Finance - General

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INVESTMENT

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 Johannes-
burg Stock Exchange and multi-million rand office and shopping developments.

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

ficiaries.

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 unprivileged 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.

• Members control or equal representation on management of funds and more member involvement.

• Members informed regularly about their money in the funds.

• Members' rights clearly spelled out.

"It is no good waiting till the stone starts flying — employers must involve black workers in pension fund man-
agement.

De Beers quits Goyt-linked body

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 — The De Beers company has withdrawn from the Diamond Producers' Association, and the Government-linked marketing body is faced with a major crisis.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 Stew-
art has signed a R34-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 changervm 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.
Jump in Trust Bank's profits

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 3,6%.

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

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 R27,7m 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 R37,3m, Santambank's was R27,3m (up R6m) and Selnabank's R16,8m, 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.
THE RAND
How long will it hold?

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 1986. But commentators expect a downward drift next year to around U$47.50c — 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, 73.7-1.79 in 1983, 70.8-79.3 in 1982, 77.9-1.719 in 1981 and 83.1-91.5 in 1980.

A major factor in the newfound stability lies with the Reserve Bank. As Governor Gerhard de Kock noted in last week's annual report, 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.

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 R1 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 guess as to what this vitally important joker throws up. What is known is that gold can cause the balance of payments to fluctuate wildly and wreak havoc.

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 1989" call Yvonne Courtney, (011) 710-2134/5 or write to Box 9939, Johannesburg 2000.
Just think...
Norwich Union buys R23,5m development.

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 CJ 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

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 (FFP 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?

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 46%.

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 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 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 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 Dowithwaite, assistant manager of another insurance company active in the short-term insurance market, said the 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 46% to 48%.

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, which 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 monthly-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 exception-
Merger creates banking giant

Firstcorp aims to serve SA's top companies

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 CEO of the new bank Peter Springett says it will have a client base of about 150 and will contribute significantly to FNB's overall profit. 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 R1,5bn once all the off-shore facilities are present with Citibank's former parent, Citicorp in New York, have matured and come on its balance sheet.

FNB MD Chris Bell 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

By Magnus Heysteek,
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 service pensions, could face the awesome task of having to provide for occupational pensioners who are forced into penury."

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 report says there is a noticeable move towards improving the rate of pension accrual.

About 86 percent of funds now provide a pension 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 1965, only 27 percent of females retired at age 65. However, this percentage has now increased to 42 percent.
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 railng coal to Richards Bay from the Black Hill station near Witbank to about R19,50/t, and from Broedersnsplas 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 Broedersnsplas. A year ago the average rates were about R14/t from Black Hill and R12/t from Broedersnsplas.

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 earn-

**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
Firstcorp’s Springett… caught in the debt standstill

as Firstcorp, “to reflect its parentage and the role it will assume in local and international banking markets.”

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).
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 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'

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.

The report says: "While life offices 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."
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 re-draft". 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 phenomenon. 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 Groeneveld, J H Melzer, Gerhard Croeser and Piet Badenhorst. One cannot really stem the tide. It was unlikely capital requirements would be relaxed to reverse the trend.
Central banks in Europe get more muscle

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 15-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 the talks next week between US Secretary of State George Shultz and Soviet Foreign Minister Eduard Shevardnadze.

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 world's trouble spots, from Afghanistan to Kampuchea and from the Falkland Islands to the Western Sahara. Discrimination will again receive close attention. — Sapa-Reuters.
Bank’s new bond policy expected to boost sales

By DEREK TOMMEY
Financial Editor

A DRAMATIC increase in the sale of "expensive" houses is forecast by Cape Town estate agents following a change 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 added.

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 10 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 Steffel, director of a Cape Town estate agency.

DIFFICULT 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 worth while 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.

Leasing 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. Cokie 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 has shown little increase, he said this could not be expected at the start of the economic upswing when there still was surplus capacity.
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 offer is 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 bonds 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 businesswomen. These 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 would remain in force until the end of December 1988.

Power said since the bank had launched its home loans division in 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

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 loan 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 Bank’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.
Standard 100% mortgage bond offer criticised

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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 R500m from December 1986 to August this year.

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Societies slam ‘unfair competition’

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-prodged scheme, which had been available for about three months.
8 held

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.

May be restricted
Bank gives R50,000 to SAP Widows and Orphans

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 Schulthe 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 Cockrell's unfortunate death.
JSE share boom runs out of steam

By DEEKE TOMMARY

Finance Editor

JSE share prices on the downswing have stopped rising. Industrial shares, the stock market's dominant sector, have fallen from their recent peak. The JSE All Share Index has dropped 3 000 points in the past year from its high in July 1984.

Reduced dividend

The market has been influenced by the news that industrial companies are expected to reduce their dividends. Share prices are almost always influenced by the dividend prospects of companies. The share price of the company, until recently the market leader, fell sharply yesterday on the news. The company's chairman announced that the company would be reducing its dividend to shareholders.

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Flying a desk in the wheels business

From Page 1.

The R11.2-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 fueling 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 R11.7-million buying 600 new cars, said Mr van Heerden. Among these purchases were 400 Nissan Sentras, 500 Mercedes-Benzes and 250 VW Jetta's. 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 4,000 cars leased in this way and the 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

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
Economy in trouble, warns Volkskas

BOB KERNOHAN
Business Editor

The economy has "started to founder", 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 forecasts are cause for grave concern.

Using the annual meeting of the Reserve Bank as the source for drawing its conclusion, 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 founder".

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 1.2% in the first quarter this year.

"The marginal growth in the second quarter," the report adds, "was inflates 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 0.6% in the second quarter."

Volkskas says the volume of factory production increased by only 0.2% 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 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 35% was recorded in the first half of 1987 as against a figure of 37% for the corresponding period in 1986."

"The only conclusion that can be reached is that individually 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 effectively 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 pressures — we can hardly expect the prevailing deceleration of the economy to be checked."
Banks step up battle of the housing bonds

By Stephen Roges:

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 its target of R1-billion for this year.
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 Kharasany, chief executive of the corporation, believes that a lot of business could come from this area.

Mr Kharasany 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 Kharasany says the bank will meet the capital-asset 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.

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

IN a record year to June, South Africa's life-assurance companies increased their assets by R19.8-billion, or 41%, to R88.7-billion.

The assured were boosted by premium income of R18.8-billion, investment income of R7.4-billion as well as a buoyant stock exchange.

Total income at R16.4-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 R12.2-billion, or 69.8%, to R23.1-billion, and their fixed-interest investments gained R6-billion (33%) to R24.2-billion.

Dorain 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 growth to meet our liabilities."

Mr Wharton-Hood also makes the point that in 1977, total assets were only R20.8-billion against R7.7-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 de-consolidated its offshore associate TransAtlantic, which is worth R1.5-billion.

Assurers' expenses including commission and tax rose by 30% to R1.5-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 200% rise in single-premium business to R3.1-billion (R84.6-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 giltts 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 assureds 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 "Feeble" investment schemes, whereby investors in syndicates borrowed from banks and invested in the stock exchange through single-premium policies. There might have been guarantees on this type of business as well.

The assureds thus took a lot of business from banks and building societies -- but maybe it has been prevented from doing so again.

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

Assurers in the billions

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 towards narrowing 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 reflected effective selling in an inflationary environment.

Death and disability claims rose by 23% to R1.1-billion and annuity payments by 63% to R718.6-million. Total benefits paid increased by 30% to R1.7-billion.

The industry's tax bill fell to R42.5-million (R233.6-million) because the one-off levy imposed by the Minister of Finance fell away.

The life companies' stock market investments at R20.1-billion exceeded their fixed interest portfolio of R24.5-billion. At the end of June, they had 43.4% of their assets in equities against only 10.3% in 1977. Fixed-interest securities made up 37.2% of the total portfolio compared with 46.5% 10 years ago.
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, effectiv" 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 repay- ment 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 availability 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 — 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

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."
Perm introduces service charges

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 accommodate 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.
Managers talk of being black — and capitalist

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 South 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’..."
Dream becomes reality

IT IS now a fact that soccer will have a new home. Mr. Abdul Bhamee, 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

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 seat 120,000 spectators.

By MOLEFI MIKA

An excited Abdul Bhamee, 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 Fij players.

Mr. Cyril Kobus, general manager of the NSL, said: "Our philosophy has not changed... we made this clear to the Fij."
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-brokered by Bancura to ACA Insurers Ltd (previously called Atlantic Continental), and now headed by former State Actuary Willem Swanepeel. 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 R45m.

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 incumbent 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 R30m 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 Hoeveld 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.
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 insurers' 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.

Shares accounted for 42.8% of the industry's investments as at June 30. A year before the percentage was just 36.4%.

Complaints 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 R65.9 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 insurers 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 insurers operate in a highly competitive environment, and there is no room for market agreements or collusive practices."
neither 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 own outright by the bank.

The Life Offices' Association, Naudé understands, while regarding this form of verti-

cal 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.

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**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...
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 buyer 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 capitalisation 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 Mattheis, 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 Roetze 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 commentators say the bank has been making inroads into the home loan market and estimate that its book is not far behind Standard's R50-million.

Trust also offer fixed bonds at similar rates to Allied. But Mr Roetze says there is little demand for them.
BoP surplus to ‘remain healthy’

Bank forecasts continued growth in SA economy

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.

HELENA PATTEN

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".
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.

Bank seeks stabilising of rates

GRETA STEYN

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.
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 Wilson, 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 was improved. — Sapé Reuter
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

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 cash 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 — 21.3% of salary for male public servants and 18.8% 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 attendant 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.
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.

"No pressure was brought to bear on the Reserve Bank," he said. MI of the Islamic Corporation Ebrahim Khursany 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.

Khursany said the Islamic Bank would have a sound capital base with an authorized share capital of R20m paid up share capital of R12m and assets which are currently standing at over R11m.
"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 £20-£30 million suggested in reports at the time.

Old Mutual has always been the most outward-looking of the SA mutual life assurance, 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 Lightstone on Providence, which was originally part of the Slater Walker group, but by 1986 was under the control of Paul Dugoe, an 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 canvassed for bids 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 insurers 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 £160 million now under management in eight trusts and sales to the public currently running at about £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 specializing in Swiss bonds.

A separate company, Guernsey-based Providence Capital International, sells investment-linked policies to UK expatriates under the direction of Bill Longley, late of the Mutual's investment staff in Cape Town, PCI, which opened 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 assurance 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 insurers. But in the UK, Providence's market share is hardly measurable and it is one of about 150 life insurers, 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 Services 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 3% to 4 policies per each month. "We did our nut," Mr Griffin says. "At the Mutual, we're used to writing only 7 to 8 per month."

By exposure to Mutual methods, the level of output has been lifted to 6 to 8 policies per man per month. While there were 360 salesmen at Providence, there are now 250, but they sold 40% 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 Longley, 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 from Natal

SHORT term insurers are bracing themselves for claims totalling R350-million-R500-millon 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 be hardest hit among local insurers. It covers major corporate accounts such as CG Smith, Tongaat Hulett and David Whitehead.

General manager Keith Nelson says it will be at least another week before the total damage caused by flooding and sewage spill-over 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 immeasurably 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 12c over the week to close at 650c. Santam was another heavy loser down 10c to 100c.

But IGI lost only 10c to 560c. SA Eagle and Guardian both held their ground and Commercial Union actually firmed 20c to 150c.

An analyst warns: "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 Luybont 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 7c to hit 150c, after the magnitude of the disaster had been assessed. LTA was up 10c to 250c, Groep Five was up 20c to 470c and Goldstein improved 15c to 380c.

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 plants, 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 PPV, 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 small commercial risks and householders."

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

Fred Hulett, 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.

Tweed lodge Oktay
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 boots. 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.

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.

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.
Pension fund shows
R1.5 billion deficit

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’

— UB S chief

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 digest ed.
Building societies out for blood

UBS chief slams life assurance

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 CEO of a financial institution on the life assurance industry, Badenhorst claimed insurers 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 assureds and, in many cases, funded with 'deposits'." Life assureds had become "depository-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."

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Responding to Badenhorst's attack,

Gerald Prosalendis
Financial Editor

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See Pages 2 and 7

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Insurers ‘unfairly advantaged’

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TAX DISPENSATION

The provisions of the tax law concerning the tax-free treatment of certain real estate transactions are often overlooked by property owners. This tax dispensation can lead to significant tax savings for those who are aware of and comply with the requirements.

VALENTA COSTAS

Gerald Prostate/Special Report

BETTER BALANCE NEEDED for Life assuree

CO-OP: LAX, ACCRUE

RECONCILIATION PRINCIPLES
Standard offers shares to clients

By DEREK TOMMEE
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 R58.33-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-oriented 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.
SBIC offers R3m shares at R18.75 each

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 Prestigeian 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 consultation 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-oriented economy.

Share application forms will be available from October 19.

The share scheme takes after similar offers to employees by Amalgamated Beverage Industries — 1m 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.
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.

Airline leasing of aircraft

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 lessor 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 organizations 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:

(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 impracticable 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 obsolete 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.

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.
3. No. For more details the hon mem-
ber is referred to the Report of the
Commission of Inquiry into Secret
Organisations, dated 12 December
1964, in which Judge of Appeal
D. H. Botla 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 ter-
rorist movements; if not, why not; if so,
(a) what is the name of the council, (b) to
what terrorist movements it is lending sup-
port 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 Afri-
ca immediately; if not, (a) why not and
(b) within what period is the for-
eign exchange so earned to be repa-
triated to South Africa;

(2) whether this period has led to specu-
lation 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?

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 mem-
bers of the International Air Trans-
port Association; if not, how do the
salary scales of Airways pilots differ
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 re-
course is open to Airways pilots to
negotiate competitive salaries for
themselves?

The MINISTER OF TRANSPORT AF-
FAIRS:

(b) 1985 474 252 322 474 341 263 305
(b) 1987 590 540 884

(b) (i) Information of this nature is not
readily available and it will re-
quire 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.

Pilots

10-30 minutes 30-60 minutes more than 60
July 1985 361 61 52
July 1986 258 22 47
July 1987 446 51 51
August 1985 175 50 38
August 1986 280 50 54
August 1987 437 51 62
September 1985 273 22 27
September 1986 224 20 22
September 1987 618 110 150

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 Informa-
tion during the period 7 May 1987 up
Sanctions hardening attitudes

Advancement of blacks retarded — De Kock

From GERALD PROSALENDIS

JOHANNESBURG — Sanctions and divestment 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.

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 divestment.

"As a method of expediting the abolition of what remains of apartheid and accelerating socio-political reform, sanctions and divestment have proven completely counterproductive."

To the extent sanctions and divestment had slowed economic growth, they had retarded the socioeconomic 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 divestment 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."
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 Jamaatul 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 Kharasany 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.

Kharasany 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 decision 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 Rushid 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 Swardi, 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."

Kharasany is happy, and expects to be trading as a fully fledged bank by December, with a head office in Johannesburg (a R5m 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 permissible commodities (Mudaraba) and investment in business and industry independently (Mudaraba) or on a partnership or profit/loss sharing basis (Musharakha). The bank will also be involved in housing and property development.
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 Sigma 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 Saggars said the company was involved in all the big risks — Mondi, Barlows, Toyota and SAB — and had already received a “good 3 000 claims”.

HELENA PATTEN and Own Correspondent

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 McCortan 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.
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 Saggars.
Capital structure: 46.5m ords of 50c each.
Market capitalisation: R226m.
Share market: Price: 200c; Yields: 2.3% on dividend; 10.3% on earnings; PE ratio, 9.7;
cover, 4.5, 12-month high, 77c5; low, 31c5.
Trading volume last quarter, 8 700 shares.
Financial: Year to June 30.
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 (2.9) (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 10.6 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 Saggars, 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 175% 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 R136m) will help offset the underwriting loss resulting from the floods.

Saggars 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, that 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 catastrophic back-up cover from overseas," Saggars 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 Saggars 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 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.

Saggars 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 Saggars. 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. 

Pet 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 cliches 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

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 Imbaya — 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 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, but alone an indication of whether a loss is insured or not. "Our resources are strained and 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," says Saggars.

Gallimore says reinsurers will pick up most of the bill for the storm under their catastrophe treaties. R250m, 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 easing 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 inducement of 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, suburban has rapidly expanded so that we have much

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\[\text{Graph showing annual losses from 1979 to 1986.}\]

Source: SA Insurance Association
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 is 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 Sagger. 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 retainings, 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.

The 1987 meeting missed the cue. 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 York. 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 recognized 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 molins.

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

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 assureds 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 assureds. “This was a positive statement,” he said.
Allied takes off the gloves

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 Suge 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 by the means of a new consumer division with its heavy infrastructural and technological demands.

"However, there have been ested 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-R75-million bracket and another R256-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 have underestimated the value of the Allied name in this field.

In the consumer field the Bank has looked first at the Allied's 11-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.

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 phased in 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 the 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

FIDELITY BANK, one of South Africa's oldest banks, is to become the latest JSE-listed in the financial services sector.

Wholly-owned by the Fidelity Group, the PE-based bank will be raising R16.5 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 25% 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 3.18-million ordinary shares at 270 cents. This will total 45% of Fidelity Bank's ordinary shares and 25.5% 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 1400 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.
By Stephen Rogers

HOUSEOWNER 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 home owners in the country.

Most insurance companies classify houseowner insurance as covering the actual dwelling and permanent fixtures, including a stove, gas 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 covered 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 R50 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 1.5c to 1.6c 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 one 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 Lelane. 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 houseowner 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."

"
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.

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 1000% 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 besieged 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.
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 strategy, 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 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."

— Sapa
Floods: ‘insurers will not go under’

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 Kinig 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 R1m.

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 subsidiaries 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 repurchases 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 49% capital appreciation.

With the unit trust capital index at 1352.33 points at the end of September, more than twice its September 1983 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 that 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 R278.3 million to R1 366.8 million in the past quarter.

General equity trusts held 42% of their R3 925.3 million assets in mining related stocks, while the more speciality 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 369.8 million) of their assets invested in industrials compared with only 24% (R332.7 million) invested in industrials by the speciality 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 33% into approved securities.

The five speciality 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%.
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 assureds”, the LOA was one of the first to criticise the “main package” of the Margo report.

Meanwhile, Tradekco 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 be 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 a 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.
from members and the statistician for the Commissioner for Inland Revenue.

Life assured paid tax of R236m, plus tax by individuals on policy proceeds. With gross investment income derived for members of R118 billion, tax as a percentage comes to at least 20%.

Building societies' taxation comprises: tax paid by institutions, R145m; 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 R39 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 assureds 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 assureds. The life assurance industry would support any move to allow building societies and other institutions to compete on equal terms."
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 R$600m. (The Allied group will have total assets of some R$6 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.

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.
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 13.94% 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 26.59%.

— Sapa
Rand closes firmer

JOHANNESBURG — The rand closed firmer at $0.4880/87 against Wednesday’s close of $0.4890/75, in reaction to a weaker dollar and a rise in the gold price to around $463 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 $0.2965/3000.

Against other currencies the rand closed at:

USA: 0.4880/87.
UK: 3.4120/30.
Germany: 0.8780/95.
Switzerland: 0.7263/60.
France: 2.9315/30.
Netherlands: 0.9075/95.
Japan: 69.20/30.

