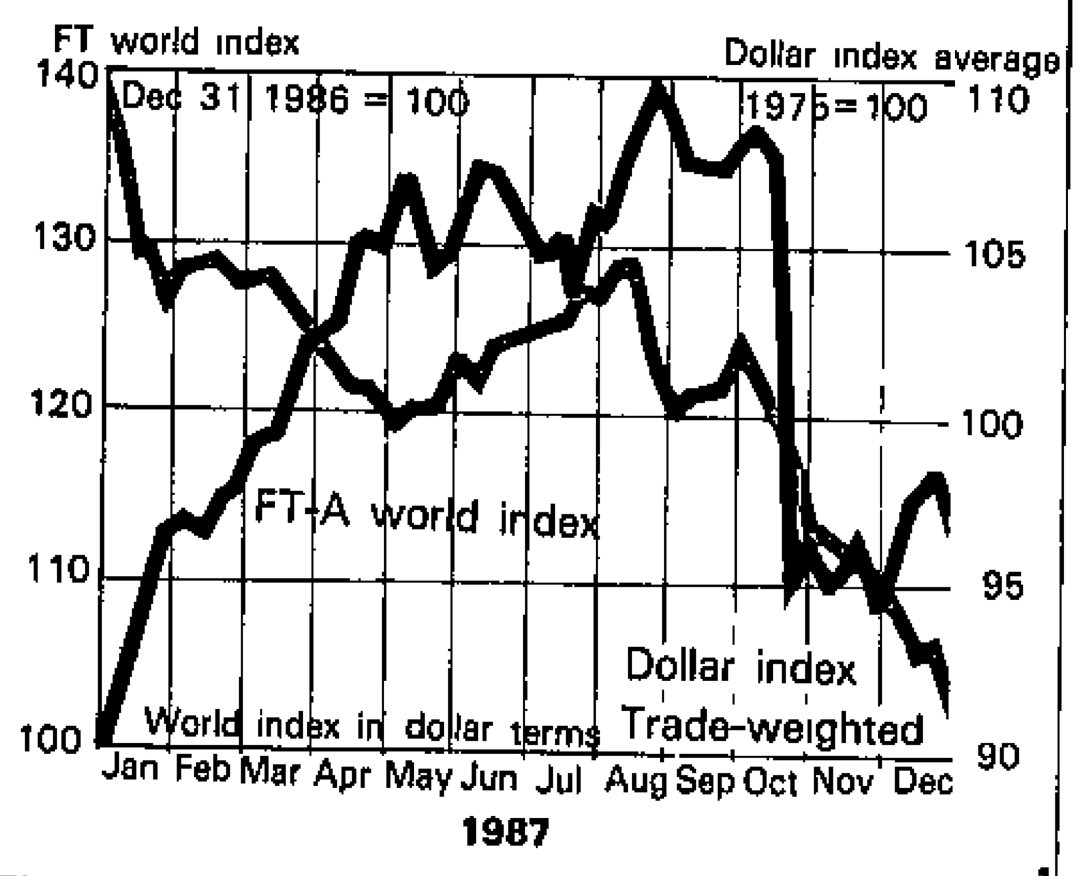
Is it over? There was no easy answer to the question as battered international stock markets peered over the parapet into 1988 after the cataclysm of October 1987. The 4% decline in the value of the dollar to fresh record post-war lows against the yen and Deutschemark in the closing week of 1987 was a grim harbinger — even if volume of business was seasonally skeletal.

It heightened the twin concerns of inflation in the US, which would drive up interest rates, and consequent recession. And in spite of assurances that the economic management of the world has moved on, the old year closed with a plethora of 1929 nostalgia — reminders that not only was the crash of 57 years ago merely half as severe as 1987's, but it was also a piquant hors d'oeuvre to what followed.

Hindsight vision is 20-20. So there is no shortage of comment that *of course* investors, especially the professionals, should have taken notice of the warning signals during the last feverish gallop which ended on the trapdoor of the scaffold of a five-year bull market which had lifted global equity values by 250%. When the Dow Jones Industrial Average peaked in August after its 44% surge since January, the average price:earnings ratio was 23 (double the historic long-term average) and dividend yield 2,6%. By contrast US long-term Treasury bond yields had risen from 7,5% to over 9% and were still on their way to 10,3%. That gap proved critically unsustainable in October.

Yet of 350 Wall Street forecasters, fewer than a score unequivocally recommended getting out of equities. There were not that

Year-end figures



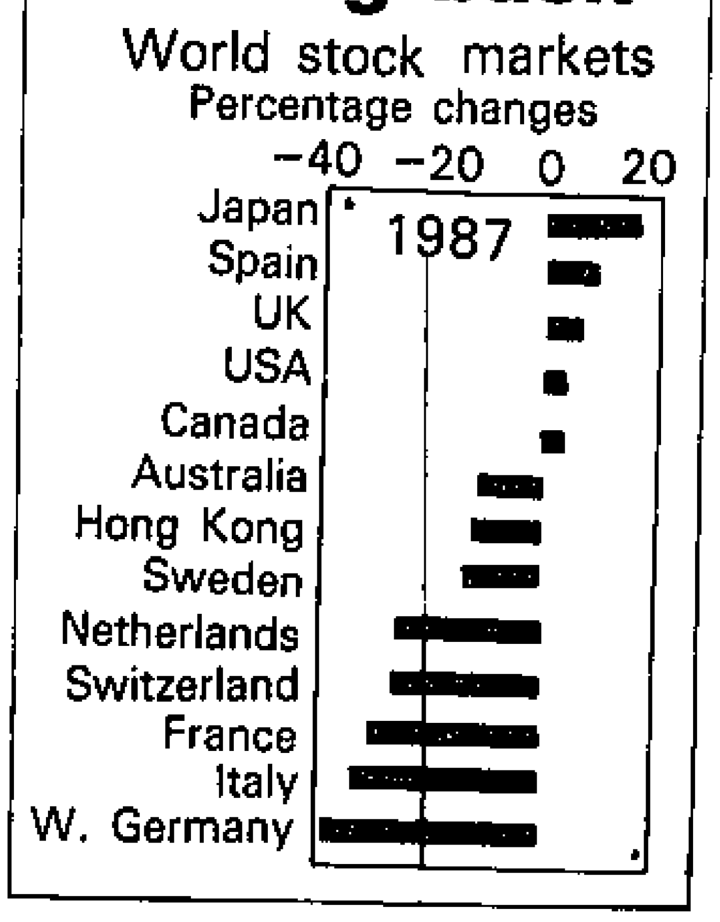
many elsewhere, with the notable exception of Germany, which hit its high in April 1986. Unthreatened by inflation, credit was allowed to balloon by central banks which discarded quantitative monetarism in the interests of sustaining economic activity. The weight of money argument became all-pervasive. If shares in New York and London were historically high, they were relatively cheap compared to the stratospheric values in Tokyo where equities, on average, were rated three times higher.

Takeover activity was raised to a frenzy. In the UK alone, the value of bids last year topped £18bn — 50% over the previous record; and British firms alone made 256 acquisitions worth US$27bn in the US, double the 1986 level and four times that of 1985. On Wall Street junk bond-financed bids and highly geared management buyouts produced predictions that $150bn worth of stock would be consumed.

Then there were the Japanese. The rising yen, the proliferation of industrial corporate "*zaitekku*" investors offsetting lost export profits by playing equity markets, and the "cheapness" of foreign stocks, raised increasing expectation of a tidal wave of buying from the East. To an extent it happened. While foreigners were net sellers of $36bn of Japanese shares in the first 10 months, net buying from Tokyo of overseas equities trebled to $16bn — although purchases of bonds declined. On estimates by Salomon Brothers of New York, total cross-border trading in shares hit $550bn in the first six months, some 50% higher than in the comparable 1986 period.

Hence the domino effect when Wall Street's crack turned what was being seen as a gentle and overdue consolidation into a global hurricane, with fund managers seeking liquidity where they could. Post mortems on the Crash of '87 are still under way. Of especial interest is the role of computerised equity hedging programmes — through which investors could arbitrage between stock index futures and the constituent shares — which were blamed for the precipitate nature of the collapse. New rules are being talked of on the New York Stock Exchange, but even so, as one commentator noted, Wall Street is still run by people, for whom success is all, not machines.

Sliding back



Not all stock markets suffered to the same extent (*see chart and table*). Tokyo, with its own brand of investment criteria, was the most resilient and in any normal year a net gain of nearly 15% would have been considered adequate. It absorbed the "*gaijin*" (foreign) retreat and rallied to wind up leading Spain in the short league of winners, while over the whole of 1987, New York, London and Canada managed to scrape in on the positive side.

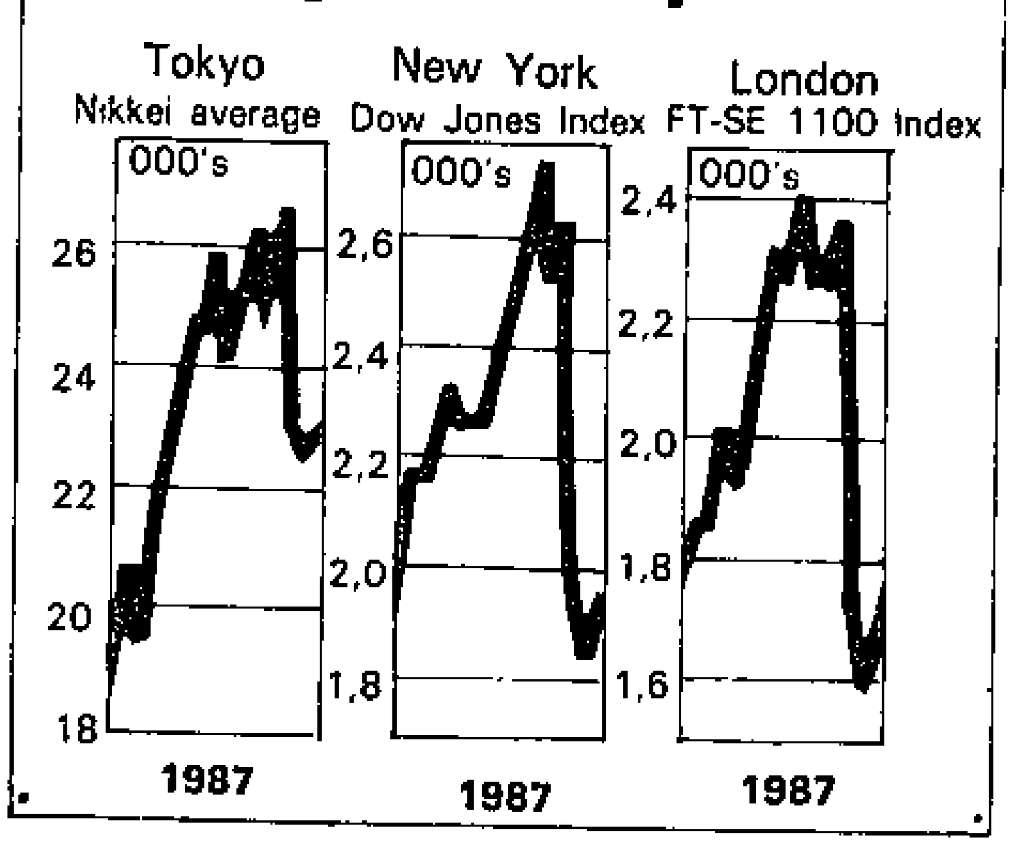
The biggest gainers were US investors who put their money into a handful of markets which outperformed the rest and whose currencies rose. In dollar terms the top quartet were Japan, up 44%; SA, up 33%; and the UK and Spain, both 30% higher. Unsurprisingly, there is little consensus about the future, especially in the dim light of economic fundamentals. Major European equity markets have fallen back to ratings which are considered more "normal": the average prospective price multiple for the UK, Germany and France is estimated at 11 times 1988 earnings. But forecasts of profits growth vary widely, depending on how the outlook for the dollar is seen. Corporate earnings growth in the UK is expected to slip from 18%-14%; in Germany a recovery from 0%-5% is expected; while the increase in French profits is put at 10%, down from 13%. Low German interest rates are expected to help a stock market recovery, and some bullish forecasts put the equity index 30% higher in 12 months. France is in a similar category. But optimism is not universal. Against belief that the London equity market should rally substantially after a slow start, a survey of 310 fund managers showed that the majority expect little further reduction in interest rates (12-year gilt yields staying at close to 9,5%) and a flattish year for shares.

In the US, where, according to the *Wall Street Journal*, fear has usurped greed in investor psychology, any significant rally could produce selling by those who missed the October boat. And even after the fall, Wall Street equities are not yet "cheap" on an average historic p:e of 16, while the current dividend yield of 3,2% sits uneasily against long-term bond returns of 8,9%. The weaker dollar may see corporate profits climb by a sixth or more this year and some forecasters are looking for a ragged rise of 10%-20% in the Dow Jones in an election year. Worries about anti-inflationary credit tightening later on and an economic slowdown are met with claims that any steadying (or rise) in the dollar will bring back foreign confidence.

Such consensus as exists is that fluctuations will be violent, offering profitable opportunities for professional players but unlikely to re-establish confidence among small investors. And on official estimates the number involved in the 1987 market was 16 times that afflicted in 1929.

Reading the Japanese runes only serves to enhance the cultural gap between foreigners and a stock market which (in dollar terms) is now 40% of the world's total equity capitalisation. Japan's biggest investment house, Nomura (which claims it bought back $4,5bn worth of stock from "*gaijin*" sellers on Black Monday), sees 1987 as a temporary hiccup in the long-term bull trend. It says Japan will average GDP growth of 4,5% for the next 10 years, that company profits will rise by 20% in 1988, and that

Regional reports



ON THEIR UPPERS

The human cost of the stock market crash and, in London, the weeding out of competition in the first year of Big Bang, has been high. About 10 000 have lost their jobs in New York where Black Monday enforced the takeover of E F Hutton by Shearson Lehman Brothers, and year-end bonuses were slashed by 60%. The total could be 30 000 before the contraction of costs stops: Merrill Lynch alone intends to cut its salary bill by US$200m.

London's tally was mounting as the *FM* went to press. The slump simply compounded the over-expansion produced by the Big Bang of October 1986. Estimates vary from 15 000 upwards.

None of it has stopped a rash of jokes, such as the two below.

"It would never have happened if President Reagan had still been alive."

"What's the difference between a stockbroker and a pigeon? A pigeon can still put a deposit on a Porsche."

So what's new?

(58)

In contrast to the previous two years, a review of 1987 is unable to describe a bull market which took rates to their lowest levels since 1981.

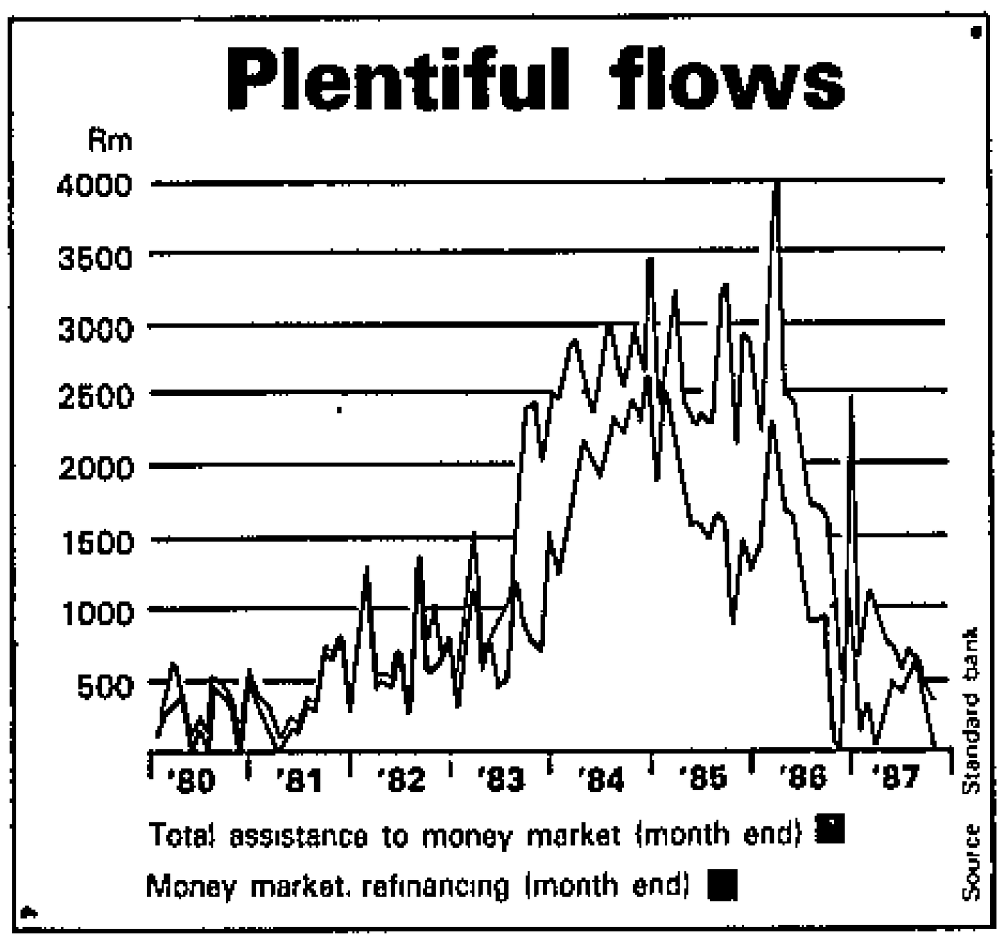
Indeed, following a dramatic start when banks raised prime rate by 50 points (to 12,5%) after discovering they bit off more than they could chew in dropping prime by 150 points in pursuit of a 50-point fall in Bank rate in December 1986, 1987 was rather uneventful.

Just as uneventful was the unchanged "moderately expansionary" monetary policy. With the economy failing to generate much activity, the Reserve Bank did not need to apply the brakes (as many expected at the beginning of the year). Nor was there much point in easing policy further as it is doubtful that this would have stimulated activity.

So 1987 was the first year that Bank rate was unchanged since the fixed rediscount rate policy began in 1983. This is a far cry from May 1985-December 1986, when it was cut more than 13 times from 21,75% to 9,5%.

The Bank's other two rediscount rates, for Land Bank bills and bankers' acceptances (BAs), were however reduced in May, when the Bank decided to narrow the margins between its three rates from 25 to 15 points. Rates for Land Bank bills and BAs went to 9,65% and 9,8% from 9,75% and 10%.

With the Bank holding its rates, other rates were virtually static — BA traded between 9,4% (in January) and 8,45% (March) while the Treasury bill ranged from 8,26%-9,24%. For most of the year rates traded within an even narrower range. The graphs reflecting rate movements over the year are virtually flat.



In such conditions institutions had to work harder for their profits and make skilful use of whatever modest movements there were. No longer did profits flow by merely holding assets and benefiting from rates falling.

With the economy flat, a current account surplus and reduced capital outflows, conditions have been liquid for most of the year. Adding to liquidity, at times the Bank has been a net seller of rands (buyer of dollars) to prevent the currency rising too far.

Such liquid conditions practically rendered the Bank's rediscount rates ineffective.

The BA rate has also dwindled in importance. Call has been the replacement, with the emphasis of funding switching to overnight loans. For borrowers this provides more flexibility and has mostly been cheaper than the effective three-month rates.

So the more volatile call rate has become a better barometer of conditions, often swinging by more than two percentage points over month-end. Fluctuating from around 8%-10%, this is huge.

The short-term yield curve has regularly been inversely shaped — indicating call rates are more expensive than longer-term rates.

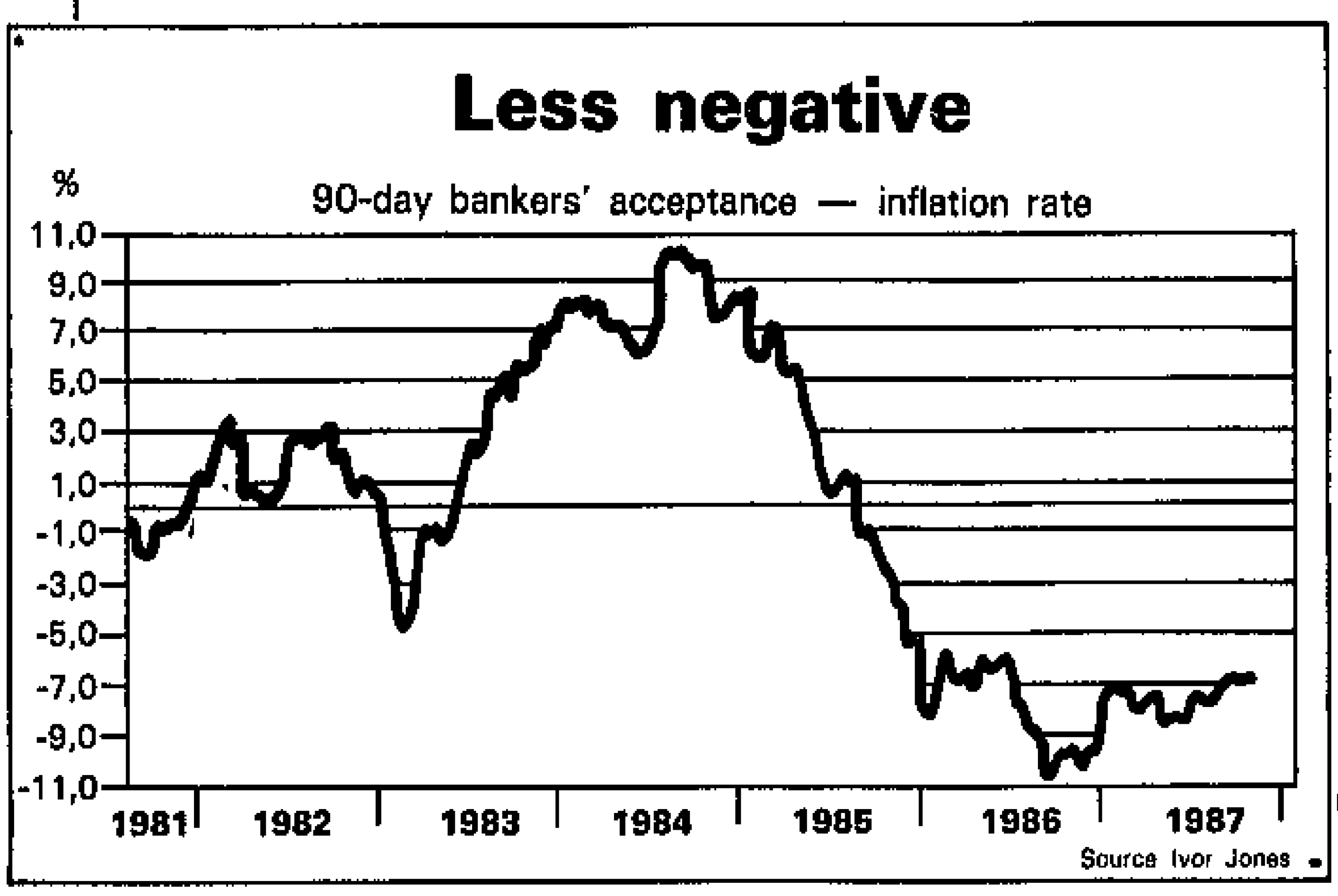
Banks have entered this overnight market to protect market share. For them it has the advantage of being off-balance sheet with no requirement to hold other assets against it.

This partly explains another feature — the shortage of liquid assets. With banks increasingly lending overnight, they do not create liquid assets. Some even question whether it has been a true shortage, arguing that banks have kept surpluses to a minimum as they can use funds better elsewhere.

Liquid assets were short also as a consequence of slack credit demand.

Finally, insurance institutions have been increasing holdings of short paper, as longer-term rates have been unattractive.

While rates may not have provided much excitement, the market had to get used to the Bank's adjusted accommodation strategy. Instead of charging a set rate for CPD money which only discount houses had access to, in March the Bank decided to allow banks and discount houses to tender for CPD funds, making rates market-related.



Prior to this the Bank's CPD rate had become the "trend-setter," replacing the rediscount rates.

The new tender system was introduced primarily "to distinguish this method of influencing money market conditions from the Bank's basic discount policy."

But the system has caused much controversy after initial confusion, especially because of the difficulty the Bank has in estimating daily money flows in and out.

In addition to tendering CPD money the Bank introduced reverse repurchase agreements, whereby it sells assets (thus taking money out the system at a time of surplus liquidity) by tender on a repurchase basis.

An interesting aspect of liquidity management is the use of Central Energy Fund money, though this has never been acknowledged officially. The Bank has also made forex swaps to aid liquidity management.

Last year we concluded that "a turnaround in rates, and a modest one at that, is not expected until well into next year. If, that is, economic recovery gains momentum. Forecasters have tripped on this more than once. 1985's false expectation of a turnaround is unlikely to be the last." Read 1986 for 1985 and it says a lot that this conclusion is much the same for 1988. ■

DRIFTING DOWN?

After firming in late December to their highest levels in more than a year, rates seem to be heading for a slight fall.

Call eased from 11,25% in December to about 10,5% early this week.

One dealer attributes easier rates to the seasonal flow of notes back into banks. Notes in circulation dropped from R6,3bn-R5,8bn last week, according to the Reserve Bank. Though the dealer agreed rates would ease, he stressed that they would not return to November's lows.

The past month had seen rates firming. The weekly Treasury bill (TB) tender rate moved up from 9,02% on December 18 to 9,18% a week later and 9,24% on the last day of the year — the highest since 9,51% in August 1986.

The rate had not been above 9% since November 1986.

Average rates at the weekly Land Bank tender rose from 9,22% on December 22 to 9,27% a week later and 9,4% on January 5 — where it was in October 1986.

One dealer said upward swings simply put yields in line with the BA rate. He expects the TB yield to drop Friday, with the Land Bank following next week, as the market becomes more liquid.

The week's window shortage ranged from R381m to R1,2bn. On Monday, with a shortage of R888m, the Bank offered tenders of R100m CPD money at an average 10,1%, and R700m repurchase agreements averaging 10,54%.

S/Time 10/1/88

Years to go to AA insurance finality

By Udo Rypstra

THE final liquidation of the AA Mutual short-term insurance division is so complex and going ahead so slowly that it will take years — not months — to pay all creditors.

This is bad news for thousands of policyholders who had until June to lodge their claims and until December 31 to place final estimates on those claims still to be agreed on at a settlement figure.

Preliminary figures indicate the division has about R210-million in assets. But because of various problems, the final count of assets and liabilities — and dividend payouts — is far off.

Preferential

The only people to have been paid out are preferential creditors — more than 1 000 staff members who have received R609 500 in outstanding leave pay of up to R1 000 a person — the Workmen's Compensation Commissioner (R3 600) and, of course, the Receiver of Revenue (R320 000).

Because of the nature of the insurance business — it can take years to dispose of a single claim — the AA liquidation will rank as one of the most drawn out in SA history and consequently one of the most expensive.

The first liquidation and distribution account lists R210-million in assets, including R66-million in cash and deposits, R2,2-million in investments, R3,8-million in mortgage bonds and R60-million in property.

Also included is R74-million the liquidators say is still owed to the division, including R22,2-million from sundry debtors, R12,1-million in claims recoveries and R40,6-million due by agents and policyholders.

Part of the R40,6-million is disputed by agents and brokers and is subject to Supreme Court litigation.

A legal dispute between Natie Kirsh and the AA Club is also still unresolved.

In addition, there is still a query about who owns the R40-million AA Mutual headquarters in Johannesburg's financial district — the short-term division or the AA Mutual (which is not inliquidation).

Michael Connolly, spokesman for the liquidators, says the building is included in the division's assets.

By March 31 last year, R80-million in assets had been realised, including R4,7-million in investment income, R22-million securities, R8,7-million mortgage bonds, R18,4-million recovered premiums, R5,5-million reinsurance recoveries and R3,2-million from the sale of cars.

More than R61-million has been carried forward to the second liquidation and distribution account.

Head office

Since they took over 18 months ago, the liquidators have reduced the staff count from 2 000 in 60 branches to fewer than 200 in eight branches and the head office.

Administration costs, including legal fees up to March 31 last year, amounted to R13,5-million.

The liquidators, whose tariffs are determined by the Master of the Supreme Court, were paid another R4,6-million up to March last year, half of which is to be retained in suspense for some time in terms of a court order.

It appears that the winding-up costs will make a serious dent in the amount available for distribution to concurrent creditors.

Earlier last year, the liquidators indicated that the excess of liabilities over assets on book figures was R70-million, but R198-million on their estimates of the net realisable value of the assets.

Mr Connolly says hundreds of claims are still outstanding against the division, including claims from foreign reinsurers. He refuses to guess what total liabilities and dividend payouts will come to.

Half of black bond clients have wrong books

Attorney disputes official ID figures

58

SMC 12/1/88

By Therese Anders,
Highveld Bureau

A Johannesburg attorney who handles conveyancing for black bond holders estimates that 50 percent of his clients have been issued with wrong identity numbers.

The attorney — who asked to have his name withheld for professional reasons — contacted The Star after reading the statement by the Director-General of Home Affairs, Mr Gerrie van Zyl, that only 5,3 percent of the ID books issued so far have been returned for correction.

"It is my experience that a great percentage of the people issued with new ID books have been given wrong birth dates."

The attorney said he was not dealing with illiterate people, but professional and semi-professionals.

"And what is more my clients do not seem interested in going through all the rigmarole of getting their IDs corrected. Most seem resigned to keeping the books and living with the wrong ID number.

"Therefore to say that only 250 000 — or 5,3 percent — have applied for corrections gives a totally incorrect picture of the situation."

A survey of Eastern Transvaal trade union offices showed that many union members — and union officials — have been issued with wrong ID numbers, some with wrong name spellings.

A spokesman for the Construction and Allied Workers' Union (Cawu) said he ran into "between four and five a week" when registering members.

An industrialist has also challenged the Director-General of Home Affairs.

"The 5,3 percent of the new ID books issued to blacks which have been returned for correction must represent only the tip of the iceberg.

"A great many blacks will not yet have perceived the severe implications this error will have on their lives, or will have dared to face the bureaucratic obstacles between them and a new, correct ID book.

"The uncaring and careless manner in which the incorrect ID books were originally issued is matched only by the apparent indifference of officialdom to this massive error which has been perpetrated."

He said the cost would be measured in taxpayers' money, "confusion in business transactions and a large measure of inconvenience and suffering".

Argus

58 103

UBS puts up bond cancellation charges

The Argus Correspondent

PRETORIA. — The United Building Society has sharply increased its bond cancellation fee, a move widely interpreted as an attempt to deter its existing bondholders from switching to another financial institution.

The increased fee is apparently the latest salvo in the home loan battle for increased market share between banks and building societies.

However, UBS general manager Mr Piet Kruger denied the cancellation fee had been increased as a form of "penalty".

"That was not one of the reasons why we increased it at all," he said.

ATTORNEYS' FEES

The UBS has introduced a flat rate fee of R200 for any bond cancellation. Before, UBS bondholders were charged about R85 in attorneys' fees to cancel a single bond on a property. About R30 was charged to cancel any additional bonds on a property.

Clients at all the other major building societies are charged only the attorneys' fees involved in a bond cancellation.

NBS assistant general manager (loans) Mr Trevor Olivier said the UBS's increased fee was a deterrent to people thinking of switching their bonds.

A Trust Bank spokesman said the move was "good news" because it meant the UBS was trying to protect its market share.

(58) STAR 13/1/88

Increase in bond cancellation fee 'not a penalty'

By Finance Staff

The United Building Society has sharply increased its bond cancellation fee in a move widely interpreted as an attempt to deter its bondholders from switching their bonds to another financial institution.

The increased fee was regarded as the latest salvo in the home loan battle for increased market share between the banks and the building societies.

However, the UBS general manager, Mr Piet Kruger, denied the cancellation fee had been increased as a form of "penalty" to dissuade people from transferring their bond to another financial institution.

"That was not one of the reasons why we increased it at all. I don't believe it will deter anyone from switching their bond to another institution if they really want to," he said.

The UBS introduced a flat rate fee of R200 for any bond cancellation from November 20 last year. Prior to this date, UBS bondholders were charged about R85 in attorneys' fees to cancel a single bond on a property.

Although the charge might vary from attorney to attorney, about R30 was charged to cancel any additional bonds on a property.

Clients at all the other major building societies were charged only the attorney's fees.

The NBS assistant general manager (loans), Mr Trevor Olivier, said the UBS increased bond cancellation fee was a deterrent to people thinking of switching their bonds because bondholders had to consider the cost involved in transferring a bond.

A Trust Bank spokesman said it was "good news" when the UBS decided to do "things like this" because it meant the UBS was trying to protect its market share and the home loans war between the banks and building societies was hurting.

Mr Kruger said clients had always been charged a fee for the cancellation of a bond but it had now been increased.

He said the fee was not an additional fee but an increased cancellation fee to cover work previously done by the UBS "for free".

Mr Kruger said the society's new fee structure for bond cancellations was in line with what banks were charging.

But a survey of the five major banks — First National Bank, Standard Bank, Nedbank, Trust Bank and Volkskas — revealed that only First National was charging anything like the UBS for its bond cancellations.

A First National spokesman said it charged clients a R200 administrative fee, which excluded the attorney's fees, for any bond cancellation.

Volkskas said clients were charged the attorney's fees plus R50 to cover administrative costs.

The UBS is offering new bondholders a rate of 12,5 percent, which is also offered by the banks.

Its rate on existing bonds will drop from 14 to 13,5 percent from March 1.

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Hotel group moves to clear name

Sparks fly in Transkei graft probe

ROGER SMITH and DOMINIQUE GILBERT

TOP Sun International (SI) executives took strong action yesterday in a bid to clear the company of any implication in alleged Transkei government corruption.

The executives said as far as they were concerned, their exclusive gambling rights in Transkei were still legal and binding and not in jeopardy despite the recent coup and the corruption scandal.

They demanded an apology and retraction of reports on Monday's hearing of the Transkei commission of inquiry into corruption which they said were misleading in suggesting SI had been a party to improper payments involving R2m.

See Page 2

The company held a media conference and placed advertisements stating its position and insisting its conduct and that of its subsidiary, Transun, were "beyond criticism".

The commission granted an SI request to give evidence and a group of executives, including SI chief Ian Heron, will fly to Umtata today.

An indication of the pressure on SI came from Transkei's military chief Major-General Bantu Holomisa who last night denied a statement by Heron that he was "happy" with all SI's dealings in the Transkei.

He said SI had to prove "to the world and Transkei" it was "above board".

Holomisa said: "What I told Heron is that the onus is on his company to prove to the world and the Transkeians he is above board in the wake of the scandal which has rocked the country. If there are any queries, he and his company must clear their names through the commission."

Holomisa said his discussion with Heron bore no relevance to the inquiry to which numerous questions still had to be posed.

He asked: "Has he (Heron) got licences, real documents and why was that money paid? I'd like to know what's actually going on."

Heron responded that proving its dealings were above board was the whole point in taking action now.

He said he did not know what Holomisa was referring to in talking about SI's licences. Holomisa knew SI's casino licence application was still being heard.

At yesterday's media conference Heron said SI did not pay the Transkei government for its gambling rights, but had committed itself to build a [illegible] hotel.

He said the company had an above-board legal and binding agreement with the Transkei government, and had n

To Page 2

Business Day (58) 13 Jan 88

No bond war between banks and building societies, says Allied MD

(58)

BUSINESS DAY, W

GRETA STEYN

"WAR? What war?" is Allied MD Kevin de Villiers's response when the issue of a bond war between banks and building societies is raised. De Villiers prefers to think of skirmishes in the financial-services industry as strategic moves in an intensely competitive environment.

He is the man behind the Allied's latest strategic move — the "bank bond", a 100% loan to blue-chip clients at rates as low as 12,5% and even 11,5%. The bond bombshell was a surprise attack: speculation that interest rates were on their way up had made bond-rate cuts to below 12,5% seem highly unlikely.

De Villiers was the first strategist in a building-society group to take advantage of the fact that banks, unlike societies, were not hampered by law when it came to granting 100% bonds. The bank can charge cut-price interest rates to blue-chip clients thanks to the short-term nature of its funding.

The Allied's response to increasing competition from major banks is fierce protection of its traditional customer base — the home owner. Its bank has no intention of following the United Bank in aggressively luring customers away from major banks by offering personal loans at today's lower-interest rates to pay off debt incurred when rates were sky-high.

"Your best new customers are your old customers. That is why the Allied is fighting on the home front," De Villiers says. While obviously intent on gaining market share, the Allied views strong ties with existing customers as very important.

Top-earning Allied building society bond holders who may have considered switching to one of the major banks were stopped in their tracks by the Allied's latest move. A blue-chip customer can easily switch from an Allied building society bond to a "bank bond" — rather than take advantage of other attractive offers in the market place.

Well aware of the fact that established Allied building society bond holders are unhappy about the difference in rates between old and new borrowers, De Villiers says every effort is being made to eliminate the gap. The Allied announced on Sunday that it had reduced the interest rate on its one-year fixed rate bond from 14% to 13,5% — the first step. More is in the pipeline. "Bond holders can look forward to the greatest range of options at any institution," De Villiers says.

He believes the Allied Bank, by providing finance for the contents of the home, is strategically important in cementing relations with traditional customers. The bank's marketing drive is not pitched at other banks' customers.

The Allied Bank's other vitally important role is that of a source of short-term funds for home loans, in the form of "bank bonds" and building society loans. "The Allied Bank has helped the society remain competitive while banks were slashing rates."

Mud-slinging in the bond "war" causes De Villiers some amusement, and his views on the banks' foray into the home loans market are tame compared with the recent war of words.

"When interest rates begin their uptrend later this year, banks' bond rates will probably be higher than building societies' because of the short-term nature of their funding."

SA banking chiefs face tough choices

13/11/88 (98) B/day

GRETA STEYN

SA BANKING authorities will face critical decisions after the announcement that capital requirements for international banks will be doubled by 1992.

The Bank for International Settlements (BIS), the central bank for central bankers, has recommended that that banks in industrial countries increase their holdings of capital-to-assets from 4% to 8%.

It has also recommended severe measures to curb growing off-balance-sheet financing by banks.

The present SA capital/asset requirements, which are still being phased in, will achieve a 5,5% ratio by 1992, and will fall substantially short of the BIS standards.

Senior Reserve Bank deputy governor Japie Jacobs said yesterday that the BIS requirement seemed "very high". He added the Reserve Bank was still awaiting the report.

"It is a little premature to comment fully."

Should SA agree to the higher capital requirements, considerable difficulties will be imposed on banks.

Jacobs said he was "perfectly happy" at present with SA's capital-to-asset requirements which had been decided at the end of 1986.

He said the danger of a very high capital requirement was that it would jeopardise banks' lending ability and could encourage greater disintermediation (lending by non-banking enterprises).

This, in turn, could lead to higher interest rates because a diminished supply

● To Page 2

Banking authorities face critical decisions

of money would be available for lending.

● From Page 1

Banks will either have to increase their ploughbacks, which will mean a cut in dividends, or embark on a series of rights issues which will dilute shareholders funds.

Should SA not fall into line, the implications for its position in the international banking community will be further jeopardised. It could even lead to SA banks' activity in foreign markets being curtailed.

Reuters reports that the Bank of England, reacting to the BIS proposals, has called for capital requirements even tougher than those suggested in the report.

Partial management buy out

CAPE TIMES 13/1/88

Unidev scoops Correg for R1,3m

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based financial services company Unidev has acquired control of Corbank Registrars (Correg), the share transfer and registration division of the former Hill Samuel (SA), in a R1,3m cash deal.

The change of ownership is a partial management buy out. The MD of Correg, Bill Vogel, and GM Francois Hornè, who have run the business for the past 20 years, have a substantial stake and a pre-emptive right to increase it.

The deal means that Unidev is likely to benefit from disinvestment by US companies in the coming year.

Correg, which will be renamed Unidev Registrars, handled a number of management buy-outs of overseas companies in the past 18 months.

Ridge Riley, MD of Questor 1V, the issuing house in the Unidev group, said there were about seven in the pipeline at present and he expected more.

Unidev executive director Ronnie Stein confirmed: "We believe that the new US legislation on double taxation for US companies based in SA will lead to an increasing number of opportunities for management buy-outs.

"Unidev is in a unique position to assist in this. We are prepared to take the risk and we have the necessary support and services structure to do so."

Stein said all Correg executives and staff would remain with the company. Capital expenditure would be undertaken to enhance services and facilitate further expansion.

"Correg currently services more than 200 companies on the Johannesburg Stock Exchange (JSE) and, with its increased capacity, will be in a position to imnprove its already substantial market share."

This is the second such acquisition made by Unidev in less than 12 months.

In April it took over the Prestige group, formerly British-owned, which manufactures kitchen equipment. The group was listed on the JSE in November.

COMPANIES

Growth fund does well in spite of stock crash

B/Day 14/1/88 (58)

HELENA PATTEN

THE Syfrets Growth Fund is in fine fettle just nine months after its inception, and in spite of the October crash in the equity markets.

A statement from the mutual fund yesterday said on December 31, 1987, over 10 000 investors had entrusted money worth a combined R58,3m in Syfrets Growth Fund.

The fund has declared its third quarterly income payment of R1,09 a unit, to investors in the fund at the end of the fourth quarter of 1987 — marginally lower than the R1,10 a unit distribution for the third quarter.

The statement said the JSE overall index had dropped 22% since April 13, 1987 — the date of the fund's launch — compared with a modest 11% fall in the growth fund's repurchase price.

In the latest quarter the fund added to its holdings in numerous counters already held in the portfolio.

Most significant of these were the purchase of 20 300 Afrox and 8 000 CG Smith shares, bringing the two companies into the fund's top ten holdings. Others on this list are Anglo American Corporation, De Beers, JCI, Anglovaal Ords, Vaal Reefs, Dries, Hartes and Anglovaal participating prefs.

The only newcomer to the portfolio is Mid Wits which makes its appearance following the fund's purchase of 8 500 of its shares. During the last quarter the fund did not sell any of its shares.

The fund's liquidity, 23% at December 31, was significantly higher than the 11% figure reported at the end of September 1987, and the fund is still more heavily weighted towards mining shares, with 22% of its resources in the mining finance sector.

Other holdings in the mining sector are distributed between the gold (15% of the overall portfolio), diamonds (6%), and platinum (4%) sectors. Industrial shares made up 30% of the porfolio.

Societies not keen on move

B/Day 14/1/88

GRETA STEYN

BUILDING societies, other than the UBS, are not yet considering upping the costs of cancelling a bond — but have noted with interest the UBS move.

The Allied, the NBS and Saambou said the issue of charging additional administrative costs over and above the usual legal fees had not yet been raised. The Perm, however, could not rule out the possibility that administrative costs may be charged for cancelling a bond.

Allied home loans GM Geoff Bowker said the issue had not been raised and Saambou's Christie Kuun said it had "never been on the agenda". While NBS home loans GM Trevor Olivier said the society "had no intention to up costs".

THE ECONOMY

Is borrowing still wise? Yes, but don't dig too deep

15-21/1/88

Is it still wise to borrow money? Yes, with caution, and some shopping around for the best rates. DUNCAN INNES reports on the interest rate debate

WITH Father Christmas having resumed his hibernation it is time to ask what 1988 has in store for us from an economic point of view.

Much of the debate among economists on this point turns around whether or not interest rates will remain low during this year. The debate is important because should interest rates take off they will choke off the rather sluggish economic improvement we experienced last year.

On the other-hand, should they remain at current low levels it could be a sign that there is no need to choke off the economy because it is already dead.

Towards the end of 1987 the *Standard Bank Review* put forward a depressing prognosis for 1988, arguing that the world-wide stock market crash raised the very real threat of world recession. Should this happen we here in sunny South Africa will go down the tubes along with everyone else.

But even if recession did not occur, the bank argued that 1988 would bring a temporary lapse in world growth which in turn means South Africa would experience at least a postponement of expenditure on consumer durables and private fixed investment.

Consequently, the Bank concludes, "monetary policy is likely to be easy for the time being and an increase in interest rates is now highly unlikely".

This argument is supported by those who claim local interest rates should be much lower than they actually are. According to them, because the Reserve Bank has prevented interest rates from falling to levels dictated by the market, there is a lot of slack left so even if credit demand rises this should not produce upward pressure on interest rates until the slack has been taken up.

However, while these arguments are very interesting and logical, in the real world interest rates have started moving up. The 90-day Bankers' Acceptance (BA) rate has moved up one percentage point (from 8,5 to 9,5 percent) over the last few months.

This rise seems to have been fuelled by rising credit demand. The rate of increase in total bank credit grew from 5,7 percent in June to 9,1 percent in September last year.

So who is borrowing and why? Well, private consumption expenditure has been increasing steadily (from 1,7 percent in the second half of 1986 to 3,8 percent in the first half of 1987) which suggests that there is an important improvement in consumer demand. This view is supported by the rise in HP credit from 14,4 percent between January and September last year to 18 percent in the third quarter.

Furthermore, the private sector has been borrowing more as the economy improved: bank credit to the private sector advanced from 8,2 percent in the first half of 1987 to 13,6 percent in the third quarter.

So with private consumption expenditure and private investment expenditure both increasing, it does seem as if interest rates might be coming under some pressure.

This view recently received cautious support from Reserve Bank governor, Gerhard de Kock, who said that: "For the first time in more than two years there is the sense that the growth rate is really picking up. But we must accept that if we do get the growth we want, we might have to live with somewhat higher interest rates."

But even if interest rates have, as I believe, bottomed out and are showing signs of starting to turn up, the pressures behind this movement are certainly not sufficient to cause any immediate rapid or radical increase. But what of the near future?

Here there are two factors to take into consideration. The first is the budget deficit and the second the balance of payments.

Regarding the deficit, as was widely forecast last year, government expenditure is soaring way ahead of Barend du Plessis' estimates, while revenue receipts are well below his estimates. Consequently, Volkskas claims this year is likely to see a deficit before borrowing in the region of R11-billion, which is R1,6-billion more than we were expecting and a massive R3,58-billion more than last year's.

This deficit will have to be financed in one way or another. The most likely routes are either by borrowing or by printing money. While the latter is inflationary, the former will put further upward pressure on interest rates.

The balance of payments situation may also lead to upward pressure on interest rates. If, as seems likely, there is some contraction in world growth this year our exports will begin to decline, thereby reducing the surplus on the current account of the balance of payments.

If this happens, the authorities may well favour pushing interest rates up a bit to dampen demand for imports, thereby maintaining the surplus. This course of action, which could slow down the economic upswing, may be inevitable given the problems South Africa would encounter in trying to borrow money abroad.

To sum up, then, interest rates are likely to rise this year. However, it is unlikely there will be any major rise and I would foresee a rise of about 1,5 percent by the end of the year, taking the prime overdraft rate to 14 percent. A rise to these levels would probably be sufficient to cope with the upward pressures without stifling future growth.

What does all this mean for the consumer?

Primarily, it means that it still makes sense to borrow money to make large purchases. Even at 14 percent the prime rate is still below the current inflation rate of 16,5 percent and, since inflation shows no sign of easing during 1988, money should remain relatively cheap throughout the year.

But of course not all of us can borrow money at the prime rate. Ordinary individuals are currently paying between 14,5 percent and 19 percent for overdrafts, loans and hire purchases. So is it still wise to borrow?

I would say yes, bearing in mind that competition is currently rife within the banking sector.

If the best HP credit you are offered at a shop is 19 percent, approach a bank and ask them to lend you the money instead at a lower rate.

There is one proviso to all of this and that is: don't go in too deep. Borrow by all means, but keep the amounts manageable.

BANKING (58)

FM 15/1/88

On balance

Like water stored in a safety deposit box, movements of money are difficult to contain. Since the Basle Concordat of 1975, banking authorities worldwide have made a concerted effort to introduce a streamlined and co-ordinated regulatory framework. But, predictably, as fast as they move the innovative spirit of banking moves faster.

As more stringent requirements raised supervisory standards of conventional banking, business began to flow off-balance sheet into previously unexplored, unregulated areas.

The cost of capital to meet new prudential requirements has stimulated the growth of financial instruments with no capital costs. In SA these include forward rate agreements, interest rate and currency swaps, and "all manner of disintermediation."

The scale of business is enormous.

Figures are not available, but as one banker puts it: "Any bank worth its salt would have at least as much business off the balance sheet as on it. This would have been the case, because of forward exchange positions alone, even before all the new products."

US statistics confirm the trend. Last September, *Euromoney* estimated that since the start of untrammelled growth in interest rate and currency swaps in 1982, the market in these transactions had grown to US$600bn.

Together with other off-balance sheet activity, they threaten to overshadow traditional business. Figures from the Bank for International Settlements reproduced in the United Building Society's *Economic Perspective* show that in 1985, off-balance sheet items as a percentage of total assets were: Bank of America 196%; Bankers Trust 296%; Chase Manhattan 187%; Chemical 201%; Citibank 236%; Manufacturers Hanover 166%, and Morgan Guaranty 197%.

Intrinsically, risks are not always greater. In some cases they are smaller, because they relate not to principal but to interest rate volatility or currency movements. Losses incurred by changes in these would not be total, as with default on a conventional loan.

Of concern to regulators, however, is that risks are difficult to identify, exposures difficult to quantify, and activity difficult to monitor. This, they feel, encourages banks to ignore or underestimate exposure.

And, Registrar of Banks Chris de Swardt points out: "It may be more difficult to determine ultimate responsibility for risks."

The South African authorities took their first steps towards monitoring off-balance sheet items in December 1986, when they required capital to be held against contingent liabilities and various other risk exposures.

The US Federal Reserve and the Bank of England took regulation a step further last March by proposing a stiff increase in the capital reserves required for new off-balance sheet products. Since then regulators in Japan and the EEC countries have indicated they are thinking along similar lines.

"The basis of the US-UK proposals," says First National's Eddie Cade, "is to measure each exposure and translate it into a proxy known as 'deemed credit equivalent' as if it were on balance sheet. It is then assigned a capital weighting according to one of five risk categories. But what weighting for each product is still under debate."

The proposals have been widely criticised.

Says Cade: "It is said that they concentrate too much on credit risk while ignoring other risk; that they muddle up credit risk with other risks, with illegitimate results; that potential exposure should be counted net after set-off of contra cash flow obligations; that swaps hedging a bank's other risks should be excluded; and that draconian rules will merely drive new products away from regulated to unregulated money centres."

It will also, of course, drive business to institutions which do not fall within banking legislation.

For this reason, the authorities are known to favour a broader view of banks and banking supervision. With the Banks Act currently under review, De Swardt suggests that regulation and supervision should be along functional rather than institutional lines. ■

African Bank in good recovery

15/1/88 B/Day (58)

HELENA PATTEN

THE African Bank has recovered substantially from the damage its image suffered after allegations of foreign-exchange fraud, reporting taxed profits up R555 797 for the year to September 30, 1987, compared with the previous year's R83 939.

Taxed income after internal reserve transfers and non-recurring credits rose to R638 939 last year, 307% higher than profits in 1985, before the alleged forex scam interfered with results.

Total dividend payments were 2,5 times higher at R553 714 (R222 459), but the bank was able to retain R142 650 (R57 425).

Gaby Magomola, appointed CE of the bank in April last year after his predecessor Moses Maubane was dismissed for alleged involvement in foreign-exchange control contraventions, ascribed the increase in taxed income to the restructuring of the bank's operations and more conservative lending policies.

He said confidence in the bank's credibility was definitely returning. "The numbers speak for themselves. The majority of our deposits came from the corporate sector with the help of a more pro-active marketing stance. However, the unresolved foreign-exchange case does remain a major obstacle."

The foreign-exchange case is due to be heard in the Supreme Court on February 1, after being postponed from November 9 last year. Magomola said he hoped there would be no more delays. "We would like to have it behind us as soon as possible."

The bank fully expects its confiscated foreign-exchange licence to be returned once the case is resolved. In the meantime, it is carrying the infrastructure of a foreign-exchange department and losing business opportunities; both affect profitability negatively.

Magomola said the bank suffered from an increasing incidence of bad debt in the year, largely because of problems especially prevalent in the black sector of the economy, where most of the bank's retail lendings took place. "But our more conservative lending policy is starting to pay off."

Liabilities for deposits, savings and other accounts almost doubled to R115m (R70,7m), while those for acceptances, guarantees and indemnities totalled R10,7m (R1,3m).

Blue Chip prize

Blue Chip

Banks not hurt by bad debts

15/11/88

GRETA STEYN

BANKS, unlike the Small Business Development Corporation (SBDC), are not experiencing bad debt headaches with loans to small businesses.

The Standard Bank and First National, which have departments specialising in small business development, say bad debts arising from loans to these businesses are not cause for concern.

Volkskas, which is in the process of setting up a small business unit, said it was "very satisfied" with the repayment of debt by its small business clients.

Standard Bank small business development manager Malcolm Kietzman said bad debts experienced by the department over the past six years had been "well within acceptable norms."

"World trends indicate that a bad debt provision of 5% is not unrealistic in the small business sector," Kietzman said. This follows reports that the SBDC has written off 6,8% of the total R436,2m it loaned since its formation in 1981.

First National advances manager Ray Henchie said the bank's overall bad debt position with regard to small businesses had improved over the past year. "Over the past six months particularly, we have noticed a definite improvement in the bad debt situation," he said. But prior to this period there had been cause for concern, largely as a result of the weak economy.

Allied offers 11,5% bonds for the rich

17/1/88
ST

By Udo Rypstra

BUILDING societies, which have been losing customers in the bond rate war, are flexing their banking muscle.

Determined to increase its market share, Allied Group is the first to meet banks head-on with new housing loans at interest rates ranging between 11,5% and 12,5%. Others building societies are also expected to counter-attack.

Allied is offering bank housing loans and building society bonds under one roof. Existing clients may switch from a building society to a bank loan without incurring major re-registration costs.

First phase

Allied plans to wipe out the gap between interest rates it charges for new and existing borrowers. Last night it announced it had reduced the interest rate on its one-year fixed rate bond from 14% to 13,5% — getting closer to the 12,5% the banks are charging.

This is only the first phase. More goodies for borrowers will be introduced in the next few months, it says. Business Times believes an announcement will be made at the end of January.

The Allied Group is using its banking muscle — Allied Bank — to employ cheaper short-term funds for what it calls the Bank Bond.

But you have to be well-off to qualify for this bond.

The 12,5% interest rate is only for borrowers who earn more than R40 000 a year. This applies to the income of the main breadwinner — the combined income of a husband and wife will not be considered.

For the 11,5% interest rate, you have to be even richer. Only those with a minimum annual income of R60 000 and who possess realisable assets worth more than R150 000 qualify.

Most important

Managing director Kevin de Villiers says banks charging 11,5% and 12,5% apply the same qualifying standards. He says they are insisted on for a good reason.

"A Bank Bond is not a recommended method of home finance except for those borrowers who have sufficient financial resources to protect themselves should the general pattern of interest rates start rising again.

"For most people, the purchase of a home is the most important financial decision they will ever make and it is essential that they enjoy the stability of traditional building society finance."

Mr de Villiers says that when banks using expensive short-term funds had to charge 23% interest on housing loans some time ago, building societies (enjoying cheaper long-term funds) asked for only 18%.

Guaranteed rates

Mr de Villiers says advances can be as high as 100% of a property's valuation. Personal loans may be negotiated to cover additional expenditure. This is much in line with what banks offer.

But where Allied has stolen a march on some banks is that the Bank Bond can be used by people who wish to build a gouse — drawing against the bond as work progresses.

Some banks have guaranteed their rates for up to a year and will give long notice of any increases. Mr de Villiers, however, stresses that the interest rate on the Bank Bond, in contrast to those on housing loans from Allied Building Society, could be more volatile.

"There is evidence that bank housing loans are volatile. One reason for setting a different set of qualifications for borrowers using bank finance is that these clients are people who are, or should be, financially cushioned against undue hardship if there is a significant increase in the cost of bank finance, as happened three years ago.

"It is recognised that consumers, particularly those in the higher-income groups, are extremely conscious of interest rates. The bank acknowledges this and adds another to the range of choices Allied offers its clients."

Commenting on the decision to eliminate anamolies in interest rates applicable to new and existing building society bonds, Mr de Villiers says that since November, new Allied Building Society advances have borne interest at 13% and earlier ones cost 14,5%.

"We were never comfortable with the gap, but there were sound reasons for it. Existing bonds were still being funded from deposits made more than a year ago when interest rates were much higher. New bonds, on the other hand, can be funded with recent deposits, the cost of which is considerably lower."

Mr de Villiers warns that the reverse can also happen, as it did [illegible] 1984-85 when interest rates rose [illegible] new borrowers had to be charg[illegible] more than older ones.

"Nevertheless, this gap is undesirable and we hope to avoid such inconsistencies."

All Allied borrowers — includ[illegible] those paying 14,5% interest on bo[illegible] — may take immediate advantage [illegible] the lower interest on the fixed rat[illegible] bond.

On a R100 000 bond, the reducti[illegible] in interest rate would be R73 [illegible] month.

Fedlife is looking lively

B Day 18/1/88

GRETA STEYN

FEDERATED LIFE, one of the six largest life insurers in SA, announced at the weekend that total new business last year rocketed 137% from R86,5m to R205m, largely due to substantial new group contracts from corporate and industrial clients and a good investment performance.

Federated Life MD Arnold Basserabie said: "In 1987, single-premium business jumped sharply by 200% from R48,7m to R146,1m. This business arose as a result of investments placed with us by pension funds, by annuity purchasers as well as by medium to long term investors."

Over the past five years, Fedlife's new business from all sources has grown at an exceptional 51,9% per year. Basserabie noted a "generally satisfactory degree of optimism among the insuring and investing public" had also contributed to the past year's increase in new business.

Turning to Fedlife's lapse ratio of individual life and retirement annuity business, Basserabie said the ratio of 6,6% for the year was considered very good by market norms, which were often around 15% to 20%.

Looking to the year ahead, Basserabie said: "We look forward to government making its intentions known regarding the Margo commission's report without undue delay."

He added that despite the JSE crash, the economy was looking pretty strong and Fedlife was confident of attaining, and even exceeding, the high targets set for the year.

Bank shares are good value

B/Day 18/1/88

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GRETA STEYN

BANKS' shares are currently good value for money, indicated by low price/earnings ratios and a positive business outlook as credit demand gains momentum.

First National and Standard both had a PE of 7,9 on Friday, while Nedbank was at 6,8 and Trust Bank at 5,7. The single-figure PE's indicate that the shares are relatively cheap, especially compared with PE's in the insurance sector where Liberty and Southern are both at around 17.

Investors shopping around for good value for money should browse in the banking sector, an analyst says, citing as positive factors the upturn in credit demand and the fact that the resurgence of bad debt is still a few quarters away. He notes that bank shares have been marginally outperforming the all-shares index.

But the home loans war could change the picture, especially with regard to building societies. An analyst says building society shares, a good buy in the medium to longer term, could be hampered in the short-term by the bond war and an excess supply of scrip.

Interest rates are likely to rise moderately this year, with current activity in the money market leading some analysts to predict that banks' prime rate is set to move up before mid-year, as originally thought.

Moderately higher interest rates are not expected to harm banks' share performance, as is not necessarily bad news, says an analyst.But a sharp rise in short-term interest rates would squeeze banks' home loans margins, while favouring building societies — an unlikely scenario in the short-term.

Granny Bonds assurance

Own Correspondent

CAPE TOWN — Worried investors of Senior Certificate Savings Bonds are being kept in the dark on when they will receive their certificates from the Treasury Department in Pretoria.

Treasury director Philip Nortje said yesterday his department was doing its best to "get out the certificates as soon as possible", but he refused to comment on reports that more than 20 000 investors in Granny Bonds were still awaiting certificates.

About 50 000 people bought Granny Bonds between the time they first went on sale on July 1, 1987, and the time the scheme was brought to an abrupt halt by government on August 8.

Nortje gave the assurance the delay in issuing certificates would not affect payment of interest.

Buyers of Granny Bonds received their second interest payment of 15% yesterday.

Nortje added that investors could only cash their bonds a year after buying them

FINANCE

No easing of money market pressures

B/Day 18/1/88

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HAROLD FRIDJHON

NO SIGNIFICANT easing of the pressures on the money market appear to be in sight and bankers said on Friday that living with narrow margins for two months — January and February — would be costly and painful.

Friday saw the rate for 90-day bankers acceptances (BAs) marginally trimmed to 9,75% from 9,80%, compared with the previous Friday's 9,45%. The wholesale call rate and the interbank rate eased from 10,5% to 10%. The shortage, too, eased a trifle. But the Treasury bill rate soared to 9,40% from the previous 9,21%, a peak since the 9,51% reached in August 1986. The result of Friday's tender suggested that one larger bidder snapped up the full quota of R60m bills on offer.

While the interbank rate reflects the immediate demand for funds in the market, the TB and the BA rates are indications of the market's expectations of the rate pattern to rise 90 days hence, to the middle of April.

It is generally accepted that after Finance Minister Barend du Plessis has finished reading his Budget speech, rates will be on a higher level because monetary policy must tuned to be in harmony with fiscal policy. It is probable that these policies will be a high-wire performance stretching between a tightening up to protect the balance of payments and to prevent the economy from over-heating and between maintaining the economic momentum so patent in the latter half of last year.

Living in this interregnum period is, however, difficult for the banks and the market at large. The banks which have been funding a large part of their books at the 8,5% call rate for the larger part of each month are now being faced with investor resistance.

A call rate of 10%, with a prime of 12,5%, shaves bankers' margins (with so many corporations getting money below prime), in spite of the cheaper money which comes to them through retail rates and current-account residues.

Investors on the other hand are looking three months ahead and longer. They are showing a reluctance to lock up their funds at current rates in negotiable certificates of deposits (NCDs).

Twelve-month NCDs issued at around 10,60% as recently as the early part of the month are no longer considered attractive. Last week, the issuers of NCDs, banks and building societies, were reported to be offering rates of 11% for 12 months but there were no takers. The selling deals were at the shorter end, three months at 10,25%.

The borrowers' dilemma is to balance the price of longer-term money with their cost of call which can fluctuate in their favour only if liquidity trickles back into the market. Central bank aid does not come cheaply, except through the discount window which, though not cheap, is the cheapest source of assistance.

The bank's repurchase deals, offered by tender, have been costing more than 10% because the borrowing banks have been bidding high for this facility; they have needed the funds.

The total market shortage has dropped sharply from about R1,6bn at the end of last month to just above the R1bn level. By today, it could be substantially lower when the cheques for interest on government bonds and public servants pay are cleared, but before this week is out GST payments could drain about R1bn from the private sector.

So the banks will not be out of the woods before the end-of-January pressures build up. And February with its avalanche of tax payment flowing into the Treasury will not be an easy month.

In these circumstances, it is not surprising banks report signs of a renewed interest in BAs. Some borrowers are hedging into BAs just in case prime and Bank Rate are raised during the next three months.

As far as the market is concerned, a revival in the use of BAs would be a welcome addition to the supply of liquid assets, particularly once Eskom starts to issue project finance bills. Trading in the money market might come out of its long period of near dormancy.

□ □ □

BEARS are having a picnic on the bond market frenetically selling every tradeable stock and sending yields rocketing to heights last reached in mid-1986.

Although some of the enthusiasm might be reaching boiler-house pressure with a correction possible, opinions — more conservative than those of the speculators on the JSE floor and in the screen-linked trading rooms — are that the prevailing bearish mood is justified.

Apart from the perception that the yield curve is poised to rise, other factors are: the expectations of a high Budget deficit, the expansion of bank credit, the high inflation rate and the probability of a lower dollar/rand rate.

Bond war salvo

Pledge of cuts in home loan rates for existing borrowers

Argus 19/1/88

From ROY COKAYNE Argus Financial Staff

PRETORIA. — Relief is in sight for some of the thousands of existing bondholders locked into higher interest rate bonds as the battle for market share between banks and building societies intensifies.

Existing bondholders have been "discriminated against" and forced to pay a higher rate as building societies and banks slashed the rate for new clients.

But Allied Group managing director Mr Kevin de Villiers today said his society intended eliminating the diffential between new and existing bonds "even if it hurts us."

The Allied currently charges 14,5 percent on existing bonds and 13 percent on new bonds.

"This gap is undesirable and the Allied hopes to avoid such inconsistencies in the future," he said.

Close the gap

"The Allied intends to close the gap — probably in two or three stages — in the next few months with the first reduction announcement likely before the end of January.

The Allied has already announced a reduced rate of 13,5 percent with immediate effect for its one-year Fixed Rate Bond — one of a range of fixed rate options it offers clients.

The Allied decision means only two of the five major building societies still have to announce adjustments to their existing bond rates — the SA Perm and Saambou.

SA Perm senior general manager Mr Hugh MacLachlan said they were "continually assessing the situation." It is charging both existing and new clients 14,5 percent.

Saambou chairman and managing director Mr Hendrik Sloet said they were constantly looking at their bond rate but only anticipated a decision in two months. He would not speculate what the decision would be.

Clarification

"I want to have more clarification about what is happening in the market. At the moment the situation is as clear as muddy water. There has been some hardening of the deposit and short term rates and I'm not sure it's just a seasonal thing. I'm sitting on the fence at the moment," he said.

The Saambou rate on existing bonds is 14,5 percent while new clients can get 12,5 percent if the bond does not exceed 50 percent of the purchase price or valuation of the house. New normal bonds are charged at 13 percent.

The Natal Building Society's rate on existing bonds will drop to 13,5 percent — the same as that being offered to new bondholders — from February 1.

The 14 percent the UBS charges on existing bonds will drop to 13,5 percent from March 1. New bondholders will be charged 12,5 percent — the same as the banks.

The Allied will also introduce a "bank bond" for home owners. Initially the bond will carry a fluctuating rate between 11,5 percent and 12,5 percent according to the net worth and income of the borrower.

Federated Life lifts new business by 137%

Cape Times 19/1/88

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Financial Editor

FEDERATED Life Assurance Co lifted total new business by 137% to R205m (R86,5m) in the year to December 31.

And MD Arnold Basserabie says the present year "has begun on a brisk note".

Federated Life is wholly owned by Fedsure Holdings, which, with assets in excess of R2bn, was listed on the Johannesburg Stock Exchange (JSE) in October.

About 95% of its assets are in Fedlife.

Basserabie said the R50,4m raised by the listing would be used to fund growth in life and pensions business.

Discussing the past year, Basserabie said the main reasons for the huge increase in new business were "substantial new group contracts from corporate and industrial clients, a forceful new marketing drive for life products launched early in 1987, a consistently good investment performance and a generally satisfactory degree of optimism among the insuring and investing public".

He said single-premium business jumped by 200% last year to R146,1m (R48,7m).

"This business arose from pension fund investments and purchasers of annuities as well as from medium- to long-term investors.

"Over the past five years, Fedlife's new business from all sources has grown at an exceptional 51,9% per year compound."

Basserabie said the lapse rate of individual life and retirement annuity business was 6,6% for the year. "This is extremely good by market norms, which are often around 15% to 20%."

He said that "notwithstanding the JSE crash, the economy is certainly looking pretty strong and our clients are showing a healthy degree of optimism".

Cape Times 20/1/88

Liberty Life severs ties with UBS

Own Correspondent

JOHANNESBURG. — Liberty Life has bought 20% of Charter Life for an undisclosed amount in a deal which will finally sever Liberty's acrimonious ties with the vendor, United Building Society.

Liberty now owns 60% of Charter Life — the remaining 40% staying in the hands of Guardian Life.

Dorian Wharton-Hood, speaking in his capacity as a director of Charter Life, said the transaction — concluded on December 18 last year, and approved recently by the Financial Institutions Office — was the final chapter in the stormy relationship between Liberty and UBS.

The liaison turned sour when UBS CE Piet Badenhorst embarked on a series of attacks on the life industry, fuelling a bitter battle of words and leading to the resignation of Badenhorst and Liberty chairman Donald Gordon from each other's boards.

Wharton-Hood said UBS's recent acquisition of a 20% stake in Commercial Union was part of the package to cut all ties between the two institutions. Liberty sold its around 12% shareholding in the composite insurer to UBS, in return for which UBS is selling its 20% Charter Life stake.

Cost of bank loans goes up

Cape Times 20/1/88

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By AUDREY D'ANGELO
Financial Editor

BANK LOANS — except mortgage bonds on a house — will cost more by the beginning of next week.

The five major South African banks have all announced that they will raise their prime lending rate to favoured customers by half a percentage point from 12,5% to 13%.

The two biggest banks, First National Bank of Southern Africa and Standard Bank, will raise their rates from tomorrow.

Volkskas will raise its rates from Saturday and Nedbank and Trust Bank of Africa from next Monday.

The average customer pays a rate of 3% or 4% above prime. Rates on these loans will also rise by half a percentage point.

But, with stiff competition between banks and building societies, home loans are unaffected at present. All five banks say their home loan rates will remain at the current 12,5% and there are no plans to raise them in the near future.

This may cause Syfrets Bank, which as a matter of policy has always pegged its home loans rate to one percentage point above Nedbank's prime rate, to

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be out of line. It is already charging 13,5% and a rise to 14% at a time when building societies are charging new customers 13% would increase its disadvantage.

