FINANCE - GENERAL

~~APRIL~~ -1988

APRIL - MAY

dust, lead ore dust, paper workers exposed to chemicals, foundry hazards; grain dust; spray painting; cold work; lead; heat stress; pesticides and insecticides; work in boilers; building and construction work; sewage handling and refuse removal work; nitric acid; ammonia; benzene; methyl ethyl ketone; silver nitrate; pitch; carbon black; TDI; wood dust; sulphuric acid; galvanising; talc; foundry work

BANKING (58) FM 1/4/88

Expanding niche

Privatisation will provide the banking community with profitable opportunities for possibly 20 years, says Johan Bellingan, MD of Rand Securities. "Before, during and after, there will be a need for innovative financial packages which will ensure an expanding wholesale market."

Rand Securities, recent entrant in the banking arena, will operate mainly in the money and capital markets, providing specialised services for corporate clients. Though these are already available from major institutions, Bellingan believes corporate clients' growing needs will ensure there is always more demand for specialised banking skills than there is supply.

The management team holds 55% of the equity of the new bank. Apart from Bellingan, who left Rand Merchant Bank (RMB) in August 1985 to set up Rand Securities, this includes Johannes Goosen and Herman Hamman, also formerly of RMB.

Backing has come from independent life assurer AA Mutual Life, which holds 25%, and Protea Assurance (10%), as well as life assurer Rentmeeester and short-term insurer President, both part of Rentmeester Beleggings (Rentbel), with 5% each.

With an initial capital of R2m, the bank (still to be named) should open for business within three months. Rand Securities has been in operation as a financial broking company for three years. The licence will expand its potential. ■

Investors wary of rate fluctuations

Star 21/4/88

58

The recent increase in prime lending rates has contributed to a strong demand for fixed mortgage bond finance, says Mr Johann Brits, managing director of Masterbond Trust, one of the country's leading financial institutions.

Speaking in Cape Town this week, Mr Brits said the spectre of further substantial rises in interest rates was causing borrowers to shy away from fluctuating rates.

He added: "We are currently offering borrowers a fixed rate of 16 percent over five years and the major portion of our lending is now being done on this basis.

"We were originally founded as a participation mortgage bond company and long-term investments of this nature still form the bulk of our investment business.

"In fact, participation bonds — traditionally among the highest-earning investment available — are becoming even more attractive as the inflation rate appears to soften."

Cape-based Masterbond Trust has offices in most of the major centres. The group specialises in the provision of a comprehensive range of financial services to clients who require professional management and investment skills.

Masterbond also has an active property division focusing on property development, property investment and property participation.

Interest rates 'determined by BoP constraints'

Star 21/5/88 Cape Times (74)

JOHANNESBURG. — The constraints on the balance of payments will be the most important determining factor in interest-rate patterns over the next 18 months, says the United Building Society, in its latest Economic Monitor.

It says that while it expects market forces to be the most dominant factor during most of 1988, the Reserve Bank may be forced to take over this role towards the end of the year and will lead the market on interest rate increases.

It states: "SA will be faced with the irony that economic growth above 3% will, under these circumstances, imply overheating and thereby necessitate stricter monetary policy.

"Against this background, we expect the prime rate to stand at 16% by the end of 1988, although it might taper off a bit in 1989, in line with the expected slowdown in economic activity".

Short-term interest rates

UBS also expects capital market rates to continue to increase because of:

The declining surplus on the current account of the balance of payments;

Rising short-term interest rates;

Non-fundamental improvements in SA's inflationary problems; and

Higher fixed-investment spending by the private sector.

The group does not see any problems in financing the requirements of the government sector.

"Taking into account the limited needs of the semi-gilt borrowers, the government's borrowing requirements will be easily accomodated by the capital market," says the UBS. — Sapa

Mouton to head bank newcomer

Johan Bellingan ... entering a crowded field

Business Times Reporter

FORMER rector of Free State University and head of the SABC Wynand Mouton will chair SA's latest merchant bank — Rand Securities Bank.

The bank was founded by three men who left Rand Merchant Bank in 1985 — Johan Bellingan, who will be managing director; and executive directors Jan Goosen and Herman Hamman.

Mr Bellingan was a director of RMB in the early days, but left with his partners because they were unhappy with an RMB merger. They believed they could do better on their own.

Bucket shop

Since 1985, they have run Rand Securities — they call it a highly successful bucket shop — until acquiring a banking licence recently. The new bank has R2-million of capital.

Rand Merchant Bank managing director G T Ferreira said he was less than delighted with the choice of name of his former partners. He believed it was too similar to Rand Merchant Bank's.

Mr Bellingan and partners would have liked to call their bank Rand Securities Merchant Bank, but desisted.

Rand Securities Bank will concentrate on money and capital markets and options, its forte so far. It is doing similar things in this area to RMB.

"We believe we have unique technology and are acting for some of the biggest banks and insurance companies in the country," says Mr Bellingan.

Proliferation

In the past two years there has been a proliferation of merchant banks and financial services companies. Hill Samuel became South Africanised, renaming itself Corporate Merchant Bank. Columbia Consultants does merchant banking.

Unidev has Quantum Finance and Quaestor 1V. Then there ares Duros, staffed by former Senbank and Mercabank men; and Mercantile Securities, staffed by Derek Cohen and other Trust Bank old boys. In addition, several merchant bankers have left the majors to freelance in a market that has become crowded since the great crash.

Cosatu congress

COSATU'S special national congress to discuss bannings and restrictions imposed on the labour movement, will be held on May 7 and 8.

Cosatu's national executive, which comprises two delegates from each union, decided to postpone the congress. It was to have been held on April 9 and 10.

The congress will formulate a short- and long-term response to the new conditions facing the labour movement. It is unhappy about the Labour Relations Amendment Bill.

BANK CREDIT

Back to business

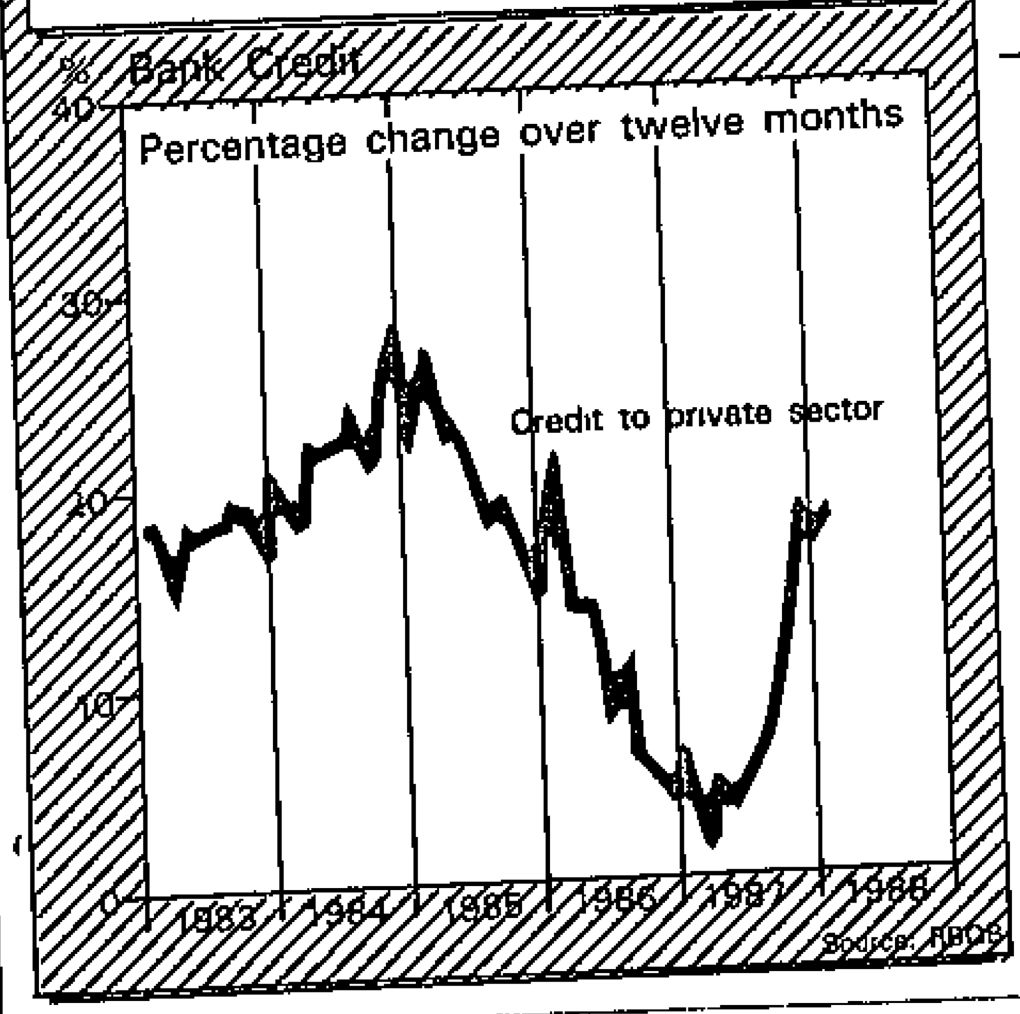
Business which has been by-passing the banking sector for some time started moving back on to balance sheets towards the end of 1987. Figures in the March *Reserve Bank Quarterly Bulletin* (RBQB) show that banks' holdings of bills discounted increased by 45,5% during the year and by 25,6% between end-August and end-December — to R3,8bn.

The move, according to the RBQB, "was a reflection of banks' efforts to strengthen their money market paper and liquid asset portfolios. Banks purchases of bankers' acceptances from insurance companies generally had a counterpart in these companies increased holdings of call and overnight deposits with the banks concerned. The simultaneous increase in the banks' assets and liabilities arising from these transactions therefore amounted to reintermediation."

The last quarter also saw "accelerated extension of hire purchase credit and leasing finance which rose by 20% during the year."

As a result, year-on-year credit to the private sector, which in the first three quarters rose by 3,42%, 5,75% and 11,18%, jumped 17,22% in the fourth quarter.

Soaring demand



The impact of earlier disintermediation can be seen in the shrinkage of commercial bank assets over the second quarter — from R32,2bn to R31,9bn and in the seasonally adjusted annualised rate of change quarter-on-quarter. This went from 13,7%, 2,5% and 13,1% in the first, second and third quarters to 36,2% in the fourth.

An analysis of credit extended shows the dip in the second quarter was not due to a lack of consumer demand — HP credit rose from R8,4bn in March to R8,8bn in June; leasing from R4bn to R4,3bn and other loans from R34,7bn to R35,6bn.

Moreover, expenditure on GDP (seasonally adjusted at annual rates) rose from under R124bn in the first quarter to R124,4bn in the second quarter.

However, between March and June, bills discounted fell from R2,9bn to R2,4bn and there was a decline in deposits and investments from R3,5bn to just under R3bn.

This slowed total growth in credit to the private sector, which moved from R53,6bn to just on R54bn in the period.

In the fourth quarter, the spurt in growth of credit to the domestic private sector was due to a combination of factors:

- ☐ Steady expansion of production activity and domestic spending, rising imports and the mild turnaround in fixed investment and inventory accumulation;
- ☐ Increased household willingness to use bank credit to finance durable goods purchases in particular and stengthening demand for mortgage loans;
- ☐ Elimination or reversal of various factors fostering disintermediation in much of 1986 and 1987; and
- ☐ Declines in the fourth quarter of net foreign reserves and some apparent substitution of domestic for foreign finance. ■

D|D 8/4/88

Noteable cheque

58

JOHANNESBURG — As part of its centenary celebrations this year Nedbank is issuing a commemorative chequebook with a "turn-of-the-century" look.

The chequebook notes important milestones in the bank's history, says an announcement.

Granted its Chapter on April 6, 1888, the bank opened its first branch in Church Street, Pretoria on August 1 that year.

Known in those days as the Nederlandsche Bank en Creditvereeniging (NBCV) it had capital equivalent to R100 000 and its first year's profit was just R11 706. In September last year Nedbank Limited reported assets of R10 491 million and a taxed income of R86-million. — Sapa

STOCKBROKING

Bear necessities

8

Stockbrokers are having to cut their expenses in the post-Crash malaise. And the "downsizing" syndrome could well prompt several firm mergers.

Stockbrokers in SA agree wholeheartedly with the American description of October's great global stock market Crash as a "meltdown": they have since seen their incomes melt away by up to two-thirds from the peak of the raging bull market.

Although none of their sleekly expensive cars has yet been traded in as a result, the 300 member brokers of the Johannesburg Stock Exchange have had to confront the need for what Wall Street so quaintly calls "downsizing."

In other words, they are being forced to reduce overheads.

This trimmer approach is being prodded by three trends which have the stockbroking profession in a tightening pincer: dramatically reduced trading activity being contested by the largest number of stockbrokers to date in the country, compounded by lower share prices.

The number of brokers has risen steadily since 1979, when there were 159 in 47 broking firms around SA. Since then the total has climbed to 166 in 1980; 198 in 1981; 211 in 1982; 222 in 1983; 228 in 1984; 234 in 1985; 253 in 1986; 267 in 1987 and 300 at the end of March this year. Yet throughout this period the number of broking firms has remained remarkably constant, hovering around the 40 to 42 mark.

All that could change very soon.

In the month just before the Crash, brokers were trading an average of 75m shares in more than 34 000 deals each week, worth an average of about R514m. By the end of January, those averages had dropped to 34m shares, 16 000 deals and R199m. February provided slight relief, with the averages rising to 36m shares in 15 000 deals worth R215m, but by the end of last month they were down again to 31m shares a week in 14 000 deals worth R195m.

Share prices have fallen by an average of 40%-50% from the top of the bull market, although most of 1986's 67 listings are still above issue price and even some of last year's 211 new issues are showing a continued premium.

But there are simply not enough attractive shares to rejuvenate activity by pulling the individual investor back into the market.

Brokers in SA operate with a sliding scale of fixed charges ranging from a maximum 1,2% (on deals below R5 000) to a minimum 0,2% (on deals over R1,5m), with brokerage earned on both the buying and selling legs of each transaction.

This, according to JSE president Tony Norton, helps keep them honest — even though it could be construed as horizontal price collusion. (It is specifically allowed by the Competition Board.)

"Our brokers compete on service, so while other markets are abandoning unlimited liability for brokers and permitting dual capacity — where the broker can act either as an agent or principal with his client — we remain committed to the tried and trusted disciplines.

"For the foreseeable future, therefore, we see ourselves as an open outcry auction market, based on the independent membership of natural persons, subject to the discipline of unlimited liability.

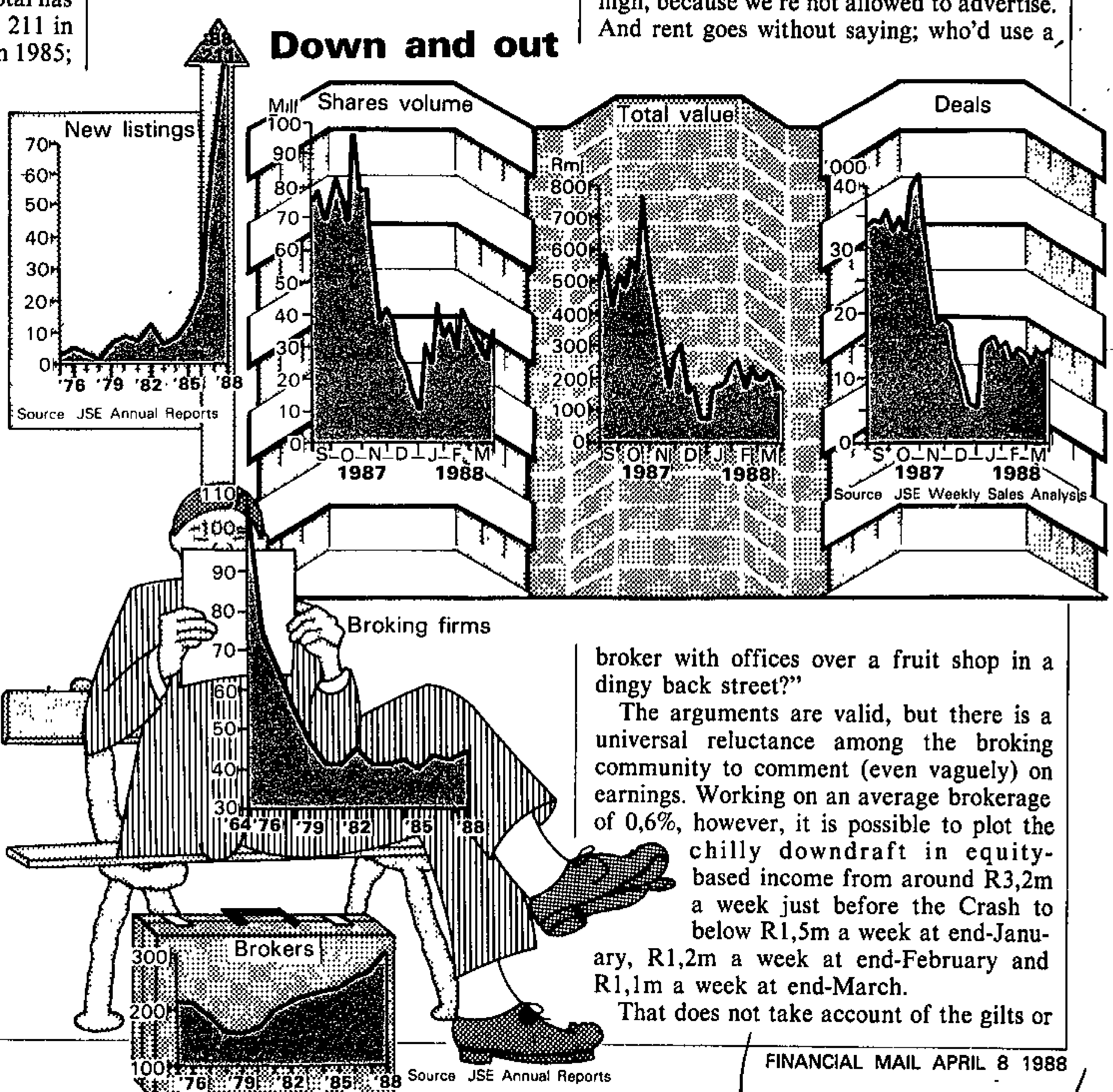
"We are committed to the pure agency principle enshrined in the single capacity concept, where the broker cannot buy or sell from his own book in deals with clients."

All of which, according to hard-pressed brokers, means they are committed to unavoidably high overheads (usually in the region of six figures a month) which cannot be offset by negotiated charges.

"It is extremely difficult for us to reduce overheads," says one major broker. "We're locked in. Around 4% of our income, based on profit, goes to the JSE for admin costs. Then there are salaries and wages, computer costs — we've all got expensive computerised systems — telephone bills, rent and entertainment.

"Phone bills are usually more than the rent, sometimes more than twice as much because of deals with overseas exchanges. Salaries are high to attract and keep quality people — good dealers, for example, are highly paid even though all they technically need to be is over 21 and to have passed a basic oral exam on market procedure. But we have had to cut down on bonuses.

"Entertainment expenses are also very high, because we're not allowed to advertise. And rent goes without saying; who'd use a broker with offices over a fruit shop in a dingy back street?"



The arguments are valid, but there is a universal reluctance among the broking community to comment (even vaguely) on earnings. Working on an average brokerage of 0,6%, however, it is possible to plot the chilly downdraft in equity-based income from around R3,2m a week just before the Crash to below R1,5m a week at end-January, R1,2m a week at end-February and R1,1m a week at end-March.

That does not take account of the gilts or futures markets, of course, but it is a good enough indication of the profession's falling fortunes.

Some brokers have actually admitted that their income is down by between 60% and 70% from the peak of the boom.

Which is why all available options are being exercised.

Many of the country's 44 broking firms have retrenched staff, generally secretarial and clerical although a few dealers have been swept off the floor. There has been a marked decrease in the capital-intensive and risky preoccupation of jobbing (which, since it is frowned upon by the JSE, was never much talked about despite its pre-Crash popularity).

Off-duty brokers . . . talking in Deales

And all the firms have tightened their financial controls, because a major consequence of the Crash was a rash of client reneging. Admits one broker: "Oh yes, quite a few clients developed convenient amnesia about telephonic buying orders.

"There've been a couple of court cases as a result. And there have been a lot of rubber cheques around.

"We've taken a hard line and we've even issued lawyers' letters. But, of course, that's not doing our reputation any good in the marketplace and it has upped our overheads by increasing our legal costs. But if we don't go for the money, we're personally liable. Sometimes you just can't win."

There is never much sympathy in the city, though. And if there is little enough among brokers for absent-minded clients, there is even less among competitors — and sideliners — for the brokers themselves. Their reputation for high living militates against it, exacerbated by their apparent obsession with status symbols like expensive cars, designer suits, ostentatious jewellery, interior-designed offices and monogrammed personal stationery.

"Why not?" says one. "In the boom times we work like hell. It's nothing to put in 18- or 20-hour days. We don't get the money for nothing, you know. And the bear is always prowling around the periphery.

"Now there are more of us chasing less business. Listings have fallen off, share activity is generally restricted to institutional investors, and it doesn't look like building up again for some time."

The competition is not inclined to be charitable. Says one merchant banker, still stinging from what he sees as unfair broker competition during the listings boom: "There must be little or no chance of any broker in this country going bust.

They made fortunes during the bull run, and even then they were greedy enough to compete with the banking fraternity.

"They're lucky we weren't allowed to deal in shares, that's all I can say. And rest assured, stockbrokers can live off their fat for a long time yet."

The camel metaphor is not misplaced, since there are still more than sufficient reserves from the good times.

But conversations are turning increasingly to the prospect of possible mergers among broking firms if the tempo continues sedate.

"We could see a reduction in the number of firms from 44 to 40 by the end of the year — maybe even below 40 for the first time in years," says a long-standing broker. "I wouldn't be surprised at all."

Says another: "I'm teaching myself to crochet in my spare time, since there's so much of it about these days.

"That way I can always support myself by selling seat covers to other guys for their Porsches."

It's nice to see that even in times of bear necessities, brokers can retain their sense of humour. ■

LEE IACOCCA

Making America work

Last summer a national magazine ran a story about a young man working as a line supervisor in one of our factories. What made him unusual enough to warrant a magazine feature was his Harvard MBA.

Harvard kids aren't supposed to wind up on the midnight shift at a car plant these days. They're supposed to go to Wall Street and get rich fast. But John Handler at Chrysler is doing his turn in the trenches, because somewhere along the line somebody sold him on the old-fashioned idea that making things is still important.

That's an idea that the whole country had better get back to if the US is going to hang on to its standard of living and its position as a leader, or even a big leaguer, in the world economy. And that's a message that I've been preaching for a long time.

I started almost 10 years ago when Chrysler was going into the tank and one of the attitudes I ran into on Wall Street and in Washington was "So what? The future is in financial services and hi-tech. Who needs old Smokestack America anyway?"

Well, we do. Throughout modern history,

The man who sorted out Chrysler argues that if a country stops making things and devotes itself to shuffling paper money, it loses its wealth and its competitive edge.

the countries who've been on top in the world of banking and high finance have obviously been the ones with the money. And remember, they've made their money in their factories. Japan is just the latest example. Their manufacturing exports made them billions, and that's why seven of the top 10 banks in the world (and five of the top 10 in California) today are Japanese.

The same is true of hi-tech. All the wizardry of hi-tech is useless if you don't have any factories to put it to work in.

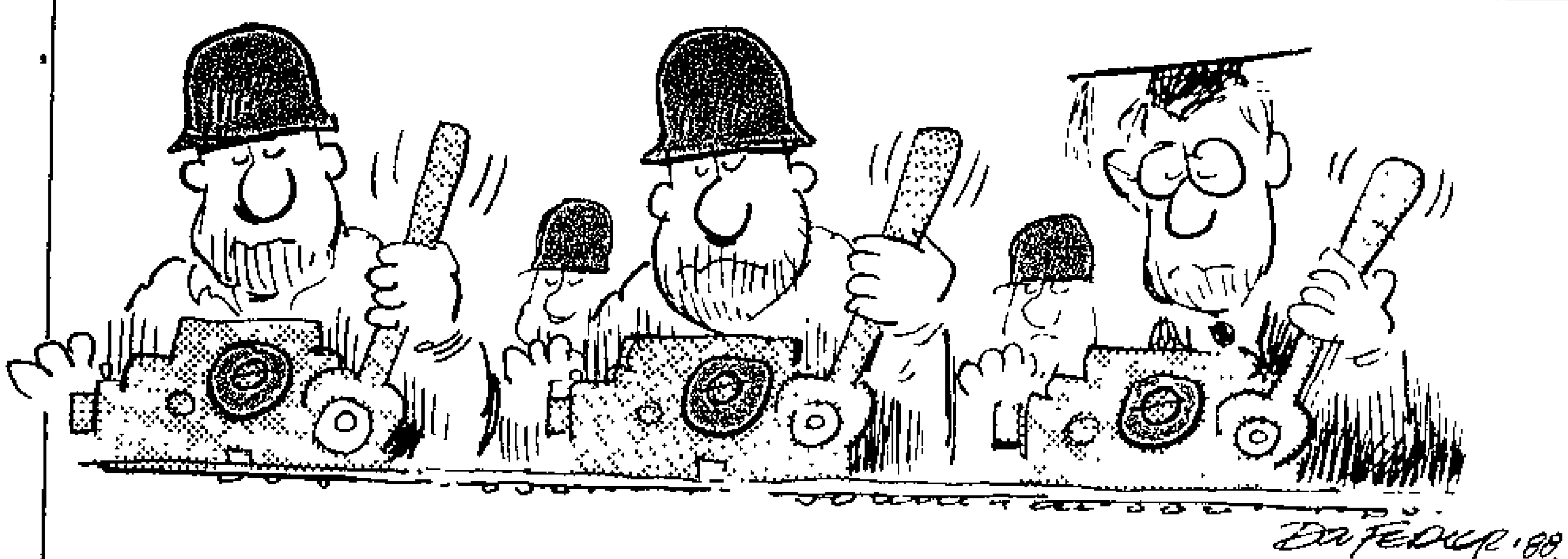
So in my book, the future really is in the hands of young men like John Handler with their Harvard MBAs, who aren't afraid to put their education and talent to work creating wealth rather than managing portfolios on Wall Street and just moving it around.

The work is harder, though. The logistics involved in running an automobile plant today make planning the Normandy Invasion look like a basement project by comparison. The management skills required are as sophisticated as you can get. And so is the technology involved.

In a modern auto plant, between 4 000 and 5 000 parts from all over the world have to show up at exactly the same place, at exactly the same time, so they can be put together to make a new car or truck, at the rate of one per minute. In Chrysler's 15 assembly plants, that means 50m parts come in the back doors, and 10 000 vehicles go out the front doors at the rate of one every 5,7 seconds, every single working day of the year.

Go through one of those plants and you won't find anybody with a rubber mallet putting the pieces together like in the old

cont



days. Instead, you'll see computers running the line, lasers doing the welding and quality checks and robots (almost 2 000 of them at our place) doing the dirty work and heavy lifting.

The paint shop, which used to be the crummiest place in the plant to work, now looks like a surgical ward. You even have to gown up to go in. Right next to the line where the cars are painted, you'll see potted plants.

All this adds up to greater productivity. In the past eight years at Chrysler, we've reduced the hours of labour going into a car in our assembly plants by almost 30%. We've reduced inventory (which costs money and takes up space) in those plants by 50%. In 1980, six of every 10 cars coming off the line had to have some kind of repairs or adjustments. Today, it's only about one in 10.

We're proud of what we've done to get more productive but we aren't the only ones. The same thing is true throughout most of American heavy industry. In fact, virtually every bit of America's increase in non-farm productivity in this decade has come in manufacturing. Almost none of it has come in the service sector.

Of course, that productivity jump doesn't help you compete if other countries won't let your products in, and a lot of them won't. The best evidence is a trade deficit that's running \$170bn a year. About 83% of that trade gap is in manufactured goods.

But still, industrial productivity is the key to national competitiveness. The service sector doesn't help you very much. In the world we live in, a country can't compete if its factories can't compete. And a country isn't a power if it isn't an industrial power.

We seem to have forgotten that lately in the US, but the rest of the world hasn't. That's why, in Japan, young men like John Handler won't have magazine articles written about them. They aren't unusual. The best and the brightest fight for a chance at the factory floor. For them, that's where the route to the top starts. And for their country, that's where international competition really takes place. ■

Six 'SA spies' in Harare court

B/day 8/4/88

MICHAEL HARTNACK

HARARE — A Harare building society teller Patricia Brown, whose two adult sons live in SA, has been brought before a magistrate here for "confirmation proceedings" after nearly seven months in jail after her arrest.

Brown, 53, is being held under the state of emergency on allegations of involvement in spying for SA with five others — three Zimbabwean men, a Canadian and an Irishman.

They were detained last September.

The six were brought before magistrates at Harare Magistrate's Court for confirmation of statements they allegedly made to police.

There is still no firm date for criminal charges being brought against them.

Unfair, say SA insurers

10/4/88 S Times

By Robyn Chalmers

UNFAIR competition from foreign insurers is threatening established SA companies, says SA Insurance Association chief executive Rodney Scneeberger.

"Inequitable competition from overseas has always been a factor in SA, but has increased considerably in the last few months, mainly due to a softening of the British and European markets.

"It is unfair because they do not have to comply with the many regulations which SA insurers do and this causes resentment," says Mr Schneeberger.

Under the Insurance Act, SA companies have to:

- Register.
- Put up capital.
- Comply with prescribed solvency regulations.
- Remunerate shareholders.
- Employ South Africans.

Mr Schneeberger's view is endorsed by the chairman of Protea Assurance, Cedric Walton, in his annual review.

Mr Walton says: "Apart from the negative influence the recent flooding in the Free State, Northern Cape and elsewhere is bound to have on insurers' profits, competition is becoming severe."

He raises the issue of reinsurer's losses, saying they will seek to recoup them by applying reduced commission terms on reinsurance facilities.

"Insurers reaction to the Natal floods and Helderberg disaster was relatively low key as reinsurers carried the main burden."

Mr Schneeberger says reinsurers can retrieve their money by either reducing the commission terms, increasing premiums or both.

"All that has happened is that direct insurers have bought some time, but I doubt that any increases will have a major impact on the public" he says.

A special perils committee has been appointed to look into area ratings and future flood risk assesment. Mr Schneeberger says it is possible that the committee will recommend increased rates in vulnerable areas.

DIAGONAL STREET ●●● by DAVID CARTE

58

Rich fire-sale pickings

BARLOWS and Anglo American Corporation have done best among the dominant SA commercial and industrial groups in buying up the interests of disinvesting foreigners.

For large domestic insurance companies, mining houses and their subsidiaries, disinvestment has been manna from heaven.

It has given them assets outside a limited number of high-quality, tradeable shares on the JSE in which to invest their burgeoning cash flows.

The Metal Box deal announced last week was Barlows' second blockbuster investment in less than a year. It bought a further 25% of Robor Industrial Holdings for R34,4-million. For roughly R146-million, its packaging subsidiary, Nampak, bought another 25% of Metal Box SA from Metal Box UK.

COAXED

Its first coup was in coaxing Information Services Management, formerly IBM SA, into bed with Reunert's computer interests to form Technology Services International.

Overnight, this transaction made Barlows No 1 in information technology in SA.

Before that, there was the purchase of J Bibby & Son from Tiger Oats at a price that looked high, but which has been justified by the subsequent decline in the rand.

Barlows has paid fairly dearly for Metal Box — 11,9 times earnings and a premium of 79% on net assets and 23% on the pre-deal share price. The price lends credence to the claim by Metal Box UK that the transaction was inspired by commercial, not political, considerations. Had Metal Box UK been a forced seller, the price would have been considerably lower.

RECOVERY

It is disappointing that Nampak is taking the minority slice of 21% as well and that Metal Box is to be delisted. Metbox was one of a few large, highly focused companies available to SA investors. I would imagine that several institutional investors will part reluctantly with their shares, even on these generous terms.

Robor went fairly cheaply at 5,9 times earnings. Its prospects and rationalisation potential are clearly less exciting than those of Metal Box, although last year's dramatic recovery suggests considerable early upside.

For something like 25 years Barlows has been one of the most aggressive and successful acquisitors on the SA scene. It has been contended that, in common with other conglomerates, its ability to buy companies at favourable prices has exceeded its ability to run them.

Barlows share price has languished in spite of the company's successes, falling from R28 before the October crash to the present 1 950c.

Anglo's biggest triumph in the great disinvestment fire sale was the purchase of Barclays for only 7,3 times earnings. This deal consolidated Anglo's hold on Southern Life. First National Bank later brought Citicorp's SA interests into the greater Anglo empire.

Minorco's former associate, commodities and financial services broker Phibro Salomon, pulled out of SA in 1985. Anglo associate Minorco had the last laugh, however, selling its stake in several tranches for an estimated $1-billion. The last $400-million block of shares was sold days before the great crash and a few months before Salomon Bros went into spasm, losing heavyweights such as David Stockman and Henry Kaufman.

NEXT BEST

Anglo also increased its stake in a low-geared Samcor to 76% after Ford's withdrawal.

Analysts agreed that Anglo did well this week in buying Newmont's 28,6% of Palabora Mining for R250-million and look forward to a further bargain in Highveld.

Bill Venter's Altron group has probably done next best in the big foreign withdrawal.

If you are a foreign electronics company and wish to disinvest and yet continue to sell to SA, it seems Mr Venter is the only man to talk to. His victories so far have been Xerox, Roneo Alcatel and, through Punch Line, Computer Sciences.

Liberty's big success was the acquisition of about 32% of Standard Bank of SA and being helped in the transaction by its close friends, Rembrandt and Gold Fields of SA. Liberty retains good relations with Anglo and SA Breweries.

EMPIRE

SAB acquired two gems in Lion Match and its increased stake in Amalgamated Beverage Industries after the Coca-Cola pullout.

Sanlam has been a disappointing acquisitor. Chairman Fred du Plessis left foreigners aghast more than three years ago when he urged them to disinvest and expressed enthusiasm abou the opportunity it would present for cash-flooded assurers and mining houses.

So far the only disinvestment purchase made in the greater Sanlam empire seems to have been the 25% minority stake in Firestone. Sanlam was a disinvestor in one transaction. It sold out of the passenger side of United Transport as a result of the Duros-engineered Tollgate reconstruction.

FLOW GOES ON

The biggest beneficiaries of the foreign sell-off have been management and staff, which, in numerous cases, took control at favourable prices and on the understanding that products and technology would continue to flow (see story below).

Many foreign companies, such as Shell, BP, Philips, Unilever, Colgate Palmolive, Cadbury Schweppes, Cons Gold, British Oxygen, NEI Africa, BTR and Commercial Union, have hung tough on SA, refusing to pack their bags.

Now that the financial rand is stronger and companies such as Barlows are showing preparedness to pay premiums well above JSE prices, it might be worthwhile for investors to get aboard the few foreign-controlled listed companies which might be amenable to SA approaches.

Of course, there is some downside for the buyers of shares in foreign companies — the danger of even more restrictive foreign legislation. The anti-apartheid lobby is already angry about the ineffectiveness of disinvestment, so more brickbats should surprise nobody.

GuardBank funds' inflow sharply down

58 Bday 13/4/88

LIZ ROUSE

GUARDBANK funds' inflow abated sharply in the first quarter of 1988 from 1987's high levels and the trickle in the March quarter had little impact on liquidity.

In line with other mutual funds, GuardBank Growth Fund and GuardBank Resources Fund increased liquidity and reduced exposure in the gold-mining sector. However, GuardBank Income Fund adopted a slightly more aggressive investment policy as fixed interest securities started yielding a positive real return.

GuardBank Management Corporation says although there were tentative signs of a recovery in the major international stock markets, a mood of extreme nervousness continued and volume of turnover was extremely low compared with the highs during the first nine months of 1987.

"It is, therefore, still too early to predict with any degree of certainty that the major international stock markets will not penetrate on the downside the levels to which they declined during the fourth quarter of 1987.

"Although the majority of the prime quality counters listed on the JSE continue to offer sound value, it must be recognised that it is unlikely that the primary trend of the JSE will run counter to the primary trend of international markets."

In sum, GuardBank portfolio managers predict JSE prices will be determined by international prices in the June quarter.

GuardBank Growth Fund increased liquidity to R74,8m (18,1%) at the end of March from the December quarter's R55m (13,7%) and value of its equities fell to R338,4m (81,9%) from R345,3m.

The fund's exposure to the gold-mining sector was reduced by selling Vaal Reefs and Western Deep Levels and reducing holdings in Driefontein, Southvaal and GFSA.

The industrial content was increased marginally by further purchases of Sappi ordinaries and preferred ordinaries, thereby increasing holdings in this counter to 580 000 shares (245 000).

Top 10 golds are Remgro, Liberty Holdings, Placor, SA Breweries, Rem Beheer, Anglovaal loan stock, Anglos, Gencor, Barlows and De Beers.

Value of GuardBank Resources Fund's equity portfolio declined to R20,6m (67,21%) from R23,1m (78,3%) to reduce exposure in the precious metals and mining financial sectors, while cash and liquid assets rose to R5,6m (18,4%) from R2m (6,89%).

The holdings in Randfontein, Ofsil, Amgold, New Wits and Hunt Leuchars were eliminated while the holding in Mid Wits was reduced. Small holdings were purchased in Witbank Colliery and Consgold.

Top 10 holdings are Lebowa Plats, De Beers, Sappi, JCI, Minorco, Dries, Samancor, Anglos, Gencor and Anamint.

GuardBank Income Fund's cash and liquid assets rose to R1,9m (more than 21%) from R854 999 (11,34%).

B/day 13/4/88. 58

Sage Growth Fund holds 30% in cash

CHERILYN IRETON

THE risk of a second downward phase in overseas share markets is high enough to cause Sage Growth Fund to hold a disproportionately high cash content in its portfolio.

So says portfolio manager Anthony Gibson in his report for the March quarter.

In an attempt to "insulate unit-holders against the expectation of further share price volatility", the portfolio's liquidity was increased from 23% at the end of December to 30% at the end of March.

Over the same period the market value of the fund grew to R67m from R58,3m, while the number of unit-holders rose 1 000 to 11 000.

The fund managers acquired shares in Randfontein and Tricom Property Fund — which is now one of the top 10 holdings. At the same time they topped up the holdings in Driefontein, Anglovaal As and part prefs, JCI, New Central Wits, Liberty Holdings, C G Smith, Safmarine, Delta Electrical, Hudaco, I & J, Tiger Oats, Rem Beheer and Remgro.

Shares in Free State Cons and Western Deep Levels were sold and holdings in Amgold and Edgars reduced.

Commenting on likely performance of the JSE for the rest of the year, Gibson says that while showing signs of tentative recovery, investor confidence in SA remains extremely brittle.

Rising interest rates highlight dependence on new investment capital and vulnerability to financial sanctions.

He says various factors point to a rally on the JSE in the coming months "particularly as investing institutions again begin to commit their cash flows to share investments".

The top five holdings at the end of the quarter were Delta Electrical, Anglovaal part prefs, JCI, Driefontein and Tricom Property Fund.

The fund's quarterly distribution totals 1,21c.

Syfrets Growth Fund's repurchase price fell 0,47% during the quarter, while the JSE overall index fell 7,6%.

Two more companies for the JSE

B/day 14/6/88

Business Day Reporter

COMPUTER giant Technology Systems International (TSI) and another small mining company, Nigel Gold Mine, will test the mood of the JSE today when their shares are floated for the first time.

TSI comes to the electronics board following the merger of the computer interests of Reunert and the ISM Trust. Its 148,5-million shares could trade at around 575c a share, if yesterday's closing price of 175c for the TSI nil paid letters is a fair reflection of market sentiment. The shares were issued at 400c each.

Nigel — the main operating subsidiary of South East Gold Holdings (Southgo) — will be quoted in the "Rand gold — other" sector of the gold board. Its listing coincides with the listing of 12,7-million new Southgo shares.

UBS ups rates on certain retail deposits

BDay 15/4/88

GRETA STEYN

56

THE UBS is to raise interest rates on certain retail deposits from today amid interest-rate jitters in the money market.

The UBS is to put up its rate on 12-month fixed deposits from 11% to 11,5% and in the category 18-23 months rates move from 12% to 12,5% on interest paid yearly.

The rise in retail rates comes in a week that saw volatile rates in a nervous money market. The key three-month liquid Bankers' Acceptance rate shot up to 11,15% on Wednesday — a level last seen in mid-1986 — only to return to 11,05% yesterday.

Building societies, in particular, are suffering as bearish sentiment grips the money market and investors concentrate on the short end.

As there is a restriction on the amount of short-term funding building societies are legally allowed to use for mortgage finance, they rely heavily on investment in 12-month negotiable certificates of deposit (NCDs) as a source of money market funding.

At the moment, they cannot count on that source as investors are shying away from locking into longer-term funds at current rates while they expect rates to rise in future. Yesterday, buying rates on 12-month NCDs moved up to 13,5% from 13,35%.

Sapa reports Discount House of SA

To Page 2

UBS ups rates on certain retail deposits

58

BDay 15/4/88

From Page 1

executive chairman Colin Dunn said investors were concentrating their attention on the short end of the market and ignoring longer-dated stocks.

This was corroborated by Securities Discount House's Danie Gouws, who said at present there was little in the way of demand for paper over three months.

In the retail market, fixed deposits are an important source of funding for societies and competition for consumers' funds is becoming more fierce. For banks, too, retail deposits represent a cheap source of finance.

The UBS' latest retail deposit rate increase brings its rates in line with those paid by the SA Perm on one-year fixed deposits. But the Allied now lags and can be expected to raise its rates on one-year money to remain competitive.

The banks, which regard retail deposits as a source of cheap funds, are also lagging on one-year fixed deposits.

The current account surplus is widely regarded as a crucial determinant of interest rates in the near future, with the focus on the demand for imports.

Dunn said an important factor for money market rates was the fear that monetary controls would be tightened until the balance of payments situation was rectified. Also, there was strong demand for credit from consumers, as witnessed by the sharp increase in car sales.

Allied's credit cards

GREETA STEYN

THE Allied, in a break from building society tradition, has launched a range of credit cards.

The group is the first among building societies to do so. MD Kevin de Villiers said yesterday the Allied cards were competitive.

The Allied had chosen Mastercard aided by Standard Bank's technology.

The Allied would start developing cheque accounts in July.

United Bank MD Nallie Bosman said yesterday his bank was also developing a credit card which would be available "in the next few months".

☐ CHRIS CAIRNCROSS reports the Allied Bank has decided to sponsor Springbok solo yachtsman John Martin in the Transatlantic Race between Plymouth and Newport in June.

DID 15/4/86 (58)

Granny bonds to be 1-year deposits

JOHANNESBURG — The new "Granny Bond" is to be a one-year fixed deposit and not three years, as generally assumed by banks and building societies after the Minister of Finance Mr Barend du Plessis's budget announcement of the scheme.

The Finance Director General, Mr Chris Stals, said yesterday that that senior citizens' funds would mature after one year.

The scheme itself would run for at least three years, he said. After one year, senior citizens would have the option to re-invest in terms of the scheme, or to put their money elsewhere.

When the scheme was announced, the Allied Group MD Mr Kevin de Villiers's response was: "We can't tell the elderly that they are to be locked into a system for three years and only quote interest rates for 12 months."

In Mr De Villier's view this "vitally affected" the group's marketing approach.

But Mr Stals said the intention had never been for the deposit to be fixed for three years.

The rate for the first year would be 15 per cent and the subsidy to be paid by the government was yet to be decided. The 2,5 per cent subsidy mentioned in the budget was "only an example".

The scheme is limited to individuals of 65 years and older, with a maximum investment of R30 000 for each person. — DDC

BANKING 58 15/4/88 FM

Growing mortgages

Combined mortgage book of the five major banking groups is now about 22% of total building society portfolios. In a quarterly review of the banking sector, Martin & Co analyst Richard Jesse records that advances made by First National, Standard, Volkskas, Nedbank and Bankorp in 1987 raised the level of their mortgage books to nearly R6bn — compared with about R27bn in building society mortgage loans outstanding.

The greatest growth was achieved by Standard, which increased town property mortgages by 96%, year-on-year, to R1,6bn. The amount of the increase — R781m — was more than the total increase of R728m in "other" advances (a category which excludes HP, leases, factoring and loans to government).

Nedbank increased its book by 48% to R643m and First National by 42% to R2,5bn, while Bankorp increased by only 6% to R474m and Volkskas by 1% to R750m.

Jesse's analysis, based on BA9 returns to the Registrar of Banks, shows total assets in December 1987 were: First National R22,5bn, Standard R20,5bn, Bankorp R16,3bn, Nedbank R11,4bn and Volkskas R11,1bn. However, if contingent liabilities are included, Standard has the biggest balance sheet of R33,3bn, while First National has R32,9bn, Bankorp R20,4bn, Volkskas R19,2bn and Nedbank R16,5bn.

Either way it's calculated, despite the overall increase in mortgage loans, they are still a relatively small proportion of assets.

This may be just as well in view of the market constraints on putting up mortgage rates. There is little doubt that banks have been losing money on this type of business over the past few months.

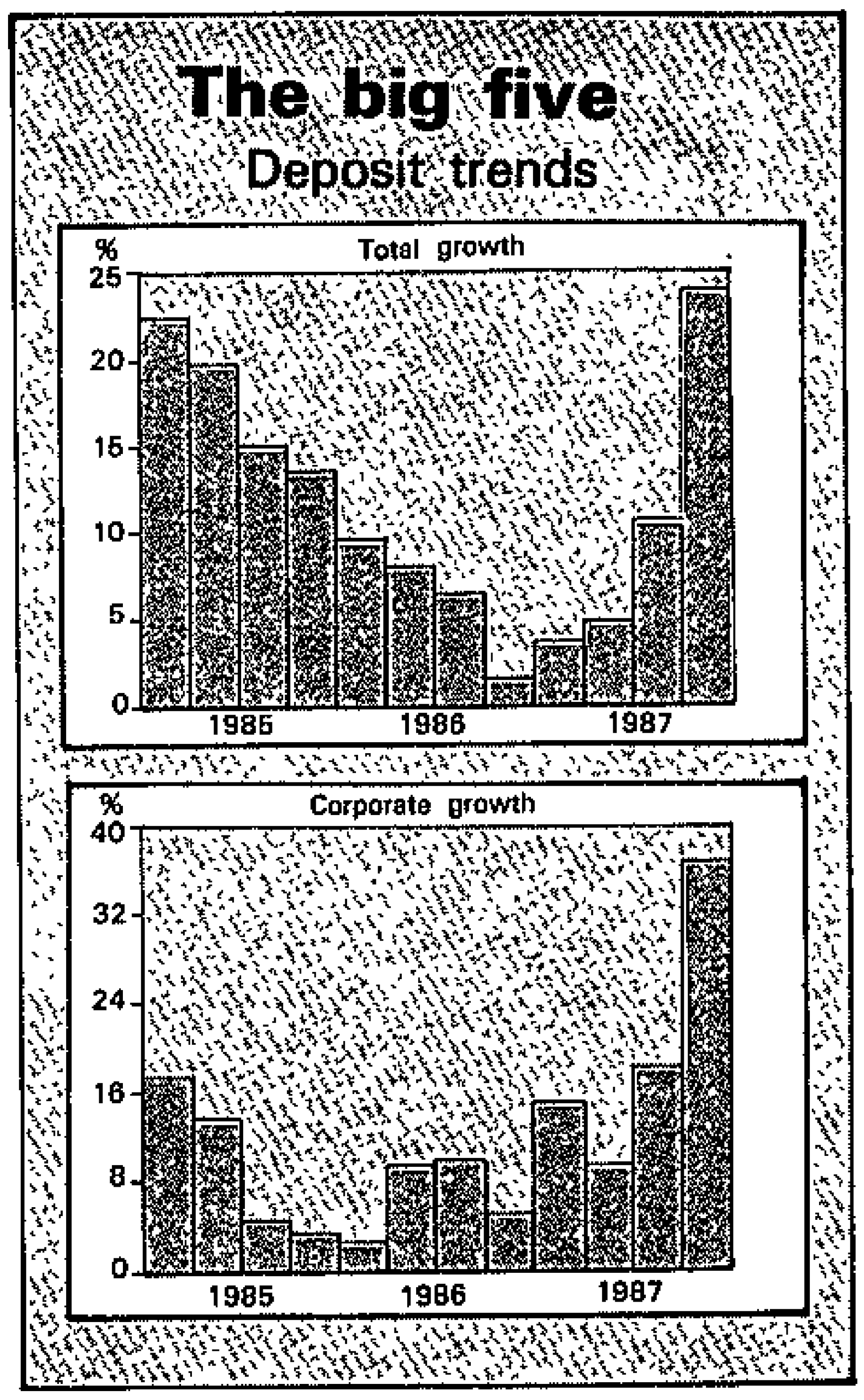
Jesse's analysis of interest rate trends shows constant pressure on margins. Effective cost of a 90-day BA (including commission and stamp duty) increased from 10,5% in November to 10,9% in December, 11,3% in January, 11,8% in February and 12,4% by March. This increase of nearly two percentage points was matched by a 1,5 percentage point increase in the prime lending rate.

As a result, the trend in wholesale margins has been a shrinkage from 3,2% in the last quarter, to 2,8% in January, an increase to 3% in February after a half percentage point rise in prime in January and a drop to 2,7% in March as funding costs rose further. "Some slippage has recently taken place. Allowing for time lag effects, the overdraft rate needs to go up again within the next few months to protect interest margin."

He estimates that prime will peak at 16% in the third or fourth quarter.

With interest rates bottoming in the last quarter of 1987, deposit proportions shortened across the board between September and December — "Exactly the opposite of the theoretically correct strategy."

He links this with the sharp increase in overall deposit growth in the December quarter. "The banks would probably claim that long-term funding in the order of hundreds of millions of rands was simply not available."



The steep climb in deposits was due largely to increases in corporate books. With the help of Citibank's R294m, First National increased by 54% to nearly R6bn, Bankorp by 34% to R3,7bn, Nedbank by 34% to nearly R3bn, Volkskas by 30% to R2,5bn, and Standard by 26% to R4,7bn. The average increase was 37%.

Savings (retail) deposits climbed by an average 19%: Bankorp by 30% to R1,2bn, Volkskas by 21% to R958m, Standard by 19% to R2,3bn, First National by 14% to R1,9bn and Nedbank by 13% to R829m. ■

UBS raises rates on retail deposits

Finance Staff

The recent volatility in the money markets was underscored yesterday when the United Building Society (UBS) raised its interest rates on certain retail deposits with immediate effect.

The UBS increased its 12 months fixed deposit rate from 11 percent to 11,5 percent while fixed deposits of between 18 and 23 months were also raised by half a percent to 12,5 percent.

Analysts have blamed the current surge in interest rates on uncertainty on the part of local investors, a fact which was underlined yesterday, when the BA rate fell to 11,05 percent after soaring to an almost two year high of 11,15 percent on Wednesday. Buying rates on 12 month NCD's, however, improved yesterday from 13,35 percent to 13,5 percent.

Colin Dunn, executive chairman of the Discount House of South Africa confirmed yesterday that the market was extremely nervous at the moment.

He told Sapa that the two factors were fears that monetary controls would be tightened until the balance of payments situation was seen to be rectified. Another was that there was uncertainty as to just which way the economy was heading.

He said that while certaim bearish signals had been seen, such as a rise in imports, the other side of the coin was signs that the consumer was again looking towards credit-supplying institutions to meet his needs.

As a result, investors were concentrating their attention on the short end of the market and ignoring longer-dated stocks.

Danie Gouws of Securities Discount House said that at present there was very little in the way of demand for paper over three months.

However, there was occasional movement in long stock when a good buy was picked up.

He said the outlook for rates was bearish, with a range between 10,85 percent and 12 percent over the next three months.

Other market sources saw a gradual increase in rates in general during the rest of this year, with the prime rate reaching 16 percent or more in a gradual series of increases over the rest of 1988.

CMc Times 15/4/88

lecture

Anamint profits, dividend up 33%

By LAWRENCE TOTHILL, Investment Editor

IN line with the better profits and dividends announced by De Beers, Anglo American Investment Trust (Anamint) has boosted its profits by one-third and has raised its final dividend for the year to March 1988 so that it is distributing 33% more than last year.

The final dividend announced today is 1 280c a share (960c last year), which with the interim of 320c (240c), makes a total distribution of 1 600c for the year (1 200c).

Anamint derives a major part of its income from its shareholding in its associate company, De Beers Consolidated Mines in which it has a 25,86% shareholding.

In the year under review, its dividend from this investment increased by 37% to R108,0m (R78,6m).

Income from other investments increased to R53,9m (R43,1m) which, together with interest earned less administration expenses, provided Anamint with a net income before taxation of R160,8m (R120,8m) — a 33% increase.

After deductions for taxation and the payment of preference dividends, Anamint's earnings attributable to ordinary shareholders, excluding its share of retained earnings of its associate, amounted to R160,0m (R120,2m), equal to earnings of 1 600c (1 200c) a share.

Earnings, including Anamint's share of its associate's retained earnings of R280,1m (R235,6m), rose to R440,1m (R355,8m).

Anamint's share of its associate's retained earnings is transferred to a non-distributable reserve.

The market value of De Beers, Anamint's listed investment, amounted to R3 044,2m (R3 903,4m) at the year-end and Anamint's net asset value per share, after providing for the dividend, was 33 940c (41 835c).

This sharp decline in net asset value reflects the plunge in the price of De Beers following the October 1987 sharemarket crash.

Anamint has traded recently on the JSE at 35 000c which is slightly higher than the disclosed net asset value, but it must be remembered that Anamint's own valuation of its unlisted investments is highly conservative.

At the price of 35 000c and a dividend of 1 600c Anamint offers a dividend yield of 4,57% which is considerably more attractive than the 3,5% yield offered by its main investment — De Beers.

The growth in dividend income from Anamint has been nothing short of spectacular in the past two or three years. As recently as 1985 it was distributing only 590c; in 1986 810c; in 1987 1 200c; and now in 1988 1 600c a share.

Life assurers poised to call for Aids tests on new clients

Finance Staff

South African life assurers will take a big step next month towards dealing with the insurance risk of Aids when they settle on a minimum sum insured at which applicants are tested for the disease.

A minimum of R200 000 is the sum being considered by a sub-committee of the Life Officers' Association, says spokesman Jurie Wessels, which would put it about in line with the practice in the life assurance sectors in Britain and the United States.

Probably due to the considerably smaller exposure life assurers have had to the disease here, no attempt has yet been made to quantify how much it could cost to cover claims arising from deaths due to Aids over any given period.

Peter Atkinson of Southern Life says that with the threats of Aids at the back of their minds, in time company actuaries could well become more conservative with their declarations of distributions as they make provision for what might well become a major area of claim costs.

In Britain it was reported this week that insurance companies have set aside at least R4 billion to cover claims from Aids victims during the next decade.

However, one of the country's insurers said the figure would be "woefully inadequate" if the disease spread in the heterosexual community.

Death toll

The move by the insurers comes in the wake of a report from the Institute of Actuaries, saying the death toll from Aids could reach 100 000 by 1988.

Peter Clark, deputy actuary at the Prudential, said: "This figure is based solely on our estimate of what is likely to happen as long as Aids remains confined to the homosexual community. If it moves into the heterosexual community, then all bets are off. Existing reserves would prove to be woefully inadequate. The life assurance business would be in deep trouble."

In South Africa, all major companies ask proposers the extent of their contact with Aids, to try to establish the risk of the underwriters.

Federated Life has inserted a specific question in its proposal forms, says executive Dave Goelst.

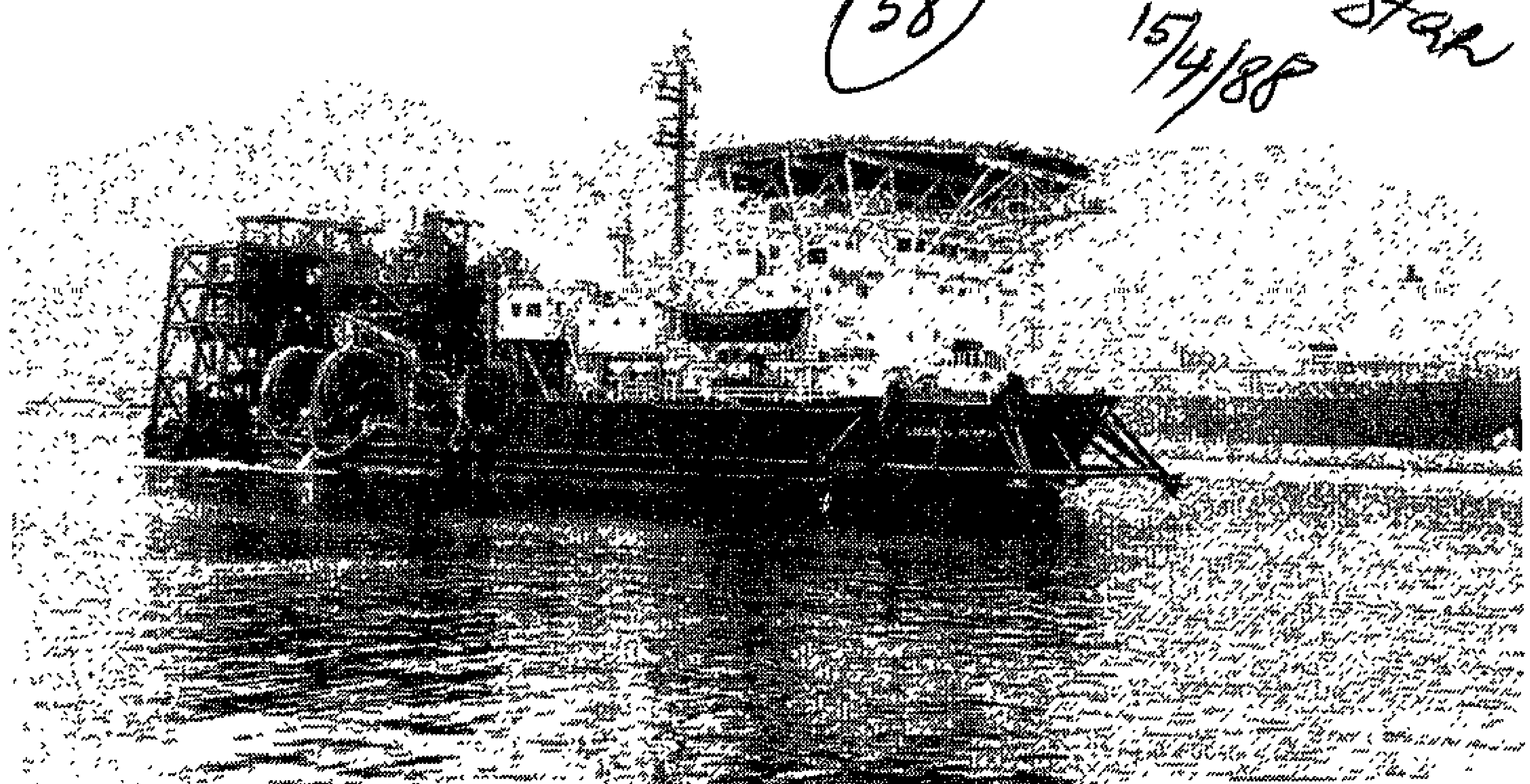
"And we moved quickly once the proportions of the disease started developing to establish special reserves to deal with claims," he says.

Applicants are asked: "Have you ever been tested for or received medical advice, counselling or been in contact with Aids or any Aids-related condition?"

Applicants answering yes are asked to submit to an Aids test and are refused cover if found to be positive.

58

15/4/88 Star



An unusual construction job, the conversion of the 2 647-ton multi-purpose workship, Louis G Murray, into a research vessel for offshore diamond recovery operations has been completed by Simon-Cape for De Beers Marine.

The company was the main contractor for the supply and erection of steelwork. It fabricated and installed 14 m-high supporting structures for the primary treatment and dense media separation plants as well as the plant equipment and pipework.

The hull was strengthened below the main deck and a new power plant, consisting of three diesel alternator sets with outputs each of 1 mW, was installed.

An important section of the conversion was the construction and installation of an additional operational control centre amidships. This comprised two modules, support structure and associated walkways and staircases.

Altogether, Simon-Cape fabricated and installed 375 tons of steelwork and 40 pieces of machinery which included pumps, vibrating screensm air compressors and crushers.

5141

Granny bonds to be available from May 16

D10 19/4/88

58

CAPE TOWN — The government subsidised new Senior Citizen Deposit scheme, known as granny bonds, was to be available from May 16 at banks, building societies, the Post Office and participation mortgage bond schemes who decide to opt for them, the Minister of Finance, Mr Barend du Plessis, said here yesterday.

The scheme would be in force "for at least three years".

"Negotiations between the Department of Finance and the financial institutions concerned have taken place, during which agreement was reached on the details of the scheme," Mr Du Plessis said of the scheme he announced in his Budget speech last month.

It would be known as a Senior Citizen Deposit and would be, as far as possible, uniform which meant that one institution would not be able to offer, say, more attractive rates than another.

The deposit was limited to South African residents (not necessarily South African citizens), of 65 and older. Residents of the TBVC states and SWA/Namibia did not qualify.

The maximum any individual might invest in total in all financial institutions was R30 000 and a declaration would have to be made.

This did not apply to those who had already invested in Senior Citizen Savings Bonds.

Investors might invest only their own funds and would have to make a declaration. Identity documents with identity numbers would be required to verify age, or those without these would have to produce another form of proof of age. Income tax numbers would also be required.

Those who did not have tax number would not need a certificate from their revenue office, but would have to sign a declaration.

"In the case of banks, building societies and the Post Office, the Senior Citizen Deposit will be a fixed deposit of 12 months on which interest will be paid on a monthly basis (or quarterly basis, if the participating institution should so prefer) at a rate of 15 per cent per annum for the full term of the deposit."

The effective yield rate would be higher.

"Should circumstances require, this interest rate may be amended by Treasury from time to time. This will, however, affect only new deposits made after that date as well as renewals of existing deposits that have reached their maturity date.

"Individuals who invest their funds on May 16, 1988, for example, will therefore receive interest at a rate of 15 per cent for the full 12 months of the deposit, irrespective of whether or not the interest rate is amended within that 12 months.

"In the case of the participation mortgage bond schemes, only funds that have already been invested in these schemes for the minimum period of five years, and can presently be withdrawn with three-month notice, will qualify for investment in the Senior Citizen Deposits.

"Such investors will be required to enter an agreement with their participation mortgage bond scheme not to withdraw their funds from the scheme for a further 12 months.

"Participation mortgage bond schemes will pay interest on these deposits in advance on a monthly or quarterly basis, depending on the practice of the scheme concerned."

The rate of interest would apply for the full 12 months of the investment.

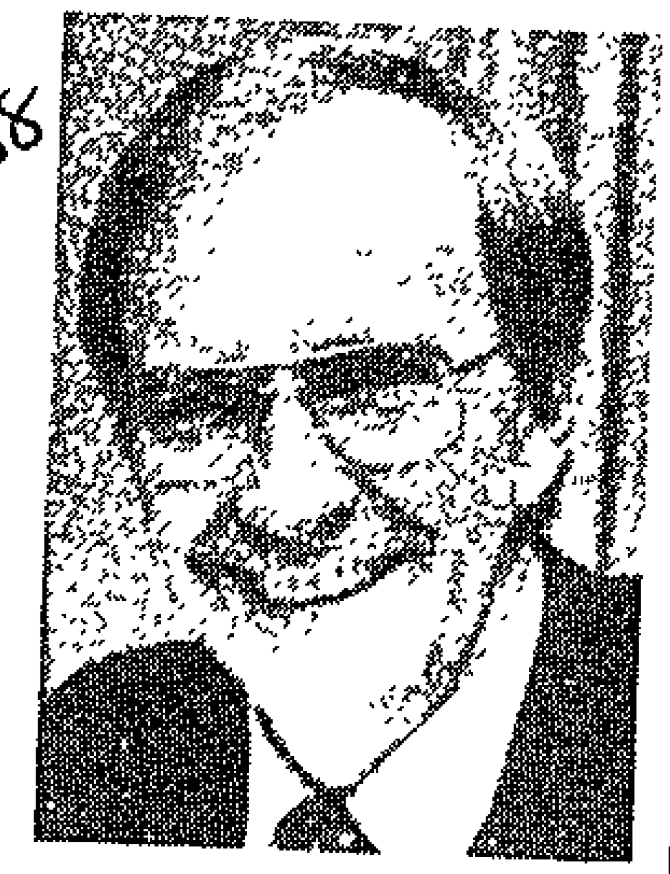
After 12 months, the funds could be reinvested at the rate then pertaining. Interest would be paid direct to the investor and the difference between the 15 per cent and a certain base rate, would be reclaimed from the government.

"The interest earned on the Senior Citizen Deposit will be taxable."

If loans were taken against the deposits, the subsidised portion of the interest rate would fall away and the rate, normally payable to the type of investment, would pertain.

"In contrast to the government's Senior Citizen Savings Bonds, where the issue of new bonds was discontinued after only a few weeks, these new Senior Citizen Deposits will be available for at least three years."

Application forms would be available from financial institutions closer to the May 16 date. — Sapa



MR DU PLESSIS

NBS to raise bond rate to 14 pc

D/D 19/4/88 58

JOHANNESBURG — The Natal Building Society (NBS) is to raise its bond rate by half a per cent to 14 per cent, after increases announced last month by the Allied, the United Building Society (UBS) and all the banks except Standard and Nedbank.

While mortgage rates are on the march up, so are retail deposit rates.

The NBS yesterday announced that effective interest rates paid on most savings accounts will rise by one per cent with immediate effect.

Its move to increase retail rates follows the UBS's hike in fixed deposit rates on Friday and its announcement that it is to offer retail fixed deposits with variable interest rates.

The NBS's mortgage rate increase applies to both existing and new borrowers and will become effective on June 1.

The society said it had been forced to make an upward adjustment by recent market trends. — DDC

Business Report

Higher payout by Old Mutual Funds

(58)

CM Tms 19/4/88

By AUDREY D'ANGELO
Financial Editor

GOOD company results and higher interest rates have enabled Old Mutual Investors Fund to declare a distribution of 26,04c a unit for the quarter to March 31 — 28% more than in the same period last year.

And a sign of increasing confidence in the market is that 9 000 new accounts were opened with the two Old Mutual funds — the Investors Fund and the specialist Old Mutual Mining Fund — during the quarter.

Assistant GM (marketing) Stuart Fish says that many of these were opened by new investors who saw the decline in the purchase price as a good buying opportunity.

Mike Harper, manager of the Old Mutual unit trust company, said there had been no rush to sell after Wall Street fell on Thursday last week. "There were no panicky queries this time and no great reaction. There has been no massive outflow, but a net inflow."

Fish said that in a quarter marked by a net 8% fall in the Johannesburg Stock Exchange All-share Index the Investors' Fund increased its liquidity by two percentage points to R211m, positioning itself to take advantage as value situations materialize.

He said assets under management by the fund grew by R12m during the quarter to R950m.

The mining fund decreased its liquidity slightly to R17m, with R9m available for investment on March 31. The fund manages assets of R97m. It declares dividends in January and July.

Investors Fund portfolio manager Rowland Chute said it was continuing to take advantage of the weakness in the mining sector to increase its exposure, and had reduced a number of its holdings in the industrial and financial sector "the most notable being Altech, Metal Box and Amic while additional Kersaf and Sasol shares were acquired".

The 10 largest holdings in the Investors Fund are Rembrandt Group, Anamint/De Beers, Anglos, Sasol, Driefontein Cons, JCI, Gencor, Anglovaal Industries, Safren and Kersaf.

58 SMC 19/4/88

Granny bonds scheme will start next month

CAPE TOWN — The new South African State-subsidised granny bonds will be available from May 16 at banks, building societies, post offices and from participation mortgage bond schemes which opt for them.

Making this announcement yesterday, Minister of Finance Mr Barend du Plessis said: "Negotiations between the Department of Finance and the financial institutions concerned have taken place, during which agreement was reached on the details of the scheme."

It would be known as a senior citizen deposit and would be uniform, as far as possible, which meant that one institution would not be able to offer more attractive rates than another.

He said the deposit was limited to South African residents (not necessarily citizens) of 65 years and older.

Residents of the TBVC states and Namibia did not qualify.

The maximum any individual could invest in total in all financial institutions was R30 000 and a declaration to this effect would have to be made.

Mr du Plessis said this did not apply to those who had already invested in senior citizen savings bonds.

"In the case of banks, building societies and the Post Office, the senior citizen deposit will be a fixed deposit of 12 months on which interest will be paid on a monthly basis (or quarterly basis, if the participating institution should so prefer) at a rate of 15 percent per annum for the full term of the deposit."

The effective yield rate would obviously be higher, Mr du Plessis said.

"Should circumstances require, this interest rate may be amended by Treasury from time to time.

"This will, however, affect only new deposits made after that date.

"Individuals who invest their funds on May 16 1988, for example, will therefore receive interest at a rate of 15 percent for the full 12 months of the deposit." — Sapa.

Overdrafts must stop — Schwarz

19/4/88

GERALD REILLY

PRETORIA — The use of bank overdrafts granted to TBVC countries on the strength of SA government guarantees should be stopped, PFP finance spokesman Harry Schwarz said yesterday.

He was reacting to a statement by Foreign Minister Pik Botha that the SA government had guaranteed TBVC overdrafts totalling R1,08bn in the past two years.

Schwarz said the use of overdraft facilities by state institutions to finance budgets was unhealthy and totally unsatisfactory. It was inflationary and against all accepted budget principles.

"I cannot think where the TVBC countries will get their money to repay the overdrafts other than from SA. Interest alone at current prime rates on the R1,08bn would amount to at least R125m a year."

Aside from guaranteed overdraft facilities SA was giving the countries substantial grants annually, he said.

Overdrafts must stop — Schwarz

19/4/88 (SS) B/Day

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Alarm in Durban

AG looks at

(58) Bday 19/4/88

CHRIS CAIRNCROSS

Granny Bonds on sale from May 16

HOUSE OF ASSEMBLY — The new "Granny Bond" savings instrument for senior citizens, announced in last month's Budget, would become available through most registered deposit-receiving savings institutions (banks, building societies and post offices) from May 16, Finance Minister Barend du Plessis announced in Parliament yesterday.

To be known as the Senior Citizen Deposit (SCD), it will be available to individuals of 65 years and older and is to carry an initial annualised interest rate on deposits of 15%.

The maximum amount any individual may invest in this savings instrument will be R30 000, which ceiling will apply to the total of the indivual's investments in these "bonds" at all the financial institutions involved.

Du Plessis said strict controls and limitations would be exercised over the use made of these SCDs.

He promised these would be available for at least three years.

In the case of banks, building societies and the post office investments would be fixed for 12 months on which interest would be paid on a monthly basis at an annualised rate of 15%, he said.

Should circumstances require, this interest rate might be amended from time to time. This change would only affect new deposits as well as renewals on existing deposits that had reached their maturity date, he said.

In the case of part bond schemes, only funds that had already been invested in these schemes for a minimum of five years and could now be withdrawn with three months notice would qualify for investment in the SCDs. Such investors would have to enter an agreement with the part bond scheme not to withdraw their funds from the scheme for a further 12 months.

Du Plessis said these part bond schemes would pay interest on these deposits in advance on a monthly or quarterly basis. As in the case of the SCD, a 15% interest would initially apply.

Financial institutions were to pay interest direct to the investor, with the former then claiming the difference between the announced rate and a base rate determined on the interest rates banks and building societies now paid senior citizens on 12-month fixed deposits.

A separate base rate was to be determined for part bond schemes, based on the interest rates of the largest schemes. Du Plessis stressed that the interest earned on the SCD would be fully taxable.

He also indicated that institutions issuing them could grant loans against them, as is the case now with other fixed deposits. But the subsidy on the total deposit would fall away on the date the loan was granted, irrespective of the size of the loan.

Only in exceptional cases could the SCD be repaid before its expiry date, and then only after necesary permission had been obtained from government, he said.

Welfare links strengthened

Bday 19/4/88

CAPE TOWN — A restructuring of SA's welfare administration, which strengthened the relationship between government and the private welfare sector, was announced by Minister of Health Dr Willie van Niekerk yesterday.

He told a Press conference that government would shortly release a policy document containing important directives on social welfare policy and structures.

The document would describe clearly the responsibility of the state in welfare matters.

It would also include discussion of the principles, aims and objectives of welfare delivery and the status of voluntary welfare organisations.

The document would emphasise that government assumed responsibility for the prevention of social or physical suffering among its citizens.

Special recognition would be given to the role and functions of voluntary welfare organisations.

A national welfare policy council would be set up as part of a mechanism in which the two sectors could deal proactively with social welfare policy.

The private sector would be able to take part in welfare through local committees, the existing regional boards, new advisory boards and a modified SA Welfare Council, which would communicate with the policy council.

The privatisation of welfare services had been referred to the inter-departmental consultative committee on welfare matters for further investigation.

"Although I am of the opinion that welfare service in its present form is already fully privatised, it may be necessary to establish a clearer definition of the various roles and functions of the private and public sectors," Van Niekerk said.

The Cabinet had instructed the Welfare Council to organise a national welfare conference as soon as possible.

Further details of the new structure and policy would be announced by the three Own Affairs ministers in their Budget debates. — Sapa.

Insurance has 'fair deal'

Bday 19/4/88

HOUSE OF ASSEMBLY — After increasing the tax load on insurance companies by 75%, this industry was still paying much less than other companies, Finance Minister Barend du Plessis said yesterday.

Replying to the Budget debate, he criticised one insurance company for having circularised a letter to its policy-holders warning them government's new taxation proposals would result in a possible loss in the unguaranteed bonus portion of their policies.

Du Plessis said this one-sided presentation of the facts was not conducive to sound economic decision-making by policy-holders.

The Margo Commission had identified the insurance industry as one which did not carry its rightful tax load.

There was also an absence of neutrality, which meant that other sectors had to be heavily taxed to make up the shortfall.

"Such a system is simply not tolerable over the long term because it means that the burden must be born by the taxpayer, either through direct or indirect taxation," Du Plessis said.

He said it did not serve the industry's long-term interests if it failed to make the type of contribution which helped to create the kind of country and economy which would enable it to eventually meet its commitments.

"The proposal only adds R200m in taxes for the entire industry. It still does not place the same burden on it as on other companies, even after a 75% increase in tax." — Sapa.

Development board's unauthorised spending

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Citizen 19/4/88

Perm results justify stance, says Tucker

(58) Bldgs GRETA STEYN 20/4/88.

THE SA Perm's financial results proved the building society's decision to remain a mutual society was the right one, Perm MD Bob Tucker said yesterday.

"We will continue with our mutual stance as we believe it fulfils our objectives and believe it to be more relevant than ever to the future of SA," he said.

Although audited results were not yet available, the society had increased its bond balances by more than R1bn in the financial year ended March 31.

Reserve Bank figures showed the Perm had increased its total mortgage advances by R250m in the last quarter of 1987 — beating the increases in bond balances achieved by the Allied, the United, the NBS and Saambou.

EX-MAYOR WARNED BY MAGISTRATE

FORMER mayor of Thokoza Mr Gerald Mamabolo was yesterday repeatedly told by a Johannesburg Regional Court magistrate to ask questions that would assist the court to decide whether he stole council money amounting to R667 327 or not.

By MANDLA NDLAZI

Mr Mamabolo (43), who is conducting his own defence, was told by Mr I J J Luther to ask questions relevant to the charge against him when cross examining State witnesses.

He is appearing with Mrs Doris Thinane (40), former Thokoza Town Council town clerk, on two counts of theft involving R667 327.

The State alleges that they stole R513 083,06 on April 19, 1986 from the council and R164 243,96 on June 9 of the same year, also from the council. They have pleaded not guilty.

The magistrate yesterday repeatedly warned Mr Mamabolo when he was cross-examining Mr was cross-examining former Thokoza councillor Mr Alfred Yende.

Cross-examined by Mr Mamabolo, Mr Yende said he was a councillor between March 1986 and January 1987. He said there was a poor working relationship between the council and its auditors and the council had to call lawyers to assist.

Mr Yende said he did not remember a council resolution authorising the council to open a banking account with the then Barclays Bank in Alberton. He remembered, he said, a resolution authorising the council to open a banking account with the Standard Bank in Katlehong.

Mr Yende said he did not "interfere" with council funds. He said he did not remember that an amoung of R679 000 or R700 000 was discussed at a council meeting. He said he also did not remember payment of R50 000 being discussed and he did not know what the council's assets were.

Mr Yende said he recalled that the council police went on strike at some stage and he remembered that the council later made a resolution to increase their salaries as well as the salaries of the other staff members.

He said he did not know of any problems that existed in the council's filing system. He said he did not know where Mr Mamabolo lives after his house in Thokoza was burnt down during the unrest.

Cross-examined by Mrs Thinane, who also conducted her own defence, Mr Yende said he recalled that the auditors could not attend a meeting with councillors in Pretoria. He said the council went on recess in December 1986 and by then, they had not been told that there was council money missing.

(Proceeding)

Investors go on mini-spree

R101,7m net inflow into unit trusts

Cape Times 2/4/88

5-8

JOHANNESBURG. — Tempted by lower unit prices, investors in the country's 25 unit trusts went on a mini-spree in the quarter to end-March, sinking R190,4m into unit purchases against R88,7m in repurchases.

This produced a net inflow of R101,7m — "a significant inflow after the biggest stockmarket decline in history," according to the chairman of the Association of Unit Trusts, Roy McAlpine.

The association's latest figures show that at end-March the 25 funds managed assets worth R3 484m, an increase on both the December figure (R3 469,3m) and that for end-March a year ago (R3 270,2m).

Again, the bulk of these assets (R2 322,3m) are invested in the nine general equity funds which had some 77% of their money in equities and 22% in liquid assets.

The bulk of the equity investments were in industrials — 43% — with 16% in mining finance, 9% in other mining and 9% in gold shares.

The six general equity funds which have been operating for the past five years showed an average annual appreciation (capital plus income) of almost 19%, comfortably ahead of the 14,9% inflation rate for the period, the figures show.

However, because of the share market's recent weakness, the same six funds showed an average decline of 8% for the 12 months to end-March.

The assets of the 10 specialist equity funds were worth R974,7m at the quarter-end of which R770,3m or 79% was in equities — 26% in gold, 23% in industrials, 18% in mining finance and 12% in other mining shares.

The funds held 173,6m or 18% of their assets liquid at end-March.

The total appreciation of an average investment in the five funds in this category which were operating five years ago is almost 17% a year.

However, the decline in the past year, at 14%, has been sharper than for the general equity funds because of the funds' mining orientation.

The six high income funds had a total market value of R187m at the quarter-end with investments mainly in short-dated instruments (R98,9m or 53%) with R84,4m or 45% in other assets.

Discussing the figures in yesterday's statement, McAlpine said the share market was currently ruled by sentiment rather than fundamentals.

Until there was an improvement in this sentiment, it was unlikely the markets would appreciate dramatically, he said.

Reacting to comment that the fund managers had committed too much to cash, McAlpine said: "Fund managers have taken prudent steps to boost their liquidity levels and, in most cases, have not sold shares.

In the uncertain market conditions we face, liquid assets are one sure way for funds to protect the value of their shareholders' capital while earning an attractive return.

"I believe that we as an industry have taken the correct action and, once the nervousness in international markets has cleared, the unit trusts with their increased liquidity will be in an extremely powerful position to take advantage of market opportunities." — Sapa

FS Group considering restructure

21/4/88

By Ann Crotty

After almost eight months of speculation, the FS Group has announced it is considering a reorganisation of its interests which could, if implemented, affect its share price or the share prices of certain of its companies.

Speculation about a possible restructuring of the FS Group has been rife since it became apparent that some sort of cleaning up would be necessary after the acquisition of Waicor last September, which resulted in a cumbersome organisation structure.

The group includes AAF Investment Corporation Plc, Aurochs Investment, E W Tarry Plc, FS Industries, FS-Team Distributors, General Tyre and Rubber (SA), Hunts, National Bolts, Waicor and Wanda Investment Corporation.

Shareholders have been advised to exercise caution in dealing in FS Group and the abovementioned shares.

A crucial consideration in the reorganisation will be the need to ensure that the minority shareholders, scattered throughout the group, get a fair deal. To a lesser extent, the desire to get cash to FSI will be a consideration. The market appears convinced that, given the quality of management in the group, whatever reorganisation is effected will produce strong benefits.

The group's says a further announcement will be made in due course.

How council funds were used - witness

Thokoza Council theft case

Sowetan 22/4/88

By MANDLA NDLAZI

THE Thokoza Town Council spent huge sums of money to save the lives of councillors, council police and officials during the unrest in 1986, a Johannesburg Regional Court Magistrate was told yesterday.

The money was spent, the court was told, to accommodate the councillors and their families, police and officials at some places such as hotels, including the Holiday Inn. The arrangements were made by the council's town clerk, Mrs Doris Thinane and nobody questioned her actions because it was a matter of "life or death", the court heard.

This was said by Mr Jacob Sekete, former councillor and now administrator of the Thokoza Town Council. He said this when cross-examined by Mrs Thinane, who is conducting her own defence.

Mrs Thinane (40), is appearing with former mayor, Mr Gerald Mamabolo (43), on two counts of theft involving R667 327.

The two are appearing before Mr I J J Luther. The State alleges they stole R513 083,06 on April 19, 1986, from the council and R164 243,96 on June 9 of the same year, also from the council. They have pleaded not guilty.

Mr Sekete told the court that his house was burnt down in April 1986. He said the council police who were guarding his house had gone on strike when the house was attacked.

He said he stayed in a number of hotels with his family for about three months at the council's expense.

Mr Sekete said he could not remember the amount spent, but denied when Mrs Thinane said it was R8 000. He agreed that councillors Masondo and Mabane, whose houses were also burnt during the unrest, were accommodated in hotels and other places at the council's expense.

He said council police and officials, a Mr Mello and Mr Makhaya were also accommodated outside Thokoza at the council's expense.

GRANNY DEPOSITS

58

Second try

Anyone under 65, hoping to invest irregularly in the high-interest savings instruments to be introduced for the elderly on May 16, has been warned.

Announcing the scheme in his Budget speech last month, Finance Minister Barend du Plessis pointed out: "Renting a granny is not only dishonest but brings its own risks, including estate implications arising on the death of the hired granny."

Details of the new Senior Citizen Savings Deposits were announced this week. To avoid abuse, investors will have to make a declaration that only their own funds have been used. And "if investments are irregularly made in this context" they will forgo the subsidy of 2,5 percentage points on the 15% interest payable.

The scheme replaces the original controversial scheme for the elderly, discontinued in August, little more than a month after its introduction. Its end came after heated protests from the building society movement which contended the comparatively high 15% interest rate offered siphoned money from traditional savings.

Having apparently learnt from the experience, Du Plessis this time held back details until after "further consultation with participating banks, building societies and the Post Office."

Instead of competing with the investment instruments of financial institutions, the new deposit scheme is to be marketed by banks, building societies and the Post Office.

The investment will be available for a minimum of three years and will be limited to people who are 65 or older. Maximum investment is R30 000. Interest, which is payable monthly or quarterly depending on the institution, will be fully taxable. It will be fixed each year for new deposits and renewals of existing deposits that have reached maturity.

Funds are locked in for 12 months.

Investors will have to supply identity and, if they have one, an income tax number. They will also have to declare that only their own funds have been used and that total investments with different financial institutions in these deposits do not exceed R30 000 — though they may be additional to any amount invested in the original granny bond scheme.

Applications forms for bonds will be available shortly from the institutions which decide to participate.

FM 22/4/88

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FM 22/4/88

W/C ARGUS 23/4/88 58

NBS, Norwich launch unit trusts

By DEREK TOMMEY

NATAL Building Society and its associate company, Norwich Union Life Insurance Society, are to enter the lucrative field of equity unit trust management field with the launch of two trusts in the next few months.

The NBS will be the first building society to have its own equity unit trust.

Managing a unit trust, especially in times of rising share prices and growing public interest, can be extremely profitable, as illustrations below show.

The two unit trusts will help widen the range of services which the Natal Building Society offers the public, said Mr John Gafney, managing director of the society, in Cape Town this week.

One would be called the NBS Hallmark unit trust and, reflecting its building society links, would have a larger investment in property than unit trusts normally do. The other trust would be called the Norwich unit trust.

However, while it will be the NBS's first equity trust, it has had interests for some time in property unit trusts.

The two new trusts will bring to 13 the number that have been launched since the beginning of last year, and increase the total to 27.

This large number of funds reflects the mounting interest in equity investment through this medium by small as well as large investors.

South Africa's continued high rate of inflation, and the fact that most share prices and their dividends have at least kept pace with inflation, have won over many investors to unit trust investment, even though the immediate return is low when compared with fixed interest investments.

Mr Bernard Nacken, a director of Sage Holdings, said that in spite of the setback in the share market last year, people were still investing large sums regularly in the unit trusts.

Although the drop in share prices last October had led to some increase in repurchases, these had not be exceptionally large and showed that investors had become more sophisticated.

Mr Alister Colquhoun, chairman of the Unit Trust Association, reported this week that South Africans had invested R1,64-billion in units last year. Repurchases were R569,9-million, resulting in a net inflow of R1 071,8-million. This was more than double the 1986 inflow of R499,9-million.

Reserve Bank figures show that the sharp drop in share prices after October 19 last year did cause some investors to rush to sell their units. But the disinvestment, though sharp, was of short duration.

Sales last October remained high, totalling R160-million, against R171-million in September. But repurchases jumped from R46-million in September to R174-million. The result was that the funds showed a net loss of R14-million. This was the first net outflow since March, 1985.

(Turn to Page 3)

NBS launches unit trust

W/C ARGUS 23/4/88 58

(From Page 1)

However, public confidence quickly recovered. Unit sales were R88-million in November and about R99-million in December. Repurchases declined and the industry gained R31-million in November and a respectable R74-million in December.

The 31,8 percent drop between the end of September and end of December in unit trust prices, as measured by the Association's unit trust index, undoubtedly stopped some investors from selling after the crash. But the continued large inflow showed that South Africans still have confidence in the long-term outlook for share investment.

In the three months ended March unit sales were R190,4-million while repurchases were R88,7-million giving a net inflow for the quarter of R101,7-million.

High profits

The large number of unit trusts also reflects the high profits which can be made managing one. This comes out clearly in the latest report of Syfrets Management Company. This company manages Syfrets Growth Fund which was launched in April last year at the height of the unit trust boom.

In the seven months ended September Syfrets Management Company made a profit before tax of R2,5-million and a taxed profit of R1,26-million out of which it paid a dividend of R750 000.

This was a most handsome, though probably unexpected, return on the R2-million which Syfrets had to invest to obtain the right to manage a unit trust.

The Old Mutual's unit trust management company also fared well last year. In the 12 months ended June it had net operating income of R18,1-million, and a net taxed income of R3,8-million. Of this, R1,7-million was paid out as dividends and R1,6-million was used to finance a capitalisation issue.

However, in recent years the Standard Bank's management company has been the most profitable. With three unit trusts — an ordinary mutual fund, an extra income fund and a gold fund — which it actively promotes, its profit record has been extremely good. It increased its pre-tax profits from R6,6-million in 1986 to R9,4-million last year, and its taxed profit from R3,5-million in 1986 to R4,9-million in 1987. All this was paid out as dividends.

However, with the share market in the doldrums unit trust managers are not expecting such buoyant results this year. "You really need a bull market to make money," one said. "I doubt if we will break even this year," he added.

Old folks get R1 000 granny bond bonus


BAREND DU PLESSIS


BRIAN SHORT

(58) Star 23/4/88

Government's new "granny bond" scheme could put an extra R1 000 a year into the pockets of investors who are over 65.

The new fully taxable Senior Citizen Deposits (SCDs), which will become available through most banks, building societies and post offices from May 16, gives investors an initial "subsidy" of about 3,5 percentage points above the going rate for 12-month fixed deposits.

The 12-month SCD investments, available only to those over 65, carry interest of 15 percent.

This compares with the current NBS 12-month rate of 11,5 percent for those over 60. This 3,5 percent difference means about R1 050 on the maximum R30 000 allowed in an SCD investment.

Finance Minister Mr Barend du Plessis this week announced details of SCDs in Parliament.

The revised scheme was welcomed by financial institutions.

Instead of drawing money away from them, it now will be run by them. The institutions will be paid out by Government for the subsidy "difference".

NBS general manager Mr Brian Short said today the institutions would be competing among themselves for SCD business and could offer them as part of an attractive package.

His society had not yet altered its 12-month rate of 11 percent (plus half percent for over 60s) but would consider this soon.

With banks, building societies and the post office, the investments will be fixed for 12 months and interest paid on a monthly basis at an annualised rate of 15 percent.

However, the scheme will also work through participation mortgage bonds, where the SCD rates also will be 15 percent.

However, only participation bond funds that have been invested for a minimum of five years, and which can be withdrawn on three months' notice, will qualify for reinvestment in SCDs.

These investors have to agree not to withdraw their funds for a further 12 months.

Interest will be paid an an attractive basis — quarterly in advance, on either a monthly or quarterly basis.

Star 23/4/88

New fixed deposit from UBS

(58)

A new fixed deposit offering the advantage of a variable interest rate rates increase has been launched by the United Building Society.

It is called the bonus deposit.

The new product offers people investing a minimum of R1 000 over periods of between 12 and 35 months, a rate of interest which is 0,25 percent below the prevailing fixed deposit rate at the time of the deposit, but which can rise if fixed deposit rates go up.

The new bonus deposit is aimed at attracting those investors who might otherwise be detracted from longer-term investments because of an expectation that interest rates might soon rise.

The bonus deposit rate will rise to a maximum of 2 percent above the initial entry rate.

The bonus deposit is available to private individuals only.

People over 60 will receive an additional 0,5 percent bonus rate.

This half percent bonus is applicable to all pensioners investing in United fixed deposits.

Should interest rates fall during the period of the bonus deposit, bonus rates will be reduced accordingly, but not to below the original entry rate of the bonus deposit.

Corbank ups its dividends

25/4/88 By Finance Staff

Corbank improved disclosed income by 105 percent to R3,76 million during the financial year to end-March 1988, while the final dividend has been raised by 4c per share to 5,5c, bringing the total for the year to 10c.

Commenting on the results, CE Laurie Korsten says that the demand for credit improved substantially during the year and assets increased by 66,5 percent to R498 million.

The major part of our restructering will be completed in the current financial year and we should show a further rise in profits, he adds.

Major boost for Lifegro fund

CA 6/1/75 25/1/88

By LAWRENCE TOTHILL

LIFEGRO'S pensions-related Indexplus Managed Fund has received a considerable boost and has passed the R1bn-mark after it had been singled out as the No 1 performer among the larger pension fund managers, particularly in the long-term, in the recent Alexander Forbes survey.

The fund had been a consistently good performer over the past 10 years and in spite of the 1987 stock exchange "meltdown" continued to outperform the inflation rate as well as the main JSE indices.

According to Lifegro's GM corporate sales, David Watts, the Indexplus Managed Fund has some 200 contributing clients and assets of over R1 050m.

Watts said that Lifegro's 10-year performance yield of 23,1%, which the Alexander Forbes ranked as the best for the industry, compared with an average inflation rate of 14,25%, thus giving pension clients a real return of 8,85% a year.

Commenting on the JSE share price tumble last year, Watts said that Lifegro's equity exposure was believed to be the lowest of the major life assurers.

Southern employees offered share options

(58)

Star 25/4/88

Southern Life is to offer 4,5 million shares to all employees in a share option scheme.

The chief executive, Mr Neal Chapman, said the move was an extension of the existing executive share scheme. Up to 5 percent of the Southern's issued share capital will now be available to staff.

He said: "By promoting the creation and protection of wealth among our staff we are giving them a chance to share the fruits of their work at the Southern."

"We are recognising their efforts to improve our business and helping them to contribute to the success of the company," he said.

Mr Chapman said reaction from staff had been positive and the scheme had been met with enthusiasm.

Share options will be allocated at the closing price quoted on the Johannesburg Stock Exchange on March 31 of 600 cents a share.

The first options may be taken up with effect from April 1, 1991. — Sapa.

and CAPE 80c (71c + 9c tax) (58) B/day 26/4/88 A TIMES MEDIA PUBLICATION

UBS calls for a more even spread of household savings

GRETA STEYN

THE United Building Society has called for a levelling of the playing field in the financial services sector to ensure a more balanced spread of household savings between assurance companies and building societies.

The UBS hoped that future tax reforms would balance discretionary and contractual savings more evenly. The lack of discretionary savings was endangering the funding of SA's housing needs.

In its latest issue of the Economic Perspective, it said assurers were currently lightly taxed. They had paid tax at an average rate of only 33,6% on taxable profits compared with the societies' rate of 46,5% in the period 1983 to 1987, the UBS said.

"It is amazing to note that some life assurance companies fend off the taxation argument by pointing out that they are solely 'trustees' of the household sector savings and should therefore not be taxed."

The building society movement played an important role in the economy by mobilising the country's savings and promoting home-ownership. However, the contractual payments made to an assurance company were either not towards the direct acquistion of a real asset, or were not in respect of a need such as a home.

The UBS said the assurance companies used the savings they received from policy-holders to invest in stocks, equities and real assets.

While these companies provided much needed risk capital to the private sector by channeling funds to the JSE, building societies provided what was probably a more basic need — housing finance.

DD 26/4/88

58

Government to review home buyers' scheme after losses

CAPE TOWN — The government is being forced to re-evaluate its first time house-buyers' subsidy scheme as a result of the growing financial burden it is imposing on the state's coffers.

According to the annual report of the Department of Public Works and Land Affairs, tabled in parliament yesterday, the scheme is being reviewed to ensure the state "is not ensnared in an accumulative obligation which may embarrass it at a later stage".

The subsidy scheme, representing a joint effort by the state and the private sector, briefly entails that 33,3 per cent of the interest payable by a first time buyer is subsidised during the first five years. The ceiling placed on the unit cost of the house is R40 000.

Since the scheme was first introduced in 1983, some 21 569 units have been completed, and this level of participation is rapidly increasing.

Changes to the subsidy scheme now being considered include that:

- the subsidy amount, calculated over five years, be paid over a seven-year period on the basis that the full subsidy covering the first two years be paid in equal monthly instalments, with the balance spread over the remaining five years in annually diminishing amounts;
- existing houses be included in the scheme;
- a maximum be laid down for the total cost of the dwelling and the site in order to avoid "unwarranted manipulation" in order to qualify for the R40 000 limit.
- the R40 000 limit be increased in order to compensate for the increase in building costs since the scheme was first introduced four years ago;
- the scheme be made more accessible to the lowest-income groups by the payment of a constant subsidy on a dwelling costing R27 500 or less, including the cost of the land on condition that the total subsidy payable over the proposed seven-year term shall not exceed R6 000.

The government has estimated that under these proposed new conditions a programme involving 10 000 dwelling units would push the state's financial commitment to R87 million a year. The private sector's investment, in turn, would amount to R400m annually.

The annual report makes it clear that the state believes the scheme has considerable merit, but that it is also determined to restructure it in such a way as to keep the state contribution to a "realistic" level.

The report also states that new housing loans granted to civil servants in terms of the special low interest 100 per cent loan scheme offered to public sector employees totalled R1,8 billion last year, representing a 10-fold increase on the R143m granted only eight years ago.

It records that this amount involves some 15 506 loans granted and guaranteed on existing and new houses between July and December last year.

In terms of this loan scheme the government guarantees 20 per cent of the loan, with full financing borne by financial institutions. Guarantees totalled R345,9m last year, substantially above the R26,7m guaranteed in 1979.

According to the report, the sharp increases in loans granted are due to the fact that "coloured", Indian and black members of the civil service have started participating in the scheme to a far greater extent.

Of the total number of state employees granted 100 per cent loans last year, 5 655 were white, 2 542 "coloured", 694 Indian and 6 615 black.

First results after listing . . .

NBS Holdings profits ahead of forecast

26/4/88

By LAWRENCE TOTHILL
Investment Editor

IN its first year as a listed company NBS Holdings has come up with profits well ahead of forecast and the dividend distribution is better than was estimated in the prospectus last year.

The results are all the more pleasing when viewed against the intense competition in the financial services sector, which has lead to rumours than non of the "building society" companies were doing very well.

Attributable profit for the year to March 1988 was R24,24m which is 15,1% better than the previous year's pro forma R21,06m.

There was a 17,6% increase in group assets to R3,29bn on March 31, while advances climbed by 21,1% to R2,72bn.

MD John Gafney says the change in the structure of NBS has altered the composition of group earnings.

"Dividends now comprise a substantially higher proportion of income, which has led to a lower tax charge and increased earnings per share."

The building society still dominates the group as might be expected and in the year to March 1988 contributed 64% of the group's earnings. The diversified interests contributed the remaining 36%.

Interestingly enough Gafney indicates that in the current year these other interests will contribute as much as 48% of earnings which gives some idea of how rapidly NBS Holdings has carried out its diversification.

Earnings for the year to March 1988 translate into 42c a share against the pro forma earnings of 36,4c a share of last year. A final dividend of 11,5c has been declared which, with the interim of 7c, makes a total distribution of 18,5c for the year.

This comfortably exceeds the 17c dividend which was forecast ahead of the listing on the JSE on April 7 last year.

At the current market price of 270c NBS Holdings shows an earnings yield of 15,6% and a dividend yield of 6,9%.

Cape Times 26/4/88 (58)

Lenco lifts profits to R8,2m

Financial Editor

INVESTMENT holding group Lenco, which acquired Budget Footwear, Rich Rags and the House of Monatic in the year to February, has lifted attributable profits to R8,2m from R600 000.

Earnings were 21,2c a share — above the forecast 18c — on the weighted average of 38,5m shares in issue and a maiden dividend of 5c, covered 4,25 times, has been declared.

Turnover was R120m and operating income R11,6m.

Doug de Jager

The directors say the dividend was not higher because "the group intends continuing its policy of growing the business through further strategic acquisitions".

Lenco, formerly Romanda Investment Holdings, was listed on the main board of the Johannesburg Stock Exchange (JSE) in July.

It consisted only of Lysta Zip and Elvinco Plastics at the beginning of its last financial year.

CE Doug de Jager said that although the acquisition and disposal of subsidiaries, and capital expenditure, meant a cash outflow of R28m in the year, a strong cash flow from operations "reduced this to R12,5m or 35,9% of shareholders' funds."

Net asset value at the end of the financial year was 85c a share.

And, anticipating a hardening of interest rates, "we will critically examine our asset management and I believe that by the end of the current financial year the group will be in a substantial net cash position with only a small balance of instalment debt outstanding."

NBS and Norwich Union to enter unit trust field

S 8

Star 26/4/8

By Derek Tommey

CAPE TOWN — Natal Building Society and its associate company, Norwich Union Life Insurance Society, are to enter the lucrative equity unit trust management field with the launch of two trusts in the next few months.

The NBS will be the first building society to have its own equity unit trust.

Managing a unit trust, especially in times of rising share prices and growing public interest, can be extremely profitable. The two unit trusts will help widen the range of services which the Natal Building Society offers the public, said Mr John Gafney, managing director of the society, in Cape Town this week.

One would be called the NBS Hallmark unit trust and, reflecting its building society links, would have a larger investment in property than unit trusts normally do. The other trust would be called the Norwich unit trust.

However, while it will be the NBS's first equity trust, it has had interests for some time in property unit trusts.

The two new trusts will bring to 13 the number that have been launched since the beginning of last year, and increase the total to 27.

This large number of funds reflects the mounting interest in equity investment through this medium by small as well as large investors.

South Africa's continued high rate of inflation, and the fact that most share prices and their dividends have at least kept pace with inflation, have won over many investors, even though the immediate return is low when compared with fixed interest investments.

Bernard Nacken, a director of Sage Holdings, said that in spite of the setback in the share market last year, people were still investing large sums regularly in the unit trusts.

Repurchases

Although the drop in share prices last October had led to some increase in repurchases, these had not be exceptionally large and showed that investors had become more sophisticated.

Mr Alister Colquhoun, chairman of the Unit Trust Association, reported last week that South Africans had invested R1,64 billion in units last year. Repurchases were R569,9 million, resulting in a net inflow of R1 071,8 million. This was more than double the 1986 inflow of R499,9 million.

Reserve Bank figures show that the sharp drop in share prices after October 19 last year did cause some investors to rush to sell their units. But the disinvestment, though sharp, was of short duration.

The large number of unit trusts also reflects the high profits which can be made managing one. This comes out clearly in the latest report of Syfrets Management Company. This company manages Syfrets Growth Fund which was launched in April last year at the height of the unit trust boom.

In the seven months ended September Syfrets Management Company made a profit before tax of R2,5 million and a taxed profit of R1,26 million out of which it paid a dividend of R750 000.

This was a most handsome, though probably unexpected, return on the R2 million which Syfrets had to invest to obtain the right to manage a unit trust.

The Old Mutual's unit trust management company also fared well last year. In the 12 months ended June it had net operating income of R18,1 million, and a net taxed income of R3,8 million. Of this, R1,7 million was paid out as dividends and R1,6 million was used to finance a capitalisation issue.

However, in recent years the Standard Bank's management company has been the most profitable. With three unit trusts — an ordinary mutual fund, an extra income fund and a gold fund — which it actively promotes, its profit record has been extremely good. It increased its pre-tax profits from R6,6 million in 1986 to R9,4 million last year, and its taxed profit from R3,5 million in 1986 to R4,9 million in 1987. All this was paid out as dividends.

Forecasts

However, with the share market in the doldrums unit trust managers are not expecting such buoyant results this year. "You really need a bull market to make money," one said. "I doubt if we will break even this year," he added.

Every day unit trust management companies have to create or destroy units to match supply and demand. To do this the unit trust's investments have to be increased or reduced. By clever anticipation of market movements and public demand this operation can produce substantial profits.

Bank rate set to rise to 11,5 pc

Star 27/4/88

(58)

By Sven Lünsche

The bank rate is set to rise by one percent to 11,5 percent within the next two weeks, said Southern Life economist Mike Daly yesterday.

Launching the group's April edition of *Economic Comment*, Mr Daly said the prime rate was set to soar to 17 percent by the end of the year, as the monetary authorities would have to curb the dramatic rise in consumer spending to protect the balance of payments.

Interest rates were poised to rise on a wide range of borrowings from overdrafts to home loans.

The bankers acceptance rate rose yesterday to a 12-month high of 11,8 percent, up from Monday's 11,65 percent.

This means the rate has rocketed by 40 percent from the market low of 8,4 percent a year ago.

The upsurge is being fuelled by the country's mini-boom and by a dramatic increase in bank credit to finance purchases of consumer goods such as cars, furniture and appliances.

Mr Daly estimated that hire-purchase credit in the past three months was 32 percent higher than a year ago.

Total credit expanded by 29 percent in the second half of last year, a large proportion of this going the form of home loans.

He said the Reserve Bank was watching for the development of an overheated economy. A danger signal was a 22,2 percent increase in money supply, well above the bank's target of 16 percent.

"We are likely to see the bank rate at 15 percent by mid-year, and going higher after that. Other interest rates will obviously rise but I cannot see them being allowed to rise to the 20 percent level of 1984," he said.

Commenting on the inflation rate Mr Daly expected the low point to be reached by mid-1988, rising gradually thereafter.

"The year-on-year increase in the cost of a basket of currencies has been rising quite sharply, which must impact quite sharply on the cost of imported goods and ultimately the CPI.

"Secondly, the upward phase of the business cycle indicates that the trend in inflation will be moderately upwards from the middle of the year and only a strong commitment from the private sector regarding moderation in wage setting would break this traditional link," Mr Daly said.

He estimated that the average inflation rate for the year would settle between 13 and 14 percent.

Hersov backs IBC initiative

Star 27/4/88

(58)

MALCOLM FOTHERGILL

Anglovaal and First National Bank chairman Mr Basil Hersov has thrown his weight behind an isolation-busting bid by the private sector.

The initiative, led by Baron Arno Ofenheimer of International Business Contacts, an offshoot of International Who's Who, will take a group of businessmen to Germany, Austria, Switzerland, Italy and Britain in September.

There they will attempt to persuade business leaders, politicians and journalists that quick and peaceful change in South Africa would be more likely to come as a result of increased investment than as a result of sanctions.

The initiative, which Mr Ofenheimer stresses is an entirely private-sector affair with no Government links whatsoever, has already won the backing of the Johannesburg Stock Exchange's executive president, Mr Tony Norton.

Adding his support, Mr Hersov said any realistic attempt to explain South Africa overseas "must be positive".

He was not concerned that radicals might not approve of his stand: "The radicals will jump up and down anyway.

"One's got to be seen to be doing what one can."

Mr Hersov said most overseas businessmen he spoke to on his frequent trips abroad were positive about South Africa: "It's the politicians who don't want to hear.

"They're busy with their own, parochial games."

However, he had noticed a distinct worsening in the European climate of feeling about South Africa over the past couple of months.

Mr Ofenheimer said last week's announcement of the initiative had aroused strong reaction.

Some callers had volunteered help, but others had been abusive.

He said companies interested in taking part in the initiative should telephone International Business Contacts at (011) 483-1470.

BASIL HERSOV — "It's the politicians who don't want to hear."

Because the venture was being funded entirely by the private sector, "we will have to raise the funds ourselves".

Besides attempting to stave off the threat of European sanctions, the initiative would aim to enlist European support for attempts to create jobs in South Africa.

"It will be an on-going exercise that will involve a lot of hard work."

B/day 27/4/88 58

Fixed investment is key to growth

GRETA STEYN

FIXED investment is the key to long-term economic growth, Sanlam says in its latest Economic Survey.

A favourable climate for capital expenditure had to be created through not only political certainty but also by diminishing the tax burden of industrial companies (particularly small businesses) and attempting to prevent excessive fluctuations in interest and exchange rates.

Sanlam said SA's economic growth was too dependent on private expenditure. Economic growth from the sixties to the eighties had become more attributable to private consumption expenditure (PCE) and less to investment and exports.

The contribution to real Gross Domestic Product (GDP) by PCE rose dramatically from 42% in the sixties to 52% in the following decade and to more than 80% in the eighties.

However, although PCE has contributed more to GDP growth, it had been on a declining trend — which was consequently reflected by a sharp drop in real economic growth.

The economy's rate of growth had declined during the past three decades — from an average of 5,8% a year in the sixties to one of 3,3% a year in the following decade and an average of 1,8% a year in the next eight years to 1987.

Real economic growth — because it was so dependent on spending by consumers — had been hit by consumers' inability to keep on spending strongly. Their spending ability w influenced by various factors such income, tax, inflation, interest ra employment, productivity and size of the family.

The relatively slow rises in lab remuneration, high inflation, heavy tax burden and the high le of outstanding debt had knocked p sonal disposable incomes, which h hit PCE and real economic grow

Given the current situation in with export prospects down, the p sent cyclical upswing in the econo would have to be largely built on P private consumption expenditu but in the long-term, it was spend on fixed investment that held the k to more rapid economic growth e ployment, Sanlam said.

DD 27/4/88

Farmers' debt hits R2,6bn

(58)

Daily Dispatch correspondent

PRETORIA — Years of drought have sent farmers' debts to the Land Bank soaring.

According to the bank's 1987 report farmers owed the bank in long and intermediate term loans R2,6bn.

This was increase of R134m compared with the previous year.

At the end of last year unpaid interest and capital instalments amounted to nearly R200m — R43m more than in 1986.

The bank says the increase in the amounts in arrears can mainly be ascribed to adverse climatic conditions, high input costs and interest rates, and other pressing debts, contributing to debtors inability to meet their commitments.

This was notwithstanding that government paid a portion of farmers' interest commitments in terms of the bank's 20 years guaranteed drought relief loans.

On forced sales of farms the bank says at the end of last year there were 33 993 long term loan accounts in operation.

The bank's board was compelled to use its powers of sale in 93 cases.

The year before 48 were sold up.

In 43 cases the proceeds of the sales were enough to cover the amounts owed to the bank.

In 50 the mortgaged properties were bought by the bank for resale.

BD 27/4/88 (58)

R1bn UBS loans

JOHANNESBURG — In the four months since the beginning of 1988, the United Building Society wrote R1 billion of new home-loan business.

UBS managing director, Mr E. M. de Blanche, said the bulk of the business had been writtten when the mortgage rate was 12,5 per cent while February had seen the level of loans granted reach almost R400 million.

He said almost 50 per cent of the loans had been granted in the Transvaal, with the Cape absorbing a large per centage of the remaining half.

The position of the society, as a major lender, was being reinforced by the fact that banks, with a total home-loan book of about R6 billion were experiencing pressure on their interest rate margins which culminated with an increase in the prime rate.

"I am certain that the prime rate will rise again shortly and that mortgage rates of banks and building societies will be forced higher," Mr De Blanche said. —Sapa

NBS gets its big slice

DID 27/4/88

(58)

DURBAN — Despite intense competition in the financial services sector, Natal Building Society holdings performed strongly with a second-half boost to beat forecasts for its first year as a quoted public company.

Attributable profit for the year March 31, was R24,24 million, 15,1 per cent better than the previous year's pro forma R21,06 million.

This was a 17,6 per cent growth in group assets which reached R3,29 billion by March 31, 1988, while advances climbed by 21,1 per cent to R2,72 billion.

The managing director, Mr John Gafney, says the change in NBS structure has altered the composition of group earnings.

"Dividends now comprise a substantially higher proportion of income, which has led to a lower tax charge and increased earnings per share."

For the year ended 31/3/88, the society contributed 64 per cent of the group's earnings while diversified activities added 36 per cent.

Mr Gafney indicated that for the coming financial year, other activities would rise to 48 per cent of group earnings.

The latest figures translate to earnings of 42c a share against the pro forma 36,4c a share last year. A final dividend of 11,5c a share has been declared which, with 7c a share at the halfway stage makes 18,5c a share for the year.

This comfortably exceeds the 17c which was forecast ahead of the NBS holdings listing on the Johannesburg Stock Exchange on April 7 last year. — Sapa

Star 28/4/88

Partbond rates rise at Metboard and at Volkskas

58

Finance Staff

The upward movement in interest rates has led to a further rise in participation bond rates. Metboard said yesterday it was increasing its rate to 14,5 percent effective in June.

This gives an effective rate of 15,05 percent, outpacing the initial rate of 15 percent offered by Senior Citizen Deposits, which start next month.

Bernard Kantor, Executive Director of Metboard, says that on partbond rates, Metboard investors have consistently enjoyed a real return.

"With reported inflation currently at 13,4 percent and Metboard partbond investors earning an effective 15,05 percent, this trend continues," Mr Kantor says.

Volkskas Savings Bank yesterday raised partbonds rates to 13,50 percent. This increase is effective immediately for existing investors and effective in June for new investors.

The rate for existing borrowers rises to 14,59 percent. The rate will apply to new borrowers in June

Modest FNB earnings rise disappointing to market

Star 28/4/88

(58)

By Ann Crotty

First National Bank's (FNB) seven percent increase in earnings for the six months to March came as something of a shock to the market, which was expecting about 18 percent.

Squeezed margins and an increase in salaries were the two main causes of the disappointing performance, which saw earnings up to 122,7c from 114,2c and the dividend payment unchanged at 35c.

The good news is that the group recorded a 25 percent increase in advances to R19 billion (R15,2 billion), which should produce much stronger profits if interest margins show some recovery in the second half. The sharp knock from the higher wage bill is unlikely to be repeated, given the Government's view on wage restraint and the general reduction in the rate of price increases.

But the first half looks a bit glum. Taxed income was up only 7,6 percent to R89,1 million (R82,8 million). It appears that a R10 million cut in doubtful debt provision from R70,1 million to R60 million saved the bank from announcing a reduction in taxed income and earnings.

Mr Chris Ball

A 45 percent increase in income from associated companies to R12,9 million (R8,9 million) helped to cushion the impact of the almost unchanged interest income of R1,121 billion (R1,108 billion). A cut in interest expenditure meant net interest income was up 10 percent to R454,1 million (R412,2 million).

Added to this was R333,8 million (R286,6 million) of other operating income which brought pre-tax income up 15,7 percent to R727,9 million (R628,7 million). But an increase in the tax rate from 47 percent to 48,7 percent cut back the improvement at the taxed level.

Investors are unlikely to be pleased with the figures, especially in view of the comparatively strong performance reported by Trust Bank for the six months to January. Analysts are expecting this to be quickly reflected in the share price. The negative sentiment could spill across the banking sector if investors perceive that all the majors have suffered equally from the squeeze on interest margins.

MD Chris Ball says the cost of funds rose sharply from late 1987, but prime and other rates, particularly those on housing loans, remained almost static in the face of fierce competition in the financial sector.

The extent to which other banks have been hit by this squeeze on margins will depend on their funding mix. Banks that took in long-term deposits when rates were relatively low in 1987 will be feeling quite comfortable now.

Dividend cover is up to 2,8 times, which is sharply higher than the cover that prevailed at Barclays National Bank. Mr Ball would not be drawn on the dividend policy, except to say that "capital in banking is not unimportant".

AL and CAPE 50c (71c + 9c tax) (58) B/day 28/4/88 A TIMES MEDIA PUBLICATION

Bank Rate expected to follow rising interest rates

GRETA STEYN

INTEREST rates will be the main topic of discussion when senior bankers meet Reserve Bank Governor Gerhard de Kock in Pretoria today.

Bankers expect the meeting to be followed by an announcement that Bank Rate will be lifted in line with interest rates racing ahead in the money market. This would be followed by an immediate jump in banks' prime rates.

Bankers say a rise in Bank Rate and prime are overdue and that their margins are being drastically squeezed.

Standard Bank deputy GM John Lloyd said last night: "Banks need an increase in prime as their margins are being eroded."

All the indicators point towards a rise in Bank Rate. The latest sign came from Tuesday's preliminary money supply figures, which showed bank lending had pushed total money supply far beyond the Reserve Bank's target range.

The Bank is unlikely to tolerate unchecked growth in the money supply, as this would fuel demand inflation.

Borrowing from banks can only be curbed by higher interest rates. Some economists say that an increase in Bank Rate of one 1% would not halt the current demand for credit — hence a further hike in Bank Rate is likely.

Another strong signal that Reserve Bank action is needed is the weak trade figures recorded so far this year. The current account on the balance of payments could be in deficit — an untenable situation, not only because of foreign debt repayments, but also because SA has no recourse to foreign borrowing to finance a deficit.

At the same time, money market rates have already discounted a 1% hike in Bank Rate. The key three-months liquid Bankers' Acceptance (BA) rate, at 11,75%, is higher than the Reserve Bank's rediscount rate on BAs.

FNB posts a 7,6% increase in profit

(58) B/day 28/4/88.

HAROLD FRIDJHON

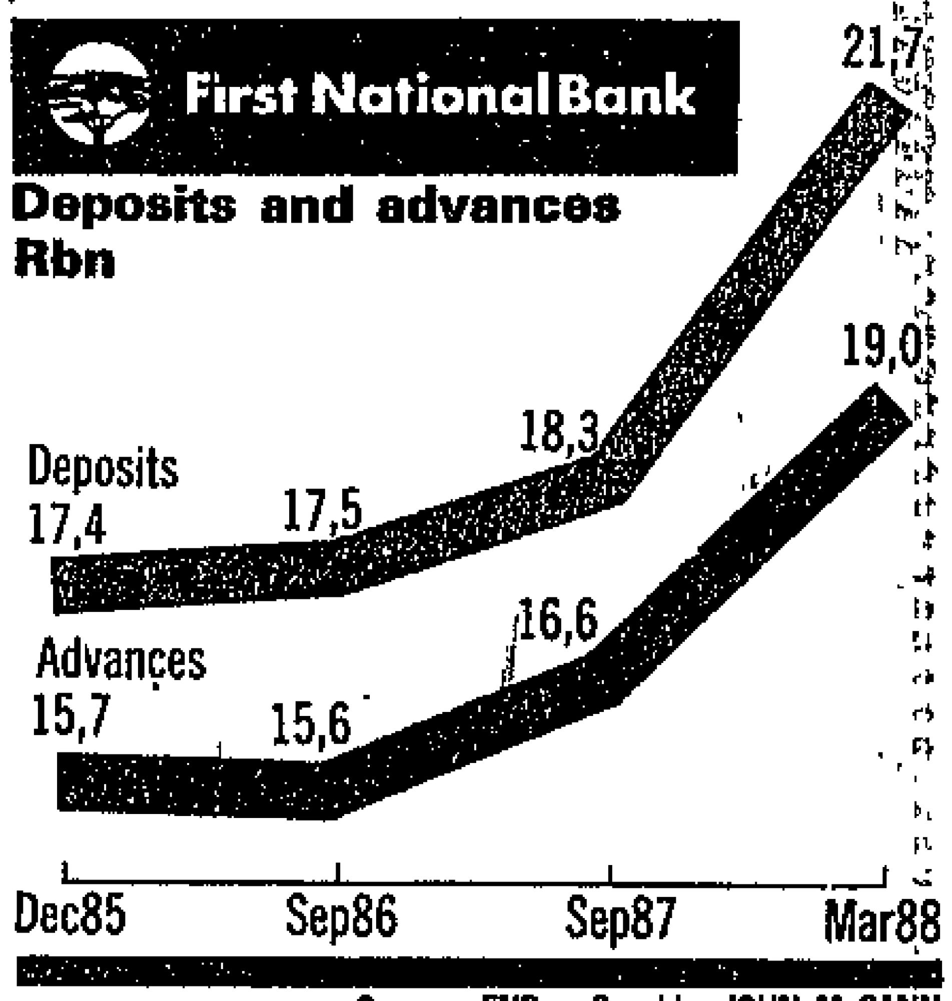
FIRST National Bank of Southern Africa (FNB) performed well to achieve a 7,6% increase in net profit before extraordinary items of R89,1m during the half year to March 31. In the comparable period last year earned profit was R82,8m.

Senior general manager Jimmy McKenzie said since December the bank's margins had come under intense pressure as short-term rates had risen steeply and only during the last four weeks of the final quarter had there been any relief with the one percentage point rise in Bank Rate and the bank's prime rate. The bank had to raise costly short-term money because investors were unwilling to lend long.

Although earnings a share rose to 122,7c from 114,2c, the ordinary dividend is unchanged at 35c.