— Reuters

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 unacceptable 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 ground 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 of 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 3% each.

Total assets of Anglovaal, its subsidiaries, associated and managed companies rose by 12% to R5677m, while their total turnover was 1% higher at R5110m, resulting in pre-tax profits of R1270m and after-tax profits of R764m. — 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

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 $470.29 an ounce, while the Wall Street jitters spread to the three biggest stock exchanges in the Far East.

Sapa-Reuters reported that the Tokyo share index plummeted 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 psychologically 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

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 $462 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 2,246.75 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.
Wiped off

So far, the JSE, dominated by the influence of gold, the traditional haven of investors, has held up well. Gold prices jumped higher today, and the market almost regained its lost ground. The gold market was volatile, with gold prices fluctuating widely. The Tsui market was quiet, with gold prices remaining stable. The Hong Kong economy is still buoyant, with a growth rate of 5.6% for the third quarter. The consumer price index rose by 2.3%, and the unemployment rate fell to 3.2%.

Against tide

The JSE overall index, which remains below the level of last year, is up by 1.2%. The Rupiah has strengthened against the dollar, and the rand has weakened. The rise in interest rates has dampened the demand for gold, but the supply is still tight. The rand has been volatile, with an average rate of R15.7 per dollar. The foreign currency market is active, with the dollar trading at R15.5.

In case of error, please consult the original document.
Natal flood claims to affect premiums

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 R46.4 million following the Reef hall storms in October/November 1985.

Insured damage caused by the Laingsburg disaster was R47.8 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 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 ports 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 per cent 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

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.
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 9.5% 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 183 points at the opening to 1866.3 and later went below 1800 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

Gold share prices drop

JOHANNESBURG — Gold share prices continued to sink lower in moderate trading at midday after an easier opening that reversed yesterday's sharp rise in defiance of the crashes in 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
World share panic

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. Thus, 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.
Bloodbath on world markets but... Diagonal St looks to gold for investors' salvation

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-Reuters reported that Tokyo was hit by another deluge of selling orders and the Sydney stock market plummeted 29 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 turmoil, 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.
Gold price soars as traders panic

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 $359.50, the highest level since Feb. 1978, before closing in London at $404.50.

Silver climbed 41.4c to $2.16, and the already depressed platinum market rose $18.20 to $515.50.

The rise in precious metal prices came as Wall Street took another battering yesterday with the Dow 30 industrial index lower, reverting from its initial 320-point plunge.

The index was down 200 points off Friday's 3246.73.

Trading came from all sectors of the market with investors excluding almost any price, dealers said. Volume topped Friday's record total of 208.5 million shares.

Bids remained in the market as traders worked franticly to keep up with the million of sell orders.

In London, equities crashed to a record one-day decline with the FTSE 100 down 301.7 at 3246.

All the European and Asia's three biggest stock markets — Tokyo, Sydney and Hong Kong — went into a free-fall with investors across the world selling their shares, Sapa-deuter reports.

The dollar was sharply lower in New York against the mark after comments by the United States Treasury secretary, Mr. James Baker, that he believed that international co-operation would ensure that exchange rate stability had ended.

The dollar was trading at 1.7460-55, down from 1.7915-35 at Friday's close.

In stark contrast, the rand closed sharply higher at 1.88, up 15.1 cents against Friday's close.

The financial index closed lower at 25,386.88 US cents, up 5.23 at 25,386.88.

While welcoming gold's anti-inflationary effect due to its historical status as a safe haven, the executive director of the South African Ex¬change, Mr. Wim Holts, also issued a note of caution.

"The danger is that with gold at its peak, the local economy booms, which can mean an easing of prices. This unfortunately is traditional and tends to drive partial rally to bargain hunters entering 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.

Transporting stocks were down 65 points at 856. In the broader market, only 14 stocks of the more than 150 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 1020-point decline on Friday — it would also approach the market's biggest fall ever — in the 1930s.

Volume exceeded the previous record, also set on Friday. With three hours of trading still left, volume hit 340 million shares, higher than the 236 million in all of Friday.

"There's a demand and panic out there right now," said Larry Wachtel, of Prudential Securities. "At some point somebody will sell, and I think that 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 concerns, posting a record 235 points in the week.

In yesterday's trading, panic appeared to overcome everyone.

"I'm cleaning the blood off my hands," said Richard Kogl, a trader at the market's Hang Seng index. The index took its biggest drop since opening, sinking 10 percent of its value.

The Tokyo market took its sixth-largest fall ever, with the 225-share market average nosediving 620.18 points to 25,740.56.

Adding to the international fears were reports that the United States had retaliated against Iraq, attacking its Iranian oil platform.

"Weers saw 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 borne

Ciskei court orders the release of church worker

Daily Dispatch

Reporters

Johannesburg — The Chief Justice of Ciskei, Mr. Justice Pickard, yesterday ordered the immediate release from detention of a Border Council of church worker, Mr. Boyce Sooi.

Mr. Pickard said in the Ciskei Supreme Court in Bizana that he would release the reasons for his decision at a later date.

Mr. Sooi 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. Sooi's wife, Mrs. Anika Sooi, citing the Minister of Justice, Police and Prisoners' and the Commissioner of Police in Ciskei, Mr. H S. S. Nkomo.

Savage prowls

Daily Dispatch

Reporters

Johannesburg — Killer dogs are roaming the streets of London's Vincent by night.

That's the conclusion some residents have reached following a fresh outbreak of annual mutilations in the suburb.

Early yesterday, a cat was reportedly savaged and killed by two dogs near Prent Road — a scene after two other cats were killed and mutilated another cat in the same area.

Earlier this year, a killer dog went on the rampage in the Woodchurch area, killing and devouring two more puppies. The dog was never found.

A Prent Road resident said she was awakened at 3.30 a.m. yesterday by screams and saw two dogs attacking a cat in Prent Road.

By the time her father.
almost any price, dealers said. Volume topped Friday's record total of 338.5 million shares.

Bedlam reigned on 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-Reuters 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 1.740-5 marks, down from 1.7875-85 at Friday's close.

In stark contrast, the rand closed sharply higher at 49.73-60 US cents against Friday's 48.72-78c close.


While welcoming gold's surge as having an anti-inflammatory effect due to the stronger rand, the executive director of the South African Foreign Trade Organisation, Mr Wim Holts, 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 commitment to export 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 300 points in early trading.

The Dow index of 30 leading stocks slid 210 points to a low of 2.035, 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 29, 1929 that began the Great Depression.

Volume exceeded the previous record, also set on Friday. With three hours of trading still left, volume hit 240 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 255 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 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
Public fear — the unknown factor

By Ramsay Milne
The Star's Foreign News Service

ORK — The New York Stock Exchange produced a rollercoaster ride yesterday. We 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 300-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 characterized 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 1960s 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.
FOCUS ON MONDAY'S WALL STREET 'MELTDOWN'

Economists don't see crash as start of new Depression

KENNETH BACON in New York

Reagan. 'Indicators are solid'

NEW YORK — As Wall Street stock prices fell on Monday, the US government stood by — present.

'President Reagan cautioned against allowing all the economic indicators to pan out and attributed the plunge to profit taking. ‘Everyone is a little pinched,’ he said, ‘and this is a profit-taking economy.’

Officials at Wall Street, the White House, the Federal Reserve and the Security and Exchange Commission (SEC) but as the market continued to fall, it seemed 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 Booth comments arguing that the economy's fundamentals were strong from the White House acknowledged that concern was centered — and said he had directed members of the cabinet to meet. ‘I talked with the chairmen of the Federal Reserve Board, the SEC, the New York Stock Exchange, the New York Stock Exchange, the Chicago Commodities and Futures exchanges and as other leaders of the investment community.

Unprecedented

These high-level consultations, the White House statement said, 'would be continued in connection with the continuing activity.'

The official statement was consistent with Merrill Lynch's staff, released to the press. 'The mood is very much on the close,' chair, William C. O'Connell, said. 'It's very much bullishly.'

Reagan's economic policies are centered in the belief that tax cuts, lower interest rates and deregulation will lead to economic growth. The administration has been criticized for these policies, which are not widely believed to be effective.

But the optimistic statements rang hollow assell orders poured in on Wall Street. 'After the 1929 crash, the universal phrase was 'The economy is fundamentally sound,' said a sceptical John Kemeny, president of Harvard University. 'Everyone expects that out of Washington over the next few days.'

The reaction around Wall Street — from traders, money managers and securities analysts — was mostly one of stunned silence.

'What's in the midst of a crash,' said Mon Groenman, the bond equity trader at Lehman Brothers in New York. 'We're in a bear market. We don't want to sell and we want to spend the cash that we have.'

In Japan and Europe, stock markets dropped precipitously in a reaction to Friday's crash in New York, and they reacted further yesterday to Monday's crash.

There were signs of 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 were rushing to liquidate their US financial assets.

Early on Monday, SEC chairman William O'Neal sent a message to traders that there might call for a temporary suspension of trading if the market fell too far below that idea was immediately blasted by other administration officials and private analysts.

'It seems to me that there's a reason for the chairman of the SEC to talk about this one White House official said. And Sanford Grossman, a financial economist at Princeton University, called O'Neal's idea 'the most ridiculous thing I've heard in a while. Banishing the market down for a half hour is a sure way to create a panic.'

Unusual

Later in the day, the SEC issued an unusual statement saying it did not rule out suspending trading the next day. The Federal, officials likewise had no immediate response in a typically government official's position, vice-chairman Man-

Lawson rejects controls

LONDON — British Chancellor of the Exchequer Nigel Lawson said yesterday that the British economic recovery was clearly evident and advised investors to remain calm in the face of plunging stock markets worldwide.

The Chancellor, speaking on a BBC radio news programme, rejected reports that share prices were at risk and said the government was ready for further support for international co-operation on foreign exchange stability.

He said the strength of the British economy has been reflected 'for some months' in share prices and added that he was surprised at the news that always "Inflation", — AP-DJ. — AP-DJ.
THE Johannesburg Stock Exchange opened 90 minutes late for trading today after panic-selling by small investors knocked about R40-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 20c, Anglo American R2, Vaal Reefs R5, Kloof R1.20, Allied 25c, 5A 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 5.3 percent, Sydney 1.2 percent, Wellington 1.9 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 R13-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 273 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 19% million shares worth R179-million were traded yesterday, compared to Monday's 20 million valued at R100-million.

This was below the record R203-million of shares which changed hands on September 5.

Mr Mike Daly, economist at Southern Life, said the South African stock market could grip 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

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 Johannesburg 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 backdrop 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. Institutions would be back in the market for shares offering good value. "Some shares with P/E 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 Southco and Khoex fell 18% and 27.5% respectively, on volumes of 515 500, shares in 306 deals and nearly 660 000 shares in 277 deals.

The punter's industrial favourite, Powitech, shed 7.5c with nearly 555 000 shares changing hands in 309 deals.

Quality gold stock Vaal Reefs, on the other hand, moved down R50 to R120 on only 17 875 shares in 40 deals.
Panic sellin'

GOING DOWN ... Dealers on the Johannesburg Stock Exchange floor yesterday's panic selling.
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 300 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
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' Managing 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 plummeting prices that pushed the key share index down almost 20%.

In Tokyo, prices slumped 14.5% in the worst one day 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 1694.4 after a drop of 132.3 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 1.3% 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. He 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 Guirgis. 6:05: Ushashim
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 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."

PRIVATE MOTORISTS PUT DOWN?

NIL
No widespread ruin ahead, say analysts

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 22.52 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 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’ 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, saying 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.
Fears of further drop

Fox of the Johannesburg Stock Exchange yesterday

It is all going to come crashing down. It seems to be the new element in the story of the market.

JOHANNESBURG — More than £2 billion was wiped off the local stock exchange yesterday, according to reports from the Johannesburg Stock Exchange. The Johannesburg Stock Exchange, which is the largest stock exchange in Africa, saw a significant drop in its value yesterday.

The London Financial Times reported that the share price of the world's largest stock exchange, the London Stock Exchange, fell sharply yesterday. The report stated that the share price of the London Stock Exchange fell by £2 billion yesterday.

Johannesburg Stock Exchange

The Johannesburg Stock Exchange is located in the city of Johannesburg, South Africa, and is the largest stock exchange in Africa. It is known for its high level of activity and for being a hub for investment in the region.

The event that caused the drop in the share price of the Johannesburg Stock Exchange is not clear, but it is believed to be related to the global economic downturn.

The Johannesburg Stock Exchange has been a leader in the African stock market for many years, and it is considered to be one of the most important stock exchanges in the world.
The Amsterdam and Zurich markets also had erased some of the day's losses when they closed. The American and London 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 12.4 per cent (263 points) to 1982 as even such blue chip shares as Barlows were battered by heavy selling. More speculative shares showed the biggest price declines and a record 66 shares hit new lows. Only one share on the whole market, Fawzy, registered a price gain, rising five to 78c a share. Analysts believe shares could offer excellent buy-in opportunities at the lower levels. The panic selling was as an international trend and share prices across the world were hard hit. London slipped back as the early Wall Street rebound lost momentum and it ended 1322 a bigger percentage fall than Monday.

Japan ended the day with almost 15 per cent of the value of the huge Tokyo market wiped. More reports P11

Editorial opinion P12
Reagan assurances soothe investors' nerves

Gold price slumps
as markets recover

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 102,277 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

TRADING was delayed for several hours on the Johannes-
burg 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 un-
able to say if the exchange
would open today.

Investors were unable to do
business with stockbrokers ex-
cept through the London Stock
Exchange.

But unit trusts were permit-
ted to buy and sell at yer-
sterday's prices.

Reuter reported the JSE
opening had been "delayed in-
definitely" and a JSE spokes-
man said a statement would be
made later today.

"There was a huge number of
deals yesterday and the com-
puter is running behind. The
load was too great for our
brokers and we feel we
must clear up the backlog be-
fore we can begin,"

The JSE opened 90 minutes
later yesterday.

The volume of shares traded
yesterday jumped to 21 066 415
from 19 869 907 on Tuesday and
the value of R213.149.165 was
sharply higher than Tuesday's
R170.696.951. This beat the pre-
vious record of R205-million in
mid-September.

Brokers were today wary
about forecasting a rally on the
Johannesburg Stock Exchange
today after yesterday's second-
ary wave of selling.

They said it seemed that
people and institutions who had
not been able to sell on Tues-
day when the market plunged
had used yesterday's rally to
get out of the market.

Street
rebounds

From RAMSAY MILNE
The Argus Foreign Service

NEW YORK. — In an im-
pressive 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 yest-
erday regained much of the
ground it lost in Monday's
nosedive — and provided
some convincing evidence
that fears of a 1929 Depres-
sion might be groundless.

From Tokyo, Sapa-Reuter
reports that the stock mar-
etk powered ahead strongly
for the second day running,
gaining an impressive 782
points in the first hour of
trading to reach 24 739.

The Sydney market, which
lost 25 percent of its value on Monday, also con-
tinued to climb back, gain-
ing 134 points to stand at
1 702.3.

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 stand was
quoted at 48.58 US cents in Jo-
hannesburg, against 48.80 yes-
terday.

See page 17.
Sit tight, brokers tell JSE clients

ANC kidnap case: Charges dropped

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 3 492 billion was knocked off the value of shares on Tuesday — caused the overall index to drop to 2 445 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 Gill, who heads Sanlam unit trust, advised clients that this was a good time to buy, while others 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 Crichton, of Syfrets Managed Assets, said that he did not encourage immediate new buying at the JSE.

"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 110 points, to regain the 3 000 level, shrugged off the '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 14.7 points higher on the day at 1 048, after shedding a breathtaking 29% of its value on Monday.

BUSINESS BRIEF

Gold (London close) $465.50
Gold NY (close) $487.76

Bond: 3 1/8% 1985 22 09.90

Dow Jones 2207.85

*To page 2*
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 Doee 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

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 2440 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 $586 an ounce after the volatile swings of the previous two days, another drop in the prices of heavy-weight gold shares led the decline.

The industrial index lost 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 program 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 overworked. 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 120 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. 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-Reuters.
JSE jitters show signs of settling

JOHANNESBURG — Share prices remained under pressure on the Johannesburg Stock Exchange yesterday after earlier showing faint signs of recovery in a shortened but hectic trading day.

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Dealers described the market as jittery and vulnerable and some believe the selling could continue today before the market shows signs of settling down.

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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 Tills, 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 800 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 Martin 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
SHORT-TERM INSURANCE

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 (FMI October 9).

(Brown Davis) R37m, Sapruf 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

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 leather-bound 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
Major Firm Freezes Its New JSE Listing

By Tom Hood

Cape Town, Friday October 23, 1987
Short-lived rallies end on main markets

US probes cause of ‘Black Monday’

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 230 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 23 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.

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.

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.

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 performance 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.
By AUDREY D'ANGELO

UNCERTAINTY continued to hang over international stock 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 saw 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 lost mostly lower, but there were some gains. Although the bullion price was higher, the All Gold share index slipped 22 points to 2 130. The Industrial Index dropped by 13 points to 1 905, 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 spokesman 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 Stergiades, 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 upper set in the market."

World market reaction varies — Page 4
JSE listings postponed — Page 4
SA economists' warning of worldwide collapse

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 shrank 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 500 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 turbulent conditions could continue for several more days.

The one encouraging sign was that in the week of stamps 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 'Melt-down'.
JSE's basis still strong — Norton

The JSE will see some weeks on further shakeouts, but background factors are expected to be 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 almost 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 fuelled 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 flush, 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 will be back in due course," he says.

The reason for their waiting is that they 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 97 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 unit 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 were 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.
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 bankruptcy 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

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, the 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 staging 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 295.88 points over the week. Volume said to be lower yesterday, but brokers believed the fire sale was over.

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 heavyweights 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 2 016 from 2 138 and the industrial index to 1 844 from 1 988.

In London the Financial Times index of 50 industrials closed 38.5 points lower at 1 396.8.

Gold hopes dashed

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BUSINESS BRIEF

Gold (Ldn close): $472.25
Gold (NY close): $473.60
Rand: 0.4287/34
FT index (close): 1 396.80
BID 100: 2 048.20
Dow Jones: 15 000.20
‘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 16,010,000 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.
the crash of ‘87

Sven Forssman

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 Reenie 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.

“Buy for the buyer who can’t take a big knock, stay away from the heavyweights,” he said.

“The heavyweights are valuable for money but they have been fluctuating quite violently on the current market and some people have been burning their fingers — you could lose as much as R750 on 100 shares in one day if prices fall.

The margins between R500 and R600 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.
Yuppies take a bashing as the fast life fades away

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 clothes and real estate agents throughout the 1980s.

The fierce outburst of anger against the Yuppies — what has been described as "a frenzy of Yuppy-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 the new knowledge of the extent to which these young whiz kids, most of them becoming millionaires several times over in their first five years out of college, have solicitied 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 $600,000 in their first year of trading "child's play." It was just the first step to making $5 million or $10 million by the age of 25.

"Yuppies are called 'G-R-E-E-D-Y,'" was how one disgruntled investor described the Wall Street white kids.

The Yuppy syndrome has had a pervasive psychological effect on an entire generation of young Americans, all trying to emulate life in the Yuppy 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 Yuppy client called to ask her to find him a "weekender" in Greenwich, Connecticut.

"I don't want to go above $8 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 Yuppy, aged 41.