Syfrets Bank managing director Mr Brian Button and Syfrets chief executive Mr Brian Robinson were not available for comment last night. But a senior executive said: "It is possible in the circumstances that the link with Nedbank's prime rate may be broken."

Prime rate has been at its present low level for about a year. Now that demand for credit has increased a rise was expected.

Southern Life Association's chief economist, Mr Mike Daly, said he did not believe such a small rise would dampen demand for credit. "It will not be enough to deter people from spending," he said.

A director of Syfrets, Mr Leon Campher, said it would not be good for the economy if prime rate continued to rise quickly, and he did not believe the authorities would allow this. He thought any further rise would be gradual, reaching 14% or 15% by the end of the year.

Cape Town Chamber of Commerce vice-president Mr Andrew Coombes, said that although the rise was an encouraging sign that the economic recovery was under way "it is also an ominous sign that the money market is tightening up.

"In the absence of a good inflow of investment from overseas the danger exists that competition for available funds could drive up the cost of money to the detriment of business expansion, and add to the cost of goods and services."

Reserve Bank governor Mr Gerhard de Kock has allayed any fears that the increase in prime will be followed by a raising of bank rate. He told Reuter that the central bank's base discount rates to the banking sector would remain unchanged.

"These increases are viewed by the Reserve Bank as a logical adjustment to the changes which have occurred in recent months in money market conditions," Mr De Kock said in a statement.

"These changes reflect a welcome rise in production, trade and general economic activity and therefore in demand for bank credit and other loanable funds. They have also been accompanied by a marked acceleration in the rate of growth of the broad money supply M3," Mr De Kock added.

Mr De Kock said the recent interest rate rise in the money and bond markets was "logical and desirable", adding that the central bank "remains conscious of the need to impart still further momentum to the economic upswing and sees no need to increase its bank rate at this stage".

The past three months has shown a remarkable quickening in economic activity, accelerating to a peak in December with retail sales soaring, motor car sales reaching a peak and the demand for consumer credit suddenly exploding.

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INTEREST RATES

Facing 'Jaws'

Just when consumers thought it safe to go back in the water, come rumours of a round of interest rate rises.

After August 1984, when they were submerged by surging rates, consumers stubbornly refused to increase debt levels. Financial institutions (which make their living out of extending credit) spent a fortune tempting them to test the water again, but for some time they resisted.

Now, there are signs that people are spending more freely and even venturing into debt again. The latest Reserve Bank *Quarterly Bulletin* reports that: "Real private consumption expenditure in the third quarter of 1987 recorded its sixth consecutive quarterly increase at annualised rates which had varied from 2,5% to 4%."

Banks are experiencing much higher levels of borrowing. Trust, for instance, reports that in December credit demand from new clients was 60% higher than the previous December, while in November new borrowing hit an all-time high.

Unfortunately for consumers, the facts of economic life dictate that no sooner do they consent to borrow than the cost of credit increases.

Moreover, they are competing for credit with a free-wheeling spender armed with a blank cheque — government. Speculation is that the expected Budget deficit of R8,5bn may in fact be as large as R11bn this year, and hit R14bn for fiscal 1989.

So it is only a matter of time before consumer-related rates rise. But, while they will suffer eventually, consumers are not first in line. For financial institutions, this change in economic climate requires an immediate revision of strategy.

Banks, for instance, forced by increasing disintermediation in the corporate market to rely heavily on retail customers for business, have been offering mortgage loans at 12,5%. With one-year money touching 11% and shorter-term money more expensive daily, funding these is squeezing margins. If rates continue to rise, in a few months' time they will be in more serious straits.

One analysis of the BA9 forms, at the end of the third quarter of 1987 the proportion of banking groups' funding with a maturity under six months was: First National 86%; Standard 87%; Bankorp 75%; Nedbank 86%; and Volkskas 85%.

It would seem they have been caught by the turning tide.

For a while they will be trapped by their own publicity. Having used lower rates as a marketing tool, even those with no undertaking to hold rates for a period — Standard until June and Nedbank and Volkskas until September — may be reluctant to take the first step.

Of course, mortgage loans represent only a small proportion of assets. First National, for instance, with assets of more than R20bn, SANTAM (58)

Escape from floods

Like most of the short-term insurance sector, Santam has recorded a sharp turnaround in the past year. The sector lost favour on the JSE, not only because of the crash, but also because of the expected bottom-line impact of claims relating to the Natal floods. Investors seem to have failed to appreciate that Santam has come off extremely lightly, and could have another good year in 1988

Neglect of Santam's share is not new. The share has long been rated lower than most of the sector. Last year a number of analysts were suggesting the company was due for a rerating, one reason being its maiden interim dividend of 6c declared last March.

In the past year eps nearly doubled from 21,5c to 41,5c. Net premium income (NPI) rose 18,5% to R577m and, in line with the industry, underwriting results have improved sharply, from a loss of R700 000 in 1986 to profit of R20,3m for the 1987 year Claims paid, as well as provisions for flood claims, increased by 10,9% to R448,4m but higher premiums and stricter risk control kept margins healthy. Santam last year lifted its solvency margin to 24% from 22,7%, but continues to operate on a relatively low financial base

The year has not been without problems. Santam still leads the industry in its volume of business but took a knock when the Public Servants' Association broke a seven-year link late last year after the company raised premiums 44% to close the gap between group and individual rates. Four other short-term schemes — Somchem, Swartklip, Cape Teachers Union and Cape Hospitals — followed suit, resulting in a total loss of about R60m in premiums (9% of the total R642,6m business).

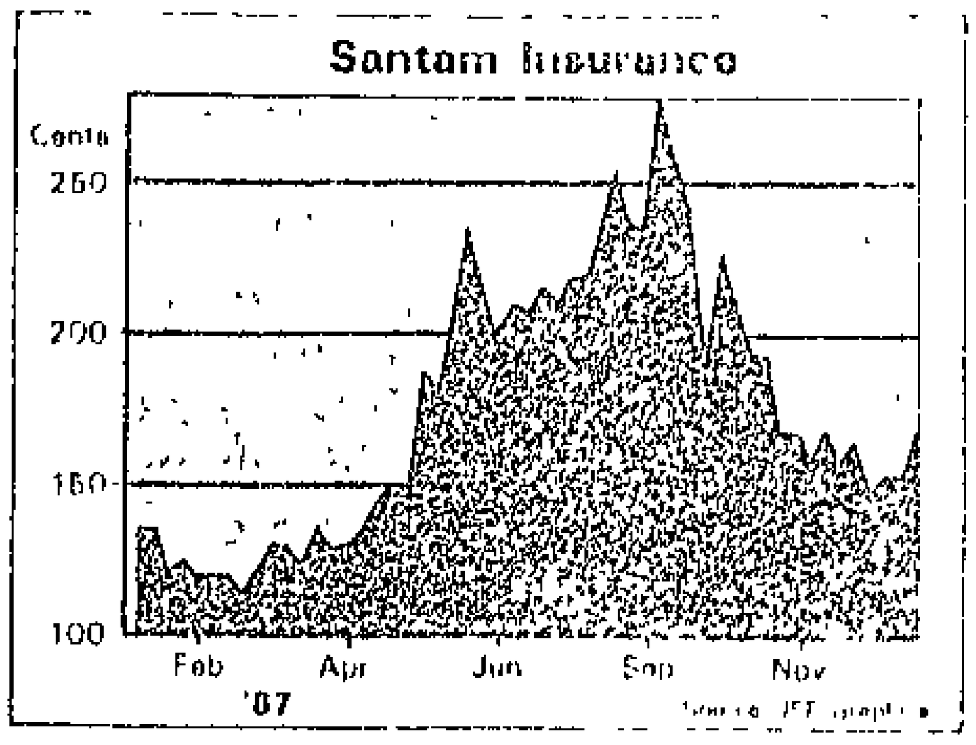
Senior GM Jurie Geldenhuys says marketing has been stepped up to compensate for the loss in premiums, and profitability in the current year will not be affected. He expects the company will easily achieve the expected 20% growth in net premium income this year.

One reason for the forecast improvement is that Santam was not exposed to the main industrial claims arising from the Natal floods. Sanlam's R5,3m share of the R500m-odd total claims arising from the floods has already been accounted for. Thus the relatively low financial base will probably not be important in the present year.

The company was underinvested in ordinary shares at the time of the JSE crash. Hence, total investments, valued at R255,5m at September 30, had fallen only 3,5% by end-November. Sanlam's 60% holding assures Santam of capital when required, but Geldenhuys thinks that another rights issue in the immediate future is unlikely.

At 150c the share offers a generous dividend yield of 10%. Compared with the sector average of 4%, it seems underpriced.

Ruth Golembo



Activities: *Transacts all classes of short term insurance.*

Control: *Sanlam.*

Chairman: *C H J van Aswegen; managing director: C J Oosthuizen.*

Capital structure: *70m ords of no par value. Market capitalisation, R105m.*

Share market: *Price: 150c. Yields: 10% on dividend; 27,7% on earnings; PE ratio, 3,6; cover, 2,7. 12-month high, 280c; low, 112c. Trading volume last quarter, 1,5m shares*

Financial: *Year to September 30, 87.*

	'85	'86	'87
Total assets (Rm)	201,6	309,1	415,8
Net premium income (Rm)	364,6	480,9	577,1
Underwriting profit (Rm)	(3,9)	(0,7)	20,3
Investment income (Rm)	18,6	22,5	26,9
Taxed profit (Rm)	9,0	15,1	29,1
Earnings (c)..	25,8	21,5	41,5
Dividends (c) ...	12,0	13,0	15,0
Net worth (c)	155	158	197

Picbel at the helm of new merchant bank

27/11/88

By Ian Smith

58

THE new-look Picbel's move into the burgeoning financial services field has come to fruition with the formation of a specialised merchant bank, Cape Investment Bank (CIB).

The holding company for all the group's operations, Pichold, will through Sagin control the maximum permitted 30% in the bank controlling company, Cape Investment Bank Holdings.

"Negotiations are well advanced for other large institutions and individual investors to take a stake in CIB," says chief executive officer Andy Swartz, who was previously general manager of Investec Bank's trading division.

He will rotate the chief executive's post with two other executive directors, Jakes Jacobs, former Pichold investment manager, and Ken Ernstzen, former general manager, systems development, for Liberty Life.

The bank's taxed profit has been forecast at R500 000 for the first 18 months of operation.

A listing is likely, but will probably be seriously considered only when the bank has a five-year track record behind it.

Jan Pickard, jnr, general manager of Pichold, will be the bank's chairman and the director Stellenbosch Business School, Professor A A Archer, will also be a non-executive director.

Mr Swartz says Picbel initiated the planning for the bank about two years ago, and the licence has just been granted.

Late last year Mr Pickard said the group believed it was still too subject to consumer demand and the economic cycle.

"To lessen this we had to choose between minerals and financial services. We chose the latter."

He says that while most banks were talking about one-stop service, he saw scope for specialisation, particularly in the Cape.

CIB, which will have its head office in Cape Town and a branch in Johannesburg, will go for fee income and there is no intention of making it a lending institution.

"We will aim at the wholesale end of the market where the specialised services of the bank can be used best," says Mr Swartz, who takes the chief executive's post for the first term.

Mr Swartz says: "Recent events in both international and domestic financial markets have illustrated the importance of risk management techniques, and we will put heavy emphasis on this."

There is still considerable demand for corporate finance activities in management buy-outs, listings, company restructuring and tax advice.

Cape merchant bank formed

B/day 25/1/88

HELOISE HENNING

THE R5m-strong Cape Investment Bank Holding, the merchant bank in which Picbel has a 30% stake, has been established.

It will control its wholly owned subsidiary Cape Investment Bank, which will have offices in Cape Town and Johannesburg. CIB will be operational on March 1.

Pichold GM Jan Pickard Jnr has been appointed chairman of the bank. Pichold, through its wholly owned subsidiary SAGIN, will hold 30% of CIBH equity.

The distribution of the remaining 70% is still to be announced, according to newly appointed CE officer Andy Swartz, previously GM in the Investec Bank Trading Division.

CIB intends to package funding and investment products in the public and private sectors. It will also participate in the "creation of greater marketability" of investment products for risk management. It will trade in the money, capital, Krugerrand and derivative options and futures markets.

Sanlam is optimistic

Bday 26/1/88

GRETA STEYN

BUSINESS and consumer confidence are improving and this will be reflected in higher spending levels, Sanlam says in its latest economic survey.

Improved spending will, in turn, have a favourable effect on the real growth rate, which should be more than 3%, Sanlam says.

The survey does not foresee a significant drop in the inflation rate this year, but is optimistic that any upward movement could be tempered.

Although an average inflation rate of nearly 15% is predicted for 1988, it could rise later in the year as the economy picks up momentum and the rand starts weakening.

Sanlam estimates the current account of the balance of payments will show a surplus of more than R6bn in 1987 as a whole, as against one of R7,2bn in 1986.

The gradual weakening of SA's net trade position in relation to the rest of the world can mainly be accounted for by a substantial increase in imports, no significant growth in exports and a relatively steep decline in the volume of gold exports — mainly as a result of a drop in the quality of the ore grade.

Sanlam further expects that the rand will firm against the dollar in the short term, but will perform reasonably stably or slightly weaker against the other major currencies.

Interest rates will rise moderately. The prime rate now stands at 13,0%, but could reach a level of 14% to 15% by the end of the year.

Long-term interest rates will also stay at high levels.

Shares down after gold price sags $6

ARGUS 26/11/88

By DEREK TOMMEY
Financial Editor

58

GOLD-share prices dropped on the Johannesburg Stock Exchange today when the gold price failed to rebound after dropping $6 to $469,75 an ounce in New York last night.

At mid-morning gold was $471,10.

In the first hour's trading on the JSE today the "all gold" share price index fell 44 points, or three percent, to 1 424.

This pulled down the "all market" index by 31 points, or 1,8 percent, to 1 671.

Shortly before noon Modder was 575c (−75), Harties 2 265c (−110c), Vaal Reefs 28 600c (−800c), Loraine 1 350c (−75c) and Kloof 3 325c (−150c).

Mining financials were also lower. Anglo American dropped 125c to 4 700c and Gold Fields of South Africa 75c to 5 250c.

Platinums were weak in sympathy. Leplat was 25c lower at 250c.

● See page 17.

D D 26/1/88. (58)

R52m transactions

JOHANNESBURG — At R52,6 million, the number of transactions processed by Standard Bank group's Autobank network last year was up 25,5 per cent on the R41,9 million the previous year, the bank said yesterday.

The total for December, at R5,2 million, was a monthly record and up 14,2 per cent on December 1986's R4,5 million.

Standard's customer-activated terminal population, covering Autobank, Autocash, AutoPlus and AutoBel services, is now 800, including 600 ATMs.

Electronic account payments, via the AutoPlus and AutoBel "home-banking" system, increased dramatically last year, rising by 135 per cent from 1986's 143 000 transactions to 335 000.

Standard's electronic directory of firms linked to the account payment system now stands at 3 000. — Sapa

BANKING

ARGUS 27/11/84

Allied ties up with RMB

From ANN CROTTY

JOHANNESBURG. — As competition in the financial services market hots up, Allied Bank is moving to increase its spread of interests by acquiring a direct stake in Rand Merchant Bank (RMB), which is one of the leading merchant banks.

In a move that should give it greater exposure to the wholesale and corporate side of banking, Allied is set to acquire a 10 percent shareholding in restructured Rand Merchant Bank Holdings for approximately R15-million.

The move by Allied is part of a restructuring, which also sees RMB Holdings acquire the entire shareholding of RMB in exchange for shares in RMB. All shareholders in RMB have received three RMB Holdings shares for every RMB share they held.

In addition, according to an official announcement, RMB Holdings is issuing an additional four-million shares at 300c a share to boost the numbers of shares in issue to just over 55-million.

Shareholders will be offered eight new ordinary shares in the company for every 100 existing shares held. The rights offer has been jointly underwritten by Allied and a consortium of directors and staff of RMB for no consideration.

Some of the major shareholders (Sage had 30 percent and the directors 60 percent) have undertaken to relinquish their rights in favour of Allied. An agreement has been reached between Allied and Sage, which will see Sage sell sufficient shares to Allied to ensure that the latter has 10 percent of RMB Holdings.

For both Allied and RMB the deal has obvious advantages. Allied already has an indirect interest in RMB through its 20 percent holding in Sage. Sage had a 30 percent stake in RMB before the deal and a 10 percent stake in Allied. If the two institutions were considering going the financial conglomerate route, then the choice of partner was obvious.

Their activities do not conflict. RMB specialises in the corporate and wholesale side of banking, while Allied's area of expertise is at the retail end. The link-up could provide RMB with access to relatively cheap funding, while Allied could get access to a greater depth of management.

(58) Sowetan 29/1/88

Consumers taken for a ride

THE South African financial industry is riddled with "shocking anomalies" and consumers are often subjected to unfair treatment, an investigation carried out by an independent firm of brokers has revealed.

Mr Jan Erasmus, chairman of Prestasi Financial Services, a Johannesburg-based broking firm, this week outlined a number of alleged unfair practices meted out to the consumer by financial institutions and insurance companies.

His company also released a 10-page report on the findings of the investigation with the "hope that some of the (financial) conglomerates who are guilty of conduct and activities in this regard, will be stopped or restrained in the interest of the consumer".

Consumer Corner

By SY MAKARINGE

Consumer groups were also urged to take the matter up.

The panelbeating industry is one of those which were investigated.

Mr Erasmus said consumers with motor insurance policies found themselves in a "take it or leave it" situation when their cars were involved in accidents as their choice is restricted to the panelbeater appointed by the insurance company.

"The panelbeating trade is mainly dependent on damaged vehicles for survival. Rising costs of repairs to vehicles could be curbed if there is sound competition and no conspiracy among panelbeaters and insurance personnel," Mr Erasmus said.

He said a lack of competition would inevitably have an influence on the standard of repairs.

Another area investigated was the offering of insurance policies at low premiums with inferior coverage.

"In these times of rising premiums and expensive insurance costs, there are still certain insurance companies and brokers who take advantage of this kind of situation. Policies with low premiums are offered to unsuspecting consumers. The inferior coverage the policy offers is not pinpointed. This is experienced only when a claim arises," Mr Erasmus said.

Mr Erasmus said cost of short-term insurance rose sharply during the past two years. Although this was attributed to the increase in crime and car thefts, the lack of competition that came about when AA-Mutual collapsed could not be underestimated.

The investigation also found that a certain broker deducted five percent from every claim brought by clients. The deductions were for handling the claim. Mr Erasmus said this was unfair. He said it should have been brought to the attention of the clients at the time the policy was issued.

Mr Erasmus said people who applied for mortgage bonds were made to take an insurance policy with the same institution, giving the impression that if they do not, they would not get the bond.

He said if the contents of the report were brought to the attention of trade unions, consumer groups and staff associations, a successful counter-attack against this "unjust treatment" could be formulated.

"Without the support of the public, companies perpetrating unfair and unjust financial practices cannot survive. By asking questions and demanding direct, straight forward answers, the puiblic will be able to decide for themselves which companies they should withhold their support from," he said.

MR JAN Erasmus.

Argus 29/1/88 (58)

Allied announces 1% bond rate cut

The Argus Correspondent

PRETORIA. — The Allied Building Society has slashed the interest rate charged on existing bonds by one percent to 13,5 percent — and committed itself to achieving parity between the rate charged on new and existing bonds by the end of May.

The cut, effective from the end of February, will reduce the rate gap between new and existing bonds at the Allied and match cuts on existing bonds already announced by the United and Natal building societies.

These bond rate cuts will bring relief to some of the thousands of existing bondholders at several building societies have been "discriminated against" and forced to pay a higher rate as building societies and banks slashed the rates for new clients in intense competition for increased market share.

The bond rate cut has been announced by the Allied in spite of the sharp increase in money market rates and the bank prime rate since the beginning of the year.

It is also likely to put increased pressure on the SA Permanent and Saambou National building societies to narrow the gap between the rate they charge on existing and new bonds. They are the only two major building societies that have not yet announced a cut to the rate on existing bonds.

Traditional

Announcing the rate cut today, Allied Group managing director Mr Kevin de Villiers said new borrowers would continue to pay an interest rate of 13 percent on traditional bonds.

A decision on how to close the gap between new and existing bonds would be taken as interest rate trends became clearer.

Mr de Villiers said the rate gap between new and existing bonds was a result of the fact that existing bonds were funded with relatively expensive deposits while new borrowers could benefit from deposits accepted by Allied at lower rates.

The Allied has also announced the introduction of a range of short-term fixed deposits — all maturing in 364 days or less — to improve its range of investment products and obtain a better balance of funding.

This is a market that is closed by legislation to traditional building societies but heavily promoted by the banking sector. The Allied is entering through its banking arm, which now operates virtually throughout its branch network.

The short term deposits are for terms of between 32 and 364 days and interest rates vary according to the size of the deposit, the term of the deposit and the frequency of interest payments.

FIRST NATIONAL

Ready for upturn

Activities: *Banking group operating in merchant, industrial and commercial banking.*
Control: *Southern has 25% and Anglo American 22,5%.*
Chairman: *B E Hersov; managing director: C J W Ball.*
Capital structure: *58m ords of R1 each; 14,5m pref ords of R1 each. Market capitalisation: R1 483m.*
Share market: *Price: 2025c. Yields: 5,2% on dividend; 12,6% on earnings; PE ratio, 8,0; cover, 2,42. 12-month high, 2500c; low, 1500c. Trading volume last quarter, 263 000 shares.*
Financial: *Year to September 30.*

	'84	'85	'86*	'87
Advances (Rb)	13,7	15,5	14,5	16,7
Total Assets (Rb)	16,7	18,7	18,2	20,6
Pre-tax profit (Rm)	115,7	181,2	180,7	301,9
Attributable Profit (Rm)	86,7	111,6	107,3	184,6
Earnings (c)	151,6	182,0	148,0	254,6
Dividends (c)	95,0	95,0	71,25	105,0

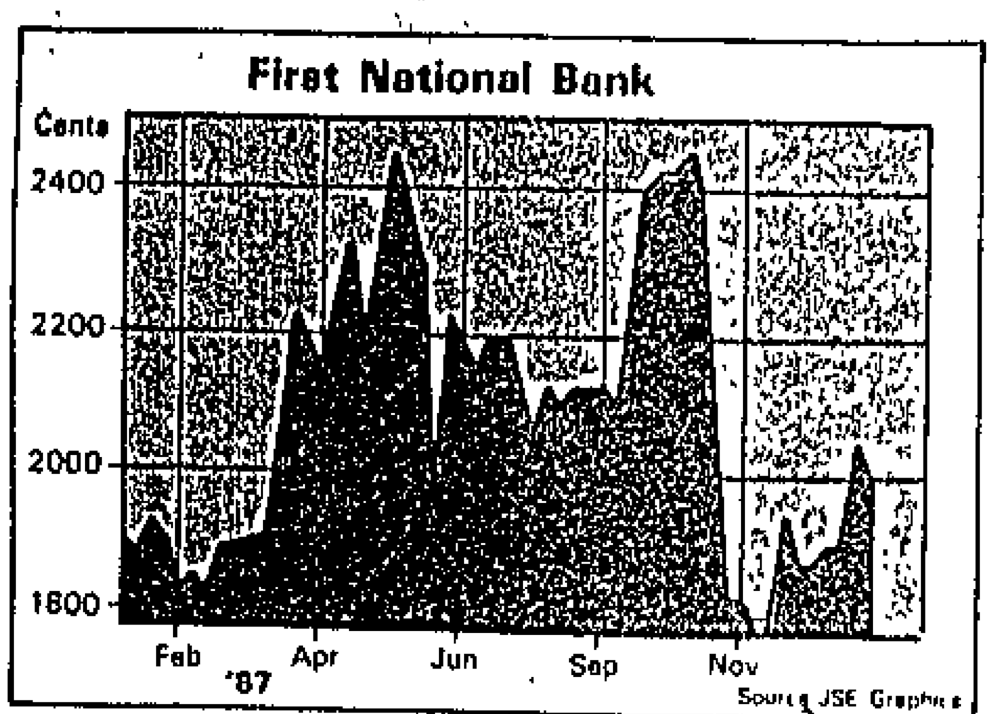
*9 months

It was with some pride that First National (Firstbank) announced its preliminary results, including a 29% climb in earnings. And with reason: the year had been filled with traumatic events — disinvestment, political controversy and a tough period in the banking industry.

It was not all bad news — other events worked to the advantage of Firstbank. The South African subsidiary of Citicorp was bought for R130m. The purchase of this company, now called Firstcorp, had a substantial impact on the balance sheet. Total assets were pushed up by R1bn or 5,5% and advances climbed by 6,3%, while the goodwill write-off of R118m reduced shareholders' funds, although this was partially offset and the total decline was only R5m.

The write-off had another impact. Chairman Basil Hersov says the acquisition boosted group return on shareholders' funds from 18,1% to 20,5% (15,8% last year). Income from Firstcorp was included for only three months of the current financial year.

Another benefit was the jump in income from associated companies, which more than



Firstbank's Hersov ... pride in results

doubled from R10m to R23m. The main reason was the inclusion of Southern Life for a full 12 months, whereas the previous year's accounts took in only six months.

A drop in bad debts also helped. New provisions totalled R129m after R143m had been provided in the previous nine months. Although the economic climate was the main reason, tighter credit control helped. Actual write-offs rose from R106,3m to R200,2m.

But the low increase in costs was entirely due to Firstbank's efforts. The rise, at 14,4%, was below inflation. Capital expenditure dropped, but heavy outlay on computer equipment, which is leased, was excluded.

Pressure on margins last year meant the bank's profits, which contributed 66% of the group total last year, showed the smallest increase (11%). The sharpest rise was that of First Industrial, which grew by 75% thanks to increased demand and lower bad debts. First Merchant (now amalgamated with Citicorp in Firstcorp) was second with a climb of 53%. Like all merchant banks, it benefited from the stock market rise, but also from the decision to concentrate on management buy-outs.

Senior GM Jimmy McKenzie says the current financial year is looking even better. "It's nice to see decisions you took two years ago working for you," he says. The structure is in place, the systems are working and the necessary information is being provided. Emphasis on asset and liability management helps ensure margins are better than a year ago.

McKenzie sees the present upturn in interest rates as a technical correction. There is pressure on margins, and the rise in prime will help, but the pressure is much less than a year ago. He is convinced that the need to keep the infant economic upturn healthy means everything possible will be done to stop a sharp increase in rates.

McKenzie says the emphasis is on marketing and service this year. The merger of Citicorp is going well and management buy-outs are expected to continue providing substantial business. Wesbank is particularly profitable and home loans are doing so well that McKenzie suggests the size of this department could overtake Natal Building Society this year. He emphasises that Firstbank has been through its learning curve in this area and is in the business to stay.

An advantage is that R100m subordinated debentures, classed as capital in terms of the new Banks Act, were issued at the time of the disinvestment. Firstbank thus has no immediate need for additional capital and Hersov says that at end-September there was a capital surplus of R223m, placing the bank in an excellent position to take advantage of an upturn in demand for credit

The share is still given a lower rating than Stanbic. Its price has risen from around R17,75 to the current R20,25 since the bottom of the post-crash market, but on a dividend yield of 5,2%, there is some way to go to catch up with Stanbic's 4,5%. It seems the market has not forgotten the problems of 1984 and the controversy of a year ago. But with banks more in favour this year (see *Fox*), Firstbank's image could change.

Pat Kenney

"We take the problem of Aids very seriously and are in the process of adapting our application forms and underwriting rules. We already require testing for HIV positive on large sums assured over R500 000 and on other doubtful cases at the underwriter's discretion."

David Goelst, assistant GM (admin) of Federated Life, says: "Aids is now acknowledged to be a pandemic. There's no doubt we need to react quickly to protect both existing policyholders and future potential clients. There could be a very large potential threat to our industry out there. We have added a wording to our application forms which for now gives us enough protection."

Goelst adds that Federated has already asked for further details from "a number of suspicious applicants, usually following a medical report, and none of them came back to us."

Meanwhile, Federated is sensibly considering establishing a special reserve fund to cater for possible increases in death claims and disability payments.

Dick Geary-Cooke, executive director of the LOA, keen to pre-empt accusations that a cartel is in the offing, points out that "any agreement to call for tests at a certain level of sum assured only ensures that members obtain information on possible impairments. It does not state what underwriting decisions should be taken on the application. Besides,

Researching Aids ... auditing a potential calamity

this should be viewed as protecting existing policyholders from those people who know they have Aids but are trying to obtain cover."

Sher has been consulted by a number of assurers, and has said to them: "I don't think it's fair that life assurers should discriminate against people who, for example, are gays; nor on the other hand is it fair for those who know they are infected to take out R1m of life cover."

If they operated this way, chances are they would end up underwriting the married bisexual, but refusing cover to the non-promiscuous homosexual.

Indeed, from various reports it is becoming apparent from US statistics that it is no longer a problem of the homosexual community. One life assurer reports that of those applicants for high life covers tested for the virus, 14 were found to be HIV positive. Of those only two were homosexual, one was a woman, and the remaining 11 were married men with children.

So, says Sher, "one should not judge a person on sexual preference. Instead, assurers should test everybody who wants life assurance over a certain value. Their actuaries must work out the risk factor and set a limit."

He adds that Aids is not a serious problem in SA at the moment. "Tuberculosis is still a greater disease. The potential, however, is very serious. Aids is a global problem. Already 142 countries have reported cases of Aids. And in SA, so far some 2 500 people tested have proved HIV positive."

It's fast becoming everybody's business. ■

STOCKBROKERS' RATINGS

Thinking through the scramble

58

The hectic conditions of the bull market and the spate of new listings before the crash affected, but did not obscure, the brokers' research efforts. The new market conditions, however, should see a big shift in emphasis, and the *FM*'s annual ratings are likely to be altered this year.

Amid all the excitement of last year's bull market, and the first big listings boom in some 18 years, stockbrokers *did* continue their research activities. But the hectic market conditions created pressures for research departments and did not make it easy for the firms to allocate valuable resources.

Whether this meant that standards suffered is problematical. Of the institutions which responded to the *FM*'s annual survey of stockbrokers, surprisingly few — less than 20% — felt that the overall standard of research had dropped during the year; the remainder were split about equally between those who felt there had been no change, and those who thought performances had improved.

But that strains were being noticed in places is clear from the view of one of SA's largest institutions. Its investment manager remarked that the quality and the quantity of research deteriorated during the year because of new appointments in the place of people leaving the country, and because of time spent on new listings with the result that good quality shares were neglected.

These problems did not deter the established leaders from maintaining their positions. Martin & Co easily retained its first place in the overall rankings, a position it has held since the first such *FM* survey in 1977; and Ivor Jones was again ranked second.

The survey largely followed the format of the previous three years. It is based entirely on the opinions of financial institutions which use the stockbrokers' services, and therefore takes no account of the often quite different research and other services that many firms offer their individual clients.

Questionnaires were sent late last year to more than 40 investing institutions, including such organisations as insurance companies, merchant banks and major pension funds. Instead of adopting a one-man one-vote system, certain of the replies from participating institutions are weighted. Before the questionnaires were sent out, we selected a top 10 and a second group of 10 — an "A" team and a "B" team, with a "C" team comprising the remainder.

Although the questionnaires are confidential, and the respondents are not necessarily identified, we were able to identify which of the replies fell into each category. Replies from the "A" and "B" teams were weighted, those from the "A" team more heavily. The selection of groups to be weighted was influenced by an earlier exercise, when we asked eight stockbroking firms who they thought should be in each group.

The result is that a relatively small number of institutions, especially the larger ones, exert a substantial influence on the ratings. This is not only because their replies are weighted, but also because their return rate was high. Completed questionnaires were returned by 70% of the "A" team and by 90% of the "B" team; the

OVERALL LEADERS

Research

1. Martin
2. Ivor Jones
3. Frankel Kruger
4. Fergusson Bros
5. Mathison and Hollidge
6. Simpson McKie
7. Max Pollak
8. J D Anderson
9. Davis Borkum
10. E D Hern

overall return rate was 52%, identical to last year's return. Weightings aside, therefore, these ratings have to a substantial degree been determined by the larger institutions.

DIVISIONAL LEADERS

Industrials: (Consumer-based)
1. Martin
2. Simpson McKie
3. Max Pollak

Industrials: (Other)
1. Martin
2. Fergusson Bros/Simpson McKie
3. Ivor Jones

Coal
1. Max Pollak
2. J D Anderson
3. Fergusson Bros

Diamonds
1. Fergusson Bros
2. Martin/Max Pollak
3. Frankel Kruger

Gold
1. Martin
2. Ivor Jones
3. Frankel Kruger

Other Mining
1. Martin
2. Ivor Jones
3. J D Anderson

Mining Financial
1. Martin
2. Frankel Kruger
3. Fergusson Bros

Banks and Financial
1. Martin
2. Ivor Jones
3. Davis Borkum

Insurance
1. Mathison and Hollidge
2. Martin
3. Ivor Jones

Property and Property Trusts
1. Max Pollak
2. Martin
3. Ivor Jones

Small companies & DCM
1. Martin
2. Davis Borkum
3. Simpson McKie

Labour/Industrial Relations
1. Mathison and Hollidge
2. Davis Borkum
3. Kaplan & Stewart

Computer Service
1. Ivor Jones
2. J D Anderson
3. Frankel Kruger

International Markets
1. Davis Borkum
2. Martin
3. Ivor Jones

Economic Trends
1. Ivor Jones
2. Mathison and Hollidge
3. George Huysamer/Martin

Technical Analysis
1. Ivor Jones
2. Mathison and Hollidge
3. Martin

Market Movements & Timing
1. Ivor Jones
2. Martin/Simpson McKie
3. Mathison and Hollidge

Gilts Research
1. Martin
2. Frankel Kruger
3. Mathison and Hollidge

Asset & Portfolio Management
1. Martin
2. Frankel Kruger
3. Simpson McKie

One objective has been to keep the method and the results as objective as possible. For that reason the method of compiling the overall rankings table was changed for the 1986 survey, when the list was confined to research of sectors quoted on the JSE. This was because each broking firm's performances for the various sectors are weighted according to the market capitalisation of the JSE sector (for this year, weightings were calculated according to average capitalisations for end-December and end-June). But it has always been difficult to attach weightings to such intangibles as economic trends, technical analysis and even gilts, which by value is a large business.

However, for this year's survey we have recognised that it may not be the best solution to exclude these sectors from the overall table. They have been reinstated, and that table again takes into account all sectors listed in the divisional leaders' table to derive a ranking for the brokers' total research efforts. Most of the non-listed sectors carried roughly the same weightings, although economic trends and gilts were worth significantly more than the others.

Interestingly, this did not appear to result in extensive change to the overall rankings, although it undoubtedly helped Frankel Kruger, which is strong in gilts research, for example, to supplant Fergusson Bros in third place — even though the latter firm gained ground with its industrial research.

Largely on suggestions made by institutions, a number of new sectors were added to the questionnaires: In the section for firms, new sectors are asset and portfolio management, computer service, labour/industrial relations, small companies and the DCM.

In the section for individual analysts, there is only one addition: several years ago the diverse industrial sector was split for the survey between consumer and other shares; in addition to that, this year we asked respondents to name the best overall industrial analyst. Here, Ivor Jones's Ted Woods, top in the category for other industrials, took the accolades. In both the other industrials, and best overall industrial analyst, Woods was followed by Martin's Richard Stuart, who led in mining financials.

As we have noted before, it is by producing a consistently good performance that Martin has retained overall leadership. In the individual rankings, the names of Martin's analysts appear somewhere in virtually all of the sectors listed. In consumer industrials, Martin's Janet Mills retained her lead position taken a couple of years ago, while a new appearance in the sector was J D Anderson's Zelda Zaayman, who was ranked fourth.

Given the wide spread of industrial sectors on the JSE, and the fact that some firms rely on teamwork while others have certain highly rated individuals, it is not surprising that differences appear between rankings for firms and for individual analysts. In the non-consumer industrials sector, for example, Fergusson Bros and Simpson McKie were joint second, while two Ivor Jones analysts — Woods and Jannie Kuiper — were ranked as individuals.

Fergusson Bros' James Picton still leads in diamonds, where Frankel Kruger's Keith Bright has appeared in third place, behind jointly second placed Martin's Stuart and Max Pollak's Alan Hill. Gold analyst Lloyd Pengilly has held his leadership, but it seems that changes can be expected in the gold ranking in view of the imminent departure of Frankel Kruger's Keith Goode for Australia.

INDIVIDUAL RANKINGS

Industrials — Consumer	
1. J Mills	Martin
2. E Levine	Max Pollak
3. N Brown	Simpson McKie
4. Z Zaayman	J D Anderson
Industrials — Other	
1. T Woods	Ivor Jones
2. R Stuart	Martin
3. J Kuiper	Ivor Jones
4. W Bowler	Fergusson Bros
Overall Best Industrial Analyst	
1. T Woods	Ivor Jones
Coal	
1. A Hill	Max Pollak
2. D Russel	J D Anderson
3. M Pohl	E D Hern
4. E Von Glehn/ D Ritchie	Martin Fergusson Bros
Diamonds	
1. J Picton	Fergusson Bros
2. R Stuart/ A Hill	Martin/ Max Pollak
3. K Bright	Frankel Kruger
Gold	
1. L Pengilly	Martin
2. B Craig	Ivor Jones
3. K Goode	Frankel Kruger
4. H Ashton	Mathison and Hollidge
Other Mining	
1. E Von Glehn	Martin
2. D Russel	J D Anderson
3. N Dinham	Ivor Jones
4. K Kartun	Simpson, McKie
Mining Financial	
1. R Stuart	Martin
2. J Picton/ P Gray	Fergusson Bros/ Frankel Kruger
3. D Brooking	Ivor Jones
4. J Rogers	Edey Rogers
Banks and Financial	
1. R Jesse	Martin
2. R Lomberg	Davis Borkum
3. A Finlayson	Ivor Jones
4. S Rubenstein	Fergusson Bros
Insurance	
1. I Christianson	Mathison and Hollidge
2. R Jesse	Martin
3. A Finlayson	Ivor Jones
4. D Southey	Max Pollak
Property & Property Trusts	
1. J Raynor	Max Pollak
2. J Mills	Martin
3. E Woods	Ivor Jones
Technical Analysis	
1. D Ashton	Mathison and Hollidge
2. T Sareff	Ivor Jones
3. D Langenberg	Martin
Gilts Research	
1. N Fredericksz	Martin
2. G Raine	Frankel Kruger
3. C Diakoyannis	Mathison & Hollidge
Economic Trends	
1. G Bell	Ivor Jones
2. M Brown	Davis Borkum
3. L Geldenhuys/ J Gerson	George Huysamer/ Mathison and Hollidge
4. C Maynard	Martin

This applies also to the mining financial sector, where Frankel Kruger's Paul Gray, ranked joint second with Picton, has already left.

Among other changes, Mathison & Hollidge's Ian Christianson overtook Martin's Richard Jesse in the insurance sector (although Jesse still leads in banks and financials), and Ivor Jones's Graham Bell — who was ranked for the first time last year — assumed a clear lead in economic trends. Mathison & Hollidge's Dee Ashton gained a comfortable first in technical analysis, where it was not possible to rate more than three analysts.

Returning to the firms' sectoral rankings, Martin was ranked first in two of the new sectors: small companies and the DCM, and asset and portfolio management. J D Anderson and Frankel Kruger were placed behind leader Ivor Jones for their computer services, while Mathison & Hollidge were ahead on labour/industrial relations.

DEALING

1. Davis Borkum
2. Ivor Jones
3. Ed Hern, Rudolph
4. Frankel Kruger/Martin

ADMINISTRATION

1. Davis Borkum
2. Martin
3. Ivor Jones
4. Max Pollak

Davis Borkum scored highly for its knowledge of international markets and — leaving research aside — was first in dealing (for the fourth year) and in administration (for the second). Dealing and administration are not in the overall rankings, which applies only to research.

Even with the survey expanded by the new sectors, it remains difficult to ensure that credit is given for all possible aspects of brokers' research efforts. Frankel Kruger, for example, runs large conferences.

Judging by the comments from the respondents over the past few years, the breadth of research coverage has generally improved. Still, several suggestions were made by institutions when asked whether any topics deserved more attention. They asked for more emphasis on portfolio strategy; monitoring of overseas markets; and more on the DCM.

While boom conditions may have hindered efforts last year, 1988 will be quite different. Trading volumes will be far lower, and new listings, if they do not dry up entirely, will be at a much slower pace. This should enable analysts to concentrate again on basic research, to consider the implications of the new market and to assess recent listings from a more sober standpoint. In short, the analysts will play an important part in helping investors adjust their sights. That leaves the field wide open for the next ratings. ■

MOTOR INSURANCE

Homeland hitch

Legal redress is wonderful when it works. Even if a motorist causing an accident refuses to pay for all the repairs, a court action can be instituted and, if negligence is proved, a judgment awarded in favour of the innocent party. However, a judgment must still be enforced to secure payment.

And when it comes to accidents involving vehicles or personnel from the homelands, insurance companies often experience difficulty in recovering damages. Hurdles include diplomatic immunity, problems in constitutional law, gross inefficiency and moral turpitude.

Brian Martin, an attorney for IGI, says he often has cases where it proves virtually impossible to recover damages, even when judgment is obtained. Many cases involve Ciskei and Transkei nationals.

Ronnie Andrews, IGI deputy MD, explains: "When an insured is involved in an accident, we authorise repairs and require the driver to pay the excess amount, say R500, to the panelbeater when the job is finished." Where the driver is innocent, IGI institutes action against the third party to recover both its own costs and its insured's excess. If the amount is recovered the insured is reimbursed and his no-claim bonus reinstated.

In a recent case, IGI obtained judgment against the Ciskei government. The tortuous route to legal redress has taken three years, with a judgment against the government remaining unsatisfied for more than a year. Only recently has the capital, some R3 200, been paid.

Legal costs

Martin is still trying to obtain payment of almost R2 000 legal costs and interest. Summons was issued in August 1985 against the minister of foreign affairs after numerous letters met with no response. The action was defended, and a year later a "totally nonsensical plea" was filed in defence.

Judgment, however, seemingly provided no powers to act. "You can't issue a writ of execution against a foreign state, nor can you attach State property," says Martin. Only after a threat to "raise the matter at political level" some 15 months after the court case, was the capital finally paid.

Martin says another judgment of R4 000 is outstanding against the Swazi army, "but I doubt we'll ever receive it."

Suing foreign governments in South African courts is complicated by the doctrine of diplomatic immunity. Unless waived by the sending State, it is a criminal offence to institute an action against a foreign State or its personnel, who are covered by the Diplomatic Privileges Act.

In one case, the Consul General of Transkei was involved in an accident in Cape Town in December 1985. Damages amounted to R6 800. It took 18 months of correspondence before diplomatic immunity was waived and summons could be issued. A default judgment was later obtained.

Four months later, the consul applied for a rescission of judgment on the grounds that he had diplomatic immunity. He claimed he was acting, at the time of the collision, within the course and scope of his business for the Transkei government. This had previously been denied by his government.

"They are in such a state of shambles," says Martin, "that the Transkei government doesn't even know whether an employee is on diplomatic business or not. There also appears to be no effective communication between the embassy in Cape Town and persons in the Transkei to whom the matter was alleged to have been referred."

He says that, as in most European countries, diplomatic immunity should not be extended to persons other than those having strict diplomatic functions or to motor accidents or traffic offences. "It would also assist if it were possible to execute against State property once judgment has been obtained and remains unsatisfied for a certain time." ■

FINANCIAL MAIL JANUARY 29 198
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FIRST NATIONAL

Ready for upturn

Activities: *Banking group operating in merchant, industrial and commercial banking.*
Control: *Southern has 25% and Anglo American 22,5%.*
Chairman: *B E Hersov; managing director: C J W Ball.*
Capital structure: *58m ords of R1 each; 14,5m pref ords of R1 each. Market capitalisation: R1 483m.*
Share market: *Price: 2025c. Yields: 5,2% on dividend; 12,6% on earnings; PE ratio, 8,0; cover, 2,42. 12-month high, 2500c; low, 1500c. Trading volume last quarter, 263 000 shares.*
Financial: *Year to September 30.*

	'84	'85	'86*	'87
Advances (Rb)	13,7	15,5	14,5	16,7
Total Assets (Rb)	16,7	18,7	18,2	20,6
Pre-tax profit (Rm)	115,7	181,2	180,7	301,9
Attributable Profit (Rm)	86,7	111,6	107,3	184,6
Earnings (c)	151,6	182,0	148,0	254,6
Dividends (c)	95,0	95,0	71,25	105,0

*9 months

It was with some pride that First National (Firstbank) announced its preliminary results, including a 29% climb in earnings. And with reason: the year had been filled with traumatic events — disinvestment, political controversy and a tough period in the banking industry.

It was not all bad news — other events worked to the advantage of Firstbank. The South African subsidiary of Citicorp was bought for R130m. The purchase of this company, now called Firstcorp, had a substantial impact on the balance sheet. Total assets were pushed up by R1bn or 5,5% and advances climbed by 6,3%, while the goodwill write-off of R118m reduced shareholders' funds, although this was partially offset and the total decline was only R5m.

The write-off had another impact. Chairman Basil Hersov says the acquisition boosted group return on shareholders' funds from 18,1% to 20,5% (15,8% last year). Income from Firstcorp was included for only three months of the current financial year.

Another benefit was the jump in income from associated companies, which more than doubled from R10m to R23m. The main reason was the inclusion of Southern Life for a full 12 months, whereas the previous year's accounts took in only six months.

Firstbank's Hersov ... pride in results

A drop in bad debts also helped. New provisions totalled R129m after R143m had been provided in the previous nine months. Although the economic climate was the main reason, tighter credit control helped. Actual write-offs rose from R106,3m to R200,2m.

But the low increase in costs was entirely due to Firstbank's efforts. The rise, at 14,4%, was below inflation. Capital expenditure dropped, but heavy outlay on computer equipment, which is leased, was excluded.

Pressure on margins last year meant the bank's profits, which contributed 66% of the group total last year, showed the smallest increase (11%). The sharpest rise was that of First Industrial, which grew by 75% thanks to increased demand and lower bad debts. First Merchant (now amalgamated with Citicorp in Firstcorp) was second with a climb of 53%. Like all merchant banks, it benefited from the stock market rise, but also from the decision to concentrate on management buy-outs.

Senior GM Jimmy McKenzie says the current financial year is looking even better. "It's nice to see decisions you took two years ago working for you," he says. The structure is in place, the systems are working and the necessary information is being provided. Emphasis on asset and liability management helps ensure margins are better than a year ago.

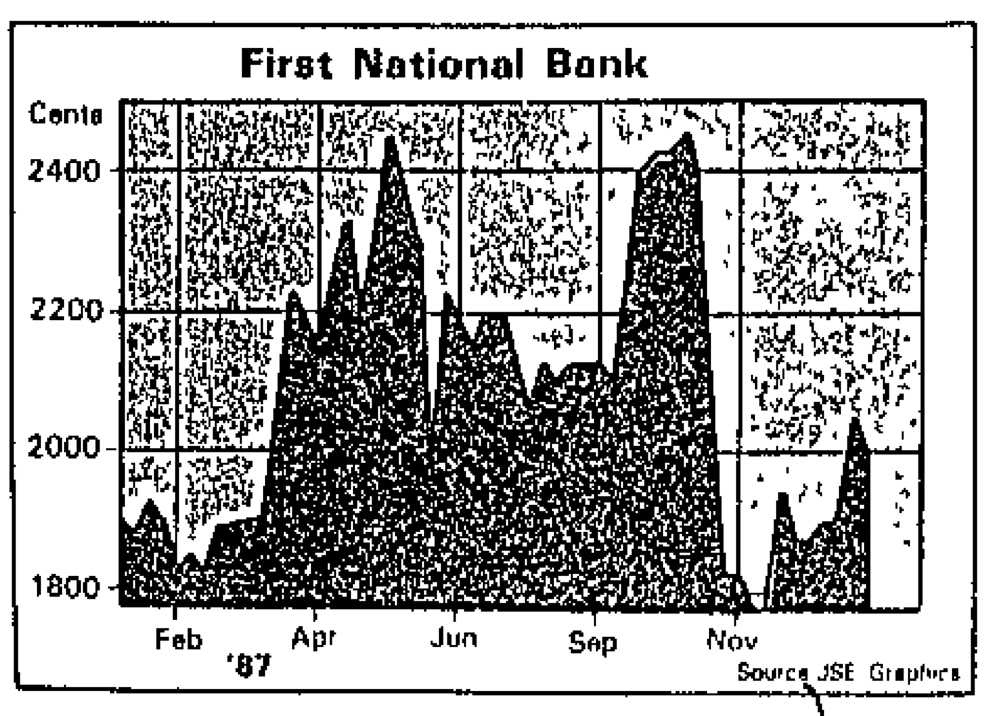
McKenzie sees the present upturn in interest rates as a technical correction. There is pressure on margins, and the rise in prime will help, but the pressure is much less than a year ago. He is convinced that the need to keep the infant economic upturn healthy means everything possible will be done to stop a sharp increase in rates.

McKenzie says the emphasis is on marketing and service this year. The merger of Citicorp is going well and management buy-outs are expected to continue providing substantial business. Wesbank is particularly profitable and home loans are doing so well that McKenzie suggests the size of this department could overtake Natal Building Society this year. He emphasises that Firstbank has been through its learning curve in this area and is in the business to stay.

An advantage is that R100m subordinated debentures, classed as capital in terms of the new Banks Act, were issued at the time of the disinvestment. Firstbank thus has no immediate need for additional capital and Hersov says that at end-September there was a capital surplus of R223m, placing the bank in an excellent position to take advantage of an upturn in demand for credit.

The share is still given a lower rating than Stanbic. Its price has risen from around R17,75 to the current R20,25 since the bottom of the post-crash market, but on a dividend yield of 5,2%, there is some way to go to catch up with Stanbic's 4,5%. It seems the market has not forgotten the problems of 1984 and the controversy of a year ago. But with banks more in favour this year (see *Fox*), Firstbank's image could change.

Pat Kenney



D\D 29/1/88

Bank down R342m

58

PRETORIA — The Reserve Bank's gold holdings decreased by R342 million during December to R4 904 million, according to the bank's monthly statement

Total gold and foreign assets decreased by R327 million to R6 139 million on December 31.

Reserves were valued at R841,13 per fine ounce compared with R840,54 the previous month.

Foreign investments and other assets increased by R15 million to R1 235 million.

Notes in circulation increased to R5 981 million at December 31 from R5 867 million on November 30

Government deposits decreased to R2 234 million from R2 578 million, and provincial administration deposits decreased to R224 million from R374 million

Deposits by banks fell by R20 million to R474 million

The ratio of gold reserves to liabilities to the public less foreign assets decresed to 62,5 percent from 71,0 percent. — Sapa

D\D 29/1/88

Delswa up 70 per cent

JOHANNESBURG — Before-tax profits up 70 per cent, from R975 000 to R1,7 million, in the six months to end-October 1987, compared with the comparable period the previous year, were announced by Delswa yesterday.

The interim dividend has been lifted 50 per cent from 20c to 30c.

DAILY DISPATCH, FRIDAY, JAN

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BANKING PROFITS AND INTEREST RATES

Adding more resilience

What does the rising prime rate mean for banking profits? At bottom line, probably not very much. The sector has been favoured since the JSE crash, but higher short-term interest rates in the past two months may indicate that margins have again been under pressure, with a potential impact on profits.

All the big five banks — First National (Firstbank), Stanbic, Volkskas, Bankorp and Trust — reported sharply improved results last year. The graph shows a steep climb in banking margins since the low reached in January 1987. Richard Jesse, of stockbroker Martin & Co, who prepared the graph, warns that his calculations are based on a number of assumptions and he stresses that the actual margin is less important than the trend, which remains upwards.

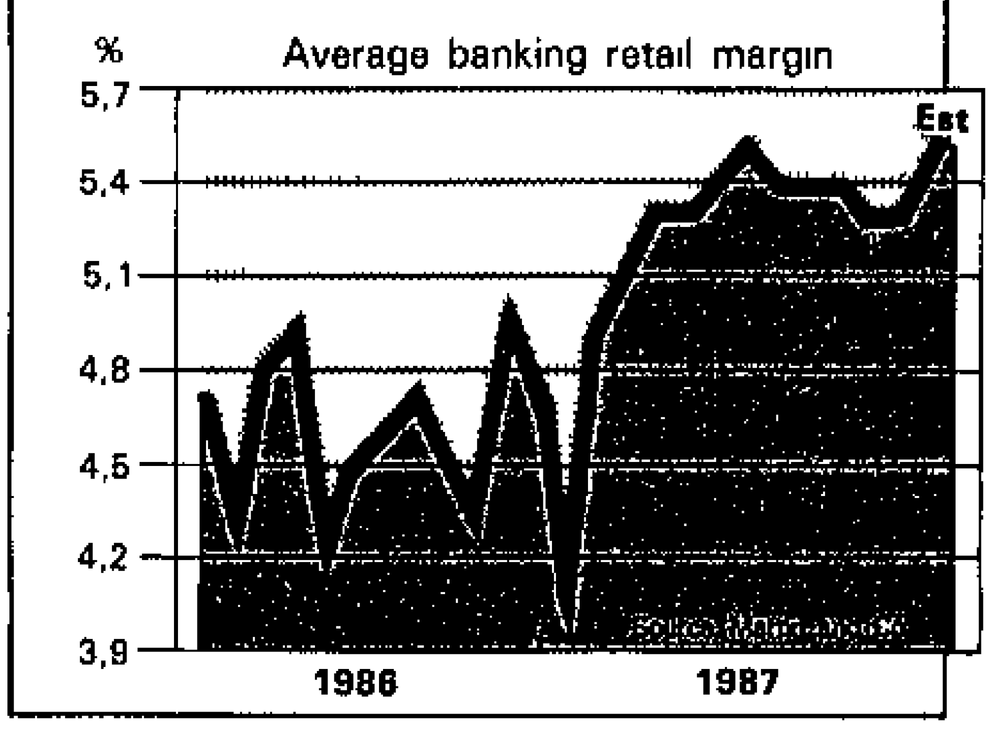
There thus seems little reason for the increase in prime, especially as the hardening of rates in December may have been seasonal, but the intervening holiday period meant no action was taken to compensate. By the end of the holidays, the situation had deteriorated to an extent where a higher prime rate was needed. A more cynical suggestion is that the prime rise is in response to banks' need for wide margins to generate profits needed for building capital and keeping pace with the new Banks Act requirements, as well as to fulfil investor expectations of profit increases.

Senior GM of Firstbank Jimmy McKenzie believes the prime rise is simply a technical correction (See ***Companies***). Like a number of banking analysts, he thinks the authorities will do everything possible to keep rates low. The statement by Reserve Bank Governor Gerhard de Kock, that rates should not be allowed to move too rapidly or prematurely, supports this.

There is consensus that rates will rise during the year, though not to levels seen in 1984. Banks which have borrowed long at the bottom of the market will benefit most, but the September BA9 returns showed little sign of lengthening books. Obviously the December quarter, when rates appear to have bottomed, was crucial; but at end-September Corbank led the field with 86% of total deposits being short. French Bank had 82% and, of the big banks, Firstbank led with 60%, Volkskas had 55% and Standard and Nedbank had 54%. Even Bankorp, apparently less optimistic about rates, had 49% short-term deposits.

Falling interest rates used to be regarded as bullish for bank profits, but this was due to the funding mix. The average deposit was generally for a shorter period than the average life of loans. Now analysts consider that rising rates will help profits, but this must

Still rising



depend on the difference between the length of deposit periods and of loans and also on the lag between rises in deposit rates and lending rates.

Another important consideration is demand for credit. Banks have been complaining for some years about sluggishness in demand. The limited recovery seen so far has mainly been from consumers for home loans and hire purchase finance. This year, the economic upturn should ensure recovery in manufacturing and commercial demand. This will also place upward pressure on interest rates, based on higher demand for funds and lower increases in the money supply, following a reduced surplus on the current account of the balance of payments. There should, however, be the benefit of fewer bad debts.

Apart from these factors, investors must consider how much will filter through to banks' bottom line earnings. For Volkskas, there is already a dilution due to shares issued in the UBS deal. This could cause a drop in EPS of more than 7%, but in the case of other banks, a high dividend cover can be expected. Those with the lowest cover — Firstbank and Nedbank with 2,4 times and 2,6 times respectively — will have to increase it.

It thus seems that while there is every reason to expect banking profits to improve in the present year, the shareholder will not enjoy the full benefit. Whether the share prices will show much appreciation soon is problematical, but the sector has recently shown resilience. *Pat Kenney*

PREMIER

After Bloom goes

The departure of Premier's high profile chairman, Tony Bloom, comes as a shock, but there is no reason to see negative implications for the group. Profits are rising impressively and investments made during the Eighties, plus recent structural changes, should ensure the outlook remains sound for some time at least.

Not that the new management will simply be relying on past work. Peter Wrighton, who becomes CE after Bloom leaves on March 30, has been deputy chairman since 1984 and was deputy MD for nine years. For nearly four years he has been chairman of the unlisted Premier Food Industries (Premfood) which comprises the group's food interests. Gordon Utian's record shows his penchant for growth orientated management. The new chairman has not been announced, but JCI chairman Murray Hofmeyer must be a logical choice.

Premfood, seen by outsiders as a laggard in the mid-Eighties, has shown recovery, particularly in its broiler business. Wrighton took a six-month sabbatical from head office duties last year to run the broiler operations, where he focused on staff morale, quality and service. The broilers made losses during 1987 but this month, says Wrighton, it will make a pre-tax profit of R1,5m and should produce annualised profits of R10m-R15m.

Wrighton says changes are occurring in the broiler industry; competitors are becoming less entrepreneurial since the death of Rainbow's Stan Methuen and the takeover by Barlow of a Cape Town competitor, while the recent steep increases in red meat prices have provided an umbrella for poultry price increases. Margins have eased.

Another Premfood development — a R55m wheat mill which came on stream late last year — may dampen profitability in the short term as volumes rise, but should provide a useful boost from late next year. The maize market remains a problem area as demand has contracted. Against this, Bloom says that bakeries are doing extremely well, while the considerable investment and effort put into the fishing business is paying off.

Bloom is obviously optimistic about the new management team running CNA Gallo and he says various seeds have been planted in Premier — such as the consumer electronics group Teltron and the recent acquisition of DCM-listed computer company CMS — which should bear fruit in future.

After the 1983 acquisition of the 33% investment in SA Breweries (SAB), Premier derived 80% of its bottom line earnings from SAB. By last year SAB was contributing 66% to the bottom line, with 66% of the remainder coming from food and the rest from non-food. Wrighton says the profit mix will continue to change; last year Premier's earnings growth outpaced SAB's, and that is likely to happen again. *Andrew McNulty*

Allied reduces existing bond rates

Pretoria Correspondent

The Allied Building Society has reduced the interest rate charged on existing bonds by 1 percent to 13,5 percent — and committed itself to achieving parity between the rate charged on new and existing bonds by the end of May.

The cut, which is effective from the end of February, will reduce the rate gap between new and existing bonds at the Allied and match cuts to the rate on existing bonds already announced by the United and Natal building societies.

These bond rate cuts will bring relief to some of the thousands of existing bondholders at several building societies who have been "discriminated against" and forced to pay a higher rate as building societies and banks slashed the rates for new clients in intense competition for a bigger share of the market.

The bond rate cut has been announced by the Allied despite the sharp increase in money market rates and the bank prime rate since the beginning of the year.

It is also likely to put increased pressure on the SA Permanent and Saambou National building societies to narrow the gap between the rate they charge on existing and new bonds. They are the only two major building societies that have not yet announced a cut to existing bond rates.

MOUTHPIECE FOR STOKVELS

58

C/Press 3/1/88 176

By BONGANI HLATSHWAYO

SOWETO stokvels are set to become more professional with the launching of an association on February 14 at the Funda Centre, Soweto.

The body, to be known as the Soweto Association for African Credit Unions, will serve as the mouthpiece of all stokvels. In its endeavour to seek freedom of operation for the stokvels, the association will assist them in purchasing all their necessities at reasonable prices.

Andrew Khehla Lukhele, convenor of the association said: "Stokvels play a valuable role in the economic stability of South Africa. That is why it occurred to us that something should be done to encourage their efforts."

According to Lukhele, stokvels are the "cornerstone of the country's economy", and the association will educate people on aspects of saving.

If the association gets a good response in Soweto, it will to spread its wings nationally.

According to statistics, there are almost 4 000 stokvels throughout the country, which consist of at least ten members each.

Each member will be required to pay an annual membership fee of R10.

In the process of their operations, the association hopes to curb the problems encountered when each member has to prepare for his stokvel.

They will help with the provision of transport and buying cards, which enable people to buy directly from factories.

"Our venture is for a good cause because, as compared to shebeens, we provide a hygienic way of consuming liquor – food and drink in each other's company," said Lukhele.

Seminars and lectures will be conducted from time to time for all members to enable them to operate professionally and profitably.

"Stokvels in the reef are the best. If only we can conquer hate and fear among the people, the battle would be half won," Lukhele added.

The association will be liaising with other organisations with the purpose of improving the standard of stokvels' operations.

Gaby Magomola is to be the guest speaker at the launch, and all stokvels interested in affiliating to the association should contact Andrew Khehla Lukhele at 339-4451 during office hours and at 985-5366 after hours.

Gaby Magomola and the president of Ukhamba Liquor Association, VEM Tshabalala, discuss the forthcoming launch of Saacu.

UBS in R30-m upmarket venture

Star 2/2/88 (58)

Another major residential property development has been launched in Randburg's Northwold area aimed at the upmarket buyer.

A development by the United Building Society's Development Corporation, Woodhill Manor brings 103 stands on to the market on a prime, rural site, part of which has been set aside by the municipality as a park and recreation area.

Total land and home market value of the project on completion will be more than R30 million.

Stands are selling at an attrative R29 000 to R38 000.

Selling agents are Northwest Estates and the Bob Percival agency.

Opening the development, Mr NC Jackson, chairman of the Johannesburg local board of the UBS, said: "The finance package offers a 90 percent bond as well as a further personal loan option of 20 percent of the property value.

"This extra sum allows people to finish their new home with additions such as landscaping, paving and interior decor."

Mr Johathan Fair, marketing manager of the United Development Corporation, said: "While developers have concentrated on the first-time buyer, a shortage has developed of good quality, larger homes and of prime land stock in good areas for building."

Mr Bob Percival says: "Woodhill Manor will provide a high-quality environment for family life being adjacent to more than 30 ha of parkland to be developed by Randburg Town Council.

"The park will feature a dam for windsurfing, hiking trails, picnic spots amid the koppies."

Northwest's Richter van Niekerk says: "There is increasing demand for upmarket homes. This demand has pushed up prices. Two years ago a top price for these homes in the Weltevreden Park-Randpark Ridge area was about R142 000.

"Recently a house in this category was sold for R220 000."

The builders at Woodhill Manor include Clifford Homes and Roes van Achterberg who are building showhouses.

Sanlam lays stress on actuarial valuations

Star 2/2/88 58

By Ann Crotty

For policyholders who tend to feel a little perplexed about the information provided in an assurance company's balance sheet, Sanlam's 1987 annual report may initially appear to add to the perplexity.

It certainly will not help anyone who would like to rate the insurance giants in terms of one common measurement of asset base.

Sanlam has countered criticism of its refusal to use a market valuation in by emphasising, in its latest annual report, the concept of actuarial valuation.

Sanlam's view appears to be that market valuation concentrates policyholders' attention on a value, at a specific date, and that this has little bearing on the operation of an insurance company. Sanlam's chief accountant Herman Kriel points out that market valuation does little more than highlight the volatility of markets. By contrast, book valuation does not show how assets are performing at a particular date, but does enable policyholders to see exactly where management has invested the funds.

But Mr Kriel notes: "Neither book nor market valuation shows the soundness of the management of an insurance company. The best way to do this is by referring to an actuarial valuation of the company's assets." As if anticipating some policyholder reaction to yet another valuation basis, Mr Kriel adds: "We are not trying to create confusion, we are trying to inform."

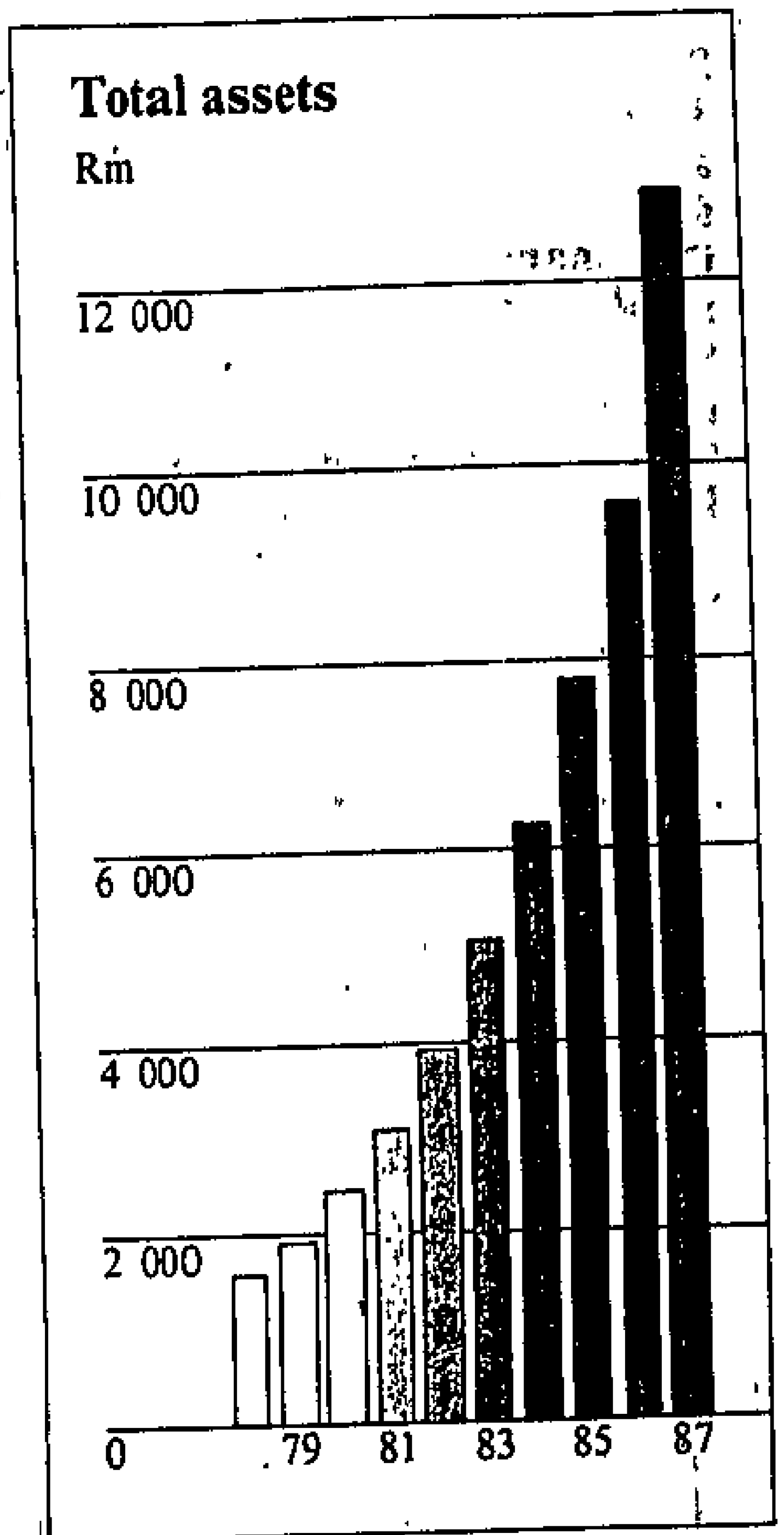
Certainly the actuarial valuation does seem the most appropriate in this industry and, contrary to initial impressions, seems reasonably straightforward. The "valuation balance sheet" included in the annual report measures Sanlam's investments, which have a book value of R12,3 billion in actuarial terms, and derives a value of just over R19 billion.

At the risk of oversimplifying — the actuarial valuation does not value assets at a specific date, but values them in terms of the income flow they will generate over a number of years. Thus, for the valuation of ordinary shares, estimates of dividends for the next four years were made. For years five and later a growth rate of 7,5 percent a year was assumed. This future cash flow was then discounted to establish its present value.

Sanlam has measured its liabilities in a similar manner to arrive at a present value of a stream of cash outflows (payments on policies) that will have to be made in future years. On this basis, Sanlam's assets exceed its liabilities by almost R1,5 billion.

Actuarial valuations have always been available, but this is the first time they have appeared in the annual report. The Life Offices' Association is encouraging the provision of this information.

It will be interesting to see if all the giants fall into line on this score and to what extent actuarial valuations, which are sensitive to the individual underlying assumptions, can be compared.



Sanlam's assets at book value increased 34 percent from R9,6 billion in 1986 to R12,8 billion in 1987. The actuarial value of these assets is R19 billion. Sanlam does not give figures for the market value of its assets, but its latest annual report states that market value exceeds the actuarial value. Old Mutual announced last year that the market value of its assets had passed the R25 billion mark in 1987. At end-June 1987, Liberty Lifewas showing an asset base, at market value, of R11,2 billion. So, on the available information, it looks as though Old Mutual is at the top of the pile in terms of size, with second place going to Sanlam and third to Liberty.