The bad debt provision dropped to R60m from R70m but McKenzie pointed out that as bad debt general provisions were based on the total advances, which had risen by R3,8bn to R19bn, in effect on the group's book was very clean.

While this applied to the bank and most of the subsidiaries in the case of Wesbank the turnaround was outstanding. Repossesions were negligible, as were bad debts.



Source: FNB Graphic: JOHN McCANN

The spurt in advances started in the final quarter of 1987 as demand for credit accelerated both in the corporate sector and in consumer business. Home loans contributed about R823m of the higher demand for facilities and also

● To Page 2

First National Bank fights off the pressure

(58) B/day 28/4/88

● From Page 1

stimulated further personal borrowing.

At the end of March FNB's home-loan book stood at R2,2bn, with a further R781m in loans granted but not advanced by March 31.

"With a home mortgage book which has grown by R2bn to R3bn in a year we can claim to be the fourth biggest 'building society', giving 24-hour decisions on home loans applications," McKenzie said.

While advances increased by 25,2% to R19bn, FNB's current and deposit accounts rose by no less than 31,2% to R21,7bn.

In December, FNB raised $63 287 000 in unsecured subordinate debentures at a rate of 1,125% above Libor. The debentures are repayable in two equal tranches in January and July 1997. Fluctuations in the exchange rate have been fully covered.

McKenzie said these funds had been raised to increase liquidity as FNB, like other banks, needed more liquid assets. The published balance sheet shows that liquid asset rose to R2,4bn from R1bn at March 1987.

He expressed the view that the outcome for the current financial year was promising. Traditionally, the bank's figures in the second half surpassed those in the first six months. This year, the big increase in costs, up R99m to R579m in the first half, largely the result of higher staff bonuses and wages, would be spread over 12 months, not just over the first three months of the calendar year.

DID 28/4/88 (58)

Development Bank loans up 51 per cent this year

CAPE TOWN — The Development Bank had granted loans totalling R5 875 million at the end of March this year, an increase of 51,4 per cent on the same period last year, the bank's chief executive, Dr Simon Brand, said yesterday.

During the financial year which ended on March 31 this year, the bank provided loans to 1 047 projects, 461 more than in the same period last year, he said.

"The loans provide for a spectrum of projects such as rural and agricultural projects, bulk infrastructure, urban development and commerical and industrial development.

"Each project is evaluated within the context of a development programme for the region concerned and the crucial requirements for approval are economic feasibility, appropriate technology and the borrower's capability to implement and operate the project effectively."

The bank envisaged accepting approximately 200 new projects for appraisal annually, while it was expected that the number of project approvals would increase annually from 150 in 1987—8 to 200 in 1988—9 and close on 300 in 1991—2, Dr Brand said.

"A gratifying aspect is the increasing success that the bank is achieving in its efforts to mobilise private sector investment and involvement in developing areas.

"The bank provides a facilitating role in this respect by providing guarantees for private investment or by giving advice to both the development agencies and the private sector which could lead to the implementation of projects which qualify for private sector financing."

The independent national states and national states and non-independent homelands were the main focal point of the bank's programmes but it had become involved elsewhere, especially in integrated urban development programmes.

Seven infrastructure pron Natal, outside KwaZulu, and almost R30 million was approved for projects in the urban areas of Daveyton and Vosloorus in Transvaal, Dr Brand said. — DDC

CA Times 28/4/88

Rabie to take over Burad Securities

RABIE INVESTMENT HOLDINGS will become the listed holding company of Burad Securities in terms of a proposal that has been sent to Burad shareholders.

Directors of Burad which has computed tax losses of R5,7m, are recommending shareholders accept the proposal from Rabie, a property developer currently involved in projects to build and market some 5 500 homes in the Transvaal, Natal and Western Cape.

Many of these are joint ventures with Murray & Roberts as civil and construction contractors.

Rabie's earnings for the year to June are forecast at R5,03m, equivalent to 31,7c a share based on an issue of 15 891 993.

No tax has been applied to the forecast because of Burad's computed tax losses.

With aggregate pre-tax profits of R5m warranted for the year to June, Rabie is forecasting a dividend of not less than 12,7c a share for the period. This will be payable in October.

Rabie intends to cover dividends at least twice by earnings.

The Rabie proposal entails Burad shareholders receiving one new listed Rabie ordinary share in exchange for every 10 existing Burad ordinary shares.

Burad shareholders have been told that, subject to approval of the necessary resolutions at a meeting in Cape Town on May 18, the JSE has agreed to cancel the listing of Burad shares in the "financial-property" sector at close of business on May 20, and to grant a listing of Rabie shares from start of business on May 23.

Rabie's chairman John Rabie believes the company, with its proven track record in developing housing for various market segments, is well positioned for further growth on a national basis and to play a leading role in reducing the housing backlog, which is estimated at 750 000 units.

He says the company has strengthened its project management and marketing resources to capitalize on growth opportunities, particularly in the greater PWV and Durban areas.

TBVC fiscal crisis: Shaky ethics at issue

CAPE TIMES 28/4/88

(58)

Political Staff

THE financial crises precipitated within the four independent TBVC homelands has led to a debt overhang of R5 billion with a further R1,5 billion representing short term loans, according to Development Bank chief executive Mr Simon Brand.

Mr Brand attributed the debt overload to financial mismanagement — and a "dubious code of ethics" adopted by members of the private sector intent on exploiting the easy pickings afforded in these areas.

He said the resulting track record was "not something which anyone could be proud about".

He predicted that the level of debt would increase — largely at the cost of the South African taxpayer.

Mr Brand added that similar problems are now being faced by SA's self-governing homelands and the black local authorities within the country.

He estimated that the debt burden of these homelands was of the order of R400m.

The Development Bank was appointed some two years ago to oversee the "financial adjustment programmes" designed to correct the financial problems facing these territories. Mr Brand indicated the programmes had already gone some way to reducing the budgetary deficits in the TBVC from R1,3 billion in 1986/7 to R706 million in 1987/8.

He warned that if the adjustment programmes were to continue to be successful it was essential that the approach adopted is carried forward until such time as "no more reliance on inappropriate financing methods is involved".

"The introduction of an objective system of financial relations between SA and the TBVC countries, based on agreed norms and standards of government expenditure, will be essential to prevent the recurrance of these financial crises," Mr Brand said.

"So will the adoption of more judicious credit policies vis-a-vis the TBVC governments and their agencies by private financial institutions," he added.

Mr Brand stressed that in evaluating the progress achieved to date it was important to realise that most of the instances of "financial malpractice and misallocation of funds which have recently come to light, occurred well before the adjustment programmes came into place."

CAPE Times 28/4/88

Development funds rise to R5 875m

SB

By BARRY STREEK
Political Staff

THE Development Bank had granted loans totalling R5 875m at the end of March this year, an increase of 51,4% on the same period last year, the bank's chief executive, Dr Simon Brand, said yesterday.

During the financial year which ended of March 31 this year, the bank provided loans to 1 047 projects, 461 more than in the same period last year, he said in a statement released at a press conference.

"The loans provide for a spectrum of projects such as rural and agricultural projects, bulk infrastructure, urban development and commercial and industrial development."

The bank envisaged accepting about 200 new projects for appraisal annually.

It expects the number of project approvals to increase annually from 150 in 1987/88 to 200 in 1988/89 and close on 300 in 1991/92.

The independent and non-independent homelands were the main focus point of the bank's programmes.

But it had become involved elsewhere, especially in integrated urban development programmes.

Seven infrastructure projects were approved in Natal outside KwaZulu and almost R30m was approved for projects in the urban areas of Daveyton and Vosloosrus in the Transvaal.

The bank had also received inquiries from other countries in Southern Africa and it was involved with projects, valued at R300m, in the Highlands water scheme.

"Projects in other neighbouring countries are also under consideration," Dr Brand said.

A case for compulsory balance of third party

Star 28/4/88

(58)

By Jeremy Sinek

Few facets of South African life are as riddled with anomalies, inadequacies and absurdities as life (and death) on the road.

Abysmally low driving standards, the lack of a proper licensing system, and dangerous methods of speed trapping are topics that have already been well aired in these pages.

Hazardous road works, slippery road-marking paints and the absurd roadworthy testing system are also high on the list for future examination. And then there's the matter of compulsory third party insurance — or at least, the lack of it.

Recompense

What's at issue here is not the MVA third-party system, which is actually one of South Africa's better ideas: funded by a levy on fuel, it does ensure that — eventually — there will be some recompense for the injuries of victims of the all-too-many uninsured drivers.

What's lacking, however, is any fall-back protection for the *property* of their victims. Although balance of third party (BoTP) insurance is available from all insurance companies it is not — unlike in most developed countries — compulsory.

Last December David Bawden joined the thousands of drivers who have learned the hard way the consequences of this legal loophole.

His car was hit by another car driven by a 19-year-old girl. Ironically, the girl's car was a more expensive one than Dave's — but she didn't have balance of third party insurance (which would have covered the damage she did to another person's property) and could not afford to pay the R3 000 repair bill on David's car.

Although David himself had BoTP cover, his own insurance wasn't comprehensive so he couldn't claim on it for the damage to his own car. He could take the girl to court and sue for the money, but that would involve him in legal fees, and if the girl really didn't have the money the best he could hope for would be that she would pay the money in instalments.

That could take several years. In the meantime he'd have to pay his repair costs up front — if he had the money — and by the time she'd finished paying off the money its value would have been decimated by inflation.

Such is the hassle factor in trying to get money out of people who don't have it, that all too often innocent motorists have to just shrug their shoulders and pay up themselves. And the person at fault goes scot free.

Back in 1985 the Grosskopf commission rejected the idea of compulsory BoTP, largely because the private sector of commerce and industry had come out against it.

Last year, however, a new poll by Assocom revealed a complete turnabout by its members, who now support it.

●To Page 2

A case for extending third party insurance

● From Page 1

At Assocom's congress in East London last October, members adopted a motion proposing that the existing third party system be extended to include property as well as personal injury.

Unable to agree on a date for a visit by an Assocom delegation to discuss the matter with the Minister of Transport Affairs, the proposal was submitted to the Minister in writing and is now, hopefully, under consideration.

Assocom envisaged collecting the "premiums" through a levy on fuel, as an extension of with the present MVA system.

Opponents of that idea complain that owners of low-value cars would thus be subsidising expensive ones. They also predict problems with administering the scheme, and determining which claims are allowable.

In its favour, such a system would make it impossible for any motorist to evade paying his "premium".

The alternative would be for commercial short-term insurance companies to provide the insurance in the same way as they already do for many motorists — the difference being, of course, that BoTP will be compulsory for everybody. That's the way it is done in the UK, for example.

It has been argued that this would increase the cost of insurance. However, at present the owners of vehicles that do have some insurance are effectively subsidising the estimated 60 percent of vehicles that don't. If it was compulsory the burden would be spread and the cost per vehicle should come down.

Affordability

Against this proposal it is argued that many "marginal motorists" would be unable to afford insurance, or would refuse to take it out whether or not it was compulsory.

However, many of the same motorists already complain that they can't afford annual licensing fees, for example, but that hasn't prevented the licence from being compulsory nonetheless. And as with the licence, mandatory insurance could be enforced by requiring a windscreen sticker to be displayed on every vehicle.

Surprisingly, the SA Insurance Association doesn't appear to have any official stance on the subject of compulsory BoTP cover, according to chairman W A Rutherford.

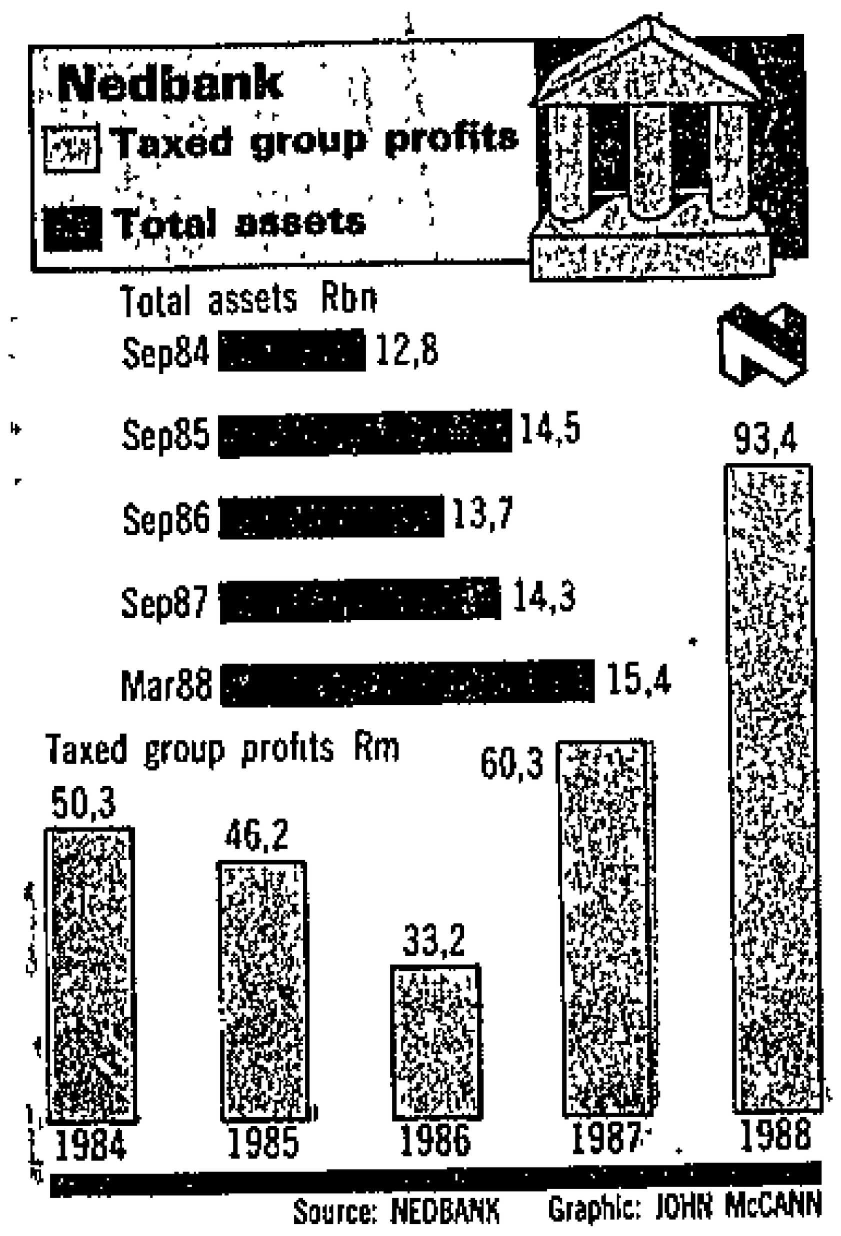
In his own capacity as managing director of Commercial Union, however, he said: "I can see its desirable features. It would ensure there is a fund of money behind anyone who causes damage to another's property and allows possible redress to the innocent."

He foresees a lot more litigation as an inevitable outcome as plaintiffs seek to establish liability, where at present many claims are abandoned becuase the guilty party has no money.

Nobody is pretending that compulsory BoTP will be a universal panacea, or that there won't be difficulties. The fact that it exists overseas, however, suggests that it is viable as well as desirable.

Dave Bawden thinks so too. He's already taken the matter up with his MP, and is keen to set up a pressure group on behalf of the man in the street.

If he has your support, write to him at Box 30955, Braamfontein 2017.



Profits up 50% for Nedbank

29/4/88 (58)

HAROLD FRIDJHON B/day

NEDBANK Group has published exceptional results for the half-year ended March with taxed profit more than 50% higher at R93,4m and with the interim dividend up 2c a share to 13c from 11c. Net earnings rose sharply to 59,9c a share from 37,2c.

The present interim is covered 4,2 times. Last year's interim was covered 3,2 times and last year's total payout was covered 2,6 times. This suggests that the final dividend for this year will be much higher than last year's 22c a share.

In their report, the directors say that prospects for the balance of the financial year are promising and that the improvement in profita-

To Page 2

Nedbank Group records exceptional results

B/day 29/4/88 (58)

From Page 1

bility will be maintained.

Operating income rose to R140,6m from 107,2m and the bad debt provision was reduced to R26m from R29,9m.

The increase in profits would appear to be a paradox, as advances showed only a margin growth to R10,1bn from R9,7bn. CE Piet Liebenberg said that this apparent anomaly resulted not only from tighter management control with a stringent grasp on costs, but also from converting non-performing assets into performing assets.

Loans and advances which had gone sour during the past difficult years had in many cases been swung around.

Liebenberg said that Nedbank MD Anton Van der Merwe-Vance and his team had done an exceptional job and that the profit figure represented excellent asset management.

The balance sheet was clean, with all the previous problem areas things of the past, Liebenberg added.

Contributing substantially tp profits were improved results from the Treasury and from fee-earning in corporate business. There had not been excessive off-balance sheet transactions.

Nedbank, responsible for two-thirds of the net profit, experienced intense pressure on margins, particularly on corporate business. The lower yielding wholesale advances increased significantly, but retail and commercial advances were below budget. A strong increase in home loans is expected.

The other subsidiaries, with the exception of Finansbank, had given a good acount of themselves, with Nedfin trebling its profit and UAL increasing its net to R12,7m from R11.1m.

Sharp rise in earnings . . .

Nedbank Group posts 50% higher profits

CAPE TIMES 29/4/88 (58)

From HAROLD FRIDJHON

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THE ECONOMY

JSE's bible hands out kudos to the small family business

The latest edition of Who Owns Whom, published this week, detects a trend on the JSE towards the rise of the small conglomerate, often family owned.

HILARY JOFFE reports

MANY of 200 new listings last year on the Johannesburg Stock Exchange were of director-controlled companies — with the result that such companies have increased their share of the market, according to Robin McGregor, whose *Who Owns Whom* was published this week.

But the top four companies still control almost 80 percent of the JSE, according to McGregor's calculations. On his analysis the top one — Anglo American — controls 56 percent of the JSE based on market capitalisation. Sanlam is next in line with 9,7 percent, followed by SA Mutual (8,9 percent) and Rembrandt (4,9 percent).

These figures are down slightly on last year's, a trend McGregor attributes to the effects of last October's stock market crash on the value of portfolios.

Companies controlled by directors have however risen to 5,9 percent of the total market capitalisation of the JSE, from 3,7 percent in 1987.

The change is small but important, says McGregor: "South Africa needs companies controlled by owners who are 'close to the coalface'." He believes these are more efficient and hopes they do not get swallowed up in turn by the "big boys".

A second trend McGregor Research Services found is the rise of the small conglomerate, controlled by a family or directors. They identify 26 conglomerates which have a market capitalisation of R100-million or more, but control under one percent of the JSE. The FS/Waicor, Pep Stores and Tourolis groups top the list.

Who Owns Whom gives MRS' assessment of the ultimate controlling shareholder of each listed company. The researchers do this by looking at the obvious shareholdings and tracking down the nominee companies.

CONTROLLING BODY	% JSE CONTROL					
	1983	1984	1985	1986	1987	1988
ANGLO AMERICAN GROUP	52,5	54,1	53,6	54,1	60,1	56,1
SANLAM	9,4	10,7	12,2	11,3	10,7	9,7
S.A. MUTUAL	0,6	2,7	10,6	10,9	8,0	8,9
REMBRANDT GROUP	2,1	2,8	3,8	4,4	4,3	4,9
FOREIGN CONTROLLED	5,4	5,7	5,9	6,1	4,1	4,9
CONTROLLED BY DIRECTORS	4,1	5,1	3,0	3,5	3,7	5,9
ANGLOVAAL	1,7	1,7	2,1	2,1	2,4	2,8
LIBERTY GROUP	1,1	2,1	2,0	2,3	2,0	1,6
STATE CONTROLLED	3,2	2,3	2,8	3,2	1,9	1,7
VENTRON GROUP	-	-	-	1,1	1,0	1,2
TOTAL	80,1	87,2	96,0	98,8	98,2	97,7
UNALLOCATED	19,9	12,8	4,0	1,2	1,8	2,3
TOTAL	100,0	100,0	100,0	100,0	100,0	100,0

Source: McGregor Research Services

But subsumed under the class of Anglo-controlled or SA Mutual-controlled companies are subsidiaries and associates with very different characters, where ultimate control may or may not mean anything in terms of how the company is run.

At the macro-economic level McGregor's control dimension is significant. At the micro level, a trade union negotiating with a company under ultimate Sanlam control, for example, would not necessarily find this reflected in the company's managerial style.

The percentage of the JSE controlled by the large conglomerates is calculated by taking the total market capitalisation of all the companies they are said to control, rather than by adding up their ownership stakes in these companies. So, for example, the total market capitalisation of JCI — and not just the stake of it Anglo owns — comes into Anglo's 56 per-

Anglo insiders say, for example, that the corporation does not in fact choose to exercise any influence over many of the companies which, on the figures, it ultimately controls. But against this it can be argued that at key turning points or crises ultimate control may become active control.

McGregor believes the control dimension is important. Anglo does control the destinies of its subsidiary and associate companies, he says, shaping the big strategic decisions on capital projects, for example. In most companies the controlling sharehold-

McGregor's figures on control indicate the formidable economic power the "big four" can muster and the high degree of concentration characteristic of the South African economy.

er is represented on the board of directors and does influence operating decisions, he says.

But who controls the economy is only one, relatively minor aspect of what *Who Owns Whom*, now a mammoth 1 214 pages, is about.

This eighth edition of *Who Owns Whom* includes all of the 720 companies listed on the JSE as of the end of 1987; 25 000 subsidiaries and associates of listed companies are recorded.

It contains three years' worth of key financial statistics from the balance sheet and income statements of each company. And it lists the 21 most important ratios which can be calculated from the annual financial statements (short explanations of these are given at the end of the book).

MRS has now also mounted its database on computer and is selling the service for R4 200 a year. The computerised databank includes everything published in *Who Owns Whom* but contains additional and more up-to-date information. It allows users, for example, to compare listed company statistics by secotr or activity or to analyse a company's portfolio.

Some of the trends MRS has pulled out of its computer include:

- Despite disinvestment the number of foreign-controlled companies on the JSE increased last year, since several newly-listed companies were ultimately foreign-controlled.
- Average assessed taxation of listed companies was 24,4 percent — more than somewhat below the statutory 50 percent company tax level.

A companion volume to *Who Owns Whom*, on unlisted companies, covers 7 500 companies. Information was derived from Kreditinform and companies employing over 50 workers were entered.

The subtitle of *Who Owns Whom*, "the investors' handbook", is something of a misnomer: investors are certainly not the only people who mine it for information.

● McGregor's Who Owns Whom — The Investors' Handbook, R135, published by Juta; McGregor's Who Owns Whom — Unlisted Companies, R115, Juta

Profits soar by 61 percent at Nedbank Group

Sted (58)

By Sven Lünsche 29/4/88

Nedbank Group taxed income soared by 61 percent to R93,4 million in the six months to March after a dramatic improvement in profits at its commercial bank, Nedbank Ltd.

The dividend has been raised by 2c to 13c.

Group earnings per share rose by 61 percent to 59,9c, which reduces to 54c after a tax equalisation transfer of R9,1 million, in line with a policy of smoothing the impact of tax on future distributable profits once Nedbank Ltd reverts to a tax-paying position.

Nedbank Ltd showed the most dramatic improvement by raising taxed income by 88 percent to R60,9 million, despite pressure on interest margins.

However, group CE Piet Liebenberg says increases in the prime rate towards the end of the interim period and higher volumes boosted net interest income, while commission and exchange earnings were substantially higher.

"The lower-yielding wholesale advances increased significantly. The extent of any further improvement in net interest will depend on the bank's ability to increase its retail advances.

"In this respect, a strong increase in home loans is expected and a more active economy will assist in the area of commercial overdrafts," Mr Liebenberg says.

Of the other subsidiaries, UAL Merchant Bank and Syfrets had good earnings performances and Nedfin maintained its progress. But Finansbank's net income of R4,9 million was down on the previous year's interim R5 million.

UAL's increase in taxed income from R11,1 million to R12,7 million was largely derived from successful treasury and security operations because the rising interest rate patterns and lower equity prices "did not prove very helpful," says Mr Liebenberg.

Syfrets lifted earnings by 13,1 percent to R6,9 million, largely as a result of new business inflows. Nedfin's marked improvement in operating profits from R1 million to R3,5 million stemmed from increased demand for vehicles and capital equipment.

Referring to prospects for the group as a whole over the remainder of the financial year, chairman Owen Horwood says the profitability evidenced in the first half should be maintained.

London's Big Bang has local ramifications

Star 30/5/88

58

ANN CROTTY

Lest anyone has not noticed, South Africa's money and capital markets are going through their own version of the Big Bang that knocked London's markets just 18 months ago.

David Bullard, a director of the Johannesburg Options Market, says that to the outsider the most obvious signs are the frequent press reports about the new banking and quasi-banking organisations being set up across the country.

There is also the much-talked-about poaching of staff from the established financial institutions and the enormous remuneration packages that are being offered to entice the experienced players. Mr Bullard says this emphasises the fact that a strong team of experienced dealers is crucial to any organisation's reputation and can signficantly enhance its earning potential.

Institutions

While many of the new financial institutions are involved in merchant banking activity such as mergers, takeovers, rights issues, listings, restructurings and a host of ways of optimising the financial efficiency of a firm, a lot of South Africa's new and changing financial organisations are targeting their expertise at the management of institutional and private individual cash flows.

This market, which is worth billions of rands, is dominated by the major insurance groups such as Old Mutual, Sanlam and Liberty. Other significant players are Southern Life, Lifegro, Mutual and Federal, Federated Life and Eskom Pension Fund.

The original source of funds is you and I — our insurance and pension savings. These are handed over to one of SA's many insurers, in the case of the former, and in the case of the latter to your employer who either manages them in-house or passes them over to a pension-fund manager.How well these funds are managed has, therefore, a wealth of implications for most of us.

For some the idea that there are so many layers of experts, each getting a cut, is cause for concern. This is particularily true, given the Yuppie life-style associated with most of these financial experts. Others realise that if the experts are good, they boost the returns earned.

Mr Bullard has been involved in SA financial markets for over seven years and in that time has seen many new firms entering the market and a few leaving. He believes that over the years there has been a considerable improvement in the general level of expertise which, he says, can be attributed to a handful of companies who have kept a close eye on overseas developments and adapted them to the local environment.

He says: "I enjoy markets immensely and I think SA is poised for some very exciting changes. Most of the people in our market are energetic and stimulating and tend not to have a 9 to 5 mentality . They carry an enthusiasm for their work with them and are hungry for knowledge of new financial products all too often denied them, cut off as we are from other world markets."

Mr Bullard is not quite so enthralled with the motivation displayed by some institutional personnel: "While some are enthusiastic, many prefer to take the line of least effort. I think it's fair comment to say the market's perception of institutions is not very flattering. They are unwilling to take decisions, unless by committee. They are slow to react to market movements and a few expect to be heavily entertained in return for their business. Institutions attract very bright recruits and then gradually demotivate them over a period of years. Their remuneration is generally not based on success or failure, nor are their mistakes visible in the mishmash of garbled reporting. In most market swings, the institutions sit by, content to miss extraordinary profit potentials.

Frightening

It is all rather frightening for those of us who invest in long-term savings. As Keynes suggested, if it is not your money and you are not benefiting from how it is spent, then you are not overly concerned with either cost or value for money. In the ever changing landscape of international markets such as London, New York and Tokyo, this attitude cannot survive. Anyone concerned with investments who refuses to get acquainted with risk control instruments will become a dinosaur."

Mr Bullard believes that the recent movement of qualified personnel away from institutions to join smaller more specialised units is a trend that will continue and reflects the frustration, felt by some of the more ambitious participants, with the ponderous world of the big institutions.

"The institutions have some first-class people, they just don't allow them to be efficient. Obviously that means they will move to greener pastures and the quality of investment staff in the institutions will suffer as a result."

Ironically, the most important customers for these smaller new firms are the same institutions. As competition hots up, pricing becomes keener and derivative products such as futures and options are developed to try and control risk more efficiently.

With the rapid increase in the number of players in the market, there is some concern about developing regulations that will ensure standards are maintained without stymying the market's entrepreneurial spirit.

If the right sort of controls are to be introduced, Mr Bullard believes it is essential that the authorities first fully understand the workings of the market.

David Bullard: South Africa is poised for many exciting changes

Industrial Relations Relevance ...

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BUSINESS

PID 30/4/88

58

First Nat nets 7,6pc more in half year

JOHANNESBURG — First National Bank of Southern Africa (FNB) posted a 7,6 per cent increase in net profit before extraordinary items during the half year to March 31, 1988.

The attributable figure rose from R82,8 million to R89,1 million.

First National's managing director, Mr Chris Ball, said that "in the light of the squeeze on margins since the beginning of the year and the increase in salaries, the outcome of the first six months of the current financial year is satisfactory and is in line with our budget".

The bank's senior general manager, Mr Jimmy McKenzie, noted too that since December the bank's margins had come under intense pressure as short-term rates had risen steeply.

He added that only during the last four weeks of the final quarter had there been any relief, with the one percentage point rise in bank rate and the bank's prime rate.

The cost of funds rose sharply from late 1987, but prime and other rates, particularly those on housing loans, remained almost static in the face of fierce competition in the financial sector.

Profits were pared somewhat by the higher salaries and wages negotiated at the end of last year with Sasbo, the bank officials' trade union.

The bad debt provision dropped R10m to R60m, but Mr McKenzie pointed out that as bad debt general provisions were based on the total advances which had risen by R3,8bn to R19bn, in effect the group's book was very clean.

While this applied to the bank and most of the subsidiaries in the case of Wesbank the turnaround was outstanding.

Repossesions were negligible, as were bad debts.

The spurt in advances started in the final quarter of 1987 as demand for credit accelerated both in the corporate sector and in consumer business.

Home loans contributed about R823m of the higher demand for facilities and also stimulated further personal borrowing.

At the end of March FNB's home-loan book stood at R2,2bn with a further R781m in loans granted but not advanced by March 31.

Another 10 519 home loans worth R781,8 million have been granted and are being registered, says the bank.

Home loan advances aggregated R3 005,0 million at end-March

"With a home mortgage book which grown by R2bn to R3bn in a year we can claim to the the fourth biggest 'building society', giving 24 hours decisions on home loans applications," Mr McKenzie added

While advances increased by 25,2 per cent to R19bn, FNB's current and deposit accounts rose by 31,2 per cent to R21,7bn.

He expressed the view that the outcome for the current financial year was promising. Traditionally the bank's figures in the second half usually surpass those in the first six months. And this year the big increase in costs, up R99m to R579m in the first half largely the result of higher staff bonuses and wages would be spread over 12 months, not just over the first three months of the calendar year.

Building societies slam access bond

(58) Bday 2/5/88

CHERILYN IRETON
and Sapa

BUILDING societies have lodged a complaint with the Registrar of Banks over the Standard Bank's Access Bond, charging it will lead to money-supply problems, is morally wrong and will lead to excessive use of credit.

The key to the problem is that Standard Bank bond-holders can withdraw money against their mortages with an electronic access card — on condition part of the bond has been paid off.

The SA Perm and the United Building Society have condemned the practice and have urged government to examine the scheme closely.

Their call comes as government is considering further measures to slow down credit demand.

Association of Building Societies vice-president John Gaffney said the scheme made it too easy to borrow money in an environment where money-supply growth was getting out of hand, and where no statutory reserve requirements were attached to the scheme.

The Standard Bank has retaliated by saying the building societies' continual calls for protection does not serve to promote a freer and more competitive financial market.

"We have come forward with an innovative product using superior technology that has given us a marketing edge.

"We are not offering the homeowner more than he was originally granted unless we revalue the property. Nor do we increase his instalment."

SA Perm MD Bob Tucker said: "Alarm best describes our frame of mind. In an endeavour to stimulate the economy, all of the monetary taps were opened and, under conditions of deregulation, the various players pushed the abundant money on to any member of the public who was prepared to take it.

"The result has been a boom in consumer durable spending, home lending in the white market and spending on luxury goods. Now, as a result of excessive credit creation in areas other than grassroots housing creation, controls will unquestionably have to be imposed and rates will rise — possibly nipping the fundamentally important housing initiative in the bud."

The UBS says unsophisticated and undisciplined clients can easily find themselves in finacial difficulties if allowed undisciplined access to their bonds.

The NBS and the Allied have adopted a neutral stance.

Prize doubles to R400

Pioneering the new-style building society

Star 3/5/88

By Tom Hood (58)

When the economic history of this era comes to be written in 20 or 30 years' time, John Gafney's name is one that is likely to feature prominently.

As managing director of the Natal Building Society, his actions now and in the next few years are likely to be closely scrutinised by future historians.

The reason is that Mr Gafney has been entrusted with the vital task of converting his building society, geared to a great degree to 19th and early 20th century conditions, into a financial institution capable of prospering in the vastly different situation of today and the years ahead.

In this he is a pioneer, and the whole world will be watching how he does it. For building societies overseas, stuck in the same rut in which South African societies have found themselves, are starting to follow the same path.

And it will be the example of the South African building societies, which showed commendable foresight in being among the first to recognise the need for the changes, they will tend to follow.

NBS's first major step into the new competitive world of the late 20th century was taken last year when it changed from being a mutual society to a public company. This enabled it to raise equity capital and invest it in profit-making operations.

This week it issued its first annual profit figures as a public company. Those of its depositors who took up the NBS shares offered them should be reasonably pleased. Taxed earnings rose more than 15 percent to 42c a share, and the 17c dividend forecast a year ago, turned out to be 18,5c. E12

But what also pleased Mr Gafney was the 20 percent increase in the company's loan balances in the face of severe competition.

"We had to lend out more than R1 billion for our book to grow by the R430 million which this increase represents," he said this week.

This was a fantastic achievement, he added, as the NBS's rates were above those of the banks for a large part of the year.

His comment highlights the fact that the building societies are increasing looking at the banks as a major threat.

"I think competition with the banks is here to stay," he continued. "I would say our margins will be under pressure for some time. I'm sure the bank recognises, as we do, that you can sell other services to your mortgages holders."

One of the NBS's strengths as a group was that it had a good mailing list, he said.

As the banks start to take mortgage business away from the building societies, so they in turn are taking loan business away from the banks.

The NBS is very much into the domestic hire-purchase market, said Mr Gafney. By the end of this month it will have facilities for transacting this business throughout the country. In Natal it has also started to do some commercial lending including providing finance for leasing trucks and buses.

The NBS has employed some people with banking experience, but far fewer than some societies.

"We have employed a core of bankers. We believe our staff can be trained quite successfully. We are encouraging them not to shy away from banking business and instead, look upon it as a natural progression of the building society business they have been doing.

"Once we have got these new services bedded down we will have to look at introducing further services.

"But we also have to keep an eye on possible changes in the legislation.

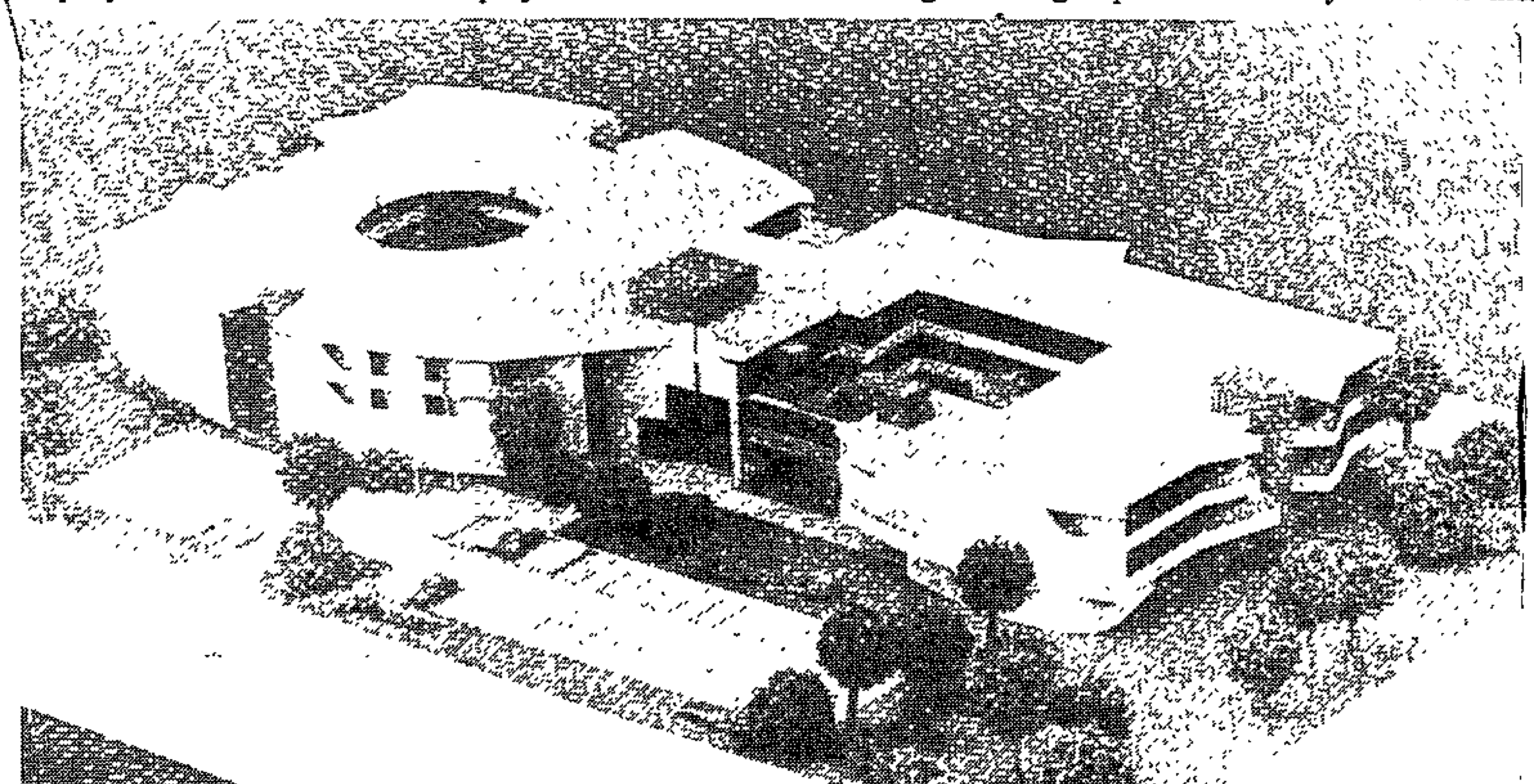
"I believe there is going to be a further blurring of the lines between the banks and building societies. It is possible in five years' time there will be one Act of Parliament for both banks and building societies."

The NBS's non-building society operations are already extensive. It has its own insurance company and has recently taken a 30 percent stake in the Norwich Union insurance company, whose products it is now selling. Their first joint product, Expandaplan, aimed at providing savers either with a regular income (something new for a building society) or long-term capital appreciation, was recently launched.

It also has its own participation bond company, helps manage two property trusts and will shortly launch its own unit trust. The NBS is also into property development. "We don't do the building. We leave that to contractors, but we design the whole environment," he said.

With the house selling prices averaging R65 000 in 1986, R61 000 in 1987 and R64 000 this year, the NBS is operating in the popular end of the market.

Mr Gafney was born in Tabankulu in the Transkei and moved to Durban in 1951 to study accountancy. After 13 years in the sugar industry where he was group accountant with CG Smith he moved to the NBS in 1971 and was appointed managing director at the beginning of this year.



Star 31/5/88

Lift for Southern Life

Southern Life yesterday reported an 84 percent increase in new business to R658 million in the year to March.

"This growth was not confined to any one area of our operation. The life and employee benefits divisions contributed equally," said Dr Morris Bernstein, deputy chief executive.

"The growth is remarkable considering it follows a 66 percent increase in the previous financial year. It came off a very high base."

Single premiums accounted for R437 million and recurring premiums for R221 million, both up more than 80 percent. — Sapa.

(58)

MIN. - GOLD - KLER	
AF LEASE	210
BUFFELS	5000
HARTIES	1975
SOVAAL	9650
STILFTN	1150A
VAAL RFS	24000
ZANDPAN	355
MIN. - GOLD - O.F.S	
BEATRIX	1075
FREGOLD	2850
HARMONY	2100
JOEL	790
JOEL S	750
JOEL B OPT	275
LORAINE	850
OFSIL	6850
ORYX NPL	25
ST HELNA	2700A
UNISEL	1400
WELKOM	2025A
MIN. - GOLD - WES	
BLYVOOR	1575
DEELKRL	850
DOORNS	475
DRIES	3000
ELANDS	1350
ELSBURG	410
KLOOF	2875A

Allied bonds up

DD 3/5/84 58

JOHANNESBURG — Allied Building Society has announced that its bond rates for home loans is to be increased by 0,75 per cent to 14,5 per cent from June 1. Bons on commercial premises will rise by 0,5 per cent at the same time.

The bond rate for Allied Bank's prime clients, currently at 12,5 per cent and fixed rates bonds will not be affected at this stage.

The United Building Society said it would not react to the Allied increase as they were waiting for indications of rate increases from the Reserve Bank expected later this week.

The Natal Building Society said that it had already given a month's notice of an increase from 13,5 per cent to 14 per cent in its bond rate and a further increase could not come into effect before the beginning of July.

The SA Perm said they noted the hike with interest but was determined to keep rates stable. — Sapa

Allied raises bond rate to 14½ pc

The Allied Building Society announced last night its bond rate for home loans would rise by 0,75 percent to 14,5 percent on June 1.

58

Bond rates on commercial premises will go up by 0,5 percent.

Star 31/5/88

The bond rate for Allied Bank's prime clients, now at 12,5 percent, and its fixed rate bonds will not be affected yet.

The United Building Socitey said this morning it would not react now to the Allied increase, and was waiting for indications of rate increases from the Resereve Bank later this week.

The Natal Building Society last month increased its bond rate from 13,5 percent to 14 percent.

SA Perm MD Mr Bob Tucker told Sapa the society had noted with interest the Allied increase, but was determined to keep rates stable.

● Leading building societies have lodged a complaint with the Registrar of Banks because of new facilities which could change a home loan into a credit line.

DEFINITIONS

The societies claim this will lead to problems in money-supply definitions.

The complaint refers to a system introduced by Standard Bank whereby bank bondholders can withdraw money against their mortgages with the use of an electronic access card.

The UBS says unsophisticated or ill-disciplined clients could easily find themselves in financial difficulties.

SA Perm's Mr Tucker said: "Alarm best describes our frame of mind. In an endeavour to stimulate the economy, all of the monetary taps were opened."

But Standard Bank replied: "The continual calls by the building societies for the protection of the authorities in the financial-services field does not serve to promote a freer and more competitive financial market in South Africa.

"We have come forward with an innovative product, using superior technology, that has given us a marketing edge."

Home loan, HP rates set to rise

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D|D 3/5/88

Daily Dispatch Correspondent

DURBAN — Home-owners will be called on to pay more for their mortgage bonds within weeks, and further increases might follow during the course of the year.

Tougher hire-purchase regulations are likely to be imposed by the government, possibly this week, in the face of increasing pressure on the prime overdraft rate.

Yesterday, the Allied building society told borrowers they would have to pay more from June 1, when rates will go up by 0,75 per cent to 14,5 per cent.

This means a home-owner with a R50 000 bond, repayable over 25 years, will find his monthly repayments at about R620, compared with about R590.

According to a statement by the country's biggest building society, the United is "not reacting" to the Allied increase, but is waiting for indications of rate increases from the Reserve Bank expected later this week.

The managing director of the SA Perm, Mr Bob Tucker, said the society was determined to keep rates stable.

The assistant general manager, loans, at the Natal Building Society, Mr Trevor Oliver, said yesterday the NBS was already in a period of notice to its borrowers that rates would go up to 14 per cent from June 1.

The increase in interest rates seems to be across the whole board of investments. Credit card charges are reported to have risen by as much as 1,5 per cent on outstanding amounts.

Meanwhile, economists and financiers are watching the prime rate anxiously.

The assistant general manager, investments, at Sanlam, Mr Hendrik du Plessis, said he expected the prime rate to rise by one point, with another to come possibly in July.

With consumer spending at record levels as South Africans celebrated the apparent end of the long years of recession, warnings were given that the spree might end quite abruptly.

Mr Du Plessis believes that if the prime rate increases are taken with measures such as tighter restrictions on easy-payment purchases, pressure on the rates might be taken off.

He felt the authorities would want to avoid a prime rate as high as 18 per cent in order to avoid bankruptcies and unemployment.

He forecast that rates would rise quite quickly, then level off.

Crulife premium income up

58 Star 3/5/88

Finance Staff

Crusader Life Assurance (Crulife) continued to show consistent growth in its results for the financial year to December 1987.

Gross premium income rose 30,7% to R52,3 million, in line with Crulife's forecast published in its 1987 rights offer circular to shareholders.

Net premium income showed a similar trend, increasing by 38,6% from R26,8 million to R37,2 million.

The company met its taxed revenue projection for the 1987 year, having transferred R2,15 million to the income statement. This translated into an earnings-per-share figure of 14c on the increased number of shares in issue in the wake of the rights offer. Crusader's practice in the past has been to release the financial results ahead of the actuarial valuation.

However, in the light of last year's stock market collapse and in the interest of conservatism, the board considered it prudent to delay the reporting of the 1987 results until the current actuarial report was finalised.

Says executive chairman Don Rowand: "Taking into account the continuing uncertainties of the investment climate, the directors have made an extraordinary transfer of R1,5 million to general reserves."

The dividend of 9,6c was as forecast and places the company on a dividend yield of 7,1% based on the curret share price of 135c.

The consolidated balance sheet strengthened, with net asset value per share increasing from 67,5c to 107,4c.

Total assets are R67 million. The rights issue, which raised R12,3 million, was a major contributory factor to this position.

Based on Crusader Life's present share price, the share is trading on an historic P/E ratio of 9,6 times.

Few sellers as market booms

Star 3/5/88

Investec Bank's property group, Incity Real Estate has negotiated property deals totalling R10 million throughout the country — but can find few sellers in the present booming market.

Chief executive, Mr Marc Wainer, says: "There is an imbalance. For instance, we have been commissioned by a client to assemble a R30 million portfolio for investment purposes and we are looking for properties with value in excess of R1 million each but we are finding that these are not so readily available as they were."

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It appears that conditions in the market have changed over the past year in that sellers have very few alternatives today to investing their money, particularly following the October stock market crash.

Indeed, cash-rich Incity could find a seller only for a block of shops and offices in Benoni which it bought for R1,3 million and which it intends to refurbish.

On the other hand, the company's broking division is expanding to meet the demand by clients for prime and secondary office space.

"Owners of property often have unrealistic price expectations," says Mr Wainer.

"Investors may be buying at the peak, over paying for property because there is a shortage.

"Incity's current need for stock is so great that we are paying independent brokers full commission on business they bring in."

Allied pushes up bond rate to 14,5%

CAPE TIMES 3/5/88

HOME-OWNERS will soon pay more for their mortgage bonds and further increases could follow later this year.

And tougher hire-purchase regulations are likely to be imposed by the government, possibly this week, in the face of increasing pressure on the prime overdraft rate.

Yesterday the Allied building society told its thousands of borrowers they would have to pay more from June 1, when rates will go up by 0,75% to 14,5%.

This means a home-owner with a R50 000 bond, repayable over 25 years, will find his monthly repayments at about R620, compared with about R590.

Sanlam's assistant general manager (investments), Mr Hendrik du Plessis, said he expected prime to rise by one point, with another to come in July.

He felt the authorities would want to avoid a prime rate as high as 18% in order to avoid bankruptcies and unemployments.

If the prime rate rose to not more than 16% and other controls were effective, long-term interest rates, such as those on gilts, should not go higher than 17%.

● **Mixed reaction to rate rise — Page 9**

Lovely home to be won

(58)

Sowetan 4/5/88

THE Perm has launched an exciting competition on Radio Metro recently, giving a lucky listener of the Perm Home Line Programme an opportunity to become the proud owner of a lovely home.

The house, situated in Vosloorus on the East Rand was built by Hodeco, a non-profit subsidiary of the Perm.

Hodeco's main objective is to provide affordable housing to the lower and middle income groups.

Architect

The homes are designed by a black architect, built by black builders and sold by black estate agents. This gives black builders the opportunity to receive on the job training and also earn an income while being trained.

This lovely house has three bedrooms, lounge, dining room, open plan kitchen and bathroom with toilet. Finishes will include kitchen units, light fittings and will be fully fenced. It is valued at R35 000.

Included in the price is also one year's home owner's comprehensive insurance policy, fully paid.

Entry forms for the competition are available in the *Sowetan* until May 13. Entry details are also available on Radio Metro throughout the campaign. An entrant has to fill in the three very easy questions, cut the entry form out and hand it in at the Perm stall at the Spruitview Homes Festival on or before May 11, 1988.

Officials

Perm Home Loan Centre officials will be in attendance throughout the show to answer all your questions on home ownership such as how to apply for a bond, whether to build or to buy and supplying other useful information. Brochures will also be available on the subject of black property rights and the government subsidy.

The names of the ten finalists will be drawn on May 12 and announced on Radio Metro during the Perm Home Line Programme which starts at 8pm. Our host that evening will be Treasure Tshabalala, a Radio Metro disc jockey.

On Saturday May 14, these ten finalists will be at the Spruitview Homes Festival to take part in the draw of the key that will fit the door to a home of their own.

The draw takes place on the main band stand at 11am on May 14.

PID 4/5/88

Southern Life up

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JOHANNESBURG — An 84 per cent increase in new business — to R658 million — in the year to end-March has been reported by Southern Life.

"This growth was not confined to any one area of our operation. The life and employee benefits divisions contributed equally," says deputy chief executive, Dr Morris Bernstein.

"The growth is remakarble considering it follows a 66 per cent increase in the previous financial year. It came off a very high base."

Single premiums accounted for R437 million and recurring premiums for R221 million — both up more than 80 per cent.

Southern says its financial results and dividend for the year will be announced later this month. — Sapa

Home loan interest rate rises

By TOM HOOD, Business Editor

THE first shocks of the Government's credit squeeze were felt today when First National Bank announced a 1,5-percent increase in its bond rate to 15 percent.

First National, Volkskas and Standard banks have already raised their prime overdraft rate by 1 percent to 15 and Nedbank and Trust Bank are expected to follow today.

Boland Bank has announced that it will increase its prime overdraft rate to 15 percent from tomorrow.

Further bond rate rises, affecting tens of thousands of home-owners around the country, are expected from banks and building societies this week.

South Africa's biggest building society — the United — has already disclosed that it is reconsidering raising its present rate of 14 percent.

Basic guideline

The major banks' prime rate increase is in reaction to the increase in the Reserve Bank's bank rate — the basic guideline for all interest patterns — from 10,5 to 11,5 percent as from today.

Credit customers will pay more up front for a wide range of goods, as the required initial deposit on goods will be increased by one-fifth from this morning — which means that where formerly a required deposit was 10 percent it would be increased to 12 percent.

Mortgage bond rates at most other institutions have already been increased and are committed until June/July.

Higher rates could add hundreds of millions of rands to companies' interest bills, undermining profits and curbing expansion and job creation, according to analysts.

Escom alone faces a R20-million increase in what it will pay on its borrowings.

Sources in the motor industry believe this curb plus the 20-percent increase in minimum deposits required on all hire purchase contracts will depress the car sales market and cause a drop of at least 20 percent in the sale of cars to private motorists.

The deposit on a car worth R20 000 will increase from R4 000 to R4 800.

A property economist, Professor Wilsey Kilian of UCT, forecast that prices at the upper end of the white market would level off and be the first to drop.

However, house prices could be underpinned by higher buildings costs, now running at about 23 percent a year.

More difficult

Home-owners will also find it more difficult to secure bonds than in the past, analysts say.

Property economist Mr Neville Berkowitz believes that demand in the residential property market will subside as people become nervous of further interest rate increases, and the price of homes slowly subside as a result.

Office and factory developments will obviously become more expensive and some projects might be temporarily shelved.

Rental agreements will now be subject to the minimum deposit restrictions currently applicable to HP transactions and this is expected to hit sales made under the popular car rental agreements — now involving no deposit.

For an item purchased for R10 000 a deposit of R1 000, calculated on 10 percent of value, has been increased to 12 percent, requiring an initial deposit of R1 200.

ARGUS 5/5/88

Close watch on rand after credit curbs

Business Staff

SS

BUSINESSMEN will be closely watching the foreign exchange markets today to see whether the Government's moves to tighten credit will help to stop the slide in the rand.

Since December the value of the rand has fallen by an average of 10 percent in foreign exchange markets.

This is the result of fears that the great spending boom in South Africa could trigger a new balance-of-payments crisis, leading to a further sharp devaluation of the currency.

Imports have soared following the upsurge in spending and the trade surplus has been sharply reduced.

South Africa has fairly large foreign debts to repay — and concern has been expressed about the country's ability to raise the foreign currency needed.

GOLD SLIDE

The slow slide in the gold price has also helped to depress the rand.

In the past four months the currency has fallen more than 13 percent against the British pound and slipped to R4,16 today.

It has fallen 12,9 percent against the Japanese yen, 11,9 against the dollar, 7,9 against the German mark and the French franc and 5,8 against the Swiss franc.

- The rand weakened again today on the Johannesburg foreign exchange market, being quoted at R2,21 to the US dollar or 45 US cents to the rand. The rand closed yesterday at R2,12 to the dollar.

Business Report

The Board boosts profits despite stockmarket crash

CAPE TIMES 5/5/88

58/

By LAWRENCE TOTHILL
Investment Editor

THE Board of Executors has increased its earnings per share for the half year to March 1988 by 22% from 10,8c to 13,2c in spite of the stockmarket crash.

It has also increased the interim dividend by 20% from 5c to 6c.

After-tax income rose by 103% from R606 000 to R1 231 000, but some of the increased profit has been applied to service interest on the 5,6m convertible loan stock units issued in September 1987.

The Board's chairman, Paddy Wilson, said that the October collapse of world stock exchanges and the subsequent sharp decline in share prices on the JSE had impacted adversely on revenues earned from portfolio management — the core of The Board's traditional business.

"Against this background the increase in earnings per share of 22% is indicative of the strong performance from other activities within The Board's diversified range of financial services," he said.

This highlighted the success of The Board's strategy in recent years of expanding its activities from those of a traditional trust company to incorporate a wider range of financial services to both private individuals and corporate clients.

Wilson singled out the performance of The Board's property and money market activities as having been "particularly pleasing" in the period under review.

The Board was continuing to increase its property involvement and was currently engaged in a private placing of R50m worth of linked units in Boardprop, a property owning company due for listing on the JSE on June 13.

He said that higher interest rates were likely in the short to medium term and both The Board's money market and its participation bond scheme were well positioned to take advantage of the trend.

The six months to March 1988 is the first full period after the issue in September 1987 of the convertible loan stock units.

While noting that income does not accrue evenly throughout the year, Wilson forecasts satisfactory growth in profits for the full financial year.

After the crash: Back to business as usual

5/12/88 W/Mail (58)

The 'if it moves, trade it' philosophy which preceded October's crash hasn't been buried in the rubble.

By EDWARD GRELLER

SINCE last October's crash, stock markets have recovered, politicians have continued with their economic programmes and some leading international indicators are pointing upwards.

But the "if it moves, trade it" philosophy which preceded the crash hasn't necessarily been replaced by a commitment to investments in machines and buildings.

The events of October 19 1987 were expected to herald the beginning of a world recession much as a similar market crash had done in 1929. That does not seem to have happened. But has the world economy shrugged off the impetus that caused the crash ?

The first stone of the Meltdown Monday avalanche was a realisation among certain American investors that the fundamental prospects for the real economy did not justify the levels to which stock markets had soared.

Although their action triggered the vast wave of selling, these motivations have been obscured by the trading mentality that many see as the true cause of the almost overnight change in market sentiment.

Criticism has been levelled at the programme traders whose computer models over-reacted to the first downward movements and generated huge sell orders that were doggedly acted on. Portfolio insurance models, whereby the capital gains of an investment portfolio could be locked in by hedge trading in the futures and options markets, are also blamed for the panic selling.

Undercapitalised market makers carry a share of the blame for not keeping trading flowing in certain shares, increasing the level of market paranoia.

All of these causes are symptoms of the trading obsession that has developed in the global investment markets.

During the last few years investment houses and broking firms have put most of their spending into setting up trading facilities to meet the requirements of the vast global pool of mobile investment resources.

Contrary to popular opinion this expansion of trading and speculation in financial instruments did benefit the markets.

Investment in real assets, creating jobs and infrastructure, does require some trading in paper.

The channeling of resouces from investors to users requires a liquid market that allows participants to move in and out with ease.

The ability to offset risk or change the nature of the risk-return relationship by using sophisticated products such as financial futures, options, zero coupon bonds, floating rate bonds and interest and currency swaps enhanced the primary capital distributing role of the international financial markets.

The problem with the trading mentality was that it was easier to take profitable positions in financial instruments than in real investments. It is almost as if the real economy was forgotten until October 19.

It is difficult now to predict whether the fundamentals of the real economy will again prevail or whether the trading psyche has been entrenched because such vast resources have been commited to its growth.

One of the immediate results of Meltdown Monday was a strong preference for liquidity. To many investors straight, unadulterated cash was the safest.

Trading of virtually all financial instruments slowed down. Droves of traders were retrenched by the large trading houses. A generation of traders had thrived on the buy and sell mentality. The concept that their activity was to lubricate the distribution of investment capital to the real economy was overlooked.

Although the pace of the world financial markets has slowed, the pool of investment capital has not disapeared. The countries of the Far East remain the major sources of capital. As their trade surpluses continue to expand so satisfactory investments have to be found.

The burning question is whether these satisfactory investments will be in the real economy or the paper chase of the trading economy.

Don't hold your breath for this to happen. The legions of the traders still employed aren't qualified to do much else.

A recent newspaper report highlighted trading is here to stay: "as the dollar markets were quiet today, forex traders began trading in more exotic currencies that were usually thinly traded", it said. Keep your eyes open for options on puka shell futures at Club Med this summer.

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DD 5/5/88

Bank, HP rate hikes curb credit

CAPE TOWN — The government yesterday took action through various measures to throttle back on the economy and curb consumer spending.

The measures, which include an increase in the bank rate by one per cent, to to 11,5 per cent from today, will push up commercial interest rates, to counter excessive spending in the economy.

Minimum deposits for hire purchase agreements will also go up, from 10 per cent to 12 per cent and from 15 to 18 per cent for credit agreements involving household furniture.

"We are applying the brakes slightly so that we do not go too fast," the Minister of Finance, Mr Barend du Plessis, said in the House of Representatives yesterday when he announced the new measures.

The valuations placed on company cars are to be increased by 15 per cent to bring them closer to current market values.

Transactions subject to the Usury Act, at present only covering transactions up to R70 000, and the Credit Agreement Act, which at present covers transactions up to R100 000, will from today cover all new financing transactions under these laws up to a maximum of R500 000.

Limits prescribed under section 2 of the Usury Act will be raised from R4 000 to R6 000.

Mr Du Plessis also announced that legislation would be introduced to bring all rental agreements, other than short-term rentals for periods up to three months under the same provisions as credit agreements.

As from May 9, rental agreements will be covered by the Usury Act and the Credit Agreements Act and the provisions of these laws in regard to minimum deposits and maximum repayment terms will apply to rental transactions.

Mr Du Plessis said: "By timely action now we can avoid crisis measures later — measures that could cause large scale disruption.

"It is in no way the intention to restrain total economic growth."

● The PFP's finance spokesman, Mr Harry Schwarz, said the government's action was inevitable but the government had waited for too long and allowed the situation to develop.

It was also failing to get to grips with the structural problems facing the economy, in which the precarious nature of the balance of payments had put a ceiling of 3 per cent on growth.

● The Standard Bank's John Lloyd said last night the bank would up its prime rateby 1 per cent to 15 per cent from today.

The Trust Bank, too, indicated that it would move up 1 per cent, but the date from when the new rate would be effective had not yet been finalised.

Other banks are expected to follow the Standard and Trust's example, but final decisions had not been reached by last night. First National's Jimmy McKenzie said the bank was studying the full package to cool down the economy before making an announcement.

● A South African Agricultural Union spokesman said the hike in interst rates would hit thousands of financially stressed farmers hard.

The interest hike would mean additional interest payments of more than R140 million "and there are few farmers who can afford this".

● The motor industry could not be unhappy about the one per cent hike in interest rates, the National Association of Automibile Manufacturers director, Mr Nico Vermeulen, said. The rise had largely been discounted by the industry.

Obviously, it would impact on HP financing and the acquisition of new and used vehicles, he said.

But in the light of the reality of excessive demand in the economy the increase was expected.

● The president of the Afikaanse Handelsinstituut, Mr Pieter Steyn, said the government had possibly achieved the correct balance in its package to dampen excessive spending without threatening to end growth in the economy.

In the light of recent trade balance figures, the money supply position and the extent of credit it was clear excessive spending had to be curbed.

The AHI accepted moves to achieve this aim were unavoidable.

● The economist at the United Building Society, Dr Hans Falkena, said prospective homeowners would find it more difficult to secure bonds than in the past.

Dr Falkena said that existing bond holders were in a good position having already secured a bond but they would probably need to curtail their expenditure to accomodate the increased repayments.

● The managing director of The Perm building society, Mr Bob Tucker, expressed concern that the increase would affect grass-roots housing development.

He said the increase in money supply was a direct result of excessive credit-creation used mainly for luxury durables. — DDC-Sapa

See also page 9

Money squeeze

Cape Times 5/5/88

African venue for Angola talks

Cape Times 5/5/88

Own Correspondent

LONDON. — The four-power conference for peace in Angola and Namibia has agreed to a follow-up meeting in an unnamed African capital "within weeks".

It is believed the venue will be the Cape Verde Islands and that specific proposals for the withdrawal of up to 40 000 Cuban troops from Angola top the agenda with unspecified reciprocal offers from South Africa on withdrawal from Angola and Namibia.

A joint statement issued by South Africa, the United States, Angola and Cuba said the talks had taken place in a "constructive atmosphere" and that "progress" had been made.

'Important step'

US Assistant Secretary of State Dr Chester Crocker, who chaired the meeting, said it was an "important first step".

As he spoke the high-power South African delegation headed by deputy Foreign Minister Mr Neil van Heerden and Defence Force Chief General Jannie Geldenhuys was flying home to report to President P W Botha.

Dr Crocker said the Angolan government, acting jointly with the Cubans had, in March this year, put forward proposals which incorporated the "concept of total Cuban troop withdrawal over a period of time".

America would continue to mediate as long as the warring parties "stayed serious. It is after all their boys dying in these wars, not ours", he said.

In Cape Town Foreign Minister Mr Pik Botha cautioned that while he was heartened by the course the talks had taken he could not speculate on the eventual results.

He added: "I trust that those on Cap-

By AUDREY D'ANGELO and BARRY STREEK

THE days of cheap borrowing and easily obtained credit are over. From today bank overdrafts and hire purchase will cost more and a bigger deposit will be needed for cars and other goods bought on credit.

A deposit will now be needed to lease a car — an easy method of getting a new one which has helped to account for soaring sales in the past few months — and the period will be shortened from the present 48 months to 42.

The Minister of Finance, Mr Barend du Plessis, announced in the House of Representatives yesterday that the bank rate would be raised by a full percentage point from today, from 10,50% to 11,50%.

This will push up overdraft rates and probably lead to a rise in the home loan rates charged by banks, currently well below those of the building societies.

Higher overdraft rates will also increase the costs of manufacturers and other commercial firms, leading to price rises.

Mr Du Plessis said minimum deposits for hire-purchase agreements would also go up, from 10% to 12%. Minimum deposits for furniture bought on credit would go up from 15% to 18%.

The valuations placed on company cars would be increased by 15% to bring them closer to current market values.

Mr Du Plessis said: "This policy package is being introduced so as to avoid too rapid an expansion [illegible] total spending, which would cut short the economic upswing in an early stage.

"By timely action now we can avoid crisis measures later — measures that could cause large-scale disruption. We are applying the brakes slightly so that we do not go too fast."

Making it clear that he did not intend to put a stop to the upswing but only to slow it down, he compared it to a child's toffee: "Either it can be swallowed at once or it can be sucked on until the next day."

Reserve Bank Governor Dr Gerhard de Kock said yesterday that the higher bank rate was expected to lead to a rise in the prime lending rate which banks charge favoured customers from the present 14% to 15%.

He appealed to the banks and building societies "to slow down the rate at which they are expanding their credit to the private sector" and in particular to cut back on "extending consumer credit and mortgage loans for the financing of luxurious private homes".

Govt slams brakes on money supply — PAGE 10

Leading economist Professor Attie de Vries of the Stellenbosch Graduate School of Business said last night that he did not think the new measures would kill off the upturn, despite the fact that new car sales and some other indicators were already showing signs of coming down.

But building society spokesmen expressed dismay. Dr Hans Falkena, economist with the United Building Society, said he thought it would become more difficult to get home loans.

Trust Bank senior general manager Mr Kobus Roetz said customers' creditworthiness would come under stricter scrutiny. Customers who had previously only just qualified for loans would probably not qualify now.

Brave new day for baby Mpho

ABOVE: Mpho lies awake and apparently well on the road to recovery in Baragwanath Hospital after the marathon operation in which she was separated from her Siamese twin Mphonyana.

LEFT: Doctors check the conditions yes

More interest rates set to rise

Home-owners hit by Govt's credit squeeze

Star 5/5/88

(58)

By Sven Lünsche

The first shocks of the Government's credit squeeze were felt today when First National Bank announced a 1,5 percent increase in its bond rate to 15 percent.

Further bond rate rises, affecting tens of thousands of home-owners around the country, are expected from banks and building societies this week. South Africa's biggest building society — the United Building Society — has already disclosed it is reconsidering raising its present rate of 14 percent.

The major commercial banks have also announced a rise in their prime rate from 14 to 15 percent with immediate effect in reaction to the increase in the Reserve Bank's bank rate from 10,5 to 11,5 percent as from today.

Credit customers will pay more up front for a wide range of goods, as the required initial deposit on goods will be increased by one-fifth from this morning — which means that where formerly a required deposit was 10 percent it would be increased to 12 percent.

In the case of household furniture, the deposit would increase from 15 to 18 percent of the initial value.

Interest payments more expensive

At the same time, the limit for smaller sums prescribed under the Usury Act would be raised from R4 000 to R6 000, which makes interest payments on these goods more expensive, while there would be no change in the maximum repayment period.

The bank rate increase is part of a Government package to put the brakes on a consumer spending spree with a credit squeeze which will severely affect hire-purchase contracts, car purchases and bond-holders.

As part of the package, which was announced yesterday, the Minister of Finance, Mr Barend du Plessis, also published measures to curb HP credit demand.

Reacting to the rise in the bank rate, the UBS said they were still discussing the latest developments, but MD Mr Mike de Blanche said today an increase in its bond rate, currently at 14 percent, is being considered.

Mortgage bond rates at most other institutions have already been increased and are committed until June/July.

The rise in the bank rate also saw increases in the prime overdraft rate from 14 to 15 percent by Standard Bank, First National and Volkskas. Nedbank and Trust Bank are likely to follow later today.

The package announced by Minister du Plessis during debate on his Budget vote in Parliament yesterday will substantially reduce the growth in consumer spending on credit, which has led to a surge in sales of durable goods such as furniture, motor cars and appliances.

Third measure

A third measure to hit the consumer yesterday was that rental agreements would now be subject to the minimum deposit restrictions, severely affecting the popular car-rental agreements.

This could cause a drop of at least 20 percent in the sale of private passenger vehicles, motor industry experts said last night.

The increase in the minimum deposits also means if a 20 percent deposit was required, this would now be increased by 20 percent to 24 percent.

The deposit now required on a car worth R20 000 will therefore increase from R4 000 to R4 800.

Mr du Plessis said the overall package had been introduced to avoid too rapid an expansion in total spending, which could cut short the economic upswing.

●See Pages 11 and 15

Payments on bonds set to go up steeply

Staff Reporters

Prospective home-owners will find it more difficult to secure bonds than in the past and people paying off their homes are likely to face substantial increases in bond repayments following the interest rate announcement by the Reserve Bank yesterday.

This is the view of analysts and economists questioned last night in reaction to the increase in the bank rate by 1 percent to 11,5 percent, which is likely to lead to further increases in mortgage repayments.

Some building societies and banks have already committed themselves to a rate of 14,5 percent until June-July this year, but the remainder are likely to raise the rates to those levels within the next few days.

UPWARD MOVE

The Allied Building Society increased its rates from 13 to 14,5 percent this week and at the time said this was in anticipation of an upward move in interest rates generally.

United Building Society economist Dr Hans Falkena says existing bond-holders are in a good position, having already secured a bond, but they would probably need to curtail current expenditure to accommodate the higher loan repayments.

Property economist Mr Neville Berkowitz believes thatdemand in the residential property market will ease as people become nervous of further interest rate increases and higher repayments.

Mother to

By Toni Younghusband, Medical Reporter

Ms Sophie Mathibela, the mother the newly separated Siamese tw Mpho and Mphonyana, will hol baby girl in each arm for the fi time today.

Miss Mathibela and her world mous children are to be photograp by a team from Wits University the first time since the twins' ope tion.

The twins, who will be 17-mont old on Saturday, are recovering w and spent a peaceful night.

Mpho, the stronger of the two, manded to be bottle fed less than

Space shuttle fuel explodes

HENDERSON (Nevada) — A series of thunderous explosions destroyed a space shuttle fuel plant and a candy factory yesterday, generating a 13 sq km toxic cloud, killing one person and injuring more than 250, authorities said.

"It flipped cars over, knocked pedestrians to the ground and windows in the whole town shattered," said Ms Susan Russo.

The the first explosions occurred shortly before noon. All roads to the town of Henderson were closed

Two blasts, which levelled the fuel plant and the Kidd and Co Marshmallow factory next door, registered on seismographs 320 km away at the California Institute of Technology in Pasadena.

The fuel plant manufactures ammonium perchlorate, an oxidiser used in fuel for the shuttle's solid rocket boosters. — Sapa-Reuter-AP.

FIRST NATIONAL BANK

Trailing behind

It is inevitable that the results from Nedbank and First National, appearing in the same week, should be compared. First National, with an increase in EPS of only 7,6% against Nedbank's 61% climb, obviously comes off second best.

Net interest income improved only 10,2% for the six months to end-March, compared with the year-ago period, while for the full financial year to end-September, the climb was 47,1%. The EPS rise for the year was also considerably higher, at 72%.

Though bankers have been complaining about lack of demand for funds, the pickup in this area in the last few months is now creating problems. Senior GM Jimmy McKenzie says there was enormous growth in total assets, which had to be funded. He also points out that the first three months are always tough, with salary increases, bonuses and so on and costs outpacing income.

"Interest rates turned in December," he comments, "and we have been under pressure since January. The home loans rate only changed on March 24th and our home loan book is now R2,2bn, with R782m granted but not registered." Relief was only obtained when prime increased on March 10, with the home loan rate increasing 1% in late March, very near year-end.

One of the main problems has been the high cost of medium- and long-term finance. As a result, First National has raised a lot of short-term finance — not the best policy in a period of rising rates — and McKenzie says that the cost is affecting margins. Deposit and current accounts are up 31% from R16,6bn to R21,8bn.

A disturbing feature is the resultant decline in return on total assets, which fell from 0,9% at the end of September to 0,74%.

A more optimistic note is that the doubtful debt provision has fallen from R70m to R60m. McKenzie says the group has looked at all non-performing assets and there are now few problems left. One of these is the R17m in Gold Reef City. McKenzie says that half of this amount has been provided and the balance will be provided monthly till year-end. He points out, however, that the bank has continued to make provisions according to its usual formula and the fall in total provisions, despite the sharp rise in loans, indicates how clean the book is.

But the market has reservations. At an historic dividend yield of 6,3%, First National is on an average rating for the sector and well behind rival Stanbic's 5,2%.

Pat Kenney

FM 6/5/88

NEDBANK

Recovery complete

Nedbank's latest results should convince shareholders that it really is out of the woods and into the bright sunlight. After the problems of two years ago and the massive rights issue, Nedbank's first results reported without an earnings dilution arising from the rights issue are extremely good. Taxed profit and earnings per share climbed 61% (or 53% after transfer to tax equalisation reserve), with the commercial banking operation accounting for most of the improvement.

But this is a recovery situation. Though there had been substantial cleaning up in the previous year, benefits of the reorganisation did not flow through fully until now.

A major problem area was Nedfin bank, but CE Piet Liebenberg says that its problems are over and operating income has more than trebled from R1m to R3,5m.

Most important development was the turnaround in the bank, where operating income leapt from R32,4m to R60,9m. Chairman Owen Horwood says the virtual elimination of non-performing and poorly-performing loans contributed to the improvement in net interest; increased volumes also helped. Liebenberg says the worst bad debts have been written off entirely, and others that had been doubtful are now looking better as the improvement in the economy helped profits.

The two merchant banking arms performed less well. UAL, a star performer last year, was hit by the fall in the JSE and recorded a lower rate of increase (14,4%), while Finansbank, which had to adapt to being part of a large corporation, experienced a decline from R5m to R4,9m. Well-managed Syfrets continued its steady growth, with a rise of 13,1%.

Like First National, Nedbank has been caught in a situation where it is having difficulty raising long-term finance. Liebenberg suggests the market is becoming very sophisticated and lenders tend to go short when they expect rates to rise.

What must interest investors is the fact that Liebenberg, who says his is mainly a co-ordinating function, is to succeed Anton van der Merwe Vance as head of Nedbank from July 1. But Liebenberg points out this is not part of his long-term plan, and he is seeking a replacement for Van der Merwe Vance inside the bank.

Outlook depends partly upon movements in interest rates and whether the banking sector will be allowed to increase lending rates at a pace to keep up with borrowing rate increases. As far as the merchant banks are concerned, Finansbank is expected to improve this year and UAL is busy adapting to different circumstances. The bank is continuing to provide for tax in a tax equalisation reserve, so effects on earnings when it pays tax should not be too great.

With the share on a dividend yield of 5,5%, it is obviously still rated a recovery stock, well ahead of the average 6,3% yield for the sector. *Pat Kenney*

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INTEREST RATES

Winners and losers

With average interest rates on agricultural debt running at 14%, annual interest costs amount to nearly R2bn. And, according to Kobus Jooste, president of the South African Agricultural Union, every one percentage point increase in interest rates means an additional R140m to be paid annually by the sector.

His estimate is based on total debt of R14bn. In fact, the exact figure for end-1987 is likely to be about R13,2bn. Of this, about R2,8bn comes from the Land Bank, R3,6bn from commercial banks, R3,3bn from agricultural co-operatives, R1,5bn from other financial institutions, R940m from private business and over R1bn from other sources.

While rate increases will bring hardship for borrowers, non-increase in interest rates costs creditors an equivalent amount. Commercial banks, for instance, would lose more than R30m annually, on agricultural debt alone, for each percentage point increase which fails to materialise.

Looking at the total book, the fact that prime did not increase from 14% to 15% a month ago, when the BA rate went over 11%, has already cost the industry about R35m.

This calculation is based on loans outstanding to the five major banking groups in December. Out of R45,4bn total loans outstanding, suspensive sales stood at R9,3bn, leasing at R4,5bn and other loans and advances (essentially overdrafts) at R31,6bn. All "other loans and advances" are directly linked to prime, as are a big proportion of leasing and suspensive sales which means that possibly about R40bn is at issue.

Also a loser, when rates fail to rise, is the saver, who earns negative real returns. In May 1986, when the consumer price index (CPI) rose by 17,5% year-on-year, building societies offered between 13,75%-14,75% on 12-month money.

In May 1987, when CPI increased by 17,3%, yields were 10%-10,5%. In March, with CPI down to 13,3%, yields were 10,75%-11% and 8,5%-10%. ■

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New credit rules raise bond rates

Daily Dispatch Correspondent

JOHANNESBURG — Consumers face higher interest rates as well as greater difficulty to obtain credit after Wednesday's package to cool down the economy.

The United Building Society (UBS) and First National Bank (FNB) followed the package by immediately increasing home loan rates. The UBS moved its rate for new bonds to 15 per cent from 14 per cent, but existing bond rates stay unchanged for the time being. FNB moved rates on all its home loans to 15 per cent from 13,5 per cent.

The Trust Bank and Volkskas have not yet taken a decision on home loan rates, but are likely to follow the UBS and FNB's example.

Earlier this week, in anticipation of Wednesday's package, the Allied Building Society announced a 0,75 per cent increase in its bond rate to 14,5 per cent.

However, the SA Permanent has pledged to keep its bond rate to 14,5 per cent for as long as possible, and the Standard has promised to keep rates at 12,5 per cent until next month.

The banks increased their prime overdraft rates by 1 per cent to 15 per cent yesterday, and rates on hire purchase deals are also to be raised.

At the same time, banks and societies will impose stricter standards when determining credit-worthiness to comply with request by the governor of the Reserve Bank, Dr Gerhard de Kock, for them to slow down the rate of credit expansion.

The senior general manager of the Trust Bank, Mr Kobus Roetz, said it would become more difficult to qualify for a loan while there was more liquidity in the banking system.

The demand for loans, especially mortgage finance, is outstripping supply and institutions are competing for depositors' funds. A UBS economist, Mr Hans Falkena, said prospective homeowners would find it more difficult to secure bonds than in the past.

The Property Economist's Mr Neville Berkowitz believes that demand in the residential property market will subside as people become nervous of further interest rate increases.

He sees prices of homes slowly subsiding as a result of this decrease in demand.

First National, UBS increase mortgage bond rate

Credit squeeze hits home-owners' pockets

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Star 6/5/88

The first shocks of the Government's credit squeeze were felt yesterday when First National Bank and the United Building Society announced increases in their bond rates to 15 percent.

Spokesmen for the SA Perm and the Natal Building Society said their rates would not be raised in the immediate future, but it is expected that other banks and building societies will increase their rates in June and July. Rates for existing bondholders are still under consideration by the UBS.

The major commercial banks have also announced a rise in their prime rate from 14 to 15 percent with immediate effect in reaction to the increase in the Bank rate from 10,5 to 11,5 percent as from yesterday.

Credit customers will pay higher deposits for a wide range of goods, as the required initial payment will be increased by one-fifth — from 10 percent to 12 percent.

Increased deposits

For household furniture, the deposit will increase from 15 to 18 percent of the initial value.

At the same time, the limit for smaller sums prescribed under the Usury Act will be raised from R4 000 to R6 000 — which makes interest payments on these goods more expensive. There will be no change in the maximum repayment period.

The Bank rate increase is part of a Government package to slowdown a consumer spending spree with a credit squeeze which will severely affect hire-purchase contracts, car purchases and bondholders.

The rise in the bank rate also saw increases in the prime overdraft rate from 14 to 15 percent by Standard Bank, First National, Volkskas and Nedbank. Trust Bank is likely to follow later.

As part of the package which was announced on Wednesday, Finance Minister Barend du Plessis also published measures to curb HP credit demand.

The package, announced by the Minister during debate on his budget vote in Parliament will substantially reduce the growth in consumer spending on credit, which has led to a surge in sales of durable goods.

Rental agreements

A third measure to hit the consumer is that rental agreements will now be subject to the minimum-deposit restrictions, severely affecting car-rental agreements.

This could cause a drop of at least 20 percent in the sale of private passenger vehicles, motor industry experts say.

The increase in the minimum deposits also means that if a 20 percent deposit had been required, this would now be increased to 24 percent.

The deposit now required on a car worth R20 000 will therefore increase from R4 000 to R4 800.

In a tilt at Standard Bank's recent Access Bond scheme Mr du Plessis called on banks to stop the "unsound practice" of giving house loans through overdraft account facilities with the house as security.

He said the overall package had been introduced to avoid too rapid an expansion in total spending, which could cut short the economic upswing.

Major restructure at Rembrandt expected

Star 6/5/88

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By Ann Crotty

The four listed companies involved in control of the Rembrandt Group's widespread interests showed strong advances in yesterday's market after an announcement about a possible restructuring of certain domestic and unquoted international interests.

Remgro moved up 140c to R11,80; Rembeh added 65c to 830c; TIB firmed 55c to 730c and Tegkor gained 50c to 700c.

Although it was not possible to get the publicity-shy group to add any flesh to the announcement, the market seemed sufficiently encouraged by the statement that if the restructuring was implemented it could have a material effect on the share prices of the four companies involved.

Further information is expected to be made available to shareholders to coincide with the preliminary announcement of group results at the end of June.

Between now and then analysts will no doubt be constructing a myriad of potential organisational structures.

At this early stage, the feeling seems to be that the move has been prompted by the need for Rembrandt to get a better hold on its widely scattered investments.

Because of the veil of secrecy that surrounds group activities, it is difficult to put an exact figure on the extent of those investments. But according to Robin McGregor of Who Owns Whom, Rembrandt's share of quoted companies on the JSE had now increased to 4,9 percent, compared with the 4,3 percent it held before last October's crash.

At end-March, the total market capitalisation of the JSE was R233 billion. On a simplistic assumption, this would put the current value of Rembrandt's JSE investments at R11,4 billion. These are spread across four major sectors: tobacco and liquor; mining; engineering; financial services. In addition, there are "other" interests and portfolio investments.

These interests have been accumulated over the years and have been added onto a fairly simple organisational structure which sees the Rembrandt Group at the centre operating on a philosophy based on partnership with the individual management teams. This philosophy has had the advantage of allowing Rembrandt to keep a low profile — an important consideration in regard to group accumulation of assets overseas.

Analysts say although Rembrandt's founder-chairman Dr Anton Rupert professes to adhere to a philosophy of "progress through partnership", it is usually the case that Rembrandt is the controlling partner.

It may be the Rembrandt board now feels its relatively simple organisational structure is no longer adequate to ensure the most effective use of the group's massive asset base. If this is so then the most obvious change would see the creation of four divisions under Rembrandt to manage more closely their four major investment areas.

One such division would comprise a financial holding company which would bring together Rembrandt's financial interests, chief of which are a 30 percent stake in Volkskas group; 20 percent in Sage Holdings; 10 percent in Boland Bank; 10 percent in Stanbic and 20 percent in Lifegro. In addition, the Rupert family has a 30-percent stake in Rand Merchant Bank and the group has access to an even wider spread of financial interests through various cross-holdings.

A separate division to manage these interests might be able, more effectively, to implement a more focused strategy from Rembrandt's point of view. It would also imply a greater degree of overt control by Rembrandt management.

As a focused entity, Rembrandt's financial division has remarkable potential. One leading Rembrandt analyst, taking a long-term view, speculated on the creation of a major financial force through the merger of Donald Gordon's Liberty Group and other financial interests with the Rembrandt financial interests. (Mr Gordon and Mr Rupert are reported to have a very high regard for each other.) Such a force would see the bringing together of majors Volkskas, Standard and Liberty, as well as the other smaller banks and insurance companies, and would offer enormous scope for rationalisation. In addition, Mr Gordon has considerable overseas financial investments and Rembrandt also has significant international interests.

There may be similar potential in the streamlining of Rembrandt's other three "divisions". And it may be that what is eventually announced will be considerably tamer than what analysts are currently speculating on.

Women flex their money muscle in insurance sector

Star 7/5/88

(58)

Michael Belling
manager (marketing communications) Sage Life

Singling out women as the topic for this column may be perilous in these liberated times, but the growing role they play in all facets of the economy is (hopefully) sufficient reason.

Until fairly recently, insurance companies tended to neglect women as a specific market — in other words, they may well have treated women as second-class citizens in terms of the services and plans offered.

Today such an attitude would, rightly, cause an outcry. Yet only one generation ago relatively few women drove cars, were involved in business or had life assurance.

Now the trend is towards equal opportunity. Women play an increasing role in the economy.

Growing career paths are open to women.

With all this economic progress, the financial contribution of women to the home has become a major factor in monetary terms. In addition, she still remains a wife and mother.

Insurance companies have recognised the growing momentum towards self-realisation and self-expression on the part of women and can play an important part in maintaining their independence and security.

The needs of women today include equipping themselves for a career. One of the unfortunate reasons for this is the extremely high divorce rate in South Africa. There should be provision against loss of earning power through retirement or due to disablement caused by illness or accident.

A housewife who does not also work outside the home is a major element in the family economy — her loss would entail major expenditure in providing for home help and care for young children.

In essence, the woman today has similar life assurance needs to the man and can derive the same benefits for herself, her family and her business. Income-tax and financial planning considerations apply equally to both sexes. Life assurance can fill a need in the case of housewives who are not wage earners.

Several companies have recognised the importance of the female market by producing specially named plans for women. Others offer the same product without the "feminist" label.

Trust Bank offers bonus interest plan

STAR 7/5/86

Trustbank is offering interest on interest on interest, including five percent bonus interest paid up front, to all individuals who invest money on fixed deposit for a period ranging from 12 to 36 months.

There is no limit to the amount invested. The "cherry up front" will consist of 5% of the total interest earned for the full term of the investment.

In addition, normal interest is paid on the fixed investment in equal monthly instalments. If a client is not pushed for cash, the up front bonus interest can be put into a separate savings account where the monthly interest payments on the fixed investment can also be accrued.

This account will earn interest on the bonus interest which is calculated on the basic interest earned.

Clients over the age of 55 who reinvest the bonus and the monthly interest in a special benefit save account score yet again — they will receive an extra year-end bonus of 10% on the interest accumulated in this account. For those over 65 the bonus is 20%.

Investec does better than expected

By Ann Crotty (58)

Despite a fairly rough trading period, in the second half, banking and financial services group Investec has managed to pip its own expectations by turning in a 57 percent increase in net income to R11 million for the year to March.

At the half-way stage, the directors had stated that they remained confident that Investec would achieve the forecast net income after tax and transfer to internal reserves of R10 million in financial 1988.

This forecast was equivalent to earnings per share of 50c.

The actual results show earnings per share up 31 percent to 55c from 42c.

A final dividend of 15c per share has been delcared, bringing the total payment for the year to 24c a share.

Star 10/5/88

According to the directors, the benefits of rationalisation and the containment of costs, coupled with Investec's spread of business, low gearing and high liquidity places it in a secure position to maintain its growth.

Share capital and reserves increased to almost R60 million from R53 million and total assets were up to R750 million from R424 million.

Executive director Graham Davin says that the growth in assets will result in an improved return on capital over time: "We are fine-tuning the relationship between our asset growth and capital so as to maintain consistently high returns within acceptable credit and trading risks."

The Elfi product which was developed by Investec for South African Transport Services in 1986 put in a strong performance when the equity market collapsed last October.

Chief executive Ian Kantor says: "Elfi bear stock immediately responded with price quotes adjusting to reflect changed expectations of the future and significant trading took place. This is further proof that innovative instruments have been accepted and will prove their worth as new investment opportunities."

According to Mr Kantor, the merger and rationalisation process that followed the acquisition of Metboard is now complete and "we have a closely integrated and far more efficient operation".

DD 10/5/88

Access Bond advertising: bank warned

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Daily Dispatch Correspondent

JOHANNESBURG — The Standard Bank will change its Access Bond advertisements after a Reserve Bank warning against encouraging the use of mortgage loans to finance consumption spending.

Standard Bank home loans General Manager, Mr Terry Power, said that "in future we will not emphasise the revolving credit aspect of the product."

Access Bond was launched in March when the bank announced that its mortgage bond-holders could re-borrow funds they had paid off on bonds to use as they liked.

The facility, operating as revolving credit, resulted in the Building Societies Association lodging a complaint with the Registrar of Banks claiming that it would lead to an excessive use of credit and was "morally wrong".

The bank intends to continue offering a credit facility through Access Bond, but Mr Power pointed out that since the bank's home loan book was still new, very few people had paid off enough on their bonds to make use of the facility.

He said that advertisments emphasising credit availability through the bond package had come to a logical end anyway and the bank had planned to launch a new campaign, "de-emphasising the credit side", before the Reserve Bank statement.

A new marketing strategy will be based around home owners depositing surplus funds into their bond accounts through automatic teller machines.

The account will function as a savings account, as homeowners will still have access to these surplus funds.

Part bond rates continue to climb

By Sven Lünsche

Participation bond rates continued their recent upward movement this week when two major institutions increased their rates in the wake of the rise in prime and bond rates last week.

First Personal Asset Management (Persam) increased the rate on its participation mortgage fund by one percent to 14,5 percent with immediate effect while Masterbond Trust upped its rate from 15 percent to 15,5 percent for senior citizens.

Unlike the government-backed "Granny-bond" scheme, which is confined to those of 65 years and older and stipulates a R30 000 maximum investment, Masterbond does not place a ceiling on the amount which may be invested and those of 60 years and over may participate.

Masterbond's standard rate on participation mortgage bonds has also been increased by 0,5 percent and now stands at 15,25 percent.

The interest rate for borrowers will also increase. The new rate will be 15,67 percent for new lendings with immediate effect and existing borrowgings will increase on the next quarter date.

Persam also announced a rise in their interest rate for borrowers to 15,67 percent for new lendings, while existing borrowings will increase on the next quarter date.

The advantages of "Granny-bonds" also applied to those partbond investors, who have been invested for over five year, said Persam MD Ken Burgess. They will be available from May 16 this year.

Also on the bond rate front Sanlam announced yesterday that it was marketing a new profit-sharing mortgage bond policy.

Unlike an ordinary term policy, it offers a maturity value at the end of the period of cover as well as an option to raise the sum assured.

According to Mr Francois Marais, assistant-genaral manger, the new policy is an extension of Sanlam's "The One Policy" series.

With the one policy for mortgage bonds the assured can now share in investment bonuses in Sanlam's investment series and he could expect to receive almost double his premiums paid upon surviving the assured term, depending on his age at inception.

It is also possible to make the initial sum assured exactly equal to the total mortgage debt. The new policy has a minimum premium of R35 a month. Only that part of the premium needed for life cover is recovered from the total premium, and the remainder of the premium is used to increase the maturity value.

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Star 11/5/88

Star 11/3/88

Inflation now main worry for bankers

BASLE — The world's top bankers are showing signs of unease about a possible spurt to inflation after months of worrying about a stock crash-induced recession, monetary sources said yesterday.

"They seem to be worried about inflation and that is new because in previous months the talk was about recession," said one official who emerged from the monthly meeting of central bankers of leading industrial countries at the Bank for International Settlements.

"I would not say we are talking about the immediate danger of inflation," another official said, "but we have a high level of liquidity growth which can motivate inflation."

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Many central banks opened the money sluices after last October's stock market crash, priming their economies with extra injections of cash. Now they are increasingly concerned the excess liquidity could stoke inflationary pressure.

INTEREST RATES

"People now see inflation as a possible feature on the scene in contrast to the possibility of recession, which was the danger six months ago," one central banker said.

But the officials said there was little talk of adjusting interest rates or concern about the recent rise in long-term US rates.

"We are in an intermediate situation," one central banker said. "The feeling is that interest rates are stable. We do not know if that is temporary or whether there will be a turnaround."

"We feel there was already a market tendency for long-term interest rates to go up, in the US in particular," another added. "This is not a new development."

The monetary sources said retail price inflation in most major industrialised countries remains low.

But a strong rise in prices of commodities and industrial raw materials over the past year has been flashing warning signals about the economic outlook.— Sapa-Reuter.

A strange economy, overheated before it warms up

WEEKLY MAIL, May 13 to May 19, 1988

A bizarre society indeed: Unemployment up, growth declining, yet the fear is of 'overheating' the economy.
By HILARY JOFFE

MEASURES announced last week to tighten credit and raise interest rates highlighted the impact of the *de facto* "bankers' sanctions" imposed on South Africa since 1985.

The measures, announced by Reserve Bank Governor Gerhard de Kock and Finance Minister Barend du Plessis, were aimed at "cooling down" the economy. Much was heard of the "overheating" of the economy and the need for South Africa to live within its means.

There was something bizarre about all this in the context of an economy which has grown by 4,6 percent in the 1980s while the population has grown by 13 percent, with deep-rooted problems of unemployment and poverty.

Most economists are forecasting a growth rate of about 2,5 percent this year while the more pessimistic (such as the United Building Society's Hans Falkena) are now expecting only two percent.

Boom conditions dating back to the latter half of last year have really been little more than a boomlet, and a rather fragile one at that. Growth last year was based in part on government spending, and the rapid improvement in economic conditions in the last six to eight months has been fuelled primarily by consumer spending — and on credit, at that. Hire purchase credit increased by 18 percent in 1987 and by April had been going up at an annualised rate of 32 percent for three months.

Total credit extended to the private sector expanded at a 29 percent rate during the second half of last year. Consumer demand for durable goods such as cars, appliances and furnishings has soared.

As credit expanded, money supply increased by 23 percent in the year to February, way over the 16 percent targeted maximum considered desirable by the Reserve Bank.

Private sector fixed investment — which had declined consistently in real terms throughout the 1980s — has risen, but not enough to have an impact on joblessness or to ensure future growth.

But the boomlet has been enough to bring the economy sharply up against limits to its further expansion. The main limit is the state of South Africa's balance of payments. The other is inflation.

Top of the list of economic priorities for the financial authorities is that South Africa keep up its foreign debt repayments, negotiated at the time of the debt standstill in 1985. Since international bankers are not keen on debt defaulters, overseas loans have been hard to get ever since.

No new long-term foreign capital is coming into South Africa and very little in the way of even short-term loans.

The chosen path now is that South Africa must prove its international creditworthiness in the hope that it will once again be able to raise foreign money. That means sticking strictly to the terms of the debt package, even if it means the unemployed will just have to stay that way and business'. investment-shyness will have to continue.

South Africa is a net capital exporter so it runs a surplus on the current account of the balance of payments to pay its debts.

The current account is estimated to have run into a small deficit in the first two months of this year. Its major component is the trade balance between exports and imports.

Export prospects are not good, given a slowdown in the world economy, and even without the possibility of further sanctions. Imports have risen sharply with the improvement in economic conditions: volumes increased by eight percent in the first quarter of this year.

Most economists have been predicting a current account surplus for this year of about R3-billion. This is lower than last year's R6-billion. But it is still more than enough to cover repayment of foreign debt.

The installment owed foreign creditors in terms of the agreement (the so-called debt "in the net") this year is apparently R400-million.

The at least R2,5-billion current account surplus which economists estimate is necessary to cover the foreign debt repayment is needed so the debts can be repaid without the value of the rand falling through the floor.

As trade figures have indicated a declining current account surplus and the value of South Africa's gold and foreign exchange reserves has declined, the rand's value has fallen — by 14 percent (against the dollar) since January.

Last week's measures were an attempt to curb credit and so curb demand. They included a rise i the bank rate from 10,5 to 11,5 percent and limits on Reserve Bank accomodation of the banks' cash needs. De Kock appealed to the banks to be more cautious in granting loans. Du Plessis announced measures designed to limit credit granted through leasing facilities and hire purchase agreements.

The financial authorities reacted to a similar scenario of rapidly expanding credit, increasing money supply, inflation and rising imports in 1983/84 with steep interest rate rises which took the prime overdraft rate to a peak of 25 percent and plunged the economy deep into recession.

They don't plan to repeat the exercise, so the measures were cautious ones which took a while in coming.

They have not been enough to halt the rand's slide: one banking source believes the April current account looks "horrific" and believes the rand is bearing the full burden of the balance of payments constraint on the economy.

A rapidly falling rand leads to inflation, as the cost of imports rises. It also has an adverse effect on business' attitudes to investment. Businesses can "cover forward", insuring themselves against foreign exchange losses resulting from a drop in the rand, for only a year in advance. Initiating longer-term investment projects requiring imported plant and machinery becomes very risky in the context of a fast falling rand.

But rising interest rates too could affect confidence. Demand for certain kinds of goods — cars for example — could fall as a result of the new measures. And businesses fear the impact of increasingly expensive borrowed money.

So even after the credit measures, the economy remains caught in the vicious cycle which has become entrenched over the past few years.

It's a cycle in which there are not enough financial resources and no prospect of more from outside. The government's deficit is a central aspect of it (being equivalent to practically the entire net saving figures for the economy, Volkskas economist Adam Jacobs points out). And the credit curbs are in an important sense an attempt to cut demand by consumers, freeing up goods and resources for the government.

The problem with the balance of payments is not just a matter of repaying foreign creditors.

It fundamentally reflects the nature of the South African economy, which despite government policies on import substitution dating back some decades and the newer rhetoric of "inward industrialisation" has managed to become neither very self-sufficient nor internationally competitive. It is an economy vulnerable to all kinds of sanctions — as well as to inflation.

The Board of Trade pointed to some of the key problems in its report this week (see story).

Lifegro works on comeback

13/5/88

(58) LIZ ROUSE B/day

LIFEGRO Assurances' fall from grace last year has prompted a major rationalisation and restructuring exercise of the Rembrandt Group's life assurance interests.

Volkskas Group, Remgro and UBS Holding are examining the possibility of rationalising and restructuring their respective interests in Lifegro, Momentum Life Assurers and UBS Insurance Company, according to a Volkskas Merchant Bank announcement today.

The move follows shifts at Lifegro's top management at the beginning of the month. Momentum MD Blignault Gouws was brought in as Lifegro's MD, former MD Tony Laubscher was shifted back to Volkskas, marketing director Chris Cunningham-Moorat given other responsibilities, while Danie Cronje, joint MD of Volkskas, was appointed deputy chairman ahead of the impending retirement of M D Marais.

Lifegro is 50,4% owned by Lifehold,

● To Page 2

Reshuffle to create new Lifegro image

(59) B/day

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whose shareholders are VGL (46,6%), Remgro (30,5%) and Momentum (22,9%). VGL and Remgro each have 30% interests in Momentum.

The move of Gouws of Momentum, which recently acquired Rand Life and Allianz Life and whose assets now total R500m, was the indicator that Lifegro was due for major changes.

Lifegro's history has been far from satisfactory for shareholders. There was a controversy at the listing in March 1986. The share price fell from 400c after listing to 300c six months later, but recovered to 475c in March 1987.

STANBIC

Coping with rising demand

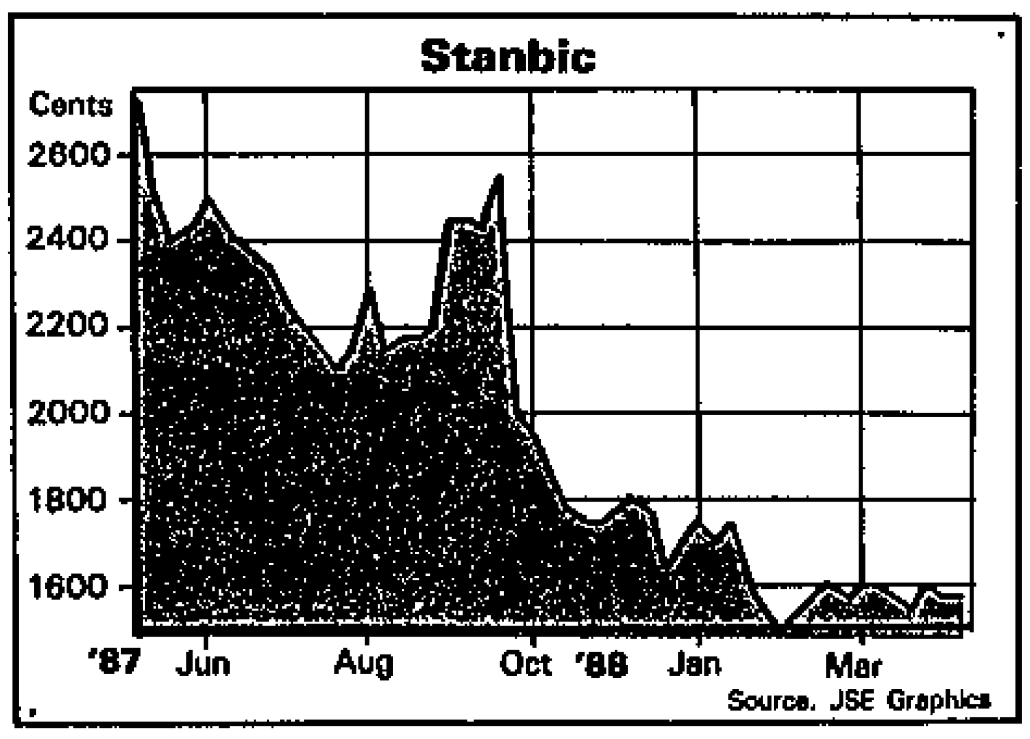
Activities: *Banking and financial services group operating countrywide networks.*
Control: *Liblife has 30% and Mutual has 20%.*
Chairman: *H P de Villiers; managing director: C B Strauss.*
Capital structure: *74m ords of R1 each; 23,9m preferred ords of R1 each. Market capitalisation: R1 536m.*
Share market: *Price: 1 575c. Yields: 5,2% on dividend; 14,2% on earnings; PE ratio, 7; cover, 2,7. 12-month high, 2 750c; low, 1 500c. Trading volume last quarter, 288 000 shares.*
Financial: *Year to December 31.*

	'84	'85	'86	'87
Advances (Rb): ..	12,4	15,1	16,8	17,9
Total Assets (Rb) ...	16,1	19,1	20,6	22,1
Pre-tax Profit (Rm) ..	210,4	250,0	267,3	329,4
Attributable Profit (Rm)	144,6	183,6	209,0	220,1
Earnings (c)	213	227	215	225
Dividends (c)	62	71	78	82
Net worth (c)	1 005	1 197	1 648	1 596

Stanbic's standards of disclosure are now so good that it provides almost all the details normally given in an annual report when it publishes its preliminary profit announcement. Thus, most of the group's activities for the year to end-December were discussed in the *FM* of February 12.

What is of more interest is developments since year-end, when demand for funds leapt upwards and margins were squeezed. Standard Bank MD Mike Vosloo is only prepared to say that the bank is comfortable with the increase in demand. Stanbic has always been in the best position of all the banks to cope with a rise in demand in terms of capital requirements. The introduction of the Access facility with Standard's home loans indicates it is coping well with increased assets.

Standard maintains a lower profile than some of the other banks, but it has performed solidly, raising funds ahead of need and not being exposed to any of the more sensational bad debts, despite a fairly high level of loans to the agricultural sector. In 1987 R19,7m was provided for bad debts against R23,4m in 1986, and non-performing loans (for which specific provisions have been made for the proportion regarded as doubtful of recovery) declined from R576m to R529m. Group MD Conrad Strauss says that Standard has amended the formulae used to determine general debt provisions. The effect is to strengthen provisions when specific provisions are low and when there is strong growth in total lending.



Stanbic's Strauss . . .
automation head start

The group's head start in automation remains a big competitive advantage. Though there is ongoing expenditure to update technology and R71m was spent on computerised delivery and communications networks last year, Stanbic does not have the bills which some of the late starters in the automation race have to face.

Two factors hurt results last year: the first was an increase in the tax rate, which was due to maturing of preference shares in which the group had invested its funds from the rights issues of 1985 and 1986; the second was a 20% climb in operating expenses. Taxed profit was only 5% higher than in 1986 and EPS climbed only 4,7%.

It is small wonder Stanbic is given a higher rating in the market than the other banks. The banking sector may be out of favour at present (see ***Leaders***), but Stanbic remains best-placed to take advantage of current increases in demand. *Pat Kenney*

EDGARS (58)

Ungeared climb

Edgars has succeeded in pushing its earnings up by no less than 50%, while at the same time further strengthening an already strong balance sheet.

With debt reduced during the course of the year, debt:equity has been cut to 0,14. "But this is a temporary situation," says financial director Kevin Brewer. "For a company such as Edgars (which provides credit to customers), it should be about 0,50." The debt which the group does have is very cheap. Most of the long-term borrowings are convertible debentures, carrying an interest rate of 10%. In anticipation of the debenture conversion, and also to plough back some profits, Edgars has increased dividend cover from 2,4 to 2,6.

The approach to the balance sheet may be conservative, but sales policy is dynamic. The group enjoyed real growth in turnover of 7% on a 2% increase in space and increased its market share, partly as a result of aggressive marketing. "Without promotions, sales would probably be 20% lower," says Hammond.

Edgars' Hammond ... real sales growth

Results were helped by better stock-turn, which improved further after a big jump last year, and Hammond says that it is now as good as that of the upper percentage quartile of overseas retailers. The higher ratio was particularly noticeable in the Sales House chain, where a computerised system has been introduced. Similar developments are now taking place in Edgars.

This helped margins, but the main cause of the improvement was operational gearing. Combined with a tight control of expenses and debtors, which are also kept on a computerised system, this resulted in operating margins climbing from 9,7% to 11,1%. Operating profit thus rose 45% on a turnover increase of 27%.

It was not all plain sailing, though, and there were a few problem areas. Jet, which recorded a profit increase of 21%, nevertheless lost market share. Hammond says that this problem is being addressed. Another difficulty has been late deliveries from suppliers, which have resulted in some irate customers seeking goods on special promotion which had not been delivered.

EAGER EDGARS

Year to March 26	1987	1988
Turnover (Rm)	930	1 178
Pre-tax profit (Rm)	78	118
Attributable earnings (Rm)	40,8	61,0
Earnings (c)	94,7	141,7
Dividends (c)	40,0	53,5

The balance sheet provides scope for acquisitions, but Hammond sees the main growth as being organic. Stores to be refurbished and new stores to be opened should number between 35 and 40 this year. Despite the problem of customers' disposable income being diminished by increasing bond rates and tighter HP terms, Hammond still expects Edgars to record real growth and to increase market share. Operational gearing should again mean that EPS will rise more sharply than turnover, and the increase could thus be around 30%.

At R17,50, this puts the share on a forward earnings yield of 10,5%. This explains the 52% rise in the share price since November.

Pat Kenney

FINANCIAL MAIL MAY 13 1988

FSI/W & A

58

Going separate ways

A long-expected departure has happened. Though there have been reassurances ever since the FSI takeover of W & A about how well the two teams were getting along, those with experience of the problems involved in mergers were suspicious that it would not be as easy as it first appeared to bed the two diverging cultures. And, as the head of the company taken over is frequently the one to move, W & A MD Brian Joffe seemed the most likely candidate in this case.

It is undoubtedly a pity. Joffe took W & A subsidiary E W Tarry's turnover from R5,5m in 1984 to R204,7m last year and EPS from 24,8c to 70,9c. When Manny Simchowitz finally moved overseas, it was Joffe who was given the post of MD of Tarry's ultimate holding company W & A, and he seemed to be successful in knitting the divergent group into a cohesive whole whose emphasis changed to earnings performance rather than net asset value.

But it was probably inevitable that two young men, both dynamic and ambitious, would have some problems. Joffe had had a completely free hand, but Jeff Liebesman, CE of FSI, after having to borrow more than R200m to buy the group, would naturally have wanted to make his mark on it.

It seems a reasonable assumption that there were some differences of opinion and management styles. Probably, too, ideas of how to restructure the group varied, though Liebesman denies this. Indications from FSI suggested that top management wanted more rationalisation of W & A's interests than Joffe may have been happy about.

Two scenarios illustrate the kind of thorny issues that could have been encountered. These are theoretical but not entirely unrealistic — although Liebesman says they are way off the mark. The first is the role of Hunts and where this will fit into the organisation. Even before the takeover, it was expected Hunts would be moved so that earnings of operating companies would not be diluted before they reached W & A. But where would it go?

A likely possiblity would be for it to become the industrial arm, incorporating some interests of both groups and, possibly, with National Bolts chairman Terry Rolfe at its head. But, unless the company was moved out of W & A, this would make him junior to Joffe; yet removing the group from W & A would reduce the assets under Joffe's control. This must create a dilemma.

Another problem area could have been differences of what to do with London-listed AAF. Joffe always made it clear that E W Tarry's London listing could be used for overseas expansion. Liebesman, with his large overseas interests, probably wants to retain and use AAF's foreign listing.

Aurochs' Joffe ... going independent again

FSI's Liebesman ... philosophy of partnership

What will happen now? Ivan Posniak, until fairly recently the virtually unknown head of the unlisted companies in the W & A group, will retain his chairmanship of those companies and also become chairman of Tarry and MacPhail. Rolfe adds the chairmanship of General Tyre to his positions in the FSI group and Liebesman retains for himself chairmanship of the top companies — FSI, Hunts, Waicor, and AAF — as well as being CE of W & A.

What will happen to property-owning Aurochs, which Joffe is to take over from Hunts, remains to be seen. It seems Joffe's decision to leave was sudden and he has no definite plans yet. Liebesman, who says that he always wanted to work with Joffe and that this partnership is the ideal way to do so, remains on the Aurochs board. "Brian and I get on very well and he wants to continue his relationship with the FSI group but in an independent role," he says. "This is testimony to the FSI philosophy of partnership." Aurochs has the right to sell the properties back to Hunts once trading assets have been acquired.

Now Liebesman is pressing ahead with the restructuring of the group. For the present, the market seems uncertain of how to take the news of Joffe's departure. *Pat Kenney*

VANSA VANADIUM

Lonfin wants out

London Finance & Investment Plc (Lonfin) looks set to sell off its 28,1% stake in Vansa Vanadium following a decision by UK-based Lonfin to limit its exposure to SA. Sources tell me that Lonfin chairman David Marshall, who is also chairman of Vansa, has been actively seeking a buyer for the stake. Vansa is effectively controlled by Rand Mines, which holds 42% and has a preemptive right to match any bid which Lonfin may receive for its Vansa interest.

Marshall says: "The sale of Lonfin's Vansa stake is under discussion within the group, although no final decision has been taken on it." However, Vansa MD Cyril Heever tells me: "It seems highly likely that Lonfin will sell its Vansa interest."

It is understood Lonfin's intention to limit its South African exposure has caused a rift between Heever and Marshall, the two entrepreneurs who started up the mine, because Heever does not want Lonfin to sell its Vansa stake. Lonfin, previously East Rand Consolidated, held the mineral rights to the Vansa deposit while Heever planned and brought the mine into operation and also negotiated Rand Mines' involvement in the project; this resulted in the development of the Rhodium Reefs platinum mine as well.

Heever declines to comment on whether there is a rift between himself and Marshall. Marshall says their relationship has not changed and continues normally.

Vansa is managed by a company called Aeco, of which Heever owns 40%; a further 60% is held by Afex, of which Marshall is chairman. Should Lonfin sell out, Aeco will be in the difficult position of holding the management contract to a mine in which it

Looking good in the trough

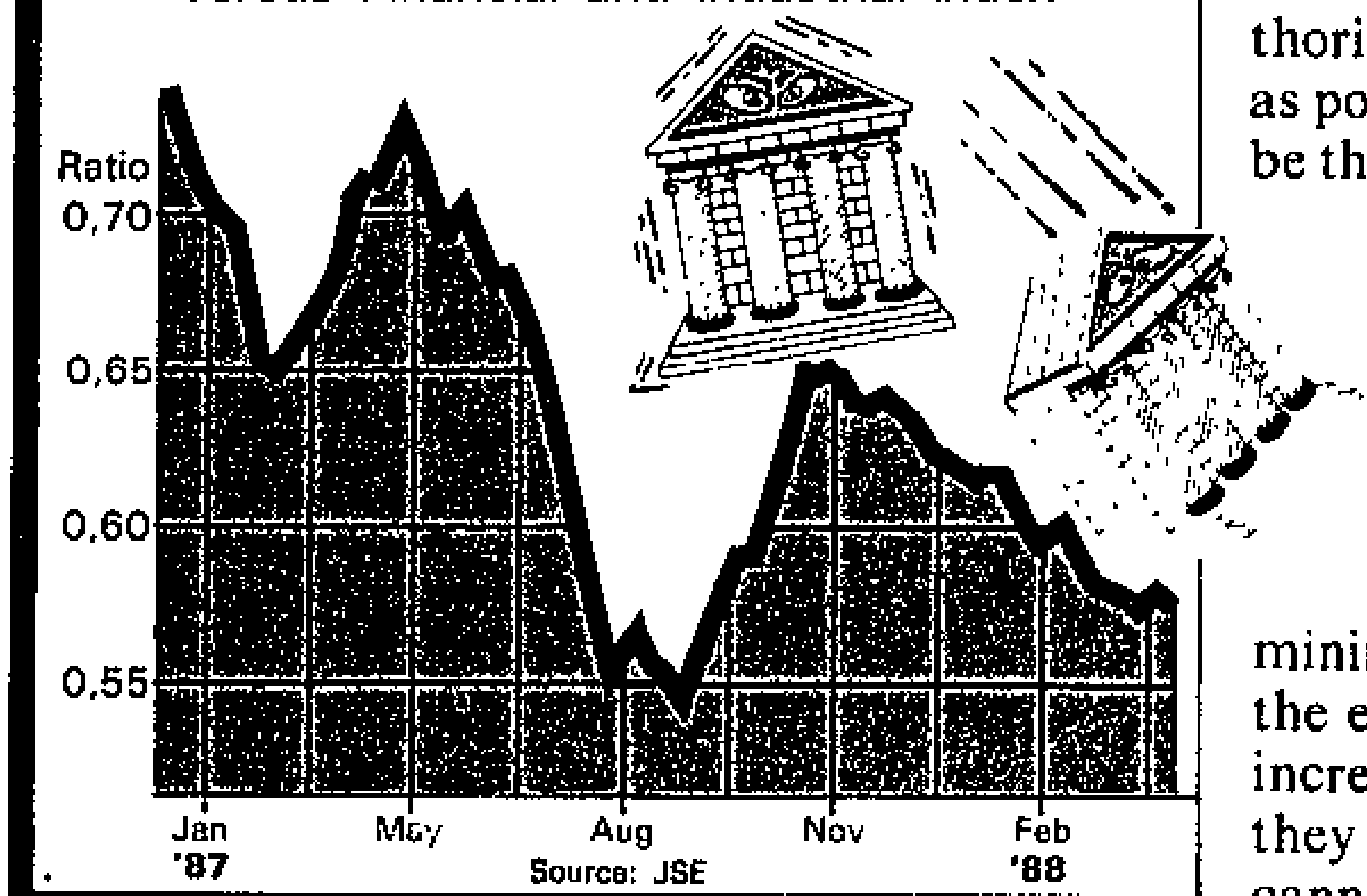
Banks are at the sharp edge of economic policy, caught between the desire for economic growth and the need to control overspending. Banking share prices reflect the market's concern about the impact of this dilemma on profits.

At the time of the JSE crash, it was thought that banks could be one of the sectors to show relative strength because equity finance would be less available and businesses would need loans. But since late November, the Banking index has consistently declined against the Financial and Industrial index.

The reasons are obvious. A number of banks reported profit increases well below the rate of inflation and the longed for upturn in demand for credit is now being used as an explanation for disappointing results. On top of this, the latest monetary and fiscal measures seem to use banks as a scapegoat while the authorities try yet again to juggle the diverging demands of a falling balance of payments surplus and a new born economic upswing.

Banking slide

Banks and Financial Services index versus Financial and Industrial index



Banks have reason for complaint. It is generally accepted that banking margins should be around the 3% level. But, as can be seen from the graph, which gives an indication of margin trends, they have been consistently below this figure in the past year and last month dropped to just over 1%.

It is not the rise in rates which is causing the damage, but the lag between the rise in banks' borrowing rates — the cost of funds — and their lending rates.

This problem is of major concern to bankers and investors alike. If the authorities try to keep interest rates as low as possible, the ones to pay the price will be the banks — the ham in the middle of the sandwich. Inevitably, attempts will be made to circumvent the controls and some bankers suggest there will be a return to the two-tier market of the early Eighties, when there were two lending rates: the prime and the minimum lending rate. The latter was the effective rate and prime became an increasingly theoretical price. "Though they can control the prime rate, they cannot determine what we charge a particular client," comments one banker.

Of particular concern to the Reserve Bank is the rapid rise in demand for funds. Had this been from the commercial, and especially the industrial sector, there would probably have been little complaint, as a rise in fixed investment is what the country needs. However, a large number of businesses had already raised the equity capital they required and economic growth has not been fast enough for them to need more. The rise in demand came mainly from consumers, especially for home loans. Though the residential housing market has been in the doldrums for years and an upturn was long expected, the sharp climb worried the authorities.

Reserve Bank Governor Gerhard de Kock singled this area out last week when explain-

BANKING RATINGS

P:E Ratios

Name	Institution	P:E
Allied	Bld Soc	6,9
Bankorp	Bank	4,7
Boland	Bank	5,7
Corbank	Bank	8,3
Finbank	Bank	5,8
First Bank	Bank	5,7
Frebank	Bank	6,3
Investec	Bank	8,4
NBS	Bld Soc	6,4
Nedbank	Bank	5,3
Saambou	Bld Soc	5,0
SBIC	Bank	7,0
Trust	Bank	4,4
UBS	Bld Soc	6,2
Volkskas	Bank	5,8

ing the need for curbing private sector credit: "The main reason for the accelerated rise in M3 (money supply) was an excessive increase in credit extended by banks and building societies to the private sector, including consumer credit and home mortgage loans."

The rise in home loans was extremely sharp. At end-March, First National reported an increase over the previous year of 132% to R3bn and Standard had loans worth R1,5bn at the end of 1987. Even Nedbank, which had indicated that it would provide home loans only as a service to existing customers, saw a sharp rise in these assets.

Mike Vosloo, MD of Standard Bank, says the entry of the banks into the home loan market and the strong marketing of these loans did not expand demand above what it would otherwise have been. In effect, they merely increased their market share. But Standard's Access bond seems to have been one of the main offenders as far as the authorities were concerned, allowing bondholders to borrow back that part of the bond capital which they had repaid.