America's best-known super-Yuppy is a boyish billionaire, 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 billionaire.

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-gnawers.

"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 Yuppy glut — too much, too soon, too disgusting." She predictsthat 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.
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 $2.5 billion 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 R1.1. 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 R0.9.

"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-Reuters.
Paying a high price for sheer gambling

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 $6-billion in the first half of this year, average daily trades on the Hong Kong stock market have been running above the $100-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 $800.

Even some of the lowest-paid workers try their hand at making a bit extra through the markets.

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 practices 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

Big crash will hit jobs

* 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 10 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.
CRASH?

It's only paper

But megachurch shrugs:

KEEPING AN EYE ON PEOPLE AND EVENTS BEYOND OUR BORDERS

* SUNDAY TIMES OCTOBER 22 1989

耳边的回响：

"What?" Hisopske said, turning his head towards the speaker. "Could you repeat that? I'm sorry, I didn't hear what you just said." Hisopske took a deep breath and adjusted his microphone to ensure clear communication. "You mentioned something about a new project coming up in the next few weeks. Is that correct? Do you need my input on any specific aspects?"
"Don’t get scared: It’s not like 1929"

STOCKBROKER George Ferris Sr, at 94 one of the few who have seen it all before, had a little advice for the young bloods of Wall Street this week.

"Don’t get excited to death. I don’t think the market is really like it was in ’29."

He was choosing his words with care. The visions of bankrupt brokers leaping to their deaths from the skyscrapers of Lower Manhattan, scenes all, one of the recurring images of depression.

The situation was mostly myth, but I knew Mr. Ferris. Mr. Martin and Mr. Footer, and they all took the panic.

"They wouldn’t have this time. The market will come back good in three or four months."

Mr. Ferris was at his desk early, as he is every day, dispensing crazy optimism and polling a few likely winners from the stock market, while outside on the pavement the black-eyed streetcar to Black Monday were returning to the floors of the Stock Exchange and financial institutions.

For some, the optimism was bad news. A few brokers at the news stands revealed the Wall Street Journal had sold out.

They were soon cheered by news of Bush’s rally to the breakfast bars that the market had opened to a red market.

By the time the last cup of black coffee had been drained, trading was back to record pace. Nobody was sure which direction it would take.

"Be sure anything could happen is 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 gains being learnt from Mr. Ferris’ prediction were diversification, and very few Wall Street investors had all their eggs in the Stock Exchange Basket when the new record high came.

"There were some boors from those who had got out in good time."

"Tryin’ Laram, an 85-year-old lumberjack with Vord..."
In spite of more steep falls on the Far East markets...

JSE chief remains optimistic

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 tumble 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-Reuters 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.
Congress meets over deficit

Markets - the blood still flows

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 plunged of 162 points shortly before the close seemed to have dashed hopes of global stock markets recovering today. Wall Street blue chip indexes 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.

REUTERS 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 8.5% to close at 1,684 after a midmorning low of 1,645. The decline in share prices came as the dollar, took another battering, dropping below

MERVYN HARRIS and
CHERYLHIA REN

IVIARKS. BLOOD STILL FLOWS

DM1.77 to a low of DM1.765, 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 16% 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

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.
Traders anxious as markets tumble

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.

Clariing 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
You’re still better off — De Kock

Flight of capital ‘more serious than JSE shock’

From GERALD PROSALENDIS

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 more than 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 accommodate 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

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 sell-off, 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 1 703 points, just 33 points above the close on "Black Monday" last week when the index fell 868 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 $374 an ounce in London today, down from last night's $376.40 New York close. The rand was quoted at 49.48 US cents.

No recession, says De Kock

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 1993, compared with 2007 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 2127 and the Industrial Index 177 points to 1712.

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.
Traditional pattern of funds allocation 'distorted'

UBS launches further attack on life insurers

THE United Building Society, whose CEO 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 assurance 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 sel-dom performed by the life insurers 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 to turn largely to life insurers for investment products, virtually all of which enjoy some tax advantage.

"The average tax paid by life insurers 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 45%." The publication says it is of the utmost importance for deposit-receiving institutions — which include the life insurers de facto — to receive equal treatment on a level battlefield.

"If life insurers 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."

HELENA PATTEN
No selling yet in wake of JSE fall

Banks keep scrip against overdrafts

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 Jan 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 on 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.
Shares gain on JSE, but world markets fragile

By DEREK TOMMEY, Finance Editor

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 2300c, Elncentre up 5c to 325c, Massina up 200c to 1400c, M&H up 150c to 1550c, Sasol up 15c to 1100c, Leslie up 65c to 700c, Ruskina up 150c to 3000c and Barlows up 100c to 2200c, Joel up 100c to 1650c, Fredericks up 50c to 2000c, Lofico 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-Reuters.

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.
Reagan says crash is 'a warning'

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 signs of stabilizing — despite another drop in the dollar to DM1.7759 from DM1.7735 — 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 26.88 points to 1 820.70. 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 news that the British government planned to go ahead with the £7.5bn BP issue.

The FT-SE 100-share index ended up 19.2 points at 1703.2.

Earlier in the day, overseas stock exchanges gaveA promising signals with the Japanese and Hong Kong exchanges surging.

Sapa-AP reports that Tokyo's 225-share Nikkei Stock index regained more than half its steep loss from yesterday, rising 632.40 points or about 3.9% to close at 22 834.88. 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.

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 90 minutes of morning trading and, at

Markets start to recover 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 91.8 points to close at 1 323.1, after falling to 1 300.9 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 97.96 points, closing at 2 835.92 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.
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 32 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 1,49. The overall index was 65 points lower at 2,07,75.

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.

Share dip again —
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 earlier 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 20,80 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.
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 Kreger 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, Reeds, closed R15 higher at R355, after opening R18, down to R368. Southvaal gained R10 to R186. Randfontein and Western Deep both were R5 higher at R255 and R165 respectively.

Lightweight Leslie was greener higher at R7 and Harries gained 75c to R6.25 but Kionos lost R1 at R61 and Libanon was 1.50 down to R74.50.

In platinum, Lefko and Rustenburg both gained R1 to R13 and R30 respectively and Lydenburg was R2 higher at R28.

De Beers was down R1.50 to R26.50 after a high of R37.50.

In other mining Samanco was 25c higher at R8.25, Vanza Venadium up R1 to R6 and PGI up 80c to R6.

Mining Financial leader Anglo gained R3 to R74. Amgold and Gen- cor also rose R3 to R50 and R63 respectively.

In mining exploration Frederk gained R3 to R22, Randex was R1 higher at R5.10 and Rhombus was 75c higher at R5.60.

In the Industrials, Bar- lows was R1.50 higher at R22.50 and Messina up R2.50 to R14.50.

Anglo Vaal Industrial jumped R7.50 to R33 and Salmore was R2 higher at R25.

The Overall Index rose to 2134 from Tuesday's 2064. The Industrials Index finished at 1738 and All Gold Index at 1906.

Capital market rates closed lower yesterday, as the gold price traded above $470, dealers said.

The Escom 11% 2 000 closed lower at 15.30% against Tuesday's 15.33% and the RSA 13% 2 000 at 15.02% against 15.34%.

Stocks at the short-end had the SATS 7.5% 2 004 slightly lower at 15.22% from 15.26% on Tuesday, and the SATS 12.5% 2 006 at 12.11% against Tuesday's 12.16%, dealers added.

Tuesday's volume was about R750m. — Sapa-Reuters
Selling frenzy eases as JSE prices rally

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 1,753 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 aura, and the 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 5.4 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 Anglo American, 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 world-wide 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 mere 0.33 point to 1,485.32 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 1.7300 West German marks, from 1.7365 marks on Tuesday.
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 3)
Div raised after 4 stagnant years

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 annualized.

Earnings a share last year were 294.6c compared with 197.3c and dividend cover, including that for 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 16.9% and the return on total assets has improved from 0.7% to 0.9%.

Total assets have expanded by 15.1% to R260.6 billion from R182.2 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 R164.1 billion, while total advances gained 15.2% to R156 billion from R140.8 billion. Advances to customers rose to R113.3 billion from R98.8 billion, home loans were 47% higher at R143 billion (and still rising fast, said MD Chris Ball yesterday) and installment credit loans improved by 2.6% to R41.6 billion from R39.9 billion.

Net income before tax jumped 25.3% to R390.9m from R249.9m (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 R33.2m being share of income from associated companies, principally from Southern Life.

Extraordinary items accounted for a debit of R106.5m 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 R123.8m. 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 reduction 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 R5.8m.

Newly formed Persam which absorbed the former Trustee Division 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.
on oil depot heats Gulf tensions

Inside Kuwaiti waters last 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
Continued on page 58.

Why the Foot Dries off the World

The economy.

Weil Street Talkers.

Wall Street Bulletin.

NYC ECONOMY

The continuance of the dollar's nature and the higher level to which the world economy has been raised in recent years is likely to result in a...
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 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 3% 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

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 markets 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 Ferguson 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 USS474/oz, the gold price remains encouraging, although so far doing little for those who have piled 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.

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.

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 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."

Boon 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 on 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 Scardeco, Umgeni Foods, Mielieklep and SA Bias Binding, have delayed the listing dates.

Most merchant banks tell us they are watching the reactions being given to new listings before advising companies on whether to stick to listing schedules. JSE listings manager Doug Dair 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.

[See Economy]

Andrew McNaught

FINANCIAL MAIL OCTOBER 30 1987
Guilty men and consequences

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.

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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.

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.

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.

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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 reinforced 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 amusing," 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
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 success 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 deficit — 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 shrinking 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 for to 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 congresional 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 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.

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.

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-century 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 plunges 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 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 liquidable) 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
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 to the tax cuts he had earlier called for. 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 Reagunomics 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 buy-back 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 loopholes 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-

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 Wasseraa 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 Saggars 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'

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 "hived off" the information services division into what Allied clearly feels will become the country's first "super bureau." Called Allied Information Systems (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.

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, Mtch 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."
Who's getting the cake?

In this two-part feature we examine the change in market share of some of the large life assurance companies 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 assurances 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 assurance companies have got 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 assurance companies themselves.

No two are greater than Old Mutual and Sanlam. Both take their size very seriously and would say, to the exclusion of all else.

Commenting on the fight between the two for market share, one life assurance 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 Abinex 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 and graph I 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 assurance companies 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 last 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 12-month period."

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 assurance companies."

Sanlam disagrees with the basis saying that "such unaudited figures are not acceptable. But even on this basis it is consistent that increased its market share—probably at the expense of Old Mutual."
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%). Pretax 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. "It's 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 R550m 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 loan-defaulting policies.

Income from associated companies leapt 77%, part of which is due to the inclusion of 12 months' of Southern Life's earnings after only six months' was included in the previous year. The sharp climb in associated groups pushed profit growth to 24.2%-29%.

An important factor behind the earnings advance was the reduction in bad debts. Amounts written off were up from R142m in the previous year to R200.2m, but the charge to the income statement was only R178.7m 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 that 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.

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 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.

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Governor, SA Reserve Bank
"Inflation and Growth in 1988"

ARNAUD de BORCHGRAVE
Editor-in-Chief, The Washington Times
"US Political Attitudes Towards SA"

RIMMER de VRIES
Senior Vice-President, Morgan Guaranty Trust Company of New York
"The International Economy"

DR MANGOSUTHU BUTHELEZI
Chief Minister, KwaZulu and President of Inkatha
"The Role of Business in the Political Reform Process"

PIET LIEBENBERG
Chief Executive Officer, Nedbank Group Ltd
"Ethics in Business"

CHRISTOPHER CASTLEMAN
Former Chief Executive, Hill Samuel Group Plc, London
"Big Bang - Culture and Capital in the New Financial Conglomerates"

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"The Relationship Between Business and Trade Unions"

PETER BONFIELD
Chairman and Managing Director, ICL and Deputy Chief Executive, STC Plc in London
"The Importance of Technology on Economic Growth"

COLIN DUNN
Executive Chairman, The Discount House of SA Ltd and
Director, The Discount House of SA Ltd
"Interest Rates - Brave New World?"

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FINANCIAL MAIL OCTOBER 30 1987
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 dividend transfers to internal reserves amounted to R4,96m, 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
JSE living ‘from minute to minute’

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

Gold should soar

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 authorities 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.
INVESTMENT

Paper moguls' wealth

The Argus Correspondent

JOHANNESBURG.—The stock market crash has slashed hundreds of millions from the wealth of South Africa's paper moguls.

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 16 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 undreamt-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" R11-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 now shed a cool R19.5-million from his R63.2-million peak. In spite of the paper losses he has had, he remains top of the paper moguls' 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" 69 percent.

Worth a "comfortable" R32.8-million when his shares peaked, Mr Els's fortune has slumped to R8.3-million—a paper loss of R24.5 million.

Nor is Mr Els the most hard-hit. That distinction goes to the Brokers duo of Hugh Courtney and Archie de Jongs. At the height of their short-lived rise to stock market fame their shares were worth R26.2-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 Pintech. And while Pintech 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 Abelson and Wilder families of Imperial are worth more now than they were on May 17, though their fortunes are obviously lower than 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'Ebley. 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'Ebley'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 manhandled by the bear, it also has scant respect for those better endowed than they are.
The Reserve Bank helping to balance

TO ALL intent and purposes the banking system, as indicated by the money market, was in balance on Saturday morning when the short-term rate was a mere 8.5%

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% a week for wholesale call money, with the “plus” reaching as high as 10.6%. In contrast, they got R360m at a rate of 9.92% in a tender for deposits from the Corporation for Public Deposits.

The tender attracted bids amounting to R255m.

In addition, the central bank advanced R50m at a rate of 9.58% in buy-back deals which mature today.

The 90-day bankers acceptance (BA) rate is back at 8.65% from the previous 8.8% and Friday’s tender for R40m Treasury Bills (T-bills) attracted aggressive bids of R280m, 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 very cheaply 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 concomitant gold price and 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 managed — 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 exchange 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 stabilisation and subsequent re-payment agreements.

In the past two weeks, SA has good reason to be grateful for its monetary authorities’ exchange control and the financial reserve.

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 have soared and the country would have headed into a devastating recession.

Bond market activity on the JSE chalked up a turnover estimated to have been between R13bn and R15bn last week — a total which would 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 15.29%, 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 highly improbable that they will return this side of the new year.

Marketability

Customarily, institutional fund managers start doing their sums and picking 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 15.39% without differential rates, but the Sats 7.5% 2009 is trading 11 points lower at 15.22%. More than anything else, this emphasises the shallowness of a market which does not mark a peak 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.
Corbank — R1.5m profit

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.

[Signature]
A. A. Sealby (Deputy Chairman), G. H. Bulterman, W. A. M. Clewlow, W. F. Kuegler, A. M. Ebsholt, C. H. Watersortz.
No-interest banking for SA

HELena PATTEN

THE BANKING WORLD (November 3, 1997)
Debt provision down to R58.7m

Nedbank's after-tax profits soar

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 32c (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 R59.7m — 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 R66.1m 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 R14.2m (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%

THE NEDBANK Group announced a 77% increase in taxed income to R140.8m for the year to September 30, despite an unexciting 7.6% 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 35c — a 10% increase over last year.

Nedbank’s taxed income soars

Liemeborg 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.

Liemeborg 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 R206.8m to R245.4m.
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 homeowners 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.

One dies, 42 hurt in train crash.
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 R13.6m.

Assets rose 29% in the year to R1 265m, 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 R1.34bn.

"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 realize our aim of real profit growth from the base achieved this year will be particularly challenging."

— Sapa

London stocks after-hours: Syvcoors 517, Breeder 182, Driefontein 19%, E Rand Pro 8%, Freegold 17, Grooteveld 21%, Harmony 11%, Leslie GD 150, Randfontein 86, Southwest 48%, Stilfontein 9%, Venters 11%. 
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 Strebelp 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
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 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 gloss.

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 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 26th, 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 a new measure of confidence 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 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 stabilized 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 weighs heavily on the market. The inferior fiscal starting position ahead will limit the degree to which “automatic market stabilizers” 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...
...would be influenced by the...
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 R108 million changed hands.

Fresh falls in share prices on the Tokyo market, now the lowest 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 R30 billion off the market capitalisation 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 instinct" overturning common sense.

The panic hit share prices across the board yesterday. The JSE all-gold index dropped by 5.3 percent to 1,573 and industrial stocks fell by almost 5 percent.

**Panic Selling**

Deputy chairman of the JSE, Mr Paul Ferguson, 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 that high 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 full confidence in the economy and therefore in the good companies participating in the economy," he said last night.

"There are two fluctuations caused by fluctuations elsewhere in the world, and then our economy is an open economy. With 88 percent of all economic activity made up of exports and imports..."

"If you look at the yields 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.
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-65s scheme — launched on July 1 and effectively withdrawn on August 3 — 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.
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 1,570, 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 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 85c.

Retail Management Services opened in the DCM sector at 20c, 15c below the issue price of 33c 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, Buldoe and Martin.

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.
No jobs behind stock exchange crash

By PIETER LE ROUX
Director of the Institute for Social Development at UWC

The problem grows much deeper than the ideologically driven economic policies of a presiding lame duck president. His deficit spending hides a deeper malaise. In most countries unemployment is today more than twice 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 cities and the urban black youths in South Africa, the rate of unemployment is as high as 40 to 50 percent.

Blame for the extremely poor performance of the world economy was first placed on the failure to increase in oil prices. However, there has been a period of relatively low oil prices, and growth has remained sluggish. To argue under these circumstances that the Americans or English economists are ‘‘fundamentally wrong’’, as Krugman and Thaischer have done, is to ignore the serious failure of Western economists to provide employment for all. These economies are similar to a nest cylinder engine which limps along on five.

Bravo

Unemployment higher than 10 percent does not imply that many potentially productive people are not able to contribute to economic growth, but it also places a high burden on the economics that finance support for the unemployed.

In South Africa, people such as Dr. Gerhard de Kock, president of the Reserve Bank and deputy chief economist, have warned that the economy is fundamentally sound. Dr. de Kock has always maintained that the economy is relatively stable. The unemployment rate in South Africa, which he claims is currently at 4%, is significantly lower than in any other country in the world and that for many South Africans conditions were as bad as the world that is portrayed in other African countries.

In the light of his comments, the collapse in the stock market was not unexpected. It simply brought the financial world in line with economic realities. The poor have long known that all was not well return for stability in the dollar’s exchange rate. After the collapse, the dollar may have been something of a milder, it was, however, clearly not the fundamental cause of the crash.

The suggestion that the West German officials had blamed the West German officials on the economic collapse in the United States is not new. Generally, it is argued by members of the conservative financial press, these problems can only be solved by the American officials to cut government expenditure. At the same time, it is argued that Japan and Germany will have to lower interest rates to stimulate consumer expenditure. The reason for the two countries are left with the task of pulling the world out of any recession is the inflationary potential of their economies.

Whether the collapse has been a warning about the need for more and more of the debtor countries to default on their payments, it will become an impossible task to shore up the banks.

The situation is as dangerous as it was in 1979.