AMR64J 58

Tuesday February 2 1988

BANKING

FNB writes off R117,3-m on Citibank deal

By DEREK TOMMEY
Finance Editor

FIRST National Bank can expect criticism from some of its shareholders for its purchase last year of Citicorp's South African operation, Citibank now called FirstCorp, for R130-million.

It probably had a good reason for buying FirstCorp but this is not readily apparent from a circular to shareholders giving details of the transaction.

This shows that First National paid more than nine times what FirstCorp was worth on a net asset basis. It also bought FirstCorp on an extremely high price-earnings ratio.

The parent company in New York, it appears, took everything out of FirstCorp it could legally do. The result was that when First National took over it had assets of only R13,3-million.

However, First National did get the profits for the six months ended June, last year. These amounted to R600 000 after tax and increased net assets to R13,9-million.

INTEREST RATES

But it should be pointed out that FirstCorp had taxed profits of R28,3-million in 1985. That was when interest rates in South Africa soared and FirstCorp was able to borrow cheaply overseas. It was also before American firms started pulling out of South Africa in large numbers.

The result of the transaction was that First National, after taking into account market securities tax, found itself paying R117,6-million in goodwill.

"First National believes this payment to be justified in the light of historic and projected earnings and the significant advantage to be gained from the acquisition," says the circular.

In writing off this goodwill First National has reduced the net asset value of its shares by 162c to 1241c at September 30, last year.

At the same time, it has fleshed out FirstCorp by injecting into it the merchant banking activities of FirstMerchant.

This will boost FirstCorp's assets by R1,4-billion and produce taxed earnings of R12-million.

If these 1988 profits had been made last year, they would have increased First National's 1987 earnings by 15c a share from 254,6c to 269,6c, the circular indicates.

United gets set to cheque-mate competitors

3/2/88 (S8) B/Day

GRETA STEYN

THE United Bank is set to gain a competitive edge over other building society-owned banks by moving faster on cheque book facilities.

The machinery for the fledgling bank's cheque accounts was set in motion this week when the Reserve Bank gave its formal approval for the new facility.

The bank has been admitted to the Clearing House of Banks which will enable it to clear cheques through the automated clearing bureau. A further step towards cheque accounts includes membership of the representative body for banks, the Clearing Bankers' Association.

The United Bank is capitalising on its ties with Volkskas, making use of the established bank's systems know-how in developing its own current-account facilities.

The Allied said the cost of machinery and extra staff needed made the operation of current accounts unlikely in the near future. Rather, full cheque account facilities would be phased in over five years.

52,5-m plastic transactions

Star 4/4/88

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Standard Bank's electronic banking network of AutoBank, AutoCash, AutoPlus and AutoBel terminals processed more than 52,5 million transactions last year. This was 25,5 percent up on the 42 million last year.

Standard has 800 machines, including 600 automatic teller machines, and plans to expand its network this year.

Electronic account payments via the bank's AutoPlus terminals and AutoBel home-banking system increased 135 percent from 143 000 transaction in 1986 to 335 000 in 1987. Its electronic directory of firms linked to the account payment system has grown to 3 000 organisations.

Mr Bill Mansfield, deputy general manager, personal banking services division, says hundreds of customers in the PWV area are currently testing Standard's voice-response banking system, Bank-Tel, and that clients will soon be able to pay their bills from home using the telephone.

Stanprop lifts rental income

Star 4/2/88

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Finance Staff

Rental income from Standard Bank Property Fund (Stanprop) properties rose from R22,7 million in 1986 to R24,4 million last year and management expects the trend to grow this year, reports Frank Jeans.

Occupancies in the residential sector of the Stanprop portfolio have shown steady improvement, with the vacancy factor falling from 15 percent at the end of 1986 to 5 percent at year-end.

Vacancies in other sectors of the portfolio have been contained at 6 percent for shops and offices and 19 percent for industrials.

Stanprop started off 1988 by acquiring the Citylab office complex, Sandton, for R5,3 million with an initial yield of 11,25 percent.

BANKING

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Pairing off

Saambou, smallest of the four listed building societies, may seek a powerful ally for its entry into banking. Though granted a licence in principle on September 30, the society has not announced the registration of a bank.

Like others which expanded into banking — United, Allied and Natal — Saambou may be experiencing staffing and technological problems. The opening of three new banks in the past year has absorbed much of SA's banking skills. At the same time, the adaptation of systems to new requirements can create unexpected hitches.

One way around both problems is a working arrangement with an existing bank. Previously Saambou had a close link with Volkskas. Having been sidelined last year by Volkskas's involvement with UBS Holdings and its role in United Bank, Saambou had to reconsider its position.

After rumours of a link with the smaller Boland Bank, speculation now is that either Bankorp or its subsidiary, Trust Bank, are considering filling the gap. Another suggestion is that Saambou is considering taking over Trustbou, now in the Trust Bank fold.

A get-together of holding companies may include an equity swap similar to that between Volkskas and UBS last year.

Both Trust Bank and Bankorp would be restricted by statute to taking not more than 10% of Saambou. However, this would give them an edge on Volkskas, which holds 8,8% of Saambou's shares. With its registration as a bank, Saambou could hold as much of a bank as it can afford.

Any such relationship would, of course, involve the transfer of the Saambou account from Volkskas to Trust. In return, Saambou would benefit from a banking group's skills and more sophisticated systems.

A merger of Saambou with Trustbou would be an option. According to NBS's Mark Farrer, this would not alter the ranking of the societies. NBS is now the fourth-biggest society, Saambou the fifth and Trust the sixth. "NBS's assets are 5% greater than those of Saambou and Trust combined."

Bankorp executive director Stoffel Erasmus insists there is no substance to the speculation. He points out that there would be technical problems, as Saambou is a company and Trustbou a mutual.

However, Saambou could buy the assets of the mutual with the consent of shareholders, or Trustbou could convert to equity status. Whether Saambou goes in with someone or goes it alone, a new bank is bound to emerge.

Last month, Cape Investment Bank (CIB) announced registration and saw the start of two building society ventures: United Bank, owned jointly by UBS Holdings and Volkskas Bank, in August; and NBS Bank, formerly NBS Credit Corp, a subsidiary of NBS Holdings, in April.

Also opened last year was Allied Bank, in January, though this was not technically a new bank as it took over the licence previously held by French Merchant Bank.

Before 1987, the last licence granted was to Securities Discount House in July 1986; before that, French Merchant Bank in 1982.

So the entry of several banks within a short time is not the usual pace of events. It has happened in the wake of deregulation of financial services and follows many years when the authorities were reluctant to allow newcomers into the banking arena. ■

FM 5/2/88

ently available: LEASE — This is a no-deposit op- | vehicle. HIRE PURCHASE — Most in- | property of the financing com- | payable on a monthly basis.

Deposit rates on the way up

Star (58) 6/2/88

Building societies are fighting their way back into the investors' good books by increasing deposit rates almost weekly.

With inflation running at an average 15 percent the returns previously offered on savings were just not good enough.

The word is that rates could continue to climb in the coming months but for the moment, mortgage rates will not be increased.

Setting the pace in increasing deposit rates is the Natal Building Society which this week announced its third increase in certain fixed deposit rates in three weeks.

Brian Short, General Manager Public Affairs, said the latest increases reflected continuing volatility in the money market.

He said because the higher rates would be paid only on new fixed deposits — a fraction of total funding — NBS could still absorb the cost without raising mortgage interest rates.

Latest fixed deposit rates are:
12 to 14 months — 10,75 Per cent (unchanged).
15 to 17 months — 11,00 Per cent (New Category).
18 to 24 months — 11,25 per cent (unchanged).
25 to 36 months — 12,25 percent (11,75 percent previously)
37 to 60 months — 12,75 percent (12,25 per cent previously).

You get money out, but at what cost?

(58) Star. 6/2/88

STAN KENNEDY

Do you really know what it costs you every time you use one of the much-touted automatic teller machines (ATM) which have changed the face of personal banking in recent years?

Chances are you don't and trying to find out is frustrated by a myriad permutations.

But like everything in life you pay for what you get but perhaps a little more information from the financial institutions on their respective costs structures will avoid some of the confusion for the public.

It is difficult to determine exactly what charges cardholders pay for the various services at automatic teller machines (ATMs) and some of the financial institutions contacted on the subject were, to say the least, vague in their replies.

Because of this apparent confusion and the need for clients to know what they are being charged, a suggestion to the institutions might be for them to list their charges for the various services at their ATMs.

Charges debited to clients using their plastic cards in a Saswitch terminal vary according to the type of card and, more importantly, to the policies and strategies of the financial institution, says Mr Bruce Pollock, business manager, Saswitch.

The costs generated between institutions are generally operating costs. They include costs of handling money and the capital outlay in providing the terminal outlets.

Saswitch acts merely as an agent through its electronic funds transfer network for the recovery and settlement of every transaction processed.

Saswitch links the ATMs of 14 institutions. They are Allied Building Society, First National Bank, Boland Bank, Bank of Lisbon, Natal Building Society, Nedbank, the Perm, Santambank, Saambou, Trust Bank, United Building Society, Volkskas and the Post Office.

The fee tariffs agreed for the use of each institution's ATMs are 50c for balance inquiries and R1 for cash withdrawals up to R100 and 50c for each additional R100.

Some member institutions absorb these charges while others pass on a part of the cost to the client.

Saswitch, itself, derives a 15c switching fee from each transaction routed through any one of 3 000 ATMs around the country, processing about three million transactions a month.

"At the end of the day, everything owed by, say, First National Bank to Allied or Santambank to Boland Bank, is settled through Saswitch," Mr Pollock says.

Cardholders of the Multinet institutions are charged 35c a transaction. The four members are Standard, United, Volkskas and the Post Office.

Mr Gus Warwick, co-ordinator of the Multinet committee, says that while Multinet offers more services, such as inter-account transfers and mini-statements, it does not have the infrastructure of Saswitch.

With 14 institutions involved in Saswitch's electronic funds transfer network and four independents, it is difficult to determine the exact charges debited to clients for the various transactions. What seems to be common practice is that cardholders withdrawing cash from a current account are charged 35c while, with a card used to withdraw from a savings account, there is no charge.

An interesting situation, for example, is that when using a Firstcard at a First National terminal to withdraw money, a "nominal" interest charge is debited to the client. However, if it is made through Saswitch, there is no charge to the client. This seems to be the norm among the various institutions.

When using a Classic card at a Trusteller ATM, there is no charge. Neither is there one when used in a Saswitch terminal. The same goes for Santambank as long as the client has a credit balance. If he withdraws money when he has no credit balance, he is charged 19 percent interest a year, calculated on a daily basis, plus 10c government duty, until the money is repaid.

A writer from Benoni (who

Deposit rates on the way up

Star (58)

6/2/88

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37 to 60 months — 12,75 percent (12,25 per cent previously).

AREA OF ... 18.

THIS FORM USED FOR GROUP ORDERS

GROUP NUMBER :
(TEAM)

THIS FORM USED FOR PURCHASES

SUPPLIER NAME

MEMBER NO. OR GROUP NO.

ITEM	1	2	3	BERAAMDE +AVB	BERAAMDE BEDRAG R	BERAAMDE BEDRAG C	WERKLIKE +AVB R	WERKLIKE +AVB C	WERKLIKE BEDRAG R	WERKLIKE BEDRAG C
BAKED BEANS				0.65						
CAKE FLOUR				2.52						
CONDEN. MILK				1.40						
CHUTNEY, MILD				1.10						
COFFEE CREAMER				1.45						
CURRY, MIX VEG				0.73						
ERTJIES, VARS				0.73						
FRIK IN SOUS				1.40						
GEMENGDE GROEN				0.61						
GREEN BEANS SLI				0.76						
HAWERMOUT				1.89						
INSEKDODER FLY				2.79						
JAM, APRICOT				1.67						
JIK				1.06						
KITSKOFFIE				5.59						
LENTILS				0.84						
MAYONNAISE				3.19						
MELKPOEIER BLE				4.02						
MEUBELPOLITOER				2.23						
MIELIE MEEL				2.07						
ONE-MIN OATS				1.62						
OPWASMIDDEL				1.67						
PEANUT BUTTER				1.74						
PILCH, H/CHILL				1.22						
PILCH, NATURAL				1.21						
PILCH, TAMATIE				1.22						
RYS				1.51						
SAGO				0.73						
SEEP BINGO				0.46						
SEEP LUX				0.54						
SELF RAISE FLOU				0.71						
SOUP MIX				0.81						
SOUT				0.53						
SOUTVLEIS				2.18						
SPAGHETTI				1.32						
SPAG EN FRIK				0.95						
SPLIT PEAS				0.73						
SUGARBEANS WHIT				1.62						
SUIKER				2.89						
SWEETCORN				0.66						
TAMATIE PASTE				0.39						
TAMATIESOUS				1.32						
TANDEPASTA				1.78						
TEE LOS				1.67						
TEESAKKIES				2.12						
TOILETPAPIER				0.30						
VISOLIE				2.01						
VLOERPOLITOER				2.86						
WASGOEDVERSAG				2.12						
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FORM 4

CROSS-CHECK R R

African Bank chief deplores inflation and joblessness

Star 58 6/2/88

FINANCE STAFF

Unemployment and inflation constitute a significant threat to stability in South Arica today, says Dr Sam Motsuenyane, chairman of The African Bank Limited (African Bank).

In the bank's annual report, he says inflation and unemployment in South Africa remained disturbingly high against a background of continued socio-political unrest.

He calls on the Goverment to give priority to promoting economic recovery, developing job-creating programmes and stimulating black business ventures.

The role of small, black-owned businesses in improving the economic situation cannot be over-emphasised as they provide a sure way of job creation. They also bring more black people into the realm of ownership.

"Although the Government and private corporations have done much to expand black participation in business, much remains to be done.

"The growing hardships experienced as a result of rising unemployment, contribute to the tensions now prevaling in black areas," Dr Motsuenyane says.

A significent proportion of South Africa's population exists in a Third World context and spends an inordinate portion of its income on food.

Food inflation is currently running at 24%, compared with the overall inflation rate of 17% in South Africa and single-digit inflation among its major trading partners.

"The major victim of inflation in South Africa is invariably the black community, which is often not in a position to take adequate steps to adjust to circumstances," he says.

"Unless significant strides are made in the political area, the prevailing unrest is likely to continue and, in these circumstances, South Africa has little hope of ever attaining the vast economic potential for which there is ample scope," Dr Motsuenyane says.

"The reforms implemented by the Govenrment thus far have not brought about significant attitudinal changes among blacks, largely because these reforms all too often come too late or are not far-reaching enough to resolve the present impasse."

Dr Motsuenyane says one of the more pleasing aspects of the bank's operating results is the growth of more than 16% in the issued ordinary share capital. Total growth over the past two years was just over 26%.

"This is a clear indication that

Dr Sam Motsuenyane

the black community has begun to appreciate the value of share ownership and supports the African Bank on an increasing scale," he says.

Income after tax and transfer to internal reserves for the year ended September 30 1987 was R639 000, compared with R83 000 the previous year. After preference dividends, reserves available for distribution to ordinary shareholders are R276 000.

An ordinary dividend of 4c per share, absorbing R133 000, has been declared, leaving a retained income of R143 000.

"We have budgeted for improved results in the current year," Dr Motsuenyane says.

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I leave SA only in a coffin — Liberty boss

Business Times Reporter

DONALD Gordon, founder and chairman of the Liberty Life group, hit out this week at the business brain drain from South Africa.

He says businessmen have a critically important role to play in SA's development.

"It is most disappointing to see them leave," says Mr Gordon. "If they fully understand the economic problems of most of the countries they are heading for, they would think again."

SA has been protected by its imposed isolation from major financial errors, such as Third World debt, which is likely to be a disaster for major Western nations.

Unthinkable

"I am critical of proficient businessmen and community leaders who leave the country in its hour of need. What counts for them, also counts for me.

"I am, and always will be, a passionately loyal South African with deep roots here. There has never been any thought or intention to settle overseas and the whole concept is anathema — it's unthinkable to me."

Mr Gordon was reacting to suggestions that he was leaving SA or spending most of his time abroad.

"Both these perceptions are without foundation," he says.

"Almost all of my assets are invested in Liberty Life Group, which has interests ranging from Standard Bank Group, Premier, South African Breweries and Plate Glass as well as many smaller investments throughout the economy. The company has lent more than R2-billion to the Government and the public sector.

"The only way I will ever leave the country for foreign parts will be in a coffin," says Mr Gordon.

Large stake

He is, however, in an unique position because Guardian Royal Exchange Assurance, a London-based international insurance group, still has a 10,5% interest in Liberty Holdings after selling its controlling interest in 1978 to Mr Gordon and the Standard Bank, who jointly control Liberty Life Group.

The Prudential of London also has a large stake in Liberty Life. Mr Gordon is on the London board of Guardian Royal Exchange and is chairman of Guardian National, its SA subsidiary, in which Liberty Holdings has a 44% stake.

Liberty Life Group also has 49% in TransAtlantic Holdings which is listed on the Luxembourg Stock Exchange but operates mainly in Britain. TransAtlantic, in turn, controls Capital & Counties, a property development company, and Continental & Industrial Trust, an authorised investment trust listed on the London Stock Exchange.

TransAtlantic also has a 26% interest in Sun Life Assurance Society, an important London-based life assurer with an asset base of more than R18-billion.

Mr Gordon says: "Very little capital came from South African sources to finance these investments which are now valued at about R2-billion, of which Liberty Life has a 49% share."

Sporting visits

Liberty Life's interests mean that Mr Gordon travels to Britain about seven times a year to consult on strategy, maintain contacts with international businessmen and to attend board meetings — and sometimes Wimbledon and Ascot.

"This means I spend about three to four months a year outside South Africa. This has been the case since the early 1960s when I founded Abbey Life Insurance Company with Sir Mark Weinberg.

"This company has been the insurance success of Britain. Unfortunately, Liberty Life sold its interests in 1965 when Liberty Life became a subsidiary of Guardian Royal Exchange.

"Even after last October's stock market crash the investment has multiplied at least 20-fold since 1978, showing the stupidity of disinvestment strategies of good companies."

Europe lags

He says it is important that SA companies keep in touch with financial concepts and developments in the West.

"The exposure I have had to the international insurance industry has been to great advantage to Liberty Life and the South African insurance industry.

"It is well known that Liberty Life revolutionised life insurance in South Africa, pioneering equity and property-linked insurance in the late 1960's. We also pioneered unit trusts in South Africa in 1965."

Mr Gordon says SA's insurance industry has progressed so much in the past two decades that continental Europe has fallen about 20 years behind.

"The UK market is sophisticated, but I still believe the South African life insurance is the most efficient in the world."

The SA market, however, is small and the country has developed the expertise to export.

"Major opportunities exist in this area, notwithstanding sanctions and negative attitudes.

"As the chairman of a major South African financial institution, I am based in South Africa. I will continue to oversee the development of Liberty Life Group, which has developed into the largest proprietary life office in the country. I hope I will be doing that for many years yet."

Donny Gordon ... passionately loyal to SA

Cashless shopping for supermarkets

Star 8/2/88 58

By Caroline Mehliss

Check-out queues in supermarkets will speed-up when a new method of paying for purchases is introduced at several stores this year.

The first electronic-funds-transfer-at-point-of-sale (Eftpos) system that handles both debit and credit cards will begin operating at Checkers' Sandton store this week. It will be extended to a further eight or nine Checkers' stores during the year.

Pick 'n Pay will introduce the system in a Cape Town store by the end of the year, and it plans ultimately to have all its stores linked to the network.

Eftpos is an electronic payment system whereby the customer's banking account is electronically debited and the merchant's account simultaneously credited.

Using the system is simple and quick. It works on the same principle as an automatic teller machine.

When paying for purchases, the customer tenders his card. The cashier asks the customer to key in his personal identification number (Pin) on a "pin-pad" next to the till.

Within 10 seconds acknowledgement from the financial institution concerned will be received through the computer network, and the transaction completed. There is no paperwork and nothing to sign.

Eftpos will be a continually expanding system as more and more financial institutions join the network. The aim is for every store and every financial institution to be linked so that customers can pay with whatever plastic card they choose.

At the moment not all debit cards can be used for electronic transfer. Current regulations permit transmission and cheque accounts only to be considered for Eftpos.

The use of savings account cards is still not allowed, but attempts are being made to get banking authorities to remove this obstacle.

Mr Orlando da Silva, Checkers' general manager (information systems), says when the Sandton Eftpos system becomes operational next week it can be used by holders of Mastercards, Standard Bank credit cards and Standard's Autobank debit cards.

Eftpos offers many advantages to consumers, retailers and financial institutions.

For consumers, the system will speed up check-out time at the tills, and there is a security advantage too, as shoppers will not have to carry cash. If one needs cash, however, one can get it at the till, just like at an automatic teller machine.

There will also be in-store enquiry terminals where consumers can check their account balances.

The main advantage of Eftpos for the retailer is that money is credited immediately to his account, and the risk of fraudulent transactions is eliminated. There is also less cash movement, resulting in lower bank charges.

From the financial institutions's point of view, the system reduces the amount of paper processing which is costly and labour intensive.

3

IDC's low interest scheme

Cape Times 8/2/88 58

Cash injection of R1bn for industry

Own Correspondent

JOHANNESBURG. — The Industrial Development Corporation's (IDC) weekend announcement of a new low (5%) interest scheme will mean a huge cash injection of about R1bn for industrial development over the next ten months.

Timed to coincide with President PW Botha's economic policy announcement, the IDC move will also help create 25 000 new jobs and put R300m at the disposal of medium-sized independent industrialists immediately.

IDC GM Carel van der Merwe says the scheme is aimed at promoting new investment directed at import replacement, exports and job creation.

"Investment of R1 by the IDC normally means R3 in total. For every R1 we spend you can expect another R2 to come from the private sector — banks and institutions will supply services such as working capital. Quite a few big loans application people, who have been hedging their bets in the past few weeks, will now come into the picture."

"We view this as a major step, especially with rising interest rates. The scheme will be made available to independent industrialists or groups with total assets (fixed assets plus current assets) of up to R50m at the time of application.

It is intended primarily for new manufacturing projects that will create new or additional jobs and projects that will create new or additional capacity to generate sales of which at least 30% is directed towards import replacement or exports.

The IDC also emphasizes that loans will be granted on the proviso that the applicant's funding structure is not unreasonably strained — not less than 30% owners' funds to total assets after the expansion.

Interest at 5% a year will apply for the first three years, provided 60% or more of the expected sales from the project will be directed towards import replacement and/or exports.

After three years the borrower can choose between the IDC's then prevailing fixed or fluctuating interest rates, but at no time will the rate exceed 14%.

In cases where less than 60% but more than 30% of new sales will be directed at exports or import replacement, half of the loan will be made available at the 5% scheme and the balance at normal IDC rates for the full term of the loan.

The scheme is intended to support the independent medium-sized manufacturer, as they are not in the same position as large industries to negotiate more favourable interest rates.

Bank chiefs claim ignorance of law

Star 9/2/88

58

By Lesley Cowling

Two African Bank executives told Reserve Bank officials they did not know of the Exchange Control Regulation which restricted dealing in financial rands, the Rand Supreme Court heard yesterday.

Reserve Bank official Mr Charles Robert van Staden, said that Mr Alan Young and Mr Arthur Edward Ferreira had been questioned by him after the Reserve Bank realised there had been contraventions of Exchange Control Regulations.

Both said they did not know of Regulation 14(a), which forbade unauthorised dealing in financial rands.

TheAfrican Bank and three of its executives are charged with fraud and foreign exchange transactions which allegedly resulted in a profit of R100 million.

Mr Young (36), Mr Ferreira (40), and the former general manager of the bank's money market divison, Mr Henry Alexander Harper (43), have pleaded not guilty to all charges.

Counsel for African Bank, which is charged as a corporate body and is represented by Dr Sam Motsuenyane, has entered a plea of not guilty.

Last week Mr van Staden told the court he had asked Mr Young and Mr Ferreira to answer questions after documents the Reserve Bank took from African Bank showed there had been unlawful financial rands transactions. He had also asked the men to write the answers in the form of statements.

These questions were asked in terms of regulations which made it an offence not to answer, he said.

Defence counsel contested the admissibility of the statements on the basis that they were not made voluntarily.

Mr Justice Gordon then ordered that the case go into a "trial-within-a-trial" to decide whether the statements were admissible or not.

Mr van Staden said yesterday that both men had indicated they knew of a telex sent to banks in September 1985, announcing the debt standstill and the reintroduction of the financial rand.

Mr Ferreira had said he made inquiries at various banks about financial rands dealings. Mr van Staden had then asked him why he had not asked the Reserve Bank for advice, he said.

The hearing continues.

Karate man

SA Eagle Insurance earnings continue their flight to heights

9/4/88 Star 58

By Magnus Heystek

The profits of the SA Eagle Insurance continued to soar in the year to end-December 1987, with earnings a share rising by 80 percent from 117,6c (1986) to 211,8c.

A final dividend of 91c (1986: 54c) a share has been declared, which increases the total payout to 125c a share, compared with 75c a share in the previous year.

The highlight of the results is the dramatic turnaround in underwriting activity, which ended the year with a surplus of R8,32 million after recording a deficit of R5,4 million the preceding year.

This performance was managed despite the adverse effects of the Natal floods, hailstorms in the Transvaal and several large fire and explosion claims.

Investment income was again the mainstay of the company and rose by a sterling 29 percent from R24,25 million in 1986 to R31,3 million as a result of higher dividends earned on equity investments, together with increased interest received from the greater cash flow resulting from the rise in premium income.

Operating income rose by 112 percent to R37,46 million, but the tax bill was significantly higher at R12,048 million (1986: R3,49 million), leaving attributable income at R25,414 million — 80 percent higher than the R14,1 million earned the previous year.

The dividend cover has been increased from 1,6 to 1,7.

Stanbic taxed profits show lack of sparkle

Star 10/2/88 (58)

By Teigue Payne

Standard Bank Investment Corporation (Stanbic) returned a lacklustre increase in taxed profits in the year to December, but group MD Dr Conrad Strauss believes it is well-placed to benefit from an economic upswing.

Pre-tax operating profit increased 23,2 percent at R329,4 million (R267,3 million), but because of substantially higher tax, attributable earnings rose only 5,3 percent at R220,1 million (R209 million). Earnings per share were 4,6 percent higher at 215c (225c).

The group has declared a five percent higher dividend of 82c (78c).

Tax increased by 74,8 percent to R122 million (R69,8 million), with the effective rate of tax rising 26 percent in 1986 to 37 percent.

Dr Strauss yesterday ascribed this to a reduction in dividend income, which is not taxed, arising mainly from the fact that Stanbic transferred a substantial amount of capital to its subsidiaries last year.

He said the capital transfer meant Stanbic's subsidiaries were now somewhat over-capitalised. If the economy grew, these funds would be quickly available without recourse to shareholders.

If the economy did not grow, the group would have to decide what to do with the funds.

All banks in the group showed showed some profit increases, but Stannic's was most striking, with taxed profit up 270 percent at R34,6 million (R12,8 million).

Income statement reduction of charge for bad and doubtful debt was another big improvement. It was 62 percent lower at R71,9 million (R187,6 million).

Return on shareholders' funds, which has declined for four years, was almost constant at 15,7 percent.

Return on total assets was, however, held steady at 1,02 percent — similar to levels of the past four years.

A R60 million provision for reduction in value of trade-related foreign investments resulted in a debit for extraordinary items of R49,2 million (nil). The write-down was largely due to the fall in overseas stock exchanges and the appreciation of the rand against the dollar.

With a trend to automation, depreciation continued to rise. It was R52,4 million (R60,5 million).

On-balance-sheet-assets, at R22 billion, grew seven percent from R20,6 billion. Dr Strauss described this as disappointing, but said if there was economic growth, it would reflect on the balance sheet.

Regarding Standard Charter's disinvestment, Dr Strauss said in areas such as banking techniques, lending products and computer configurations, it had made no difference to the South African group.

Earnings per share rise to 225c

SBIC profit up 23% in 1987

CAPE TIMES 10/2/88

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By LAWRENCE TOTHILL
Investment Editor

STANDARD Bank Investment Corporation (SBIC) increased its pre-tax operating profit in 1987 by 23,2% to R329,4m from R267,3m in 1986. Earnings per share rose from 215c to 225c. Total dividends of 82c per ordinary share have been declared (1986: 78c) and dividend cover, at 2,5 times, is unchanged.

Total on- and off-balance sheet assets rose by 10,1% to R27 618m. This was in spite of weak demand for credit which, persisting through most of the year, saw advances and other accounts grow by only 5,8%.

Net income attributable to ordinary and preferred ordinary shareholders increased by 5,3% to R220,1m. A drop in dividend income, which is untaxed, was the main reason for a sharp rise in the effective rate of taxation from 26% to 37%.

Among the operating companies, STANNIC substantially raised its contribution to group profits. The other banking subsidiaries posted small profit increases.

Bad debts, net of recoveries, showed a dramatic improvement and declined from R164,2m to R52,2m, which is a welcomed change from some of the bad debt write-offs by several banks in the recent past.

Extraordinary items total R49,2m and include a provision for a reduction in the value of trade-related foreign investments due to the fall in international stock markets in October 1987 and appreciation of the rand against the US dollar.

Group Chairman Henri de Villiers and MD Conrad Strauss consider that current economic and political circumstances make a forecast for 1988 problematical. The group has, however, budgeted for a rise in earnings in the current year.

For some while SBIC has stood on a lower dividend yield basis than most shares in the banking sector of the JSE and certainly lower than those of the obvious competitors — First National, Nedbank, Trust Bank and Volkskas. The improved results could well entrnch the bank as a favourite in this sector.

DD 11/02/88 (58)

Credit card charges up

JOHANNESBURG — First National Bank has increased its charges to holders of FirstCard and the rest of its range of credit cards by 50 per cent retrospective to the beginning of January, but claims that this is in line with inflation over the past three years.

The deputy general manager in charge of First National's card and electronic services, Mr John Wildman, said that a number of other banks had already introduced higher charges to credit card holders.

He said the increase in the charge on FirstCard, for instance, from R1 to R1,50, or from R12 to R18 on an annual basis, was aimed at keeping pace with inflation since the current charges were introduced three years ago — "with inflation running at 15 to 17 per cent a year".

He acknowledged that no holder charges applied to BarclayCard — as it was then known — prior to that but the holder charge had been introduced because the charges to merchants and dealers could not cover the entire cost involved.

"We did not believe that holders should be subsidised by merchants but should be required to pay for the many advantages of having a credit card," he said.

Credit cards effectively gave holders credit for up to 55 days, or an average of 45 days after purchase, he said. Interest charges applied by such credit purchases moreover did not cover the bank's costs for maintenance and administration of card facilities.

The annual card fees which now apply to First National's cards are: FirstCard, FirstCard Classic and Business Card, R18; linked Petrocard, R9; Petrocard only, R15; and Aviation Fuel Card, R18. — Sapa

Inflation pushes up funeral costs

11/4/88

(58)

Generations ago, one could buy a funeral policy for 25 cents a month premium and be guaranteed a burial in true stagecoach and six white horses-style. But times — and inflation rates — have changed.

Today, funeral policies do not provide the funeral service but choose to make policy returns in the form of lump sum payouts, and, in some cases, the chance of a discount on such services.

But for an individual who is not aware of the change in policy benefits or the effect of inflation, a funeral policy does not always secure peace of mind.

"The need to educate policyholders has never been greater," said Mr Marius Smith, general manager, marketing of an assurance company.

Investigations showed funeral costs had increased by 8,8 percent since 1978 and an adult burial could cost as much as R3 200, which many funeral policies, even with accumulated bonuses, could not cover, he said.

The situation was caused mainly by the Insurance Act, which restricted maximum benefits of funeral policies, for example, to R200 in 1961, R500 in 1976 and R1 000 in 1980, without anticipating inflation levels.

MOTOR INSURANCE (58) FM

Not so sure

12/2/88

It's puzzling that Mutual & Federal's (M & F) highly competitive Motorsure policy has just been hit by large premium increases of as much as 30% — double the rate of inflation. Launched on February 1 1987, the product was developed to replace an AA Mutual Insurance (AAMI) motor policy package that had been specially tailored for Automobile Association (AA) members.

In mid-1986 600 000 or so policyholders were left stranded when AAMI went bust. Some 20% were AA members and were advised at the time to insure with M & F. It is unclear how many switched to Motorsure, but rough estimates suggest M & F's premium increase will garner some R500 000 a month from AA members with effect from February 1 1988. This, after just 12 months of underwriting experience.

They can't be happy.

It's a mystery why M & F got the premium rating so wrong. It must have had some idea of the premium required, based on its

(58) FM 12/2/88

Mutual & Federal's Saggers ... perturbed at short notice

own underwriting experience over many years plus the fact that AA insureds are considered better risks. Also puzzling is why M & F gave policyholders barely five days' notice.

According to M & F, its claims ratio — claims as a percentage of net premium income — "was very high."

Says MD Ken Saggers: "Rates on Motorsure needed about an average 22% increase. Johannesburg and the Reef are again the rotten eggs and clearly our starting rate was too low. On the other hand, our objective over time is to capture AA policyholders previously with AAMI, as we believe they are a relatively better risk on average."

Motor repair costs, he adds, continue to escalate by more than 20% a year, including spare parts and wage increases.

Recently, Prestasi Insurance Brokers launched a new company, Prestasi Financial Services, aimed at "protecting consumers' interests." During the launch Prestasi took the opportunity of reporting on its recent investigation into alleged malpractices in the service industry.

One revealing comment came from chairman Jan Erasmus: "With AAMI going out of the market there was less competition. Certain insurance companies and brokers are capitalising on this and are inclined to sell inferior cover." He notes the increase in underwriting profits of a number of companies in 1987. In some cases, profits were hidden by a larger than usual transfer to reserves, believed to be in anticipation of stricter financial requirements to be announced by the Melamet Commission.

"Certain companies came into the market," adds Erasmus, "at low premiums to gain market share then, three months later, jacked up the premium."

Whatever the reason for M & F's move, it came after, not before, policyholder custom had been won. The problem may affect relatively few policyholders, but illustrates at least one source of disquiet among insureds. Added to this, the five days' notice made evasive action impossible. Before an insured could draw breath his bank account had already been debited with the new premium.

New insureds

There's also evidence to suggest that new insureds joined in complete ignorance of the impending increases. Yet, as Bruce Gillespie, commercial marketing manager for the AA, says: "The premium structure as it now is carried the full approval of the AA board."

Pity it didn't include the need for communication.

There is nothing wrong in charging what a market can bear. If demand is good — reflecting a good product — then the price can be hiked. The real problem is lack of communication, and of straightforward disclosure. One can only speculate on the motive.

Meanwhile, Saggers, though adamant the premium increase is needed, is perturbed at the short notice given policyholders. "I will look into the programme of communication," he says.

Aids tests coming for life assurance

12/4.88

Star

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Own Correspondent

DURBAN — All applicants for life assurance over a certain amount would have to undergo Aids tests in future, Mr Dorian Wharton-Hood, immediate past president of the Life Offices' Association (LOA), predicted in Durban yesterday.

Addressing a Life Underwriters' Association of SA congress, Mr Wharton-Hood said the future scenario of Aids in Africa was "horrific".

Assurance companies had a duty to protect the benefit expectations of their existing clients. It was clear that joint industry action would have to be taken over Aids.

He said a special LOA subcommittee now studying the Aids question would come up with recommendations to be adopted by all life assurers.

He also rebutted criticism that certain population groups were discriminated against in rates — he said assurance companies were interested in protecting the benefits of policyholders and were not prejudiced against any group.

Mr Wharton-Hood, who is joint managing director of Liberty Life, also hit at the "destructive" campaign conducted by building societies against life assurance companies.

He said the societies had misunderstood and misrepresented the tax position of assurers.

They complained that total tax, as a percentage of total income, was low. But this overlooked the fact that about 70 percent of total income was tax-free because it was retirement and pension business, he said.

Formal petition

Star

12/4/88

A formal petition for clemency has been submitted to the State President on behalf of the six Sharpeville people whose appeal against the death sentence was turned down in November.

Their attorney, Mr Prakash

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Widow wins battle

Hassle over claim with IGI

Consumer Corner
By SY MAKARINGE

A MAMELODI East woman's five-month battle with Incorporated General Insurance (IGI) paid dividends this week when the company finally made an undertaking to settle her claim.

Mrs Salome Mokgotho (48), was all smiles this week after Mr Mike Ogden, regional manager of IGI in Pretoria, agreed to reverse a decision that was taken earlier by the company.

Thanks to the intervention of Consumer Corner.

Mrs Mokgotho's hassles with IGI started in October last year when her husband, Mr Sello Joseph Mokgotho (54), died. She submitted a claim of R900 to IGI to cover costs of a TV set her husband bought in 1986 from the Silverton branch of OK Bazaars.

"After submitting his death certificate, I was asked to submit a medical report from Kalafong Hospital. I did as I was told but after a few weeks IGI told me my claim had been repudiated," Mrs Mokgotho said.

"The people who came to my house said IGI would not pay as my husband was aware of his illness before getting into contract with the company. My husband died of a stomach complaint. He had never suffered from that disease before. The only time he was admitted to hospital was in 1982 when he was stabbed in the shoulders by thugs. I don't know what they are talking about," Mrs Mokgotho said.

Mrs MOKGOTHO . . . decision reversed.

Claim

A *Consumer Corner* investigation established that Mrs Mokgotho's claim was repudiated on the strength of a medical report from Kalafong Hospital where Mr Mokgotho died.

The report stated: "This above named patient was admitted at Kalafong Hospital at (sic) September 28 1982, He died at (sic) October 2 1987 due to gastro-intestinal bleeding."

One of the insurance company's clauses states: "In no case shall the company be obliged to make any payment in respect of any event named in the schedule of benefits arising directly or indirectly from a traceable condition which had its origin prior to the issue of the certificate."

The medical report gave the impression that Mr Mokgotho had been in hospital since 1982 where he was treated for the same disease until he died. However, according to his widow, he only spent three weeks at Kalafong where he was treated for stab wounds in 1982.

She said Mr Mokgotho was employed by Putco. He had been working for the company since 1968.

Consumer Corner approached Mr Ogden and pointed out the vagueness of the medical report which led to the repudiation of the claim. After studying the file, he agreed that the report was vague and undertook to make a payout "as soon as possible".

He refused to accept a suggestion that the company made a mistake, saying people who were handling the case might have gained the impression that Mr Mokgotho had been in hospital since 1982.

He said it was possible for people to spend many years in hospital.

crucial September ... Michael Tatz, Reg Stevenson, Tom Ec- ... cles and other opponents of George re- ... to buy effective control of Wit Nigel

Industry still has the jitters

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Insurance: rates will not be cut

B/day 15/2/88

HELENA PATTEN

INCREASING competition in the corporate-insurance market is putting pressure on premium rates, but SA insurers are unlikely to respond, rather allowing foreign competitors to pick up the cut-rate business.

Their reluctance to cut rates in a softer market, in spite of improved profitability, stems partly from uncertainty surrounding possible recommendations of the Melamet Commission. It also reflects an underlying caution after widespread losses in recent years.

PFV Group Broking Services MD Don Gallimore said London insurers had benefited from an increased flow of business two or three years ago, when American insurers pulled in their horns to rectify over-extension on the general- and product-liability front. US companies, having recovered, were taking back their old business, leaving London hungry.

He said: "SA is an obvious target — it always has been, because of its good claims record." The additional competition had led to pressure on corporate premiums.

The man-in-the-street, however, is unlikely to benefit from decreases in premium, in spite of a decline in the rate of car thefts and house burglaries following more stringent security measures taken by individuals.

Gallimore said when rates on personal lines were increased in recent years, many bad risks were flushed out — risks which insurers were not keen to have on their books again. However, since the claims experience on personal lines had stabilised, premium increases would slow down.

He said in spite of the Natal floods and the resultant biggest loss in one quarter, results were looking "more than good". Profitability meant companies were looking for more business and most "clean" corporate accounts with a good claims record could expect rate reductions.

Over-reaction to the AA Mutual's collapse in the form of higher rates, higher excesses and higher security, had lost the industry a lot of business, which companies were again seeking.

Ken Saggers, MD of Mutual & Federal, said the insurance industry had a short memory. Only a year ago, it was in a disastrous state and, although there was some improvement now, margins were small.

He conceeded there were pressures on

To Page 2

Insurance rates are unlikely to be cut

58 B/day 15/2/88

From Page 1

corporate ratings, but said the market was unlikely to support the rates on offer from overseas insurers.

Saggers said: "We may well see the industry stand aside and allow the business to go overseas."

Santam's MD Ossie Oosthuizen said he was not sure companies would embark on a murderous rate-cutting spree. "Cutting rates could get companies into trouble with the reinsurers" who had had to contend with floods in Natal and the north of France and hurricanes in England.

He said the AA Mutual saga was still fresh in everyone's minds and the commission could recommend higher reserve requirements, so that large-scale rate-cutting was unlikely.

Mike Lewis, MD of IGI, said there was no doubt the corporate-business rating structure was under pressure. However, the sliding scale of reinsurance commissions imposed by reinsurers, meant that if insurers started slashing rates a stage could be reached where the commission did not even cover brokerage.

Why that half-percent rise was hailed as good news

WM 22-28/1/88

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By HILARY JOFFE

THE announcement by the five major commercial banks this week that they would raise the prime overdraft rate by half a percent to 13 percent reflected some improvement in the economy: demand for credit from both investors and consumers has risen.

But the increase in prime also reflected more technical money market factors which have prevailed in the last couple of months, particularly in terms of the relationship between the banks and the Reserve Bank.

The prime overdraft rate is the interest rate at which the banks lend money to their best customers.

The interest rate to ordinary consumers is usually at least four or five percent above prime. The money an individual borrows through a hire purchase agreement or a bank overdraft probably costs about 19 percent and this may rise a little following the increase in prime rate.

Home loans are cheaper (12,5 percent from banks and 13,5 to 14 percent from most building societies) and mortgage rates are not set to rise at present. Standard Bank, for example, has guaranteed it will keep mortgage rates constant at least until June.

The prime rate had been unchanged, at 12,5 percent, since January last year. This reflected low demand for credit — consumers and companies were not spending, at least not on borrowed money.

The system was "awash with money" for much of last year and interest rates in the money market, such as the BA rate, remained low and fairly constant. This was in tune with the monetary policy of the authorities — the Reserve Bank wanted interest rates kept low in an attempt to stimulate the economy.

Interest rates continue to be below the rate of inflation: ordinary savers lose out but it pays companies and corporations to borrow money. Not that negative interest rates have helped that much — cheap money has not generated huge amounts of investment spending, although business confidence and investment did improve during 1987.

But interest rates have risen significantly since late last year. The BA rate, which was 8,85 percent on November 2, had risen to 9,9 percent by Wednesday this week. The Land Bank rate rose from 8,76 percent to 9,59 percent over the same period.

These rates reflect the "wholesale" price at which the commercial banks buy money. As these money market interest rates rise, the banks will eventually increase the cost of money to their customers.

November and December are traditionally a time when the demand for cash is high: from about November 20, when people start going on holiday, everyone wants notes and coins from the bank.

As demand for money rose the daily money market shortage increased until it was R2-billion on January 2 this year — compared with figures of about R100-million to R200-million which were more usual up to November. This put upward pressure on interest rates.

But there was an additional, more technical dynamic operating towards the end of last year. The Reserve Bank was allowing the money market shortage to increase, in an attempt to force the banks to come to it for money, so it could more effectively influence the money market and interest rates.

The Reserve Bank was apparently unhappy because the banks were lending out large amounts on call loans, rather than using BAs. Call loans, which the banks provide for reliable corporate customers, do not qualify as "marketable paper" as do BAs. And they do not provide a means through which the Reserve Bank can shape the market.

It was thus a combination of economic fundamentals and technical factors which were behind the rise in the prime overdraft rate.

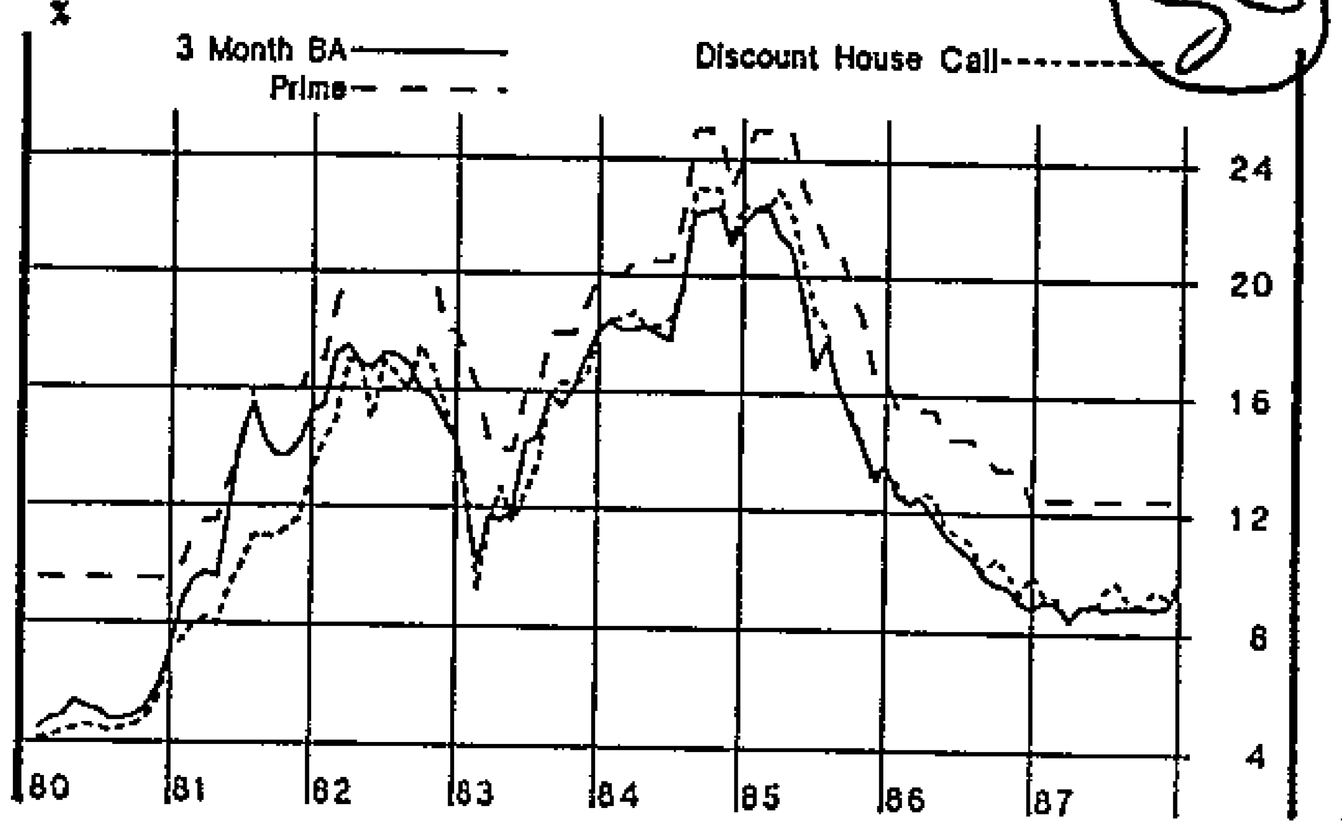
Reserve Bank governor Gerhard de Kock has said the change reflects a welcome rise in general economic activity. But he also indicated this week that he did not see it as presaging a more general rise in interest rates: the Reserve Bank will not be increasing the Bank Rate, which is the key rate at which the the central bank lends to the banking sector.

By announcing this immediately, De Kock wished to allay fears that interest rates would keep rising over the coming months — a phenomenon which would have a negative effect on business and consumer confidence.

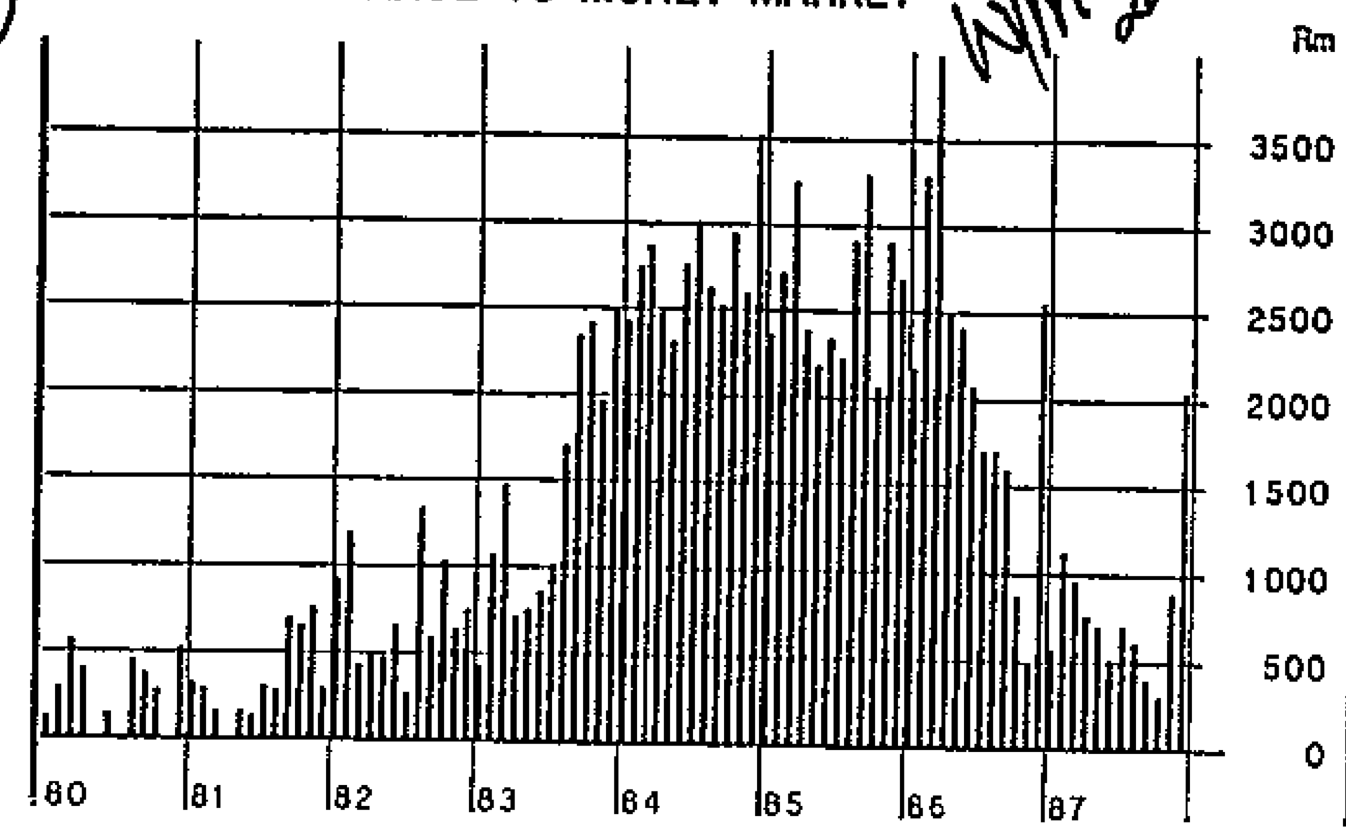
Businesses and consumers are still recovering from the disastrous monetary policies of 1984-85, when the prime overdraft rate peaked at 25 percent, sending companies and individuals into bankruptcy and the economy into recession. It is considered unlikely that the monetary authorities would repeat the mistake.

But most economists do expect interest rates to rise by a percent or two in 1988 as the economy improves.

SHORT TERM INTEREST RATES



TOTAL ASSISTANCE TO MONEY MARKET



Graphs: Standard Bank

BAs and TBs: Making sense of banker jargon

THE BA or Bankers' Acceptance rate is the interest rate most often quoted as an indicator of the price of money in the money market, where money is bought and sold short term (a maximum of six months).

BAs, which usually cover three month periods (91 days), are secure forms of "paper" because there are goods acting as collateral for the money which has been lent.

The way a BA works: a large corporation sells, say, R1-million of goods to a customer. The corporation wants the cash immediately. The two parties get together with a bank or merchant bank which pays the cash to the corporation at a discount of, say, 10 percent (it pays out R900 000).

A Bankers Acceptance note is issued for three months — basically an IOU to the bank. At the end of the three months the customer will pay the corporation which will then have to pay the bank the R1-million — so it paid 10 percent for getting its cash when it was needed.

The point is that the bank trades the BA note in for cash in the meantime, selling it to a discount house or another bank. The BA is then bought and sold between the banks and discount houses at prices depending on the supply and demand of money. The price of the money bought and sold is what is quoted as the BA rate, taken as a good reflection of short term interest rates.

The discount houses can then go to the Reserve Bank's "discount window" and trade in the BA for cash. This puts money (liquidity) into the whole system. Conversely, if the Reserve Bank wants to take money out of the market it can sell off its supply of BAs in order to contract liquidity.

The BA is not the only kind of "paper" bought and sold in the money market — others are Land Bank bills and Treasury bills.

The Bank Rate is the rate at which Treasury bills (TB) are traded (redis-counted). The Reserve Bank last set this more than a year ago at 9,5 percent for the discount houses and 10 percent for the banks, and has announced it does not intend to change it at the moment.

The Reserve Bank trades in paper such as TBs or BAs to influence the money supply, increasing or contracting liquidity in the system. This is a central way in which monetary policy is implemented.

☐ DE KOCK . . . "naive to believe we are on the verge of a quick fix"

The stuff central bankers' nightmares are made of

58

B/Day 15/2/88

GERALD PROSALENDIS/Financial Editor

THE EXPLOSION in demand for bank credit in the fourth quarter of last year could spell real trouble unless fiscal and monetary restraints are applied in the near future.

The rise in total bank credit in the fourth quarter at an annualised rate of 34% must be telling us something. So far, the figure — revealed early last week by Reserve Bank Governor Gerhard de Kock — seems to have escaped notice. Obviously, annualised quarterly figures must be treated with circumspection.

But the magnitude of the increase, coming after annualised increases of 12% in the third quarter and 8,5% in the second, must have given officials quite a jolt — if not an unpleasant one.

Clearly, after two lean years, bankers are seeing surging demand for their products. It is understood that increases took place across the spectrum of bank lending, including rises in corporate loans, private loans and home loans.

Other statistics have now confirmed a growing suspicion that, since the fourth quarter of last year, the economy has been moving ahead more rapidly than many expected.

They also explain the gentle shift in monetary policy in past weeks.

Growth in real gross domestic product accelerated to an annualised rate close on 5% during the fourth quarter of 1987, and the broad measure of money supply — M3 — increased at a seasonally adjusted annual rate of 26%. Imports, too, are rising, as are retail sales.

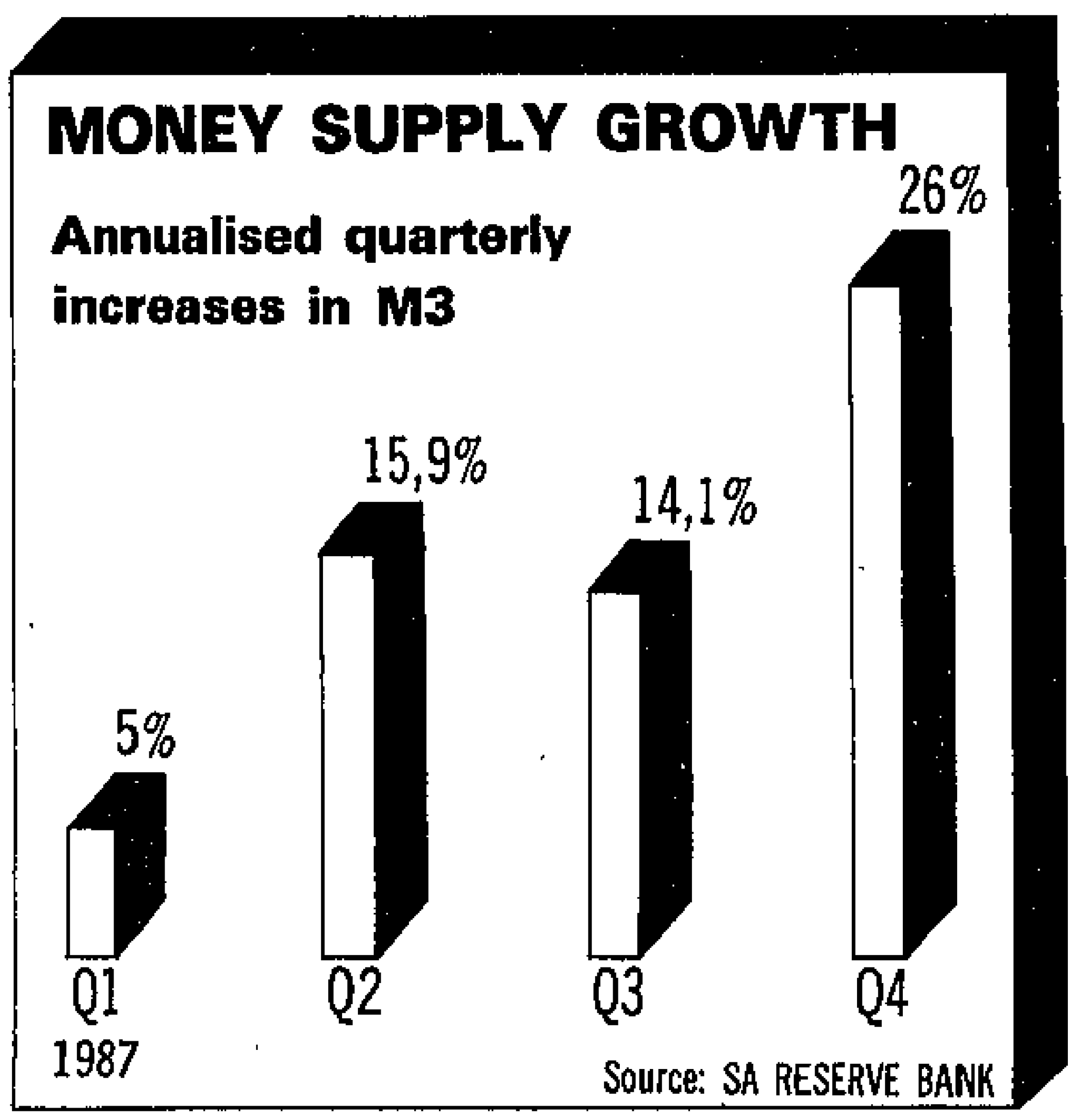
At present, the festivities are being sustained by Reserve Bank accommodation. Should the statistics for the first quarter of this year continue to run ahead, the Bank will be hard pressed not to apply the brakes.

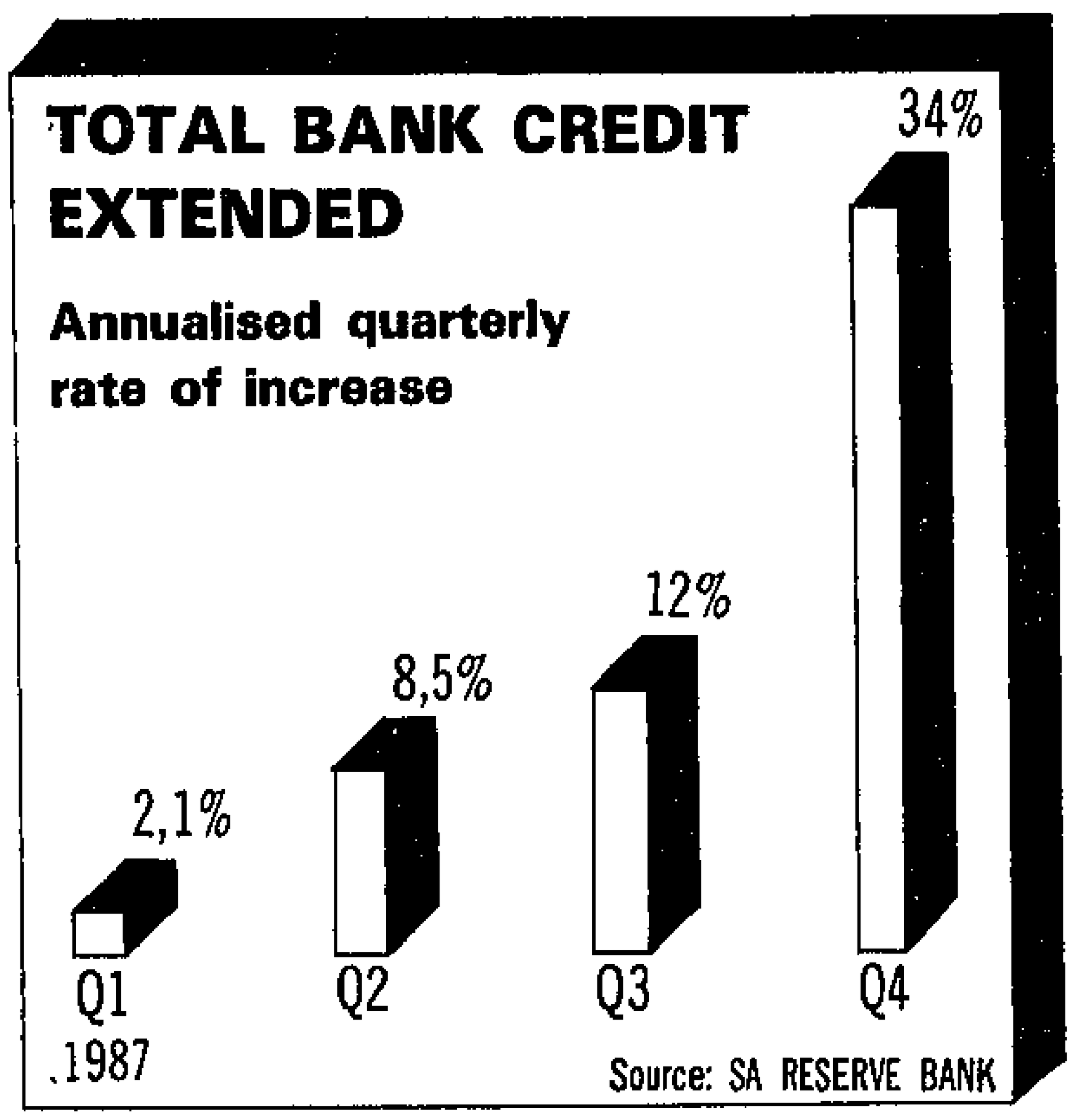
If the present upswing is allowed to run unchecked it could precipitate drastic action further down the line.

Therefore, officials will be keen to see a small rise in interest rates sooner rather than a sharp increase later in the year. If left too late, interest rates rises might not be all we are in for.

The normally cryptic De Kock has put it quite bluntly: "It would be naive to believe either that we have now solved our intertwined economic and political problems or that we are on the verge of a quick fix.

"But it would be equally wrong — and from the point of view of determining policy, quite dangerous — to fail to recognise the significant changes that have occurred in the SA economy in recent months."





In the past, monetary and fiscal policy have been a case of too little too late.

It was government's failure to control spending and the deficit before borrowing, which meant that monetary policy had to bear a heavy burden in 1984, pushing prime rate to 25%.

The behaviour of the central bank, dictated by an irresponsible fiscal policy, has tended to reinforce the unkind definition of a central banker as the "aborter of the boom".

This time it could be different. Clearly government, with prodding from the Bank, has learnt a lesson from past errors.

Also, there has been a shift in monetary policy early into the upturn. Interest rates have been allowed to rise, though marginally — prime rate to 13% and the BA-rate above 10%.

So far, the Reserve Bank has not needed to bring out the big guns by raising its own benchmark Bank Rate, which would be a far clearer signal of the need to tighten up ship. They might have to.

Today's Part Appropriation Bill will play some part in their decision by giving a clue to the extent of this year's deficit before borrowing and government's borrowing requirement.

More important will be the March Budget. If Finance Minister Barend du Plessis's figures are credible, and the deficit curbed, the monetary authorities may be inclined to follow rather than lead the market, obviously with a dose of moral suasion — the jaw-jaw policy — thrown in.

But do not bank on it.

Further drops in the rate of inflation could also stave off the nee... for drastic action.

While the shift of economic forces has been subtle, it has n... been imperceptible.

It was only a year ago wh... finance was a phone call away with corporates able to raise larg... amounts at rates below 9%. Th... BA-rate became only of academi... interest as borrowers turned to th... grey market for cheaper funds.

Borrowers were making deci... sions without having to take a vie... on exchange rates or forward cov... er. Life was extremely simple.

But it has now become essenti... for the authorities to ensure a ba... ance between the level of domesti... interest rates, on the one hand, a... the exchange rate and forward ... change rate — both of which dete... mine the cost of raising forei... finance — on the other.

An eye has to be kept on ... balance of payments, and possib... an incentive provided for borr... ers to move offshore.

Evidence suggests that a ... stantial portion of the capital ou... flow last year took the form ... local banks and companies ... down trade credit lines simply b... cause it was cheaper to raise ... in Johannesburg.

While it can be argued that ... process built in a form of hidd... reserve, it was not entirely desi... able, especially for a country ... able to raise foreign finance.

What it amounts to is shutti... the door on foreign funds wh... may be needed later.

Higher demand for a finite ... of local funds could bring the ba... ance of payments constraint i... focus sooner than many expe... especially given rapidly-risin... growth and a gold price which ... left us in the lurch.

This would spell real tro... with another bout of damagi... currency depreciation which, ... turn, would raise inflation.

Any attempt to defend the ... rency would require some com... nation of higher interest rates ... possibly even taxes. In the wo... case it could even mean draco... import controls and a prolifera... of bureaucrats and paperwork.

The simple solution is for us n... to paint ourselves into that corn... in the first place — hence the nee... to move timeously.

A falling gold price and econom... ic boom — both coupled with lim... ted access to foreign finance — ... the stuff central bankers' nig... mares are made of.

The Governor must be holdi... his breath.

Unit trusts

A Business Day Survey

Written by VAL PIENAAR

Bargain price shares and enormous potential

WITH quality shares running at bargain basement prices, established unit trust fund investors are tending more and more to increase the size of their investments.

However, spokesmen for a number of investment management funds say the potential market is still enormous.

Because of this, those companies which have been in the industry for some time welcome newcomers," comments Association of Unit Trusts (AUT) chairman Alistair Colquhoun.

"The more respectable institutions we have serving the market, the sooner the general public will come to understand the concept of unit trusts."

Comprised, for the most part, of individuals with relatively small sums available for investment, a lack of public understanding of unit trusts is the only factor limiting the industry's growth.

"Unfortunately, the general public still tends to be ignorant as to what unit trusts are and the potential benefits they offer to the small investor," comments a Sanlam Unit Trusts spokesman.

"Because of this, it's important not to sell unit trusts to anyone without ensuring that he fully understands fluctuating prices."

However, the spokesman believes the industry's efforts to educate its market are bearing fruit, evidenced by the boom in investment levels.

"In the late 1960s, advertisers tended to promote unit trusts on a 'get rich' basis. Today the emphasis has swung towards 'beat inflation — don't get poor'," he adds.

SA Mutual Unit Trust assistant GM (marketing) Stuart Fish adds that his company recognised a need to review its entire marketing policy early last year, to counter the general level of ignorance.

"We recognised that, while there are any number of extremely astute investors in SA, a large percentage of the population was relatively unaware of the potential or benefits of investing in unit trusts," he adds.

Because of this, Old Mutual's advertising campaign was designed to educate, in order both to protect the investor and to attract the right kind of investor.

The result of this, and similar efforts on the part of other companies, has been a dramatic increase in the number of unit trust investors, which has continued to grow in many sectors, despite the stock market downturn.

INNOVATION FROM UAL

ONE OF the latest innovations on the specialist equity trust market is the UAL Selected Opportunities Unit Trust, which concentrates on carefully selected venture oriented investments and promising recovery situations.

UAL Management Company MD Alistair Colquhoun says this establishes UAL as the company with "the most comprehensive range of products in the unit trust industry".

The trust offers above average earning prospects, but is available only to those with a minimum of R10 000 investment capital to invest.

"Our portfolio is made up of a range of mining, financial and industrial shares," explains Colquhoun.

"We are concentrating on enterprises whose shares are undervalued in relation to their growth prospects."

The latest report from the Association of Unit Trusts (AUT) indicates that Selected Opportunities achieved a total market value of R45,1m by the end of December.

Its investors flinched slightly in the face of the stockmarket crash last year, with the result that the fund showed a net loss of R700 000 during the final quarter of 1987.

This was a far better performance than that of UAL's general unit trust, which dropped a startling R26,2m in investments during the same quarter. And it was the only one of SA's 12 equity based funds whose returns, computed over three years ending last December, were below the inflation rate.

UAL Mining and Resources also did rather poorly, with a R5,1m drop in investment capital. However, Colquhoun is confident of an improvement in performance.

"We blazed a trail for the industry with this trust in 1984, when it was the first specialist equity fund offered locally. Since then, its asset base has grown from R28m to R198,6m," he says.

"And the success of the venture is reflected in the number of companies which followed our example."