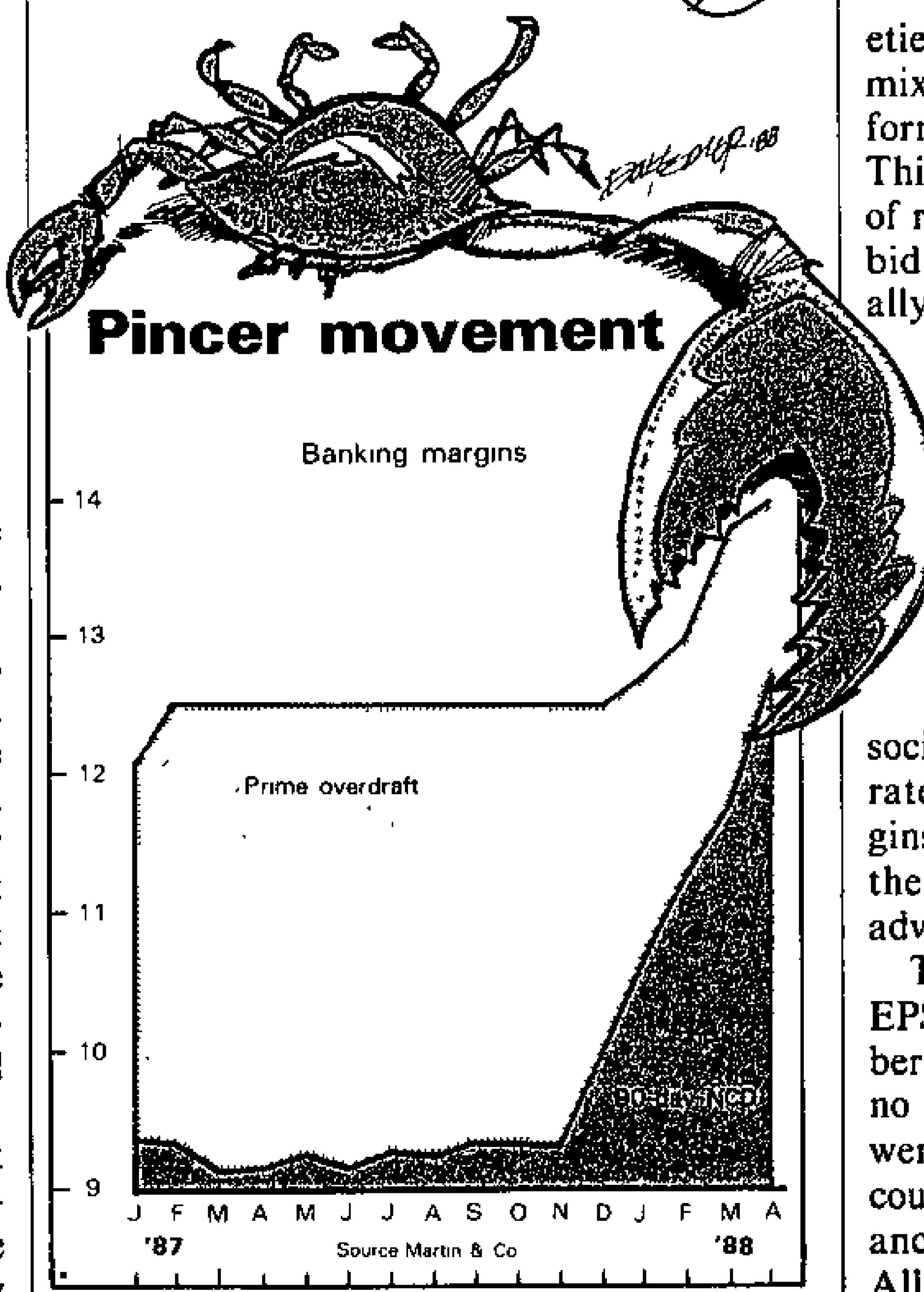
From the Reserve Bank's comments, it may seem the banks have been making excessive profits, but this is far from being the case. Stanbic reported a rise in EPS of only 4,7% in the year to December 1987 and First National had an increase of only 7,4% at the March interim. Nedbank did considerably better with a climb of 61%, also in the six months to end-March, but this was partly a recovery situation and came off a particularly low base.

First National senior GM Jimmy McKenzie suggests that it is short-sighted to squeeze banking profits. "There must be profits to plough back if the country is to have a strong banking system," he says. "How can you control credit growth if banks can't increase prime?"

But Nedbank's results prove how much can be done by the banks to ensure that their profits increase. Cost control will be of vital importance and some banks have been doing very much better than others. At its December interim, Trust recorded that operational cost increases were significantly lower than the rate of inflation, while Stanbic's operating expenses climbed by 20% in 1987.

First National, which is having to run two computer systems concurrently because of problems with the new Hogan system, saw a rise in other operating expenditure (which includes computer expenses) of 18%. Richard Jesse of Martin and Company points out that, had this been kept to 10%, the impact on bottom line would have been a rise in attributable income of 33% instead of the actual 7,7%.

This low level of increase in the EPS of some of the banks also had an impact on the stock market's perception of banking shares. First National's 7,4% and Stanbic's 4,7% are a long way from keeping pace with inflation. Trust's 19,9% and Nedbank's 61% are much more acceptable, but Volkskas — which said that it had to cope with a rising cost structure — recorded an increase of only 8,1% in the



six months to end-September.

There seems little reason for the investor to buy banking shares in the hope that earnings may improve, when there are other blue chip counters offering solid increases year after year at rates above inflation. But for everything there is a price, and the plunge in banking shares is starting to make them look attractive, according to some analysts. After the announcement of its results, First National's share price sank to a 12-month low of R14,50, which put it on a 7,2% dividend yield.

But the most attractive shares in the sector at present seem to be the building societies. Except for NBS, which is on a yield of 6,9%, all others have dividend yields of over 7% and Saambou is as high as 10%. The banks' yields range from 8,5% for little-traded Boland to 5% for Corbank, which is still in a turnaround situation.

The main reason to consider building societies at present, though, is the borrowing mix. Legally, short-term deposits must not form more than 10% of their total deposits. This gives them a major advantage in times of rising interest rates, as the banks have to bid for shorter-term funds, whose rates usually rise more rapidly than long-term rates.

The problem recently has been that long-term money has been almost unavailable to banks.

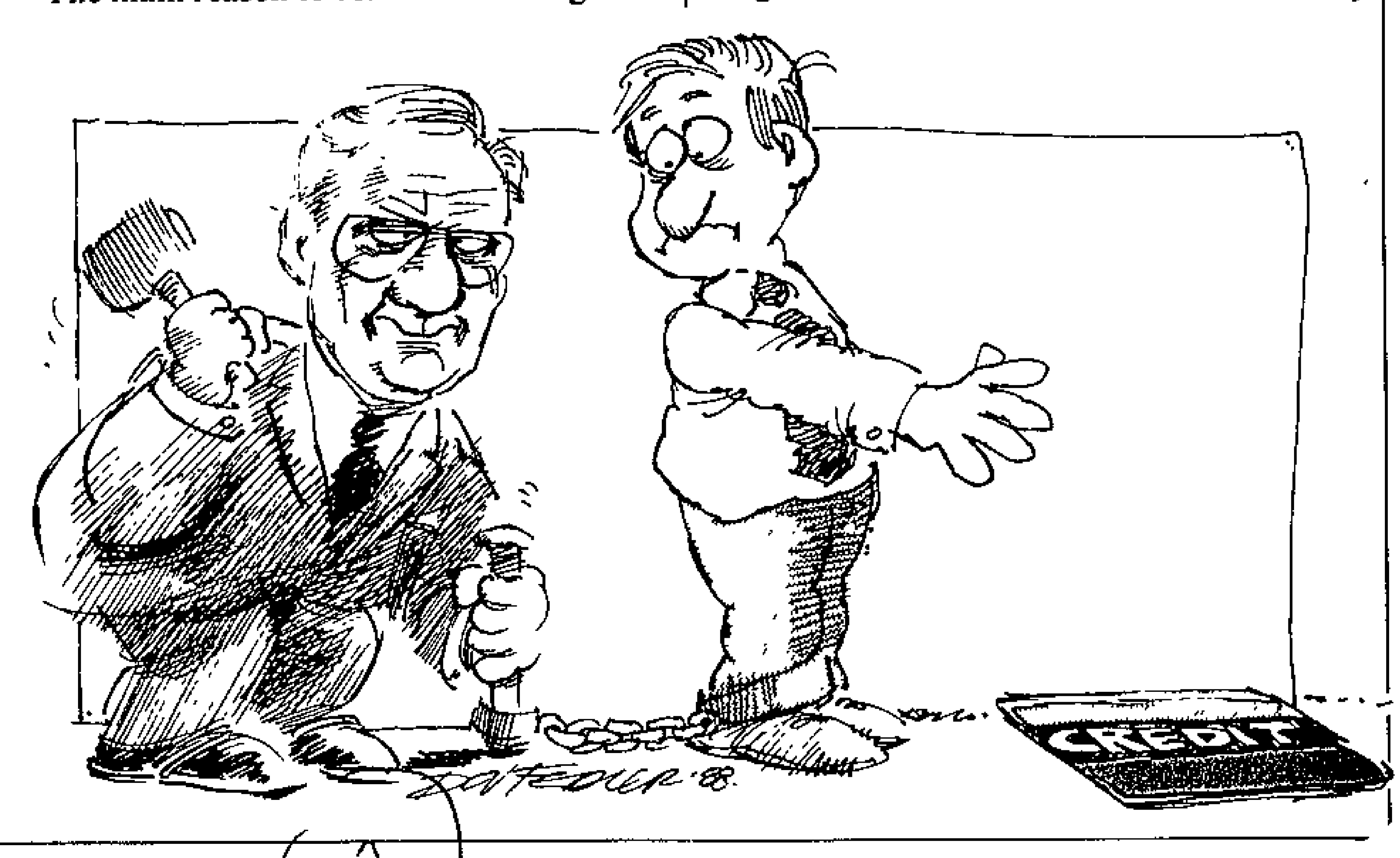
"Building societies have fostered the man-in-the-street long-term depositor," says Allied MD Kevin de Villiers. "Building societies are consumer banks. The traditional banks are not in that market." As building societies have depositors locked in at lower rates, when lending rates go up, their margins improve. For the next year and a half, the societies should thus have a considerable advantage over the banks.

The fact that NBS reported a doubling of EPS between the six months to end-September and the six months to end-March also did no harm. But as all the building societies were only listed fairly recently, investors could still be a little unsure of their performances. The others are to report soon, but Allied increased its taxed profit by 34% in the year to end-March 1987.

The building societies will also not have the problems of accommodation, which could plague some of the banks. With accommodation only provided by re-discounting or extending overnight loans against liquid assets, banks which had been using other, less acceptable assets, could be hit quite hard.

The stock market is definitely not enamoured with the large banking institutions at present. Companies with higher ratings, such as securities trader Sechold, investment company and issuing house Columbia, and property development and management group Time, tend to be in other areas of the financial market.

Large increases in EPS do not seem likely for the big banks, but their share prices are reaching levels where they must offer solid long-term investments. *Pat Kenney*



Star 14/5/8?

Wealth sets you free

58

But lots to weigh up as you accumulate it

The most frustrating thing about some people's lives is that they appear to be spent in a perpetual financial crisis and the best reason for attempting to build up wealth is that with it comes relative freedom, says Mr Robbie Ger hardt, deputy general manager of Lifegro Assurance.

Speaking at the Johannesburg convention of the Institute of Life and Pension Advisers on individual portfolio management, Mr Gerhardt said people should match their investments with the likely call on them and the time at which those calls were likely to be made.

STAN KENNEDY

Matching investments with likely needs and desires was even more difficult. It involved finding out what vehicles were available for the purpose.

Mr Gerhardt added: "The problem is you have now entered the arena of competing assurances where everyone has just the thing you have been looking for — according to them.

"Your investment policy is going to have to provide for sudden and unexpected expenditures.

"You might finally decide that the equivalent of two to three months' earnings would be enough to meet all the possibilities you face which entail spending a fairly large sum of money suddenly.

"This, then, becomes your first goal on the road to wealth-accumulation."

The most important consideration when investing is liquidity; that is, the money must be immediately available and not subject to risk, such as a savings account with a sound financial institution.

But you may want to take part in some activity that will give you pleasure or profit and which needs capital outlay.

Decide when you want to reach this goal, what it is likely to cost at that point and whether you can make the target.

He also pointed out that security is all-important for your investment, liquidity less so because the timing of the outcome is, to a large extent, under your control.

This means that the investment outlet could be more tied down — a series of fixed deposits with a financial institution, for instance, or another form of investment which guarantees in no uncertain terms that you will get your money back.

Think carefully about the possibility that your environment could change dramatically.

The company you work for could go bust, you could become unemployed or have to work for a smaller return.

Even more seriously, Government may pursue policies which could seriously damage the sector of the economy on which you rely for a living.

The economic policies of entire groups of nations might lead to widespread business depression, resulting in bankruptcies.

Said Mr Gerhardt: "While pursuing this line of thought, consider that the country might enter into a war. It could lead to increased tax to sustain the war or complete economic collapse following the defeat of the country.

"Obviously, the form of wealth needed to match these disaster scenarios is going to have to be different.

"It might be a collection of gold or silver coins, a hoard of non-perishable foodstuffs or substitute media of exchange, like cigarettes or liquor."

The death of a family member could upset your plans, resulting in the rest of the family being plunged into difficulties.

Probably the best way to cope with this problem is life asurance.

Mr Gerhardt said: "After all these factors have been catered for to your satisfaction, you can begin to think of expanding your portfolio, which would include participation mortgage bonds, mutual funds, shares on the stock exchange, art and artifacts and other trappings of wealth.

"Many wealth-builders, however, will go for such things as farmland, lettable accommodation or dealing in readily saleable commodities."

Mining is the sector to go for — Syfrets

Std 14/5/88

FINANCE STAFF

The greater portion of investment portfolios should remain invested in the mining sector, says Syfrets in its investment newsletter.

Syfrets comments that the pedestrian outlook for gold in the months ahead and rising costs on gold mines suggests the mining industry will probably underperform industrials in the short term.

Says Syfret's Neil Cochrane: "This should also provide a buying opportunity. Over the past ten years mining shares have outperformed all other forms of investment and one should not to sacrifice long-term performance for short-term opportunities."

He believes portfolios should have a heavy concentration of mining house shares. For, though earnings may come under pressure from disappointing results from gold investments, dividend cover is sufficiently strong to ensure at least a maintained dividend payment.

Shares should be limited to the highest quality, with good management, strong balance sheets, rand hedge qualities and sound earnings prospects.

"Shares outside these parameters could prove volatile," Mr Cochrane says.

He warns that growing trade union power will make it difficult for corporations, which have reported sparkling results, to justify paying below-inflation increases to workers. This could have impact on future earnings.

Fedlife record

By Robyn Chalmers

FEDLIFE Assurance wrote a record R10-million of new annual-premium business in March this year, its largest amount.

Fedlife also wrote more than R18-million of single-premium business in the same month.

New annual business for the first quarter of 1988 rose by 25% over last year. Total new business written amounted to R48-million, of which about 40% was recurring premium business.

Reasons

Managing director Arnold Basserabie attributes the growth to a combination of factors:

- A general improvement in the economy and that people are more optimistic about the medium-term future.
- An increase in Fedlife's market share in 1987 which is influencing the good performance in new business.
- The listing of holding company Fedsure which raised R50,4-million;
- The introduction of an employee benefits package for small to medium firms in 1987, and the improvement of premium rates under the life and retirement annuity products.

Fedlife participated in the Fenton schemes last year. They offered investors a short-term guaranteed return with the prospect of more from rising equity prices.

Because of the stock-market crash last October, the Fenton schemes were a dismal failure. But Mr Basserabie says participation in the schemes had "no effect whatsoever on the new business figures".

"The Fenton business was written in the middle of last year, and does not affect this quarters' figures," he says.

Fedlife is declaring bonuses after the completion of an actuarial valuation, which Mr Basserabie believes will enhance the competitiveness of its pension and life-assurance products.

Mr Basserabie says the effect of the bonus declaration can be seen when looking at a fund which an individual took out several years ago.

"A person who took out a life endowment policy 15 years ago would have been given an illustrated maturity value of R30 300 at that time.

"The actual value has increased to R57 700, a direct result of the current and past bonus declaration."

5/5/88 Times 58

Stokvels provide venture capital

S. Times 15/5/88 (8)

THE stokvel or bygooi principle applied in savings by black consumers has provided the SA Permanent Building Society with a new source of income. The stokvel has been a kind of a credit association among blacks for many years.

It is believed to have originated many years ago when black farm labourers attended stock fairs with their employers. They exchanged ideas, gambled or pooled whatever resources they had.

Today's stokvel is an association of, say, 12 people, each of whom pays R10 into a pool. Members take the pool at regular intervals. In many cases, they throw a party financed by the pool money and sell refreshments at a profit. This is why there are so many weekend stokvel parties in the townships.

However, the stokvel has been turned into a credit facility to fund the informal black business sector. By mobilising their savings, blacks are potentially on the brink of launching many business ventures.

There are said to be 4 000 major stokvels. The National Stokvels Association (Nasasa) has been set up.

Nasasa interim chairman Khehla Lukhela says studies show that informal businesses employ capital of between R200 and R1 500 each — which they cannot raise in the usual way. Nearly two-thirds are one-man operations.

Mr Lukhela says the new stokvels should be tolerated by business and government and not be seen as a hindrance. Stokvels could bring about black economic liberation.

They ensure discipline, trust and a low default rate among members. Stokvels also educate people about the importance of saving.

Mr Lukhela sees great potential for economic advancement if all the black informal financial schemes, such as stokvels, burial societies and investment syndicates, can get together under one umbrella organisation.

The Western world's building societies started off in much the same way as stokvels. The large flow of stokvel money to the Perm is not surprising.

The facility used is the Perm's Club Account which enables all registered members of a stokvel to make deposits and check the balance in the account. Only a few members can withdraw money.

Hosken the best of trio

5/5/88 (58) • S'times

HOSKEN companies are set to interest investors.

The group comprises three listed companies — Hosken Consolidated, Incorporated General Insurances (IGI) and IGI Life. Hosken owns 56% of IGI which in turn owns 52% of IGI Life.

Hoskén also owns a variety of other investments, the most interesting of which is a controlling interest in one of Lloyd's 265 London brokers. It is the only SA-controlled Lloyd's broker.

LOWLY

Hoskens receivews the final IGI dividend for the previous financial year and the interim of the current. It has never cut its dividend, and the yield is 4,9%.

Hosken is not an easily traded share and rates a lowly PE ratio of 3,4 at the current 370c. It has a March yearend, and will report before the end of May. The IGI contribution to the Hosken dividend is 19c an IGI share, which equates to about the same as a Hosken share.

IGI ordinary shares are trading at 420c — a discount to net asset value possibly as much as 20%. The 10% convertible preference shares are 400c. Conversion should be considered when the dividend on the ordinary shares reaches 30c. The first available date is June 1988 and the last is June 1991.

IGI paid an interim of 10c and the market expects a final of 20c. The gap in price between the ordinary and the preference shares is only 20c — not worth a switch now — but it has been as much as 100c.

Preference shares are almost always a better buy than ordinaries because of the guaranteed dividend and the terms of conversion. Here the prefs traded at 100c discount — market watchers could have made a fast buck by selling the ords on a time bargain and buying the prefs.

IGI is trading at 420c. The probability of a 30c dividend gives a forward yield of 7%.

Financial director Martin Capper says it is IGI's policy to increase dividends by a rate exceeding that of inflation.

Greater vigilance and crime-beating by the police has helped to reduce car thefts and improve the recovery of stolen vehicles.

Mr Capper says the floods did not unduly damage IGI. "People do not really understand the business of reinsurance. We did not even reach our excess on the Natal floods. We lay off the risks."

REASONABLE

IGI has been offered reasonable terms on renewals of reinsurance and there has been an increase in the capacity to take risks. It is also looking at ways to reduce the cost of claims through increased buying power.

Mr Capper believes that, coupled with inflationary pressures, these factors will contribute to IGI's growth. "As the cost of goods rises, so does the cost of insuring."

Its investment in IGI Life comprises 7% of IGI's total investments of R120-million. IGI Life trades at 110c, yielding 5%.

Assessed losses in IGI have almost been used and the tax rate will approach 35% to 40% in the coming financial year.

Short-term insurers have aways been associated with high risk and the shares take a knock whenever there is a disaster. But for those willing to trade, Hosken looks the best bet.

Barlows on buying spree

15/5/88
STimes
58

Warren Clewlow ... cash to spend

By Richard Rolfe in London and Business Times reporters in Johannesburg

AHEAD of a good interim result expected soon, Barlow Rand this week clinched its fourth major transaction in as many weeks. A fifth is expected in days.

- J Bibby, Barlow Rand's 88%-owned international arm, announced the sale of Interchecks, its US security printing company, for $40-million to UK group Norton Opax.
- Bibby is expected to sell Princeton Packaging to its US management in the next week or two.

Debt wiped out

Barlow Rand chief executive Warren Clewlow believes these disposals will eliminate all debt in Bibby and enable it to make cash acquisitions of up to £100-million whenever it needs to.

Before these moves in Bibby, Barlow Rand and its subsidiaries also acquired:

- Joint control of IBM distributor ISM in setting up the billion-rand computer supplier, Technology Services International.
- 100% of Metal Box for R269-million.
- 50% of Langeberg Ko-Op for R80-million.
- All of disinvesting Sterling Drug for R52,5-million.

Wholly owned Middelburg Steel, now the group's biggest single profit contributor, has announced plans to step up capacity at a cost of at least R120-million.

Mr Clewlow told Business Times on his return to Johannesburg this week that Barlows was getting into its stride. He promised more action in the near future.

He acknowledged that the divestments in Bibby were an about-face for a supposedly acquisitive company. Bibby aimed to sell Princeton "because it didn't do what we hoped". The price offered for Interchecks had been compelling.

Bibby acquired Interchecks for $26,5-million in December 1986. Its then chairman, Bas Kardol, said it was "part of the long-term strategy to expand in packaging and printing."

Mr Kardol stepped down at the beginning of this year after rumoured disagreements on Bibby's strategy.

The proposed $130-million sale of Princeton Packaging to the rival St James River Packaging Corp had to be cancelled because of monopoly objections by the US Federal Trade Commission.

Bibby now intends to sell Princeton to its management, but is unlikely to achieve a price of $130-million. It acquired Princeton for an effective $57-million in April 1985. It is still confident of a capital profit and is happy to have sold Interchecks at an excellent price.

The gross profit of $13,5-million on the Interchecks sale was improved on in terms of sterling. Because the original deal was financed in borrowed dollars, Bibby chief executive Peter Wood says Bibby made about £15-million - or R60-million at current exchange rates.

Eyes on Europe

Mr Wood says the disposals do not mean Bibby is pulling out of the US. Asked if Bibby would consider future acquisitions in the US, Mr Wood replied: "Certainly — but we are perhaps looking more towards Europe."

Once the decision was taken to sell Princeton, it was inevitable that Interchecks would follow: "It was not big enough to form a division on its own."

Bibby also announced lower profits this week, down from £17,9-million to £15-million for the six months to March. The agricultural division was hit by of depressed conditions in Europe. Interchecks barely broke even.

Bibby shares are at a new low of 160p, almost half the 1987 high of 310p.

Mr Clewlow said the new non-executive chairman, merchant banker Richard Mansell-Jones, would bring financial flair to the company.

He said Barlows had bought into Bibby when the pound was worth R2. Now it was worth R4. He was not overly concerned about the share price because trade in the 88%-held company was so thin.

A critic of the Bibby acquisition acknowledged that the value of the company's assets had increased because of the rand's decline.

To Page 3

From Page 1

Barlows

"But that is true of the liabilities as well. The debt used to fund the Bibby purchase has risen in rands from about R200-million to about R400-million.

"The UK market has been a sexy place for the past two years. The halved share price of Bibby is not exactly a great achievement."

Barlows is expected to produce fine results for the six months to March.

Most analysts expect earnings growth of 20% to 30%.

New arm to Sechold

Star 17/7/88 **By Finance Staff** (58)

Securities Discount House (Sechold) has announced the formation of a portfolio management company. The aim of the company, to be called Securities Portfolio Managers, is to secure and manage the portfolios of individuals, companies and pension funds.

According to the directors of Sechold "an all-encompassing portfolio management service will be offered, including fixed interest securities and equities."

The new company has an issued share capital of R1 million of which 70 percent is held by Sechold. The balance is held by the executive management.

The formation of the company is in line with Sechold's objective of expanding its financial services: "Market indications suggest that a strong need exists for another independent company specialising in portfolio management".

The new company will be run totally independently of other Sechold companies and, to ensure that they obtain the best prices for their clients, the portfolio managers will have total discretion to transact business with any acceptable trading or broking institutions operating within the controlled environment.

Tight conditions put a brake on Allied results

SFex 17/5/89 **By Magnus Heystek** (58)

The tight conditions prevailing in the home-mortgage market are reflected in the first annual results of the Allied Group in the year to March, with the group barely exceeding forecasts made at the time of listing last year.

Earnings per share amounted to 20,7c (forecast 20c), while the actual total payout was equivalent to the forecast of 10c.

The bright spot in the results was the strong growth in total advances by 23 percent to R5,6 billion, which, according to MD Kevin de Villiers, indicates an increase in market share.

Total income was R886,3 million, while expenditure (interest paid and operating income) totalled R784,0 million, leaving R102,3 million. After tax of R41,4 million, attributable earnings came to R60,9 million.

A final dividend of 5c has been declared, similar to the interim dividend declared earlier in the financial year.

Mr de Villiers says the unfavourable interest-rate pattern, coupled with the intense competition from the large banks, placed margins under severe pressure. But he is satisfied that all major targets were achieved.

Good news for home-owners, according to Mr de Villiers, is that while he expects interest rates to rise further in the year, the prime interest rate is unlikely to rise much higher than 17 percent.

INSURANCE

Milestone as Old Mutual income tops R6-bn

Business Editor

OLD MUTUAL's total income exceeded R6-billion in the year to end-February, making the company the first South African life office to pass this mark, says the managing director, Mr Mike Levitt.

This record income came from premiums and investments and Mr Levitt attributed it to rapid growth in both new individual and and employee benefit business.

Market share also increased in the 12 months to December.

Some 38 percent of all new retirement policies bought in this period were Old Mutual's Flexipension, according to Life Offices Association figures, he added.

This represented a 56 percent jump in the number of retirement annuities bought from Old Mutual compared with 1986.

At the same time Mutual gained a 4 percent in market share in individual recurring premium business — an inflow of R460-million which pushed its share up to 29 percent.

... results are well

S.A.-Times 17/5/88

Allied profits R60,9m

58

JOHANNESBURG. — The Allied group has reported an after-tax profit of R60,9m for the financial year to March 31.

The addition of an extraordinary item brought the final figure to R67,7m.

Total income was R886,3m made up of R830m from interest on advances and other investments.

Earnings per share were 20,7c while a dividend of 10c a share has been declared.

The group states that in spite of intense competition all financial targets were reached and advances increased by 23%.

The forecast after-tax profit was R60m. — Sapa

CAPE TIMES 17/5/88

Bonuskor div, earnings soar

(58)

JOHANNESBURG. — In its first set of results since announcing the merger with the Hunt Leuchars & Hepburn Holdings group, Bonuskor has reported earnings a share for the year to end-March up no less than 170% to 101,8c (37,5c).

The final dividend has been lifted more than 200% to 24c (7,5c) which, with the better interim of 9c (5c), gives a total of 33c (12,5c).

The results should be read in the context of the first full year in which the 56% interest in CGP Investments, holding company of Robertsons, has been brought to account.

The CGP stake was acquired on April 1 last year, the same date on which the sale of the 14,4% stake in Total SA became effective.

Transvaal Sugar became wholly-owned on October 1 last year. The sale of the stake in Total brought a profit of R2,5m, but this is not included in the EPS.

Operating income moved off the relatively very low base of R4,98m to R64,5m, yielding net pre-tax income of R59,6m (R8,4m).

Tax took R20,3m (R409 000) to give net after-tax income of R39,4m (R7,98m).

Attributable income before the profit from the sale of the Total stake, and amortization of trade marks, totalled R31,9m (R11,8m).

In their brief comment with the results, the directors make no mention of prospects. — Sapa

OM first past the R6000-m mark

58

Star 18/5/88

Finance Staff

Rapid growth in both new individual and employee benefit business has enabled Old Mutual to become the first South African life office to pass the R6 000 million mark in total income for one year.

Managing director Mr Mike Levett said in calendar 1987 Old Mutual increased its share of the market.

According to figures of the Life Offices Association (LOA), 38 percent of all new retirement annuity policies bought last year were Old Mutual's Flexipensions, an increase of seven percent in market share.

Old Mutual also gained a further four percent, at 29 percent, of market share in individual recurring premium business, representing an inflow of an additional R460 million.

Battle against car theft being won but . . .

No quick drop in motor insurance

Star 18/5/88 (58)

By Craig Kotze, Crime Reporter

The battle against car theft was being won — but hard-pressed motorists would not benefit from reduced insurance premiums until "concrete information" filtered through to the insurance companies.

This was the response yesterday of Mr Rodney Schneeberger, chairman of the South African Insurance Association (SAIA), to police smashing South Africa's largest car-theft syndicate in a countrywide operation this week.

SAIA played an "enormous" role in the breakthrough, police said.

They said their success would result in a reduction in the number of cars stolen in the Pretoria-Witwatersrand-Vereeniging area.

Mr Schneeberger said: "We're over the hump. It seems the SAP is now bringing vehicle theft under control. The situation was chronic, but we are not now in a position to reduce premiums without concrete information. In our situation, premiums reflect our claims experience.

"When the actual results show themselves in the form of a more beneficial claims experience, then the natural force of competition, if nothing else, will take its course."

Car thieves last year made off with about 57 000 vehicles — 3 000 fewer than in 1986. As many as 1 500 cars are stolen in Johannesburg every month. Every day, thieves take about 50 vehicles in the city centre.

Police, operating in conjunction with SAIA and the Transvaal Provincial Administration, have in the past few days dealt a devastating blow to organised car theft, arresting many syndicate leaders — including the alleged mastermind — and recovering scores of vehicles worth millions of rand.

REWARD SYSTEM

Mr Schneeberger, who would not elaborate on how exactly SAIA assisted the police, said only that areas of co-operation were "quite extensive" and included computerisation and "practical aspects" such as funding a reward system.

SAIA offers rewards of up to R10 000 for information leading to the arrest and conviction of car thieves. The rewards are paid out by police.

"We are extremely pleased with the results police are achieving. This latest breakthrough is the culmination of nearly 18 months of close co-operation with the police," said Mr Schneeberger.

STAR 18/5/88

Santam Insurance lifts profit 41 percent

SS

CAPE TOWN — Santam Insurance made an after-tax profit of R18,4million for the half-year to March 1988.

This is 41 percent up on the figure for the same period last year of R13 million.

Earnings per share were 26,3c (18,6c) and the interim dividend moved to 8c from 6c a share — a rise of 33 percent.

The company showed an underwriting surplus for the period of R11,7 million (R8,9 million).

Investment income also reflected a better cash flow arising from the improved underwriting surplus and stood at R17,4 million (R12,7 million).

The managing director, Mr C J Oosthuizen, said the underwriting surplus was after providing fully for the Natal floods and the more recent floods in the Free State and the Northern Cape.

"Our premium levels were such that we were able to absorb the losses arising from these 'catastrophies', keep our premiums frozen for the year, and still show a satisfactory underwriting surplus," Mr Oosthuizen said. — Sapa.

New deal softens repayment increase

Star 19/5/98

58

By Sven Lünsche

In the wake of the recent rise in interest rates consumers have been hit by large increases in the rate of repayments on their bonds and on loans taken out with financial institutions.

But they are now also getting more interest on their retail savings deposits, with most of the institutions having raised their rates since the Reserve Bank pushed up its bank rate by one percent earlier this month.

The latest to increase its rates on various retail fixed deposits and its bonus deposit scheme with immediate effect is the country's largest building society, the United Building Society (UBS).

The new rates were yesterday generally increased by 0,5 percent with the exception of the 24 to 35-month deposits, which will increase by 0,25 percent.

The 30 to 60-month deposits will remain unchanged at 13 percent.

The UBS benchmark rate on one-year deposits is now 12 percent, which is on average half a percentage point higher than the other nine major banks and building societies are offering.

Interest rates on savings accounts vary by similar margins. Trust Bank leads the market by offering seven percent on savings between R1 000 and R4 999, but most other institutions pay more than six percent on these accounts.

On savings between R5 000 and R10 000, Standard Bank and Trust Bank offer the highest interest rate at 8,25 percent, while major building societies pay 8 percent.

Consumers can expect a further rise in retail deposit and savings rates as interest rates move higher, but the institutions have to ensure that the margin between what they pay to clients and what they charge them on loans will remain between three and four percent.

(58) BDay 19/5/88

Eight fallacies of interest rates

Extracts from a speech given yesterday in Cape Town by Reserve Bank Governor Gerhard de Kock

INTEREST rates have been the subject of heated debate in SA in recent years. In this debate, many old fallacies have surfaced again. While these fallacies are familiar to most economists, they can lead to wrong policy decisions in both the public and private sector if not exposed for what they are. Some of the interest rate fallacies are as follows:

☐ **Interest rates in SA have in recent years been abnormally high, or higher than in former years, or higher than in most other countries.**

THIS reasoning is fallacious. It is true that nominal interest rates in SA have since the early Eighties generally been higher than in most former periods and than in the major industrial countries. But this has largely reflected the higher domestic rate of inflation that continued to prevail during most of this period.

Real interest rates have generally been much lower in SA. In 1986, for example, the banks' real minimum lending rate was minus 3,6% in SA, compared with plus 5,3% in Japan, plus 6,3% in the US, plus 7,1% in the UK and plus 9,0% in West Germany.

Now while the nominal accounts of borrowers are obviously affected by the level of nominal interest rates, it is clearly real interest rates that matter for purposes of economic analysis, including the measurement of the "burden of debt" on any borrower or sector of the economy.

☐ **The Reserve Bank determines the level and structure of interest rates.**

THE Reserve Bank can and does influence interest rates as an integral part of monetary policy. Subject to this proviso, however, the various interest rates and yields in SA are determined basically by supply and demand in the financial markets.

Thus, in the absence of Reserve Bank intervention, interest rates usually rise in the more advanced stages of upswings in economic activity, when there is nearly always a marked increase in the demand for bank credit and other loanable funds.

Another factor which can exert a powerful influence on interest rates is the size of the "deficit before borrowing" in the Budget.

☐ **The Reserve Bank uses interest rate changes as the main if not the sole instrument of monetary policy, in the belief that higher interest rates will directly curb consumer spending while lower interest rates will stimulate it.**

IN IMPLEMENTING broad monetary policy, the Reserve Bank tries to prevent the total monetary demand for goods and services from rising either too rapidly or too slowly. To this end it sets a target range for the growth of the broad money supply, M3, because it believes that the rate of increase of the money supply is a major factor influencing total investment and consumer spending, and therefore income, output, prices and the balance of payments. If the Reserve Bank wishes to correct an overshooting of the money supply target range, it will have to curb its own credit extension to the banking system. If it does so, normal market forces will bring about an upward movement in interest rates.

☐ **In a situation of demand inflation or overspending financed by excessive money creation, the Reserve Bank can effectively slow down money supply growth without any rise in interest rates.**

THIS is fallacious, certainly in any reasonably developed economy which relies to a significant extent on private initiative and effective competition, and which has reasonably sophisticated financial markets.

In such an economy — and SA falls in this category — monetary policy can only be applied effectively if realistic, market-related and appropriately aligned interest rates can be attained in the various financial markets. If effective control is to be exercised over the monetary aggregates and total monetary demand, interest rates must be free to reflect accurately the varying degrees of tightness in the financial markets resulting from the combined operation of natural economic forces and monetary policy actions.

The problem cannot be solved by placing quantitative credit ceilings on the banks or by imposing deposit rate control. This will not reduce the demand for credit and will merely result in "disintermediation," whereby bank credit is substituted with credit extended directly by primary lenders to ultimate borrowers.

☐ **Higher interest rates are inflationary because they raise costs.**

THIS is one of the oldest fallacies in economics. It stems from the fact that interest rates are included as an item in the CPI, so that a rise in interest rates has the statistical effect of contributing to a rise in CPI.

Since a rise in interest rates is an inevitable short-term consequence or ingredient of measures that effectively curb excessive money creation, it should be recognised as part and parcel of any policy to curb demand inflation. Higher interest rates are therefore disinflationary.

☐ **Higher interest rates usually cause economic recession, declining output, rising unemployment, insolvencies and other hardships for businesses and consumers.**

IT IS certainly true that there have been situations in SA in which high or rising interest rates have accompanied economic recession and hardship. But high or rising interest rates are often associated with periods of prosperity and high or rising economic activity, when the demand for credit is strong. On the other hand, low or declining interest rates are often symptomatic of economic recession and stagnation.

Even in periods when high or rising interest rates accompanied economic recession and hardships, the higher interest rates did not cause the difficulties but were themselves the consequence of more basic developments, such as gold price declines, droughts and capital outflows.

☐ **Higher interest rates are of little use to stabilisation policy, as they have little or no effect on investment and consumer spending.**

THIS statement directly contradicts the previous statement, that higher interest rates usually have a serious negative impact on spending, output, employment and general economic activity. The critics of interest rate changes cannot have it both ways. Either total monetary demand is significantly affected by interest rates or it is not.

☐ **Although rising or high interest rates at times form an indispensable part of monetary stabilisation policy and also benefit pensioners, depositors and savers in general, they inevitably exert serious adverse effects on certain sections of the community, such as farmers with large debt burdens, lower-income homeowners with large mortgage loans or small businesses.**

TO THE extent that this implies that the only way to help the hard-pressed groups mentioned is to keep the general level of interest rates artificially low, even if this undermines the effectiveness of monetary policy as a whole, it is incorrect.

There are better ways of providing interest rate relief to those that, in the view of government, merit such assistance. The best is to grant assistance overtly by way of interest subsidies shown in the Budget.

Tight interest margins hit Perm profits

Star 19/5/88

By Sven Lünsche

The SA Perm incurred a 12,5 percent loss in net operating income after tax to R23 million for the year to March, chairman Alistair MacMillan said yesterday.

Announcing the annual results, he attributed this to tight interest margins resulting from intense competition in the home loan market and effective exclusion of building societies from short-term funds.

The Perm incurred higher operating costs, in line with increased activity, he said.

Mortgage advances rose from R982 million to just over R1 billion, but the average size of loans granted declined from R42 000 in 1986/87 to an average loan of R38 500 in the year just ended.

"This reflects the Perm's objectives of providing home loans to the full spectrum of potential home-owners by mobilising the savings of the people of South Africa."

Savings account balances increased by R256,1 million — an improvement of 48 percent on the previous year's growth and a gain in market share.

"Transaction activity in this segment increased by 27 percent and is now running at over 10 million transactions per month," Mr Macmillan said. The Perm now boasted over 4 million client accounts. It transferred R45,1 million to reserves.

58

(58) B/day 19/5/88

Norton warns on power balance

KAY TURVEY

THE dangers in the concentration of investment power was perhaps one of the most important lessons of 1987, Tony Norton told the JSE in his presidential address last night.

A dislocation had arisen in the balance between different classes of investors in major markets, resulting in an excessively concentrated investment power in the hands of a few large institutions.

This was evidenced on Black Monday in the US when a mere six or so institutions were responsible for a high proportion of the selling pressure.

In order to prevent the market from being dominated by forces which could disrupt it, Norton said it was necessary to return the individual to direct investment.

This would require keeping the market simple so as not to alienate the individual by its complexities and popularising share investment through privatisation and tax treatment.

In this regard imbalances between institutional and other investors was an important topic to develop with government, Norton said.

The lessons of late 1987 were fundamentally simple: to keep markets liquid, avoid undue leverage, avoid undue complexities and imbalances between players, and keep market regulations sane.

The JSE had concentrated efforts on surveillance and regulation, developing a system of co-regulation with government to the increasing envy of other markets.

Since October last year the brave new markets had been threatened by inadequate activity and a turning away from the global market concept to that of preferring investment in home markets.

D/D 19/5/88

Perm income up 58

JOHANNESBURG — The SA Perm has reported that net operating income after tax and all dividends was R23 million for the year to March 31.

This compares to the R26 million recorded last year.

Perm chairman, Mr Alistair MacMillan, says this is due to tight interest margins resulting from intense competition in the home loan market and " effective exclusion of building societies from short term funds".

The Perm also states that it incurred higher operating costs in line with increased activity.

A substantial increase in home mortgage lending was recorded with advances over R1 billion (R982 million) with the average size of loan recorded of R38 500 compared to last year's average of R42 000.

The society says R45,1 million was transferred to reserves. — Sapa

DD 19/5/88

Umtata Mutual is tops

58

EAST LONDON — Old Mutual's sales force has attained the highest number of international quality awards (IQA) of all South African life assurers with 802 members of its sales force qualifying for this prestige American award.

Umtata branch, managed by Mr Viki Vikilahle, produced 28, the most qualifiers in the country. Everett Mbelani's Butterworth branch had 17 qualifiers, the third highest in the country.

Eastern Cape representatives in the top ranks are Mr Peter Jacobsen, of Queenstown, who qualified for the 17th consecutive time, and Mr Herman Swart, of Port Elizabeth branch, who obtained a 100 per cent persistency — none of the policies he issued in the two qualifying years lapsed.

The IQA is awarded by the Life Insurance Marketing and Research Association (Limra) of America. "The IQA encourages professionalism among our sales force by motivating representatives to sell quality business, said Mr Mike van Greunen, Old Mutual's general manager (individual life).

Cape Times 19/5/88

Tongaat show 90% higher earnings

58 288

By AUDREY D'ANGELO
Financial Editor

BETTER trading conditions, rationalization and a lower interest bill enabled the Tongaat-Hulett group to achieve a record performance for the year to March 31.

Earnings rose by 90% to 162c (85,3c) a share — well above the 150c forecast in the interim report — and the final dividend is 36c (24c) a share. This makes a total dividend for the year of 54c a share, 59% above the 34c paid in 1987.

Turnover was 20% higher at R2,6bn (R2,1bn). The group was hit by a 63% higher tax bill of R64,9m (R39,8m). But the interest bill was 26% lower at R51,4m (R70m), resulting in an after-tax profit of R124,8m (R67,1m).

Attributable profits were R119,2m (R2,6m).

The directors say prospects are encouraging and a further improvement in earnings is expected.

Pointing out that the strong earnings recovery reported at the interim stage has continued into 1988, they say all divisions performed well "with notable achievements by the aluminium and textile divisions".

The building materials division has benefited from increased demand as the market strengthens and there has been "a significant improvement in profitability".

The food, starch and sweeteners and transport divisions have all reported "satisfactory profit improvements".

But although the sugar division also performed well, the directors say it was hit by higher taxation "and consequently its contribution to group profits is similar to last year".

Now it's the bond war of words

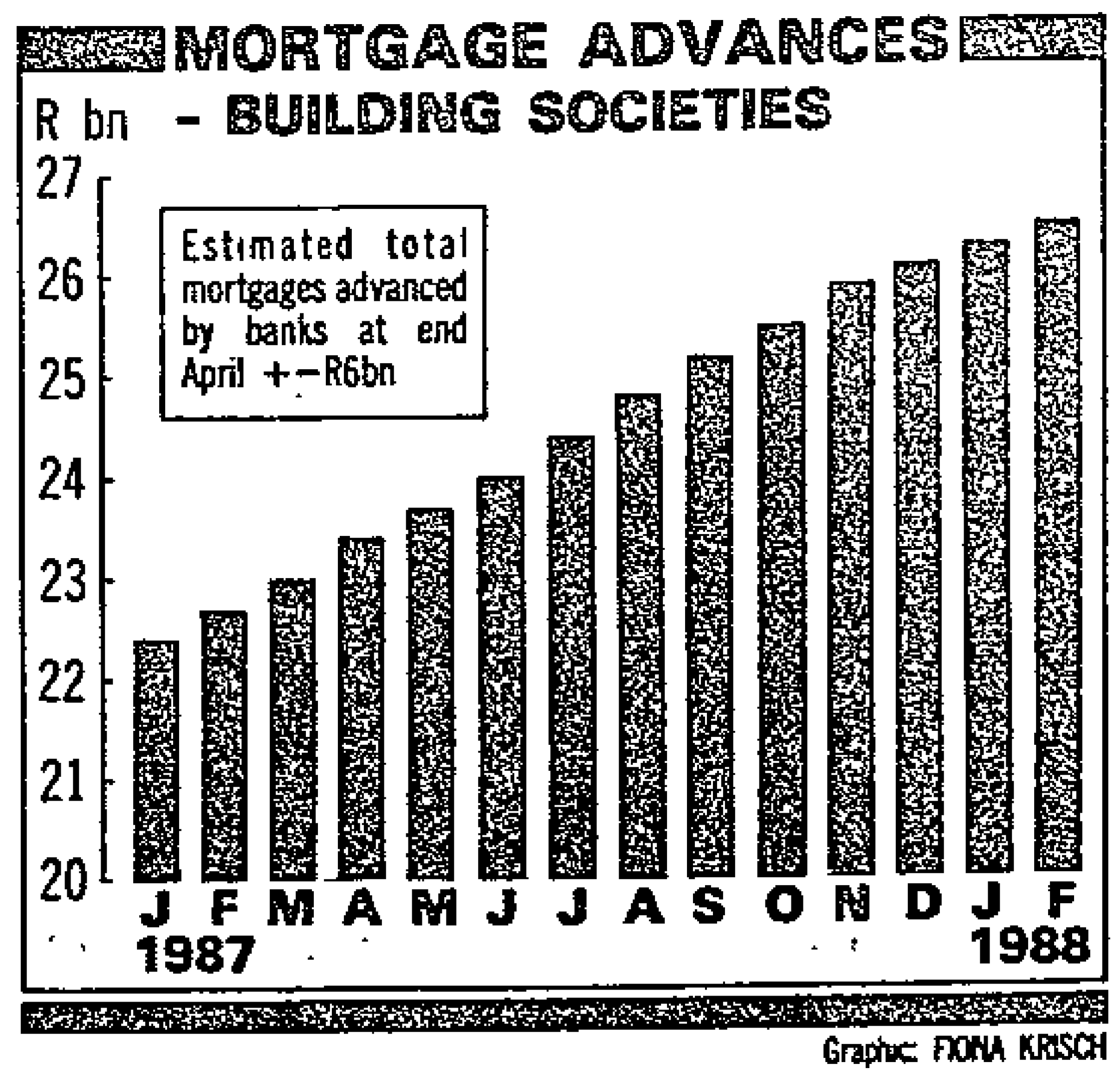
GERALD PROSALENDIS/Financial Editor

ONE OF the first casualties of this month's credit squeeze will be the two-year-old home loan war. Tighter monetary policy will dampen the cut-throat competition, which has seen banks and building societies lowering mortgage rates and deposit requirements to attract or keep business.

And the organisations involved are now waiting with interest to see if any of their number — particularly banks with large mortgage exposures — will have their earnings hit because rates have turned against them.

Since the opening shots were fired by Standard Bank, with its aggressive entry into the home loan market late in 1986, banks and societies together have extended more than R9bn in mortgage bonds, compared with a total of less than R3bn in 1985.

The upshot — largely the fruits of deregulation in the financial services industry — has been a fundamental change in the nature of home loan business.



Traditionally, this market has been dominated by building societies. Whereas banks were seen as stop-start players, running up or down relatively small portfolios depending on the interest rate pattern and demand for their more traditional products, they are now permanently involved in the mortgage market, whether they like it or not.

And some may not.

Whatever bankers say to the contrary, clearly short-term rates have moved up higher and quicker than was expected even a few months ago, upsetting their calculations.

Bankers, getting their first real taste of the possible pitfalls of large exposure to mortgage business, can be forgiven for feeling edgy. Unlike building societies, their portfolio has been funded largely by short-term instruments.

Already margins on home loan business are being squeezed by the changes to Reserve Bank rediscounting procedures. This, together with Governor Gerhard de Kock's veiled warnings to banks that things had gone too far in the home loan market, has put on the brakes.

Sensible bankers will now spend time consolidating, with less emphasis on upping market share and more on their profit and loss accounts.

Before the squeeze, banks and societies were falling over each otherin flaunting new products, but now the advertising campaigns are being scaled down or targeted differently.

In an environment of rising rates, prospective homeowners may be more circumspect before committing themselves. Building societies — short of longer-term funds — have cut back lending levels. One society, which saw advances for homes soar to R400m in January alone, is now putting a ceiling on lending of R250m a month.

In coming months, as rates firm, the focus will fall increasingly on banks and their behaviour in a market which is both politically sensitive and unforgiving of incorrect funding decisions.

On average, banks need an all-in margin of 4% between the cost of funds and the rate at which they lend to turn a profit. They also need to count the opportunity cost of having funds lent long-term at lower rates than those at present prevailing, measured in this case by the difference between the rate being charged on mortgages and prime rate.

☐ MATFIELD ... "we're satisfied"

For Standard Bank, which is locked into a fixed rate of 12,5% on a portfolio of R1,65bn until the end of June, this could, opposition bankers say, prove troublesome.

First National, with a mortgage portfolio of around R3bn, and Trust-Bank have raised rates on home loans to 15%. Nedbank is also locked into 12,5% until the end of September, but being a late entry into the market its portfolio is relatively small.

Some claim that Standard is losing on interest turn, but bank spokesmen point out that competitors' calculations are nothing more than educated guesses.

Standard Bank Financial Services MD Dennis Matfield denies that there is cause for concern. "Yes, margins are small, but we have given an undertaking to our customers. We will make an announcement on interest rate movements within weeks. Clearly, we will be raising rates.

"Our asset and liability management took an increase in rates into account. We gave our clients a commitment not to raise rates before the end of June, and also not to increase rates above the major building societies before the end of December. We are statisfied with how things have turned out."

But, asks a competitor who is smarting: "Why should their book be better funded than banks on average? Even at a higher rate of interest, we're being squeezed — how can they be comfortable at 12,5%?"

Matfield counters: "Whether we make or lose money is our business. I cannot see how anyone can guess at our cost of funds."

While bankers debate, Standard's position will only become clear once it publishes its results in June.

"If they are good, they must have known something we, their competitors, did not."

The mortgage war between banks and building societies for market share is threatening to turn into a war of words between bankers themselves.

Says one: "The public perceives Standard as being innovators in the market and knock other banks that have raised rates. Standard are innovators by default, because they took a wrong view on rates. Standard's decision to fix rates has hurt us all."

Perceptions are important in the home loan business, particularly with estate agents, who channel much of the business to the banking sector.

Matfield denies that Standard has been caught short: "There is a price for everything. We did not rush into this market with our eyes closed. We have achieved a level of market share — our total book, including undrawn loans, now stands at R2,4bn — which took some building societies years to achieve."

Obviously, the new business banks have gleaned by using mortgage loans as a marketing device could offset any losses incurred on their mortgage portfolio. Mortgage business is seen by many as a core around which to hang other banking services. This has been one of the strengths of building societies entering the banking market.

But while having made a serious dent in building societies' market share, banks will now have to sit out any further rises in rates — ever mindful that, should they be forced to move mortgage rates higher than building societies, it will damage their image.

At the back of their minds lurks the memory of Barclays' experience in 1984/1985 when it was forced to raise its rate on new loans to 25% to choke off demand for home loans. Heads rolled over that debacle. Only time will tell whether we will see a repeat performance.

DID 20/5/88

Finance unions merge

58

JOHANNESBURG — The two biggest trade unions in the finance sector — the 34 000-strong South African Society of Bank Officials (Sasbo) and the 16 000 -member Building Society Officials Association (Bsoa) — have agreed to merge. The final decision was taken here yesterday when Sasbo's 24 branch committees voted unanimously in favour of the move. Bsoa members endorsed the merger earlier this year. The general secretaries of both unions have expressed their delight at the decision.

"Its the consummation of three years work behind the scenes," said Sasbo's Mr Ben Smith. "With the differences between financial institutions blurring so rapidly, we both agreed that unity was the only sensible option."

Bsoa's Mr Corrie van Vuuren sees the merger as the first step in a plan to unionise all employees in the finance sector.

"In the past we have been wrapped-up in parochial matters, now the door is open to all," he says.

Bsoa has already moved its offices to Sasbo house in braamfontein and work on a constitution for the new body is underway. — Sapa

58

LIFEGRO

More capital needed

Activities: *Long-term insurer which also sells financial services and retirement funding products.*

Control: *Volkskas and Rembrandt are largest shareholders.*

Chairman: *M D Marais; managing director: B Gouws.*

Capital structure: *52m ords of 5c each. Market capitalisation: R114,4m.*

Share market: *Price: 220c. Yields: 7,3% on dividend; 8,6% on earnings; PE ratio, 11,6; cover, 1,2. 12-month high, 480c; low, 190c. Trading volume last quarter, 1,8m shares.*

Financial: *Year to December 31.*

	'85	'86	'87
Total Assets (Rb)	1,8	2,7	3,7
Net premium income (Rm)	275,9	297,5	404,2
Investment income (Rm)	172	183,5	247,1
Earnings (c)	18,5	18,8	18,9
Dividends (c)	11,7	15,0	16,0
Net worth (c)	n/a	100,6	108,3

Lifegro has been the subject of speculation ever since the announcement of its preliminary results in mid-March. With growth in excess of income over outgo of 111%, earnings per share barely increased on the new method of calculation and actually fell when based on the old method.

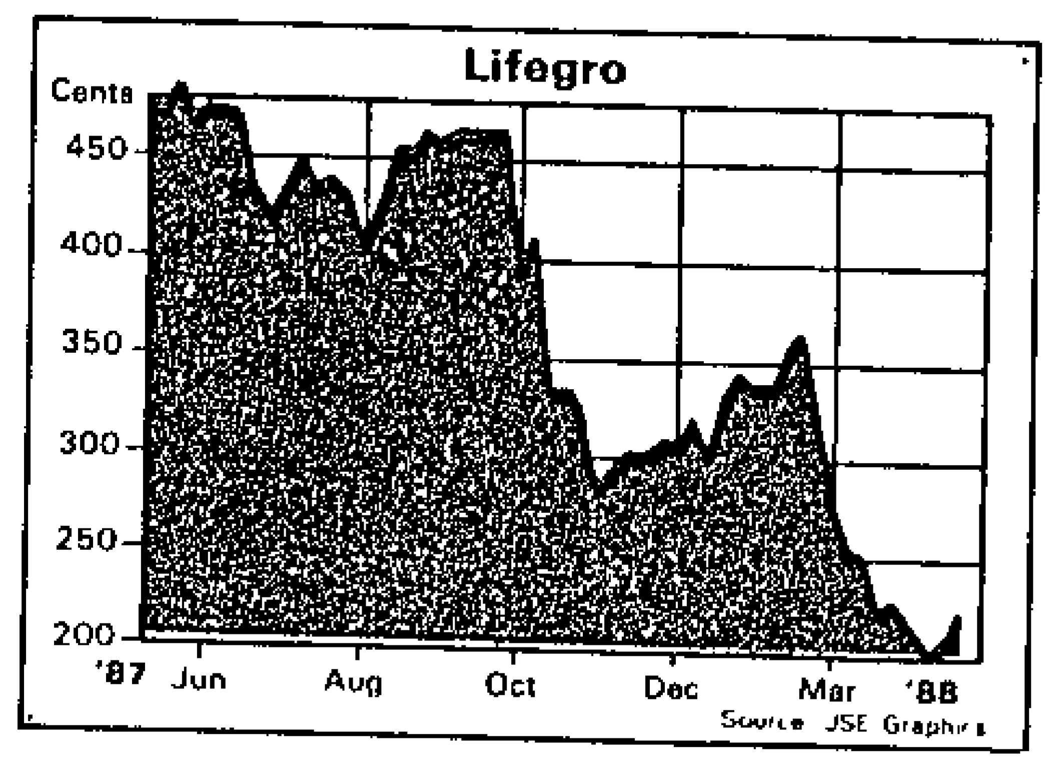
Most speculation has centred upon the issue of controversial single premium policies with a guaranteed return — known as Fenton policies — and the need to make provisions now that the stock market has fallen. Indications of major problems in the group can be seen in the removal by major shareholders Rembrandt and Volkskas of Tony Laubscher as MD. He was replaced by Blignaut Gouws, former MD of Momentum Life, with Danie Cronje, executive chairman of Volkskas Merchant Bank, appointed deputy chairman.

But those analysts who have blamed the problems largely on the Fenton policies were off the mark. The report by the chief actuary, Henry Worthington, does not show a need for provisions anything like the size suggested. He states that about 7% of the decline in the surplus in respect of policyholders' funds was due to a short-term loss on single premiums invested in the middle of 1987. This amounts to around R12m, which squares with outside actuaries' estimates of the loss. Lifegro probably made more than twice this amount in similar policies written last year.

So why the large amount (R894m) set aside to increase actuarial liabilities and provisions? Rumour has suggested for some time that the move was a board decision, made by the major shareholders. It would seem the only reason for them to reduce their own EPS would be if they saw this as the best available alternative. With Lifegro very undercapitalised, it is probable that capital was needed from somewhere — either from reinvesting funds or from directly adding more capital in a rights issue.

The extent to which the group is undercapitalised can be seen from the ratio of shareholders' funds to policyholders' funds. For Lifegro this is 1,6%, whereas it is 17% for Liberty Life. Lifegro either had to rein in its growth or find more capital.

There is no question about the group's solvency. Worthington says that the balance in policyholders' funds is sufficient to provide the solvency margin he considers desirable. Although suggestions have been made that policyholders have had to sacrifice



bonuses to pay for the Fenton guarantees, this is not the case. Bonuses are unaffected and full provisions have been made. Worthington recommended a bonus be paid at the same vesting bonus rates as last year.

Of course, rapid growth always requires substantial provisions, and the sharp climb introduced a lot of new business strain. The sacrifice has been made by shareholders. Had the increase in actuarial liabilities and provisions been only 1% lower, net taxed surplus would have almost doubled.

An important point is the investment policy adopted by the group, which is now 28% liquid. Laubscher says that Lifegro anticipated a correction during 1987 and adopted a policy of hedging. Had the funds for the Fenton policies been invested in the market, there could have been considerably higher losses, but we are told that the losses were contained, because the investment was made in options.

Even so, much remains to be explained. It is to be hoped that shareholders will ask a number of searching questions at the annual meeting later this month.

At 7,3%, Lifegro is on a dividend yield more than double that of Liberty. The major shareholders could have their work cut out restoring investor or policyholder confidence.

Pat Kenney

LIBERTY

Property support

Activities: *Principal activity is transaction of life insurance and pension fund business.*
Control: *Liberty Holdings has 52,1%.*
Chairman: *D Gordon; joint managing directors: P D Wharton-Hood and M Winterton.*
Capital structure: *15m ords of R1 each; 2,5m preferred ords of R1 each; 1,4m convertible red cum prefs of R1 each. Market capitalisation: R2 333m.*
Share market: *Price: R124. Yields: 3,5% on dividend; 5,0% on earnings; PE ratio, 20,1; cover, 1,4. 12-month high, R155; low, R85. Trading volume last quarter, 104 000 shares.*
Financial: *Year to December 31.*

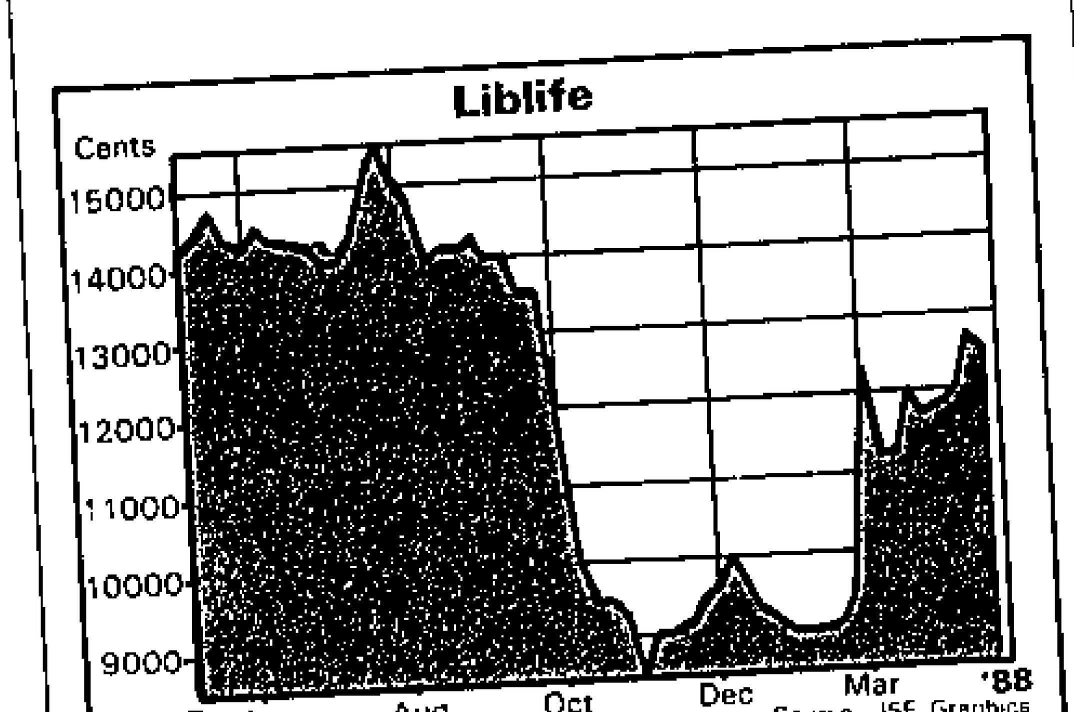
	'84	'85	'86	'87
Total assets (Rb) ...	4,2	6,7	7,6	11,4
Net premium income (Rb)	0,5	0,8	0,9	1,4
Investment income (Rb)	0,3	0,4	0,5	0,8
Earnings (c)	340	406	500,6	618,3
Dividends ords (c) ...	250	300	360	440
Dividends prefs (c) ..	—	—	410	600
Net worth (c)	4 389	6 116	7 990	8 629

Liberty could hardly ask for better PR than to announce its 1987 results at the same time as Lifegro (see above), giving rise to the inevitable comparison between their performances.

Liberty's Gordon ... rising rental income

Some comparisons make interesting reading. Liberty Life, since its merger with Prudential, has total assets of R11,386bn, more than three times Lifegro's R3,636bn, but commissions and management expenses totalled R210,8m, less than double Lifegro's R132,42m. Lifegro's excess of income over outgo, at R903,9m, was rapidly catching up with Liberty's R1,198bn, but Liberty's net taxed surplus was R123,1m against Lifegro's R9,8m, because Liberty transferred 89,7% of excess of income over outgo to life funds, while Lifegro transferred 98,9% to increase actuarial liabilities and provisions. Liberty has shareholders' funds of R1,5bn which generates income against Lifegro's R56m.

As with Lifegro, though, Liberty's new single premium and annuity consideration business was the big growth area, with a climb of 56%. Annualised recurring premium income grew by only 16,7%. However, Liberty did not issue Fenton policies, which contributed to Lifegro's enormous increase in single premium business. For this and other reasons, it did not have to make the large provisions that Lifegro found necessary. Net income from investments did particularly well, with a rise of 57%, against



Lifegro's 34,7%

Chairman Donald Gordon notes that the group recorded its best performance in its 30th year of operation. EPS climbed 23,5% and investment surpluses, development stabilisation and other reserves climbed from R443,8m to R1826bn, helped by the increase in share prices and the merger with Prudential.

But a big advantage Liberty has over other life assurers when the stock market is not strong is its large property portfolio. This restrained Liberty's performance in the JSE bull market, compared with some other assurers, but Gordon mentions that rental income from the R1,7bn property portfolio grew to R133m. The fifth largest asset in the portfolio, after government stock, the holding in British associate TransAtlantic and investments in Premier and Stanbic is the Sandton City complex valued at R310m.

We discussed Liberty's overseas interests at the preliminary profit announcement (*FM* March 18). These investments have become so important that the attributable portion of UK investments now represents about 50% of Liberty's net equity, making the stock a rand hedge.

At the the preliminary results, we suggested a rerating based on the overseas interests was possible. With the price up from a low of R85 in November to R124, this seems to be taking place. It is now on an historic dividend yield of 3,5% against Southern's 4,9%, Fedsure's 6,8% and Metpol's 5,8%. But Liberty has always been regarded as the blue chip of the insurance sector.

Pat Kenney

The clean-up which became a curb

By HILARY JOFFE

AT least one of the credit curbs announced recently by Finance Minister Barend du Plessis was not originally intended as a credit curb at all: the phasing out of the debtors' allowance on General Sales Tax. The measure was decided on for tax rather than inflation reasons and was, it appears, simply added conveniently on to the credit measures.

According to Deputy Finance Minister Org Marais, the government wants to phase out the allowance "to clean up the old system before implementing the new I-VAT system".

Its phasing out will, however, make it more expensive for retailers to provide credit. It could also result in cash flow problems for retailers who extend a lot of long-term credit — for example through hire purchase or those "six months to pay" accounts.

The debtors' allowance was designed to prevent businesses which sell on longer-term credit of a month or more having to pay over all the sales tax to the Department of Inland Revenue before they had actually been paid for the goods or services. The concession they can get in terms of the allowance is only having to pay over sales tax on 50 percent of their outstanding book debt at the end of the month.

The government is reluctant to grant such a concession under the Value Added Tax (VAT) system which is to replace GST in March next year and so has decided to phase out the debtors' allowance in monthly installments, avoiding a sudden jolt to business cash flows when VAT is introduced.

One tax consultant believes there is no reason a similar type of concession shouldn't be carried forward to the VAT system. Some business and tax people are lobbying for this. "The theory is the retailer is only an agent to collect the tax. But they have to finance it before they receive it — and in some cases may never receive it".

Deloitte Haskins and Sells partner Willem Cronje disagrees: the debtors' allowance doesn't fit in with the VAT system, he says. There is no inherent economic reason businesses can't finance the tax as they finance other expenditures.

For the government the end of the concession will mean more revenue, earlier. Cronje estimates funds to the Exchequer on the phasing out of the debtors' allowance could be up to R1-billion.

(98) W/Mail 20-26/5/88

New business boosts Metlife performance

58 B/day 20/5/88

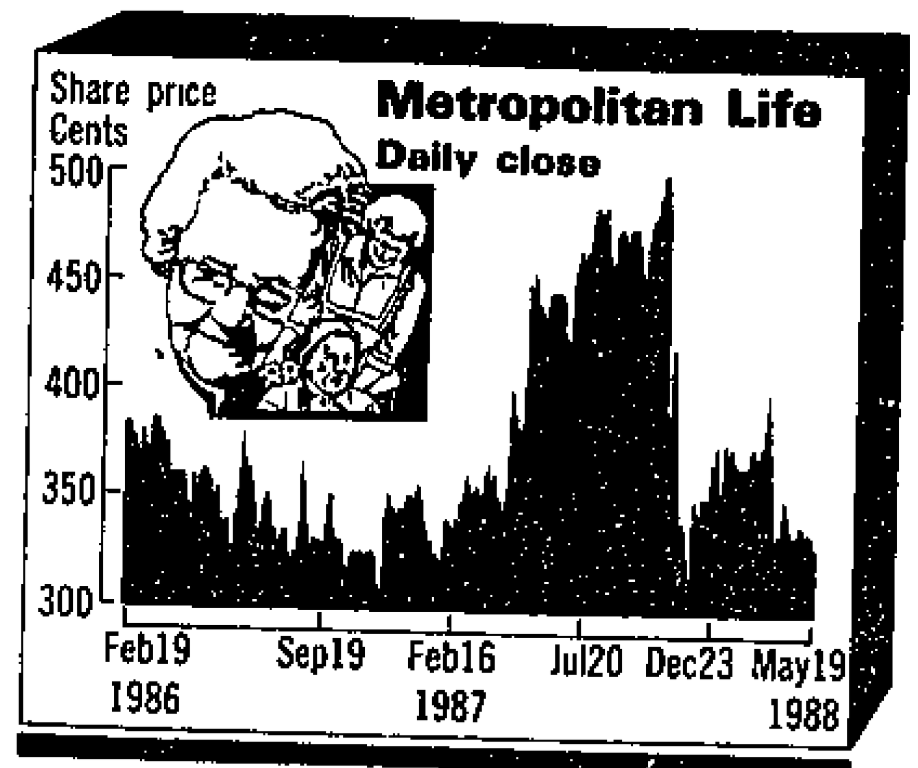
HELENA PATTEN

METROPOLITAN Life's increase in new business and drop in the lapse rate of existing policies accounted for substantial net premium growth and a 20% improvement in earnings and final dividend at the year's halfway stage.

Metlife's disclosed surplus attributable to shareholders was 20,5% up to R5,8m in the six months to March, compared with the same period last year. This translates into 13,5c a share, up from 11,2c a share in 1987.

In view of the improved results, the directors have increased the interim dividend to 9c a share from 7,5c last year.

The life company's performance was boosted by an 81% growth in net premi-



Source: JSE Graphic: JOHN McCANN

um income from individual policies, while the successful marketing put group business premium income 142% ahead of last year.

Total premium income at R158,3m was 32% higher than 1987's R119,5m, while the 27% growth in investment income was described by the company as "satisfactory".

MD Willem Pretorius said profitability would be negatively affected by the increase of 75% in the tax payable by life assurers, and although the balance sheet's assets at market value fell by R117m following the stock market crash, the market value of all investment assets still exceeded the balance sheet value by a substantial amount.

He said costs had been kept under control during the year.

Pretorius was bullish about final results for 1988. "Barring any unforeseen setbcks in the SA economy, Metropolitan's earnings and dividends for the full year should be higher than the previous year."

Metlife's share closed unchanged yesterday at 330c.

Working party given mandate

Step nearer for futures exchange

58

B/day 20/5/88

HELOISE HENNING

A FUTURES exchange is a step closer to becoming reality since the establishment of an interim board representinng the JSE and 13 banks and discount houses.

A working party has been given a mandate to produce a prospectus for the exchange by July 31.

Working group chairman Stuart Rees says: "This represents a major step in co-operation between various institutions, including the JSE, towards a common goal. Co-operation at such an early stage in the establishment of an exchange will lead to an early and successful conclusion."

This initiative precedes the long-awaited Stals Commission report on the futures market. But the interim board says it has the support of the monetary authorities "subject to the understanding that the prospectus does not in any way conflict with the Stals Commission report".

The interim board says its objective is to promote properly regulated trading in the short term.

The prospectus will state the requirements for the "orderly and secure trading of futures and options on futures", as well as the level of investment needed to realise the market's potential.

The SA financial futures market started in April last year when futures based on the all share, gold and industrial indices were offered as products.

Recently, Rand Merchant Bank (RMB) has supplemented these products with futures in the Eskom 168 semi-gilts.

Board members are: Central Merchant Bank, Corporate Merchant Bank, The Discount House of SA, Finansbank, FNB, Investec, JSE, The National Discount House of SA, RMB, the SA Futures Industry Association, Securities Discount House, Standard Merchant Bank, UAL Merchant Bank and Volkskas Merchant Bank.

UBS sees prime at 16% at year-end

58

STar 21/5/88

The contraints on the balance of payments will be the most important determining factor in interest rate patterns over the next 18 month says the United Building Society in its latest Economic Monitor.

It says that while it expects market forces to be the most dominant factor during most of 1988, the Reserve Bank may be forced to take over this role towards the end of the year and will lead the market on interest rate increases.

It states: "South Africa will be faced with the irony that economic growth above three per cent will, under these circumstances, imply overheating and thereby necessitate stricter monetary policy.

"Against this background we expect the prime rate to stand at 16 per cent by the end of 1988 although it might taper off a bit in 1989 in line with the expected slowdown in economic activity".

UBS also expects capital market rates to continue to increase but the group does not see any problems in financing the requirements of the Government sector.

"Taking into account the limited needs of the semi-gilt borrowers, the Government's borrowing requirements will be easily accommodated by the capital market."

58

Star 7/5/88

Southern lifts premium income above R1 billion for first time

TEIGUE PAYNE

Southern Life performed well in the year ending March, with taxed surplus attributable 23 percent higher, and the final dividend increased by the same amount.

Taxed surplus was R78,8 million (R64 million in 1987), and the final dividend of 18,5c (16,4c) makes a total 21 percent higher at 31,5c (26c).

Group income grew 32 percent to R1,8 billion (R1,3 billion). Expenses rose by hefty 22 percent with expansion, but were lower when related to the expanded premium income.

Premium income rose by 41 percent to R1,2 billion, exceeding R1 billion for the first time. Total new business production increased 81 percent to a record R677 million, with about equal contributions from life and employee benefit business.

The value of the group's assets showed virtually no increase however, following the stock market crash in October last year and a second smaller slide in January this year. At year-end, assets amounted to R7,8 billion (R7,7 billion).

Despite this, the value of its assets has increased by 23 percent compounded annually since 1985, the merged company's first operating year, according to Southern.

Executive director: investments, Mr Jan Calitz said that over the past 12 years even a passive investment strategy on the stock market would have yielded well above inflation, inclusive of crashes.

On tax, chief executive Mr Neal Chapman said the life insurance industry must negotiate this sensitive issue with the government. Sanctions and disinvestment made a long term savings industry particularly essential, but the industry now felt it was being penalised by its success.

Chief Executive Neal Chapman — "Long-term savings industry is essential."

Although much had been made of the recent tax increase, it would have meant relatively small amounts compared to totals for Southern in 1987 - R5 million extra tax for the group and R19 million more for policyholders.

Investment-related insurance policies were still the best way for the man in the street to protect his wealth against inflation, and the extra tax had made them only slightly less attractive.

He said what was important was that "a logical and equitable basis of tax should emerge both for the policy holder and the insurer".

At year-end, Southern's investments of R7,2 billion were invested approximately 40 percent in shares, 18 percent in property and 18 percent in Government stock. Liquidity was well above average, with 18 percent, or R1,3 billion, on deposit.

Mr Calitz said that Southern's liquidity had declined between the beginning of its 1987 year until the October crash, but had increased substantially since the crash.

On prospects for the stock market, Mr Calitz said: "We believe the bull market will return, and perhaps its not that far away. However, we don't expect a roaring bull market ahead."

He said Southern was nonetheless maintaining high liquidity. Although there were some positive factors now, the worsening balance of payments and rising current expenditure pointed to higher interest rates. Traditionally, this pointed to the stock market falling further before it rose.

Investor sentiment towards the stock market continued negative, said Mr Calitz, and while Southern might otherwise like to buy now, it could not "buck that trend".

Mr Chapman said that the period of rationalisation following the merger in 1984 with Anglo American Life, which lasted until about March last year, was now over, and all systems and structures were in place.

Southern had reached the stage where the future would be "its more of the same, but lets try and do it a little better".

He said an important contributor to Southern's success in the past year had been the introduction of an ideology statement, called Southern Style, which outlines the company's behaviour towards its customers, shareholders and employees.

Southern had also recently introduced a staff share option scheme which will make 4,6 million shares available to all employes with more than two year' service. The scheme is an extension of the existing executive share scheme, and will mean up to five percent of Southern's issued share capital being made available to staff.

PERSONAL FINANCE

16pc ceiling forecast

58

Star 21/5/88

Higher prime interest rate will hit jobs, warns Syfrets director

The banks' prime overdraft rate is unlikely to increase to more than about 16 percent in view of the slower growth rate anticipated in the second half of the year.

So says Mr Leon Camphor, director of Syfrets Managed Assets.

At the same time, he said at a seminar in Durban this week, the stock exchange could surprise many investors by firming in the face of higher interest rates and inflation.

Mr Camphor said interest rates had already risen to cool the economy and protect the balance of payments.

A further step in this direction was likely — and the prime rate could move to 16 percent within the next couple of months.

However, further increases in rates could hit the economy too hard and slow job-creation.

He therefore did not think prime would rise much beyond 16 percent.

While the second half of the year would see a slower growth rate, it also would be marked by increased inflation.

He warned that an alteration in the weightings a year ago in the cost of living index and imported inflation as a result of the lower rand would lead to higher inflation.

For structural reasons, he believed it was impossible for inflation to drop below 10 percent in South Africa.

He said problems were low productivity, scarcity of resources — which were wrongly allocated — and the difficulty of controlling money supply in the informal sector.

Mr Camphor said he expected fairly big civil service pay rises in the next two years.

He believed there was a good chance of another big drop on overseas share markets. This, with higher local interest rates, would be negative for the JSE.

However, he thought higher inflationary expectations would increasingly lead institutional fund managers to worry about obtaining real returns on investments.

They, therefore, would turn back to the JSE, which could surprise many.

On the political front, Mr Camphor said there were three possible scenarios — but he believed South Africa would eventually opt for the one which would prove best for the economic health of the country, a negotiated dispensation.

This would create uncertainty in markets for a few years and have a number of implications, including high inflation and government spending, shorter economic cycles, a weak currency and (apart from sanctions) a favourable outlook for exports.

R100-m bonanza for the United

Star 21/5/88

58

Senior citizens nationwide have deposited more than R100 million with the United Building Society Limited during the first three days of its special scheme.

The R100 million total was reached by close of business on Wednesday afternoon, and it was reported that senior citizens were still making inquiries about the deposits at United branches around the country.

A spokesman for the United said that most of the business had been generated in the Transvaal, with nearly one quarter of the total deposits coming from the Johannesburg area.

"Branches in Natal have been extremely busy and Cape Town reported a lot of interest, with deposits coming in steadily.

"Demand for the bonds was lowest in the Orange Free State but we are happy with our figures there, as the area is vast and mostly of a rural nature," the spokesman said.

For more information telephone: K MacGregor, United Building Society, at (011) 28-2920 or (011) 23-0496.

Southern booming

21/5/88 Cape Times (58)

By AUDREY D'ANGELO
Financial Editor

BUSINESS is still booming for the life insurance industry, and the Southern Life group lifted premium income by 41% in the year to March 31 to R1 214m compared with R858,5m in 1987 — passing the R1bn mark for the first time.

Disclosed earnings for the group rose by 23% to R78,8m (R64m) and the total dividend to R52,6m (R42,7m). The final dividend is 18,5c a share — a total of 31,5c a share for the year.

Total new business rose by 84% to R677m compared with a 66% rise last year, and new recurring premium business by 78% to R236,5m. Income from all sources rose by 32% to R1,8bn.

There was little growth in assets because of the stock market crash in October last year, followed by a further fall at the beginning of this year. But CE Neal Chapman said the value remained steady at R7,8m, giving the group an average growth of 23% in assets since the formation of the new Southern in 1984.

Discussing increased taxation for life offices, Chapman said he expected R5m to be added to Southern's tax bill for the current financial year to March 1989

"We welcome the principle of a fairer tax basis for life insurers," he said, "and await with interest the formula which will determine the income and expense factors to be used, but express the hope that the importance of savings and protecting wealth against the ravages of inflation is recognized when it comes to taxing the ordinary policyholder."

Discussing the continued inflow of new business in spite of last year's stock market crash, Chapman said: "The business of the Southern is the creation and protection of wealth for our customers.

"By its very nature, this involves taking a long-term perspective of our products and investment strategy to ensure the best results.

"Economic cycles cause peaks and valleys in the fortunes of any investment portfolio and prudent management requires that during good times surplus funds are transferred to reserves so that these can be called on in bad times"

40c (25c) a share, covered 5,4 times.

Turnover rose by 34% to R29,6m.

The tax bill rose by 74% to R1,2m, but the interest bill was 2% lower, at R0,2m.

Chairman Christo Wiese said: "The group has budgeted to open at least five new Pep outlets during the year and expects to maintain the growth tendency experienced by existing businesses during the past financial year."

He said Pep Peninsula expected its planned growth to create "a substantial number of employment opportunities over the next year".

Southern hits a billion

By Ian Smith

THE end of a five-year bull market could not dent Southern Life's earnings drive.

Premium income in the year to March 31 jumped by 41% to exceed R1-billion for the first time, disclosed earnings increased 23% to R79-million and the final dividend was lifted by 23% to 18,5c, giving a total for the year of 31,5c compared with last year's 26c.

Investment income rose by 16% to R592,5-million. It has increased from R380,5-million in the year to March 1985.

Southern dividends have shown an annualised compound growth of 25% since the JSE listing in 1985.

Tax changes

Chief executive Neal Chapman says group assets remained steady after last October's crash. At the yearend assets totalled R7,8-billion, indicating that the value under mangement has increased 23% compounded annually since the formation of the new Southern in 1984.

"It is an indication of the strength and resilience of the Southern and its products that we can announce continued strong growth in earnings, dividends and sales," says Mr Chapman.

He attributes last year's success largely to restructured sales management and a highly motivated sales force, a successful product range and growing acceptance by brokers.

Expenses rose by 22% — the first time in years that the increase has outpaced inflation.

"Exceptional growth in the last two years has necessitated a modest increase in staff and the depreciation of new computer equipment accounts for much of the increase."

He says tax changes will affect only the current tax year, but they will add an estimated R5-million to tax on shareholders earnings.

"We welcome the principle of a 'fairer' tax basis for life assurers and await with interest the formula which will determine the income and expense factors to be used.

"However, we hope the importance of saving and protecting wealth against the ravages of inflation will always be recognised."

R8,5m order

A PEP Stores warehouse valued at R8,5-million is to be built by Ovcon (Cape) Building behind the Pep complex at Kuils River.

Borrowing shock as farms sink

22/5/88 S times

(58)

FARMERS, owing a record R14-billion in spite of good crops last summer, face an increase in interest costs running to hundreds of millions of rands.

The Land Bank was told this week that subsidised farm credit would end on August 1. The shock came at a meeting of commercial and Land Bank officials, the Reserve Bank and the SA Agricultural Union.

This means that farmers and co-operatives who borrow from the Land Bank face an interest rate rise of one or 1,5 percentage points.

Competition

Land Bank bills and debentures for financing production credit to farmers will no longer qualify as liquid assets in terms of the Banks Act. The Act was passed in 1985 and a three-year phasing-in reprieve was granted.

A Reserve Bank spokesman says the immediate result will be a sharp rise in interest rates charged by the Land Bank and co-operatives. The Land Bank will have to compete for funds on equal terms with the rest of the market.

SA Agricultural Union chief economist Koos du Toit says interest costs

By Robyn Chalmers

have become one of the biggest burdens for farmers. The new requirements "will be serious for them".

Average interest rates on agricultural debt of 14% will send the cost of borrowing to almost R2-billion a year. Each percentage point increase in rates adds about R140-million to farmers' annual costs.

Disaster ahead

One merchant banker says SA agriculture faces a disaster.

"The farmers had a good season, but it did not help them to reduce debt. Their plight is similar to that of the Third World. There is doubt whether farmers can ever service or repay debt. Banks will have to consider writing these alleged assets down in their books."

The Land Bank is traditionally the major supplier of agricultural credit in SA. It, the commercial banks and co-operatives are exposed to more than 70% of agricultural financing.

In December 1987, the Land Bank held R2 992,9-million of debt. Co-operatives held R3 604,5-million, commercial banks R3 848,9-million and other sources R3 772-million, amounting to more than R14-billion, says a Volksas report.

Farmers' total income in that year was less than R13-billion. Net farm income before tax and interest was less than R6-billion, interest costs were almost R2-billion, leaving pre-tax income of under R4-billion.

Bankruptcy

Mr du Toit notes: "The overall impression is that agriculture is heading for bankruptcy. However, this is only true in certain sectors of the agricultural arena.

"Maize farmers, for example, are particularly hard hit as low prices caused by the world surplus prevent them from exporting profitably.

"The Government's policy of phasing out subsidies to achieve more market-related conditions in agriculture will also hurt farmers, especially in poor economic conditions."

Volkskas economist Andre Louw says inflation, drought, floods, rising interest rates and poor financial management by farmers have led to the debt problem.

"Inflation contributed 46,8% to the farmers' increased debt burden between 1980 and 1985 compared with 31,4% for interest costs and 21,8% caused by the drought.

"With inflation running at between

☐ To Page 3

BA9 figures confirm expansion of credit

STAR 23/5/88 (58)

Finance Staff

If one needed confirmation of the rapid expansion of credit, the latest statistics from the banks' BA9 figures provide it.

An analysis of the BA9 figures for the period to end-March by Nedfin Bank shows that in the past year the banks have increased their lending by 23,5 percent to a net R2,9 billion worth of instalment sale and lease agreements.

Nedfin's analysis shows that the greatest growth lay in the lease area — the annual increase was 27 percent.

The growth in both leasing and instalment sale has been significantly higher than the inflation rate over the same period. The value of lease agreements at end-March was a high R5,1 billion as against R4 billion a year ago.

In the area of instalment sale where the value of agreements held by the banks climbed 21,7 percent in the past year, the banks held a whopping R10,1 billion.

Commenting on the figures Nedfin managing director Ron Rundle said: "While the amount of lease and instalment sale credit granted by the commercial banks has increased by 6,9 percent or R1,9 billion in the past year, the general banks have extended 28,1 percent more credit. In absolute terms this amounted to R2,7 billion."

He added that the growth in credit had been matched by a 32,6 percent growth in bank liabilities to R62,9 billion.

"This growth in lending has led to the authorities taking measures to cool down the economy," Mr Rundle said.

DID 23/5/88

Govt slow to curb insider JSE trading says Margo

58

JOHANNESBURG — The South African Government is dragging its feet over urgently-needed new laws to curb rampant insider trading in the stock market, according to Pretoria's top legal adviser on the issue.

"The stock exchange tells us insider trading is running rife," the Supreme Court Judge, and chairman of an official committee charged with drawing up measures to tackle the problem, Justice Cecil Margo, said.

"Legislation is before the cabinet. We tried to get it put through in the last parliamentary session.

"Now I have had discussions and learned that it will not be reached this session," he said, adding that reforms will now be delayed until next year.

The president of the Johannesburg Stock Exchange (JSE), Mr Tony Norton, said probes by the exchange officials proved there was frequent abuse of privileged information to gain an unfair advantage in share dealing.

"We have become tired of doing these expensive and detailed investigations and handing over the results to authorities who are unable to prosecute because the underlying law is inadequate," he said.

At least 10 cases had been submitted to police over the past decade but not one has resulted in a prosecution — let alone a conviction.

Officials also feel impotent in dealing with the growing problem of companies that flout the exchange's rules on mergers and takeovers.

The regulations demand that bids for control of public companies must also be extended to all minority shareholders on the same terms offered to majority stockholders.

This regulation is frequently defied and the exchange expects the problem to worsen as the local market becomes more active and sophisticated.

Critics in the investment community reproach the JSE for failing to police its own rules by suspending the shares of companies involved in controversial takeovers.

Mr Norton says the exchange's powers to enforce its regulations are inadequate: "We have had to carry the responsibility alone, when it is a responsiblity for the whole securities industry."

The Standing Advisory Committee on Company Law headed by Justice Margo has combined elements of the US and British systems in proposing a new regulatory system.

They suggest a city of London style takeover panel made up of stockbrokers, corporate lawyers, accountants and institutional investors to vet takeovers.

Unlike the British system, this panel would be empowered by law to make and enforce regulations, as in the case of the US Securities and Exchange Commission.

It would also be charged with stamping out insider trading and have its powers reinforced by changes to the South African Companies Act.

The panel would be empowered to investigate cases of suspected insider trading, subpoena witnesses and documents.

"Insider trading may appear to be a bloodless crime, but our experience is that it is not a victimless one and is one which a responsible stock exchange must take seriously," Mr Norton said.—Sapa-RNS

Lower M3 rise eases pressure on interest rates

By Sven Lünsche

The M3 money supply growth figure fell from March to April this year, preliminary figures released yesterday by the Reserve Bank showed.

Seasonally adjusted M3 growth — the targetted aggregate — increased by 19,21 percent in the year to April, substantially below the 22,4 percent growth rate recorded in March.

The 19,21 percent preliminary rise takes M3 to R98,05 billion, slightly down on the March figure of R99,73 billion.

While the annual increase in April is still above the targeted range of between 12 and 16 percent, it is a vast improvement on March, when M3 growth was about six percentage points above the top ceiling.

The narrow aggregate M0 — the measure of the extent to which government inflates the currency — also showed a monthly decline from R7,45 billion in March to R7,23 billion in April. The annual increase was 23,6 percent, compared with a year-on-year rise of 31,1 percent in March.

The monthly decline in the money supply aggregates will ease the fears of bankers, who were worried about a further squeeze on their margins, as the improved figures should ease pressure on short-term interest rates.

It should also help counteract growing inflationary pressures exerted by a weakening rand.

BID 24.5.88

Southern dividend up 23pc

58

JOHANNESBURG. — Southern Life has produced commendable results in a difficult environment — both disclosed earnings and the final dividend declaration were 23% up in the year ended March 31, 1988.

Despite the stock exchange crash, uncertainty surrounding the Margo Commission's recommendations and fierce competition between groups of large financial institutions, the taxed surplus attributable to shareholders increased to R79m (48c a share) from R64m (39c a share) last year.

The final dividend of 18,5c a share, added to the interim payout of 13c, gives a total dividend of 31,5c (26c), enabling the company to boast an annualised compound dividend growth of 25% since listing on the JSE in 1985.

The group's total income grew 32% to R1,8bn, the growth coming mainly from a strong 41% rise in premium income to R1,2bn — past the R1bn mark for the first time. Growth in investment income was soured somewhat by the October crash, but still managed to keep pace with inflation, increasing 16% to R592m in the year.

The chairman, Mr Zac de Beer, attributed much of the progress made to a still better performance by Southern's sales people, a lower staff turnover and an improvement in both the quality and persistency of business written — the first-year lapse rate dropped by about 20%.

Total new business written rose 81% to R677m, which the chief executive, Mr Neal Chapman, said in his annual report was "all the more pleasing when we recall that last year's figures grew by 66%. The growth in new business written is well-spread between single and recurring premiums, in both the life and employee benefits divisions."

IX

Lydenburg divs decline

Star 25/5/88

Finance Staff

Old Mutual's platinum group Lydenburg today reported a slight rise in attributable earnings, but it decreased its payment to shareholders in the six months to end-April.

Earnings per share rose by 4,5c to 74c, but the interim dividend was lowered by over 10 percent to 61c. Net income before tax was up R650 000 to R10,685 million.

The earnings per share figure excluded a special dividend payment of R9,33 million by Rustenburg Platinum which was retained to finance the acquisition of 5,7 million Lebowa Platinum shares.

Lydenburg divs decline

Star 25/5/88 **Finance Staff**

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(58) B/Day 25/5/88

Banks push for interest rate rise to salvage margins

GERALD PROSALENDIS
Financial Editor

BANKERS are putting pressure on monetary officials to raise interest rates as their margins are squeezed by the rising cost of funds flowing from this month's credit squeeze.

At least one banking executive will travel to Pretoria this week to express concern and to put his case for a Reserve Bank-led interest rate rise. He will also point out that scaling down lending in a competitive environment could have serious implications for banks' market share.

Most bankers believe that while the reception will be cordial, his pleas will fall on deaf ears, at least for the time being.

"There appears to be unwillingness on the part of the authorities to move rates for obvious reasons — the politicians are mixed up in this thing," says one senior banker.

"So far the signals from Pretoria have been not to expect too much too soon."

The issue is gaining urgency with usual end-of-the-month tightness in the market and the upward movements in the wholesale call rate to 12% yesterday from 11,5% on Friday.

At this week's meeting monetary officials are likely to point to April's money supply figures, which show significantly lower growth in the broad measure of money supply — M3 — as one of the signs the economy could be cooling.

Also, say officials, rather than using Reserve Bank credit, which is more expensive following this month's credit squeeze, banks are now finding it cheaper to swap their dollar holdings for rands to top their cash holdings. Banks are required to hold cash reserves based on returns submitted each month to the Reserve Bank.

"This has helped to ease the pressure," says one official.

Officials point out that earlier this year they warned banks on more than one occasion that the situation would tighten considerably and that they would be unsympathetic to pleas for assistance.

Some feel banks may be forced to raise prime rate unilaterally to get a little fat into their margins. Figures of between 0,25% and 0,5% have been mentioned.

But one banker says: "We have never had a confrontation with the Reserve Bank, or government, on interest rate moves and are not in a rush to do so now.

"Rather the next Bank rate increase will probably occur towards the end of

● To Page 2

Govt unlikely to yield to banks' pressure

● From Page 1

(58) B/Day 25/5/88

June, followed closely by a second. But if demand for credit keeps on the boil, the longer a rise is postponed the worse the eventual medicine will be."

Bankers concede that demand for credit in April and May appears to have levelled off.

"We have not seen the same jumps in demand for credit that we saw earlier in the year," one said.

Says First National Senior GM Jimmy McKenzie: "We started clamouring for adjustments to rates as early as December. We only got relief on March 10 and were able to move our home loan rate on March 24.

"We said to the authorities that it would be better for smaller, and more frequent interest-rates moves to take the drama out of bigger increases.

"Everybody is scrambling for deposits and the cost of funds is rising. This, in turn, is squeezing margins because we are not able to raise our lending rates.

"Also, many large companies are sitting with cash which is being pushed around the market, making things even more difficult."

At the back of bankers minds is the fear that if rates are not allowed to rise in response to market conditions, this could lead to a series of more direct measures later in the year, such as ceilings on bank lending, to put the lid on demand for credit.

Confusion over bonds cleared up

(S8) B/day 29/5/88

HELENA PATTEN

THOSE clients of participation mortgage bond managers who are eligible to participate in the government-subsidised Senior Citizen Deposit scheme, would probably be wiser to keep their money where it is.

Interest rates are on the up and up, and partbond managers generally agree the current 14,5% return on a partbond investment is likely to exceed the 15% rate on the second-generation "granny bonds" before the year is out.

Confusion has been cleared up by the Department of Finance about whether eligible partbond investors — those who have had funds invested in partbonds for at least five years — would be committed to the granny bonds at 15% for a full year.

An earlier statement from Finance Minister Barend du Plessis still stands. He said of the partbond schemes that "as in the case of Senior Citizen Deposits with banks, building societies and the Post Office, the same rate of interest (15% initially) will apply for the full 12 months of the investment".

Ingredients for a first in Africa

B/day 23/3/88

Mauritius plans world offshore banking centre

PORT LOUIS — Mauritius, boasting a robust economy and political stability, is planning to launch Africa's only international offshore banking centre this year and place itself on the world financial market.

"If all goes well, we will be able to issue licences during the course of this year," Bank of Mauritius Governor Indur Ramphul said.

He said the country met the criteria needed to attract international offshore banking interest, notably that the economy had had a robust five-year run averaging 6% real growth a year, and foreign investor confidence was high.

Stability

"Prerequisites are also political stability, which we can boast we have, our recognition of the need for secrecy, and the fact we'll licence only reputable banks," Ramphul said.

Mauritius, which has signalled plans to phase out foreign exchange controls, is one of the few stable multi-party democracies in Africa with an unbroken record of elected government since independence from Britain in 1968.

Ramphul attributed a delay in plans — after Finance Minister Vishnu Lutchmeenaraidoo had indicated the first liceces could be issued last January — to the painstaking efforts being made to ensure a successful venture, free of shady, front organisations or other obscure "Nameplate" outfits.

He sized up the potential market as "the world, anywhere there are offshore funds to invest", but said Mauritius would grant licences selectively, placing emphasis on quality rather than quick growth.

Ramphul said owners of offshore funds held elsewhere could benefit from spreading or moving them to Mauritius.

Credit Lyonnais of France last week became the first foreign bank to publicly indicate interest in offshore banking here, via a consortium with its Bank de la Reunion affiliate and the Mauritius Commercial Bank. — Reuter.

Societies gaining ground

Bday 26/5/88 58

GERALD PROSALENDIS
Financial Editor

THE tables are turning in the battle between banks and building societies for home loans and executives believe a shake-up of the industry is inevitable.

Interest rates, which for two years allowed bankers to undercut societies and gain huge market share, are now moving in favour of building societies.

And societies are expected to step up their entry into more traditional banking business to exploit what they see as an opportunity to play banks at their own game.

Says one building society executive: "When interest rates fall, building societies have difficulty matching the mortgage rates offered by banks. But with rising rates, banks' margins come under greater pressure than societies'."

"Banks could find the coming months tricky because they are competing with institutions, building societies, which have a different funding base," says one banker.

"In the next five years there will be rationalisation of the industry. It will be difficult to maintain an orderly market with so many participants."

Miss Venecia de Klerk gically. — Sapa.

AA stages financial fightback to break even

Star 27/5/88

Staff Reporter

In less than two years since the collapse of AA Mutual insurance company, the Automobile Association has virtually broken even and has considerably strengthened its balance sheet, the AA announced yesterday.

Director-general Mr Peter Elliot said the AA had achieved a R2,8 million swing in its operating division.

"We sold all our listed securities just three weeks before the October 1987 JSE crash. The result was an extraordinary surplus of R7,7 million.

"But the main feature of our recovery is the improvement from an operating loss of R3 065 000 in 1986 to a negligible R180 000 last year and a bottom line swing of R18 500 000 — a surplus of R8 443 593 compared with a deficit of R10 172 131 in 1986."

A decline in membership was stopped by the end of 1987 and revenue had risen to R23,59 million.

which it accused others.

Meyerton's rates up by 17 percent

Star 27/5/88

Vereeniging Bureau

Meyerton Town Council approved an increase of about 17 percent in assessment rates for the coming financial year at its annual budget meeting last night.

Presenting a record budget of slightly more than R24,5 million, management committee chairman Mr Danie MacLean said the total increase in assessment rates included an average rise of 7 percent for basic levies, sewerage and refuse removal.

Standard pushes up its bond rate

ST 27/5/88 (S8)

Finance Staff

Standard Bank announced yesterday that its home loan rate is to increase by 1,75 percent to 14,25 percent from July 1 after pegging its rate at 12,5 percent for almost a year.

The bank said the new rate would apply to all bondholders and that holders of bonds of R100 000 or more would be charged at 1 percent below that of the normal rate, at 13,25 percent.

Standard is still offering one of the lowest rates of bond repayments, as most other banks and building societies are now charging 14,50 percent, and both First National Bank and the United Building Society charge 15 percent.

Nedbank is still offering 12,5 percent, which it has promised to maintain until September.

IGI Life lifts EPS 47%

(58) stw 27/5/88

By Ann Crotty

IGI Life Investment Holding has reported a 45 percent increase in attributable profits to R2,6 million (R1,8 million) for the year to end-March. This is equivalent to earnings per share of 10,6c, up 47 percent from the previous year's 7,2c.

A final dividend of 5c a share has been declared bringing the total for the year to 7c (5c) a share.

Gross premium income was up 42 percent to R50 million (R35 million). The increase at net premium income level was 49 percent to R46 million (R30 million).

Chairman Michael Lewis attributed the increased profits to aggressive marketing and tight cost control.

The balance sheet shows total assets up 12,7 percent from R84,7 million to R95,6 million.

After deducting for current liabilities and dividends the increase in net assets is 18 percent to R89,7 million (R75,7 million).

Shareholders' funds increased from R18,2 million to R19,1 million, with long term assurance funds up from R39,5 million to R53,5 million.

Govt acts on interest rates

Cape Times 27/5/88 (58)

Own Correspondent

JOHANNESBURG — Bankers were thrown into confusion yesterday after the Minister of Information, Dr Stoffel van der Merwe, announced in Cape Town that government would not allow sharp rises in interest rates.

Initially, the statement was interpreted to mean that the cabinet had taken a decision to freeze interest rates at present levels because of fears of sharp rises.

However, later in the day Dr Van der Merwe put the record straight. In a clarifying statement he said that government was not about to intervene in the financial markets to either peg or place a clamp on the upward trend in interest rates.

He said this second statement was made with the concurrence of the Minister of Finance, Mr Barend du Plessis, and reflected an adherence to current financial and monetary policies.

Earlier in the day Dr Van der Merwe had said government was not prepared to allow a repetition of the 1984 experience which saw interest rates soar above 20%.

● Leading Cape Town economists interpreted this statement as a move intended to restore confidence and keep the economic upturn going, **writes Audrey d'Angelo.**

There have already been signs that it was running out of steam. New car sales and other economic indicators had begun to fall before the bank rate was raised a full percentage point to 11,05% on May 5 — triggering rises in overdraft and home loan rates.

In addition to higher

To page 3

From page 1

Interest rates

Cape Times 27/5/88 (58)

interest rates consumers have been faced with rising prices, some due to the higher cost of imports because of the weak rand and some because manufacturers and retailers have begun to widen profit margins which were squeezed during the recession.

And the Assocom index of business confidence for May shows that although it is still at a high level it has stopped rising.

Professor Wolfgang Thomas, deputy manager of the Small Business Development Corporation in the Western Cape, said it was "probably right" to give an assurance that interest rates would not rise to their previous heights.

He explained: "South Africans are so easily swayed. Six months ago they were up in the sky. Now the prospect of higher interest rates could easily persuade them that the boom has gone.

"They already have enough to face with the possibility of sanctions, and a further knock to confidence from fears of much higher interest rates could have a very detrimental effect on the economy."

The director of Stellenbosch Bureau for Economic Research, Dr Ockie Stuart, said he believed interest rates "should remain fairly low to make the boom more sustainable".

He said: "The boom is already a little bit in danger with the threat of sanctions and fears of high interest rates. It was the authorities' intention to cool it off and interest rates have already risen a little bit, and might go up a little more.

"But clearly they cannot allow a sharp rise in interest rates which would lead to 'over-kill' and another downturn."

Margins are under pressure

Finance Staff

The pressure is mounting for yet another increase in interest rates.

Spokesmen for banking and building societies said yesterday that there was a marked upward pressure on rates. Star 27/5/86

They said that margins were becoming very tight and that some were losing money on loans at the current level of rates.

The institutions are expected to approach the Reserve Bank soon to put their case for a officially-led interest rate rise, as their margins were being squeezed by the rising costs of funds flowing from the recent squeeze on credit.

A spokesman for the UBS said: "Banks and building societies cannot exist on the current margins."

A spokesman for First National Bank said that there was no doubt that rates had to move upward by at least 1,5 percent in order for the institutions to remain profitable.

But one of the stumbling blocks towards rate increases remains the attitude of the authorities.

Bankers said that there seemed to be a marked difference between what market forces dictated and what seemed to be politically desireable.

The market needed a rise in interest rates urgently but it seemed that political forces dictated otherwise.

But even on economic terms the Reserve Bank was generally expected to turn down the demand, judging from recent warnings that the situation would tighten considerably and pointing to the decline in the broad money supply, M3, in April.

Dr Pierre Faure of the Securities Discount House said that while in the short term a rise in rates was needed, moves in this direction were premature and that the expected slowdown in the economy would take the pressure off rates.

27/5/88 FM

(58)

LIQUIDITY RATIOS

Drying out

Just when banks are most in need of liquid assets, large holdings are due to become non-liquid on August 1. After that date, up to R2bn worth of Land Bank bills could lose liquid asset status, out of an existing total of about R3bn, as will Land Bank overdrafts worth about R800m. Additionally, R280m

(58) FM 27/5/88

in liquid Land Bank debentures will be redeemed in May and June, while an estimated R1,5bn outstanding RSA 9% and 15% 1988 will mature in June and October.

To counter this, however, about R2bn 10,5% RSA 1991 will become liquid on August 31 and R1,7bn 10% 1991 will become liquid on November 1 1988.

The net effect will be a reduction of eligible assets at the short end of the market. And, if expectations of rising interest rates continue, this will be where demand for instruments which meet banks' statutory liquidity ratios is concentrated.

To comply with the Banks Act, banks have to hold a certain ratio of liquid assets — Treasury bills (TBs), Land Bank bills, liquid bankers acceptances (BAs) and short-term RSA stock — against their liabilities: 20% for short-term, 15% for medium-term and 5% for long-term.

However, it is not only requirement ratios that are at issue.

The monetary authorities this month decided to provide accommodation to banks, at normal rates, only against the security of liquid assets. Assistance against non-liquid assets, for instance long-term government stock, will attract penalty rates.

And by slashing the supply of funds through repurchase agreements, CPD tenders or other open market operations, they force banks to hold surplus assets.

Standard's Lloyd ... shortening books

This development comes at a time when demand for liquid assets is already high.

Says gilts dealer Alan Hatchuel: "For six months, most banks have been lending aggressively, which required funding from the other side of the balance sheet. To restore the ratio between liabilities and liquid assets, they have had to seek liquid assets actively."

This situation is exacerbated, says Standard's John Lloyd, by the fact that funding books have been shortening over the past six months because of a lack of availability of long-term deposits. "Lending has been funded with short-term deposits, which attract higher liquid asset ratios."

Building societies face additional problems, says Allied senior GM treasury Don Hunter. "We are in the same market as the banks and subject to the same pressures. On top of that, the Financial Institutions Amendment Bill of 1988, now lodged in parliament, will alter asset classification of societies' deposits with banks, which will no longer rank as liquid."

As a result of this expected destruction of portions of existing liquid asset portfolios, the differential between rates on liquid and non-liquid assets has moved from the more normal quarter percentage point to, in some cases, one percentage point.

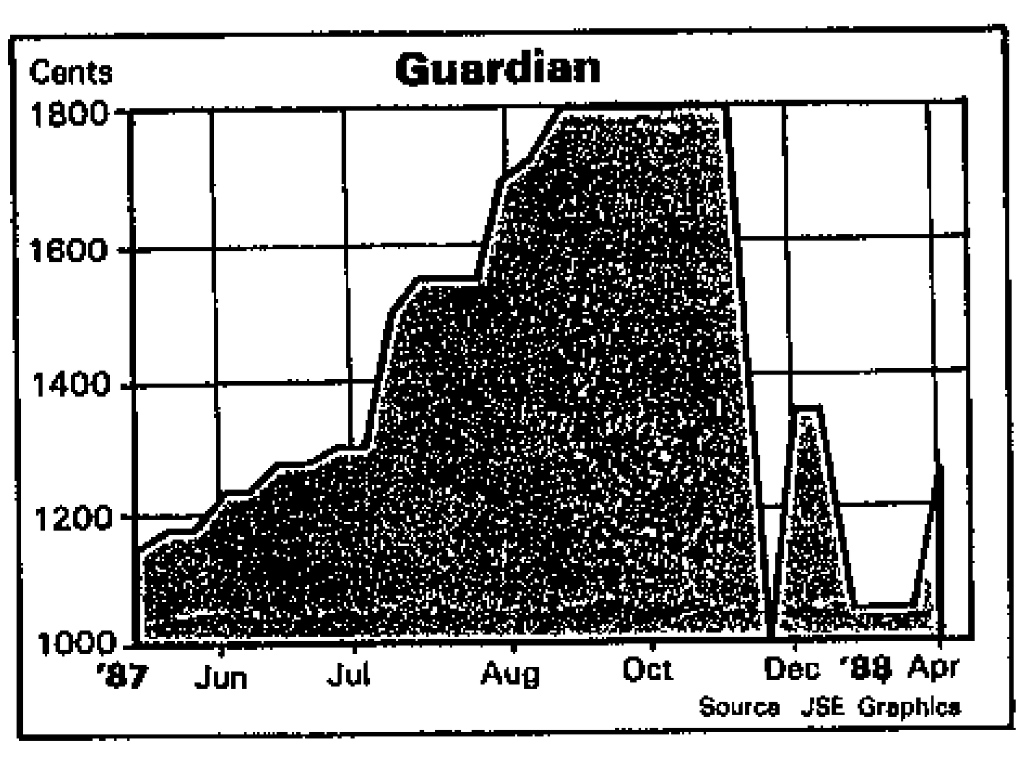
Though there now appears to be an ample supply of BAs, in the event of a shortage, banks could buy and sell BAs to each other — a bank may not use its own acceptances at the discount window but, once exchanged, this paper becomes eligible for rediscount.

The extent to which this could bring relief would depend on each bank's inter-bank exposure limit and to the availability of paper in the marketplace — liquid asset status stems from an underlying trade transaction and the amount of liquid assets that can be created by borrowers is directly related to turnover and movement of goods. ■

GUARDIAN (58) FM 27/5/88

Underwriting surge

In common with other short-term insurers, Guardian produced much improved results as the underwriting account moved from losses to substantial profits. Chairman Donald Gordon notes, however, that last year's underwriting surplus was the first the company has reported since 1982. The aggregate net result over the past five years is still an underwriting loss of R3,2m.



Guardian's Gordon . . . competition from abroad

Activities: *Short-term insurer.*
Control: *British Guardian Royal Exchange has 51% and Liberty Holdings 44%.*
Chairman: *D Gordon; managing director: M J S Newman.*
Capital structure: *10m ords of R1. Market capitalisation: R120m.*
Share market: *Price: 1 200c. Yields: 5,8% on dividend; 13,8% on earnings; PE ratio, 7,2; cover 2,47. 12-month high, 1 800c; low, 1 000c. Trading volume last quarter, 650 shares.*
Financial: *Year to December 31.*

	'85	'86	'87
Total assets (Rm)	243	402	382
Net premium income (Rm)	124	144	170
Underwriting profit (Rm)	(6,3)	(1,8)	9,5
Investment income (Rm)	15,1	15,9	18,6
Pre-tax profit (Rm)	8,8	14,2	28,1
Earnings (c)	76,9	100,6	165,9
Dividends (c)	50	58	70
Net worth (c)	605	916	1 014

Noteworthy in the accounts is the jump in the quantity of reinsured premiums. In 1985, 30,6% of gross premiums were reinsured, and in 1986 31,5%. Last year the figure jumped to 41,8%.

The increase in capacity of reinsurers, especially overseas, has been a marked feature of the industry for some time now; nonetheless, to reinsure more than 40% of business is a high proportion by traditional standards. It probably reflects a desire to reduce net exposure to risks in the difficult environment of the past few years. But the result was that while gross premium income increased by 39%, from R210,2m to R292,1m, earned premiums rose by a much more modest 19,6%, from R134,5m to R160,9m despite a reduction from R9,5m to R9m in allocation to insurance funds.

On the investment front, the quantity of gilts and semi-gilts in the portfolio jumped from R23,4m to R42,2m, making up 25% (19%) of the total. However, the increase in value of ordinaries and prefs from R81m to R110,8m meant that there was no significant change in the proportion of this type of investment in the portfolio as a whole.

Income from the portfolio increased by 16,6%, a small improvement on the inflation rate for the period. Gordon remains "convinced that the equities in which we are invested will, in the medium to longer term, re-establish themselves as the best investments available for the protection of our capital."

With less than 5% of share capital available to outside shareholders, comment on the investment merits of Guardian is largely irrelevant. The shares trade rarely and then in small numbers. This is a pity for potential investors, although the rapid growth in capacity of overseas insurers could push the industry back towards unprofitable achievement of market share at the expense of profitability. Guardian seems determined to avoid this snare as far as it can. *David Ross*

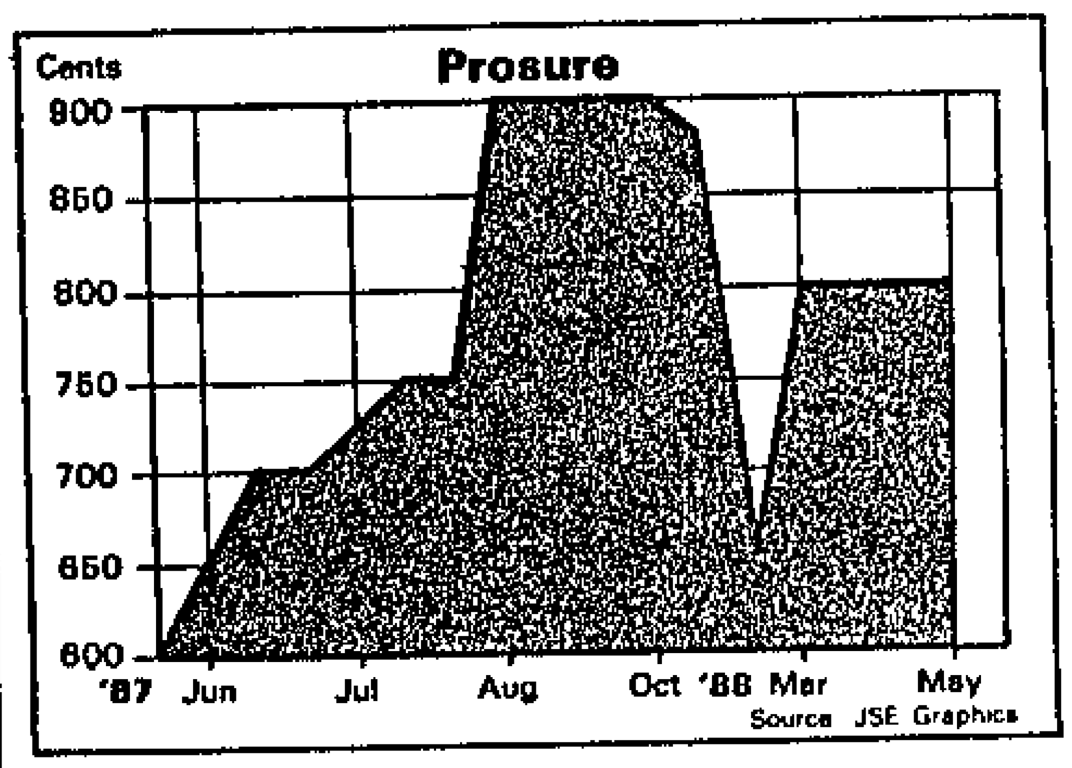
PROSURE (58) FM 27/5/88

Resilient

Activities: *Assurer active in short- and long-term markets.*
Control: *The London Assurance holds 79% of the equity.*
Chairman: *C L Walton; managing director: A R Crank.*
Capital structure: *7,9m ords of 25c. Market capitalisation: R63m.*
Share market: *Price: 800c. Yields: 4,5% on dividend; 17,0% on earnings; PE ratio, 5,9; cover, 3,8. 12-month high, 900c; low, 650c. Trading volume last quarter, 4 500 shares.*
Financial: *Year to December 31.*

	'84	'85	'86	'87
Total assets (Rm)	154,7	227,9	293,3	321,8
Life fund (Rm)	62,8	76,1	101,6	105,9
Premium income:				
Short (Rm)	45,9	92,5	104,7	120,8
Life (Rm)	6,2	7,0	8,9	12,0
Investment income (Rm)	4,3	5,3	9,3	12,3
Taxed profit (Rm)	3,1	0,8	5,1	10,7
Earnings (c)	50,0	10,8	64,5	136,5
Dividends (c)	18	18	23	36
Net worth (c)	678	895	1 291	1 387

Most of Protea's business is fire and accident. Further, chairman Cedric Walton notes that the company's commitment in Natal is considerable. So it is no surprise that



the R2,9m underwriting profit achieved in the first six months of the past year was reduced to R2,6m for the year as a whole.

Nonetheless the results appear satisfactory, and suggest that, in the absence of further major disasters, Protea will produce even better results for shareholders in the current year. The company's solvency margin on short-term business, although showing a small decline from 97% in 1986 to 90% in 1987, remains more than strong enough to permit aggressive competition for business without straining the financial base.

Apart from the fire and accident division, which contributed R2,2m to the income statement, the other two elements in underwriting transfers to the profit and loss account were the contributions of R400 000 (R700 000) by Marine and Aviation, and R500 000 (R449 000) in shareholders' life profits.

While Walton acknowledges that prospects for growth in the former are scant, the latter offers long-term benefits for shareholders, and appears to be holding its own despite the heavy competition for business from its immensely larger rivals in the field. During the past year the Life Offices Association upped Protea's life business from "small" to "medium" status.

The investment income account showed an improvement of 32%, from R9,3m to R12,3m, but the investment portfolio in the General Fund showed an improvement of only 15% in capital terms. The major change in the portfolio last year was the addition of an office block in Rosebank, Johannesburg; the first property investment not related to company operations.

Prosure's share price rates highly in yield terms among the short-term assurers, and is only 11% off its past 12-month high.

David Ross

MARSHALLS (58) FM

Low rentals

27/5/88

Activities: *Receives rental income from commercial and industrial properties, mainly in Durban and Pinetown, and operates a motor and agricultural division.*

Control: *Marshalls Controlling Investments hold 68,3%.*

Chairman and managing director: *D C Marshall.*

Capital structure: *8,5m ords of no par value. Market capitalisation: R14m.*

Share market: *Price: 165c. Yields: 7,6% on dividend; 9,2% on earnings; PE ratio, 10,9; cover, 1,2. 12-month high, 275c; low, 165c. Trading volume last quarter, 18 700 shares.*

Financial: *Year to December 31.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm) ..	0,3	0,1	0,6	1,2
Long-term (Rm) ...	3,8	3,7	3,2	6,6
Debt-equity ratio	0,14	0,11	0,09	0,20
Shareholders' interest	0,81	0,83	0,83	0,77
Int & leasing cover .	4,4	4,0	6,5	4,0
Debt cover	0,47	0,46	0,46	0,23

Performance:

	'84	'85	'86	'87
Return on cap (%) ..	10,1	9,4	8,7	7,9
Turnover (Rm)	17,0	19,1	19,4	23,3
Pre-int profit (Rm) ...	3,6	2,8	2,9	2,6
Pre-int margin (%) ..	21,1	19,3	17,3	14,2
Taxed profit (Rm)	1,1	1,6	1,5	1,3
Earnings (c)	20,3	18,7	18,2	15,2
Dividends (c)	10	12	12,5	12,5
Net worth (c)	338	384	380	379

Earnings were merely maintained in 1986 and then dipped last year, when the dividend was also pegged. Seen against the dull profit performance, it is not surprising the share currently stands on high dividend and earnings yields. The annual report offers little encouragement.

Chairman David Marshall says the level of letting in the property portfolio remains "very high," with the exception of a substantial warehouse in Prospecton, which remained unlet during the year except for some temporary short-term leasing. This caused a reduction in rental income. GM and secretary Peter Lonsdale says the warehouse has been let on a temporary basis for two of the

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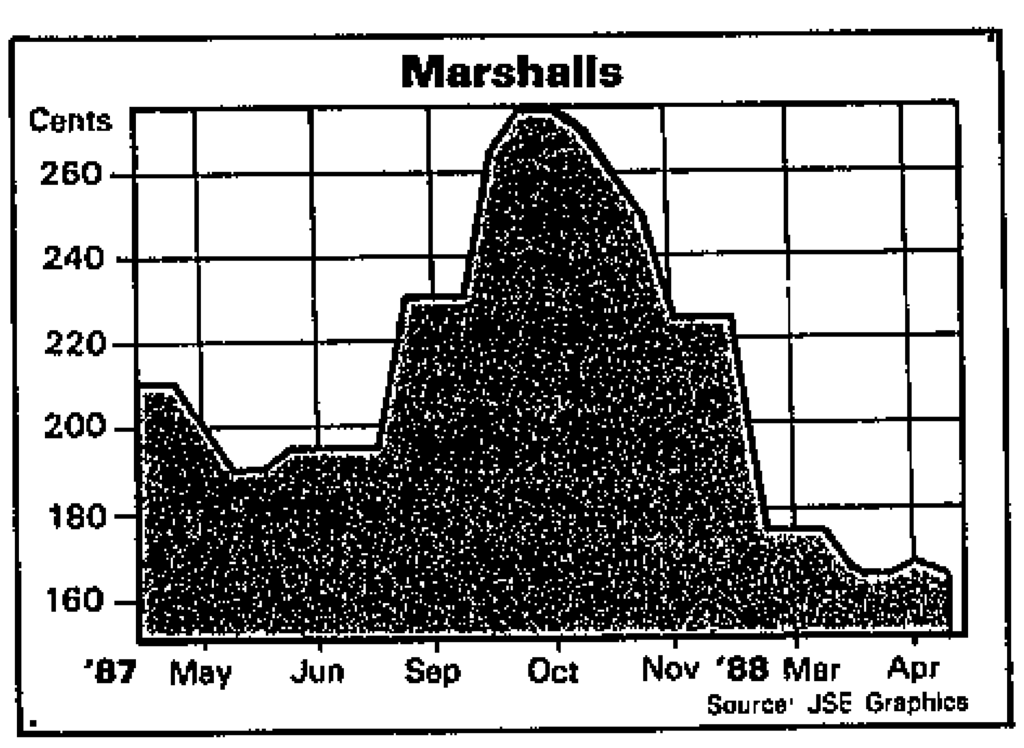

first four months of this financial year. Had it been let last year, attributable profit would have been close to the high of R1,7m attained in 1984, he says.