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. They argue that the government does not have the skills to face the challenges of a complex world. To rid ourselves of this sad inheritance, a radical transformation needs to take place not only in the economic, but also in the political sphere. Only then it is likely that such policies will serve the needs of the day.
Wall St picks up after fears

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 West German mark and the Japanese yen, the gold price also fell, closing in London at $460.50 an ounce and causing more panic damping 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 706.1 (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.
HOME LOAN COMPETITION HOTS UP

UBS has recently acquired a 30% share in Volkskas and Liberties relationship with Standard Bank Investment Corporation. UBS CE Fertiliser have recently agreed to acquire the assets of Volkskas and Liberties. These institutions have all increased their market share in the last six months of the current financial year.
Prices drop in frenzy of selling

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 1 574, the mining financial index shed 10.8% to 2 451 while the industrial index gave up a further 4.8% to 1 637.

The 14 trading days settlement factor is believed to have accelerated the downturn. 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 decline has 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 orders.

New listings were battered yesterday as two of the three newcomers opened well below their issue prices. The Strebels 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, Sapa.

Buildcor and Marin

Black granite producer, Marin, has already tested the market. The nil paid letters closed at 1c yesterday. Marin started with a 50-for-100 rights offer to Johannesburg Corporation/Consolidated Corporation shareholders.

Diesel engines and transmissions group PDS, whose private placement 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 preferen-
TRUST BANK

More efficient

Activity: 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: 132,8m ordinary 50c each.
Market capitalisation: R332,2m.

Share market: Price: 250c; yield: 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.

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<th>'84</th>
<th>'85</th>
<th>'86</th>
<th>'87</th>
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<tbody>
<tr>
<td>Rbn</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advances</td>
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<td>5873</td>
<td>5926</td>
</tr>
<tr>
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<td>n/a</td>
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<td>14,0</td>
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<tr>
<td>Earnings</td>
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<td>28,5</td>
<td>28,5</td>
<td>36,0</td>
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<td>Net worth</td>
<td>164</td>
<td>172</td>
<td>193</td>
<td>218</td>
</tr>
</tbody>
</table>

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%.

Many banks are divesting outside interests. Trust last year sold Suzuki Distributors and the Cape Town 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 Keating
Sizing up the competition

In this, the second part of our feature on life insurers, we examine some of the issues concerning their enormous growth.

Another factor for which life insurers are criticized 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 insurers report their total 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 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 Levetts: "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 market. 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 in 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, Lifeqgro, 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 insurers captured market share during the period through the drift 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 Lifeqgro, 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 setback by the authorities following changes to tax legislation."

He says that Lifeqgro 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 Lifeqgrogro 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 in particular 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."

<table>
<thead>
<tr>
<th>MUTUAL COMPETITION</th>
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<tr>
<td><strong>SA premium income growth 1985</strong></td>
</tr>
<tr>
<td><strong>Amount</strong></td>
</tr>
<tr>
<td>Sanlam</td>
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<tr>
<td>261.2</td>
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<tr>
<td>Liberty Life</td>
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<td>Old Mutual</td>
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<tr>
<td>Southern Life</td>
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<tr>
<td>Lifeqgro</td>
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<tr>
<td>Others</td>
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<tr>
<td><strong>Total</strong></td>
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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 thrive 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.
GROUP SCHEMES

Merry-go-round

It was a close shave for some 46 000 policyholders recently when their business was re-broked 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 fulfill 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 bordereaux 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 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."

Sins 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.
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.

Price Forbes Fellowkiss 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 swinging premium increases they've had to face during 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 bail, 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 under-cutting the market. But they will now pick up the 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.

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SHORT-TERM INSURANCE

Treaty dilemma

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 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 insurers 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 pro-
Barend: We will beat the market

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 45% 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 150 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.

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 R155-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.

If you think the rand is looking strong, look at the D-mark

Dollar/Rand (daily) Deutschemark/Rand (daily)

0.52
0.60
0.48
0.46
0.44
0.42

D J F M A M J J A S O

0.32
0.30
0.28
0.26
0.24

0.90
0.88
0.86
0.84

Others are Sanchern, Hyprop, Nuplate, Decor, Win Holdings, Freg Electronics, RMB Clothing, Tie Man, Embrilotex, Proprop, Umgeni Foods, Sear tec and Seannag.

The JSE Actuaries overall index gained 69 points on Friday after another disastrous week. The index closed at 1 721 — down 15.6% on the week and 23% on the all-time high of 2 806 on September 19.

Ironically, profits of listed companies continued to soar. Thirty

To Page 3
Allied drops rate: societies back in a spot

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 competitors (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 MacInaghlan 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."
They are:
- Sanlam-Trust Bank-Santam;
- Old Mutual-Nedbank-Mutual & Federal;
- Liberty Life-Standard Bank-Guardian National;
- Lifesec-Volkskas-Aegia; 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 CEO at Southern: “Being closer in a group like this makes it a lot easier to put something together.” For example, jointly with First Bowling, the “Futura” policy was developed.

Since its launch in August 1986 Futura has produced R200m of business through both Bowling 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 return we have a substantial piece of its banking business.”

Alan Wilson, First Bowling MD, stresses his “independent 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

BUILDING societies are again caught in the crossfire of the mortgage bond rate war after the Allied Group's decision at the weekend to cut its bond rate for new borrowers from 14.5% to 13%

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Matter of fact

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.
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 12.96 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, seems 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.
Battle for home hands hots up

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 1st.

An industry executive said the average bond was R40,000 over 20 years and 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 "questionable practice" by the president of the Building Society Association, Mr Mike Blanche. Mr De Blanche, who 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 the severe competition from commercial banks, building society home mortgage lending was expected to top the R1 billion mark for the year ending March 31st.
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 interbank 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 R633 a month at the current 13.5 percent charged by most building societies. Repayments on a R50 000 loan would have been R685 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 12.9 percent.

Allied, Saambou and Boland Bank charge 13 percent — with Saambou charging 12 percent on a new loan of half the purchase price and Allied offering a fixed rate of 16 percent for three years.

On 13.5 percent are NBS Trusthous, 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 rand 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.
bonds hots up
'Chalkies' take the pressure as stock market boils

With all the attention that has been focused on the Johannesburg Stock Exchange lately you may have 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 wreck 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 20-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 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 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 Camiel 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

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 13.5 percent rate and two major building societies have cut their prices to be competitive.

One of them has restricted the cut 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 13.5 percent for new borrowers only.

Then the NatWest 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 Pemra 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 leading.

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 R3 billion in residential property.

Hitting at some major banks' "questionable practice of granting 100 percent bonds", Mr de Blanche said the building societies had always 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.
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 emphasis 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?"
of some institutions
Bond war will be end
Riot insurance made difficult, claim brokers

By Sven Forsman

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 premium is payable."
JSE prices firm, but economists gloomy

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 $494 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 noted 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.
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 applications 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.
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.
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 m² 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 suburbs.

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 m²), Pick 'n Pay (4 850 m²), Edgars (1 000 m²), Ackermans (800 m²) and Russells (800 m²), with the remaining 9 000 m² 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
Gold could save SA from worst effects of crash

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 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.

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. 16.5 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.

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, prior to the crash, was just beginning to look slightly bullish, reacting very negatively to the fall in gold prices 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 dissipated as people believed that the vast losses in wealth would greatly reduce investor and consumer spending and therefore also dampen imports.

Collapse

The collapse of 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 just of all South Africa.

The long-term average real rate of growth in South Africa was 4 percent 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 uncertainty 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 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.

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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 on foreign aid, sanctions for various degrees and divestment.

But as the saying for South Africa goes, every cloud has a silver lining. This is particularly true when we examine the potential of the precious metal markets. Gold has always benefited in a world of uncertainty, and has served as a hedge against the unknown.
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."
Too many banks in SA' — Tindall

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

WHILE a nervous JSE was stabilising this week, bears prevailed at the influential Financial Mail investment conference in Johannesburg.

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 & Atkin, 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 at 5% 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 constituency 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-

By David Carte

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 1986 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 said 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 4.8% 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 possibility of capital losses running to 40%.

Mr Gleason said earnings and dividend growth was slowing, interest rates were not 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 66% 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 institutions would 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 receive some foreign support.

Bearishness was not unanimous. A stockbroker said gold shares looked

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far more vulnerable than financials 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 Barlowes, 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 Barlowes or Safren on forward PEs of six or so have much downside."

"Look at First National. There is 76c 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

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

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 lapping 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 1765.

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.

Barnets entered the furniture and household sector at its issue price of 110c and quickly fell to close at its low of 70c, with 36,000 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
Policy for pensioners

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 struggling 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".
Rand’s strength still depends on dollar

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 of 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 recession.

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 of 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 declined. 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 their 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 $3.50. It continued crawling steadily higher peaking at an all year high of over $5.100 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 traded at $3.442 on November 3, had dropped 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 November 12 to around 464 dollars.

The psychological barrier of breaking through $5.00 has dissipated and the Reserve Bank appears willing to allow the rand to remain above the figure although any sharp rise above $5.00 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. 3664, the yen/rand was 69.10 and the rand/pound was 3.4412.

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 rand’s value whereas any rise closer to 470 or 480 dollars should accentuate the rand’s appreciation.
The turmoil on the world's stock markets which began on October 19 has been a test for them of the ultimate 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. 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 also has 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 — SEAG (Stock Exchange Automated Quotations) on the domestic front and SEAQ International for overseas stocks — have demonstrated their worth.

SEAG 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 they are willing to buy or sell.

SEAG 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 capable with a record number of price changes on one day even exceeding their planned capacity.

The benefits gained from the new systems have been substantial. Transactions costs in the market have been reduced. Institutional 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 50,000.

We are now transacting as much equity business in a month as we used to do in a whole year before Big Bang.

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 SEAG 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 problem is a temporary one and is not, as peak, but we are kept under pressure on our members.

In the last 12 months, British companies have raised some £20 billion through the stock market — £14 000m of it through the issue of equity. Privatisation issues have raised a further £3 billion.

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 is not only unblemished but has come out of it greatly enhanced.
THE CRASH

The bright side

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 slow.
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 Curgven, of Quest Insurance Advisory Service, says Concord has made a 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 Borsukor 30%, with the other 40% still to be finalised.
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 rebroke 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 $64 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.
 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 Broemisson. “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 the issue of bond rate cuts, 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 “contracts 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 remains 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-

requirements 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.”
In search of safe harbour

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 Coulsen of London stockbroker Kitcat and Antikens noted that gold needs rapid inflation and negative interest rates to give 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 Coulsen'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 Coulsen 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. Mathison & 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

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<th>General Equity Funds</th>
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*Specialist Equity Funds

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*Listed on: 2.11.87

Note: In the same period, the JSE Actuaries Overall index fell by 37.3%, the All Gold index by 39.3%, the Industrial index by 34.3% and the Financial and Industrial by 33.1%.

Moving together

The Dow Jones versus JSE industrials

| US industrial share prices: Dow Jones average on last day of month |
| JSE Industrials Index |

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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 Eldorado (yielding 5.8% and down by some 4.6% 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 Mimosa (US$7 billion available a few weeks ago) and Anglo American are cushioned against downturns and can afford to keep expanding. Mining financial Fredricks, 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, Plutonias and even platinum stocks 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 proposed 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. Meanwhile 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 McVey
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 AA 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 R93m. Non-distributable reserves, plus the equalisation reserve, bring shareholders' funds to R133m.

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.
Saambo enters bond rate war

By Dan Side

The mortgage bond war between building societies took a new twist today when Saambo 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 Saambo'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.

Saambo 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 entrench Saambo 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 Saambo 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.
Safer sector?

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
What the Wall Street crash means to the Third World

AS leading industrial countries try to reassert the US dollar following world stock markets in a downward plunge, the Third World is once again stepping itself to face up to the consequences of a global economy in trouble. The frequent crashing on Wall Street Tokyo and London which signalled the end of 13 years of continuous stock market rises is not yet realized by rich nations which have accommodated the gyrations in industrial country financial markets. For Third World countries, mass selling into industrial country stock markets, the fall in interest rates means less compensation in interest payments. By the beginning of this month, falling interest rates had already created an estimated $3 billion (56 billion) of the amount developing countries pay on interest rates in year in which they have already been reduced. Any relief from the continuously rising energy costs will be welcome: in addition, the International Monetary Fund paid the Fund's poorest nations. The debt of the world's oil producing countries is bound to be a fall in interest rates which has accompanied the gyrations in industrial country financial markets.

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David Gleeson, of stockbrokers Matheson and Hilliard, took a similar view to the gold price rise at last week's Financial Mail/Investor Forum. He said the low level of interest rates in the US was the main factor influencing the gold price, which he predicted would remain between $450 to $475 for the next three months. "In the US, the gold price is now continually influenced by gold price trends." He said in the ten years since the gold price had not been able to take account of real saving in the South African economy.

Paul Krugman, of the New York Times, said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy." He said the South African economy was in a much worse shape than the US economy, and that the gold price would not rise as much as the US dollar. "The South African economy is much more dependent on exports, and the gold price is influenced by the state of the world economy."
Building Societies cut fixed deposit rates

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 percent.

The Perm's rate for 12-month money is down by a half-percent to 10.25 percent.

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.

Methoard has cut the rate it pays investors to 13.67 percent from 14.95 percent.
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.
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 services 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 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 portfolio 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.

Santamb 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 lender. 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 Cape Townian 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.

Fred 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.

Merger sanctioned by Supreme Court

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 policyholders.

"Nothing could have been done that was more in the interests of policyholders," 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 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 1983. "At the time of the merger it was the 12th largest insurer in the country, with total assets of over R600m. "Premium income last year was R89,7m. 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.
By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based Santam Insurance had only R6m knocked off the market value of assets worth R413.9m 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 (R548.3m) and net premium income by 18.5% to R577.1m (R480.9m).

Earnings per share soared to 41.5c (21.5c). The final dividend is 9c, making a total of 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 R70.0m.

**Premium income**

Pre-tax profit rose to R47.2m (R21.8m). Pointing out that this was equal to a return of 8.1% 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 16.5%, 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 (R162.6m).

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."
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
R881.1m - 28.3% up on last year
(R551.1m) - Horwood says, "Nedbank still enjoys the benefit of certain
tax losses which could provide
interesting profit and tax planning
opportunities."

Meanwhile, deteriorating interna-
tional indebtedness and persistent
external deficits are likely to domi-
nate 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 con-
derations 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 disen-
gagement of (predominantly) Ameri-
can 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 improv-
ing 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 quar-
ters to roll over our debt."
Wits MBA student's survey finds...

JSE satisfies most listed companies

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 confirmed that companies were generally happy with the JSE.
GOLD HITS $480

By TOM HOOD

SHARE prices surged ahead on world markets today, encouraged by the gold price topping $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 6.5 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 R315 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

By Frank Jeans

The SA 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 market 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."

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 12.5 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."

No change yet, says society

No change yet, says society

No change yet, says society

No change yet, says society
Interim dividend 35% higher

Southern shows strong growth

By AUDREY D’ANGELO
Financial Editor

ABOUT 59% 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 (R22.9m) and the interim dividend is 35% higher at 13c (9.6c) a share.

Net premium income rose by 41% to R576.1m (R405.7m) and net investment income to R293.7m (R250.5m), making a total of R869.8m (R659.8m).

Total new business, including single premiums, soared to R321m, which is 53% higher than the figure achieved in the same period last year.

Benefits pay-outs to policy holders and pension fund clients totalled R319m, which is 30% higher than benefits paid in the first six months of the last financial year.

Disbursed earnings rose to R32m (R25.5m) or 19.5c (15.8c) a share.

CE Neil 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 oversold 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

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 Holliesar 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 Beebein appeared for the State. Mr J E H Smith, instructed by Truter and Partners, appeared for Mr Koornhof.
Interest on mortgages reduced says TBNS

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 TBNS, 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 TBNS 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

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.
Anglo's figures 'disappointing'

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 (R406m) or 17c a share — only 2c higher than a year ago.

The more important equity accounted earnings rose by 10% to R638m or 273c 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 1988. 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 R768 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 R70m drop in the tax charge to R101m and a decrease from R90m 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 8.540c at November 19 and the corporation's share price stands at a discount of about 36% 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 in intrinsically under-valued.
Bank society head denies strike plan

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 multi-racial 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 10.25 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.
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.

"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 discrimination 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, "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.
UBS interim "in line with forecast" months is R51.1m. Interest on advances amounts to R500m, 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 390c, 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

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 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 Westsels 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

Greta Steyn

Millions of rand 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 Axtten, too, said he had noticed that a fair number of building society customers were 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."

Building societies losing upmarket clients

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

CONSIDERATIONS 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 bailout 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 leaniness, the long-term decline in gold mining production, disinvestment and sanctions.

See Page 9
Big public share offers belong to the past

Bankers search for new equity finance

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.

Duras 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 JSIE broker agrees equity financing has now become a more difficult task, as underwriters play a waiting game, hoping to reassess the situation in 1988.

Sanbank GM, corporate finance, John Cutten says the life jacket has been thrown, with the present gold price buying 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 acquisition, as JSIE assistant, GM, listings, Doug Gair points out. There were over 414 takeovers and mergers from 1972 to 1982.
Volkskas predicts higher long-term rates

Institutions, waiting for stable markets, save cash

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 15% 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

TIPS and downs of share prices and exchange rates on the world's financial markets last week underscored the volatility of the "casino economy" which is today's global financial system. It is a system in which the speculation is greater than the production. Paper chases money and the money chases paper. In recent weeks, this trend has grown more pronounced. Paper money has flooded into the world's financial system. Paper money chases exchange money.

This long-term trend of global finance is clearly evident in the recent rise in the price of gold, which has been supported by a rise in the price of silver. The price of gold has risen sharply, reaching a peak of $350 an ounce in late September. This rise has been fueled by a combination of factors, including a surge in demand for gold as a hedge against inflation, a rise in the price of silver, and a rise in the price of copper.

The rise in the price of gold has also been fueled by a rise in the price of other precious metals, such as platinum and palladium. The price of platinum has risen sharply, reaching a peak of $1,500 an ounce in late September. This rise has been fueled by a combination of factors, including a surge in demand for platinum as a hedge against inflation, a rise in the price of copper, and a rise in the price of silver.

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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 R6-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.

"R300-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 R300-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

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, France, and Canada.

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 cooperation 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 market 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 penny and nearly a yen to around 1.06 West German marks and 132.65 yen. It fell to around 1.34 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 news, but then fell back sharply. And Wall Street failed to respond as Dow Jones fell its October lows.

GHETTA STEYN reports economists say at lower interest rates West German marks and British sterling became less of a drawcard for investors, which, in turn, boosts the dollar.

Anglo American economic consultant Aubre 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."
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.
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 m² 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 m² of space.


The phase may also provide 12 500 m² 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 Ampers' 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 unsuit-
FIRST National Bank’s R430-million head-office complex in downtown Johannesburg will be positive for earnings, says managing director Chris Ball.

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 dollars 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-mill-

**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.

Business Times Reporter

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, museum-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 spur development of the surrounding areas, including Newtown.
1987 — The Year of the Unit Trust

What happened — the picture from 1 October — 13 November 1987.