The company's new gilt fund, on the other hand, gained R8,5m in that period, giving it the highest growth of any gilt or high income trust fund.

Sanlam designs for the individual

RATHER than attempting to cater for the mythical 'man in the street", trust funds should be designed to meet the specific needs and preferences of individuals, says Sanlam Unit Trust GM Philip van Zijl.

In line with this philosophy, Sanlam offers a wider range of specialist equity trusts than any other company serving the local market.

These combine to make the company by far the largest operator in the specialist section, with a total investment holding of R377,9m — or 37% of the total specialist equity market.

"We have four specialist funds — Sanlam Mining (formerly Trustgro), Sanlam Index Fund (formerly NGF), Sanlam Dividend Fund (formerly Sandiv) and Sanlam Industrial (formerly SATS), as well as one general policy," says Van Zijl.

"With these, we can meet many of the needs of a wider spectrum of the market than if we limited ourselves to a general fund, capable of satisfying only some of the requirements of an ill-defined group of people.

"However, the public perception towards the Dividend Trust — an equity based trust yielding higher than average dividend yields — is that it is a general trust, and we may respond to this by converting it."

Sanlam's effectiveness on the market has been enhanced over the past two years as a result of a timely analysis and restructuring of its portfolio.

"We weren't performing at all well during the first half of this decade, so we took a more active look at our unit trust operations and reorganised," comments Van Zijl.

"For instance, we discovered that many people investing in Sanlam unit trusts were unaware of the fact they belonged to us.

"To deal with this situation, we renamed all our trust funds this year to incorporate the Sanlam name. This will enhance our investors' awareness of our corporate identity, which can only benefit us."

Today, with a 15% market share, Sanlam is the second largest company in the local industry.

Its general equity trust ranks sixth overall, with an investment portfolio worth R156,5m, of which 34,9% is in liquid assets.

Managers all call for more investment in mutual funds

INVESTORS are edgy in the face of the long tumble in the stock market, yet mutual fund managers are unanimous in calling for continued — and increased — monthly investments.

However, every professional in the industry stresses that unit trusts cannot be regarded as a means of making a "quick buck", but must rather be treated as a long term investment over at least five years.

Corbank MD Jurie Bester doubts there will be any significant upturn in the stockmarket in the short term.

"It took seven years for the market to recover from the 1969 crash, and we can expect a similar recovery period this time," he says.

"Ultimately, share prices will remain under pressure until shares have been transferred from weak to strong holders. This readjustment period gives the true, long-term investor a chance to buy up stock at excellent prices from investors who entered the market with short-term objectives."

He points out that, although the overall bearishness is likely to prevail for some time, blue chip shares may be expected to bottom out well before the market as a whole.

"Investors are now in a position to buy quality stock at good value prices," he adds.

Most unit trust management companies have achieved a high level of liquidity during the past few months, and are in an excellent position to take advantage of the situation.

"No spectacular movement in share prices is likely in the short term, although they may drop slightly before bottoming out," adds Sage Investors Mutual Fund MD Bernard Nackan — the pioneer of the local unit trust industry.

NACKAN

"The domestic outlook is good over the long term, with prospects of increased spending, controlled inflation and improved company profits.

"However SA is affected by the international market, which is less optimistic. There is a definite slowdown in international economic growth, which will influence local stockmarket prices."

But Nackan believes the long term prospects for the unit trust industry — and for unit trust investors — are as good as they ever were.

"Inflation is built into the structure of SA's economy; it can't be expected to drop below 10% in the foreseeable future. And unit trusts provide a satisfactory shield against inflation," he points out.

This view is borne out by Old Mutual assistant GM (marketing) Stuart Fish.

"Although the local unit trust industry has been affected by recent events in world economies, its long term future is very positive.

"The correction in world stock markets, and its influence on the JSE and unit trust performances, must be recognised as a buying opportunity and not cause for panic," he says.

And a spokesman for Sanlam Unit Trusts says: "Anyone who believes in the economy of SA as a capitalist entity must recognise that unit trusts are an excellent long term investment.

"They give small investors a chance to invest in those companies which act as a barometer to the entire industry."

"The very idea of investing heavily in a falling market seems to run completely counter to common sense, but this is not necessarily the case," adds Standard Bank Fund Managers MD Dennis Matfield.

"A simple look at the mathematics of rand cost averaging reveals that, given growth in SA's economy, over the long term everyone should be a winner."

And, he adds, in the long term, SA's rate of inflation cannot be expected to drop significantly.

Under these circumstances, Matfield says, unit trusts give the man in the street a means of maintaining — and even increasing — the real value of his investments, without being over-penalised by the Receiver of Revenue.

And Fish comments: "Fluctuations in the value of shares and a continued dow[illegible] trend has created ideal conditions for investors to take full advantage of rand cost averaging."

However the spokesman for Sanlam cautions investors against putting excessive amounts of capital into the market immediately.

"While the market is low, mutual fund investors are assured of getting good value for their money. However, share prices will probably continue to fall for several months," he points out.

Because of this, he recommends a series of investments during the course of the next six to 12 months, rather than the investment of a single lump sum immediately.

And people who invest on a monthly basis should make an attempt to increase their regular investments until the market recovers, the spokesman says.

"Of course," adds Matfield, "as with all share investments there is an element of risk involved and no individual's investment portfolio must be limited to unit trusts.

"But the safeguards built into the system, both by legislation and as a result of long standing experience on the part of investment management companies, make unit trusts a relatively stable form of long term investment."

Analysing the present mood of its clients, Standard expects investments in its high security Extra Income fund and other bank interest bearing investments to increase in preference to more speculative equity holdings.

To reduce the risk to investors in this fund, the company is tending to prefer medium term over long term securities.

Large and small investors benefit

58 B/Day 16/2/88

Unit trusts

A Business Day Survey

MUTUAL funds — or unit trusts — offer a diversity of benefits to both large and small investors. Many are being recognised only in the wake of the stock market decline.

"Nowadays, almost any person with savings capital, who takes professional advice, will need to consider whether or not to invest a portion of his funds in unit trusts.

"Five years ago this was not the case. Although a wide proportion of the general public still doesn't understand unit trusts, there has been significant penetration of the market in terms of knowledge," comments Association of Unit Trusts (AUT) chairman Alistair Colquhoun.

In support of this claim, he points out that the unit value of unit trusts in the market grew from R1bn in 1984, to peak at R5bn just before last year's stock market collapse.

"Investors are recognising unit trusts fulfil more of their usual needs than any other form of investment.

"They provide capital protection, a rising income, consistent availability, easy accessibility, minimal management problems and an above average return," Colquhoun adds.

"Unit trusts must be regarded as a long term hedge against inflation. As such, they have a brilliant future regardless of present stockmarket trends," comments Sage Investors Mutual Fund MD Bernard Nackan.

He deplores the slowdown in sales which has hit the industry since the October crash.

"The market is still uncertain, and mutual fund companies are opting for a higher degree of liquidity than in the past.

"But from the point of view of the individual investor, now is the time to get into the market, while prices are down."

However industry representatives unanimously say investors must be people who are willing to give their investments enough time to show a return.

"Although assured and ready liquidity is an important feature of the system, the wise investor recognises that unit trusts should be regarded as long term savings," says a Sanlam Unit Trusts spokesman.

"Some people just are not willing to look to the long term. They cannot tolerate seeing a drop in the value of their units. Such people should stick to secure investments, even though these offer lower long term returns."

A major advantage of unit trusts is their accessibility to the small investor. While some companies limit investments to R100 a month or R500 in a lump sum, many of the giants of the industry are happy to accept as little as R20 a month to accommodate the client with limited funds at his disposal.

Typical among these is Sanlam, which fixes its minimum as low as R20 a month, regardless of the fact that managing small amounts is not economically viable.

"Such clients are served at a loss, but in fact we find the average monthly investments tend, in practise, to be about R130," comments a spokesman.

At the other end of the scale, the acknowledged leader of the industry, Old Mutual, requires a minimum investment of R100 a month, or R1 000 in a lump sum.

But whatever the size of the individual's investment, he is assured of full time professional management of his portfolio, backed up with an administration service.

The system of monthly payments is of particular value in helping to make unit trusts accessible to people without large sums of money to invest.

At present, in the prevailing market low, most fund managers are encouraging their clients to use this system in favour of making lump sum cash payments.

"Regular monthly payments enable investors to gain from rand cost averaging, since even in a declining market they will, over a period of time, pay a lower average price for their units than the average cost of the units during the same period.

"Because of this, we encourage even clients with relatively large sums to invest, to spread them over a period of time.

COLQUHOUN

"Since it is impossible to forecast exactly when the market will hit bottom, this is the only way to ensure that a client has a chance to take advantage of the lowest prices available," says Liberty Asset Management MD Roy McAlpine.

An additional benefit is the flexibility of the system. Unit trust investments can be turned into cash within 24 hours, although for best returns people are advised to regard them as a long term proposition.

"Fluctuation is a fundamental characteristic of stock markets worldwide," comments the Sanlam Unit Trusts spokesman.

"When things look bad — as they do now — investors must be willing to sit out the downturn while accumulating as many units as their budgets will permit, so that by the time the upturn comes they will have a strengthened portfolio."

However Standard Bank Fund Managers MD Dennis Matfield stresses unit trusts cannot entirely replace assurance policies and other conservative forms of investment.

"Although unit trust funds are structured to provide the maximum protection for investors, they cannot be regarded as a reliable source of cash for emergencies, which take no cognisance of stock market trends."

However legislation limits a unit trust management company's holdings in any share to a maximum of 5% of its total investment. Because of this, there is a spread of investment wide enough to limit the risk element characteristic of stock market investments.

Standard one of the top performers

AN ABILITY to respond to market trends helped make Standard Bank Fund Managers one of the top performers in the unit trust industry during last year's stock market crash.

"Our investment advisers, Standard Merchant Bank, saw the bear market coming as early as June 1987, when we decided to get as liquid as we could without disturbing the market," says MD Dennis Matfield.

This foresight paid off for its clients, he adds.

"By early October — before the crash — we had increased the cash portion of our Mutual fund to 25%, as a result of which a degree of protection was provided to our investors.

"At the same time, our Extra Income Fund was unaffected by the crash.

"And today our total liquid assets amount to 33,5% of our holdings. This puts us in a strong position to take advantage of the low share prices prevailing as we gradually start reinvesting in the market, when the downslide levels off.

Standard's predictions for the gold price, which contradicted those of many other market analysts, also proved accurate.

"The general view was that gold would hold its own, but we expected it to drift downwards. Consequently, new purchases for our Gold Fund were made in other areas of the industry, such as exploration.

The mood of Standard's investors has remained reasonably optimistic in the face of the crash, although Matfield points out that uneasiness is inevitable.

"As might have been expected we had a number of people calling in to ask if they should sell out while the going was good.

"Our response depended on individual circumstances, but a number opted to increase their investments with an additional monthly debit order. This will enable them to take advantage of rand cost averaging and, in the long term, we believe it will increase the value of their holdings."

By far the majority of the company's clients have followed Standard's advice. Matfield attributes their confidence in Standard to the fact that all investors were warned to take a long-term view at the start of their relationship with the company.

"We always make it very clear, right at the outset, that mutual funds are not a get-rich-quick scheme, but rather a means of providing protection against inflation over the long term," he explains.

"Our investment advisors have built up one of the best management teams that the industry can offer. Their effectiveness is evident in the skill with which they read the market.

"They are supported by a strong board of directors with wide experience in a range of industrial, mining and stockbroking activities."

In addition, Matfield believes that, with a large banking group such as Standard controlling the funds, a service philosophy is in evidence which has enabled Standard to win a 14% share of the entire unit trust market.

"We are totally relationship-oriented and work hard at ensuring our administration meets the stringent requirements of our investors."

I told MD of finrand deals — bank official

ST 16/12/88 (58)

By Lesley Cowling

Former African Bank executive Mr Alan Young said in a statement handed into the Rand Supreme Court yesterday he was fully aware of financial rand dealings at the bank and had informed the managing director that the bank was "profitably exploiting a grey area in the legislation".

The statement had been made to Reserve Bank-officials who were investigating financial rand dealings at the bank.

African Bank and three of its executives are charged with fraud and foreign exchange transactions which allegedly resulted in a profit of R100 million.

Mr Alan Young (36) of Florida Park, Mr Arthur Ferreira (40) of Glenvista, and the former GM of the bank's money market divison, Mr Henry Alexander Harper (43) of Fairland, have pleaded not guilty to fraud and contravening exchange-control regulations.

Counsel for African Bank, a corporate body represented by Dr Sam Motsuenyane, has entered a plea of not guilty.

The court has heard that Mr Young and Mr Ferreira were questioned by Reserve Bank officials in connection with the alleged contraventions. The answers were written down in the form of statements.

Yesterday, the statements were handed into the court after Mr Justice Gordon ruled them admissible.

Mr Young's statement said he joined the African Bank in April 1985, initially as a consultant, then became an officer of the bank on a profit-sharing basis.

GREY AREA EXPLOITED

"I was fully aware of the fact that the bank was trading in financial rand and may have concluded deals myself."

He said financial rand deals evolved as a matter of course rather than by instruction and he told the managing director that a grey area in the legislation about trading in financial rand was being exploited profitably.

58

Elements of a viable recovery strategy now present, says Strauss

Progress made in economy

GERALD REILLY

PRETORIA — Progress had been made in virtually every level of the economy in the past few months, Standard Bank Investment Corporation MD Conrad Strauss said yesterday.

He told the Agricultural Outlook Conference (Agrocon) many of the elements of a viable recovery strategy were now present.

He hoped the political will to implement the strategy was also present. Only then would the prolonged decline in the country's growth achievement not only be temporarily halted but decidedly turned around.

For the first time in more than two years there was more good news than bad.

Strauss said the fundamental factors for continued growth had existed for some time and now it looked as if the last important element — business and consumer confidence — had also improved.

Economic performance was still not spectacular but the domestic growth tempo was adequate and foreign reserves strong enough to help the country through the year and leave the economy in a better state than in the past few years.

Available statistics showed the domestic demand in the third quarter last year had strengthened.

Strauss said in the fourth quarter, provisional indications from retailers, manufacturers and bank statistics showed the improvement had continued in the last few months of the year.

There was a gradual improvement in the demand for credit. Individuals now had enough confidence to spend more and to use credit.

In the manufacturing sector, there were indications that pressure on industrial capacity was increasing and that companies had begun to selectively invest and to build up stocks.

On the world economy, Strauss said the initial fear that the collapse in the share markets would lead to serious business setbacks, and even to a world recession, was not justified.

The performance of the world's main economies showed the adverse effects of the collapse were still within reasonable limits.

DD 17/2/88

Housing: banks to be given govt guarantees?

58

CAPE TOWM — Banks are to be given the same government guarantees as building societies to invest in the provision of housing in the non-independent homelands.

An announcement to this effect by the government is expected this week.

In 1986, the government announced that it would indemnify building societies who granted loans in self-governing homelands from any losses arising from changes in financial policies and legal consequences as a result of these areas gaining independence.

In effect, the building societies were given guarantees from any losses which might result from the independence of these homelands but not from normal business risks from granting loans.

This meant they were protected against losses due to political risk but not because borrowers failed to repay their loans or because of depreciation of property or the non-payments of rates and taxes or water and electricity accounts.

The Department of Development Aid believes this move has had positive results and building societies have a result become actively involved in the provision of housing in these areas.

The Clearing Bankers Association of South Africa has approached to government to ask for similar guarantees.

An announcement, acceding to the request and providing the same protection to banks as building societies, is to be made soon.

The government believes this will stimulate home ownership and the provision of housing in the non-independent homelands. — DDC

BANKS TO GET HOMELAND HOUSING GUARANTEES

58

Political Staff

B/day 17/2/88

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An announcement, acceding to the request, will be made soon.

HELENA PATTEN reports Standard Bank homes loans division deputy GM Terry Power said such a move was unlikely to have a tremendous effect on the amount of money invested in homeland housing.

However, he said banks would obviously welcome it as added collateral on their investments. He said it was only fair banks be treated the same way as building societies.

TrustBank rides crest of wave

8/2/88 Star 58

Magnus Heystek, Finance Editor

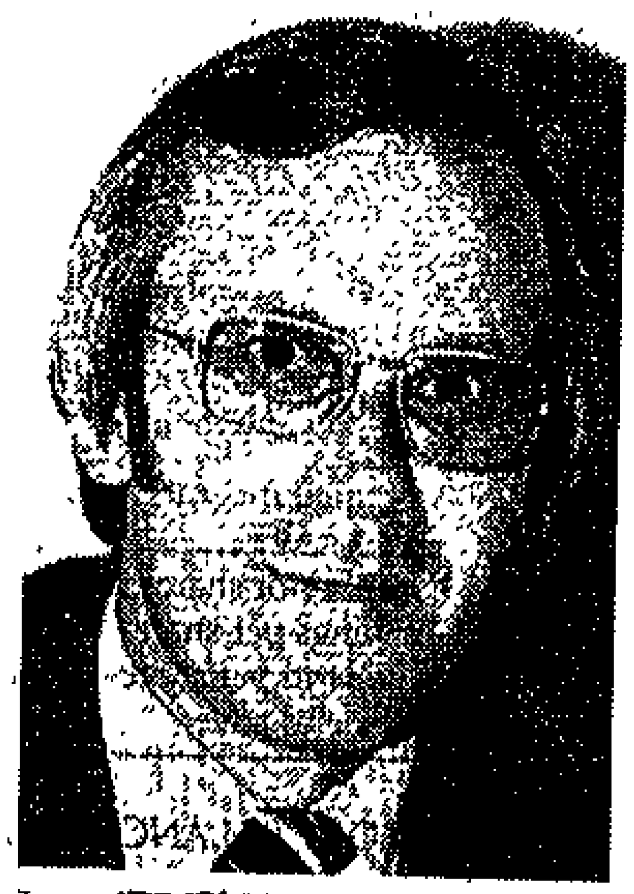
Taking advantage of the upturn in demand for credit in the closing months of calendar 1987, TrustBank increased net income after tax and transfer to contingency reserves in the first half of its financial year by 20 percent to R24,02 million.

The interim dividend has been increased from 4,5c a share to 5c and managing director Dr Chris van Wyk expects a further increase in both earnings and dividends in the second half.

Earnings per share were 18,1c (15,1c). Dividend cover has been increased further from 3,3 to 3,6 times.

Commenting on the results, Dr Van Wyk said yesterday margins came under pressure as a result of the general interest rate pattern moving up "roughly a quarter sooner than expected". He expected interest rates to rise gradually for the remainder of the year.

"The prime rate should be around 15 to 15,5 percent at year-end. Despite the intense competition in the banking world, which is presently keeping a lid on increases in interest rates, all interest rates will have to start moving up quite soon," he said.



Dr Chris van Wyk

A feature of TrustBank's performance in the six months to December was the aggressive increase in home mortgage funding, with total loans now exceeding R500 million. While TrustBank avoids the practice of granting conditional home mortgage finance, the potential new business is seen as a primary objective.

With the exception of one hotel in Cape Town, the Ritz Plaza, which is on the verge of being sold, TrustBank has finally extricated itself from its non-banking interests which for years have been costing the bank money.

Shareholders' interest increased from R289,8 million, while deposits, cheque and other accounts rose from R6,5 billion to R7,9 billion. Total assets rose sharply from R9,3 billion to R11,3 billion, which augurs well for the second half, should business activity and demand for credit increase further.

Parent company BANKORP increased net income attributable to ordinary shareholders by 31,7 percent from R35,3 million to R46,4 million. Total assets grew by 16,9 percent — roughly in line with the inflation rate — to R18,789 billion.

The interim dividend has been increased by 1c to 12c a share.

SANTAMBANK earned R16,9 million (R13,2 million) in the interim period to December, while merchant bank SENBANK reported sluggish growth of only 10 percent from R9,2 million to R10,1 million, mainly as a result of low levels of demand in the corporate sector. Fee-income-generating departments, however, were well above budget.

Reserve Bank man gives evidence

(9) 3 Bany (18/2/88)

Afbank staff believed others broke the law

SUSAN RUSSELL

DURING the investigation into the African Bank's foreign exchange transactions, there had been allegations of contraventions by other banks, but none of these had been substantiated, a Reserve Bank official told the Rand Supreme Court yesterday.

Charles Robert van Staden told the court African Bank personnel said these contraventions happened every day, but he said there had been no allegations in regard to specific banks or occurrences.

He was giving evidence before Mr Justice G Gordon at the trial of the African Bank and three former senior officials, on 420 charges of fraud and contravening the exchange control regulations.

The African Bank, Alan Young, 36, Henry Harper, 43, and Arthur Ferreira have all pleaded not guilty.

It is alleged they were involved in unlawful financial rand transactions, which led to a profit of R100m and US$119m in foreign currency leaving the country.

Another Reserve Bank official, J H Postmus, was cross-examined about a meeting held with Young and the bank's former MD Moses Maubane.

Maubane was to have stood trial also, but he died last year.

Postmus said the meeting had been held after communications and enquiries from other banks about the African Bank's forex transactions.

He said it was clear that Maubane had been under a misapprehension, not only about the transactions, but also about the foreign exchange requirements relative to those transactions.

Postmus said his suggestion had been that the African Bank should apply for a full licence to deal with foreign exchange.

He said Maubane had mentioned the bank had good ties with large clients, such as some of the oil companies.

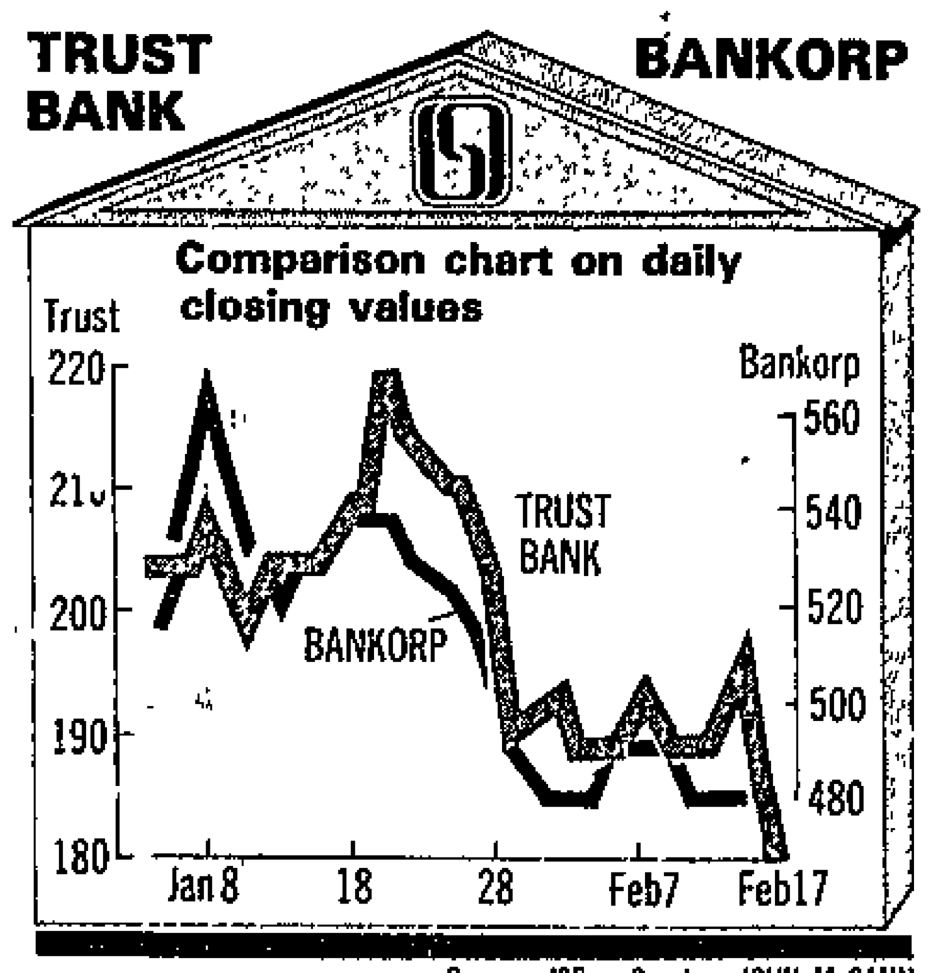
"He felt they would lose face with these big clients if they were not allowed to continue these transactions.

"We then suggested they apply for a full licence."

The trial continues today.

20% rise in Trust Bank earnings

58 B/Day 18/2/88



Source JSE Graphic: JOHN McCANN

GRETA STEYN

TRUST BANK, taking advantage of stronger credit demand while at the same time keeping down operating costs, increased disclosed earnings by 20% to 18,1c a share in the six months ended December 31 1987 from 15,1c in the corresponding period in 1986.

The interim dividend was upped to 5c for the six months compared with the pervious year's interim of 4,5c a share.

Trust Bank MD Chris van Wyk ascribes the bank's results to vigorous marketing of products such as home loans in an economic environment which saw an improvement in credit demand from consumers.

"Our home loans book advanced to about R500m in the first six months of the financial year from a virtually nil base, largely because of aggressive marketing," Van Wyk said.

Total assets grew by 20% to R11,14bn from R9,26bn in the six months under review after very slow growth in the previous full financial year. Advances rose by 18,6% to R7,03bn from R5,93bn.

Asset growth was largely thanks to more buoyant demand from consumers, but corporate demand for credit also rose.

"Advances to corporates reflected on the balance sheet are now neck and neck with retail advances," Van Wyk said.

But the growth in corporate business is reflected mainly in the off-balance sheet item — clients' liabilities — in the financial statements. Off-balance sheet activity was up sharply, recording growth of 21% in the period under review to R2,94bn from R2,42bn.

● To Page 2

Trust Bank disclosed earnings increase 20%

B/Day 18/2/88

On the liabilities side of the balance sheet, deposits (including cheques) grew by 20,7% from R6,54bn to R7,9bn. "This kind of growth augurs well for the second half of the financial year," Van Wyk said.

Van Wyk said operational cost increases for the period, at 12%, were kept well below the inflation rate.

The bank's policy of limited financial

● From Page 1

disclosure prevents it from detailing provision for bad debt in its financial statements. But Van Wyk says the amount written off in the current financial year is unlikely to be more than in the previous year, despite projected asset growth of some R3bn.

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Cape Times 18/2/88

Std Bank buys into Swazi banking group

STANDARD Bank Investment Corporation is to acquire from Swaki (Pty) Ltd 49% of the equity of Fincor, Swaki's wholly-owned banking subsidiary.

A further 21% has been acquired by European investors and 10% by the government of Swaziland.

Swaki will retain a 20% interest.

The agreement concerning the change of ownership is subject to certain conditions, including the granting to Fincor of commercial banking and foreign exchange licences.

The Standard Bank of SA (SBSA) will assume management responsibility for Fincor, which is to be re-named and will extend its operations to include commercial banking and foreign exchange activities.

Capital requirements exceeded

CAPE TIMES 18/2/88

Trust Bank sees 20% income rise

58 (illegible)

By LAWRENCE TOTHILL
Investment Editor

TRUST BANK shareholders should not fear a rights issue in the near future, as the bank says in its interim report that the requirements in terms of the Banks Act that 75% of new capital requirements had to be met by December, 1987 was "exceeded substantially".

Equally pleasing is the announcement that net after-tax income for the half year to December 31, 1987 increased by 20% to R24m from R20 in the same year-ago period after transfers to contingency reserve.

This was equal to earnings of 18,1c (15,1c) a share. In line with the higher earnings, the bank has declared an increased interim dividend of 5c (4,5c) a share and looks well set to increase the total distribution for the year.

During the six months the bank's total assets grew by 20% to R11,1bn from R9,3bn. Deposits grew to R7,9bn from R6,5bn. Shareholders' interests now stand at R307m against the previous R290m.

Net asset value increased to 231c a share from 218c six months ago. Trust Bank shares trade around 185c on the JSE which is a considerable discount on NAV, but that is not unusual in the banking sector at present.

Commenting on the results, the bank says "advantage was taken of the stronger demand for credit by vigorous marketing innovation, appropriate new products and services; the home loan market is being exploited with success".

"Interest margins came under pressure towards the end of the period, but operating costs, kept in check by effective cost management, have been rising significantly slower than the inflation rate."

Bad debts experience — always a threat, as shown in recent years — has continued to improve, and the bank says that disinvestment from non-banking interests has progressed successfully.

FINANCE

58 B/day 19/2/88

Allied, United take on the challenge

The road to banking — by different routes

NEWCOMERS to banking, Allied and United, are not yet playing first league but both are gaining muscle in an environment that has become a corporate challenge.

The two building societies are using their banks in different ways. Both are scoring points — but their strategies differ.

Heading the team at United Bank is Nallie Bosman, a quiet pragmatist who headed treasury at Volkskas before the United's foray into banking.

A determined Allied group MD Kevin de Villiers led the Allied into banking and became MD of the group after bank and building society merged operations last year. De Villiers is also a former treasury chief, at First National Bank.

Differences between the two banking operations abound:

☐ The Allied actively trades foreign exchange while the United has yet to obtain a licence;

☐ The United is to introduce cheque account facilities this year while the Allied plans a five-year phase-in;

☐ The Allied introduced short-term fixed deposits for retail customers only in January this year while the United offered these immediately;

☐ The Allied offers a "bank bond" — up to 100% at interest rates as low as 11,5% — the United Bank does not offer bonds; and

☐ The United is looking for bank managers to staff its branches, the Allied wants to swell the numbers in its dealing room.

From these differences it appears the Allied is following a corporate route, placing less emphasis on retail banking. By contrast, the United is apparently a retail bank, attaching less importance to corporate banking.

But De Villiers disagrees the Allied is "following a corporate route".

GRETA STEYN

"We are advancing evenly on three fronts — corporate, treasury and consumer — and not one is accorded a higher priority," he says. But he does not deny the Allied is doing its best to make inroads into the corporate market.

The Allied's corporate book is already at R250m after little more than a year. "We are targeting the corporate market actively, specifically the medium-sized corporates in the R100 000 to R2m category. But despite not angling for the triple As, R150m of the R250m on our corporate book are triple As," De Villiers says.

Good network

In gaining corporate customers, the name built up by the Allied building society has been surprisingly useful. "The Allied's name was underestimated to the greatest degree," says De Villiers.

By contrast, the United Bank has named the retail market as a top priority. "The United building society's customer base is retail, it has a good branch network and we are building on that," says Bosman.

"A building society has to put in a great effort to become a bank, while it is much easier for banks to offer building society products.

"Targeting established building society customers is the logical first step into banking. Our staff knows the retail market — and we have the building society's branches and systems to build on," says Bosman

But that does not mean the United Bank is ignoring the corporate market. "We aim to get our foot in the door in corporate banking and already have a small division looking after some companies."

Building up a corporate book is part of the United's long-term strategy, in the near future its business is consumers.

It is because of the top priority accorded consumer banking that the United Bank has already set the machinery in motion for cheque accounts.

"Cheque accounts are profitable business and form the core for cross-selling. Earlier, it was thought that mortgage loans were the core account around which to build cross-selling, but we have come to the conclusion it is in fact the cheque account."

De Villiers says the Allied has no intention of "rushing in" to cheque accounts. A five-year phasing-in period is envisaged, with no plans to move more rapidly.

Bosman acknowledges it will not be easy going. "Customers do not switch cheque accounts easily. They have to be annoyed with their banks before they move to another."

Marketing will have to be "very strong". It will take time and that is why Bosman sees an early start with cheque account facilities as imperative.

The Allied has made an early start dealing in foreign exchange, which ties in with its targeting of the corporate market.

Asked why the new bank was quick to obtain a forex licence, De Villiers said time was of the essence. "The earlier you start, the earlier your overseas dealing lines can be set up."

The United and Allied are the first two banks in building society groups to make their presence felt. Saambou and the NBS, both in possession of a banking licence, will probably set up banking operations later this year.

And in an environment often described as "overbanked", the market will sort out which names will be around in 10 years' time.

GRANNY BONDS (58)

A long tail

Though it was announced that no further applications for 15% Senior Citizen Savings Bonds would be countenanced after early-August 1987, an administrative tangle has been left behind.

The investment, available only to over-60s, drew an immediate avalanche of funds. This resulted in its termination, little more than a month after inception on July 1.

But a large number of applications which met the deadline have still to be processed, creating a huge bottleneck — more than seven months after the withdrawal.

A Treasury official would say only that "there is still a way to go." It is believed that, by January, there were still 100 000 applications to process.

Though interest payments have been

(58) FM 19/2/88

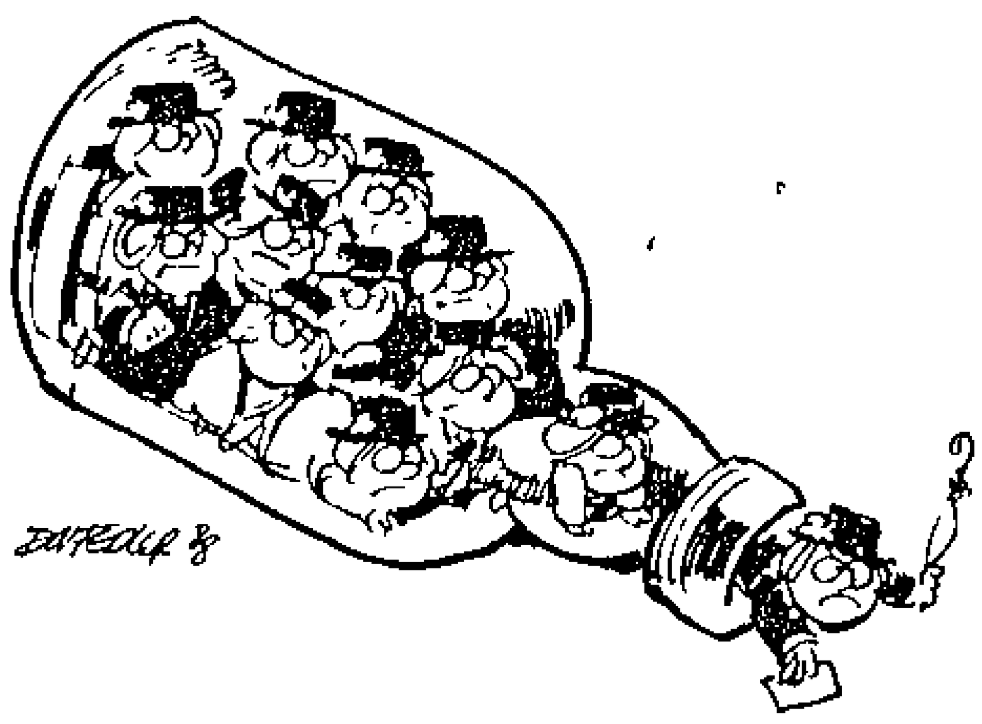
made on time (October and January), many bond documents have not yet been received. Interim receipts were given to people who routed applications through the Post Office, but not to investors who applied through banks or directly to Treasury.

Which means that many investors have no documentary proof of purchase.

This makes it more difficult for elderly people to order their affairs. And in the event of death, there will be no indication that the estate has a claim against Treasury.

Since Finance Minister Barend du Plessis announced the controversial scheme in the 1987-1988 Budget last June, it has been vigorously criticised.

Building societies greeted the news with



dismay, as it put large sums of building society funds at risk: some executives claimed as much as R8bn. Several societies immediately produced defensive products which distorted interest rate patterns and pushed up the costs of home loans.

Certainly the rush was overwhelming. According to Du Plessis, R30m was invested on the first day.

By the end of the month it was estimated that R500m had been subscribed, R300m of it from societies.

Early in August the series was terminated. A second series was issued — but only for people who could provide documentary proof of eligibility, to the effect that formal notice on term deposits had been given.

After qualification, the cash in was capped at R20 000.

Presumably a trickle of applications could still be making its way to Treasury. ■

Ovbel taking its place up on the Big Board

(58)

Cape Times 20/2/88

CAPE-BASED Ovbel Holdings, with total assets of about R86 million through subsidiaries Bellandia, Ovcon and Ovland is to be listed on the Johannesburg Stock Exchange, probably on Thursday, in the building and construction sector.

It is not, however, likely to be a wild debut with stags rushing in to take their profits because the shares were neither placed recently nor offered to the public.

WHEN Capetonians hear the name Ovenstone they usually visualize fishing, building, the Premier debacle, a cruiser called Marauder, horseracing, social pages, gracious living. All due, of course, to the entrepreneurial, the straightforward busines side. Andrew Ovenstone is chief executive of Ovbel Holdings, due to debut on the Big Board next week.

Ovbel came into existence effectively in October 1986 as a result of the management buy-out of the property, homebuilding and construction interests of the former Ovenstone Group when the holding company, Premier, decided to divest itself of these interests in one of the more dramatic business bust-ups in the Cape for years.

Components

While there have been small changes in the ownership of shares since then, basically those who acquired shares in 1986 are still the shareholders.

The management consortium was headed by the chief executive, Andrew Ovenstone, and the directors, management, staff and their families own 44,5% of the issued capital of Ovbel with insurance companies and other financial institutions holding 16,7%, investment companies and trusts 25,3% and the public 13,5%.

The components making up Ovbel having been in existence for many years and are well-known in their own right.

Bellandia, formed in 1960, is engaged in low-rise construction, with the emphasis on housing, making it a major force in the home building industry in the Western Cape.

Ovcon was established in 1975 and activities range nationwide in all aspects of civil engineering and larger projects. It activities have included building Pretoria State Theatre, hospitals, silos and microwave towers. This is 70% held: the remaining shares are held by the top executives.

Ovland's foundations were laid in the 1960s. Its fixed property portfolio has been liquidated to a large extent recently and it now concentrates on the development of property for sale on its trading account, the management of head leases and timeshare projects, which include Mount Sheba in the Eastern Transvaal and Bantry Bay International Vacation Resort in Cape Town.

Sun Trail Resorts and Ovdeco Properties, 50% held, are involved in coastal recreation and resort development, property syndication and the development of properties for third parties on a management fee basis.

The prelisting statement, to be published on Monday in the Cape Times, shows the profit record of the group's companies since 1983 since when they always made profits, although in line with economic trends these rose and fell.

Looking forwards, the company expects after-tax earnings attributable to ordinary shareholders to amount to R3,5m in the year to March 31 1988 — equal to earnings of 12,1c a share.

Steady growth

A final dividend of 3,5c per ordinary share is forecast, which together with the interim (an effective 2,5c) makes a total of 6c for the year. Further growth in earnings and dividends are expected in the 1989 financial year.

The directors say it is their intention to declare dividends on the basis that shareholders will receive steady growth subject to profit performance, prospects and gearing levels.

Gearing at the date of the latest balance sheet (September 30 1987) was 45% and it is the intention to limit interest-bearing borrowings to between 50% and 70% of group shareholders' funds.

Ordinary shareholders' funds

☐ To Page

From page 15

Cape Times 20/2/88 (58)

Ovbel for Big Board

amount to R29 643 000 and the net asset value as at the September 1987 balance sheet was 102c compared with 98c at the end of the previous financial year (March 1987).

There is no other company listed on the JSE against which Ovbel can be measured, although Goldstein, LTA and Murray & Roberts are somewhat similar.

The Actuaries Index for the building and construction sector shows an earnings yield of 9,7% and a dividend yield of 4,6% which suggests that Ovbel should make its debut at at least 100c where it would yield 12,1% on earnings and 6% on dividend, but that might be a bit high and an opening price around 90c seems more likely — that's assuming they are traded on the opening day.

The shares are in reasonably firm hands as far as I understand.

Cape Times 22/2/88

Who's the biggest bank in SA?

58

Own Correspondent

JOHANNESBURG. — Pinpointing South Africa's largest banking group can be tricky, with both First National Bank and the Standard Bank coming forward to collect the title.

The banks are usually compared on the basis of the BA9 returns to the Reserve Bank, which covers banking conducted in the RSA. The BA9s up to end September — the latest available analysis — apparently give First National the edge, with better figures for both deposits and lending.

First National's advances amounted to R12,5 bn compared with Standard's R11 bn, while FN's share of deposits was R14,03 bn compared with Standard's R12,6 bn at end-September.

But Standard Bank chief accountant Mr Henry Shaw says comparing the two banks is not that simple. "Off-balance sheet items and interbank lending should be taken into account when judging the extent of banks' lending and deposit business."

Off-balance sheet items, reflected separately from assets and liabilities on banks' BA9 returns, include bills rediscounted, guarantees, acceptances on behalf of clients and repurchase agreements.

First National's market share of off-balance sheet business among the big five banks — of bills rediscounted and guarantees on behalf of clients — was 24,4% while Standard's was almost double at 41,4% at end September last year.

On the liabilities side, First National Bank's total deposits — including off-balance sheet items — amounted to R18,8 bn at end-September 1987, representing 25,4% of the market share of the major five banks. Standard comes out on top with R19,4 bn in deposits — including off-balance sheet items — taking 26,1% of the market share.

And on the assets side, including off-balance sheet business, First National's total lending amounted to R17,8 bn at end-September last year, compared with Standard's R18,8 bn. Standard again takes the largest market share — 27,1% compared with First National's 25,7%.

Standard emerged as the clear front-runner in savings deposits, taking 32,4% of the market share while First National did 27% of the business done by the major five banks. Standard's market share of leasing was also the largest at 37,1%.

But First National is ahead of Standard when it comes to instalment sales, taking 32,7% of the market compared with Standard's 24,7%.

13 and 14 people in SA." — Sapa

CH-Times 22/2/88 (58)

Amicable end of Liberty-Sun Life battle in sight

Own Correspondent

LONDON. — The stage appears to be set for a amicable end to the long-running battle between Liberty Life's Donny Gordon and the Sun Life Assurance Society.

The ceasation of hostilities hinges on the outcome of a bold plan by Sun Life chairman, Peter Grant to turn his company into an international financial services business through a series of alliances with big insurance groups in Europe and America.

According to a speculative report in yesterday's London Sunday Times, in the process Liberty Life's 25,7% share in the British company would be diluted to 20% with new shares issued to the various groups with whom Grant is said to be negotiating.

However, the paper continues, Liberty Life's charismatic founder would receive in return the very thing he has been holding out for a seat on Sun Life's board among some of the most influential figures in the international insurance industry.

An added bonus would be Gordon's ability to will also be able to take advantage of the globalization of financial services and the creation in 1992 of a single market in the European Community.

The newspaper names "the logical partners" in the venture as Union des Assurances de Paris, the state-owned French company which is poised on the brink of privatization: America's Equitable Life Group; and the Italian dynasty of Agnelli, whose Fiat group owns Toro, the sixth largest insurance group in Italy.

Such a mutually-beneficial alliance would allow these overseas companies to gain a foothold in Britain while, at the same time, opening the door for Sun Life to look further afield.

Much depends on Gordons attitude, the Sunday Times warns while pointing out that in spotting the British insurance sector was vulnerable and attempting to guide its fortunes, he earned a seat on the board of Guardian Royal Exchange and a "substantial paper profit" on his Sun Life shares.

Thus far, however, all Gordon's atempts to take his chair around the board-room table at Sun Life have been thwarted as its directors "felt he wanted control by the back door," said the newspaper.

Offer for remaining shares

Duros buys major stake in Tollgate

Cape Times 22/2/88

By LAWRENCE TOTHILL

Investment Editor

DUROS has acquired a 29,9% interest in Tollgate Holdings, the parent company of City Tramways which operates the Peninsula's bus service among other things, and is making an offer to acquire all the shares of Tollgate in exchange for its own shares, in a deal carrying a price tap of about R67m.

A joint announcement says that Duros has acquired 7 257 618 ordinary shares in Tollgate (29,9% of the capital) at a cost of R19 958 449, which is equal to 275c per Tollgate share.

The deal is being done ex the interim dividend due to be declared in March.

Approval

The purchase consideration will be satisfied through the issue of 1 306 371 Duros ordinary shares and R10 160 666 in cash. The deal is subject to the approval of Duros shareholders.

In line with JSE rules a similar offer is being made for the rest of the ordinary shares in Tollgate: 18 Duros ordinary shares and R140 cash for every 100 Tollgates held.

The vendors of the 29,9% of Tollgate, which has been bought by Duros have independently placed the shares arising from the deal at 750c, but this placing arrangement will not be extended to the minorities.

The announcement says that based on the forecast results of Duros for the year to June 1988, and the results of Tollgate for its financial year to June, 1987, had the acquisiton been effective for the entire Duros financial year to June 1988, and assuming no Tollgate shareholders accept the offer, Duros's forecast earnings of 50c would have increased to 54,8c.

If all the Tollgate shareholders accept the offer, Duros's forecast earnings would have increased by 13c to 63c.

The pro forma net asset value of Duros shares, accounting for associated companies at market value on December 31, 1987 and Tollgate at cost, would have increased by 114c from 311c to 425c if no Tollgate shareholders accept the offer, and by 311c to 622c if all Tollgate shareholders accept the offer.

The management of Tollgate will not be affected by the deal, although the board will be reconstituted to include nominees of Duros.

Offer price

Before Tollgate shares were suspended they were traded at 225c and Duros were traded, before their suspension, at 700c. The offer price of 275c is a fair premium on the pre-suspension price and allows for the forthcoming dividend.

Taking the cash element into account the offer is based on Duros shares being priced at 750c.

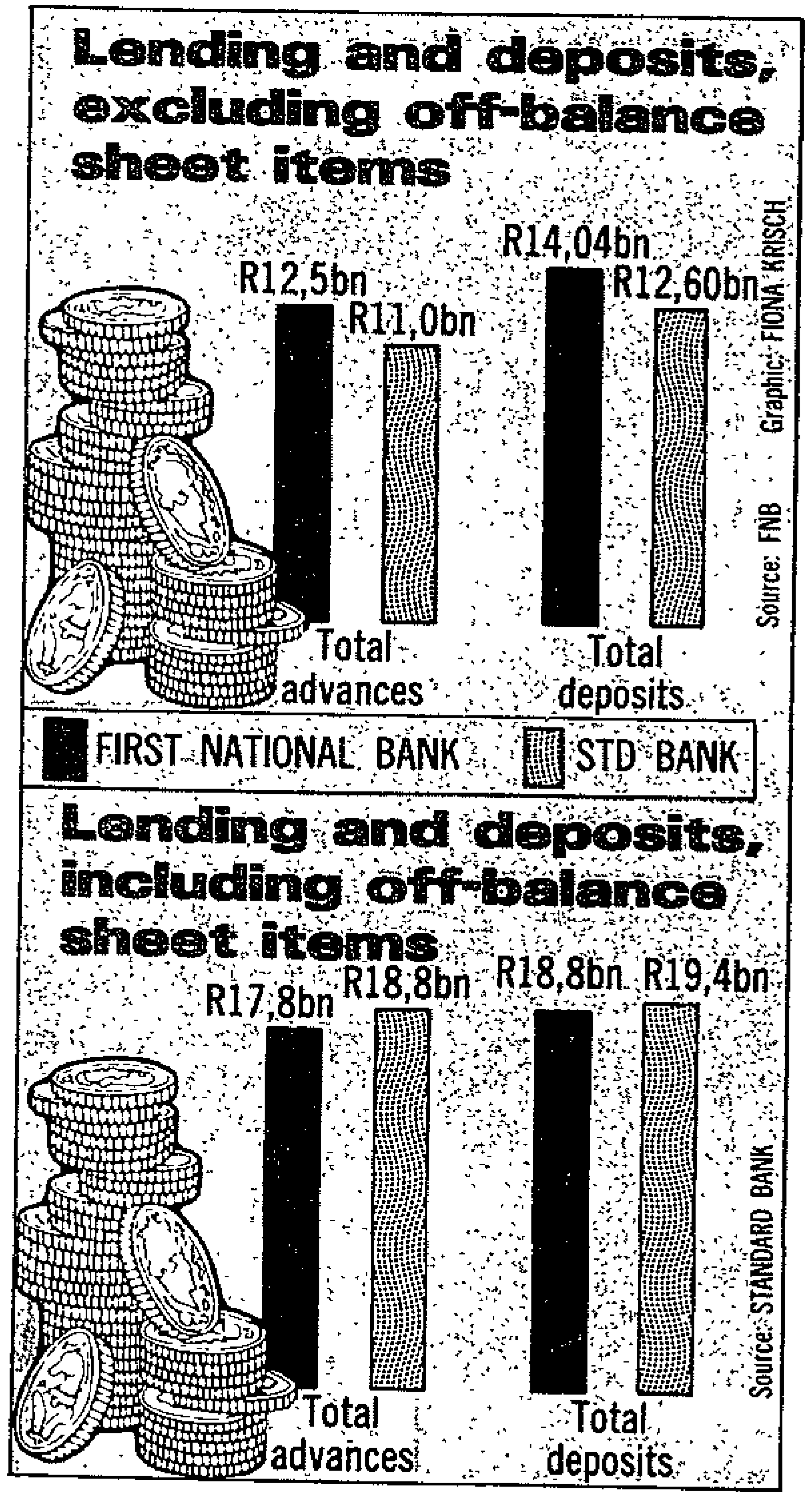
The name Duros is usually associated with the Cape-based furniture manufacturer, but it must be remembered that the Duros company was taken over in May last year by a group of young merchant bankers and turned into a completely different animal — an aggressive animal on the takeover trail.

At 275c the offer for Tollgate is made at well below its net asset value.

(58)

Biggest bank title disputed

GRETA STEYN



PINPOINTING SA's largest banking group can be tricky, with both First National Bank and the Standard Bank coming forward to collect the title.

Although it is said First National comes first — it depends on what standards one uses to judge.

The banks are usually compared on the basis of the BA9 returns to the Reserve Bank, which covers banking conducted in the RSA. The BA9s up to end September — the latest available analysis — apparently give First National the edge, with better figures for both deposits and lending.

First National's advances amounted to R12,5bn compared with Standard's R11bn, while FN's share of deposits was R14,03bn compared with Standard's R12,6bn at end-September.

But Standard Bank chief accountant Henry Shaw says comparing the two banks is not that simple. "Off-balance sheet items and interbank lending should be taken into account when judging the extent of banks' lending and deposit business. Once these calculations have been done, a different picture emerges."

Off-balance sheet items, reflected separately from assets and liabilities on banks' BA9 returns, include bills rediscounted, guarantees, acceptances on behalf of clients and repurchase agreements.

These items are usually not taken into account when comparing the major five banks' achievements, despite the fact that a large part of this business represents a form of lending or deposit-taking.

When these items are left out of the calculation, First National Bank beat Standard both on lending and deposit business up to end September last year.

But when off-balance sheet items are taken into account, the Standard Bank emerges as SA's largest bank, extending more credit than any other bank while taking in more deposits as well.

First National did less off balance-sheet business than Standard. For instance, its market share among the big five banks of bills rediscounted and guarantees on behalf of clients was 24,4% while Standard's was almost double at 41,4% at end September last year.

On the liabilities side, First National Bank's total deposits — including off-balance sheet items — amounted to R18,8bn at end-September 1987, representing 25,4% of the market share of the major five banks. Standard comes out on top with R19,4bn in deposits — including off-balance sheet items — taking 26,1% of the market share.

And on the assets side, including off-balance sheet business, First National's total lending amounted to R17,8bn at end-September last year, compared with Standard's R18,8bn. Standard again takes the largest market share — 27,1% compared with First National's 25,7%.

Easier to compare are isolated items such as savings, leasing and hire purchase business. Standard emerged as the clear frontrunner in savings deposits, taking 32,4% of the market share while First National did 27% of the business done by the major five banks. Standard's market share of leasing was also the largest at 37,1%.

But First National is ahead of Standard when it comes to instalment sales, taking 32,7% of the market compared with Standard's 24,7%.

First National is SA's largest bank — or is it?

25 1988

African Bank manager found little co-operation

Officials wanted to keep reserves secret

B/day 25/2/88

SUE RUSSELL

TWO former African Bank officials, alleged to have been involved in unlawful financial-rand transactions resulting in profits of about R100m, asked a general manager in the bank's corporate division whether there was a way to create hidden reserves in the bank which would not be obvious to anyone wanting to see them.

That evidence was given before the Rand Supreme Court yesterday by the African Bank's general manager of the corporate division, Martin Prinsloo.

Impression

He said he had got the impression the two officials, Alan Young and Henry Harper, were reluctant to have the bank's auditors able to determine the extent of hidden reserves.

Young, 36, Harper, 43, Arthur Ferreira, 40, and the African Bank have all pleaded not guilty to 420 charges of fraud and contraventions of the exchange-control regulations arising out of alleged unlawful financial-rand transactions.

The state alleges these transactions led to $119m unlawfully leaving the country.

Prinsloo said when he joined the bank in April 1986, Young told him the forex dealers were employed on a profit-sharing basis.

Prinsloo said: "During the latter part of April there were rumours going around the market that African Bank dealers were being paid extraordinary amounts in commissions."

He asked a subordinate about the commissions. She confirmed them but was not prepared to disclose the information because she had been instructed not to discuss the matter with him.

Prinsloo said: "I approached Young about that and explained to him that as chief accountant in charge of the bank's accounting and book-keeping, I found it somewhat unacceptable that one of my subordinates had information regarding salaries and that information was denied to me.

"Young merely confirmed that commissions were substantial."

Prinsloo said Young explained the bank got 51% of all profits and 49% went to Afsek CC and the forex dealers were paid out of the close corporation.

After Harper and Young asked him about the hidden reserves, he had undertaken to consult a top accountant. "As far as I can recall, I was quite categorical there was no way to create hidden reserves so the auditors could not have access to them."

Prinsloo said the Reserve Bank inquiry which led to the police investigation into African Bank was on May 16. At that stage, he was not aware the bank was doing financial-rand transactions with Smith New Court of London.

Retrenched

Prinsloo also told the court that after one of forex officials, Pierre de Robillard, was retrenched after the withdrawal of the bank's forex licence, he took over his office.

While he and another employee were clearing out the office, they found forex deal advice notes in a cupboard wrapped in a telex.

Prinsloo said after no trace of the transactions could be found at African Bank or Santam Bank, he notified the Reserve Bank and the Commercial Branch and the documents were handed over to the police.

The trial continues.

SA disinvestment aids Barclays Bank

Own Correspondent

LONDON — Barclays Bank showed its first £1bn operating profit yesterday, helped by its decision to withdraw from SA.

Since leaving SA, Barclays has seen its share of the important student market, which had maintained an effective boycott, move up from 16% to 24%.

But, chairman John Quinton said sharply increased provisioning against Third World debt had slashed overall pre-tax profits down from £895m to £339m.

He said he had raised provisions against the debt to 35%, which was more than any other of the big five banks in Britain and at the top end of the matrix range recommended by the Bank of England.

The decision took the equity to assets rate to 4,8%, raising the possibility of a rights issue this year, although a number of capital-raising exercises, including foreign-share listings, have already boosted capital resources by £145m.

In contrast to its great rival, National Westminster Bank, the Barclays' losses from its investment arm, Barclays de Zoete Wed (BZW), were lower than expected.

BZW had losses of £19m to the end of November, but ended its first full year under the Barclays' umbrella with losses of £11m.

SS B/day 25/2/88

terest in Sun Life. Sapa

Cape Times 25/2/88

Barclays shows £1-bn profits

58

Own Correspondent

LONDON. — Barclays Bank (UK) showed its first £1-bn operating profit, helped by its decision to withdraw from SA.

Since leaving SA, Barclays has seen its share of the important student market, which had maintained an effective boycott, move up from 16% to 24%.

But chairman John Quinton said sharply increased provisioning against Third World borrowers had slashed the the overall pre-tax profits down from £895m to £339m.

He said he had raised provisions against loans to developing countries to 35%, which is more than any other of the big five banks in Britain and at the top-end of the matrix range recommended by the Bank of England.

The decision lifted the exceptional charge to £143m higher than at the half-way stage and gives a huge £713 of extra provisions for the year.

It took the equity to assets rate to 4,8%, raising the possibility of a rights issue in the coming year although a number of capital raising exercises including foreign share listings have already boosted capital resources by a net £145m.

INTEREST RATES 58 FM

Another notch 26/2/88

March is traditionally a month of low liquidity. Anticipation of this, combined with news of January's estimated inflationary 20,2% growth in M3, is likely to put pressure on prime.

This rate, at which banks lend money to favoured customers, is expected to move up soon by half to one percentage point for the second time this year, to 13,5% or 14%.

Bank rate — at which the Reserve Bank accommodates the market — may move in tandem, after more than a year at 9,5%. Last Friday, the Treasury bill (TB) tender rate, generally in line with Bank rate, went to 9,75% — more than Bank rate for the first time since the latter's downward adjustment.

This is unsatisfactory, as it gives discount houses the opportunity to buy TBs on weekly

public tender and sell them back to the Bank at a lower rate, making a profit in the process. As the Bank can hold the rate lower by market operations, the higher rate is generally seen as a signal.

That it is concerned about inflationary risks is clear from the cut in money targets from 14%-18% to 12%-16%.

The last move in Bank rate was in December 1986, when it dropped from 10% to 9,5%. Prime followed down from 13,5% to 12%, correcting to 12,5% in January 1987 and moving to 13% last month.

Business Day
DAY, FEBRUARY 26 1988
50c (45c + 5c tax
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(58) B/Day 26/2/88

Bankorp heads the field in new deposits

GRETA STEYN

THE Bankorp group, through its front-runner, Trust Bank, netted more deposits than any of the other four major banking groups in the last quarter of 1987.

In new lending, it was narrowly beaten into second place by First National Bank.

As the economy started to pick up, Nedbank and Volkskas were left standing, while Trust Bank competed with First National and Standard for new business.

This emerged from First National Bank's analysis of the banks' BA9 returns to the Reserve Bank, which cites Trust Bank as the force behind Bankorp's growth.

Bankorp beat the other four groups in total deposits, taking in R1,6bn in the last three months of 1987. Second was First National with R1,4bn and third Standard with R1,3bn. Nedbank recorded a decline of R23m in total deposits.

On the assets side, the analysis shows Bankorp granted credit to the tune of R1,1bn in the last quarter of 1987 — beaten only by First National's R1,2bn.

The lending figures include HPs, leasing, loans to the public sector and other loans and advances. Off balance sheet items are not included.

At the back of the field were Nedbank, with advances totalling R142m, and Volkskas, with R184m.

Trust Bank senior GM Kobus Roetz ascribed the group's growth to effective and aggressive marketing. "We are also reaping the benefit of our relationship banking concept and customer service."

BUSINESS

Liberty ditches profile to reveal enterprises

DD 26/2/88 (58)

JOHANNESBURG — In net asset value terms, more than half of insurance giant Liberty Holdings' investments are offshore, confirming its role as an international group, the chairman, Mr Donald Gordon, said at a press conference here yesterday.

Mr Gordon gave notice that he was abandoning the "low profile" approach followed by the group until now due to the "misinformation and criticism" which had arisen about the group's activities and about the movements of Mr Gordon himself, who had been criticised in some sections of the press for frequent visits abroad.

He said the "low profile" approach had ceased to pay off and he now intended to make clear the extent of Liberty's involvement in en terprises abroad.

He said Liberty management in overseas dealings never tried to hide the fact that the group was South African. The group's overseas interests made it necessary for him to make frequent visits overseas, but he said that he spent 30 to 35 per cent of his time abroad.

In spite of political and other obstacles, Liberty had succeeded in becoming a major player internationally, particularly in Britain, and its offshore interests had steadily increased in importance.

"We have the ability to play the game in spite of all the handicaps placed in our way," he said.

"At least half of the net asset value of each share of Liberty Life is represented by offshore investment."

Its major overseas company, Transatlantic, which is listed on the Luxembourg stock exchange, was now the 45th largest company in Britain.

Mr Gordon released the financial results of Liberty's biggest investment abroad, Transatlantic Holdings PLC, of which he is chairman, for the year to December.

This shows a 60 per cent increase in pre-tax profits to £39,1-million (£24,4-million) and a 29 per cent improvement in earnings a share to 13,14p (10,19p) and dividends up 33 per cent to 8p per share (6p).

Transatlantic's total shareholders' funds increased by 60 per cent to £39,1-million during the year, capital employed increased by 37 per cent to £956-million and net assets a share increased by 12 per cent to 336p a share.

Liberty Holdings has a 48 per cent stake in Transatlantic, which has a 26 per cent interest in Sun Life.

Berkshire continue the road to recov

DD 26/2/88

Business editor

EAST LONDON — Berkshire International SA (Ltd) is continuing on the road to recovery after a R451 000 loss in the last financial year.

The directors have announced a after tax profit of R33 000 for the six months ending December, 1987.

Group turnover is up by 8,5 per cent over the corresponding period in the last financial year.

"Sales demand is bouyant but production remains the biggest constraint aggravated by labour difficulties," the directors say.

Although there has been no outright strike at the West Bank plant, it is understood there have been some labour problems during industrial unrest at other firms.

The last financial statement covered an 18-month period and the losses were ascribed to such factors as extraordinary items involving the sale of the knitwear division and the fact that the 18-month period included to January-February low seasonal periods where the company traditionally traded at a loss.

The R451 00 loss was also mostly attributable to the loss in the South African operation of R610 000 which was offset by a R308 000 profit by the Zimbabwe operation, Zimbabwe Berkshire International (Pvte), which is a subsidiary

Basil Read's up

D D 26/2/88

JOHANNESBURG — Civil engineering and building contracting group Basil Read has posted impressive interim results for the half-year to December, with operating income up 48 per cent to R5,1 million.

Turnover of the group has increased by a substantial 74 per cent over the previous year to R127 489 000, largely as a result of the acquisition of Clifford Harris (Pty) Ltd, in July last year.

This performance results in earnings of 22,5c a share, an increase of 25 per cent a share for the comparative period in 1986.

A interim dividend of 5c a share has been declared payable

The group's after tax profit rose 69 per cent to R3 046 000, with taxation applicable to the period totalling R855 000.

Commenting on the results, the financial director, Mr Dave Wassung, notes that the ratio of profit to turnover of 2,4 per cent meets the expectations of the Board.

The directors said that the company had a full order book at improved margins, with a present value totalling in excess of R300 million

Commercial Union fights off disasters

B/day 26/2/88

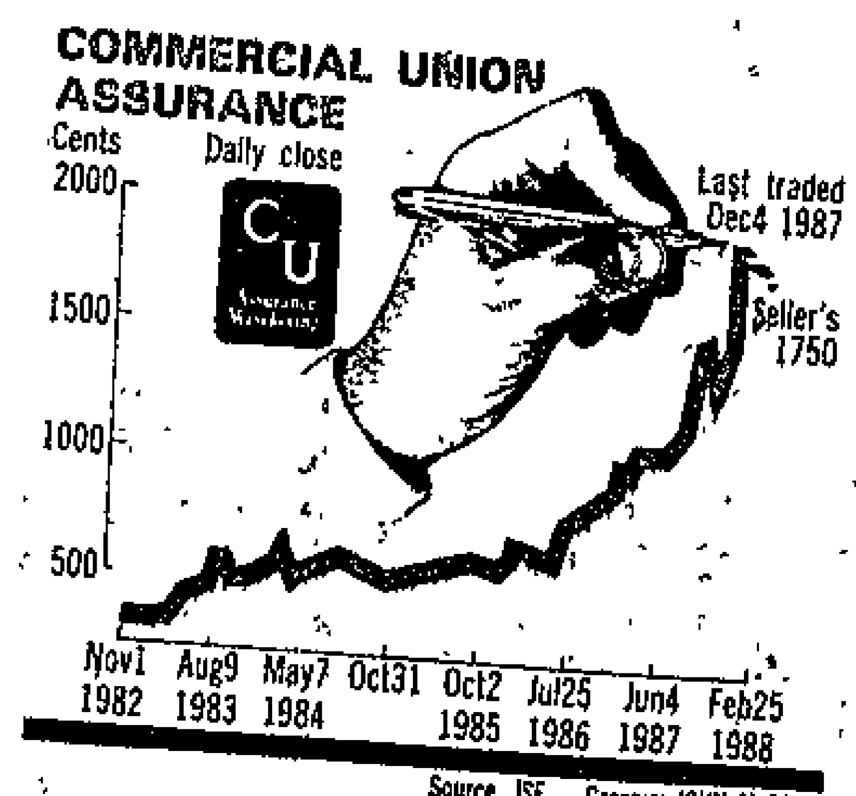
COMPOSITE insurer Commercial Union (CU) has turned in much-enhanced results for 1987, despite setbacks in the last part of year in the wake of disastrous floods in Natal and the stockmarket crash.

After-tax profits jumped 65% to R15m for the year ending December — in line with the good performance generally expected from the short-term insurance industry.

Earnings a share rose by the same proportion to 187,1c a share, out of which a final dividend of 39c has been declared, lifting the total payout for the year to 57c a share (1986: 47c).

CU turned its short-term underwriting deficit of R2,7m in 1986 into a surplus of R10,9m for 1987.

MD Bill Rutherford said yesterday the company had benefitted from a higher premium-rating imposed some time ago, as well as a "remarkable improvement in the loss ratios from crime".



ALAN FINE

He said the company had carried its fair share of claims from last year's Natal floods, the final gross tally amounting to some R30m, although a prudently arranged reinsurance programme had ensured a final bottom-line commitment of only R2,5m.

Rutherford said CU was not overly-exposed in the areas currently suffering severe flooding, but it was too early to tell what losses would be incurred.

Investment income increased by 45,3% to R18,1m and the release to shareholders of their share of life fund profits after tax is R1,8m (R1,4m).

"Even after the stock market collapse in October the market value of shareholders' funds at December 31 increased 8% over the year to R87,7m," Rutherford said in a statement.

Business Report

CAPE TIMES 26/2/88

CU sees 65% rise in profits to Dec

58 ~~269~~

JOHANNESBURG. — Composite insurer Commercial Union has announced 65% higher after-tax profits for the year to December.

Net profits were R15m (R9m). Earnings per share rose from 112,7c to 187,1c.

The final dividend is 39c (previously 32c) giving a total payment of 57c for the year — a 21,3% increase on the previous year's total of 47c.

The good performance is largely due to the turnaround in the short-term underwriting result, where a R2,7m deficit in 1986 has been turned into a R10,9m surplus for 1987.

Investment income has increased by 45,3% to R18,1m and the release to shareholders of their share of life fund profits after tax is R1,8m (R1,4m).

The company's fast-growing life and pensions business has exceeded expectations with new life premiums up 30,3% to R91,3m. Premium income and investment income have also advanced steadily to R142,1m and R78m respectively.

The life fund now stands at R763,2m, but is backed by assets with a market value of R970,4m.

Managing director Bill Rutherford said: "The company carried its fair share of claims arising from the Natal floods and the severe hailstorms that battered the Reef towards the end of 1987, but prudent reinsurance arrangements cushioned the effect of these.

"The growth of the investment income reflects creditably on the efforts of the investment team. They took advantage of the improved short-term cash flow and, with active trading, the gilt area turned in a first-class performance.

"Even after the stock market collapse in October the market value of shareholders' fund at december 31 increased by 8% over the year to R87,7m." — Sapa

(58) 28/2/88

THE WEEK ON THE JSE

Finrand the only gainer

By Julie Walker

THE rise in the financial rand did a favour for everything except equities this week.

The finrand, a yardstick of foreign sentiment for investing in South Africa, rose to US$0,3725. Renewed confidence from foreigners is shown by the finrand surge.

The reasons for its strength may include demand for gilts, which are yielding more than 17% to SA investors and even more to foreign buyers; SA property which looks cheap in dollar terms; and Taiwanese investment.

Rumours that the finrand system was to be scrapped were squashed by the Governer of the Reserve Bank. But the rumours were not responsible for the currency's rise — it held its own even after the reports had been scotched. Built-in speculation would soon have manifested itself by a rapid return to previous levels.

As the finrand rises, the rand price of JSE-listed internationally tradeable shares tends to fall.

Interest rates on SA gilts are seasonally high and a correction is expected within a few weeks. High rates can be attributed mainly to financial yearend tightness of the money supply.

The sharp drop in the dollar price of gold did nothing to alleviate the downward pressure on share prices.

Gold fell by more than $10 to about $431 an ounce. The major reason for the sharp fall was lower oil prices. February and March are traditionally weak when European orders for summer oil supplies are negotiated.

An excess in oil supply means happy times for the buyers. A mild European winter did not help the oil producers' plight. Gold loans by large foreign producers contributed to the lower gold price.

Many of SA's best gold mines reached new lows on the JSE. Kloof traded as low as 2 700c, Driefontein dropped to 2 925c, Vaal Reefs to 23 000c and Randfontein Estates to 20 400c.

Not surprisingly, the all-gold index declined to only 1 206 points — 52% below its October peak of 2 499. It closed at 1 224.

Biggest losers on the week were almost all gold producers and exploration companies.

Southgo lost 80c to 260c, Wit Nigel shed 45c to 165c, Western Areas hit a new low of 850c after a 21% loss, and West Wits dipped to 90c.

Modder and Modder S did not buck the trend. Both classes lost 20% to 480c and 390c respectively.

RhoEx lost 70c to a low of 200c, Randex shed 85c to 350c but recovered 25c, Marievale declined 130c to 270c and PGA options came off 40c or 21% to 150c.

Basement

Interest in platinum rallied after the Government clamped down on certain groups. Renewed fears of unrest and consequent undersupply of platinum group metals pushed spot and futures prices higher. The premium of the platinum price to gold had fallen to only $10.