Marshall notes that, with continued high inflation, operating costs of properties — particularly high-rise buildings — have risen faster than rental income, so the company has been subsidising tenants. He says substantially higher rentals will need to be levied in future.

Results also weakened in the motor and agricultural division, despite an increase in turnover. Gross profits on sale of tractor spares fell, owing to a reduction in the discount structure of the manufacturer, while margins of new tractor sales fell substantially because of efforts to maintain market share in a falling market.

Property acquisition

The division contributed only about 10% of pre-tax profits. A significant part of the contribution comes from Nissan products. It is difficult to foresee much improvement in trade with the farming community at this stage and prospects should be unchanged for the year.

More positive is the acquisition of a complex of shops, offices and a parking garage in Pinetown, which made a substantial contribution.

Debt has increased, and the interest bill absorbed 23,5% of operating income. Though the debt:equity ratio is only 0,20, debt cover has fallen, as has interest and leasing cover — hardly encouraging when interest rates are rising. Pre-interest margins have fallen over three years and returns on equity and capital are low at 4% and 7,9%. Even net asset value has declined.

At 165c, the yearly low, the share yields 7,6% on dividend and stands on a steep p:e of 10,9. It seems best left alone, although there could be some speculative interest related to last year's (pre-crash) listing of a pyramid, intended to "facilitate growth and diversification." The controlling shareholders have shown ability to actively manage investments when they choose to.

Louis Venter

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BARLOW RAND

Capital spending picks up

Any investors who thought there was cause for concern about Barlow Rand's interim figures when Rand Mines and international arm J Bibby reported weak results were wrong. The industrial division more than made up for weaknesses in these areas. The overall result was a 32% earnings advance in the six months to end-March, a slight acceleration on the 30% for the full 1987 year.

After the figures already released by the listed subsidiaries, a good contribution from the industrials was expected. But an outstanding feature was the contribution from unlisted investments. These, with total turnover of well over R3,5bn in the 1987 year, represent a hefty chunk of Barlow's activities. Given that the 100%-owned Middelburg Steel & Alloys (M S & A) roughly maintained its profits, indications are that some of the major unlisted companies' profits could have virtually doubled.

Certain of the unlisteds were particularly hard hit during the downturn, and these results show their recovery has continued. Federated Blaikie, for example, which was delisted a couple of years ago, is obviously helping the expansion of the building materials, steel and paint division. The division's attributable profit grew 83% last year and has clearly held momentum.

The earthmoving, motor and appliances division has shown a similar trend. Earthmoving, which contains the original Barlow companies and showed surprising resilience in the mid-Eighties, is among several group companies which CE Warren Clewlow says have gained market share.

Barlow's earnings were boosted by the change in the basis of accounting for deferred tax, from the comprehensive method to the partial method. The deferred tax charge was thus reduced in the interim period by R51m, representing an increase of 14,7c a share. Restatement of comparative figures for 1987 reduced the tax charge for the first six months and the full year by R40,7m and R88,7m respectively, resulting in corresponding increases of 10,8c and 24,2c a share.

The interim dividend was lifted by 30% to 39c, surpassing earlier market expectations. And the forecast should also please investors. Clewlow says that trading activity is expected to continue at current levels in the second half, and he is forecasting growth will be sustained at the same rate as in the first half. This would imply total EPS of about 390c and a dividend of around 130c. After earnings growth of 30% in 1987 and of 29% in 1986, the 1988 half-year after-tax earnings of R563m are higher than the R546m for the full 1985 year.

The second-half forecast includes the expectation that Rand Mines will have a better second half, as will M S & A; the latter, Clewlow says, was slowed in the first six months by weakness on the alloys side but this was essentially a timing phenomenon. However, the question always asked about Barlow relates to the longer-term sustainability of profit growth. One argument is that a group as large and diversified as Barlow cannot evade close dependence on economic activity; a different view is that the group is better managed than the economy and can therefore show better performance.

Current results partly reflect the capital investments, acquisitions and rationalisations of several years back. Recent acquisitions such as Sterling Drugs, Langeberg and even the 28% interest in TSI have yet to take effect. Increases in shareholdings in existing interests — these have included M S & A, Fed Blaikie, Plascon and, recently, an additional 25% of RIH — help channel larger proportions of profits up to the group.

However, Clewlow contends that these deals have improved both the focus and the financial efficiency of the group structure, which has gained in flexibility. An advantage is that cash produced in wholly owned companies can be used elsewhere, which can be a useful advantage when capital spending is high. Just over R1bn will be spent this year, compared with R452m in the first half and R656m for the full 1987 year. The figure is expected to average more than R1bn annually over the next four years, and could rise as high as R2bn in a particular year. At March 31 the ratio of net borrowings to shareholders' funds was 34% (27%).

Mining will absorb only part of the spending: the investment programme extends well beyond this. In the industrial interests, objectives include expansion of capacity and import substitution in some sectors such as computers. "We never stopped investing in the downturn," says Clewlow. "This is what drives the group. If we go into a downturn, we may have to be more careful, but that is the time to do it. A company like Fed Blaikie used the last downturn for very effective investment. A lot of our companies that had underutilised capacity are now approaching the top."

The capital-intensive M S & A has plans for a large expansion, but Clewlow doubts its profits will be constrained during the investment period as happened in the early Eighties. He notes that its ferro-alloy and stainless steel divisions have become highly profitable, and M S & A sells to both export and domestic markets. "It has more going for it now," he says.

In some parts of the group, rationalisation seems likely to continue. Little has yet been spelt out on the plans for Metal Box, for example, but it seems probable that, apart from its cash-generating potential, there are ideas for making better use of the assets in the combined Nampak/Metal Box.

With J Bibby now ridding itself of problem activities in the US, more emphasis may be placed in expansion abroad, particularly with the UK group's agricultural division facing severely overtraded markets. The longer-term plan for the French Bank acquisition remains unclear, but one suggestion is that it could help bolster international financial relationships.

Leaving aside benefits of management and deals, it may well be risky to overlook the group's sensitivity to economic activity. For his part, Clewlow points to the 72% surge in interim taxed profits from the group's broadly based industrial division. "How can a figure of only 3% real growth for the economy be correct when you see that?" he asks.

Barlow's Clewlow ... growth should be sustained

BARLOW'S LEAP

Six months to	Mar 31 '87	Sep 30 '87	Mar 31 '88
Turnover (Rbn)	8,1	8,3	9,9
Pre-interest profit (Rm) ..	686,7	741,5	894,3
Pre-tax profit (Rm)	638,4	718,6	862,3
Attributable profit (Rm)	236,2	303,8	312,6
Earnings (c)	131,6	168,2	172,3

THE MOSSGAS PROJECT

Still time to pull back

Latest oil finds off the Cape coast, coupled to technical capabilities for exploiting such apparently scattered sources, put the viability of the Mossgas synfuels project in question. Even on the basis of what has so far been proven, Mossgas should be shelved — or at least postponed.

When it comes to energy requirements, things are not always what they seem. The latest oil discovery off the southern Cape coast (*FM* May 13) is a case in point. While it has roused expectations that SA could — later if not sooner — produce a significant proportion of its liquid fuel requirements from natural oil, there are important implications for the merits of proceeding now with the Mossgas synthetic fuels project as a whole.

In March 1987, Soekor announced that Borehole E-AA1 (**see map**) had intersected horizons which tested at 5 000 barrels of oil and 5m ft^3 of gas daily. This was the best oil strike to date. The latest borehole, E-AD1, has tested at 7 000 barrels of oil and condensate (including 3 800 barrels of high-quality crude) as well as 58m ft^3 of gas per day. Informed sources indicate that the two boreholes, although 5,5 km apart, have intersected separate oil-bearing structures, not different locations within one enormous structure.

At this stage, Soekor itself is most cautious about the significance of the latest strike. A spokesman says that the corporation has at least 18 months, and probably longer, of "intensive exploration, engineering and feasibility studies" before it can be known whether these "relatively small" deposits of oil, gas and condensate can be economically produced; and what the most cost-effective means of doing so would be.

Offshore oil is far more expensive to produce than oil on land — which is why the minimum size of a field that can be economically exploited offshore is so large. Small fields simply do not justify the enormous cost of the large production platforms required to exploit deep offshore discoveries.

The *FM* understands, however, that work in places like the North Sea on exploiting smaller oilfields is yielding some encouraging results. It is becoming increasingly feasible to exploit smaller discoveries through techniques such as semi-submersible rigs or "seabed completions" (single wells with the wellhead on the sea floor), linked up periodically to small oil tankers which go from well to well like bees to individual flowers and so build up an economically attractive rate of overall recovery.

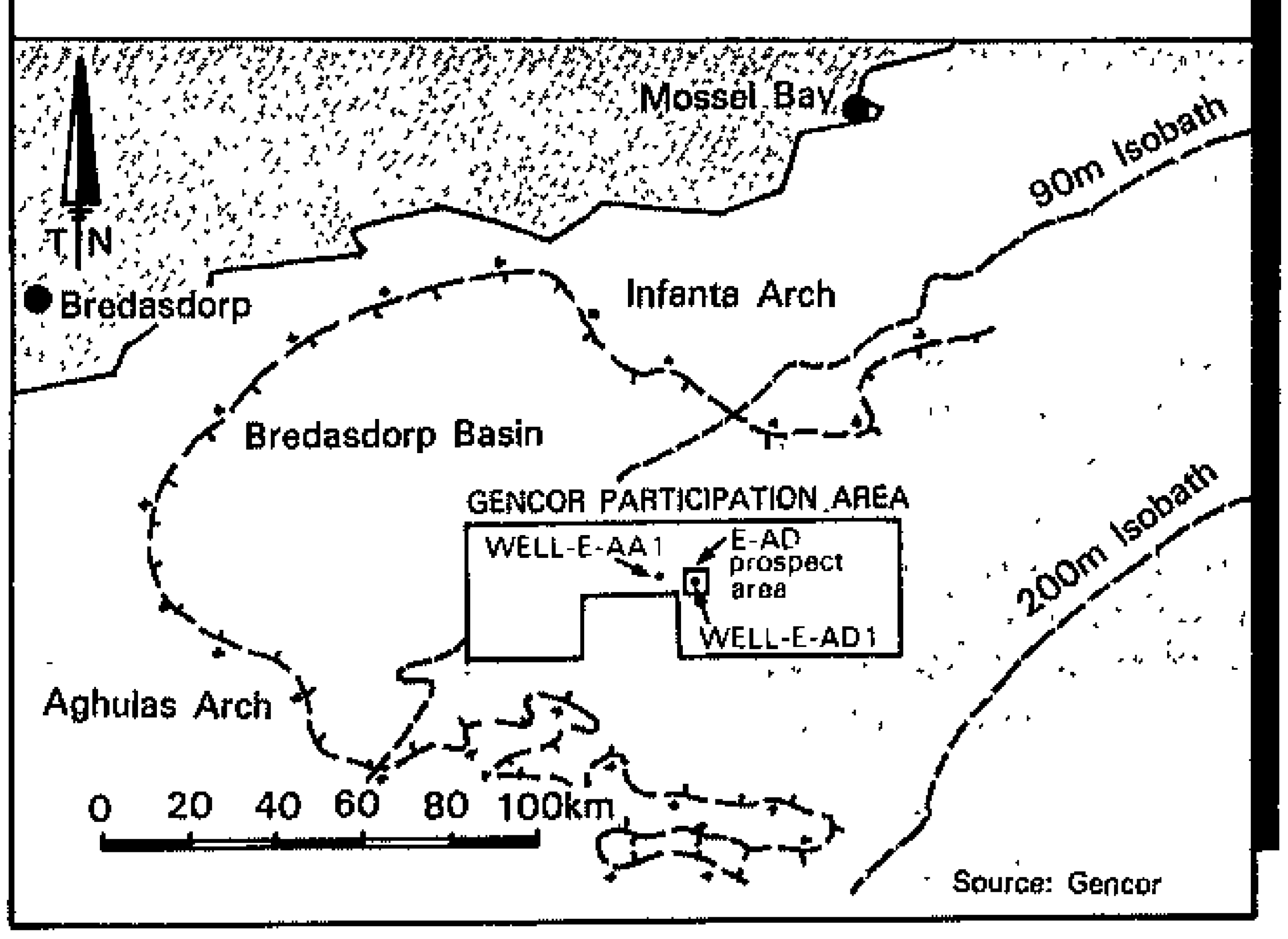
Although it is difficult to get firm comment from industry sources, it seems reasonable to speculate that only a few more discoveries in the general area of the same order of magnitude as the two strikes already made could, in aggregate, provide an exploitable amount of oil.

To take some illustrative figures: suppose that another three wells were to be brought in, each capable of yielding 4 000 barrels of good quality crude per day. SA might then be able to produce 20 000 barrels a day, an amount of oil which would save perhaps R250m in foreign exchange a year, at an assumed oil import price of US$16 a barrel. The savings would, obviously, be commensurately greater if more oil were found.

The latest well is also SA's best gas find to date, and some industry sources feel that their private reservations about the sufficiency of the gas resources available to the Mossgas project could now be stilled. Soekor and Mossgas have always taken the line that the reserves already proven would be sufficient for the economic life of the conversion plant to make liquid fuels. The *FM* has always numbered itself among the sceptics about gas reserves; the latest find (in its own right and as the plausible harbinger of more) does much to reassure us on the issue.

Yet the real logic of the improved prospects for some viable oil capability does not favour Mossgas. The rational economic arguments for an added tranche of synfuels capability were, in truth, always unconvincing, and the strategic argument has also been overstretched. Those arguments are worth restating.

Prospects for oil?



The latest estimate for the cost of Mossgas (that is, for the exploitation of the first gas-bearing area to be tackled) and for the Mossref conversion facility is R5,3bn, in 1988 rands. (There will be massive additional costs when the second gas-bearing area has to be tapped.)

For that amount we are to get additional synthetic oil capability which an educated guess suggests might be no more than 25% of Sasol's output — which, in turn, is probably of the order of 40%-45% of current liquid fuel consumption. And the profitability of the venture leans heavily on hopes that the international oil price will revive strongly in the early Nineties — a hope which the industry now regards as probably too optimistic.

To sum up, we have an oil supply situation of an adequate tranche of synthetic supply, a world oil glut stretching out to the horizon, and a massive stockpile of crude oil which all agree is large enough to provide generous additional reinsurance against interruption of supply.

To put the political question: how much black housing (or education) could be provided for R5bn? In the context of a rational ordering of social and economic priorities, the Mossgas project remains subject to the suspicion that it will furnish a poor return on capital invested — and even probably require the artificial respiration of a subsidy for many years to come. (Anyone who doubts this view should look at Sasol's latest profit and loss account.)

How does the prospect of some natural oil affect this line of reasoning? It reinforces it mightily. Natural oil (even in modest quantities from the seabed) is much cheaper than synthetic. And yet another factor enters the argument. The flood of synthetic oil from Sasol 2 and 3 has left SA's oil refineries operating well below capacity, with obvious diseconomies. If natural oil can be produced, *not one daily barrel* of additional refining capacity will be required.

The overall conclusion is simple: it is not too late to put the Mossgas project on ice, to await the results of further drilling for oil. And if more oil is found, then Mossgas can be deferred further to a time when the prospects for synthetic fuel look more attractive than they do at present.

Even the possibility that a significant amount of contractual compensation might have to be paid to Gencor in relation to its participation does not refute the logic of a postponement.

Or is there something we do not know about that political dimension to the whole project? ■

LIFEGRO

From flourish to fumble

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Owning a life assurer used to be as certain a way to prosperity and fame as owning a bottle store licence. Yet assurer Lifegro, which came to the market three years ago with a flourish, now has a pretty poor rating, after substantial transfers to reserves and significant managerial changes.

Life at Lifegro has been hectic in more ways than one as it tripped over its own feet in its haste to grow. Shareholders may yet have to chip in additional capital, despite substantial transfers to reserves, if rapid growth remains the objective of a new managerial initiative.

The *FM* knows no reason to doubt its financial stability or the integrity of its policy undertakings. But its extraordinary ability to snatch for its shareholders — especially Volkskas and Rembrandt — anguish from the jaws of prosperity will make insurance history.

All large life assurers have a great deal going for them. Their equity-linked policies provide savers with about the only real hedge against inflation. They pay taxes in a way which enables them to masquerade as banks. The very nature of life underwriting is such that obligations are a long way off.

In addition to that, Lifegro has had a record of marketing growth and investment performance that ranked it close to the leaders in its industry. Its sin was that it overtraded without quite knowing what it was doing. Simply put, it lacked the depth of experience in assurance that is taken for granted in an institution of its size with blue-chip shareholders.

It didn't sufficiently take into account new business strain, which arises from the cost of commissions that have to be paid immediately on new policies sold while premiums take time to flow in. On top of that comes the cost of the guarantees after the market crash.

While criticism has been focused on its drive to sell single premium policies at guaranteed returns, it is apparent that the problems have run deeper and longer than that. The picture that emerges suggests:

☐ Benign neglect followed by a belated if dramatic awakening on the part of the major shareholders to rectify matters;

☐ An extraordinary misreading of — or at least insensitivity to — perceptions in the financial markets; and

☐ The adoption of ultra-conservative policies when the depths of the mistakes were realised.

The stock market's harsh verdict is clear. At 210c, the share yields 7,8% on dividends and has substantially underperformed competitors such as Southern (4,7%), Metpol (6,1%), Fedsure (6,3%) and Liberty (3,4%).

Leaving aside the other confidence-sapping events, such as the guillotining of top management, the latest profit performance provides investors with a stark enough contrast: first signs of troubles at Lifegro were evident when the preliminary results for the year to end-December were up by only 0,5%. This week Southern Life announced earnings up by 23% and Metpol's were up by 20%.

The crux of the present problems is that the group has for a number of years been growing too fast relative to its capital base. Analysis of the annual accounts underlines two things: firstly, how little is actually revealed to outsiders; and, secondly, how technical and arcane is the subject of rating assurers.

Limited disclosure invariably leads to misconceptions in the minds of investors and policyholders alike. Whether the board and top management have been sufficiently aware that misconceptions could arise is a moot point. But the complexity of the business may bring one closer to the source of the problem.

At the 1987 year-end, the board consisted essentially of bankers and industrialists; none appears to have been a long-serving insurance executive. For example, MD Tony Laubscher is a CA whose previous position was GM of Volkskas Limited; chairman M D Marais is also chairman of such companies as Avbob, Atlas Copco, Metal Closures and Plessey SA. It would be invidious to suggest that the directors had insufficient grasp of the subtleties of an expanding life business, but something clearly went wrong at strategic level.

Both the major shareholders, Volkskas and Rembrandt, have reputations for conservatism. Rembrandt also has a reputation for marketing wizardry; uncertain as the respective roles may be, this could go down as one that Rembrandt allowed to get badly unravelled.

Extreme conservatism was evident at the time of the listing in early 1986, when the existing shareholders chose to raise only some R25m at the public offer, despite the massive oversubscription. A doubling of the number of shares issued may well have been justified.

To recap recent events, Lifegro wrote substantial new business last year, including large amounts of single-premium business. Individual single-premium income climbed 331%, but much of this included policies offering a guaranteed 4% return — called Fenton policies after the tax specialist who devised them — and policies using a company in the Ciskei to offer tax advantages to policyholders. Investors happily expected that the results would reflect at least some of this increase in new business.

When the stock market crashed, they realised Lifegro might have taken losses on its Fenton policies, but it still came as a shock when the preliminary results for the 1987 year were released. Laubscher assured inquirers that details would be revealed in the annual report. Not only did the report fail to reassure, it seemed to raise further questions.

Soon afterwards, sweeping management moves were announced. Laubscher was to

Ex-MD Laubscher . . . insurance isn't quite like banking

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return to Volkskas; Volkskas group executive director Danie Cronjé would be deputy chairman; Blignaut Gouws, until then MD of Momentum Life, a small life assurer in the Rembrandt-Volkskas empire (each holds 30%) would be the new MD; and Chris Cunningham-Moorat, senior GM, operations, in charge of marketing, was to leave.

What followed was a cautionary announcement by Volkskas, Rembrandt and UBS about a possible rationalising and restructuring of their life assurance interests and of possible implications for Lifegro.

Rumours had it that blame was being heaped on Laubscher, who, it was suggested, had failed to restrain excessive marketing of single-premium business; or that other long-term policyholders were being hurt as bonuses which would have been paid to them had been used to pay the single-premium holders. In fact, those arguments look dubious — although such drastic management changes are unlikely to have been made unnecessarily. More to the point is that the write-off may have been excessive, and that this was because the ultra-conservative major shareholders preferred to make such large write-offs rather than inject more capital into the company in its present form.

What should be stressed is that there is no question of Lifegro being unable to meet its obligations to existing long-term policyholders. The registrar of financial institutions tightly controls the assurers and, in addition, the amount of provisions to be made against liabilities is calculated by an actuary, who would in no way benefit from underproviding, even if this were overlooked by the registrar.

There is also no question of capital gains achieved on funds subscribed by long-term policyholders being used for the benefit of single-premium policyholders. Lifegro chief actuary Henry Worthington says the articles of association stipulate that 90% of the profit from any participating business be used for bonuses for that business. Theoretically, the additional profit from any other business may, at the discretion of the board, be allocated to policyholders. In practice life assurers seldom do this, as it reduces the amount to which shareholders are entitled. At worst, then, provisions for the single-premium policies would have been made at the expense of shareholders — but even this is not necessarily what happened.

Another question being asked is whether the amounts provided include the Ciskeian policies as well as the Fenton schemes. Worthington is emphatic that the amount referred to in his actuary's report includes all the single-premium policies. He says the reduction in the surplus in respect of policyholders' funds which was due to the short-term loss on single premiums was about R12m (7% of the total reduction).

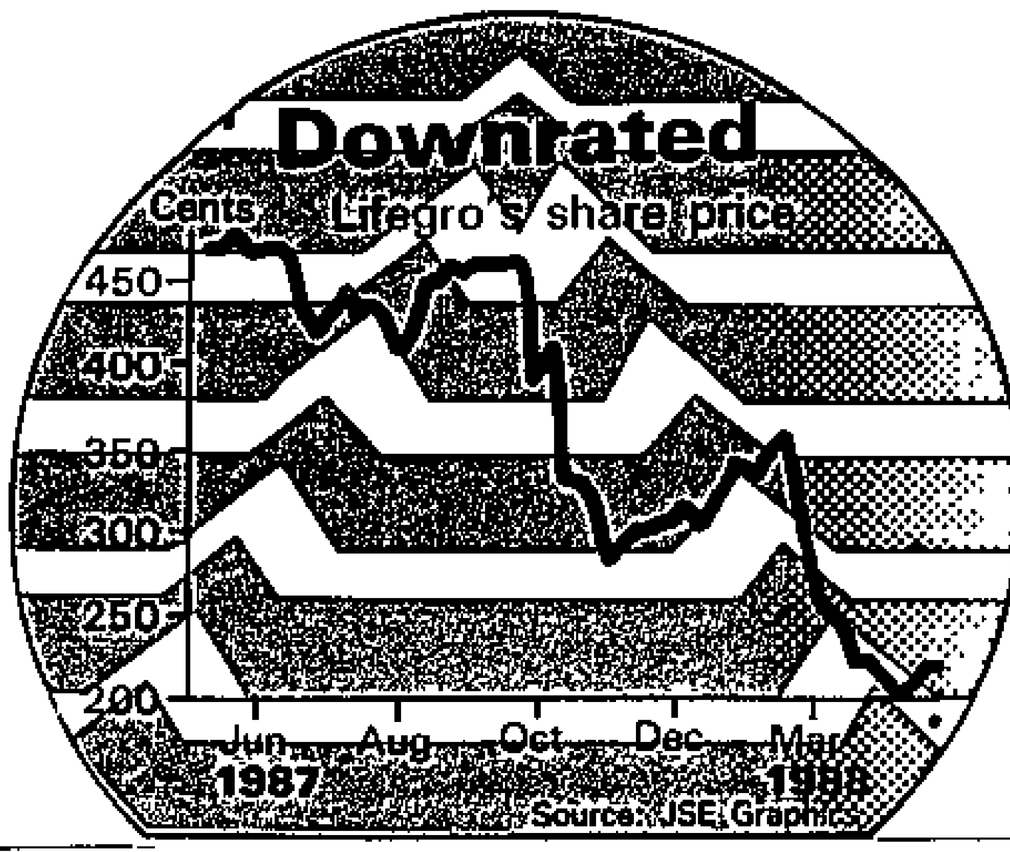
A further, relatively small provision could yet be needed. The original provision was based upon year-end figures and the market has fallen further since then. The calculation was also based upon the funds from the single-premium policies being reinvested subject to tax at 20% but the tax rate is now 35%. Worthington thinks the additional tax could amount to about R2m-R3m. However, any further provision is unlikely to be material.

Deputy chairman Cronjé ... involved in managerial reshufflings

Worthington also points out that actuarial requirements ensured that R30m was set aside in reserves against the single-premium policies. Thus, when the policies are lapsed or mature, these reserves will be released, and, net of the possible losses, this would release about R12m-R15m. The policies mature until June 1992, and a pickup in the stock market could also mean lower provisions. He notes that the policies could be rolled over. This has already happened with some, where it was agreed that the past loss will be shared between Lifegro and the client, and that future profits will be similarly shared.

However, the total surplus in respect of policyholders' funds fell by R174,15m from R436,64m to R262,49m, whereas the increase in actuarial liabilities and provisions on the income statement totalled R894,05m. Worthington says it was decided to be cautious, as the new tax on life assurers, which will increase tax 75%, was announced after the year-end but before the accounts were finalised.

Nevertheless, we have not managed to find a satisfactory explanation why the provisions could not have been R1m (0,1%) less. As analysts point out, an extraordinary aspect of the results is that this would have made little difference to the adequacy of the provisions, but would have ensured an acceptable rise in EPS of 14,9%.



It is not that provisions have to be made for declines in market values of fixed-interest investments as far as normal policies are concerned. It is assumed that investments in life policies are long term and there need be no provisions for short-term market fluctuations.

Nevertheless, Worthington says in his actuary's report that the major part of the reduction in the surplus of policyholders' funds was due to investment in business development and growth rather than income-producing assets. This would seem to be a reflection of Lifegro's investment policy. Yet the group is widely acknowledged, in independent actuarial surveys as well as by competitors, to have turned in an excellent investment performance.

Worthington points out that investment in growth assets in the past led to the sharp climb in the surplus at the end of the previous year. As much as three-quarters of the surplus was created by shrewd investment policies. It seems that Peter du Toit, senior GM, investments, saved the group a considerable amount by buying options rather than investing funds from the single-premium policies in equities towards the peak of the bull market. Indeed, his record of delivering high returns on investment helped attract investors into the profit-sharing Fenton policies.

Another question is why the method of calculation of EPS was changed this year, especially as the change meant that EPS rose rather than declined. There seem to be differences of opinion in the industry about the method to be used. Apparently some assurers include what is known as "shareholders' por-

Government attempts to curb borrowing. It's bad, bad news

With interest rates up, it's the cash-fat companies which profit. Others are not so lucky. By JEAN TEMKIN

YOU can't expect share prices to rise when interest rates are accelerating.

Attempts to control credit demand by pushing up interest rates could maime the South African economy. Obviously the authorities are concerned about the possibility of hyper-inflation, but it's public sector borrowing at five percent of the gross national product, not the private sector credit, that's causing inflation.

The only move that will certainly put the lid on inflation is to push interest rates so high that private borrowing is dampened to the extent that we shift into another era of recession. This would result in depressed property prices, cost push inflation induced by suppliers who must cover increased financing costs and a reversal in what is now only a moderate build-up in new capital investment.

Higher interest rates are bad news for the share market where the interest rate/dividend yield gap is widening. Tax considerations aside, when investors can get a better return on interest bearing investments (such as bank deposits) than from a combination of capital gains and dividends on shares, in the short term they will go for interest.

Increased interest rates are also bad news for the companies, which in turn is not good for investors' shares — interest bills eat into earnings. Those companies which distribute a large portion of earnings by way of dividends may be forced to reduce payments, and those who retain a major portion for capital expansion may be forced to curb their plans.

Cash-fat industrial companies, such as those in the Altech group, which have sufficient cash to fund expansion from within rather than relying on borrowings, are in this situation the most reliable long term investment.

While higher interest rates are bad for most industrial shares, there are a few which actually benefit. Retailer Pick 'n Pay, which is a near banking operation, is an example. Pick 'n Pay is cash-fat enough not to have to rely on credit, but like all retailers, it pays for goods at 30 days or longer. With its fast turnover, cash received (plus general sales tax) is invested at higher rates of interest long before suppliers and tax authorities must be paid.

In the past gold often solved South Africa's economic problems, which is perhaps what the authorities are relying on this time. They may be in for a long wait.

South African gold mines have been hit by increased working costs. While Kloof and Dries are able to contain their costs around $150, the average for South African mines is over $300. This compares with average costs of around $200 for Canadian mines and an estimate of $250 for Australian mines.

Although international gold share investors have at last woken up to the fact that many Australian mines are inferior to South African ones, Australian mines have the advantage of paying no tax. In addition, the Minimum Tax on Companies announced in the budget has been received as a below-the-belt blow by South Africa's marginal mines.

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Picture — Page 3

Standard raises home loan rate

HAROLD FRIDJHON

STANDARD Bank is raising its home loan mortgage rate to 14,25% from the present 12,5% from July 1, a move which some surprised competitors described as being "very aggresssive marketing".

The rate on its Prestige bonds, on loans of R100 000 and over, will rise to 13,25% from 12,5% on July 1, in accordance with the bank's undertaking not to raise its rates before June 30.

This leaves Nedbank offering the cheapest home loans in the market: 12,5% fixed to September 30, with three months notice of any change. It would be surprising if Nedbank does not give this notice at the end of June.

Among building societies, NBS is the cheapest supplier of home loans. The current NBS rate is 14% to all borrowers. The rate charged by most other societies is 14,5%, with the UBS at 15%.

Standard's rate rise was not unexpected in view of the increase in the rates pattern since the beginning of the year.

Blue Chip

Thieves hit Lesotho

2,2223	2,9500	1,7045	4,1390	12,55	1020,6	1823,4	1684,0

Business Da

IDAY, MAY 27 1988 60c (54c + 6c tax

TAL and CAPE 80c (71c + 9c tax) A TI

(58) B/day 27/5/88

Minister's 'false alarm' on interest rates

CHRIS CAIRNCROSS and GERALD PROSALENDIS

BANKERS were thrown into confusion yesterday when Information Minister Stoffel van der Merwe announced at a Press briefing in Cape Town that government would not allow sharp rises in interest rates.

Initially, the statement was interpreted to mean the Cabinet had decided to freeze rates at present levels because of fears of sharp rises, particularly among the farming community.

● VAN DER MERWE

Bankers reacted with alarm saying fixed rates would open up a Pandora's box of controls, including credit ceilings on bank lending to control domestic demand.

But later in the day Van Der Merwe corrected his apparent blunder, saying government was not about to either peg or place a clamp on the upward trend in interest rates.

He said this second statement was made with the concurrence of Finance Minister Barend du Plessis.

Earlier, Van der Merwe said government was not prepared to allow a repetition of the 1984 experience when interest rates soared above 20%. He stressed that measures, which he did not specify, would be introduced to help curb inflation.

Van der Merwe's first comments contrasted with the statements made by Reserve Bank Governor Gerhard de Kock about official monetary policy.

Last night, in his explanatory state-

● To Page 2

'False alarm' on interest rates policy

(8) B/day 27/5/88

● From Page 1

ment, Van der Merwe said his remarks had been prompted by a report back by Du Plessis to the Cabinet following the implementation of the package to curb credit and marginally cool down the economy.

He said ministers were concerned about the possibility of interest rates rising to 1984 levels.

"The Minister of Finance's response was that the current package should be given a full chance to take effect.

"I do not recall using the word 'intervene', and my reference to possible further policy adjustments should certainly not be interpreted as government now opting for direct measures to achieve its policy objectives."

□ Reacting to Van Der Merwe's initial statement, Stanbic MD Conrad Strauss said: "I see no need for government intervention in interest rates in the present circumstances in SA.

"Artificial limitations on interest rates will defeat the process of reducing inflation. There is in any event no present threat that interest rates will rise to levels similar to those of 1984.

"Clearly the economy has grown too fast in the short term. An upward adjustment in the interest rate pattern is unavoidable. To prevent this now would be to risk damage to the economy."

UBS posts a 16% earnings increase

Star 28/5/88

(58)

FINANCE STAFF

UBS has announced a 16 percent increase in net income attributable to ordinary shareholders to R122,2 million for the 12 months to end-March.

A final dividend of 14c per share has been declared following the interim dividend of 10c paid in December 1987.

This makes a total payout of 24c per share for the year, which is more than twice covered.

Earnings per share amounted to 51,3c.

At the half-way stage, earnings per share were only 21,5c, meaning the group managed to put in a stronger performance in the second half.

Without the stronger second-half performance it would have been difficult for the group to achieve its prospsectus forecast.

In the event, both the dividend and the dividend cover are in line with the forecast in UBS' prelisting statement issued in November 1986.

Mr Herc Hefer

Net income after tax of R101,2 million was enhanced by the addition of the R21,1 million equity-accounted share of the profits of associated companies (mainly Volkskas Group Limited), increasing consolidated net income before extraordinary items to R122,2 million.

Shareholders' funds increased by R191 million to R1,153 billion.

Group assets now exceed R11,2 billion, having increased by 15 percent over the year.

Net asset value, taking assets at book value, increased by 7,4 percent to 483c per share.

Chairman Mr Herc Hefer says that the establishment of United Bank Limited during the year and the introduction of a broader range of banking services on a competitive basis should enable the group to compete more effectively in the financial services market.

In addition, it is felt that the recent investment in Commercial Union Assurance Company, a highly successful composite insurer, will further broaden the group's scope in financial services and permit a meaningful contribution to group profit.

Institutional shrinkage foreseen

(58) Star 28/5/88

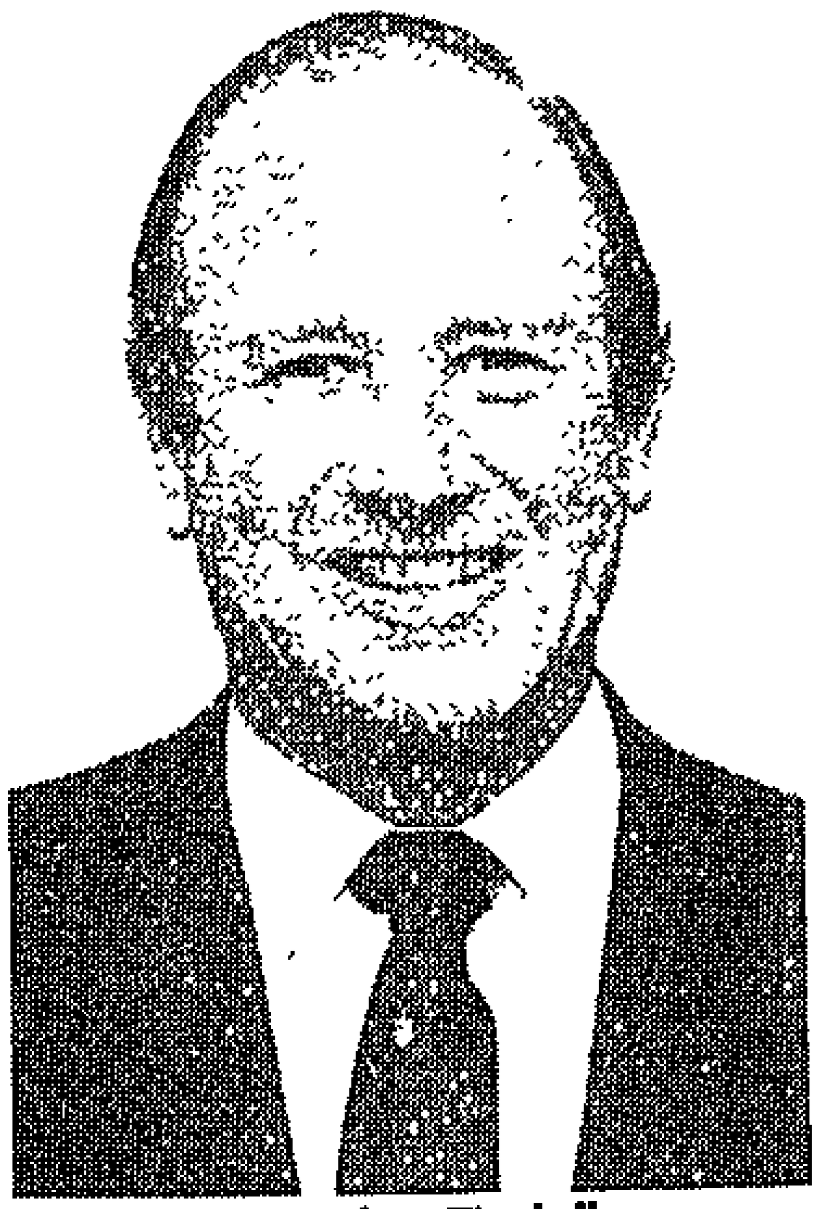
Banks, building societies and the insurance sector are going to become very close in the future, says Alan Tindall, CEO of the Allied group.

In a speech yesterday to the Insurance Institute of South Africa he said: "There will be even more rationalisation of the insurance industry, acting in various combination with banks and building societies."

He said: "I have a great deal of concern about the way the insurance industry has been able to alter traditional savings and invest to an extent that may not be always for the long-term benefit of society.

"In talking about the changing scenarios for financial institutions, there is, however, a trap waiting for us.

"That trap is the ongoing debate about rationalisation, takeovers, mergers — whatever the mechanism used — I am talking about the concentration of power into fewer and fewer hands.



Mr Alan Tindall

"A few months ago I made the predicition that of the top 10 banks and building societies probably no more than five would be recognisable as the same institutions by 1995 simply because of the so-called wave of rationalisation that is going through our industry."

"Between the existing banks and the traditonal building societies there will be one level of rationalsation. It is probably still correct that there will be room for no more than five or, at the outside, six of the top ten.

"But there will be even more rationalisation of the insurance industry, acting in various combinations with the banks and building societies."

He said: "The market holds the insurance industry in greater esteem tan the banking sector because insurers have an assured flow of contractual savings. But the banking sector has the more generally efficient and useful technology base."

Mr Tindall said that every major insurer already had formal or informal ties with the banking sector.

"These ties will become closer, more obvious, more securely based. The opportunities of cross-funding are simply too tempting. The branch networks have enormous potential, which is underdeveloped. The cost of duplicating, distribution and technology is mind-boggling and, overshadowing the whole scenario, is the threat of over-capacity."

Mr Tindall said the law applying to banks, building societies and the insurance industry needed a thorough overhaul and the introduction of "one Act of Parliament under which we can all operate".

"It so happens that all that has been achieved so far is a piece of tinkering in the recent Budget, which may in the end prove to be not very constructive.

"How important in the long run the increase in insurers' tax liabilities will prove is open to some doubt.

"Penalising one form of savings without opening other doors for savings seems rather dubious management." —Sapa.

Govt 'slow' to stamp out insider trading

58

JOHANNESBURG. — The government is dragging its feet over urgently-needed laws to curb rampant insider trading in the stock market.

"This is very important and urgent. The stock exchange tells us insider trading is running rife," said Mr Justice Cecil Margo, chairman of an official committee charged with drawing up measures to tackle the problem.

"Legislation is before the cabinet. We tried to get it put through in the last parliamentary session," he said.

"Now I have learned that it will not be reached this session," he said, saying the reforms will be delayed till next year.

The president of the Johannesburg Stock Exchange, Mr Tony Norton, said probes by exchange officials had proved there was frequent abuse of privileged information to gain an unfair advantage and to make money at the expense of others.

"We have got tired of doing these expensive and detailed investigations and handing over the results to authorities who are unable to prosecute because the underlying law is patently inadequate," he said.

At least 10 cases have been submitted to police over the past decade but not one has resulted in a prosecution, let alone a conviction, he said.

Officials also feel impotent in dealing with the growing problem of companies flouting the exchange's rules on mergers and takeovers.

Frequently defied

The regulations demand that bids for control of public companies must be extended to all minority shareholders on the same terms offered to majority stockholders. This regulation was frequently defied.

Critics in the investment community have reproached the JSE for failing to police its own rules by suspending the shares of companies involved in controversial takeovers.

Mr Norton says the exchange's powers to enforce its regulations are inadequate: "We have had to carry the responsibility alone, when it is a responsiblity for the whole securities industry."

The Standing Advisory Committee on Company Law headed by Mr Justice Margo has combined elements of the United States and British systems in proposing a new regulatory system.

They suggest a City of London-style takeover panel, made up of stockbrokers, corporate lawyers, accountants and institutional investors, to vet takeovers. Unlike the British system, this panel would be empowered by law to make and enforce regulations, as in the case of the US Securities and Exchange Commission.

It would also be charged with stamping out insider trading and its powers reinforced by changes to the Companies Act. — Sapa-Reuter

Competition strangles growth in UBS profits

(58) B/day 30/5/88.

LIZ ROUSE

UBS Holdings' March year-end results reflect the competitive conditions under which the building society operated, but associated companies helped in lifting net profit.

However, performance improved in the second half of the year and, with the declaration of a final dividend of 14c, the forecast dividend total of 24c is being paid, twice covered by earnings of 51,3c a share (1987: 49,2c a share).

Keen competition in the home loans market is reflected in a 4,1% decline in income to R1,41bn (R1,47bn), while interest on deposits declined to R921,6m (R967,5m), leaving taxed profit down 4% at R101,2m (R105,3m). However, the addition of R21,1m in an equity accounted share of the profits of associated companies (mainly Volkskas Group) increased net income before extraordinary items by 16% to R122,2m (R105,4m).

UBS directors say in the preliminary report the group pursued a policy of controlled growth in the home loans market, concentrating on the quality of loans granted and the margins earned on the business done.

A tight rein on operating expenses (R297,6m against R290,7m in 1987) held the increase in expenses to an inflation beating 2,4%.

Shareholders funds increased by R191m to R1,15bn and the group's assets now surpass R11,2bn, up 15% on 1987. Net asset value, taking assets at book value, increased by 7,4% to 483c a share. Current market price is 315c.

UBS directors say the establishment of United Bank and the introduction of a broader range of banking services on a competitive basis will enable the group to compete more effectively in the financial services market.

In addition, the recent investment in Commercial Union Assurance (a 30% stake) further broadens the scope of financial services and should result in a meaningful contribution to group profit.

IGI earnings a share surge 132%

30/5/88

INCORPORATED General Insurances (IGI) has more than lived up to market expectations with its results for the year to March 31.

Earnings a share surged 132% from 105c to 243,2c, while the doubling of the final dividend to 20c a share boosts the total payout for the year by 150% to 30c a share.

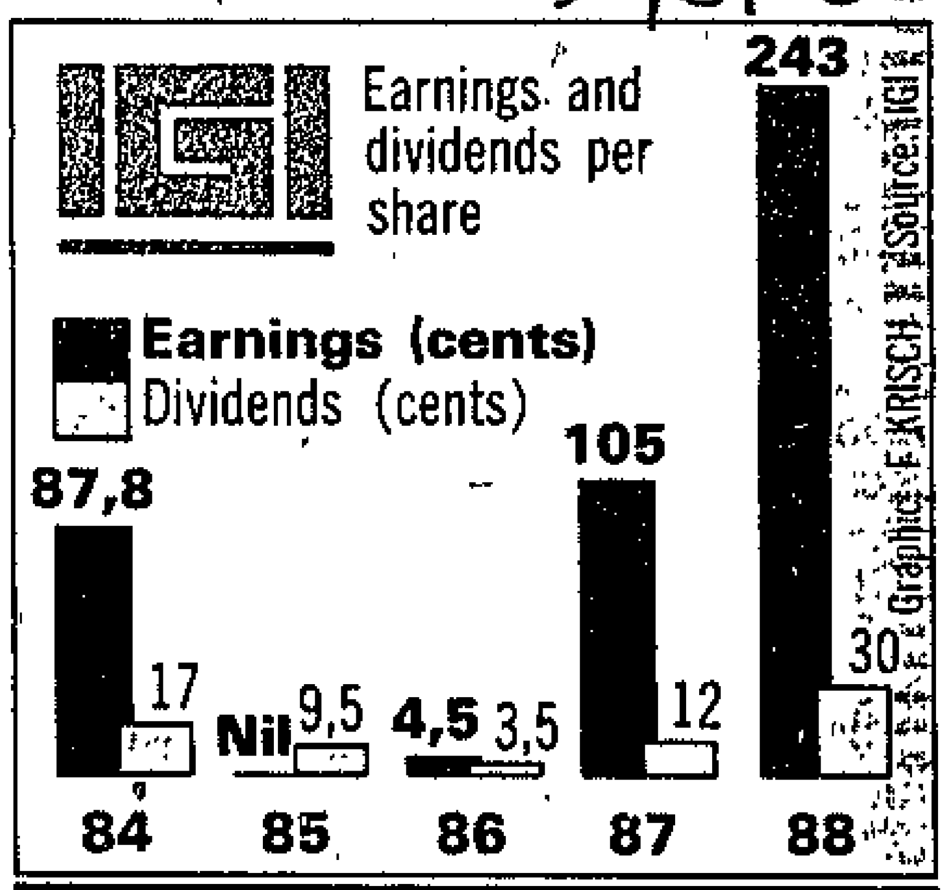
Chief executive Michael Lewis said: "This is by any measure the most successful year the group has experienced." The group's gross assets now exceed R359m and sound investment management cushioned the effect of the October 1987 fall on the JSE.

Looking ahead, Lewis said the group would record growth in earnings and dividends in excess of the rate of inflation, in spite of an expected increase in the effective tax rate.

Short-term gross premium income rose 17,7% from R320m to R377m, while long-term income increased from R35,3m to R50m. Net short-term premium income was up from R280,8m to R292,1m, with long-term income rising from R30,9mm to R46,1m.

Taxed income increased from R9,9m to R23,3m and was further boosted by income of foreign associated companies rising from R108 000 to R302 000. Attributable income increased from R8,8m to R21,3m.

Underwriting profits were again at a



MERVYN HARRIS

satisfactory level, while the introduction of new capital and amendments to the Insurance Act led to more strong growth in investment income.

IGI Bophuthatswana continued to show good growth in profitability, as did IGI Life. All other major group subsidiaries recorded profits.

The balance sheet was strengthened with the financial base of the company exceeding 85%, the highest level during the past five years. In spite of the downturn on the JSE and the growth in premi-

● To Page 2

IGI earnings a share rocket by 132%

um income, the solvency margin of the company improved and is now in excess of 26%.

IGI shares last week surged more than 20% to 500c, before easing to a sellers' price of 490c. This places the shares on a dividend yield of 6,1%, which is in line with the current 6,5% yield for

● From Page 1

Metpol.

However, while Metpol's dividend cover is 1,5, IGI still has a healthy cover of 6,2, which suggests the group has far more potential to raise dividends in the future.

BUSINESS DAY, Monday, May 30 1988

58

Finance industry rationalisation fears

BANKS, building societies and the insurance sector are going to draw close together, says Allied Group CEO Alan Tindall.

In a speech to the Insurance Institute, he said: "There will be even more rationalisation of the insurance industry, acting in various combinations with the banks and building societies.

"I do have a great deal of concern about the way the insurance industry has been able to alter traditional savings and invest to an extent that may not be always for the long-term benefit of society.

"There is a trap waiting for us — the debate about rationalisation, takeovers, mergers; I am talking about the concentration of power into fewer and fewer hands.

"A few months ago I made the prediction that of the top 10 banks and building societies, probably no more than five would be recognisable as the same institutions by 1995, simply because of the so-called wave of rationalisation that is going through our industry."

"Between the existing banks and the traditonal building societies there will be one level of rationalisation. It is probably still correct that there will be room for no more than five or, at the outside, six of the top 10.

"But there will be even more rationalisation of the insurance industry, acting in various combinations with the banks and building societies". — Sapa.

58 30/5/88

COMPANIES

IGI doubles profits, lifts dividend 150 pc

A MARKED improvement in underwriting profits helped composite insurer, IGI Insurance, to more than double its profits and increase its dividend by 150 percent in the year ended March 31.

Net income after preference dividends was R21,4-million, an increase of 130 percent on the R9,3-million earned in 1986-87.

Earnings a share, assuming the conversion of all the convertible preference shares into ordinary shares, rose 77,9 percent from 105,0c to 243,2c.

The company is paying a final dividend of 20c, making 30c (12c) for the year.

Short-term premium income rose 17,7 percent to R377,1-million while net preium income increased by 3,9 percent to R292,1-million. Long-term premium income rose 41,5 percent to R50,0-million.

● WORLD of Music, listed last October, increased its profits by 157 percent in the year ended February from R419 000 to R1 078 000. Turnover increased 76 percent from R756 000 to R1 214 000.

Earnings on the increased share capital rose 135 percent from 4,8c to 11,3c and a maiden dividend of 2,0c is being paid.

The two acquisitions, Pop Paraphernalia (Pty), which markets pop merchandise, and World of Music Retail (Pty), which has four record stores, contributed to profits.

But the purchase of Educational Media Services (Pty) was cancelled on the grounds that certain waranties were breached. One of the vendors is disputing this act.

Production problems at its Lebowa factory limited the increase on Skirtskip Clothing's pretax profit to 29 percent in the yearneded ended February. Pretaxed profit R1,3-million (R1,0-million) equal to 7,7c (5,4c) a share. A maiden dividend of 3,75c has been declared.

● The Natal floods and the absorption of a loss caused Bakoven's earnings to drop to R444 000 (R570 000) in the 12 months ended February. No dividend is to be paid.

CURRENCIES

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UBS lifts bond rate to 15%

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31/5/88

Finance Staff

The United Building Society (UBS) is to lift the interest rate on its existing home-loan book to 15 percent from July 1.

The UBS said yesterday: "The rise for our existing clients was unavoidable, but they have at least had the benefit of a two-month breathing space before having to adjust their monthly payments."

Rates for new customers were increased to 15 percent on May 5.

"An increase of this nature is expected to have a slight dampening effect on demand for home finance, with some marginal buyers being scared off," it said.

"We doubt, however, whether this will deter serious buyers. We expect that potential buyers, particularly first-timers and those in the lower-income categories, will tend to buy down.

"Upgrading of homes will almost certainly slow down. But, again, most buyers are likely to set their sights a little lower than prior to the rate shift.

"Future interest rate expectations are likely to be an important market factor. Those who anticipated the market highs of 1984-85 are likely to move out of the market or buy down. Those who are more optimistic are likely to stick to their guns.

"The market is unlikely to be too seriously affected by the recent interest rate moves," it said.

UBS home loan interest to rise

THE United Building Society (UBS) is to lift the interest on its existing home loan book to 15% from July 1. 31/5/88

Announcing this yesterday, UBS said: "The rise for our existing clients was unavoidable, but they have at least had the benefit of a two-month breathing space before having to adjust their monthly payments." Rates for new customers were increased to 15% on May 5.

Yesterday's statement noted: "An increase of this nature is expected to have a slight dampening effect on demand for home finance, with some marginal buyers being scared off," but it said:

"Even during market highs of 20% and more, the UBS experienced considerable demand for home finance and home improvements, as home-owners adjusted their expenditure in favour of housing.

"If they continue to adopt this pattern, then the market is unlikely to be too seriously affected by the recent interest rate moves." — Sapa. (58) B/day

BUSINESS DAY, Monday, May 30 1988

58

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IGI earnings a share surge 132%

CAPE TIMES 30/5/88

58

By MERVYN HARRIS

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Foreign boost

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Separating Hill Samuel SA from its British parent

IN recent times, merchant banks have been very active on the disinvestment scene — assisting overseas parents when they either sell out or "take a back seat". What happens when a merchant bank becomes its own client?

58

From 1948 until December 1986, Hill Samuel Merchant Bank was a subsidiary of the UK-based Hill Samuel Group. Initially, most of its business had some or other connection with its parent but the South African company broadened its base in the local market. However, the "international" element has always been a major factor.

So what happens when control shifts to SA? In fact, the bank appears to emerge from the deal with the best of all worlds.

Firstly, Hill Samuel UK is not withdrawing any part of its investment here. What has happened is that Hill Samuel Merchant Bank has, by way of a rights issue, increased its capital base by R15m.

Hill Samuel UK renounced its rights entitlement in favour of local investors, thus reducing its holding from 71,4% to 13,3% — a smaller slice of a larger pie, but nonetheless the same amount of pie.

Hill Samuel SA — under its yet-to-be-announced new name — says it will still benefit from the contacts, expertise and technology available from the worldwide group, but will have a great deal more scope for growth overall.

The bank has been criticised for pricing its rights issue price too low. Not so, argues new executive chairman Laurie Korsten.

While conceding that the issue might have been just as successful at a somewhat higher price, Korsten says: "We felt it was important to provide motivation to executives to whom shares were offered, and to offer an attractive entry level for other long-term investors."

Secondly, Hill Samuel SA will no longer have to comply with the tight gearing constraints imposed by the Bank of England: the SA ratios are less restrictive and will allow the bank to make better use of its expanded capital base.

Also, the bank says that without an offshore parent to feed, a more conservative dividend policy can be followed.

8/12/87

30/11/87

The breakdown of shareholdings is interesting. Hill Samuel UK, Sanlam and the Old Mutual each hold 13,3% and the bank's executives and an internal trust account for a further 30%.

The balance is held by a few institutions and the general public. With some 2 000 shareholders, Hill Samuel is an independent banking group.

Neither Sanlam nor the Mutual has board representation, but Hill Samuel says it is unlikely they regard their investment as "just another share investment".

Insurers face tough rules on reserves

29/5/88

S Times

(58)

By Robyn Chalmers

SHORT-TERM insurance spokesmen believe that the Melamet Commission of Inquiry will recommend tough legislation affecting their cash reserves.

The commission, whose report is in the hands of the Minister of Justice, was set up last year to investigate the collapse of AA Mutual and the insurance industry.

Industry sources believe the commission addressed three main areas.

First, is the question of solvency margins which are defined as shareholders' funds — or free reserves — as a percentage of net premium income.

Warning

SA Insurance Association (SAIA) chief executive Rodney Schneeberger gave evidence before the commission last year and advocated higher solvency margins for short-term insurers.

Mr Schneeberger says: "We have suggested a fluctuation reserve to be built up over five years to 10% from pre-tax profits.

"This will result in an effective solvency margin of 20%."

Companies should be allowed to eat into a fluctuating reserve, he says, but by doing so will show an "amber light" to the Registrar of Financial Institutions who could then investigate.

Protection

The build-up of such a reserve, which has also been called a pre-tax catastrophe fund, will depend on the agreement of the Receiver of Revenue to allow the money to be channelled to the balance sheet without taxation.

Minimum requirements for solvency margins are 10% and the commission is believed to have recommended a higher figure.

The increase is expected to be between 15% and 20%, although some spokesmen believe it should be as high as 40%.

SAIA chairman Bill Rutherford points out that AA Mutual had a 15,4% solvency margin at the end of April 1985, and within a year it was in trouble.

The second recommendation is believed to be the establishment of a fund to protect policyholders in the event of another insurance company going into liquidation.

Such a fund could be set up in two ways:

- ☐ Applying a small levy to the premiums of all policyholders.
- ☐ The insurance company setting aside funds at selected intervals.

Transfer

Lastly, the commission will probably address the problems created by Section 20 *bis* of the Insurance Act.

Section 20 *bis* deals with the transfer of funds from brokers to insurers, and hits brokers in two different ways.

First, the time for which brokers may keep the funds of policyholders before handing them to insurers was reduced two years ago.

Second, the guarantee required has been increased.

The commission is said to be offering a better deal for both brokers and insurers.

Standard soldiers on

29/5/88 S Times (58)

Business Times Reporter

STANDARD Bank is hanging on to its hard-won R1,7-billion share of SA's home loan market.

Pressure on interest rates since the beginning of the year has pushed the prime overdraft rate up by 2,5 percentage points. There is now doubt about the commercial banks' ability to compete with building societies at a time of rising rates.

Fighting

But Standard's intention to fight on is signalled by its decision to hold its rate increase on July 1 down to 1,75 percentage points. The new rate of 14,25% is below the 15% which First National Bank brings in on June 1 and which some building societies are already applying on new loans.

The rate on Standard's PrestigePlan, for R100 000 or more, will rise from 12,5% to 13,25% on July 1.

The home-loan war between banks and building societies has resulted in both Nedbank and Allied Bank retaining the 12,5% rate — so far. Nedbank has guaranteed the rate to the end of September and says it will give three months' notice of any change. Allied's rate applies only to special customers.

More increases are likely, and banks warn that they will have to review rates frequently.

Standard's deputy general manager, home loans, Terry Power says: "We have tried to limit our home-loan rate increase to less than the general rise in rates.

"Although we will have to reassess the rate from time to time, it will be our aim to maintain a competititive stance."

He says the bank sees the market as a crucial component in its range of service.

The first bank to enter the field, First National, is still the leader with a R2,3-billion book.

Commercial banks are estimated to have captured R5-billion of the R32-billion home-loan market.

NEWS

W/CAPE 28/5/88

R25-bn SA shares could be dumped

From CHRIS MOERDYK

JOHANNESBURG. — More than R25-billion worth of South African mining shares could soon be dumped on world markets.

This is only part of the financial implication of the latest anti-South African trade legislation being considered by the US Government.

Placed in perspective, the value of South African mining shares held by US corporations and citizens is equivalent to double the turnover of the Johannesburg Stock Exchange last year and half of South Africa's national budget.

In addition a further R2-billion in direct American investment is at stake.

The Anti-Apartheid Bill Amendments of 1988 is expected to be considered by the US Congress early next year and if approved in its present form, American citizens and corporations holding South African shares or investments will be given 180 days to off-load.

While it is likely that foreign investors outside of the US would snap up a fair proportion of the shares, domestic mining houses and institutions would no doubt buy with alacrity should the shares fall by any substantial margin.

Nevertheless in view of the huge amounts involved should the proposed legislation succeed in its present form, pressure on the JSE would be immense, perhaps even making the crash of last October a hiccup by comparison.

58

BUSINESS

Bank, building society, insurance mergers seen

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FINANCE – GENERAL

1988

JUNE — JULY

Hosken has record profits

Star 1/6/88 (58)

By Finance Staff

After good results from its major subsidiaries IGI and IGI Life holding company Hosken Consolidated Investments (HCI) today reported a 122 percent rise in attributable income to R13,28 million for the 12 months to end March.

A 56 percent increase in the final dividend, amounting to 14c per share, pushed the overall dividend up from 15c previously to a 5,9 times covered 23c.

Turnover rose by 11 percent to R490,53 million while pre-tax profits rose by 180 percent to R25,9 million. Attributable income of associates and off-shore subsidiaries improved 45 percent to R1,96 million.

Commenting on the results chairman Mike Lewis said: "It is fitting that the group should achieve record profits in its centenary year. All the insurance sections, both broking and underwriting, reflected better profits. The bulk of the increase again came from short-term group IGI.

"Profits and dividends should comfortably exceed the rate of inflation in the coming year," he added.

Revised housing subsidy will benefit lower income buyers

Star 11/8/87 (58).

Last week the government revised its housing subsidy scheme, raising the qualifying limit to R45 000 and, in special circumstance, to as high as R65 000. However, property developers fear it could be the first step towards phasing out the subsidy. MAGGIE ROWLEY looks at the problem.

Government's revised subsidy policy for first-time homebuyers was channelling money away from middle income groups to the more needy lower income group and as such was an excellent package, according to Edwin Rode, an independent property market researcher.

Mr Rode's comments come in the wake of widespread criticism from property developers that the package was a definite move by the Government towards phasing out the four-year subsidy system.

Property developers warned that the new package would ring the death knell for subsidies for middle income homebuyers and would force builders to cut corners to keep the cost of houses down in order to qualify for the subsidy.

Reg von Selm, chairman of the Cape and Western branch of the Institute of Estate Agents, said he foresaw the new system bringing a costly, bureaucratic headache to building societies and government officials whom, he suspects, will be flooded with applications from builders and homebuyers to qualify for the extra maximum amounts that are to be allowed in exceptional circumstances.

According to the new subsidy scheme, announced in Parliament last week the present qualifying limit for the cost of a dwelling will be increased by R5 000 to R45 000 effective from August 1.

If there were unfavourable conditions on the site, such as steep inclines or poor soil, a further increase of a maximum of R5 000 would be allowed.

An inclusive cost limit for the property — including the dwelling, the plot and expenditure on administration, consultants' fees and registry of freehold rights — has been set at R65 000. In exceptional cases the limit may be increased by a further R10 000.

Definite improvement

Mr Rode said that the new package was a definite improvement and would channel the subsidies away from middle income groups towards lower income groups "which, after all, a policy like this should do."

"In fact I believe it is going to be an effective tool to promote housing for lower income groups, even if this is at the expense of middle income groups. This makes a lot of sense from a socio-economic point of view," he said.

The ceiling of R65 000 was more than adequate, he said.

"If the erf costs R22 000, that leaves R43 000 for a home. With building costs of R400 a square metre this means a 100 square metre home, which is a fair size by all means in lower income groups," he said.

The subsidy scheme had gone a long way to keeping the cost of new houses down since its introduction.

While the CSS contract price index for new houses had risen from 100 in the first quarter of 1984 to 119 in the last quarter of 1987, the Haylett index of input costs for builders had risen from 100 to 164,5 during the same period and the BER Building Cost Index for non-residential building costs had risen from 100 to 143,8.

He said that for white homebuyers to qualify for the subsidies they would have to accept more modest housing standards. "This is not necessarily a bad thing. We have been living beyond our means and most particularly with regard to our houses. There has been an erosion of living standards in the past 15 years, and lower housing and motoring standards will have to come.

"Whites will have to be prepared to have smaller plots and go for core houses, which they can add to at later date," he said.

Mr von Selm said he believed builders would be forced to cut corners to meet the subsidy requirements and thereby produce an inferior product.

"I think it is going to turn into a bureaucratic headache and a lot of paper work for the building societies and government officials as everyone will be applying for the exceptions. They will be forced to by the mere fact that R65 000 is not sufficient."

Mr von Selm said it would appear the new scheme was in line with the Government's general clampdown on expenditure. He estimated that the subsidy applied to about 20 000 homebuyers at present and, on an average of R150 a month each, this would amount to a total of about R136 million a year of taxpayers' money.

He said that the phasing out of the subsidy over a seven-year period, from the third year, would help the homebuyer but not the taxpayer.

Some property developers expressed concern that the new scheme represented an attempt by the Government to phase out the subsidy scheme.

They said it was practically impossible, even in areas for lower income groups, to find a serviced site for less than R20 000 which, under the new scheme, would be necessary in order to qualify for the subsidy.

However, a number of property dealers said they would just have to refocus their attention on alternative markets.

Estate agent John Clark said the R5 000 increase in the cost limit for dwellings, was totally insufficient especially since building costs had soared 100 percent — about 17 percent a year — since the system was first introduced.

The R65 000 limit would hurt white homebuyers in particular, he said.

He said property developers would have to change their focus to lower income groups.

"The price of used houses has now caught up with new houses, and we are seeing a demand for new homes from second and third time homebuyers."

First National credit market share is down

B/Day 7/6/88 GRETA STEYN (58)

SA'S largest bank, First National, edged downwards in market share of total credit extended in the first quarter of this year, while the Nedbank Group and Bankorp took a larger slice of loans granted.

First National Bank's analysis of the banking groups' BA9 returns to the Reserve Bank shows that its share of total advances moved down to 28,2% from 29%. But it remains the banking group with the largest slice of all credit extended, with Standard second at 22,6%.

While Standard's share of credit extended remained unchanged in the first quarter from the last three months of 1987, the Nedbank Group pushed up its market share to 11,4% from 10,8%, while the Bankorp Group now has 18,6% of all credit extended compared with 18,4% in the fourth quarter of last year. Volkskas lost ground, moving from 13,1% to 12,9%. Of the smaller banks, the Allied doubled its market share to 0,2%. The United remained unchanged at 0,1%.

A comparison of the different banking groups assets shows that First National is the largest bank and still growing. It slightly increased its share of SA's banking groups' assets from 28,6% to 28,7%.

The Standard and Nedbank lost market share of total assets in the first quarter compared with the last three months of 1987, while the Trust and Volkskas gained some ground.

Of the smaller banks, the Allied's market share of assets almost doubled to 1,4%. The United's share doubled from 0,1% to 0,2%.

On the home loans front, the Standard significantly improved market share among the banks, moving to 27,9% in the first quarter this year from 24,3% at the end of 1987. First National still has the largest share at 38,3%, slightly up from 38% at the end of last year.

On the liabilities side, the Standard is the clear leader when it comes to savings. It holds 31,5% of funds deposited in savings accounts compared with 25,5% held by First National.

Unchanged dividend from Anglo

Gm Times 2/6/88 58

Own Correspondent

JOHANNESBURG. — Anglo American has cautiously elected to pay an unchanged dividend despite satisfactory growth in equity accounted earnings.

Although equity accounted profits grew 20% growth to R1,8bn, the dividend of 225c a share is unchanged. This represents an increase in dividend cover from 2,92 to 3,5 times.

Nevertheless Anglo's attributable earnings showed only a slight growth on account of the fact that the corporation and its subsidiaries such as Amcoal endured extremely difficult conditions.

Associates, on the other hand, collectively achieved vastly improved results. A glowing performance from associates such as De Beers, JCI and Minorco overshadowed the lower revenue from Amgold.

Although the results are slightly better than market expectations, some analysts believe income for the next financial year may be disappointing.

In view of the pipeline effect which results in a lag between Anglo's receipt of dividends from associated companies and distribution to its own shareholders, the good equity accounted year may not accurately reflect current trading conditions, said an analyst.

The past year has been gloomy. The poor performance of Anglo's coal and gold interests are the major cause for Anglo's caution.

Anglo American Gold Corporation dropped its dividend by 11%, reflecting the general decline in gold mining profitability as result of poorer grades and increasing mining costs.

Anglo American Coal Corporation fared even worse largely as a result of the industry-wide depression brought on by coal sanctions on the part of the USA, France, Denmark, Norway and Sweden.

Nevertheless, the frailty of these sectors is counter-poised by the strength of Anglo's diamond, platinum and industrial interests. Good dividends from these sectors were largely responsible for the 7,6% growth in net income from investments to R1,015bn.

Anglo says the 35% drop to R274m in trading income reflects the adverse trading conditions experienced by the coal sector.

Anglovaal: Final divs

HIGHER rand prices from gold sales and increased gold output are cited by Anglovaal as the main reasons for improved final dividends from Hartebeesfontein and Eastern Transvaal Cons.

Village Main has declared an unchanged final for the year to end-June, but the total is higher thanks to an increased interim.

Harties has lifted its final from 80c to 90,5c for a year's total of 153c (140c).

Eastern Transvaal Cons has lifted its final to 185c (155c) for a year's total of 310c (280c).

Village Main's unchanged final is 12,5c which, with the higher interim of 12,5c (10c) gives a total of 25c (22,5c).

SHORT-TERM INSURANCE

Looking up

In the year to September 1987, the short-term insurance industry experienced "a meaningful 18,6% growth and made sensible increases in reserves," says Quest Consulting Group's Denzil Curgenven, who has just completed a survey of 20 insurers.

Solvency margins (SMs), defined as shareholders' funds or free reserves as a percentage of net premium income, improved by almost 10 percentage points to an average of 49,7%.

The statutory requirement is 10%. In the bad years of 1985-1986, some insurers' SMs dipped close to this. Now, however, SMs below 20% are the exception (though Sentraboer, which bore the brunt of agriculture's climate-related losses has a 10,4% sm).

The market's financial base (made up of both free and technical reserves) rose to 112% of net premium income (NPI), from 109% the previous year, when the financial bases of nine companies fell below 100%.

Market profitability improved considerably, NPI increasing by 16,3% to R2,62bn.

The earned loss ratio (incurred claims as a percentage of earned premium) fell from 72,9% to 71,5% and acquisition costs by 9,5% to R60,3m.

Additionally, underwriting losses fell an impressive 81,5%, from R68,7m to R12,7m.

The main contributor to profits was motor insurance, with turnover growth of 26,8% and a R38,9m profit (up from R3,3m). Acquisition costs fell sharply, savings here accounting for most of the underwriting profit.

All other classes still recorded losses, but much less than in the previous year, with miscellaneous at R35,5m (from R68,7m) and fire R12,1m (R10,1m).

One problem that emerged is the rapid growth in motor insurance. The industry's reliance on it to generate profits is cause for concern, says Curgenven. "It currently represents 43% of insurers' business and being traditionally cyclical, could make them vulnerable in a downswing."

However, he considers the industry is overall in a healthy state, helped by buoyant investment income. ■

EXPANDING MARKETS

Growth in 1986-87

	Sept '87	Dec '86
Gross Premium Income	3 525,9m	3 103,7m
Net Premium Income (NPI)	2 624,1m	2 255,7m
Acquisition Costs	695,1m	634,8m
(as % of NPI)	26,4%	28,1%
Underwriting Profit/Loss	(12,7m)	(68,7m)
(as % of NPI)	(0,5%)	(3,0%)
Investment Income	193,2m	175,4m
(as % of NPI)	7,4%	7,8%
Technical Reserves as a % of NPI	55,5%	55,3%
Earned loss ratio as a % of NPI	71,5%	72,9%
Solvency Margins	49,7%	45,3%
Financial Base	112,6%	109,0%

Source: Quest Consulting Group

STOKVELS

Capital idea

58

One way the wheels of the informal economy are kept oiled is through the stokvel movement, which provides an easy way of raising money in the townships.

A stokvel is a group of people who agree to pool a fixed amount of money on a weekly or monthly basis; contributions are then given to members on a rotational basis. A stokvel with 12 members each paying R50 a month means that each member will have the chance of taking the R600 kitty once a year.

Stokvels are an excuse for a party with the recipient member throwing one on contribution day — and sometimes even selling food and drink to boost the income.

FINANCIAL MAIL JUNE 3 1988

58 FM 3/6/88

The recent launch of the National Stokvels Association of SA (Nasasa) is an attempt to establish stokvels as a financial force and so give the clubs bargaining power to arrange discount deals. Nasasa has already been able to arrange a discount buying card for members, says Nasasa interim committee chairman Andrew Lukhele.

Lukhele says they want to form associations of existing stokvels in every town and city in SA. So far, an umbrella association has been formed in Soweto and another is underway in Tembisa.

Stokvels are kept together by trust, says committee member Moses Leoka. Clubs are often formed by people working at the same firm, members of the same family, or members of a church. Groups are made of between five and 20 members although bigger groups can sometimes be found, says Leoka. The recent launch of the Soweto association was attended by 800 people who represented 56 clubs.

Another reason stokvels are favoured is that they provide a cheap way of raising money as no interest is charged, says Leoka. As long as the formal financial institutions remain closed to most blacks because they lack the necessary assets for raising capital, the clubs will remain a popular alternative.

Leoka is also of the opinion that they are often the first step towards serious savings. "After a person has belonged to a stokvel for a number of years and becomes used to the idea of putting money away, he will frequently graduate naturally into saving by himself through a bank."

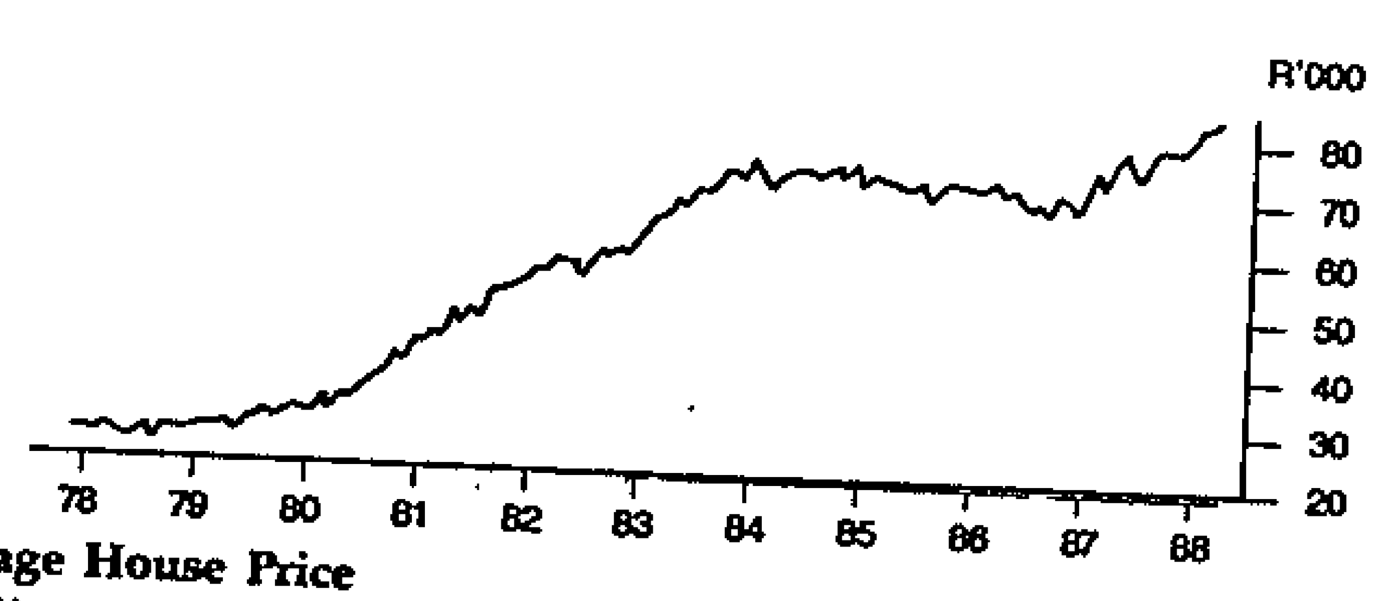
It can be recalled that the South African Black Taxi Association had similarly small beginnings. ■

House prices show further gains

By Frank Jeans

58

Str 3/6/88



Average House Price (Medium Sized Houses)

House prices continue to rise and according to the latest review of the United Building Society the average increase during the first quarter of this year was 13 percent on a year-on-year basis.

The price of a medium-size house is currently about R84 500 — implying a rise of about 5 percent on the previous quarter.

Larger homes trade at about R118 000 and the smaller properties in the R67 000 range.

The price differential between new and existing houses has risen further and the comparative cost of building a new house of more than 140 sq m will be in excess of 20 percent higher than buying an existing property of comparable size.

The Johannesburg region hoisted the biggest price rise at 10 percent over the previous quarter and only Natal recorded a decline in prices at minus 5 percent.

United believes a further one or two percentage point increase in prime overdraft is likely during the rest of this year and mortgage rates "could be expected to move in sympathy with the general pattern of interest rates".

"Conditions in the economy in general and the residential property market in particular, have improved markedly during the first quarter of this year," says the review. "Not only did house prices show some strong advances but volumes have also risen considerably.

"The danger of the economy overheating and thus jeopardising the country's balance of payments position now seems very real and will certainly receive the attention of the authorities in the coming months."

Against this background, United expects a further measure of upward potential for house prices but the rate of increase could slow down somewhat towards the end of this year.

On average, the society believes that house prices could rise by some 17 percent this year.

Finrand attracts R6bn investment

Star 3/6/88

58

Financial correspondent

Since September 1985, 4 241 applications for investment through the financial rand had been approved, amounting to R6,3 billion, Mr Kent Durr, Minister of the Budget and Works, said yesterday.

Addressing a conference on the financing of housing in South Africa, held by the Open Unisa School of Business Leadership in Pretoria, Mr Durr said that 956 applications totalling R2,3 billion had been turned down.

The bulk of investment through the finrand had been ploughed into industry, which had received R3,8 billion.

Mining had received R404,9 million, or 6,5 percent of total finrand investment.

More than 8 percent of approved applications had been for investment in the commerical property market for a total of R533,9 million. Another 3,2 percent had been in the residential property market for a total of R199,4 million, while 2,9 percent of approved investments, totalling R180,7 million, had gone into farming property.

The remaining R1,1 billion, which represented 18,2 percent of approved applications, had been invested in other sectors, he said.

Mr Durr said that there had been some criticism that the foreign investor in property enjoyed an unfair advantage over the local buyer because of the low exchange rate for the financial rand.

"But it must not be forgotten that when the foreign investor disposes of his South African assets and repatriates the proceeds, the low financial rand works against him, just as much as it worked in his favour when he came in.

"Where he gains is through the higher yield he earns, but presumably the yield is no higher than is necessary to induce him to make the investment, otherwise the fianancial rand would not be so low," he said.

Turning to mortgage rates, Mr Durr said that the correct way to help the poorer classes of society to buy their own homes was to subsidise the particular mortgagees directly, and not to contrive an artificially low mortgage rate generally for all borrowers.

Wholly or partially tax-free building society shares conferred a special benefit on wealthy shareholders, whose marginal rate of income tax was high. The lower mortage rate which the tax concession made possible was available to all, irrespective of income, wealth or size of dwelling.

"The large borrowers for luxury homes obviously benefit the most, and this is at a cost of several hundred million of tax revenue forgone. Those most in need are assisted the least by these arrangements."

FUNDAMENTAL

He said there was an even more fundamental reason why official measures to keep the mortgage rate low for everyone failed to achieve their aim, which was affordable housing.

"The basic objection to all forms of direct or indirect state assistance, which result in relati vely cheap housing finance, is that the market in due course tends to capitalise this interest rate advantage in the prices of residential property.

"In other words, the artificially low mortgage rates in the end help to bring about inordinate increases in the prices of houses and residential erven. "The attempt to make home ownership more accessible by means of cheap finance therefore tends to be self-defeating in the long run — borrowers tend to lose in the inflated cost of housing what they gain by way of subsidised finance," he said.

Black housing financiers need guarantees

Star 3/6/88

58

By Claire Robertson
Pretoria Bureau

Government should provide banks and building societies with guarantees against the "political risks" involved in financing black housing, according to Mr Bob Tucker of the Perm.

He also called for a direct subsidisation of the higher administrative fees incurred in granting loans to lower income groups.

Mr Tucker outlined his "tentative shopping list" needed to get financial institutions involved in financing black housing at a two-day Unisa School of Business Leadership seminar on housing in Pretoria yesterday.

Financial institutions would remain unwilling to expose themselves to risks which they were unable to assess.

Measures needed to encourage these institutions to enter the low income housing market included:

- Acceptance of the fact that loans to low income borrowers "will bear a higher rate of interest" because of the higher costs of mobilising funds for smaller loans, and because the institutions will be forced to become more deeply involved in the process of home creation.
- The implementation of the De Kock Commission recommendation that lower income borrowers should be directly subsidised.

FM 3/6/88

BOYMANS

High gearing

Activities: *Investment holding company with subsidiaries in family retail clothing.*
Control: *Directors hold 44%.*
Chairman: *E Ellerine; joint managing directors: A Brodkin, H Regenbaum.*
Capital structure: *10,8m ords of 50c each and 100 000 6% cumulative preference shares shares of R2 each. Market capitalisation: R24m.*
Share market: *Price: 225c. Yields: 4,4% on dividend; 15,8% on earnings; PE ratio, 6,3; cover, 3,6. 12-month high, 310c; low, 180c. Trading volume last quarter, 31 000 shares.*
Financial: *Year to December 31.*

	'85	'86	'87
Debt:			
Short-term (Rm)	4,3	4,2	5,7
Long-term (Rm)	3,5	2,9	13,3
Debt:equity ratio	0,93	0,76	0,82
Shareholders' interest	0,33	0,31	0,31
Int & leasing cover	1,22	1,46	1,50
Debt cover	0,19	0,31	0,27

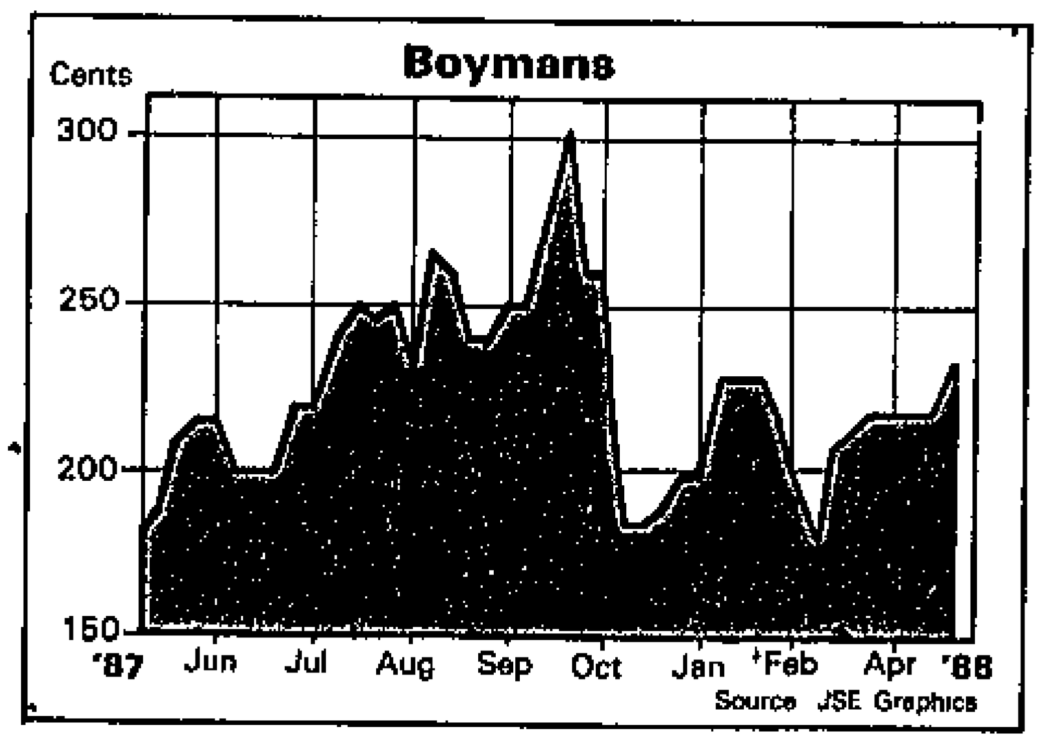
Performance:

	'85	'86	'87
Return on cap (%)	7,0	9,8	9,1
Turnover (Rm)	41,3	47,9	91,7
Pre-int profit (Rm)	1,8	2,9	6,5
Pre-int margin (%)	4,3	6,1	7,1
Taxed profit (Rm)	0,8	1,4	3,5
Earnings (c)	10,5	20,1	35,5
Dividends (c)	3,5	7,0	10
Net worth (c)	118	131	203

Low tax and interest rates helped Boymans to almost double EPS, even though issued shares increased by 57% to 10,8m. The up-market men's outfitting group has actively been acquiring matching businesses and last year bought the Uniewinkels group. The full benefit should be felt this year.

Boymans' store chains now include Levisons, Deans, Woolfsons, John Scott, Cyrils, John Orr's and Uniewinkels. Uniewinkels was acquired for 36% of the enlarged Boymans group, placing a value of R12,7m on the transaction. This added family clothing and school uniforms to the product range, sold through the John Scott chain. The group operates 60 stores in the Transvaal and Natal and three in the Free State.

Chairman Eric Ellerine says improved consumer confidence, strict control of overheads and a relatively low rate of taxation



boosted attributable profit. However, total debt has increased from R7m to almost R19m, partly because of recent takeovers. In the current year, cash flow is expected to enable reduction of debt, ensuring that the interest bill will not increase, despite higher rates. Interest payable was R2m, amounting to 29% of operating profit. Management is budgeting for an average interest rate of 18%.

Year-end debt:equity was high at 0,82 but cash flow more than doubled and this year is seen as a period of consolidation and rationalisation with no acquisitions planned.

With effect from March 1 1988, the John Orr's Sandton store was acquired and names of various Uniewinkels stores will be changed to John Orr's. Uniewinkels contributed to profits for only nine months and full benefits have yet to be seen.

Ellerine says that provided the economic upswing continues, profits should again grow. This would be achieved even though the tax rate is expected to rise to about 48% (23%). So far this year, the group is growing well above budget, which was for a growth rate 3% above inflation. Financial director Don Elliot thinks government's measures to curb economic growth will have little effect on the current year's performance.

Louis Venter

Star 3/6/88 (58)

Big money turning to office development

By Frank Jeans

Financial institutions might well be turning more to office development and away from major retail projects — an area which they fear is in the process of being overtraded.

At least one property economist believes that cash-rich insurance companies and pension funds are wary of investing in non-blue chip shares on the stock exchange.

"There is little doubt that the big groups think the bear run on the JSE has still a long way to go," says Mr Neville Berkowitz, chairman of the The Property Economist organisation.

"To some extent they appear to be steering clear of property unit trusts and loan stock companies as is seen by recent rights issues in this seector".

The three property options open to major finance houses are offices, retail and industrial.

It is argued, however, that shopping centres and the retail market generally is over supplied, with the result that there is greater hesitancy in institutional decision making, particularly in centres which are substantially unlet.

SHORTAGES

Mr Berkowitz says the industrial market is seeing shortages of good quality buildings in high-demand areas.

"However, as a number of industrial deals are in the R1 million range this excludes many of the larger investment companies such as Old Mutual, Sanlam and Liberty along with the mines pension funds — the big players in the league.

"The institutions," he says, "are favouring office development as they feel more comfortable with this known investment vehicle," he says.

Mr Berkowitz again warns about "spec" building in the present economic climate which has not been helped by the trend of rising interest rates.

Indeed, as caution has to be taken, better opportunities for the present would appear to lie in redevelopment of well-located existing property.

Rising building costs, of course, remain the bogey in both markets but these can controlled to some extend in any revamp project.

Star • 4/6/88

Volkskas in the doldrums

ANN CROTTY

58

Volkskas' disappointing results for the year to end-March should ensure that the banking sector remains in the doldrums for at least the next quarter.

Difficult trading conditions for the banking community combined with the generally weak investor sentiment have led to a sharp downward rating of bank shares. Signs of strength from any of the major banks, such as Nedbank, is regarded as the exception not the rule.

But even accepting that the market expects little from banks these days, and that Volkskas is only on partial disclosure, the figures are below most analysts' forecasts.

Net income was up 17 percent to R71,3 million (R60,8 million) but earnings, at the per share level, were down 6,6 percent to 186,4c (199,6c). The fall at the per share level was due to the sharp increase in the weighted average number of shares in issue which shot up from 29,7 million to 37,5 million following the link up with the UBS.

Despite the drop in earnings per share, the dividend has been increased by 10,6 percent to 73c (66c) a share. This has meant a reduction in cover from 3 times to 2,6 times. Analysts point out that the hike in dividend payment is in line with the Rembrandt group's policy of going for steady increases in dividends.

The balance sheet shows a 17 percent increase in deposit and current accounts to R10,9 million (R9,3 million) and a 6,4 percent rise in acceptances, guarantees and letters of credit to R3,5 million (R3,3 million) On the asset side, advances were up 16,5 percent to R8,9 million (R7,6 million).

The directors report that Volkskas Limited contributed R50 million to the group's net income, with Volkskas Merchant Banking chipping in with R8,8 million and the Industrial Bank providing R3,5 million "All the other subsidiaries in the group performed satisfactorily despite tight business conditions."

The directors regard the results as "highly satisfactory, especially as the group was unable during the financial year concerned, fully to apply the additional captial issued"

While analysts accept that business conditions were difficult during the review period, most seem disappointed that management did not report even a nominal increase in earnings per share on the enlarged share base.

On the bullish side the feeling was that tighter management of operating expenses and a reduction in bad debt provision would help to boost performance In addition interest margins at Volkskas were believed to be above market average because it had picked up a lot of long-term money ahead of the rise in interest rates and also it had very little exposure to housing loans.

On the downside was the group's exposure to the weak agricultural sector.

But as things turned out, the bullish factors appear to have had little impact on the group's disclosed performance.

Analysts feel that management may have put considerably more funds than expected into the group's hidden reserves in order to replenish them after the depletion they may have suffered from bad debts two years ago

Time scale plan for taxing share sellers

Star 4/6/88

FINANCE STAFF

A time scale for taxin people who sell shares is being suggested by the South African Taxpayers Association.

People who invest in shares have a "Sword of Damocles" hanging over their heads, claims the executive director, Mr David Shrand, in a memorandum on the Margo Report submitted to the Minister.

The Revenue Department's current practice of taxing profits from share dealings is based on the doctrine of "intention," says the association's memorandum.

If the Receiver of Revenue is satisfied that the taxpayer has entered into a profit-making scheme, he is classified as a share-dealer and taxed on any profits made.

"Whether a taxpayer falls into the category of share-dealer or not is a question which can only be decided After a long investigation into the history of the taxpayer's past transactions as well as other circumstances," says Mr Shrand.

"The doctrine of intention is a difficult approach and to establish intention is often an uncertain factor and difficult to formulate with any accuracy.

"In practice those who engage in share investment are confronted by uncertainty as there is the 'Sword of Damocles' hanging over their heads regarding any profits that may accrue as a result of change or substitution by way of selling one particular share and using the proceeds to buy another in their share portfolio."

A cardinal principle of a sound taxation system is that certainty should prevail, says the memorandum, and to attain this goal in share-dealing a time framework should be formulated to control the taxation of profits from share dealing.

If shares are sold within 12 months of purchase, a certain proportion of the profits should be taxed. The longer the share is held, the lower the tax liability should be and after a period of about three years no tax should be imposed.

Other proposals by the association include:

- Earned and unearned income should be taxed at differential levels as in Britain.
- The present tax allowance should be raised from 20 to between 25 and 35 percent to stimulate the beneficiation of raw materials, which will provide more jobs and earn more foreign exchange.
- Only 50 percent of farm losses should be set off against income from other sources. At present all loses can be offset.
- The Government should appoint a commission to investigate Government spending as well as the effect of monopolies on inflation with the aim of reducing taxes.

Tax-free investments likely to go

Star 4/6/88 58

CAPE TOWN — The Trust Building Society has issued a warning to its depositors that tax-free building society investments could soon be on the way out.

The directors say that the Government has accepted the Margo recommendation that the tax concessions on investments in building societies, the Post Office and the Treasury should be ended.

They say the authorities are formulating a programme for phasing out the concessions and an announcement will be made in due course.

The Trust Building Society increased its assets from R580,2 million to R625,5 million in the year ended March, and its reserves rose by R5,4 million to R39,0 million equal to 6,2 percent of assets.

Funds advanced for home loans rose from R508,9 million to R566,3 million.

The Trust Building Socity has not yet decided whether to "follow the equity route" and move actively into banking.

"It is still keeping its options open as to the future structure and function of Trustbou within the Bankorp group."

Sanlam payouts increase

Star 8/6/88 58

By Tom Hood

CAPE TOWN — Every hour of every working day, R1 million is paid out by Sanlam to its policyowners and beneficiaries.

By September 20, the life assurance company will have paid R2 billion over 12 months — 40 percent more than the R1,409 billion handed over in the previous year, says managing director Pierre Steyn.

The company, now 70 years old, has paid R7,2 billion to policyowners and their dependants.

He calculates that in 12 years, the amounts paid in benefits in the year 2 000 will probably be more than R20 billion.

"The public often gets the impression life offices only accumulate money," he says. "However, the R2 billion we will pay out this year reflects the actual purpose of a life office."

From its endeavours in the insurance field, Sanlam has developed into a life office with one of the the largest incomes among financial giants.

It has also spurred the devleopment of enterprises such as Federale Volksbeleggings, Federale Mynbou, Genkor, Bankorp and Sankorp and today the group provides 450 000 jobs.

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Upward rate eased by inflow of funds

IN THE MONEY MARKETS

Harold Fridjhon

THE money market was more relaxed on Friday than it has been for some weeks past. Although the market shortage — the amount which the market owes to the Reserve Bank — was little changed at R426m, much of the heat was off the banks.

The significant wholesale call rate eased sharply to a range of 11%-11,5% from the previous week's excruciating 13%-13,5% as funds moved into the banks from government spending, including its payments to the independent states. More cash should move into the system when the return flow of banknotes starts.

This movement has been somewhat laggardly, and the note issue actually showed an increase at the close of the week to R6,3bn, compared with R6,2bn the previous Friday.

Anomaly

The market's two key rates, those for Treasury bills (TBs) and for liquid 90-day bankers acceptances (BAs) moved in opposite directions with the TB rate rising to 11,73% from 11,61% and the BA rate easing to 12,45% from 12,60%.

The explanation for this anomaly is that the Reserve Bank is allowing the TB rate to reflect more closely conditions in the market, while the BA rate, which had been rising too sharply, over-reacting as the discount houses adopted defensive tactics, was now coming more into line with the TB rate.

Beneath this facile interpretation of market conditions are two factors. First the Reserve Bank has been making soothing noises to assuage fears of Bank rate being raised in the near future and, secondly, and inter-related, is that because of this investors are showing some interest in scarce three-months paper.

The authorities are believed to have told bankers that its monetary policy is now in place and that they are, at present, not unduly concerned with the rise in imports and the narrowing margins in the trade balance. They say that there had been a lagging in payments for the re-stocking which followed the upward surge in consumer demand.

Latest figures are said to be showing a slowing down in the rate of increase in bank advances. If this favourable turn of events continues the possibility of another rise in Bank rate is moving further forward into time.

Essentially, however, Reserve Bank policy appears to be one of wait and see. The impression created is that the Bank is adopting a flexible attitude, letting events and not dogmatism direct their future actions.

Key indicators in the coming weeks will be the trade figures, the money supply aggregates, and the rate of increase in banks' advances. If these move together in more favourable directions, the next Bank rate move may not come before August/September. But if imports and credit demand do not subside the clamp could come sooner.

Significant

It is, however, the upward movement in the Treasury bill rate — and the building societies' battling for 12-months money — which are not without significance. The TB rate is currently 23 points above its re-discount rate, which make discounting profitable instead of costly. And the societies are said to be paying 15,75% for 12-month funds.

If the societies attract signficant volumes of the money at present being invested short, and if the TB rate continues to be a barometer, the rates pattern might be nudged upwards.

☐ THE bond market is drifting, directionless and as a result real interest is at an ebb.

The institutions have been neither buyers nor sellers and the professional jobbers have been unable to generate any real excitement. Last week the usually active Eskom bond 168 moved only 12 points from a low of 16,30% to a high of 16,42%, closing at 16,35%.

This brought profits to the daring who read the price movements correctly — and losses for those who were wrong. The churnover, however, induced daily turnovers between R400m and R700m, low by normal JSE standards.

It is said that some of the JSE dealers are looking for bank jobs as they are dispirited by the lack of business passing across the stock exchange floor. Whether there is more trade being generated by screen-dealers is not known, because their transactions are unrecorded.

A little interest is being shown in bonds in the medium-term range, the 1990s, 1994s and 1995s, but the supply of stock appears to be strictly limited and there is a reluctance to bid yields down too low.

A similar position is reported for those bonds which are now liquid assets, or near to liquid asset status. Long-dateds are neglected.

The boredom in the JSE gilt floor was reflected on the TV screens on Friday; most were showing the French tennis rather than prices.

Volkskas reduces dividend cover

(58) B/day 6/6/88

REDUCED cover has allowed Volkskas to lift the dividend despite a small drop in earnings a share on a weighted average basis, the annual results show.

In the year to end-March, earnings a share shaded to 186,4c (199,6c). But the dividend has been increased to 73,0c a share (66,0c) as dividend cover has been narrowed to 2,6 times (3,0).

After-tax income was R71,3m (R60,8m) and attributable profit rose to R69,9m (R59,4m).

The directors say the improvement in results during the first half of the financial year, as referred to in the interim report, continued in the second half of the year.

"The net income before extraordinary items of the Volkskas Group represents an increase of 17,3% compared to the result of the previous financial year. This increase was achieved despite uncertain business conditions and after sufficient provisions were made in the group.

"The contribution of Volkskas to the net income of the group amounted to R50m, while those of Volkskas Merchant Bank and Volkskas Industrial Bank amounted to R8,8m and R3,5m, respectively.

"All the other subsidiaries in the group performed satisfactorily despite tight business conditions. The directors regard the results as highly satisfactory, especially as the group was unable during the financial year concerned, to fully apply the additional capital issued as part of the transaction with UBS Holdings." — Sapa.

Investment is 'slower but steadier' this year

B/day 7/6/88

Granny bond cash nearing R800m

HELENA PATTEN

FLOWS into the second-era "granny bonds" introduced last month appear to be fast approaching the R800m intake of last year's scheme, which was cancelled after an uproar by financial institutions excluded from taking part.

Spokesmen for banks and building societies, now allowed to offer the scheme, said yesterday money was flowing into the new, government-subsidised scheme at a "slower, but steady pace", after an initial rush by over-65s to invest funds at a preferential 15%.

NBS MD John Gafney said total inflows into the scheme were a good achievement, especially as the new deposit scheme's upper limit was just R30 000, compared with a limit last year of R200 000.

Gafney said NBS had taken R57m by the end of May, although the pace had slowed a lot.

The United spokesman said its marketing efforts had paid off with the total inflow to date being "safely over R150m".

A Perm spokesman said the most up-to-date figures were up until the end of May, when more than R100m had been deposited in the scheme. The flow was lower, but steady.

Allied group MD Kevin de Villiers said more than 7 000 of its customers had deposited around R95m to date in the scheme.

A Post Office spokesman said it had processed R50m worth of deposits by the end of May.

First National Bank and Trust Bank were not prepared to give figures for marketing reasons, but spokesmen said a lot of money was being channelled into the scheme.

Warning on interest burden

PRETORIA — Further interest rate hikes will intensify the debt crisis in a large section of the SA agricultural industry, particularly the maize producing sector, authorities warned.

SA agricultural union economist Koos du Toit says the SAAU expects the rates to be increased substantially in the next few months.

Farmers' enormous debt burden — it will exceed R14bn by the end of the year — is damaging sections of the industry and threatening to inhibit food production.

A quicker pace as Saficon soars

(58) B/day 7/6/88

LIZ ROUSE

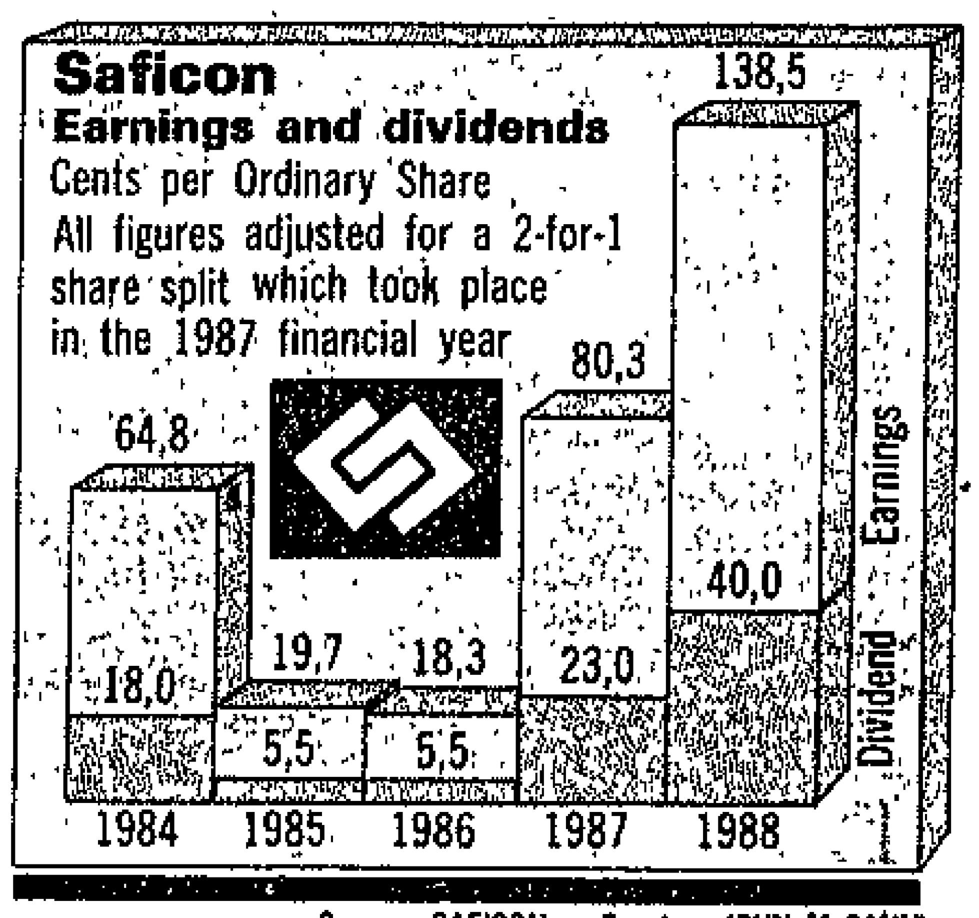
MAINTAINING the exhilarating pace set in the first half of the year, Saficon Investments' full year's earnings advanced by 72,6% to a record 138,5c a share, surpassing the forecast of 111c.

Declaration of a 29c final dividend for the year to March lifts total distribution by 74% to 40c from 23c paid last year.

Reflecting the boom in motor vehicle sales and, highlighting Saficon's quality franchises (Mercedes-Benz, Audi, Volkswagen, Porsche and Jaguar), plus investment in a flourishing Boumat, the group broke records all the way.

Executive chairman Sidney Borsook is forecasting further increases in sales, earnings and dividends in the current year.

He says: "Our business grew rapidly this past year, but the financial policies and objectives pursued by the group during the last 10 years have enabled us to grow within the framework of a sound financial structure.



Source SAFICON Graphic: JOHN McCANN

"Not only has there been very little strain on the balance sheet, but Saficon is poised for further growth this year."

Boosting the group's profits further was the 137% improved contribution

● To Page 2

The pace quickens for Saficon group

(58) B/day 7/6/88

● From Page 1

from Boumat.

Group turnover rose almost 50% to R878,9m (R586,6m), while net operating profit increased to R41,9m (R25,3m). According to Borsook, due to a decline in the ratio of operating costs to sales, operating margins improved to 4,8% from 4,3%.

At a 49% effective tax rate, Saficon's net operating profit after tax amounted to R21,4m (R13,4m). Including the R5m (R2,1m) attributable earnings from associated companies, after-tax operating profit increased by 70% to R26,4m (R15,5m).

Attributable earnings soared by 81% to R23,2m from R12,8m.

Saficon's substantial growth is reflected by dramatic changes in the balance sheet. Total equity passed the R100m mark for the first time and total assets soared to R221,9m (R155,5m) but, despite this rapid growth, financial controls have remained in place — non-interest-bearing debt rose by a larger margin (50,3%) than the increase in net assets (37,5%).

The group's debt/equity ratio at 0,20:1, although higher than a year ago, is well within the group's target of 0,75:1.

Saficon's outstanding performance is mirrored by that of holding company Saker's Finance & Investment Corporation — its earnings rose to R14,7m from R8,5m last year. This translates into earnings of 153,5c a share (88,8c).

With the declaration of a 32c final dividend, Saker's dividend total is up at 43c from 25c.

Finrand boost for property

Star 7/6/88 58

An average of R2,3 billion a year has entered South Africa through the financial rand in the past two and a half years. Of this, about 16 percent a year went into fixed property.

The figures were given by Reserve Bank adviser, Dr Rik Goedhuys, when he addressed a South African Property Owners think-tank at KwaMaritane recently.

Dr Goedhuys said that while investment in real estate was modest, it had given a fillip to the fixed property market at a time when the investment climate was less than propitious.

"This suggests that this relatively new avenue of investment has attracted favourable interest."

He said the finrand had been of interest to the property industry since August 1986 when the rate became applicable to the purchase of assets other than listed securities.

In the case of private dwellings and farm land bought for investment, exchange control policy allows half the purchase price to be settled from finrand balances and requires a remittance of the commercial rand rate for the balance. — Sapa.

 By Frank Jeans

Star 7/6/88

(58)

FNB's revitalisation plans generate spin-off business

First National Bank's (FNB) plans for a multi-million-rand revitalisation of central Johannesburg properties, which will create a bank city, has spun off in plenty of new business in secondary office space.

Old Mutual Properties, for instance, has let more than 2 600 sq m of accommodation to businesses which have had to relocate because of First National new property assembly.

Mr Ian Watt, OMP's regional property manager, Witwatersrand, says: "We believe this sort of takeup is also being experienced by other landlords and the trend is likely to increase."

Lettings by Old Mutual Properties of secondary office space are at R13 to R14 a sq m gross, compared with R11 to R12 a sq m a year ago.

Among tenants signed up by OMP are:

World Furnishers, which is taking 924 sq m in a block at the corner of Pritchard and Rissik streets and 430 sq m in Old Mutual Centre in Harrison Street and Associated Press, CBS and Media Services, which have taken 269 sq m, 809 sq m and 194 sq m respectively in Royal St Mary's, Kerk Street.

The suburban property scene gets a boost with plans by Anglo American Properties (Amaprop) to refurbish Bryanston Shopping Centre, which first came onto the retail market 15 years ago.

Amaprop recently bought the centre for R6 million from South African Townships, Mining and Finance Corporation, a subsidiary of Anglo American Corporation. The revamp will cost R2,6 million.

The 10 000 sq m centre, which has the Checkers group as the anchor tenant, originally cost R1,7 million.

Mr Sam Leon, retail leasing manager of Anglo American Property Services, says: "While Bryanston Shopping Centre may have been on the periphery of development in the north when it was originally built, its location on the William Nicol Highway now places it in the heart of the northern suburbs, following the massive housing development over the past decade."

Schools stand empty

SL

THERE was virtually a total stayaway of pupils at secondary and primary schools in Soweto and the East Rand yesterday, but attendance in other areas ranged from 20 to 90 percent, according to spokemen for the Department of Education and Training.

The stayaway was equally effective on the East Rand, according to Mr R R Motau, the acting regional director for the Highveld region, but said the situation appeared normal in the eastern Transvaal.

Sowetan 7/6/88

Figures

Attendance at schools in the Vaal complex and northern Free State was "rather low", said a spokesman for the DET's Orange-Vaal region, with preliminary attendance figures ranging from 30 to 60 percent. Attendance at the Sebokeng College of Education was 90 percent.

A spokesman for the DET's Northern Transvaal region said school attendance in its outlying districts such as Pietersburg, Potchefstroom and Lichtenburg was normal, as was that in Mamelodi.

Allied in need of extra funds to sustain growth

St 9/6/88 (58)

By Ann Crotty

Weak market sentiment, in particular with regard to the financial sector, suggests that the Allied Group will have to seek any additional capital it may require to pursue its strategic plans, outside the JSE or delay the pursuit of these plans until market conditions are more favourable.

In the group's annual report chairman Denis Paxton points out that "Allied's capital is now fully invested and further capital may be required in view of the Group's future strategic plans and in the light of Allied Bank's rapid growth."

The Allied undertook major restructuring during financial 1988, and chief executive Allan Tindall notes that this restructuring had two major objectives:

"First, to make the best possible use of the group's existing resources, including its technology, staff and distribution network;

Secondly, the creation of a range of products and services to meet the needs of clients throughout their entire life cycle."

"At the heart of this proposition is the need for an expensive infrastructure to be used with the utmost efficiency, selling a multiplicity of financial service products."

Referring to the legislation governing financial institutions Mr Paxton believes that it does not recognise the realities of the marketplace: "The traditional role of banks and building societies has virtually disappeared and they are now in direct and strong competition with one another.

Paxton — Concerned by demise of national savings ethic

"While the authorities may be aware of this, it is hoped that early action will be taken by them to eliminate legislative anomalies. Allied would welcome a single Act of Parliament covering both banks and building societies."

Mr Paxton does not support suggestions that the activities of life assurers should be restricted but believes that all financial institutions should be able to compete for funds on "level terms".

The chairman expresses concern over the demise of the "national savings ethic" that has been caused by a combination of inflation and high taxation: "With access to overseas capital now so restricted the formation of domestic savings assumes even greater importance".

With this in mind he calls on the authorities to "act boldly to reduce any inhibiting factors which otherwise will make it impossible for the economy to grow at a satisfactory pace."

Looking to political and social issues, Mr Paxton notes that tension on these fronts continues to "bedevil economic growth and, although there had been some progress, recent months have seen little or no further movement in the reform process.

"If this country is to realise its full potential, it is vital that all sections of the population have a meaningful stake in its well-being. Housing and education, apart from any political reform, are the potential routes through which all South Africans will be able to share in this country's wealthy."

During the year the group made a number of strategic investments in line with its goal of becoming a complete financial services institution.

Some R71,5 million was invested in preference shares in Sage Holdings which will convert to a 20 percent equity investment in that group. Sage itself holds the maximum permissible interest in Allied, directors have been exchanged and both groups are "actively exploiting the considerable cross-benefits which flow from this arrangement".

A 13 percent stake in Rand Merchant Bank was acquired for R24,3 million but Mr Paxton stresses that this investment is a strategic one and is separate from the Allied's own banking activities.

The notes to the group's balance sheet shows that it has listed investments at a book value of R569,2 million compared with a market value of R561 million. Ordinary and preference shares account for R53,2 million of the total book value.

STORECO 58

Change of gear

A year that saw the end of the John Orr department store division (three stores sold to Tradegro, one closed), for so long the group's cornerstone, also brought the highest profit in its 103-year history. Turnover of

FINANCIAL MAIL JUNE 10 1988

Storeco's Labuschagne . . . hoping for another 30%

Activities: *Operates 120 Milady's specialty women's clothing stores, five Hub promotional department stores in Natal, and two cash off-price store concepts, Footgear (shoe warehouse) and Mr Price's Factory Shop (family apparel).*
Control: *With a consortium of Board of Executors and the joint MDs.*
Chairman: *N A Labuschagne; joint managing directors: L Chiappini and S Cohen.*
Capital structure: *5,2m ords of 10c; 389 000 6% cum prefs of R2. Market capitalisation: R31m.*
Share market: *Price: 600c. Yields: 5,8% on dividend; 15,0% on earnings; PE ratio, 6,7; cover, 2,6. 12-month high, 925c; low, 525c. Trading volume last quarter, 150 000 shares.*
Financial: *Year to February 28.*

	'86	'87	'88
Debt:			
Short-term (Rm)	13,5	16,0	16,8
Debt:equity ratio	0,52	0,69	0,51
Shareholders' interest	0,48	0,36	0,46
Int & leasing cover	1,4	4,0	4,8
Debt cover	0,2	0,4	0,35

Performance:

	'86	'87	'88
Return on cap (%)	11,8	14,0	16,4
Turnover (Rm)	81	102	118
Pre-int profit (Rm)	6,4	7,5	11,4
Pre-int margin (%)	7,9	7,3	9,7
Taxed profit (Rm)	2,2	3,0	4,8
Earnings (c)	42,4	56,0	90,2
Dividends (c)	18	23	35
Net worth (c)	488	354	593

continuing operations rose by 35%, pre-tax profit by 75% and earnings by 60%, and the chairman is looking for further earnings growth this year of at least 30%.

The new name reflects the new focus on speciality store retailing. The department stores contributed less than 5% of profits, and interest savings should more than offset the loss of this. Disposal of the department stores and some properties brought in extraordinary profits of R3,15m and cash of R13,5m, substantially reducing gearing, and the sale of the remaining properties should boost liquidity yet more.

Both Milady's and The Hub did better. Milady's sales rose by 30%, from R41,5m to R53,8m, and its profit by 112%. The five-year strategic plan envisages growth to over 250 stores. This year, eight should be opened and three renovated. A new shop design for the Nineties will also be developed.

The Hub's sales rose by 38% (R30,3m to R41,8m) and profits by 55%. One new store was opened, at Shelly Beach, on the south coast. Further stores are planned for Natal, and later the Transvaal. "Significant" sales and profit growth is budgeted for this year.

As these two divisions represent 97% of sales, Footgear and Mr Price's Factory Shop are clearly minor. The joint MDs say both traded well, and more stores are planned.

Four new speciality concepts are on the drawing board, and some will be tested this year. Management does not expect them all to succeed, but the capital investment in each is relatively small. Those that do succeed can be expanded rapidly and the MDs are confident that a number will develop into major speciality chains.

The minimum earnings target is 117c per share. On an unchanged cover, that should bring dividends of 46c. A prospective p:e of little over five and an almost 8% dividend yield seem inadequate recognition of the change wrought by the new management in the past two years.

Michael Coulson

(58) FM 10/6/88

SA EAGLE

Splendid year

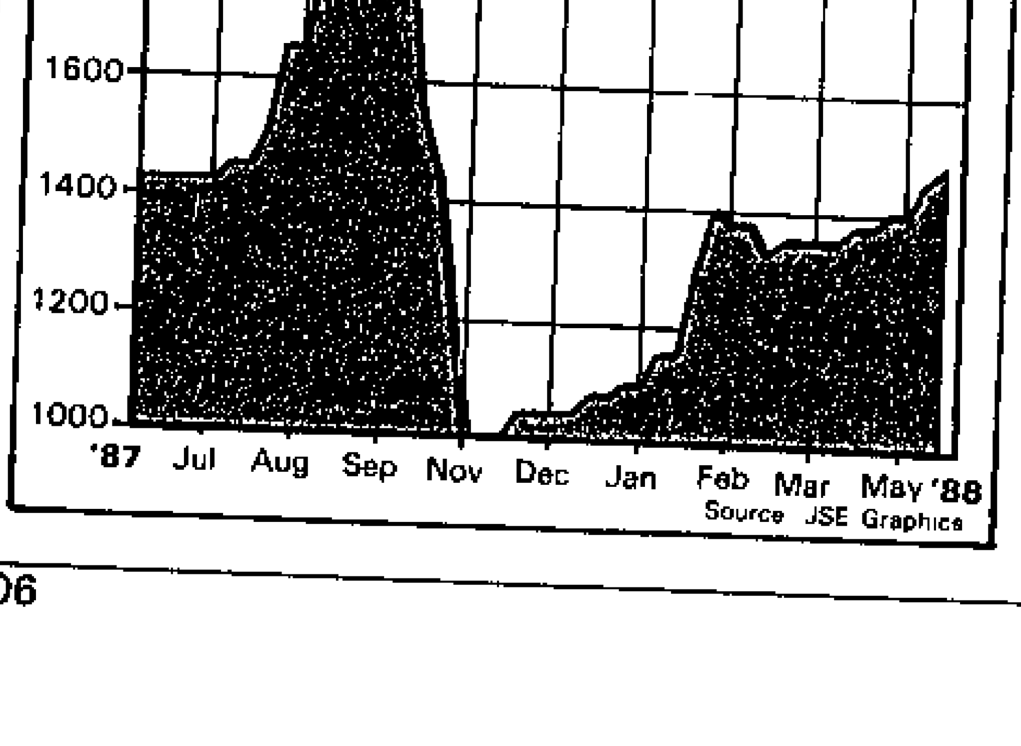
Activities: *Short-term assurer.*
Control: *Eagle Star Plc holds 59,1%.*
Chairman: *F N Haslett; managing director: P T Martin.*
Capital structure: *12m ords of 25c. Market capitalisation: R177m.*
Share market: *Price: 1 475c. Yields: 8,5% on dividend; 14,4% on earnings; PE ratio, 6,9; cover, 1,7. 12-month high, 1 900c; low, 1 000c. Trading volume last quarter, 19 700 shares.*
Financial: *Year to December 31.*

	'84	'85	'86	'87
Total Assets (Rm)	233,5	253,5	347,4	465,1
Net premium income (Rm)	144,5	174,8	271,4	393,9
Underwriting profit (Rm)	0,85	(2,96)	(5,44)	8,33
Investment income (Rm)	20,49	22,09	24,25	31,31
Pre-tax profit (Rm)	20,64	18,15	17,59	37,46
Earnings (c)	110,5	112,8	117,6	211,8
Dividends (c)	65	65	75	125
Net worth (c)	1003	1243	1717	1636

As for other short-term companies, it was a splendid year for SA Eagle. Following the premium increases and the takeover of business from AA Mutual, net premium income jumped by 45,8%. Better still, the underwriting account was turned round from a loss of R5,4m to a profit of R8,3m. A fairly modest improvement in investment income saw earnings up by just over 80%. It was a suitable year for retirement from executive responsibilities by chairman Fred Haslett, although his may prove a difficult act to follow for MD Peter Martin.

The disastrous floods in Natal last September and the later Transvaal hail damage had no serious effect on results, although there has been some modest increase in overseas reinsurance premiums this year. The policy of expanding business in the rural areas was continued, and Haslett reports that the company is established as one of the leading underwriters to farming and country communities.

SA Eagle shows investments at costs less investment reserves, so the stock market crash had no effect on published figures, although market value of investments "took a severe knock." A policy of remaining liquid for some time prior to the crash meant that the company was able to meet heavy calls on its resources in the final quarter without selling investments. The crash, together with



SA Eagle's Haslett . . . expanding in rural areas

additional business strain, reduced the solvency margin from 60% to 49,8%. The balance sheet valuation of investments rose from R240,5m to R338,6m.