If one assumes that each fund had a value of 100% on 1 October (good fortune before the market crash), their values at 13 November would have looked like this:

**GENERAL EQUITY TRUSTS**

<table>
<thead>
<tr>
<th>Trust</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>71.8%</td>
</tr>
<tr>
<td>Sygro</td>
<td>69.1%</td>
</tr>
<tr>
<td>Guardbank</td>
<td>69.0%</td>
</tr>
<tr>
<td>Sage</td>
<td>68.8%</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>67.9%</td>
</tr>
<tr>
<td>Sanlamtrust</td>
<td>67.4%</td>
</tr>
<tr>
<td>UAL</td>
<td>65.2%</td>
</tr>
</tbody>
</table>

**SPECIALIST EQUITY TRUSTS**

<table>
<thead>
<tr>
<th>Trust</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAL Mining &amp; Resources</td>
<td>72.6%</td>
</tr>
<tr>
<td>Old Mutual Mining Fund</td>
<td>70.5%</td>
</tr>
<tr>
<td>Standard Gold</td>
<td>69.5%</td>
</tr>
<tr>
<td>Sandiv</td>
<td>69.0%</td>
</tr>
<tr>
<td>Guardbank Resources</td>
<td>68.7%</td>
</tr>
<tr>
<td>Sage Resources</td>
<td>68.2%</td>
</tr>
<tr>
<td>Sats</td>
<td>67.6%</td>
</tr>
<tr>
<td>NGF</td>
<td>66.0%</td>
</tr>
<tr>
<td>Trustgro</td>
<td>64.4%</td>
</tr>
</tbody>
</table>

**HIGH INCOME/GILT TRUSTS**

<table>
<thead>
<tr>
<th>Trust</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAL Gilt</td>
<td>101.5%</td>
</tr>
<tr>
<td>Standard Extra Income</td>
<td>101.0%</td>
</tr>
<tr>
<td>South</td>
<td>100.9%</td>
</tr>
<tr>
<td>Senbank Gilt</td>
<td>100.6%</td>
</tr>
<tr>
<td>Guardbank Income</td>
<td>100.5%</td>
</tr>
<tr>
<td>Senbank High Yield</td>
<td>100.4%</td>
</tr>
</tbody>
</table>

**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 more than R2-billion managed by the trusts soared to an all-time high of almost R5-billion at the September quarter-end. This was not just the result of performance (or lack thereof) by the unit trusts, but also the desire of investors to diversify their assets.

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 Management 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.”

Inflation

For example, over the five years to September 30, the six general equity trusts earned for their unit holders an average total return of 41.5%, compared with an average inflation rate of 15.6% over the same period of 14.5%. It was the fact that unit trusts have 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.

The control over share price was such that many investors were willing to sell at the market price, rather than execute a direct sale. This led to the buying of shares at a discount to their market value.

Business Times Reporter

term investments and to caution investors that unit trust prices fluctuate with share market trends.

This is probably why unit holders 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.

**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 look to us to provide 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 this portfolio is against the inflation rate. And, against that yardstick, unit trusts have shown real and consistent growth over time.'

Opportunity

The fall in the market did not deter the management companies which were marketing new funds. In fact, says Metfusin’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 have been shell-shocked. We have established a portfolio but naturally we are maintaining a high (around 60%) liquidity content in support. The fund’s Jan du Puiissen 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?

"We are not unduly optimistic, but we are not overly pessimistic. We are looking for a recovery in the market and hope that investors will take advantage of the situation."

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 disparate 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 reconnected by around 10%: liquidity and 1

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 15% 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 R130.6-million in liquid or other assets. The specialist equity trusts had 11% of their asset.
Is it time to buy?

FUND managers, operating for 1-2 years, are still on the lookout for good investments. They have been cautious due to the uncertainty surrounding the pace and type of economic recovery in South Africa. However, they remain optimistic about the long-term prospects. Some managers have been actively buying shares of companies that they believe will benefit from the recovery. The market has been volatile, with sharp swings in share prices. Managers are mindful of the need to diversify their portfolios to manage risk. Overall, the investment climate is improving, and managers are becoming more confident in their ability to make profitable investments.
Avalanche of new listings

By Ian Smith

The year's new listings boom which wiped anything in the JSE's 100-year history, took the market by surprise.

As the new listings boom, there were no major headlines.

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, companies have canned or delayed their proposed listings, because they believe the current situation is not permanent.

The last year and a half was a period of JSE's capital raising, with about R1.2bn raised from 68 companies. The first half of the year was common and large-scale listings, with the re-appearance of crowd investors.

Indications of the increasing momentum on the stock exchange was the fact that nearly 100 million shares were traded in 1985, valued at R34.2bn. This compares with the 180 million shares with a value of R2.6bn listed in 1984.

Another factor which was at play was that the JSE was the introduction of the Development Capital Market, which specifically aimed to give smaller entrepreneurial companies a chance.

The last year and a half has seen a wave of initial public offerings, with more than 1000 companies listed in the world. The bulk of these listings were in the United States. The South African market has been active, with about 120 new listings in the last two years.

As early as mid-January the cautious were putting the questions: How long will the bull market last? Has the market over(corrected?)

The answer, according to the German and French of South Africa's development capital market, is that it has been a decade of low-interest rates and low inflation. The South African market has been active, with about 120 new listings in the last two years.

This may be a good time to invest. However, the cautious are still putting the questions: How long will the bull market last? Has the market over(corrected?)
Even after crash, spirit is high at New Bernica

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 Wilkin’s unusual investment company achieved a return of 92% pa in the five years to end August.

Those who held shares worth R10 000 in August 1983 saw their investment appreciated to R142 500.

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 Wilkin 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 R9 900 and that was also our share price. After the crash, our net asset value is R300 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 75c a share this year, compared to 46c 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 P/E of 7. While he generally does not comment on share prices, Mr Wilkin reissues many investors drove the market too high, then too low.

In 1972, Arnold Wilkin reigned as investment manager of Legal & General, today Lидегег, to launch New Bernica. From the outset, chairman Ken Wilkin and Peter du Toit, Mr Wilkin’s successor as investment chief of Lидегег, 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. The money had to be returned — R1.2-million — in return for a third stake in the company. Some were re-dealable prec. That partnership has been a dream ever since and this year Price & Price listed through Joshua Doore.

“Some years later, we did two other deals, one in a pipe insulation company that went sour. We sold it for R1-million and had to write off 1000 of the R850 000. We also bought a lubricating company at a profit that never came up. Our earnings were flat and, never mind the capital gains, 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 Keyes, who became a minority shareholder and was an independent director. Derek asked me on to the board of the National Discount House. This was eventually funded by means of a rights issue to New Bernica holders.

“We sold our first misnamed piping insulation, we decided no more small developing companies with uncertain earnings. We preferred to enter partnerships with good management, 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 Prangman through the Young Presidents' Organisation. He wanted to raise R55 million to buy out his partners in Mazda. We liked him and his company. I wanted to raise R55 million to buy out his partners in Mazda. We liked him and his company.

“Then last year we did the deal with Columbia. I knew Bernard Herbert, Gordon Poole’s partner, as a top-rate accounting lecturer. My wife, Ron, was selling time management.

“We then contacted the owners and we were able to get the franchise and she needed a partner to buy it.

“We sent her to Bernard. They entered a 50-50 partnership, which worked very well. I met Gordon Poole and was impressed. They are excellent strategists and work very hard. They are decisive and have a clear sense of direction.”

“We took 25% of Columbia, which has subsequently been diluted to 17%. Columbia has a big client base to work from. It knew its clients intimately and very quickly made us look small in no time. It had seven to eight listed companies.

“More recently we acquired 25% of Chepangw, a blue chip 14-year-old supplier to the catering industry, and of course there was the extremely promising deal with Derek Cohen and Geoff Gysel.”

Together with Southern Life, New Bernica acquired 75% of Barney Hutt's Cline Holdings before its listing. An important question is whether it will come at a premium or a discount to the issue price.

“Health care is a steadily growing business, like food and beer. We are taking a long-term view. Cline Holdings has been growing over 25 years.”

“This is a much more modest number for a company than most companies. We are already 10 times," Mr Wilkin personally has 7%, which is worth roughly R13,5 million, compared to R10,5 million before the crash.

That sort of calculation means little to Mr Wilkin, a low-key abstainer who lives relatively modestly and does not aspire to a Porsche.

THE TRUSTBANK TO UCH CAN BE HEARD
Bargain bonds all the way

By Udo Rypstra

The battle between banks and building societies has been heating up, with the latter set to continue well into the new year.

The move by Nedsheen, the last of the building societies to enter the field of personal finance, has caused a stir in the market. It has introduced a new bond that will only be available in its new分行, and it is expected to upset the status quo.

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The move comes as Nedsheen is set to launch a new range of personal finance products, which are expected to be highly competitive. The new bond will be available in all分行, and it is expected to attract a large number of customers.

The new bond will offer a competitive interest rate, and it will be available in both fixed and variable interest rates. It is expected to be highly popular among customers who are looking for a competitive rate of return.

The move by Nedsheen is seen as a significant development in the market, and it is expected to have a significant impact on the competition between banks and building societies.

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Deputy general manager, Michael Lerning, says the new bond is a sign of the changing times, as customers are looking for more competitive rates of return. He says the new bond is expected to be a big success.

"We are seeing a lot of customers looking for competitive rates of return, and we believe that this new bond will appeal to them," he says. "We are confident that it will be a big success, and we are looking forward to seeing its impact on the market."
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.

M & F, which ranked No. 23 in the Top 100 last year, is in the rather fickle risk protection business, where the absence or occurrence of natural disasters can make a large 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 1986 underwriting loss of R9,8-million into a surplus of R11,6-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 38% — from R392-million to R527-million.

**Dividends**

This in turn helped increase investment income. This income, which often ranges from 8% to 12% when underwriting results are negative, rose by 6% to R35,2-million following additional investments and higher dividends earned on the equity portfolio.


This year, however, pre-tax profit rose by a massive 149% to R53,2-million. But an increase in taxation, from R1,9-million to R17,1-million,

restricted the rise in taxed profit to 22% — or R33,6-million (R18,6-million).

Earnings were lifted 93% to 74c a share, compared to 40c a share last year (after adjustment for a capitalisation issue).

In July, well before the Natal floods 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 R32,8-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.

Manager director Ken Saggars, 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 AAM Mutual disaster showed. We intend to be around long after others have gone out," he says. Recent developments in

short-term division now includes that passed on by Standard Bank (Stanine insurance policy) and that of the Automobile Association (Motor sure).

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 Saggars 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 cost.

Mr Saggars 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 include criminal or civil procedures to combat such claims. But, 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 Saggars says M & F will have no part of it.
Adding further grit to the current loan rate squeeze, the mortgage societies have been cutting bond prices and imposing an additional rate of 12.5 percent. The cost of refinancing costs on bonds has been reduced by half, making it easier for builders to borrow. This move has been welcomed by the building societies, who are already experiencing a surge in applications for new mortgages.

Nedbank's drive into home loans has followed that of other leading banks. First National Bank, for example, has moved to increase its mortgage offerings. Mr. Noel Browne, deputy manager of the National Building Society in Johannesburg, said the society was currently at its limits and would be hard pressed to extend further if another chunk of its business isn't going to go.

Fixed deposits

The NBS, with other societies, has cut its bond rate to 13.5 percent and is prepared to offer further cuts in the months ahead. "We still have a lot of high interest fixed deposits on our books, but even so, if we don't have to do it, we won't," said Mr. Browne. While the banks were making big improvements in bond rates, Mr. Brownlee emphatically expressed his view that the traditional methods of audacity in the housing business were still the rule.

"Even although the banks are taking business away from the societies, we have experienced a trickle of customers who have not yet been able to sign up for loans. We need to keep expanding our operations," Mr. Brownlee said. The Allied Building Society has already moved to meet the Nedbank threat.

One client who wanted to transfer the bond on the bank's mortgage rate was told the interest rate on the bond would be cut only by 5 percent. This was a blow for the bank.
Metpol income rises by 36%  

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 additional R113m. Investment income was R13m higher at R332m.

Like other insurance companies Metpol benefited from 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

Johannesburg - Existing bondholders have become the largest in the home loans market, with Nedbank's offer of $50 million in bonds to new customers. The bank's offer is expected to set off a competitive reduction in the costs of borrowing among other banks, analysts say.

Daily Dispatch Correspondent
HOME LOANS

WAR HOTS UP

Own Correspondent

JOHANNESBURG. — Existing bondholders have become the prime target in the home loans war, with Nedbank's offer of a 50% 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% if they stay with the Allied.

An Allied client, who did not wish to be named, 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% to 13.5% or even as low as 13%.

Allied Senior GM 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 UBS 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.
New bank joins bond costs war

Own Correspondent

Johannesburg. — Competition between banks and building societies for existing bondholders 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 Roet, 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 bondholders 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 bondholders were becoming increasingly disgruntled because new customers were charged lower interest rates than bondholders who had been paying their installments 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.
NEBANK: Constraints prevent even modest growth
Aim is more funds for home loans

Societies seek law change in bond war

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: "Borrowers 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 reviewed 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."

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 make the payments if interest rates rose.

See page 15
Mr. Terry Power, deputy general manager of Standard Chartered Bank, said: "The banks have hit back at Mr. Tucker's claim that they are expert in their changes and the economic cycle when the economic cycle are used by the banks to finance the bonds they buy." He said the present average cost of the building associations was more than 8 percent. When they last money to build, it cost less than 5 percent. This would help to reduce the overall interest rate. The Building Societies Association has asked the Reserve Bank to increase their borrow rate of cheap short-term money. By DEW. 0/8.
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.

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 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 feed 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 21% 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 Jimmie McKenzie said bond holders need 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

JOHANNESBURG

Building societies, facing fierce competition from banks, have appealed to the Reserve Bank to change legislation which restricts them in making home loans.

Yesterday the managing director of the Perm, Mr 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 per cent to 10 per cent.

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".

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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
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
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

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 to defend 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 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 "brand ed 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."

"And the more expensive long-term funds used to finance these loans are not yet out of the system."
Banks and Societies in Vicious War

City Finance

Businessman of the Week

in Hi-Biotech

By DICK TOWARY
Investors scramble for riches

JSE volume rises to 3-bn shares

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 655.8m 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 1988 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 1988, 68 new companies were listed. The late 1980s boom resulted in 73 new listings in 1988.

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, sitting 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 right 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 295.8m shares worth R1.7bn in August, gearing up to 330.5m worth R2.2bn in September and 334.5m shares worth R2.6bn in October.

But October's record volume also reflected the panic selling which set in on October 19.

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%, 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 bi-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 8.4% (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

GRETASTEYN

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 Vilet said United's 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 confirmed the R38m acquisition of a 20% shareholding in composite insurer Commercial Union of SA (Cusaf).

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 deal 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 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.
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 33.38 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

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 R1,072bn, or just over 21% of the deficit financing of R5,046bn from April to September this year.

Davis Borkham 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 Borkham 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 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 16.3%. 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 R4.4bn from R7.3bn in the first quarter of 1987 and R5.8bn in the second quarter. But the third-quarter figure still amounts to more than 5% 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 agri-cultural 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 13.0% in the third quarter.
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 Bennett, 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 Bennett 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."
Catch-22 Situation
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 life 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 new accounts are again published in a couple of months.

Some groups have significantly changed their financial structures by listings or asset 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 been benefited from a cash injection after the sale of Sequel shares to Fintech.

Messina, shown in third place with a gearing of 35%, 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 re-structuring, the effects of which probably have yet to be seen.

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 62% 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

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CORPORATE BALANCE SHEETS

<table>
<thead>
<tr>
<th>Debt-Equity (%)</th>
<th>Interest cover</th>
<th>Balance Sheet date</th>
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<td>W &amp; A Investment Corp</td>
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</table>

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.

Federle Volksbeleggings, shown as having a debt-equity of 83% 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 situation 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 four-fertiliser market would have constrained Omata, 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 whose 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 Daggafruit carbon-in-leach (CIL) treatment plant will soften the forecast drop in the dump retrieval’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 Daggafruit division to treat the additional slimes reserves Ergo acquired through the joint venture agreement with East Daggafruit.

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 Daggafruit 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 150 kg, and is maintaining an average of 250 kg/month compared with a target of about 210 kg/month. That means the Daggafruit 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 should be maintained for about five years before it starts to drop off.

That’s good news for East Daggafruit, which gets 50% of the pre-tax profits after

Fintech/Computer Warehouse

Latest in the list of companies rumoured to be stacked 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 Furtte 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/Walcor debt

Stockbrokers are curious to see the offer document for the FSI/Walcor 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 Walcor remained unchanged.

Triomp/Fosstik questions

The old Triomp 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 Triomp.” 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 Tensor, but nothing has been sent to the old Triomp 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.

Will the Triomp shareholders — some day you may find out who those shares are worth.

Pat Kessey

FINANCIAL MAIL DECEMBER 18 1987
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 53.5% 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

**Running losses**

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<tr>
<th>Rm</th>
<th>Underwriting profit (loss)</th>
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**Insurers and reinsurers:**

Relative strengths

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<td>1</td>
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<td>3</td>
<td>Earned loss ratio</td>
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<td>Profit and loss</td>
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<td>Investment income</td>
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</tr>
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</table>

Source: Quest Insurance Advisory Service

**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 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.

FINANCIAL MAIL DECEMBER 18 1987
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: 158m ord of R1 each: 1,1m "A" ord 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

<table>
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<th>'84</th>
<th>'85</th>
<th>'86</th>
<th>'87</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances (Rm)</td>
<td>9 088</td>
<td>10 642</td>
<td>9 048</td>
<td>9 768</td>
</tr>
<tr>
<td>Total assets (Rm)</td>
<td>12 825</td>
<td>14 561</td>
<td>13 785</td>
<td>14 305</td>
</tr>
<tr>
<td>Taxed profits (Rm)</td>
<td>105,1</td>
<td>91,3</td>
<td>79,7</td>
<td>132,8</td>
</tr>
<tr>
<td>Attributable profit (Rm)</td>
<td>105,1</td>
<td>91,3</td>
<td>79,7</td>
<td>132,8</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>117,2</td>
<td>101,5</td>
<td>74,8</td>
<td>95,1</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>68,0</td>
<td>60,0</td>
<td>30,0</td>
<td>33,0</td>
</tr>
</tbody>
</table>

There is every reason for Nedsbank 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 590c, 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 Triom have been solved and, according to Neds bank 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 Nedsbank raised its taxed income by R31m to R61,7m. 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 Nedfed 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, Nedsbank 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 Nedsbank is alleged to have entered recently, has actually been a service provided for some time to Nedsbank 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 goodwill will go straight into EPS increases.

After the substantial weakness of the share, Nedsbank 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 Stabank (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 Keane

Nedbank's Van der Merwe-Vance...adequate provisions
deducting on-going capital expenditure. Mathison & Holdidge gold analyst Hilton Ashton prefers East Daggga to Ergo, rating the latter a hold but recommending East Daggga as a buy; this is based on the earnings flow from the Daggagfontein 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, theoretically, be used as a tax base for any new venture within SA."

Ergo made pre-tax profits of R11.8m 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 Simmers and Jack. Simmerson has an agreement with Ergo over the running of the Simmerson 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.

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 effect with a lawyer, one C. F. Myburgh, said to be representing a number of minority shareholders.

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 that 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 Brosce 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 Brosce 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 97c. 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 Samuel 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.

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 Management Consortium. Our total cost was R28m, of which R16m was cash and R12m Fintech shares at a premium of 40% whereas Sequel was on a premium of half that," he says. On this basis, the proceeds actually paid by Fintech was 19, based on historic earnings for the year to end-Febru
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

UBS trims loans rate to 12.5%

THE United Building Society has thrown down the gauntlet to banks by equaling 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 12.5% — 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 homeowner.”