Nevertheless, the world's largest producer, Rustenburg Platinum, shed 25c to 2 575c and Impala lost 150c to 2 400c. Lefkochrysos, not yet producing saleable metal, firmed 5c to 625c, and Barplats shed another 10c to 390c.

Furntech was one of the week's features. The price rose 27% from 63c to 80c on the expectation of good results. The shares were at a low of 50c two weeks ago.

Concor was another gainer, the price firming 20c to 100c ahead of good results. But it gave up 5c after they were announced.

Garlicks found favour at the bargain-basement price of 480c to which it had fallen. It added 75c to 550c.

New Bernica fluctuated. The price dropped from 600c to a low of 475c by Thursday, but regained 55c on Friday to 530c. The investment trust-listed company has proposed a R30-million rights issue. The sector is completely out of favour. Bernica was trading at 2 250c only six months ago.

Of the week's three new listings, Hyprop was the only one to trade at a premium to its issue price — the shares closed at 525c, 5% above pitch.

Reinsurers help M&F to weather the floods

Star 1/3/88

(58)

By Ann Crotty

Higher premiums and prudent reinsurance cover contributed to short term insurer, Mutual and Federal's 12 percent improvement in underwriting surplus from R13,6 million to R15,2 million in the six months to end-December.

Investment income surged 49 percent from R17,4 million to R25,9 million and the ratio of expenses to net premiums was 10 percent lower. All of which helped to more than double earnings from 27,7c a share to 56,6c. An interim dividend of 6,5c a share has been declared.

The improved underwriting performance was achieved despite the massive losses that were incurred by the insurance industry as a result of the Natal floods last September. MD Ken Saggers notes that M&F's share of these losses exceeded R40 million but due to prudent reinsurance some R33 million is recoverable from reinsurers.

Other factors which contributed to the underwriting surplus included the low incidence of household burglaries and vehicle thefts and the fact that only one large fire occurred and M&F's net exposure to it was small.

Net premium income was up 46 percent to R273 million but net asset value per share increased by only 6 percent to 813c a share. This suggests that there was some reduction in the group's solvency margin.

Mr Saggers points out that at the end of the review period the solvency margin stood at 75 percent which is well above the statutory requirement of 10 percent.

Looking to the second half of the year he notes that although the results for the first six months provided a good platform there was no guarantee they could be repeated: "While it is too early to assess the cost of the recent floods in the cen tral areas of the country, there is little doubt that the industry will be faced with catastrophic losses."

Even if much of these losses have also been reinsured prudently there is likely to be considerable longer-term costs in the form of higher reinsurance premiums for the local insurance industry.

Short-term insurance improves

M & F lifts underwriting profits to R15,2m

Cape Times 1/3/88

58

By LAWRENCE TOTHILL
Investment Editor

IN line with the improving trend in the short-term insurance market, Mutual & Federal (M & F) was able to post a comfortable underwriting surplus for the half year to December 1987 in spite of having had to absorb the massive losses of last year's Natal floods.

The company's underwriting surplus for the six months was R15,2m against only R486 000 in the same year-ago period.

With investment income up at R25,9m (R17,4m), the company's pre-tax profit is sharply higher at R41m (R17,9m). This is equal to earnings of 56,6c (27,7c) a share.

Premium income

Gross premium income for the half-year grew by 37% to R343m (R250m) and net premium income was R273m (R187m).

An interim dividend of 6,5c (4c) has been declared.

The company says it believes it is necessary to achieve a better balance between the interim and the final dividend, while the improved results have also been taken into account.

Commenting on the results, MD Ken Swaggers echoes what has been said for some while by the MD of Santam Insurance, Oosie Oosthuizen, that the primary objective is to write business at rates and terms which give a reasonable prospect of a surplus and to operate in such fashion that shareholders and policyholders both benefit from the final result.

The collapse of the AA Mutual is still very much in the minds of the insurance industry and this is surely the only policy which is reasonable — even if the public has the strange feeling that insurance companies are not allowed to make profits.

It was widely believed that M & F carried a major chunk of the insurance cover on the large losses sustained in the Natal floods, and Swaggers confirms that M & F's share was more than R40m.

Re-insurance cover, however, allowed for the recovery of R33m of this figure.

Industrial fire

Apart from the floods, only one large industrial fire occurred and M & F's exposure was small.

A lower incidence of household burglaries and vehicle thefts flowing from more effectice surveillance and patrols, as well as policyholders becoming more security conscious, influenced the results favourably.

He says that the ratio of expenses to net premium income is now running at some 10% lower than in the previous financial year.

'Performance exceeds expectations'

Liberty Life group's inflow tops R1-bn

CAPE TIMES 2/3/88 58

By LAWRENCE TOTHILL
Investment Editor

THE Liberty Life group's new business inflow, including investment into Guardbank Management Corporation's range of unit trusts, rose by 54% in 1987, topping the R1-bn mark for the first time.

This announcement follows only a few days after the slightly angry-sounding chairman Donald Gordon said he was abandoning the "low profile" approach and telling all regarding the Liberty group's overseas investments.

New business

In a statement released yesterday the group says its total new insurance business written last year rose by 46% to R805m.

The GuardBank Mutual Funds, boosed by the launch of two new funds in the year, enjoyed a 98% improvement in new cash investment inflow, representing new business of 217m.

The new business total for life insurance incorporates The Prudential figures for the first time, following last year's acquisition of the company by Liberty Life.

The group also achieved success in attracting new individual recurring premiums, posting a 54% increase to R144m, the statement says.

Liberty Life notched up a 56% increase in single premium business to R627m with a 264% improvement in individual single premium business to R211m and an 82% increase in annuity business to R152m.

Gordon commented: "The performance of the enlarged group in the first year after The Prudential merger exceeded our most optimistic expectations and we expect further rapid expansion in 1988."

Latest results

These latest results entrench Liberty as the third largest life assurer in the country — Old Mutual and Sanlam are well ahead on premium income levels.

With, however, the disclosures of the other day that half of Liberty's assets are "offshore" the company takes on a new role. As with Rembrandt, it could be viewed as being a hedge stock against the devaluations of the rand which are almost certain unless there is a dramatic rise in the gold price or an equally dramatic fall in the inflation rate.

LibLife draws R1-bn in new business

Star 2/3/88 58

Finance Staff

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Group chairman Donald Gordon said: "The performance of the enlarged group in the first year after The Prudential merger exceeded our most optimistic expectations and we expect further rapid expansion in 1988."

Lifegro premiums grow by 197%

8:50 3/3/88

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By Sven Lünsche

Lifegro, South Africa's fifth largest insurance group, increased its net taxed surplus per share by a mere 0,1c, although sales almost trebled in 1987, growing by 197 percent. The total dividend was raised by 1c to 16c.

Total premiums rose from R548,7 million to R1,08 billion and investment income was raised by 35 percent to R264,5 million, resulting in a 80 percent improvement in total income to R1,436 billion.

Net taxed surplus for the year was R9,8 million, an increase of four percent over the 1986 figure, but total assets showed a more noteworthyimprovement, growing by 32 percent to top R3,6 billion.

Commenting on the results in today's announcement, managing director, Tony Laubscher says that despite the serious decline in investment markets in the last quarter of 1987 the company's investment returns outperformed major market indices.

"The policy adopted of option matching mitigated to an extent the worst effects of the stock exchange reversal and, as a result, the market valuation of assets was affected to a lesser extent than for the industry as a whole — even taking into account a marginal short-term loss on single premiums invested in the middle of 1987."

Lifegro
Business Day

IT'S ALL SYSTEMS GO


□ SMITH

LIFEGRO has spent more than R16m on state-of-the-art information systems technology under the expert eye of ex-IBMer, Johan Smith.

And with the wisdom of acknowledging that people make it work, his other major responsibility is personnel.

Says Smith: "I have to balance technology with people. It's a case of letting people do what they do best, and harnessing machines to be tools for that purpose. Computers are tools to see that jobs are done faster and more cost-efficient."

The brief comes from Lifegro chief executive Tony Laubscher. Laubscher says: "People are our greatest asset and we want them to know it."

Personnel training has become a central part of Lifegro's internal activities. In 1987, the company set up a training centre for staff training which runs induction programmes, product training, administration training, computer skills, and a "completed staff work" course that trains towards taking responsibility for full research up to the point of requesting a management decision — basically, "handling your own monkey", or how to hand over a "yes-able proposition".

For specialised and advanced training the company also uses universities, technikons and outside institutions. According to Laubscher, "Lifegro employees can benefit from an upward career path, an association with success, and the company's statement of quality in the form of the elegant work environment of the new Sandton head office.

"In addition, employees achieve success as members of a team rather than as individuals," he says.

Lifegro agents and administrative staff have to deal with the company's unusually flexible, and therefore complex, product range. Fully microfilmed records and computers, incorporating the most sophisticated LAN (local area network) technology are making it an easier task.

Lifegro installed an IBM 3090-200 mainframe, using the CA-Unicentre software system from Computer Associates in the US.

It is an integrated range of operational and programmer productivity software for operations management to perform job scheduling, work load management, report distribution, print management, performance measurement and many other tasks.

The power of the computerised information system is brought to Lifegro's 1 200 staff members and its 500 agency force through a network of approximately 1 000 terminals and PC work stations which connect the head office and its 52 branches.

A major development Lifegro is working on will take the agent far beyond the day of the "rates book" for preliminary calculations of sum assured and premium payments. It is the "Sales Force Work Station".

At present, most agents do their calculations on computer back at the branch office. But an increasingly "switched on" future is likely to demand computer support at "point of sale". Smith, who has spent the last 23 years actively involved in the computer industry in SA, says: "We're looking at a lap-top that will serve the purpose."

With Lifegro's new generation high-tech building well designed to accomodate present and future technology the company is well set to extend its modern PABX and computer networks to permit integrated voice, text and data communication.

A tribute to the expertise with which Lifegro's systems have been installed is that when the company moved to the new building last year there was no disruption of computer services and no hiccups.

A large contingent of computer personnel within the company are handling Lifegro's programming and development needs — most of them trained in-house.

The new approach to training and human resource development is helping to increase the effectiveness of management as well as productivity and potential among all staff. Recruitment of new staff hinges on potential for development.

Super sales carve out a niche at the top

ON TOP of a record 82% increase in sales, Lifegro achieved a further 197% increase in 1987 — making the company one of the fastest growing life assurers.

Chris Cunningham-Moorât, senior GM operations, says: "We are certainly achieving higher sales growth than any other major life office, although growth is not an objective on its own. The satisfying part of it is that close to 40% of our new business is from increases to existing policies, and our lapse ratios have improved vis a vis the industry.


□ CUNNINGHAM-MOORÂT

"That means we have definitely not achieved volume of business at the expense of quality of business — just the opposite — the quality of our business has improved as well.

"The growth has come in every aspect of our business — group business was good, life business was very good, and premium income (including the unusual new surge in single premium business), was phenomenal," says Cunningham-Moorât.

The surge in sales coincides with Lifegro's listing, with its new corporate identity as "Lifegro", with a campaign for "quality" and "customer service" and with full computerisation. But importantly, it also coincides with an unprecedented drive to increase its presence in the market via its own sales force, expanded by 60% over the last two years to number about 500 agents.

Cunningham-Moorât says: "Our people are extremely good, and feedback we receive from questionnaires, both from brokers and the public, is highly complimentary. Our broker advisors have a reputation for being among the best. At the same time, our agency force is giving us significantly better individual productivity than the industry average.

"I think our product range does attract and stimulate good people. Our products are so flexible that they can be tailored to suit exact individual needs. To explain their benefits requires considerable professionalism.

"Particularly in the case of brokers, our advisers find they have a lot of explaining to do of products that are really 'different' from the usual. But once they've broken through and explained the benefits they usually have a firm convert on their hands."

Pioneered flexibility

Back in the mid-seventies, Lifegro pioneered flexible policies.

"The company remained at the forefront of this market for a good six years before similar products were launched. Consequently, I believe we are still way ahead of other life offices in actually knowing how to handle the very special administrative and investment requirements of such policies.

"We've had them in the field for 10 years now and we've solved more problems with them than other companies can begin to imagine," says Cunningham-Moorât.

"Given flexibility, it's amazing what an inquiring client and an innovative intermediary can ask for."

As a result of Lifegro's highly flexible product profile, its share of the younger A income professional group — the group that can really use flexibility — is thought to be higher than other life offices.

Lifegro's unusual product range is a major reason for its success, believes Cunningham-Moorât. The latest introduction was of its Cosmos range of universal life policies which combine varying portions of life cover and investment throughout the life of the policy for maximum end-benefits, such as at retirement age.

"Cosmos is the widest range of universal policies available giving the widest choices to the policyholder. The holder can literally change the sum assured by one cent and we'll give a different quote.

"Among the options are income benefit cover — to protect the family by giving them an inflation-protected monthly income rather than a lump sum.

"There are a wide range of patterns of varying proportions of life cover, and we allow for withdrawal and replacement of cash without reducing the life cover."

Corporate markets

For the last five years, Lifegro has concentrated on expanding its share of corporate markets.

To larger companies, this involves pension investments, business and group risk cover, group life assurance, disability schemes and other perks for employees.

"Many companies are highly liquid and there is an increasing need for comprehensive employee benefits," says Cunningham-Moorât.

"When we provide a corporate scheme such as savings or endowments, the employer benefits from lower costs while the employees, many of whom would not normally take out such a policy, have the discipline of premiums deducted from their salaries."

For smaller companies, Lifegro offers fully administered pension schemes, and buy-sell agreement policies to ensure that business partners will be able to afford to buy out the other's shares in the case of unforeseen circumstances, and deferred compensation.

Lifegro has a key man insurance policy called Business Income Benefit which has sold very well. Again, this is a flexible policy where the sum assured reduces as retirement age is approached.

Cunningham-Moorât adds: "We have the only group dread-disease policy which provides benefits on diagnosis of major diseases. Apart from medical expenses, the policy also insures lifestyle prospects, and unusually, we also re-instate the life cover after 30 days of the onset of the illness."

Why the extras? Lifegro's policy is to see that benefits meet what people really require. "We'd rather let the client pay a true premium to cover a truly valuable end-benefit. That's value for money."

New products

Always looking for the leading edge, Lifegro is even now sitting on plans for several new products. Hints are that they will be increasingly combination type products to meet the challenge of the increasingly broad perspective of financial services.

Tracing past development, Chris Cunningham-Moorât comments: "In the late seventies and early eighties our emphasis was on economies of scale and growth. Now we're set for profit growth within a very adequate framework.

"Our innovation and flair has stayed with us, but with technology the company has become more and more focused and our degree of professionalism has improved."

One aspect of that has been the automation of policy changes, made more easy by the microfilming of all policy records. Cunningham-Moorât believes this will make a huge difference to Lifegro's competitiveness in customer service in the future.

A uniquely flexible range of policies

POLICIES offered by Lifegro include:

□ **Indexplus** — a market-linked contract which has led the field in investment return for 10 years;

□ **Guarantee Plus** — provides guaranteed returns plus partially vesting growth bonuses;

□ **Group Risk** — suits all employers by providing a range of group life and/or permanent health insurance. The new Group Business Income Benefit protects a company from hidden and secondary costs as well as the prime loss associated with losing people;

□ **Cosmos Tailor Plan** — claims the most effective life cover in the market. Provides family income protection in the form of growing instalments of capital;

□ **Cosmos Capital Protector** — protects and uses the concept of whole life assurance to accumulate and protect capital. Whether the client is building up assets, requires protection against estate duty, or both, this is ideal;

□ **Cosmos Capital Creator** — is a similar endowment version of Cosmos Capital Protector;

□ **Red Ticket Plus** — designed for the mining community, insures mining officials against the loss of their "red ticket" — their declaration of medical fitness to go underground. It also offers life cover, and disability protection of up to 100% of life cover. It offers specific protection in the event of heart attack, stroke, cancer, kidney failure or heart surgery;

□ **Lifecare** — a great help to survivors of, for instance, heart attacks, cancer and heart surgery. This reinstates full life cover after 30 days of the onset of serious illness, paying a cash sum to help pay for medical expenses;

□ **Group Lifecare** — This policy is available to all corporate pension clients and is similar to the basic Lifecare policy offered by Lifegro, the difference being the option of the reinstatement of full life cover;

□ **Lifegro's Retirement Annuity Plans** — designed to offer as much flexibility as possible to the policyholder. All these plans may be linked to Lifegro's High Performance, or Indexplus portfolio. Capital disability cover as well as disability waiver of premiums may be added to these retirement plans;

□ **Business Income Benefit** — intended to provide the employer or company with a means to insure his loss of income arising from the death or disability of a valuable employee during his expected service period. It is specifically designed to provide the right level of cover at a reasonable cost throughout this period;

□ **Permanent Insurance of Earnings** — a long-term, non-cancellable policy providing an indemnity against loss of income through disability, whether temporary or permanent, as a result of illness or injury. PIE, as it is known, is completely independent of normal life assurance with the result that: the amount of the benefit can be chosen to suit the proposer's particular needs; a claim on the contract will not reduce the death benefit to be provided under normal life assurance policies and; premiums are entirely tax-deductible.

Corporate Profile

Lifegro Lifegro Lifegro Lifegro Lifegro

Lifegro

Business Day

Top performance pays off — and ups market share

Written by SUSAN RAMWELL

AFTER excellent results from the time of its listing two years ago, Lifegro Assurance has more than consolidated its position as one of the industry's leaders.

Lifegro's year-end results announced today show that assets, R1,5bn at the time of its JSE listing in February 1986, now stand at R3,6bn, reflecting consistent high returns on investment as well as significant growth in premium income.

The company has maintained its position as the country's fifth largest insurer. At the same time, according to MD Tony Laubscher: "We have gained market share in the important individual recurring premium market and in endowments."

New yearly premiums, up by 82% in Lifegro's first year of listing, reflect a growth over the two-year period of 406% while total premium income shows a two-year growth of 238%.

Lifegro sees its niche in the market as "the only medium sized life assurer — small enough to respond rapidly and flexibly to changing market conditions, but big enough to have a significant impact on the financial services market."

It is an interesting time to take stock of Lifegro Assurance. As Tony Laubscher puts it in his annual review, the company has undergone "considerable metamorphosis".

Communication

Since the demise of the name Legal & General in favour of Lifegro, the company with a 55-year-old history in SA became at last wholly South African. Now a listed company with in excess of 300 000 policyholders, the company has undergone change not just to its corporate identity, but in large measure to its corporate culture.

The essence of that change, says Laubscher, is "a greater emphasis on quality of service and customer-orientation and greater emphasis on communication within the company."

Surprising as it may seem, Lifegro has succeeded in becoming more "personalised" simultaneously with growth that has doubled its business.

One of the newly listed company's first expansion moves was to increase its sales force. Over the last two years, a 60% increase in the sales force has about 500 agents in the field.

Laubscher says: "They have brought in growth way in excess of our targets, not just in the number of policies sold, but in the average size of the policies sold. At the same time, our productivity drive has succeeded in producing higher volume sales per agent."

As to manpower availability, Laubscher notes that while all new recruits received intensive training at Life ro, "we did ;et some superb agents on

LAUBSCHER

board attracted by new opportunities following the rationalisation which took place in the industry in 1986. We've held on to them too."

A new emphasis on quality of service within the organisation is reinforced, believes Laubscher, by the new environment of Lifegro's recently-completed Sandton headquarters — probably one of the company's premier property investments.

It is a spacious, quiet, low-rise building which, believes Laubscher, "greatly contributes to relieving stress among staff". He says research shows that suburban low-rise surroundings are far more relaxing than urban high-rise and that there has already been an appreciable uplift in staff morale since the move.

The big changes to Lifegro, mainly the greatest growth record in the company's history, have all occurred during Laubscher's managing directorship. Formerly an external director representing Volkskas on the L & GV board, Laubscher — who is a CA by training — has introduced an innovative management style to Lifegro.

As well as a fostering of communication within the company, and externally with policyholders, this has included a "management by objectives" review of business strategy and how the organisation structure supports this; and the ongoing development of computerised information systems.

Says Laubscher: "From the seventies onwards this company has been seen as a dynamic and innovative company, having pioneered some of the life industry's most flexible and sophisticated products. That theme has stayed with us — we're out to make the most of market opportunities for our policyholders. And now we're producing the results — in terms of excellent investment returns and solid profitability as a listed company — to show that our approach really works."

It is notable that Lifegro, among all life assurers, was least affected by the sudden and rapid fall in share prices on the JSE in October last year. Having anticipated the "correction" in share prices, the company's investment team had significantly reduced the portfolio's exposure to equities in favour of property and long-term gilts.

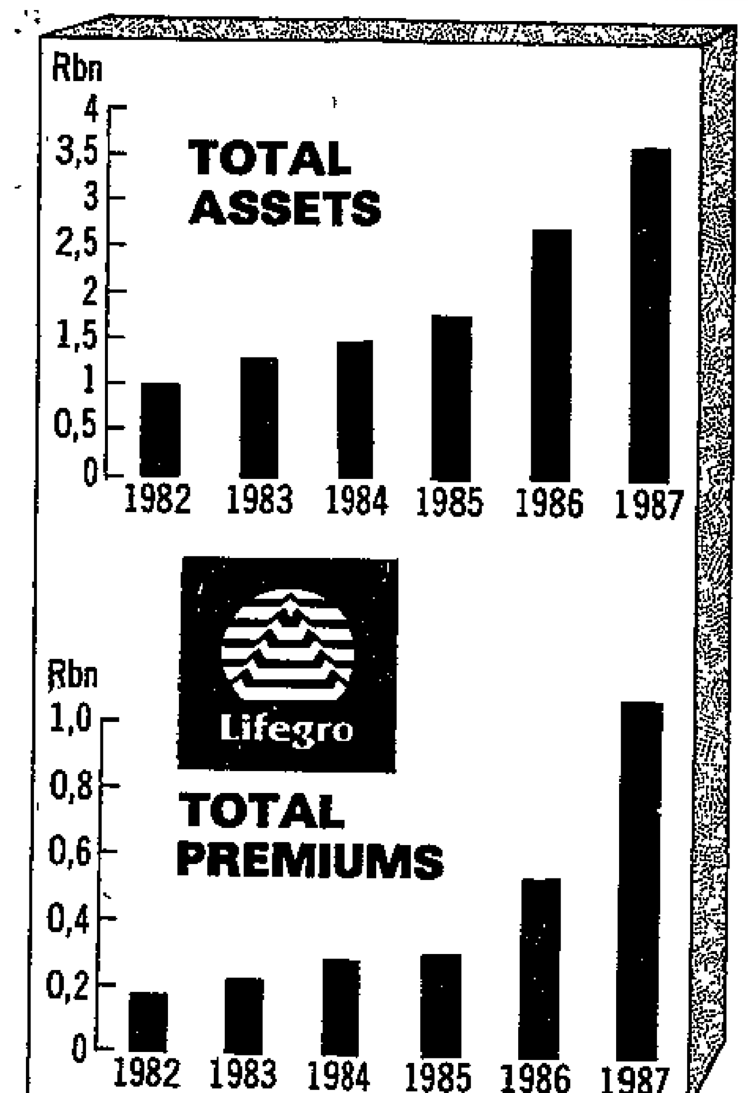
The profitability of a shrewd business eye for opportunity is evident in Lifegro's dramatic trebling of new business during 1987. While traditional ordinary recurring premium business grew at a very satisfactory 56%, the rest of this extraordinary growth came from single premium business — a medium-term investment snapped up by individuals at rates which were very competitive.

Tony Laubscher explains: "It is to the advantage of Lifegro shareholders and to the market that we take opportunities when they arise. In this case, we took advantage of the unusual gap between short and long-term interest rates to give people a good opportunity for medium-term lump sum investment. It is of course unlikely that either the market condition, or this level of single premium sales will be repeated."

Performance

Highlights aside, Lifegro's performance in all facets of business has been exceptional. Substantial growth (close to 40% of new business) has come from existing policies and in new policies written for existing policyholders. At the same time, business "persistency", meaning lower lapse ratios, has improved in respect of both individual and group business.

In general, the past two years have been very favourable for the life assurance industry. In 1986, the industry increased total premium income by an average of 39% according to the Life Offices Association. Life ro's corre-



Source: LIFEGRO Graphic: JOHN McCANN

sponding increase then was 72%. In 1987, Lifegro has once again outstripped industry performance, making it undoubtedly a rising star.

In 1988, the real benefits of Lifegro's technological advancements, computerisation, enhanced staff training, and sales force computer "work stations" should really be felt, making for excellent future prospects.

An immediate future goal is to consolidate Lifegro's share of the corporate market — an area on which the company has concentrated over the past five years and in which it already commands a leading share. With the commitment and dynamism apparent in the "new mood Lifegro", most of its goals seem well within reach.

Sound investment strategy nets rewards

LIFEGRO has turned in excellent investment returns over the past few years — consistently outperforming industry averages as well as the JSE's actuarial equity, property and gilt indices.

In 1986, when Lifegro in its first year as a listed company also posted the best results in its 55-year history, Lifegro's total investment return on its managed funds was in excess of 40%.

In the year to end 1987, Lifegro has achieved a return of 15% on total investment assets employed which, says senior GM, investments, Peter du Toit, compares very favourably with the industry in general.

During 1987, an independent survey by a group of actuaries into relative investment performances achieved by life assurers for major pension funds showed that Lifegro had consistently outperformed the rest over a five-year period to end December 1987.

When JSE share prices tumbled in October last year, Lifegro's investment portfolio had the lowest equity exposure of all life assurers, consequently taking the least of the loss. Lifegro's investment team, under the leadership of Peter du Toit, had anticipated the crash and although it had capitalised on growth opportunities, for more than a year had gradually reduced investment in equities in preference for property and long-term gilts.

Lifegro presently commands R3,6bn of assets for investment. At December 31, 1987, the spread of the portfolio was: long-term high-yielding assets 35%; equities 25%; short-term assets 25%; and property 15%.

Lifegro's Peter du Toit is an investment manager with a unique skill in taking a "macro" view of world markets. Putting his strategies in context he says: "There are only two players in the investment market — liquidity preference and assets — and there is always a movement towards getting them back into relative equilibrium.

"It was evident that the boom on equities had to correct itself. Now there is far too much pessimism and equity prices are being pushed far too low.

"In the sixties we had static commodity prices and we had to live by increasing cost-efficiency. In the seventies, prices soared and SA enjoyed a high gold price and an external boom in which she lost all her self-discipline. In the eighties, we had to create flexibility by allowing the currency to depreciate. In the nineties, we can't do that any more."

In Du Toit's view, we have come full circle and stand on the verge of many years of very moderate growth. "We're back to the situation where rising cost-efficiency and productivity are the only means to growth. That means a considerable period of adjustment by South Africans to lower their expectations, to economise and adjust living standards accordingly. We have to, because inflation debases society."

The long-term outlook for the SA economy, Du Toit believes, is excellent — provided the system buckles down to break the cycle of inflation.

Against this background of moderate growth, Lifegro's investment strategy points to the real current value of long-term, high-yielding assets.

"Equity and property can't compete against the high running yields offered by gilts. For gilt rates to decline, inflation must decline. Its cash flow alone is just on a four-year pay back.

"We will use cash flow from gilts to re-invest in equities at the moment when they offer greatest value," says Du Toit.

Property is another area in which Lifegro's investment team is placing increasing confidence. The company plans to inject a further R150m into high quality, "guaranteed-return" property development in the course of 1988.

Du Toit comments: "property can more than hold its own on current yields but we mustn't expect a runaway property boom. It has to compete with alternative investments such as the 17% you can achieve on gilts."

But in property, as in marketing innovations in its life business, Lifegro has a good eye for opportunity. One of its most recent property investments came to the stock exchange as Hyprop — a unique property portfolio concentrating on prime retail shopping centres, Pick 'n Pay Hypermarket in Boksburg and Hyde Park Corner.

Even in the depressed property markets of the last three years, Lifegro's property portfolio has held its own with low vacancies and satisfactory returns — a yield of 22% in 1986 which compared favourably with other property investments.

Banks switch loans to blue-chip market

Discount houses lack 'free' cash

HELOISE HENNING

DISCOUNT houses are experiencing a change in character due to the erosion of "free" cash held on call by banks, says the Bank of Lisbon Economic Focus newsletter.

Since 1979, call loans and other loans held with discount houses, compared to the houses total liabilities, have shrunk from 78,9% in 1979 to 11,1% in 1986. Discount houses have become jobbers in the money and capital markets instead.

The banking system's traditional cash balancing mechanism has been undermined by the liquidity constraints of the foreign debt moratorium, it says.

The smooth working of the cash balancing system depends on large "free" cash reserves. Low levels create short term fluctuations in banking liquidity accompanied with volatile short term interest rates, resulting in low business confidence.

Evolving monetary policy, the expansion of private sector credit and the substantial sale of government stock to the non-banking system to finance deficits, has also eroded cash reserves.

Banks are also entitled to go straight to the central bank.

Despite the De Kock Commissions expectation that lower short term rates and higher long term rates would revert the cash balancing system to its traditional form, this has not happened.

Bank of Lisbon says the reason lies in the influence exerted by the Corporation for Public Deposits (CPD) in the wake of the foreign debt standstill and the recycling of debt into the Public Investment Commission.

Recycling opportunities have given banks a larger incentive to economise on cash holdings, reducing call deposits. Instead they have grown their overnight market to accommodate blue chip customers at interest rates below prime.

"It remains to be seen just how liquid this market is in the face of significant demands for repayment by banks."

The lack of cash relief for banks in a general shortage and the low level of funds kept with discount houses could herald a change in monetary conditions.

Under assumed growth, the monetary authorities "may deem it to be desirable to scale down, if not largely abandon, recycling operations involving CPD funds", forcing banks to use the more expensive access to the Reserve Bank discount window. This could precipitate a sudden significant rise in domestic interest rates.

Bank of Lisbon suggests the discount window be closed to the banks or that terms of access be altered to encourage banks to hold larger call deposits at discount houses.

The previous banking milieu could be regained if money market rates became more closely aligned to the re-discount rates of the Reserve Bank. Discount houses would then be more inclined to hold short term paper and offer higher call rates.

Lifegro happy with highlights

B/day 3/3/88

HELENA PATTEN

LIFEGRO ASSURANCE has increased its net taxed surplus for shareholders by a marginal 4,3% for the financial year ended December 31, 1987, but the company describes the results as "satisfactory" given the circumstances.

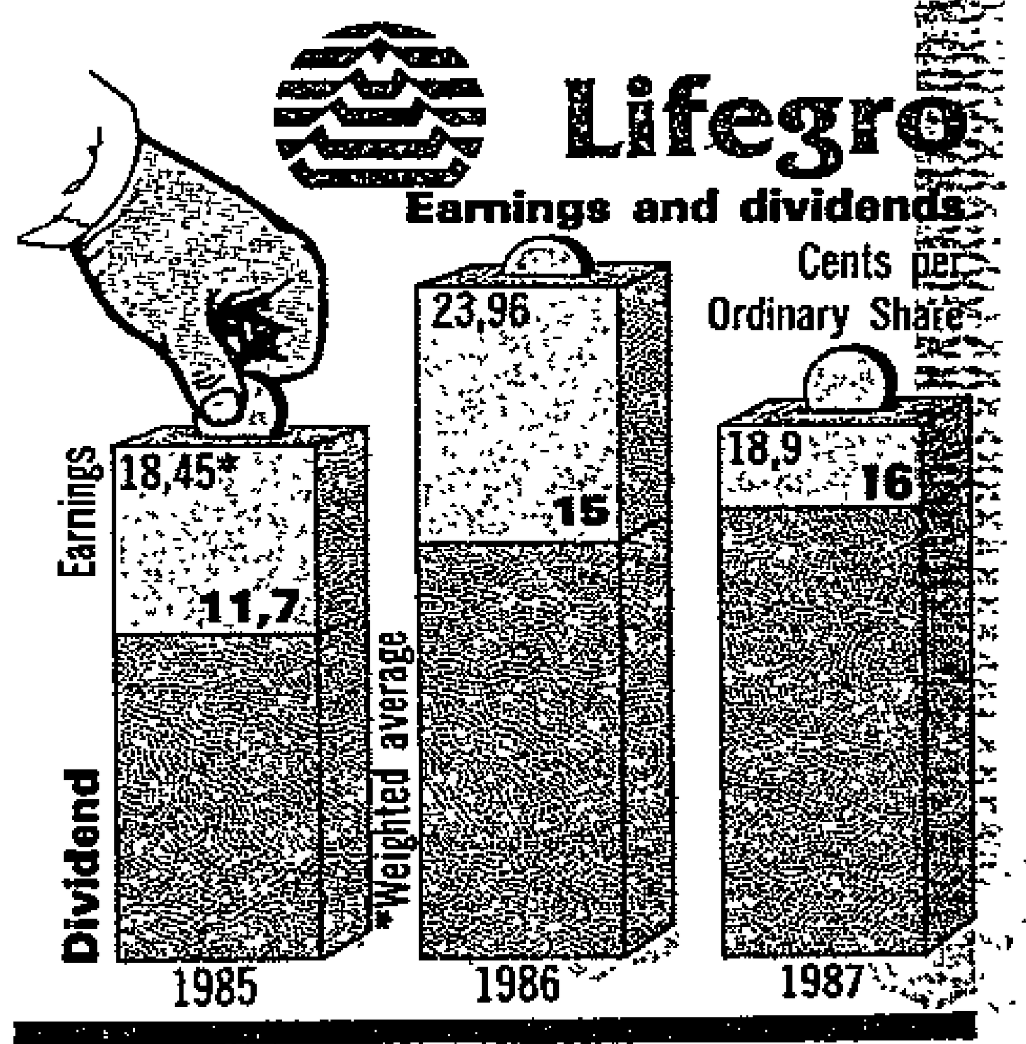
Shareholders' income rose to R9,8m during the year, translating into earnings of 18,9c a share, based on a weighted average of 52-million shares.

The final dividend was maintained at 9c a share, bringing the total payout to 16c a share — a 6,7% rise, due to the increased interim dividend.

Despite turbulence in the investment markets, Lifegro said the year yielded many highlights, including the best sales performance in the history of the company and a substantial improvement in the quality of service to clients.

Total premium income rose 97% to R1,1bn in the year, while the company said recurring premium sales increased by 56% and single premium sales grew by 258%.

A statement from the company said Lifegro's performance in the investment field remained consistently higher than that of comparable indices, despite market conditions.



Source: JSE & LIFEGRO Graphic: JOHN McCANN

Another important development had been the company's new offices in Sandton.

While taxed earnings a share showed a minimal increase in comparison with the 1986 financial year, the company's total assets grew 32% in 1987 to top the R3,6bn mark.

● To Page 2

Lifegro is satisfied with increased surplus

● From Page 1

B/day 3/3/88

MD Tony Laubscher said in a statement he believed only those companies focused on the right issues, both in the shorter and longer term, would survive in the long run.

"I am of the opinion that the core business of life offices is and will continue to be sound, notwithstanding the apparent threats posed by rapidly diversifying financial institutions or recommendations contained in the Margo commission of inquiry concerning the tax structure.

"Lifegro's focus will then, for the foreseeable future, be concentrated on striving for excellence in its traditional business. In support, attention will specifically be directed to such issues as quality, productivity, service and containment of costs."

Broadening corporate services base

Duros buys 30% of Samatco

CAPE TIMES 4/3/88

58

Financial Staff

HARD on the heels of their Tollgate Holdings deal, the investment group Duros has announced the acquisition of 30% of the total issued share capital of portfolio managers Samatco.

Duros, which has rocketed into prominence since being taken over by a number of energetic young corporate finance executives in the middle of last year, was formerly associated with the furniture trade. In its new guise, it offers a full range of corporate financial services.

Agreement

Duros believes that the association with Samatco, with clients' funds in excess of R100m under its control, will further broaden the Duros base in the corporate and related services field.

The deal, for a cash consideration of R900 000, is with effect from March 1. A further option for Duros to acquire an additional 21% of Samatco is part of the terms of the agreement.

Duros director Murray Louw will join the board of Samatco, whose current MD and founder, Geoff Reich, will continue as CE.

Samatco, which formerly operated predominantly on the Reef and Natal, has recently launched a Cape operation, under the managing directorship of Eddie Barlow, former Western Province cricket captain and springbok vice-captain.

Division

Samatco's services are based on a technical computer system evolved specifically for the stock market, whereby every share on the JSE is rated, graphed, and compared to one and three-year highs and lows giving percentage volatility.

The system was developed by Samatco's division which updates and controls the administration of the share rating guides and volatility analyses which are sold countrywide.

Samatco handles the actual administration and management of all portfolios under its control.

Earnings rise by 12%

Cape Times 4/3/88

58

AVI boosts Anglovaal profits

By LAWRENCE TOTHILL
Investment Editor

ANGLOVAAL LTD has reported a 12% increase in its consolidated earnings for the six months ended December 1987 at R70,2m, compared with the 1986/87 first-half figure of R62,6m; and it is clear that industrial interests, through AVI, have ousted gold and other interests as the main contributor to this mining house's income.

The bottom line improvement in profits looks modest when viewed against the impressive jump in operating profits and should also be viewed against the strong profit rises of the last couple of years.

Main booster

Yesterday Anglovaal Industries (AVI) reported a 69% increase in its earnings for the first six months, and is clearly the main booster to its parent's income.

Anglovaal's gold mine investments showed limited growth, being restricted by higher working costs and a firmer rand/US dollar exchange rate which led to lower rand revenue.

Furthermore, there was a sharp fall in equity-accounted income from associated companies, largely because of Associated Manganese Mines' reduced profitability and losses connected with the start-up of operations at the Klipspruit Coal Mine.

The consolidated income statement shows that Anglovaal's operating profit rose by 71% to R186,7m (R109,1m).

Income from investments was a little lower, but taxation was sharply higher.

After adding in the equity-accounted earnings figure of R8,1m — down 58% from R19,2m in 1986 — the after-tax profit was R138,2m (R105,1m).

Preference shares and minority interests were 60% higher at R68,0m (R42,5m), leaving attributable earnings 12% up at R70,2m (R62,2m).

This translates into earnings of 1 641c (1986: 1 464c) a share, from which an interim dividend of 200c (195c) has been declared and paid.

Subsidiaries

In the half-year, Anglovaal and its subsidiaries spent a further R16,6m on the purchase of mineral rights in selected areas of the Northern Orange Free State, where the gold exploration programme is continuing.

The market value of listed investments, mining, subsidiary and associated companies on December 31 was R1 250,2m (R1 313,2m), giving a net asset value of R322 a share (R317 a share) at the end of December.

Allowing that there have been share price movements since end-December, the share is currently trading at around 80% of NAV.

Waiting for February fever to sweat through

By BRIAN GOLD

FOLLOWING trends in the money market where interest rates have been rising since November a further increase in the prime lending rate of banks is imminent.

However, it could be that the Reserve Bank has asked banks to delay any rise until February month-end conditions work themselves through the system and the seasonal and fundamental factors behind the rise in market rates can be more clearly determined.

(Banks do not have to listen but have a gentleman's agreement to get the go-ahead from the Reserve Bank before adjusting prime.)

At the February month-end the banking system is most short of funds due to large tax payments which draw money out of the banking system into government coffers.

Such tight conditions exert upward pressure on interest rates. This raises the cost of funds for banks which puts pressure on their margins and hence their lending rates like prime.

A change in the prime rate itself is not that significant. Few enjoy the status of being able to borrow at prime while at the other extreme major companies have been borrowing at rates below prime. The significance is it indicates a trend for other interest rates.

In January the 50-point prime rate rise to 13 percent was not accompanied by the Reserve Bank increasing its various rediscount rates. This time the Bank will be under far more pressure to increase such rates for the first time since January 1985.

The gap between prime and Bank rate (the rediscount rate on Treasury Bills) is 3,5 percentage points which the Bank is unlikely to want to see widen. If prime rises the rediscount rates will, in all probability, rise too.

Crucially, a rise in the Bank's rediscount rates will be a policy decision to guide interest rates up to cool the economy. The economy cannot grow without causing problems.

A major growth restraint that South Africa faces, given international pressure, is the current account of the balance of payments.

Barred from foreign finance and always vulnerable to foreign financiers, South Africa cannot afford a deficit and so brakes must be applied earlier than would otherwise be necessary (greater economic activity sucks in imports which reduces current account surpluses). This is one of the costs of apartheid. In other circumstances it normal to allow a deficit in the present phase of South Africa's economic cycle.

The other major growth restraint cited by economists is inflation. An overheated economy fuels inflation which, in South Africa, is already way above that of major trading partners.

The Bank is only too aware of South Africa's growth restraints. The Bank's headache is to decide whether and when the economy is growing too rapidly. The dilemma is between doing nothing and risking overheating the economy with all its ramifications for the balance of payments and inflation or acting too soon and stifling growth. Timing is the key.

The widespread poverty and unemployment are not the Bank's major indicators as to whether and when cooling the economy is necessary. More important in informing the Bank's decision are factors such as credit demand, budget requirements, balance of payments, inflation and production levels.

Often cited as a reason why the Bank should tighten up is the increase in credit demand. But the Bank should be cautious.

While the more bouyant economy no doubt accounts for part of this increase, banks report that demand is overwhelmingly for consumer credit (such as hire purchase finance and home loans) and not for finance to develop the economic infrastructure that will create jobs and lay the basis for a more sustainable upturn.

If rates rise too soon this might be killed before it even begins.

WMail 4-10/3/88 (58)

BUILDING SOCIETIES

Walking wounded

The most serious casualties in the home loans war between banks and building societies are the powerful United Building Society and tiny Saambou.

This is apparent from quarterly figures submitted to the Registrar of Banks and Building Societies.

United, biggest and most visible of the societies, and Saambou, smallest of the top five, have been most vulnerable in the face of the advance by banks into what was once the unchallenged domain of building societies.

Between the end of the last financial year, on March 31, and December 31, United's home loan portfolio grew only 9,8% to R8,7bn, while Saambou lagged even further with growth of 6,4% to R1,8bn.

In the same period, First National grew its book from R1bn to R1,7bn while Standard Bank increased from R324m to R1,041bn. In each case, the increase is in the region of United's growth of R750m and, combined, amounts to R1,4bn.

This must have made serious inroads into United's market.

United may still be suffering from the breakdown of its relationship with Standard in August 1985. The two channelled business to each other on an arms-length basis.

Figures for other major societies show a much happier picture. For the second year, Allied has led the field, topping its 18% growth over the same period for the previous year to achieve 18,4% growth to R5,9bn. It is followed by the Perm, with 16,9% to R6,3bn, and Natal Building Society (NBS) with 16,8% to R2,5bn.

On the liabilities side, deposits (including traditional building society shares) increased as follows:

- ☐ United by 8,4% to R9,3bn;
- ☐ The Perm by 13,8% to R7,2bn;
- ☐ Allied by 11,1% to R5,9bn;
- ☐ NBS 17% to R2,9bn; and
- ☐ Saambou by 8,4% to R2,2bn.

In recent times, with traditional depositors reluctant to invest at negative interest rates, much funding has come from 13-month negotiable certificates of deposit traded on the money market.

Though this is partly a question of tactics in a time of high liquidity and low short-term interest rates, it also indicates a fundamental change in the way building societies do business.

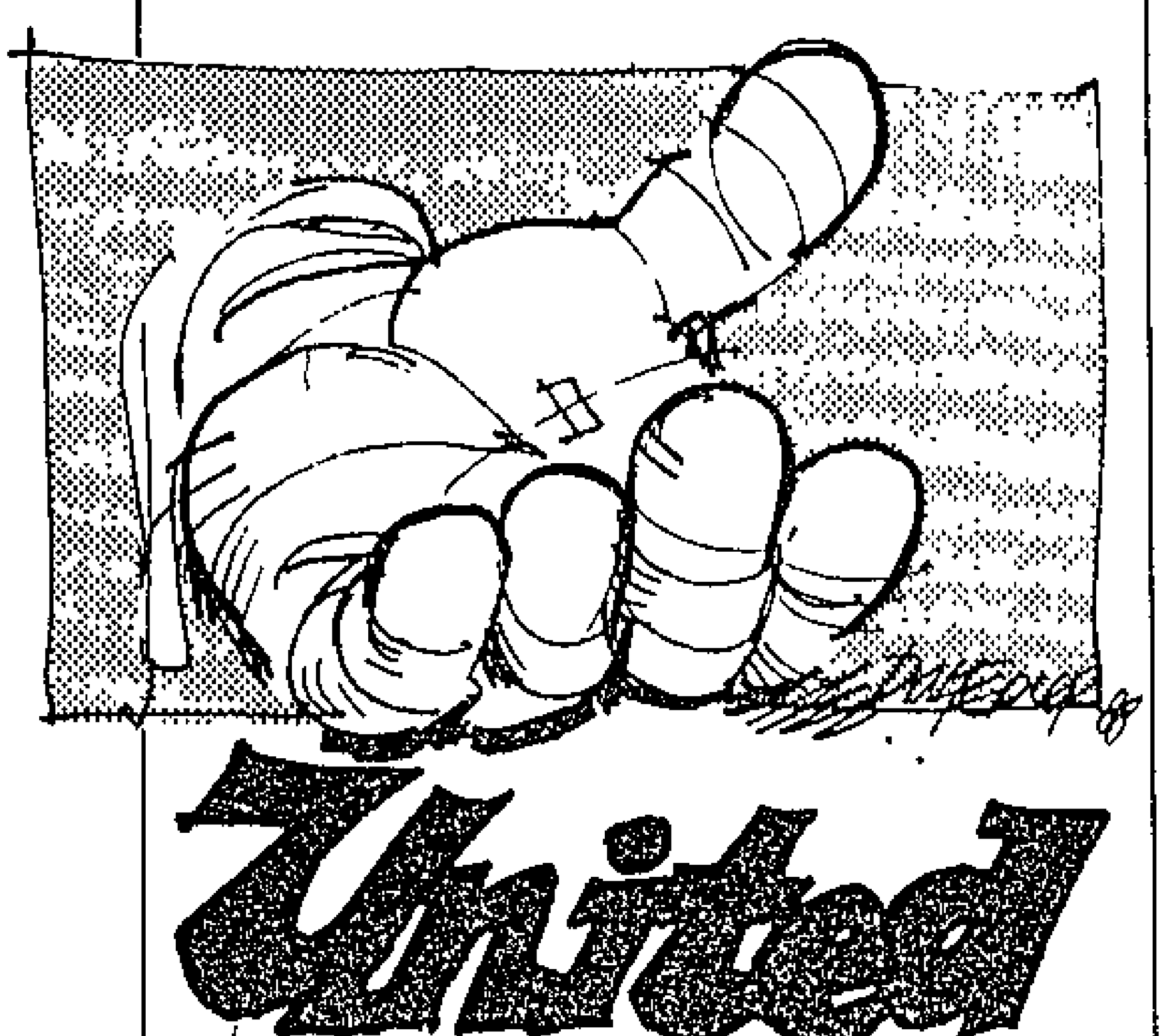
Where previously they attracted funds and then lent them out, today they actively seek business and then find a way to fund it.

In the face of fierce competition, market share is the priority, which is why, in December, United decided to reduce its interest rates to the 12,5% offered by the banks. ■

ANOTHER ROUND

Building society growth April 1 - December 31, 1987
R1 billion

	United	Perm	Allied	NBS	Saambou
Total deposits	9,3	17,2	5,9	2,9	2,2
% increase	8,4	13,8	11,1	17,0	8,4
Mortgage advances	8,7	6,3	5,2	2,5	1,8
% increase	9,8	16,9	18,4	16,8	6,4



CORPORATE BANKING

New player

Of the five major commercial banks, Volkskas has been weakest in the corporate market. Apart from its connection with agricultural boards and co-operatives, municipalities, public utilities and certain traditional corporate clients, it has focused largely on individuals and small businesses. With a wide branch network, its profile has been that of a retail bank.

Now it is making a strong thrust into the corporate sector. It is upgrading its Johannesburg offices to make services more accessible to listed companies, which are mainly based in that city. And, for the first time in its 50 years, it has launched a series of advertisements aimed at big business.

This is the culmination of years of planning under the direction of corporate division head Johan Coetzee, who joined Volkskas five years ago. He was recruited from Bankorp — an unusual development. Traditionally, Volkskas makes senior appointments from among its own ranks.

Starting from scratch, he had to provide the services required by large clients. "A bank grows strong in the area in which its cultural and management possibilities allow. Initially, we lacked the capability and expertise to service corporate clients."

So recruiting qualified staff was a priority. "We needed specialised knowledge in a lot of fields — project financing, forex, working capital financing, relationship banking and fixed-asset financing.

"Finding people was a serious problem. We solved it by employing and training young accounting graduates as investigating accountants. We selected them carefully to make sure they had ability as financial analysts as well as the people-related skills needed to make them successful bankers. And within a few years we had people moving out with us."

Another priority was systems development. Says Coetzee: "It's no secret we've been a market follower. We are usually the last to do something, but when we do it we do it very well.

"We found our product range was weak in one important area — electronic cash management. We decided to develop our own

PLANTING TAX

Has R800m really been invested in forestry tax shelters, as claimed by Finance Minister Barend de Plessis in parliament this week?

Tax consultants doubt the figure. If it is correct, schemes may have been few in number, high in value and marketed low-profile to the corporate sector. But the nature of the typical forestry scheme implies that it would have been marketed to individuals. Most use the *en commandite* partnership — the same creature found in tax shelters involving motion pictures, bloodstock, software and others.

The substantial capital costs of setting up a plantation — which exclude the cost of land — may be deducted in full as incurred and written off against other forms of income. This differs from farming capital expenditure, which may only be written off against farming income.

SAAMBOU INTO BANKING

Saambou, the smallest of the four listed building societies, this week announced the establishment of Saambou Bank in Johannesburg. It is expected to open its doors for business in April, once central bank formalities have been concluded.

In a sharp departure from traditional building society retail business, it will aim at the corporate market, concentrating on money and capital market operations.

Saambou Bank will be headed by GM Louw Bester, formerly of First National Bank, and will be an affiliate of Saambou Holdings.

The group has been restructured. Holding company chairman, MD and CE is Hendrik Sloet, while the building society subsidiary is now the responsibility of MD Christie Kuun.

Other subsidiaries are life company Saambou Assurers, property developer Saambou Wonings, short-term National Insurers, and financial trust service Saambou Estate & Trust.

4/3/88 (58) FM

Saturday, March 5, 1988

Firm fires inquiry witness Bloomberg

D/D 5/3/88 (58)

Daily Dispatch Correspondents

JOHANNESBURG — Sanlam has sacked Cape Town attorney, Mr David Bloomberg, from the board of directors of Metropolitan Life.

This action was taken yesterday by Sanlam—Sankorp, who, as the majority shareholders of Metropolitan, have special powers which allow for the dismissal of directors

Mr Bloomberg described the action as unjust, and questioned the need of having a board of directors at all if the majority shareholder could hire or fire directors at will.

Mr Bloomberg has received an invitation to join the board of an opposition life assurance company

A written statement was issued by the chairman of Metropolitan and managing director of Sankorp, Mr Marius Daling.

"Having regard to the commission of inquiry sitting in Transkei I informed Mr Bloomberg that

"This matter has been discussed with the directors of Metropolitan

"None of us considered it to be necessary or desirable to pass any judgment on the content of the allegations that had been made in the course of the evidence led at the commission.

"Despite the fact that we deliberately refrained from making any judgment on the aforementioned evidence, it was the view of the directors of Metropolitan (two could not be contacted) that having regard to the mere fact of his involvement in this matter, it would be in Metropolitan's interests for Mr Bloomberg to cease to be a director of Metropolitan, particularly taking into account the fact that Metropolitan conducts a significant amount of business in Transkei

"In the light of the foregoing, on more than one occasion I invited Mr Bloomberg to resign as a director of Metropolitan, but he declined to do so

"Metropolitan's holding company, Lushof Eiendomme, a company in the Sanlam—Sankorp group, decided that in the special circumstances of this case it would be appropriate to deliver a notice to Metropolitan in terms of its articles of association

"Following on the delivery of the notice Mr Bloomberg has ceased to be a director of Metropolitan with effect from March 4, 1988"

Reacting to the statement which was released to the press yesterday afternoon, Mr Bloomberg said. "Metropolitan has taken action on unsubstantiated evidence given at the Transkei commission of inquiry and not even given me the opportunity to refute them at the commission, although I have strongly denied them

"Mr Daling invited me to resign and his request was made on February 1 — before I gave evidence before the commission and before the unsubstantiated allegations were made "

It is not usual for the controlling shareholder of a company, especially a public listed company, to be empowered to remove a duly elected director from his position, but in this case the articles of association (a company's internal rules) were drawn up to allow this

Mentioning that no board meeting had been called, Mr Bloomberg said "Such a meeting could not have served any purpose in view of the powers the controlling shareholder has vested in itself to remove a director "

Turning to the remarks that Mr Daling and his colleagues "refrained from making any judgement", Mr Bloomberg said "but they have made a judgment, and they have taken this unjust course of action.

"I am consoled by the innumerable messages of support from friends and from companies and these include a firm offer to join the board of another life assurance company "

In yesterday's report from Cape Town Mr Bloomberg was described as being "prominent in racing circles" In fact, Mr Bloomberg's father, Mr Abe Bloomberg, is prominent in racing

Mr David Bloomberg said yesterday that he was was not "into any racing, casinos or gambling either here or any where else".

Warning on milk price control

D/D 5/3/88

Political Correspondent

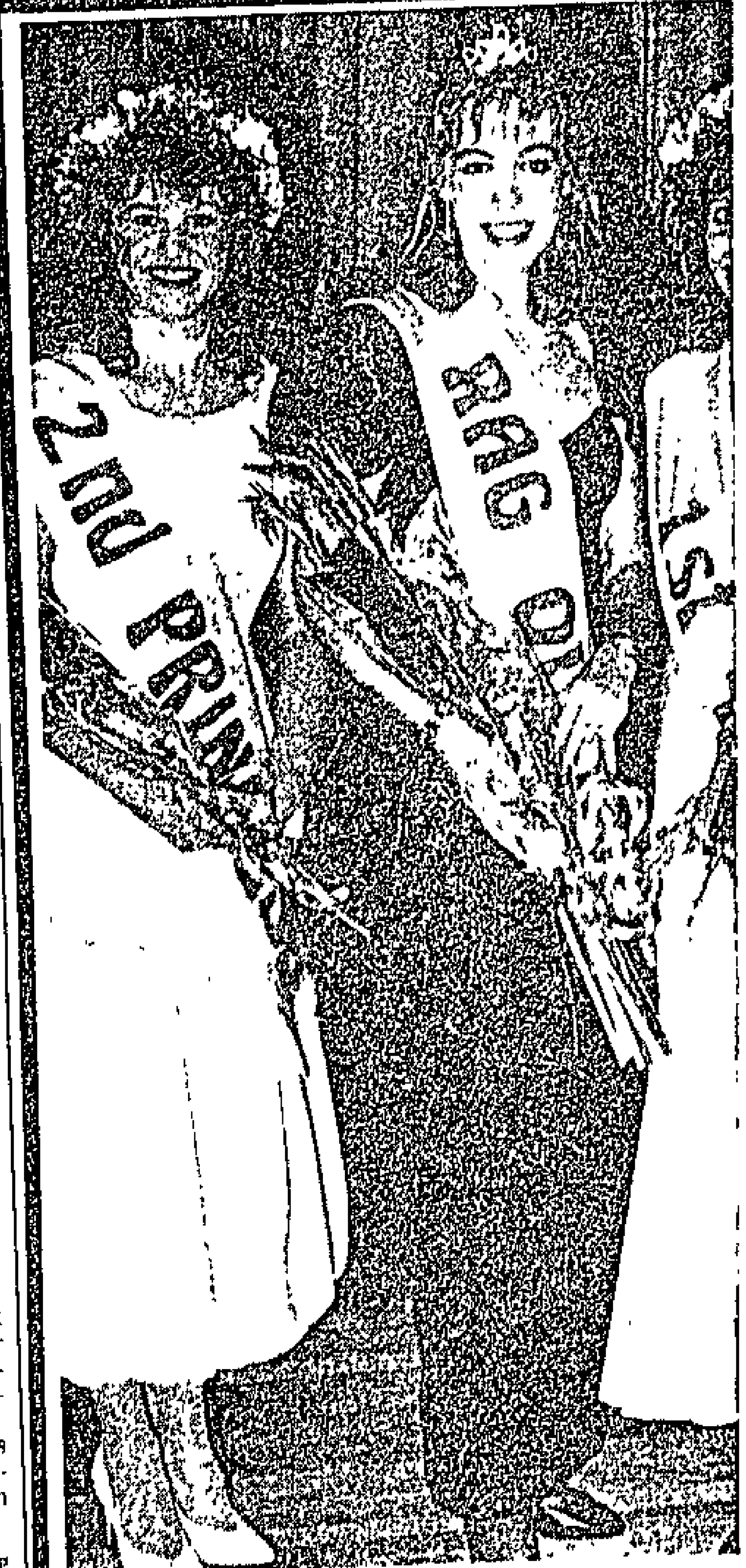
CAPE TOWN — The government yesterday threatened to reinstate price control over fresh milk following recent sharp hikes by distributors in various areas, including the Western Cape.

The Minister of Agriculture, Mr Greyling Wentzel, expressed his "alarm" at recent increases, pointing out that fresh milk was a basic foodstuff and should therefore be "affordable to the general public"

Mr Wentzel said he had instructed the National Marketing Council and the Dairy Board "to advise me without delay" as to whether the latest hikes were justified.

He said he would then decide on the possible reinstitution of price control

Mr Wentzel pointed out that he had warned last year that he reserved the right to reintroduce controls over the maximum price of fresh milk in the larger urban areas "should it become evident that distributors are introducing exorbitant increases".



The East London Technical College Rag Queen, Janine with her second princess, Angela Matzke, left, and fir du Plooy, who were crowned last night Report

David Bloomberg ... innocent, but not much I can do

Bloomberg defies Metpol demand

6/3/88 S/T

By Ruth Golembo

CAPE TOWN attorney and tycoon David Bloomberg is angry because of Sanlam-controlled Metropolitan Life's demand that he resign from the board. Mr Bloomberg has been mentioned in the Transkei inquiry into alleged bribery.

Mr Bloomberg, who once controlled the multi-million life assurer which he nurtured from its inception more than 10 years ago, says he will not resign.

Mr Bloomberg, a member of the Cape Town City Council and prominent in racing and financial circles, was executive director of Metpol until 1981.

He is a non-executive director of Metpol, a subsidiary of Sankorp, the industrial arm of Sanlam.

Mr Bloomberg says: "I will not quit the board. I am not guilty of any offence and will continue to serve in the interests of the company, minority shareholders and policyholders."

Only a letter

(58)

But Mr Bloomberg is aware that companies in the Sanlam stable have a clause in their articles of association which allows them to remove a director without consulting shareholders.

"There is not much I can do — they can remove me by merely writing a letter.

"I have spoken to Metpol chairman Marinus Daling and he asked me to resign in the interests of the company.

"I refused. I do not believe my serving on the board has caused any embarrassment or loss of business for the company.

"Policyholders or prospective clients in the Transkei are certainly not going to cancel their policies because I serve on the board.

"If I had done anything wrong I would have resigned not only from the Metpol board from all the boards on which I sit."

Metpol is a Cape-based insurance company specialising in the lower- to middle-income market and it has many black customers.

Mr Bloomberg says he took over Metlife in 1967 on behalf of a South African consortium from its Australian parent company, expanded it and listed it on the JSE in 1969.

The shares came to the market at an issue price of 375c. The first day it traded at a 1 035c premium.

Mr Bloomberg was the group's managing director until Sanlam took control.

The company was merged with Homes Trust and became Metropolitan Life.

Mr Bloomberg is a director of Afrox and several unlisted companies. He is an attorney, but is no longer in private practice. He descibes his business as "financial investments".

"Testifying before the commission of inquiry in the Transkei has been bad for my business, but no other companies have asked me to resign from their boards."

Mr Bloomberg accuses Sun International (SI) of trying to break him with reflections on his credibility.

He says smokescreens are being put up to hide the real issues.

The first concerned the person who instructed him to pay R2-million into the account of Ugie famer G J Gouws and he had answered that allegation.

The second issue was whether he had an interest in the Lichtenstein-based Etablissement Sports et Loisirs (ESL). He had denied this.

Exchange control

In his evidence at the inquiry, Mr Bloomberg said he had received as ESL's representative R2-million from SI for the Transgames deal. He had paid the money into Mr Gouws's account. Mr Gouws had transferred it to Chief George Matanzima and other Transkei cabinet members on instructions from SI's Sol Kerzner.

Mr Bloomberg also denies allegations by his former partner, Richard Kurland, implicating him and his father Abe Bloomberg in exchange control contraventions.

Sanlam pension fund investments beat the market

Star 7/3/88

(58)

CAPE TOWN — Long-term returns on its pension fund investments have not been seriously affected by last October's market crash, a report from Sanlam shows.

The 100 Plus Portfolio, Sanlam's largest market-related investment portfolio, which is used by more than 400 pension funds, shows an average return of 20,4 percent a year for the 10 years to end-December 1987 compared with an average inflation rate of 14,5 per cent annually for the same period.

The 200 Plus Portfolio, where a more aggressive investment strategy is applied, fared still better, earning 27,6 per cent for clients in 1987.

This brings the average investment return for the four years the portfolio's has been operating to 32,5 percent, Sanlam's figures show.

The number of funds participating in 200 Plus in 1987 more than doubled to about 150. According to Mr Ronnie Masson, head of investments at Sanlam, this "contributed handsomely to the extension of Sanlam's services to pension funds."

As a result of the drop in share prices since October 20 last year the JSE All Share index (dividend income included) closed the year 4,4 percent lower than at the beginning of the year.

Even so, the share component of the 100 Plus showed a positive return of 13,6 percent.

Mr Masson credits this mainly to:

- The fact that last year Sanlam concentrated on industrial shares which outperformed the mining sector substantially. The Industrial index ended the year higher than at the start.
- Several shares to which Sanlam's portfolios were heavily exposed fared substantially better than the average.

The industrial share portfolio, for example, was up 21,6 percent as against the corresponding 4,5 percent of the JSE industrial index. Financial shares achieved 25,4 percent compared with the 1,5 percent negative of the JSE index.

According to Mr. Mas son the narrow band in which interest rates operated "limited the possibilities for capital gains on prescribed interest-bearing investments. Nevertheless, Sanlam actively exploited the fluctuations in interest rates."

He adds that the decrease in vacant space in the property portfolio in 1987 led to increased rental levels and higher market values.

The return on the property portfolio of 100 Plus was 16,4 percent for 1987.

"While uncertainty about the future course of the most important markets continues, caution remains Sanlam's catchword. Our investment strategy therefore gives high priority to mobility and a balanced composition," says Mr Masson.—Sapa.

Savings Bank gets a facelift

58

CHRIS CAIRNCROSS

CAPE TOWN — The investment opportunities and facilities of the Post Office Savings Bank are to be improved to ensure they are competitive with those offered by other financial institutions.

This was announced by Posts and Telecommunications Minister Stoffel Botha in tabling his R6bn postal budget in Parliament yesterday.

The need for these changes was highlighted by the fact that the Savings Bank suffered a material net outflow of funds amounting to R350m in the past year — the first time such an outflow had occurred since the bank was taken over from the Treasury in 1974.

Botha said this outflow of investment funds was largely due to the reduction in the interest rate on tax-free investments from December 1986. From January to October last year this outflow averaged R35m a month, although since November it had been reversed.

The financing of the Post Office's capital expenditure programme has been adjusted because of this cumulative outflow, which led to a shortfall of R750m in funds available for investment. This is to be made good by using R500m of current assets as opposed to the R200m originally budgeted for, increasing by R215m the amount of loan and stock issues, and by using the current higher operating surplus of R268m, instead of the R38m originally budgeted for.

Bday 8/3/88

Parliament

PO bank to improve investment facilities

CAPE TIMES 8/3/88 Political Staff 58

THE Post Office Savings Bank investment opportunities are to be improved to make them competitive with those offered by other financial institutions.

This was announced by Posts and Telecommunications Minister Mr Stoffel Botha in tabling his R6 billion postal budget in Parliament yesterday.

Last year the Savings Bank suffered a net outflow of R350m — the first time such an outflow has occurred since the bank was taken over from the Treasury in 1974.

Mr Botha said the large outflow of investment funds was mainly due to the reduction in interest rates on tax-free investments.

Number of tea breaks : 2

2. Maximum length of week : 6 days / 46.0 hours

3. Spreadover
Spreadover hours per shift : --
Hours of work consecutive : Yes
Retrenchment provisions : 4
Sl

4. O
Us
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P
M

5. A
Shift allowance
Inconvenience allo
Clothing allowance
Subsistence allowa
Night shift allowa
vel Allowance : Art
g Service Allowance : -
endance Bonus : -
luction Bonus : -
day Bonus : -

6. Paid Leave
Leave days for 5 da
Leave days for 6 da
Annual sick leave 5 ... nths
... nths

7

8.
Piecework : Allowed
Skilled/unskilled ratio set : Yes
Protective Clothing : Free

9. Notice
Notice period weekly paid : 1 week(s) / -- hour(s)
Notice period monthly paid : - week(s) / -- day(s)

10. Trade Union Status
Closed shop : --
Union member employment first : --
Stop Order facilities for subs : --

Bumper year for policy-owners

D/D 18/3/88

58

Own Correspondent

DR FRED DU PLESSIS

BELLVILLE.– In 1987 the South African public entrusted a larger part of their savings to Sanlam than to any other life assurer in the country.

This was announced here on Wednesday by Dr Fred du Plessis in his chairman's address at Sanlam's 69th annual general meeting.

The company's premium income crowned a year of excellent investment results and strict cost control. This ensured that policy-owners could again capitalise on more favourable policy benefits.

Total premium income amounted to more than R3 500 million – an exceptional rise of 69 per cent compared with 1986.

Dr du Plessis said Sanlam's success was due on the one hand to the recognition and support the company enjoyed from the public. On the other hand, it can be ascribed to the extent in which the company succeeded in controlling costs and earning high investment returns for its policy-owners.

Sanlam's operating expenses dropped from 4,2 per cent of total income in the previous year to 3,5 per cent. This would not have been possible without sound management, expert application of computer technology and service of a particularly high standard.

Increase

Investment income earned for policy-owners increased by 23 per cent to R1 320 million, despite the decline in interest rates experienced over the past year or two in the capital and money markets.

These investment results and Sanlam's favourable ratio of operating expenses enabled the company to raise bonus rates.

"In the case of a life assurer, which is essentially a long-term savings institution, a considerable time elapses between the receipt of premiums and the payment of benefits. Even so, Sanlam paid out as much as R1 409 million in policy benefits in the past year, which not only exceeds the company's premium income of 1984, but also our total income of 1982," he said.

The investment earnings on Sanlam's two market-value portfolios for pension funds were 49,6 per cent and 67,3 per cent respectively for the year ended 30 September 1987. Despite the fall in share prices after 30 September, the two portfolios still grew by 19,7 per cent and 34,2 per cent respectively in the fifteen months up to 31 December 1987.

Results

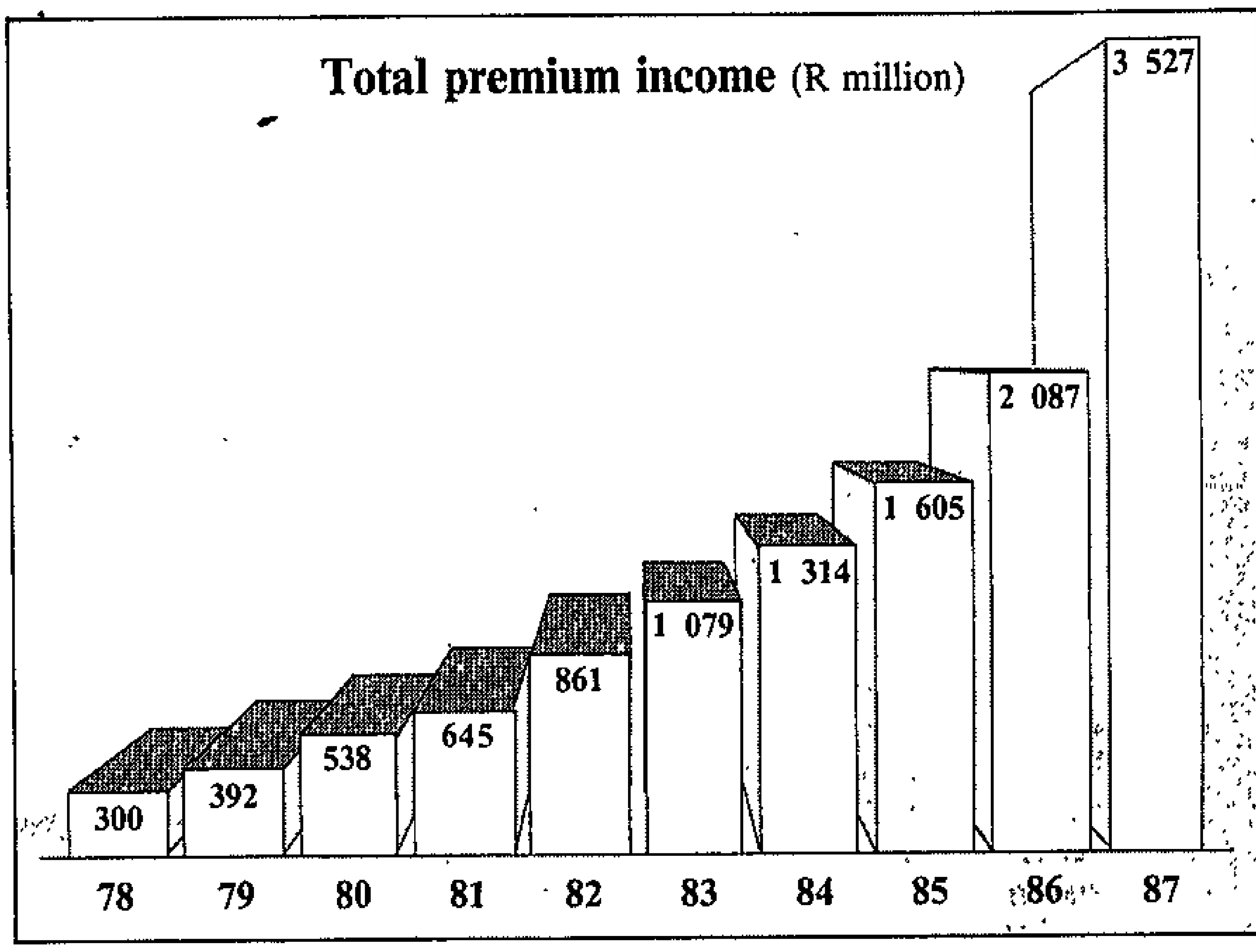
For the first time, Sanlam's financial statements include a valuation balance sheet this year, in which the chief actuary gives the results of his investigation into Sanlam's financial situation.