For the current year, without the input from AA Mutual, it appears that premium income will not grow at anything like the rate of 1987. Increased capacity in the industry is likely to put pressure on premium rates this year. Although SA Eagle has not in the recent past reinsured such a large proportion of business as some other companies, increased premiums on this account must have some effect on results. Nonetheless, both the dividend yield and the p:e ratio suggest that the shares should make a good investment in the longer term.

David Ross

AMAPROP

Strong and steady

Activities: *Owns, develops and lets properties (offices and shops); trades in township land and has an interest in shops.*
Control: *Anglo American has a controlling interest.*
Chairman: *Z J de Beer.*
Capital structure: *42,9m ords of R2. Market capitalisation: R206m.*
Share market: *Price: 480c. Yields: 4,6% on dividend; 11,1% on earnings; PE ratio, 10,4; cover, 1,5. 12-month high, 680c; low, 430c. Trading volume last quarter, 184 000 shares.*
Financial: *Year to March 31 1988.*

	'85	'86	'87	'88
Debt:				
Short-term (Rm) ..	0,4	—	—	—
Long-term (Rm) ...	190,1	195,5	230,2	228,0
Debt:equity ratio	0,47	0,46	0,36	0,32
Shareholders' interest	0,63	0,63	0,59	0,57
Int & leasing cover .	2,92	2,46	2,10	2,21

Performance:

	'85	'86	'87	'88
Return on cap (%) ..	6,6	6,0	7,0	7,6
Turnover (Rm)	96,6	95,0	103,2	125,5
Pre-int profit (Rm) ...	54,2	52,5	49,0	53,8
Pre-int margin (%) ..	50,6	53,1	47,5	42,9
Taxed profit (Rm)	28,8	22,0	17,2	19,9
Earnings (c)	53,0	43,2	32,1	46,3
Dividends (c)	26	29	29	30
Net worth (c)	760	777	781	706

While Amaprop hiked turnover by 21,7% in the year to end-March, pre-tax profit increased by 12,9% and EPS by 14,6%. With interest paid rising by just 5% to R24,3m, it's not easy to reconcile the property group's vastly improved turnover with bottom-line figures.

However, benefits from the 15% increase in net income to R19,9m were partly lost — again — by losses on township land sales of R1,3m (R2,8m) and hotel operations of R2,3m (R2,6m). Nevertheless, the dividend was increased by 3% to a record 30c and covered comfortably at 1,5. Other notable features include a steep increase in net worth and, thanks mainly to the October 1987 crash, a fall in the p:e ratio from 18 to 10,4.

Overall, Amaprop fits the classic bill of a low-risk counter with low to modest returns. The outlook is as uncertain as ever. At end-March the group's retail portfolio was 98,3% let and its office portfolio 94,2% let.

The directors are optimistic that the outlook is bright. "After several years of falling rent levels or at best, static rent levels, the position appears to have reversed itself and rent levels are expected to rise again. Over the medium to long-term, levels are likely to rise substantially in step with marked increases in building costs, both increases experienced to date and anticipated increases."

The group's confidence is expressed by a sharp increase in capital expenditure committed and authorised of R80,9m (R25,1m). Another plus factor is an effective tax rate, again, of 20%, with tax losses available for the future of R14,4m (R17,6m).

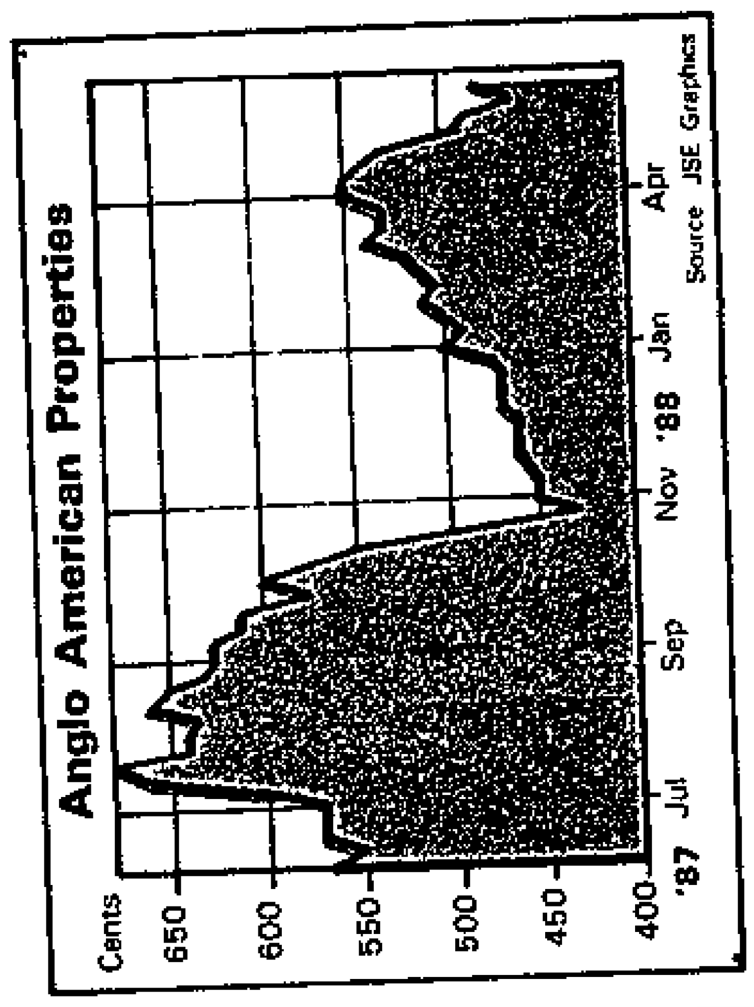
With interest rates on the upturn, Amaprop's skilful long-term debt funding will enhance the outlook. Revamping of several assets, including the Carlton Hotel, Sunnypark, Gardens and Killarney centres, and notable increases of plot sales in residential and industrial estates could also help to upgrade the share price.

The large developments in Parktown and Bruma Lake would appear to have little tenancy problems. The problem for Amaprop, and for those taking a view on the share, is how far rentals can be hiked. Rents receivable comprise about 70% of turnover. The main group operating costs are salaries and wages (about 32%); maintenance (24%); "other" (22%), and electricity (15%).

Even with Amaprop's policy of holding only first class properties, increases in operating costs wait for nobody. Unless the counter is seen as a medium to long-term share that has respectable chances of capital appreciation, it's probably best to keep out.

Barry Sargeant

Amaprop's Leissner . . .
Rent levels expected to rise



FM 10/6/88

DATES TO REMEMBER

Last day to register for dividends:
Friday Jun 17: Afrox 30c; Aida 1,3c; Anglos 162,5c; Argus 425c; Autodek 3,25c; Beatrix 37c; Buffels 260c; Burlington 3,5c; Com Fund 41c; Don Gray 2c; ET Cons 185c; Farm-Ag 33c; Grootvlei 30c; Harties 90,5c; HCI 14c; Hortors 3,2c; IGI 20c; IGI Life 5c; Pactape 4,5c; Pride §2c; Rale 4,75c; Sentrachem 15c; Shield 3c; Skirtskip 3,75c; St Helena 135c; Stilfontein 40c; Vadek 2c; Village 12,5c; WOM 2c.
Meetings:
Monday Jun 13: Amcoal.
Tuesday Jun 14: Hi-Score; Score.
Wednesday Jun 15: Budget (Jacobs); Debonair (Cape Town); Harwill (S); Vaaltrucar (Ord & S).
Friday Jun 17: Botrest (Gaberone); Natrawl (Durban); Unitrans (Randburg).
All meetings are in Johannesburg unless otherwise stated.
§ = 9 months.
S = Special meeting.

BANKING — 1 (58) AM

Caught short

Perhaps nothing less than a crystal ball could have foretold when interest rates would start to rise. Bankers, lacking prophetic powers, certainly missed the moment.

When consumer demand started to grow towards the end of 1987, they failed to appreciate its dimensions and consequent impact on interest rates.

So instead of locking into comparatively cheap long-term deposits available at the start of the year, they continued to rely heavily on short-term money.

By the time they realised that this would leave them vulnerable in the face of rising interest rates, the moment had come and gone.

The extent to which their present term structure is inappropriate to this phase of the

10/6/88

economic cycle is revealed in an analysis by First National Bank, of BA9 forms — industry statistics submitted each quarter to the Registrar of Banks and Building Societies.

This shows that in the first three months of 1988, more than 88% of assets of the five major banking groups was funded by deposits of less than six months. Of this nearly 59% was repayable within 31 days.

Comparable figures for the same quarter last year were 85,2% and 54% and, for the

P.T.O.

LACKLUSTRE GROWTH

The economy won't glitter in the next three years, but the rand gold price could.

Nedbank's latest *Guide to the Economy* predicts that gold will average US$460/oz this year, $490 next and $550 in 1990.

This, combined with a plummeting rand, will push the local gold price skyward.

Nedbank's projection of an average exchange rate of R2,18/$ this year would put gold at R1 003/oz, rising to R1 147 on average next year (R2,34/$) and R1 364 in 1990 (R2,48/$) — 50% above last year's R910.

Unless you own gold, however, things don't look too bright.

If these forecasts are right, we're in for continued high inflation and low growth.

Nedbank projects lethargic 2,5% growth this year and 2% in 1989 and 1990.

Consumer price inflation — after drifting to an average of 14% this year from 16,1% in 1987 — is seen as averaging at 16% next year and 15% the following year.

And interest rates are projected to stay nominally high, with prime ending this year at 16,5% — four percentage points higher than end-1987 — dropping slightly to 16% and 15% in the next two years.

WHAT'S AHEAD

Nedbank group economists' forecast

	1987*	1988	1989	1990
GDP (% increase)	2,6	2,5	2,0	2,0
Fixed investment (% increase)				
Public authorities	−2,7	3,8	4,7	—
Public corporations	−13,7	4,5	17,6	—
Private	3,1	6,2	2,0	—
Total	−1,4	5,3	5,1	—
Gold price average ($/oz)	446	460	490	550
Exchange rates (average for year)				
Rand/$	2,04	2,18	2,34	2,48
D-Mark/Rand	0,88	0,75	0,69	0,68
Yen/Rand	70,86	56	51	50
Rand/Pound	3,34	4,15	4,42	4,61
Interest rates (year-end)				
Prime	12,5	16,5	16,0	15,0
BA	9,5	14,5	14,0	13,5
Inflation				
CPI (average year-on-year)	16,1	14,0	16,0	15,0

* Actual figures — Source: Nedbank

March 1986 quarter, 80,8% and 49,9%. Not since March 1985, has the proportion of under six-month money approached present levels. It stood at 87,7%, of which 59,9% was 31 days or less.

In that month, however, SA was about to enter a period of rapidly declining interest rates, so the term structure was to banks' advantage, leaving them free to take advantage of declining rates.

Now rates have risen — and indications are that they will rise once more — they face the reverse situation.

With longer-term money rapidly diminishing, they are already paying up to 13% for large parcels of one-month money (about R10m) which they could have bought for about 10% in December.

One-year money, then less than 10% (9,85% was the average rate on 12-month NCDs), is now priced out of reach.

"With 12-month NCDs at 15,5%, we would need prime rate to be 18,5% for a year to maintain our traditional 3% margin," says one banker. With prime at only 15% (and not likely to rise in the near future) this margin is negative.

So banks have little alternative but to continue to make use of cheaper short-term money and hope the day will not come when the yield curve flattens completely or becomes negative.

Building societies are in a better position — not necessarily by design but because they are required by statute to hold a much larger proportion of long-term funds.

According to an analysis of first-quarter building society statistics by Davis Borkum Hare's Kim Bruce, the proportion of under-six-month funds held by the five major groups is on average 43,9%. Of this, only 7,8% is under 32 days.

So they will be cushioned against rising rates until these deposits reach maturity. On the other hand, they are paying a price which still puts them at a competitive disadvantage.

In the retail market, rates offered investors in 12-month fixed deposits, for instance, are 12%-12,5% while banks are paying 6,5% on call deposits.

This access to short-term money has given banks an edge, enabling them to build their home loan books to over R7bn, according to Bruce's calculations — about 22,6% of total home loan portfolios held by the 10 major financial institutions.

When the edge is worn away by a rising pattern of interest rates, the societies will be able to make good some of the losses they experienced during the time of high liquidity.

Which is why it would have made sense for banks to have prepared themselves by lengthening books.

Could they have anticipated the swift climb in interest rates?

Says Martin & Co banking analyst Richard Jesse: "It's true that rates moved much faster than anyone expected. But there were early warning signals and the banks could have been more aggressive."

There are good reasons, of course, for not moving prematurely.

When banks increased their holdings of long-term deposits to 20% in the last quarter of 1986, it proved a pointless and expensive exercise as rates remained almost static for another year — with pressure for the most part downwards.

Perhaps they were determined not to repeat the mistake. Or perhaps they were simply caught offguard. Says Jesse: "It's as if they simply forgot to go long in the last quarter of 1987." ■

TERM TIME

Bank funding (%)

	Funds under 6-months	Funds over 6-months
March '85	87,7	12,3
March '86	80,8	19,2
March '87	85,2	14,8
March '88	88,4	11,6

Sound investment possibilities outside the traditional avenues

Star 10/6/88 (58)

DURBAN — It is possible to reconcile the country's need for development capital and the requirements of the financial sector for adequate returns on investment.

This is the view of Mr Bill Haslam, Southern Life's executive director, employee benefits, told the Institute of Chartered Accountants in Durban yesterday.

Mr Haslam said the most obvious dilemma the life assurance industry faces was how to invest its assets which total a massive R65 billion.

Clearly policyholders demanded they should be invested to achieve the maximum long-term rate of return. Any other policy would result in a gradual withdrawal from the industry of the moneys with which it was entrusted.

On the other hand, there was a growing and vocal demand that assets perceived to be invested in paper, such as equities on the JSE, should rather be put into socially-desireable projects such as low-cost housing or enterprises which would create jobs.

"This pressure is not only coming from trade unions, but also from the government and obviously carries weight." While the two views appeared irreconcilable, Mr Haslam said a little creative thought would lead to a solution.

Investment managers in the large institutions were trained to believe the best and safest investments were made through traditional avenues.

Asked to invest in a Soweto shopping centre, low cost-housing or venture capital for black business, an investment manager would "visibly shrink". Not only did he lack experience in the area, but he would think the investments highly dangerous.

However the movers of these projects had an earnest and genuine desire to achieve something specific. The availablity of capital was of primary concern and, more important, the price of capital only of secondary concern.

Therefore, Mr Haslam said, there must be financing schemes which could be created to give these people the capital they needed and policyholders returns which matched those of traditional investments.

In this respect, Mr Haslam said his group had given the go-ahead for a site in Soweto which would provide homes for 300 families, with an investment return fully commensurate with alternative investments.

Four more schemes of differing sizes were in the pipeline and the boards of trustees of several provident funds were interested in investing in them.— Sapa.

PENNYPINCHERS

Home growth

Activities: *Retailer of building materials, particularly for the D I Y market.*
Control: *Directors hold 70%.*
Chairman and Managing Director: *S van B Malherbe.*
Capital structure: *13,7m ords of NPV. Market capitalisation: R16,4m.*
Share market: *Price: 120c. Yields: 3,3% on dividend; 8,0% on earnings; PE ratio, 12,5; cover, 2,4. 12-month high, 200c; low, 90c. Trading volume last quarter, 227 000 shares.*
Financial: *Year to December 31.*

	'85	'86	'87
Debt:			
Short-term (Rm)	0,05	—	—
Long-term (Rm)	1,6	1,0	1,7
Debt-equity ratio	n/a	0,35	0,17
Shareholders' interest	n/a	0,13	0,26
Int & leasing cover	2,3	12,7	10,4
Debt cover	0,10	0,87	1,0

Performance:

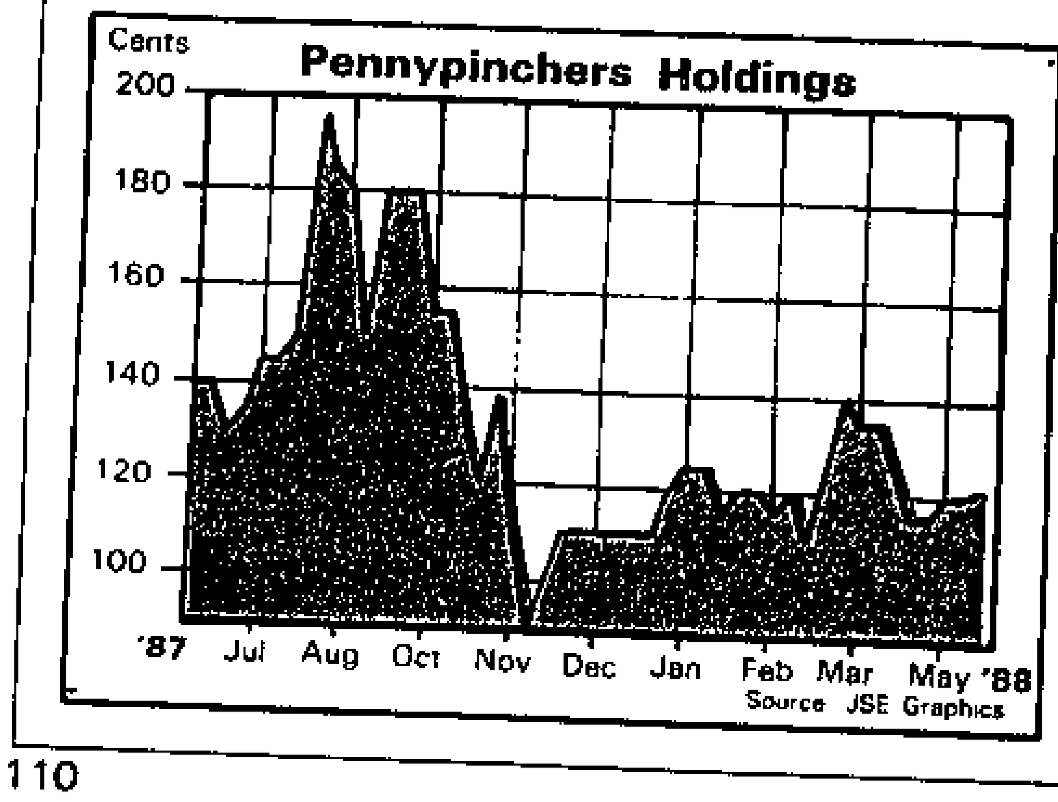
	'85	'86	'87
Return on cap (%)	11,0	12,9	12,9
Turnover (Rm)	23,7	40,8	64,3
Pre-int profit (Rm)	0,5	1,4	2,7
Pre-int margin (%)	1,9	3,5	4,2
Taxed profit (Rm)	0,09	0,7	1,4
Earnings (c)	0,5	4,3	9,6
Dividends (c)	—	—	4
Net worth (c)	(20,7)	10,2	37,8

Home extensions, particularly by lower income groups, have helped to ensure a profitable performance for the company. Geographical expansion into the Transvaal is a recent development that could have long-term benefits.

The company does not sell to large developers. After the initial development of a township, whether for blacks or whites, once householders start to improve their homes this generates potential business for Pennypinchers. Sales are for cash.

The company's biggest shop is in the Blue Downs township development in the Cape, where this sort of demand is strong. Government's plan for new black townships around Johannesburg could also create large new markets.

Among the major events of last year were a rights issue of 2 288 100 shares at R1,15 per share; the DCM listing of wholly owned



subsidiary Pennypinchers Boards (Penboard); and the acquisition of various minority interests in subsidiary companies, namely Retreat, Boland, Boards and Montague Gardens.

The Penboard listing came after Penpin had paid R1m for 50% of the company. At the market capitalisation of R7,4m, Penpin's 80% stake in Penboard is now worth R6m. The listing also enabled repayment of various loans to the holding company.

EPS more than doubled from 4,3c to 9,6c in the year to end-December, despite the 37% increase in issued share capital. Improved sales volumes particularly helped the bottom line. The company is cash flush, with low borrowings. Notably, the pre-interest margin rose from 3,5% to 4,2%.

Last year's acquisitions consisted mainly of buy-outs of minorities in 50%-owned subsidiaries. The Truss Manufacturing operation was expanded through the acquisition of The Southern Cape Joinery.

Management is forecasting an increase in turnover this year to R110m. This is expected from existing outlets, which are being upgraded. Further sales growth could be generated from a geographical expansion in the latter part of 1988. With the p:e at 12,5 times, the share is already discounting much of these expectations.

Louis Venter

Supreme Court ruling ignored

Banks defend right to charge in excess of Usury Act rates

58

Star 11/6/88

SVEN LUNSCHE

The president of the Association of General Banks (AGB), Peter Thompson, said yesterday that the AGB's close co-operation with the authorities condoned the continued use of fixed interest rates above the Usury Act's ceiling rate, despite a contradictory Supreme Court ruling.

According to a judgment handed down by Mr Justice Berman in the Cape Town Supreme Court last year, banks could not charge consumers higher interest rates on hire-purchase financing than the maximum rate prevalent at the time.

Justice Berman said at the time that the date of the contract was irrelevant and that rates would have to move down if the maximum rate declines.

Prescribed ceiling

But it has been reported that most banks were still charging fixed interest rates on instalment sale agreements, some of them above the prescribed ceiling.

Mr Thompson said that the actions of the bank were not illegal, "since our close cooperation with the Registrar, and through him with the Finance Ministry, condones our actions."

Customers could still challenge banks if the interest rates they pay are above the pre-scribed ceiling, "but we would obviously contest it," Mr Thompson said.

"We believe that our previous interpretation of the Usury Act was correct and have been in discussion with the Registrar of Financial Institutions about a clearer wording of the Act, since the Cape Town judgment was handed down," Mr Thompson said.

Peter Thompson — "The actions of the banks are not illegal."

"In any case the interpretation does not make much economic sense," one banker said. "It would mean that if general interest rates rise, consumers could also be charged a higher rate than the one which prevailed at the time of the date of the contract."

Says Mr Thompson: "What everybody seems to forget is that at the moment, when the ceiling rate has just been increased from 19 to 22 percent, consumers are benefiting, as we have not raised the rate on fixed contracts."

Most banks give clients the option of fixed or linked interest rates.

Professor Leon Weyers, chairman of the Consumers Council, said yesterday that he was surprised how much time had passed before the Cape Town judgement was brought to the public's attention.

Consumer rights

"There are almost 300 000 people who have instalment sale adjustments and if the authorities were serious about consumer rights, someone would have notified the public of this important development," Professor Weyers said, adding that the Consumer Council was too understaffed to investigate every single court case.

According to an employee at the Consumer Council numerous phone calls were received yesterday, complaining of interest rates which were higher than the maximum rate.

Mr Thompson said that the banks had been aware of the Cape Town judgment a few weeks afterwards and had been in discussion with the Registrar of the Financial Institutions since then.

"But the ruling at the time was against a small finance group in Cape Town, Lender Lease, and they did not appeal against the judgement. When we finally found out about the case it was too late to lodge an appeal," Mr Thompson said.

Aids threat to insurance industry

Star 11/6/88

58

Article contributed by MICHAEL BELLING, manager (Marketing Communications) at Sage Life.

Aids, the modern Black Death, poses a threat to millions of lives throughout the world over the next decade. It could also cause severe financial losses to life assurers and upset the assumption of premium rates.

In other parts of the world the insurance industry is rapidly acknowledging the seriousness and magnitude of the problem. In South Africa we share this concern.

The mounting costs involved relate primarily to anti-selection.

Anti-selection involves the company accepting a bad risk, which it would not if all the facts were disclosed.

Two closely-related factors affect the life insurance industry here and abroad in this regard, public relations and the mortality risk.

On the public relations side, how would applicants for life insurance react to being tested for Aids? How would the market react to a special Aids questionnaire asking very direct questions about the lifestyle and sexual relationships of applicants?

Until now the life industry had reasonably reliable death statistics going back many years and these mortality tables were among the more constant elements in determining premium rates. Now mortality could become a variable factor.

Future projections relating to Aids are very uncertain, but the general view is that the position in future will be much worse than was first suspected.

Although only some 120 cases of Aids have been reported in South Africa, it is estimated that there are presently over 12 000 carriers of the virus.

South Africa could be particularly vulnerable as it is exposed to both varieties, First World and Third World Aids.

Most Aids deaths in the Western world have occurred among haemophiliacs, homosexuals, bisexuals and intravenous drug abusers.

In the Third World, particularly in the black African countries, Aids is predominantly a heterosexual disease.

The situation is serious but still far from reaching panic proportions. The present close examination of the situation is aimed at ensuring that it never does.

Economic activity 'slowing down'

(59) b\dox 13\6\88

Volkskas: limit consumption spending curbs

NO MORE measures to curb consumption spending are necessary at present as economic activity is starting to slow down, Volkskas says in its latest Economic Spotlight.

However, other economists disagree, saying interest rates should have been increased by more than 1% last month. They said last month's rise was by no means the last this year.

Volkskas believes South Africans have become sensitive to interest rate movements and that individuals and businesses have already cut down on expenditures in the wake of this year's rate rises.

It says the underlying financial position of the consumer is not strong and, as far as risk and liquidity are concerned, financial institutitons will probably not allow another strong increase in loans for consumption expenditure.

The policy package announced in May should contribute, albeit marginally, to lower expenditure.

It predicts money supply growth, which skyrocketed in March only to come back to earth in April, will continue to grow at a slower pace as consumer demand for credit diminishes.

But the Standard Bank, in its last Review, says the money market's perception is that the policy measures announced last month do not go far enough

GRETA STEYN

to solve the problems facing the economy.

It said a large increase in bank rate — 2% or 3% instead of only 1% — would have brought about a much quicker slowdown in credit growth and economic activity.

Such action would have brought home much more dramatically the serious nature of the constraints facing the economy.

Any reduction in consumer borrowing and consequent softening in retail and manufacturing sales would not immediately lead to a fall-off in overall credit demand.

Diminish

The momentum created in the field of fixed investment would take time to diminish and the financing requirement in that area would remain strong.

The Standard Bank, citing domestic political pressures as the reason for the mild package, says the economy might have to pay the price for that at a later stage.

The Reserve Bank might find it would have to act more forcefully, by moving bank rate up ahead of market pressures instead of merely reacting to them.

IN BRIEF

Interest rates favour societies

KAY TURVEY

BUILDING society shares favoured by rising interest rates are edging upwards, whereas bank shares are testing new lows.

The decline in bank shares in relation to building society shares is seen by analysts as the shoe being put on the other foot, as in the short-term rising interest rates give building societies the edge.

Building societies tied into longer term deposits do not feel the increased price on deposits and margins are protected, whereas banks in the short-end of the market are subject to the higher price of deposits and margins are squeezed.

In dull trading yesterday, Allied shares were among the most heavily-traded and one of the few shares showing a rise, moving up 10% to 137c off a low of 124c last Friday.

Also among the volume leaders was UBS which performed relatively well ex dividend. UBS fell 18c yesterday after going 14c ex-dividend, representing an effective 4c decline to 312c. However, the counter is still 13% up on its 275c low last month.

NBS trading at 260c yesterday is 15% up on its January low. Saambou, in spite of having fallen back 5c to close at 105c yesterday, is also showing an upward trend having risen 12c from its April low.

Among the banks, First National gave up 50c to 1 425c after recovering from a low of 1 375c a week ago. Standard which hit a new low of 1 400c on Friday moved up 25c to 1 425c.

As one analyst says the market is wising up to the different capital adequacy functions of the different financial institutions and responding accordingly.

B/Day 14/6/88

58

OM unit trust missed out on certain profit

STAR 14/6/88

By Sven Forssman (58)

The Old Mutual Unit Trusts quarterly report of March 31 shows that 636 200 Metal Box shares in the Investors Fund were sold between December 31, 1987, and March 31 this year.

This was ahead of a deal which saw the UK-based Metal Box sell its 25 percent stake in Metal Box, South Africa, to Nampak, a Barlow Rand subsidiary, for R114 million.

The deal allowed Nampak to increase its shareholding in Metal Box from 54 to 85 percent, and saw the share price jump from about 675c to about 850c within a few weeks.

Why did Old Mutual sell out ahead of the deal, despite market rumours since the beginning of the year?

Says Mr Marco Celotti, Mining Fund portfolio manager: "In hindsight, you can say that it was an opportunity lost.

"But, you can't see that in isolation. We may have invested the money from the Metal Box shares in a share that performed better."

Mr Celotti says Old Mutual were not aware of the Nampak deal when they sold the shares and could not act on "rumours".

"We sold the shares purely on value considerations. We felt there were better opportunities elsewhere."

Mr Roland Chute, Investors' Fund portolio manager, says Old Mutual were happy selling their Metal Box shares, despite the share price rising soon afterwards.

"We decided to take advantage of the lower prices in the mining sector, and we've got to take advantage of these opportunities when they arise," he said.

JSE dealers said a large portion of the Metal Box shares were bought up by Liberty Life.

UAL restructures in an overtraded banking market

Star 14/6/88

(58)

Finance Staff

UAL Merchant Bank is to undergo major restructuring while, at the same time, withdrawing its commercial lending activities, which it sees as "heavily overtraded and restricted by capital requirements".

Analysts have in recent weeks become increasingly worried about the proliferation of banking licences being granted by the authorities.

Only last week a senior general manager at Rand Merchant Bank, Dr Reinholt Joubert, announced his departure from RMB with the intention of starting up a new merchant bank.

This followed hard on the heels of the recent acquisition of banking licences by Saambou Building Society and Rand Securities.

UAL is one of two merchant banks in the Nedbank fold, the other being Finansbank. Over the years it has been a steady, if not spectacular, profit-earner for the bank.

In the 1987 financial year, profits rose by 61 percent to R22,3 million, partly due to buoyant equity and security markets.

The re-organisation involves UAL splitting its very large investment division into two elements — a portfolio management division, which will continue to be called the investment division, and the unit trust division.

The unit trust division will manage the bank's four equity unit trusts and two property unit trusts.

In addition, UAL will in future concentrate on treasury and structured lending products and will be reducing its conventional lending activities.

Perceptions of areas

Making the announcement, Geoff Richardson, UAL's managing director said yesterdy: "We review our operations regularly and make refinements in the light of our perceptions of the areas on which our activities should be focused and the structures required to take advantage of that focus."

Mr Richardson said UAL's investment division had developed tremendously over the past decade and the time had come to concentrate the group's focus.

"Executive director Alister Colquhoun, who has headed our investment division for 11 years, will continue to be responsible for the focused investment management activities. This division handles the management of portfolio assets with a value in excess of R6 billion.

"Executive director Clive Turner takes over the management of the unit trusts as a separate division. The importance to the bank of our unit trusts has grown dramatically in recent years to an extent that requires such action. The portfolios of the equity and gilt trusts will, of course, continue to be managed by the investment division."

Mr Richardson said: "We analysed the lending area very carefully and concluded that margins have declined to unacceptable levels, the number of players in the industry is continually increasing and the phasing in of the capital requirements of the new Banks' Act is becoming increasingly onerous.

"In the light of this, we decided that we would be better off focusing our resources - both financial and human — on our treasury activities and the area of specialised innovative lending products."

With this new concentration on treasury activities, UAL's banking operations will be absorbed into the treasury division, which is headed by senior general manager Chris Pearce.

Islamic bank issue in the air

HELENA PATTEN

CONFUSION continues to dog the granting of an Islamic banking licence to one or other party in SA as Foreign Affairs and the Reserve Bank differ in their approach.

In spite of the hint in Parliament last week by Foreign Affairs Minister Pik Botha that two banking licences for Islamic "no-interest" banks could be in the offing, indications are the Reserve Bank will not consider granting more than one.

It is believed to regard the 500 000-strong Muslim community as too small to warrant two banks, while there is concern that the conventional New Republic Bank, which has predominantly Muslim support, will suffer a decline.

Senbank in joint control move at Elex

S.Star 16/6/88 (58)

By Ann Crotty

Latest development in the Elex saga is a Senbank announcement that Elex financial director John Field and Senbank have jointly acquired control of the company.

It has been an extremely busy week for the DCM-listed electronics company. First came the suspension of the share, then news that an application had been made for liquidation. This was followed by CRB's announcement that it was withdrawing its offer of intention to acquire control of Elex.

According to the latest announcement, Senbank is investigating the restructuring of Elex and further details on the future of the company will be made before the JSE is requested to re-instate the share.

The application for liquidation was made by a P D Blackman and related to an amount of R190 000 claimed by him.

Earlier this week, Elex chairman Laurence Chatwin contended that this amount was neither due nor payable and that the company intended to oppose the application.

At this stage it is uncertain whether the new management team, headed by Mr Field, intends to pursue this line of action.

Perm studies claim of unfair treatment

16/6/88 (58) B/day

GRETA STEYN

THE SA Perm is investigating complaints of unfair treatment arising from its current policy of trimming the ranks of junior management, the building society said yesterday.

A spokesman for the society said: "Whenever it has been brought to our attention that the policy has not been fairly applied, we have acted to rectify the situation."

The Perm had undertaken a management restructuring exercise in branches and the society had been aware of only one case of unfair treatment.

However, after allegations of anger and fear among staff in the newspaper of the Building Society Officials' Association (BSOA), the Perm had contacted the union and was looking into the matter, he said.

The BSOA insists "a number" of incidents of unfair treatment have occurred.

The Perm spokesman said the building society had developed a clear retrenchment/redundancy policy and the current exercise was to have been handled in terms of this policy. Affected personnel were being offered alternative positions wherever possible or a redundancy package.

The BSOA News had reported that some individuals, who had worked for the Perm for more than 20 years, had not been given the option of retrenchment and had been told to "co-operate or else.

"Others have been handed decisions with no basis in logic. The BSOA has had little difficulty in having such decisions reversed," the report said.

BSOA general-secretary-designate Angus McCallum-Brown said the union had no quarrel with the Perm head office or the decision to prune junior management staff.

"Apparently the problem lies with the methods used by certain Perm managers who are implementing the policy," McCallum-Brown said.

17-23/6/88 W/Mail (58)

Despite a year of shocks, insurance is booming

Despite a year of shocks, from taxes to market crashes, the life insurance game is booming, reports BRUCE ALLEN

Despite a sharp increase in tax rates and the stock market crash, life assurers have come to light with some impressive profit figures. Policy holders aren't doing badly either.

The industry had to contend with the shock of a 75 percent climb in taxation, which raised the effective tax rate from 20 to 35 percent, and with Diagonal Street's return to earth. The life assurers also felt the pressure of tense competition.

Southern Life's figures for the year to end March 1988 displayed characteristics common to many of the life assurance groups.

Premium income soared by 41 percent to over the R1-billion mark for the first time, while growth in investment income only managed to keep pace with inflation and climbed to R592-million.

Chief executive Neal Chapman says the effect of the tax hike will be felt in the current financial year. He estimates shareholders' earnings will be taxed by a further R5-million over this period.

In terms of new business, the Southern Life Group has shown an average annual compound growth rate of more than 53 percent since its listing on the Johannesburg Stock Exchange in 1985.

Cape-based Sanlam is also no stranger to record-breaking statistics. In the financial year to end September 1987, this life assurer raked in the highest premium income ever received by a life office in a financial year — R3,5-billion.

At a luncheon held last week to commemorate the group's 70th anniversary, Managing Director Pierre Steyn said: "Cash benefits amounting to approximately R1,3-billion were paid out to policy-owners and other beneficiaries in the first eight months of Sanlam's current financial year."

Sanlam expects to pay a total of R2-billion for the full financial year, or R8-million each working day.

The year to end December 1987 saw Liberty Life produce its best set of results in 12 years.

Total assets passed the R10-billion mark for the first time to clock in at R11,4-billion. Premium income and annuity considerations climbed by 52,7 percent to R1,4-billion.

Despite the stock market crash, investments grew by over 49 percent to R10,9-billion.

Another company which grew rapidly was IGI Life. For the year to March 1987, gross life assurance premium income rose to R35,3-million from R23,9-million last year.

A number of reasons have been put forward to explain the life assurers' record figures.

The emphasis of life assurance is changing. Policies used to be a way in which breadwinners ensured their families were taken care of after their deaths. Now the various policies and annuities the life assurers offer are simply vehicles for savings and investment.

Last October's stock market crash probably went some way to entrench this approach with investors preferring to buy life assurance products rather than invest directly in shares.

Although this maintains some exposure to equities, the portfolio is professionally managed and share market corrections are to some extent offset by institutional investment in property and fixed interest instruments.

There is some speculation, however, as to how long the life houses will ride the current wave. Rising interest rates and declining inflation could see a move away from life assurance policies.

SAGE HOLDINGS (58)

Adding more strings

Activities: *Financial, investment and management group with interests in investment, insurance and financial services and property and construction.*
Control: *Remgro and chief executive Louis Shill, and the Mines Pension Fund jointly hold a controlling interest.*
Chairman: *H L Shill.*
Capital structure: *21,8m ords of R1 each; 5,5m variable rate comp convertible prefs of R1 each. Market capitalisation: R261,6m.*
Share market: *Price: 1 200c. Yields: 4,8% on dividend; 8,3% on earnings; PE ratio, 12,0; cover, 1,73. 12-month high, 2 000c; low, 950c. Trading volume last quarter, 71 000 shares.*
Financial: *Year to December 31.*

	'84	'85	'86	'87
Total assets (Rm) ..	519	654	1 034	1 281
Taxed profit (Rm) ..	18,0	21,2	20,7	26,3
Earnings (c)	92,1	83,7	86,1	100,1
Dividends (c)	48,0	48,0	50,0	58,0
Net worth (c)	420	462	421	514

Sage's Shill ... merger bedded down

Sage continues to carry a higher rating than most of the banking sector, yet EPS and dividends rose only 16% in calendar 1987. The reason lies less in the performance for 1987 than in the expectation of further flotations of subsidiaries and the anticipated long-term benefits from Sage's connections with Allied and the merger of its life interests with National Mutual.

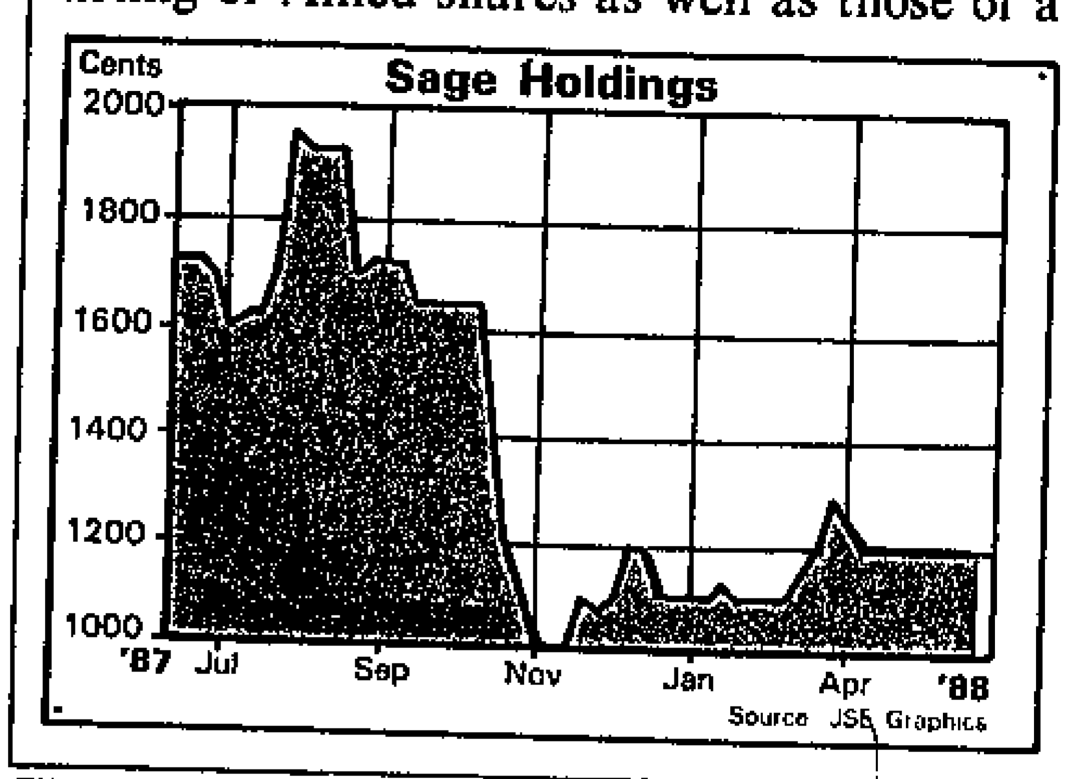
The 27% compound annual earnings growth between 1978 and 1987 is also attractive to investors.

Taxed profit rose 27% last year, but attributable profits were reduced by preference dividends and increased payments to minorities.

Growth was considerably better than in 1986, though, when EPS climbed only 2,9%, and chairman Louis Shill attributes the improvement to economic recovery and revival in property and construction.

After a substantial dilution of earnings in 1985, due to raising additional equity finance, EPS at 100,1c have now risen to a point where they exceed the previous high of 92,1c in 1984.

Sage underwrote the share issue before the listing of Allied shares as well as those of a number of other organisations, including Sage Property Holdings. The group also benefited from other corporate developments — the merger of Hertz and Imperial Car Rental, which is held through subsidiary Union and London. In 1986, provisions had to be made for the diminution of the value of Union and London's investments held in Hertz, Sandown Motors, Chemrite and SAK Holdings, but Shill says that in 1987 they all achieved satisfactory results with the exception of SAK.



Another problem area has been the group's venture into the US. Locally, personal financial planning group FPS did extremely well, reporting record turnovers and raising new premium income from R85m to R171,9m, but the US equivalent company is still unprofitable.

Wholly owned Sage Life, by contrast, increased new business premiums 58%, with a climb in total assets of 20,4%. The merger with National Mutual raised the asset base and the agency force was expanded. Merger rationalisation benefits are already being felt and Sage Life reported disclosed earnings of R10m (R8m).

The acquisition of Northern Trust opened the trust area to the group and Sage Trust, as it is now known, made a positive contribution to earnings in 1987. After year-end, however, the property holdings of this division were sold to focus more on the pure trust business.

Property contributed 25,5% of Sage's earnings in 1987 compared with 24,2% in 1986. The property interests are held in Sage Property Holdings, listed in December. In 1987, earnings attributable to ordinary shareholders climbed 30% to R5,4m, which was 7% above the prospectus forecast. Forecast for the current year is R6m, which Shill says he is confident of achieving.

Another subsidiary, Sage Financial Services, which includes the investment, finance, insurance and financial planning services, will be listed later this year. The listing is being held up at present due to uncertainty about the tax rate on insurance companies.

With the merger with National Mutual bedded down and with increased benefits expected from the Allied connection, the group looks set to increase its EPS growth further in the current year. The market is obviously anticipating this and part of the price must be for the rights issue for the new listing. Only two shares in the banking and financial services sector — Sechold and Columbia — have a higher rating than Sage.

Pat Kenney

NBS makes substantial progress since listing

58 Star 17/6/88

By Dave Canning

DURBAN — Building society margins are likely to remain under pressure during the coming year, in line with a highly competitive market, NBS Holdings chairman HG Chapman says in the annual report.

However the group, which has taken steps to reduce dependence on building society activities, is confident of achieving higher earnings in the year which ends on March 31, 1989.

The annual report shows that the NBS made substantial progress in the first year of its public listing. Reserves and retained income increased materially, following the R70 million equity take-up in its demutualisation process.

As a result, the society's reserve ratio leaped from 4,10 percent to 6,02 percent. NBS also increased its share of the building society market, from 9,5 percent to 9,8 percent. Loan balances grew by 20,2 percent over the year.

The directors report shows, however, that the sharp rise in interest rates towards the end of the year resulted in the market value of the stock portfolio declining below book value and R5,4 million is provided in the statements to write down the portfolio.

Mr Chapman said a "crisis of affordability" had been gathering momentum in the housing market. It had been contained only by the material decline in interest rates since 1985.

Star 17/6/88 (58)

Two more unit trusts set for launch

By Sven Forssman

Two new unit trusts, involving NBS Holdings, Norwich Life and Russell Marriott & Boyd Trust (RMBT), were unveiled yesterday.

The trusts, to be called NBS Hallmark Mutual Fund and Norwich NBS Investors Fund, have been approved in principle by the Registrar of Financial Institutions. They begin operating in August.

Each will have its own management company. Despite the common shareholding, each fund will be characterised by its own investment policy.

Mr John Gafney, managing director of NBS Holdings, said yesterday: "Hallmark's investment strategy will be to provide rand-hedge investments through a portfolio containing mining and mining financial stocks, as well as those of successful South African exporters in the industrial sectors.

"Hallmark will also take advantage of new legislation enabling unit trusts to invest in property unit trusts. This is one of the reasons for RMBT's involvement. RMBT has extensive experience in this field, having successfully floated and managed Umdoni and Tamboti property trusts, as well as Higate."

The Norwich NBS Investors Fund will seek a balance of top-performing blue-chip stocks and high-growth stocks in the mining, mining industrial and industrial sectors.

Mr Peter Garthwaite, managing director of Norwich Life, said: "The portfolio will be designed to maximise the investor's growth potential and to provide returns well ahead of the inflation rate.

"Among the general benefits of the trusts will be the facility to transfer from one trust to another at no initial charge to the investor."

He said the trusts were flexible in that they would allow both lump-sum and instalment-investment plans.

Allied gives notice of rise in bond rates

Star 18/6/88

(58)

FINANCE EDITOR

The Allied announced across-the-board increases in bond rates yesterday.

In a statement, Allied said the rate on traditional bonds would rise by 0,75 percent to 15,2 percent, while commercial bond rates would increase by the same amount to 16,25 percent.

Bank bonds — which are available only to selected clients — will still be available at 14,25 percent. These are, however, very limited.

The rates on fixed-rate bonds will also increase. Bonds fixed for a year will rise to 16 percent; for two years to 16,5 percent; for three years to 17 percent; for four years to 17,25 percent and for five years to 17,5 percent.

Mr Kevin de Villiers, managing director of the Allied Group, last night said the increases were unavoidable in the light of the recent rise in the cost of money. This had put the margins of banks and building societies under pressure, he said.

While he would not rule out further increases in bond rates later in the

● TO PAGE 2

House bonds tighten

Star 18/6/88

● FROM PAGE 1

(58)

year, he indicated that the upward pressure had subsided somewhat in recent weeks.

Most banks and building societies had increased their bond rates in recent weeks, which had already dampened demand for mortgage funds, spokesmen for building societies said last night.

This would retard the rise in prices rather than push them lower, they said.

CU discount welcomes end of SA crime tide

Star 18/6/88 (58)

A 10 percent thank-you discount for its householders' and private car policyholders, current and new, is being introduced by Commercial Union assurance (CU).

The country's largest composite insurer says the discount is a result of improved claims experience.

It says the "crime tide" of a couple of years ago, which brought heavy underwriting losses for insurance companies, has turned.

This is a first for the insurance industry.

Said CU's managing director,

FINANCE STAFF

Bill Rutherford: "Precautions taken by policyholders and the work of the police have altered the adverse claims trend which forced insurance companies to raise premiums.

"A good deal of the credit must go to the forming of neighbourhood watch groups and the installation of anti-theft devices in cars.

"CU figures show that since May 1987, the incidence of household thefts has fallen almost 15 percent countrywide, while car thefts on the Reef have declined by almost 25 percent.

"This is in line with police statistics."

Mr Rutherford added: "We feel it is only fair that the benefit of the improved claims trend should flow back to policyholders."

The 10 percent discount, applying to new and existing householders' and private car policyholders, comes on top of already announced increase in no-claim bonuses on householders' policies and discounts for mature and "dual use" drivers (that means by husband and wife only).

The discount will apply from August 1 on all policies taken out or renewed over the following 12-month period.

Mr Rutherford explained: "For example, a householder in the three-year no-claim group, with a voluntary excess of R500, will now enjoy a total discount of 35 percent.

"A mature driver on the Reef enjoying the anti-theft device discount will now find that discounts total more than 40 percent in addition to the normal no-claim bonus.

"We thank the public, the police and our own policy-holders for their efforts.

"If this performance continues, the thank-youdiscount may well be extended."

Columbia in good health

58

Star 18/6/88

Sharespot

LYNNE PEACH

The share price of Columbia, which normally moves ahead of its year-end results, has not given a very favourable "preview" of the ones due out tomorrow.

Two months ago the share fell sharply from 310 cents to 240 cents and has since remained below 250 cents. In contradiction, however, an informed source says the results are "more than satisfactory". In addition, we are told that the net asset value has shown dramatic improvement.

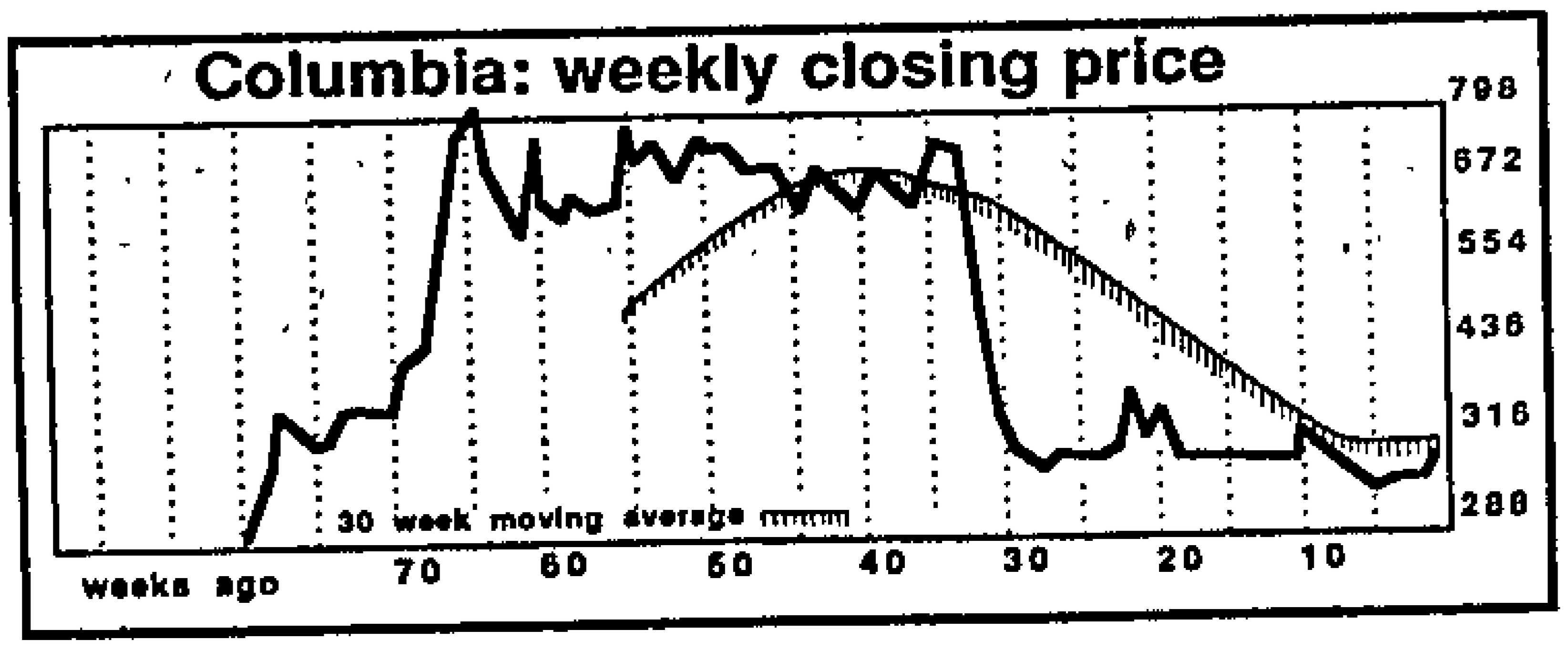
Stockbrokers are expecting earnings of around 45 cents and a dividend of about 15 cents. At the current share price of 240 cents, the estimated prices: earnings ratio is 5,3. This compares very favourably with both the sector average of 6,7 and the industrial share average of 8,4.

When Columbia was listed in October 1986 it was a fully-fledged operation company which serviced the business world by providing managerial and financial services. Since then radical changes have been made and the group is now an industrial holding company with a significant interest in eight listed companies and three unlisted ones.

These can be classified under two major headings: financial and management services, and investment banking. The former embraces Pride Consultants (40%), Concorde Travel (78%), Techhire (56%), Crulife (15%), and unlisted Punch Training (50%) and newly formed Colfin (15%), and invest ment banking category consists of Milstan (26%), Trimtex (35%), Toco (54%), Supalek (20%), and unlisted Acrem (83%).

Mr Gordon Polovin (Chief Executive) explains that while the latter grouping contributes a major 83% to group earnings, management services are the backbone of Columbia. Not only did its reputation facilitate the group's successful expansion into investment banking, but Colfin, and to a lesser extent Pride, provide the essential link-up between the managements of all companies.

The latest financial statements reveal that Columbia's earnings for the six months to September 1987 amounted to 21 cents. (This is more than the total earned during the whole year to March 1987). Further, the balance sheet appeared in good health with interest-bearing debt comprising less than 10% of equity. In addition, net asset value was notably enhanced from 49 cents six months earlier, to 143 cents.



Mr Polovin is optimistic about Columbia's ability to perform well in the future. He elaborates that while the phenomenal growth rates of the past will cool off, the current financial year to March 1989 is expected to feature real bottom-line growth. It is conservatively estimated that this will be 25%-30%. If earnings of at least 55 cents materialise, then the share is on a forward price:earnings ratio (March 1989) of no less favourable than 4.4

Earnings could well be significantly higher than this as all operations are expected to do very well. While Mr Polovin could not single out any particular growth area, he mentioned that Pride could involve itself in some investment banking this year and has a strong cash balance of R10 million. Other better performers are likely to be Toco, Trimtex, Supalek and Milstan.

On the topic of acquisitions, Mr Polovin comments that this year will see major emphasis being placed on consolidating existing operations. He says that if acquisitions are made, these will most probably take place through the group's subsidiaries.

Mr Polovin further stresses that while any type of business may be considered for purchase, it would have to comply with certain criteria. First and foremost, the existing management would have to be proved and have an interest in the concern to ensure stability. Furthermore, there would have to be low leverage (no debt problems) and very good growth prospects.

Columbia, with its diversification of interest in several businesses and no heavy dependence on any particular one, appears well balanced and there is no reason to believe it will not continue to grow from strength to strength. Shareholders also stand to benefit from the future separate listings of Colfin and Acrem. All factors considered, Columbia should prove to be a very rewarding investment and is highly recommended.

The price chart shows just how enthusiasically the market responded to the listing of Columbia in October 1986. In less than four months the price more tha trebled from 200 cents to 790 cents. It then moved sideways until the market crash which tumbled the price to a more realistic level.

Since then, it has mostly been in the region of 270-280 cents. About two months ago, howver, the price softened to lie between 240-250 cents. More encouraging, is the solid base that the price line has formed. The technical implication is that when the share price moves to establish a trend, the extent will be significant. I believe this will be upwards, and will occur in the near future.

almost immediately by an announce- Correspondent and Sapa

Cape Times 18/6/88

58

Allied bond rates rise, fuelling upward spiral

Investment Editor

THE Allied announced an across-the-board increase in bond rates yesterday, fuelling another upward spiral in interest rates.

A statement says the rate on traditional bonds will rise by 0,75% to 15,25%. Commercial-bond rates will increase by the same amount — to a best of 16,25%.

The best rate on the Allied Bank Bond will be set at 14,25%.

Rates on fixed-rate bonds will also be lifted. Bonds fixed for a year will go to 16%; for two years to 16,5%; for three years to 17%; for four years to 17,25%; and for five years to 17,5%.

It was only in early May that Allied pushed its bond rate up to 14,5%. Now it is the first of the building societies to go above the 15% mark.

United announced its bond-rate rise to 15% at the end of last month, while Volkskas and Trust are also charging 15%. Most other building societies and major bond providers are lending money at around 14,5%.

Also in early May, Allied was one of the first to lead the pack to higher interest rates, and could be doing the same thing again.

STimes 19/6/88

Money flows despite higher rates

58

By Udo Rypstra

CONSUMERS are spending as much as they used to, in spite of higher interest rates.

That's according to one of South Africa's leading credit information bureaux, which provides over 90% of the credit information used by banks and retail organisations.

It has given statistics on consumer credit applications for the period up to May this year, and unless the June figure shows a significant decrease, domestic demand is not bottoming out that much, as suggested by the Minister of Finance, Mr Barend du Plessis, in Parliament on Thursday.

Information Trust (formerly Dun and Bradstreet) says it cannot substantiate initial predictions that the recent hike in interest rates and the Government's tightening of credit instalment terms has had as much impact on consumer spending as initially feared or hoped for. To the contrary.

Durables

According to managing director Paul Edwards, the number of inquiries received by the corporation actually increased by 1,3% in May over April. The May figure was also 1,5% higher than May 1987.

Since each inquiry to the database is as a result of consumers applying for credit in some form, it is a fairly accurate indicator of consumer demand for credit, he says.

Edwards is not altogether surprised by the trend. He points out that the high level of consumer spending is mainly in the consumer durable area and is spurred on by the need to replace ageing vehicles, appliances and furniture.

Consumers also tend to spend more if they believe that the goods will be more expensive in the future due to inflation or further depreciation of the rand.

"The South African consumers' capacity for taking up credit at this stage of the economic cycle is strong.

"A few percentage points rise in interest rates and tightening of credit terms will not discourage this desire to spend. As long as the balance of payment maintains a reasonable surplus, there is no reason to believe the present consumer-led upswing cannot continue into 1989 without further interference."

Mr Edwards says the number of individual insolvencies also declined in the first quarter of 1988 by 17% against the last quarter of 1988 and 40% against the first quarter of 1987.

Failures

The failure rate of registered companies and close corporations also showed a continued downward trend with 10% fewer failures as measured against the last quarter of 1987 and 11,5% fewer than the first quarter of 1987.

"If we were not restricted by our balance of payments, created by increased cyclical demand for imports, weaker exports growth and the need to repay foreign capital, the economy in its present mood could have expanded at between 3-5% annually.

"We have to face reality, however, and accept a slower rate of growth even though our social and political needs dictate a higher rate."

● ITC has announced that it has acquired 100% of Capecom, a credit bureau specialising in the Southern Cape region and based in George.

Columbia poised for more growth

By Sven Forssman

Columbia is well-positioned to take advantage of future opportunities, with an interest cover of 16 and access to R21,5 million in group cash holdings.

Company's results show that operating income and earnings from associated companies rose by 175 percent to R21,6 million in the year to March.

Contributions from associated companies — Milstan, Trimtex, Pride, Supalek and Crusader Life — were R3,4 million, an increase of 817 percent.

Taxed attributable earnings grew by 200 percent to R11,9 million, while earnings a share increased by 114 percent to 42,2c.

The group has declared an annual dividend of 15c.

Says chief executive Gordon Polovin: "Columbia will remain alert to opportunities for growth by acquisition. With declining stock exchange values, such growth will be achieved through mergers and cash acquisitions."

Mr Polovin says the investment banking contribution to earnings comfortably surpassed those in management and financial services.

Default could have serious effect — banker

(90) BDay 29/6/88

Futures industry welcomes control

ROBERT GENTLE

BAREND du Plessis' pronouncements in Parliament last week on impending legislation governing the setting up of a fully fledged financial futures market can be summed up in three key words — control, order, regulation.

Nevertheless, Stuart Rees, GM of Rand Merchant Bank (RMB), the major market maker in SA's fledgling futures industry, says Du Plessis is not overstating the case for control.

"A major default in financial futures markets could have serious consequences," says Rees, who is also chairman of the committee — comprising 15 banks and the JSE — working towards the setting up of a local futures exchange.

The committee, which expects to release a prospectus by the end of July, will ensure the continuing "orderly operation" of existing futures trading before the definitive legislation referred to by the Minister.

Rees says SA's futures market already has financial requirements that are much more stringent than overseas. "At no time since trading started in March 1987, not even at the height of the crash, have we ever had a default of any kind."

Local futures brokers say they expect the whole issue of regulation to feature prominently not only in the findings of the futures exchange working committee, but also in the Stals Commission report, due soon.

Fresh in most people's minds, they say, is the Hong Kong disaster in October 1987. There, low margin levels and inadequate financial backing of the exchange caused a $2bn default on outstanding contracts.

Default could have serious effect — banker

29/6/88

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Investment banking a boost for Columbia

20/6/88 (58) BDay

HELENA PATTEN

COLUMBIA Consultants' foray into the investment banking world helped the group produce excellent results in the year to March 31, 1988, when attributable earnings showed a 204% increase to R12,1m.

Based on an increased number of shares in issue, profits translate into earnings of 42,2c a share — 114% up on an annualised 19,7c for financial 1987.

The group says these growth reflections follow on last year's trends when earnings a share and attributable earnings increased by 272% and 339%, respectively, on 1986.

The dividend declared for the year is substantially up at 15c a share, compared with an actual payout of 6c for the eight months to March last year, or an annualised figure of 9c. Based on Columbia's share price on Friday — R2,50 — the dividend gives a yield of 6%.

While turnover was up a massive 420% to R64,1m, trading margins were down as evidenced by the 188% improvement in net operating income to R17,5m.

Since its listing in October 1986, Columbia has developed from being chiefly a service operation on a low-asset base into a serious player in the financial services and investment banking market.

Contributions from Columbia's associated companies — Milstan, Trimtex, Pride, Supalek and Crusader Life — increased by 817% to R3,4m.

The group considers its 34% ratio of interest-bearing debt to shareholders funds as giving it substantial debt capacity which could be used for potential acquisitions.

CE Gordon Polovin said the investment banking contribution to group earnings comfortably surpassed that of the activities in management financial services.

"While the growth in investment banking has been the more rapid of the two areas, management and financial services continue to underpin all activities, providing a strategic basis for our acquisitions."

He said the year ahead would afford time for consolidation, following a period of prodigious growth and many acquisitions.

... and Cape ouc (7 1c + 9c tax) (58) B/day 20/6/88 A TI

Banks could face stiff new penalties over high interest rates

GRETA STEYN and
CHRIS CAIRNCROSS

DEPENDING on a decision by Finance Minister Barend du Plessis, banks may be forced to lower rates on fixed-interest contracts such as hire purchases when interest rates drop.

The latest development in the dispute between government and banks over implementation of a Supreme Court ruling to this effect is that government plans to increase penalties on banks that overcharge.

While penalties would apply to all banks, the Usury Amendment Bill, tabled in Parliament on Friday, does not change the wording of the original legislation, which banks say is ambiguous.

It is understood Du Plessis is to decide soon whether banks have to adhere to the court ruling or face the new penalties, which can be imposed by the Registrar of Financial Institutions without going through the courts.

At the moment, the registrar does not have the power to impose penalties, and cases have to be referred to the Attorney-General. The current practice of waiting for a court case has meant delays of years before action, officials say.

A clause in the Usury Amendment Bill lays down that where an individual or institution charges more on a transaction than is laid down in the Act, the registrar may impose a penalty amounting to not more than five times the amount involved, which will have to be paid into the State Revenue Fund.

The dispute between the registrar and general banks over ceiling rates followed the Lendalease case, in which Mr Justice Berman found in the Cape Supreme Court that interest rates on fixed-rate contracts should be lowered when maximum Usury Act rates were dropped — the date of the contract was not relevant.

The general banks disagreed, blaming the legislation wording for the confusion. Most major general banks, including Wesbank, Nedfin and Stannic, have not adhered to the Lendalease decision.

Deputy Registrar in the Financial Institutions Office Chris Mostert said yesterday the registrar would have the power to impose penalties on any dealer or financial institution that charged interest rates in excess of the prevailing Usury Act rates.

"This includes banks which have not followed the Lendalease ruling," he said.

However, the banks believe it is not the authorities' intention to crack down on those that have not adhered to Mr Justice Berman's decision. Association of General Banks president Peter Thompson, who is also MD of Wesbank, said he had telexed the Finance Minister on the issue last week.

...MES MEDIA PUBLICATION CTN 021-246750 PTA 012-6631234

Bank City plan moves another step forward

Star 21/6/88

(58)

Two of the country's leading banks have got together in an "amicable arrangement" of property deals which clears the way still further for First National Bank's assembly of central Johannesburg buildings for the creation of the multi-million rand Bank City.

Negotiations have centred around Anglo American Properties-developed block at No 66 Sauer Street which was code named the Butterfly building and which is tenanted by Finansbank, the Nedbank subsidiary.

The building is now the new home of Nedfin, the car leasing and finance operation under the Nedbank banner and its move from its property at the corner of Simmonds and Kerk Streets, opens the way for First National to continue with its plans.

While no sum has been disclosed, market sources say that Nedbank has backed the purchase of No 66 by sitting tenant, Finansbank, and Nedfin will now move in.

"The means to achieve the deal was originally embodied in the leasing agreement and a mutual arrangement between the banks was arrived at," says a market source.

Fed Volks buys into Teljoy

Star 22/6/88

Federale Volksbeleggings has acquired a 26,9 percent stake in Teljoy from Santambank.

Announcing this yesterday, Fed Volks says the acquisition was intended "to strengthen and complement Federale's existing interests in selected growth sectors of the consumer market."

The purchase price is 230c a Teljoy share and excludes the final dividend for the year to end-March to be paid in July.

The price of R35,4 million will be met with five million Federale ordinaries at 350c a share plus a cash payment of R17,9 million.

Had the transaction applied to the financial year to end-March 1988 there would have been no material change in Federale's earnings or asset value a share. (58)

But Federale anticipates enhanced earnings in future years.

"The concept of TV rental is expected to gain further popularity in future years. The company is also entering the field of audio and visual communication and security." — Sapa.

SKV 22/6/88 (58) (2)

Fedsure's new names

The two main operating companies in the Fedsure group today adopted new, distinctive names designed to clarify their different activities.

The life and pensions company, Federated Life, is now Fedlife, and the short-term company, Federated Insurance, has become Fedgen. In addition, the investment company, Federated Investments, has changed to Fedbel.

The group holding company adopted the name Fedsure when it was listed on the JSE last October.

Fedsure also announced that Arnold Basserabie is to become group chief executive from July 1, taking over from JN Hamman, who has resigned "to pursue his own personal interests."

(58)

Govt is 'levelling the playing field'

UBS and life assurers fight war of taxation

HELENA PATTEN

ARCH critic of the life-assurance industry's tax structure, UBS CE Piet Badenhorst, has for the first time publicly applauded government moves to "level the playing fields" in the arena of financial services.

An article co-written with chairman Herc Hefer in the UBS annual report suggests encouraging developments are taking place on the legislative front.

"The authorities are in the process of ironing out statutory differences between different types of financial institutions.

"In due course the unique characteristics of traditional banks and building societies will disappear."

Fierce debate

"In addition, the implementation of the Margo Commission's recommendations on the tax structure in SA and other tax reforms will result in a levelling of the playing fields between life assurers and other types of financial institution."

Following a fierce and continuous debate between Badenhorst and the life industry, Finance Minister Barend du Plessis introduced in this year's Budget a punishing 75% hike in the life industry's effective rate of taxation.

This was done by changing the definition of a life company's taxable income from 40% to 70% of investment income.

Hefer and Badenhorst say in the annual report one of the factors contributing to an extremely difficult and challenging year was the massive flow of funds to the life industry because of the relative attractiveness of investment in its tax-advantaged products.

"In respect of many of their products, life assurers are operating as *de facto* deposit-taking institutions without the same prescriptions legislated in respect of building societies."

They say since home-ownership is the cornerstone of political and sociological stability in SA, it is of paramount importance that building societies — with their "infrastructure, unequalled knowledge and experience" in this field — should enjoy a "fairer share of the nation's savings to meet the huge and growing demand for housing finance".

Aggressive

Other factors making life difficult for the UBS were interest rates at well below the ruling inflation rate.

This combines with an aggressive entry by banks into the home-mortgage market at very competitive rates.

Hefer and Badenhorst say the benefits of the UBS group's diversification into banking, insurance and its plans for further diversification will strengthen its competitive and financial position.

The hostages ... envoy, Terry Waite, ...
England ...

Fixed-interest rates stay

58

B/day 23/6/88

CHRIS CAIRNCROSS

CAPE TOWN — Government has decided to revise draft legislation placed before Parliament last week which could have been used by the authorities to force banks to lower rates on fixed-interest contracts when general interest rates dropped.

Hire purchase and lease agreement fixed-interest rates were in an extremely vulnerable position until the revision.

The legislative muscle is contained in the Usury Amendment Bill, which also proposes the imposition of stiff penalties against those institutions which overcharged or set rates regarded to be at usury levels.

Government's decision to review the legislation came after strong representations from the banking community and judgments handed down in the Cape Provincial Division of the Supreme Court.

Uncertainties

Deputy Minister of Finance Org Marais said in Cape Town on Mondayit had been decided to change the Usury Amendment Bill, removing all those uncertainties which had arisen concerning fixed-rate financing transactions.

The move follows judgment set down in the Cape Supreme Court on the Lendalease vs Gitelson civil suit.

Marais said changes to the draft legislation will now alleviate concern in banking circles.

The revise draft states "that where a fixed-rate financing contract is entered into at a rate which complies with the usury ceiling prevailing at the time, such rate will remain enforceable for the duration of the contract".

The change should remove all ambiguity from the original legislation.

With ratification of the revision almost certain, it will no doubt address concern aroused in the banking community.

Banks, societies praise new Bill

B Day 23/6/88

(58)

FIRST steps towards eliminating differences between banks and building societies are contained in a Bill tabled in Parliament yesterday.

The omnibus SA Reserve Bank, Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill paves the way for building societies to conduct more banking business, envisages greater funding flexibility for societies, as well as uniform requirements for liquid asset and reserve holdings.

The draft legislation is currently being debated by the Standing Committee and is still subject to change. However, it was welcomed by banks and building societies as a move towards levelling the playing field.

President of the Association of Building Societies, Bob Tucker, said: "We are anxious that the Bill should become law as it impacts directly on the building society's capacity to finance home loans."

The United also welcomed the draft legislation, as did the Standard Bank. Standard's chief accountant, Henry Shaw, said: "This first step towards convergence of banking and building society legislation should be to the benefit of the industry."

The Bill allows societies, both equity-based and mutual, to lend the transfer

GRETA STEYN

costs of a mortgaged property. Currently, only banks are able to finance transfer costs.

It is also envisaged that societies should be able to make greater use of short-term funding to finance home loans. At present, only 5% of building society fixed deposits may be held for a

GOVERNMENT is taking steps to control nominee shareholders in banks and building societies to prevent surreptitious takeovers.

The omnibus banking Bill tabled yesterday limits individual or corporate shareholding in a banking institution to 30% for a financial company or associates and 10% for any other person or associates.

period shorter than 12 months. The draft legislation enables the Minister to decide what percentage of shorter term deposits should be allowed. Building societies have been lobbying for at least 10% of total deposits.

Similarly, the limit on general and business loans that societies are allowed to grant — currently 20% of total lending — will be specified by the Minister.

● To Page 2

Banks and societies welcome new Bill

B Day 24/6/88

● From Page 1

(58)

At the moment, 80% of a society's loans have to be mortgages.

The Bill envisages conformity with regard to liquid asset and cash reserve requirements of banks and societies. Thus societies' demand deposits with banks no longer rank as liquid assets.

Societies' reserve requirements should be made easier by the fact that only irrevocable advances granted will be counted as liabilities in terms of the draft legislation.

Since it is envisaged that societies will eventually have to comply with current minimum capital and unimpaired reserve requirements, the Bill provides them with the opportunity to raise up to one-fifth of the required minimum amount of capital and reserves by way of debentures.

Interest rate policy to stay

23/6/88

58

GRETA STEYN BDay

INTEREST rate policy would remain the same for the time being in spite of the money supply growth exceeding the target range, Reserve Bank governor Gerhard de Kock said yesterday.

He said: "Of course the Bank is concerned that money supply is not on target, but we have not yet seen the effects of the May package to cool demand. There is a time lag of at least three to six months before results can be expected."

All the factors which would dampen credit demand, such as increases in the home-loan rates of some banks and societies, were not yet in place and would only come into effect next month.

De Kock said: "It is premature to talk in terms of an imminent rise in Bank rate, just as it would have been premature to ascribe April's drop in M-3 to March's increase in Bank rate."

He cautioned against attaching too much significance to one month's figures because of "statistical noise".

De Kock said it was probable M-3 growth for the year as a whole would exceed the 12% to 16% target zone. But he reaffirmed his faith in targeting.

Hansard

HOUSE OF REPRESENTATIVES

†Indicates translated version.

For written reply:

General Affairs:

Officers in possession of Police Diploma

32. Mr W J MEYER asked the Minister of Law and Order:†

(a) How many (i) White, (ii) Coloured, (iii) Indian and (iv) Black officers of each rank are in possession of the Police Diploma and (b) in respect of what date is this information furnished?

The MINISTER OF LAW AND ORDER.

I wish to point out to the honourable member that until 1978 promotion to officers rank took place on the basis of the successful completion of departmental promotion examination. This examination was of high standard and equivalent to the present National Diploma in Police Administration

Members of the Force who were promoted to officers rank after passing the departmental promotion examination, are not compelled to write the examination for the National Diploma in Police Administration. However, they may do so on a voluntary basis.

Since 1 January 1979 members of the Force have been promoted to officers rank after they have obtained the National Diploma in Police Administration, providing that they comply with all the other requirements for such promotion.

In the light of these facts, I provide the particulars requested by the honourable member.

(a)	(i)	Brigadier	6
		Colonel	21
		Lieutenant-Colonel	67
		Major	130
		Captain	356
		Lieutenant	826
		Warrant Officer	234
	(ii)	Captain	3
		Lieutenant	5
	(iii)	Captain	2
		Lieutenant	36
	(iv)	Captain	2
		Lieutenant	15

(b) 19 May 1988

Hansard

HOUSE OF DELEGATES

†Indicates translated version.

For written reply:

General Affairs:

Islamic Bank: applications for establishment

30. Mr M RAJAB asked the Minister of Finance.

(1) Whether any applications have been received for the establishment of an Islamic Bank in the Republic; if so, (a) how many and (b) (i) from whom, and (ii) on what dates, in each case;

(2) whether his Department has issued any licences in respect of an Islamic Bank; if so, (a) on what dates, (b) to whom, and (c) on what conditions, in each case; if not, why not;

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

The MINISTER OF FINANCE:

(1) In August 1987 the Government and the Reserve Bank were approached by members of the Muslim Community with a view to acquiring approval for the establishment of an Islamic Bank in South Africa that would conduct its business in accordance with Islamic principles. The Reserve bank agreed in principle to the establishment of such a bank, provided that the requirements of the Banks Act would be fully met.

On 16 September 1987 a Durban-based group, represented by Mr A B Mohamed, gave notice of its intention to acquire the Reserve Bank's approval for the establishment of an Islamic Bank. Subsequently, discussions were held with the Reserve Bank and an information document, dated 15 October 1987, was submitted to the Bank, setting out some of the principles on which the proposed banking operation would be based. The promotors were informed that the document did not contain sufficient information to qualify as a formal application for the establishment of a new bank. A further application has not been submitted subsequently.

On 18 September 1987 Mr E E Kharsany on behalf of the Islamic Corporation Limited, an established financial company in Johannesburg, submitted an application to the Reserve bank for permission to convert the Islamic Corporation into an Islamic Bank. Similar applications had been lodged with the former Registrar of Banks before the transfer of the administration of the Banks Act to the Reserve Bank.

(2) The Reserve Bank has not proceeded with the formal registration of an Islamic Bank In discussions and correspondence with the two interested parties the Reserve Bank has since September 1987 repeatedly reiterated its point of view that in principle there is no objection to the establishment of an Islamic Bank in South Africa, subject however to the conditions that there should be only one bank that would serve the interests of the entire Muslim Community, and that the proposed bank should comply fully with all requirements of the Banks Act.

The reason why a banking licence has not yet been issued is that the two promoting groups have failed to reach agreement on a shareholding, a board of directors and a management for the proposed bank that would represent the interests of both groups.

(3) No.

Persons apprehended/charged

49. Mr M RAJAB asked the Minister of Law and Order:

How many persons were (a) apprehended and (b) charged in connection with the cases of (i) murder, (ii) culpable homicide, (iii) assault with intent to do grievous bodily harm, (iv) common assault, (v) rape, (vi) burglary and housebreaking, (vii) robbery, (viii) theft of vehicles, (ix) damage to property and (x) possession of drugs reported and investigated at police stations serving the Indian areas of Greenwood Park, Mayville, Sydenham, Mount Edgecombe, Stanger, Tongaat, Verulam, Chatsworth, Isipingo and Wentworth, respectively, in the 1987 calendar year?

ST V 24/6/83

Tax-free savings will earn more

(58)

CAPE TOWN — Finance Minister Mr Barend du Plessis has approved an increase of 0,5 percent in the interest rates on tax-free savings offered by the Treasury, the Post Office and building societies.

He has also increased the interest rates on partially tax-free savings of the building societies by one percent.

These will come into effect on July 1.

The Department of Finance also announced that the tax-free indefinite period treasury bonds would be increased by 0,5 percent to eight percent as of July 1.

The interest rate on indefinite period defence bonds will rise by one percent to 13 percent on July 15. — Sapa.

Rationalisation talks

Star 24/6/88

Finance Staff (58)

SegeFin and Bankfin are holding talks that could lead to a possible rationalisation of the management and branch network of the two companies.

Bankfin is the holding company of Bancura and SegeFin is the holding company of Prestasi Brokers.

The two companies service about 200 000 short-term insurance clients and handle premiums worth more than R200 million.

Mr Jan Erasmus, executive chairman of SegeFin and Prestasi, said the planned issuing of shares to Prestasi clients would be held back pending the current discussions.

"But, we're carrying on with the preparations for the prospectus," he said.

New banking bill tabled

58

The requirements regarding reserve balances and liquid assets, advances, and the transfer of assets of mutual building societies and building societies will be amended by a Bill aimed at bringing about conformity in the law for banks, mutual building societies and building societies.

The South African Reserve Bank, Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill, was tabled in Parliament yesterday.

The Bill seems set to allow building societies to make greater headways into the banking area, while at the same time allowing them greater funding flexibility. It will also allow societies to lend the transfer costs of a mortgaged property and provides for uniform requirements for liquid assets and reserve holdings, which means that societies' demand deposits with banks no longer rank as liquid assets.

Building societies are the major beneficiaries of the amendment, as they look set to be allowed to grant more than the currently prescribed 20 percent of their total lending as general and business loans.

The amendment also looks set to improve the percentage of fixed deposits held as short-term funds. Currently only five percent may be held under 12 months.

The bill prescribes that individual or corporate shareholders may not hold more than 10 percent or 30 percent respectively in a bank.

FM 24/6/88

SHORT-TERM INSURANCE

Managing risk

58

Businesses no longer look on insurance as the first line of defence against losses. According to Priceforbes Federale corporate risk director Robert Vivian, many create risk management departments which analyse and formulate strategies to deal with risk — and taking out insurance cover is only one (and probably the last) of the options.

Insurance cover is now bought after careful consideration rather than year to year.

Premium reduction

The risk to insurers, says Rob Apps, founder member and first chairman of the SA Risk & Insurance Management Association (Sarima), is a reduction in premium income as companies self-insure.

A similar situation arose in the US. Steep increases in liability claims drove premiums up by as much as 5 000% from 1986-1987, in an attempt to eliminate an industry deficit of US$5bn accumulated from 1984-1986. In some high-risk areas, such as director and officer covers, insurance was refused altogether.

The result — industrial companies built up reserve funds and created other mechanisms to cover themselves against possible loss. It is estimated the US insurance industry lost 20%-35% of the market as a result.

Though SA's short-term insurance industry is healthy enough, the longer-term threat posed by the move to self-insurance should not be ignored, says Vivian.

To compensate for premium income lost, however, new areas are opening up. In today's highly complex technical environment, a risk manager must not underestimate or fail to identify them.

Says Apps: "Companies' dependence on sophisticated computer equipment and highly skilled key personnel in process control requires efficient cover of both physical and financial risk."

Introduction of risk management will bring about structural changes worldwide, with insurers carrying mostly catastrophe cover, while smaller corporate risks are retained by companies.

□ On July 13, Sarima will hold a conference for insurers and risk managers. ■

Banks, societies welcome new legislation

Cape Times 24/6/88 (58)

From GRETA STEYN

JOHANNESBURG. — First steps towards eliminating differences between banks and building societies are contained in a bill tabled in Parliament yesterday.

The bill paves the way for building societies to conduct more banking business, envisages greater funding flexibility for societies, as well as uniform requirements for liquid asset and reserve holdings.

The draft legislation is currently being debated by the Standing Committee and is still subject to change.

However, it was welcomed by banks and building societies alike as a move towards levelling the playing field.

The president of the Association of Building Societies, Bob Tucker, said: "We are anxious that the bill should become law as it impacts directly on the building society movement's capacity to finance home loans."

The United was also quick to welcome the draft legislation, as was the Standard Bank.

The Standard's chief accountant, Henry Shaw, said: "This first step towards convergence of banking and building society legislation should be to the benefit of the industry."

The bill allows societies, both equity-based and mutual, to lend the transfer costs of a mortgaged property. Currently, only banks are able to finance transfer costs.

It is also envisaged that societies should be able to make greater use of short-term funding to finance home loans.

At the moment, only 5% of fixed deposits held by a building society may be for a period of shorter than 12 months. The draft legislation enables the minister to decide what percentage of shorter-term deposits should be allowed.

Building societies have been lobbying for at least 10% of total deposits.

Similarly, the limit on general and business loans that societies are allowed to grant — currently 20% of total lending — will be specified by the minister. At the moment, 80% of a society's loans have to be mortgages.

The bill envisages conformity with regard to liquid asset and cash reserve requirements of banks and societies. Thus societies' demand deposits with banks no longer rank as liquid assets.

Societies' reserve requirements should be made easier by the fact that only irrevocable advances granted will be counted as liabilities in terms of the draft legislation.

Agreement on R150m loan to SAB

58

ROBERT GENTLE B/day 24/6/88

ONE of the country's largest financial agreements was concluded yesterday when Nedbank and the Allied group agreed to provide SA Breweries (SAB) with a medium-term loan facility of some R150m.

SAB will utilise the funds to finance minor capital projects and to acquire fleet and other vehicles, computers and other moveable equipment.

Nedbank will provide about 75% of the funds, Allied the balance. The first draw on the facility is expected to be immediate. Nedbank GM Richard Laubscher said the financing structure had been engineered to provide all parties with unique benefits.

"The interest rate formula is most attractive and provides SAB with cost-effective funds over a seven-year period. The finance charges, payable by SAB will be a function of the prime overdraft rate and the market discount rate for bankers' acceptances, and will therefore fluctuate over the term of the facility."

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25/6/88
58

READERS QUERIES

LA HUNTER OF JEPPE writes: I am 44 years old, divorced and have no children to support, and I am a medical pensioner getting R320 a month with increases of approximately 10% annually when my former workmates receive increases in their salary.

I have paid a lump sum of R20 000 into an endowment policy with Old Mutual Anchor Growth Plan which matures in 10 years time.

I have R20 000 in a participation bond scheme which matures in December this year, plus R10 000 in a 32-day notice account

Please advise me how to get the best returns from this money I have a grown up son and daughter who are propared to give me free accommodation.

ANSWER: At the current 13 percent inflation rate (which is bound to increase) the real value of your pension will halve in about five years. On the other hand, you say that this pension will be increasing in line with the general renumeration at the firm you worked for.

The interest you receive from your participation bonds will supplement your monthly income. At the current rate of about 15 percent which participation bonds are paying, you should be receiving about R3 000 a year, or about R250 a month. This pushes your current monthly income up to about R570, without taking into account the interest earned by your short-term deposit. Living sparingly, you could well get by on this amount.

My advice to you is to keep your current portfolio unchanged as it has a sound mix of capital growth and income elements. Unit trusts have a good long-term record. The stock market is still too volatile at present for you to invest there now. Rather wait for a clearer upward trend to develop. — Magnus Heystek.

FA CRAWSHAW of Randburg writes: I was interested in Mrs Magnus' experience (The Star June 11) with Old Mutual Unit Trusts, as I had a somewhat similar case about the same time.

On May 4 my wife and I both gave notice to withdraw fairly substantial amounts in order to invest in senior citizens bonds.

Although both cheques received were dated the 18th the envelopes were post-marked 26th, which meant that the cheques had been lying around in Head Office for eight days before being posted.

I reported this to the local manager, who promised to take it up with Cape Town. I pointed out that the delay cost us the loss of interest of at least R80.

ANSWER: Money Matters referred the complaint to Old Mutual in Cape Town. Mr MJ Harper manager of the SA Mutual Trust Management Co, replied as follows:

"I enclose a copy of our reply to Mrs Magnus, dated June 9, in which a detailed explanation was given. In order to compensate for the delay in processing the repurchase transaction, a cheque to the value of R11,01 will be posted to Mrs Magnus.

As mentioned in Mr Crawshaw's letter, the matter was referred to us via our office in Randburg. The matter has been dealt with and a cheque for R13,83, being compound interest for the delay, has been sent.

I am glad to say that we have made tremendous progress with our programme to improve the quality of service offered to our investors. Whenever we come across a case where we have not conformed to the requirements of our investors, the necessary corrective actions are taken and systems are implemented to prevent similar problems in future.

I would like to give you the assurance that the Management Company is setting itself a high standard of service and will make every effort in future to ensure that enquiries or instructions from clients are dealt with promptly.

● Readers are once again reminded that queries on personal financial matters should be addressed to MONEY MATTERS, PO BOX 1014, JOHANNESBURG,2000.

Saambou enters black housing market

58

25/6/84

The Saambou Group has entered the housing market for Blacks, Coloureds and Indians.

The chairman and group managing director, Mr H A Sloet, says the company is involved in projects for the supply of about 1700 housing units for blacks, coloureds and Indians through its property subsidiary Saambou Wonings Limited.

As far as housing for blacks is concerned, Saambou has already serviced 129 housing stands in Tsakana on the East Rand where houses will be built in co-operation with East Rand Housing.

In Kwa Thema 80 houses are being built on a tender basis and at Vosloosrus, Boksburg, an agreement has been entered into with Time Housing for the development of 131 stands.

In Khuma at Stilfontein Saambou Wonings has financed the servicing of 141 stands and has made bonds available for the building of houses on these stands.

PRESTIGE

A prestige project for the building of 10 homes in Mameldi Gardens, a sought after suburb of Mamelodi outside Pretoria, was recently completed.

Mr Sloet says 79 houses for coloureds have already been completed in Kleinvlei Ext 14 at Eersterivier in the Cape and an additional 800 stands will be made available during the next two years.

In the elite suburb of Ennerdale in Johannesburg, 100 stands have been allocated and by the end of the year the building of houses on these stands should be complete.

A group housing project for coloureds has just recently been completed in Toekomsrus, Randfontein.

Mr Sloet expressed concern over the shortage of land for Indian housing and said Saambou Wonings is investigating the possibility of various housing developments to place housing units within reach of the average family.

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makes the transition with ease and charm.

Bridgette thoroughly enjoys her job, a fact which can clearly be seen by her commitment and hard work.

She is an independent woman, who, for now, has decided she enjoys being single.

She feels good about being financially independent and in control of her own life.

Her philosophy is: "Find out what you enjoy so that you can find something that you'll like doing."

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the agreement he is entitled to. Often, the mother wants to go to the drive-in, for example, and the children end up sleeping in the afternoon and the father ends up not seeing the children. This happens again and again.

"It happened to a member who had to lay a charge against his ex-wife. The case has been postponed a number of times and has been dragging on for almost 12 months.

"We have over 100 fathers who have put up with horrific tales from the mothers of their children. If a father wants to fight for his rights to access he ends up in the Supreme Court. The system does not take into account that the mother wilfully and deliberately withheld access.

"I have not seen my children for over two-and-a-half years and don't know if I can get a variation order, because the system says 'we do not see how you will be able to enforce it'.

"It does not even give me the chance to fight for the rights to that variation. It just says to me, you cannot have it. The system does not allow for the protection of the children's interests and the fathers' right to fight for their rights."

...erty.

Stokvel shows for Soweto's A-Train

26/6/88 (8) C Press

By BONGANI HLATSHWAYO

IN an effort to broaden its communication, the National Association of Stokvels of South Africa has organised fundraising gigs at the A-Train in Soweto for the next three months.

The shows, which will be called Estokini Night Fair, will be held on Wednesday evenings from June 29 until September 28 between 7pm and 2am.

Said Nasasa chairman, Khehla Lukhele: "Our perception of these shows is that they will benefit most companies whose products are being marketed, or have the potential to be marketed, at stokvels, but which cannot directly reach their target market with ease."

Lukhele said the shows would be equally important in the formation of the first and biggest stokvel in Soweto – based on a contribution cycle involving stokvels, unlike individuals as is commonly practised.

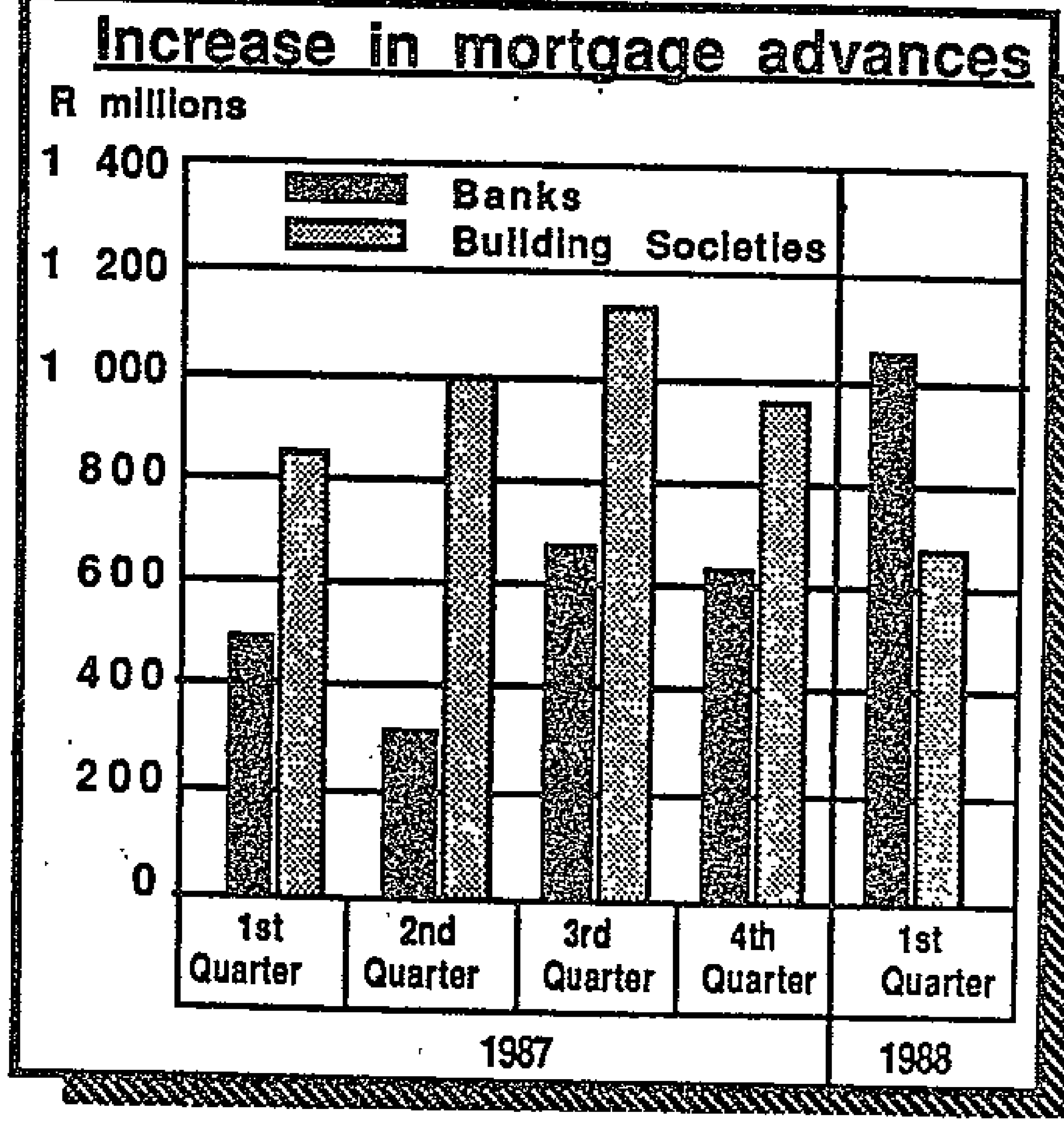
"Our research has also shown that weekends are business days for the stokvel sector.

"A member is either hosting a stokvel session or moves from one stokvel to another as a process of supporting other members so that they can reciprocate the support on his or her turn.

"This deprives us as an association of the opportunity to communicate to all our members at once.

"A variety of activities will be featured in every show, and prizes for the best stokvel and other desirable behaviour that can help improve the image and economic value of stokvels in our communities will be up for grabs.

"On the last day, a sheep will be awarded to a stokvel affiliated to the association."



Banks take the lead in 'bond wars'

58 By Michael Chester Star 27/6/88

A review of trends by the SA Reserve Bank has revealed that commercial banks have seized the lead from building societies in the "bond wars" battle to win new home loan business.

While the amount of new mortgages handled by the building societies slipped between the tail-end of last year and the first quarter of 1988, home loans flowing from the banks surged still higher and took the lead for the first time.

A major influence during the change-over was the intense competition inside the housing market to pull down interest rates on bonds and offer radical new finance packages to home buyers.

The total holdings of housing finance mortgages in the hands of the banks grew by as much as R1,2 billion in the first three months of the year — while the increase in the building societies' total tagged behind at about R700 million.

The scale of the 1988 turnabout emerges with Reserve Bank figures showing that the total holdings of home loan mortgages claimed by the building societies grew by R3,9 billion over the whole of last year, while the banks were still trailing behind with a modest R2,1 billion increase.

The dramatic change of lending patterns in the home loan market emerges after moves inside Parliament to allow building societies more flexibility in enlarging their traditional role to compete in banking business as well.

Proposals to eliminate more of the rules that divide building societies and commercial banks in legislation were contained in a new Bill tabled last week.

Under the proposals, building societies would not only be allowed to join banks in offering to finance the cost of transfers of mortgaged property as well as the mortgages themselves, but also to make more use of short-term funding to finance home loans.

There are also other amendments aimed at allowing more common ground in the competition for business.

Home-ownership a major deterrent to unrest — UBS

Star 27/6/88

By Sven Forssman

Home ownership by as many people of all race groups as possible is the cornerstone of political and sociological stability in South Africa and is probably the most single important deterrent to unrest, United Building Society chief executive Piet Badenhorst says in the UBS Holdings annual report.

"Building societies for a century or more, have been the main providers of finance in contributing to the realisation of this ideal.

"With their infrastructure, unequalled knowledge and experience in this field geared to meet the enormous challenge, it is of paramount importance that building societies enjoy a fairer share of the nation's savings to meet the huge and growing demand for housing finance.

"To this end it is desirable that there be a better distribution of savings to meet all the important requirements relating to the current and future well being of all South Africans, be it provision for retirement, death, disablement or home ownership. Not one of these important elements should be promoted at the expense of the others."

Mr Badenhorst said UBS, like most other financial institutions, had operated in an extremely difficult and challenging environment.

"Interest rates below the inflation rate, discouraging discretionary savings by the household sector, the relative attractiveness of investments in the products offered by the life assurers, and the aggressive entry by banks into the home mortgage market at competitive rates were some of the factors that made the environment difficult and challenging.

"Other factors compounded the competitive position of UBS. They were:

- "In respect of many of their products, life assurers are operating as deposit-taking institutions without the same prescriptions legislated in respect of building societies.;
- "The legislative advantage of banks to accept large volumes of short term deposits which was the cheapest source of funds in the declining interest rates cycle which prevailed during the year under review and;
- "The uncompetitive nature of the long-term funding structure of building societies was made increasingly difficult at a time when the authorities were trying to stimulate domestic economic activity with a negative real interest rate policy."

Saambou builds for blacks

HELENA PATTEN

THE Saambou group has entered the housing market for blacks, Indians and coloureds.

Chairman and group MD Hendrik Sloet said the company was involved, through its property subsidiary Saambou Wonings, in projects for the supply of about 1 700 housing units for non-whites.

He expressed concern at the Indian land shortage.

BDay 27/6/88.

Increase your monthly bond payments and . . .

Pay thousands less

By TOM HOOD, Business Editor

ONE of the best investments a home buyer can make is to pay a few rands extra on the monthly instalment of his home loan. It's as good as earning 15 percent interest tax free.

And it can save tens of thousands on the eventual cost of the house, chopping years off the repayment period.

For example on a R50 000 mortgage, the normal repayment at the rate of 15 percent is R668 a month for 20 years.

By increasing the repayment by only R10 a month, the home owner will repay the loan in 18 years instead of 20, says the Allied.

Fluctuate enormously

The cash saving is difficult to forecast because bond rates could fluctuate enormously.

However, the buyer could save as much as R14 000 as well as owning a bond-free house two years earlier. He will have paid R146 000 instead of R160 000 to buy his house, calculated at current bond rates.

If this home owner boosts his repayment by R20 he will pay off the bond in 17 years, which could bring a saving of R24 000.

Will be bond-free

A home-owner with a R40 000 bond currently pays R534 a month and in 20 years he will have paid in R128 000 — again assuming bond rates at present levels. But if he pays an extra R10 a month, the house will be bond-free in 18 years and he will have saved about R11 000.

He will save even more if he steps up his repayments by R20 a month to R554. The house will be his in 16 and a half years and his total repayments will amount to about R110 000 — saving him some R18 000.

The saving can be even more startling when bond rates are lowered and home buyers continue to pay in a few rands extra.

A couple of years ago bond rates were around 19,5 percent on a R50 000 bond, which cost R830 a month. But cuts in rates have reduced the repayment by R168 to R662 a month — a drop of 20 percent.

Pay off

If the home owner kept his instalment at R830 he would ultimately save tens of thousands and pay off his house in about 15 years instead of 20.

When bond rates rise, it is vital to increase monthly repayments to meet this — otherwise, as some borrowers discovered in the past, they owed more at the end of the year than at the beginning. And paying off

(See Page 20)

Debt/export ratio healthier

SA's foreign debt drops in rand terms

Cape Times 28/6/88

88

By GRETA STEYN

JOHANNESBURG. — SA's foreign debt stood at R43,6bn at the end of last year, sharply down in rand terms from R65,8bn at the end of August 1985 and R49,5bn at end-1986, figures in the Reserve Bank's latest Quarterly Bulletin show.

At the same time, SA's ratio of foreign debt to exports dropped from 170,7% in 1984 to a much healthier 93,2% last year, indicating an increased ability to service the debt.

Nedbank economist Edward Osborn said:"The ratio of foreign debt to exports is relevant because it indicates the ability of the balance of payments (BoP) to redeem or service the debt. A ratio of around the 100% level is an acceptable level.

"SA's level of exports relative to its debt is far healthier than most developing countries."

However, the rand value of SA's foreign debt is probably rising as the rand has lost ground against the dollar and most major currencies this year. Last year's drop in SA's foreign debt in rand terms was largely attributable to an improvement in the rand/dollar exchange rate, coupled with substantial debt repayments.

But economists said a weakening exchange rate did not necessarily worsen the foreign debt picture. A drop in the currency should protect the balance of payments by boosting the rand value of exports while depressing the demand for imports.

The extent to which the rand would be allowed to weaken, raising the rand value of foreign debt on the one hand while on the other hand protecting the BoP would depend on the authorities.

SA's foreign debt commitments did not put pressure on the BoP in the first quarter of this year — no lump sum repayments were made on the matured outstanding debt inside the "standstill net."

The Quarterly Bulletin said repayments in terms of the Second Interim Arrangements with foreign creditor banks in the first three months of 1988 were limited to small repayments on individual debts as they mature.

This month, a lump sum repayment of about R400m was made of debt inside the net.

Substantial repayments last year did not succeed in reducing SA's total foreign debt in dollar terms, which was vitually unchanged in December last year from end-1986 at $22,6bn. The bulletin said this reflected the dollar's decline against major European currencies in which SA's foreign debt had to be repaid.

Usury Act maximum to be 27%

ST 28/6/88 (58)

Finance Staff

The maximum finance charge rates under the Usury Act for money lending, credit and leasing transactions, will be adjusted from July, according to a statement from the office of the Registar of Financial Institutions.

The new maximum rates are 27 percent for amounts not exceeding R6 000 and 24 percent for larger amounts.

The statement notes that lower rates may be freely negotiated between contracting parties if they so wish.

The announcement follows the tabling in parliament yesterdayof The Usury Amendment Bill, which limits finance charges where a specific rate is agreed on when a contract is concluded.

The Bill, which clarifies the meaning of credit and leasing transactions, also empowers the Minister to exempt certain leasing transactions from application of the Act.

Uncertainty about the Act arose last year when a Cape Town Supreme Court Judge ruled that banks could not charge customers higher rates that the maximum Usury rate prevailing at the time.

Following the judgment the banks asked the authorities to clarify the ruling and the Usury Amendment Bill makes it clear that where a fixed rate of financing contract is entered into at a rate which complies with the Usury ceiling prevalent at the time, such a rate will remain enforceable for the duration of the contract.

Both consumer organisations and the banks welcomed the announcment of the amendment last week.

"We believe the decision is beneficial for the consumer, while clarifying uncertainty surrounding the situation," Peter Thompson, president of the Association of Banks said.

New part-bond company launched

Star 28/6/88

By Sven Lünsche

58

The already highly contested participation bond industry will become even more competitive following the announcement that Volkskas, UBS and the JH Isaacs Group have joined forces to form a new part-bond management company.

The Registrar of Financial Institutions has provisionally consented to the registration of the company, which will be known as Combined Participation Bond Managers (Combined).

The Combined, in which all three financial institutions will have an equal share, will have as its base the existing JH Isaacs and Volkskas participation bond schemes. Due to legal restraints relating to building societies, the UBS has not previously been directly involved in participation bonds.

JH Isaacs executive chairman Les Weil said that the new company will be a major force in the partbond market and from inception the new company would operate through 1 500 branches and agencies in the country.

The Combined will be headed by JH Isaacs' Alan Benn as chairman, while John Fosteras, also from JH Isaacs, will become managing director.

The R2 billion part-bond industry has been expanding rapidly recently, as it has as its foundation the financing of commercial and industrial property.

According to Mike Hyslop, senior general manager of The Board of Executors, part-bonds are particular secure because they are invested in a solid security, namely property.

Part-bond rates are usually in line with the prime rate of commercial banks and they are payable in advance. The rate may vary upwards or downwards, depending on the general level of interest rates, but is always subject to a guaranted minimum — currently 11 percent.

"This insures that the investor receives a market related return and does not get locked into a rate which, in time, may prove to have been too low. It is anticipated that rates will start to rise again in the second quarter of the year," Mr Hyslop said.

Melamet suggests new controls

Short-term insurers set for shake-up

58

6/day 29/6/88

CAPE TOWN — Major legislative and other statutory changes and controls are in store for SA's short-term insurance industry as a result of recommendations by the Melamet commission, whose report into the collapse and winding up of AA Mutual (AAM) was tabled in Parliament yesterday.

Finance Minister Barend du Plessis indicated in a statement draft legislation is already in the pipeline to address the shortcomings in existing regulations highlighted by the demise of the AAM three years ago — leaving more than R100m in unresolved insurance claims.

The more important changes will have a significant impact on the reserves and solvency levels laid down for the industry and on the added protection N ow considered necessary for the public, and policyholders in particular.

The wide-ranging Melamet report, which covers almost 300 pages and looks at the broader problems in the short-term insurance industry, also represents

CHRIS CAIRNCROSS

a damning indictment of the board of directors and management of AAM. They are directly blamed for the conditions that led to its enforced liquidation — and the subsequent losses to thousands of policyholders.

It must, inevitably, also have serious implications for those directors of AAM — most of whom are still captains and portfolio-holders in the higher echelons of the financial sector — who were se-

● Full details: Page 7

verely criticised for allowing a situation to be created in which AA Mutual was left "rudderless, with no co-ordinated control" while its MD Warren Plummer spent six months of every year "ostensibly" looking after the AAM's overseas subsidiaries and agencies.

The commission detailed several reasons leading to the collapse of the AAM.

● To Page 2

Short-term insurers head for shake-up

● From Page 1

59 6/day 29/6/88

These included:

- ☐ Shortage of capital and exceptional growth;
- ☐ Lack of correct technical reserving;
- ☐ A large outstanding claims reserve;
- ☐ A large incurred but not reported claims reserve;
- ☐ Unexpired risk premium reserve;
- ☐ Bad management and lack of control;
- ☐ Bad underwriting;
- ☐ Absence of currency matching to cover overseas commitments; and
- ☐ Inadequate accounting.

Severely critical of Plummer, who has subsequently moved to the UK, the commission says as MD he was allowed to run the company as his own.

The report says it is difficult to understand how a board of directors consisting of experienced businessmen allowed this to happen.

It says further the situation was possibly inherited by the Kirsh group when it assumed control. But, even after diversification, the control systems used for the previous business continued.

Effectively, a "facade was created, with little or no control or overall knowledge or depth".

Melamet urges insurance shelter

Star 29/6/88 58

A commission or working group should be appointed to consider the creation of a national council or board for financial institutions on the lines of the National Energy Council, the Melamet Commission of Inquiry into the AA Mutual collapse said in its report, tabled in Parliament yesterday.

It has also recommended far-reaching changes in company law; an increase in the solvency margin of insurers; the setting-up of an ombudsman for the short-term insurance industry; and the creation of a policy holders protection board, funded by levies from insurers, which would pay out up to 60 percent of a policy holder's claim in the event of liquidation.

The Commission said the reasons AA Mutual found itself in the position it did were a shortage of capital and exceptional growth in premium income; a lack of correct technical reserving; bad management and lack of control; bad underwriting; absence of currency matching for overseas liabilities; and inadequate accounting.

It recommended that financial institutions should have at least two executive directors on the board. The Registrar of Financial Institutions should have the right to see that directors were fit and proper persons.

The Commission recommended that the Department of Finance should be appointed to bring about harmonisation of legislation affecting financial institutions.

Registration should not be permitted if the directors or the proposed chief executives did not have sufficient experience of that type of institution.

Qualifications as to experience should include having some knowledge of the business of the specific type of institution.

The investigation should consider the maximum shareholding which any individual shareholder could hold in a financial institution and the disclosure to the Registrar of the true ownership of nominee shareholdings.

The Commission said the collapse of AA Mutual's short term insurance business had been inevitable given the fact that those in control failed to realise the true state of affairs and take corrective action.

The lack of genuine capital from non-premium sources had compelled AA Mutual to use strategems to overcome shortages in statutory asset requirements and solvency margins at the end of financial years. — Sapa

● See page 4

Investors' time horizons too short, says Wharton-Hood

Star 30/6/88

58

By Dave Canning

Liberty Life, which yesterday firmly rejected speculation that it is "becoming an overseas company", has called on the industry and the public to take a less speculative view of investments.

Addressing assurance brokers in Durban yesterday, managing director Mr Dorian Wharton-Hood said the investment community's time horizons had become too short.

There also was too much jumping from one investment portfolio to another, on the basis of outdated and badly compared historical figures, and too much "massaging" of figures by some insurance groups.

Mr Wharton-Hood produced figures to show how clients had been prejudiced by arguments persuading them to jump from one company to another on the basis of past performance comparisons.

"It is very dangerous to advise people to change from one situation to another," he told the brokers. Assurance was essentially a long-term investment.

He also said that Liberty chairman Mr Donald Gordon had been publicly criticised for spending too much time overseas.

In fact he spent the same period abroad as always. This was because 60 percent of Liberty shareholders' assets were overseas.

None of this was policyholders' money, he stressed. A small investment, made with Reserve Bank permission, in the early 80s had developed into substantial stakes in a number of international groups.

(58) B/day 30/6/88

Bill changes rules of banking game

GRETA STEYN

WHILE the banking game has been changing, the rules have remained the same — often hampering the players. The omnibus Reserve Bank, Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill, if passed, will change those rules to a certain extent.

It will by no means be the last word on banking law. But it is a first step towards bringing banks and societies closer together.

Banks have been playing to win the home loans game and societies have been battling, often hampered by existing laws, to defend their traditional turf.

Just how successful banks have been in their foray into the home loans market is obvious from Reserve Bank figures for the first quarter of 1988.

Banks' mortgage lending rose by just over R1bn while societies added only R675m to their books — more than R200m less than in the first quarter last year.

Banks, which traditionally had focused more on corporate lending and less on consumers, changed tactics as competition intensified.

A study by the Reserve Bank found that, in recent years, there had been a sharper rise in banks' lending to individuals than in their corporate lending.

The shift towards a larger percentage of consumer lending by banks was partly in response to the growing importance of building societies, the Reserve Bank found.

The game is changing; and calls to level the playing field have not gone unheeded.

Building societies, protesting that they have been fighting with one hand tied behind their backs, should benefit if the Bill becomes law.

It provides, among other things, for more funding flexibility for societies and the opportunity to branch out into more general banking business.

Rigidity with regard to building society funding was one of the main problems faced by societies when banks slashed home loan rates in last year's bond war. Banks were able to dip into cheap short term funds to finance home loans, but legislation prevented building societies from doing the same.

At the moment there is a limit amounting to 5% of total liabilities on the amount of funds societies can raise in the form of fixed deposits for periods shorter than one year.

Comfortable

The Bill states that this percentage is to be prescribed by the authorities, without the necessity of new legislation being drawn up.

Societies, which have been lobbying for a limit of at least 10%, expect the limit to be raised to a more comfortable level if the Bill is passed.

Similarly, the limits on the amount of general and business lending the societies are allowed to do are also to be determined by the authorities in terms of the Bill.

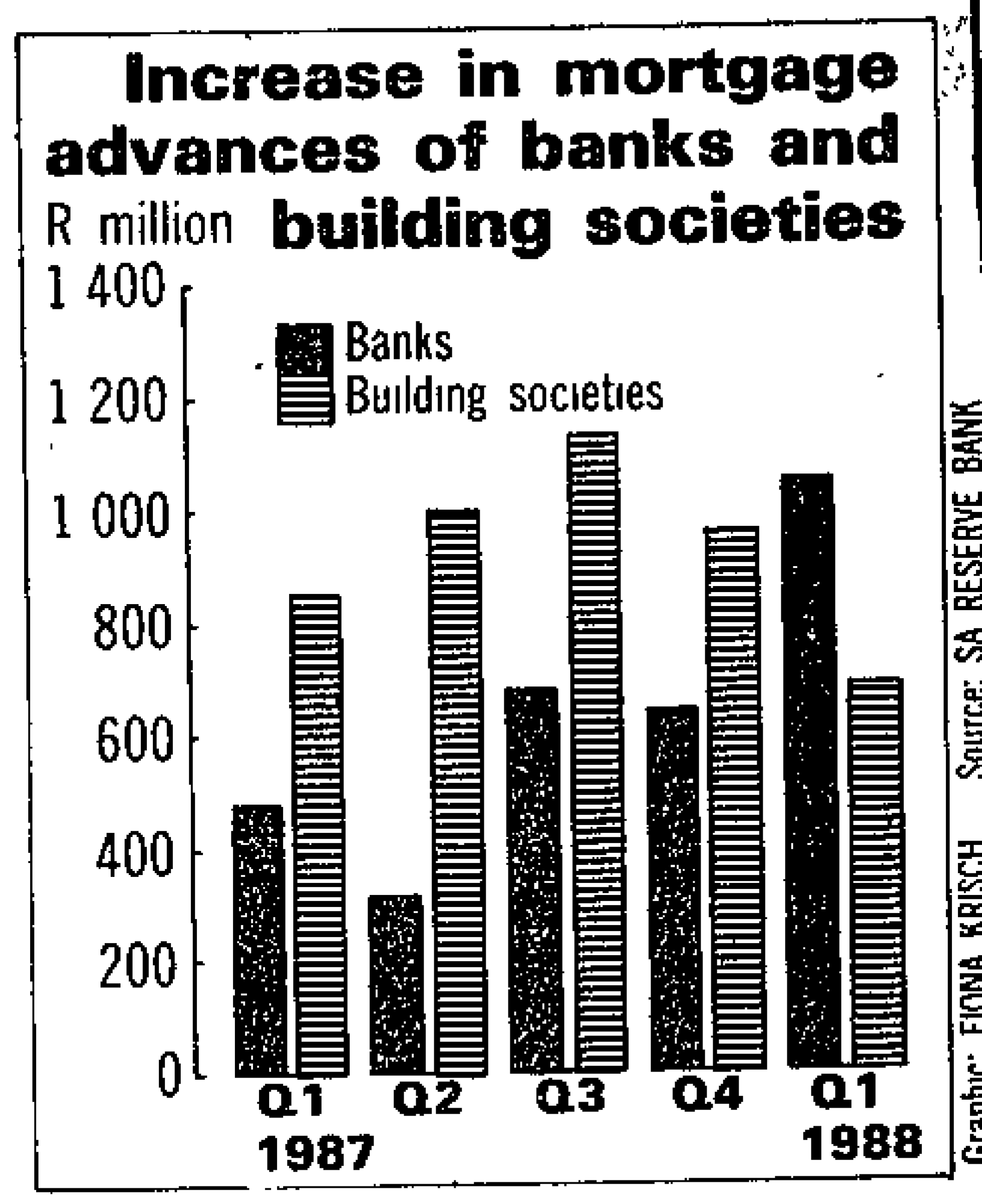
Other areas in which the draft legislation seeks to eliminate differences between banks and societies include cash reserve and liquid asset requirements. In addition, societies will be allowed to issue debentures as part of their capital base.

Apart from loosening the straitjacket around societies a little, and bringing banks and societies closer, the draft legislation looks to the future. If passed, the Bill would facilitate the creation of a secondary market in mortgage loans in the long-term.

Building society spokesmen said the draft legislation made it easier for societies to cede a mortgage to a third party.

The long-term effect of this could be the creation of a secondary market in mortgage bonds, such as existed in the United States. Changes to banking legislation will by no means be over if the Bill tabled in Parliament last week is passed.

A Reserve Bank committee is currently reviewing the Banks Act with a view to rewriting it — a task which is expected to take at least two years.



Standard raises home loan rate

S8 Wday GERALD PROSALENDIS 30/6/88
Financial Editor

STANDARD Bank yesterday announced it would increase its home loan rate to 14,75% from August 1.

The announcement comes days before the bank's mortgage rate rises to 14,25% from 12,5%. The rate on PrestigePlan bondholders will increase by 0,5% to 13,75% from August 1.

Standard Bank deputy GM Home Loans Terry Power said pressure on the bank's fund margins had made it necessary to review home loan rates.

The United, NBS, First National and Trust are charging 15%, while the SA Perm is still at 14,5%.

Standard ups home loan rate

Cape Times 30/6/88

Own Correspondent

JOHANNESBURG. — Standard Bank yesterday announced that it would increase its home loan rate to 14,75% from August 1.

The announcement comes days before the bank's mortgage rate rises to 14,25% from the present 12,5%. The rate on PrestigePlan bondholders will increase by 0,5% to 13,75% from August 1.

Standard Bank's deputy general manager (home loans), Mr Terry Power, said in a press statement that pressure on the bank's fund margins had made it necessary to review its current home loan rates.

He reiterated the bank's commitment not to exceed the average rate charged by the major building societies until the end of the year.

From Standard's latest increase it would appear that the bank's mortgage portfolio is not as comfortable as comments earlier this year suggested.

The United, NBS, First National and Trust are now charging 15% while the SA Perm is still at 14,5%.

Standard lifts rates

STAR 30/6/88 (58)

Finance Staff

Standard Bank is increasing its home loan rate by 0,5 percent to 14,75 percent with effect from August 1.

Terry Power, the bank's deputy general manager, home loans, said that continued pressure on the bank's margins had made it necessary to review the rate.

The rate on existing bonds under Standard's Prestige Plan remains one percent below that offered to other bond-holders and bonds registered at the end of June will increase by 0,5 percent to 13,75 percent, also with effect from August.

Ster 30/6/88

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Govt likely to put lid on interest rate rises

By Finance Staff

While interest rates are forecast to rise further during the coming months, the government is likely to place a ceiling on rates at some point beyond the current level.

Syfret's economist Anthony Gibson says that after the imposition of this ceiling, which he estimates will be in the region of 16 percent for the prime rate and 13 to 14 percent for the BA rate, a plateau will be held for the rest of the year.