“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

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.

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.
Crash will affect inflation and growth.

O.L. Bosman

Philadelphia

The recent global

December 27, 1987
Money lending war heats up

Banks, building societies urge consumers to use credit

Campaign to attract borrowers
Not so permanent

The SA Perm has sold two properties — Perm Corner in Durban, and its Johannes-
burg 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 announce-
ment of two government tenders worth R500m (Property December 18). In addition, the
Johannesburg CBD property picture signifi-
cantly altered after First National Bank
(FNB) disclosed its R430m development plans (Property December 4).

Kingsley Rowland, assistant GM (property manage-
ment) for the Perm, says the deci-
sion 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 rep-
resents a better return for investment than fixed
property. “They’re just two different ani-
ma,” 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. A-
so, Rowland argues that the value of the
Johannesburg property will not be signifi-
cantly affected by the FNB development, as
it is behind the Library Gardens.

For these reasons Rowland says the deci-
sion 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 11.5%. The building is
about 85% let and the Perm will continue to
sub-let to existing tenants.

Negotiated by JH Isaacs Group (Natal),
the sale of the 9 000 m² office block to Feder-
ated 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 (Prop-
erty December 4 and 18).

Details of the sale, negotiated by JH
Isaacs’ Neil Spaul 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
R21m. We have since sold 25 more prop-
erties, 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 participa-
tion. 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.
Changes to Act 'tinkering'

Big overhaul for Societies not on cards

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 Hershov, 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.
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 pressure 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’

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 diploma?"

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 gauge support for the proposals.

Greta Steyn
Bond rates may drop

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.
SAITs to share housing spoils?
Banks seek privatisation

Race on for R3bn Sats home funds

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 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.
Investment spending set to grow

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 imports are expected to rise more rapidly than exports."

Investment spending set to grow

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.
Societies cut bank gains

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-deductible, 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.

“T wonder how many men would ob jet 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”.

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 R12bn to its present R2.73bn 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
FINANCE - GENERAL
1988

JANUARY — MARCH.

Labour Research Committee
Worldwide moves impact on SA
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 allows 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. (I) 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
Helderberg: R2.3m payout

OWN CORRESPONDENT
Johannesburg. - Sanlam has paid out at least R2.3m 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 R1.3m.
Down to earth with the crash

MARGARETA PAGAN of the Daily Telegraph reports on the thousands of jobs at risk in the wake of Black Monday

AMONG THE casualties of the City's extraordinary days and dozens this year, Andrew Phillips is a relatively rare species. He is, by his own admission, a man of a maverick and refuses to conform to the standard stereotype - a compound of equal parts carry and dastardly tuxedo of little Square Mile. He would also be the last person to describe himself in such terms.

Phillips went into the City with high hopes and, after a couple of years, he had become a much more mature and shrewd judge of the market. Like many people he had his fingers in the wrong places during the fearful days of the 1980s. But he was not as much of a winner as Phillips. The trader is now a partner at Hill and Phillips, an independent commodities and foreign exchange broker. He has been with the company for more than 10 years and has won several awards for his work in the City.

Phillips believes that the people who have been left behind are the ones who have not been able to manage their careers and are now left without a job. They have not been able to adapt to the new market conditions and are now struggling to find a new job. Phillips is one of the few traders who have been able to survive and is now leading a successful career in the City.
United Bank throws out bait

Greta Steyn

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.
Protea’s new bond repayment plan

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.
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% in 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 Schnepfer 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 retired from the world of disastrous underwriting results in 1984 and 1985.

Finsa Yuldas has pointed out that November's 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."

A US report late last year had already shown 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: "Raties 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 performance, there may be a return to the pressures of 1983 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 should 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.
JSE — THE YEAR AHEAD

After the roller-coaster

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 few very 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 shorts 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 rocking 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 stirring 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 Deutschmarks.

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.
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 Stein 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 Haldane, 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 Bonth of broker Simpson McKie says that, if Wall Street is in a bear market, it must have an impact on 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 agreed, 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 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 the 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.

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WORLD STOCK MARKETS

Life after October

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.

Riftsight 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
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 1985 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 Tokyo. To an extent it happened. While foreigners were net sellers of $36bn of Japanese shares in the first 10 months, not 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 special 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 machnies.

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 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 affected 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

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 takeovers 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.

“1t would never have happened if President Reagan had still been alive.”

“Where’s the difference between a stockbroker and a pigeon? A pigeon can still put a deposit on a Porsche.”

Regional reports

Tokyo Nikkei average
New York Dow Jones Index
London FT-SE 1100 Index

000's

1987

1987

1987

000's

26

22

18

2.6

2.2

1.6

1.6

1.6

1.6

1.6

1.6

1.6

1.6

2.2

2.2

2.2

2.2

2.2

FINANCIAL MAIL JANUARY 8 1988
So what’s new?

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 cash surplus, 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 rate.

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 of 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 turn-around 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 turn-around is unlikely to be the last." Read 1985 for 1986 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 around 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 explained away the average by saying that "there are a lot of people who are putting 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%.
Years to go to AA insurance finality

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 R100.6-million in outstanding leave pay of up to R1,000 a person — the Workmen’s Compensation Commissioner (R5.6-million) and, of course, the Receiver of Revenue (R529.6-million).

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, R3.2-million in investments, R3.5-million in mortgage bonds and R56-million in property.

Also included in R74-million the liquidators say is still owed to the division, including R22.3-million from sun-

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 R188-million on their estimates of the net realizable 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.

By Udo Rypstra
Half of black bond clients have wrong books

Attorney disputes official ID figures

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 5.5 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 5.5 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 problem is that 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 of 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 officialsdom 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".
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 R5 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.
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 Plet 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 R65 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 fee, 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.
Sparks fly in Transkei graft probe

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.

Holonisa said: "What I told Heron is that the company is in court to prove to the world and to the Transkei people that it is above board in the wake of the recent coup which has troubled the country. If there are any queries, he and his company must clear their names through the commission."

Holonisa said his discussion with Heron bore no relevance to the inquiry to which angry questions still had to be proved.

He asked: "Has he [Heron] got licences, real documents and why was the 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 Holonisa was referring to in talking about SI's licences. Holonisa knew SI's licence application was still being heard.

At yesterday's hearing, Heron said SI did not pay the Transkei government for its gambling rights, but had committed itself to help fund a Transkei hotel.

He said the company had an above board legal and binding agreement with the Transkei government, and had in
No bond war between banks and building societies, says Allied MD

"WAR? What war?" is Allied MD Kevin de Villiers' 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 strategy: a new 10% loan to blue-chip clients at rates as low as 12.5% and even 11.5%. The bank bombshell was a surprise attack on speculation that interest rates were on their way up and that bond rates were static.

De Villiers was the first to offer personal loans at today's lowest interest rates to pay off debt. The new strategy is designed to prevent banks from becoming complacent when it comes 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 is to increase competition from major banks in the bond market," 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 bond", and building society loans. "The Allied Bank has helped the community 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 society bonds because of the short-term nature of their funding.
SA banking authorities 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 4.5% ratio by 1992, and will fall substantially short of the BIS standards.

Senior Reserve Bank deputy governor Janie 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," he said.

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 of money would be available for lending.

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 follow the lead of international banking community, its position in 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

Unidev scoops
Correg for R1,3m

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based financial services company Unidev has acquired control of Correg 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 buyout. The MD of Correg, Bill Vogel, and GM Francois Horné, 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 improve 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.
Growth fund does well in spite of stock crash

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 R68,3m 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 (8%), and platinum (4%) sectors. Industrial shares made up 39% of the portfolio.
Societies not keen on move

By 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”. 
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 forecast for 1988, arguing that the world-wide stock market crash raised the very real threat of world recession. Should this happen we 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 lisp 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 over the last six 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 first 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 Buend 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 R31-billion, which is R1.6-billion more than we were expecting and a massive R35.8-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.
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 306%;
- Manufacturers Hanover 166%; and
- Morgan Guaranty 197%.

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 was 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

THE African Bank has recovered substantially from the damage its image suffered after allegations of foreign-exchange fraud, reporting taxed profits up R385,707 for the year to September 30, 1987, compared with the previous year's R39,939.

Taxed income after internal reserve transfers and non-recurring credits rose to R538,990 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 R537,14 (R522,459), 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 a foreign-exchange control controversy, 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 proactive 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 R117m (R70.7m), while those for acceptances, guarantees and indemnities totalled R10.7m (R1.3m).
Banks not hurt by bad debts

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.

Volkshaar, 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 during 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 6.9% of the total R430.4m it loaned since its formation in 1961.

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

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 has introduced new housing loans at interest rates ranging between 11.5% and 12.5%. Other 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 the first of a series of fixed rate bond from 11.5% to 12.5% - getting closer to the 12.5% the banks are charging.

This is 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 R100 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 R300 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 insisting on 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 3% interest on housing loans some time ago, building societies (enjoying cheaper long-term funds) asked for only 14%.

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 become 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 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 anomalies 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 older 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 1984-85 when interest rates rose and new borrowers had to be charged more than older ones.

"Nevertheless, this gap is undesirable and we hope to avoid such inconsistencies."

All Allied borrowers - including those paying 11.5% interest on 3% - may take immediate advantage of the lower interest on the fixed rate bond.

On a R100 000 bond, the reduction in interest rate would be R720 a month.

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 house - drawing against the bond as work progresses.
Fedlife is looking lively

FEDERATED LIFE, one of the six largest life insurers in SA, announced at the weekend that total new business last year rocketed 157% from R90,9m to R225m, largely due to substantial new group contracts from corporate and industrial clients and a good investment performance.

Federated Life MD Arnold Basserable said: “In 1987, single-premium business jumped sharply by 200% from R40,7m 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 61.9% per year. Basserable 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, Basserable said the ratio of 6.5% for the year was considered very good by market norms, which were often around 15% to 20%.

Looking to the year ahead, Basserable 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.
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 PEs indicate that the shares are relatively cheap, especially compared with PEs 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—a unlikely scenario in the short-term.
Granny Bonds assurance

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.
No easing of money market pressures

In these circumstances, it is not surprising that 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 tradable stock and sending yields rocketing to heights last reached in mid-1986. Although some of the enthusiasm might be reaching boiler-room 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.
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 differential 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 reassessing 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%

Financial Editor

FEDERATED Life Assurance Co lifted total new business by 137% to R206m (R86.5m) in the year to December 31.

And MD Arnold Basserie 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 50% of its assets are in Fedlife.

Basserbie said the R50.4m raised by the listing would be used to fund growth in life and pensions business.

Discussing the past year, Basserbie 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 (R46.7m).

"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."

Basserbie 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".
Liberty Life severs ties with UBS

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 CEO 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

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 loan rates to one percentage point above Nedbank's prime rate, to

To page 3

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 Coombe said that although the rise was an encouraging sign that the economic recovery was underway "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 Reuters 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 M2," 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.
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 annualized 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 costs 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 short-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

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 soon had to appreciate that SANTAM has come off extremely lightly, and could have another good year in 1987.

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 epes 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 - Somechem, Swartkoppies, 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 Janie Goldenhuys 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. SANTAM'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. SANTAM's 60% holding assures SANTAM of capital when required, but Goldenhuys 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 undervalued.

Ruth Golemba
Picbel at the helm of new merchant bank

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 Sagan 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 Jezn, former general manager, systems development, for Liberty Life.

By Ian Smith

The bank’s taxed profit has been forecast at R600 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 services, 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

THE R5m-strong Cape Investment Bank Holding, the merchant bank in which Pichbel 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 SA-GIN, will hold 60% 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

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 1986, 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

By DEREK TOMMEL
Financial Editor

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 225c (−110c), Vaal Reefs 28 600c (−800c), Loraine 1 330c (−75c) and Kloof 3 325c (−150c).

Mining financials were also lower. Anglo American dropped 125c to 4 730c and Gold Fields of South Africa 75c to 5 250c.

Platinums were weak in sympathy. Leplat was 25c lower at 256c.

*See page 17.*
Johannesburg — At R32.6 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 195 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
Allied ties up with RMB

From ANN CROTTY
JOHANNESBURG. — As competition in the financial services market heats 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 29 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.
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 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 panelbeaters 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, straightforward answers, the public will be able to decide for themselves which companies they should withhold their support from," he said.
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 is 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.
**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 Hershov; managing director: C J W Ball.

**Capital structure:** £6m ords of R1 each; 14.5m pref ords of R1 each. Market capitalization: R1 483m.

**Share market:** Price: 2025c; Yield: 6.2% on dividend; 12.6% on earnings; PE ratio, 8.0; cover: 2.42; 12-month high, 2500c; low, 1800c. Trading volume last quarter, 263 000 shares.

**Financial:** Year to September 30.

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*9 months*

It was with some pride that First National (Firstbank) announced its preliminary results, including a 25% 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 Hershov 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.

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.

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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 buyouts are expected to continue providing substantial business. Wesbank is particularly profitable and home loans are doing so well that McKenzie suggests the size of the department could overtake Natal Building Society this year. He emphasizes that Firstbank has been through its lending 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 has no immediate need for additional capital and Hershov 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.

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**Firstbank’s Hershov ... pride in results**

*Pat Acquaye*
"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 Goclat, 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."

Goclat 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 Gurry-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, 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 gay; 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 marriage between a 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

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 means that standards suffered is problematical. Of the institutions which responded to the FMs 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;

Overall Leaders Research

1. Martin
2. Gioron Jones
3. Frankel Kruger
4. Ferguson Bros
5. Matheson and Hollidge
6. Simpson McKie
7. Max Pollak
8. J D Anderson
9. Davit Borkum
10. E D Hern

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 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 Pollok

**Industrials: (Other)**
1. Martin
2. Ferguson Bros/Simpson McKie
3. Ivor Jones

**Gold**
1. Martin
2. Ivor Jones
3. Frankel Kruger

**Other Mining**
1. Martin
2. Ivor Jones
3. Frankel Kruger

**Banking and Financial**
1. Martin
2. Ivor Jones
3. David Berkum

**Insurance**
1. Mathison and Hollidge
2. Martin
3. Ivor Jones

**Property and Property Trusts**
1. Max Pollok
2. Martin
3. Ivor Jones

**Small companies & DCM**
1. Martin
2. David Berkum
3. Simpson McKie

**Labour/Industrial Relations**
1. Mathison and Hollidge
2. Davis Berkum
3. Kaplan and Stewart

**Computer Service**
1. Ivor Jones
2. J D Anderson
3. Frankel Kruger

**International Markets**
1. Davis Berkum
2. Martin
3. Ivor Jones

**Economic Trends**
1. Ivor Jones
2. Mathison and Hollidge
3. George Huysamer/Martin

**Market Movements & Timing**
1. Ivor Jones
2. Martin/Max Pollok
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 broker firm’s performance for the various sectors is weighted according to the market capitalisation of the JSE sector (for this year, weightings were calculated according to average capitalisation 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, with the economic trends and gilts were worth significantly more than the others.

Interestingly, this did not appear to result in excessive change to the overall rankings, although in 1985 it undoubtedly helped Frankel Kruger, which is strong in gilts research, find, for example, to supplant Ferguson 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 diversified 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’ Ted Woods, tops in the category for other industrialists, took the accolades. In both the other industries, 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 industries, 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 Zayzman, 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 industries sector, for example, Ferguson Bros and Simpson McKie were joint second, while two Ivor Jones analysts — Woods and Jannie Kuiper — were ranked as individuals.

Ferguson 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 Pollok’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
2. E Levine
3. N Brown
4. Z Zayzman

**Industrials — Other**
1. T Woods
2. R Stuart
3. J Kuiper
4. W Bowler

**Overall Best Industrial Analyst**
1. T Woods
2. Coal
3. J Picton
4. A Hill

**Diamonds**
1. E Von Glinn
2. R Stuart
3. K Bright
4. L Pengilly

**Gold**
1. L Pengilly
2. B Craig
3. K Goode
4. H Ashton

**Other Mining**
1. E Von Glinn
2. D Russel
3. N Dohrmann
4. K Kartun

**Mining Financial**
1. R Stuart
2. J Picton
3. D Brookes
4. J Rogers

**Banks and Financial**
1. R Jesse
2. R Lemberg
3. A Finleyson
4. D Southey

**Technical Analysis**
1. D Ashton
2. T Searff
3. D Langenberg
4. N Fredericksz

**Gilts Research**
1. G Rame
2. G Dakiyanis

**Economic Trends**
1. G Bell
2. M Brown
3. D Goldenhurs
4. C Meynard

**FINANCIAL MAIL JANUARY 29 1988**
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.

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<th>DEALING</th>
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<tr>
<td>1. Davis Borkum</td>
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<td>2. Ivor Jones</td>
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<td>3. Ed Hurn, Rudolph</td>
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<td>4. Frankel Kruger/Martin</td>
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<th>ADMINISTRATION</th>
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<tbody>
<tr>
<td>1. Davis Borkum</td>
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<tr>
<td>2. Martin</td>
</tr>
<tr>
<td>3. Ivor Jones</td>
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<tr>
<td>4. Max Pollak</td>
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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. Sums were 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.”
FIRST NATIONAL

Ready for upturn

Activities: Banking group operating in merchant, industrial and commercial banking.

Control: Southern has 28% 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 485m.

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.

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<th>'84</th>
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<th>'87</th>
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<tr>
<td>Advances (Rm)</td>
<td>13.7</td>
<td>15.5</td>
<td>14.5</td>
</tr>
<tr>
<td>Total Assets (Rm)</td>
<td>16.7</td>
<td>18.7</td>
<td>18.2</td>
</tr>
<tr>
<td>Pro-tax profit (Rm)</td>
<td>115.7</td>
<td>181.2</td>
<td>180.7</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>86.7</td>
<td>111.6</td>
<td>107.3</td>
</tr>
<tr>
<td>Earnings profit</td>
<td>151.6</td>
<td>182.0</td>
<td>146.0</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>95.0</td>
<td>95.0</td>
<td>71.25</td>
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*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 Firstbank, 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.

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First Hersov
PRETORIA — The Reserve Bank's gold holdings decreased by R332 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 R840.84 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 R2,334 million from R2,578 million.

and provincial administration deposits decreased to R224 million from R374 million.

Deposits by banks fell by R20 million to R4,74 million.

The ratio of gold reserves to liabilities to the public plus foreign assets decreased to 62.5 percent from 71.9 percent. — Sapa

Johannesburg — Re-forex advanced up 70 per cent, from R1.70 to R1.77, million, in the six months to end October 1986, compared with the comparable period the previous year, were announced by DeLwa yesterday.

The interim dividend has been lifted 50 per cent from 20c to 30c.

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First Personal Asset Management

INVESTMENT SEMINAR Daily Dispatch

The seminar objective is to present the investor in this area with the best possible investment avenues for 1988.

Questions to be answered are: Will interest rates rise? What will the stock market do? Are unit trusts still a good investment? Is insurance a good long-term investment? Is it time to invest in property?

Date: Tuesday, 16 February. Time: 8 a.m. to 1 p.m. Venue: Ozer Hotel, E.L.
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 R641.13 per fine ounce compared with R640.54 the previous month.