Dr du Plessis said he was satisfied with the report that showed an excess of assets over liabilities of R1 455 million. This reflects a sound financial position that indicates Sanlam's ability to also offer its policy-owners the necessary financial security.

The successes of 1987 spur Sanlam on in its mission to provide its policy-owners and pension fund clients with the highest returns, total security and excellent service.

"In this way Sanlam contributes towards a prosperous South Africa – and a better future for every South African," Dr du Plessis said.

Premiums hit new peak



SANLAM'S premium income of more than R3 500 million in 1987 was the highest ever received by a life assurer in a financial year. The table above indicates how the company's premium income has grown over the last ten years – clear proof of the trust policy-owners have in Sanlam and the future.

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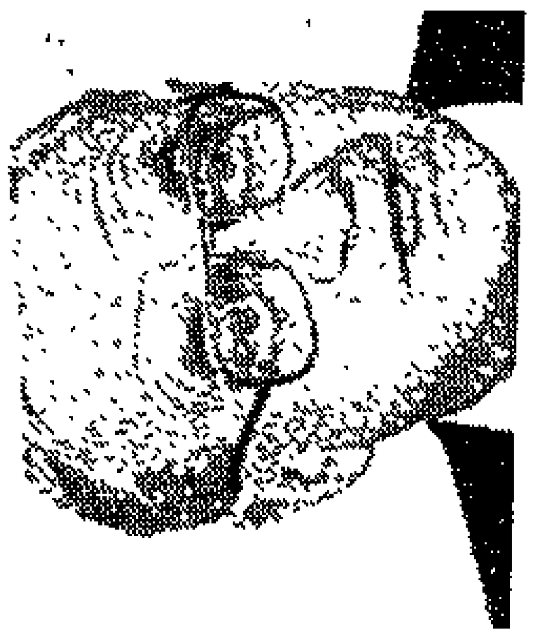
No more easy money



Dr Gerhard de Kock

Cape Times 9/3/88

By AUDREY D'ANGELO

THE days of cheap borrowing, intended to stimulate the economy, are over. Interest rates, including those on home loans, are certain to rise following an increase in the bank rate from 9,5% to 10,5% announced last night by the Governor of the Reserve Bank, Dr Gerhard de Kock.

The increase, intended to damp down consumer spending and reduce the demand for credit, will take effect today and may be followed by other, smaller increases in the course of the year.

It is certain to result in an increase of one percentage point in the prime lending rate which commercial banks charge favoured customers, from 13% to 14%. The man in the street is usually charged a higher rate than this by the banks and can expect a similar increase in the cost of his overdraft.

Tendency for demand

Competition between banks and building societies to lend money for houses and flats has been so stiff in recent months that the United Building Society — the largest in the country — recently said mortgage rates were not likely to go up in the short term.

However, increased demand for housing has almost certainly changed this situation. Dr De Kock said last night that "while building society mortgage rates should not be directly affected by the increase in bank rate as such, the prevailing tendency for the demand for home loans to outstrip the supply might well result in some upward adjustment in home mortgage rates".

The banks have already raised their prime rate by half a percentage point this year, in January.

But interest rates have been kept artificially low because the Reserve Bank wanted to strengthen the economy by stimulating consumer demand.

Now, as Dr De Kock made clear last night, he considers that demand has

To page 3

Interest rates set to rise further

(58) STAR 9/3/88

Finance Staff

Interest rates, including banks' home mortgage bond rates, are set to rise in the wake of the Reserve Bank's announcement yesterday that it was increasing its bank rate from 9,5 to 10,5 percent from today.

Most commercial banks have already indicated that they would increase the prime rate — the interest rate charged to their best customers — from 13 to 14 percent tomorrow.

Building society and commercial bank mortgage bond rates should not be directly affected by the bank rate. However, the demand for home loans is tending to exceed the supply and this could lead to banks increasing their rates later in the year.

There appears to be less pressure on building societies to raise their bond rates.

Trust Bank's senior general manager, banking services, Mr Kobus Roets, said while the bank had not yet made a decision, it was likely that some adjustments to mortgage rates would have to be made.

The building societies are also reassessing the situation as it affects both the investment rate and mortgage levels.

Further increases in the bank rate can be expected in the face of a further decline in the gold price and/or higher imports.

● See Page 17.

Reserve Bank move ends speculation

Bank rate goes up 1% to 10,5%

58

B/day 9/3/88

BANK rate, the rate at which the Reserve Bank lent money to banks, was to increase by 1% from 9,5% to 10,5% with immediate effect, Reserve Bank governor Gerhard de Kock said last night.

The commercial banks are expected to increase the prime overdraft rate — the interest rate charged to their best customers — by a corresponding 1% from 13% to 14% today.

The announcement of an increase in bank rate ended weeks of speculation as sharp rises in short-term interest rates squeezed banks' margins. The three-month BA rate moved to 10,80% last week and the Treasury bill tender rate moved to 10,23%, sharply higher than last year's short-term rates of about 9%.

Banks, feeling the pinch of the higher cost of funding, indicated to the Reserve Bank they wanted to increase prime by 1%.

The increase was delayed as monetary authorities sought confirmation of the economy's buoyancy.

De Kock said it was the market, not the Reserve Bank, which had led the rise in interest rates. The increase in bank rate was partly a technical adjustment to recent money market developments.

But it also signified the adoption of a less accommodative monetary policy stance. The Reserve Bank would not continue to pump credit into the money market, keeping rates at artificially low levels.

GRETA STEYN

De Kock said: "For some time now, the Reserve Bank, in order to promote economic growth, has actively pursued a policy of reducing the upward pressure on interest rates.

"But, in the changed circumstances now prevailing, there is a danger that excessive Reserve Bank credit creation would allow an inordinate rise in the money supply and in total spending, resulting later in new demand inflation, balance of payments difficulties and downward pressure on the rand in the foreign exchange market."

The rise in rates should not be interpreted as bad news, but should be seen as a sign of heightened levels of economic activity. De Kock said: "The rise in rates has definitely not come too soon. The economy is undoubtedly buoyant."

He said short-term rates such as the BA, call and Treasury bill rates, were unlikely to continue rising in the near future and might even ease. The market had already discounted a 1% increase in bank rate as bearish sentiment grew.

In future, bank rate would move more frequently and by small margins "in a low key and as a technical matter, of interest principally to money market experts".

With the Budget set to be presented next week, De Kock was confident the prospects were good for the right mix of fiscal and monetary policy.

Bond rate ris

First National Bank home loans to be 1 percent more tomorr

By TOM HOOD
Business Editor

Arg 9/3/88 (58)

A 16-MONTH holiday for home-owners will end tomorrow when First National Bank raises its home loan rate by 1 percent to 13,5 percent.

Senior general manager Mr Jimmy McKenzie said deposit rates paid to savers and investors are also likely to increase.

A home-owner with a R50 000 bond will pay R35 more a month — making about R603 — on a 20-year loan.

But about 80 percent of home-owners receive subsidised loans, so their actual repayments will be less than this.

Mortgage rates of other commercial banks, building societies and financial institutions are under pressure where they are linked to the banks' prime lending rate, which is going up by 1 percent.

Standard Bank, the first to announce a 1 percent hike in its prime lending rate today, said its home-loan rate was pegged to 12,5 percent up to the end of June, but no decision has been taken yet about an increase.

Stand still

Volkskas said prime and other overdraft rates would rise by 1 percent. Mortgage rates are unchanged.

For 16 months home-owners have seen their monthly repayments stand still.

The repayment on a R50 000 bond dropped from a high of R970 at the end of 1984 to below R600. Rates fell from a peak of 25 to 12,5 percent.

The long-expected end of the interest rate holiday dawned yesterday when the Reserve Bank announced an increase of 1 percent to 10,5 percent in the official bank rate — the rate it charges commercial banks and financial institutions.

Fears of an explosion in spending and demand for credit prompted the Reserve Bank to act.

First National Bank said it will increasing its prime overdraft rate from 13 percent to 14 percent from tomorrow, a change prompted by the increase in money market rates and the rise of one percent in the bank rate.

This also reflected the recent sharp increase in the demand for credit and the repayment of foreign capital by South Africa.

Farmers

More expensive funds will be particularly harsh for farmers hit by drought and floods. But a spokesman said the bank would continue to support it's farming clients "to the full".

First National Bank has about R2-billion in home loans and expects the figure to rise to R3-billion by the end of the year.

Mr McKenzie said: "This is the first adjustment to the home loan rate in 16 months.

"We welcome the statement by Dr de Kock, governor of the Reserve Bank, that there should be more frequent movements of a smaller magnitude in the bank rate — both up and down.

"Lending rates should be market-related and the adjustment an ongoing function in response to the overall liquidity in the market."

Fierce competition between banks and building societies has kept lending rates low.

Overdraft

Societies have been forced to raise their deposit rates in order to draw in enough money to fund the house-buying boom.

Some are now paying a higher rate of interest to depositors than they are receiving from home loans.

The man-in-the-street will soon also have to pay more for his overdraft, while hire-purchase charges and all interest rates are also likely to rise.

Dr de Kock disclosed last night that the economy grew at an annualised rate of 5 percent in the fourth quarter of last year.

● Party over — see page 11.

Bank rate up in move to curb spending

58

D/D 9/3/88.

Daily Dispatch Correspondent

JOHANNESBURG — The days of cheap borrowing, intended to stimulate the economy, are over.

Interest rates, including those on home loans, are certain to rise following an increase in the bank rate from 9,5 per cent to 10,5 per cent announced by the governor of the Reserve Bank, Dr Gerhard de Kock, last night.

The increase, intended to damp down consumer spending and reduce the demand for credit, will take effect today and may be followed by other, smaller, increases this year.

It is certain to result in an increase of one percentage point in the prime lending rate which commercial banks charge favoured customers, from 13 per cent to 14 per cent.

The man in the street is usually charged a higher rate than this by the banks and can expect a similar increase in the cost of his overdraft.

Interest rates have been kept artificially low because the Reserve Bank wanted to strengthen the economy by stimulating consumer demand.

Competition between banks and building societies to lend money for houses and flats has been so stiff in recent months that the United Building Society said recently that mortgage rates were not likely to go up in the short term.

However, increased demand for housing has almost certainly changed this situation.

Dr De Kock said that "while building society mortgage rates should not be directly affected by the increase in the bank rate as such, the prevailing tendency for the demand for home loans to outstrip the supply might well result in some upward adjustment in home mortgage rates".

His statement co-incides with an announcement yesterday by the National Association of Automobile Manufacturers of South Africa that sales of new cars had soared by 20 per cent in February.

Car sales are always considered a significant barometer of the strength of the economy and of consumers' willingness to spend.

Dr De Kock also added that in future the bank rate would be changed frequently and by small margins, moving up and down in line with changing conditions in the short-term markets.

Car sales up p9

UBS loan rate jumps

Cape Times 10/3/88

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THE United Building Society, the country's biggest, yesterday announced an immediate 1,5% jump in its rate for new mortgage loans from 12,5% to 14%.

Existing bondholders paying rates below 13.5% will have their rate increased to 13.5% from May 1.

The society said in Johannesburg the move was prompted by "a sharp increase in the cost of funds". It declined to comment on whether strong demand had played a role.

Reserve Bank figures show that the demand for building society mortgage loans soared by 33% last year compared with 1986, despite competition from the banks.

First National Bank also announced bond rate increases yesterday following an increase in the bank rate to 10.5% announced by the Governor of the Reserve Bank, Dr Gerhard de Kock, on Tuesday.

Other banks and building societies are either expected to follow suit soon or are keeping a close watch on the situation.

First National Bank is adjusting its home loan rate to 13.5% (12,5%) from March 24.

Syfrets Bank, which has always geared its mortgage bond rates to the prime rate, will increase its rate for home loans to 15%, the highest of all rates at present. According to Investment Editor Lawrence Tothill, managing director Mr Brian Button acknowledged that Syfrets Bank would be out of line "but then rates have been artificial for some while as the banks jostled to get a share of the market. The banks and the building societies have been taking a bath with cheap loans and expensive deposits, but that will change in the next four to six months.

"We will have clients who will query the position, but mortgage bonds have to be viewed as long-term and not short-term loans."

Standard Bank has not yet made a decision regarding its home loan rate, but the managing director of Standard Bank Financial Services, Mr Dennis Matfield, assured existing home loan clients and those who had already applied for home loans that the bank guaranteed that the rate would remain at its current level of 12,5% until June 30.

The assistant general manager (loans) at NBS, Mr Trevor Olivier, said the NBS was happy to hold its rate at 13,5% for the time being.

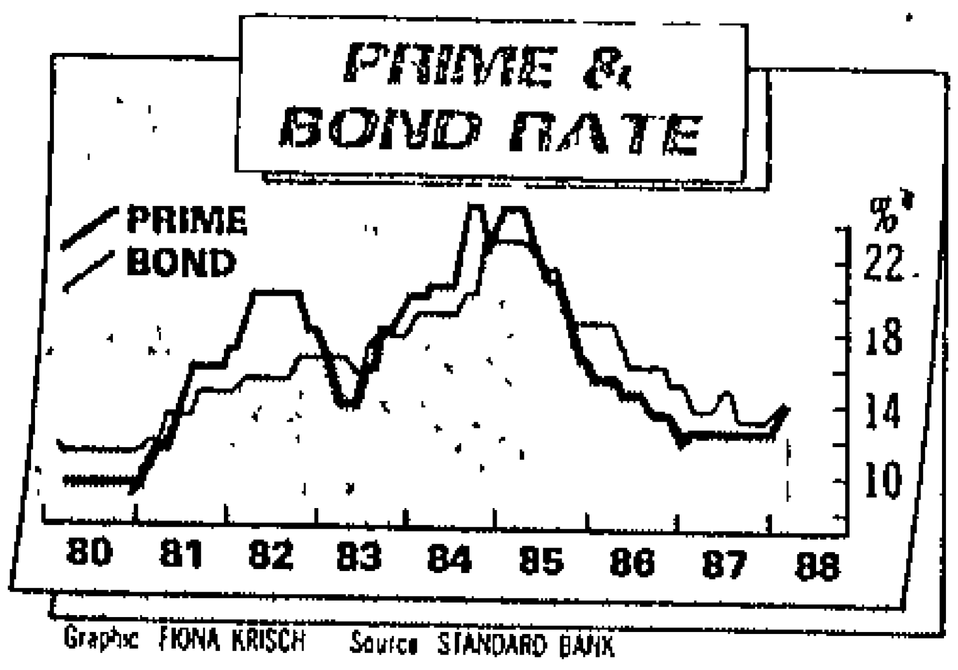
An Allied spokesman said that the building society would not increase its bond rate and Nedbank has announced that its home loan rate will remain unchanged.

While extensions of repayment periods will be negotiated, and taking into account subsidies and the fact that every bond is different as to period still to run and the rate involved, a rule of thumb might be an additional R35 or R40 a month needed on a R50 000 bond over 20 years.

The rise in interest rates will benefit those who live on fixed interest incomes from investments.

Business D
RSDAY, MARCH 10 1988
50c (45c + 5c tax
and CAPE 80c (71c + 9c tax)
A TI

UBS and FNB increase bond rates



Graphic FIONA KRISCH Source STANDARD BANK

STILL mounting pressure on home loan rates caused the United Building Society and First National Bank to announce bond rate increases yesterday.

Other banks are expected to follow suit and building societies are keeping a close watch on the situation.

Pressure on the bond rate is the result of both the increased cost of funding and strong demand for bonds.

The surge in the demand for home loans has complicated the bond war as

GRETA STEYN

building societies battle to cope with the public's need for home finance.

Reserve Bank governor Gerhard de Kock, announcing an increase in the Bank rate earlier this week, said the tendency for the demand for home loans to outstrip the supply could cause mortgage rates to rise.

B/day 10/3/88

● To Page 2

(58)

R1,3bn in loans guaranteed

UBS, First National bond rates increased

(9) B/day 10/3/88

● From Page 1

The UBS yesterday announced an immediate 1,5% increase in its rate for new mortgage loans, from 12,5% to 14%. Existing bondholders paying rates below 13,5% will have their rate increased to 13,5% from May 1.

The society says the move was prompted by "a sharp increase in the cost of funds". It declined to comment on whether strong demand had played a role.

Reserve Bank figures show that the demand for building society mortgage loans soared by 33% last year compared with 1986, despite competition from the banks.

FNB increased its home loan rate to 13,5% from 12,5% with effect from March 24. The move by FNB has set pattern for other banks to follow.

The banks acknowledge that the sharp rise in short-term rates is squeezing their margins and that an upward move can be expected soon.

Building societies other than the UBS, while not committing themselves to keeping their rates at current levels for a fixed period, indicated that no rate adjustments were imminent.

D/D 10/3/88

Mortgage rate up

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JOHANNESBURG — Mounting pressure on home loan rates caused the United Building Society to increase its bond rate yesterday.

Other building societies, while not committing themselves to keeping their rates at current levels for a fixed period, indicated that no rate adjustments were imminent.

The UBS announced an immediate 1,5 per cent increase in its rate for new mortgage loans, from 12,5 per cent to 14 per cent. Existing bondholders paying rates below 13,5 per cent will have their rate increased to 13,5 per cent from May 1.

Earlier yesterday First National Bank also increased its home loan rate after all major banks had raised their prime lending rates.

Pressure on the bond rate is the result of both the increased cost of funding and strong demand for bonds. —DDC.

See also page 7

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Increased competition will test bankers' abilities

THE popularly-held belief that merchant bankers are fleet-footed, innovative and able to think on their feet will be severely tested in years to come.

Volkskas Merchant Bank says traditionally these bankers have concentrated on wholesale transactions in their lending activities, have been traders in the financial markets, acted as agents for issuers of fixed rate securities, and, because of expertise built up over many years and placing power, have had a competitive advantage in the field of company finance including mergers, takeovers, rights issues, JSE listings, reconstructions and providing advice on a consultation basis.

VMB says with recent amendments to the Banks Act of 1965, apart from discount houses whose activities are prescribed by the Act and the fact that a financial institution which wants to introduce cheque account facilities has to obtain permission from the authorities, the Act no longer differentiates between different financial institutions, and doesn't demarcate activities in which they can or cannot engage.

So any financial institution registered under the Banks Act can engage in any banking service it wants to provide to customers — taking into account the restraints mentioned.

Building societies have entered the banking field through going public and acquiring or forming subsidiaries registered under the Banks Act. Also, most banks have capital and reserves surplus to their requirements in terms of the Banks Act.

For this reason, competition on the lending side is intense, margins are under pressure and are likely to remain so for the foreseeable future — unless the economy moves into a sustained growth phase, says VMB.

Merchant banking

A Business Day Survey

Written by MELANIE SARGEANT

Pyramid firms top the pops

THE launch of pyramid companies and cash shell operations are just two of the many activities which are expected to dominate merchant banking this year.

Creating pyramid companies will allow expansion of trading operations without controlling shareholders losing absolute control of the business, and this will be one of the corporate finance activities in which Senbank expects to be involved this year.

Senbank corporate finance GM John Cutten says cash shell operations or reverse listings will also be an important part of business in 1988, because there are advantages coupled with this type of capital-raising transaction during poor market conditions.

As far as rights issues are concerned, he says there are a number of listed companies which either were not properly capitalised during the listings process or because of rapid growth now need additional equity capital. "With our underwriting ability, we can organise capital raising via rights issues.

"Of course, the instrument used must be tailored to be attractive to institutional investors, and much favoured at this stage are convertible debentures. We have also been promoting flexible financing packages, including joint finance companies, property leasebacks and tailor-made financial packages."

Opening trade

Cutten also says because of increasing competition in the corporate finance arena, Senbank tries to invest in the risk portion of management buy-out and investment banking situations, and is currently examining propositions.

He says there is no reason why trading in large blocks of share and equity instruments should be the sole preserve of stockbrokers. "With the advent of computerised terminals, anybody should be able to trade lines of shares. A very adequate market now exists in Eskom and government stock, for instance, and this is based on such technology.

"I reckon the trends in New York and London of electronic trading rapidly replacing the floor of the stock exchange, and the merchant banks becoming major players in trading all kinds of instruments certainly before the year 2000."

As far as privatisation is concerned, Cutten expects Senbank to be an important advisor and capital raiser in this area because of its good relationships with the institutions to be privatised.

Death of listings boom brings new opportunities

WITH Wall Street's October 1987 crash overspilling onto other major stock markets, a quick death to one of the most rampant bull markets of modern times was ensured.

But it also brought an abrupt end to a listings boom that had been a substantial income generator for SA's merchant banks.

But as Trust Bank corporate financial services assistant GM Simon Samuels puts it: "While most of the 'first division' merchant banks are linked into the major commercial banking groups, it is gratifying to know that their survival is guaranteed through their ability to react quicker to market changes than their larger cousins by identifying and exploiting new avenues as they move into either debt or equity markets."

The adage that "a commercial banker lives off his client base and a merchant banker lives off his wits" is very relevant to the changed environment in which they work today.

There are a number of areas in which opportunities are expected to materialise, and many of these are directly related to the 1986/87 listings boom.

However, in the corporate finance arena, it's noted by many that because of share prices plummeting, there is much scope for merger and acquisition activities. Soundly structured companies with an ability to raise or place debt at the right

☐ SAMUELS

price and in reasonable quantities have an opportunity to buy — at reasonable prices — companies which have been made vulnerable by the slack share market, jittery investors, and values reflecting a discount on net asset value.

"On the back of merger and acquisition activity, the corporate banking areas of the merchant banks can look forward to a busy period. Innovative debt packaging could become a key area of activity. Few will argue that there is not a shortage of product within this area, particularly following the 'standstill' where BAs and call loans represent virtually the only ability of clients to raise substantial short-term money at rates below prime," says Samuels.

The adaptation of international debt products to the needs and requirements of the local market, primarily via disintermediation or securitisation of one sort or another, represents an obvious challenge.

Some exotica such as a RUF or Revolving Underwriting Facility, a NIF or Note Issuance Facility, a Lyon or Liquid Yield Option Note or a Raft which is a Revolving Acceptance Facility by Tender, could become the stock in trade for both corporate treasurers and merchant bankers alike.

However, Samuels says the development of products like these in SA hinge on the creation of a true "commercial paper" market comprising non-bank endorsed promissory notes where investors take the performance risk.

This, perhaps the most visible disintermediation tool, hinges on all of the major banks — commercial and merchant — agreeing on a satisfactory "credit rating" system for major corporates. These would be the equivalent of a Moodys or Standard & Poors.

If banks cannot agree, the supervisory body would have a clear role to play. The success of "commercial paper" programmes depend largely on the placing power of the agent or bank. An area where the merchant banks — through their corporate finance and capital market operations — are historically strong. Similar problems need to be addressed in the medium term market.

In the treasury arena, it's widely held that the development of both interest rate swaps and a secondary market in such instruments is long overdue.

Together with collars and caps, these products in an uncertain interest rate environment are likely to have growing appeal to corporate treasurers as they seek to add a spread of risk to debt portfolios concentrated at the short, floating-rate end.

Pattern

"A clear pattern emerges that future merchant banking trends could lead in the direction of the traditional mergers and acquisition/corporate finance function driving historically subordinate departments to greater levels of sophistication in creating and structuring debt.

"But this may not be the entire story: in Europe, we have seen 'price' obsession on the part of treasurers in major corporates forcing bankers to become more transaction orientated. If there's a similar pattern in SA with relationship management becoming an overpriced luxury for major corporates, then the banking and treasury areas of merchant banks — which are already more transaction driven — could come into their own," says Samuels.

☐ BARNES

Gilt market is expanding dramatically

AMONG SA's financial markets, it is the gilt market which is undergoing the most rapid and dramatic changes.

UAL Merchant Bank GM David Barnes, who heads the group's bond trading department, says the first major change in this area of the market was the development of the secondary market.

"This was mainly assisted by the development of the gilt trading floor and later by Eskom's commitment to market its issues more aggressively. Before this, we had an active primary gilt market but a relatively stagnant secondary market.

"Eskom's move ensured the increasing sophistication of the parastatals in dealing with gilts. Today, most parastatals have their own dealing rooms and make markets in their own securities. This has lowered the cost of their borrowing and also greatly improved the marketability of their debt instruments."

Eskom, Sats and the Post Office have been market leaders in many respects, and they have made a major contribution to increasing the level of efficiency and competition in the fixed interest market.

Barnes says with the increased volume of gilt business being handled today, much of it is being transacted off the JSE floor. "The participants in the gilt market are all feeling the pressure of the increased volumes which are being contracted now.

"The market has grown exponentially, and it is generally felt that the current structures are inappropriate to the type and volume of business being transacted. For this reason, we are looking forward to the final reports of the Stals and Jacobs committees and are optimistic that some agreement will be reached about clearing and settlement systems."

Barnes says UAL has well-established international connections and a significant position in the financial rand market, and has introduced a number of foreign investors to SA's gilt market. "Their investments are significant and an indication that our gilt market compares favourably with overseas markets," he says.

Gearing up to hi-tech equipment

THE financial sector comprises an ever-increasing market for hi-tech equipment, with increasing competition demanding more efficiency and less paperwork.

This sector comprises the largest single market for Unisys, and last year it made up for 31% of all Unisys' business. Of this, 80% emanated from the banking segment.

Unisys says it is generally recognised the banking industry could not function without data processing (DP), and in the future DP will offer the means to implement and support strategies for survival.

And the achievements of DP have been considerable.

"Gains in productivity have been achieved, despite considerable obstacles associated with innovation (banks were among the first organisations to install extensive on-line networks), with scale, with security, and with DP resources.

"DP has been of great benefit: one bank estimates that without DP, its expenditure would have been 66% greater than it currently is," says a Unisys spokesman.

And automation has become an important element in banking because it can be used to support marketing functions, to help measure and evaluate market behaviour, to assist planning of new products and in selling and support of new products, to monitor market acceptance and improve client service, he says.

"Automation can provide information necessary to identify, evaluate and price the element of risk in markets, currencies, customers and projects."

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Listings figures analysed

Focus falls on corporate activity

THE flurry of activity surrounding the 217 new listings during 1987 seems more than justified with some R2,8bn raised from institutions and the public.

But, says executive director of UAL Merchant Bank Tim Sewell, the figures are somewhat distorted.

"On analysing the figures it is evident that of last year's 217 listings, 80 were Development Capital Market listings, where the average amount raised was only R1,7m."

Indeed, the four mining issues alone accounted for 36% or R1 020m of the total R2 812m raised. UAL's analyses show that the three building society issues accounted for a further 21% of the total. The industrial and financial listings raised R1 070m for an average R8,2m per issue or 38% of the total.

"In corporate finance terms, the past year can be described as the year of listings, and this year we expect to see a resurgence of merger and acquisition activity, and anticipate that this will be followed fairly soon by rights issues as companies recognise the need to finance their future growth," Sewell explains.

He points out that companies today are soundly capitalised and probably have relatively little debt.

"They have spent the past few years consolidating their businesses and tidying up their balance sheets."

Having been involved in raising 14% of the total capital raised during the 1987 listings, Sewell says UAL will now be active in assisting companies raise funds for future growth.

BECAUSE of the stock market "melt-down" from October last year and its dramatic effect on market prices and investor sentiment, it's widely held that more attention will be focussed on corporate activities than on short-term market-price performances.

□ COHEN

Columbia Consultants' corporate finance division's Rodney Cohen points out that an analysis of mergers and acquisitions on Wall Street and the London Stock Exchange indicates that corporate activities continue to flourish, albeit at a slower pace than the frenzied times of 1986-1987.

"Corporate activities on Wall Street such as the $5,1bn Kodak acquisition of Stirling Drug Inc and the $3,28bn American Home Products takeover of AH Robins indicate the magnitude of mergers and acquisitions currently taking place. This trend shows no signs of abating, with events such as the $5,84bn bid by Campau Corp for Federated Department Stores currently attracting major investor interest."

He points out that the JSE has experienced a substantial decline in new listings, with only five companies having listed this year. "Current indications are that mining exploration companies and property trusts will be dominant among the new listings this year."

Susceptible

The 1986-1987 listings boom attracted many sound businesses to the JSE, and Cohen reckons these will serve as the "nerve centre" of corporate activity this year. "For this reason, we view mergers and acquisitions on the JSE as an exciting opportunity for corporate expansion and diversification, despite prevailing stock market conditions."

And while mergers and acquisitions take place across a broad spectrum of corporations, Columbia sees some categories of companies to be particularly susceptible to these activities.

These include:

□ Companies with high growth potential but limited financial resources. These have exciting growth prospects, depth of management and formulated strategic plans. However, expansion is inhibited by financial constraints and a limited scope for "paper" acquisitions in view of depressed JSE conditions. In these circumstances, Cohen says it would be beneficial to undergo a merger or acquisition with another listed company.

"The merger could be structured using a share-swap mechanism so it is mutually beneficial to all shareholders, taking account of the prospects, earnings and net asset values of the companies concerned. In addition to financial considerations, the merger or acquisition may facilitate considerable rationalisation benefits, increased market share through horizontal and vertical integration, and added management depth;

□ Companies looking for a "big brother" are characterised by hands-on management which may be relatively inexperienced in developing corporate strategies to maximise its company's growth. Although it is aware of the high priority that investors place on strategic growth, Cohen says the management team is often limited by operational time constraints.

Merchant banking

A Business Day Survey

"Unless these companies acquire further management depth or assistance from external specialists, the corporate potential may be limited to organic growth.

"Thus, a merger with a company with complementary strategic strengths in a related industry may be an attractive solution. However, such companies are usually more susceptible to a takeover by a larger conglomerate," he points out;

□ Companies with serious problems are often ideally suited to mergers or aquisitions. "These are often plagued by severe finance constraints and an unfocussed strategic direction.

"Funds raised from the listing may have been used to repay debt, while insufficient resources were allocated towards funding forecasted increases in business activity.

"Usually, these companies operate on a negative cash flow cycle, which puts severe financial constraints on their ability to achieve forecast turnover levels. Although the forecasts are attainable from an operational viewpoint, the financial constraints force the company to become very vulnerable to any large upturn in interest rates.

"Raising funds via rights issues will only be feasible for those with a strong institutional following."

This situation can be an ideal takeover opportunity by a large corporation with the capacity to provide the necessary finance and strategic management

Cohen says these takeovers can take the form of a cash offer or share swap, the latter giving the vendors a more marketable security in a larger corporation;

□ In a merger or acquisition between listed companies there is usually a de-listing of certain companies which are surplus to the needs of the newly-reconstructed group. Such companies can be retained as cash shells or delisted from the JSE boards.

Cohen points out that recent application was made to delist Autopage in terms of a takeover offer by an unlisted buyer. Although this is unusual, the frequency of such delistings may increase if another drop in market prices creates bargain opportunities for unlisted acquirors

Firms aim for an acquisition path in 1988

SEWELL

THIS year is likely to be one in which ambitious medium-sized companies listed on the JSE gear themselves up to become the growth giants of the 1990s.

According to UAL Merchant Bank executive director Tim Sewell, this year will see a flurry of mergers and acquisitions — not among the major groups such as Barlows and SA Breweries, but rather from medium-sized growth-oriented companies which have been listed for a few years.

He says: "Many of these companies are trading well, are reasonably geared and have excellent management and profit prospects. We expect these companies to be on the acquisition trail, looking to buy control of smaller companies, probably companies which were listed on the JSE during the past 18 months.

"By acquiring smaller companies which may not be quite as well capitalised but which have exciting prospects, these growth companies are ensuring their futures as they will be able to expand their operating bases. An excellent example of this is FS Industries which, by acquisition, has become a group of significant size and will be a major group of the 1990s."

Through growth by acquisition, Sewell says these companies will play a more meaningful role in SA's economy.

He points out that during 1987, many smaller companies — both listed and private — were not for sale even at inflated prices. "Their owners thought the boom would continue and that they could command even better prices in 1988. Now they face the realities of 1988 and the outlook of the adverse effect of higher interest rates."

He reckons that with the changed market conditions, the vendors of these companies will have lowered their sights and be prompted to try to sell out.

"Before the major groups in SA embark on takeover negotiations they have to be assured that either the acquisition target has a clearly identifiable fit or is of sufficient size (R100m-plus) for an unrelated acquisition to be worthwhile."

Senbank challenges

CUTTEN

THIS year will be one of creating new business opportunities and marketing for major corporate finance player, Senbank.

According to the bank's GM, Corporate Finance, John Cutten: "1988 will be a difficult year as there won't be the 17 listings which we handled last year or the many rights issues which we had in 1986: This is going to be the year of ideas and marketing for business."

Like others, Senbank has lost experienced consultants from time to time, but Cutten says a policy of ongoing recruitment has ensured the bank has always been able to effectively service clients.

Senbank's corporate finance department now has a full complement of 10 chartered accountants and lawyers with necessary back-up. "Although our staff are relatively young, as far as intelligence and capability are concerned they can comfortably hold their own against the competition," says Cutten.

And Senbank does not intend laying off any staff this year as has been the trend in New York and London after the October crash. "We are actually recruiting at present to augment our team, and are investing in further enhancing the knowledge and experience of our staff.

"We will remain a major player in the corporate finance industry because of our strong underwriting ability provided by long-established relationships with institutional investors and the ability to offer finance to cement transactions," he adds.

SHARES DISCOUNT TEMPTS

THE CURRENT average discount of 4,1% on the issue price of shares listed last year has created a shopping temptation for potential predators.

According to First Corporate senior vice president Richard Derman: "Given the current state of the market, mergers and acquisitions have become the order of the day."

An analysis by sector of newly listed companies shows that those most affected by the market crash and thus reflecting the biggest discounts to issue prices are:

☐ Insurance — 26,8%;
☐ Paper and Packaging — 24,1%;
☐ Furniture and Household — 18,1% and;
☐ Printing and Publishing — 15,5%.

But Derman cautions would-be buyers against issuing reduced value paper during the acquisition trail: "The ability to buy assets more cheaply because of the market downturn and consequent reduced PEs is a real business opportunity, if cash is available for the purchase and the acquisition is a synergistic addition to a group portfolio. Share swaps on reduced-value shares obviously remove the bargain element from the transactions."

Companies ideally placed to take advantage of the downturn are those with low gearing levels and excess capital. If paper is to be issued in an acquisition, a rights issue allows existing shareholders to share in the longer-term benefit of the purchase.

In the case of newly listed companies making acquisitions, issuing shares to vendors at prices below their listing price may be cosmetically unacceptable to existing shareholders. However, the ability of controlling shareholders to follow their rights in an issue is a major consideration if reduced control is undesirable.

Derman says investor inertia is a crucial factor at this stage of the market. "Many shareholders are disillusioned — evidenced in the market discounting of the highly satisfactory operating results that have been turned in by companies across the board and including many of the newly listed companies.

"In funding acquisitions by way of a rights issue, companies need to look carefully at their shareholder base. Is there a good institutional spread and large holdings with solid shareholders? Will the issue be supported on the basis of future earnings and yields brought about by the acquisition?"

The alternative of acquiring share investment by way of borrowing is tax inefficient, as the interest cost cannot be offset against dividends, unless accompanied by a capital restructuring of the transaction. This can be achieved through innovative packaging of the deal.

Targets for predators are those entrepreneur-driven operations supported by substantial assets and earnings, and who are achieving their forecasts and currently have a reduced market value.

"There are very good buys in the market, but companies should take care not to acquire simply to improve their profile. Discounted share prices are being experienced by most of the market, including blue chips. Acquisitions represent long-term commitments based on earnings and yields. They need to be responsibly funded and motivated by sound business principles," he adds.

Listing papers: 'poor standard'

BEFORE Black Monday, the JSE saw a spate of new listings, the likes of which it had never experienced before. With the financial criteria being relatively low, many companies qualified for DCM or even main board listings.

Sometimes two or three companies listed a day, and against this background of abnormal activity, the listing documents submitted to the JSE for informal comment were often of a poor standard.

According to Deloitte Haskins & Sells partner Frank d'Amico, who recently completed a six-month secondment to the JSE: "The sub-standard documentation was often due to lack of care in preparing and drafting the listing documents and window dressing."

He says the type of errors which arose through careless preparation of the documents were numerous and often embarrassing. They included:

☐ Summation errors — often in the accountants' reports;
☐ Errors in calculating dividend yields, earnings yields, PE ratios, dividends per share, and earnings per share;
☐ Incorrect references to Schedule 3 of the Companies Act;
☐ Incompleteness, one example of which was balance sheets and profit histories with no figures;
☐ Failure to submit for review some significant agreements referred to in the listing documents and;
☐ Incorrect spelling, incorrect grammar and typing errors.

D'Amico says deficiencies or errors of a "window dressing" nature are more difficult to detect, although they have more serious consequences. They included:

☐ Calculating earnings per share by using the number of shares in issue after the proposed listing rather than the weighted average number of shares in issue, thereby distorting the trend in earnings; (See graph);
☐ Failure to disclose the promoter's interests;
☐ Inconsistent treatment of similar items or events. For instance, adjustments made to the profit history eliminating forex losses incurred where forward cover was not taken out — thereby implying that in future forward cover would be taken out;
☐ Overly-optimistic profit forecasts;
☐ The adoption of accounting policies which are convenient rather than appropriate;
☐ The balance sheet in the body of the prospectus was often different to that in the accountants' report and the differences could not always be explained;
☐ Adjustments to the financial information which are questionable. For instance, adjustments relating to certain forex losses and discontinued operations;

D'Amico points out that in addition to these deficiencies, other practices — although not illegal — detracted from the quality of listing documents. These included:

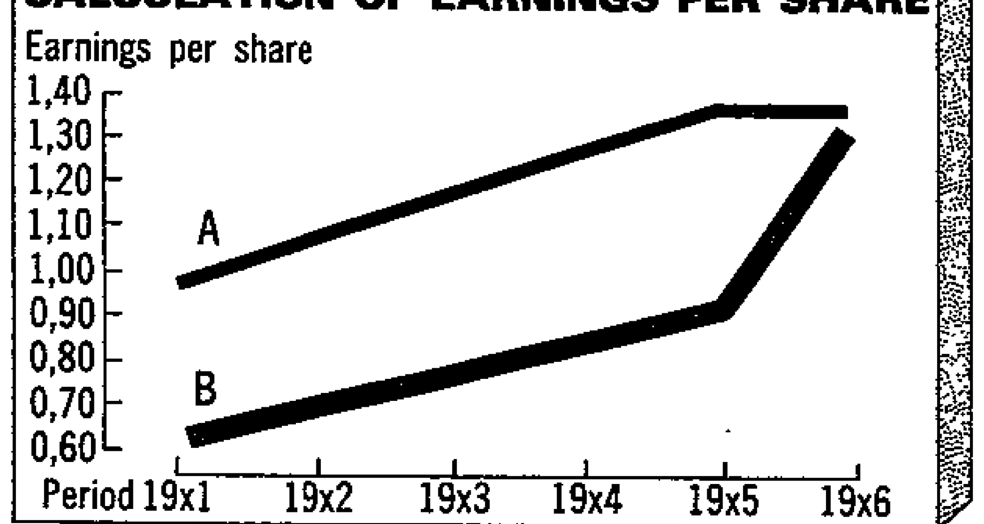
☐ The non-disclosure of significant adjustments made to the financial information;
☐ Creation of significant shareholders' loan accounts which would be settled from the proceeds of going public;
☐ Application for DCM listings — which are characterised by higher PE ratios — where the company clearly qualified for a main board listing;
☐ Application for listing in a sector which is favourable rather than appropriate.

"It's unfortunate that the listing documents were often deficient and of a poor standard, as applying companies probably paid a fortune to professional advisers to compile and review them," D'Amico says.

"Also, current legislation — or the lack of it — is ineffective in putting an end to this sorry state of affairs."

It's interesting to note that the JSE is considering issuing a practice note, which needs approval from the listings committee, but which deals with the accountants report on prospectuses and pre-listing statements.

CALCULATION OF EARNINGS PER SHARE



Source: DELOITTE HASKINS & SELLS Graphic: JOHN McCANN

Capital market grows

DURING the past couple of years, SA has seen a great increase in turnover on the local capital market.

Volkskas Merchant Bank (VMB) says this increased turnover has been accommodated by more sophisticated dealing and support systems and technology.

Merchant banks have traditionally played an important role in these markets, and VMB reckons their importance will probably increase during this year. But, simultaneously, SA's capital market has undergone a transformation not yet completed. In broad terms, this has occurred in two major developments, the first being the fading of the difference between primary and secondary capital markets.

An increasing role played by the secondary capital market in mobilising capital has occurred, and VMB says it's fair to assume that this transformation will continue and that traditional issuing and underwriting will be made more informal, more efficient and cost effective. For this reason, 1988 will see more innovation and sophistication in this field.

On the secondary capital market, VMB says new instruments or new trading techniques will be developed. "The option market has developed rapidly, and will be used by more participants this year.

"Traded options from Sats and Eskom originated in 1987 and the market for these instruments is rapidly increasing, either as hedging instruments or as plain trading instruments for profit making.

"The development of the electronic secondary capital market and the quoting of two-way prices by many merchant banks and other financial institutions, has resulted in a more open and efficient market. The small spreads between bid and offer prices quoted on the screens will remain a feature of the secondary capital market this year," says a VMB spokesman.

And VMB hopes that differences between the banks and the JSE which prohibit the Gilt Clearing House and the Settlement House being used by most participants, will be solved during this year.

Managements able to raise funds for MBOs

Merchant banking
A Business Day Survey

THE increasing popularity of management buyouts (MBOs) in SA has given management more power and authority, mainly because of the willingness of financiers to finance MBOs.

First Corp senior vice-president Andre Roux says: "If a management team believes very strongly in its business, it is possible for the team to raise large sums of capital. Access to capital is no longer the preserve of well-financed corporations, but also lies within the grasp of those with demonstrable management capability."

The availability of capital for MBOs is the result of their demonstrated success record. MBO transactions have been stimulated through disinvestment by overseas multinationals, the need of certain companies to deploy capital resources, and have been aided by a more aggressive stance by management teams.

Roux says growth in MBO transactions, while contributing to healthy competition in the mergers and acquisitions market, should also have important spinoffs for the economy itself. "Because of the need for survival, buyout companies are giving the economy a competitive push.

"If somebody in the market place is trying harder, you have to try harder to keep up with them. MBO companies have tended ultimately to be new-job creators.

"Inevitably, at the beginning of an MBO, a shakeout is likely to occur, but there is evidence that once the debt has been paid off, there has been creation of new real jobs. I doubt whether the absorption of a buyout target by one of the larger conglomerates would have provided the same results. Finally, there are indications that buyout companies have been able to improve their productivity.

Moderate growth

"While such companies in the early stages of the MBO are constrained because of the need to pre-empt cash flows in favour of debt amortisation, there is evidence, once this critical period has been overcome, of a meaningful increase in productivity," Roux says.

But MBOs are not for everyone. The best companies for an MBO are basically pretty dull, with moderate growth rates, predictable cash flow, secure market positions and an established track record.

The most important intangible element in a successful MBO deal is the quality of the management team. "Financiers are reluctant to back MBOs unless the principal managers agree to remain and have a stake in the target company," says Roux.

The demands placed on the management group are extensive. Initially, they will have to organise and sell investors on the merits of the transaction. They will have to learn to live with the risks and constraints of debt, adjusting the corporate culture accordingly and preparing for the day when their financiers wish to realise their investment.

Difficult management decisions begin with selecting the managers to include in the MBO team. Once a manager becomes an investor, promotion, admission of new management investors and dismissal become far more complex problems because of the rate of appreciation in the value of management's stake. In personal terms, the burden can be substantial.

It is not easy for managers — especially those with dependants — to commit their personal resources to a business venture, but while unavoidable, it is also potentially very rewarding.

Quality

When the MBO transaction has been concluded, management must address new strategies for an old business. A far greater portion of management time will focus on managing the balance sheet, rather than the income statement, with attention being given to debt and working capital management. Cash flow becomes the main focus of attention.

Growth will not be an automatic option due to cash flow constraints. Product and market development strategies will have to be rethought so as not to put a strain on the company's limited resources.

Suppliers must be assured that the MBO company does not jeopardise their payments and customers need to know that product quality will be maintained.

"After focussing on these initial operating strategies, management will have to create strategies for corporate development that will be phased in as the debt burdens reduce to acceptable levels. This return to normal may take some time, but it must be included in management's thinking, it cannot ignore the future," says Roux.

How to assess a potential buyout

WHILE there is no formal research on the success or failure of management buyouts (MBOs) in SA, there are some useful pointers for potential candidates.

According to a pioneer and established market leader in the MBO field, First Corp assesses a potential MBO on:

☐ The capabilities and composition of the management team, with particular emphasis on commitment, depth of experience and ability to adapt to changing business needs;
☐ Detailed assessments about the nature and prospects of the MBO target being financed.

According to First Corp's senior vice president, Andre Roux: "We believe that management should have a meaningful equity interest in the MBO target and that short- and long-term remuneration incentives should be consistent with corporate objectives, enabling management to reduce their personal debt and produce that extra edge to ensure the MBO's success."

When the management team is capable and meaningfully motivated, when the transaction is efficiently structured, and when an experienced group of financiers and outside investors have been assembled, Roux says the MBO is a powerful transaction.

"The future of the concept seems only limited by the judgment of the key players."

BUSINESS

D|D 10/3/88

Banks up prime rate

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EAST LONDON — The days of cheap borrowing ended yesterday when major banks announced increases in the prime rate on overdrafts with home bond rates also going up in the wake of the change in the money markets and the Reserve Bank hike in the bank rate from 9,5 to 10,5 per cent.

Volkskas, Nedbank, Trust Bank, First National and Standard announced that the prime rate on overdrafts would would go up by one per cent from 13 to 14 per cent from today.

First National Bank announced a one per cent increase in its home loan rate from 12,5 per cent to 13,5 per cent from March 24.

The bank's senior general manager, Mr Jimmy McKenzie, said it was the first adjustment to the home loan rate in 16 months.

He added that the bank welcomed the statement by the Reserve Bank governor, Dr Gerhard de Kock, that there should be more frequent movements of a smaller magnitude in the bank rate - both up and down.

"Lending rates should be market related and the adjustment an ongoing function in response to the overall liquidity in the market."

Standard Bank, however, had not made a decision about home loan rates, but the managing director of the bank's financial services, Mr Dennis Matfield, said the matter was "under close scrutiny".

He assured existing home loan clients and those who had already applied for home loans that the bank guaranteed that the rate would remain at its current level of 12,5 per cent until June 30.

In the case of new applications and for all other home loan clients after June 30 until the end of the year, the bank undertook that the home loan rate would not exceed the average rate charged by the major building societies.

An Allied spokesman said the building society would not increase its bond rate. Nedbank also announced that its home loan rate would remain unchanged.

First Personal Asset Management (Persam) has also announced an increase in its participation bond fund rates.

Persam's managing director, Mr Ken Burgess, said the company had decided to increase the participation bond rate fund by one per cent. New investors would immediately receive 13,5 per cent paid quarterly in advance, while the rate for existing investors would increase during April.

Liberty Life major contributor

Liberty's growth best in more than 10 years

Cape Times 10/3/88

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JOHANNESBURG. — Exceptionally good earnings performances have been achieved by Liberty Life companies Liberty Holdings and Liberty Life Association of Africa in the year to December.

Chairman Donald Gordon, releasing the results here yesterday, said that the percentage increases achieved overall by Liberty Holdings in earnings and dividends per share represented its best performance in the past 15 years.

In the case of Liberty Life, which contributed 76% of the group's taxed earnings in 1987, the results reflected its best performance for the past 12 years.

"It is particularly pleasing that these record results were registered in a year in which Liberty Life celebrated its 30th anniversary," he said.

Liberty Holdings increased attributable profit by 32,2% from R59m in 1986 to R78m last year.

Earnings per share were up 31,5% to 171,2c (130,2c) and the total dividend for the year was 28% better at 96c a share (75c), with a final dividend of 58c (45c) having been declared.

Liberty Life had a net taxed attributable surplus of R107,8m, which was 30,5% better than the 1986 figure of R82,6m.

Net taxed surplus per share for 1987 was 618,3c (500,6c), a 23,4% increase, and total dividend for the year was 22,2% better at 440c a share (360c). The final dividend was 260c (210c).

The R10-bn asset target set by Gordon in 1982 and which he predicted at that time would be achieved in 1990 was achieved in 1987.

Liberty Holdings' total assets at the end of the year stood at R11,7-bn, compared with R7,9-bn in the previous year, while Liberty Life's total assets amounted to R11,4-bn (R7,6-bn).

Liberty Holdings' total reserves and capital employed amounted to R2,1-bn (R1,9-bn) and for Liberty Life this total was R1,9-bn (R1,8-bn).

Gordon said that non-distributable reserves rose in the year by R161,5m in the case of Liberty Holdings and R265,6m for Liberty Life as a result of the acquisition by Liberty Life of Prudential, "being the excess of the consideration paid over net assets acquired".

This reduction in shareholders' interests had been partially compensated in 1987 by the further uplift in Liberty Life from the revaluation of its offshore investments in the TransAtlantic Holdings Group, which accounted for about 50% of shareholders' net equity.

Delivering his chairman's statement for 1987 yesterday, Gordon said the "remarkable impact" of the growth of the group's UK holdings had been achieved with limited financial support from local resources.

"The real success of our international strategic moves has been achieved by way of innovative financial strategies, extensive offshore borrowing and substantial equity funding by a wide spread of international investors," he said. — Sapa

Sowetan 11/3/88

Benefits of new quoting system

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By an Economist

TRADING in the rand began on a cautious note on Tuesday, March 1, in reaction to the change-around from the indirect way of quoting the rand to the direct quotation system.

A foreign exchange quotation is the price of one currency expressed in terms of another currency, for example, Rand 1 = US$,50.

All major currencies, with the exception of some such as the British pound, the Australian and New Zealand dollars, Irish punt, and the SA rand prior to March 1 1988, are quoted directly.

This means that a variable amount of the domestic currency is quoted against a fixed amount of the foreign currency.

Thus, an indirect quotation of the rand against the dollar would be R1 = $,50 whereas under the new system, the direct way of quoting the dollar rand exchange rate would be the exact inverse ie: US$1 = R2 which equals R1 — $,50.

This method of quoting brings the rand more in line with the rest of the world. Although the changeover constitutes a simple arithmetic process with the new foreign exchange rate merely a reciprocal of the old way of quoting, there are definite benefits attached.

Camouflage

The one most commonly cited is the psychological benefit of quoting a higher number to signify a lower dollar/rand exchange rate.

A rand of $,47 would translate into R2,1276, whereas a lower rand of $,46 would be quoted as R2,1739. This is serving to camouflage the weakening of the rand against the dollar — a trend which is expected to continue throughout this year.

The main reason for the lower rand is the pessimistic outlook for gold, due to a scenario of low inflation, as well as the relatively steady to stronger dollar which is trading around Deutschemark 1,68 to Deutschemark 1,69 and yen 128 to yen 129.

This is putting the rand under pressure. Moreover, it suits the Reserve Bank not to support the rand much at its lower levels because a depreciating currency could prevent the current account surplus from being whittled away.

The authorities deem a current account (exports minus imports) essential as export earnings are used to repay our foreign debt as we no longer have access to overseas lending facilities.

A lower rand will make imports relatively more expensive as well as stimulate our exports which will become more competitive internationally thus contributing to a favourable position on our current account.

The rand's losses against the dollar have been better disguised than its weakening against certain key currencies over the past month.

The exchange rates of the rand listed below indicate this clearly. February 1: Dm ,8469 Yen 69,15 Stg 3,510. February 25: Dm ,8081 Yen 66,48 Stg 3,699. March 4: Dm ,7897 Yen 60,20 Stg 3,795.

Besides the psychological benefits of the direct quoting system, certain other changes should also be noted.

Psychological advantage

While the selling rate of the rand was quoted first (on the left) under the old system, using the direct quotation method, the buying rate is quoted on the left, that is, if the rand is trading at $,4700/07 or its inverse equivalent of R2,1246/76, $,47 would be the selling rate of the rand whereas in the latter case R2,1276 would be the selling rate.

Since the changeover, the buy/sell spread of the rand has fluctuated between 15 and 30 points as opposed to the maximum 10 point differential under the old quoting system.

The spread on quoting (that is, the buying rate minus the selling rate) determines the banks profit margins.

The major banks prefer a wider spread in order to maximise their profits whereas the smaller banks can make inroads into the market by offering a narrower spread.

The margins should become much better defined soon.

Many market participants foresee a 10 to 20 point spread in the near future as the market settles into the direct quoting system.

A narrower spread is expected to encourage more competition between banks and thus add to the efficiency in the market.

The inverted rand is always worth R100 per point per $1 million. Previously this was only true when R1 = $1.

Thus irrespective of the trading level of the rand, the value per point will always be identical.

Following on from this, there is no pressure to have a lower rand in order to have a greater value per point so that greater trading profits can be made.

This will tend to lessen the effect of speculators as each rand movement will be of a far less magnitude and thus present the opportunity for far smaller profits to be made.

The volatility of the rand is expected to be reduced under the direct quoting system which is thought also to have the additional benefit of lowering the transaction costs of traders.

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SM 11/3/88

Education Reporter

Allied, which is celebrating 100 years in South Africa, has established an educational trust to help brilliant scholars to further their studies or research. It plans to invest R1 million in the trust.

Information concerning application procedures will be advertised in the press and at Allied outlets in mid-1988.

Riot cover beyond borders

D/P 11/3/88 58

EAST LONDON — Political riot cover by insurance companies have been extended to the national states such as Transkei and Ciskei.

This was cofirmed yesterday by the manager of Bowring Barclays Insurance Brokers in Umtata, Mr Dan Popenfus.

Following the Soweto riots in 1976 and other acts of terror which followed, it was found that short-term insurance policies such a fire, homeowners and carsdid not provide adequate over to compensate victims.

The South African Special Risks Insurance Association (Sasria) was founded to create a fund from which compensation would be paid.

Mr Popefus said that Sasria's constitution prohibited it from accepting any risks outside th borders of South Africa and Transkei together with the other national states were excluded.

He said it did not create a problem at that stage because coverage could be obtained on the London market.

"However, a change in attitude toward South Africa has resulted in it becoming virtually impossible to obtain such cover. Negotiations between the various governments involved resulted in Sasria's constitution being chanved to allow it to underwrite all forms of riot and strike cover in the TBVC states from April 1, 1988.

He said while the riot cover was welcome, it would unfortunately not result in the deletion of non-political riot and strike cover from policies currently covering such perils.

"People who wish to have political riot cover while at the same time ensure continuity of riot and strike voer currently enjoyed under existing policies should contact their brokers who would be able to arrange for riot certificates to be issued."

INTEREST RATES

Bank rate up to 10,5%

After weeks of speculation about moves in Bank and prime rates, Reserve Bank Governor Gerhard de Kock announced a one percentage point rise — to 10,5% — in the former on Tuesday. It was the first move in Bank rate since December 1986.

De Kock points out that the move, though "partly a technical adjustment, does signify the adoption of a less accommodatory monetary policy stance . . . In the changed circumstances now prevailing there is a danger that excessive credit creation will allow an inordinate rise in money supply and total spending, resulting in new demand inflation."

It is likely to be followed soon by further rises — because of a major change in policy regarding Bank rate. It has been decided that "to the extent warranted by changing conditions in short-term financial markets, Bank rate be changed frequently and by small margins in a low key and as a technical matter."

Major banks are expected to follow with a one percentage point increase in prime to 14% — following a half percentage point rise to 13% in January.

Upward moves in both these key rates have been a long time coming, given the pressures on short-term rates. Like droughts, floods and by-elections, the level of interest rates is always a highly emotive subject in SA. Over the past few weeks, the three have been intimately connected.

With two by-elections, the aftermath of drought and the ravages of the series of floods, there could hardly have been a worse time to announce a rise. Bankers and the monetary authorities no doubt agonised over the decision.

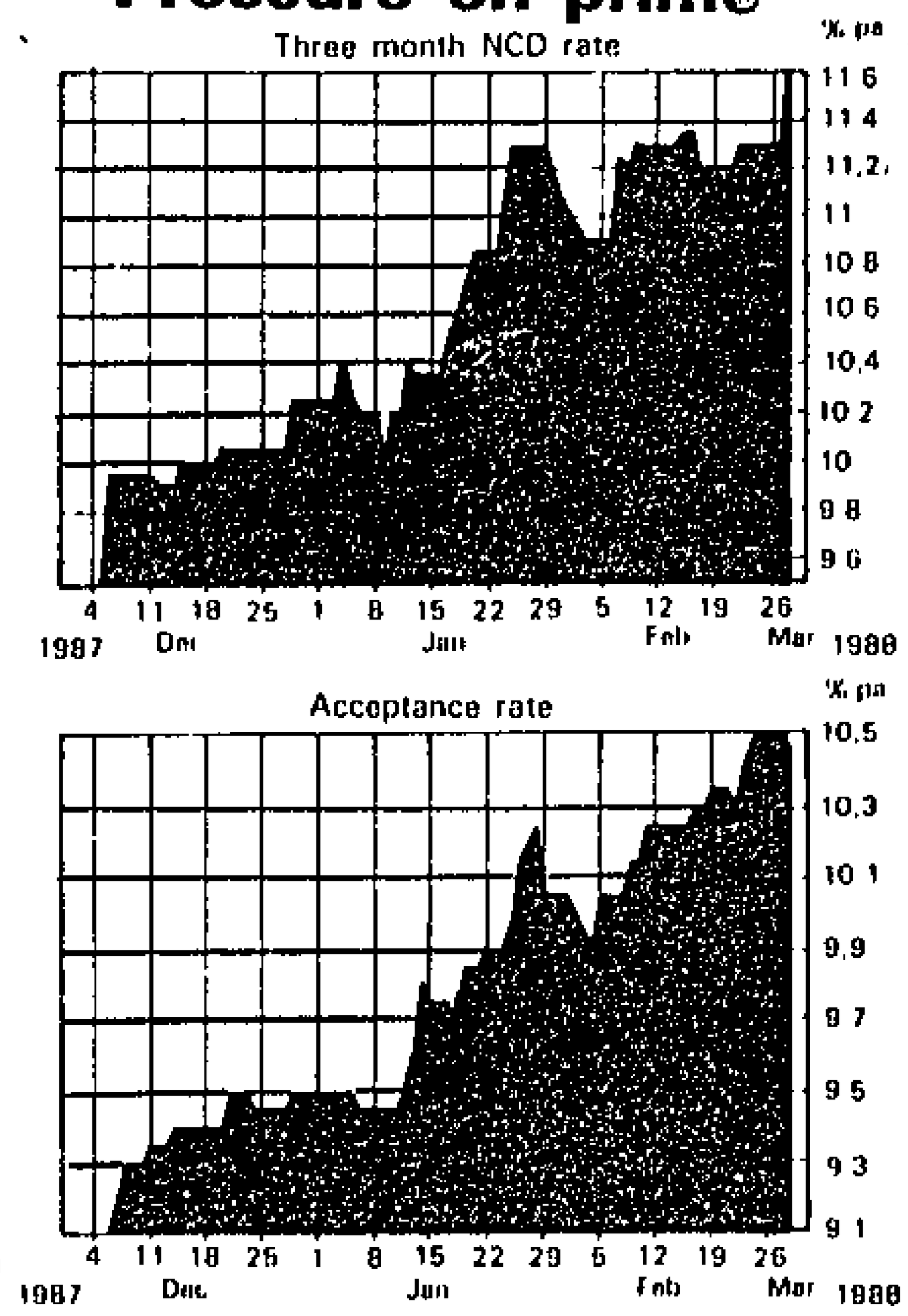
Discussions took place last Friday between bankers and the Bank, followed by further negotiations on Tuesday, via the Clearing Bankers' Association.

Pressures were clearly there. The yield on last Friday's Treasury bill tender rose to 10,23% (from 9,95% a week earlier); the bankers' acceptance rate reached 10,75% on Monday, compared to 10% at start of February; and three-month negotiable certificate of deposit rates rose from 11,6% last Tuesday to 11,75% this Tuesday.

This followed earlier liquidity problems. The shortage at the discount window at end-February was R911m compared to R325m in 1987 — the lowest in four years. Shortly before month-end, the banks ran out of liquid assets and were forced to seek accommodation from the Bank against the security of government bonds at 12,5% — only half a percentage point below prime.

In the first three days of last week, while banks conferred with the Bank over when and how much to move prime, the latter funnelled R200m a day into the money market in repurchase agreements.

Pressure on prime



Though this kept the market afloat, it was largely cosmetic and call rate remained a high 11,34%.

Despite this, however, and despite the lowering of the money supply target to 12%-16%, which indicated a tightening of policy, suggestions of imminent increases were firmly rejected as unlikely (maybe even unpatriotic).

This is a reaction rooted in fear that the economic recovery will self-destruct. For so long we waited for some sign of growth and now, at last, there is evidence we have entered a new phase in the economic cycle. Finance Minister Barend du Plessis says growth in the fourth quarter of last year was between 4%-4,5% and Stellenbosch BER economist Attie de Vries believes it is still at that level.

But after more than two years of isolation from foreign credit, a disturbing configuration of events has taken place.

The fall in the price of gold this year has reduced revenue from gold exports (**see cover story**); the consequent drop in the value of the rand has pushed up the cost of imports; and there has been a surge in demand for credit.

Simultaneously, sanctions have seriously reduced export income.

So resources are being squeezed at both ends. Hence the fears for the recovery.

However, underlying pressures can't be ignored. We will have to come to terms with living in an economic pressure cooker. Judicious use of a safety valve may prevent the lid blowing off. Small and frequent moves in Bank rate may prevent interest rates rising to the levels experienced in 1984-1985 when prime stood at 25% and Bank rate at 21,75%.

TAX SCHEMES

This time, property

A big family of property tax-based leases, involving hundreds of millions of rands, many listed companies, powerful individuals and some of the biggest HQs and shopping centres in the country, is the next quarry on Inland Revenue's hit list.

The structures of the schemes, according to a top Johannesburg tax consultant, are explicable only as contrivances to avoid tax. In his opinion, many fall foul of the Income Tax Act's draconian S103 test that "the transaction was entered into . . . solely or mainly for the purposes of the avoidance or postponement of liability for the payment of any tax . . . "

Until now, Revenue has not had sight of the schemes for the simple reason of non-disclosure. While the need to disclose tax schemes to Revenue is a moot point, all Revenue has seen so far is "rentals" or "instalments" in tax returns. There has been no reason for it to make enquiries.

"The schemes were set up very quietly," says the consultant. "Revenue has not yet attacked any, making it obvious that it has not seen one."

Attempts by the *FM* to secure details of the schemes from firms of accountants and lawyers were futile. A typical response was: "Don't expose these schemes. You have to leave this as our business. Publish it and Inland Revenue will kill it."

The amounts involved probably add up to the single biggest tax avoidance scheme in South African history. There is an enormous

BUDGET COVERAGE

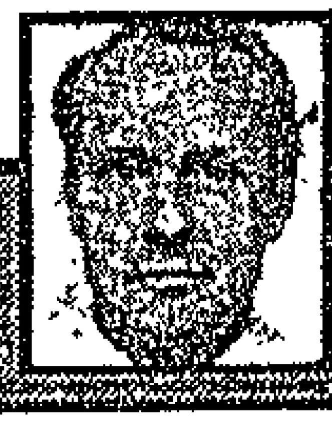
Next Wednesday, March 16, is Budget Day. Accordingly, the *FM* will, as is our custom, go to press a day later than usual next week so as to bring readers the promptest possible coverage of this important event. We will also be reporting on Nigel Lawson's British budget, which is due to be delivered the previous day.

58

Reserve Bank action has come not a moment too soon

MONEY MATTERS

by Magnus Heystek



The Reserve Bank's decision to increase bank rate by one percent to 10,5 percent comes not a moment too soon. This is the rate at which the Reserve Bank — the lender of last resort — lends money to financial institutions to balance their books and is an important instrument in monetary policy.

The dearer cost of money will have to be passed on to the general money-lending public, as witnessed by the increase in prime overdraft and mortgage bond rates this week.

At the same time, the decision to increase bank rate signalled a definite shift in monetary policy by the Reserve Bank. For three years the bank has been trying its utmost to get South Africans to increase their lending and spending so as to increase economic growth.

Uplift indicated

After several "false starts", the economy is now well on the growth path, with economists expecting a further real growth rate of 3 percent for 1988. Several leading economic indicators point to an uplift in economic activity.

Demand for bank credit has risen sharply, the growth in money supply has rocketed, the property market is booming and vehicle sales are set to increase even further, despite stock shortages.

But why should the Reserve Bank be worried by all this? Wasn't it trying to achieve exactly that?

Indeed it was, but there have been signs of the economy overheating in recent months. This called for prudent action, which, some economists say, might have even been a little late in coming.

What is exactly meant by overheating of an economy? It simply means a country is living well beyond its means, consuming more than it earns. The indicator of this state of affairs is the current account of the balance of payments (BOP).

During the mini-boom of 1983/84 — which many analysts said was politically inspired in time for the referendum — South Africa's BOP turned sharply negative.

All would have been well if this deficit could have been financed by an inflow of capital from abroad, a normal occurrence for any developing country. But the rules were drastically changed when South Africa found its supply of international capital cut by politics.

For the last three years South Africa enjoyed a BOP surplus due to the weak internal economy, a drop in the rand, which increased export earnings, and a rising gold price.

Import surge

But in recent months imports have surged considerably, the gold price has come down by more than $60 an ounce while export performance is sluggish.

The result has been a steady decline in the BOP surplus.

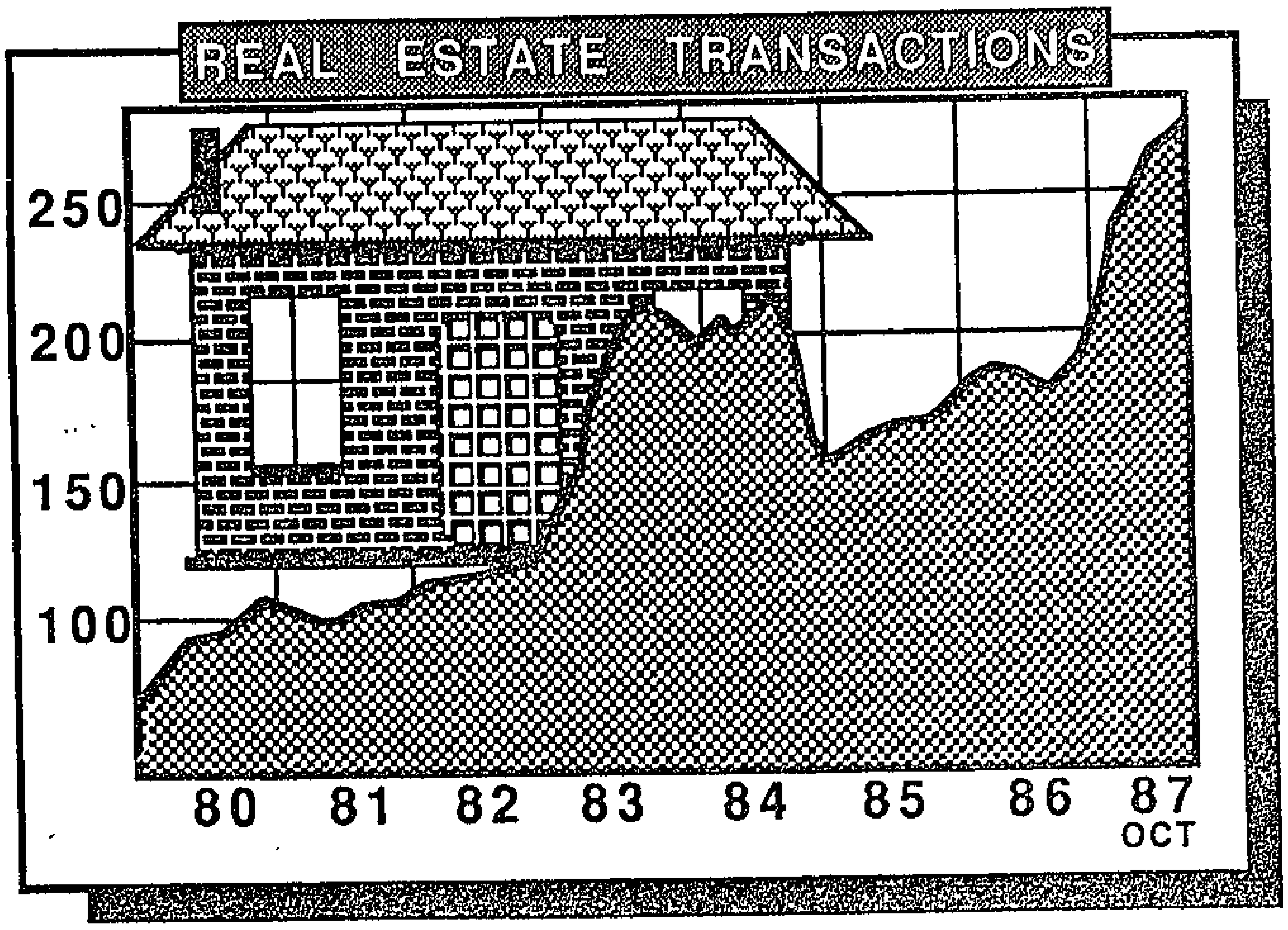
As PFP finance spokesman Mr Harry Schwarz pointed out this week, the South African economy is now held prisoner by the BOP. South Africa cannot afford to run a deficit on this acount any more.