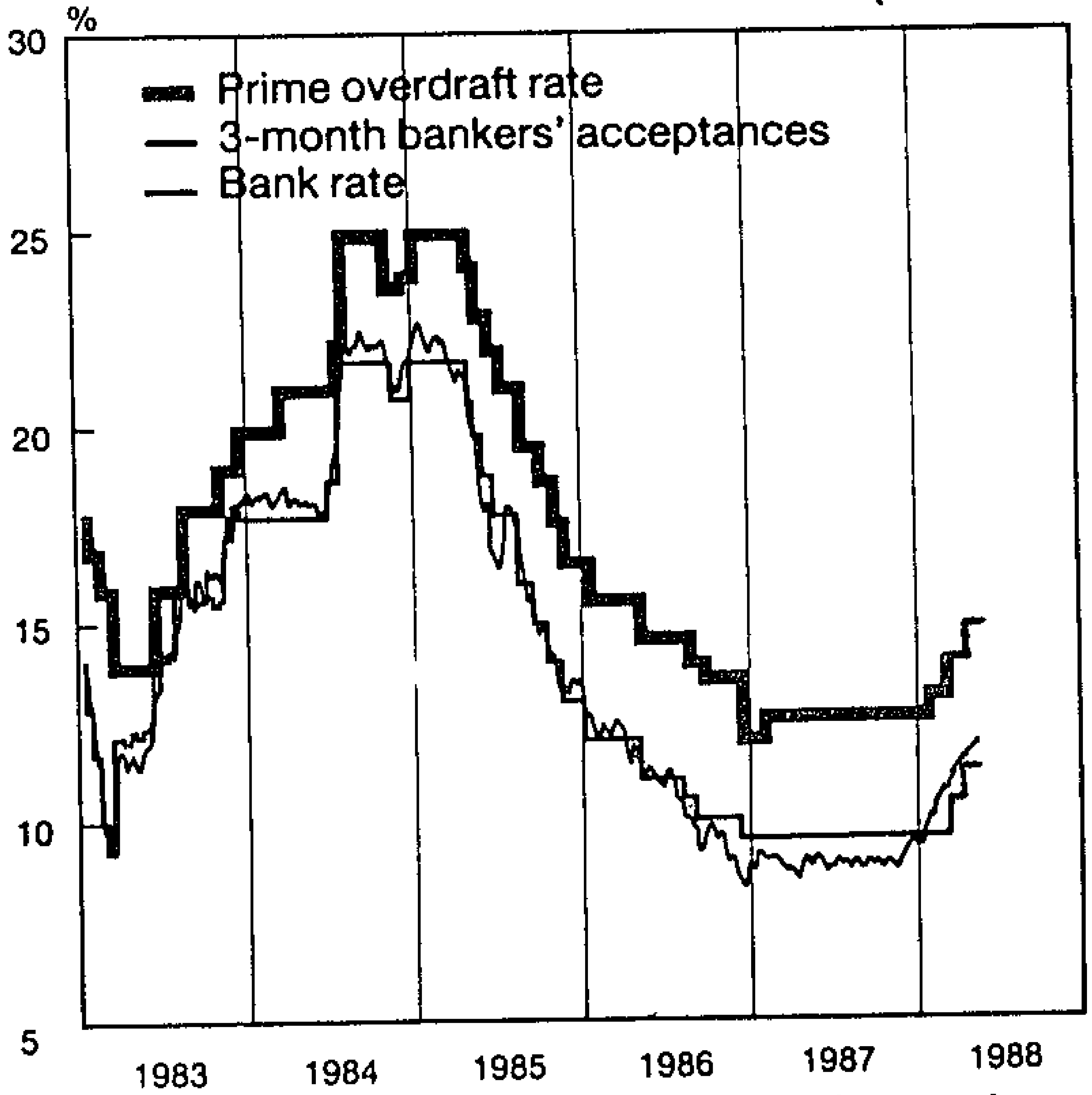
"Present trends seem to indicate that the rise in interest rates should continue throughout the year, with prime at about 18 percent and the three-month BA rate at around 15,5 percent by year-end.

"While this scenario might have been on the cards under normal circumstances, we believe that, despite the Reserve Bank's better judgment, a lid will be placed on interest rates," Mr Gibson writes in Syfrets latest *Money Matters*.

The reason, according to Syfrets, is the political unacceptability of allowing interest rates to rise to levels even closely approximating those prevailing in 1984/85.

"The government knows only too well the consequences of sustained high rates on business confidence, black unemployment, the farming sector and the overall effect on inflation and is therefore not likely to repeat the mistakes of the 1984/85 period," Mr Gibson says.

Assuming the economy does not respond to the restrictive measures announced in May, Mr Gibson expects that the authorities are more likely to opt for an increased level of direct controls such as import controls and further credit finance restrictions.



Short-term interest rates have begun to break upwards.

● A spokesman for the Reserve Bank yesterday said that the outlook for interest rates is clouded by several factors, including the gold price and the current account of the balance of payments.

A sharp drop in the gold price would have to be offset by a further rise in interest rates and/or a further weakening of the commercial rand.

A weaker rand will prevent the earnings of mining companies dropping but it would place the holdings of foreign reserves in jeopardy. A drop in foreign reserves is normally a prelude to a further tightening of monetary policy in order to restrain imports.

The spokesman, who declined to be identified, said that it would seem that the current account of the balance of payments would again register a small deficit for the second quarter of this year due to stagnat exports while imports have continued to rise further.

On the other hand, he added, it seems as if importers were making far greater use of overseas trade financing than in the recent past. This helps to reduce the pressure on the BoP, he added.

Melamet recommendations welcomed

Star 30/6/88

The South African Insurance Association has welcomed the measures to control the industry recommended by the Melamet Commisssion report which was tabled in Parliament this week.

Vice-President of the Association Ron Carter said yesterday that the industry was heading towards a sistuation similar to that which destroyed the AA Mutual.

He said the trend introduced by by some short-term insurance companies of reducing premiums was dangerous and could well lead to the collapse of another company.

"We as an industry have only been enjoying reasonable returns for 15 months and rate cutting could mean that companies could get caught out again.

"Insurance is not an oriental bazaar where wholesale bargaining can take place."

Mr Carter said that the introduction of the new regulations could possibly help prevent a repeat of the AA Mutual collapse.

The Malamet Comission stated that the method of arriving at technical reserves must be regulated. It said that incurred but not reported claims should be a minimum of:

- Either seven percent of the year's net premium income from locally written annual business plus seven percent of the year's annual policies or;
- Six times the premium from monthly policies booked in the last two months of the year; Ten percent of total incurred claims from locally written business including any incurrred but not reported claims.

Finance Minister Barend du Plessis said in Parliament that the issues were being treated as a matter of urgency and interested parties would be asked to comment on draft legislation.

He said the Department of Finance would be working with the short-term industry on the draft legislation. — Sapa.

BUSINESS

Islamic banks scorn the interest principle — and make a profit

Star 1/7/88 (58)

LONDON — Charging interest is how bankers make money — except, that is, for the booming business of Islamic banking.

The Koran bans interest. And it bans lending money if the loan is not for a productive purpose.

But Islamic bankers have pioneered a way of lending money without charging interest. Borrowers pay a fee instead.

And since the first Islamic bank opened in the Nile delta 25 years ago, the system has spread to more than 70 banks controlling $25 billion to $30 billion.

There are Islamic banks throughout the Middle East and Asia, in Europe and even in New Zealand.

And in South Africa two highly successful operations are under way, one in Johannesburg and one in Durban. Neither yet has formal registration with the Reserve Bank, but applications have been made.

Iran and Pakistan say their economies have been switched to Islamic principles.

The key is that charging a fee for providing a productive loan addresses Islam's concern about the moral consequences of usury or lending over time.

"Money is not an end in itself, it is a means to an end," says Saudi Prince Mohammed al-Faisal, chairman of Dar al-Maal al-Islami, the biggest Islamic banking group.

Dar al-Maal al-Islami was founded in 1981 in Geneva and now has a portfolio of $2 billion invested in projects from 25 Islamic banks to a plant making watches that chime at Moslem prayer times and show the direction of Mecca.

Western sceptics say Islamic banks charge interest by another name.

Islamic bankers say costs may be similar, but argue that their system, with its emphasis on how money is used, instead of on money itself, is different and offers an alternative system for the world's 800 million Moslems.

"It must be remembered that the Western system has had hundreds of years to develop... our goal and philosophy are long term," says Faisal.

But Faisal and other Islamic bankers meeting in London in June found the system was still loosely defined and that it faced a number of practical problems.

One is that Islamic banks have so far failed to move from short-term financing of trade to longer-term lending for developing nations.

Another problem is inflexibility — there are few Islamic bonds or bank deposits through which lenders can place funds.

Largely unregulated deposit-takers challenge the Islamic system in Egypt and have done so in Pakistan.

And there is still controversy over defining Islamic financial transactions and over how the Islamic system should relate to the rest of the world.

"You can talk to 10 scholars and get 10 interpretations," says Mohammed el-Hennawi, chief economist at the Saudi-based Islamic Development Bank (IDB), owned by 44 Islamic countries.

Hennawi says a board of 140 Islamic jurists this year agreed to an Islamic banking code after years of debate. But even the smallest query will have to be settled in plenary session.

Islamic financial instruments to take the place of stocks and bonds, like "modaraba" equity participations, "mosharaka" profit-sharing, and "ijara" leasing, have proved hard to define in detail.

Disagreements between bankers also tend to reflect political and religious divisions.

Hardline IDB and Saudi bankers envisage an Islamic common market, do not recognise the western banks' funds as Islamic and are cautious about any non-Islamic business links.

Money-starved African Moslem nations do not necessarily agree.

Some Western bankers are intrigued by the system, arguing that the failure of many small businesses in their countries suggests that Islamic principles of sharing risk make economic sense.

One financier who has switched to Islamic banking is Paul George, a born-again Christian in New Zealand.

"Our market was dying, with high interest rates killing off companies," George says. "Our own system is not working, so I thought, why not try this?" — Sapa-Reuter.

IMF loan for Lesotho

Star 1/7/88

WASHINGTON — The International Monetary Fund is to lend Lesotho $10,9 million over the next three years.

In return, the Lesotho government will implement economic and financial reforms to slash its budget deficit, get inflation under control and reduce the country's trade deficit

After strong growth last decade, Lesothohas suffered in recent years from a sharp drop in farm output, caused by poor weather, and the closing of its only diamond mine.

Over the next three years, Lesotho aims with the help of the IMF to chalk up average economic growth of four percent a year, the Fund said. — Sapa-Reuter.

FM 1/7/88 (58)

AA MUTUAL

Melamet reports

Much of the blame for the 1986 collapse of short-term insurer AA Mutual is assigned to former MD Warren Plummer and the board by the commission of inquiry, headed by Justice Melamet, into the collapse. A 271-page report tabled in parliament this week says the non-executive board served "as a rubber stamp for the MD."

Plummer, who surrounded himself with staff who wouldn't threaten his position, "must undoubtedly accept primary responsibility for the way in which business was conducted .. He undoubtedly misled other board members and must have been aware of the detail of the matters which caused the sense of disquiet to the commission."

The commission found that in spite of Plummer not having a deputy, he spent six months a year overseas "ostensibly" keeping an eye on foreign interests, even though they were relatively small. "It is . . . impossible to ascertain how Mr Plummer occupied himself when overseas for half of each year."

The commission found that there was no single cause for the collapse of AA Mutual. An "unhealthy situation" had been building for several years and its "demise was ultimately inevitable."

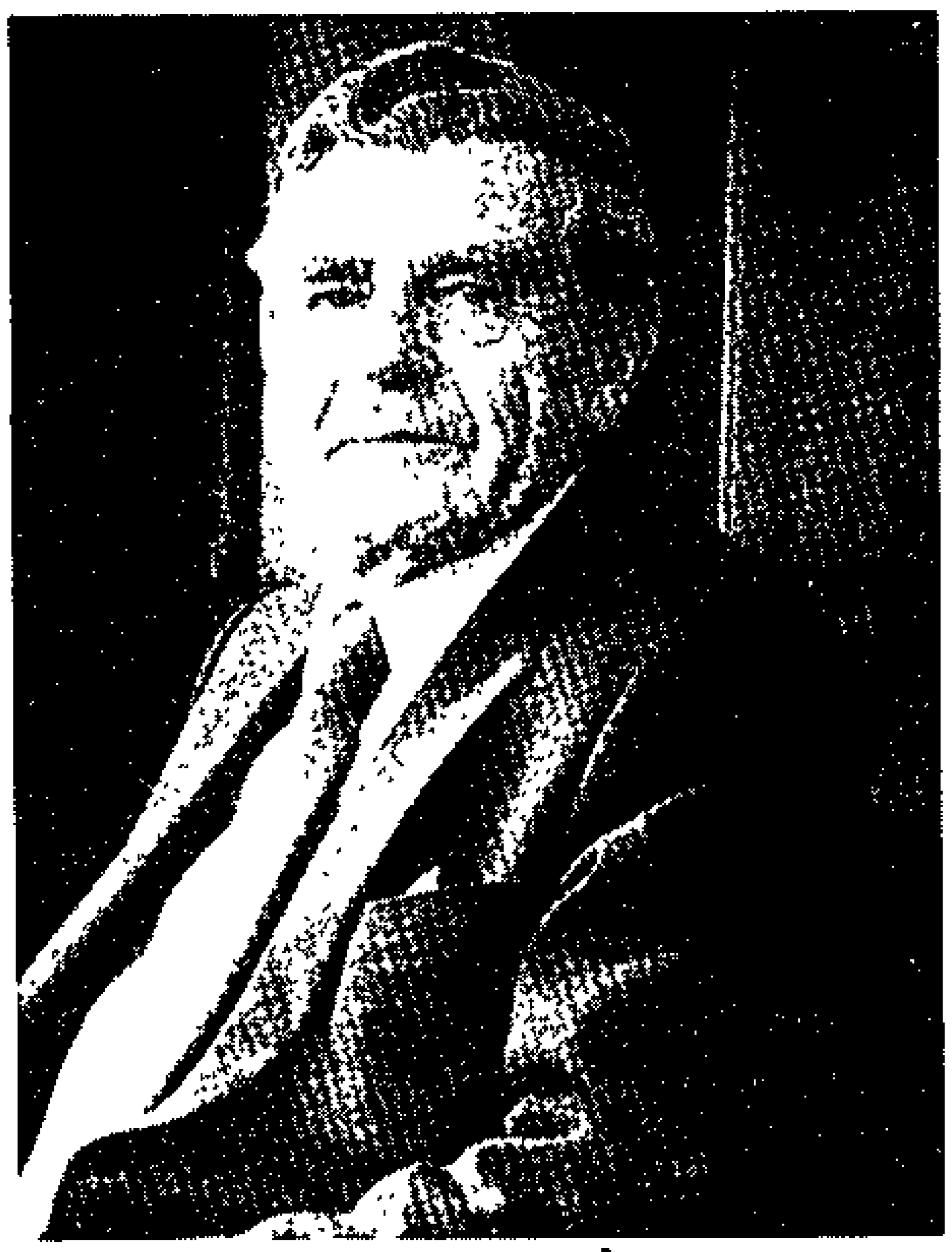
The commission summarises the reasons for AA Mutual's crisis:

- ☐ Shortage of capital and exceptional growth in premium income;
- ☐ Lack of correct technical reserving;
- ☐ Bad management and lack of control;
- ☐ Bad underwriting;
- ☐ Absence of currency matching for overseas liabilities; and
- ☐ Inadequate accounting.

Reconstructing what happened proved difficult because Plummer — now living in the UK — refused to return to give evidence. Though he had talks with Judge Melamet in London, he did not have the necessary records to "refresh his memory."

Others involved in the control, management and administration of the company "claim a singular lack of knowledge thereof and total reliance on Mr Plummer," according to the report.

Plummer was the only executive director. The others — Natie Kirsh (chairman), Mervyn King, Arnold Levy, Eric Turk, Denis Paxton, Peter Elliot and William Passmore — depended on Plummer for all information After the Kirsh group assumed control in 1981, board meetings were held only every three months. Plummer was the only member of management who attended all board meetings. The investment manager attended only when investments were discussed.



Plummer . . . primary responsibility

Monthly performance reports from Plummer to the board were massaged or smoothed beyond any reasonable extent. Plummer claimed this was done merely to remove seasonal valleys and peaks

The figures were usually more favourable than the actual position.

The commission reports that Kirsh, as chairman of AA Mutual, authorised AA Mutual International in London to pay Plummer £30 000 for setting up Chiswick Reinsurance (Bermuda) to handle certain reinsurance. Other directors claimed ignorance of the payment.

Kirsh said it was a "bonus" to Plummer "for services rendered" and on the grounds that he (Kirsh) "did not wish to see senior executives experiencing financial difficulties." The money was used to pay off a mortgage bond on a house in England.

Kirsh also authorised a £20 000 bonus for Plummer in London "presumably paid by AA Mutual International." The reason for the payment could not be established.

"It was claimed by the chairman that he was authorised, presumably by the board, to make such payments. This, *prima facie*, appears to be an authority difficult to reconcile with non-executive status, and was more proper for decision by the board."

The commission examines at length the moral and legal position of non-executive directors in general and recommends that financial institutions have at least two executive directors or, if this is found to be impossible, at least two senior managers should attend board meetings.

The position and liability of a non-executive chairman and board should be considered by the Standing Advisory Committee on Company Law.

The commission could not conclusively establish whether AA Mutual auditors Spencer Steward & Co neglected their duty and recommends further investigation by the "appropriate authorities."

Wide-ranging recommendations include:

- ☐ Retrospective surplus relief transactions should be prohibited by the Registrar;
- ☐ The operations of, and necessity for captive insurers should be investigated by the Registrar, the Commissioner for Inland Revenue and the exchange control authorities;
- ☐ Exemptions to insurance companies from Part 1 of the Fourth Schedule to the Companies Act should be reconsidered;
- ☐ The advisory committee on short-term insurance provided for in the Act, now dormant, should be revived.
- ☐ A body similar to the Policy Holders Protection Board in the UK should be established and an ombudsman appointed for the short-term insurance industry;
- ☐ Brokers should be registered as determined by the Registrar in conjunction with the SA Insurance Brokers' Association and the SA Insurance Association;
- ☐ Misleading or extravagant statements in advertising by insurers and/or brokers should constitute unprofessional conduct or an undesirable practice and be penalised.

Finance Minister Barend du Plessis says his department has been ordered to prepare draft legislation in co-operation with the insurance industry to accommodate the commission's recommendations that do not need further investigation.

Kirsh was in London when the *FM* went to press and could not be reached King, responding to details passed on to him by the *FM*, said: "I don't agree the board was a rubber stamp. Non-executive directors, as usual, relied on information given them by the executive and acted on it." ■

FINANCIAL INSTITUTIONS

Billed to change

Legislation now before parliament allows for future rationalisation of the financial services industry. The SA Reserve Bank, Banking Institutions, Mutual Building Societies & Building Societies Amendment Bill published last week was referred to the Standing Committee on Finance last Friday and the revised version was released on Tuesday. It is due to be debated by the three Houses of Parliament this session.

FINANCIAL MAIL JULY 1 1988

FM 1/7/88

One fundamental change contained in the 30-page document is a provision for transfer of assets and liabilities of:

- ☐ A mutual building society to an equity-based building society or a bank; and
- ☐ An equity-based society to a bank.

This clears the way for takeovers and mergers and gives a cash-strapped institution the option of turning part of these into cash.

Tightens restrictions

The Bill also tightens restrictions on control of these institutions by specifying that shares may not be registered or remain registered in the name of a nominee, except in specific exceptional cases. The concept of nominee includes any person who is not the beneficial shareholder. The term "associate" is redefined to ensure shareholdings in institutions are kept within the maximum limits laid down by relevant Acts.

Another significant change is a provision which allows societies to extend the range of housing and business advances to mortgages on land in development areas and on urban industrial fixed property. Also intended to provide flexibility is a provision that, instead of the level of business and general advances being pegged at 20% of operating capital, it will be prescribed by regulation by the minister of finance. On the liabilities side, the proportion of total fixed deposits societies may accept for periods under 12 months will no longer be set at 5% but "prescribed by regulation."

Another provision permits both types of society to raise up to one-fifth of capital and reserves in long-term debentures. ■

CRUSADER LIFE (36) (58)

UK problems 1/7/88

Activities: *Marketing and underwriting of individual and group life permanent health insurance; provident and pension fund business.*
Control: *Rowand family has control. Listed pyramid Cruhold has 60% of the equity.*
Chairman: *A R Rowand; joint managing directors: R de V Rowand & C C van der Meulen.*
Capital structure: *19,7m ords of 15c. Market capitalisation: R21,7m.*
Share market: *Price: 110c. Yields: 8,7% on dividend; 12,7% on earnings; PE ratio, 7,9; cover, 1,5. 12-month high, 310c; low, 105c. Trading volume last quarter, 124 000 shares.*
Financial: *Year to December 31.*

	'84	'85	'86	'87
Total Assets (Rm) ...	19,5	31,3	41,7	69,2
Net Premium Income (Rm) ...	9,8	18,9	26,9	37,3
Investment Income (Rm) ...	1,3	0,9	1,7	2,0
Earnings (c) ...	5,9	11,4	11,7	14,0
Dividends (c) ...	n/a	5,2	8,0	9,6
Net worth (c) ...	n/a	66,9	67,5	107,4

Interesting in the latest report are comments by chairman Don Rowand on Crulife's attempts to expand into the UK. At the time of last year's rights offer document, the company believed that its proposed UK life company would begin trading in the first half of this year. But problems have since arisen.

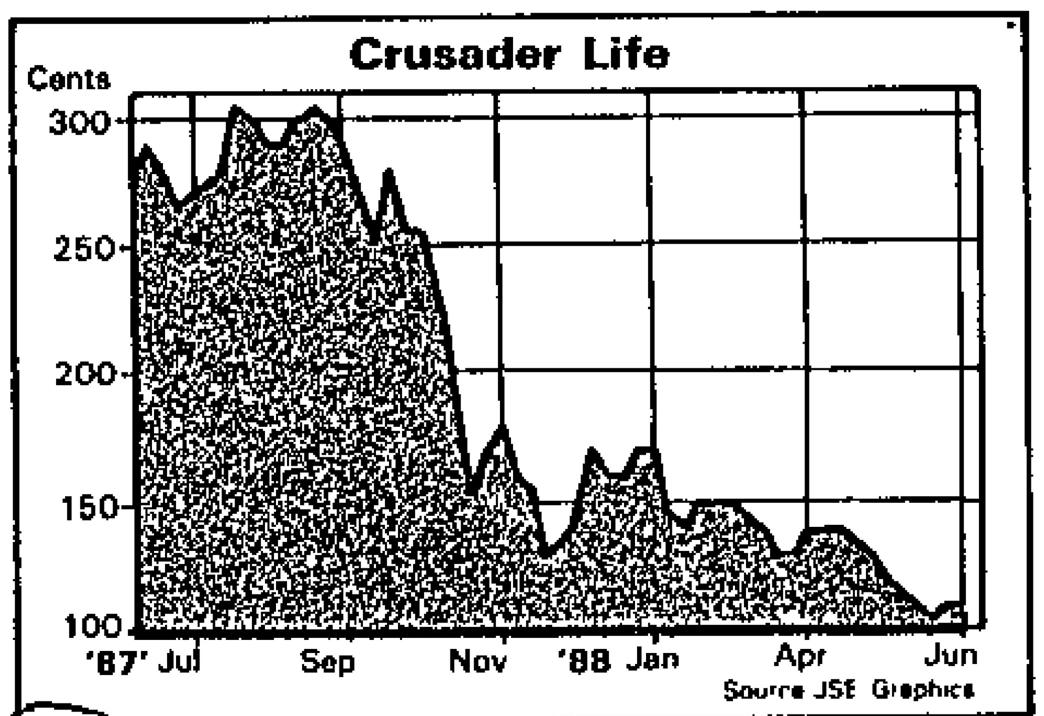
The new Financial Services Act in the UK requires that a full-time representative of an insurance company be paid at any rate of commission, but an independent broker is limited to a lower amount. Should he feel the necessity to increase his commission, he must disclose it to his client. Further, brokers are obliged by the Act to give their "best advice," and failure to do so would open them to possible legal action. One cannot but wonder how SA broking houses would react to such directions.

In the UK, owners of small life companies have realised that brokers will prefer to become full-time employees of major companies rather than reveal their commission terms, so that business for such companies may dry up. For Crulife the result has been that it has been offered a number of small

companies at what Rowand describes as "realistic prices," which are being investigated.

A further factor of significance in the UK has been the fear of escalating Aids death and disability claims. Many large companies have made special extraordinary reserves for the contingency and, overall, says Rowand, more than £1bn has been allocated. Rowand adds that Crulife's investment of R1,3m in two UK broking firms is proving satisfactory.

The past year saw premium income increased by more than 30% to R52,3m. Of this figure 60% was individual business, 12,5% single premium, and 27,5% group products. Rowand notes that the value of equities in the investment portfolio in October dropped by R2,8m by the end of the year,



FM 1/7/88

(58) which may somewhat restrict the amount of new business the company can accept.

Crulife has shown itself especially strong in marketing. However, it is possible that the recent slump in the share price (see **graph**) may be accounted for by the fact that new business strain may have required larger than usual transfers to reserves. In any event, Rowand notes that with the stock market by no means settled yet, the directors felt it would be prudent to allocate R1,5m of retained profit to reserves. This is included in the total transfer of R1,8m to non-distributable from distributable reserves.

Following the acquisition of a 15% stake by Columbia Consultants last year and the company's 5% share in Pride Consultants, there should be additional sources of new business to draw on. With the shares at about one-third of the 12-month high, the price now looks better than realistic.

David Ross

FM 1/7/88

REMBRANDT GROUP

Foreign bonanza

After weeks of speculation which generated substantial trading in the shares, the Rembrandt group has revealed the essentials of its plan to restructure local and international interests.

As was indicated in the cautionary notice published on May 5, the reshuffle will affect both the domestic and the unlisted international interests. Local investments are to be restructured and divisionalised, probably with financial and management implications. But the biggest impact will be on the international interests: a new company to be listed on a European exchange and on the JSE will be the holding company for the major portion of the foreign interests.

As the international interests are at present owned by the existing shareholders in the Rembrandt group, those shareholders will be entitled to receive shares in the new company. These shares will be issued free of consideration in pro rata proportion to the shareholders' attributable interest. Shareholders will retain all their existing shares in Tib, Tegkor, Rembeh, and Remgro.

Given that the asset value, earnings or dividend performance of the off-shore interests has not been officially disclosed, but has long been a subject of intense interest and guesswork, the proposal does appear set to clarify the assets and unlock substantial value.

Analysts have estimated that around 40%-45% of Remgro's earnings are earned from abroad. The amount of cash received in SA in dividend receipts is not known, but there has evidently been significant inflow. Rembrandt Executive Director Johan Rupert says that since the group took R1,5m out of the country when it started investing abroad in the Fifties, more than R1bn has been brought to SA in dividends.

Once the restructuring is complete, Remgro, at present the group operating company, will have no stake in the international interests. Its major rand hedge element will then consist simply of the 10% holding in GFSA which was bought last year. Investments in the foreign interests will be held as separate shares by the present shareholders in the group companies.

However, it seems that investors can anticipate a liberalisation of Rembrandt's ultra-conservative dividend policies. Although Remgro will no longer receive dividends from abroad, it is expected that shareholders will continue to receive the same dividends as if these changes had not been made. Dividend cover is likely to remain conservative, so that growth can still be funded internally; but in the 1987 year the cover was 8,6 times on total EPS and 5,3 times on earnings, excluding the share of income retained by associated companies.

Indeed, cash flow — both for the group and for shareholders — appears to be where the immediate impact would fall.

The official announcement states that as the proposal consists of a rearrangement of assets, it will not have any effect on the underlying net asset value and underlying earnings of the aggregate of the group and the European company attributable to group shareholders. But the statement adds that, based on dividend policies followed by group companies for the 1988 year, and the proposed future dividend policies to be followed by the group and the new company, "the aggregate attributable dividend, payable to group shareholders, is expected to increase materially."

Dividends aside, though, Rupert says a major objective is to consolidate the financial strength of its international interests so that the group can compete and grow in future European markets. He says the creation of a single European market in 1992 is expected to have massive implications for companies operating on the continent. He forecasts rationalisation between giant corporations and a far more competitive business and financial scenario in which muscle will be crucial.

By creating a single listed company to hold the off-shore interests — a number of which already have listings on various exchanges — the group aims to consolidate its financial strength. Benefits should include enhanced ability to make acquisitions when these come up. Rupert says that there are no acquisitions on the table at present; but the enormously complex reorganisation, which has been planned over some three years, will make deals easier and quicker to execute when they arise.

Rothmans International will be included in the reorganisation, but this simply relates to the way in which the investment is held; there will be no other changes for Rothmans. Details of the various other companies involved will be given when the offer document is published in August. As the new listed company will have to conform with requirements of the European exchange, the level of disclosure will be far higher than Rembrandt's traditional standard.

Disclosure is also expected to improve in the local group after the domestic reshuffle. Here the proposal is to rearrange investments into five operating divisions: trademark orientated products; mining and engineering; financial services; diverse interests; and internal group services. This could mean a leaner, more specialised structure. It is probable, however, that Rembrandt's long established "partnership" philosophy of management will continue.

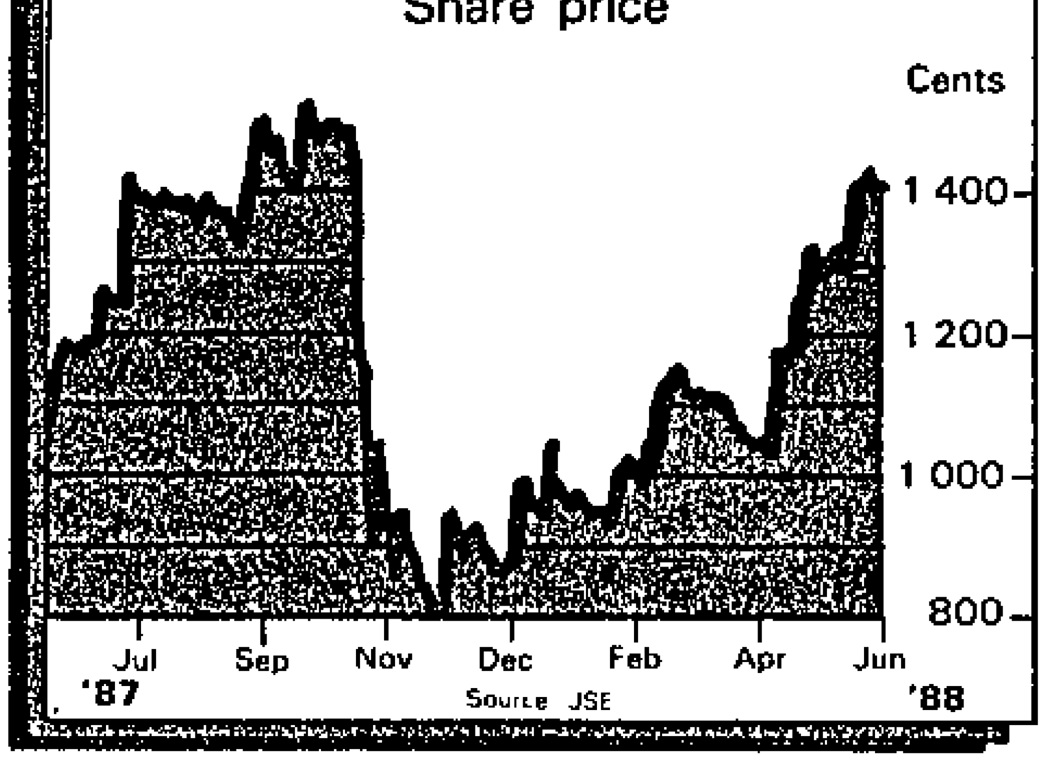
Rembrandt's Rupert ... building financial muscle

Announcement of the plan coincided with the release of results for the 1988 year, which saw net income and EPS up by 33%. After the active trading of recent weeks, Remgro's share has recovered most of the ground lost during the October crash (see **graph**). With the elements of the plan now known, it could move higher ahead of the offer.

Andrew McNulty

Remgro rebounds

Share price



CONSOLIDATED MURCHISON

Tough times

Volatile base metal company Consolidated Murchison (Cons Murch) is in a depressed phase once again and likely to remain there for some time as a number of factors damage its fortunes. The antimony producer passed its final dividend for the year to June 30 after a taxed loss of R1,6m in the March quarter

FM 1/7/88

ST 2/7/88

Development Bank says more seek project funding

The Development Bank of Southern Africa says there was a sharp rise in applications for project funding in the year to March.

In its latest annual report, the bank says there were 461 applications for aid, compared with 200 last year.

Of these, 316 were selected for preparation and appraisal, bringing the total since the bank started four years ago to 919 projects.

The financial contribution of the Development Bank is R5,885 million, with an estimated investment value of R7,28 million.

The bank says new financial commitments entered into in the course of the financial year was R965,9 million, the first time the figure has approached the billion-rand mark.

The bank expects this figure to increase significantly during the next five years. — Sapa.

How to turn R40 into R4,5 million

SKV 21/7/88 (58)

SVEN FORSSMAN

DESPITE the legal and tax difficulties involved in taking out a policy for your child, experts still consider it worthwhile.

By law, a parent cannot insure his child's life for more than R500 until the child reaches the age of 14. Another restriction is that premiums on a pure endowment policy may not exceed R125 per month to avoid being taxed.

"Compound interest can work wonders with your money if you take out a policy at an early stage," says Sanlam actuary Francois Marais.

"Bearing in mind that it is preferable to have your policy linked to inflation, it's advisable to take out a policy for a small amount of about R40 per month for your child at the age of one or two.

"This way you can link your policy to inflation and the premiums should remain within the limits until the last year or two. You can exceed the limits, but then you will be taxed on the excess."

Mr Marais said children's policies had proved popular at Sanlam. "In today's environment of high inflation, many parents and grandparents are looking for investment opportunities to help their children improve their quality of life," he said.

Fedlife has a "Little Millionaire plan" which has been providing growth well in excess of the inflation rate and has a number of features.

Said a spokesman: "There is built-in life insurance which comes into force when the child reaches 14 and can be increased without providing a medical certificate.

"Capital will be available for emergencies, including education, and there will be a substantial tax-free lump sum at retirement age.

"If you take out a R40 policy for your child at the age of two, he would be able to take a cash lump sum of R19 000 at the age of 21 without affecting the policy's final values.

"If the child keeps up the policy, it will be worth R461 000 at the age of 45 and R4,5 million at 60."

Old Mutual offer a range of children's policies, with special benefits for endowment policies.

They include: maximum death benefit of premiums compounded at 7,5 percent per annum, prior to the child turning 15; a future life cover option up to a maximum of R1 400 per R1 monthly with the option to be exercised between the 18th and 25th birthdays; a marriage option provided the policy has been in force for at least 10 years; and a university option with a cash value given after the life assured has turned 18.

Old Mutual also offers a Flexi education fund, with cash values available for education, marriage and on the death of a life assured.

Liberty Life do not have a special children's policy, but would be happy to prepare one for a client.

"Children's policies are limited in terms of the Insurance Act. We recommend parents to rather take out an endowment policy for themselves.

"Parents can, however, take out a pure endowment policy for their children provided that premiums do not exceed R1 500 per annum. It may be a good idea to add Guaranteed Insurance Benefits to this policy to allow your child the option to effect a life insurance policy without evidence of health at ages 26, 29, 32, 35, 38 and 41."

AA Mutual collapse aftermath

(58) S/Times 3/7/88

Tax, currency dodge clean-up

THE Kirsh group's alleged use of its Bermuda-based captive insurance company as a tax and foreign-currency dodge is likely to spark off an investigation by the Government.

Many corporations with major insurance risk exposure have established captives with the assistance of brokers for the legitimate purpose of reducing risk.

But the Melamet Commission, which investigated the collapse of AA Mutual's short-term division, fears that some captives may be open to abuse and calls for an inquiry into them.

Protection

The commission's report was tabled in Parliament this week.

Many recommendations in the 271-page report deal with protecting policyholders and putting the insurance industry — as well as other financial institutions — on a sounder footing.

The commission says the Registrar of Financial Institutions, the Commissioner for Inland Revenue and the foreign-exchange authorities should investigate captives.

It says the Kirsh captive was part of a scheme administered by AA Mutual and appeared to be a sham be-

By Udo Rypstra

cause it was designed for tax evasion and defeating foreign-currency control regulations.

Chiswick Reinsurance Company (Bermuda) was established by Warren Plummer, former managing director of AA Mutual's short-term insurance arm, in conjunction with subsidiary AA Mutual International, of London. It was taken over by the Kirsh trading group.

Mortgage bond

The commission queries payments of £50 000 authorised by AA Mutual short-term division chairman Natie Kirsh to Mr Plummer for "services rendered". Some of the money was used to pay Mr Plummer's mortgage bond on a house in England.

The commission says Chiswick Reinsurance was originally to have undertaken certain reinsurance for AA Mutual International, but became a wholly owned subsidiary of KI Corporation, Liberia, in which Kirsh family trusts are shareholders. Certain companies in the Kirsh group decided to take part in a scheme by which they would carry a "deductible" first portion of their respective insurance risks themselves. This was for certain amounts restricted to R1,25-million.

A fund was set up for this amount and administered by AA Mutual. The rest of the risk — above the individual deductibles and total — was reinsured with Lloyd's and other companies for a premium of R770 000.

The commission says the brokers who advised on the scheme received R200 000. AA Mutual was paid R225 000 for administration.

"The fund was, however, loaded with a further R500 000 which was collected from the trading companies in the Kirsh Group. This amount was paid over by AA Mutual in the guise of a reinsurance premium to Chiswick Reinsurance Company (Bermuda). Of the R500 000, R288 000 was paid as a commission free of tax (no reason could be advanced as to how this was earned) to Metcorp (Bermuda) which, in turn, distributed this amount to its sole shareholder, Jandu Investments."

Free of tax

The commission says Jandu is a South African registered company which, in turn, declared all its income by way of a preference dividend at a variable rate to the shareholders who were the trading companies which contributed the R500 000 loading.

It says the directors of Metcorp were Mr Kirsh, a Mr Dill and a Mr Cooper. A Mr Levy and Mervyn King were directors of Jandu.

The balance of the R500 000 (R212 000) was retained in Chiswick.

The income-tax implications, says the report, were that the trading companies had a deductible expense for premiums paid and they received a tax-free dividend, this being similar to the after-tax cost of the loading. No exchange-control permission was required to transfer the amount to Bermuda as it was presented as a reinsurance premium.

Exposed

Explaining why the scheme appeared to be a sham, the report says Chiswick had to give an undertaking to the registrar in Bermuda that it would never be at risk for a bigger amount than funds retained after paying commission.

"The whole risk was already reinsured with Lloyd's and other companies, and although there were claims against these companies, no claim was ever made against Chiswick Reinsurance Company.

"Although this venture did not cause any loss to AA Mutual, it could have exposed it to action from the authorities as a participant in a scheme designed to evade payment of income tax and defeat the exchange-control regulations."

The report deals with other issues apart from the collapse of AA Mutual short-term insurance division,

□ To Page 3

Insurance report (58)

□ From Page 1

which is estimated to owe policyholders and creditors more than R200-million.

It criticises individuals and organisations involved in or with the insurance industry for ignoring or not fulfilling several tasks or obligations properly.

Finance Minister Barend du Plessis has ordered his department to get to work on the recommendations in conjunction with members of the industry.

The commission lays much of the blame for the AA Mutual collpase on a "very autocratic" Mr Plummer and his board, which the commission describes "as a rubber stamp for the MD".

"The company in South Africa with a very rapidly expanding and increasingly complicated business was left rudderless with no coordinated control. It is difficult to understand how a board of directors, consisting of experienced businessmen, allowed such a position being created and to continue."

Its major criticisms include:

- The practice and encouragement given at AA Mutual to increasing premium income — by 403% between 1980 and 1985 — without sufficient strengthening of the capital base.
- The financing in part of acquisitions and expansion by the issue of preference shares.
- Several strategems "all seemingly to avoid the injection of cash by the Kirsh Group".
- The contention that premium income could be used to remedy cash-flow problems.
- The "reckless" financing of the division's R40-million headquarters from funds that should have been available to meet claims and other expenses.
- The division's entry into commercial and industrial insurance without having adequate experience.
- The role the media, including TV, played in helping building up Mr Plummer's image as "the doyen" of the industry when some competitors regarded the AA Mutual as a maverick and predicted its collapse.
- The failure of the insurance industry as a whole and the SA Insurance Association to report AA Mutual's alleged difficulties to the Registrar when the market came to know about it.

The commission says that in view of Mr Plummer's autocratic running AA Mutual, all financial institutions should have at least two executive directors or senior management should attend board meetings. The Registrar should have the right to see that directors are "fit and proper" persons.

S/Times 3/7/88.

*Revised

Development Bank heads for R1bn spending

S Times 3/7/88

By David Carte

WHO do they have to thank? The Development Bank.

This could be true for Third Worlders in Southern Africa and the taxpayers who support them through the Development Bank of Southern Africa.

The regional equivalent of the World Bank approved the financing of 136 projects valued at R965,9-million last year.

According to the annual report released today, the total value of projects underwritten by the bank since it started operations is R7,3-billion.

Delays

The bank, which plays a major role in channelling finance from the First World to the Third World sector in Southern Africa, pays for projects according to progress achieved on contracts.

For this reason delays occur between approval of projects and disbursements.

So less than R400-million flowed out of its coffers into actual projects last year. This year, the flow of funds is expected to exceed R400-million and in five years, it is budgeted to exceed R1-billion a year.

The bank employs total capital of R1,65-billion, most of which is tied up in loans and investments.

Its interest income of R104-million (1987: R97,7-million) exceeded its interest payments of R19,7-million (R26,5-million) and covered its operating costs of R44-million (R34,3-million), leaving a surplus of R38,3-million (R34,5-million), which went to the development fund.

SA taxpayers added R250-million to the fund last year.

Biggest loan

The bank divides its areas of support into rural and agricultural development, urban, business and entrepreneurial, infrastructure and human resource development.

The biggest loan approved was R148,8-million for a railway line to support mining development in north-eastern Venda. Next biggest was a loan of R106-million for access roads to the Lesotho Highlands water scheme.

The bank also poured millions into water and electricity supply, phone lines and exchanges, dams and irrigation projects and several village projects.

The bank funds infrastructure in underdeveloped regions because financial returns are so low private sector cannot contemplate it.

The report provides a breakdown on where its funding goes. Region D, encompassing the Eastern Cape, Ciskei and Southern Transkei, and Region G (Northern Transvaal, Lebowa, Gazankulu and Venda) accounted for more than 40% of investment projects.

Ministers

The Development Bank stresses that it is apolitical, but no fewer than three SA cabinet ministers sit on its board.

It has long desired contact with Frontline States, but they have been reluctant to use its services. Last year, however, not only Lesotho but Mozambique made contact.

The report provides a description of all the major projects being supported and there is no question that Simon Brand's bank has become a vital support mechanism for the poorer parts of SA.

Free marketeers may be sceptical of the bank's value, bank but without its redistributive role large areas of SA would be even more poverty stricken.

The job confronting the Third World sector of uplifting itself by its bootstraps would be even more formidable.

Minimum

Taxpayers can be consoled that thanks to the Development Bank, at least their money is being scientifically spent — 75% of the bank's staff of nearly 600 are professionally qualified — and waste is being held to a minimum.

A critical figure for taxpayers in future will be operating costs.

The bank is moving out of palatial quarters in Sandton to its new head office in Midrand.

The building will be splendid, but in keeping with the semi-charitable nature of the bank will not have air-conditioning.

Taxpayers driving past on the Ben Schoeman highway will be able to see that other First World trifles, such as Mercedes-Benzes, are also held to a minimum.

FS follows the offshore trail

By Richard Rolfe

LONDON. — In establishing AAF Investment Corporation as its

heads the corporate finance department of Arbuthnot

Civil arrest cover

Star 4/7/86 (8) 58

Finance staff

General Accident has granted all its policy holders immediate coverage for personal liability arising out of false civil arrest cases.

Said GA claims manager Jeff Smith: "Householders who take part in neighbourhood watches run the risk of making an arrest that is later judged to be unjustified. "We're simply indemnifying all our policyholders — not only members of a neighbourhood watch — against that eventuality. Perhaps now the man in the street will be less afraid to take appropiate action when he sees a crime taking place."

GAalready provides the policyholder with substantial indemnity against accidental property damage and accidental bodily injury to non-householder members. Now it has been extended to include legal liability for damages resulting from the arrest or search of any person provided the liability of the insurers is limited to R10 000 for any one claim arising out of one event.

Source: ... Graphic: JOHN McCANN

Berardo sells Bank of Lisbon holdings

(58) Bld(?) 5/7/88.

REINIE BOOYSEN

THE Joe Berardo group has sold its 10% stake in the Bank of Lisbon which has resulted in a new majority partnership.

The Bank of Lisbon said Banco Nacional Ultramarino and new shareholder, the Amorim group, now have equal stakes. These are believed to total over 80%.

The shareholding was acquired from Berardo, Uniao de Bancos Portugueses — which previously shared control with Banco Nacional Ultramarino — and Banque Portuguais du Luxembourg.

The balance of the equity remains with Banco Português do Atlântico.

A spokesman for the Berardo group said the change was effected for business reasons: "We were offered a very good price, so we decided to accept."

It was unclear whether the move would affect Berardo's position as Bank of Lisbon chairman. "It's entirely up to the shareholders," said MD Durval Marques.

Besides being a founder shareholder in Banco Comercial Português, Amorim has interests in leasing, insurance, property development, textiles and food.

Under-insuring's a financial disservice

COMPANIES which under-insure their assets are doing themselves a financial disservice by not taking full advantage of cover available at prevailing rates.

Insurers claim a strong tendency among most businesses to under-insure due to the inflation factor not having been fully considered at inception date of policies, or at time of renewal.

More importantly, there's the lack of consideration of taking into account the current weak rand when assessing values of items which may have to be replaced from overseas.

Indeed, inflation — an important phenomenon of the past decade — and the economic recession have put the squeeze on bank balances, resulting in a tendency to opt for absolute minimum cover to date.

However, under-insurance is a worry that only emerges after the loss.

First Bowring's national short-term director Richard Austin does not expect the tendency to under-insure will change significantly, other than the fact that less sophisticated businesses/people have failed to grasp the impact of inflation.

General Accident assistant GM Peter Trustham says under-insurance is more serious than realised, where businesses are the insureds. Yet surprisingly, it may not cost the insured any more.

"Where company stocks are involved on an adjustable basis, an insured loses nothing by over-insuring to ensure adequate cover."

However, with re-insurance of buildings and machinery the insured must be permanently aware of the fact that it is in his own interest to maintain adequacy of sums insured in line with current replacement costs, Trustham adds.

Guardian National MD Mike Newman says under-insurance is not that common on business risks, but is endemic in personal lines — despite regular features stressing the application of "average" and the effects of inflation.

"The buyer of insurance tends to spend what he can afford, instead of determining what his real needs are in terms of insurance protection," he says.

Sentraboer GM: operations, James Hogg, says that while under-insurance has been aggravated by high premiums in recent years, if the true values are to be insured it would probably lead to a gradual reduction in tariffs.

With inflation having dropped only marginally, but expected to remain high for years, and the big fall in the rand's value against most currencies this year, companies and individuals would be wise to reassess replacement values and cover more frequently nowadays.

This advice applies particularly as housebreakers select those items where the cost of replacement has risen most rapidly· TVs, cameras, videos and hi-fi's

Guardian National MD Mike Newman . . . "under-insurance is not that common on business risks"

Cont

Protecting earnings

SHORT-term insurance has become more a corporate financial function, and a way has been opened for a quantitative approach to risk-management.

This is a vital tool in cost-effectively protecting company earnings and assets. And, says Corporate Risk Management director Frank Butler, the key to successful risk-management is to ensure that a proper data-base is established.

"Data collection is the longest but most important phase in establishing a quantitative risk-management programme, as it provides the base on which all subsequent analyses and decisions are made."

Sources for the data-base include loss histories, insurers, re-insurers, brokers, administrators, external auditors, internal accounting and Government reports.

Once data has been identified and collected, it has to be turned into information and this often requires computerisation.

Butler adds the information compiled has two primary uses — as a strategic planning tool and as an operational tool.

"Up to this point a foundation is laid for determining strategic plans for the risk-management process. The quantitative information and analysis phase allows the company to set reserve levels, decide budgets, fund its risk-management programmes and determine the size of staff required."

The information is also vital for ongoing risk-management, as it can be used to monitor risk control activities, evaluate the effectiveness of administration and monitor insurance policy limits against reserves and payments.

At the same time that data collection is organised, a cost-of-risk study must be carried out to identify the elements that go into protecting the company.

These usually include insurance premiums, retained losses, cost of claims administration, risk control services, broker fees and commissions, cost of outside consultants and the salaries and benefits of risk-management staff.

The overall exercise must also establish how much the company must fund and by what method. This can be done quickly and effectively if the proper data is analysed.

Butler concludes: "Quantitative methods are playing an important role in transforming insurance buying into the professional risk-management discipline now being applied by most major quoted companies."

Over-capacity

OVERSEAS re-insurers will continue to accommodate the needs of the South African market in spite of current sanctions pressure — provided this market is profitable.

Put another way, Guardian National MD Mike Newman says re-insurers will "not lift a finger" to help SA if it produces an underwriting loss.

Consensus among local insurers is that an over-capacity exists in the worldwide market for re-insurance acceptance, and this in turn is reducing premiums and widening covers available to the direct market.

And re-insurance is softening despite a number of worldwide disasters; not even the British and Scandinavia storms have curbed the softening.

In view of the different accounting methods adopted by re-insurers of the direct market, it is unlikely that the full effect of the Natal and Free State floods will change re-insurance terms in the local context until 1989/1990, says General Accidents assistant GM Peter Trustham.

"Here, however, terms of re-insurance are largely affected by the worldwide capacity, and until that shrinks and the effect of the hurricanes and floods experienced in Europe last year work their way through re-insurance accounts, we do not see anything other than a softening market in the immediate future," says Trustham.

According to Sentraboer GM James Hogg, Lloyds have new syndicates which are hungry for premium income, and the local market is a good target — despite the recent floods.

Efforts to 'clean up' the industry

EFFORTS are under way to curb insurance malpractices and poor service — both within the industry and by insureds.

And claims that a lack of underwriting skills and slow payment procedures are costing customers time and money have drawn explanations from insurers.

General Accident CE Clive Dean says the lack of certain managerial skills in underwriting is no different from what happens in other industries.

He reckons the solutions lie in using qualified female staff to fill these vacancies, to conduct on-going training programmes in these areas, and the use of more sophisticated technology.

Women, notes Dean, are ambitious and most keen to accept added responsibility in the industry.

"I am not too sure that it is in the underwriting and management areas that the problems occur, but rather a general lack of customer consciousness — again a hallmark of business generally in SA," he says.

On the issue of some insurers being unduly slow in paying out claims, SA Insurance Association CE Rodney Schneeberger says every insurance company knows that its best advertisement is its claims settling service.

"I readily conceive that errors take place, but where these are discovered I think you will find they are quickly rectified by senior managers. It is not the policy of an insurer to be tardy in claims settlements."

As for "kick-backs" involving assessors and service companies, such as building repairers and panelbeaters, Schneeberger says insurers are aware of this practice and have recently tightened their controls to curb it.

Similarly, specific measures are being taken by the industry to exert greater vigilance against false insurance claims — something which increases significantly in time of hardship as was the case in 1986/1987.

"Where false or fraudulent claims are discovered, insurers will now persue these by having the perpetrators prosecuted, and will make efforts to obtain appropriate publicity," he says.

T-TERM INSURANCE

HOW GOOD?

SECURITY and insurance go hand-in-hand, and South Africans would be wise to treat the two disciplines more seriously — particularly personal insurance and protection.

Those who rely solely on "all-risks" insurance cover from a reimbursement angle, are unwittingly exposing themselves to more than the common risks of fire, theft, floods and injury. They may even be gambling with lives.

The feeling by South African home-owners — and, for that matter, many businesses — of "being covered" against risk is something of a false sense of security.

Indeed, apart from the obvious need to limit one's property or person against "financial loss", one should nowadays seriously ask "how good is my front line?"

Insurance cover aside, security is seldom adequate as most South African homes are easy targets for the criminal — even when the owners are there, say security consultants and insurers.

Because spending money to fully prevent misfortune is still regarded as a "gripe outlay" by most, it is often easy to overcome losses of possessions arising from theft or fire, but it's seldom easy to forget the affects after a personal attack.

Security men therefore stress that the right way to go about protecting one's possessions is to become aware of the need for proper personal protection.

And, like the learning of most good things, this attitude should be nurtured at home through a proper perimeter security system aimed firstly at good personal protection, and then enhanced safety of property and personal possessions.

Most perimeter security systems are ineffective and a waste of money because, security consultants say, home-owners have taken the "cheap route" when purchasing security products.

This often results in high failure rates, costly service charges or inadequate protection.

Light shed on homelands

Valuable statistics reveal life of our other 'citizens'

Cape Times 6/7/88

58

By BARRY STREEK

ALTHOUGH more than half the black people live in the 10 homelands, four of which are now independent, it has until recently been extraordinarily difficult to establish basic facts about the situation in those areas.

Apart from the inaccessibility of this information, the situation was made confusing by previous government policy to regard all blacks as "citizens" of one or other homeland.

This led to official population statistics about "de jure" and the "de facto" populations, which were intended to identify the "citizens" of each homeland, even if they were not living there, and the people actually resident inside the homelands.

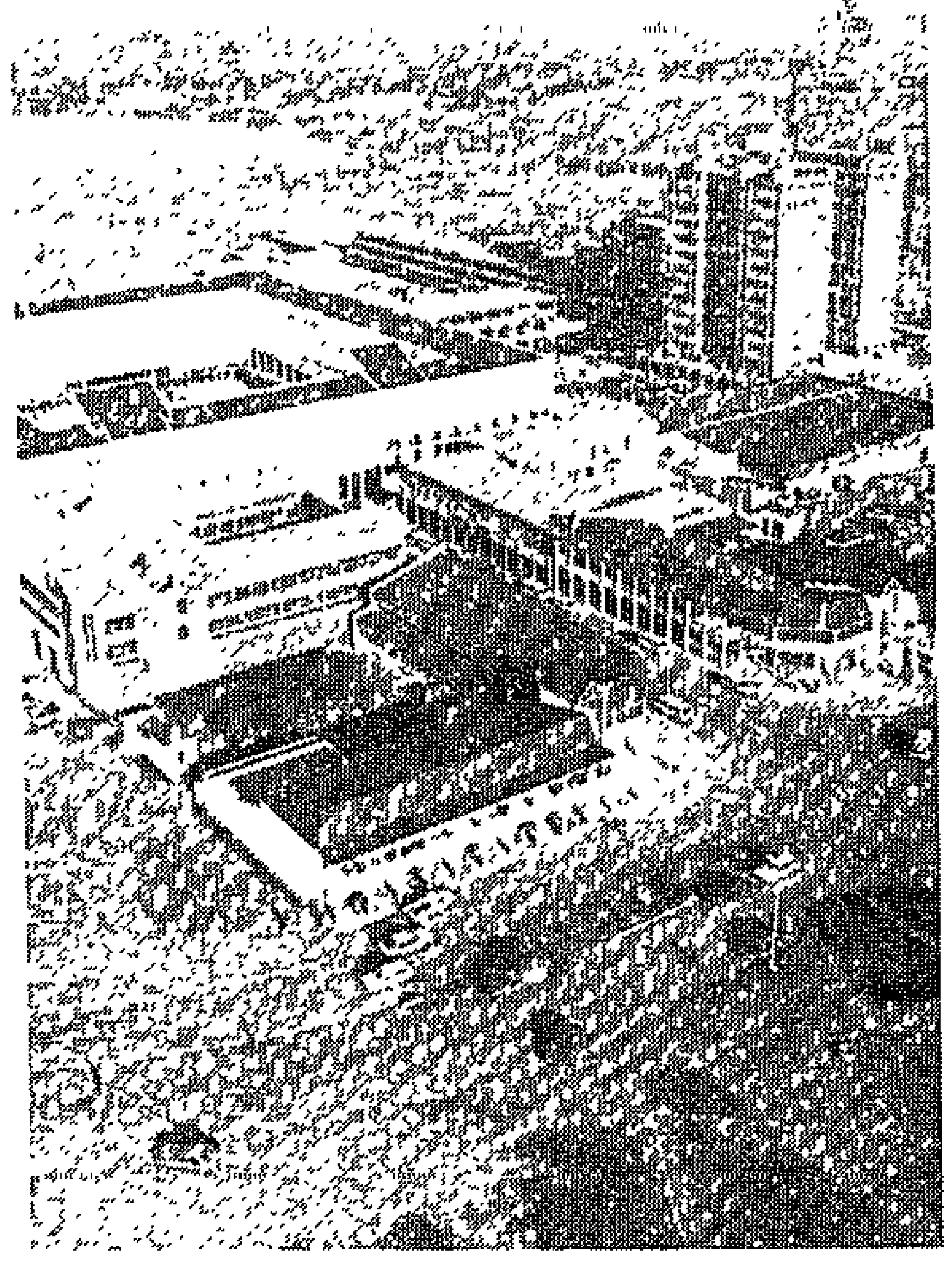
Often, too, suppporters of separate development used to quote selected statistics, even if they were uncorroborated, to justify the homelands system.

Clarifying

Now, fortunately, the Development Bank of Southern Africa has undertaken the substantial task of clarifying the situation and publishing the facts about the homelands.

The bank first produced lengthy "development information files" about the homelands. These documents, the most comprehensive ever published about the homelands, are, however, only useful to dedicated researchers.

The bank has now published two volumes of statistical abstracts, extracting some of the essential information contained in the development information files.



GROWING FAST... Bisho, the Ciskei capital, has grown in a few years from empty veld to a modern town.

One volume contains facts and figures about the situation in South Africa outside the homelands and in the four independent homelands. The other has information about the six non-independent homelands.

Through these abstracts, one can establish how many people are estimated to be living in the homelands, how many schools, hospitals and clinics there are, or how many migrant workers leave those areas to find employment.

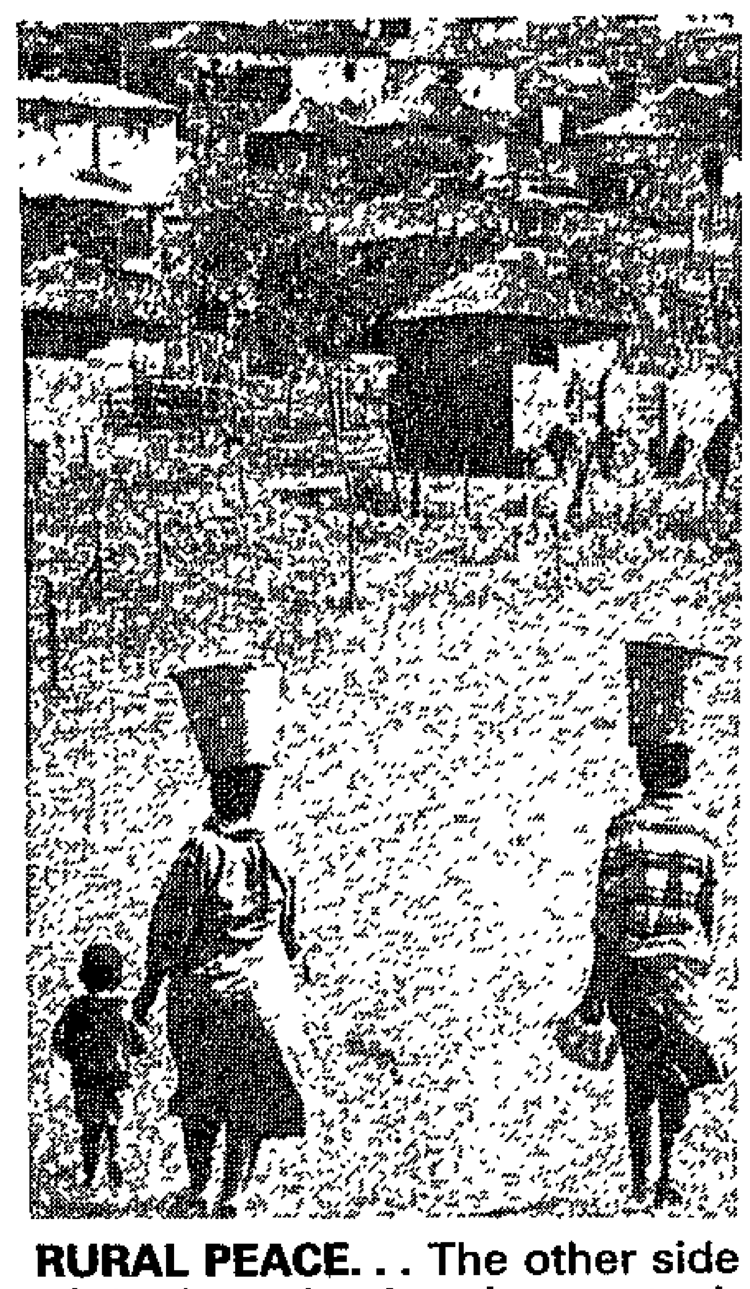
Macro nature

As the bank says in the introduction: "The information contained in the publication is, as the title implies, of a macro nature ... it is expected to satisfy the information needs of most decision-makers, students, scholars and overseas visitors — in fact everyone who wishes to obtain a bird's eye view of the countries concerned."

For instance, most South Africans do not live in urban areas and there are very low levels of urbanization in the 10 homelands.

Although 56,5% of the people outside the homelands live in urban areas, only 5,1% do so in Transkei, 14,8% in Bophuthatswana, 2,9% in Venda, 35,4% in Ciskei, 4,1% in Gazankulu, 13,8% in kaNgwane, 9,5% in kwaNdebele, 23,3% in kwaZulu, 6,4% in Lebowa and 11,8% in QwaQwa.

If one adds up the figures, one finds that 24 023 306 South Africans live in the rural areas and 17 681 818 live in urban areas. This means that 57,6% of the 41,7 million people in South Africa are not urbanized.



RURAL PEACE... The other side of the homelands coin — a typical rural village where facilities are in short supply.

It also underlines the magnitude of the urbanization process in South Africa — and the enormous social and political problems this will entail as more and more people drift from the abject poverty of the rural areas towards the urban areas.

The abstracts also emphasize the vast differences between the developed areas and underdeveloped areas of South Africa.

For instance, in South Africa, outside the homelands, there is one doctor for an average of 1 353 people. In Transkei the ratio is one for 11 827, in Bophuthatswana one for 18 420, in Venda one for 24 210, in Ciskei one for 3 989, in Gazankulu one for 7 508, in kaNgwane one for 16 513, in kwaNdebele an astonishing one for 51 011, in kwaZulu one for 15 845, in Lebowa a remarkable one for 60 292 and in QwaQwa one for 17 134.

In South Africa, the pupil:teacher ratio dropped by 1,6% from 34,3 in 1980 to 31,6 in 1985. In Transkei, it also dropped, by 2%, but the 1985 ratio of 45,3 is much higher than in South Africa. In most other homelands the pupil:teacher ratio is similar to that in Transkei, with KwaZulu the highest at 53,3, but, interestingly, QwaQwa at 33,9 and Venda at 35,4 are lower than the other homelands.

The vast disparities in the provision of social facilities between the homelands and the rest of South Africa demonstrate the enormous development task facing South Africa before reasonably equal access to health and educational facilities for all South Africans is attained — and they emphasise why life in the urban areas in the cities is so much more attractive to living in the rural areas.

How money is spent

While the spending priorities and levels of financial management by most homeland governments can only be questioned, these huge disparities also demonstrate that substantial amounts of money are urgently required for developmental work and the provision of basic facilities in the homelands. No one can doubt that increased government spending is required in these areas. The real problem today is how money is spent, or rather misspent, in the homelands.

The Development Bank must be congratulated for compiling this often inaccessible information. This can only aid the formulation of development strategies.

The abstracts do not contain estimates of income levels, although this information is in the development files. In the Ciskei, for instance, the file shows that rural households of an average of 6,2 people survive on an average of R283 a month.

Still, the abstracts have made information about the homelands, and comparisons with the rest of South Africa, very much more accessible. One can only hope that it is updated annually.

☐ Statistical Abstracts on the SATBVC countries, 1987 and Statistical Abstracts on self-governing territories in South Africa, 1987, published by the Development Bank of Southern Africa, Box 784433, SANDTON 2146.

Star 6/7/88

Mortgage loan market shrugs off rising interest rates

58

By Sven Forssman

There has been a slight drop in activity in the property market, but rising interest rates have not greatly affected applications for home loans, says Piet Kruger, general manager of administration and technical services at United Building Society.

Home loan rates, which were slashed in the bond war between building societies and banks last year, made a sharp about turn earlier this year and have been rising ever since.

The first shocks of the Government's credit squeeze were felt on May 5 when First National announced a 1,5 percent increase in its bond rate to 15 percent.

Allied Building Society increased its rates from 13 to 14,5 percent the same month. Then on June 17 it said its rates would rise to 15,2 percent. UBS lifted its rates to 15 percent from July 1.

"There has not been a significant drop off in applications for home loans — more a slowdown — and there is still lots of activity according to the feedback we get from estate agents. And we're still lending at the same levels," Mr Kruger said yesterday.

Allied spokesman Andre Latre said applications for home loans had started slowing down from the end of May.

"But the fall-off — about 4,7 percent — has not been significant," he said.

"The fact that Standard Bank is increasing its rates to 14,75 percent from August is a clear indication that financial institutions are starting to feel the pinch.

First National assistant general manager Colin Minty said bond rates could conceivably go up slightly by year-end, but were unlikely to be on the same scale as the major increases a few years ago.

The general feeling among financial institutions is reflected in stockbroking firm Frankel, Kruger, Vinderine's latest economic report, which says the slackening of interest in the property market does not appear to be deep-seated.

It says the real (deflated) value of building plans passed has "shown some fairly healthy growth, which continues unabated into 1988, despite interest rate movements".

"Developers appear confident that demand will improve in the longer term and have submitted plans of 50 percent greater value than in the corresponding period last year."

Heavier insurance bills for red areas

58

Storm claims total R600-m since 1983

Star 6/7/88

By Michael Chester

The big insurance companies, reeling from a five-year stretch of claims running into millions of rands from storm catastrophes, are redrawing their maps of South Africa — with red rings around high-risk flood areas.

Homeowners and businesses inside the lines of demarcation may soon face heavier bills for insurance cover.

And municipalities within the rings are expected to come under pressure to incorporate new safeguards to keep flood damage to a minimum — and ensure a speedier restoration of essential services if hit by freak weather.

The exercise to pinpoint high-risk zones has been launched by the SA Insurance Association (SAIA) after investigations revealed that the total claims for storm damage repairs had soared to more than R600 million since 1983.

Mr Peter Evans, chairman of a Special Perils Committee that has been created by the SAIA to find new solutions to the "alarming" rise in insurance claims, is especially concerned at the size of claims to compensate for interruptions to businesses due to long delays in the restoration of key services — such as electricity and water supplies.

Claims for losses due to standstill after the storm chaos in Natal and the eastern Cape last spring have now been calculated at more than R100 million — boosting overall claims to above R390 million.

The R100 million claims figure is more than two-and-a-half times the size of all the claims paid by insurance companies as a result of the devastating Cyclone Demoina four years ago.

The committee has asked hydrology expert Professor Des Midgeley, of the University of South Africa, to help research weather patterns and geographical features to assess the chances of future disasters.

Also coming under the microscope will be the location of other freak storms over the past four years — and how much they cost the insurance companies, and why:

- Springs, hit by storms in November 1983 (R20,5 million).
- Storms of May 1984 — the Reef (R38 million), the Cape (R22 million), Vereeniging (R18,5 million).
- The nationwide storms of 1985 (R53 million) and 1986 (R28 million).

Guardbank tops in capital appreciation

Star 6/7/84

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Finance Staff

The Guardbank Group's unit trusts led the field in capital appreciation in both the general and the specialised sectors in the June quarter.

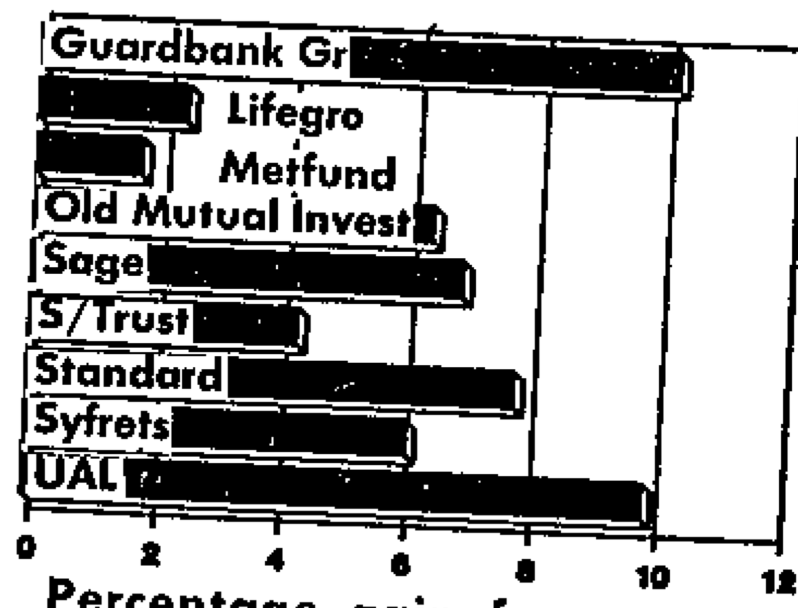
In the general section the Guardbank trust achieved a 10,2 percent gain edging UAL with its 9,9 percent unit price rising into second place. Among the specialist trusts Guardbank Resouces gained an impressive 13,4 percent.

Runners up in this sector were Sanlam Index with a 9,5 percent gain and Sanlam Industrial with an 8,0 percent gain. The rise in Guardbank was all the more praiseworthy as it is the second largest unit trust having assets of R413,2 million and therefore had less room for manoeuvre than the smaller funds.

However, by this criterion, the 6,4 percent gain achieved by the Old Mutual which has R950 million in assets is also worth a mention. Guardbank Resources started the quarter with assets of R30,6 million of which 16 percent was in gold, 20 mining finance, 24 in 'other mining' and 7 in industrials. It had 33 percent of its funds in liquid and other assets.

Selective and defensive management helped Guardbank's three unit trust funds turn in the creditable results for the quarter to end-June, the fund managers said yesterday.

The repurchase price of the Growth Fund rose 9,31 percent over the quarter, from 936,72c a unit to 1023,92c.



Percentage gain for mutual funds in the June quarter.

The ex-distribution repurchase price of 1000,68 cents a unit at end-June represents an increase of 8,41 percent over the 936,04c at end-December.

There was an 11,35 percent rise in the repurchase price of the Resources Fund but this reduced to 3,45 percent ex-distribution. Adding an income distribution of 2,60c a unit for the six months to end-June, the overall increase in the unit price was 6,51 percent.

The repurchase price of the Income Fund units edged higher by 2,76 percent in the quarter, but a marginal decrease of 0,51 percent was recorded ex-distribution.

The market value of Syfrets Growth Fund climbed from R67 million at end-March to R78 million at end-June, while unitholders increased by 1 000 to 12 000, the fund says in its quarterly review.

At end-March the fund held 21,5 percent, or R14,4 million, of its assets liquid, but by end-June the figure had fallen to 16,8 percent, or R13,1 million, despite the inflow from new investments.

Bank of Lisbon hails sale

SAS 6/7/84 (58

The sale of the Berado group's 10 percent holding in the Bank of Lisbon could not have come at a better time, says MD Dr D Marquies.

He said yesterday the bank had embarked on an expansion programme and that the links with Banco Nacional Ultrmarino and new shareholder, the Amorim group, would give it access to an extensive network in the Far East, Europe and America.

He said he did not see the move having any effect on the day-to-day operations.

Dr Marquies said Joe Berado would remain on as chairman of the bank and the the matter would be discussed at a special general meeting of shareholders to be held later this month. — Sapa.

Freeze on premiums could become 'war'

LAST month's assurance by SA's largest personal insurer, Santam Insurance, to freeze all general increases in premiums for the rest of 1988 may have brought the low profile rates war into the open.

That's how some brokers see the rates-cutting situation, mainly ascribed to increased local competition arising from a drop in claims due to clientele risk-improvements and police breakthroughs in recoveries of stolen goods, gain momentum.

However, some insurers and brokers increasingly note that external pressures are playing a bigger part, as overseas insurers and reinsurers seek a bigger slice of the South African market to make up for losses abroad.

And although Santam MD "Oosie" Oosthuizen's announcement has brought the issue properly to the fore, certain other insurers claim they started quietly cutting rates as long as up to a year ago.

Still, with big insurer Santam publicly punting its cut rates, it looks like the game is definitely on. Its latest move follows last October's holding of premiums affecting 40 000 Santam policyholders with good claims records.

Santam's personal Multiplex policies for 1988 — and possibly well into next year — are affected, which means more than 250 000 policyholders will benefit — a clientele considered the largest held by any South African insurer.

As Oosthuizen notes: "We have always been the market-leader, and I fully expect other insurers who announce good profits in the next few months to follow us.

"However, should some companies continue to increase premium rates, they will find themselves facing very stiff competition," he says.

The main reasons for Santam's decision are:

- The satisfactory results the company had last year have carried on into the first half of this year;
- Santam's clients have taken the necessary care and precautions to protect and secure their properties and possessions;
- The call by State President P W Botha to limit increases in order to help curb inflation.

Commenting on claims in general, Oosthuizen says the average amount of claims had for some time been rising faster than the overall inflation rate.

"This was logical, because so often thefts are related to motor vehicles, television sets, videos etc — all of which have seen price increases higher than inflation."

However, the frequency of claims had recently declined dramatically, "due to the police being better positioned once again to perform their normal law-keeping role and because clients were taking more care," Oosthuizen adds.

Commercial Union (CU) GM John Kinvig says the improvement in crime-solving arising from householders contents policies, prompted the company to introduce a three-year no-claims bonus for its policyholders a year ago.

Not only is this now being extended to a five-year period for clients with good claims records — especially those who have followed risk improvement recommendations — but CU is also offering a discount on rates to "mature" drivers who have better-than-average records.

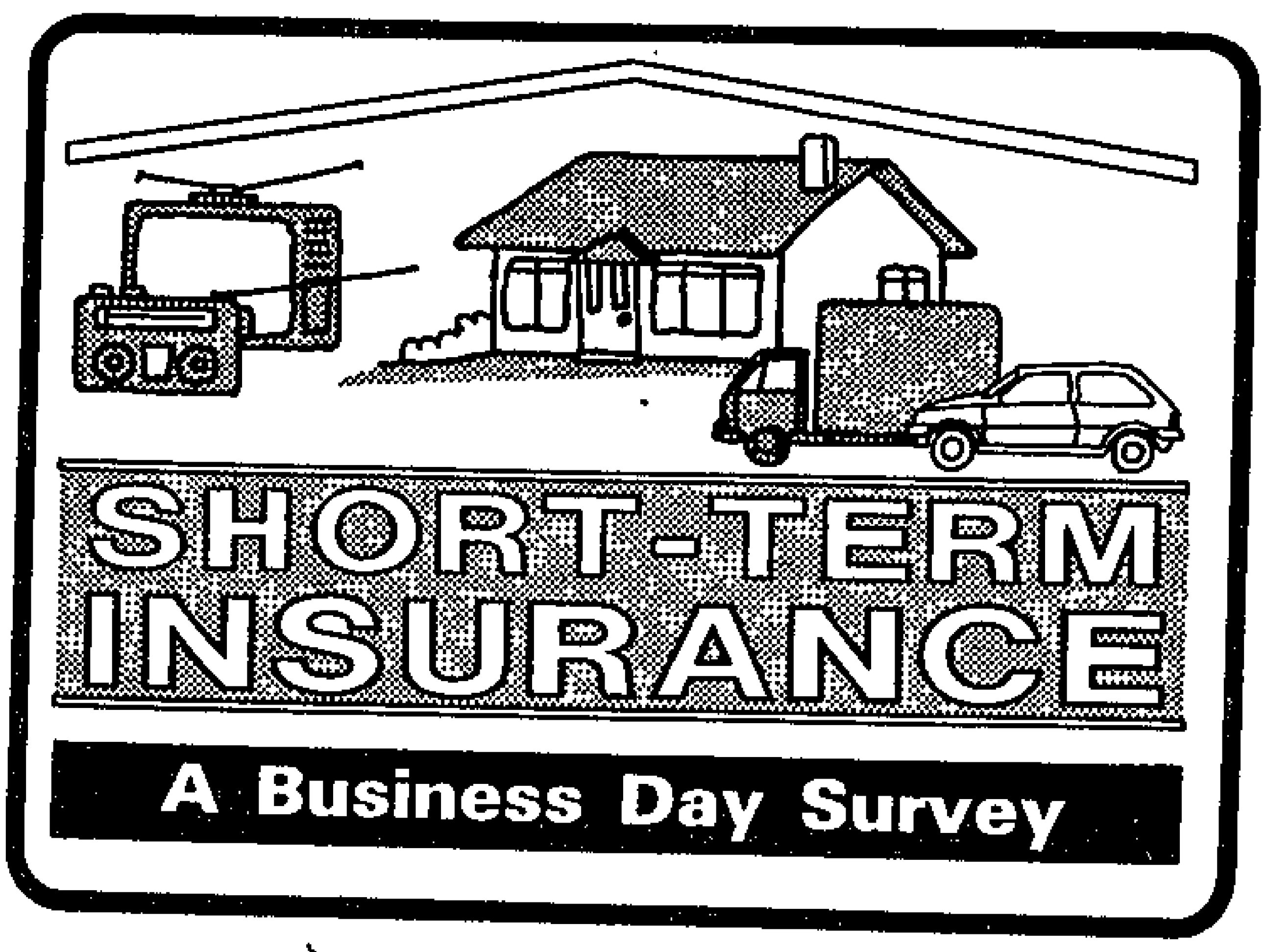
Furthermore, it is to introduce a 10% discount to new and existing householder and motor car policyholders, as a token of appreciation for a turn in the "crime tide" of a few years ago.

Mutual & Federal MD Ken Saggers says his company had not increased rates since last year, when the decline in frequency of claims was fully recognised. At that time they offered a no-claim bonus for householders, in addition to a bonus scheme for motor insurance.

"I also announced in March that rates would remain unchanged in 1988 and for as long into 1989 as possible," he says.

General Accident assistant GM Peter Trustham says the softening of rates is cyclical.

"The problem this ever-changing cycle causes, however, is that the insured and insurer do not build a mutually beneficial long-standing relationship. Instead, it causes disruptive influences due to business being changed frequently for the cheapest premium."



Time is right to reduce

NOW is the time for any business with a good insurance claims history to ensure its brokers put pressure on insurers to reduce — or at least maintain — premiums at last year's levels, a leading broker advises.

"Brokers should, on behalf of those better clients, at least resist any further premium increases this year, says Trident Insurance Brokers director Dave Burgess.

And for good reasons, says Burgess — a committee member of the Insurance Brokers Council — who cites spiralling insurance company profits and a continued healthy outlook in insurance.

That many of SA's biggest short-term insurers have openly gone this route tends to support his call.

But other brokers and insurers also point to a need for the industry to build up a solid base amid possible overseas reinsurance isolation due to santions in the years ahead.

Good balance sheets stemming from the numerous and substantial increases in premiums were an over-reaction by both the public and certain insurance companies to the AA Mutual Insurance (AAMI) debacle in May 1986, Burgess claims.

"Certainly, insurers must make a profit like any business, but if you compare their greatly enhanced profit situations with any other field or industry, there never has been such a startling turnaround in figures in such a short time," he claims.

Burgess cites AAMI's demise — a company which had refused to join in with the other insurance companies' efforts to standardise rates in the industry — as being part of the cause towards spiraling premiums.

Other insurers were suddenly faced with the situation of not only having one of their major competitors removed, but being met with an avalanche of new business as AAMI clients scurried to find new cover.

"Many of AA Mutual's former clients' over-reacted to the situation by insisting on placing their insurances with the largest two or three insurers, rather than this 'new' business being spread over all or most of the insurers.

"This panic situation was unnecessary, as all of the insurance companies were financially sound," he claims.

AAMI's collapse was then used by other insurers as a golden opportunity to correct the previous situation where the "rates war" had led to insurers charging unrealistically low premiums merely to retain business.

While competition or even a rates war could have a positive effect on maintaining premiums at "reasonable levels," when this goes too far it can lead to a suicidal situation where some insurers are forced to charge unrealistic premiums for a risk merely to retain market share or income, says Burgess.

That some insurers did over-react is apparent from analysing year-end results in both 1987 and 1988, he says.

"Premiums were increased and, in some cases, increased time and again. One insurer implemented four such increases for certain classes of business in the 12 months following AAMI's collapse."

The Trident brokerage took a stand and refused to deal with this particular company.

"And we've continued to deal only with companies who were prepared to moderate any increases and who would actually look at and analyse a client's risk-exposure linked to his previous claims experience, instead of merely imposing across-the-board increases."

Not all brokers had been as vigilant, and some horrendous increases were incurred by certain companies, he claims.

Still, high inflation and increasing replacement costs of imported goods and machinery, have helped legitimise part of the increases in total premiums.

Commercial Union (CU) GM John Kinvig does not disagree that the man in the street with a good track record should receive financial recognition.

"This accounts for CU being one of the first insurers to offer a no-claims discount for householders' policies last year," he says.

Because insurers have insisted that clients install greater levels of protection to secure their properties and assets — including alarms/immobilisers into vehicles — this has contributed something to reducing losses.

Stolen vehicle recovery rates by police have also been improving.

Written by LYNN CARLISLE

FEARS ABATING

WITH the short-term insurance market recording an 18,6% overall growth as at September 30 last year compared with the 12-month period ending December 31 1986, earlier fears that some insurers could be on shaky ground appear to be abating.

But cause for concern has emerged in terms of trends noted by the reputable Quest Insurance Advisory Services.

On the positive side, solvency margins improved almost 10% to an average of 49,7%. The statutory requirement is still 10%, and from results emerging there are less insurers with margins below 20% than in 1985/1986.

Says Quest chairman Denzil Curgenven: "Great strides have been made by the financially weaker insurers to strengthen their bases, which is an encouraging sign."

Certainly, he says, the direct underwriting market would appear to be in a healthier state now than for some years, but it mustn't be forgotten that the brunt of the losses arising from the Natal and Free State floods fell to the reinsurers, and their results have suffered in consequence.

"The direct market's financial base (made up of both free and technical reserves) rose to 112% of net premium income from 109% in 1986, and profitability improved considerably as the underwriting loss fell an impressive 81,5% from R68,7m to R12,7m," notes Curgenven.

As at September 30 last year, the results only included the 1987 figures of eight insurers representing about 40% of the market — but these included market leaders Santam, Mutual & Federal and IGI, whose incomes for the period were boosted by the collapse of AA Mutual — especially in the motor portfolio which recorded a 26,8% growth.

"That portfolio contributed a hefty R38,9m profit, well up on year-end December's R3,3m," he says.

That motor cars was the oinly profitable portfolio while historically profitiable classes such as fire, marine and personal accident recorded losses and reduced growth, could reflect heavily on future results.

Traditionally, motor results are cyclical, and as it represents about 40% of the total portfolio, it is the dominant player.

After motor, miscellaneous (comprising most of the crime-related classes) recorded the next highest growth at 19,4% and an underwriting loss of R35,3m.

Since 1973, the first year recorded by Quest, miscellaneous has returned underwriting losses, and while an improvement in this portfolio should be recorded when all the results for 1987 are in, its growing dominance may cause some worry, he says.

"However, the dominance of motor and miscellaneous — while other portfolios diminish in importance — and the market's reliance on motor to generate profits, most certainly is cause for concern," adds Curgenven.

SHORT-TERM INSURANCE

Self-insurance can reduce costs

MORE major companies are reducing their short-term insurance costs through well-planned self-insurance schemes and, while contrary in principle to insurers' interests, many are giving conditional credit to self-insurance.

While few companies could afford the limitations and risk of "self-insurance", some insurers and brokers say there are advantages to all parties if it is properly programmed.

What self-insurance does do is remove from an insurer and from businesses the expensive administrative handling of losses up to the self-insured's amount.

As General Accident assistant GM Peter Trustham notes: "Premium income of insurers is inclined to be eroded far too much by what may be termed 'inconsequential losses', leaving too little to pay for the catastrophe which occurs from time to time."

Thus self-insurance puts insurance back into perspective of its original intention of protecting businesses against these catastrophic losses.

Insurers should not be opposed to the element of self-insurance where it is limited to "reasonable levels" which may be borne by any business, he says.

"But the level should be very carefully considered in a proper insurance programme worked out between the insured, insurer and an intermediary," adds Trustham.

To a degree it is used an an underwriting tool to promote client interest, for example in the case of compulsory excesses under motor policies, notes Guardian National MD Mike Newman.

The objective here is to control loss-experience and to try to maintain premium stability.

Newman believes that gradually, as major insureds increase self-insurance, it will lead to them purchasing only catastrophe protection from insurers. However, the inescapable fact is that this will lead to substantial shrinkage in premium income from the coporate sector.

Many companies which looked into self-insurance after the spate of massive premium increases over the past two years, found it riddled with imponderables which were particularly unfavourable towards the small and medium-sized company.

Whereas any company could always self-insure against most minor crimes such as burglary, loss of money etc — or even minor risks like breakages of glass — it could hardly afford to take the chance of losing all its assets as a result of fire or a serious storm.

According to Trident Insurance Brokers director Dave Burgess, one insurance surveyor stated that about 80% of fires in factories were due to electric faults, and the past summer has shown the level of devastation possible from storms and floods.

He reckons another area where self-insurance falls short, would be liability.

"This is where an error or even malice by an employee could so easily result in someone claiming substantial damages, sometimes running into six figures."

As to motor vehicles Burgess says some companies have reduced cover to third party only.

MUST

"However, with the huge increase in car prices and the cost of vehicle repairs, many companies cannot afford to take the risk of having several vehicles damaged or written off in the same year. So at least for newer vehicles comprehensive insurance is a must."

First Bowring's national short-term director Richard Austin agrees that while the advantages to insurers are a reduction in administration, fewer claims and less minor issues such as endorsements and premium collections plus lower costs, there are some disadvantages, namely:

- A reduction in cash flow;
- The danger that the insureds will realise the industry is not fulfilling its task of distributing losses,

Dramatic drop in theft of vehicles

THE fact that fewer vehicles are being reported stolen has undoubtedly led to an improvement in insurance company profits, while customers are also reaping certain benefits.

Indeed, most insurers not only report a big fall in vehicle thefts in recent months, but deft police action has also led to a better recovery rate of stolen vehicles, insurers say.

Commercial Union's (CU) MD Bill Rutherford says CU figures show that since May last year the incidence of household theft has also fallen almost 15% countrywide, while car thefts on the Reef declined by almost 25%.

"We feel it's only fair that the benefit of the improved claims-trend should flow back to policyholders," says Rutherford.

As First Bowring's national short-term director Richard Austin points out, the market's reported "considerable drop-off" in stolen vehicles may not necessarily mean that theft and the threat of theft has subsided to that extent.

"While improvements are partly attributable to the fact that most new cars are fitted with immobilisers and alarms, plus increased police activity, a possible shift of theft to older cars which are often not insured cannot be discounted," he says.

General Accident claims manager Jeff Smith notes a 30% reduction in cars stolen in the last few months. This is partly attributable to immobilisers and alarm systems, he says.

Guardian National MD Mike Newman adds that a survey of its Reef operations suggests that thefts have "at least stabilised", while recovery rates are up.

"Where properly fitted immobilisers are used, the improvement is above average," says Newman.

And IGI CE Michael Lewis adds that the "exceptional results" of police action curtailing vehicle thefts along with domestic and commercial burglaries has been a major contributor — as has the improved economic climate — to better profitability in short-term insurance.

After vehicle thefts peaked in 1986, an initiative by the SA Insurance Association (SAIA) and supported by the SA Police, has resulted in the successful launching of several campaigns — including a reward system to informers.

In addition, insureds have been encouraged in several ways to take a greater interest in preventing vehicles from being stolen. Thus all parties concerned have ended up playing a greater part in the anti-theft campaign.

SAIA executive director Rodney Schneeberger says it's really been a question of bringing the theft problem within manageable proportions.

"Although it might be a little early to say that the task of effecting protective and preventative measures has been successfully finalised, the indications are that this will be the case," says Schneeberger.

BD 6 July 1988

PRODUCT 'FIRSTS'

NEW services, products and market innovations have sprouted up thick and fast in recent years, as short-term insurers strive for greater market share.

The range of new policies which make up product "firsts" are more imaginative compared with the tried and trusted — yet somewhat staid — range on which most customers have come to rely.

Among the latest to emerge is Commercial Union's (CU) big break for householders and private motor vehicle policyholders (current and new), who are being offered a 10% "thank you" discount as from August 1 as a result of improved claims experience.

This follows hard on the heels of a no-claims bonus on householders' policies and discounts for mature and "dual use" drivers.

The country's largest composite insurer attributes its generosity to a definite turning in the "crime tide" of a few years ago — one that brought heavy underwriting losses for insurers.

"Precautions taken by policyholders, the work of the police, neighbourhood watch-groups and the installation of anti-theft devices, have altered the adverse claims trend which forced insurers to raise premiums," says CU MD Bill Rutherford.

CARGUARD

ALTHOUGH it's not new for an insurer to get involved in repairing motor vehicles, few insurance companies worldwide have chalked up significant successes in this field.

Hollard Insurance, the Lloyds-style flexible and innovative short-term underwriter in vehicle rental, breakdowns and personal lines, has launched a comprehensive motor policy called "Carguard."

Hollard pioneered unconventional solutions such as its political riot cover scheme in 1981, and more recently enhanced self-insurance. The difference with Carguard is that it removes opportunites for dubious market practices, such as "backhanders" to assessors and tow truck operators.

Explains Hollard MD Miles Japhet: "This was a major incentive for the move, while the policy ties in with the first Carguard repair centre started in the Western Cape last year."

Sold through finance houses, the policy removes an additonal profit centre relating to about 50% of total claims expenditure.

Carguard aims to remove the many frustrations associated with accident repair, and significantly speed up the repair cycle at the most competitive premium rates.

It has now been expanded to include the major centres, and Carguard currently has five repair centres in operation. It boasts substantial no-claim bonuses to private car-owners and fleet operators alike.

COVER

COVER, the Penrose Holdings magazine which is due to launch its third edition of authoritative news about insurance and assurance in southern Africa, has filled a gap that has existed all along.

Edited by former SA Insurance Brokers Association executive director David Alston, is covers every conceivable aspect of insurance, and is meant to be of interest to those indirectly connected with both industries — including the medical and accountcy professions.

Alston is convinced the problems stem from misunderstanding in the public's mind as to what insurance is all about — "hence our poor image."

Cover has the opportunity to put insurance into its correct perspective, he says.

MILLIONNAIRE

IN a sense, there's been some cross-pollination taking place between insurance and assurance, and the new "millionaire's policy" underwritten by General Accident (GA) provides one of two recent examples.

GA marketing manager Allan Currie says the policy launched by Beckett Brokers and Associates provides "great cover" for high earners.

It's both a personal accident and sickness scheme, which pays up to 100% of insureds' incomes and the cost of employing a locum during temporary disablement.

What's more, R1m in cash is paid should an insured become permanently disabled or should an accident be the cause of his untimely death.

Cover costs about R1 500 a year, and no medical examination is required prior to signing up.

Until now, similar schemes only paid about 70% of monthly income — or about 30% of total compensation when all other expenses are taken into consideration, it is claimed.

HELP PLUS

STANDARD GENERAL (Stangen) is offering SA's first hospital benefit insurance policy backed by a life assurer. Until now, the short-term insurance industry has been the only source of such cover.

Stangen's "Help" policy for hospital emergency lifeline, is highly flexible and introduces the innovation of insurable units of payment starting at R25, a day and ranging up to R250 a day with an extra 50% if intensive care is needed.

Its "Help Plus" policy, with benefits of up to R250 a day, covers catastrophic situations. Benefits are doubled if intensive care is needed.

Stangen's Mike Cooper says with the Help policy the family man can choose how many members of his family he wishes to cover, and the amount of cover he takes.

CHANGES loom in the short-term insurance industry, which could place it on a sounder footing and lead to greater stability in premiums in the long run.

This is expected to stem from the rewriting of existing legislation, much of which could be influenced from recommendations due soon by the Melamet Commission of Inquiry, set up to investigate the unfortunate demise of AA Mutual Insurance.

Insurers and brokers expect this to result, among other things, in a tightening of solvency provisions in the industry — a move they would welcome.

Seen as but one of three main areas which they believe are about to be addressed by Melamet, other proposals likely to influence the entire re-writing of the Insurance Act of 1943, as amended, could be a call to establish a fund to protect policyholders in the event of another insurance company going under.

What has also arisen with regard to credit control, is the urgent need to address the problems of Section 20 *bis* of the Act, which deals with the correct processing of premiums received by intermediaries (brokers), and the transfer of funds from intermediaries to insurers.

HELPING

And a procedure already under way to update Section 20 *bis* through the formation of a joint committee of SA Insurance Association (SAIA) and SA Insurance Brokers Association (Saiba) represenatatives for the purpose of rewriting the relevent section, is something of a breakthrough, notes SAIA executive director Rodney Schneeberger.

"This is because, for the first time, the industry itself is helping to write legislation which it expects to be acceptable to all concerned in both associations before, it is submitted to the Financial Institute Office for consideration."

In essence, it's really just a matter of implementing the fundamental principle that the funds belong to the insurer and should be remitted via the quickest and shortest route, having regard for the practicalities, he says.

On the solvency of intermediaries, Schneeberger says the subject is up for discussion and various suggestions have been made, but no decisions have been taken at this stage.

DEMANDS

"Nevertheless, the matter is receiving active consideration," he says.

Saiba president Tom de Fontaine says the mechanics of Section 20 *bis* have been impractical — and in some respects impossible to comply with — and must be put into working order.

He also believes disclosures by Melamet will have some bearing on the rewriting of the Insurance Act of 1943 in this particular respect.

This Act, he says, has become inadeqaute for short-term and long-term insurance companies, particularly where greater demands require provisions for

SHORT-TERM INSURANCE

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Whereas any company could always self-insure against most minor crimes such as burglary, loss of money etc — or even minor risks like breakages of glass — it could hardly afford to take the chance of losing all its assets as a result of fire or a serious storm.

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First Bowring's national short-term director Richard Austin agrees that while the advantages to insurers are a reduction in administration, fewer claims and less minor issues such as endorsements and premium collections plus lower costs, there are some disadvantages, namely:

Dramatic drop in theft of vehicles

THE fact that fewer vehicles are being reported stolen has undoubtedly led to an improvement in insurance company profits, while customers are also reaping certain benefits.

Indeed, most insurers not only report a big fall in vehicle thefts in recent months, but deft police action has also led to a better recovery rate of stolen vehicles, insurers say.

Commercial Union's (CU) MD Bill Rutherford says CU figures show that since May last year the incidence of household theft has also fallen almost 15% countrywide, while car thefts on the Reef declined by almost 25%.

"We feel it's only fair that the benefit of the improved claims-trend should flow back to policyholders," says Rutherford.

As First Bowring's national short-term director Richard Austin points out the market's reported ... subsided to that extent.

"While improvements are partly attributable to the fact that most new cars are fitted with immobilisers and alarms, plus increased police activity, a possible shift of theft to older cars which are often not insured cannot be discounted," he says.

General Accident claims manager Jeff Smith notes a 30% reduction in cars stolen in the last few months. This is partly attributable to immobilisers and alarm systems, he says.

Guardian National MD Mike Newman adds that a survey of its Reef operations suggests that thefts have "at least stabilised", while recovery rates are up.

"Where properly fitted immobilisers are used, the improvement is above average," says Newman.

And IGI CE Michael Lewis adds that the "exceptional results" of ... tor — as has the improved economic climate — to better profitability in short-term insurance.

After vehicle thefts peaked in 1986, an initiative by the SA Insurance Association (SAIA) and supported by the SA Police, has resulted in the successful launching of several campaigns — including a reward system to informers.

In addition, insureds have been encouraged in several ways to take a greater interest in preventing vehicles from being stolen. Thus all parties concerned have ended up playing a greater part in the anti-theft campaign.

SAIA executive director Rodney Schneeberger says it's really been a question of bringing the theft problem within manageable proportions.

"Although it might be a little early to say that the task of effecting protective and preventative measures ...

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Changes are in the offing

SHORT-TERM insurance, faced with mounting overseas pressures and competition plus tough local market conditions, must do more to protect itself by increasing financial reserves in locally registered companies.

Sources believe the obvious way of avoiding future financial pressure and creating a more stable short-term market for customers, would be through better profits.

This is particularly pertinent if a future catastrophe along the lines of the AA Mutual collapse is to be avoided in future, some say.

And with local insurers pretty thin on savings and investments despite most reporting improved profits over the past two years, some consolidation of income is needed to provide a healthy profitable balance, both for the well-being of the companies and their shareholders.

Here insurers should not automatically reduce rates the moment they re-emerge from a loss trough, particulary with growing financial and political pressures on local companies from abroad.

But claims are that the industry — unlike other sectors considered part of the same financial market such as banking — displays a sense of embarrassment as opposed to achievement in this regard.

"This attitude partially results in a desire to return profit to the consumer with almost indecent haste, by embarking on an unrealistic reduction in rates," notes SA Insurance Brokers Association president Tom de Fontaine.

Put in simplistic terms, he asks why are the banks not criticsed for making millions of rand in profit, whereas insurance is always badgered whenever it makes a small profit?

De Fontaine cautions that insurers face the threat of growing competition from the overseas marine market which, due to years of slackness in shipping and a huge reduction in marine income, has increasingly encroached on the non-marine field in SA.

The effects of this are now beginning to be felt in this country, he says.

Along with overseas re-insurers, marine insurers are exerting pressures on South African insurers to follow the overseas trend of "rates wars".

"With apparent increases in this respect in the overseas market, are we about to embark in SA on another slide in rates and a reversion to an industry unable to control underwriting losses and therefore a further weakening of reserves?" asks De Fontaine.

"Thus SA, with its peculiar problems, needs to build up a strong market and its finances to withstand pressures from abroad.

"South African companies would then be able to take on more local risk, need less reinsurance, and provide

CATASTROPHES CAN BE AVOIDED

Rodney Schneeberger ... well aware of responsibility

customers with greater security," he adds.

SAIA chief executive Rodney Schneeberger says insurance executives are well aware of the grave responsibility that rests on their shoulders.

"I therefore believe it's a great pity that every time insurers begin to reflect any sort of reasonable return, pressures are placed on them to cut rates.

"One should bear in mind that just as insurers were starting toward some surplus, the floods hit them."

consumer protection.

Happily, insurers and brokers had been alerted some years ago by the Registrar of Financial Institutions to consider future changes to legislation, so they have given thought to important submissions for some time.

Says Schneeberger, who considers the decision to re-write the Act as the single most important move made by the Registrar/Government: "I believe it won't be long before the SAIA is furnished with a copy for its comments, suggestions and recommendations."

But it is too early to assess the implications of new legislation, he adds.

"Still, I have no doubt it will materially affect insurance, broking and re-insurance companies through to the man in the street."

Any changes to the structure and functions of insurance companies could also be influenced by legislation controlling insurance abroad — the UK being a prime example, says De Fontaine.

He cites frequent reference by the Registrar having been made to Britain's recent Financial Services Act of 1986, which provides control and guidelines for investment intermediaries which includes insurance investment.

De Fontaine believes legislation which makes intermediaries accountable for their advice and actions, as does the consumer-protective UK act, could be successfully adopted in SA.

And he believes it's also possible that a leaf could be taken from the UK Act, where it provides for industry-created control boards to administer the interests of different sections of insurance and its related investment market. This is in place of direct Government control.

"While control boards could help improve our state of affairs, they are costly to run, so we would need to look carefully into every issue before opting for industry control along UK lines," he says.

Rates won't drop

DON'T expect civil unrest insurance cover rates to be reduced — despite a build-up of funds being attributed to the fall in unrest-related incidents in recent years.

Many brokers believe such a reduction would be justified on the grounds that the SA Special Risks Insurance Association (Sasria), which administers the cover and the fund, had built up reserves said to be around R1 billion.

That there is no immediate chance of this happening for the betterment of brokers and clients alike, is spelt out by Sasria chairman "Oosie" Oosthuizen, who says his association is not the sole owner of any the funds in any event.

Certainly, Sasria concedes the unrest situation has improved, mainly because the police have got on top of the situation.

But some brokers appear not have taken cognisance of certain important facts, forgetting that Sasria insures again special perils — which means there is a catastrophe potential involved.

Sasria therefore depends upon its board to ensure that it is properly funded and prudently managed, notes Oosthuizen. And whatever the state of the reserves in its coffers, these cannot be used as a reason to reduce cover-rates at this point.

"It must be noted that the State contributes at least 50% to built-up funds through an income tax concession.

"As Sasria is a high-risk but untaxed organisation, the moment the funds in the account are absorbed through claims, the State covers whatever the deficit is, as a re-insurer of the last resort."

Oosthuizen says he is not at liberty to disclose Sasria's financial position and therefore cannot expound on claims that the account is in a "very healthy" state.

"This is unquantifiable, because one never knows the risks involved," he says.

Another point is that fund levels needed to be increased in line with the April 1 policy to extend cover to include Transkei, Bophuthatswana, Venda and Ciskei — as requested by SA businesmen — he adds.

Sasria chairman "Oosie" Oosthuizen

A positive image

INSURERS need to make a more concerted effort to project their industry in a positive light — possibly along the lines some life assurers have adopted, observers suggest.

Mention of insurance often solicit certain negative connotations because people and businesses tend to associate it with "loss", instead of cover and protection of property and possessions.

An additional negative factor arises as short-term insurance has followed the pattern of life assurance, and become an increasingly complex business.

Insurers and brokers concede this factor makes insurance increasingly difficult for many to understand, hence greater reliance on the expertise of those in the industry.

One top source claims insurance's poor public image is partly ascribable to companies having inadequate public relations exposure and poor marketing.

"Customers only hear about premium increases and other occasional problems which arise, but never anything about the successful claims being met everywhere all of the time," he says.

He cautions the industry would ignore at its peril the vital need to shake up its ideas and adopt a positive and sustained overall marketing programme.

Another leading source claims that insurance, while viewed poorly and with much misunderstanding, is in fact an honourable profession along with the great majority of its practitioners.

Moreover, it is no more or no less efficient than any other financial service.

"But it has to contend with challenges that other financial institutions don't face, such as dealing in 'futures', where the price of the product is not known at the time of selling it," he says.

"Nevertheless, I would like to emphasise how gratifying it is to see the relief and satisfaction our insureds display when they are compensated after having suffered a loss."

Pressure on rand seen continuing

Star 7.7.88

Finance Staff

Although capital inflows are expected to keep the rand under pressure, this could be offset by an improvement in the current account of the balance of payments, says Trust Bank in its latest *Currency Report*.

Yesterday the rand closed at R2,3388 to the dollar after depreciating to R2,3008 last week. Active Reserve Bank intervention bolstered the currency and contributed to its strengthening against third currencies, such as the Deutchemark, yen and sterling.

Trust Bank predicts the rand will remain under short-term pressure, but in the medium and longer term should rise moderately against a generally weaker dollar.

The bank says an improvement in the balance of payments situation could also allow short-term interest rates to decline moderately towards the end of the year.

The report attributes the recent weakness of the rand against the dollar partly to the deterioration in foreign trade and gold and foreign exchange reserves.

"With the oil price under pressure, while the gold price remains steady and many other commodity prices continue to rise, a moderate improvement in the foreign trade surplus is expected."

Standard Bank in its latest *International Report* says the strong support for the dollar will keep the rand weak over the next few weeks.

The report says, however, that the rand's performance on the cross rates has been encouraging.

"Since the turn of the year, the rand has declined by less in terms of currencies like the Dm, yean and sterling than against the dollar.

"Historically speaking, the rand tends to fare better on the cross rates than aginst the dollar during bouts of dollar strength."

Banks advance as bond war rages

(58) B/day 7/7/88

GRETA STEYN

THE bond war is still raging in spite of higher interest rates as banks continue to make inroads into building societies' traditional customer base.

Higher interest rates have only slightly dampened demand and banks have remained competitive rate-wise despite societies' predictions to the contrary.

UBS CE Piet Badenhorst said the demand for home finance would not slacken significantly in spite of higher rates because of the aggressive marketing of mortgage finance by the various players in the market.

He said a higher bond rate would have a slight dampening effect on the demand for home finance, with some marginal buyers being scared-off.

The Standard has continued the aggressive stance taken in December 1986, when it started the bond war by slashing rates to 12,5%.

Its bond rate remained at that level until this month, enabling it to grow by almost R1bn between December and June.

The bank had a mortgage book of R1,9bn at the end of June from R1bn at the end of December, excluding loans in the pipeline.

If loans in the pipeline are included, the Standard had R2,67bn on its books in June.

The Standard's Dennis Matfield said: "We are now the fifth biggest building society, having overtaken Saambou.

There is no sign yet of demand slackening and a fair amount of switching is continuing."

The extent to which switching from societies to banks took place in the first four months of this year is evident from Reserve Bank figures for net and gross building society lending.

The bank's figures show that buoyant new lending by societies was not translated into strong growth in total mortgage advances as societies were losing mortgages. In February this year, societies lent R960m but their mortgage books grew by only R273m — a difference of over R700m.

However, the UBS is still the largest player in the home loans market, with a book of more than R9bn. Second largest is the SA Perm, with a book of R6,4bn, and third is the Allied.

First National is the largest bank in the market with mortgage advances of R3,4bn, including loans in the pipeline.

Star 7/7/88 (58

Flight into rand-hedge stocks marks unit trust performances

By Sven Forssman

The flight into rand-hedge stocks, in anticipation of the weakening rand, characterised the performance of Old Mutual, Sanlam and Sage unit trust funds for the June quarter.

Most fund managers have included rand-hedge stock in their portfolios in recent years, but the past few months have seen rand-hedge stock grow immensely in popularity.

"The performance of rand-hedge stocks relies on the weakness of the rand and we don't see the rand getting any stronger — only weaker — in the near future, Stuart Fish, Old Mutual's assistant general manager marketing, said yesterday.

CLIMATE

"In view of the current economic climate, there is a need to invest in rand-hedge stocks. A look at our Investors' and Mining Fund shows we've gone in for them in a big way."

The repurchase price of units in Old Mutual's Investors' Fund rose by 6,4 percent in the quarter to June.

The portfolio topped the R1 billion mark, with growth in assets of R82 million.

"The Investors' Fund averaged a growth of 28 percent compounded over the past 10 years, which is well ahead of both the overall market and inflation," Mr Fish said.

The year-old Mining Fund's repurchase price rose by a mediocre 3,8 percent.

However, the gold price fell in this period — about one-fifth of the Mining Fund is invested directly in gold — and the all gold index declined by 4,9 percent.

The Mining Fund increased its liquidity from 18 to 25,3 percent.

The major purchases were in Genbel, Free State Development, Duiker Exploration and Rooiberg.

Mining Fund portfolio manager Marco Celotti said optimism was fuelled by better-than-expected growth statistics in the US and other industrialised nations, persistently low inflation and an improvement in the US trade deficit.

"The SA markets also benefited from the optimism that saw the US equity market indices register their highest levels since the October crash and the Japanese markets establishing new highs," he said.

"Local sentiment was positively influenced by better-than-expected economic growth and a suppressed inflation rate."

The 10 largest holdings in the portfolio were Gencor, Anamint/De Beers, Randfontein, Anglos, Sasol, Driefontein, Amgold, Goldfields SA, Amcoal and Samancor.

According to Stafford Thomas, portfolio manager of Sanlam unit trusts, the general investment policy followed by the five unit trusts over the past quarter was one of caution.

"Liquidity has remained high, the levels varying in accordance with the specific nature of the particular trust," he said.

"Sanlam Index Trust, for instance, has a liquidity level of only 12 percent, compared with the Dividend Trust, which has averaged 40 percent.

Higher liquidity levels are viewed by Sanlam as providing it with the ability to make worthwhile investments as opportunities present themselves.

Managers see the decline in share prices as investment opportunities, rather than as a cause for despair. In line with this view, a number of investments were made in Rembrandt, Da Gama, Keeley and HLH, all of which have a strongly based rand-hedge component.

Three of Sanlam's trusts declared income distributions for the six months to June.

The Index Trust's 11,6 percent a unit is an improvement of 21 percent, while the Industrial Trust has declared a 10,9 per unit distribution, an increase of 70 percent.

The Mining Trust's distribution of 5,7c is a 24 percent improvement.

Sage Fund's investment activity in the quarter was limited to an increase in the holding of Allied, the introduction of an investment in Noristan and a reduction in Con Golds.

STRATEGY

The fund's foreign strategy saw an increased currency exposure to the yen. US equity activity reflected partial sales of General Electric and Proctor & Gamble, with new investments in Texaco and Newmont Mining.

Income distribution for the six months to June was 25,2c per unit, with total distrubition for the past 12 months amounting to 47,3c per unit, compared with 41,3c the previous year.

The fund's 10 largest holdings at June 30 were Rembrandt Beh, Rembrandt Group, Anglo American, SAB, Sage, Goldfields SA, Allied, Barlows, De Beers and Plate Glass.

Bifawu to meet

THE Banking Insurance Finance and Allied Workers' Union is to hold a meeting of Nedbank employees in Johannesburg tomorrow. (58)

The meeting will focus on various issues including a recognition agreement.

A spokesman for the union said employees from Nedbank subsidiaries were also invited to attend. The meeting will be held at Lekton House, first floor, 5 Wanderers Street. It will start at 2pm.

- The SA Integrated Workers' Union is to focus on the disinvestment campaign at its annual conference in Warmbaths on Sunday.

Mr Simon Sedibana, an official of the union, said Saiwu was vehemently opposed to sanctions. He said his union members had recently demonstrated against Anglican Archbishop Desmond Tutu at Jan Smuts airport, to pronounce their stand against the

Sowetan 5/7/88

disinvestment campaign.

The conference will be held at a local hall in Belabela township.

(58) B/day 8/7/88

Disasters: industry could do better, says insurance boss

HELENA PATTEN

THE insurance industry is taking no meaningful steps to underwrite profitably natural disaster business. This is a matter for concern, says Hollandia Reinsurance's chairman Siebe Henstra in the group's annual report.

"We are not convinced that isolated, independent action by insurers attempting to swim against the tide of natural catastrophes, is a viable long-term solution.

"Natural catastrophes are national occurrences and, as such, national problems and therefore require a national solution."

He says most direct insurers readily acknowledge the benefit derived from prudently arranged reinsurance, following the Natal floods, the Helderberg air crash and the explosion at a Sappi paper plant last year.

"Our hope is that insurers will pay back the losses transmitted to reinsurers as willingly and prudently as the losses were recovered."

He says despite 1987's severe losses, SA's insurance market is still attracting considerable overseas attention — partly because of a need to support dollar earnings and spread their premium base, and partly because of the perceived discipline in the market's practice, and more probably because of the promptness with which it settles its balances.

"That overseas competition is often frustrating and discriminating should not result in calls for greater protection, since the activity of the international community in seeking both direct and reinsurance business must be seen in the broader perspective of support for a country which is, regrettably, becoming more isolated in its dealings on international matters."

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FEDERALE VOLKSBELEGGINGS

Seeking expansion again

Activities: *Diversified industrial holding company with investments in building material; services; pharmaceuticals; domestic consumer-goods; motor components and agricultural equipment; and food sectors.*
Control: *Sanlam and associated companies own 58,9%.*
Chairman: *C J F Human; managing director: I J Moolman.*
Capital structure: *129,5m ords of R1; 10m 11,5c-div 'C' cum red prefs of 10c; 1,4m 6,5% 'E' cum prefs of R2; and 6m 47,5c-div conv cum prefs of R1. Market capitalisation: R402m.*
Share market: *Price: 310c. Yields: 5,7% on dividend; 22,7% on earnings; PE ratio, 4,4; cover, 4,0. 12-month high, 550c; low, 310c. Trading volume last quarter, 1,86m shares.*
Financial: *Year to March 31.*

	'85	'86	'87	'88
Debt:				
Short-term (Rm) ..	318,5	203,7	209,3	197,1
Long-term (Rm) ...	224,7	201,1	167,2	79,4
Debt:equity ratio	1,68	1,00	0,88	0,57
Shareholders' interest	0,37	0,47	0,47	0,53
Int & leasing cover .	0,8	1,3	3,1	4,6
Debt cover	—	0,2	0,35	0,69

Performance:

	'85	'86	'87	'88
Return on cap (%) ..	9,0	10,5	12,7	14,4
Turnover (Rm)	1 841	2 155	2,45	2,86
Pre-int profit (Rm) ...	124,6	145,2	192,9	254,7
Pre-int margin (%) ..	6,6	6,7	7,3	8,3
Taxed profit (Rm)	(57,2)	14,5	81,0	133,9
Earnings (c)	(137,4)	(8,0)	38,4	70,4
Dividends (c)	—	—	8,0	17,5
Net worth (c)	541	269	308	420

After a roller coaster ride, the group has clawed its way back to reasonable levels of profitability. Improved markets, a R104m rights issue in 1986, various asset sales and tighter controls contributed to last year's 83% recovery in EPS.

The dividend was more than doubled to 17,5c (8c). Now the pay-out needs only to double again and it will be within 3c of the 38c level at which it was pegged from 1982 to 1984. The 1988 EPS of 70,4c was derived from attributable income of R91,1m; in 1984 EPS was 94,3c, derived from attributable income of only R30,1m. Year-end net worth was 420c per share; in 1981 — on the *FM*'s calculation — it was 944c. So Federale Volksbeleggings has been recovering from three torrid years and recent advances need to be seen against the background of inflation and large equity issues.

Memories which many investors hold of Federale's bumpy ride over recent years do little for the share in a bear market. The counter, at 310c, has been languishing at 12-month lows, and now offers what looks to be an attractive p:e of only 4,4 times. But what has the group achieved to merit a higher rating? In certain respects, the answer is

Federale's Moolman ... asset disposals completed

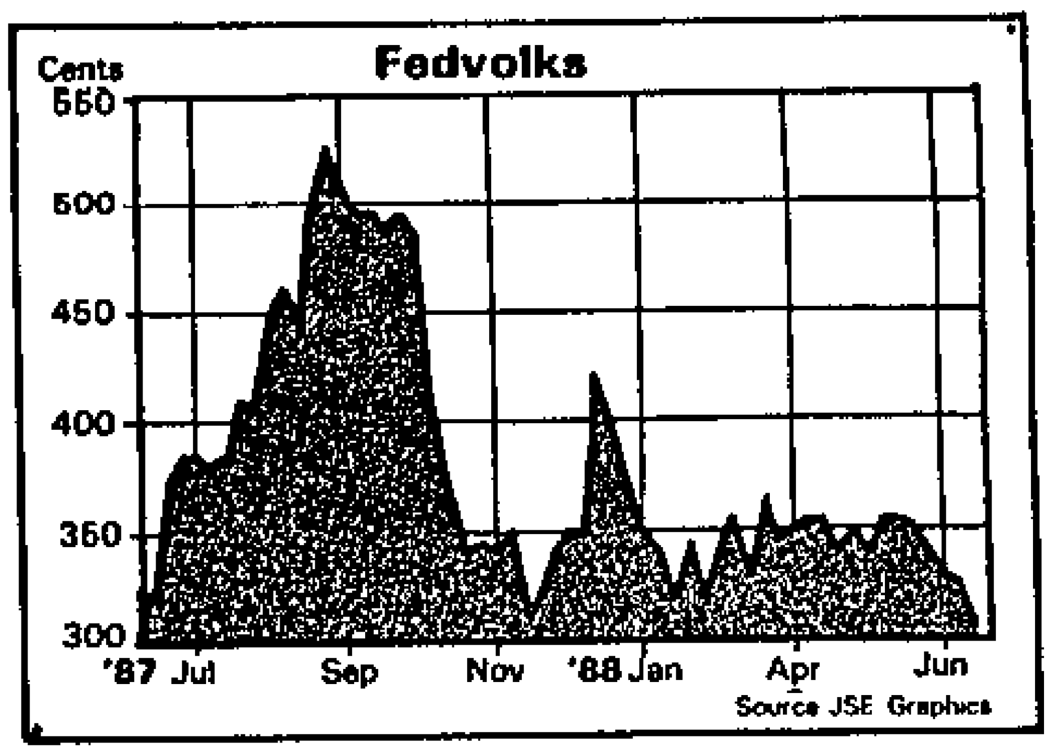
quite a lot.

Return on capital has improved substantially and was virtually at the 14,7% peak for the past eight years. Pre-interest margins have also improved considerably at 8,3% — although this figure has been as high at 9% — and pre-interest profit jumped by 33% to R254,7m.

Progress is also shown in the balance sheet. While turnover (adjusted for asset disposals and purchases) rose by 24% last year, stocks actually fell by 4,3%; debtors and advances expanded by 23%, roughly in line with sales, while creditors and provisions were stretched by 33,6%. Cash rose from R8,5m to R14,8m, but the current ratio slipped from 1,6 to 1,5 times.

However, R100m was slashed from interest-bearing debt last year, which brought the debt:equity ratio on gross borrowings (including redeemable prefs), which total R378m (R478m), down to a slightly more respectable 0,57. Net interest paid dropped by 27,5% and pre-tax income advanced by 61%.

Changes to the investment portfolio include the listing of SA Druggists, which reduced Federale's stake from 97% to 68%; the interest in Firestone SA was increased to 100% with the purchase of the remaining stake held by Firestone of the US; a 4,5% interest was taken in Midas; Fedfood sold its 100% stake in Industrial Oil Processors; the effective interest in Interleisure fell from 41% to 38,5% owing to the expansion of the company; and the 25% interest in Veka was sold.



MD Johan Moolman says the disposal of assets has largely been completed and the group has entered a phase of expansion. This is to be achieved by organic growth and selective takeovers, with debt:equity kept within acceptable targets. Moolman says funds for financing this can partially be obtained from retained profits, implying that the group will need to draw more heavily on borrowings again. He also notes that higher interest rates would have a negative effect on results.

Profit contributions from the divisions became more balanced last year, with certain sectors showing strong recoveries. It remains to be seen whether businesses such as domestic consumer goods, motor components and agricultural equipment will continue to grow strongly over the next two years. Federale has a significant durables element; spending on durables grew faster than any other sector last year, but must be sensitive to interest rates hikes.

Moolman, however, counters that the group does not derive a major percentage of its income from durables. He notes that the motor components business, for example, is geared largely to the replacement market.

Unlike some other conglomerates, particularly Barlow Rand and Amic, Federale is

PROFIT MIX

	1987 Rm	1987 %	1988 Rm	1988 %
Building material	1,3	2,0	2,1	2,1
Services	12,7	19,6	20,5	20,0
Pharmaceuticals .	21,4	33,1	23,5	22,9
Domestic consumer goods	5,8	8,9	16,6	16,2
Motor components and agricultural equipment	4,4	6,8	15,5	15,1
Food	17,4	26,9	24,1	23,5
Sundry	1,7	2,7	0,2	0,2
	64,7	100,0	102,5	100,0
Corporate and pref dividends	(15,7)		(11,4)	
Net income:	49,0		91,1	

P.T.O.

not a major beneficiary of a depreciating rand. Although the group does have profitable exports, it has a large import component and benefited from last year's stable rand. Thus, while exports will presumably be expanded over time, investors seeking a currency hedge are unlikely to be attracted to Federale now.