Foreign investments and other assets increased by R15 million to R1 235 million.

Notes in circulation increased to R5 881 million at December 31 from R5 857 million on November 30.

Government deposits decreased to R2 254 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 decreased to 62.5 percent from 71.0 percent. — Sapa
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 seasona

l, 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 fulfill 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-Sep

ember 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.

Rising 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 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 dip 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.

Patt 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 imressionably 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 sabatical 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 increase 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 their 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.
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, convener 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.
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 R100 million.

Stands are selling at an attractive 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 Jonathan 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 in good areas for building."

Mr BB Percival says: "Woodhill Manor will provide a high quality environment for family life being adjac
Sanlam lays stress on actuarial valuations

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 emphasizing, 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 R12,5 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 R13 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.
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 16c to 124c at September 30, last year.

At the same time, it has flashed out FirstCorp by injecting into it the merchant banking activities of FirstMerchant.

This will boost FirstCorp's assets by R4,4-billion and produce taxed earnings of R12-million.

If these 1989 profits had been made last year, they would have increased First National's 1987 earnings by 15c a share from 254,5c to 269,5c, the circular indicates.
United gets set to cheque-mate competitors

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 cheque-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.
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 890 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 transactions in 1986 to 335,000 in 1987. Its electronic directory of firms linked to the account payment system has grown to 3,000 organizations.

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, BankTel, and that clients will soon be able to pay their bills from home using the telephone.
Stanprop lifts rental income

Finance Staff

Rental income from Standard Bank Property Fund (Stanprop) properties rose from R227 million in 1998 to R244 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 1998 to 5 percent at year-end.

Vacancies in other sectors of the portfolio have been contained at 6 percent for shops and offices and 10 percent for industrials.

Stanprop started off 1998 by acquiring the Citylab office complex, Sandton, for R25.3 million with an initial yield of 11.25 percent.
BANKING

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 Trust Bank, 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 8,5% of Saambou's shares. With its registration as a bank, Saambou could hold as much as 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.
but at what cost?

You get money out.

Deposit fees

Proceed with caution. Check if the property is available, and negotiate terms before proceeding.
Deposit rates on the way up

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 percent (unchanged).
- 15 to 17 months - 11,00 percent (New Category).
- 18 to 24 months - 11,25 percent (unchanged).
- 25 to 36 months - 12,25 percent (New Category, 11,75 percent previously).
- 37 to 60 months - 12,75 percent (12,25 percent previously).

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African Bank chief deplores inflation and joblessness

Unemployment and inflation constitute a significant threat to stability in South Africa 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 Government 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 prevailing in black areas," Dr Motsuenyane says.

A significant 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 Government 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 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 R659 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.
I leave SA only in a coffin—Liberty boss

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 invested more than R2-billion into 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 a 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 1979 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 and operates mainly in the United States. TransAtlantic, in turn, controls Capital & Counties, a property development company, and Continental & Industrial Trust, an authorized 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 R6-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 institutions 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 1980s 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 1986 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 disinvesting according to 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 revolutionized life insurance in South Africa, pioneering equity and property-linked insurance in the late 1960s. 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 continent-
Cashless shopping for supermarkets

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' point of view, the system reduces the amount of paper processing which is costly and labour intensive.
IDC's low interest scheme

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 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

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.

The 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 Young (36), Mr Ferreira (40), and the former general manager of the bank's money market division, 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.

Stanbic's tax on profits show lack of sparkle

By Telgau 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 per cent at R329.4 million (R257.3 million), but because of substantially higher tax, attributable earnings rose only 5.5 per cent at R230.1 million (R200 million). Earnings per share were 4.6 per cent higher at 21.5c (22.5c).

The group has declared a five per cent higher dividend of 82c (78c).

Tax increased by 74.6 per cent to R122 million (R69.3 million), with the effective rate of tax rising 26 per cent in 1986 to 37 per cent.

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 some profit increases, but Stanbic's was most striking, with taxed profit up 270 per cent at R44.6 million (R12.8 million).

Income statement reduction of charge for bad and doubtful debt was another big improvement. It was 62 per cent lower at R71.9 million (R187.6 million).

Return on shareholders' funds, which has declined for four years, was almost constant at 15.7 per cent.

Return on total assets was, however, held steady at 1.02 per cent — 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, deprecation continued to rise. It was R32.4 million (R60.5 million).

On balance-sheet assets, at R22 billion, grew seven per cent 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 disinvestments, 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

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 R27.6bn. 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 R221.1m. 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 entrench the bank as a favourite in this sector.
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 30 percent 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

Generations ago, one could buy a funeral policy for 25 cents a month premium and be guaranteed a burial in a 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 1990, without anticipating inflation levels.
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 (AAAMI) 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 AAAMI 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 R300 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 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 Saggars: "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 AAAMI, 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 AAAMI 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 Melanet 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, Saggars, 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

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 the Life Underwriters' Association of SA congress, Mr Wharton-Hood said the future scenario of Aids in Africa was "horrible".

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 assurance companies.

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 assureds.

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

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 deal
Widow wins battle

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Insurance: rates will not be cut

In 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.

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 Saggars, 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 conceded there were pressures on

Insurance rates are unlikely to be cut

Corporate ratings, but said the market was unlikely to support the rates on offer from overseas insurers.

Saggars said: "We may well see the industry stand aside and allow the business to go overseas."

Santam's MD Osmie 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 reinsurance requirements, so that large-scale rate-cutting was unlikely.

Mike Lewis, MD of ICI, 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

By Harry Jerome

BAS and TBS: Making some of banker Jargon

The press was unmerciful in its criticism of the recent rise in interest rates. But the bankers themselves were not so quick to condemn the move. "We saw it coming," said one, "and we're prepared to live with it." Another added, "It's a necessary evil." Still another stated, "We have to maintain our profitability." Indeed, the banks were quick to point out that the rise would contribute to their bottom line.

The reaction of the market was mixed. Some buyers took the increase as a sign that inflation was being brought under control. Others saw it as a signal that the central bank was trying to curb economic growth. Still others felt that the rise was simply a way for the banks to add to their profits.

The rise in interest rates had a significant impact on various sectors of the economy. The housing market, for example, was hit hard. Homebuyers were faced with higher mortgage rates, which made it more difficult for them to afford a home. Car sales also took a hit, as the higher rates made it more expensive to finance a vehicle.

On the other hand, the rise in interest rates was a boon to savers. They were able to earn more money on their savings, which helped offset the increase in the cost of living. Business owners, too, were pleased with the rise. It meant that they could borrow money at a lower rate, which helped them keep their costs down.

Overall, the reaction to the rise in interest rates was mixed. Some were happy, while others were not. But there was no denying that the banks had done their job: to increase the cost of borrowing and to discipline the economy.

The long-term effects of the rise in interest rates are yet to be seen. Will the economy be able to withstand the increased cost of borrowing? Will businesses be able to compete with each other? Only time will tell.
The stuff central bankers' nightmares are made of

Gerald Prosalendis/Financial Editor

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 rise 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 not 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 prod in 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 18% and the BA-rate above 10%.

So far, the Reserve Bank has not been told 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 the government'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.

But it has now become essential for the authorities to ensure a balance between the level of domestic interest rates, on the one hand, the exchange rate and forward exchange rate — both of which determine the cost of raising funds — on the other.

An eye has to be kept on balance of payments, and on an incentive provided for borrowers to move offshore.

Evidence suggests that a substantial portion of the capital flow last year took the form of local banks and companies closing down trade credit lines simply because it was cheaper to raise funds in Johannesburg.

While it can be argued that the process built in a form of capital reserve, it was not entirely desirable, especially for a country able to raise foreign finance.

What it amounts to is that the door on foreign funds may be needed later.

Higher demand for a finite of local funds could bring the balance of payments constraint into focus sooner than many expected, especially given rapidly-rising growth and a gold price which has left us in the lurch.

This would spell real trouble with another bout of damage currency depreciation which, in turn, would raise inflation.

Any attempt to defend the rand would require some combination of higher interest rates possibly even taxes. In the case it could mean even drastic import controls and a proliferation of bureaucrats and paperwork.

The simple solution is for us to paint ourselves into that corner in the first place — hence the need to move timely.

A falling gold price and economic boom — both coupled with limited access to foreign finance — the stuff central bankers' nightmares are made of.

The Governor must be holding his breath.
Managers and call for more investment in mutual funds

A Business Day Survey

Unit trusts

INNOVATION FROM VUL

Barren price shares and enormous potential

Written by Val Penanah
Large and small investors benefit

A Business Day Survey

Unit trusts

COLOUHOUN

Since it is impossible to forecast exactly where the market will hit bottom, there is only one 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 investors 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 the stock market worldwide," comments the Sanlam Unit Trusts spokesman.

"When things look bad - as they do not always, investors must be willing to sit the downturn out, 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 other policies and other conservative forms of investment.

"Although unit trust funds are structured to provide a maximum protection for investors, they cannot be regarded as a reliable source of cash for emergency purposes, which take no cognisance of stock market trends." However legislation limits a unit trust management company to own shares in any single fund 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.

AN ABILITY to respond to market trends helped make Standard Bank Fund Managers one of the leading performers in the unit trust industry during last year's stock market crash.

"Our investment advisers, Standard Bank/Managers, 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 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 move which allowed a degree of protection to be 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 start reinvesting in the market, when the downside levels off.

Standard's predictions for the gold price, which continued to rise, were correct. Of those who had other market analysts, proved accurate.

The general view was that gold would fall for its own, but we stuck to it and distorted downwards. Consequently, new purchases for our Gold Fund were in made in other areas of the industry, such as exploration.

The wisdom of Standard's investors has remained reasonably optimistic in the face of the crash, although Matfield points out that uniqueness 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 falling prices 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 the advice of the market's data, Matfield attributes 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 a network 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 financial services market, there is evidence which has enabled Standard to win a 14% share of the unit trust market.

"We are totally relationship-oriented and work hard at ensuring our administration meets the stringent requirements of our investors."

Standard one of the top performers
I told MD of finrand deals — bank official

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 division, Mr Henry Alexander Harper (45) of Fairlands, have pleaded not guilty to fraud and contravening exchange-control regulations.

Counsel for African Bank, a corporate body represented by Dr Sam Motsepe, 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.
Elements of a viable recovery strategy now present, says Strauss

Progress made in economy

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.
Housing: banks to be given govt guarantees?

CAPE TOWN — 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
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The Clearing Bankers Association of SA has approached government to ask for similar guarantees. An announcement, according 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

Magnus Heystiek, 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 slumped 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.

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 R239.8 million, while deposits, cheque and other accounts rose from R5.6 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 R33.8 million to R44.4 million. Total assets grew by 16.9 percent — roughly in line with the inflation rate — to R18.7 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

Afbank staff believed others broke the law

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 439 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, JH 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

TRUST BANK, taking advantage of stronger credit demand while at the same time keeping down operating costs, increased disclosed earnings by 20% to R18,1c a share in the six months ended December 31, 1987 from R13,1c in the corresponding period in 1986.

The interim dividend was upped to 5c for the six months compared with the previous year's interim of 4,5c a share.

Trust Bank MD Chris van Wyk attributes 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 R50bn 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 R111,14bn in the six months under review after very slow growth in the previous full financial year. Advances rose by 18,8% to R70,4bn from R64,9bn.

Greta Steyn
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 R2,4bn.

To Page 2

Trust Bank disclosed earnings increase 20%

On the liabilities side of the balance sheet, deposits (including cheques) grew by 20,7% from R65,4bn to R79,2bn. "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 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.
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

Trust Bank sees 20% income rise

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 3c (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 R300m.

Net asset value increased to 231c a share from 218c six months ago. Trust Bank shares trade around 183c 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.
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 led by Kevin de Villiers led the Allied into banking and became MD of the group after the 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”.

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 its top priority. “The United building society’s market 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 “pushing 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 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

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 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, R300m 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

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 stage rushing in to take their profits because the shares were neither placed recently nor offered to the public.

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 20.3% 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 owned 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 Ovdaco 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 R5.5m 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 46% and it is the intention to limit interest-bearing borrowings to between 50% and 70% of group shareholders’ funds.

Ordinary shareholders’ funds amount to R29 643 000 and the net asset value as at the September 1987 balance sheet was 70c 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 10c where it would yield 12.1% on earnings and 8% 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.
Who's the biggest bank in SA?

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 R18.4 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%.
Amicable end of Liberty-Sun Life battle in sight

Own Correspondent

LONDON. — The stage appears to be set for an amicable end to the long-running battle between Liberty Life's Donny Gordon and the Sun Life Assurance Society.

The cessation 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 Gordon's 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 attempts 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

By LAWRENCE TOTHILL

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 tag 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 Tollgate shares 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 acquisition 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 54.6c.

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.
Biggest bank title disputed
African Bank manager found little co-operation

Officials wanted to keep reserves secret

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 Altek 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.
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% in the top end of the matrix range recommended by the Bank of England.

But, chairman John Quinlivan said that sharply increased provisioning against Third World debt had slashed overall pretax profits down from £395m to £335m.

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.

In contrast to its great rival, National Westminster Bank, the Barclays' losses from its investment arm, Barclays de Zoete Wedel (BZW), were lower than expected.

BZW had losses of £15m to the end of November, but ended its first full year under the Barclays' umbrella with losses of £11m.
Barclays shows £1-bn profits

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 10% to 24%.

But chairman John Quinton said sharply increased provisioning against Third World borrowers had slashed the the overall pre-tax profits down from £285m 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 £718m 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.
Another notch

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.
Bankorp heads the field in new deposits

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 R22m 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 Roets 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

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 critical 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 overseas enterprises.

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

Business editor
EAST LONDON — Berkshire International SA (Ltd.) is continuing on the road to recovery after a R541 000 loss in the last financial year.

The directors have announced a 10 per cent 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 buoyant but production remains the biggest constraint and significantly increased from 32.6% to 32.9% for the period ending 31 December 1987," 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 attributed 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 R541 000 loss was also mostly attributable to the loss in the South African operation of R610 000, which was offset by a R1 000 000 profit by the Zimbabwe operation.

Basil Read's up

The group's after tax profit rose 59 per cent to R3 046 000, with taxation applicable to the period totalling R855 000.

Commenting on the results, the financial director, Mr. Dave Wasing, 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 including a 300 million
Commercial Union fights off disasters

ALAN FINE

day 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".

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 R2.9m.

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.
CU sees 65% rise in profits to Dec

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 32c (previously 33c) 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 R783.2m, 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 R97.7m.” — Sapa
Finland the only gainer

By Julie Walker

Rumours that the Finland system was to be scrapped were squelched by the Governor 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 scoffed. Built-in speculation would soon have manifested itself by a rapid return to previous levels.

As the Finland 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 year-end 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 $351 an ounce. The major reason for the sharp fall was lower oil prices. January 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 2700c, Driefontein dropped to 2590c, Vaal Reefs to 23 000c and Randfontein Estates to 20 400c.

Not surprisingly, the all-gold index declined to only 1 296 points — 53% 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.

South Africa lost 30c to 360c, Wit Nigel shed 45c to 160c, Western Areas hit a new low of 450c after a 21% loss, and West Wilts dipped to 90c.

Mossel and Modder S did not buck the trend. Both classes lost 20% to 300c and 350c respectively.

Rhodesia lost 70c to a low of 200c. Randex shed 45c to 550c but recovered 55c. Marilevale shed 150c to 270c and P.O. Pictures came off 60c or 21% to 150c.
Reinsurers help M&F to weather the floods

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 R13.2 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 Sengers 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 48 percent to R273 million but net asset value per share increased by only 6 percent to R13c a share. This suggests that there was some reduction in the group's solvency margin.

Mr Sengers 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 central 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

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 R466,000 in the same year-ago period.

With investment income up at R25,9m (R17,4m), the company’s pretax 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 (R167m).

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 Swaggars 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 Swaggars 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 effective 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

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 angrysounding 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 R905m.

The GuardBank Mutual Funds, boosted 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 entrenched 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

Flaance Staff

Liberty Life group's new business inflow, including investment into Guardbank Management Corporation's range of unit trusts, rose by 54 percent in 1987, topping the R1 billion mark for the first time.

In a statement the group says its total new insurance business written last year rose by 46 percent to R805-million.

The GuardBank Mutual Funds, boosted by the launch of two new funds during the year, enjoyed a 98 percent improvement in new cash investment inflow, representing new business of R217 million.

The new business total for life insurance incorporates The Prudential figures for the first time, following last year's acquisition.

The group also achieved success in attracting new individual recurring premiums, posting a 54 percent increase to R144 million.

Liberty Life notched up a 56 percent increase in single premium business to R627 million, with a 294 percent improvement in individual single premium business to R211 million and an 82 percent increase in annuity business to R132 million.

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% 3/3/88

By Sven Lünsche

Lifegro, South Africa's fifth largest insurance group, increased its net taxed surplus per share by a mere 1c, although sales almost trebled in 1987, growing by 197 percent. The total dividend was raised by 1c to 10c.

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 R1.496 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 noteworthy improvement, growing by 33 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."
Strategy news rewards
Sound investment
Business Day

Intergro
Three market share
Days off and
top performance

Written by Susan Ramwell

Competition

Communicalion
Discount Houses Jack 'Free' Cash

Banks which loans to blue-chip market

International Finance
Lifegro is satisfied with increased surplus

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 R9.3m 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 256%.

A statement from the company said Lifegro's performance in the investment field remained consistently higher than that of comparable indices, despite market conditions.

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 R5.9bn mark.
Broadening corporate services base

Duros buys 30% of Samatco

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 Reith, will continue as CEO.

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%

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 lower 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 R180,7m (R106,1m). 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 R108,0m (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 (1985c) has been declared and paid.

Subsidiaries

In the half-year, Anglovaal and its subsidiaries spent a further R16,5m 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 that it indicates a trend for other interest rates.

In January the 50-point prime rate rise to 13 percent was not accompan-

ied 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 buoyant 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.
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 9.3% to R8.7bn, while Saambou lagged even further with growth of 6.4% to R1.1bn.

In the same period, First National grew its book from R1.9bn to R1.7bn while Standard Bank increased from R3.24bn to R1.041bn. In each case, the increase is in the region of United’s growth of 7.5% 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, tapping 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, Allied decided to reduce its interest rates to the 12.5% offered by the banks.

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 office 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,” he says.

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-income 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 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, butchery, motor vehicles 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 income after seven years.
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 Woninga, short-term National Insurers, and financial trust service Saambou Estate & Trust.
Firm fires inquiry witness Bloomberg

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—Sanlam, who, as the majority shareholder of Metropolitan, have special powers which allow for the dismissal of directors.

It was announced that having a board of directors of all of 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 Sanlam, Mr Marius Eling.

"Having regard to the campaign of innuendo in the press and the information I have received from Mr Bloomberg..."

"This matter has been discussed with the directors of Metropolitan..."

"Some of us considered it to be necessary or desirable to pass any resolution in the course of the general meeting on the question of the replacement of Mr Bloomberg..."

"It is not within the powers of the chairman or director to take action in such a matter."

In yesterday's report from Cape Town, Mr Bloomberg was quoted as saying: "...it is not within the powers of the chairman or director to take action in such a matter."
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.”

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 Marthinus 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 1955c 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 Afrux and several unlisted companies. He is an attorney, but is no longer in private practice. He describes 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 Goos and he had answered that allegation.