The implications is that internal economic activity will be dictated by the state of the BOP. This automatically puts a ceiling on growth rate potential. Three percent growth is about the most we can afford.

● Letters should be addressed to MONEY MATTERS, PO Box 1014, Johannesburg 2000. Subject matter of the

58 SMN 12/3/88.

5 percent leap in 2 years forecast



Bond rate 'all set to rocket'

Another two percent rise in bond rates this year followed by three percent next year is the forecast by leading property economist, Mr Neville Berkowitz.

He warned: "People who bought homes when rates were at the bottom will have to calculate whether they can afford to pay a five percent increase over the next 24 months."

Even a one percent rise in bond rates will impact negatively on the property market. People would not be able to buy higher priced houses and would have to scale down.

"It will start to take the edge off the property boom," he added.

As the economy improved, money would be switched to the commercial sector from the the homes sector.

However, less than 30 percent of the residential market was unsubsidised and those home owners would have to gear themselves for higher repayments, said Mr Berkowitz.

With imports rising and exports falling, the country could see a negative balance of trade in 1990. When that happened, interest rates would rise whether there was demand for money or not.

Mr Brian Button, managing director of Syfrets Bank, which is raising its home loan rate in tandem with the banks' prime rate, forecast building societies and banks committed to fixed bond rates would build up "horrendous losses" in the next few months.

They were paying 13,5 percent to borrow money and lending it at 12,5 percent, he said.

In the second half of the year there could be steep increases in rates to compensate for the losses.

Borrowers who accepted bonds of 100 percent and even 110 percent could also be badly hurt, he added.

Mr Edwin Rode of Real Estate Surveys said contrary to popular belief, rigorous research showed that rising interest rates did not affect the property market.

"Investors in houses should not be concerned at all," he said. "There could be a drop in people's disposable incomes and what they can afford, however."

SNIPPETS

Big push into student market on the cards

(58) SMC 12/3/88

A cash card for students has been introduced by Allied. Called "Advantage", it follows the launch late last year of Allied's Disc card for teenagers.

"The Advantage card, designed for full-time students at tertiary education institutions, fills the gap between the teenager and those who have started their careers," says Allied's senior GM, marketing, William Wolke. "There is a real need for such a card. Because students are the future, they should be given all the help they require to reach their fullest potential."

To this end, Allied is supporting its entry into the student market by offering R50 000 in bursaries. These bursaries, awarded on merit, range from R250 for books and/or equipment to term fees, and a maximum of R7 500 for a major bursary.

□ □ □

Credit card holders are hopping mad at the 50 percent increases in service charges introduced by Standard Bank on March 1.

The yearly charges on the bank's Mastercard have gone up from R12 to R18 (up 50 percent), holders of the Garagecard are paying R6 instead of R4 (a 50 percent increase), and the Gold Mastercard charges have been raised by 33.3 percent, from R30 to R40.

One cardholder described the increases as shocking in the light of the Government's plea for increases in the cost of goods and services to be kept to a minimum.

Standard Bank's assistant GM (card division), John Cruickshank, said: "A bank the size of ours doesn't take these decisions lightly.

"Being in the service industry, the last thing we want to do is bring bad news to the market, but the charge for card systems came in during November 1984 and has not been changed since.

"Inflation from December 1984 to December 1987 rose by 60,49 percent."

He pointed out that the card increases were below the average inflation rate for the period and did not properly reflect the cost escalations in the industry.

"We have absorbed these costs all this time and we have now reached a point where we can do so no longer. There are also many other costs relating to the issue and we have absorbed them.

"I can understand people's reaction to the increases and, in retrospect, perhaps I should have given these reasons instead of emphasising the quality of our services. But when we addressed the problem I didn't want to hide behind the inflation issue."

□ □ □

Sanlam's investment portfolios for pension funds show sound long-term returns, even after the crash on the JSE in October last year. This is evident from a statement by Ronnie Masson, who heads investments at the company.

The 100 Plus portfolio, Sanlam's largest market-related investment portfolio, which is used by more than 400 pension funds, shows an average return of 20,4 percent a year for the 10 years ended December 31 1987, compared with an average inflation rate of 14,5 percent a year for the same period.

The 200 Plus portfolio, where a more aggressive investment strategy is applied, fared exceptionally well, earning 27,6 percent for clients in 1987. This brings the average investment return for the four years of this portfolio's existence to 32,5 percent. The number of funds participating in 200 Plus in 1987 more than doubled to about 150 and, according to Mr Masson, in this way contributed handsomely to the extension of Sanlam's services to pension funds.

As a result of the drop in share prices since October 20 1987, the All Share Index (dividend income included) closed the year at 4,4 percent lower than the level at the beginning of the year. Nevertheless, the share component of the 100 Plus, for example, showed a positive return of 13,6 percent.

SA facing a financial squeeze

Argus 14/3/88

From CHRISTOPHER WILSON

JOHANNESBURG. — Buffeted by sanctions and a falling gold price, South Africa faces a financial squeeze that could threaten its ability to keep up heavy repayments of foreign debt.

In the past three years, Pretoria has used the surplus on its balance of payments current account to repay about five billion dollars in foreign debt. But in January the account swung into deficit.

The unexpected deficit, the first since 1984, surfaced in customs and excise figures disclosed last week, sending an early warning signal to international creditor banks.

Trade has been hit by a 40 percent drop in South Africa's exports to the United States in the first nine months of 1987 under the impact of sanctions.

"I wouldn't say there's a need to panic about debt payments, but there is certainly a need for caution," said Mike Brown, an economist at stockbrokers Davis, Borkum, Hare Inc.

Austere

In the run-up to the Budget, to be presented to Parliament on Wednesday, the shrinking balance of payments poses a dilemma for Finance Minister Barend du Plessis.

More austere economic policies run the risk of aborting a tentative revival in the economy and alienating white voters.

South Africa has been forced to curb domestic growth in favour of a current account surplus since 1985 when international banks, alarmed by insurrection in black townships, refused to roll over loans, prompting Pretoria to impose exchange controls and declare a moratorium on the repayment of foreign capital.

Prospects seem even rockier if the gold price falls further.

South Africa produces 20 million ounces of gold annually and every 10-dollar fall in the bullion price wipes about 200 million dollars off the balance of payments.

"The January (deficit) figures are not the end of the world, but they do emphasise how quickly the current account can move from a surplus to a deficit," said Brown.

According to Government estimates, the current account deficit was 50 million dollars in January when the gold price was hovering around 480 dollars an ounce. The price has since sunk to around 440 dollars.

"It's certainly not unexpected that the current account should get smaller this year, but our debt repayment commitments are also much smaller this year," said Mr Chris Stals, director-general of finance and head of Pretoria's foreign debt negotiating team.

"I've had absolutely no indication from the creditor banks that they are worried about the situation."

South Africa has reduced its foreign debt to an estimated 21 billion dollars but will have to run surpluses until mid-1990 to meet its repayment commitments. Repayments totalling about one billion dollars fall due this year. — Sapa-Reuter.

(58) B/day 15/3/88

Post crash 1988: An echo of the 1930s in America

Nearly five months after the stock market crash, Daily Telegraph Financial Editor NEIL COLLINS finds some disturbing imbalances in the British economic scene, but takes comfort in the underlying signals of economic strength.

THE Great Crash of '87 was the worst of the Century, uncomfortably eclipsing the collapse of 1929.

Nearly five months on from that earlier spectacle, the reasons why shares dived had become painfully obvious, even to those who had never owned any. Five months on from October 19, 1987, the effects are conspicuous by their absence.

'Was the week when shares fell 30% perhaps one big terrible mistake?

It would be comforting to say yes. There are, after all, plenty of grounds for optimism.

Britain's Chancellor of the Exchequor Nigel Lawson presents his annual budget statement to parliament today, aided by the strongest finances for almost 20 years. Even if he introduces dramatic tax reforms, sweetened with cuts to ensure there are no losers, he will still raise more in tax than government spends.

Reassuring

Inflation in Britain is down to just 3,3%, while unemployment is falling fast. The balance of payments is in the red, as usual, but the gap is modest and it is not obviously going to get worse.

Elsewhere, the picture seems more reassuring, too. The Japanese stock market was clearly vulnerable. Yet not only was its fall from its peak the smallest of any market, but it has now recovered to within a few points of that peak.

So why did shares collapse and why was the crash worse in Britain than in any other major market?

Nobody seemed to care much about the intractable American trade deficit and the burgeoning supply of new shares and the cascade of new issues.

That the ripples have not spread more widely, owes a lot to the way the authorities handled the crash — pumping in funds, cutting interest rates and writing "Don't Panic" in big friendly letters.

So was it all a terrible aberration? Can we look forward to prosperity as usual, with rising share prices? It is a tempting thought, but there are serious imbalances in an increasingly interlocked world economy which could mean recession, if not slump, next year.

There was one major indicator which signalled the market collapse eight months before it happened. In one of those paradoxes which bedevil economists, last year's American government deficit has not meant rising growth in the money supply. This peaked at the end of 1986 and was in sharp decline throughout last year.

During the 1930s, the official policy of tight money turned a recession into a slump and on some interpretations of the current money supply figures, a recession in America is assured. If that happened we would not escape.

There are few signs of it in the real economy of America. America's trade deficit is still high, but it is falling and the biggest problem is not the balance of trade, but the debilitating cost of servicing debt, as the nations south of the border know only too well.

In contrast to the agonies of the likes of Brazil, the market's solution is already being applied in America.

Last week Rank Organisation joined a very long list of British companies buying American ones when it spent £100m on Yogi Bear Jellystone Park caravan resorts.

Such signs of confidence are encouraging. It will help Britons forget the disturbing way British shares tracked Wall Street in 1930.

After the Great Crash, shares recovered about half their fall in the following six months. They then started falling in a two-year bear market that saw them slaughtered to less than a quarter of their peak value as the depression took hold.

It could not happen again. Could it? — The Daily Telegraph.

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Banks reduce bad debt provision

BDay 15/3/88

GRETA STEYN

BANKS' provision for bad debt diminished as the economic upswing got underway — and in spite of interest rate rises, bankers expect the trend to continue this year.

Ahead of First National Bank's interim report for the six months ending March 31, senior GM Jimmy McKenzie said the banking group's net provision for bad debt had continued to diminish in the current financial year.

In the previous financial year ending September 1987, First National group's provision for doubtful debt charged against profits declined to R128,7m from R143m in 1986.

Standard Bank MD Mike Vosloo said the trend to diminish gross provision for bad debt was likely to continue this year as the upswing continued. However, the net amount charged against profits would depend on how much debt previously written off was recovered in the current year.

The Standard Bank group's (Stanbic) provision for bad debt charged against its profits more than halved to R71,9m in the year ending December 31 1987 compared with R187,6m in the previous financial year.

The Trust Bank said provision for bad debts in the current financial year ending June 30 1988 was unlikely to be more than in the previous year, despite projected asset growth of some R3bn.

Nedbank's annual report shows that provision for bad debt charged against the group's profits declined to R58,7m as at end September 1987 from R95m at the end of the previous financial year.

The banks' improved bad debt situation is in line with central statistical services figures, which show that civil summonses for debt issued to business enterprises dropped by 25% last year.

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DID 15/3/88

Liberty beats forecast

58

JOHANNESBURG — Long-term investment holding company Liberty Investors (Libvest), whose chief interests are in the Liberty Life group, has beaten its forecast dividend payment for the year to February.

The directors forecast a dividend of 8c a share in their last annual report, but the group performance has resulted in a total dividend payment of 8,8c a share (1987 financial year: 3c), following the declaration of a final dividend of 5c (3c).

Earnings a share for the year under review were 11 per cent up on the previous year, with an eps of 12,2c (11c), but the directors point out that a comparison with the previous financial year is not meaningful because of the "total restructuring" of Libvest prior to its listing at the end of 1986.

The better-than-forecast dividend payment was facilitated by the excellent results achieved by Liberty Holdings in 1987 which increased earnings and dividends per share by 31,5 and 28 per cent respectively, the directors state.

Libvest started the review year with no borrowings and net liquid resources of over R30 million.

The directors predict another successful year with total dividends of not less than 10c a share. — Sapa

Savings interest rates rising

Trust Bank and Perm first to act

ARGUS 16/3/88 58

Business Staff

TRUST Bank and the Perm have raised their savings deposit rates and other banks and building societies are expected to follow soon.

Some banks and building societies have already raised certain saving rates and at least three banks, Standard, First National and Nedbank, said today an increase in deposit rates was imminent.

Trust is the first bank to move by boosting its deposit rates by as much as 1,5 percent and paying 13,75 percent for five-year deposits.

The Permanent Building Society raised its retail fixed deposit rates on Monday by 0,8 percent and is now paying 13,95 percent for gilts retails.

Pressure

While the increases are good news for pensioners and other savers, they could spark off a new round of rates rises by banks and building societies in their bid to attract funds to meet heavy demands for loans.

And this, say bankers, could put pressure on the prime rate charged to borrowers, ultimately leading to dearer overdrafts and home loans.

New Trust Bank rates (previous rates in brackets) include: Call 8,5 percent (7), 60 days 10 percent (9), 6 months 10,5 percent (9), 9 months 11 percent (9,25), 12 months 12 percent (10,75), 18 months 12,25 percent (11,25), 24 months 12,75 percent (12,25), 36 months 13,25 percent (12,75) and 60 months 13,75 percent (13,5).

Meeting

On Monday the Perm raised its retail deposit rates for 12 months to 11,60 percent (11,10%); for 24 months to 12,9 percent (12,65); from 36 to 60 months to 13,7 percent (13,45). Gilts retails were raised to 13,95 percent (13,15).

First National Bank managers were meeting managing director Chris Ball today, and an announcement on deposit rates was "expected any time".

A spokesman for the Standard Bank, which has already raised its interest rates on savings to 10 percent effective from today, said top management was in a meeting and would release a statement on deposit rates "and which way we will go" very shortly.

No impact

A Nedbank spokesman said they were expecting an announcement from head office at any time and that an increase in deposit rates was certain.

Although bond rates were increased by one percent last week, property experts say this was not expected to make an impact on the housing market as long as South Africa has

(Turn to page 3, col 7)

Trust, Perm raise rates

ARGUS 16/3/88 58

(Cont from page 1)

high inflation.

The country's largest building society, the UBS, pointed out the monthly repayment of a R50 000 bond costs R600 — a drop of almost 40 percent from the peak of about R970 a month four years ago.

The latest rise could add about R54 to monthly repayments of a R50 000 bond from the UBS.

SUBSIDIES

Mr Hugh Denny, a director of J H Isaacs, the country's largest independent property group, said about 50 percent of house sales were cash deals involving no bonds. In the Durban area the figure was about 57 percent.

More than half of home owners with bonds received subsidies and would not be affected by the rates rise.

The chairman of the Cape and Western branch of the Institute of Estate Agents, Mr Reg van Selm, said today said there had been a tremendous run of house sales in the Peninsula in the past four months and prices still seemed to be rising.

HOMEBUYERS

"It is definitely a sellers' market, he said. "Estate agents cannot get enough stock and houses intended for Sunday show houses are sold before the property hits the market."

A spokesman for the Perm disagreed and said the interest in deposit rates would force banks to raise other interest rates, especially for home loans, which would put pressure on homebuyers.

"All those people who bought palaces in Constantia are going to be in an unenviable situation. If the interest rates are raised one percent on R100 000 bond, that can mean an extra couple of hundred rands a month."

Trust Bank action adds to rate jitters

B/day 16/3/88

GRETA STEYN

AGGRESSIVE increases yesterday in Trust Bank's retail deposit rates — some up by as much as 1,5% — added to interest rate jitters and caused renewed expectations of further rises in the prime rate.

At the same time, the bank announced an increase of 1% in its home loan rate, to 13,5%, from April 1.

The sharp increase in retail deposits by Trust Bank caught competing banks by surprise, the mortgage rate increase did not. It now offers higher deposit rates than the other four major banks.

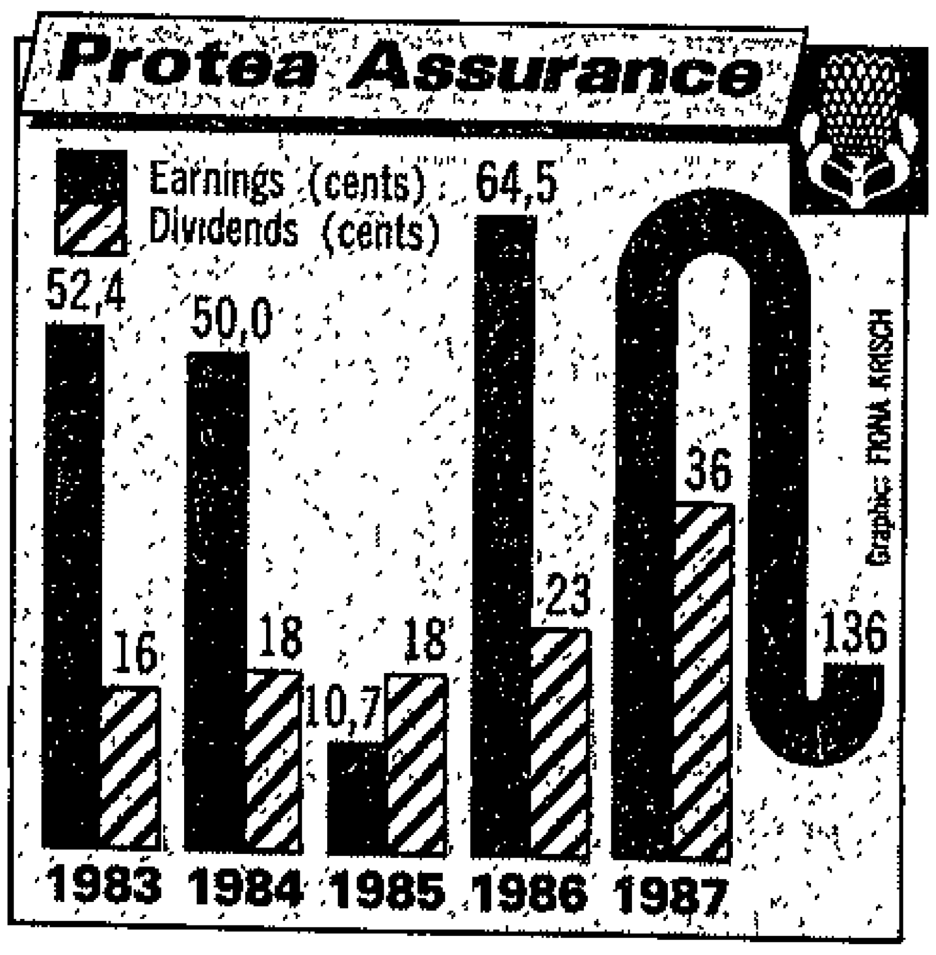
Certain bankers were surprised at the Trust Bank's move, saying if it was followed by the industry, it could put pressure on margins sooner than expected and cause prime to rise more quickly.

However, it is understood monetary authorities feel that lending rates are currently at their "correct" levels.

Banks' spokesmen said yesterday they would remain competitive, though no decisions on deposit rate increases had been taken yet.

Building societies are believed to be considering increasing retail deposit rates in an effort to draw funds to meet the burgeoning demand for home loans.

Trust Bank increased its deposit rate on call money by 1,5% to 8,5% — leaving First National trailing by 3% and the Standard by 2,5%. On 32-day notice deposits the bank now pays 10%, compared with the 8,5% offered by most of the big five. On one-year fixed deposits, the rate increased to 12%, leaving the other four large banks standing at 10,75%.



Protea profits surge ahead

16/3/88 B/day

HELENA PATTEN

COMPOSITE insurer Protea Assurance has more than doubled attributable profits from R5,1m to R10,7m in the financial year to end December 31, 1987, representing a leap in earnings a share to 136c from 65c.

The board has declared a final dividend of 25c a share, up 47% from the 17c in 1986, and bringing the total for the year to 36c (1986: 23c).

The improvement was attributed principally to a substantial turnaround in the underwriting account from a deficit of R4,9m in the 1986 year to a surplus of R2,6m at the 1987 year-end.

Protea said results would have been even better had it not been for the Natal floods: at interim the underwriting surplus was R2,9m.

However, despite signficantly better results being reported recently by all major short-term insurers, including Protea, MD Tony Crank warned in a statement accompanying the results, competition from foreign short-term insurers was making increasing inroads into SA's market.

It appeared the authorities were "indifferent" to the effects on the local industry. Overseas companies did not operate in the country under the same "onerous reserving and compulsory investment requirements" and could therefore afford to cut rates, said Crank.

Investment income rose 32% to

● To Page 2

Protea profits more than double to R10,7m

B/day 16/3/88 ● From Page 1

R12,3m, while net written premiums grew 15,4% from R104,7m to R120,8m.

Premium income in the life division grew R3m to R12m.

□ Mutual & Federal MD Ken Saggers said last night the overseas market was certainly making inroads in SA.

SA Insurance Association (SAIA) CE Rodney Schneeberger said the loss of business overseas was a fairly recent trend. "We will be seeing the Registrar in a few weeks and will be discussing the situation with him."

The SAIA would recommend foreign companies be allowed to operate in SA on a more equitable basis. It was not the intention to eliminate competition.

Standard funds SAB expansion

LINDA ENSOR 16/3/88

STANDARD Bank and the South African Breweries beer division have signed a R225m financing agreement for the partial funding of the division's R500m expansion programme.

The non-syndicated funding facility is believed to be one of the largest ever concluded in the country.

"Beer division went out on tender for this funding and Standard were best able to offer the degree of flexibility both in terms of funding options and payback period which beer division required," a spokesman for the division said last night.

"Although tied to short term borrowing rates, with the offshore options the deal offers significant improvements against funding at current long-term borrowing rates," he added.

The facility is for 10 years and the draw-down period is between 18 months and two years.

Senior GM of Standard's Corporate Banking Division, Mike Thompson, is reluctant to disclose details of the package for competitive reasons.

(58) B/day

DAILY DISPAT

D/D. 16/3/88

Chamber told of plan for thrust into Africa

EAST LONDON — White and black commercial organisations should together to do the ground work for a thrust into black Africa to tap the wide market available, the national co-ordinator and deputy executive director of the National African Chambers of Commerce (Nafcoc), Mr Gabriel Mokogoko, said here last night.

He told the 110th annual meeting of the East London Chamber of Commerce that whites needed blacks to get into this lucrative untapped market to increase the more than R2 billion exports from South Africa to blck Africa.

Mr Mokogoko said his mission to the area was basically to see the how the Ciskei Chamber of Commerce could be revived and how the East London chamber could offer assistance which could result in joint ventures.

"This area has a unique setting for black-white co-operation and this is what we in Nafcoc desire. We want it at an institutional level because the political atmosphere was not right for individual black-white participation in business ventures," he said.

Mr Mokogoko said blacks were conscious of the fact that the free enterprise system did not work to their benefit.

Reports by Matthew Moonieya business editor

"We are sad at the fact that black businessmen only contribute one per cent to the gross domestic product and that they only earn two per cent of the total earnings in the country. We are considering how blacks can become better involved in the economy."

Nafcoc was looking at black-white participation in depth and there were clear examples where the economic cake was not being shared.

"Take a sitution such as the raw fish industry. This is a R178 million a year industry and blacks consume 90 per cent of the fish. Blacks have never been told they must partake and share in this industry.

"The same thing happens in the R1,6 billion maize industry. We are the biggest consumers but nobody said it must be shared."

With the more than R2 billion trade with black Africa, Nafcoc was forced to tell the African countries that while they bought from South Africa, the blacks in the country did not feature in the economy.

"Nafcoc is working on a programme for a visit to black Africa where inroads will be made."

He said South Africa was being penalised because of blacks' non-paricipation in politics and the economy.

"We must move faster than the government. Out of possible liaison between the Ciskei Chamber of Commerce, the East London Chamber of Commerce and possibly a third body in the corridor, there coud emerge a new opportunity for co-operation," he said and urged the chamber to play a role in rekindling life into the Ciskei Chamber.

Blooming Protea

17/3/88

58

JOHANNESBURG. — Composite insurer Protea Assurance more than doubled net profits in the financial year to December 31.

Attributable profits amounted to R10,7-million, compared with R5,1-million the previous year.

The improvement was principally due to a substantial turnaround in the underwriting account which showed a surplus of R2,6-million at year-end compared with a deficit of R4,9-million previously.

The board has declared a final dividend of 25 cents (1986: 17 cents), bringing the total for the year to 36 cents (23 cents). — Sapa.

Highest bonuses yet batter inflation

DfD 18/3/88

58

SANLAM recently announced its biggest bonuses yet. This is the highlight of the company's proud bonus history and the result of its excellent investment achievements.

For the ninth consecutive year, reversionary bonuses have broken the company's previous records – while some of Sanlam's market-related policies grew by more than 60 per cent.

This proves once again that Sanlam's record bonuses protect its policy-owners against inflation.

In a recent comparison of actual pay-outs by life assurers, Sanlam's market-related retirement annuities and pure endowment policies took all six first places.

Survey

The survey was carried out by the business magazine Finansies en Tegniek and was based on actual maturity amounts of comparable policies taken out with various life assurers.

Sanlam achieved the highest proceeds in nine of the fourteen categories it participated in, and took second places in the other five.

The company was the only assurer who obtained either first or second place in all fourteen sections.

Examples

Here are a few examples of Sanlam's actual payouts:

- When policy 3255364x6 was taken out on 1 February 1976, Sanlam projected a capital sum of R14 931 for the owner. But on 1 February 1988, the actual amount was R45 194, which represents a return of 25,4 per cent per year. This beats the average inflation rate of 13,9 per cent per annum by almost 12 per cent!
- For the owner of policy 3357143x1, which was taken out on 1 February 1977, a capital sum of R9 476 was projected. The actual amount on 1 February 1988 was an impressive R26 525 – a return of 25 per cent per annum.
- When policy 3843188x8 was taken out on 1 November 1980, a capital sum of R8 301 was projected for the owner. On 1 November 1987, the actual payout was R15 833 – a return of 25,9 per cent per annum.

Sanlam has also maintained the same high bonuses for its stable investment series as the previous year. Policies being paid out this year, will receive bonuses of 25 per cent to 34 per cent for 1987.

18/3/88 (8) FM

INTEREST RATES

Shifting sands

Now that the cost of funds is moving sharply up, banks and building societies find themselves battling for business they can't afford.

For more than three years, increasing liquidity and intensifying competition worked in the same direction, sending institutions into the marketplace, offering new loans for old at lower and lower interest rates. With the shift in interest rate direction, they will have to balance the need to defend market share against the need to preserve margins.

One of the areas most visibly affected is home loans, where banks have been challenging building societies on their own ground. We are likely to see some schizophrenic behaviour as institutions try to uphold image in the marketplace, while sidestepping certain types of business.

Already several institutions have announced increases in rates charged on new bonds: First National from 12,5%-13,5%, United from 12,5%-14% and Volkskas from 12,5%-13,5%. More announcements are bound to follow.

Banks, of course, are the first to suffer when rates move upwards, because over 70% of their funds are raised for periods under six months — at more volatile rates than at the long end. Between mid-November and the second week in March, call rate moved from 7,75%-10,75% and bankers' acceptances from 8,75%-10,80%, while 12-month deposits have shifted from 10,15%-12,5% and 12-month NCDs from 10,2%-13,25%.

This represents an increase of as much as three percentage points in three-month and under money while, at the longer end, rates have increased by only 2-3 percentage points — off a higher base.

However, societies have been battling their way up a steep yield curve for some time. Despite their cushion of longer term funding, they are already pinched. With 12-month NCDs, through which most funds are raised, costing over 13%, mortgage rates of 14% and less are clearly on their way out.

Were it not for aggressive marketing by banks, these rates would never have been as low in the first place. By leading rates down to 12,5% in December 1986, Standard and First National forced most of the market to move to close the gap.

United finally fell into line at 12,5% in December (though it has now adjusted up to 14%). As the largest building society, it could not afford to be out-performed by the banks. But an indication of where rates would otherwise have stood is the Perm's determined stand at 14,5% since last June.

The focus of competition will shift to the funding side. Retail depositors have been unenthusiastic for some time. An indication of the erosion of individual savings is the declining proportion of building society retail deposits — from 90% of total funds three years ago to about 50%-60%.

So both types of institution will rely heavily on the corporate market and, to varying degrees, benefit from reintermediation.

The impact of increases across the entire spectrum of rates will depend on the proportion of long-term deposits locked in at comparatively low interest rates and flexibility of rates at which money is lent.

Juggling types and terms of assets and liabilities in a constantly changing economic environment is what banking (including, of course, the operations of building societies) is all about. ■

GM (S8) 18/3/88

LIBERTY LIFE

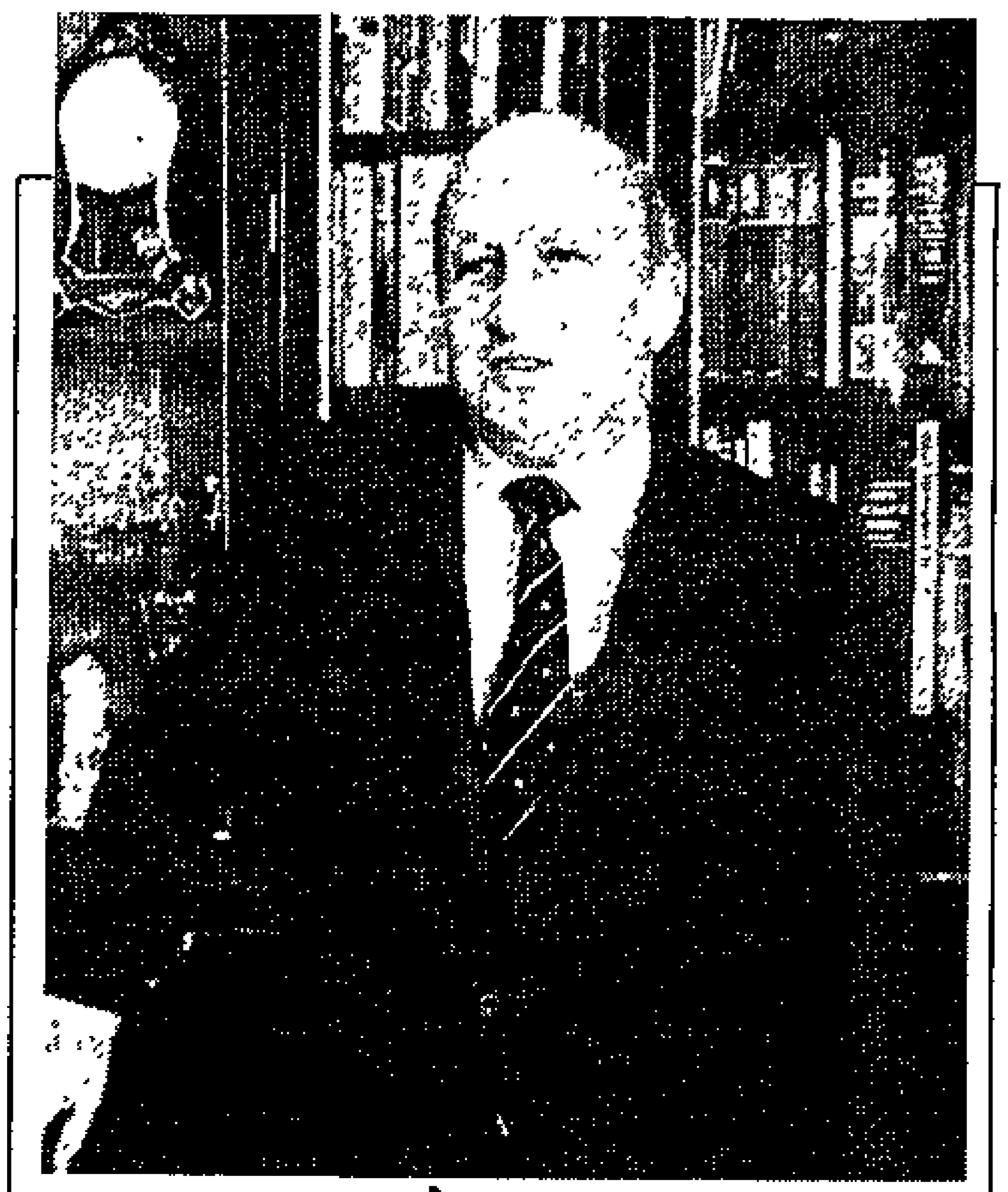
Foreign growth

In some ways, Liberty Life's results for the year 1987 were as predictable as ever. EPS and dividends increased at rates very close to expectations, in line with the average for the past 20 years. And chairman Donald Gordon spoke at length last week about growth in overseas assets. Less expected are the implications of Gordon's statements about Liberty's overseas interests.

One of these is that the attributable portion of the UK invèstments represent about 50% of Liberty's net equity. This is not bad, considering Liberty was listed on the JSE in 1962 and the foreign thrust only began in 1980. Of course, growth in assets in rand terms was helped by the collapse of the rand against the pound, but this reaffirms the wisdom of going overseas and having a rand hedge element in the group. Liberty says that from the outset, its basic design was to create an international insurance group, bearing in mind the dominance of the mutuals in SA.

Gordon makes certain everyone knows Liberty's British associates are substantial, even in sterling terms, He points to Trans-Atlantic, the largest associate, listed in Luxembourg, as being around the 45th biggest company in terms of shareholders' funds listed on the LSE.

MARKET TALK



Liberty's Gordon ... repatriating income

But even if 50% of the net worth of a Liberty share consists of foreign assets, what does this really mean to an investor? No other South African company is prepared to reveal as much about its foreign operations as is Liberty and very few provide local shareholders with the benefit of any income from the foreign assets. Most do not indicate how much foreign earnings are and, at best, shareholders see an increasing cover for the company's dividends, as overseas earnings are reinvested rather than paid out to local shareholders in dividends.

Thus, it is significant that Gordon has gone on record as saying that dividends will be paid and repatriated to SA. The potential impact on Liberty's income is substantial. Last year, according to Gordon, R34m was contributed to investment income from Liberty's offshore interests, after deducting cost of offshore borrowings relating to the acquisition of the UK investments. This compares with Liberty's net taxed surplus for 1987 of R123,1m.

Such a boost to income certainly adds impetus to Liberty's growth. The latest EPS increase was 23,5%, which is above the traditional 20%, and the growth rate could climb further in future.

Another reason for interest in Liberty could be the strength of its reserves, which have been considerably assisted by the Prudential merger. Investment surpluses, development, stabilisation and other reserves have leapt from R443,8m (9% of actuarial liabilities) to R1 182m (16%).

Stockbroker Richard Jesse, of Martin and Co, suggests a rerating could be in the offing and movements in Liberty's share price indicate he could be right. It has already leapt from R105, immediately before the results were announced, to R125 and is now only 19% down on its 12-month peak of R155. At current levels, the historic dividend yield is 3,5%, which already gives it the best rating of any life assurance company. *Pat Kenney*

(S8)

Retail deposit rate increases modified

Trust Bank bows to market pressure

Star 19/3/88 (58)

SVEN LUNSCHE

After severe criticism by fellow bankers, Trust Bank yesterday bowed to market pressure and withdrew or modified recently announced increases in retail deposit rates.

The bank came under criticism after introducing the increases, with some commentators claiming that if other institutions followed suit, it would put pressure on margins sooner than expected and cause the prime overdraft rate to rise more quickly.

A spokesman for Trust Bank said yesterday that the increases were intended to give the small investor a better return.

"This has been interpreted by some as being a general increase in investment rates," he said.

For this reason the bank has made a further adjustment to its deposit rates to bring them into line with the market.

On Tuesday, Trust Bank boosted its retail deposit rates by as much as 1,5 percent, paying as much as 13,75 percent for five-year deposits, which left other commercial banks trailing by between two to three percent.

First National's senior general manager Mr Jimmy McKenzie said at the time that Trust Bank's move was unfortunate and that the recent one percent increase in the prime rate to 14 percent was introduced partially to restore profitable margins at the banks.

"If all the banks and building societies followed, rate increases would once again be chasing the prime rate as costs would inevitably rise," Mr McKenzie said.

Trust Bank has in most cases reverted back to the rates which applied before Tuesday.

The following table shows the rates now in force by Trust Bank — where the rates have been increased above the pre-Tuesday level, the previous rate is printed in brackets:

Call — 7 percent; 32 days — 8,5 percent; 60 days — 9 percent; 88 days — 9 percent; 186 days — 9,5 percent (9 percent); 275 days — 10 percent (9,25 percent); 6 months — 9,5 percent (9 percent); 9 months — 10 percent (9,25 percent); 12 months — 10,75 percent; 13-18 months — 11,5 percent (11,25 percent); 19-24 months — 12,5 percent (12,25 percent); 25-36 months — 12,75 percent; 37-60 months — 13,5 percent.

● Allied Bank yesterday said that its bond rate would rise by one percent with immediate effect. This now means a rate of 12,5 percent for Allied's high-net-worth clients. Other clients could pay up to one percent more.

Allied Group's MD Mr Kevin de Villiers said that the increase was in line with other bank-financed mortgages while the building societies' traditional bond rate was still under review.

Timeshare tie-up

Star 19.3.88

FRANK JEANS

58

In a breakthrough in holiday timeshare selling, the Stocks & Stocks (S&S) group has linked up with one of South Africa's biggest real estate agencies, Nationwide.

The marketing division of S&S, which has two prime timeshare developments under its banner — the Kwa Maritane game lodge, near Sun City, and La Cote d'Azur, the beachfront project at Margate on the South Coast — now has the selling weight of Nationwide's 80-branch network and 800 agents.

This is said to be the first major selling drive involving the real estate industry.

At present, timeshare developers invariably handle their own resort marketing.

Mr Peter Foaden, managing director of Stocks & Stocks Marketing, says: "Our tie-up with Nationwide was motivated by the need to make the specialised service of timeshare sales more widely and reliably available to potential buyers throughout the country.

"Selling timeshare is not like selling property. It is selling a total holiday concept. For that reason, we will train all Nationwide representatives intensively.

"The Nationwide link with La Cote d'Azur will have big benefits for all concerned."

Mr Scott McRae, chairman of Nationwide, says: "We now have a great opportunity to capitalise in a field our agents have not been previously exposed to.

"Traditionally, timeshare marketing has involved a drive in one particular area for short periods, but with our spread of branches throughout the country, we will serve outlying and platteland areas as well as the main centres."

SATURDAY BUSINESS

DD 19/3/88

Allied announces bond increase

58

Daily Dispatch Correspondent

A new bond rise blow for householders came into effect yesterday when the Allied Bank announced a 1 per cent increase in its bond rate.

The hike will take effect immediately.

The increase follows the shock announcement last week that the United Building Society and First National Bank were increasing their bond rate.

The latest move means a rate of 12,5 per cent for Allied's high net worth clients.

Other Allied Bank clients could pay up to 1 per cent more.

The Allied Group's managing director, Mr Kevin de Villiers, said:

"The increase is in line with what is happening with other bank-financed mortgages."

He said that increasing pressure on home loan rates caused the United Building Society and the First National bank to announce bond rate increases last week.

Pressure on the bond rate, he added, is the result of the increased cost of funding and strong demand for bonds.

The surge in the demand for home loans has complicated the bond war, as building societies battle to cope with the public's need for home finance.

Because of the longer-term nature of the Allied Building Society's funds, there is not such intense upward pressure on these rates.

However, some adjustment would be necessary in due course and Mr De Villiers repeated that the Allied remains committed to eliminating the gap that exists between the rates paid by new and existing building society borrowers before the beginning of May.

The existing gap is 0,5 per cent.

As adjustments to building society rates require on month's notice, a further announcement is likely before the end of March.

The UBS announced an immediate 1,5 per cent increase in its rate for new mortage loans, from 12.5 per cent to 14 per cent. Existing bondholders paying rates below 13,5 per cent will have their rate increased on May 1.

First National increased its home loan rate to 13,5 per cent from 12,5 per cent with effect on March 24.

Rondtime

DP 9/3/88

Bank cuts rate

58

JOHANNESBURG — Trust Bank, which increased retail deposit rates — some by as much as 1,5 per cent — on Tuesday this week, has submitted to pressure by the market and withdrawn the increases in many cases, while modifying others.

The bank came under criticism after introducing the increases, with some commentators claiming that if other institutions followed, it would put pressure on margins sooner than expected and and cause the prime overdraft rate to rise more quickly.

A spokesman for Trust Bank said yesterday that the earlier announced increases were intended to give the small investor a better return.

"This has been interpreted by some as being a general increase in investment rates," he said.

For this reason the bank had made a "further adjustment" to its deposit rates to bring them into line with the market. In most cases it has reverted back to the rates which applied before Tuesday. — Sapa

Barend bleeds life assurance policyholders

Mike Levett ... less said the better for now

27/6/85 / 11

By Udo Rypstra

NEW tax measures hitting life assurance will bleed the ordinary man more than the industry.

Not only has he lost the right to a rebate on his premiums, but the return on his investment will also fall Finance Minister Barend du Plessis's 75% tax increase on life companies' investment income will come from money previously passed on to policyholders

Assurers will have to pass on the impost unless they can find loopholes or other ways, like changing their product mix, to keep long-term saving attractive

New blow

The Life Offices Association (LOA) met the parliamentary Standing Committee on Finance on Friday It argued, as it did to the Margo Commission, that saving had fallen in the past 10 years, and the tax was a new blow to thrift

The LOA hopes that the increase in tax liability of assurers' investment income from 40% to 70% will be compensated for in next year's Budget by the full implementation of the Margo Commission recommendation that dividends become non-taxable

LOA chairman Mike Levett said yesterday that the matter was so sensitive that he did not wish to discuss what could happen

Some industry sources fear that Mr du Plessis's move could mean that long-term savings through insurance will become unattractive, and that the public may divert funds to tax-free short-term saving with building societies and the Post Office.

However, Mr Levett says returns on life assurance are still a lot better than the negative real rates of interest offered by other financial institutions.

There has been concern for several years about the inflow of money to the life assurers' coffers at the expense of the other financial institutions

Piet Badenhorst, chief executive of UBS Holdings and chairman of UBS Bank, questions the relatively small contribution of assurers to the fiscus. Others believe too much economic power lies in too few hands

Bay Jordan, of accountants Ernst & Whinney, says two assurers have together increased their premium and investment receipts by R1,3-billion. He says that shows the industry is drawing a large share of national savings

However, their combined net tax surplus increased by only R17,8-million The combined return on income was only 3,3%, which was low

There are two main reasons for the return being so low

High costs

The first is that the costs of writing a policy are high These costs are incurred immediately and recovered through premium payments over several years That is why the initial surrender value of a policy is so low.

The second is that the assurer has to set aside enough money to meet future liabilities to policyholders Every year, actuaries calculate these liabilities, which include bonuses from profits made by the assurer on investments

Mr Jordan says "The transfer to actuarial reserves underscores the principle that assurers hold money in trust on behalf of policyholders. This is an established concept, confirmed by the Louw Commission in 1976 It is the underlying reason why tax is different for assurers. It seems that, as argued by the assurers, the increased tax will not affect them, but will reduce the returns to policyholders and thus the ultimate policy benefits

"The industry admits that it would be able to reduce the impact of this tax by changing the marketing mix of its business. Only investment income from certain types of business, such as annuities and pensions, is taxable Nevertheless, it appears that ultimately it is the policyholder who will bear the cost — according to industry estimates, a 1,5% reduction in the rate of return"

Loopholes

It has been said that the life assurance industry exploits tax loopholes and does not invest in new enterprises It prefers to back established businesses

Mr Jordan says "The proper solution appears to be stricter financial reporting requirements by the assurance industry to reflect the true nature of its business and in particular disclosure of the movements in the actuarial reserves"

He believes that "something as radical as the total abolition of income tax on investment income, for all sectors of the economy, could result in stimulating savings, equalise competition and help fight inflation"

Mega loss era for insurers

(58)

By Robyn Chalmers

SOUTH Africa has "entered an era of mega losses" especially from fires and floods which will hit the insurance industry hard, says an industry spokesman.

SA Insurance Association chief executive Rodney Schneeberger says 1987 flood and fire claims were huge when compared with previous years. Insurers have received claims for an estimated R150-million because of the Free State and Northern Cape floods this year.

Protection

Because of the vast volume of statistical information to be considered, 1987 fire figures have not been worked out. But figures for 1986 showed a 14,6% rise in claims over 1985, although for the first nine months there was a drop of 43% over 1985.

Mr Schneeberger says the drop was caused by the industry's taking extensive measures to bring down the loss ratio. It encouraged the insured to take protective measures.

Premiums for fire insurance were increased to bring in more money and cover insurers for losses, including fraud.

"The fire insurance market has been through a bad spell. It started in 1981 when we had a loss ratio of 95,29%. Add to this 35% for commission and management fees, and you end up with a loss ratio of 130,29%.

"In effect, this means that for every rand the industry took in, it spent R1,30. We brought the ratio down to 93,46% in 1986 and until the third quarter of 1987 it looked as though it would be maintained. But the fourth quarter will set us back where we were," says Mr Schneeberger.

The 1987 and 1988 floods have also lifted insured losses, the highest claims before the Natal floods amounting to R48-million in October and November 1985.

Cyclone

By contrast the Laingsburg flood cost the industry R47,6-million in 1981 and Cyclone Demoina R34-million in 1984.

"Damage caused by the Natal floods was undoubtably the biggest insurance catastrophe in the history of SA, and claims for flood and fire damage in 1987 and 1988 will hurt the industry."

Rodney Schneeberger ... flood, fire and fraud

(88) B/day 22/3/88

Banks turning to forex for profit

LONDON — Many international banks and other financial institutions have targeted foreign exchange as a key activity to prop up sagging profits damaged by the Third World debt crisis and last year's share market crash, bankers and analysts said.

While traditionally not a major profit contributor for banks, Rod Barrett of British brokerage firm Hoare Govett said foreign exchange was good business for banks increasingly "under pressure to concentrate on their market strengths".

"There is no doubt it has become a core profit line rather than a peripheral profit line in the last couple of years," said Tim Goode, a director of Britain's midland bank Montagu.

Foreign exchange has won a spotlight because of earnings setbacks suffered by banks in problem loans to less developed countries and intense corporate lending competition.

It also has gained renewed attraction as trading in eurobonds and equities remains at a low ebb after last October's worldwide share collapse and merchant banking activities such as rights issues and venture capital continue to suffer.

Dealers report that foreign currency exchange volumes are soaring with daily spot turnover in London now way above the US$90bn estimated by the Bank of England two years ago. — Reuter.

New

MAIL 22/3/88 (58)

rises.

;es in banks' deposit, bond rates

By MAGGIE ROWLEY
Business Staff

PRESSURE on interest rates continues to mount and Volkskas today increased interest paid on savings deposits by one percent while Allied Bank raised its bond rate by one percent.

Banks and building societies are monitoring interest rates closely to determine market levels but further increases soon are possible.

An Allied spokesman said it was an "extremely difficult situation" and while they were not increasing deposit rates at the moment the matter was still "in the melting pot".

"Sitting tight"

"Everyone is sitting tight waiting for the market to settle. But there is no doubt that the pressure on interest rates is growing and that the short-term rates will increase along with other rates. It is just a matter of when," he said.

Trust Bank increased its retail deposit rates by as much as one percent last week but after pressure from the industry the increases were scrapped.

First National Bank warned then that if other banks jumped on the bandwagon and raised deposit rates it would have a spiralling effect on interest rates generally and put pressure on the prime rate.

Allied Group MD, Mr Kevin de Villiers, said the increase in the bank's bond rate was in line with what was happening with other bank-financed mortgages.

"The traditional bond rate (Allied Building Society) remains under review. Because of the longer-term nature of the society's funds, there is not such intense upward pressure on these rates."

He said, however, that some adjustment would be necessary in "due course" and an announcement to this effect would be made before the end of March.

Before May

"The Allied remains committed to eliminating the gap between the rates paid by new and existing building society borrowers before the begining of May. At present this gap is 0,5 percent."

Volkskas's new rates on savings accounts (previous in brackets) are: R200-R499, 4 percent (3,5 percent). R500-R999, 5,5 percent (5 percent). R1 000-R1 999, 6,5 percent (6 percent). R2 000-R4 999, 6,5 percent (6 percent). R5 000-R9 000, 7,75 percent (7,25 percent). R10 000-R14 999, 8,5 percent (7,5 percent). R15 000-R19 999, 9,35 percent (8,5 percent). R20 000-R24 999, 9,5 percent (8,5 percent). R25 000-R39 999, 9,75 percent (8,75 percent). R40 000-R50 000, 9,8 percent (8,75 percent).

Bonussave: R5 000-R14 999, 8,6 percent (7,85 percent). R15 000-R29 999, 9,75 percent (8,85 percent). R30 000-R50 000, 10 percent (9,05 percent).

PIO 23/3/88

Appeal by JSE in Wit Nigel case dismissed

58

BLOEMFONTEIN —The Appeal Court dismissed an appeal here yesterday by the Johannesburg Stock Exchange and its executive president against a judgment that reviewed and set aside a decision to suspend the listing of the shares of Witwatersrand Nigel Ltd.

On August 17, 1987, Mr Justice Preiss, declared in the Witwatersrand Supreme Court that the refusal of the JSE to approve a proposed announcement by Wit Nigel dated May 20, 1987, was in breach of an agreement.

It also declared that the JSE's requirement that the announcement be amended to contain a particular provision was "ultra vires" the powers of the JSE.

The JSE and its president, Mr Tony Norton (in his official capacity), jointly and severally, were ordered to pay the costs of the application.

The second respondent was Mr Bruce Brothers, a shareholder in Wit Nigel.

Mr Justice Corbett said the appeal raised the question whether the lower court was justified to set aside Mr Norton's decision to suspend the listing of the shares and in declaring that the proposed announcement to shareholders and the requirement that it be amended to be in breach of contract and "ultra vires."

The judge said that from a summary of the case of Wit Nigel and Mr Brothers it was well-founded and the lower court had good grounds to grant the declaration order on the refusal to approve the statement.

On the suspension of the listing by Mr Norton, in exercise of power under section 17(3) of the Stock Exchange Control Act, the judge said that, in law, the entire gravamen of Mr Norton's cpmplaint against Mr P G George (executive chairman of Wit Nigel) and Wit Nigel was without foundation.

It was correctly held by the lower court, said the judge, that Wit Nigel was entitled to ignore the conditions and publish the announcement. In doing so it did not breach any obligation owed to the JSE in terms of its Rules and Listings Requirements. The JSE had no valid cause for complaint.

Mr Justice Corbett said the purpose of the suspension was not to protect the public interest, as he had broadly identified it, but rather to discipline or punish Wit Nigel for disobeying what was thought to be a valid instruction given by Mr Gair.

It seemed to the judge that this was an improper purpose — not one contemplated by the Act — and that vitiated the decision taken by Mr Norton to suspend the Wit Nigel shares and rendered it liable to be set aside on review.

Mr Justice Corbett, with the concurrence of Mr Justice van Heerden, Mr Justice Smalberger and acting judges of appeal Mr Justice Nicholas and Mr Justice Kumleben, held that the court order to review and set aside Mr Norton's decision as also well-founded. — Sapa

R300m in property

DID 23/3/88

58

JOHANNESBURG — Metropolitan Life Limited investments in property will reach a total of almost R300 million this year, which includes current commitments to their september year-end in this field totalling R50 million.

Opportunities have been grasped over a broad spectrum of property investment throughout South Africa says metropolitan's property investment manager, Mr Heinie Truter. — DDC

Estate planning essential, farmers told

D/D 23/3/88 Daily Dispatch Reporter

58

GRAHAMSTOWN — Estate planning was a relatively undeveloped subject, a chartered accountant, Mr John Lillis, told a meeting of the Bathurst West Farmers' Association.

"There is little literature on the subject. It is not studied in the legal and accounting courses at our universities unlike other countries," he said.

There was a lack of sophistication, ignorance and not much teaching or literature about it, he added.

Yet vast sums were paid out in estate duties each year, much unnecessarily.

Estate planning was not popular because it meant giving up one's control of one's assets in some measure.

"Yet there are some exceptionally good estate plans, the main feature of which is saving estate duty. Many families are now reaping the benefits," he said.

When embarking on estate planning it was essential to consult a lawyer, accountant or competent independent insurance broker — "don't try to do it yourself."

The next step was to decide what was the most beneficial form in which to hold assets — companies, closed corporations, partnerships or trusts. Trusts were the most flexible of all and extremely popular, he added.

The main objectives of estate planning should be thought through. The main aim was to provide for the family and heirs giving them economic security should the head of the household die.

Another aim was to facilitate rapid, inexpensive winding up of estates and here a trust was "quick and clean", Mr Lillis said.

Other factors were facilitating the continuity of a business, discouraging fragmentation of an estate, protecting over-ambitious or weak children and generally creating harmony within the family while ensuring their happiness and security.

Parabat's chute fails

PRETORIA — A member of 44 Parachute Battalion in Pretoria has been killed in a parachuting accident near Hammanskraal.

Corporal Gregory Steward, 24, plunged to his death when his parachute failed to open during a practice jump.

He leaves his parents, who live at Fouriesburg in the Free State.

The Defence Force has appointed a board of inquiry into the accident.— Sapa

Girl drowns in dam

QUEENSTOWN — A nine-year-old girl, Ntomboxolo Ndike, drowned in a dam on the farm Melton owned by Mr M. G. Geyer.

The girl and two younger sisters were at home while their parents were attending a funeral.

She had been playing on the wall of the dam when she slipped and struck her head.

Mrs Amanda Geyer said Ntomboxolo must have been unconscious when she fell into the water as the dam was almost empty.

Under normal circumstances she could easily have got out of the water.

She had been dead for several hours before she was found by her sisters. — DDR

Rhodes students gain top prizes

EAST LONDON — Postgraduate students in the department of

D/D 23/3/88

Chinatown plan nearer fruition

QUEENSTOWN — The R40-million Chinatown project is a step closer to fruition following the lodging of a formal application for the development of the residential area with the town council.

The application was lodged on behalf of Mr Hak Yan Suen, the principle developer of Chinatown.

Land in Madeira Park has been made available to Taiwanese entrepreneurs for housing and, at the request of the council, the development will be Chinese in character

The town clerk, Mr Peter Gerber, said the council would shortly be advertising the development and calling for objections, if any.

Provision for 250 houses has been made in the suburb and an application for further amenities is expected shortly.

Taiwanese businessmen have a R40-million contract to establish factories in Queendustria and certain monies have already been deposited in a trust fund against the project.

Mr Gerber said his council was still waiting for approval to applications, lodged on behalf of entrepreneurs, from various government departments.

Once these were received the industrial development would go ahead, he said.

Mr Gerber added that the Taiwanese involvement in the town had generally been well received by residents.

"The majority of people see the development as a boost to the town's economy," he said.

Sage profits rise by 17%

(58) CAPE TIMES 24/3/88

JOHANNESBURG. — Financial and investment group Sage Holdings recorded a 17% increase in attributable profits in the year to December.

Dividends for the year have been increased by 16%.

The preliminary results, released yesterday, show that pre-tax profit was up 26% to R38,6m and after-tax profits were up 27% at R26,3m (1986: R20,7m).

Attributable profits amounted to R21,8m (R18,6m) and earnings per share were 100c compared with 86c previously.

The group has declared a final dividend of 38c a share (32c), bringing total distribution for the year to 58c (50c).

The directors comment that the earnings growth in 1987 emanated from both the financial services division and the property and construction division.

"In line with the re-orientation of the group's sources of earnings in recent years, the financial services division again contributed approximately 75% of group net earnings."

Consolidated group assets rose by 25% in the year to R1,3bn, representing a more than fourfold increase over the past five years. — Sapa

Assurers pay out a record R5,33-bn

(8) Star 29/3/88

Finance Staff

Benefits paid out in one year to the life insurance industry topped the R5 billion mark for the first time in 1987, the Life Offices' Association (LOA) said yesterday.

The industry paid out benefits of R5,33 billion.

"This is an increase of almost exactly 33,33 percent over the total benefits paid in 1986.

"In the second half of 1987 alone, more benefits were paid out than during the whole of 1985," the LOA said in a statement.

Investment income earned on behalf of policyholders amounted to R4,92 billion, an increase of 16 percent over 1986.

Total premium income increased by 56 percent to R13,6 billion.

Total assets rose from R54,5 billion to R65,8 billion — an increase of 20,7 percent — between the end of 1986 and the end of 1987.

In 1987 the industry held 39 percent of its assets, or R25,7 billion, in public sector securities.

"These assets reflect the important role the industry plays in providing loan capital for the public sector," the statement said.

Commenting on the results, the chairman of the LOA, Mr Dorian Wharton-Hood said he expected premium income to grow by less than 50 percent in the current year.

"The 56 percent rise in total premium income was partially achieved as a result of a tremendeous increase in new single-premium business on which the state has now stopped some of the guarantees available last year," he said.

Endowment policies in particular are expected to be hard-hit by the new tax on long-term assurers, which increased the amount of investment income subject to tax from 40 to 70 percent.

Mr Wharton-Hood nevertheless expected investment income this year to surpass the growth rate achieved in 1987, "although this of course will vary from one company to another".

Perm grabs more turf

58 BDay 25/3/88

GRETA STEYN

ODD-ONE-OUT building society, the Perm, managed to increase market share in the last quarter of 1987 in spite of charging 14,5% for bonds while other societies were at 13,5% or lower.

The Perm's total mortgage advances outstanding grew by R250m in the fourth-quarter of last year — beating Allied's growth of R247,4m, United's R240m and NBS' R113,4m. This emerged from an analysis by First National Bank of societies' BA7 returns to the Reserve Bank.

Total mortgage advances include residential and commercial property. As the bond war escalated, societies slashed rates to protect their home turf, but the Perm remained the odd-one-out, sticking to its 14,5%.

In spite of the competition, the Perm marginally pushed up its market share of total building society mortgage advances to 24,2% from 24,1%. It is the second largest building society in terms of mortgage advances outstanding.

As societies pulled out all the stops to compete with banks for upmarket customers, the Perm made inroads into other markets, notably black housing. The average size of the Perm's bonds is R38 619, while the Standard Bank's is R85 000.

(58) B/day 25/3/88

Bank chiefs were 'shocked'

SUE RUSSELL

AFRICAN Bank (Afbank) chairman and board of directors first learnt of financial rand dealings done in the bank's name when they were informed of the transactions by the Reserve Bank deputy director and the Registrar of Financial Institutions on May 21, 1986, the Rand Supreme Court heard yesterday.

Giving evidence, bank chairman Sam Motsueyane said the board had been "absolutely shocked" on hearing of the deals.

The bank and three former senior executives, Alan Young, Henry Harper and Arthur Ferreira, have all pleaded not guilty to 420 charges of fraud and contraventions of exchange control regulations arising out of their alleged involvement in unlawful financial rand deals. Afbank former MD Moty Maubane was also to have stood trial but died last year.

The State alleges the transactions led to a R100m profit and to $119m unlawfully leaving SA.

Motsueyane told the court the board had offered its co-operation in the investigation and agreed to suspend the individuals responsible.

The trial continues today.

DID 25/3/88

R5bn insurance pay outs 1987

(58)

CAPE TOWN — Benefits paid in the life insurance industry in a year topped the R5-billion mark for the first time in 1987, the Life Offices' Association (LOA) announced.

The industry paid benefits amounting to R5,33-billion last year.

"This is an increase of 33,33 per cent over the total benefits paid in 1986. In the second half of 1987 alone, more benefits were paid out than during the whole of 1985," the LOA said in a statement.

Investment income earned on behalf of policyholders amounted to R4,92-billion, an increase of 16 per cent over 1986, while total premium income increased by 56 per cent to R13,6-billion.

Total assets increased from R54,5-billion to R65,8-billion — an increase of 20,7 per cent — between the end of 1986 to the end of 1987. The industry held 39 per cent of its assets, or R25,7-billion, in public sector securities.

"These assets reflect the important role the industry plays in providing loan capital for the public sector."— Sapa

FM 25/3/88

TRUST BANK

Ducking and diving

Within three days last week, Trust Bank moved rates paid on call money sharply up — and back again. After an unexpected announcement last Tuesday of a 1,5% increase to 8,5%, the bank cancelled the increase on Friday.

Increases in 12 other categories of deposits, ranging from 0,25% to 1,5%, were also announced on Tuesday. By the end of Friday they, too, had been either cancelled or reduced. The state of play at the moment is that six rates relating to medium and longer term deposits have been increased by between 0,25% and 0,75%.

The original announcement omitted an important piece of information — that these increases applied only to amounts under R10 000. These constitute only 2,2% of Trust's total deposits so the impact of the new rates would have been limited.

Trust's senior GM (banking services) Kobus Roetz, says: "We were not successful in communicating our intentions to the public."

This breakdown in communication had immediate repercussions. Other financial institutions feared a ratchet effect and put pressure on Trust to reconsider. Pressure presumably came from Pretoria as well, as the Reserve Bank is committed to a policy of gradual increases in interest rates rather than sharp shocks which in the past have triggered off economic avalanches.

Trust Bank responded. And instead of simply explaining the misunderstanding, went one step further and readjusted rates downwards again.

The episode clearly reflects the cross currents created by the rising cost of funds and competition.

There is enormous upward impetus in interest rates and, since Bank rate rose one percentage point to 10,5% on March 8, several institutions have increased their mortgage bond rate. First National, Trust and Volkskas have moved from 12,5% to 13,5%, United Building Society has moved from 12,5% to 14%, while Allied has moved its bank bond rate for high net worth clients from 11,5% to 12,5%.

However, with consumer confidence so fragile, financial institutions are doing their utmost to hold down increases despite pressure on margins. None can afford to concede ground to rivals and all fear a return of the slump of 1985/86, when people resisted the temptation to borrow. These strategies have been in line with Bank policy of avoiding any move which would strangle further growth.

As there is no way to accommodate the one pressure without exacerbating the other, something has to give.

Trust, which has been aggressively marketing its business, will now have to concentrate on funding. ■

TRUST'S TWO STEP

Increases and decreases

	Monday	Tuesday	Friday
Call	7,0	8,5	7,0
32 days	8,5	10,0	8,5
60 days	9,0	10,0	9,0
88 days	9,0	10,25	9,0
185 days	9,0	10,5	9,5
275 days	9,25	11,0	10,0
6 months	9,0	10,5	9,5
19 months ...	9,25	11,0	10,0
12 months ...	10,75	12,0	10,75
13-18 months	11,25	12,25	11,5
19-24 months	12,25	12,75	12,5
25-36 months	12,75	13,25	12,75
36-40 months	13,5	13,75	13,5

25/3/88

LIFEGRO

Low growth

58 FM

Lifegro's major shareholders are Volkskas and Remgro, both of whom have board representation, so they must know what is going on. The assurer's minorities are a lot less enlightened and probably also very disappointed with the group's results for 1987. Now the Budget has added to Lifegro's problems with the increase in the tax rate on life assurers.

Earnings for the 1987 year barely increased at all, moving from 18,8c to 18,9c and the dividend rose by only 1c to 16c. Apart from the surprise when this is compared with the increase in premium income of 97% and investment income of 35%, it is probable that shareholders have grown to expect all life assurance companies to keep pace with the standard set by Liberty's 20% pa growth.

What exactly went wrong is by no means clear — Lifegro discloses considerably less than some of the larger listed groups — but it seems that the board made a decision, based on figures not available to the ordinary shareholder, that it was necessary to make substantial provisions.

As MD Tony Laubscher puts it, "the board was of the opinion that in the current environment, with all the uncertainties in the industry, it is prudent for the company to reserve more for the policyholder." He says that there were two main problems over the past year: the fact that strong growth led to new business strain as reserves had to be established against the new business and the decline in the JSE, which reduced the value of assets held in the reserves. "Policyholders are the lifeblood of the company," he says.

One of the difficulties, it appears, was the single premium policies where the company had guaranteed the value of the investment. As the stock market fell, Lifegro had a shortfall to make up and the board decided to make full provision for this. Laubscher points out there has been some decline since year-end and that there could be some reduction of the provisions should the investment markets rebound. He says recent studies by brokers and actuaries show that Lifegro has achieved some of the top investment returns in the life assurance industry.

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But the group's heavy reliance upon single premium business is worrying. Single premiums and benefits grew 204% and recurring premium 23%. Laubscher suggests that Lifegro simply took advantage of developments in the market. Inevitably one wonders about the present year. Despite the new business strain, obviously it is preferable to have recurring income than to have to chase more single premium policies again each year.

It seems probable Lifegro has provided more than was demanded by statutory requirements, but the question is whether this reflects an underlying weakness in the level of the reserves. Laubscher says this is not the case, as will be revealed in the annual report. To give the group the benefit of the doubt, it is possible they were anticipating the outcome of the Margo recommendations.

Since the changes in taxation announced in the Budget, life companies' reserves have become very much more important. Taxation is being increased by 75%. Based upon the tax paid in 1986, this would mean that Lifegro has to find another R9,5m, compared with net taxed surplus for 1987 of R9,8m. But Laubscher says that nine-tenths of the tax is for policyholders' accounts. Had it been introduced a year ago, the group would have been able to use reserves to pay for the portion applicable to policy holders and shareholders would have felt very little impact while policyholders could receive less in the form of bonuses.

Lifegro's Laubscher ... reserves not weak

There are still a lot of questions we would like to have answered and the annual report should make interesting reading. In the meantime, the stock market has passed its own judgment. The share price has fallen from 375c to 245c since the results and the new tax were announced.

Pat Kenney

SHORT-TERM INSURANCE

Waiting for Melamet

Though many short-term insurance companies have shown healthy profits in the past year, prospects of tougher reserve legislation

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are dampening spirits. The Melamet Commission of Inquiry, investigating the AA Mutual insolvency in April 1986, is due to report to the State President next month. Indications are it will recommend strengthening of reserves.

These include:

☐ Solvency margins (SM), defined as shareholders' funds, or free reserves, as a percentage of net premium income (NPI); and

☐ Technical reserves (unexpired premium and outstanding claims reserves) as a percentage of NPI.

"Minimum requirements for SMs are probably going to increase from 10% to at least 15% and, in time, could fall into line with the 17% standard of EEC countries," says Denzil Curgenven of Quest Insurance Advisory Service.

This figure will put pressure on many companies who have seen SMs shrink in recent months as a result of the drop in equity values since October and rising long-term interest rates which depressed the value of fixed interest securities.

Says Bill Rutherford, South African Insurance Association (SAIA) chairman: "Some companies' SMs may have even dropped perilously close to the statutory minimum of 10%." Many, he estimates, are about 20%.

That this figure is close to the bone is demonstrated by the demise of AA Mutual. Rutherford points out: "That organisation had a 15,4% SM at the end of April 1985 and within a year it was under dissolution."

More disturbing, though, is the state of some companies' financial bases, made up of both free and technical reserves.

Says Curgenven: "The market requirement should be about 120%."

Latest available figures — for the 12 months ending December 1986 — show nine companies were below 100% (see table) while two stood as low as 49,3% and 55,5%. (At the time of dissolution, AA Mutual's financial base was 66,9%.)

The financial base of the market was 109% and, says Curgenven, this figure declined, in the following six months, to 105%. He points out this decline in reserves is in contrast with international trends.

Hollard's Burt Carlin, however, questions the validity of using the financial base as a measure of a company's strength. "A company with large outstanding claims would, according to the formula, have a higher financial base than a company with low outstanding claims."