Management is budgeting for real growth in earnings and dividends again this year. This could suggest earnings of around 85c and a prospective p:e of 3,7 times, with a dividend of perhaps 21c and a prospective yield of about 6,8%. On these considerations the share has definite attractions, but there seems little reason to assume the group will outperform other conglomerates such as Barlow, Amic and Malbak; or, indeed, that there will be much capital appreciation in the short term. Looking further ahead, the stock could become irresistible should there be evidence of continued good earnings growth. *Andrew McNulty*

AA MUTUAL

The Bermuda connection

Melamet on how the money went round

There are basically three strands to the report of the Melamet Commission of Inquiry into the collapse of AA Mutual (AAM) (*Economy* July 1): What went wrong? Who was to blame? What shortfalls have been exposed in the regulation of the short-term insurance industry?

More than just unsound underwriting is at issue. Questions of tax policy and the fiduciary duty of non-executive directors are only two of the important points of principle raised by the inquiry. And, alarming as its own conclusions are, the report more than once suggests that there may be room for further investigations by the liquidator or the Attorney General.

Much of the criticism concerns a self-insurance scheme set up by certain companies in the Kirsh group, which the report of the commission describes as "a sham," adding that it was "designed to evade the payment of income tax and defeat the exchange control regulations."

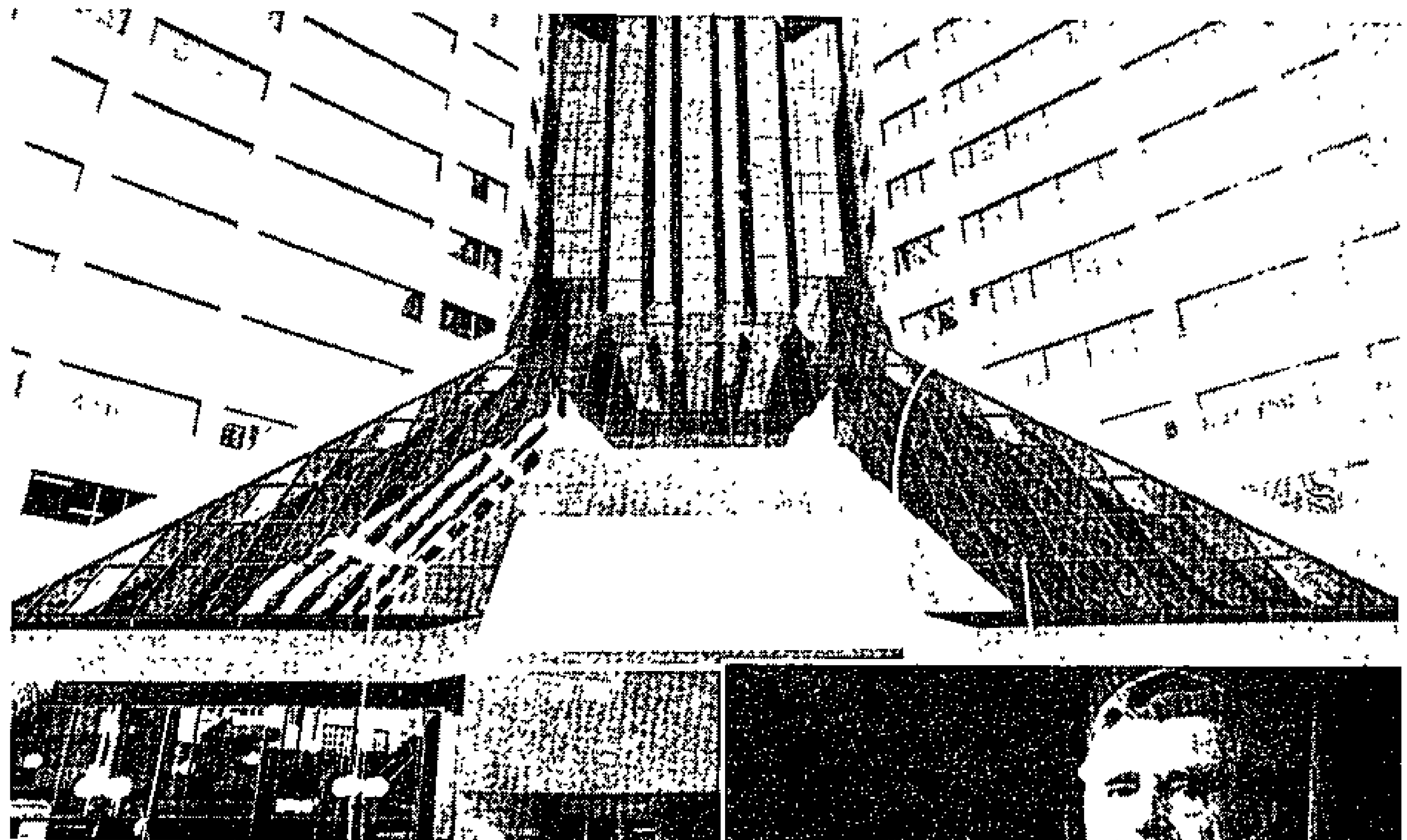
It allowed funds — ostensibly premium income which is tax deductible and not subject to exchange control regulations — to be sent out of the country and either remain offshore or return as tax-free dividend income.

Captive reinsurer

Central to the scheme was Chiswick Reinsurance (Bermuda). Established by AAM MD Warren Plummer and taken over by the Kirsh group, it became the captive reinsurer of the Kirsh group and a wholly owned subsidiary of K I Corp, Liberia, of which Kirsh family trusts are the shareholders.

A fund of R1,25m (administered by AAM) was created to cover the first portion of insurance risks, while the rest was reinsured with Lloyds and various other companies at a premium of R770 000. The brokers received a fee of R200 000 and AAM a fee of R225 000 to cover administration costs.

"The fund was, however, loaded with a further R500 000 which was collected from trading companies in the Kirsh group." This was paid by AAM, "in the guise of a reinsurance premium," to Chiswick.



New head office ... from R15m to R34m

Of this R500 000, "R288 000 was paid as a commission free of tax (no reason could be advanced as to how this was earned) to Metcorp (Bermuda), which in turn, distributed this amount to its sole shareholder Jandu Investments (Pty), this being a company registered in SA.

"The original participating companies in the Kirsh trading group" each held a variable rate preference share in Jandu which, in turn, declared all its income by way of a preference dividend at a variable rate to the shareholders — the trading companies which contributed the R500 000 loading.

The directors of Metcorp were "Messrs Kirsh (chairman of AAM), Dill and Cooper." The directors of Jandu were "Messrs Levy and King (both directors of AAM)."

The balance of the R500 000 — R212 000 — was retained by Chiswick.

MD Warren Plummer ... half the year abroad

The report points out that though this venture did not cause any loss to AAM, it could have exposed it to action from the authorities as a participant in a scheme designed to evade the payment of income tax and defeat the exchange control regulations.

Another finding of the commission was

Cont

18/7/88 FM (SP)

that, at the time Chiswick had passed or was passing into the control of the Kirsh group, Kirsh authorised AAM's London subsidiary, AAM International, to pay £30 000 to Plummer — a payment other directors claim they knew nothing of. According to Kirsh the payment was "a bonus for services rendered and on the grounds that he did not wish to see his senior executives experiencing financial difficulties."

Another bonus of £20 000 was also authorised by Kirsh for payment in London to Plummer, "but the reason for this payment could not be established."

AAM directors Natie Kirsh, Mervyn King, Arnold Levy, Eric Turk, Denis Paxton, Peter Elliot and Bill Passmore were non-executive and depended for information on what they were told by Plummer. It is not clear that they were always told enough; indeed, on some matters they were plainly misled. Arguing that non-executive directors of financial institutions may face more onerous responsibilities than those serving in other companies, the commission recommends that financial institutions should have at least two executive directors.

The report also points out that the board knew Plummer was well above normal retiring age, had no deputy or successor, and chose to spend half his time abroad even though foreign business was relatively small. It concludes: "The above are not matters requiring specialist or privileged knowledge and the commission considers that, despite the apparent legal situation which exists, the non-executive directors are open to criticism."

The financing of the new AAM headquarters building also comes under the spotlight. The cost of this increased from an original estimate of R15m to R43m, necessitating a complex financial transaction with Trust Bank which, "if nothing else, should have alerted the directors to the lack of liquidity in the company."

The commission recommends that "the position and liability of a non-executive chairman and non-executive directors should be considered by the Standing Advisory Committee on Company Law with a view to determining this with greater precision."

However, in its search for culprits, the commission casts its net a good deal wider than just those directly involved with AAM.

Inadequate checking of returns from insurers at the Registrar's Office largely reflects a long-bewailed shortage of qualified, competent staff, and the commission believes that a national council, similar to the National Energy Council, should be set up to cover all types of financial institutions.

However, even given these problems, the Registrar's Office does not seem to have perused AAM's figures as closely as should have been done for an insurer showing such rapid growth in premium income — regarded by regulators abroad as in itself requiring close scrutiny. The office, the report implies, was somewhat in awe of Plummer, regarding him as the doyen of the industry — a not entirely justified assessment, and one more common outside than inside the short-term insurance industry (for which, the report suggests, the media were partly to blame).

The falling away of the advisory committee on short-term insurance, apparently because the previous Registrar (not named by the report, but presumably Robert Burton, the immediate predecessor of the incumbent Theo van Wyk) thought it useless, contributed to the isolation of the Registrar from the industry.

Natie Kirsh . . . approved Plummer's bonuses

For it was "open talk in the industry that the short-term business of AA Mutual was heading for disaster." Yet "not one of the insurance companies nor the SA Insurance Association conceived it to be their duty to take up the matter officially with the Registrar in the interest of the industry.

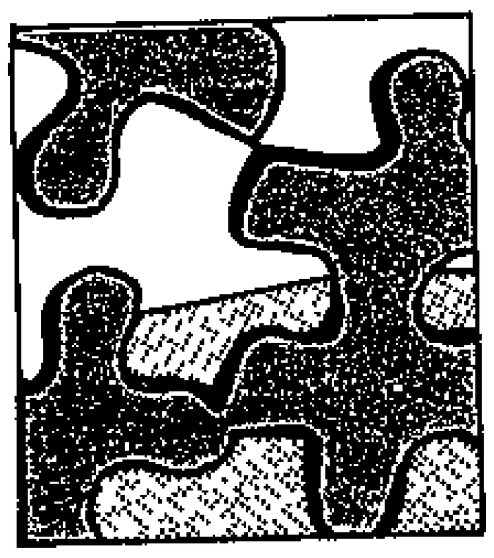
"It would appear from the evidence of certain representatives of insurance companies that their attitude was that AAM was a maverick company, and the sooner it ceased to operate in the short-term industry, the sooner the industry would return to normality with economic rates being charged. It was considered that the principle of *caveat emptor* applied to policyholders. This is not an attitude consistent with what one would expect from responsible institutions."

The advisory committee would have been an appropriate forum in which such fears could have been expressed without just giving rise to accusations of jealousy of AAM's apparent success. While this does not exculpate those directly responsible for the AAM disaster, it suggests that few involved with short-term insurance can really feel their consciences are clear. ■

FSI

Can Liebesman deliver?

He's confident, the market has doubts



In the four years since it was listed, FSI's total assets have ballooned by nearly 300% under youthful CE Jeff Liebesman. The biggest leap was last year's takeover of Waicor, top company of the W&A group: but this deal, done at the top of the stock market boom, left debt of R224m, which had to be refinanced. The funding method chosen calls on minorities in the Waicor group to increase their investment substantially. Can the performance of Liebesman and the group companies justify this?

Liebesman downplays his role, emphasising the abilities of operating management and pointing to the experience of the W&A teams. But Liebesman was at the head while FSI grew from a small company to a multimillion rand conglomerate in eight years; it was under his tenure that the massive foreign operation, accounting for nearly half of FSI's earnings even after the Waicor acquisition, was established; he led the negotiations to buy Waicor; and the financial world feels it is ultimately Liebesman who will determine future success.

One problem in assessing the man is that he seems to have come from nowhere four years ago, when he listed Form-Scaff Industries via a reverse takeover of IFM. He was with Kessel Feinstein until 1981, when he became MD of Form-Scaff, one of his audit clients. And, of course, he is only 36, so cannot point to, say, a 20-year track record. He must also incite envy, especially from those who have not achieved his level of success or only succeeded through decades of self-sacrifice.

Maintaining momentum

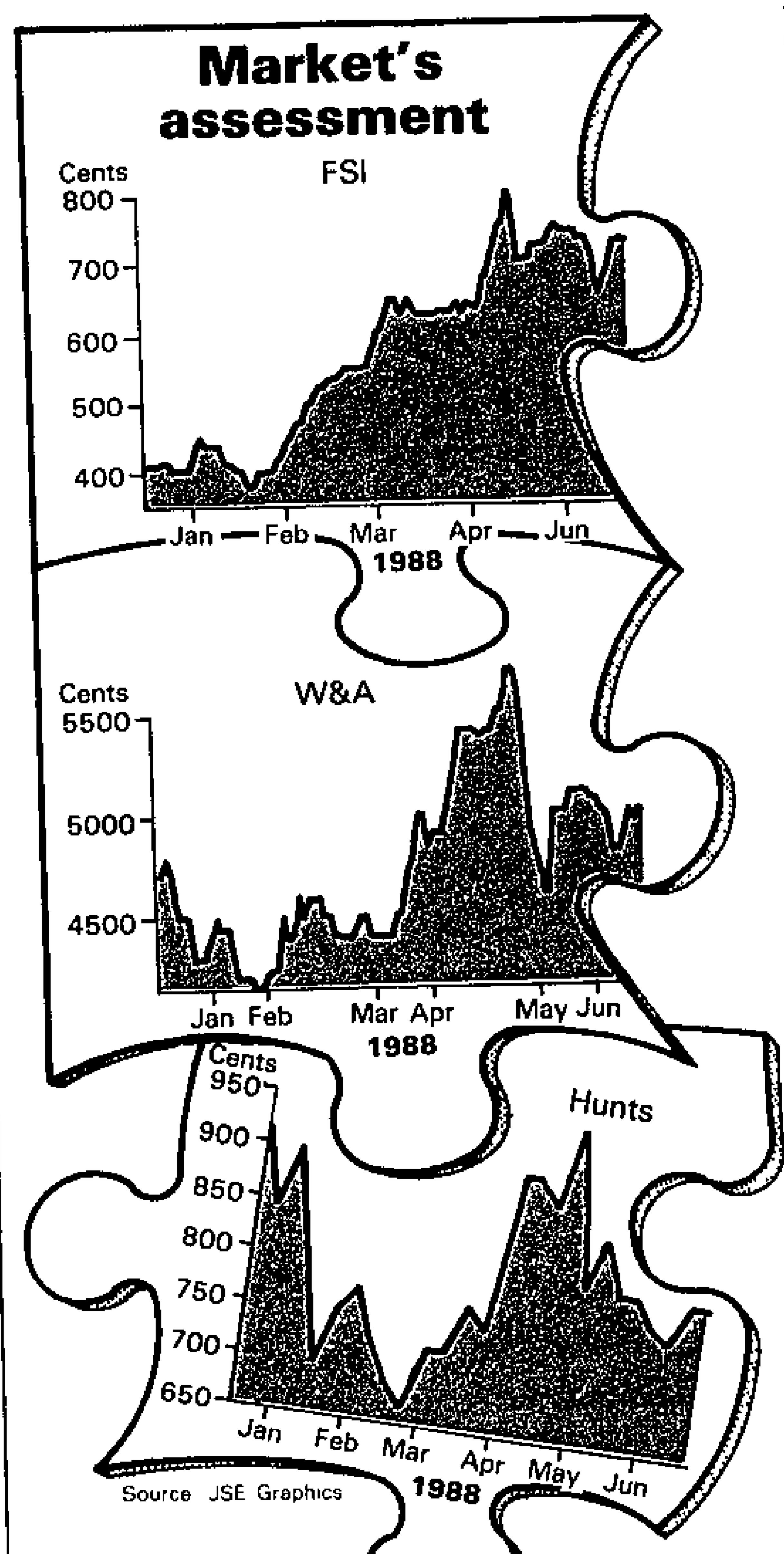
Liebesman maintains that the restructuring will benefit all group shareholders. But much depends on whether FSI's momentum, through acquisition and organic growth, can be repeated in W&A and Hunts.

He points to this growth as "his teams'" track record. Since the listing of FSI, turnover increased from R68m to R284m and attributable earnings from R1,2m to R17,8m, with the largest jump (229%) in 1987. In the second half of last year, Liebesman says earnings growth was 121% before contributions by Waicor, which boosted it to 221%. This year will obviously see another leap as Waicor will be consolidated for the full year.

Analysts are worried that acquisitions have been a major reason for growth. A top analyst comments: "Liebesman has issued a lot of paper; his ability to continue doing this is limited."

Liebesman claims the restructuring will benefit Hunts' shareholders, partly because Hunts will have the muscle and the paper needed for acquisitions in the industrial sector, and opportunities have been created for synergistic developments between its subsidiaries. For W&A, he points to the potential growth and rand hedge element from AAF in England with the £16m it will receive from W&A for its Hunts shares. So it is essential that investors feel confident of the ability of Liebesman and team to negotiate advantageous deals.

Here again, though, questions are asked. Another analyst puts it bluntly: "Liebesman bought into a cyclical group at the top of the market and is now asking minorities in Waicor subsidiaries to buy into that deal by putting up funds equal to half the cost."



To recap the essentials of restructuring:
- ☐ Hunts is to become a direct subsidiary of W&A, with AAF, previously Hunts' holding company, as the foreign arm of the group;
- ☐ Hunts is to buy National Bolts from FSI and W&A's unlisted subsidiaries Burhose and Hygenia;
- ☐ To finance these changes and reduce debt, Hunts minorities are being called on to subscribe to a rights issue of preference shares and debentures in a ratio of 158 for 100 shares held; and
- ☐ W&A is also holding a rights issue, 38 for 100; Waicor's rights issue affects mainly FSI, which has 97%, and will get the funds it needs from the sale of National Bolts.

But did FSI overpay for Waicor? Seller Manny Simchowitz is known to be a singularly sharp dealer; Liebesman paid well above the market price and at the peak of the market. He paid R35 a share, 25% above the current R28 and a p:e of 12,2, against the present 9,8.

Liebesman argues that the actual p:e paid is only 8,3, as he offsets cash from the sale of National Bolts and Lentex against the price. We do not accept this: the price paid for one asset is not reduced by selling off others, even (or especially) if these remain within the group. The payment for Waicor was not inter-group, but to outside shareholders. Now other outside shareholders are being asked to inject new capital to offset the resultant debt.

The reconstruction will inevitably be approved. The only minority shareholders who could stop it are those in AAF, including Simchowitz, and they have no reason to complain as it's a good deal from their point of view. AAF is receiving R10 per share for its Hunts, compared with the latest JSE price of R7,75. In addition, it is clear that the company will now be much more dynamic, with higher growth potential than for years.

And the issues will be taken up, as they have been underwritten by Senbank, which will presumably sub-underwrite, including a small portion to an FSI subsidiary.

That means the Waicor deal is not bad for FSI. The main problem was that Liebesman was slightly out in his timing of the peak of the market — as were many others — but Simchowitz got it right. Had the market not peaked and shareholders elected to retain their Waicor shares, at a then high price, rather than take cash, there would

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have been no problem.

The need to finance R224m would ultimately strain FSI cash flow, though Liebesman says Waicor was so cash flow positive that FSI could finance the debt without strain for close to five years. Of course, these are funds which would otherwise be available for expanding the Waicor group.

To provide cash to repay debt, FSI has reduced its effective ownership of National Bolts and property-owning Lentex by selling them to other subsidiaries, which raise funds by the rights issues. The cash obtained, net of takeup of Waicor rights, amounts to R65m, which will be used to reduce debt. The amount to be financed is thus lowered to R155m, which is more manageable.

But, despite the statement in the reconstruction document that FSI's gearing will be reduced to 42%, a number of analysts remain worried about gearing. FSI still has R362m debt after the deal, but Liebesman points to his announced policy of limiting gearing to 60%, though gearing in the group has reached 92%.

This is an interesting point. The FSI balance sheet shows minorities of R759m against ordinary shareholders' funds of R104m. Liebesman emphasises that he insists operating managers have interests in subsidiaries they run, but these large minorities are also a good source of finance. In the latest deal, FSI shareholders will not put in one cent of new money. The funds are provided by Hunts and W&A minorities (R74m and R46m respectively).

What are they receiving in exchange for putting up funds to buy their own group? It is not only assets and earnings: debt will rise by R85m to R104m and of the total consideration of R210m, R105m is for goodwill. In the case of National Bolts, the price is R23,78 a share, against the current R20 and a net worth last December of R19,35.

Liebesman emphasises the increase in undiluted Hunts and W&A earnings and says that Hunts shareholders would have seen earnings growth decline, as E W Tarry is moving into a fully taxed position and General Tyre, Hunts' other major investment pre-reconstruction, is in a mature industry in need of rationalisation.

FSI's Liebesman ... bought at the top of the market

"We have reactivated Hunts, as the consent of the minorities of AAF was previously required for most transactions and there was no question of a rights issue, as the AAF shareholders would not want to put additional capital into SA," he says. "The projected earnings, fully diluted (which will not happen until after 1992), will be better than they would have been without the deal. We have put excellent assets into Hunts with the addition of Burhose and Hygenia as well as National Bolts."

Simply, the ability of the newly acquired assets to perform will determine the difference between a fall and an increase in EPS when fully diluted.

Though analysts question the ability of National Bolts to continue growing at a fast pace, Liebesman expects a high growth rate, mainly because export performance "was excellent at over US50c," so, with no reduction in export prices, there will be an immediate benefit from the rand's fall.

But there is no question that Elcentre will pay more tax and it is forecasting an 18% drop in earnings.

Liebesman suggests that too much emphasis has been laid on this as National Bolts effectively owns only 23% of Elcentre and the contribution to profits is about the same. And then there are his acquisition plans.

But what of W&A? It loses 35% of Burhose and Hygenia, which go to 65%-owned Hunts instead of being wholly owned, and debt rises from R52m to R144m. It does get National Bolts' income through Hunts; then there is the development planned for AAF. Again, if a shareholder takes up his rights, he is basically buying Liebesman's promises

AAF's Simchowitz ... a singularly sharp dealer

THE EXECUTIVE

The first issue of Times Media's new monthly business magazine, *The Executive*, is now on sale, at R4,46 plus GST.

Others offer topicality and brevity, important to the busy executive at whom *The Executive* is aimed. No publication, however, gives the same depth, comprehensive background and interpretation.

Subjects covered in the first issue include Anglovaal's successful industrial diversification, management contrasts at SA Breweries, and how Johannesburg lawyer Mark Weinberg became a knight and pillar of the British establishment.

Cont

and ability to perform.

Of course, it was suggested long before the FSI deal that Hunts should be bought from AAF, if for no other reason than to eliminate the need to pay non-resident shareholders' tax, so this is nothing new. Simchowitz was even granted an option over 1,8m AAF shares (10,7%) in exchange for assisting the group to expand internationally. As the option was at 85p and the price is now 162p, he must surely take them up, though there is no rush, as the option expires only in 1992.

Minorities in W&A and Hunts have less time to decide what to do. The convertible instruments are to be issued above the ordinaries' market price, the premium being for high fixed income combined with convertibility. It is less the price than the size of the issue which is worrying. "This is a massive amount of paper in this market," says an institutional analyst. "Liebesman will have to deliver organic growth." The man is confident of his ability to do so, pointing to the group's assets and operating management.

But the market is passing its own judgment, as the graphs show. Hunts has fallen from 950c in the middle of May to 760c and is now around 775c; while W&A took a similar crack from R57 to R46 before improving to around R50. FSI's price dropped by about the same percentage. The market was not enchanted with the rumoured terms of the deal. There has been only a small improvement in the prices of Hunts and W&A, though FSI has climbed by 12%.

We concur. Liebesman may be a man to follow, especially as he seems determined to show the market what a good deal the reconstruction is, but investors who wish to be more cautious should keep their funds where management has its largest stake.

Pat Kenney

8/7/88 FM (2)

8/7/88 (58) FM

DBSA GROWS AGAIN

In its first four-and-a-half-years' operation, the Development Bank of Southern Africa (DBSA) has accepted 919 projects with an investment value of R7,3bn. Its estimated contribution to these amounts to R5,9bn, the balance coming from borrowers and the private sector.

Because of the long construction period of some projects, and the even longer payback, the DBSA's loan account reflected just R1,2bn on March 31. The R4,7bn balance between this and its estimated total contribution will come either from shareholders (SA and TBVC), reserves, or the open capital markets.

Its main capital employed account — the Development Fund — was R1,2bn at year-end, after a contribution by SA of R250m. Outstanding commitments by SA to this fund (which, consisting of grants, does not constitute a liability) are now R572m, of which it will pay a further R371m in 1988-1989.

The DBSA's capital market commitments declined to R117m at year-end. It did not raise any new funds in such markets during the year, but views the markets in terms of a long-term strategy aimed at establishing the DBSA as a prime borrower.

The bank, which held R457m in gilts at year-end, charged out interest to borrowers in 1987-1988 at 4%-12,5%. Development region D (mainly Ciskei, Transkei and Port Elizabeth) again took the lion's share of investment value, some 26%.

By subject matter, "bulk infrastructure" again took up by far the largest portion judged by value of some 50%. The biggest loan approved under this heading in 1987-1988 was R106m for financing of the northern access route for the Lesotho Highlands Water Scheme.

The DBSA — which now employs more than 500 staff — produced a R283m flow of funds in 1987-1988. It expects this to rise to about R400m this year, and to more than R1bn in the next five years.

TBVC budgetary deficits were cut from R1,3bn in 1986-1987 to R706m and are budgeted at R711m for 1988-1989.

The Melamet effect

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Denzil Curgenven is chairman of Quest Consulting Group.

Insurers will certainly look closely at their latest results and assess the effects the recommendations of the Melamet Commission would have had on them. Though all would have returned increased technical reserves, profits would have been smaller and free reserves lower, with consequently reduced solvency margins.

In view of the softening of rates now reported, the commission's report may be a salutary reminder of the results of uneconomic rates, bad underwriting and greed. Even the very strongest should consider carefully the cost of the last rate war, and management guilty of such action must be prepared to reap the whirlwind. No catastrophe in SA has yet equalled the devastating effects of that war.

The main blame for the winding up of AA Mutual is assigned to former MD Warren Plummer. But no one at senior level was entirely faultless, from an apparently weak board to management to the auditors and regulatory authorities.

If the recommendations are accepted in entirety, the short-term insurance market will be much better regulated. The worry of further insolvencies, if not entirely removed, will become less immediate.

Certainly, the CE of any financial institution should never be allowed to run the organisation single-handed. There should always be an able successor, who should attend all board meetings.

An advisory committee to the Registrar should be reinstituted though it should be of manageable size.

The recommendations are wide-ranging and will tighten the Act, including that:

□ The minimum capital required to start a company be raised from R200 000 to R3m;

□ The solvency margin minimum be raised to 15%, with a warning level requiring six-monthly reporting starting at less than 25%, and a second warning level requiring immediate investigation at less than 20%;

□ Calculation of annual unearned premium reserve be standardised to the 24th basis (a more internationally recognised method) and the discount allowable be restricted to actual net commission received, not 20% as at present. In certain circumstances, if commission received from reinsurers is greater than commission paid by the company, this constitutes a profit and a loading would therefore be applied. If adopted, this would strengthen insurers' reserves;

□ Outstanding claims reserved for both locally written business and inwards treaty reinsurance be standardised, with estimates of the latter from ceding companies;

□ Incurred but not reported (IBNR) claims reserves other than for three-year accounted business and inward treaty business should be the greater of at least 7% of the year's net premium income from locally written annual business, plus 7% of policies booked in the last two months of the year, or 10% of total incurred claims from locally written business for the year, excluding IBNR provisions; and

□ A catastrophe reserve, on the same income tax basis as other reserves, be set up at a rate of 2% of each year's written net premium income from all business for a period of five years until a reserve of 10% is achieved, such reserve to be drawn on only with the consent of the Registrar. The funds should be invested in securities approved by him.

Implementation of the above would obviously be phased in, but if the first is applied soon, at least four insurers would require increased capital.

Innocuous

Other requirements, while seemingly innocuous, would strain many insurers if implemented immediately. With some results for 1987 still awaited, it is difficult to ascertain the full effect, but from the latest available results, all seven quoted companies could meet them.

The final requirement, while reducing an insurer's profit for the next five years, would strengthen its financial base and in consequence investments, a factor that no shareholder should overlook, especially as an investment in a short-term insurer should be a long-term project.

The recommendations can only be looked on favourably by responsible shareholders and management. Judge Melamet and his commissioners must be complimented for their thoroughness and clarity.

Bankers do battle: And the rest of us win

W/Mail 8/4/88

Building societies are about to get their own back on the banks by moving into the cheque accounts market, reports BRUCE ALLEN

COMPETITION between banks and building societies looks set to intensify — and account holders stand to gain most.

In recent months, both banks and building societies have disregarded previously respected boundaries demarcating areas of operation.

The most significant move so far came when banks went all out to corner a slice of the home loans market. This happened at a time when financial institutions were flush with cash and it made sense for banks to lower liquidity levels and at the same time expand customer bases by moving into the traditional building society field of lending.

The result was a more competitive bond market which saw interest rates slump to 12,5 percent.

But now building societies are about to get some of their own back.

South Africa's largest building society, United, is to move into the cheque account market. This follows its conversion about two years ago from a mutual society to a JSE-listed equity based operation.

This building society group established United Bank in August last year, and the move has paved the way for entry into the lucrative current account business.

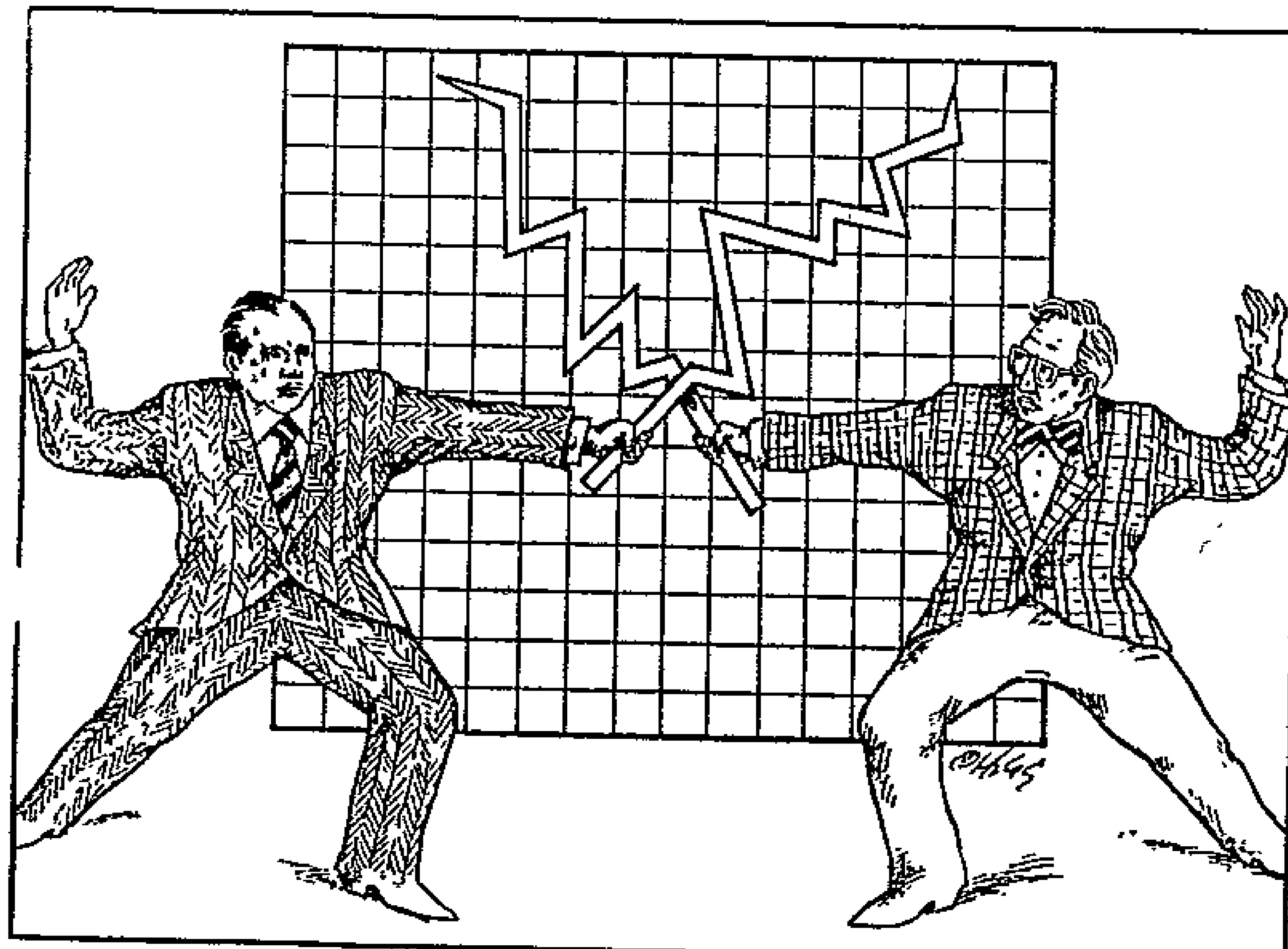
According to United's chief executive, Piet Badenhorst, the new bank will compete head on with existing banks on price structures.

Although the banking cartel was abolished in 1981, all of this country's major banks still carry uniform minimum charges on cheque accounts. United Bank intends breaking the rules.

Many established banks, however, contend that United will not be able to undercut market charges for too long. They argue United's costs in setting up an infrastructure to handle banking operations will prevent it from remaining price competitive.

Tim Hart, director of the Association of Building Societies, doesn't agree. He points out the new banks will be operating from existing premises. Although they will need modification, the banking halls and computer systems are already there.

He says when banks entered the home loan market on a bigger scale, they managed to undercut building societies.



Banks vs building societies — round number two

The percentage of their business which came from bonds was relatively small when compared with total book deposits. So money which may have been lost through highly competitive lending rates was picked up elsewhere.

A similar strategy can be followed by building societies when they launch cheque accounts.

Another factor which will allow for greater competition between banks and building societies is the proposed Reserve Bank, Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill.

Legislation in its present form has hampered building societies in defending the banks' aggressive move into the home loans game.

According to the Reserve Bank's figures for the first quarter of 1988, banks' mortgage lending climbed by just over R1-billion. Over the same period, building societies increased their stake in this market by only R675-million.

The new Bill should make for a more equitable arrangement by allowing building societies greater funding flexibility and the ability to expand into more general banking activities.

According to Hart, the effects of changes in legislation will benefit building societies in-house and will not have a strong impact on the man in the street.

He notes, however, that the passing of the Bill could result in building societies being more responsive to interest rate changes. These institutions will be able to take more than the current stipulation of five percent of funds on call.

This would mean that rates could move more quickly and in line with market trends, resulting in lower mortgage rates when interest rates head down.

Until now, people looking for one-stop banking facilities could choose only between the banks. Building societies will now be able to offer the same services, making the market more competitive — a development that should benefit consumers.

A few extra rands monthly on a bond can save thousands in the long term

Star 9/7/85

(58)

ONE of the best investments a home buyer can make is to pay a few rands extra on the monthly instalment of his home loan. It's as good as earning 15 percent interest, tax free.

It can save tens of thousands on the eventual cost of the house, chopping years off the repayment period.

For example on a R50 000 mortgage, the normal repayment at the rate of 15 percent is R668 a month for 20 years.

By increasing the repayment by only R10 a month, the home owner will repay the loan in 18 years instead of 20, says the Allied.

The cash saving is difficult to forecast because bond rates fluctuate.

However, the buyer could save as much as R14 000 as well as owning a bond-free house two years earlier. He will have paid R146 000 instead of R160 000 to buy his house, calculate at current bond rates.

If this home owner boosts his repayment by R20 he will pay off the bond in 17 years, which could mean a saving of R24 000.

A home-owner with a R40 000 bond currently pays R534 a month and in 20 years he will have paid in R128 000 — again asuming bond rates at present levels. But if he pays an extra R10 a month, the house will be bond-free in 18 years and he will have saved about R11 000.

He will save even more if he steps up his repayments by R20 a month to R554. The house will be his in 16 and a half years and his total repayments will amount to about R110 000 — saving him some R18 000.

When rates rise

A couple of years ago bond rates were around 19,5 percent on a R50 000 bond, which cost R830 a month. But cuts in rates have reduced the repayment by R168 to R662 a month — a drop of 20 percent.

If the home owner kept his instalment at R830 he would ultimately save tens of thousands and pay off his house in about 15 years instead of 20.

When bond rates rise, it is vital to increase monthly repayments to meet this — otherwise, as some borrowers discovered in the past, they owed more at the end of the year than at the beginning.

However, paying off your bond is only worth your while if you do not receive a housing subsidy or allowance from your employer. It has been suggested that about 70 percent of all white homeowners in South Africa receive some kind of subsidy, either from the state or their employers.

In this instance it will be foolish to repay your bond in full as it would result in the loss of the subsidy

Insurers on the rack

By Robyn Chalmers

AT LEAST four major insurers if stricter financial terms recommended by the Melamet Commission were implemented immediately, say industry sources.

Insurers will meet the Registrar of Financial Institutions, Theo van Wyk, in a few weeks to discuss the commission's recommendations. They fear some of them will be implemented shortly.

Mutual & Federal managing director Ken Saggers says: "I believe the Registrar would like to incorporate, among others, the higher solvency margin, a catastrophe reserve and the standardisation of outstanding claims reserved as soon as possible.

"This is a positive move for the industry, but it could mean a major upheaval for some companies."

Because there is not a great deal of disclosure by insurance companies, it is difficult to predict how many of them would be seriously affected. The number could be more than four.

There is a fine line between tightening up the insurance industry and overregulating it. Mr Saggers says a free-market system is the best.

"Irrational competition is not in the long-term interests of the insured or the insurer. The need for a stable insurance market cannot be overemphasised."

Quest Consulting Group chairman Denzil Curgenven agrees, saying "no catastrophe in SA has equalled the devasting effects of the rate war".

The regulations — if implemented now — would place much strain on some insurers.

Priceforbes Federale Volkskas executive director Don Gallimore says "some indigenous companies which do not have a large financial base will have to increase capital significantly to meet the proposed new requirements"

He is worried about the increased placement of business in the soft foreign market.

"We cannot afford to damage SA's insurance industry while it is being nursed to a healthier position.

"Fortunately for insurers, foreign markets are becoming increasingly concerned about slow payment from reinsurers on catastrophe claims and its softness may be short lived"

The industry in general has welcomed the Melamet recommendations, but concern has been expressed about alleged whitewashing of the part the Registrar at the time played in the AA Mutual short-term debacle.

One spokesman says that although the commission reprimanded the office of the Registrar, it was careful not to point a finger at the Registrar.

Restricted by limited staff, the Registrar failed to fully examine the 1980, 1981, 1984 and 1985 returns of AAM — even though the solvency margin was less than 20%.

"This was because of the aura created by AAM managing director Warren Plummer as the doyen of the industry. The commission sought instead to attatch part of the blame to the media," says the spokesman.

(89) Star 5/7/88

Standard's funds do well

(58)

11/7/88 BDay

HELENA PATTEN

THE investment policies of Standard Bank's mutual funds are proving sound, with all three funds outperforming the market in the three months to end June, according to figures in the quarterly report.

Standard's general equity fund has seen its repurchase price increase by 7,19% from 523,37c to 560,90c a unit in the second quarter, compared with a 4,46% rise in the JSE overall index in the same period.

Over a longer time period, the fund is doing even better, the fund's unit price rising 9,78% in the first six months of the current year, against a decline of 3,51% in the JSE overall index.

The fund managers say they remain cautious on the outlook for the equity markets but are always looking for undervalued situations.

"In line with this policy, we added to the fund's direct gold holdings during the quarter."

The fund's resources are currently 22,9% invested in mining, 9,13% in banking and insurance, 27,38% in industrials and 40,58% in liquid assets.

The income distribution has been increased by a substantial 66% to 18,94c a unit.

The Gold Fund unit price remained almost static in the quarter, but measured over the half-year to June, it showed a decline of 16,6% — including income. This compares with a decline of 27,3% in the All Gold Index.

The Gold Fund reduced its liquidity from 33% at the end of the previous quarter to just over 26% in recognition of growing value in rand terms offered by certain gold shares. The fund's outlook on bullion remains hesitant however.

"Significant additions were made to the holdings of Kinross, Deelkraal and East Daggafontein, while Anglo American was added to the fund."

A dividend of 6,98c a unit has been declared by the fund.

The Extra Income Fund's unit price increased 4,86c to 89,53c in the quarter, representing an annualised compounded return for the quarter of 25,01% of which 45% was capital appreciation and 55% income.

The fund managers say the life of the fund was increased from 1,62 years in January to more than seven years in March and April. "In view of the recent moves in interest rates this proved to be the correct strategic decision and the fund has shown favourable performance during this quarter."

As a result of holding longer dated government stock, an improved income distribution of 2,77c a unit has been declared — a 28,2% increase on the previous quarter.

Life insurance industry pays out R5,7-bn in benefits

(55) Star 13/7/88

The South African life insurance industry paid out benefits totalling R5,7 billion in 1987, which amounts to 50 percent of direct tax paid by individuals during the same year.

The annual report of the Life Offices Association (LOA) also says that assets by members of the LOA were up by 21 percent on the 1986 figure at R65,8 billion.

The report says. "The recent growth in premium income and in assets indicate that the life insurance industry is regarded as a savings medium that offers a return higher than the rate of inflation.

"It is essential for the welfare of the population and the development of the economy that people have a long term savings medium that earns a real return on investments after inflation".

The LOA goes on to say: "This means they should have tax dispensation that is equitable when one compares it with the tax that the policyholder would have paid if they had invested in other savings opportunities and that life insurers should enjoy reasonable freedom in investing their funds."

LOA says total premium income was at R13 558 billion (1986 — R8 689 billion) while total income was R18 475 billion (R12 927 billion).

The report says annuities paid amounted to R1 billion, an increase of 86 percent on the 1986 figure. Death and disability benefits amounted to R1,32 billion, an increase of 28 percent on the 1986 figure.

There was an increase of 165 percent in single new premium income, which rose to R4,375 billion.

The report says brokers were responsible for a larger percentage of new indvidual premium business in 1987 than the year before, a trend that appears to have started in 1985.

Operating expenses in the industry peaked and continued to increase last year at R2,015 billion. —Sapa

Banks to deal in financial rands again

58

S tar 13/7/8

By Sven Lünsche

Commercial banks will be given permission to act as principals in the financial rand market again, according to a spokesman for the Reserve Bank's foreign exchange department.

The spokesman said yesterday that discussion between the Reserve Bank and individual banks were currently taking place, which could result in individual banks being given an authority to trade financial rands "if they fulfil certain conditions set by the authorities."

Currently only non-residents are allowed to hold financial rands and banks may only accept orders if it is on behalf of non-residents, a position which the Reserve Bank confirmed only two weeks ago.

"We are ironing out proposals with each bank individually and we could give each bank authority for trading within certain parameters according to the needs of the bank and its clients," the spokesman said, adding that the meetings could carry on until early next week.

While the financial rand market is not very big — a forex dealer at First National Bank put the volume at around $15 million a day — the large fluctuations in the exchange rate of the finrand witnessed recently, make it fairly profitable.

But banks will put forward the "unscrupulous" tactics of London brokers as the major reason for allowing South African banks back into the market.

A First National spokesman told Sapa that the low gold price, the situation on the border and especially "unscrupulous" brokers in London had driven the financial rand to dangerous levels.

A spokesman for Standard said the rumour that the restrictions were about to be lifted had already reached London and that on Wednesday afternoonthe financial rand had strengthened 12,5cfrom R3,60 to R3,4750.

Banks say that London had taken over the entire financial rand market and had driven the price down. They said that if the situation had been allowed to continue, the financial rand would have been in total control of overseas brokers.

While the banks will be allowed to trade in the financial rand in their own right, fairly strict controls are likely to be imposed.

A spokesman for Standard Bank said the Reserve Bank had been proved unwise in its previous decision to prohibit the banking system from dealing in the financial rand in its own right.

He said that four major deals in the finrand had gone to overseas brokers, who had told clients it was no longer possible to deal with South African banks.

Life insurance industry pays out R5,7-bn in benefits

(58)
Star 13/7/88

The South African life insurance industry paid out benefits totalling R5,7 billion in 1987, which amounts to 50 percent of direct tax paid by individuals during the same year.

The annual report of the Life Offices Association (LOA) also says that assets by members of the LOA were up by 21 percent on the 1986 figure at R65,8 billion.

The report says: "The recent growth in premium income and in assets indicate that the life insurance industry is regarded as a savings medium that offers a return higher than the rate of inflation.

"It is essential for the welfare of the population and the development of the economy that people have a long term savings medium that earns a real return on investments after inflation".

The LOA goes on to say: "This means they should have tax dispensation that is equitable when one compares it with the tax that the policyholder would have paid if they had invested in other savings opportunities and that life insurers should enjoy reasonable freedom in investing their funds."

LOA says total premium income was at R13 558 billion (1986 — R8 689 billion) while total income was R18 475 billion (R12 927 billion).

The report says annuities paid amounted to R1 billion, an increase of 86 percent on the 1986 figure. Death and disability benefits amounted to R1,32 billion, an increase of 28 percent on the 1986 figure.

There was an increase of 165 percent in single new premium income, which rose to R4,375 billion.

The report says brokers were responsible for a larger percentage of new indvidual premium business in 1987 than the year before, a trend that appears to have started in 1985.

Operating expenses in the industry peaked and continued to increase last year at R2,015 billion. —Sapa.

Fed Volk undertakes R100m rights issue

58

B/day 13/7/88

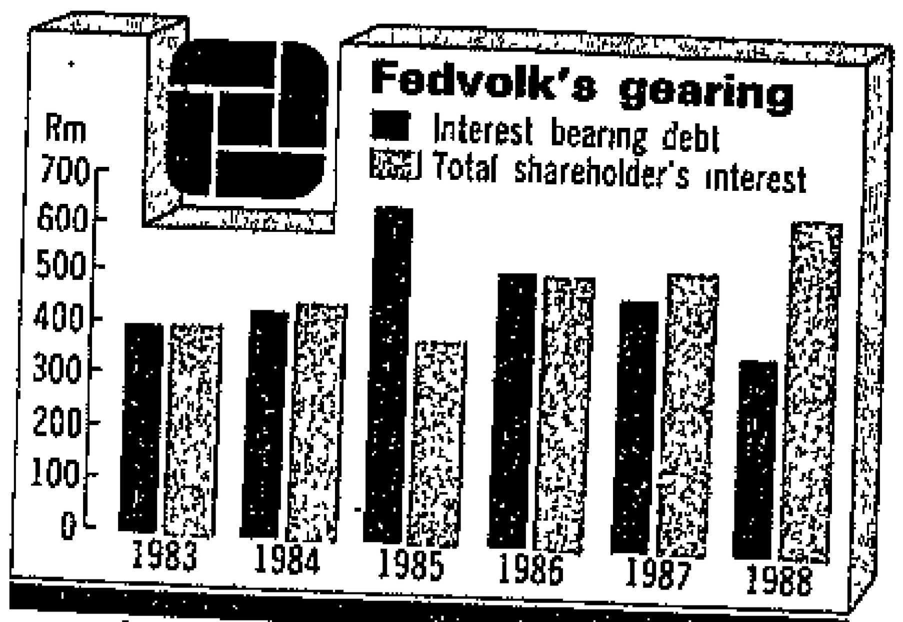
HELENA PATTEN

FEDERALE Volksbeleggings (Fed Volk) has brushed aside abiding uncertainty in the stock market and is undertaking a rights issue of ordinary shares to raise about R100m.

It is hoped the issue will be finalised by the group's September 30 half-year. The industrial holding giant, 47,7% controlled by Sanlam, is embarking on a broad-based, expansion programme covering virtually all business units.

MD Johan Moolman said yesterday the new phase in the development of the group would be one of "selective growth", characterised by organic growth and takeovers, while keeping debt within acceptable levels.

He said the expansion would be diverse and individual programmes, though vital, would be relatively small in relation to the group.



Source FEDERALE VOLKSBELEGGINGS Graphic JOHN McCANN

Part of the R100m will go towards financing the purchase of Teljoy.

"There are opportunities for expansion in each of the operating sectors which have to be utilised on a planned basis, whether increasing capacity or the addition of new product lines."

New capacities were being created in the pharmaceutical division to broaden product ranges, while the motor component division constantly required assistance in increasing the local content of motor vehicles.

Government's privatisation programme and foreign disinvestment also offered one-off opportunities, making cash resources important for Federale.

The current debt/equity ratio of 0,57 was within the 0,4 to 0,7 range regarded as acceptable by the group and would fall to around 0,45 this year if no rights issue were undertaken. The ratio should fall still further after the issue.

Moolman said with an estimated profit retention of R80m in the current financial year, and a R20m assessed tax loss, there was no need for the rights issue to finance normal business.

Despite a greater number of shares to be issued, Federale believes it can still achieve real growth in both earnings and dividends.

R5,7bn is paid out

(58) B/Day 13/7/88

THE life insurance industry paid out benefits totalling R5,7bn in 1987, the Life Officers Association's (LOA) annual report said.

It also said LOA-member assets were up by 21% on the 1986 figure at R65,8bn.

The report said: "The recent growth in premium income and in assets indicate the life insurance industry is regarded as a savings medium that offers a return higher than the rate of inflation.

"It is essential for the welfare of the population and the development of the economy that people have a long-term savings medium that earns a real return on investments after inflation."

The report said total premium income was at R13,55bn (R8,68bn), while total income was at R18,47bn (R12,92bn).

Annuities paid amounted to R999m, an increase of 86% on the 1986 figure. Death and disability benefits amounted to R1,32bn, an increase of 28% on 1986.

There was an increase of 165% in single new premium income, which rose to R4,37bn.

Brokers were responsible for a larger percentage of new individual premium business in 1987 than the year before, a trend which began in 1985. — Sapa.

Cape Times 15/7/88

Seven SA firms in world's top 1 000

58

Own Correspondent

LONDON. — Seven SA companies are included in the world's top 1 000 firms in a survey by International Business-Week magazine published this week.

Eight of the top 10 are Japanese companies, with the largest — Nippon Telegraph and Telephone — having a market value of $296 billion (about R630bn), more than 17 times the value of the entire Johannesburg Stock Exchange.

The top SA company is De Beers, ranked 318th, with a market value of $4,3 billion (R10bn). The market value was calculated using London Stock Exchange data.

Anglo American Corporation, with a market value of $3,96bn, is ranked 355th.

Driefontein Consolidated, with $2,21bn, is placed 682nd; Anglo America Gold ($1,75bn) 820th; Vaal Reefs ($1,62bn) 861st; Goldfields of South Africa ($1,45bn) 935th; and General Mining Corporation ($1,37bn) 968th.

The rest of the top ten are: International Business Machines, United States ($67,47bn); Dai-Ichi Kangyo Bank, Japan ($63,25bn); Fuji Bank, Japan ($62,81bn); Exxon, United States ($61,88bn); Tokyo Electric Power, Japan ($61,53bn); Nomura Securities, Japan ($56,12bn); Industrial Bank of Japan ($55,89bn), and Mitsubishi Bank, Japan ($55,81bn).

Cape Times 15/7/88

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Forex probe by Reserve Bank

CAPE TIMES 15/7/88

58

Own Correspondent

JOHANNESBURG. — The Reserve Bank is investigating possible contraventions of foreign exchange law by a junior official of the Trust Bank.

A spokesman for the bank, Mr Kobus Roetz, said last night: "The Trust Bank notified the Reserve Bank of its suspicion that a member of its staff had contravened regulations. The bank also notified the commercial branch."

At this stage it was "just a suspicion" and there was no evidence yet of contravention of foreign exchange law. He could not say what amounts were involved.

He stressed that it was a minor issue, but confirmed that a number of clients had immediately been reassured that their dealings were secure.

Reserve Bank officials confirmed that an investigation was under way but a police spokesman said the coMmercial branch was not investigating any case involving the Trust Bank.

The issue is said to involve a junior official who has "hurriedly" left the country.

Unconfirmed information suggested that the suspected forex contraventions were of the same nature as those which recently caused Supreme Court action to be taken against officers of the African Bank.

(58)

INTEREST RATES

The eye of the storm

Since the last rise in Bank rate and the package of credit restrictions introduced early in May, interest rates have been comparatively stable. Investors seemed satisfied that demand was under control and both money and capital markets were bullish.

However, the situation is under review.

July is the month in which Finance Minister Barend du Plessis will assess the impact of credit restrictions. In an interview with the *FM* shortly after the last rise in Bank rate — from 10,5% to 11,5% — he predicted the effects would not be felt till June and figures would not be available till July.

The first June figure shows a disturbing drop in gold and foreign reserves (see **P44**), while the production price index for May has serious implications for the inflation rate (see **P40**).

Early indications are that demand pressures are still powerful. So is the pause in rising rates which followed the package of credit restrictions about to end?

Response in the capital market was ambivalent. Rates started moving up as soon as the foreign reserve figures were published last Thursday. Eskom 168, as low as 15,74% at the start of the week, closed at 15,99% on Friday and 16,15% on Monday.

However, on Tuesday, when PPI could have been expected to send rates up further, they began to soften somewhat.

Meanwhile, the money market was showing signs of nervousness. Conditions had been tightening since mid-June — though not necessarily as a result of demand.

The Reserve Bank, seeing the market close to surplus by the second week of June, took out two amounts of R150m in special Tax Treasury bills maturing on August 31. At month-end, tax payments by mining houses proved higher than expected and the result was a shortage of R1,537bn.

Thereafter, capital market deals payable in July absorbed further funds and the money market shortage stayed above R1,3bn till the start of the week.

Problems are compounded by school holidays, which normally take money out of the system. So seasonal factors are also at work.

Then, last week, a major bank started trading NCDs at 20 points over the going rate — with a major psychological effect.

Added to this was the poor performance of the rand and finrand and the military build-up in Angola and sentiment became decidedly bearish. The result was a move in the BA rate from 12,05% last Tuesday to 12,40% this Tuesday, when it jumped 20 points in the morning.

The question is whether seasonal and once-off factors are driving rates, or whether they also reflect underlying fundamental change in the economy. It's worth remembering that seasonal factors at the start of the year masked the build-up of demand which sent rates sharply up until late April.

Again there is talk of a rise in prime and possibly Bank rate — of 1%. This, with an increase in the minimum deposit on home loans and HP transactions, might make up the next demand-dampening package.

Du Plessis ... review the package

The next important indicators will be June money supply and CPI.

Preliminary figures for May showed 12-month seasonally adjusted M3 growth well above the target range, at 22,7%. If this trend continues, it will be an important sign that credit control measures are not enough.

And if CPI shows strong inflationary forces at work, it will indicate that there is no time to be lost. ■

SECURITIES MARKETS

Future possibilities

In the past 20 years, the rising tempo of economic change has created new types of risk. The response of international markets has been a growing trade in financial futures — transactions in financial assets for future settlement — which provide a means of transferring risk.

Unlike financial centres elsewhere, which introduced futures first and developed options later, SA has had an active and sophisticated options market based on gilts for some years — and is only now embarking on a formalised market in financial futures.

A draft Proposed Securities Markets Control Act 1989 was published this week. It is enabling legislation, based on the principle of self-regulation, to provide structure for the bond market and the secondary markets in their derivatives, such as options, futures and options on futures.

Accompanying it was a report by Finance DG Chris Stals, *The Development of Financial Futures Transactions in SA*. Stals outlines the development of international futures markets, which started with agricultural commodities in the US in the mid-19th Century. The concept was not applied to financial instruments until the Seventies.

Following periods of high interest rate volatility and intimations of the end of the Bretton Woods Agreement towards the end of the Sixties, the first successful standardised foreign currency futures contract was introduced in the US in 1972 and the first interest rate futures contract in 1975.

Markets spread internationally and various types of financial futures transactions emerged in SA in 1984. That August, Finance Minister Barend du Plessis asked Stals, then senior deputy governor of the Reserve Bank, to form a technical committee to advise on action "to guide the further evolution of the market."

First draft of the report and proposed legislation was completed by August 1986 but major changes in SA's financial situation, following the foreign debt standstill in September 1985 and the recession, led to a decline in interest and the market.

At that point, present senior deputy governor Japie Jacobs was appointed to chair another technical committee — to investigate "steps that could be taken to improve the effectiveness of the bond market." Because of the close relationship between the two investigations, publication of the Stals report was delayed. In the final version, Stals's recommendations have been interfaced with proposals from the Jacobs report.

Both committees' findings are represented in the draft legislation, now being circulated for comment. Parties examining it include a working group, appointed by the SA Futures Exchange Board and chaired by Rand Merchant Bank's (RMB) Stuart Rees.

"The market structure envisaged by the working group and the board to which it reports is essentially that suggested by the committees' reports," says Rees.

The committee will complete a prospectus by end-July. "It will be available to appropriate members of the investment community

(48) FM 15/7/88

FEDERALE VOLKSBELEGGINGS

Seeking expansion capital

As promised in the annual report, Federale Volksbeleggings is preparing for expansion. Funds are to be raised not by borrowings, but by a R100m rights issue, the group's second such issue in two years.

When news reached the market, general reaction was one of surprise. Some were startled and dismayed by the idea of a major rights issue in a bear market, when Federale's share price stands on a p:e rating of only 4,6 times. Some were surprised by the intended use of the funds. The balance sheet — while greatly improved on two years ago — is not exactly lean, compared to the present average for large industrial groups. Yet the main object is not to repay debt but to fund expansion projects and acquisitions.

As group CE Johan Moolman puts it: Federale has successfully completed the first four phases of a recovery, which began in 1985; it is now ready, he says, for a development phase of "selective growth." Details will be released in about mid-August and the issue should be completed by late September. Based on the current price, however, the offer could involve issue of some 30m shares, which will be added to the current 129,5m.

Though the new scrip will affect bottom line earnings for only the second half of the current financial year, a considerable dilution could hardly be avoided. Management has thus made a decidedly strong statement in its assurance that "in spite of the greater number of shares to be issued, it is budgeted for the group to achieve real growth in both earnings and dividend per share compared to the previous year."

Much will depend on how the price moves over coming weeks and the terms of the offer. But if minimal "real growth" in earnings of, say, 16% is assumed, then present price levels would suggest 1989 attributable earnings would have to grow by closer to 30%. So the response to the issue is bound to hinge partly on whether investors believe this can be achieved and whether growth can be sustained in the 1990 financial year.

Some analysts are concerned about an economic downturn next year which could hurt the group's profits, particularly in consumer sectors. Moolman's counter is that Federale now has a good balance of operations, including some businesses that should remain stable in a downturn.

Moolman is imprecise on the investment plans, but he says there are a range of relatively small projects, mainly in existing businesses, which should have a quick payback over one to two years. Areas mentioned include the need to increase local content in durable consumer goods, capacity expansions in pharmaceuticals to broaden product ranges, as well as in the motor component division. Also cited is the possibility of one-off opportunities arising from the privatisation programme and foreign disinvestment. Still unclear is how the funds would be moved down to a listed company like SA Druggists without a rights issue by that company.

Close on 20% of funds raised will be soaked up by the recent acquisition of a stake of 27%-odd in Teljoy. This was for a total price of R35,8m, comprising issue of ordinary shares at 350c and R17,5m cash, payable by September 30. In this case, then, immediate profits are being bought.

Debt would obviously be repaid in the period before use is made of rights offer funds. This could at least curtail any increase in the interest bill. Moolman says that, with the rights issue, the debt:equity ratio, currently around 0,57, would be in "the low 0,40s" by year end.

Federale does, in fact, have a lot going for it now. The portfolio is more logically structured, attributable earnings jumped last year from R45m to R91m and the balance sheet steadily improved. On current prices and performances of the listed investments, the unlisted interests are in for free on Federale's present price. Even so, while at least one analyst believes the offer will be fully taken up, others see it as spoiling an improving record.

There have been precedents for large rights issue benefiting market ratings of shares in recovery situations; Sappi and Premier were two recent examples. But both of those were in a bull market and their recovery prospects were more easily assessed. Federale's price reflects the market verdict; it is not impressed. Management will need to reveal more about the intentions and prospects if it is to convince investors of the benefits.

Andrew McNulty

WEEKLY MAIL, July

15-21/7/88 (58) W Mail

THE ECONOMY

After the crash, the man in the street turned and ran

Weekly Mail Reporter

INDIVIDUAL investors' participation in the stock market dropped while stockbrokers did more trading on their own accounts in the wake of last October's crash, the Johannesburg Stock Exchange's 42nd transaction study suggests.

The results of the study, published last week, show private individuals accounted for only 21 percent of share purchases in January this year compared to 35,4 percent in July last year. Individuals made up only 19 percent of share sellers, where last July this figure was 26 percent. Only six percent of share purchasers were women.

The study, conducted annually in January and July, is an analysis of one week's trading in each period, based on stockbroking firms' records. The figures give some indication of who is involved in the stock market and to what extent.

There are no accurate figures on what proportion of individual South Africans own shares although the figure is generally accepted to be well below five percent — in contrast to industrial countries such as the United States and Britain where the figure is 20 percent or more. Deputy Finance Minister Org Marais has estimated two percent of South Africans own shares.

Institutions tend to dominate the market — with the result that the JSE is relatively "undertraded" — the Margo Commission found only about seven percent of all shares were traded in any year. Share prices are often made on a limited number of trades.

Institutional investors, such as pension and provident funds, insurance companies and mining finance houses, are consistently the largest category of stockmarket trading, the JSE transaction study shows.

By the beginning of this year they were buying less and selling more than before the crash: the institutions accounted for one third of all purchases in January, slightly less than last July's figure of 37 percent, and 38 percent of all sales, compared to 30 percent in July.

But some of the slack was being taken up by the stockbrokers, who were doing more buying and selling on their own accounts, and were also involved in arbitrage purchases to a greater extent than last year. Arbitrage involves buying the shares on the assumption the price will go up — and the trader can sell at profit. If the price drops, the trader loses.

Arbitrage buying by stockbrokers accounted for 18 percent of share purchases in January, compared to 12 percent in July last year.

● Another JSE survey analyses gilt trading — the buying and selling of stocks and bonds. Banks, building societies and discount houses account for the large proportion of deals done in the gilts market, with state and semi-state pension funds and insurance companies second.

THE ECONOMY

The rand wheezes on

By KATE LAST

THE commercial rand continues to weaken but it is the financial rand that has stolen the limelight.

Over the past three weeks the financial rand has weakened by 19 percent from R3,01 to R3,57 to the dollar. The discount of the financial rand to the commercial rand has increased from 32 percent to 51 percent.

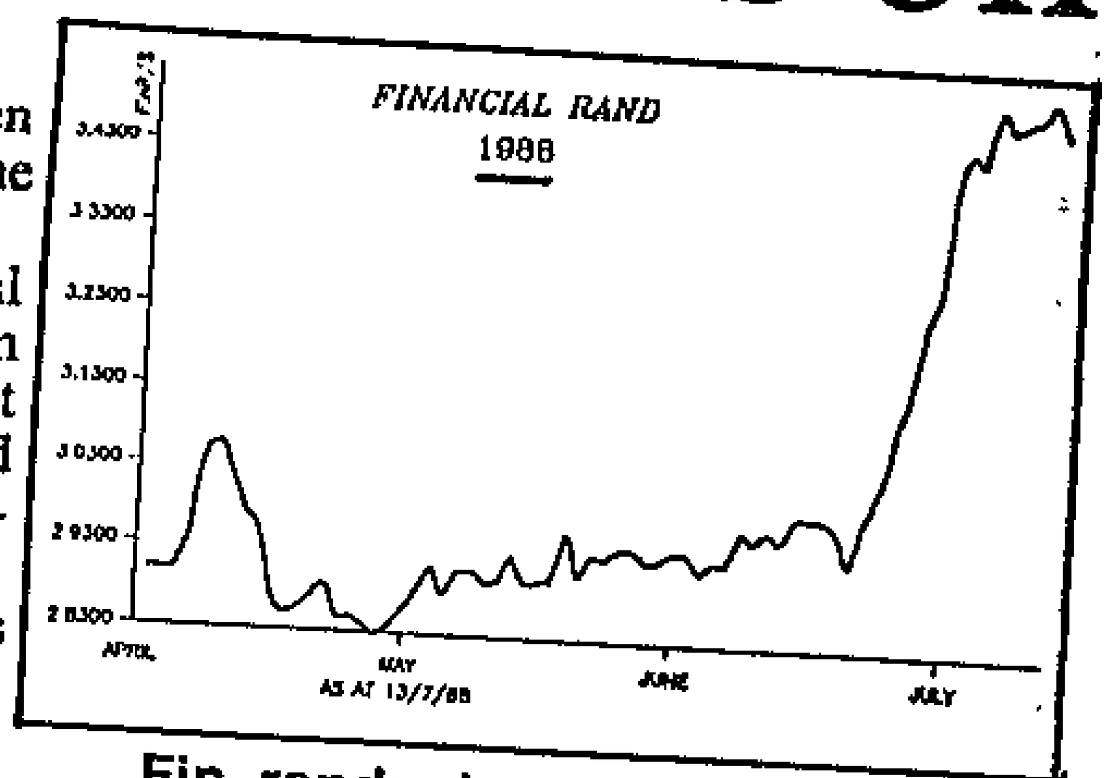
An increase in this discount rate displays an increase in disinvestment from South Africa as compared to a month ago.

Disinvestment pressure and negative sentiment have been key factors in the financial rand's decline. The war in Angola and closer definition have done little to promote positive sentiment — and neither does a lower gold price. The Reserve Bank's one-million ounce gold swap last week, worth about $440-million at this week's prices, may also have contributed to negative sentiment. It is said to have been interpreted by foreign investors as a sign of strain in the face of the disappearance of the surplus on the current account of South Africa's balance of payments.

There has been large-scale selling of Johannesburg Stock Exchange-listed shares by foreign investors, apparently in response to the progress of proposed sanctions legislation currently before the United States Congress and Senate.

The Bill, which bans all American investment in South Africa, would — if passed — have to be enforced within three months.

Another reason analysts are putting forward for the weakening of the financial rand is that certain debt which fell within the "net" in terms of the agreement concluded in 1986 with South Africa's creditor banks has been withdrawn via the financial rand. The legislation permitting this was passed recently. It means creditors who choose to withdraw their money in this fashion are in effect obliged to write off a certain amount of the debt, depending on the level of the financial rand at that time. But at least they get a percentage of the money owed them.



Fin rand: down 19 percent

Reserve Bank policy is considered by many to have exacerbated the state of the financial rand market. Local banks are barred from acting as principals in deals involving the financial rand, apparently because the Reserve Bank feared abuses of the system.

As a result, the market is dominated by participants in London and elsewhere. The market is not a very liquid one and a single transaction can have a dramatic effect on the finrand rate. South African financial institutions have almost no influence over this market.

Individual banks are currently negotiating with the Reserve Bank to be allowed to trade directly in the financial rand. If the Reserve Bank does alter the existing policy, it is likely to do so within very stringent limits. But such a change would be bound to lend support to a badly ailing financial rand.

R184-m poured into unit trusts in six months

(SA)

Star 15/7/88

By Magnus Heystek
Finance Editor

The unit trust investment movement has weathered last year's stock exchange crash far better than expected with investors revealing a new-found sense of maturity.

This much can be deduced from the latest figures from the Association of Unit Trusts which show that South Africa's 25 unit trusts experienced another net inflow of R84,4 million to bring the total for the first half of the year to R184,1 million.

The quarterly statistics from the Association shows that thanks to the improved conditions in investment markets towards the end of the quarter, the market value of the funds at June 30 rose to R3,723 billion, not far off the record R4,882 billion on September 30 last year, a few weeks prior to the stock market collapse.

During the June quarter the 25 funds attracted sales of R165,5 million against repurchases of R81,2 million.

Mr Roy McAlpine, chairman of the Association, commenting on this development, said: "It seems to me that at long last investors have recognised unit trusts for what they are — a medium to long term investment with an excellent performance record — and as such they are prepared to invest in unit trusts even in somewhat cloudy conditions."

An analysis of the portfolios of the 19 equity funds at the end of June reveals an unchanged (from the previous quarter) level of equity investment, namely R2,7 billion or 77,5 percent of total assets. Their cash holdings amounted to almost 20 percent or R693 million.

At the end of the March quarter the funds held 20,5 percent of their invesments in the form of liquid assets waiting to take advantage of any upswing in the market.

The continuance of the net inflow of new investment money into unit trusts must come as a relief to the local equity investment community as it is becoming increasingly unlikely that the unit trust industry would be forced to disinvest in the months ahead.

Referring to the industry's solid investment performance over the past five years, Mr McAlpine pointed out that the average annual performance (capital growth plus income) was just under 17 percent compared with the average inflation rate of 14,9 percent over the same period.

Call to drop prescribe ruling

ROBERT GENTLE

THE immediate abolition of the ruling on prescribed investments has been called for by Reserve Bank senior deputy governor Japie Jacobs in the report into the SA bond market.

This ruling, which requires that life insurers and pension funds hold large portions of their investments in public sector bonds, was said to inhibit trading and to distort the interest rate pattern and the allocation of capital within the economy.

The Margo Commission also called for the ruling's abolition the report said.

"All the evidence before the committee — as was the case in the previous enquiries — argues for complete abolition because the very existence of imposed portfolio constraints militates against a good secondary market."

Moreover, the oft-quoted argument that doing away with the regulation would see an institutional rush out of fixed-interest bonds and into dividend paying equities was refuted.

"Given the long-term nature of insurance and pension liabilities, the institutions concerned will in any case invest a large part of their funds in fixed-interest instruments."

The report went on to say that far from doing away with the regulation on a gradual basis, it should be done "at one stroke." It added: "The present juncture is especially suitable for such a step."

Old Mutual portfolio manager Heather McLeod welcomed the news, though she had reservations about the likely time scale and said it also raised other questions like taxation and the status of banks and building societies.

"We would prefer not to alter our investment strategy until there was

58 B/Day To Page 2 15/7/88

Jacobs wants end to prescribe ruling

From Page 1

more clarity on the issue."

John Banos, chief economist at stockbrokers Simpson McKie also said the move was an important step in the right direction. "But do they have the resolve to carry it out?"

He suggested that one reason for this new line of thinking was that if the government really did intend to privatise in a big way, existing institutional funds would have to be given some route into the newly created equities.

The Jacobs report also highlighted other irregularities, most of which militated against an active, integrated, liquid bond market.

Stockbrokers, for example, lacked the capital for a sufficient bond inventory, so they could not offer continuous two-way quotations as market makers could.

BOOST FOR PENSIONS, INSURANCE HINTED AT

W/Argus 16/7/88

Weekend Argus Reporter

MILLIONS of people are in for a huge pension and insurance boost — amounting to billions of rands countrywide — if the Government scraps the ruling on prescribed investments.

And there are strong indications that the Government is poised to take this step, which was recommended by the Margo Commission.

Speculation that the prescribed assets ruling — which forces life insurers and pension funds to invest huge sums in government bonds — might be on the way out was given fresh impetus this week by the comment from senior deputy governor of the Reserve Bank, Dr Japie Jacobs, that "the present juncture is especially suitable for such a step".

New tax

There is, however, some doubt over whether the Government is willing to scrap it in one stroke or phase it out gradually ... or, indeed, replace it with a new direct tax.

But what is certain, experts say, is that abolition would allow pension funds and insurance companies to spread the 53 percent of investments they are presently obliged to hold in government bonds in other areas of the market that generate more income.

This would boost the incentive to save because people would have an opportunity to earn interest higher than the inflation rate.

Reduce benefits

Equally, however, there are fears the Government might consider replacing the prescribed assets ruling with a new tax, which would reduce the benefits of abolishing the ruling in the first place.

A firm advocate of abolition is Mr Henk Beets, assistant general manager of Old Mutual Employee Benefits.

He said: "The ruling was originally created to protect retirement savings because government stock was seen as a safe security investment, but it gradually became a convenient means for the State to raise capital.

Protection mechanism

"The irrefutable fact is that the original reason for prescribed assets — the protection of the public against possible default — no longer applies. The original protection mechanism now actively works against the real interests of workers and pensioners.

"Inflation and other factors are making it very difficult for the individual to provide for adequate financial security. The Government itself supports the principle that individuals should provide for their old age. The prescribed asset requirement therefore defeats the Government's own objective."

Another potential problem lies in the fact that insurance and pension fund investments in building societies count as part of the 53 percent prescribed assets. If the ruling were scrapped, building societies would have to pay more for their money and that could push up mortgage bonds.

Positive

But Mr Beets concluded: "Taken in isolation, the removal of the ruling, which would be a big step, would be very positive. It would benefit millions of people. It would be good for markets overall in South Africa."

"Far from being something to be avoided, it could well make the whole fixed interest market a more attractive place to invest in. Instead of yields being somewhat depressed because of forced investment, rates would be able to fluctuate more fairly."

In addition, unions could well be encouraged to take part in provident fund schemes that they have so far avoided because of the "tainted" component of the investment held perforce in RSA stock.

In his comments this week in a report on the South African bond market, Dr Jacobs said: "All the evidence before the committee ... argues for complete abolition because the very existence of imposed portfolio constraints militates against a good secondary market."

Over a 10-year period, he said, the average returns from equities had increased at around 7 percent per annum higher than the average return from fixed interest.

"That has had an impact on pension funds and thereby on individuals' ability to get a return on their income for their retirement. This has had an impact on individuals' ability to save, and insurers, like life companies, to facilitate that saving."

Real return

Mr Beets said: "Unless you can make a real return with savings, there is little point in putting it away. It is better to spend it. If you cannot earn an interest rate higher than inflation, there's little point."

For this reason, the prescribed asset ruling was failing to encourage people to save for retirement. To the extent that abolition would create conditions where there would be a real return, he said, it would encourage saving.

"My fear is that while I see the removal of the ruling as creating an increase in investment flexibility which should lead to increased investment returns, there is the danger that it will be replaced by some other tax.

Explicit

"The fiscus needs the money and the authorities might replace this implicit tax with an explicit tax."

Mr Beets said: "I can see there being an initial hiatus if it became more attractive to place money in equity, but I would not expect a massive stampede away from fixed interest."

Stick to blue-chip golds — Syfrets

Star 16/7/88

(58)

Investment in gold shares over the past year has generally been extremely disappointing.

The question many investors are asking is: Should gold shares feature in a new investment portfolio, given the current negative scenario for bullion?

No, says Syfrets, the leading financial services company. But it adds that the holding of certain gold shares in existing portfolios can be justified.

In an article in its investment newsletter *Money Matters*, in which gold shares are scrutinised, Ian Hamilton of Syfrets says his selection criteria include:

- Tthe life of the mine, as well as the grade and past record of the mine's cost structure.
- Labour relations should be considered, in view of current wage negotiations.

Mr Hamilton says: "More important is the ability to maintain dividends or, better still, to have the potential to increase dividend payouts. This may appear to be well-nigh impossible for the highly geared mines in the current gold price scenario.

"Nevertheless, there are mines that are increasing gold output or have decreased capital commitments, such as Harties, Driefontein, Kloof and Randfontein.

"These mines and the mining houses to which they belong have undoubtedly an important role to play in the structures of a South African investor's portfolio."

By implication, Syfrets' view is that one should not buy gold shares now.

Syfrets' advice: "The only shares we would retain in a portfolio are the blue-chip gold producers which have a relatively small gearing to the gold price."

Call for end to prescribed investing rule

Star 16/7/88

FINANCE STAFF 58

A report calling for the immediate abolition of the ruling on prescribed investments has been sent to Finance Minister Barend du Plessis, says the Reserve Bank.

A spokesman for the Bank said yesterday that although the report said the changes should take place "at this juncture", this was unlikely to happen at the moment.

The report had been made public for the various interested parties in the private and public sectors to study and comment on. Once this process was complete, the reactions would be studied together with the report, the spokesman said.

Legislation would then be prepared to make the required amendments, "but this will take time", he said.

The spokesman said that in order to create a proper bond market, all views had to be considered. He said it was logical that the institutions would voluntarily put a fair proportion of their investment income into such a market and that they should be free to do so.

United goes to war with the banks

(58)

ST imes 17/7/88

By David Carte

UNITED Bank is to offer cheap cheque accounts and credit cards at 65 branches of the United Building Society from tomorrow.

In the latest salvo in the great bank-building society war, the bank within a building society will offer higher rates of interest on current accounts than other banks.

It will charge less on overdrafts and on hire-purchase credit.

It will also offer qualifying clients overdrafts equal to twice their monthly gross salaries.

Its bank charges and credit card will also be much cheaper than elsewhere in the market.

Managers poached

Some banks pay 2% to 5% a year on credit balances. Others offer only free banking — provided a minimum balance of R500 is maintained. Often interest is calculated on minimum monthly not the daily balance.

For the first R500 credit balance United will pay 5% a year and for accounts in the black to the tune of R1 000 to R10 000, 7,5%. The rate on current accounts rises to 11% on balances over R100 000.

In preparation for tomorrow's big opening, the United poached 65 managers from other banks. There will thus be an experienced manager at every branch.

Nallie Bosman ... hoping to break even by March

The United also spent R40-million on an advanced IBM 600E computer, which will put all accounts "on line, on time".

United Bank claims this technology, which permits a smaller staff, plus a branch network, will enable it to offer lower charges.

Nedbank claims similar technology and, after spending hundreds of millions of rands, led by Standard, the other banks are expected to catch-up soon. But United believes their cumbersome, expensive branch networks will continue to be a millstone.

Until now, the banks have hit the building societies where it hurts — offering mortgage bonds at cost or below. They have been able to do so at relatively low cost because initially their mortgage books were comparatively small.

The United aims to turn the tables by offering cheque accounts cheaply. It believes cheque accounts, a source of billions of rands of cheap funds — and tens of millions of rands in fees, are the soft underbelly of the banks.

Just as banks made loss leaders of their mortgages, the United will be able to make cheque accounts special bargains because its book will initially be small.

Loyalty

Nallie Bosman, formerly of Volkskas and now managing director of United Bank, is aiming at 32 000 bank accounts and 60 000 credit cards by March. At that point he hopes the new bank will break even. He agrees that customers have been blindly loyal to banks for years, but believes that attitude is changing.

"We have 3-million building society customers, many of whom were forced by legislation to operate their bank accounts elsewhere. We reckon the day of one stop financial services has dawned. In addition, we have thou-

□ To Page 2

P.T.O,

United bank opens today

The United is to tackle the banking system head on with it current account facilities which are to be launched today.

The United will be offering cheque and credit card facilities as well as overdraft facilities equal to twice the account holder's gross monthly income.

Overdraft rates will be pitched at up to two percent less than a current account holder is paying at his present bank with a minimum of prime overdraft rate.

Other bank charges will be substantially reduced on services. The United is also to issue two credit cards, the United Mastercard and the United Gold card.

Standard, First National adopt 'wait and see' policy

New bank's rates are not likely to start price war

SFV 19/7/88

58

By Derek Tommey

United Bank's bid to capture consumer banking business with cut-price rates is unlikely to trigger a price war in the banking industry, leading bankers said yesterday.

The United Bank is spearheading the United Building Society's move into banking and hopes to attract 32 000 current account holders and 60 000 credit card holders by next March.

To induce people to switch their accounts, the United Bank says it is offering lower service charges and more extensive credit facilities at lower costs than the other banks.

Mr Bill Mansfield, head of the Standard Bank's personal banking division, said he would be watching the situation closely.

Some of the rates mentioned by the United Bank were vague and he was trying to establish what they were.

First National Bank is also just watching the position, said the senior general manager, Mr Jimmy Mackenzie.

The bank had no plans to alter its charges as these were already extremely competitive.

He said the personal relationship was important in banking. If a client was happy with the service he was getting, he was unlikely to move.

Mr Mackenzie said the United Bank had incurred considerable costs starting up and it appeared to be trying to buy market share to get the volume needed to cover those costs.

Mr Nallie Bosman, general manager of the United Bank, said the response to the bank's rates had been strong and he expected more than 32 000 current account clients by next March. That was not a large figure as there were 1,5 million current accounts in South Africa.

He said the United's charges were 10 percent, 20 percent and, in some intances, even 50 percent below those of the other banks.

While the other banks charged up to 21 percent for overdrafts, the United Bank's top rate would be 18,5 percent to 19 percent.

Bank move welcomed

By Sue Olswang

Consumer bodies have welcomed United Bank's introduction of cheaper cheque accounts and credit facilities, but advise consumers to take a cautious look before making changes.

A spokesman for the South African Co—ordinating Consumer Council said they welcome moves by any concern which cuts prices because "moves like these are obviously to the advantage of the consumer".

"We advise consumers to seriously consider using such services, but at the same time we caution them to take a careful look before making their decisions."

Mrs Lyn Morris, president of the Housewives League, said it will be interesting to observe how far the United's move proliferates.

Mrs Morris echoed the Consumer Council's urge for caution and stressed the need for consumers to do their homework.

"Perhaps the best policy to adopt is a 'wait and see' attitude to determine the reaction from other building societies and commercial banks.

COMPARISON

"Consumers should not make hasty changes but should compare the United's facilities with those of their own banks or building societies before deciding."

Mrs Morris was responding to the United's introduction of its cheque and credit card facilities in a loss-leading move which may force other commercial banks into a price war.

From this week, United Bank cheque accounts will be the cheapest in the country and its credit facilities will be more extensive and cheaper than most offered by commercial banks. These cheaper costs have been guaranteed for 12 months.

Their overdraft rates have been set at an interest rate of up to 2 percent less than at other banks, with a minimum prime overdraft rate.

Lifegro goes big in Verwoerdburg

STAR 19/7/88

(58)

Insurance group, Lifegro, is focusing on big developments in Verwoerdburg — a prestige project in its spread of developments which his hitting the R130 million mark in total value.

The company is now building Tuinhof, a R16 million office park beside the Verwoerdburg Lake and opposite its first lakeside development.

The two buildings will be interlinked by a bridge which will allow the occupants of Tuinhof easy access to the R150 million shopping complex.

The first phase of the new development will be complete this October.

In Randburg, Lifegro has secured a prime site — said to be the last in the town's central business district — for the development of a R10 million office block.

And in Sixth Street, Wynberg, construction has begun on a building for Malbak subsidiary, Protea Technology.

The big one in the Lifegro portfolio at present, however, is the R35 million Epsom Downs project in Bryanston.

The main tenants of this office and retail development are Checkers and LTA.

The first phase which has two office blocks and a retail area, will be completed this November.

The first half of Lifegro's Knightsbridge project which is near to Epsom Downs, has proved so successful that the company has launched a second stage.

The entire Knightsbridge venture is scheduled for occupation next April.

Perm maintains lending capability in tough market

St 19/7/88

58

By Frank Jeans

The Perm has performed well against the equity tide and intense competition from the banking sector and for the year ended March maintained its lending capability of R2,2 billion.

Committing the society, which has kept its mutual stance, to a continuing policy of home lending to the "full spectrum of prospective owners", managing director, Mr Bob Tucker, says the financial results for the year "are indicative of the extent to which we have achieved our objectives.

"The Perm sees its primary role as service to the community through the provision of home-loan finance and savings facilities," he says in the annual report.

"The future development of our country is substantially dependent, too, upon the capacity and willingness of all people to save.

"Towards this end, we will continue to offer the facilities, services and products necessary to motivate and facilitate savings process."

Referring to the intense competition in the home loan market, with the "banking sector becoming particularly aggressive in establishing home-loan portfolios", Mr Tucker says:

"The banks were, until the end of last year, assisted in this regard by the surplus liquidity in the economy.

"Building societies, which have a far larger component of long-term funding, are, at present, prohibited from accessing the cheaper short-term funds to any significant extent, with the result that interest margins were under pressure throughout the year."

The Perm managing director sees little incentive to savers in the low rates of interest which prevailed for the year and his society is concerned that savers continue to earn a negative return.

During the year the Perm pushed mortgage advances up by R1 040 million (1987: R982 million). The average loan granted was R38 500 (1987: R42 000.

Financial clout needed to solve housing crisis

Star 20/7/88 (58)

By Frank Jeans

The financial institutions will have to bring their financial clout into play if South Africa's housing programme is to succeed, says Mr Mike Rosholt, chairman of Barlow Rand.

Seconding the speech by chairman Mr Alistair MacMillan at the annual meeting of the Perm in Johannesburg yesterday, Mr Rosholt said this would have to be done through the introduction of innovative, negotiable investment instruments pitched at attractive market-related rates of return.

"In particular, these will have to be targeted at those major financial institutions, the life companies and pension funds which are currently attracting the bulk of personal savings," said Mr Rosholt.

The failure to mobilise plentiful amounts of home loan finance is seen as the key obstacle in the housing process, particularly in relation to loans of R30 000 and less.

And the Barlow Rand chairman believes that with the higher risk and administrative costs involved, the reluctance of home loan institutions to grant loans below that figure is understandable.

"This, however, is where the greatest need lies," he says, "and solutions, based on sound market-related rates and normal commercial and business principles must be found.

"It is clear that if we are to come anywhere near meeting the overall housing requirement it will be necessary for the full resources of the private loan institutions, building societies and banks to be totally involved."

Mike Rosholt

Mr Rosholt backs the basic principle of the Government confining itself to housing those who are clearly unable to acquire any shelter whatever and for the private sector to provide affordable housing for those able to finance it and with the Government's role, in this instance, restricted to providing finance and subsidies

Acknowledging the Government's recognition of the land availability problem in the housing scene and its "determination to act", the Barlow Rand chairman sees this as an encouraging attitude towards an issue which remains critical

Perm chairman, Mr MacMillan, asked in his address: "While a small band is really conscious of the enormity of the housing backlog, are the rest of us really aware of what the shortfall means both in unit and monetary terms and in human misery terms?"

Pointing out that 1 000 houses will have to be built every working day or 250 000 a year to the new century, Mr MacMillan said this represented an annual outlay, at current prices, of more than R3 billion.

"The portion of that market which one could expect the private sector to address has an estimated value of R1,7 billion and yet the entire building society movement probably advanced less than R1 billion against this need in the past financial year.

"And the banks have granted a negligible amount for new housing."

By MICHAEL BELLING
BA, LLB, FILPA
Manager (Marketing Communications)
Sage Life.

Sowetan 20/7/88

AIDS ROCKS INSURANCE BUSINESS

FOCUS

AIDS, the modern black death, poses a threat to millions of lives throughout the world over the next decade. It could also cause severe financial losses to life assurers and upset the assumptions which underline the insurance business, including the calculation of premium rates.

In other parts of the world the insurance industry is rapidly acknowledging the seriousness and magnitude of the problem. In South Africa we share this concern. The mounting costs involved relate primarily to anti-selection.

Anti-selection involves the company in accepting a bad risk, which it would not knowingly accept if all the facts were disclosed.

Two closely related factors affect the life insurance industry here and abroad in this regard, public relations and the mortality risk.

Tests

On the public relations side, how would applicants for life insurance react to being tested for Aids? How would the market react to a special Aids questionnaire asking very direct questions about the lifestyle and sexual relationships of applicants?

How would a widow react when told that no benefit was payable after an Aids-related death?

Until now the life industry had reasonably reliable death statistics going back many years and these mortality tables were one of the more constant elements in determining premium rates.

Now mortality could become a variable factor. Future projections relating to Aids are very uncertain, but the general view is that the position in future will be

Firms facing severe financial losses

much worse than was first suspected.

Although only some 120 cases of Aids have been reported in South Africa, it is estimated that there are presently over 12 000 carriers of the Aids virus in South Africa.

Threat

South Africa could be particularly vulnerable to the Aids threat as it is exposed to both varieties of Aids, First World and Third World Aids.

Most Aids deaths in the Western world have occurred among haemophiliacs, homosexuals, bisexuals and intravenous drug abusers.

In the Third World, particularly in the black African countries, Aids is predominantly a heterosexual disease.

In South Africa both the Life Offices Association and Actuarial Society of South Africa have formed Aids subcommittees to investigate the problem. Anti-selection is a major problem overseas and could become a cause for serious concern here.

Statistics in the United States show that death claims in Aids cases are far higher than average. In 1984 one American company paid Aids related death claims that were five times higher than the average claim.

Unless life assurance companies here take action on the Aids problem, the financial consequences could be severe, not only for the life insurance companies but also for other policyholders.

Several companies here have already included Aids related questions on their proposal forms and underwriting procedures are being tightened for some high-risk applicants.

Applications for life cover may be asked to undergo a blood test for HIV antibodies (the Aids virus) whenever the sum assured exceeds a certain figure, in the same way as an ECG is required for high sums assured at present.

Exclusions

Aids exclusions in life policies and stricter underwriting procedures on their own will probably not suffice to ward off the threat. Aids is seldom mentioned on a death certificate.

Some of the steps now being considered could reverse the trend in the industry in recent years of offering cheaper cover, based on good mortality experience, high investment earnings and reduced expense charges.

In addition to considering premium rates, certain options such as guaranteed insurability and conversion of term assurance without medical evidence will have to be examined.

Special reserves may have to be set up to provide for the additional death claims.

While we have not yet reached the situation in America where certain groups are being encouraged to take out policies before their condition was diagnosed by a doctor, Aids remains one of the biggest challenges facing the life insurance industry for many years.

The situation is serious, but still far from reaching panic proportions. The present close examination of the situation throughout the industry is aimed at ensuring that it never does.

Housing 'needs savings'

GRETA STEYN

SAVINGS in the hands of the life assurers should be channelled into much-needed housing, SA Perm top management said at the building society's annual meeting yesterday.

Perm chairman Alistair Macmillan said in his chairman's address: "Mechanisms must be found to channel some of the household savings held by the life offices into housing."

All the major building societies agree life assurers' share of the nation's savings is too large compared with that of the societies.

Macmillan also called for "the playing fields, in which the various sectors of the financial-services industry play, to be levelled. Otherwise, it is nonsense of talk of an open market".

Saambou's Hendrik Sloet said yesterday he agreed with Macmillan. "Since life assurers are becoming deposit-taking institutions, they should be subjected to the same regulations as banks and societies."

Macmillan said savings available to the building-society industry had been all but eroded because of inflation and

● To Page 2

Housing 'needs boost from life savings'

● From Page 1

taxation. "The result is that the home-loan industry is now relying substantially on volatile and unreliable corporate savings and the individual saver has tended to seek the inflation and tax protected havens offered by the life companies."

Only a small band of enthusiasts were really conscious of the enormity of the housing backlog. Until the turn of the century, the country needed to build new houses at the rate of 250 000 per annum, of which the private sector would have to supply about 100 000 a year. Last year, the private sector built only 30 000 new houses — "a deficit of 70 000".

Finance needed every year from the private sector to meet the country's housing needs amounted to about R1,7bn annually at current prices. "Yet the entire building society movement probably advanced less than R1bn against this need in the last financial year and the banks have granted a negligible amount for new housing."

INVESTMENT Argus 21/7/88 (180) (158)

Anglo employees set to cash in on free shares offer

From DEREK TOMMEY

JOHANNESBURG. — The 110 000 Anglo American group employees who earlier this year accepted the corporation's free offer of five Anglo American shares are about to receive something more tangible.

On August 2 each of the 110 000 will receive a dividend cheque for R8,12 — the first to be paid on their five shares.

Accompanying the dividend will be a brochure about Anglo American and the share issue.

"They can also get a copy of the annual report if they want," a senior Anglo American official said today.

ANOTHER CHANCE

They can also expect another dividend cheque on January 20, next year, when the interim payment for 1989 will be made.

The shares were offered to Anglo American's employees as part of an employee participation programme. The offer was accepted by 66 percent.

However, those who did not take up the shares will get another chance. The corporation will be offering further free shares to its employees again next year.

The August 2 dividend will cost Anglo American R893 000.

The group's total dividend bill for 1987-88 was R516-million.

Prime rate rise 'warranted'

BDay 21/7/88.

(58)

GRETA STEYN

BANKS' margins are under pressure and money market talk is that bankers are lobbying the Reserve Bank for permission to raise prime overdraft rates.

Bankers yesterday dismissed the rumours but agreed pressure on margins warranted another rise in prime. They could not predict if and when interest rates would move.

Standard Bank, describing the money market as confused, said in its latest Financial Focus the major factor behind the confusion was the high level of Reserve Bank intervention, in contradiction to earlier policy statements.

"For how long does the Reserve Bank intend influencing money market interest rates . . . in the face of excessive monetary growth and a delicate balance of payments position?"

There were fears that the Reserve Bank was fighting a rise in rates to please the politicians. Since the Bank might be unable to continue accommodating the money market until after the municipal elections in October, it could be forced to face up to further increases in rates later this year.

Standard said financial indicators favoured another rise in prime.

THE ECONOMY

The consumer spending boom slows down ... just a little

The government's package of credit measures slows consumer spending a little, but overall spending keeps going up. HILARY JOFFE reports

THE boom in consumer spending appears to be slowing down, according to some of the indicators. New car sales in June, for example, were down 5,7 percent on the May total and for the first time were lower than in the same month last year, according to the latest Naamsa figures.

But overall domestic demand, which the government and Reserve Bank attempted to curb with a package of credit measures in May, is still strong — as is the demand for credit.

The result has been upward pressure on interest rates and bankers are said to be urging the Reserve Bank to allow another rise in the prime overdraft rate, currently at 15 percent.

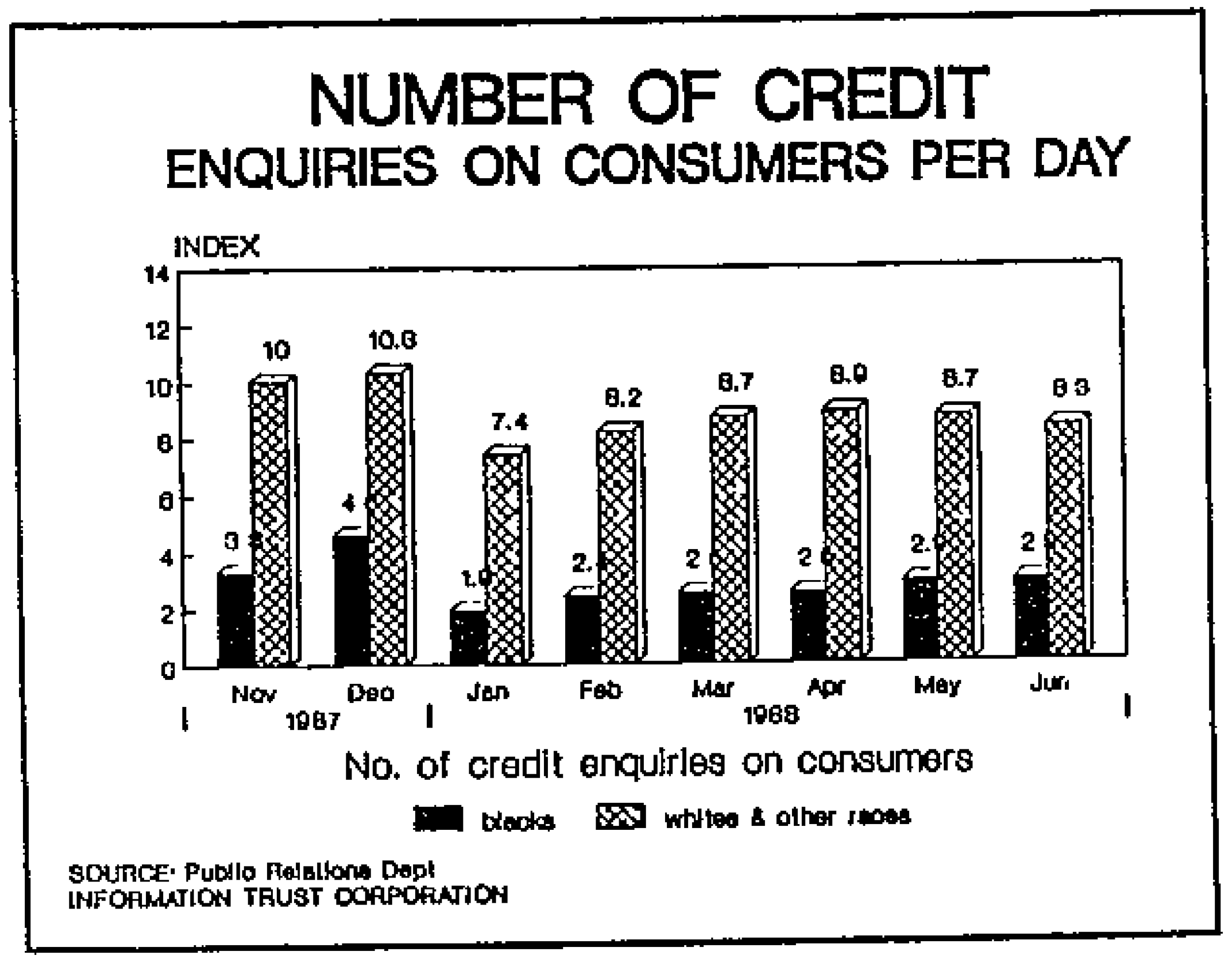
According to Paul Edwards, managing director of Information Trust Corporation, the number of consumer credit enquiries received by the corporation in May was 1,3 percent higher than in April and 1,5 percent higher than in May last year. As the graph shows, credit demand in June dropped only marginally.

As ITC provides over 90 percent of the credit information used by banks and retailers, its figures are a fairly accurate reflection of consumers' demand for credit.

"The South African consumer's capacity for taking up credit at this stage of the economic cycle is strong. A few percentage points rise in interest rates and tightening of credit terms will not discourage this desire to spend," Edwards said this week.

The high level of consumer spending has been mainly on consumer durables, spurred on by the need to replace ageing vehicles, furniture and appliances. Consumers also tend to spend more if they believe prices will rise due to inflation or further depreciation of the rand, Edwards said.

He adds that the number of individual insolvencies declined in the first quarter of 1988 by 17 percent against the previous quarter and 40 percent on the first quarter of 1987.



Consumers' demand for credit levelled off in June — but not by much

By the second half of 1987 consumers had refrained from borrowing for nearly three years but with continued low interest rates personal balance sheets improved, Econometrix director Azar Jammine points out.

He has no doubt consumer demand is starting to slow down, especially for expensive durable items, but says that might have happened anyway, as individuals stopped taking on more debt.

The time lag between consumption and interest rates can be anywhere between two and six quarters, Jammine says.

It's not clear what consumers' responsiveness to interest rate rises in South Africa is, though the experience of both 1981/82 and 1984/85, when domestic demand was curbed with interest rate rises, was that consumers took some time to respond. Once they did, demand for credit dropped very rapidly, as people found themselves caught with very high — and expensive — levels of debt.

Says Standard Bank chief economist Nico Czypionka: "Consumers never have been responsive to interest rate rises except at a much more painful level than one or 1,5 percent."

He points out the prime overdraft rate has risen only three percent from its recession-induced level of 1986.

Even if consumer demand slackens in the coming months, overall domestic demand is unlikely to do so. For one thing, as consumers slow down on spending, traders and manufacturers may find themselves with high inventory levels, which have to be financed by bank credit.

At present most corporations are not holding large stocks and are cash rich. If the economy were stopped at the retail level, says Czypionka, "involuntary" credit demand by corporations would increase.

In addition the growth of expenditure hasn't only been consumers. Investment by private businesses has risen, too, and investment decisions are longer-term ones which are not (fortunately) likely to be stopped in their tracks immediately.

Corporate investment spending has played a major role in the rapid increase in imports, which has highlighted balance of payments problems in recent months and has had financial authorities worrying about South Africa's too-high growth rate.

Investment by private businesses rose at an annualised rate of 8,1 percent in real terms in the first quarter of this year and Czypionka attributes the 22 percent first quarter rise in import volumes mainly to this factor. Imports of machinery, which make up 27,3 percent of all imports, have increased by 58,2 percent during 1988, compared with the 1987 average.

While imports have risen, exports have remained static so that the surplus on the current account on the balance of payments has worsened, raising doubts about South Africa's ability to meet its foreign debt commitments comfortably. The gold component of the Reserve Bank's gross gold and foreign exchange reserves declined by 1,11 million ounces in May and June.

The financial authorities have been reluctant to allow interest rates to rise further, partly because it's considered to early to judge the effect of the May credit package but mainly because of pressure from politicians and farmers to keep interest rates down. A major casualty has been the rand, which has declined by 28 percent this year as the balance of payments situation has worsened.

Life assurers angered by fresh call for increasing tax on the industry

GRETA STEYN

THE life assurance industry is angry at a report, commissioned by UBS Holdings and now before a parliamentary committee, calling for their taxes to be increased.

Industry spokesmen yesterday described as utter nonsense a claim in the report that life assurers were paying between 6,78% and 2,24% effective tax and said it used dubious definitions of income for its calculations.

A major life assurer said yesterday a member of the parliamentary standing committee on finance had sent his company a copy of the report, completed earlier this year, for comment.

There was no doubt who had commissioned the confidential report as it was marked UBS Holdings, he said. It was done by MacGregor's, authors of Who Owns Whom.

It had not been sent officially to the Life Offices Association (LOA).

The report concluded "as much pressure as possible should be exerted on the state to revise the tax laws and the Acts governing the mutual insurance companies". It said company profits and effective tax rates needed closer objective scrutiny and steps should be taken to deconcentrate control of the economy.

One of the objectives of the report was to establish the effective tax rates paid by different companies in different sectors. It found the insurance sector had paid an effective rate of only 6,78% last year, compared with an effective rate of 52,4% for building societies.

If all companies paid the full 50% company tax, the additional revenue accruing to the state would have been R3,2bn or 26,1% of expected individual tax.

"If the two mutuals, Old Mutual and Sanlam, were included in this sector, the average tax paid would be reduced from 6,78% to 2,24%. The additional contribution to the state from the insurance sector alone, if the two mutuals were included and if the full 50% tax were paid, would be R2,9bn or 24% of individual tax," the report said.

Life assurers branded the report as "utter nonsense" and questioned the way in which their income was defined.

Old Mutual chief actuary Theo Hartwig said: "These figures were arrived at by including premium income as part of the definition of life assurers' taxable income. It overlooks the fact that premiums are similar to deposits, and that those funds should be regarded as money held in trust and not as taxable income."

LOA spokesman Jurie Wessels said: "It is tantamount to saying deposits with building societies should be regarded as income and taxed."

SOUTHERN LIFE (58)

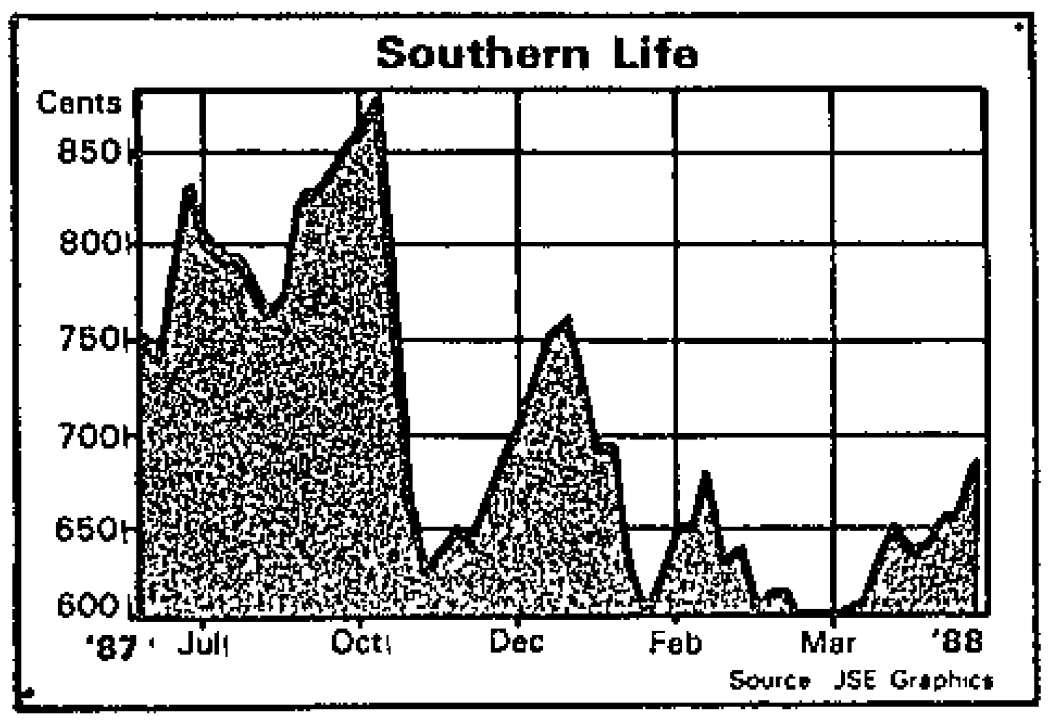
Different climate

Activities: *SA's fourth largest life assurer.*
Control: *Anglo American has 40% of the equity and First National Bank 30%.*
Chairman: *Z J de Beer; managing director: Neal Chapman.*
Capital structure: *175,5m ords of 5c; 4,1m convertible part prefs of 5c; 1 special class A share of 5c. Market capitalisation: R1,20bn.*
Share market: *Price: 680c. Yields: 4,6% on dividend; 7,1% on earnings; PE ratio, 14,2; cover, 1,5. 12-month high, 880c; low, 590c. Trading volume last quarter, 624 000 shares.*
Financial: *Year to March 31.*

	'85	'86	'87	'88
Total assets (Rbn) ...	—	5,5	7,7	7,8
Premium income (Rm)	563	649	859	1 214
Investment income (Rm)	362	425	488	553
Taxed profit (Rm)	—	50,5	64,0	78,8
Earnings (c)	24,4	30,8	39,0	48,0
Dividends (c)	16,3	20,5	26,0	31,5

When a major life assurer decides to match increased actuarial liabilities with increases in cash it's a strong indication of sea changes in the investment climate. That is precisely what Southern did last year, signalling its investment managers' concern that the JSE's two major falls in October and January may have been precursors of further declines.

Value of the group's equity investments dropped last year to R2,95bn from an opening level of R3,25bn, and that was despite some hefty first-half commitments to equities. The gilt portfolio, too, was socked as rising interest rates led to lower prices and prompted Southern to emphasise investment in shorter-dated bonds. Southern will eventually benefit as funds from maturing bonds are reinvested in higher-yielding gilts, but it will not be immediate.



Of course the decision to go for cash was not prompted solely by fears of future bear markets. The company is keeping its investment powder dry in anticipation of preferential treatment of the institutions (as happened when Sasol was sold to the public) when government starts privatising State-owned corporations.

Nevertheless, Southern and its competitors are in a different ball game from a year ago. It is one in which profit performances will be more important than size of assets in rating life assurers' shares. Chairman Zach de Beer is cautious on SA's immediate economic prospects and, by implication, the ability of private sector corporations to increase profits and dividends.

More directly, Southern itself is having to face up to a higher tax bill this year, with additional taxes slapped on insurers' investment income. It was a stopgap measure ahead of implementation next year of Margo tax proposals, but MD Neal Chapman is as much in the dark as his counterparts in other firms on the eventual formula to determine what income and expenses will be factored into assurers' tax equations.

On the other side of the operations fence, premium income increased by 41% in response to a continued marketing drive. Southern's marketing effort has been helped to an extent by investors' preference for security of insurance policies against direct investment in equities. Reflecting that, the greatest rate of premium income growth was notched up by the life division — single premium business increased 86% while new recurring premium income rose 46%.

Premiums generated by the non-life activities rose more slowly, by just short of 35%, to R441m. Though Southern does not say so explicitly, the slower growth probably reflects fundamental changes in the traditional business of providing employee benefits. Increasingly, black industrial workers are turning their backs on normal retirement benefits and opting for benefits based on provident funds. Contributions to provident funds generally cost employers more than conventional pension funds, so there is an understandable resistance to them.

Nonetheless, Southern is fast developing products providing alternatives to conventional pension packages. The share is off its year's low and rated on a 4,6% dividend yield, practically midway between Fenton-bedevilled Lifegro and rand-hedged Liberty. There is little reason to expect an early fundamental rerating. *Jim Jones*

UBS (58) FM 22/7/88

Margin pressures

UBS ended last year with earnings and dividends just matching the pre-listing statement's forecast, and moderate growth at best predicted for financial 1988-1989. Simply put, UBS has suffered from government's cheap money policies and has now instigated a bout of costly competition with the major banks.

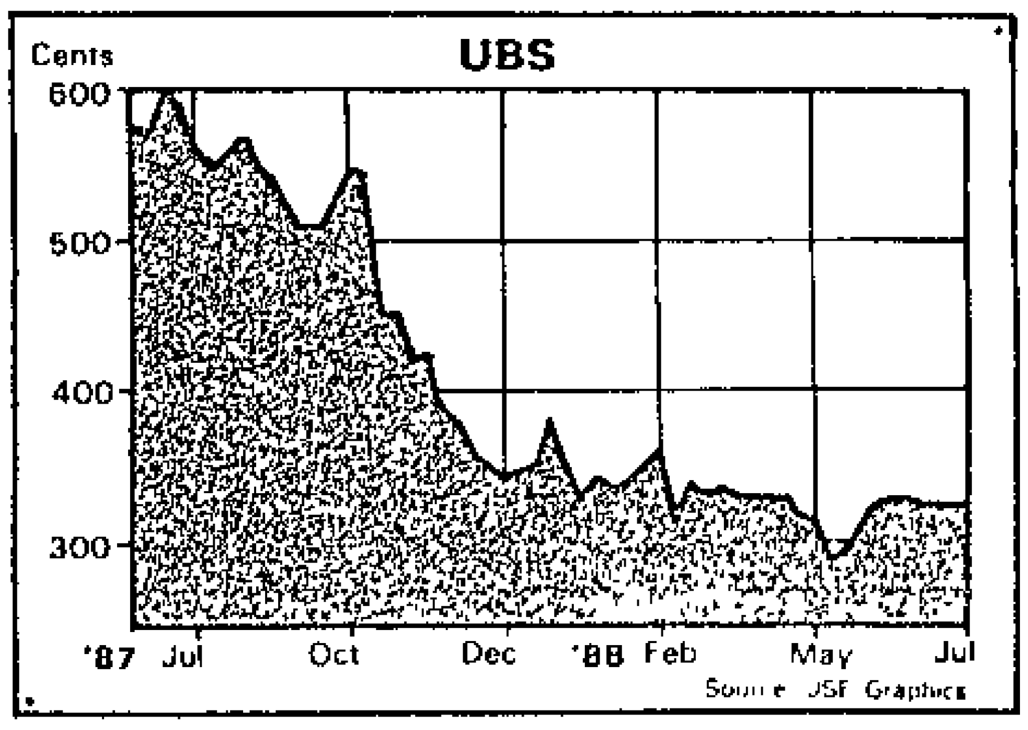
MD Piet Badenhorst bewails the fact that building societies have to finance their operations with a significantly greater proportion of long-term deposits than the commercial banks. To some extent that gives the banks an edge in the home loan market, but it is counterbalanced by the less restrictive liquidity and balance sheet regulations currently applicable to building societies.

Last year UBS's taxed profit dropped to R76,7m from R95,7m as cash-flush banks actively competed for market share and pushed mortgage interest rates down to "uneconomic" levels. Nevertheless, the building society provided 54,3% of consolidated attributable profit against 19,6% derived from the equity-accounted share of Volkskas' earnings and the rest from insurance and investments.

Activities: *Provision of financial services, principally through wholly owned United Building Society. Owns 30% of Volkskas, 30% of Commercial Union and is developing its own banking operations.*
Control: *Volkskas has 10% of the equity.*
Chairman: *H V Hefer; managing director: P J Badenhorst.*
Capital structure: *238,6m ords of R2. Market capitalisation: R778m.*
Share market: *Price: 325c. Yields: 7,4% on dividend; 15,8% on earnings; PE ratio, 6,3; cover, 2,1. 12-month high, 600c; low, 275c. Trading volume last quarter, 3,62m shares.*
Financial: *Year to March 31.*

	'87	'88
Total advances (Rbn)..........	8,04	9,15
Total assets (Rbn)	9,77	11,25
Int on advances (Rbn)	1,25	1,19
Int on deposits (Rbn)	0,97	0,92
Pre-tax profit (%)	210	189
Taxed profit (Rm)	105	101
Earnings (c)	49,2	51,3
Dividends (c)	13	24

This year the competitive situation is unlikely to change greatly. The banking sector is plagued by demand for consumer and corporate credit, likely to remain slack as the authorities tighten the economic screws. The implication is that competition will increase for slices of the mortgage-lending cake even though home loan interest rates will rise.



On the other side of the coin, United Bank (equally owned by UBS and Volkskas) is aggressively seeking new retail deposits by offering cheaper cheque and credit card facilities. Sooner or later the main commercial banks are likely to respond and the ensuing competition will eat into margins.

UBS can live with that for a while as, presumably, the cost had been factored into the bank's long-term development budget. It is hard to imagine Badenhorst and his board colleagues remaining happy for long with UBS's passive minority interest in Volkskas. The next step is likely to be a hands-on relationship with UBS's people put in to ginger up Volkskas' conservative management.

The share's present rating fairly reflects the financial services sector's problematic immediate outlook. It also takes account of the likely cost in narrower margins of meeting competition head on. There is little likelihood of a fundamental rerating this year.

Jim Jones

VOLKSKAS 22/7/88 (58) FM

Integration potential

Activities: *Banking, insurance, financial services and property development.*
Control: *Rembrandt and UBS Holdings each have 30%.*
Chairman: *A J Marais; managing director: P R Morkel.*
Capital structure: *42,5m ords of R1. Market capitalisation: R423m.*
Share market: *Price: 995c. Yields: 7,3% on dividend; 18,7% on earnings; PE ratio, 5,3; cover, 2,6. 12-month high, 1 750c; low, 525c. Trading volume last quarter, 135 000 shares.*
Financial: *Year to March 31.*

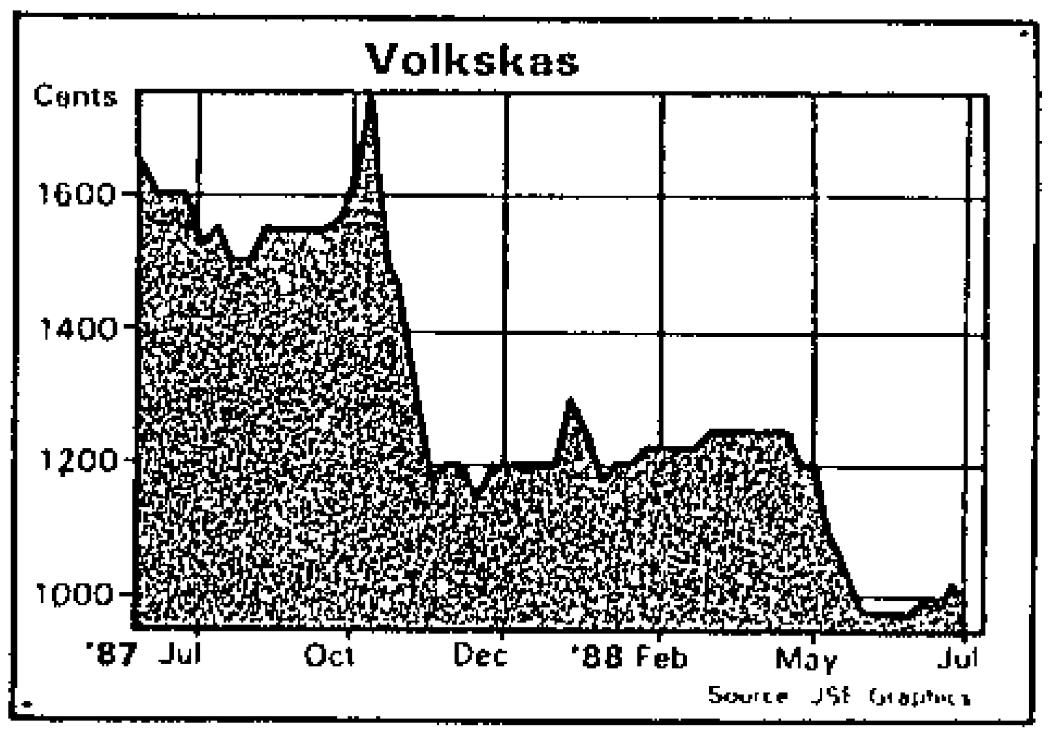
	'85	'86	'87	'88
Total advances (Rbn)	7,75	8,03	7,64	8,90
Total assets (Rbn)	11,50	13,32	13,14	15,10
Disclosed profit (Rm)	52,9	53,2	60,8	71,3
Earnings (c)	173,3	174,0	199,6	186,4
Dividends (c)	57	57	60	73

Is Volkskas's management altogether sensitive to the needs of a changing SA? It's a question investors should ask before committing themselves to the shares. And, taking a purely subjective view based on the annual report, the answer is a dull no.

For a start, the bank is way behind competitors Standard and First National in its reporting. Inefficiencies remain concealed by management's failure to provide details of interest receipts and payments, tax, bad debt provisions and changes in transfers to or from hidden reserves. In addition, the bank gives the impression of being way behind competitors in developing into new business sectors.

Like most banks, Volkskas illustrates its report with photographs of its employees — all but one, white. The solitary black man is in there braaiing meat for a crowd of white management trainees. Where is the image of a bank aware of the economy's comprehensive integration and putting black tellers up front in banking halls? Black tellers are surely needed if Volkskas ever hopes to attract and keep black customers or to satisfy its staffing needs fully.

In fact the group is known to have a considerable number of black clients, particularly in rural areas. But winning black accounts may not be a prime business target — emphasis is placed on capturing new white accounts by, for example, being the only bank to operate inside many SADF facilities. But even the drive for the young white market appears to have no follow through. Volkskas's television ads promise a refund of service fees if there is an error in your account; Standard, First National and UBS target ads to deliver youngsters the



positive message that banking can be fun. Ironically, perhaps, 50%-owned subsidiary United Bank is heading the new banks' attack on the customer account bases of the major clearers.

Last year Volkskas increased its customer account base by 16,9% to R10,85bn and advances by a fractionally lower percentage to R16,5bn. In contrast, First National's advances increased by 18%, helped by an aggressive assault on the home loans market. This year Volkskas expects growth in demand for banking services to be slow, particularly in the corporate sector.