The second issue was whether he had an interest in the Lichtsfeinel-bred Establement 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 Transkei deal. He had paid the money into Mr Goos’s account. Mr Goos had transferred it to Chief George Matanzima and other Transkei cabinet members on instructions from SI’s Sol Kerner.

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

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 percent annually for the same period.

The 200 Plus Portfolio, where a more aggressive investment strategy is applied, fared still better, earning 27.6 percent 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 159. 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. Masson 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 watchword. Our investment strategy therefore gives high priority to mobility and a balanced composition,” says Mr. Masson.— Sapa.
Savings Bank
gets a facelift

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 R56m 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 R25m 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 R3m 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 R600m of current assets as opposed to the R250m originally budgeted for, increasing by R250m the amount of loan and stock issued, and by using the current higher operating surplus of R280m, instead of the R180m originally budgeted for.
PO bank to improve investment facilities

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 R8 billion postal budget in Parliament yesterday.

Last year the Savings Bank suffered a net outflow of £50m — 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

4. OT
   UR
   2r
   Ss
   Sf
   Pr
   M

5. Shift allowance
   Inconvenience allowance : "
   Clothing allowance : "
   Subsistence allowance : "
   Night shift allowance : "
   Service Allowance : Art
   Attendance Bonus : 
   Vacation Bonus : 
   Day Bonus : 

6. Paid Leave
   Leave days for 5 days
   Leave days for 6 days
   Annual sick leave : "

7. Piecework
   Allowed
   Yes
   Free

8. Notice
   Notice period weekly paid : 1 week(s) / -- hour(s)
   Notice period monthly paid : -- week(s) / -- day(s)

9. Trade Union Status
   Closed shop : --
   Union member employment first : --
   Stop Order facilities for subs : --
Bumper year for
policy-owners

OWN CORRESPONDENT

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 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 spurred 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.

Total premium income (R million)

<table>
<thead>
<tr>
<th>Year</th>
<th>78</th>
<th>79</th>
<th>80</th>
<th>81</th>
<th>82</th>
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<th>84</th>
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<th>86</th>
<th>87</th>
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<tbody>
<tr>
<td>Value</td>
<td>300</td>
<td>392</td>
<td>538</td>
<td>645</td>
<td>861</td>
<td>1 079</td>
<td>1 314</td>
<td>1 605</td>
<td>2 087</td>
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</tr>
</tbody>
</table>

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.
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
Interest rates set to rise further

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%

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 stability.

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.

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.
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

Volkswas said prime and other overdraft rates would rise by 1 percent. Mortgage rates are unchanged.

For 18 months home-owners have seen their monthly repayments stand still.

The repayment on a R50 000 bond dropped from a high of R979 at the end of 1998 to a low R603. 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 its 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.
The days of cheap borrowing are over, Johnson warned yesterday. Inflation, he said, is certain to rise further and the government is determined to″get a grip″ on the economy.

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Rate Jumps

The UBS Building Society has announced an immediate 1.5% jump in mortgage rates, following yesterday's rise. Other banks and building societies are also expected to follow suit as a result of the economic situation. The rate on fixed-term loans will now start at 6.5% for the next three years. This rate is designed to help home borrowers manage their finances better. The announcement comes after a period of uncertainty in the housing market. The decision was made to ensure that the building society's customers are protected against inflation and future interest rate increases. Despite the higher rates, the society aims to remain competitive in the market.
UBS and FNB increase bond rates

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 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.

UBS, First National bond rates increased

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.
Mortgage rate up

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, the 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
Cerulean up to Phelan Campmai

Drastically

new opportunities

Death of 
Gill market

written by Melanie Sargent

Increased competition will test bankers' abilities.
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 R2 050m of the total R2 612m raised. UAL's analysis shows 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 of R2,2m 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 focused on corporate activities than on short-term market price performances.

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 $2,3bn American Home Products takeover of AH Robbins indicate the magnitude of mergers and acquisitions currently taking place. This trend shows no signs of abating, with events such as the $3,94bn bid by Campau Corp for Federated Department Stores currently attracting more and more 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 against 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 existing 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 suit their unique circumstances. 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.

"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 acquisitions. "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 companies 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-reconstituted 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 acquirers.

Merchant banking
A Business Day Survey
Firms aim for an acquisition path in 1988

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 realties 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

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.
Potential buyout

How to assess a business buyout

Merchant banking

Raise funds for MBOs

Management able to

SHARES DISCOUNT TEMPLE
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.

Volkswagen, Nedbank, Trust Bank, First National and Standard announced that the prime rate on overdrafts 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 Mattfield, 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 decided to increase the participation bond rate 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's growth best in more than 10 years

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 R75m last year.

Earnings per share were up 31.5% to R1.71c (1.50c) and the total dividend for the year was 28% better at 96c a share (76c), with a final dividend of 58c (46c) having been declared.

Liberty Life had a net taxed attributable surplus of R107.6m, 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
Education Reporter

Allied, which is celebrating 160 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

EAST LONDON — Political riot cover by insurance companies have been extended to the national states such as Transkei and Ciskei.

This was confirmed yesterday by the manager of Bowring Barclays Insurance Brokers in Umtata, Mr Dan Popefus.

Following the Soweto riots in 1976 and other acts of terror which followed, it was found that short-term insurance policies such as fire, homeowners and car did not provide adequate cover 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 the 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 changed 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 cover 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 increase 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 anordinate 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 will be changed frequently" 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 S.A. 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 this 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 certificates of deposit rates rose from 11.6% last Tuesday to 11.75% this Tuesday.

This followed earlier liquidity problems. The shortage at the decoy 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 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.

Though this kept the dollar at 11.6, 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 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 rand, many listed companies, powerful individuals and some of the biggest IIs 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 "in-sickness" in tax returns. There has been no reason for it to make enquires.

"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 FCA 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 FCA will, as is our custom, go to press a day later than usual, this 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.
Reserve
Bank
action
has come not a
moment too soon

The Reserve Bank's decision to increase bank rate by one per-
cent to 10.5 percent comes not a
moment too soon. This is the
rate at which the Reserve Bank —
the lender of last resort —
leaves money to financial insti-
tutions 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 pub-
lic, as witnessed by the increase
in prime overdraft and mortgage
bond rates this week.

At the same time, the de-
cision to increase bank rate sig-
nalled a definite shift in mon-
tary 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. Sev-
eral leading economic indica-
tors point to an uplift in eco-
nomic 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 in-
crease even further, despite
stock shortages.

But why should the Reserve
Bank be worried by all this?
Weren't it trying to achieve ex-
cactly that?

Indeed it was, but there have
been signs of the economy over-
heating in recent months.
This called for prudent action,
which, some economists say,
might have even been a lit-
tle late in coming.

What is exactly meant by
overheating of an economy? It
simply means a country is liv-
ing well beyond its means, con-
suming more than it earns. The
indicator of this state of affai-
s is the current account of the
balance of payments (BOP).

During the mini-boom of
1983/84 — which many analysts
said was politically inspired —
time for the referendum —
South Africa's BOP turned
sharply negative.

All would have been well if
this deficit could have been fin-
ced by an inflow of capital
from abroad, a normal occu-
rence for any developing coun-
try. But the rules were drasti-
cally changed when South Af-
rica found its supply of interna-
tional capital cut by politics.

For the last three years
South Africa enjoyed a BOP
surplus due to the weak inter-
nal 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 $50 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 can-
not afford to run a deficit on
this account any more.

The implications is that in-
ternal economic activity will be
dictated by the state of the
BOP. This automatically puts a
ceiling on growth rate poten-
tial. Three percent growth is
about the most we can afford.
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 subsidised 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 Batten, 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 “horrrendous 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.”
SA facing a financial squeeze

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-Reuters.
Post crash 1988: An echo of the 1930s in America

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 have 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 Exchequer, 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.

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.

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 1988 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 Bank of America joined a very long list of British companies buying American ones when it spent £200m 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.

Banks reduce bad debt provision

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.
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 6.5c 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 R50 million.

The directors predict another successful year with total dividends of not less than 10c a share.

— Sapa
Savings interest rates rising

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, Perm raise rates

(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 R4 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 37 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 Selin, 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 untenable situation. If the interest rates are raised one percent on R100 000 bond, that can mean an extra couple of hundred rand a month."

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 retail.

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 12.875 percent (12.25), and 60 months 13.75 percent (12.25).

Meeting

On Monday the Perm raised its retail deposit rates for 12 months to 11.6 percent (11.25%), for 24 months to 12.9 percent (12.6%), from 36 to 60 months to 13.7 percent (13.4%).

Gilts retail 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
Trust Bank action adds to rate jitters

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 30-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

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 13c from 6c.

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: 22c).

The improvement was attributed principally to a substantial turnaround in the underwriting account from a deficit of R4.5m 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 R2.3m.

However, despite significantly 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 R12.3m, while net written premiums grew 15.4% from R104.7m to R120.5m.

Premium income in the life division grew R3m to R12m.

Mutual & Federal MD Ken Siggers 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 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.
Chamber told of plan for thrust into Africa

EAST LONDON — White and black commercial organisations should together to do the groundwork 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 (Nafococ), 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 un-tapped market to increase more than R2 billion exports from South Africa to black 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 that is what we in Nafococ 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 percent to the gross domestic product and that they only earn two percent of the total earnings in the country. We are considering how blacks can become better involved in the economy."

Nafococ was looking at black-white participation in depth and there were clear examples where the economic cake was not being shared.

"Take a situation 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, Nafococ 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.

"Nafococ 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-participation 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 could emerge a new opportunity for cooperation," he said and urged the chamber to play a role in reviving life into the Ciskei Chamber.
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.
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-holders against inflation.

In a recent comparison of actual pay-outs by life assured, 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 assured.

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 32553664x6 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.
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 side-stepping 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 10.1%-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.
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 investments 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 mutuels in SA.

Gordon makes certain everyone knows Lib-

erty's British associates are substantial, even in sterling terms. He points to Trans-Atlantic, the largest associate, listed in Luxembourg, as being around the 5% biggest company in terms of shareholders' funds listed on the LSE.

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 offering 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 R122 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

FINANCIAL MAIL MARCH 18 1988
Retail deposit rate increases modified

Trust Bank bows to market pressure

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:

<table>
<thead>
<tr>
<th>Time</th>
<th>Old Rate</th>
<th>New Rate</th>
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<tbody>
<tr>
<td>Call</td>
<td>7%</td>
<td>9.25%</td>
</tr>
<tr>
<td>32 days</td>
<td>8%</td>
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<td>60 days</td>
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<td>12 months</td>
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<td>13%</td>
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<tr>
<td>13.18 months</td>
<td>11.5%</td>
<td>14%</td>
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<tr>
<td>12-24 months</td>
<td>12.5%</td>
<td>15%</td>
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<tr>
<td>25-36 months</td>
<td>12.75%</td>
<td>16%</td>
</tr>
<tr>
<td>37-48 months</td>
<td>13.5%</td>
<td>17%</td>
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</table>

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

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 Marriane 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 Foadeen, 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."
Allied announces bond increase

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 necess-
Bank cuts rate

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 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

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 impact unless they can fill loopholes or other ways, like changing their product mix, to keep long-term savings attractive.

New blow

The Life Offices Association (LOA) met the parliamentary Standing Committee on Finance on Friday and 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 assurees' investment income from 60% to 70% will be compensated for in next year's budget by the full implementation of the Margo Commission recommendation that dividends be 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 insurance 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 assured's coffers at the expense of the other financial institutions.

First Beaufort's chief executive, UBS Holdings chairman and chairman of UBS Bank, questions the relatively small contribution of assurers to the deficit. Others believe too much economic power lies in too few hands.

Ray Jordan, of accountants Ernst & Whitney, says two assureds have together increased their premiums 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 assurance 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 assurance on investments.

Mr Jordan says "The transfer to actuarial reserves underscores the principle that assurances hold money in trust on behalf of policyholders. This is an established concept, confirmed by the Leouw Commission in 1976. It is the underlying reason why tax is different for assurances. It seems, as argued by the assurance, that 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."

Mike Levett...loss said the better for raw...
Protection

Cape Town, February 12

The "insurers' board" and a partial solution to "the problem" of insurance costs in South Africa was discussed last week by Roxy Chalmers and others.

The insurance industry, according to industry analysts, has been facing increased costs in recent years due to increased claims and a higher risk profile.

Roxy Chalmers, the managing director of the South African Insurance Association, said that the industry has been working hard to reduce costs and improve efficiency.

"We are constantly reviewing our processes and looking for ways to cut costs," she said. "We are also investing heavily in technology to improve our claims handling and reduce the time it takes to process them."

In the meantime, policyholders are being encouraged to take steps to reduce their risk, such as installing security systems and maintaining their properties.

"While we cannot control every aspect of risk, we encourage our policyholders to take responsibility for their own safety," Mrs. Chalmers said. "It's also important to have a good understanding of your policy and what it covers, so make sure you read your policy carefully before signing it."

Roxy Chalmers

For Insurers

Mega Loss Era

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. — Reuters.
Press in banks’ deposit,
and 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 beginning 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 999, 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).

Bonasave: R5 000-R14 999, 8.8 percent (7.85 percent).
- R15 000-R29 999, 9.75 percent (8.85 percent).
- R30 000-R50 000, 10 percent (9.95 percent).
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 Price, 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 complaint against Mr F 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 violated 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 Smieberger and acting judges of appeal Mr Justice Nicholas and Mr Justice Umbenstein, held that the order to review and set aside Mr Norton's decision as also well-founded. — Sapa
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 totaling 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

GRAHAMSTOWN — Estate planning was a relatively undeveloped subject, a chartered accountant, Mr John Lillie, 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.

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

Chinatown plan nearer fruition

QUEENSTOWN — The R400-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 R400-million contract to establish factories in Queendistrict 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.

Rhodes students gain top prizes

EAST LONDON — Postgraduate students in the department of
Johannesburg. Financial
and Investment Group Sage Holdings recorded a 17% increase in
attributable profits for the year to December.
Dividends for the year have been
increased by 10%.
The preliminary results, released yesterday, show that pre-tax
profit was up 25% to R39,86m and
profit were up 27% at
R26,3m (1986: R20,7m).
Attributable profits amounted to
R21,8m (R19,6m) and earnings per
share were 86c compared with 85c
previously.
The group has declared a final
dividend of 32c a share (32c), bring-
ing 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 con-
struction division.
"In line with the re-orientation
of the group’s sources of earnings
in recent years, the financial ser-
tices division again contributed
approximately 75% of group net
earnings."
Consolidated group assets rose
by 25% in the year to R1,3bn, repre-
senting a more than fourfold in-
crease over the past five years. —
Sapa
Assurers pay out a record R5.33-bn

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 1986," 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 R13.8 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 tremendous 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 insurers, which increased the amount of investment income subject to tax from 40 to 75 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!

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 13.8% or lower.

The Perm's total mortgage advances outstanding grew by R236m 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 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 R36 619, while the Standard Bank's is R38 008.
Bank chiefs were ‘shocked’

AFRICAN Bank (Afrbank) 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 Motsuanye said the board had been “absolutely shocked” on hearing of the deals.

The bank and three former senior executives, Alan Young, Henry Harpor and Arthur Ferreira, have all pleaded not guilty to 429 charges of fraud and contraventions of exchange control regulations arising out of their alleged involvement in unlawful financial rand deals.

Afrbank 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.

Motsuanye told the court the board had offered its co-operation in the investigation and agreed to suspend the individuals responsible.

The trial continues today.
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 R5,53-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 1986," the LOA said in a statement.

Investment income earned on behalf of policyholders amounted to R4,92-billion, an increase of 10 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
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) Koobus 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.

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Low growth

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.

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 Margoe 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.

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.
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 Curgenvuen of Quest Insurance Advisory Service.

This figure will put pressure on many companies that 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 Curgenvuen: "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 Curgenvuen, 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.
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 1998 to R66.8bn.

January's M-3 growth was revised upwards to 20.30% from a preliminary 20.19% for the 12 months (January 1997: 6.62%)

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.
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 Stannie, 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

By LAWRENCE TOPHILL

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 debt 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 "net", 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 Seef of the Seef Organization tells me that a party of German industrialists will be visiting Cape Town shortly for the purpose of inspecting better class residential properties with a view to buying. This group is also interested in looking at agricultural and commercial properties which Seef hopes to sell on a similar basis.

Seef 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 £55 000. 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.
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 at 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 5% 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 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 assureds are unlikely to achieve the returns needed to cover the minimum guarantee.

The schemes called for a minimum investment of R50 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 8%, and the remaining 8% — for example, R600 000 on R50-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 full 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 R250-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.

Investment took the form of a unitised portfolio "participating fully in unit price appreciation".

Break even

After the first year, for the investor to break even the unit must have appreciated from 18% to 14%. But the present value is now said to be 67% — a shortfall of 17 percentage points.

The total amount invested in the schemes could be as much as R408-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 were involved in were for five years and we are precluded from the sense that early surrenders would involve penalties to protect our portfolio."

In any event, "it is too early to draw categorical 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 best-rated shares of Eci 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 portfolio would have appreciated 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 dividend income earned by assurance companies will also have a detrimental effect.

One bright spot for investors is that their losses are tax deductible. Assuring the scheme was played by taxpayers in the highest bracket. The downside is half the 8% lodged as security with the bank.
Fixed income and gilt funds top the performance table

Unit trusts fall behind

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 Sandan'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 at 47.7 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 44.6 percent down, financials 38.6 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

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$118m 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. "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.
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 aberration.

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 convalescent 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
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 163 000, 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 9.2 per cent more than in 1986.

The net surplus was R11.3 million which, with R1.2 million from the sale of investments, was transferred to reserves, which rose to R36.2 million. — Sapa
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," he 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.
New deal for bondholders

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 Auto-bank once a month.

An additional carrot for those with bonds at other financial institutions is the offer to absorb switching costs into the bond.

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 Calls for Probe

By Ami Appleman
Schwarz criticises Land Bank finance for national states

CAPE TOWN — Mr Harry Schwarz, (FDP 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 FDP supported the principle of providing financial assistance to bona fide black farmers in the independent and self-governing states.

However, he opposed the bill on the grounds there were inadequate safeguards the money would be correctly used.

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.

The total amount involved was not expected to exceed R100 million.

Mr Danie Nolte, (CP Delima), 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 Grylls, 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 last year.

In the prospectus last year, taxed profits of R4.3 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 Questor IV produced some 40 percent of the income attributable to Unidev," Mr Gryllis says.
Granny bond plan not final yet — Barend

Daily Dispatch 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 government 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.

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.
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 reflect 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

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—96% ahead of the forecast in its transmuted listing statement.

Forecast

A dividend of 4.5c a share has been declared. This is 89% 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 61.6c.

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 Johannesburg 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 R33m. Total interest-bearing debt is R18.8m and Grylls describes the debt-to-equity ratio of 35.5% as "healthy."

Properties acquired from Recco 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 R452,000 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

By Sven Lüeschke

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 developments 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.

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 R208 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 shrunk from R2.3 billion in 1986 to R1.2 billion in 1987.
Society ups home bond rate

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 2% rate bonds carry rates between 14.5 and 17 per cent. — Sapa
Home-loan rates on an upward climb
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 $450 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 News
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 R446 000 520 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
Bank's profits take dip

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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