Carlin believes a better method of measuring company strength may be recommended by the Melamet Commission — a contingency reserve starting at 2% of gross premiums and increasing to 10% after five years. ■

BELOW-PAR

1986 RSA Short-Term Insurance Industry Data

January to December 1986

Company	Financial base (%)
Aegis	84,2
Allianz	87,5
A.I.I.	192,2
Auto & General	59,5
Concord	103,8
Commercial Union	131,4
Federated	105,3
General Accident	111,6
Guardian	125,0
Hollard	49,3
I.G.I	63,2
Mutual & Federal	185,1
N.E.G.	121,1
President	56,0
Protea	154,6
Santam	55,5
Sentraboer	85,5
S.A. Eagle	135,9
Standard General	74,3
Market Financial Base	109

Source: Quest Insurance Advisory Service

Hansard

Brandvlei Maximum
Caledon
Helderstroom Medium

Stanger
Durban Medium A
Durban Medium B
Durban Medium C
Durban Female

George Male
Uniondale
Victoria-West

Goedemoed Medium A
Goedemoed Medium B
Middelburg (Cape) Male

Groenpunt Medium
Groenpunt Maximum
Sasolburg
Vereeniging Male
Vereeniging Female

Johannesburg Medium C
Johannesburg Female

Kandaspunt

Douglas Male
Hopetown
Kuruman
De Aar
Colesberg

Potchefstroom Male
Rustenburg Male
Wolmaransstad

Bethlehem
Frankfort
Hennenman
Kroonstad Medium A
Kroonstad Medium B
Kroonstad Female
Ventersburg
Virginia Male

Leeuwkop Medium A
Leeuwkop Medium B
Leeuwkop Medium C
Leeuwkop Maximum

Heidelberg Male
Modderbee
Nigel

King William's Town
East London Medium A

Pietermaritzburg Medium A
Sevontein

Estcourt
Port Shepstone

Pollsmoor Maximum
Pollsmoor Female

Cradock
Grahamstown Female
Patensie
Port Elizabeth Male
St Albans Medium
St Albans Maximum
Graaff-Reinet

Losperfontein
Pretoria Local
Pretoria Maximum
Pretoria Central
Pretoria Female
Voortrekkerhoogte
Walvis Bay

Robben Island

Koelenhof
Simondium
Victor Verster Medium A
Victor Verster Medium B
Victor Verster Maximum

Waterval Medium A
Waterval Medium B
Ladysmith (Natal)

Middelburg (Tvl)
Witbank Male
Woestalleen

Dwarsrivier
Obiqua
Rawsonville
Warmbokveld

Worcester Male

Zonderwater Medium
Zonderwater Open

Prisoners: charges of assault against prison warders

473. Mrs H SUZMAN asked the Minister of Justice:

(1) Whether any charges of assault were laid by prisoners against prison warders in 1987; if so, how many charges;

(2) whether departmental inquiries were held into these charges; if not, why not; if so, what ~~were the~~ findings;

Hansard

(3) whether any persons were convicted; if so, how many?

The MINISTER OF JUSTICE:

(1) Yes, a total of 1 769 complaints of alleged assault was received and registered.

(2) Yes.

The South African Prisons Service regards every complaint of an alleged assault on a prisoner by a member of the Prisons Service, no matter how petty, in a very serious light. In terms of the Standing Prisons Service Orders, every complaint of alleged assault is registered in the appropriate register and properly investigated by the Commanding Officer.

Likewise, the assault on personnel by prisoners is also not tolerated and offenders are strictly dealt with.

In respect of 1 184 of the complaints of alleged assault on prisoners by members, no substance could be found after thorough investigation to institute charges against any member of the Prisons Service. Of the remaining 585 complaints a total of 95 was referred to the South African Police for further investigation while 388 complaints resulted in departmental hearings in terms of Prisons Regulation 71(1)(hh) read with Section 53 of the Prisons Act, 1959 (Act no. 8 of 1959). The remaining 102 complaints are still being investigated.

(3) The results of the formal charges were as follows:

Trials in terms of Prisons Regulation 71(1)(hh) read with Section 53 of the Prisons Act:

144 Members were found guilty on 136 charges.
198 Members were found not guilty on 187 charges.
65 Charges involving 72 members are still in the process of finalization.

Complaints investigated by the South African Police:

14 Members were found guilty in 11 cases.
5 Members were found not guilty in 5 cases.

The Attorney-General refused to prosecute in 55 cases involving 101 members.

In 24 cases involving 26 members the outcome of the Police investigation or the Attorney-General's decision is not yet available.

Interest rates charged by financial institutions

530. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) Whether interest rates of between 28 and 32 per cent were charged in the recent past by financial institutions in the Republic; if so, (a) when, (b) in terms of what statutory provisions and (c) on whose authority;

(2) whether he will make a statement on the charging of such interest rates?

The MINISTER OF FINANCE:

(1) Information concerning the interest rates determined for individual clients by banks and other financial institutions with regard to a variety of credit and loan transactions, is confidential and not available to the Reserve Bank.

Interest rates are determined in the market in accordance with the general economic and liquidity situation. Factors which influence interest rates on specific credit transactions are the amount and type of credit involved, the creditworthiness of the client and the available security. Competition among institutions ensures that lending rates reflect the availability of credit and the market conditions prevailing at the time.

Intervention by the authorities in the determination of lending rates is very limited. In this regard the most important contribution, with a view to preventing the exploitation of the public, is the setting of maximum rates that institutions may charge. It must be stressed that only maximum rates are set and that no indication is given as to the rate which should be charged. As from 4 December 1987 these rates, which are determined in terms of the Usury Act, are as follows:

Any loan or credit transaction up to and including an amount of R4 000—23 per cent.

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For amounts above R4 000 up to and including R70 000—20 per cent.

For amounts above R70 000 no maximum is laid down.

For the period 23 January 1987 to 3 December 1987, the two rates applicable were 23 per cent and 19 per cent respectively. The ruling in respect of amounts above R70 000 was the same.

The adjustment of the prescribed maximum rates ensures that they also reflected conditions in the financial markets prior to 23 January 1987 The highest limit in force in recent years was during the period 7 August 1984 to 11 February 1986, when a maximum rate of 32 per cent applied to certain transactions. It is important to note that the prime overdraft rate, which is a broad indication of rates on credit transactions (although it applies only to prime clients), reached a maximum of 25 per cent during the period 4 August 1984 to 18 November 1987 and again from 8 January 1985 until 6 May 1985. It may be that contracts entered into at the high rates were still valid for a certain period thereafter.

(2) No.

Vito Roberto Palazzolo: luxury cars landed in RSA

671. Mr D J N MALCOMESS asked the Minister of Finance:

(1) Whether a certain person, whose name has been furnished to the Minister's Department for the purpose of his reply, landed any luxury cars in South Africa; if so, (a) when, (b) where, (c) how many, (d) what is the name of this person and (e) what total amount was paid by or on behalf of this person in respect of the importation of these cars;

(2) whether the amount so paid differed from the amount normally payable in respect of the importation of such cars; if so, (a) why and (b) what was the difference?

The MINISTER OF FINANCE:

(1) Yes.

(a) On 28 February 1987.

(b) At East London.

(c) One.

(d) Vito Roberto Palazzolo.

(e) The duty was fully rebated in terms of item 407.04/87.00/01.00 of Schedule No. 4 to the Customs and Excise Act (Act 91 of 1964). This rebate is afforded in respect of motor vehicles imported by immigrants and according to information available at the time of importation, the importer complied in all respect with the conditions of the rebate item.

(2) No, the aforementioned rebate provision is applicable in cases where the motor car is imported by an immigrant who complies with all the conditions specified in such provision.

Human Sciences Research Council: percentage of budget paid

754. Mr C J DERBY-LEWIS asked the Minister of National Education:

(1) (a) What percentage of the total budget of the Human Sciences Research Council was paid by his Department in each of the latest specified five financial years for which information is available and (b) what was the amount so paid over in each of these financial years;

(2) (a) who appoints the members of this council, (b) for what period is each member appointed and (c) what is the annual remuneration received by each such member;

(3) whether he will furnish a list of the present members of this council; if not, why not; if so, (a) what are their names and (b) in respect of what date is this information furnished?

The MINISTER OF NATIONAL EDUCATION:

(1) (a) 1982/83—97,0%
1983/84—96,9%
1984/85—93,0%
1985/86—93,8%
1986/87—93,5%

(b) 1982/83—R17 895 610
1983/84—R24 399 092
1984/85—R35 206 043
1985/86—R38 777 000
1986/87—R48 088 092

(2) (a) The Minister of National Education.

(b) A member of the council is appointed for period not exceeding two years, with the exception of the president of the HSRC. The president's period of office as member of the council is the same as his time of service at the HSRC.

(c) Members of the Council are not remunerated on an annual basis. Each member of the council receives an amount of R193,82 per day for every meeting attended.

(3) Yes.

(a) The names of members of the council are as follows:

Dr J G Garbers (Chairman)
Prof Francis J Bosman
Mr D E Cooper
Dr A B Fourie
Dr D J Gouws
Prof W L Nkuhlu
Prof H W Rossouw
Mr P Steyn
Prof K Tober
Prof T van der Walt
Prof R E van der Ross

(b) 14 March 1988.

Persons with criminal records: permanent residence

808. Mr C J DERBY-LEWIS asked the Minister of Home Affairs:

(1) Whether any exceptions were made in the granting of permanent residence to persons with criminal records during the latest specified period of 10 years for which information is available; if so, how many;

(2) whether he will furnish particulars of the persons concerned: if not, why not; if so, what are their (a) names and (b) nationalities?

The MINISTER OF HOME AFFAIRS:

(1) to (2) The hon member's attention is drawn to the fact that each application for permanent residence is submitted for consideration to the Immigrants Selection Board, which is an autonomous body established in terms of the Aliens Act, 1937 (Act 1 of 1937). The Board considers each application in accordance with the guidelines contained in section 4(3) of this Act. No separate statistics of applicants with criminal records are being kept.

Fishing industry: encouragement of competition

822. Mr C J DERBY-LEWIS asked the Minister of Environment Affairs:

Whether any measures are being applied and/or envisaged to encourage competition in the fishing industry at present; if so, what measures are being (a) applied and (b) envisaged in this regard?

The MINISTER OF ENVIRONMENT AFFAIRS:

Assuming that the question pertains to the catching of fish and not trading in fish, the reply is —

(a) Yes, the selective allocation of exploitation rights to interests outside the vested industry in cases where there is growth in the relevant resource.

(b) A continuation of the policy as set out in (a) above.

Printing contracts awarded to two companies

833. Mr D J DALLING asked the Minister of Environment Affairs:

(1) Whether his Department awarded any printing contracts in 1987 to two companies, the names of which have been furnished to the Commission for Administration for the purpose of the Minister's reply, or to their associated companies and printing operations; if so, (a) in respect of what publications or printed matter, (b) how many copies of each publication or item were ordered from each company and (c) what are the names of the companies concerned;

(2) whether these contracts were put out to tender; if not, (a) why not and (b) what was the total amount paid by his Department in respect of each of these contracts; if so, what was the (i) tender price originally accepted, and (ii) total amount paid out, in respect of each contract;

(3) whether his Department subsidizes any publications published by the above com-

CAB 1 mrks

Money supply growth 19,95%

25/3/88

SS

Own Correspondent

JOHANNESBURG — Heightened demand for credit by consumers and business alike is causing rapid expansion of the money supply.

Preliminary figures released by the Reserve Bank show M-3, which consists of short and long-term deposits as well as cash, grew by 19,94% in the year to February 1988 to R95,85-bn.

January's M-3 growth was revised upwards to 20,39% from a preliminary 20,19% for the 12 months (January 1987: 8,62%)

Old Mutual economist Dave Mohr said re-intermediation was contributing to growth in the money supply.

"The 'grey market' in money is becoming less attractive to companies now that interest rates are in a rising phase.

"They are returning to the banking sector rather than lending and borrowing among one another — thus contributing to growth in the money supply."

Launch of granny bond set for May

FINANCE STAFF

The Senior Citizens Savings Bonds — granny bonds — announced in the Budget on March 16 are only expected to be launched at the beginning of May, at the earliest.

This was announced yesterday by Mr Bob Tucker, president of the Association of Building Societies, after a meeting of association office bearers and government authorities to discuss the terms of the bonds.

Mr Tucker said the bond would be a standard instrument and "there will be no advantage to buying a Senior Citizen Bond through any particular institution.

"We anticipate that the bonds will be available through all building societies, banks and the Post Office," he said.

But a considerable amount of detail relating to interest rates and other terms of issue still remained to be resolved and full details would be revealed later, he said.

Finance Minister Mr Barend du Plessis said in his Budget speech that senior citizens of 65 and older would be offered a savings facility bearing taxable interest of 15 percent for the first 12 months and afterwards be subsidised to the tune of 2,5 percent above the rate of similar building society savings instruments. The investment will be for a minimum period of three years.

BD 26/3/88 (58)

NBS' new bank subsidiary formed

DURBAN — One of South Africa's big five building societies, Natal Building Society (NBS), has established a banking subsidiary.

NBS Bank, currently being brought into operation at NBS branches around the country, should be operational at all branches by the end of this month.

The group's general manager public affairs, Mr Brian Short, said from the head office that the bank was registered about six months ago and had been operating in Durban on a "low-key" basis for the past four months to gear up the system prior to its launch countrywide.

Since mid-March the group had begun extending the banking facilities to other main centres.

The main purpose of establishing the bank was to offer additional services to NBS clients, chiefly HP financing and credit facilities.

Mr John Smale, formerly with Stannic, is managing director of NBS Bank.

The services of the bank, which was formed from NBS Credit Corporation, will be offered alongside the building society's services as the bank will not have a separate corporate identity, Mr Short said.

The additional costs of providing these services were minimal as in most cases existing personnel and systems were being used to provide them, he added.

The NBS has 70 000 bondholders and nearly a million account holders. — Sapa

Property scheme aids foreign buyers

Cape Times 26/3/88

By LAWRENCE TOTHILL
Investment Editor

A CAPE TOWN property company expects to sell between R30 m and R40 m worth of residential property to foreign buyers this year after the establishment of an arrangement with Investec whereby the overseas buyer can reduce even further the foreign cost of the price.

With this in mind the company has established a London office for the full-time marketing of residential properties, and has appointed a full-time agent in Munich to cater for the German demand.

Normally a foreign buyer is allowed to bring 50% of the purchase price of a property into South Africa via the financial rand market, thereby saving the discount between the commercial and financial rand (around 30%), and the other 50% would be financed through a local loan. It is now proposed to finance the loan section of the purchase price through the use of those funds which make up South Africa's foreign debt caught in the "net" when the Reserve Bank suspended the repayment of foreign borrowings.

A secondary market has been established for the trading of the frozen debts (as has happened in other countries with a similar situation, such as Brazil) and rands can be bought on this market at rates even more favourable to foreign buyers than the financial rand rate.

Dennis Davis, consultant to Investec's Cape Town office, tells me that South African debt trades fairly actively, but won't reveal precise details. The deals are all legal and each transaction has to meet with the approval of the SA Reserve Bank, which is normal procedure with all financial rand deals. The authorities have, however, come to accept that the "frozen debts" are traded freely, and have even introduced incentives for the creditors to:

- Convert the debts into equity;
- Convert to 10-year loans, or
- Convert the debts into financial rands.

It is the debt which has not been converted in these ways which is now being used by a number of investors. When used as borrowings to finance a property purchase the funds remain in the standstill, but when a repayment falls due, as the 8% expected in 1990, that part can be transferred out of South Africa through the commercial rand, thus saving the buyer the discount.

Lawrence Seeff of the Seeff Organization tells me that a party of German industrialists will be visiting Cape Town shortly for the purpose of inspecting better class residential properties

To Page 15

Property scheme

From Page 13

with a view to buying. This group is also interested in looking at agricultural and commercial properties which Seeff hopes to sell on a similar basis.

Seeff has an exclusive arrangement with Investec for this form of financing in respect of property purchases.

The weakness of the rand against other currencies, coupled with the discount on the financial rand (say 35%), means that a British buyer acquiring a property in Cape Town for R400 000 only pays around £65 000. The German buyer of a R400 000 property would pay around DM200 000, making local property extremely attractive for foreign buyers, who can afford to buy and leave the house standing vacant except for when they visit South Africa.

This, I am told, is quite normal.

R100m losses face high-risk boom players

27/3/88 (58) STI

LOSSES which could amount to R100-million are being run up by investors and life assurance companies who took part in high-risk schemes at the height of the stock exchange boom last year.

The schemes were managed by Durban-based Fenton Investments, and involved at least three of SA's largest life assurance companies.

The underlying investment in Fenton's scheme was a non-standard endowment policy taken out with one of the companies. It was structured as a long-term investment with an encashment option after only a year.

Higher tax

The minimum guaranteed return to investors was full capital plus 4% in the first year, and 6% compounded thereafter.

The earliest investors may cash in their chips at the end of May. Fenton director Mike Gray says all investors wish to take their money out of the schemes.

"Under the current scenario with rising interest rates, bearish JSE

Business Times Reporter

sentiment and the higher tax on assurance companies' investment income this is not surprising."

There is no point in leaving the investment in the schemes because assurers are unlikely to achieve the returns needed to cover the minimum guarantee.

The schemes called for a minimum investment of R5-million, and many investors used the gearing principle to raise the money. Banks were willing to lend them money at 12% interest, providing the endowment contracts were ceded to them as the balance of the security of the loan.

The banks knew that each investment would earn at least 4%, and the remaining 8% — for example, R400 000 on R5-million — was lodged up front by the investor.

Fenton's marketing brochures said: "The major advantage of this investment route is that for the cost of a bank guarantee (approximately R6 000), R5-million is working for the investor with only R400 000 of assets at risk in year one."

The banks are safe. Trust Bank is believed to have granted R50-million for investment in the schemes. UAL provided a facility for R200-million, but R140-million was taken up because another merchant bank undercut its rate.

In previous years, similar policies gave a return of 18% a year. Therefore, a guaranteed minimum of capital plus 4% looked a safe bet for the assurance companies.

Investments took the form of a unitised portfolio "participating fully in unit price appreciation".

Break even

After the first year, for the assurer to break even the unit must have appreciated from 100% to 104%. But the present value is now said to be 87% — a shortfall of 17 percentage points.

The total amount invested in the schemes could be as much as R400-million. Unless there is a dramatic turnaround in portfolio performance it looks as though investors will receive only the minimum 4% return — and the banks will still want their interest.

Investors stand to lose their entire stake and the assurance companies will have to make good any shortfall between the value of the unit at the time of redemption and the guaranteed 4%.

The only assurance company prepared to comment on the scheme, Federated Life says it was involved to a "very limited extent".

A spokesman says: "The contracts we were involved in were for five years and we were protected in the sense that early surrenders would involve penalties to protect our portfolio."

In any event, "it is too early to draw categoric conclusions because no money has been withdrawn from the scheme. We have made full provision and we are not going to make any losses on this business."

Federated's earnings a share last year showed a 38% appreciation and its linked policy portfolio has shown compound growth of 20% in the past 10 years.

The spokesman says the equity portion of the portfolio was hedged by purchases of the bear tranche of Elfi stock, and more than the statutory minimum of 33% was invested in prescribed assets.

Analysts say investors cannot be blamed for wanting their money back now. Assuming the figure of 87% is close to the mark, the portfolios would have to appreciate by more than 40% for the investor to break even after the second year.

This is because the banks require a higher interest rate than the 12% agreed on for the first year.

The recent increase in the rate of taxation on investment and dividend income earned by assurance companies will also have a detrimental effect.

One bright spot for investors is that their losses are tax deductible. Assuming the scheme was played by taxpayers in the highest bracket, the downside is half the 8% lodged as security with the bank.

However, investor gains would be taxable.

The gearing scheme was attractive at a return of 18%. On a R5-million investment, for which the outlay was R400 000, 12% would have gone in interest to the banks and the remaining 6% would be pre-tax profit for the investor.

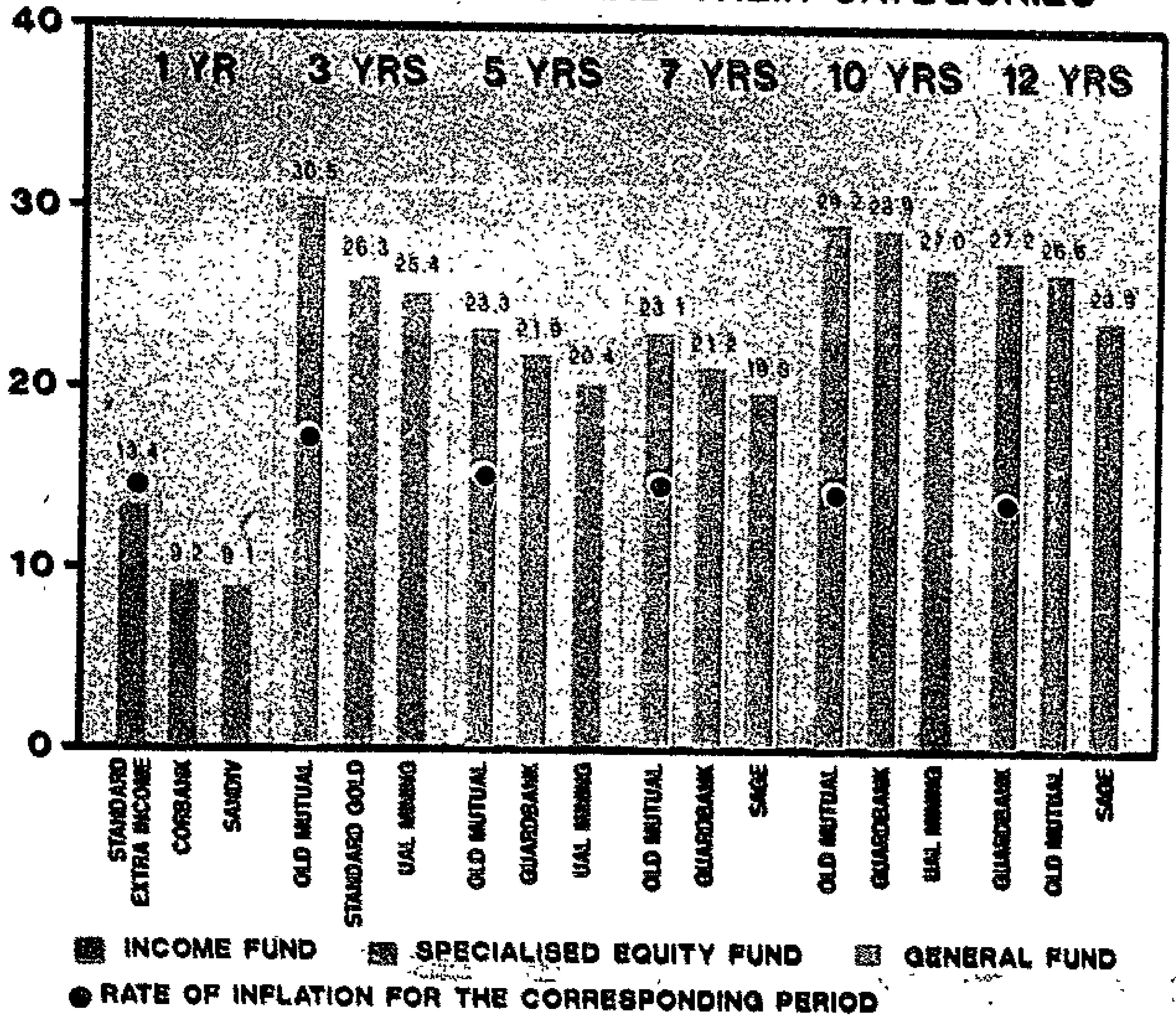
In other words, for an outlay of R400 000 the return would have been a pre-tax profit of R300 000 — or 75%. Not bad for one year.

On the figure of R400-million thought to have been invested in the Fenton and copycat schemes, investors stand to lose 8% — R32-million.

If the value of the unit is only 87% and the guaranteed return is 104%, the shortfal facing assurance companies is about 17% — R68-million, making a combined loss for investors and assurers of R100-million.

Superceding w.d. no: 342

Fixed income and gilt funds top the performance table



Unit trusts fall behind

(8) Stov 28/3/88

By Sven Lünsche

Unit trust returns during 1987 failed to outperform the inflation rate for the first time in about 15 years and last October's market crash is to blame.

But the crash also saw the strong emergence of fixed income and gilt unit trusts, which topped the performance table last year and are set to repeat their strong showing during 1988 in the wake of the recent rise in interest rates.

These findings emerge from an extensive unit trust survey, undertaken by the Graduate School of Management at the University of Pretoria, which compares the returns of all the funds over the last 12 years.

The evaluation of unit trusts' track record reveals a remarkably consistent top performance among the "industry heavyweights" — Old Mutual Investors Fund, Guardbank and UAL Mining and Resources — since 1975.

But, say the Pretoria University academics: "The income/gilt funds which could have been perceived as laggards, have outshone the previously more acclaimed funds after the significant drop in the stock market last year."

These funds quadrupled in number from two to six and the Standard Extra Income Fund and Corbank offered the best returns over the year, which were nevertheless still lower than the ruling inflation rate of 14,7 percent.

The general and the specialist unit trusts, with the exception of Sanlam's Sandiv fund, all showed negative returns during 1987, although fund managers stress that unit trusts should be considered a long-term investment.

The woes of the industry are expected to continue during the remainder of the year.

In contrast to overseas share markets, which have been boosted by favourable US trade balance data and swift monetary action to stave off a world recession, share price on the JSE have been hit by a lower gold price and higher interest rates.

The market is languishing 41,7 percent lower than its pre-crash record high on October 19. At Friday's closing, the JSE all-gold index was 47,5 percent down, metals and minerals 44,4 percent down, financials 35,6 percent down and industrial share prices 34 percent lower.

On the other hand, interest rates are set to rise as economic growth picks up over the next few months and fixed-interest funds are certain to do well again this year.

Finance Minister's 1985 telex quoted

Afbank accused explains

SUE RUSSELL

A FORMER African Bank executive said in the Rand Supreme Court on Friday he had believed it was "OK" to deal in financial rands as long as these were not from the sale of a foreigner's local assets.

Alan Young said this was his understanding of a telex sent out by the Minister of Finance at the beginning of September 1985 announcing the debt standstill and reintroduction of the Financial Rand (finrand).

He said he understood the definition of finrand contained in the telex meant the local sale proceeds of SA assets owned by a non-resident and these could not be transferred in foreign currency. He understood that as a dealer he was prohibited from dealing in these funds.

He said his conclusion was that the telex did not cover all sources in which finrand were created and did not prohibit trading in these.

The African Bank, Young and two former colleagues, Henry Harper and Arthur Ferreira, have pleaded not guilty to 420 charges of fraud and contraventions of the exchange control regulations arising out of their alleged involvement in unlawful financial rand transactions.

The State alleges these deals resulted in a profit of R100m and led to US$119m in foreign currency unlawfully leaving the country.

Young said he discussed his understanding of the telex with Ferreira, who had agreed with him.

Finrand pool

Once finrands were established by a sale they were not kept separately in accounts but formed a pool and it was impossible to extricate them and say from which source they came.

"Our conclusion was that it was OK to deal in the finrand pool," Young said, "and that the acid test was that we should not deal with the specific proceeds from the sale of an asset by a non-resident. We were within the bounds of being allowed to trade the finrand pool as a currency."

Young told the court he had found the telex clear and did not regard it as necessary to establish from any of the other banks what their understanding of it was. He and Ferreira decided to deal in the currency.

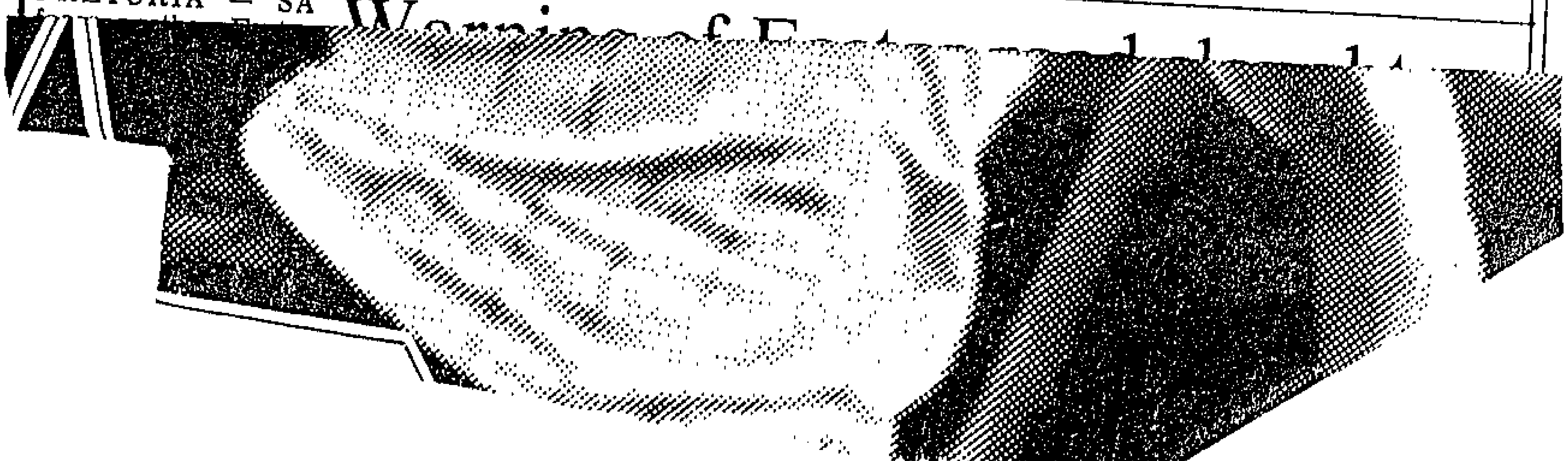
Young said he did not believe the draughtsman of the telex had succeeded in his aim of prohibiting people from dealing in financial rands.

The telex contained an oversight in that there were other areas in which finrands could be created," he added.

"This led to a grey area — a hiatus," Young said.

Young said they were not dealing in finrands as defined in the telex but in the pool and he did not think the finrand bought from London brokers, Smith New Court, fell within the parameters of the definition of the telex. He said he did not believe they were breaking the law in doing those types of transaction.

PRETORIA — SA



DD 28/3/88

Interest rates to remain steady?

Daily Dispatch Correspondent

JOHANNESBURG — Interest rates are expected to hold at current levels for the next eight to 10 weeks but what will happen in June will depend on three major factors:

- The trade figures and balance of payments;
- The foreign exchange reserves; and
- The money supply aggregates.

The January trade figures sent shivers down some spines with the increase in imports, the fall-off in export earnings and the possibility that after accounting for invisibles, the current account of the balance of payments might have shown a marginal deficit.

The delayed February trade figures could show whether January was the start of a trend or whether it was an abberation.

The cash content of the foreign exchange reserves has declined since last October — and so has the stock of bullion which the Reserve Bank had been assiduously building up from a low of 3,6-million ounces in July 1986 to 6,3-million ounces in September last year. In February the gold reserves were down to 6-million ounces.

The money supply aggregates for January and February certainly overshot the target but the central bank is not expected to act too precipitately in tightening the screw.

If the balance of payments come under undue pressure, the monetary authorities have two lines of action to dampen a too-rapid rate of growth which could weaken a convalescing economy: using the foreign exchange mechanism or the Bank Rate lever.

Adjusting downward the value of the rand would boost rand export earnings and retard imports — which would raise prices across the board. — DDC

D/D 29/3/88 (58)

Sanmed pays R150m

CAPE TOWN — Last year Sanmed paid out more than R150 million in benefits, 23 per cent more than in 1986, Sanlam's medical insurance subsidiary announced.

Membership of its schemes rose by 6,2 per cent to nearly 103 000, providing cover for the costs of medical care to some 300 000 people.

D & Premium income increased by 32 per cent to about R163 million while investment yield contributed R5,5 million towards income — 10,4 per cent more than in 1986.

Operating expenditure was a shade over R6 million. Costs per member, at R5,04 a month, were 9,3 per cent more than in 1986.

The net surplus was R11,3 million which, with R1,2 million from the sale of investments, was tranferred to reserves, which rose to R38,2 million. — Sapa have been in the (a) 1986/87 and (b) 1987/88 financial year if all parental expenditure on the private school fees of their childred had been tax-deductible; if so, what are these estimates in each case?

The DEPUTY MINISTER OF FINANCE (Dr G Marais):

(a) and (b) No.

Emergency regulations: detainees

*6. Mrs H SUZMAN asked the Minister of Law and Order:

(1) Whether any persons currently detained under emergency regulations are being detained for activities connected with any of the 17 organizations recently restricted; if so

(2) whether it is his intention to release these persons now; if not, (a) why not and (b) when is it anticipated that they will be released?

The MINISTER OF LAW AND ORDER:

(1) and (2)

In order to compile and process this information, it will be necessary to check the records of the South African Police country-wide. This would be a voluminous and time-consuming task which could not be economically justified. Therefore, I am not prepared to furnish this information.

Land and Agricultural Bank: amount outstanding on largest loan

*7. Mr D J N MALCOMESS asked the Minister of Finance:

(a) What is the amount outstanding on the largest loan made by the Land and Agricultural Bank to a member of its staff and (b) in respect of what date is this information furnished?

The DEPUTY MINISTER OF FINANCE (Dr G Marais):

(a) R110 415,49.

(b) 31 December 1987.

*8. Mrs H SUZMAN — Law and Order [Reply standing over.]

Suitability of proposed alternative road to N3 between Howick/Estcourt

*9. Mr R W HARDINGHAM asked the Minister of Transport Affairs:

Whether his Department considers the proposed alternative road to the N3 between Howick and Estcourt to be suitable from the point of view of (a) road safety, (b) ability to carry heavy-vehicle traffic and (c) meeting the required specifications; if so, by whom was this decision taken?

†The MINISTER OF TRANSPORT AFFAIRS:

(a), (b) and (c) Yes, for the present volume of traffic using the road. Should traffic volumes increase the road will be suitably improved and/or maintained. No decision had to be taken since these are the facts.

For the hon member's information it is pointed out that only the section between Nottingham Road and Hidcote of the alternative road to the N3 has to be used to avoid paying toll at Mooi River.

Privatization of N3 between Hilton/Alberton

*10. Mr R W HARDINGHAM asked the Minister of Transport Affairs:

(1) Whether a contract for the privatization of the N3 between Hilton and Alberton has been entered into; if so,

(2) whether all aspects of this contract have been finalized; if so, (a) when and (b) by whom; if not, when is it anticipated that this matter will be finalized?

The MINISTER OF TRANSPORT AFFAIRS:

(1) Yes.

(2) Yes.

(a) 25 March 1988.

(b) By the State and the relevant Consortium.

Proposed alternative road to N3 between Howick/Estcourt: cost of upgrading

*11. Mr R W HARDINGHAM asked the Minister of Transport Affairs:

(a) What is the estimated total cost of upgrading the proposed alternative road to the N3 between Howick and Estcourt and (b) by

whom will (i) this cost and (ii) future maintenance costs be borne?

†The MINISTER OF TRANSPORT AFFAIRS:

(a) As the relevant road does not fall under the jurisdiction of the Department of Transport this information cannot be supplied.

(b) (i) and (ii) The Natal Provincial Administration.

Mr R W HARDINGHAM: Mr Speaker, arising out of the hon the Minister's reply, can he tell us whether additional funds will be made available to the Natal Provincial Adminstration for upgrading the alternative road?

The MINISTER: Mr Speaker, should a request be made, it will, of course, be considered.

Certain organization: contributions by State

*12. Mr F J LE ROUX asked the Deputy Minister of Information:†

(1) Whether the State contributes directly or indirectly to the funds of a certain organization, the name of which has been furnished to the Bureau for Information for the purpose of the Deputy Minister's reply; if so, (a) why, (b) (i) what total amount has been so contributed and (ii) in respect of what date is this information furnished and (c) what is the name of the organization concerned;

(2) whether the State contributes financially to the publication and/or distribution of a certain newspaper, the name of which has also been furnished to the Bureau; if so, (a) why, (b) (i) what total amount is involved and (ii) in respect of what date is this information furnished and (c) what is the name of this newspaper?

The DEPUTY MINISTER OF INFORMATION:

(1) The Bureau for Information has no knowledge of this matter.

(a) Falls away.

(b) (i) and (ii) Fall away.

(c) Falls away.

(2) The Bureau for Information has no knowledge of this matter.

(a) Falls away.

(b) (i) and (ii) Fall away.

(c) Falls away.

Smoking in toilets on aeroplanes

*13. Mr A GERBER asked the Minister of Transport Affairs:†

Whether announcements are made during domestic flights of the South African Airways that it is dangerous to smoke in the toilets; if so, why is it dangerous?

The MINISTER OF TRANSPORT AFFAIRS:

Yes. Burning objects thrown in waste bins can ignite flammable objects, such as paper. Special announcements which bring this aspect to the attention of passengers are also made on each flight of S.A. Airways as an additional safety measure.

Of the latest fire/smoke detectors are installed in aircraft on S.A. Airways and the efficiency of this equipment are tested on a regular basis. Aforementioned measures have been introduced in order to ensure the safety of passengers as far as possible.

Alleged assaults on acting principal of Langa High School: charges laid

*14. Mr K M ANDREW asked the Minister of Law and Order:

(1) Whether any charges were laid with or complaints were made to the South African Police in respect of alleged assaults on the acting principal of the Langa High School on the property of that school during April and May 1987; if so, (a) what charges or complaints and (b) when were these charges laid;

(2) whether the matter has been investigated; if not, (a) why not and (b) who made this decision; if so, what were the findings;

(3) whether any persons have been charged in this regard; if not, why not; if so, (a) who and (b) with what result?

The MINISTER OF LAW AND ORDER:

(1) Yes

(a) One charge of common assault.

(b) 13 May 1987.

(2) Yes. The case docket was submitted to the

DD 29/3/88 (58)

Bond managers eye Granny Bond deal

Daily Dispatch Correspondent

CAPE TOWN — Participation mortgage bond managers are lobbying the government in an effort to become part of the new Granny Bond scheme.

In terms of the scheme, announced in the Budget, senior citizens' fixed deposits with banks, building societies and the post office will be subsidised by up to 15 per cent for the first year. Participation bonds run by investment houses were not included in the Budget proposal.

Participation bond managers said yesterday that they wanted to offer the same investment facility, as a large percentage of investors in part bonds were senior citizens.

The chairman of the Association of Participation Bond Managers, Mr Glen Smart, said the association was making representations to the government on the issue, as the movement intended to protect its customer base.

"We are worried that the new scheme will mean a drainage of funds out of the existing participation bond movement. Since our interest rates will not be subsidised, we will be at a disadvantage," ge said.

The manager of J. H. Isaacs, Mr Tommy Spence, said the damage to the part bond movement would not be as serious as that inflicted by the original Granny Bonds.

"There is still too much uncertainty over the new savings instrument. And the maximum amount of R30 000 is not significant — especially when compared with last year's Granny Bond ceiling of R200 000," Mr Spence said.

DID 29/3/88

New deal for bondholders

(58)

JOHANNESBURG — Standard Bank has introduced another innovation to the financial services industry with the announcement that its mortgage bondholders can now re-borrow funds they have paid off on bonds, for use as they choose.

The move is the aggressive latest in stiff competition prevailing in the home loans financing industry.

The new service is called Accessbond and allows clients electronic access to any surplus amounts on their home loans, the option of depositing funds in the bond account and the advantage of effectively earning interest tax-free on the daily balance of surplus amounts at the bond rate — currently 12,5% for most bondholders.

The new facility will operate as revolving credit, with clients able to withdraw and deposit amounts in multiples of R1 000 through Autobank once a month.

An additional carrot for those with bonds at other financial institutions is the offer to absorb switching costs into the bond.

DID 26/3/88 (58)

Allied bonds up 1%

JOHANNESBURG — Allied group has increased its interest rate on new fixed rate bonds by 1% in line with recent hardening in longer term rates.

Allied said in a statement that existing clients and those who have already applied for fixed rate bonds will continue to pay according to the old rate.

Allied introduced fixed rate bonds a year ago to cater mainly to home-buyers wanting to budget precisely in the medium-term. — Sapa

Insurance industry hails tax probe

By Ann Crotty

280

Yesterday's recommendation of the Standing Select Committee on Finance that the increase in tax on insurance companies should be investigated further has been well received by the industry, although it is now apparently resigned to having to deal with the increase until at least the next Budget.

Yesterday, the committee recommended that "in the light of opposition from a number of organisations, the recently announced increase in tax on insurance companies should be investigated further". It noted that in hearings on the Appropriation Bill evidence was given that the increase of the percentage in the formula to 70 percent (from 40 percent) was undesirable and should be reconsidered: "The committee regarded it as of importance that an acceptable long-term basis of tax on insurance companies should be implemented as soon as possible after negotiation will all interested parties."

30/3/88

Representatives of the industry were generally enthusiastic about the committee's encouragement of negotiations. Sanlam senior general manager Mr George Rudman said: "Any opportunity for discussion is to be welcomed. We think the proposal went too far and believe that we have a very good case to make." Mr Rudman was hopeful that Finance Minister Mr Barend du Plessis would listen to the committee's recommendation and then be persuaded to return to the old basis of a 50 percent tax on 40 percent of investment income until the majority proposals of the Margo Commission had been "thrashed out".

But other industry sources were sceptical that they would be saved from the increase in the 1989 budget year chiefly because Mr du Plessis had built in the additional R202 million of revenue into his estimates and would be hard-pressed to make it up elsewhere. In post-budget discussions with the industry, he has apparently indicated he is not open to change in the coming budget year. But he has suggested it is only an interim arrangement pending the implementation of the recommendations of the Margo Commission.

28

Star

Old Mutual chief actuary Mr Theo Hardwicke, who was gratified by the committee's view, accepted there was unlikely to be a change in the coming budget year, but was hopeful there would be some relief the following year.

Liberty's Mr Donald Gordon was pleased the committee was looking at the situation: "The fortunes of life insurance companies are very much inter-linked with their policyholders and for this reason the perception that they are fat cats and should be targeted for making up any shortfall in the budget is certainly not in the interests of the economy, particularly as the industry plays a major role in capital formation." Mr Gordon was particularily disturbed that life insurers were the only companies having to pay 35 percent tax on dividend income, which already bears a 50 percent tax at source.

The committee recommended that further consideration be given to minimum tax on companies to ensure that if proceeded with, "its application would be equitable and would not act as a disincentive to local and foreign investment".

Hansard

The MINISTER OF TRANSPORT AFFAIRS:

(1) Yes, to Perskor Corporation (Pty) Ltd of South Africa only.

(a) Desk calendars, order books and diaries.

(b) 4 000, 100 and 300 respectively.

(c) Perskor Corporation (Pty) Ltd of South Africa.

(2) Yes.

(a) and (b) Fall away.

(i) R16 120, R590 and R4 562,20 respectively.

(ii) R9 974,52, R770 and R4 562,20 respectively.

(3) No.

(a), (b)(i) and (ii) Fall away.

(4) (a) R15 306,72.

(b) Particulars not readily available and it will take much time and expense to gather such information.

Printing contracts awarded to two companies

846. Mr D J DALLING asked the Minister of Law and Order:

(1) Whether the South African Police awarded any printing contracts in 1987 to two companies, the names of which have been furnished to the Commission for Administration for the purpose of the Minister's reply, or to their associated companies and printing operations; if so, (a) in respect of what publications or printed matter, (b) how many copies of each publication or item were ordered from each company and (c) what are the names of the companies concerned;

(2) whether these contracts were put out to tender; if not, (a) why not and (b) what was the total amount paid by the Police in respect of each of these contracts; if so, what was the (i) tender price originally accepted, and (ii) total amount paid out, in respect of each contract;

(3) whether the Police subsidize any publications published by the above companies; if so, (a) which publications and (b)(i) why, and (ii) what is the amount of the subsidy, in each case;

(4) what total amount was spent by the Police in 1987 on printing and publishing involving (a) the above companies and (b) any other specified companies?

The MINISTER OF LAW AND ORDER:

(1) No.

(a) to (c) Fall away.

(2) Falls away.

(3) No.

(a) and (b) Fall away.

(4) Falls away.

Chartered accountants in employ of Receiver of Revenue

849. Mr J J WALSH asked the Minister of Finance:

(a) How many chartered accountants were in the employ of the Receiver of Revenue as at the latest specified date for which information is available, (b) at which offices were they employed and (c) how many of them were so employed in lieu of performing their national service?

The MINISTER OF FINANCE:

(a) 183.

(b) Bellville
Benoni
Bloemfontein
Boksburg
Brakpan
Durban
Germiston
Johannesburg
Cape Town
Klerksdorp
Krugersdorp
East London
Paarl
Port Elizabeth
Pietersburg
Pietermaritzburg
Pretoria
Roodepoort
Springs
Standerton
Welkom
Head Office
Special Investigations

(c) 181.

Hansard

50-year-old public servant: buying back of pensionable service

869. Mr D J N MALCOMESS asked the Minister of National Health and Population Development:

(1) Whether, with reference to his reply to Question No 20 on 8 March 1988, any provision has been made for a 50-year-old public servant who has bought back pensionable service from the age of 50 to the age of 18 to pay the required amount of R391 680 over a period of years; if not, why not; if so, (a) what arrangements can be made in this regard, (b) what is the rate of interest charged and (c) how will the balance be paid in the event of this public servant retiring at the age of 60;

(2) what will be the amount of the (a) tax-free retirement cheque and (b) annual pension paid to a public servant who retires at the age of 60 on a salary of R96 000 per annum and who (i) bought back and (ii) did not buy back pensionable service at the age of 50 years while earning a salary of R48 000?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) Yes:

(a) Monthly instalments up to date of retirement.

(b) Twelve per cent compound interest. (The total obligation will amount to R846 142,20.)

(c) By deduction from gratuity payable on retirement, and if insufficient the remainder to be settled in a single payment.

(2) (a) (Gratuity)

(i) R57 935 (R270 950 gross, less buy-back debt R213 015)

(ii) R64 512

(b) (Annual pension)

(i) R73 669

(ii) R17 814

Land and Agricultural Bank: amount loaned to farmers

874. Mr D J N MALCOMESS asked the Minister of Finance:

What total amount was loaned by the Land and Agricultural Bank to farmers from the (a) White, (b) Coloured, (c) Indian and (d) Black population group in the latest specified financial year for which figures are available?

The MINISTER OF FINANCE:

(a) R446 059 520

(b) R217 400

(c) R527 400

(d) Nil.

Own Affairs:

Printing contracts awarded to two companies

91. Mr D J DALLING asked the Minister of Health Services:

(1) Whether his Department awarded any printing contracts in 1987 to two companies, the names of which have been furnished to the Commission for Administration for the purpose of the Minister's reply, or to their associated companies and printing operations; if so, (a) in respect of what publications or printed matter, (b) how many copies of each publication or item were ordered from each company and (c) what are the names of the companies concerned,

(2) whether these contracts were put out to tender; if not, (a) why not and (b) what was the total amount paid by his Department in respect of each of these contracts; if so, what was the (i) tender price originally accepted, and (ii) total amount paid out, in respect of each contract;

(3) whether his Department subsidizes any publications published by the above companies; if so, (a) which publications and (b)(i) why, and (ii) what is the amount of the subsidy, in each case;

(4) what total amount was spent by his Department in 1987 on printing and publishing involving (a) the above companies and (b) any other specified companies?

The MINISTER OF HEALTH SERVICES:

(1) No.

(a), (b) and (c) fall away.

(2) (a), (b)(i) and (ii) fall away.

58

Hansard

The MINISTER OF LAW AND ORDER:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Lenasia	33	22	93	467	52	479	149	251	274	13

Note: I wish to point out to the honourable member that for the sake of efficiency, statistics were furnished for the period 1 January to 31 December 1987. All statistical reports will in future be furnished in calendar year periods.

Films submitted for censoring

27. Mr M RAJAB asked the Minister of Home Affairs:

(1) How many (a) English, (b) Afrikaans and (c) Indian-language films were submitted to the Directorate of Publications for censoring during the latest specified period of 12 months for which figures are available;

(2) (a) how many films in each of the above categories (i) were rejected and (ii) had age restrictions imposed on them and (b) what age restrictions were imposed on films in each of these categories?

The MINISTER OF HOME AFFAIRS:

For the period 1 February 1987 to 31 January 1988 —

(1) (a) 649

(b) 3

(c) 896

		English	Afrikaans	Indian
(2) (a)	(i)	52	—	2
	(ii)	154	—	3

(b) No such statistics are being kept.

Land and Agricultural Bank: loan applications/grants

28. Mr M RAJAB asked the Minister of Finance:

(1) How many (a) Indians and (b) Blacks (i) applied for loans from and (ii) were granted loans by the Land and Agricultural Bank during the latest specified 12-month period for which figures are available;

(2) (a) what was the total value of the loans so (i) applied for and (ii) granted in respect of each of these population groups and (b) what is the purport of the main conditions subject to which these loans were granted?

The MINISTER OF FINANCE:

(1) (a) (i) 20

(b) (i) None

(1) (a) (ii) 9

(b) (ii) None

Indian farmers

(2) (a) (i) R1 845 000

(a) (ii) R527 400

Black farmers

(2) (a) (i) Nil

(a) (ii) Nil

(2) (b) The Land Bank Board's general loan conditions are contained in the Second Schedule to the Land Bank Act, No 13 of 1944, whilst additional loan conditions regarding the particular circumstances of an individual case are laid down.

Own Affairs:

Court proceedings against teachers/school principals

19. Mr P I DEVAN asked the Minister of Education and Culture:

Whether the Administration: House of Delegates and/or his Department has instituted any court proceedings against teachers and school principals since September 1984; if so, (a) how many of these cases were (i) successful and (ii) unsuccessful, (b) what was the total cost incurred by (i) the State and (ii) his Department as a result of these cases and (c) in respect of what date is this information furnished?

The MINISTER OF EDUCATION AND CULTURE:

No

(a) (i) and (ii) Fall away.

(b) (i) and (ii) Fall away.

(c) Falls away.

Education officers/teachers: investigations into misconduct

20. Mr P I DEVAN asked the Minister of Education and Culture:

Hansard

(a) How many internal investigations have been conducted by his inspectorate into issues relating to alleged misconduct on the part of (i) education officers and (ii) teachers since September 1984, (b) how many man-hours were taken up by these investigations and (c) in respect of what date is this information furnished?

The MINISTER OF EDUCATION AND CULTURE:

(a) (i) Nil.

(ii) 159.

(b) No records are maintained as these form part of their normal duties.

(c) 15 March 1988.

Teachers employed in temporary capacity: professionally qualified/unqualified

21. Mr P I DEVAN asked the Minister of Education and Culture:

(a) How many professionally (i) qualified and (ii) unqualified teachers are employed by his Department in a temporary capacity and (b) in respect of what date is this information furnished?

The MINISTER OF EDUCATION AND CULTURE:

(a) (i) 1 047.

(ii) 65.

(b) 15 March 1988.

Teachers: leave taken

22. Mr P I DEVAN asked the Minister of Education and Culture:

(1) How many days' (a) sick, (b) vocation, (c) examination and (d) special leave were taken by teachers in his Department in 1987;

(2) whether, in that year, any teachers applied for sick leave in respect of days falling between periods of leave granted to them for examination purposes; if so, what are the relevant particulars;

(3) whether any action is being taken in this regard; if not, why not; if so, what action;

(4) whether he will make a statement on the matter?

The MINISTER OF EDUCATION AND CULTURE:

(1) The Department is not prepared to tie up hard-pressed manpower to manually extract the desired information from records which are, in any event, subject to audit . . .

(2) Very likely but statistics are not readily available.

(3) Yes.

If the application for sick leave is not supported by a valid medical certificate leave without pay is granted.

(4) No.

Teachers: applications for long leave

23. Mr P I DEVAN asked the Minister of Education and Culture:

(1) How many teachers (a) applied for long leave in 1987 and (b) were granted such leave in 1987 and 1988, respectively;

(2) whether a period of notice is required in respect of applications for long leave; if so, (a) what is this period and (b) how many teachers who in 1987 failed to comply with this requirement were granted long leave in 1987 and 1988, respectively;

(3) what is the policy of his Department in regard to the granting of long leave;

(4) whether he will make a statement on the matter?

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) 480.

(b) 1987: 117
1988: 80

(2) Yes.

(a) Applicants must lodge applications two terms in advance.

(b) 1987: Nil
1988: 4.

(3) The granting of long leave is subject to suitable arrangements being made for a substitute and provided that in terms of the relevant regulation, the number of applications approved for any one school term shall not exceed 2% of the total number of leave-earning teachers.

(4) No.

Schwarz criticises Land Bank finance for national states

CAPE TOWN — Mr Harry Schwarz, (PFP Yeoville), yesterday criticised the amending Land Bank legislation before Parliament regarding financial assistance to black farmers in the TBVC states.

Opposing the Second Reading of the Land Bank Amendment Bill, he said the PFP supported the principle of providing financial assistance to bona fide black farmers in the independent and self-governing states.

D|D 30/3/88

However, he opposed the bill on the grounds there were inadequate safeguards the money would be correctly used.

58

Introducing the bill earlier, the Deputy Minister of Finance, Dr Org Marais, said present legislation excluded the Land Bank from giving financial assistance to farmers outside South Africa.

The bill before the House would allow the bank to provide assistance to financial institutions within Transkei, Bophuthatswana, Venda and Ciskei, which could then in turn give financial assistance to bona fide farmers.

MR SCHWARZ

The total amount involved was not expected to exceed R100 million.

Mr Danie Nolte, (CP Delmas), opposed the bill saying the Conservative Party was against the Land Bank assisting "alien" states.

Mr B. V. Edwards, (NP Pietermaritzburg South), said the bill had merits.

Mr Schwarz said the bill was just another method of off-budget financing.

A land bank for each of the TBVC states should be created to provide assistance to farmers.

If these banks did not have the resources, they should approach their own governments.

Should these governments not be able to meet the requirements, they should then approach the South African Government for assistance, Mr Schwarz said.

The reason the legislation was before the House was that the Southern African Development Bank had been providing financial assistance to these independent homelands for some time, while it was only meant to give help for capital projects.

Mr Schwarz moved an amendment opposing the Second Reading of the bill, proposing that the House, while supporting the concept of providing assistance to the TBVC states, decline to pass the measure.

The bill was read for a second time after a division in which the house voted 85 to 18.

Mr Schwarz's amendment was defeated.— Sapa

New-look Unidev beats forecast

Finance Staff

Unidev's first year since the transition from a property company to an investment banking and financial services group has shown excellent results, with attributable profit of R9,5 million for 1987, 98 percent ahead of its forecast in February last year.

The Cape-based group recorded earnings per share of 12,2c, an increase of 388 percent on the 1986 annualised figure of 2,5c.

A maiden dividend of 4,5c a share has been declared.

Unidev chairman, Geoff Gryllis, says a comparison of this year's results with those of 1986 highlights the spectacular turnaround of the group since current management bought control early 1987.

In the prospectus last year, taxed profits of R4,8 million and earnings per share of 8c were forecast.

A review of the year's results show that all divisions have performed above expectations.

"As expected, the financial services division comprising Quantum Finance and Quaestor IV produced some 40 percent of the income attributable to Unidev," Mr Gryllis says.

Granny bond plan not final yet — Barend

Daily Dispatch DD 30/3/88
Correspondent

CAPE TOWN — The government has not yet finalised its plans for introducing the further "granny bonds" for senior citizens announced in the budget.

The governement was thus unable to provide details of the form they would take or when they would be offered, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Although discussions had been held with various groups of financial institutions concerning the special savings instrument, agreement was still needed on several points and no further details had been finalised concerning a possible implementation date. (58)

Mr Du Plessis stressed, however, that all participating institutions would be offering the same rate of interest, and that the conditions governing the new granny bond would be completely uniform.

It was therefore immaterial which financial institution was finally chosen by an investor when the bonds finally became available.

Neither need funds be moved between institutions now, since the implementation date would be the same in all cases, Mr Du Plessis added.

were undisclosed. The industrial index

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Faircape lifts earnings 245pc

JOHANNESBURG — Faircape Homes has lifted earnings for the year to December by an impressive 245 per cent to 15,45c.

This is double the forecast in its listing prospectus last year.

After-tax profits rose to nearly R1,2m on sales of R19,5m (R7,2m) and a maiden dividend of 5c per share has been declared.

Joint MDs, Mr Mike Vietri and Mr Hans Moser, say that, based on budgets, they expect earnings per share to more than double in the current financial year.

Mr Vietri said that the exceptional growth last year was due largely to the fact that Faircape bought "strategic parcels of land for development in the coloured and black housing sector — land which has escalated in value since we bought it."

He said activity in the current year "has been more than lively.

"Pre-sales on land being developed already reflects 30 per cent of the projected turnover for 1988."

Mr Moser said that although the white residential market was still buoyant "it is dependent on ups and downs of the economy and interest rates in particular."

Faircape was therefore concentrating on the black and coloured housing sector and also on the top end of the market, with luxury flats in Sea Point and Rondebosch.

These flats were "mainly being bought by people moving out of houses now too large for them."

Since restructuring and transformation . . .

Unidev show 388% earnings growth

CM Trip 30/3/88 58

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based banking and financial services group Unidev has lifted earnings for the year to December 31 by 388% to 12,2c a share, compared with 2,5c in the previous 18 months on an annualized basis.

In its first financial year since its restructuring and transformation from a property company, it has achieved attributable profits of R9,5m — 98% ahead of the forecast in its transmuted listing statement.

Forecast

A dividend of 4,5c a share has been declared. This is 80% ahead of the forecast 2,5c and is the first dividend paid since 1983.

Operating profit has risen to R10,3m compared with R961 000 in the previous 18 months, when the property company was hard-hit by the recession.

The directors emphasize that net asset value per share has risen by 75% to 61,8c.

Chairman Geoff Grylls said this was "significant with regard to the sector of the market we are in.

"People have the impression that companies operating in the financial services sector of the Joannesburg Stock Exchange (JSE) have a low net asset value. Unidev, however, has substantial assets to back the group's activities."

Total capital employed is R74m and net assets amount to R53m. Total interest-bearing debt is R18,8m and Grylls describes the debt:equity ratio of 35,5% as "healthy".

Properties acquired from Retco in January 1987 on which it was expected to make R1,1m profit after tax made, instead, a loss of R512 000.

But the group received a tax credit of R43 000 compared with a bill of R432 000 in the previous 18 months.

Forecasting a further meaningful growth in earnings in the current year, Grylls said the full benefit of acquisitions made in 1987 had not yet been felt.

As anticipated, the financial services division comprising Quantum Finance and Quaestor IV produced about 40% of the income attributable to Unidev in the past year.

Disinvestment

But Grylls said disinvestment had provided the group with opportunities to acquire companies with above average growth prospects and more were under consideration.

The group had "found that the injection of capital and the utilization of our financial and administrative abilities have a significant effect on accelerating the growth of companies we have invested in.

"This provides the base for companies to grow and, as they mature, they are able to continue their growth pattern through the acquisition of complementary businesses"

Own Correspondent

JOHANNESBURG. — Government is to abolish its C and D export incentives in favour of an export market development assistance (EMDA) scheme, Deputy Economic Affairs Minister Theo Alant said here last night.

The C and D incentives make provision for reimbursement of market-

Reserve Bank scales down its growth forecast

3\3\88 (58) Star

By Sven Lünsche

The Reserve Bank has scaled down its economic growth predictions for 1988, in line with a less accommodative monetary policy stance.

In its March 1988 *Quarterly Bulletin*, the Reserve Bank says that it appeared from the enormous growth momentum evident in the fourth quarter last year that gross domestic product (GDP) growth in the order of 2,5 to 3,5 percent was possible in 1988.

"Since that time, however, certain development have occurred that should be taken into consideration in an assessment of growth prospects this year."

The Bank lists a decline in international economic growth, lower world commodity prices and the recent floods as reasons for the decrease, but there seems no doubt that restrictive fiscal and monetary policies will play a far greater role in reducing growth rates.

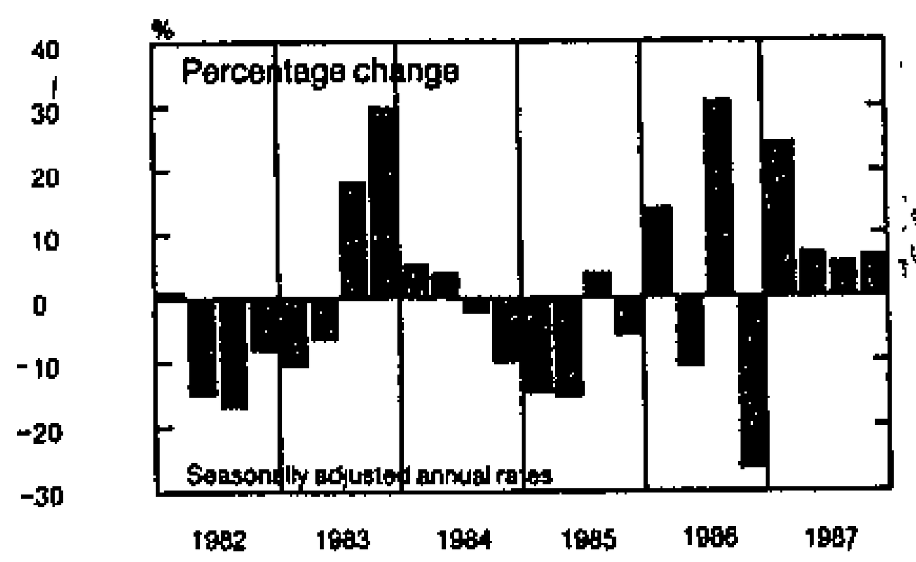
In justifying the Bank rate increase of March 9, the Governor of the Reserve Bank, Dr Gerhard de Kock, said this was a direct consequence of the marked improvement in domestic economic conditions. Lower money supply targets, set by the Bank in February, were another indication that the authorities were wary of an overheating economy.

"In the changed conditions now prevailing, the Bank's earlier accommodative policy posture carried a risk of eventually resulting in inordinate increases in the money supply and in domestic spending," the Bank says.

"Nevertheless, present indications are that the strengthening trend in domestic output and expenditure is still substantially intact," it says.

The large increases in domestic spending were very much in evidence in the last quarter of 1987. The annualised rate of increase in GDP of nearly five percent was the highest quarterly rate attained since early 1984 and pushed overall growth for the year to 2,5 percent, the Bank says.

Real gross domestic expenditure



Aggregate real gross domestic expenditure in 1987 exceeded the previous year's level by nearly five percent and was some ten percent higher in the fourth quarter that in the last quarter of 1986. Included in this increase were rises of 3,5 and 5,5 percent for private consumption and government consumption, respectively.

"Real private fixed investment showed its first increase in a year since 1981, although gross domestic fixed investment declined still further," says the Bank.

Other statistics also verify the growth in the second half of 1987. While the current account surplus for 1987 was R1 billion down on the 1986 figure of R7,2 billion, this was attributable entirely to an 11 percent increase in the value of merchandise imports.

The capital account of the balance of payments improved dramatically as the total outflow of non-reserve-related capital contracted from R6,1 billion to only R3,1 billion in 1987, although the outflows rose fairly substantially again in the fourth quarter. Gold and forex reserves remained steady.

And for the first time since April 1985, non-residents were net purchasers of JSE stock to the value of R228 million in the last quarter of 1987. For the first ten months, however, sales by foreigners amounted to R1,444 billion.

On the debt front, the Bank says that net repayments on foreign liabilities related to reserves shrank from R2,3 billion in 1986 to R1,2 billion in 1987.

D.D. 31/3/88

Society ups home bond rate

(58)

JOHANNESBURG. — New home bonds from the Allied Building Society will cost 13,75 per cent from April 1.

Announcing the move, the Allied Group said that all existing bonds would bear the 13,75 per cent rate from May 1.

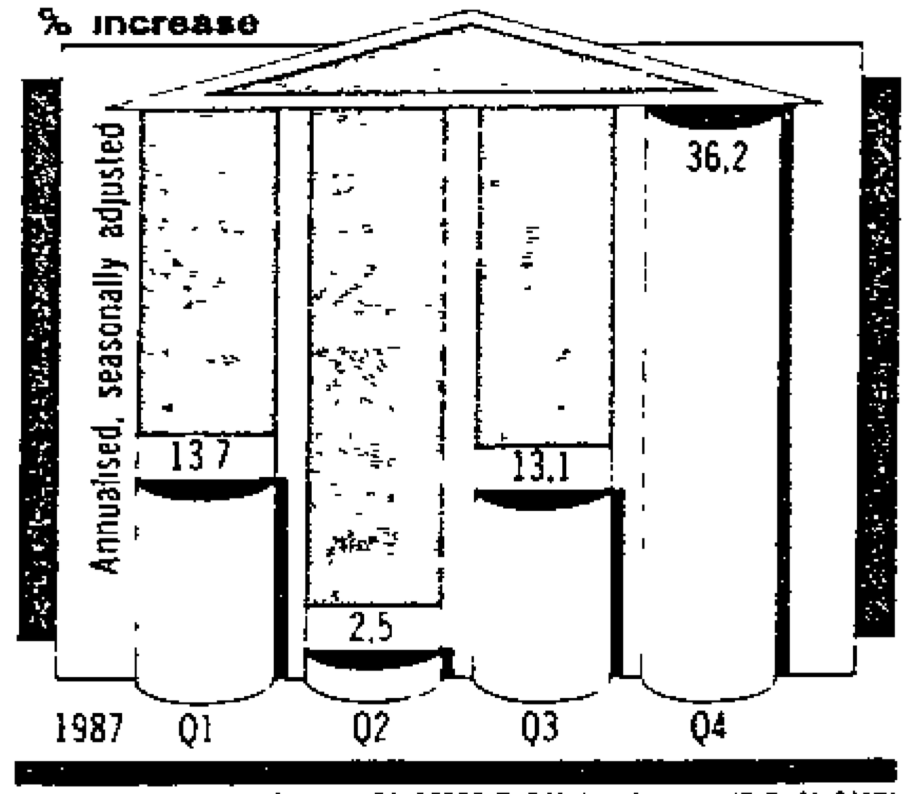
This will affect bonds arranged before November last year, on which the current rate is 13,5 per cent, as well as bonds arranged more recently at 13 per cent.

Allied says that rates on all "traditional" bonds — issued by the building society — will be unified from May 1.

Fixed rate bonds carry rates between 14,5 and 17 per cent. — Sapa prices down. But at the same time not reasonable and certainly not ... done with the

(58) B/Day 31/3/88

BANK CREDIT TO THE PRIVATE SECTOR
% increase



Source SA RESERVE BANK Graphic JOHN McCANN

Home-loan rates on an upward climb

GRETA STEYN

HOME loan rates, which were slashed in the bond war between banks and building societies, have made a sharp about-turn and are rising across the board.

The Allied yesterday announced an increase in its building society rate for new loans from 13% to 13,75% from April 1. The Trust Bank's increase, from 12,5% to 13,5%, also comes into effect tomorrow.

First National and the United Building Society were the first to announce hikes in rates earlier this month. Increased cost of funding, caused by expanding credit demand, squeezed banks and societies' margins and resulted in a rise in rates.

Demand for home loans, which reached boiling point in the second half of last year, could cool down after the increases. Demand for mortgage finance was a main reason for the rise in credit demand in the second half of last year.

The Reserve Bank, in its latest quarterly bulletin, says: "An unusually large proportion (35%) of the R9,7bn increase in monetary institutions' claims on the private sector in the second half of 1987 consisted of mortgage advances."

The bulletin notes that mortgage lending rose by R2,1bn, or 8,7%, among building societies and by R1,3bn, or 16,4%, among banks in the second half.

DID 31/3/88 58

Bank's profits take dip

FRANKFURT — Deutsche Bank AG, West Germany's biggest bank, posted a fall in profits in 1987 for the first time in 10 years, mainly because of last October's stockmarket crash.

Group net profit at Deutsche, which has large stakes in many of the country's industrial concerns, fell by more than one-third in 1987 to $400 million.

The bank's chief executive, Mr Wilhelm Christians, said earnings had been rising for the last 10 years.

"This phase came to an end in 1987 with a strong reversal," he said. —Sapa.Rns

D/D 31/3/88

MP: loans linked to racism

CAPE TOWN — The fact that almost all loans advanced by the Land Bank went to whites was a comment on the "inherent racism" in South African society, the PFP MP for Port Elizabeth Central, Mr John Malcomess, said yesterday.

He was commenting on a written reply given by the Minister of Finance, Mr Barend du Plessis, that R440 059 520 had been lent to whites according to the latest figures — and only R217 400 for coloureds, and R527 400 for Indians.

No money had been lent to blacks, the minister said.

Mr Malcomess said that in view of the latest amendments to the Land Bank Act passed by the House of Assembly on Tuesday — to lend money to blacks in homelands considered to be no longer part of South Africa — the figures were "beyond belief".

He said the amount lent was directly in proportion to the amount of power each race group had.

Mr Malcomess said what was even more amazing was that the Land Bank had recently disclosed that it had lent one official 50 per cent of the total it had given to coloured farmers. —DDC

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DD 31/3/88 (58)

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