Slow business growth need not be an unmitigated drawback. It takes some of the pressure off the bank to plough funds into the disclosed asset base so as to meet the stringent capital requirements set for 1992. Last year's share swap with UBS provided the capital to see Volkskas through this December's interim capital adequacy targets. But the share swap was almost certainly accompanied by the understanding that UBS will acquire a greater direct interest in Volkskas's operations. At that point Rembrandt, too, is likely to want a bigger say in the bank's direction.

At present the share is rated less favourably than those of Nedbank and Stanbic, but more favourably than those of Trust or First National. Its attraction lies in the potential for integration with UBS.

Jim Jones

AFCOM

Strong performer

Afcom stands out as a strong performer among newly listed companies. Pre-tax profit grew at an average annual rate of 52% in 1984-1987 and accelerated to a climb of 119% last year.

EPS also grew sharply at 101% to 18,7c, and chairman Ronnie Harrisberg suggests that the reason for the company's success is the wide use in all industries of most of its products. The group improved margins sharply from 12,8% to 16,3%, with strong growth in the "traditional businesses."

Afcom also made two acquisitions, Ti-Strap and Atlanta Mining and Engineering Supplies, which fitted snugly into its infrastructure. Part of Ti-Strap, IST, provided diversification into the electrical industry with an entree into production of insulation material and equipment. This has proved

Activities: *Manufactures and distributes packaging, stapling and fastening equipment.*
Control: *Directors have control.*
Chairman: *R A Harrisberg.*
Capital structure: *24m ords of 1c. 4m 12,5% comp conv debs of 150c.*
Market capitalisation: *R30m.*
Share market: *Price: 125c. Yields: 5,6% on dividend; 15,0% on earnings; PE ratio, 6,7; cover, 2,7. 12-month high, 185c; low, 100c. Trading volume last quarter, 124 000 shares.*
Financial: *Year to February 29.*

	'87	'88*
Debt:		
Short-term (Rm)	0,8	4,02
Long-term (Rm)	0,2	0,4
Debt.equity ratio	0,04	0,20
Shareholders' interest	0,65	0,56
Int & leasing cover	6,9	10,1
Debt cover	2,75	1,28

Performance:

	'87	'88
Return on cap (%)	24,5	24,0
Turnover (Rm)	32,2	53,1
Pre-int profit (Rm)	4,1	8,6
Pre-int margin (%)	12,8	16,3
Taxed profit (Rm)	2,0	4,5
Earnings (c)	9,3	18,7
Dividends (c)	—	7
Net worth (c)	49,8	60

*13 months
**Annualised

successful and results warranted by the vendors were exceeded.

Atlanta's products complement Afcom's range of stapling products in the furniture, packaging, mining and construction industries and profits again exceeded those warranted.

However, Afcom's venture into foreign climes proved unsuccessful and a complexity of problems stemming from supply, personnel and strong competition led to a loss of R1,9m. The operations were closed.

Resurging demand for capital plant and equipment is most encouraging and, according to Harrisberg, has resulted in increased demand for Afcom's products. Further rationalisation benefits from acquisitions should also bring higher profits. In addition, the company's history shows it is little affected by economic cycles.

With its solid record, the share seems underrated on the dividend yield of 5,6% compared with the paper and packaging sector average of 4,2%.

Louis Venter

FINANCIAL SERVICES (8) FM 29/7/88

Cheque mate

UBS, holding company of SA's largest building society, the United, is paying banks back in their own coin. This week's introduction of on-line cheque accounts and credit card facilities — at cut prices — by subsidiary United Bank (owned jointly with Volkskas) could be seen as revenge for banks' bargain basement rates on home loans.

In December 1986, Standard Bank entered the mortgage bond market with loans at 12,5%, about 2,5 percentage points lower than rates then charged by most societies. Other banks followed and, with their more flexible funding structure, were able to set a demanding pace.

It was only this May, when the rising cost of short-term funds forced banks to up their rates, that the gap began to close. Now there is little competitive edge left and, if short-term rates move any higher, it will be societies, with more longer-term money on their books, who have an advantage.

Meanwhile, UBS is attacking them on their own ground with the most aggressive move so far by societies into banking.

Several societies have diversified into other banking areas, but UBS is the first to move into this highly technical and expensive field, in direct competition with traditional banks. And it has the advantage of an enormous captive client base and some of the most sophisticated computer technology in the financial services industry.

The move follows the entry of Saambou Holdings, holding company of the smallest of the five major building societies, into banking at the start of the month. Aimed at the corporate market, it has, however, initial assets of around R50m consisting of a consumer portfolio channelled across from the building society. This means the bank will pay its own way right from the start, says group chairman Hendrik Sloet.

A Mastercard facility will be introduced soon.

Another recent development is Natal Building Society Holdings' (NBS) two new general equity mutual funds, launched in conjunction with Norwich Life and Russell Marriot & Boyd. They follow last year's NBS Expanda-Plan, an insurance-linked, inflation-hedging investment product that attracted R5m in the first 10 weeks, according to NBS's Brian Short.

It has started corporate instalment credit business in the greater Durban area and will eventually move to other main centres.

The group is not yet considering full chequing facilities. Its automated banking system already offers sophisticated and comprehensive services, including an electronic cheque issuing facility.

For Allied Group Holdings, first of the major building societies to diversify when it opened Allied Bank on January 1 1987, full chequing facilities are also a long way down the line, though it does offer credit cards.

It has gone aggressively into the corporate market, offering a full range of financial services. Aimed at a niche at the lower end of the market — the R1m-R5m lending range — it is so far the only building society to get a foreign exchange licence.

Though, in the short term, the proliferation of institutions offering a variety of financial services is good for both the private and corporate consumer, there is a longer-term risk for the industry of excessive competition forcing rationalisation. ■

petition forcing rationalisation.

22/7/88 FM (58)

THE PERM (58) 22/7/88 FM

Mixed bag

With mortgage loans now in excess of R6,3bn, up 20% on the previous year, the Perm — the only major building society to stay a mutual — has maintained its number two position in the industry.

The annual report, released on Tuesday, is a mixed bag. Though retained earnings were up by 71,5% to R45m, giving a marginally stonger reserve ratio of 3,4%, this does not reflect better operating performance.

Macmillan

Net income before tax fell by 12,3% to R46,3m, the higher after-tax profit being due only to non-recurring income — profit of R13m on the sale of property and a R9m dividend from its Development Corporation subsidiary — without which the reserve ratio would have slumped to near 3%.

Performance was affected by another climb in operating costs. At R251,4m (an increase of 24,5%) general expenses were up roughly 20% — which management contends is in line with the movement in total advances. Chairman Alistar Macmillan points out: "Continuing investment in computer equipment and the significant increase in transaction volumes affected operating expenditure."

Volumes grew by 31%, as did the depreciation expense.

Liabilities now stand at R7,907bn — up by20%. The funding requirement for the year was R1,2bn, provided by savings, fixed and negotiable deposits and bank loans. Share subscriptions fell by 8,28%.

As a mutual, the Perm has eight years to attain the reserve ratio of 4% required by the Building Societies Act. With some way to go, revised legislation enabling building societies to include qualifying debentures in general reserves will make the task much easier. ■

(58) FM 22/7/88

THE RAND

Heading for record low?

With the US dollar opening the week at just under R2,50 (R1=US40c), the local currency is in danger of reaching lows last seen in June 1986, when $1 was worth R2,74 (R1=US36,45c). It is likely to continue to lose ground against the dollar for some time, possibly sinking to record lows.

The latest slump — from R2,4050 at Thursday's close to R2,4370 on Friday's close and R2,46 on Monday's close — was the result of a dollar buoyed by the latest US trade report, which showed a current account deficit of $10,9bn in May (see *Markets*).

Though slightly wider than April's revised $10,3bn, the figure was below expectations of up to $11,5bn. At one point on Monday, the US$ reached DM1,8810, but was driven back to DM1,8760 by co-ordinated action from the US Fed and the central banks of Germany, the UK, Italy and Belgium.

But, while the US trade figures caused a dramatic drop in the dollar value of the rand at the start of the week, the problem goes far deeper. The news simply accelerated a slide that started in January, following a high of nearly R1,92 at the end of December. A gold price which fell back disappointingly from over $500 in December and an unexpected surge in demand for imports have put continuing pressure on the rand.

Says Nedbank economist Dennis Dykes: "Whereas normally, at this stage in an economic recovery, we would be pulling in capital to compensate for outflows on current account, we now have no credit cards to fall back on and have to rely on reserves."

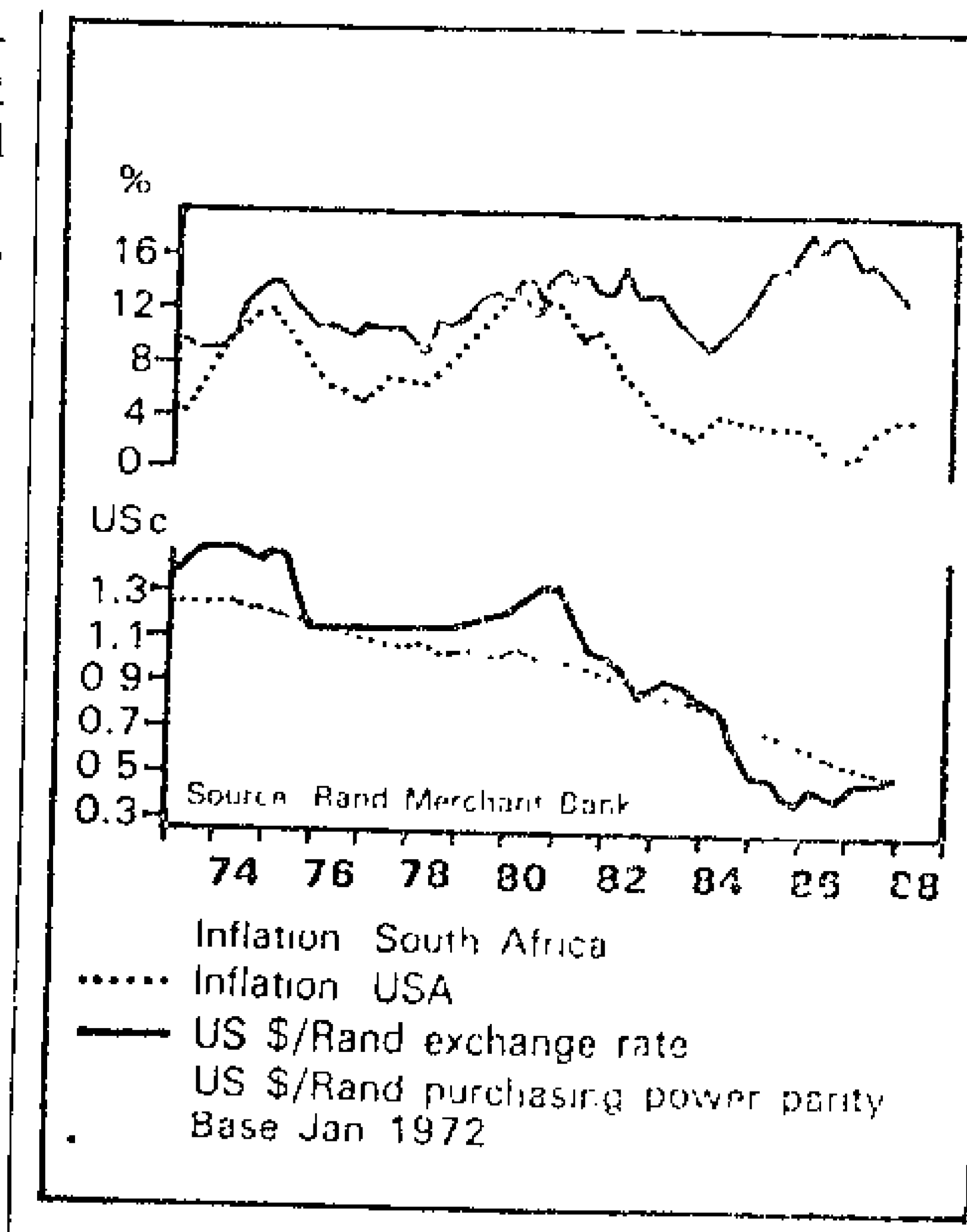
However, the rand depreciation dates back to before the imposition of credit sanctions. It is dependent on the gold price and is consequently vulnerable to international supply and demand equations. So it has been slipping since January 1981 when, on the back of an unprecedented gold boom, it was worth $1,35 a dollar.

Thereafter, a lower gold price and consumer demand unleashed in the era of export-led expansion created a current account deficit which pushed the rate to $1=R1,17 in October 1982. With two interruptions, it continued down to R1,99 in December.

New pressures then began to make themselves felt, with off-shore creditors becoming reluctant to advance long-term funds. This mushroomed into credit sanctions in August 1985. The consequent siege on the rand has kept it from rising much above $1=R2.

Short of a significant rise in the gold price, there is little to remedy the situation.

With capital inflow seriously restricted, any revival of consumer demand puts immediate strain on the balance of payments. The authorities have two policy options — to let the rand fall, or dampen demand by slowing the economy. It would appear they are doing a bit of both.



What they are not doing, however, is successfully tackling what in the longer term is the root of the problem — inflation.

The role that inflationary pressures play becomes clear if we distinguish between currency exchange rates and purchasing power. For example, though the dollar may be rising against other currencies, it is falling against consumer goods. This would suggest it is not "soaring," but falling less quickly than other currencies in terms of purchasing power.

Perhaps more attention should be paid to the causal links between monetary inflation and currency weakness. Loose monetary policy leads to inflationary expectations. Those currencies associated with the highest expected inflation rates also tend to be the weakest currencies in the long term.

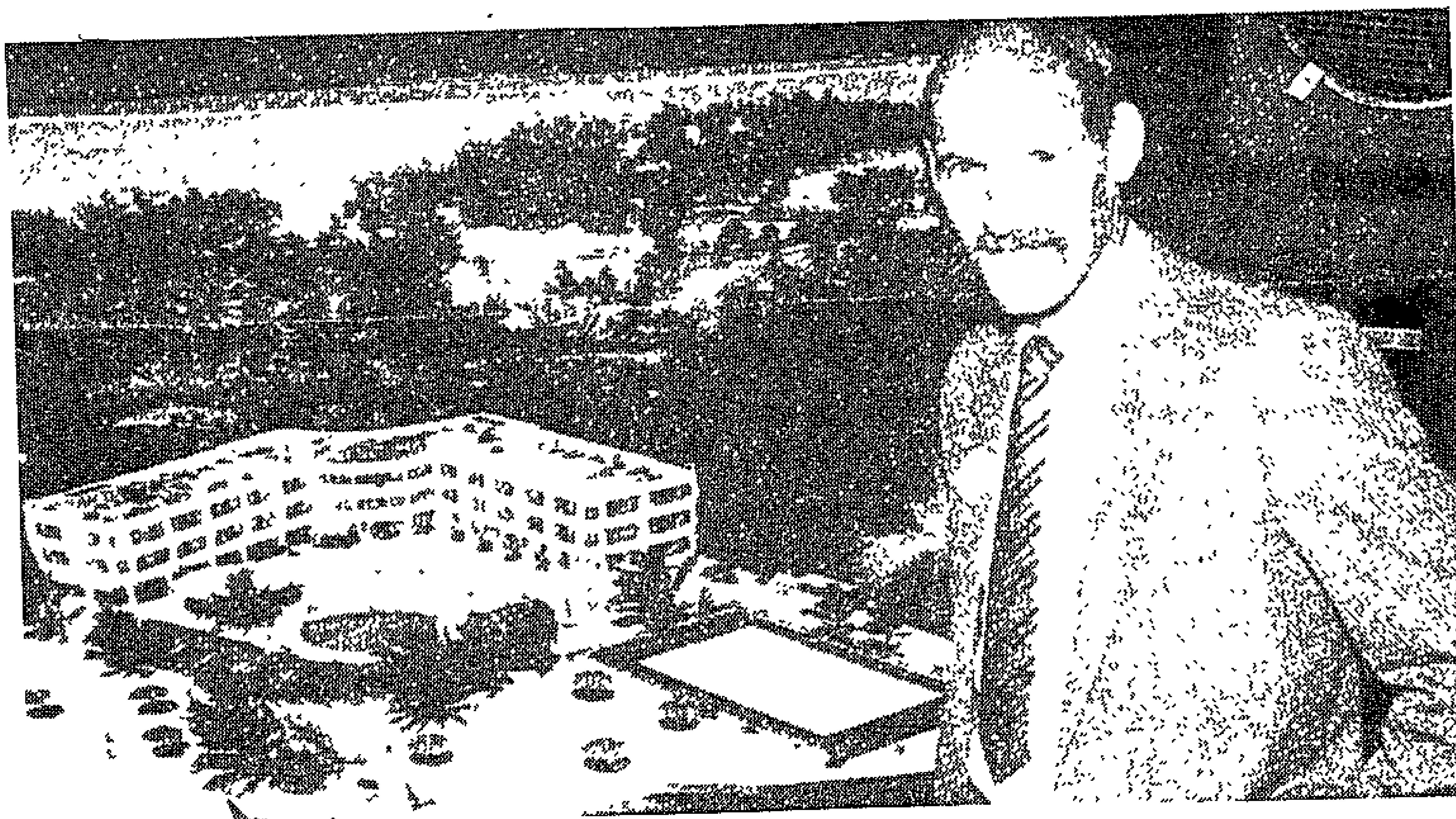
Britain's annual consumer inflation rate rose to 4,6% in June from 4,2% the previous month. The US inflation figures, due this week, should be slightly lower. Compare this with our inflation rate, which is considered to be low at just under 13%.

In the US, the M3 monetary aggregate rose by 6,2% over the past 12 months. In the same period, SA M3 grew by 22,7%. That the rand is falling should come as no surprise.

Holiday timesharing and your money back

Star 23/7/88 (58)

FRANK JEANS



Cricketer Clive Rice, a director of the World of Music leisure group, of which Timeshare Dynamics is a subsidiary, seen at the launch with a model of Sandy Bay Hotel, Mauritius.

The fledgling of the banking business, the United, already a high-flier when it comes to innovative financing, has opened its book to an ambitious enterprise that gives holiday timeshare a new dimension.

The United Bank is putting its financial muscle behind a venture by Randburg timeshare brokerage group, Timeshare Dynamics (TD), which offers upfront payment for 10 years' holiday accommodation — and the money back at the end of the decade.

Making up the trio in what is called Hi Holiday Time Investments is insurance group, Southern Life, which will be the investment home of participants' money.

Initially, about 50 resorts will come into the Hi network, but TD expects the spread to reach 100 once the scheme gets going.

Mike Matzopoulos, MD of TD, a subsidiary of the listed Blue Marlin group, said at the launch of the project in Sandton this week: "This will revolutionise the South African holiday scene. It's a whole new way of life for the holidaymaker.

"We expect that about 100 hotels and resorts will offer accommodation under the Hi scheme, which enables investors to choose a different holiday venue every year."

He said investors would be repaid up to 100 percent of the original investment at the end of the 10-year contract.

A portion of each original investment goes to Southern Life, the bulk to United.

The holiday option, too, extends as far as Mauritius and the Hi flagship, the Sandy Bay Hotel.

Part of a Hi member's investment is placed in a Southern Life insurance policy and an investor's "dividends" can be taken either as holiday accommodation or as income from a resort or hotel when the accommodation is let to a third party.

"Members have a high degree of freedom of choice and flexibility in deciding when, where and how they want to take their holidays," said Mr Matzopoulos.

"Gone are the days of being locked into one destination for life."

TD expects the scheme to appeal to the corporate market and companies in need of accommodation, for conferences and business travel.

A company can, in effect, invest in a block of "bed nights" to be used for conference delegates when and where they want over a 10-year period at hotels and resorts throughout SA and Mauritius.

An indication of the growth of the timeshare industry is seen in the fact that TD had a record R3,6 million turnover last month.

The company achieved a R30 million turnover the previous year and a profit of R2 million — an increase of more than 100 percent on 1986.

58

Banks are sure to retaliate against United

Star 23/7/88

23/7/88

BANKERS have always been extremely sensitive about banking charges.

The decision by the country's leading building society, the United, to use lower banking charges to gain market share has once again exposed the soft underbelly of banks.

Spokesmen for the larger banks were quick to deny that the United Bank's move will lead to a price war on banking charges, saying that clients hardly move their accounts on the basis of fees.

Very much the same reaction was forthcoming from the banks when Nedbank used a similar tactic to break up the cosy cartel operated by the banks until the early 1980s.

Right now seems like a good time to approach your bank manager and demand a reduction in the fees you are charged. Make no mistake about it, banks are very much aware of the threat posed to them by the United, with its client base of more than 3 million and assets exceeding R11 billion.

United Bank has guaranteed its lower fees for 12 months and has undertaken to keep its fees lower than the average charged by the large banking groups.

There is no doubt that existing banks will counter-attack to keep their clients: This could only be good news for the man in the street.

Most people do not have any idea what they are charged for services rendered by the banks. Here follows a list of services rendered by banks and the fees normally charged for them, with the United's fees (guaranteed for 12 months) in brackets:

- Bank-guaranteed cheques — R10 (R2).
- Special clearance — R15 (R7,50).
- UBS ATM withdrawals — 35c (25c).
- Bank cheques — R25 (R1).
- Overdraft admin fee — R50 (free).
- Completion of security documents — R20 (free).
- Cash deposit fee — R9 (free).
- Photocopies of ledger statements — R2 (free).
- Auditor's certificate — R20 (free).
- Certificate of balance — R5 (free).
- Stop payments — R5 (free).

It will be interesting to see how the United, through its wholly-owned subsidiary United Bank, will fare in the banking arena. With its massive infra-structure and superior technology, they are sure to make rapid inroads into the lucrative banking world.

While it has been on the cards for a number of years, the United's entry into banking is bound to hasten the rationalisation generally forecast for South Africa.

Many smaller banks and building societies (and some not so small) are bound to be gobbled up into larger and more efficient financial services groupings. The United already owns 30 percent of Volkskas (which has an entirely different client base, being mostly Afrikaans-speaking) and there are sound reasons for suggesting that a possible merger between the two groups would not be improbable.

Green light for dealing in finrands

STAR 23/7/88

The Reserve Bank is to allow banks which are authorised dealers in foreign currency to act as principals in financial rand transactions.

The bank says the dealers will have to abide by the following regulations:

- Participating banks will be required fully to match the total purchases of finrands against their total sales on a daily basis.
- No bank will be able to hold an oversold/overbought position overnight, except for a small prescribed amount to accommodate insignificant uncleared transactions.
- Banks are required to submit daily returns of finrand transactions.
- Finrand transactions must be clearly distinguished from other transactions in the accounting systems, while all documentation and entries must reflect sufficient reconciliatory information.
- Banks will be expected not to take speculative positions on the market. — Sapa.

58

Afribank's Magomola walks on cloud nine after top-level talks

By DERRICK LUTHAYI

AFRICAN Bank chief executive Gaby Magomola is walking on cloud nine after his successful US tour to drum up support for the bank.

"I was thrilled by the warm reception accorded to me by top-level statesmen and decision-makers," said Magomola.

Since his appointment last year April, he has worked on strengthening relations with US counterparts.

He said he was surprised and encouraged to receive calls from all over the US volunteering assistance to help black business in South Africa to grow and prosper.

"Essentially, I believe black economic empowerment is an intrinsic component for change in SA. The motivation for the trip was to promote our bank, but also to clarify our situation.

"I found there was a recognition of the role black business can play in the transformation of our society."

Magomola said Afribank was the only foreign bank to be invited to join the US National Bankers' Association.

"Afribank is gradually achieving international recognition for the vital role we can play in our changing society. There is a tremendous urgency to address the issue of black economic empowerment."

He said there was an increasing awareness that the struggle for political power-sharing had to be coupled with endeavours for black economic power. The ability to own and control means of production and ownership was as important as political power.

"Although black Americans have made significant gains at all levels of government, they are the first to admit that their economic achievements have been less than successful. It is my wish that we in SA do not repeat their mistakes."

Magomola's discussions in the US included a meeting with two senior senators about the difficulties of operating a business in a disadvantaged community.

He added that it became apparent to him that many Americans did not know about black community initiatives such as Afribank.

"The fact that our bank is about of the same size asset as the largest black-owned bank in the US came as a real surprise to me," said Magomola.

Afribank, established in 1975, has grown in leaps and bounds and has 11 branches throughout the country.

Largely funded with small deposits, it today has assets of more than R150-million.

African Bank's Gaby Magomola . . . we're as big as largest black bank in the US.

Insurance men get tough on claims

(58)

ST 25/1/86

Insurance companies have taken a tougher stand against fraudulent or inflated claims — which have contributed significantly to increasing the cost of premiums for policy holders.

Mr R Schneeberger, chief executive of the South African Insurance Association (SAIA), said at the weekend: "Fraudulent claims are a problem which has reached serious proportions since about two years ago.

"Combined with a number of other factors — such as increasing car theft, inflation, and a weak currency — we decided that enough was enough, and insurance companies should follow a policy of implementing more detailed checks on claims, exert greater vigilance in repect of inflated or padded claims as well as blatantly fraudulent claims.

"It was decided to prosecute where such claims were discovered."

However, a random survey showed that many policy holders feel that the only way they will get back the value of stolen property is to inflate claims to insurance companies.

This seems to have begun with certain policies where insurance companies pay out the "replacement value" of stolen goods. But this is claimed not to cover the cost of a new article because the valuation also takes into account depreciation.

However, an independent loss assessor, Mr Jack van Niekerk, said: "Our job is not to cut the claim. Many policies work on a depreciation scale, and that affects the claim. But, simply put, people do not read their contracts.

"In principle, insurance is very straightforward. If you insure your property or possessions for the correct value, it follows that the premiums will be correct, and in the event of a loss you will be placed as near as possible in the position you were in before the loss."

He said the main point was that policy holders should not be enriched by insurance claims.

If any part of the claim is found to be false, it taints the entire claim.

According to the general manager of the Mutual and Federal Insurance Company, Mr T R Attree, the company does not have serious losses because of fraudulent claims.

"Most of our policy holders are honest, and we would thus not contribute higher premiums to losses due to fraudulent claims," he said.

Mr van Niekerk said the more claims there were against an insurance company, the higher the premiums were.

"A lot of people are milking the cow, but someone has to feed it — and that someone is the policy holder.

"Often it is difficult to prove a fraudulent claim. If I know a claim is fraudulent but cannot prove it, I use some technicality to try and undercut the claim."

When an insurance company feels uneasy about a claim, a loss adjustor is called in to verify it.

Mr van Niekerk said of the claims he dealt with last year — about 300 — more than half were fraudulent.

Bank fires counter-shot

LIZ ROUSE

FIRST National Bank has fired the first counter-shot in a banking campaign to gain market share, unleashed by the United, when it lowered banking fees.

FNB has attacked on two fronts. Backed by Old Mutual, it has launched its "Quantum" assured investment plan, and has introduced its Tandem cheque account scheme for two (married couples) at one-and-a-half times the cost for one.

The Quantum plan is a new long-term investment product which FNB claims "provides the missing link between growth and security".

Quantum has been developed by FNB, First Bowring and Old Mutual, which is the underwriter, and contains several elements that make it a first in the industry.

The investment plan is aimed at long-term investors who want security and real growth. The product gives them the opportunity to achieve inflation- beating growth without having to opt for a high-risk investment, says FNB deputy MD Barry Swart.

In addition, the plan provides tax-free returns and collateral security. The plan is also versatile, making provision for differing sizes of contributions at different intervals.

Contributions are invested in a combination of selected equities, prime commercial and industrial properties, and actively managed gilts.

Investors have the choice of two portfolios — the performance portfolio, which is linked to the market, or the smoother bonus portfolio, in which the market fluctuations have been smoothed out. Life cover can be added.

SS B/day

● To Page 2

25/7/88

Bank fires counter-shot in market war

SS B/day

● From Page 1

25/7/88

The investment must run for a minimum of 10 years to enjoy tax-free maturity benefits. The minimum monthly contributions of R50 may be paid monthly, quarterly, half-yearly or annually, and may also be increased annually to keep pace with inflation, up to a maximum of 15%.

The Tandem account is also a first in the banking industry and is available from today to all cheque, "Status" and "Premier" account holders as well as to prospective clients of the bank.

Tandem enables spouses of FNB cheque account holders to run a cheque account with discounts of up to 50% of the service fee rate being charged for the other account.

An added benefit is that spouses making use of the Tandem option may qualify for the New FirstCard free of card fee charges for a year. This option applies to both "Classic" and "Premier" cards.

Each Tandem cheque account is pro[illegible] separa[illegible] and husband and wife rec[illegible] rate, confidential statements.

Some b[illegible] week scoffed at the i[illegible] that banks would be forced into a banking "war" because of United's move to introduce lower cheque account and credit facility fees.

Southern sees early end to period of rapid growth

Star 25/7/88 58

Finance Staff

Rapid growth should no longer be expected, writes Southern Life's chief economist Mike Daly in the group's latest *Economic Comment*.

Southern says the relatively modest measures by the authorities to cool demand for credit by lifting the prime rate by a point to 15 percent was initially seen as "too little, too late".

"Scepticism about the ability of the monetary authorities to act early and decisively, given the very real political pressures against a repeat of the interest-rate hikes of 1984 meant that expectations were initially for another rise in rates before mid-year.

"However, early indications are that demand is cooling off at existing levels and that while further growth is likely this year... the period of really rapid growth is over," Mr Daly says.

He lists two major factors to motivate this view.

"Firstly, while real personal disposable income (PDI) growth has been positive, and remuneration of employees has been growing at above the inflation rate and will do so for the rest of this year, the personal savings ratio has deteriorated quite sharply.

"After a rate of 3,8 percent a year ago, down to 1,8 percent in the first quarter this year, the ratio of savings to PDI has reached a level indicating a household sector under renewed financial pressure."

Secondly, says Southern, fiscal policy has so far this year been surprisingly tight.

The budgeted expenditure increase for fiscal 1988/89 of 12,6 percent, conveniently below the expected inflation rate, was as always greeted with some derision.

"Yet for the first two months of the fiscal year, expenditure was up on average by only 10 percent, which compares with 32 pe cent and 24 percent in the previous two fiscal years.

"On the other hand, revenue collection has been rising strongly at a 19 percentt rate.

"This situation is the primary difference between the current economic upswing and the 1983/84 mini-boom, and is apparently allowing the somewhat slower, but hopefully also longer, economic upswing anticipated previously."

The recovery in the demand for credit has been spectacular, says Southern. The broadest measure of money supply, M3, which is also the monetary aggregate targeted by the Reserve Bank to grow in a range of 12 to 16 percent from its average fourth quarter level, has been growing at or above 20 percent.

"Hire purchase credit similarly grew above 20 percent in March and April," Mr Daly says.

Corbank sets sights on property finance

58) 26/7/88

By Sven Forssman

Corporate Merchant Bank (Corbank) would display more aggression in property finance after some years of relative inactivity, executive chairman Laurie Korsten said yesterday.

"Our aim is to increase our portfolio from R50 million to R150 million in three years," he said.

"The properties we are willing to finance must be well-situated retail, commercial and industrial developments, as well as residential apartment developments.

Mr Korsten said although R150 million remained a relatively small share of the market, it was Corbank's policy as a merchant bank to limit the properties it financed to those it was proud to be associated with.

Corbank has announced a number of flexible packages:

- Under the participation bond scheme, flexible fixed period and repayment programmes to suit medium- and long-term borrowers are offered. Interest is payable monthly in arrears.
- The same applies to the property finance scheme aimed at borrowers seeking medium-term finance.
- Corbank is interested in taking equity in any good developments.

Banks to press for rate increase

By Ann Crotty

Speculation that yet another increase in bank lending rates is on the cards has been sparked off by reports that Reserve Bank governor Gerhard de Kock has scheduled a meeting with representatives of the major banks for Thursday.

According to banking sources the meeting has been called to discuss general economic issues and the extent to which official policies are achieving their objectives and there are no firm plans to discuss the level of interest rates.

However it seems unlikely that the commercial banks will let slip this opportunity to push their case for some relief on their margins.

The cost of funds to the banks and the current cutthroat competition in the industry is reported to be putting bank profits under extreme pressure.

Given that the latest money supply figures were well ahead of expectations, if Dr de Kock feels the arguments are sufficiently strong, in terms of the general effect on the economy, he might be persuaded of the need to increase rates.

African Bank's CE invited to the US

PATRICK MAFAFO

AFRICAN Bank CE Gaby Magomola has been invited by the US National Bankers' Association to deliver a keynote address to a gathering of minority-owned banks, in Boston.

The invitation comes after Magomola's recent trip to the US to promote the bank.

African Bank was recently invited to join the National Bankers' Association, the only bank outside the US to have received such an invitation.

"The African Bank is gradually achieving international recognition that we have a vital role to play in our changing society," said Magomola in an interview yesterday.

(58) B/Day 26/7/88

No need for rise in prime — United

Star 27/7/88

(58)

By Sven Forssman

New player in the banking field, United Bank, yesterday hit out at calls by certain major banks for an increase in the prime rate.

Managing director Nallie Bosman said United did not consider it in the public's interest to press for an increase in prime rate at present, especially as United was operating at satisfactory margins and government policy was to restrict price increases.

"The situation exists in the market place whereby certain high-income group individuals and large corporate clients are receiving the benefits of rates lower than prime.

"This is a result of cross subsidisation from man-in-the-street accounts which are being charged rates substantially in excess of prime."

Mr Bosman said it was thus logical to assume that if prime was increased, no client should have the benefit of a lower rate.

"I don't see how a prime rate increase can be granted to restore the 'profitability' of a given institution when anomalies such as this exist," he said.

Mr Bosman pointed out that the present call rate of 12,50 percent is lower than it was (13 percent) when prime was increased from 14 to 15 percent.

"The three-month bankers acceptance rate was 11,85 percent at the time of the previous prime increase. It has now risen to 12,65 percent, again reflecting a wider margin than previously existed.

"These two rates (call and BA) were actually lower than they are now before the rumours of a prime increase started circulating."

Bankers appeal for interest rate rise

8/7/22/7/88

Finance Staff

58

South Africa's top bankers were due to meet the Governor of the Reserve Bank in Pretoria today to appeal for an increase in the rate of interest they are allowed to charge.

The request poses a major dilemma for the Reserve Bank.

The country's economy has been running at full steam and some economists maintain that rates will have to move up to curb domestic spending.

But there are also indications that economic growth will level off towards the end of the year and that a rise in interest rates would inflict unnecessary damage.

● See Pages 2 and 14.

Sage acquisition of Eurefin called off

Star 27/7/88

58

By Ann Crotty

Sage's proposed acquisition of the Eurefin cash shell, which was intended to provide it with a vehicle to list its financial services subsidiary, has been knocked on the head, apparently by recently gazetted changes to legislation dealing with the payment of stamp duty on the transfer of assets.

Shareholders have been advised that "due to unforseen circumstances beyond the parties' control, the negotiations between Sage and the controlling shareholders of Eurefin have been terminated by mutual agreement".

One source has speculated that the unforseen circumstances may relate to the changes in stamp duty legislation, which were detailed in a Government Gazette three weeks ago. The changes have resulted in a considerable tightening up of the legislation and appear to rule out any possibility of parties being able to avoid most of the burden of the 1,5 percent stamp duty on the transfer of assets.

It may be that the two parties see little point in testing the changes, which, as they stand, could add considerably to Sage's cost of getting a listing for its wholly owned subsidiary, Sage Financial Services. Neither party was available to elaborate on details yesterday. At this stage it seems that had Sage acquired a major stake in the Eurefin cash shell, say in the region of 65 percent, and transferred its financial services assets to that shell it could now be looking at a stamp duty bill equivalent to 1,5 percent of 65 percent of the value of the assets that it had transferred.

Mutual assurers attacked

Star 28/7/88

Finance Staff (58)

Mr Andrew McGregor, well-known as the publisher of 'Who Owns Whom' has launched another attack on the allegedly low rate of tax paid by the two mutual insurance companies, the Old Mutual and Sanlam.

In a report compiled for the building society group, UBS Holdings, Mr McGregor claims the two societies have been transferring far more funds to their reserves than are needed to meet their obligations to policy-holders.

He argues that the surplus should be returned to policy holders.

This should be done by taxing the surpluses and using the funds to cut income tax.

Mr McGregor says the two mutuals transferred R4 billion to policy owners' funds in 1987. "While a good portion of this is needed to provide for benefits, we contend that a considerable portion of it should be returned to policy holders.

"These surpluses represent policy-holders 'savings' which have been over-provided," he says.

The policy-holders would infinitely prefer to have them refunded than to have them put into a reserve fund from which they personally will never benefit.

"We have therefore suggested that these surplus operating funds be taxed as company profits."

He suggests that the funds be returned to the public via taxes as he assumes that the vast majority of taxpayers are also policyholders.

African Life to seek listing in 1991 at earliest

STAR 28/7/88

By Sven Forssman

African Life Assurance is aiming for a public listing in 1991, and not before, says deputy general manager, marketing, Jeremy Rowse.

"We want the public to get to know us better and show them that we keep our promises before we go to the JSE," he said yesterday.

Chairman Zac de Beer says in the annual report the first step in the strategy to prepare for a public listing occurred during the year under review when holding company Southern Life decided to increase the share capital of African Life by R10 million.

He says the recurring premium new business more than doubled during the past two years and the objective for the new financial year was to double new business yet again.

Dr de Beer says business circumstances remain difficult and that predictions in the present uncertain social and political environment could be dangerous.

"I deeply regret that, for the majority of South Africans, the political environment has deteriorated during the past year and those in power in our country seem to be without any clear visions for the future."

Money shortage a 3-prong problem

By Derek Tommey

Commercial banks have given the Reserve Bank problems with calls for an increase to 16 percent in the rate of interest they can charge borrowers.

Their request stems from the shortage of money in the banking system caused, to a great extent, by increased payments overseas to meet import bills.

The money shortage means that some banks are having to buy money at high prices to meet their commitments, and at the moment they are not able to recover these extra costs from their clients.

The Reserve Bank has three unhappy choices.

It can allow the prime rate to rise to the requested 16 percent but this means the cost of borrowing money from banks will have risen by 28 percent since January and will depress business.

It can reduce the pressure for higher interest rates by adding money to the system. However, this could fuel inflation and also further depress the ailing rand.

Or it can call on the Government to control imports to limit the outflow of foreign currency, as Dr Chris van Wyk, MD of Trust Bank has suggested.

Consumer bodies slate bank move

Higher interest rate 'will boost inflation'

Star 28/7/88

By Melanie Gosling

The SA Consumer Council has expressed its concern about a possible increase in bank lending rates and has warned the public to be very cautious when signing finance agreements.

According to reports, large amounts of money have been lent to the private sector at relatively low rates. Banks are now looking to increase interest rates to enable them to show favourable profits.

"The council would like to know if it is justifiable for consumers to pay when banks have not been discerning enough when lending money," Mr Paul Roos, media officer of the council, said yesterday.

He said increased rates would have a negative effect on the inflation rate, consumers would have less money to spend and the economy would undoubtedly suffer.

"The council is aware of talks to be held between the Reserve Bank and commercial banks tomorrow and appeals to these organisations to keep in mind the precarious state of the economy and the State President's appeal earlier this year that everyone should co-operate to combat inflation," Mr Roos said.

The National President of the Housewives League, Mrs Lyn Morris, said if the banks had not been discerning in lending money, it was wrong to get back money from the small man.

"Already we have an imbalance in the tax system where the small man is contributing more than the big companies," Mrs Morris said.

She said the league had warned people when the interest rate dropped to around 12,5 percent last year that people buying houses should realise the rate would go up and calculate if they could afford it.

Home loan rates, which dropped in the war between banks and building societies last year, have been rising ever since. In May this year First National increased its bond rate by 1,5 percent to 15 percent. Allied Building Society increased this year from 13 to 14,5 to 15,2 percent.

Mr Kobus Jooste, president of the South African Agricultural Union, said a further increase in interest rates would seriously hamper the economic recovery of a large percentage of farmers and to a great extent "neutralise Government assistance to farmers".

In a statement issued to Sapa in Pretoria, Mr Jooste said a rise in interest rates to raise the banks' profit margins was totally unacceptable to his union.

"With a debt load of approximately R14 billion, interest payments still constitute the greatest single cost item for the farming community. An increase in interest rates would, therefore, seriously hamper the economic recovery process," he said.

● See Page 13.

Pressure to buy policies deplored

Star 28/7/84

By Sue Olswang

The Housewives' League of SA is disturbed by reports of insurance salesmen who pressure young men into buying policies while they are serving in the defence or police forces.

According to the league's July *Rands and Sense* newsletter, the consumer body has had reports of this happening in the Transvaal but cannot take action because no one is willing to let his name be used.

The league said it seems as if policies are sold in one of two ways - either by insurance salesmen who go into camps or by members of the Permanent Force acting as salesmen.

Allegations of sales by members of the Permanent Force acting as salesmen is particularly worrying, the League said.

PERSUASIVE

"Not only does the boy have to deal with a persuasive sales pitch but he also has to withstand pressure from someone who could be his direct superior: 'Let's see how you feel about insurance after you've run up that mountain'."

However, the director of public relations for the South African Defence Force said it is SADF policy to refuse permission to representatives of outside organisations who have no part in Defence Force matters from entering military areas for the purpose of drawing up contracts or agreements with personnel unless prior approval has been obtained.

"The SADF recognises the advantages of subscribing to life assurance at a young age and therefore grants permission, under strict and specific conditions, to representatives from insurance companies and insurance brokers to enter military premises.

PREFERENCE

"The control ensures, among other things, that no pressure is exerted upon individuals to enter into agreements and that no specific insurance company is given preference. Under no circumstances may a member of the Permanent Force exert pressure on an individual to buy insurance polices or to act as a representative of any company or broker."

In February, *Rands and Sense* reported that the SADF had banned salesmen in camps but because the police force does not fall under the Defence Force, the league has now had to write to the police to enquire whether they have the same ruling.

HOUSING SUPPLEMENT

Commercial banks seeking rise in prime lending rate

Sowetan 28/7/88

The commercial banks want to make overdrafts and home loans more expensive by the end of this week.

Senior bank officials have made it clear the commercial banks would approach the Reserve Bank by Thursday to ask for another increase in prime lending rates.

If a 1 percent increase is granted, it would be the third rise in rates this year and push the prime rate to 16 percent. It could also lead to a further rise in mortgage bond rates to similar levels.

The banks are claiming that their profit margins are under pressure from rising short-term money market rates.

Economists maintain that an increase in interest rates is necessary to control the surge in domestic expenditure, which is putting pressure on the country's ability to meet its foreign debt commitments.

But the banks' request is likely to be met with some scepticism from the Reserve Bank. More than one senior banker says the banks have only themselves to blame.

SABC-TV quoted one Reserve Bank official yesterday as saying that keen competition between the banks had resulted in more than R5 billion being lent to large companies at no profit.

"The banks are now trying to regain profits by charging smaller borrowers more," he says.

The Reserve Bank is also under political pressure to keep interest rates low ahead of the municipal elections in October.

Says a senior economist at a Johannesburg stockbroking firm: "Tinkering with interest rates in this manner will eventually lead to a hike in rates which will be sharper and more damaging for the economy than the rise which would have occurred in the absence of deliberate Reserve Bank action to keep rates down."

Bankers urge interest rate rises

(58)

THE Reserve Bank and commercial bank officials were due to hold discussions on interest rate policy yesterday, following speculation that rates must rise further as a result of the rapid increase in money supply and a decline in South Africa' foreign exchange reserves.

While the new United Bank has come out against a rise in interest rates, arguing this is not in the public interest, most the major banks have called for an increase. Economists at Standard Bank and Trust Bank have saidmarket indicators indicate a rise in the prime overdraft rate is long overdue.

Assocom has also called for a "timeous" rise in interest rates, with its Business Confidence Index for July having fallen to 97,3 from 98,1 in June.

In the money market, rates which are determined by supply and demand have been rising rapidly, while the Bank Rate, the rate at which the Reserve Bank rediscounts to the commercial banks, and the prime overdraft rate, the interest rate banks charge their best customers, have remained constant.

The three month Bankers' Acceptance rate had risen to 12,65 by the middle of this week, from 12,1 in the first week of July, and the Treasury Bill rate was already 56 points above Bank Rate.

The financial authorities have been reluctant to allow the Bank Rate to increase. They have been waiting to see the effects of the package of measures implemented in May to curb the expansion of credit. But a major factor is said to be political pressure.

The South African Agricultural Union has come out against a rise in interest rates. And there is said to be political pressure to keep rates at their present levels prior to the October municipal elections.

W/Mail

29/7

4/8/88

New partbond scheme opens for business

Ster 29/7/88

58

Combined Participation Bond Managers in which United, Volkskas and JH Isaacs have equal shareholdings, is beginning immediate operations through their 1 500 branches and agencies.

The scheme calls for a minimum investment of R1 000 for a minimum period of five years at a current return of 14,5 percent per annum payable quarterly in advance.

After expiry, the investment becomes a three-month notice deposit.

"The rate of interest is variable, but will not decrease below a specified floor rate currently set at 11 percent per annum. We will also be seeking commercial and industrial property loans for amounts in excess of R100 000 at 15,67 percent," says MD John Fosteras.

Tienie van der Berg, general manager, marketing, at United, says the move will enable it to more competitive.

"There is now no need for United investors to move their funds to other participation bond managers," he says.

● Metboard has increased its part bond investor rate to 15,5 percent, effective from the beginning of September.

The increase from the current rate of 14,5 percent has been made against a general background of rising interest rates. — Sapa.

INSURANCE ACADEMIA

Two universities will offer an insurance degree major from next year — Wits and the University of Pretoria (UP).

Wits is to start a comprehensive major embracing both short- and long-term insurance, as will the UP major, which will also introduce students to actuarial science. "It will provide a practically oriented academic qualification for prospective actuaries and actuarial technicians," says UP head of insurance George Marx.

Short- and long-term insurers will sponsor the Wits course through the Insurance Institute of SA. Momentum Life is sponsoring a chair at UP.

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FINANCIAL MAIL JULY 29 1988

Small man will be hard hit

SA faces another big credit squeeze

Star 29/7/88

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By Sven Lünsche

Widespread increases in interest rates are on the cards following an announcement by the Reserve Bank yesterday that it is raising its bank rate by one percentage point to 12,5 percent with immediate effect, but mortgage bond rates are unlikely to move on a broad front for at least a month.

Standard Bank last night announced it was putting up its prime rate from 15 percent to 16 percent and the other commercial banks, including the recently launched United Bank, are set to follow suit this morning.

Other lending rates and overdrafts are also likely to become more expensive, although there is some consolation in the fact that deposit rates will also rise over the next few weeks.

Hire-purchase agreements are also set to rise. Reserve Bank Governor Dr Gerhard de Kock indicated in a television interview last night that the package to curb credit demand, which was announced in May, was being reviewed and could be considerably tightened.

Selective import controls are unlikely to be part of the package, which could be announced in the next few weeks and could see an increase in the deposit on hire-purchase financing coupled with a shortening of the period over which the payment can be settled.

There is uncertainty whether widespread increases in mortgage bond rates will follow, as most major banks have put up their rate to an average of 15 percent in the past few weeks.

But the country's two largest building societies, the UBS and the Perm, indicated this morning that a rise was not on the cards in the near future.

Mrs Lyn Morris, president of the Housewives' League, said: "A higher interest rate is, of course, favourable to investors who will gain more interest on their investments. But, an extra few rands on a monthly bond repayment is extremely worrying for many South African homeowners."

The Progressive Federal Party spokesman on finance, Mr Harry Schwarz, blamed the interest rate crisis firmly on the Reserve Bank and on strong competition between some of the major commercial banks.

He warned of increased unemployment and said the Government would have to take part of the blame for not intervening.

The small man would be hit particularly hard.

Property market analyst Mr Neville Berkowitz said any rise above 1 percent would be bad for the market, but he did not foresee any major adjustment in coming months.

Dr de Kock warned banks and building societies to slow down the rate of credit extension.

"The institutions are urged, in particular, to practise restraint in extending consumer credit and mortgage loans for the financing of luxurious private homes.

"To this end they are expected ... to reduce materially their advertising of consumer loan facilities, including the financing of consumption by means of home mortgage loans."

● See Page 15.

THE ECONOMY

Black business may split down the middle as new group forms

A new organisation pulls in some major black groups, but fails to include the long-established Nafcoc. MZIMKULU MALUNGA reports

BLACK business could split down the middle following the announcement this week that a new organisation of black business people and consumers is to be formed.

The Southern African Black Taxi Association, National Black Consumer Union and Transvaal African Builders Association will comprise the new organisation, the Foundation for African Business and Consumer Services (Fabcos), which potentially represents over half-a-million people.

Fabcos aims to unify black business and put it on the road to self sufficiency, J Mogale, general secretary of the interim committee, said this week.

But the founders of the new organisation have failed to draw in the old-established National African Federation of Chambers of Commerce.

Nafcoc public relations officer Gabriel Mokgoko told the *Weekly Mail*: his organisation had been invited to join Fabcos at a meeting held at the beginning of this month. But "Nafcoc has not joined Fabcos because of certain concerns it holds and communicated to it regarding the objectives behind its formation".

Mokgoko said his organisation "does not see the wisdom of forming another splinter body with the same objectives". Nafcoc was reviewing its structure "to accommodate all the various sectors in the economy currently under its federation into an autonomous association under one umbrella body across the country". Nafcoc is still holding discussions with Fabcos over these issues, he said.

Mogale said Fabcos' founders believed the fragmented existence of black business had meant efforts to participate fully in the economic development and wealth of South Africa had been inconsequential.

"Various organisations have been formed but none has come anywhere near consolidating unity of purpose, and thus putting black business on the road to economic self-sufficiency," Mogale said.

Fabcos plans to open 10 regional offices and will have its head office in Pretoria, already the site of Sabta and Taba headquarters.

One of its aims will be the creation of a "black rand". Members of affiliate organisations will have access to a Fabcos membership card which will form the basis of a black discount buying card and eventually a black credit card.

In a document outlining its aims and objectives, Fabcos said it would "do everything in its power to liberate the black economy from constraints under which it presently operates" and would assist black consumers.

Fabcos will monitor statistics of black business and its impact on the South African economy.

It aims to motivate members to support black institutions such as the African Bank, black hawkers and black builders and to expand financial institutions in black hands. Fabcos intends to "investigate and, if feasible, register a black building society", the document said.

Mogale said moves are also underway to register a central trust fund for all its member organisations. He said the organisation will seek funding both in South Africa and abroad.

Fabcos also wants to encourage multinational companies and big business to support black business and intends highlighting those companies which do not support black business.

Sabta's TJ Ngcoya has been elected president of the Fabcos interim committee and Dr Ellen Kuzwayo, vice president. Others on the committee are Mogale, of Taba, A Thula and E Mathebula.

Mogale said several organisations have been invited to the launch at Shareworld later this year.

Among Fabcos' other objectives are:

- To share as far as possible each other's resources in the interests of black business.
- To create a forum for discussion with businesses in the formal sector on matters of mutual concern.
- To encourage members of affiliated associations to take up a greater role in the economy of the country.
- To lobby the government against repressive and racially-discriminatory laws, regulations, etc.
- To enter into joint property development of shops and offices and to enter joint public listings.
- To negotiate with the formal sector on joint ventures.
- To consider, discuss, promote, discourage or oppose changes in law, practice, procedure or administration pertaining to member associations and to offer guidance.
- To formulate a code of ethics.
- To promote the interests of the black public on a national basis and to develop structures and procedures to enable the public to communicate dissatisfaction with the facilities or services of the association.

Cape Times

Funfinder Inside

A TIMES MEDIA PUBLICATION

FREWIN TROPHY
BEST DAILY
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1987

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Cape Times 29/7/88

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Bank rate rise ends spending spree

By AUDREY D'ANGELO
Financial Editor

SOUTH AFRICA'S spending spree is over. The man in the street will find himself poorer as a result of a 1% rise in the bank rate, from 11,5% to 12,5%, announced yesterday.

This means that overdraft and hire-purchase rates will rise and mortgage bond rates can be expected to follow suit before long.

Credit will become harder to obtain. Explaining why the bank rate is going up although the economic upswing is already over, the Governor of the Reserve Bank, Dr Gerhard de Kock, said it was necessary to dampen the demand for credit.

Spending must be curbed to limit imports. This must be done to preserve a substantial balance of payments — necessary for South Africa to continue paying off its huge foreign debt.

The rise in the bank rate was expected after figures released last week showed the money supply was still growing in spite of an attempt to cool down the economy by raising the bank rate to 11,5% from 10,5% at the beginning of May, and that foreign currency reserves were dwindling.

But the rise has been greeted with mixed reactions. Cape Town Chamber of Commerce president Mr Andrew Coombes and the director of the Cape Chamber of Industries, Mr Colin McCarthy, said it was preferable to stricter import controls.

Mr Coombes, however, said the decision to raise the bank rate was "disappointing". It was inevitable because, although the economy was levelling off, it was not doing so rapidly enough.

But, he said, chambers of commerce would monitor the balance of payments in coming months and, if it improved, would urge a reduction in interest rates.

He said that higher interest rates would affect employers' costs and this, together with reduced demand, would make it harder to provide more badly needed jobs in the Western Cape.

The chief executive of the Associated Chambers of Commerce of SA (Assocom), Mr Raymond Parsons, said: "As the economy is more interest-rate sensitive now than in previous years, Assocom hopes that the latest increase in rates may be the last needed to ensure that the pace of economic activity does not pose a threat to the balance of payments.

"It will be essential for monetary policy to remain flexible, and for interest rates to be reduced again as soon as possible."

Mr Kingsley Loney, regional manager of the Natal Building Society (NBS), said he did not think building societies would put up their home loan rate immediately because they were not under as much pressure as banks which had offered "cheap" mortgages and were now feeling the effect of this.

But, ultimately, building society lending and deposit rates would have to move upwards with other interest rates. "Sadly, this will affect the less well-off people who are most in need of housing but will find it harder to qualify for bonds."

● Reserve Bank will crack down on banks for giving too much credit — Page 8

(58) B/day 29/7/88

NEWS FOCUS

Life insurers don't have a tax advantage

DORIAN WHARTON-HOOD
Joint MD of Liberty Life

RECENT reports about the supposed tax advantages enjoyed by life insurers have brought to light serious misconceptions about the nature of life insurance business and, consequently, about the appropriateness of various tax bases. Clearing up these misunderstandings should help put an end to a futile debate about life office taxation.

Everyone agrees that there should be tax neutrality between different savings media. Tax neutrality implies consistent application of tax principles to the savings of the individual, regardless of the savings medium. However, if some institutions are more successful than others in competing for funds, and their success stems from factors other than tax, then it is inappropriate to use the tax system to handicap the successful in order to achieve overall neutrality.

Incorrect

There have been repeated complaints, especially from the building societies, that the amount of tax paid by life insurers — R256m in 1987 — is small in comparison with the billions of rands handled by the industry. In a recent document which a building society circulated to a number of Members of Parliament, it was even calculated that the life insurance industry pays tax at an average rate of 2,24% of "operating surpluses". This claim is totally incorrect, for two reasons.

The first is that only approximately 30% of the total assets held by the life insurance industry relates to ordinary taxable life insurance business. The balance is attributable to pension fund and retirement annuity business, which is taxable in the hands of beneficiaries, not in the life assurers' hands.

The tax treatment of life insurers has no influence on this business. It is obvious that calculating tax percentages on the basis of the total amount of money handled by the life insurance industry is therefore entirely incorrect.

The second point is that the calculations referred to were done by simplistically deducting expenses from total income (including premium income) and viewing the resultant net figure as the "operating surplus". This is tantamount to charging depositors tax on the money they deposit with a bank or building society!

If the alleged "tax favoured" status of life insurance had contributed towards a concentration of power in the economy, then one would expect the taxed portion of life insurers' business to have gained a disproportionate share of the public's savings. However, the accumulated assets of life insurers attributable to taxable business are significantly smaller than the assets of banks and building societies.

Less savings have flowed into ordinary taxable life insurance than to banks and building societies, quite apart from other major savings media (unit trust, etc).

The growth in pension and retirement annuity business is irrelevant to the taxation issue since, as explained earlier, the beneficiaries of the policy proceeds pay income tax on the emerging benefits when they receive them in the form of pensions.

Real reasons

If the building societies believe they are losing business to the life assurers, they should focus on the real reasons and not distort the tax situation, which has nothing to do with the issue.

Building societies may be over-regulated and legislative changes may be needed to enable them to compete with life assurers, so why not focus on this issue?

Perhaps the building societies are afraid to pursue this route in case they are allowed to compete with life assurers who have demonstrated their ability to produce appropriate products which satisfy the needs of the investing public and have consistently produced investment returns on taxable business in excess of the inflation rate, despite the disadvantages.

NBS 58

No better

Activities: *Provision of housing finance and financial services through a building society subsidiary.*

Control: *Norwich Life has 10% of the equity and is in turn 30%-owned by NBS.*

Chairman: *H G Chapman; managing director: J W Gafney.*

Capital structure: *57,8m ords of R2. Market capitalisation: R155m.*

Share market: *Price: 275c. Yields: 6,7% on dividend; 5,3% on earnings; PE ratio, 6,5; cover, 2,3. 12-month high, 355c; low, 225c. Trading volume last quarter, 2,40m shares.*

Financial: *Year to March 31.*

	'87	'88
Total advances (Rbn)	2,24	2,72
Total assets (Rbn)	2,80	3,29
Int received (Rm)	n/a	393
Int paid (Rm)	n/a	272
Pre-tax profit (Rm)	43,4	41,3
Taxed profit (Rm)	21,1	23,8
Earnings (c)	36,4	42,0
Dividends (c)	—	18,5

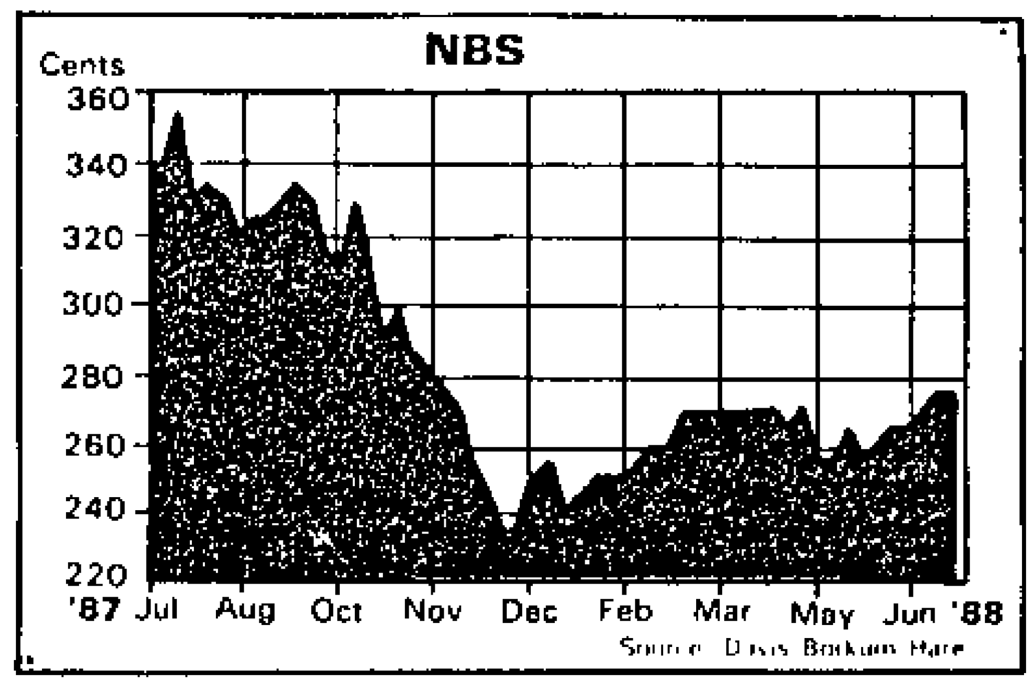
It is difficult to find anything about NBS that makes it stand out from others in the sector. The building society operations, like those of most others, are likely to be affected by comparatively narrow margins this year. And though emphasis is being placed on developing the other sections of the business, their proportionate contribution is unlikely to change in the immediate future.

The building society provided 57% of earnings last year and chairman Gordon Chapman expects the proportion to rise slightly to 58% this financial year. He fears there will be no improvement in interest rate margins, so any profit growth will have come from increases in lending volumes.

That might be possible in the home loans market, but government's latest credit restrictions may cause consumers to rein in their credit spending. Instalment lending through wholly owned NBS Bank is largely confined to the Durban home turf and, for the present, extension to the rest of the country is being planned through agency agreements with suppliers of consumer durables. It may be slow developing, but it's likely to be a good deal less expensive than the full frontal assaults being launched by the banking arms of competitors UBS and Allied.

Presumably the instalment lending business can be backed into the investor centres

FM 29/7/88



which, in turn, are based on Hill Samuel's retail operations. The deposits of the investor centres are drawn from the upper end of the retail market and, as a result, are unlikely to be cheap or insensitive to interest rate shifts. At present, the ratio of interest received to interest paid is very much in line with that disclosed by competitors — the important test will be whether NBS can increase its lending and deposit base at a greater rate. On that could depend synergistic benefits from the 30% interest in Norwich Life as life policies are generally sold in conjunction with mortgage loans.

Ahead of last year's public issue, NBS had tended to earn a better gross margin (that's the difference between interest received and paid as a percentage of the asset base) than competitors. But that relationship seems to have been disturbed by the group's recent development, which persuaded management to leave the crucial interest cost and receipts figures out of the income statement. A phone call to Durban quickly elicits the figures. Management expenses remain high relative to those of competitors.

At its present level, the share is above the 200c at which shares were offered to depositors last February. But, in line with the rest of the financial sector, it is also well below its high of the past 12 months. It is difficult to see any improvement in the rating while interest margins remain crimped. *Jim Jones*

ALLIED

58

More please

Sooner rather than later, Allied will be going back to its shareholders for more equity capital. That's the price of the past year's comparatively fast growth and diversification and the cost of competing head-on with the commercial banks.

It's a price which will probably need to be paid several more times if the group's aggressive development plans are to be achieved. Acquiring the 20% interest in Sage and 13% in Rand Merchant Bank cost the best part of R96m, just less than a third of the amount raised initially from the public.

Allied appears to be the most committed of the building societies to expanding its services to black depositors and borrowers. That long-term exercise is not cheap. It has already involved the creation of a property development company to provide affordable housing for blacks and lower-income whites which is generating profits but which is also acquiring land for housing development. Its operations are hampered by shortages of land, MD Alan Tindall says, as well as by government's reluctance to adjust the value of houses which qualify for the State's subsidy scheme for first-time borrowers.

The cost of establishing the property development company pales beside that of the new banking arm. Last year, the business operations of the bank and building society were merged — an indirect acknowledgement of their sameness.

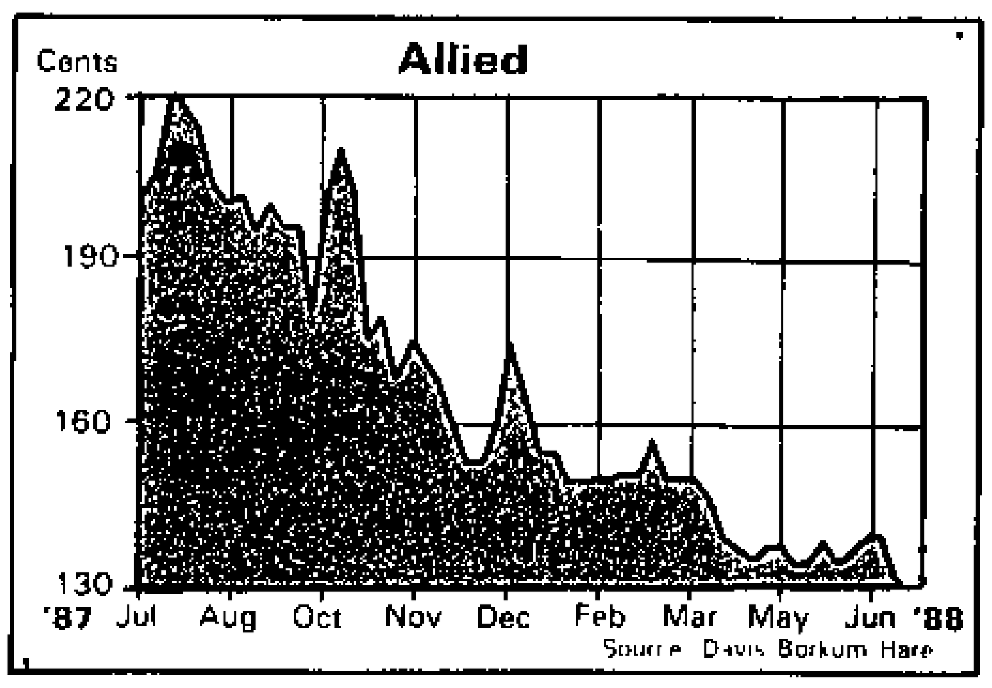
Nevertheless, until legislation governing banks and building societies is identical, the two operations' capital requirements will vary. The effect is that Allied will need to add to its bank's capital as the banking business grows. A direct merger with the building society would have obvious capital advantages. In terms of capital provisions, the development of links with Sage and Rand Merchant Bank to broaden the financial service marketing base should be less costly.

Last year, the conventional building society business' margins were squeezed as the commercial banks muscled into the home loans market. This year, a repeat performance looks likely, particularly if recent and prospective credit curbs dampen consumer credit demand and limit the banks' consumer lending opportunities. This is where Allied's black customer base could provide a competitive edge. Small building society deposit accounts may be relatively costly to manage, but they generally pay substantially lower interest rates than are paid on large fixed deposits. The effect on interest rate margins could be significant.

A capital-raising exercise based on a rights issue to ordinary shareholders will do little for the share's short-term performance, particularly if operating profits remain in an interest-rate pincer. Allied's attractions lie in its longer-run growth prospects. *Jim Jones*

Activities: *Provision of financial services through building society, banking and insurance subsidiaries.*
Control: *Sage has 10% but no shareholder has control.*
Chairman: *D G Paxton; managing director: A C Tindall.*
Capital structure: *295,3m ords of R1. Market capitalisation: R384m.*
Share market: *Price: 130c. Yields: 7,7% on dividend; 15,9% on earnings; PE ratio, 6,3; cover, 2,1. 12-month high, 222c; low, 123c. Trading volume last quarter, 8,7m shares.*
Financial: *Year to March 31*
Performance:

	'88
Total assets (Rbn)	7,09
Total advances (Rbn)	5,64
Int on advances (Rm)	831
Int on deposits (Rm)	586
Pre-tax profit (Rm)	102
Taxed profit (Rm)	61
Earnings (c)	20,7
Dividends (c)	10



Source: Davis Borkum Hare

FM 29/7/88

Interest rates increase as bank rate moves up

58

Star 29/7/88

By Sven Lünsche

Most of the five major commercial banks have announced that their prime rates would be raised from 15 to 16 percent today, following on the Reserve Bank announcement that its bank rate would be increased by one percentage point to 12,5 percent.

Other lending rates and overdrafts, hire purchase agreements and probably mortages are also likely to become more expensive.

Reserve Bank governor Dr Gerhard de Kock, announcing the rate increase in Pretoria after a meeting with bankers, said corresponding increases would be made in the Bank's rediscount rates and in rates on overnight loans to discount houses.

So far this year the prime rate, which is dictated by the bank rate, has been put up three times and the mortgage rate, which now stands at around 15 percent, has followed suit.

The prime rate has gone up by 28 percent since the beginning of the year and more ominously, analysts do not rule out another increase in prime before the end of this year.

Economists said that a rise in interest rates had become essential as recent indicators had confirmed that consumer demand for credit was rising beyond a point sustainable by the country's economy due to the balance of payments constraint.

"The Reserve Bank views these adjustments as both a logical further consequence and an integral part of the less accommodative policy stance it has adopted," Dr de Kock said.

"While there are clear signs that the cyclical upswing in the economy has levelled off, economic activity and the demand for credit have remained at a high level and the balance of payments, the gold and forex reserves and the exchange rate of the rand have come under pressure.

"To support the increase in their credit extension, the banks had to obtain additional cash reserves in the domestic market. Their efforts to do so placed upward pressure on short-term rates."

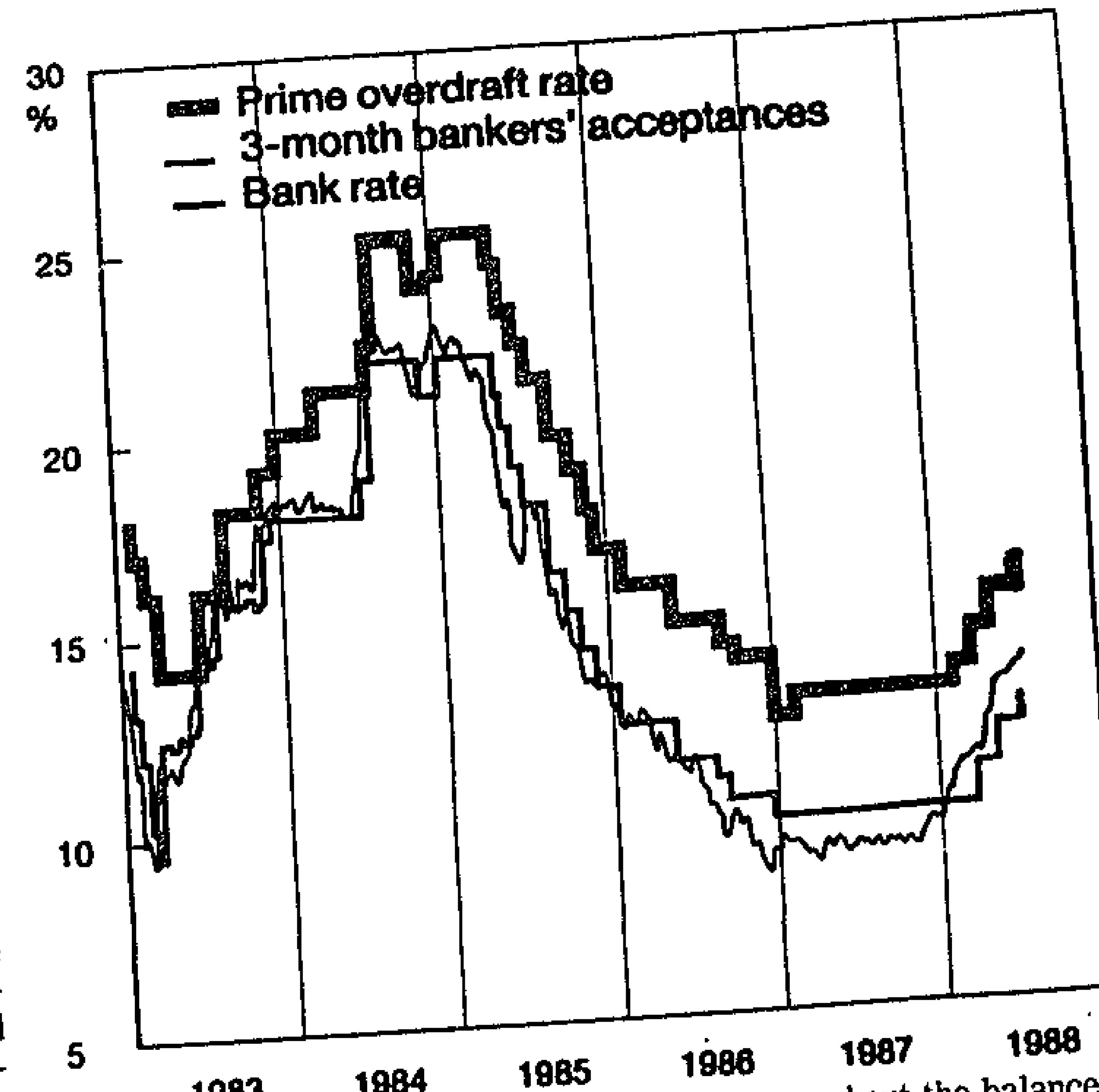
But Dr de Kock advised banks and building societies to slow down the rate of credit extension.

"The institutions are urged to practise restraint in extending consumer credit and mortgage loans for the financing of luxurious private homes. To this end they are expected to reduce materially their advertising of consumer loan facilities,"he said.

He hit out at recent efforts to increase market share, which saw many institutions granting loans to big companies at unprofitable interest.

"Banks and building societies would be well advised to balance their zeal for increased market share and balance-sheet growth with the need to maintain a sound liquidity positions."

Dr de Kock said that one of the major economic reasons for the increase was the surging money supply figures. The broad money supply measure M3 rose by an annual 25 percent in June and although the velocity of circulation could reduce this figure slightly, "the rate of increase in M3 was still unduly high and contributed to undue pressure on both domestic resources and imports," Dr de Kock said.



Commenting on the increase Assocom chief executive Raymond Parsons said the rise was inevitable in order to limit the strain on the country's foreign exchange resources and to counter inflation.

"Although the economy is showing signs of levelling off, there is no evidence that it is slowing down rapidly enough to remove the concerns about the balance of payments," he said.

The South African Federated Chamber of Industries also considered the increase a "necessary reality".

Gazette this month invited writ-

Boland Bank boosts income

558

PAARL — The Boland Bank group showed a satisfactory growth in the first quarter of its new financial year ended June 30 and the directors expected the group to increase its assets, profits and dividends further during the current financial year, chairman Pietman Hugo, said in Paarl yesterday.

Although bad debts were still high in the past financial year there now is a definite decline in doubtful accounts and he expected this trend to continue during the coming year.

STAR 29/7/88

The group "positively utilised" the moderate improvement in economic conditions during the financial year which ended on March 31.

During the period under review the Group increased it's income, after company tax and transfer to internal reserves, by 40 percent from R8,350 to R11,65 million.

The total dividend per share was increased from 40c to 42c. — Sapa.

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STAR 30/7/88

Big stranglehold on credit

New rate will cost R700-m

FINANCE STAFF

THE increase in interest rates announced by the commercial banks yesterday could cost businessmen and other borrowers about R700 million over the next year.

According to Reserve Bank figures, the loans granted by the commercial banks at the end of March had reached R70 billion. If every bank borrower has to pay an additional 1 percent on his loans, together they will have to pay an extra R700 million in the next 12 months.

All the five major commercial banks yesterday increased their prime rate — the rate of interest they charge their best customers — by one percentage point to 16 percent, following a similar increase by the Reserve Bank in its bank rate.

Other lending and overdraft rates are also likely to rise, although there is some consolation in the fact that deposit rates will also rise over the next few weeks.

Hire-purchase agreements are also set to go up as Reserve Bank Governor Dr Gerhard de Kock has indicated that the package to curb credit demand, which was announced in May, was being reviewed and could be considerably tightened.

But, in what analysts regard as a strategic move to fuel further competition, the recently launched United Bank yesterday announced it would be holding its prime rate at 15 percent for a month.

However, there is uncertainty whether widespread increases in mortgage bond rates will follow, as most major banks have put up their rate to an average of 15 percent in the past few weeks.

First National Bank's general manager, Mr Jimmy McKenzie, indicated that the bank's current bond rate of 15 percent would come up for review early next week, but other banks and building societies, notably the Perm and the UBS, said they would hold their bond rates at current levels.

Mortgage advances at the end of March were R26,8 billion and a 1 percent rise in mortgage payments by all home-owners would increase annual payments by R268 million.

The building industry will also be hard-hit by the latest round of interest rate increases, according to Mr Lou Davis, executive director of the Building Industries Federation of South Africa (Bifsa).

Mr Davis said investors at all levels would seriously review capital expenditure as a result of the higher rates.

He said: "For the housing market the rise in rates is particulary significant. Undoubtedly the banks and building societies will put up their rates. This will have an immediate impact on the existing homeowner and will probably cause cancellation of contracts by first-time homeowners who are invariably strapped for cash and using the maximum finance to erect their first home."

TAKE THAT! Jamie the ref forgets her role and mule-kicks.

(59)

SUNDAY TIMES, Business Times, July 31, 1988

BUSINESS TIMES surveys INVESTMENTS FOR THE OVER 50s

Unit trusts that give income, beat inflation

By Julie Walker

UNIT trust funds are designed to protect capital against the onslaught of inflation.

But they may not be suitable for the over-50 investor who relies on interest and dividend income every month. However, some funds focus on providing income while retaining the possibility of capital appreciation.

The Standard Bank Extra Income Fund is an example. A spokesman for the fund says: "It has advantages over other types of investment in that is extremely flexible."

Traditional high-income instruments, such as fixed deposits, tend to involve the locking-in of funds for a specified time. Generally, the longer the time, the higher the rate of interest.

Obliged

But this does not suit everybody. The major plus for unit trusts is that the issuer is legally obliged to buy back the units without notice. Cash can be realised almost within a day.

The Extra Income Fund has not disappointed investors in the past two years. In 1986 the return was 26,5%, 1987 gave 14,5% and the first half of the current year's return is a cumulative 8,5%.

The performance of 1986 coincided with a sharp decline in interest rates on the capital markets and in the banking sector. The fund manager was able to trade his holdings on the open market and make money for investors. Half the return came from capital growth.

Volatile rates

Long-term interest rates have been volatile this year, and it takes an experienced trader to read the market profitably. Rates started the year at 15,30%, rose to 17,20% and eased to 15,80%.

Investors tend to regard long-term as about five years and a unit trust fund's performance should not really be judged on a yearly assessment.

Those who retire with barely adequate means to exist should not be tempted by unit trusts. The investment strategy should be to generate income that is needed now. There is no room to take risks.

Those more comfortably off seek a high income, but at the same time wish to keep the buying power of their money intact.

The extra income fund appeals to this class of investor because of its modest risk-high-return profile.

Getting the right mix in the portfolio at the right time is the work of the fund manager. He is faced with an income tussle. When interest rates are high, the fund's income is guaranteed, but growth is stifled. When interest rates fall a capital profit can be made, but the fund's income from interest is lowered.

Fixed-interest debentures of listed companies used to be popular with the extra income fund. Rates exceeding 19% were available and the prospect of capital growth remained. They combine high yield with an equity flavour.

Bandwagon

But insurance companies jumped aboard the easy-money debenture bandwagon and demand is such that such good yields can no longer be picked up.

Standard Bank says its Gold Fund — the only one in SA — should be regarded as a sweetener. It combines high risk with high return. The policy here, unlike many foreign gold funds, is not to remain fully invested at all times in gold shares.

When no value is seen, the fund's liquidity is allowed to rise. But a unit buyer gets a part of what shares are already in the fund. The gold fund's performance depends on several factors.

Professional

They are the gold price in dollars and in rands, and currency movements as well as domestic issues, such as strikes and inflation. The fund is actively managed.

An investor who has decided to move his money from the building society into gold shares has considered the risks and merits of his action.

By using the gold fund he gets a professional service and a chance to share in the heavyweight gold shares which are so expensive they are beyond the means of the ordinary man. Even if he could afford 100 Vaal Reefs — R30 500 at the current share price — this hardly fits the textbook risk profile. It is like putting all one's eggs into one basket.

Unit trusts allow an investor to spread that risk.

FINANCE- GENERAL -1988

SEPT.

AUGUST. —

11/8/88 Sowetan

BIG SCHEME TO IMPROVE THE BLACK BUSINESS

A NEW major Foundation of African Business and Consumer Services has been formed in an effort to get blacks to participate fully in the economic development of South Africa.

Co-ordinator of the foundation, Mr J Mogale, said the organisation aimed at consolidating unity of purpose and putting black business on the road to economic self-sufficiency.

The organisations involved in the foundation are: the Southern Africa Black Taxi Association, the National Black Consumer Union and the Transvaal African Builders Association.

The aims of the foundation are:

- To do everything in its power to liberate the black economy from constrains under which it presently operates;

Trust fund

- To do everything in its power to assist the black consumer;
- To share as far as possible each other's resources in the best interest of black business;
- To register a central trust fund for all member associations and appoint a trustee from each member to administer the trust;
- To canvas members and seek development funding both in South Africa and overseas;
- To support one another's projects.

Mr Moloi said membership cards would be issued to members to buy on discount, and eventually establishing a black credit card.

The committee consists of Mr T J Ngcoya, president of Sabta, Dr E Kuzwayo, first vice-president, Mrs A Thula, second vice-president, Mr J Mogale, general secretary, and Mr E Mathebula, treasurer.

Development

Mr Mogale said the organisations came together with the view to co-operating and fostering relations among themselves.

He said: "The effort of black business to participate fully in the economic development and wealth creation process in South Africa is inconsequential, owing to their divided existence.

"Various organisations have been formed, but none has come anywhere near consolidating unity, purpose and thus putting black business on the road to economic self sufficiency," he added.

The foundation has sent invitations to various organisations and companies for the launch in October. For further information contact Mr Moloi at (012) 325-1570.

Consolidation and strong management

58

2/8/88 B/Day

FOLLOWING a significant turnaround in business performance in the year to end 1987 to a profit of R7,7m, Fedgen, the short-term insurance arm of the Fedsure group, looks poised for a phase of strategy-led niche-based growth.

In the driving seat since September last year is Ron Carter, one of the most competent and experienced executives in the insurance industry and former GM of the Standard General Insurance company.

Second in command to Ron Carter as MD, is J... ...wsey as GM who affirms that Fedgen has a "good, deep, management team — stronger than the company's income base might suggest," a clue that the company is headed for better times.

FEDGEN

A medium sized short-term insurer, Fedgen last year ranked 10th in its industry in terms of its R130m of assets and 16th in terms of gross premium income of R72,4m.

Profitability rather than growth is management's target though, and the selected route is a path of consolidation which is tightening Fedgen's cost-control and strengthening its systems and technological resources. Drastic pruning marked the first stages of this consolidation programme.

EFFECTIVE STRATEGY

Ron Carter explains that the company had outgrown its administration systems and could neither service its high level of new business in recent years, nor cope with the liabilities arising in the "crime tide" years of 1985 and 1986.

To redress the situation, withdrawal from high loss incidence areas of operation meant a 43% reduction in net premiums. This strategy was as effective as it was drastic. Fedgen now has one of the industry's highest solvency margins (reserves as a percentage of net premium income) at 60%, a position of strength and flexibility, and well-placed to meet the increase in reserve requirements expected to follow the report of the M... ...ent Commission.

Certain industry trends make F...gen's conservative stance a wise one. Although sharp rises in premiums since 1986 improved profitability, as many observers have noted, "memories are short". The rates war that looked likely earlier this year has gained momentum with companies once again chasing business at discounted prices.

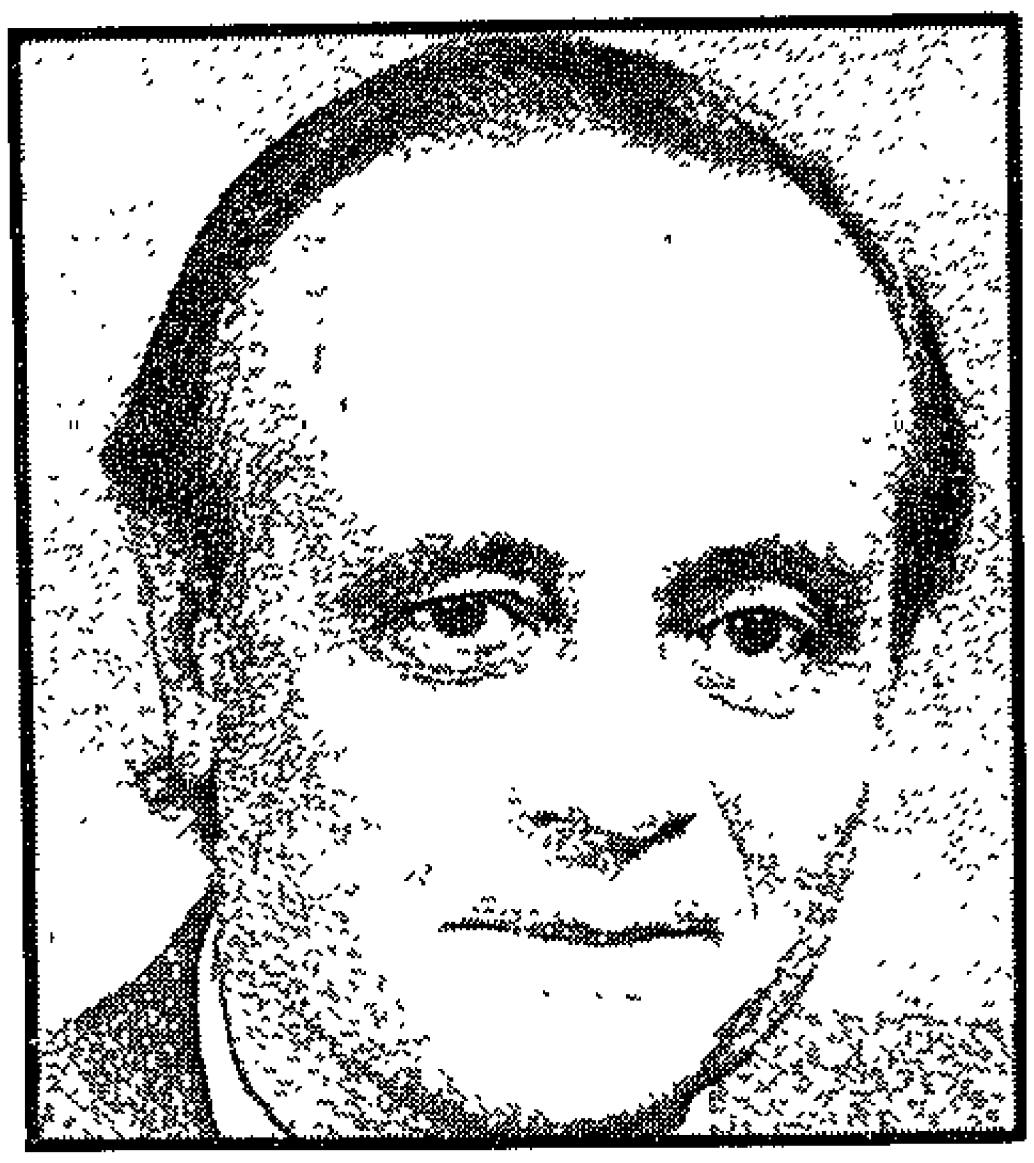
Ron Carter predicts "some companies could be under extreme financial pressure". He points out that competition from foreign insurers, and large companies practising self-insurance funded by off-shore investment are diluting factors in an already small market.

In view of this, he predicts that rationalisation is inevitable while "specialisation and niche-marketing" are among the only keys to safely improving market share.

While many short-term insurers are being pushed by competition for cheaper rates, Fedgen is employing a definite strategy of selective trading, conserving resources to service certain selected areas of business in which it is confident of increasing its market share.

Says Ron Carter: "It may pay to remember that the cheapest bidder is often the higher risk."

One of the first areas in which Fedgen has specialised is the company's traditional



RON CARTER

stronghold, the building and related civil engineering industries. Historically, Federated began as the "builder's insurer" and although the group has expanded, this traditional client base has continued to dominate.

With logical expansion, Ron Carter has established what is now undoubtedly the most specialist team of building trade insurance consultants in the country. Operating as an associate company, a team of seven consultants is headed by three specialists, one of each for building, civils, engineering and electronics (computers).

The real purpose of an insurance policy, as John Towsey puts it, "is as a last backstop when all else fails". Showing a keen customer-orientated awareness of this, Towsey comments that "it's when all else doesn't fail that your insurance cost comes down to the most economic level".

He adds that true value to the insuring public means "improved coverage to premiums paid" and "getting as much of their money back by way of claims — as opposed to paying for an insurer's administrative systems".

Fedgen is committed to coming up with value for money and believes that to achieve this means firstly, reducing administration costs, and secondly, aiming to concentrate business on "good risks well managed".

According to Towsey: "Any insurer in a competitive market has to look at improving cover and we're doing exactly that. But good risk control goes hand in hand with this. The ultimate aim is more than covering day to day losses. It's to reduce the impact of disasters that could bankrupt a company."

Since "prevention is better than cure" applies as much to an insurer as to the client, Fedgen is currently investing a great deal in offering a risk management consultancy service to professional and industrial clients.

Fedgen runs a very professional department of highly qualified loss prevention engineers offering one of the most advanced services of free consultation on risk management to clients.

"It may be a high cost, but one huge saving could pay for it. Remember you can never put a client back fully on his feet after a major misfortune," he explains.

This service is of great value to clients with a damaged insurance record or who may be in a high hazard business and needs to improve risk control. If the client recognises the problem, the Fedgen team can advise on constructional and economical changes along with new disciplines in the labour force to bring the risks down to an acceptable level for insurability.

"We would then slowly reduce the client's premiums as his insurability improves," says Towsey.

TRIMMING EXPENSES

To offer improved benefits in relation to premiums charged, says Ron Carter, an insurer has to minimise expenses and operate with maximum efficiency. Carter is trimming Fedgen's ratio of management expenses in every way possible. The results, soon to be evident, flow from reorganised administration and extended computerisation.

John Towsey comments: "Technology can't answer all the questions, but it's important to get full use of dedicated software by developing the best applications. We're engaged in a two-and-a-half-year computerisation programme which should put us alongside the best in the industry. The trick will be to stay flexible enough to constantly upgrade."

For Fedgen, the way forward involves a greater emphasis on being customer-orientated, marketing value for money products with a high degree of service. Fedgen sells not through its own sales force but professional, independent brokers.

Says Towsey: "Service to the broker is the key to the equation — he requires quick and accurate response to his enquiries with a flexibility of understanding of the client's particular insurance problems."

Along with the rest of the group, Fedgen is committed to offering just that, and in addition, various specialist technical services.

In conclusion, Fedgen has more than a new name. It has a new management team, a new corporate structure and systems and a corporate culture that, although it remains conservative and secure, is more aggressive and more quality-conscious.

The company may be waiting in the wings for now, but its ultimate strategy is to compete and win in select markets.

Sanlam hits at 'control of economy' allegations

B/Day 2/8/88

58

GRETA STEYN

SANLAM has hit out at Robin McGregor of McGregor Research Services for saying billions of rands held in reserve by mutual life assurers were enabling them to control the economy.

McGregor is the author of a report calling for a new tax system for life assurers, currently being studied by the Standing Committee on Finance.

Sanlam accused McGregor of waging a campaign against large companies, and said his allegations were "absurd and unfounded".

McGregor said last week life assurers held substantially more funds in reserve than was necessary to pay policy benefits and to safeguard assurers against unforeseen events.

"This allegation is devoid of all truth and indicates a surprising ignorance. The fact of the matter is that life assurers have to build up reserves to be able to pay policy benefits," Sanlam said.

Over the years, death claims increased and could even exceed premium income. Life assurers had to keep reserves to cover them against this possibility.

The surplus of premium receipts over payments did not represent profits, but had to be set aside, with interest, to be able to pay claims one day when death rates had risen to such an extent that claims exceeded premium income.

If McGregor believed that this form of income was taxable in the hands of the assurer, he should also believe ... de-

● To Page 2

Assurers' control of economy denied

B/Day 2/8/88

58

● From Page 1

posits with building societies and banks should be taxed in full — not only on the interest earned, Sanlam said.

A large amount of the life assurer's surplus comprised pensions which were not taxed in the hands of the life assurer because the pensioner was taxed — any other system would be double taxation.

McGregor was well known as someone with a grudge against large companies which, as he put it, controlled the economy, Sanlam said. His figures to prove this claim were highly questionable.

"McGregor is, in fact, waging an entirely groundless and unhealthy campaign against large companies."

Banks act on De Kock's call

2/8/88 (58) B/DAY

GRETA STEYN

BANKS' advertisements will tell a different story after Reserve Bank Governor Gerhard de Kock's call for less emphasis on consumer credit facilities.

Consumers will no longer be lured into borrowing; instead the emphasis will shift to savings.

Banks took to heart De Kock's subtle but unmistakeable warning that they should reduce their advertising of consumer credit and are reviewing their marketing strategies, putting the emphasis on savings.

At the same time, they are also raising interest rates on savings deposits to attract funds. The Standard was the first to move, raising savings' rates across the board, some by as much as two percentage points.

Volkskas has also adjusted certain rates, while Metboard was the first to move on the participation mortgage bond front, raising its rates to 15,5% from 14,5% — making it a better investment than the new Granny Bond at 15%.

Other banks say their savings rates are currently under review, but note that competition will probably force them to match the increases.

The Trust Bank is to withdraw its credit-line advertisement, while the United and Saambou are looking at the wording of their advertisements.

2/8/88 (58) B/Day

Sterner moves seen if credit curbs fail

IF THE 1% hike in SA's Bank and prime overdraft rates announced last week do not prove effective in curbing credit demand, the monetary authorities will have to resort to measures other than interest-rate increases, economists say.

The Reserve Bank increased the Bank rate, the rate at which the Bank rediscounts Treasury bills to discount houses, to 12,5% on Friday and the commercial banks increased prime, their best lending rate, to 16% the same day.

These hikes followed a credit restraint package launched by the monetary authorities in early May. The package included a 1% hike in the Bank rate to 11,5%, tighter reserve bank accommodation to the banks and measures to restrain commercial lending.

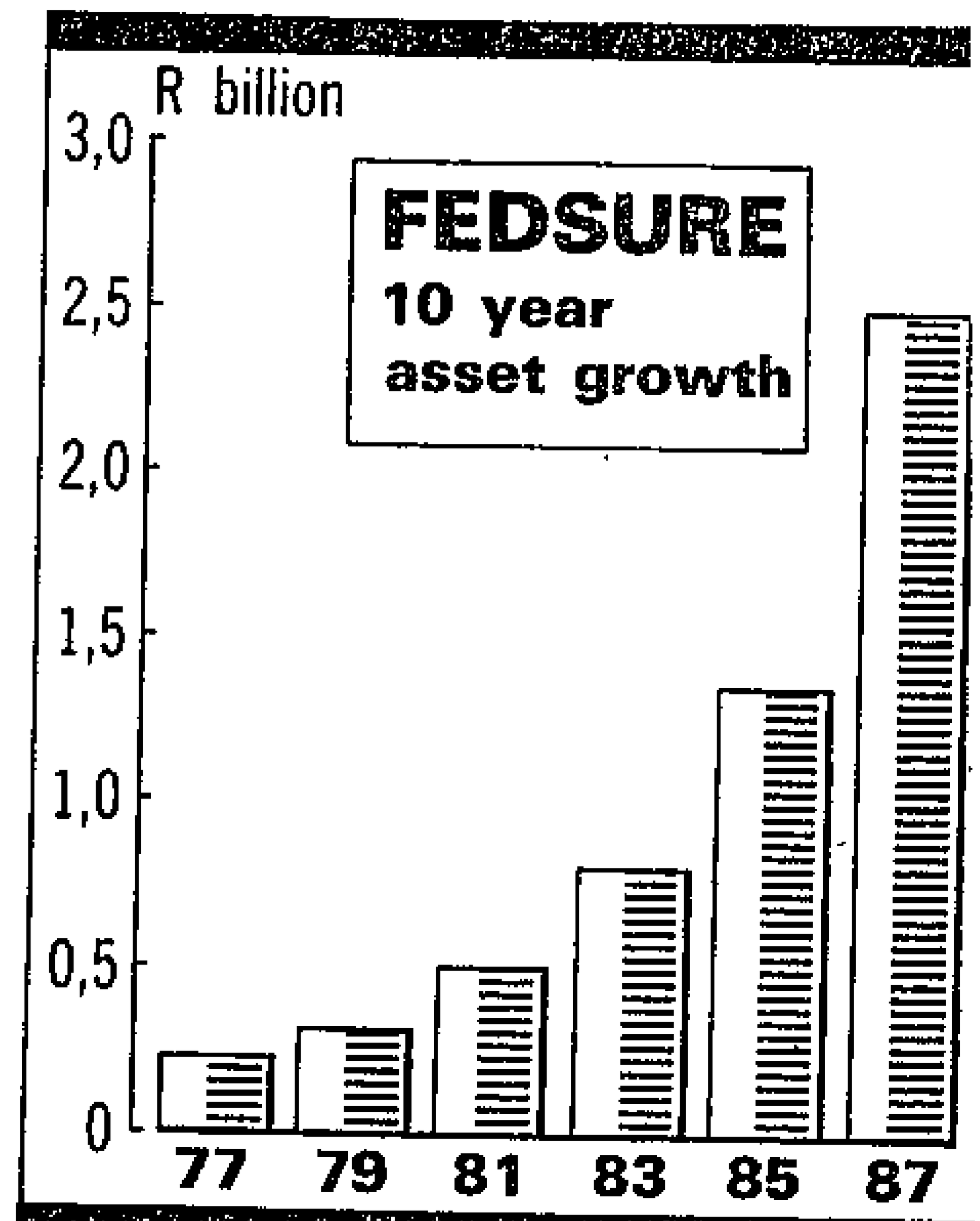
Reserve Bank Governor Gerhard de Kock said last week, when announcing the latest rate hike, that the restraint package was under review. He said further restraints, such as further tightening of rules on hire-purchase deposits, might have to be imposed depending on the success of the latest measures. Hire-purchase deposits are part of long-term credit plans provided by banks to consumers for purchases of durable goods.

Economists believe the Reserve Bank has virtually exhausted the usefulness of the interest-rate instrument in terms of protecting the country's balance of payments. The current account balance, which registered a surplus of R840m in the first quarter of the year, has shown a marked deterioration in the second quarter. — AP-DJ.

FEDSURE CORPORATE PROFILE

58

Investing for growth



Graphic: FIONA KRISCH Source: FEDSURE

WHEN IT comes to investment with an emphasis on retirement or death benefits, the key issue is growth over the long-term. A life assurance contract is a long-term investment and the performance of both individual and pensions policies should not be judged over too short a period.

Federated Investments — now named Fedbel — handles the investment portfolios administered by Fedlife and, as such, is its investment arm. Fedbel has a high-calibre investment team, all of whom were previously analysts in their specialised fields.

Fedbel is headed by executive director Brian Flanagan, who has spent 40 years with the Fedsure group. Flanagan describes the group's investment philosophy as being strongly influenced by analysis of cyclical and structural economic, industrial and social trends, in order to identify the most promising sectors for investment.

The well-spread asset structure of Fedlife's Fedlink portfolios which has resulted from this philosophy has enabled the Fedlife group to achieve investment returns well above the rate of inflation. Despite last year's heavy fall in world stock markets, an average return of almost 20% over five years is ample confirmation of the success of this policy.

At June 30 this year the Fedlink Pensions portfolio held roughly 55% of its assets in a spread of high quality property and equity, with the latter consisting largely of leading industrial shares which are expected to provide good income and capital growth over the years.

Dennis Paizes, chief investments manager, comments: "We prefer the leading industrial sectors to the more volatile mining sector. The prices of the products sold by many mines are largely beyond the control of management,

☐ BRIAN FLANAGAN

FEDBEL

while rising costs and taxation continually eat into profits. For pension fund investment the greater certainty of earning and dividend growth achievable by industrial companies represents the soundest investment policy."

The strategy seems to work well for Fedlife's investment portfolio. The company has consistently turned in a performance that is in the upper quarter of all insurer portfolios over the past 10 years. Even now, when a still sluggish stock market offers little action for investors, and in all too many cases negative returns, this is still the case.

DEDICATED DIVISION

The Fedbel team controls investment of all Fedsure group assets, now amounting to close to R2,5bn. Approximately R2bn is invested in cash, gilts and equities. The remaining R500m is in property, which is controlled and managed by a separate, dedicated property division under senior assistant GM Eugene Loubser.

Fedlife also has a small but growing division concentrating on certain specialised investments and investment opportunities, which could be designed to provide clients with an additional service or enhance the overall return earned by Fedlife.

Fedlife is wary of the pressures of highly volatile world markets. "We're long-term investors. But our time horizons are being forcibly shortened," says Flanagan. "While the industry is investing for some 40 or 50 years ahead, observers place pressure to perform over very short periods. Some fund trustees may make the decision to move their funds in the light of only six months' results, which is really far too short a period to judge an investment manager's performance."

The investment team aims to maximise returns by investing in a well-spread portfolio of quality assets. Flanagan predicts that "there will be a return to a more realistic and conservative approach to long-term investment, and once again it will be underlying sound values that are accorded faith".

In the interim, the team believes that futures and option markets are a good way to protect portfolios, particularly when the level of liquidity in the futures markets increases.

Building on Federated's 51-year history

THE FIRST Federated company was established in 1937 to transact workmens' compensation insurance for the building industry. Soon after, it expanded its activities into fire and casualty insurance. In 1944, Federated Employers' Insurance Company Limited was established to take over the fire and casualty business. In 1950, this company became a composite insurer when it entered the life assurance and pensions markets.

During 1981, the group was restructured into separate long-term and short-term insurance companies — namely: Federated Life Assurance Company Limited (now Fedlife) and Federated Insurance Company Limited (Fedgen). Also under the banner of the Fedsure Group is Federated Investments/Beleggings, now known simply as Fedbel.

During this time the initial company, Federated Mutual, has continued to provide the building industry with its workman's compensation insurance requirements.

With its building industry roots, and a continued high profile in servicing the building industry, the group used to be perceived as the "building industry's insurer". In fact, Fedsure has become one of SA's most diversified insurance groups, offering a full range of insurance, assurance and pensions products across the entire industrial, commercial and individual spectrum

PROUD OF ROOTS

But as CE Arnold Basserabie comments: "We are very proud of our roots in the building industry, and this long-standing relationship is a good example of our philosophy of fostering such relationships with clients and developing a closeness to and expertise in their fields of operation."

In line with this philosophy, Fedlife is one of the only assurers to have dedicated an entire division to industrial pensions. This degree of specialisation permits the company to offer many tailored pensions packages to industry-wide bodies, such as employer groups and trade unions.

Fedlife's servicing of the building industry has remained dynamic. Among new developments within the Fedsure Group is the launch by Fedgen of a dedicated building industry insurance division. This division, staffed by a team of the country's most experienced specialists in the building and related civils/engineering and electronics fields, will offer policies such as "Contract All Risks" and insurance on major capital equipment.

Although the listing of FEI Holdings as Fedsure in October, 1987, involved considerable group restructuring and organisational changes, Fedsure chairman John Barrow Jnr, says of the group: "Our essential character remained unchanged as an independent group of individually managed operating companies."

FEDSURE CORPORATE PROFILE

Investing for growth

WHEN IT comes to investment with an emphasis on retirement or death benefits, the key issue is growth over the long-term. A life assurance contract is a long-term investment and the performance of both individual and pensions policies should not be judged over too short a period.

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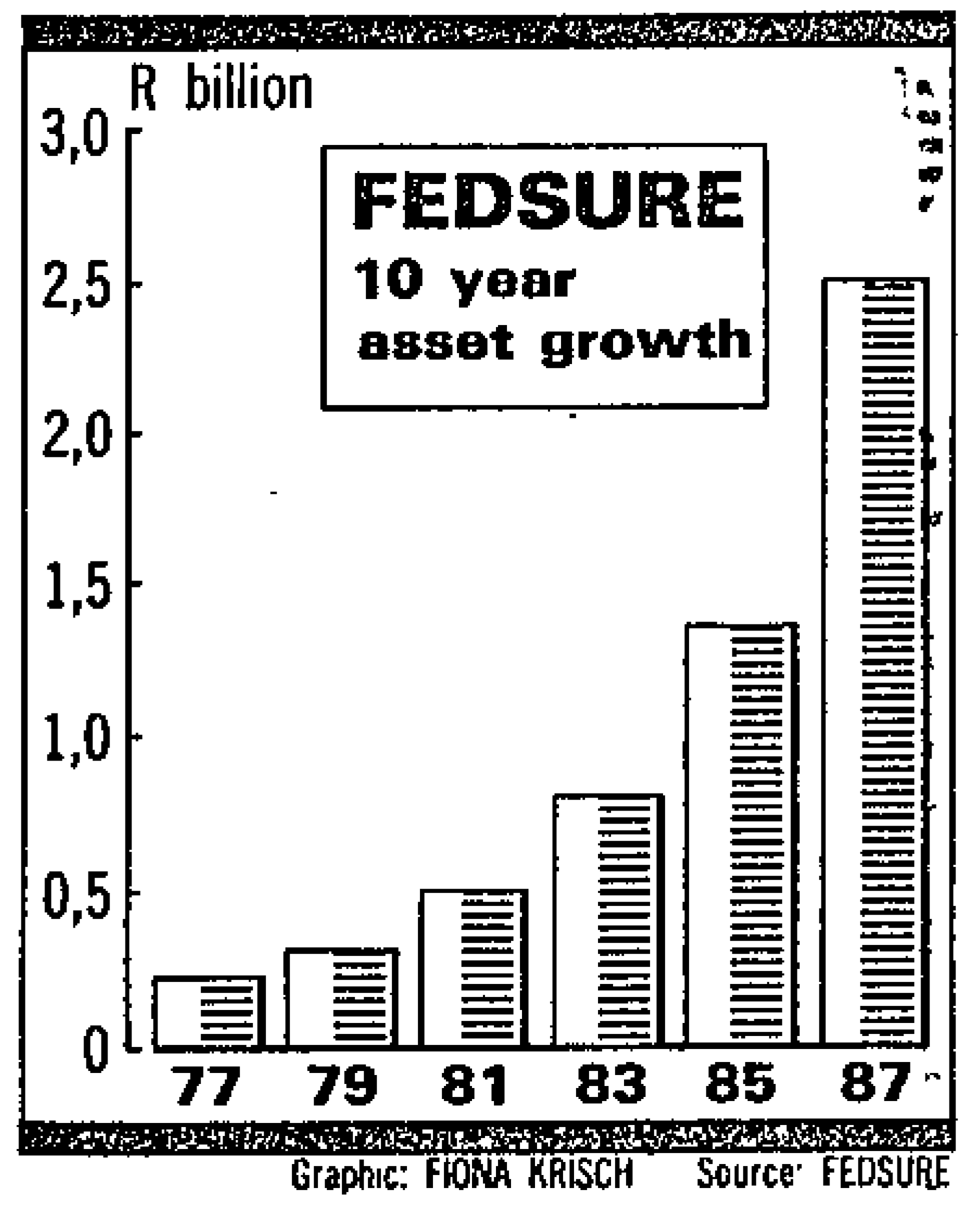

Graphic: FIONA KRISCH Source: FEDSURE

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Meeting retirement needs in a changing society in SA

DISCUSSIONS at senior management level in the Fedsure Group indicate a keen awareness of real needs of all population groups in SA.

This is evident in a versatile product mix from all group companies, and particularly in the Fedlife Occupational Pensions division.

Occupational Pensions GM Hennie Snyman says: "We have to recognise there are ethnic and cultural differences in retirement needs. It does make sense that black people who will return to independent homelands at retirement would prefer a lump sum to take with them rather than to receive a monthly income.

"At this stage, only a provident fund can effectively give them that. With a pension fund, legally only a third of the pension can be commuted as cash at retirement. We'd welcome greater flexibility, and we'd like to contribute to the education on retirement planning that is badly needed among the black population.

"It is also important to point out that by taking a lump sum at retirement, people will often lose the benefit of pension increases after retirement which otherwise would have accrued to them," says Snyman.

"The pensions industry is in a position to provide whatever is needed and could do with greater flexibility in the legal and tax fields. We should be stimulating more people towards effective retirement planning through tax relief and weaning them away from dependence on state pensions."

COUNSELLING

The division operates a full-time retirement counselling team which can address employees of corporate clients. It can provide this service in all black languages and actively trains black pension advisers.

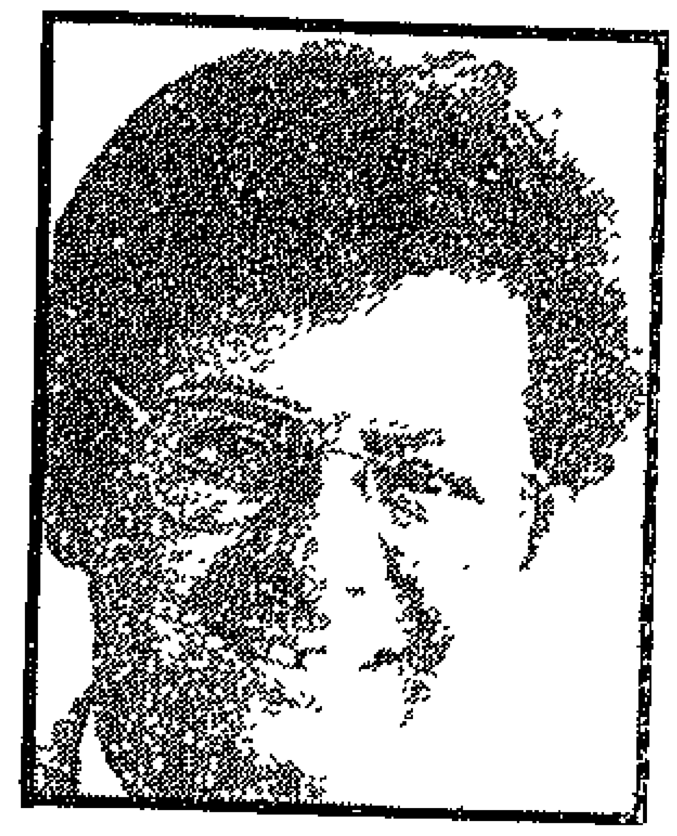
Fedlife's Occupational Pensions Division offers the full range of employee benefit packages to corporate clients, along with administration, underwriting and servicing of these packages.

The dynamic approach to versatile packaging of employee benefits was illustrated last year with its launch of Maverick, a novel package designed for the small to medium-sized company.

"We feel it is important to get the message to the small employer from the outset of the company. The package could operate for companies with as few as five employees. The self-employed, too, often disregard their need for protection in the event of illness or serious accidents, not to mention retirement needs," observes Snyman.

A priority is helping employees towards pensions preservation despite job moves. Group CE and Fedlife MD Arnold Basserabie contributed prominently towards the work of the Meiring Committee on pension fund provision and preservation and hopes for further progress resulting from the committee's recommendations.

THE MAN YOU CAN TALK TO...



ARNOLD BASSERABIE — pictured right — CEO of the Fedsure group and MD of Fedlife, is well known as one of the most popular executives in the insurance industry. He is the 1988 winner of the Multi Rand Forum's "Insurance Man of the Year" title, following previous winners such as Liberty Life's Donny Gordon.

He has played a major role in the industry for more than 20 years, has been with the Fedsure group since 1966 and has been MD of Fedlife since 1982.

One of this dynamic man's more striking aspects is his approachability — a personality trait that carries over into the Fedsure organisation as a corporate philosophy and culture. As Basserabie says: "We'd like to be insurers you can talk to."

His senior management team affirm that this is a corporate ethos that extends to the relationship within the executive team. As one manager puts it: "There is no fear in this company. The atmosphere is right for constructive talking."

Improved bonuses declared

UNEXPECTED increased benefits came the way of Fedlife pension scheme members, retirement annuity clients and individual life policyholders recently. This came with the company's latest bonus declaration following its statutory valuation at end December last year.

These record bonus payments substantially add to the benefits policyholders can anticipate and go a long way to offsetting the eroding effects of inflation.

The improved bonuses follow a trend established several years ago by Fedlife of regularly increasing bonuses declared after each triennial valuation in order to improve benefits to policyholders.

Two recent independent surveys comparing the performance of 13 various life assurers' individual life and retirement annuity policies ranked Fedlife first and fourth, respectively.

Fedlife's latest bonus declaration also increased pension and provident fund bonuses, giving a return of about five percentage points above inflation.

HIGH RETURN

The declaration also paid attention to improving benefits for people receiving pensions under certain industrial pension schemes. In terms of this, it is now possible to grant substantial bonuses to pensioners even after retirement. A typical pensioner who retired on or before 1985 would have received a 30% bonus as a result of the latest declaration.

Another special feature of Fedlife's bonus system is to give such pensioners a Christmas bonus equal to one month's pension. "These increases go a long way to improving the purchasing power of a pension, helping the pensioner to enjoy a more comfortable lifestyle," comments Arnold Basserabie.

Occupational pensions marketing senior assistant GM Gerhard Ehmke sees this record bonus declaration by Fedlife as a significant achievement at a time when "many pension funds saw their assets take a severe knock after the JSE crash, as well as reduced investment income through softer interest rates".

The increased bonuses declared by Fedlife were on the strength of the income content from deposit administration yields which vest directly in the hands of the fund concerned. Ehmke says Fedlife was one of only a few life offices that was able to increase income returns while maintaining capital growth bonuses at their previous levels.

Concentrating on fundamentals

FEDLIFE, since its foundation in 1950, has grown steadily to the point of being a major player in the life assurance industry, leading certain selected markets in which it is most active.

Tracing the company's growth, Fedsure group CEO and Fedlife MD Arnold Basserabie, points out that while it took 24 years for assets to reach R100m, just 11 years later, in 1985, they reached R1bn.

Only two years after that, in 1987, they surpassed R2bn. At 1987 year-end Fedlife's life fund amounted to R2,191bn (37% up on the previous year) while payments to policyholders and their dependants in 1987 amounted to R140m — an increase of 55%.

FEDLIFE

Basserabie comments that "at the end of the day, this determines the main purpose for our existence as a life assurer. As long as we can give our policy-holders increasing returns and value for money in the benefits they receive, we will be meeting our objectives towards them".

Fedlife has succeeded in sustaining this rapid growth over several years. Basserabie explains: "Since its inception, the company has always had a strong pension base so it expanded without having to raise additional capital to finance growth".

"However," he adds, "over the last five to 10 years our individual life and retirement annuity new business has grown to the point that we required the additional capital, we raised through the Fedsure listing in October last year, to finance future growth."

STREAMLINING

Fedlife has always enjoyed a very satisfactory degree of cost-efficiency.

Deputy GM Paul Clipsham, head of Fedlife's corporate services division, says that as of April this year, significant re-structuring has provided streamlining and rationalisation to vital group resources.

These services are centralised to serve the three main operating divisions of Fedlife — individual life, occupational pensions and industrial pensions.

The emphasis has been to bring group services together at the same time as widening management.

The three independent operating divisions of Fedlife are able to specialise in their different fields under autonomous specialised management.

Paul Clipsham adds that corporate planning has formalised strategies that will be defined at divisional level first. "There's a strong emphasis on profitability, on cost-control and marketing. We're looking at our traditional niches with a view to strengthening those, and at the same time, expanding into a few carefully selected new markets."

Says Basserabie: "We strive to be insurers you can talk to. It's always been our strong point and we must never lose that."

Fedlife's system of marketing its individual life and retirement annuity policies is carried our not through its own sales force but through corporate and independent professional brokers. This is another factor in favour of cost-efficiency.

Deputy GM Bernie Goldman, who is in charge of life marketing and administration, believes this "makes us far more service-orientated". He points out that in striving to give the broker or intermediary everything they need to be able to sell any Fedlife product, the company ensures it has a competitive range of individual life products and superior back-up services.

Mick Holderness, senior assistant GM, comments on the marketing expertise and efforts that have gone into consistently higher new business levels for Fedlife.

"Life assurance is never bought — it's always sold, and that's been hard work in recent years as individuals felt the bite of recession. It has required expertise and some product innovation to compete with other life assurers. Fedlife has developed a comprehensive range of traditional as well as specialised products to cater for its various markets."

Particular examples of innovation came about with the introduction of the Vanishing Premium and Little Millionaire policies.

As Fedlife squares up to expansion into this increasingly high-tech insurance industry, what future is it likely to face?

DEVELOPMENT

Says Basserabie: "I see life assurance as having to meet a broader base of client needs. It is important never to lose sight of the life assurance component of products that offer both assurance and investment, but over 10 years or more it offers an investment that has definitely outperformed inflation.

"Our country's economic development depends on the life assurance and pensions industry's provision of medium and long-term investment funds."

With strategies flexible enough to meet changing times, along with proven performance records, both Fedsure in general, and Fedlife in particular, look assured of a growing role in the financial services sector.

58 whole page

◇Corporate Profile◇

FEDSURE

Business Day

Written by SUSAN RAMWELL

Fedsure's new group is streamlined for action

FEDSURE, ultimate listed parent company for SA's sixth largest life assurer, Federated Life (Fedlife), as well as for the short-term company Federated Insurance (Fedgen), is currently one of the insurance industry's top performers.

About 95% of group income is accounted for by the life assurance and pension activities of Fedlife.

Fedgen, the short-term insurance company, enables the group to offer a comprehensive range of insurance cover. One of few completely independent composite insurers (offering the broad spectrum of long-term life and pensions, as well as short-term insurance), Fedsure management believes the group has always had an edge in flexibility and customer orientation.

Determined not to lose this flexible customer-service through growth, the recently listed group is streamlining operations for maximum efficiency.

Brevity carries more punch, believes group CEO Arnold Basserabie, and in line with this approach, corporate name changes have been announced for all three group companies. Federated Life is now named simply Fedlife. The short-term general insurance company, formerly Federated Insurance, has been named Fedgen, and the investments arm, formerly Federated Investments, gains the new title Fedbel, short for Federated Beleggings.

☐ ARNOLD BASSERABIE

The group holding company officially adopted the name Fedsure when it was listed on the JSE last year.

"It is important to maintain consistency in the names of the companies in the group. The name Fedsure was well received, and as a result, it was decided to change and shorten the names of the operating companies as well," says Basserabie.

"The new names are short and distinctive and, we believe, will appeal to all concerned."

Early response indicates that the new names have already caught on.

The name change was also prompted by the need to clarify the different activities of the short- and long-term companies.

Fedgen MD Ron Carter elaborates: "Although part of the same group, the businesses of Fedgen and Fedlife are very different. It is logical, therefore, to have two related, but distinct, identities."

Ray Loughrey, senior manager, corporate services and operations, says: "The group is now of a size that awareness is more important. We are going for a higher profile than in the past and our objective is to make Fedlife and Fedgen household names within the next few years.

"By doing so, we also assist the intermediaries in their efforts to sell group individual life policies and short-term insurance policies. The policies are backed by a group with a strong name and a strong identity, symbolised by an effective logo."

The logo, three linked circles, represents the group's unity and strength as well as its flexibility. The design of the logo is modern, striking and versatile for presentation on a broad range of corporate documentation.

The total corporate identity renewal programme, including new signage on all branch offices, is taking place over a three-month period and will be completed by October.

Consistent performance and rapid growth, particularly by Fedlife, has brought the group to current assets of close to R2,5bn, which, according to Basserabie, "improves our position to command even better returns for policy-holders in the immediate future. A good performance for the company means we can plough back better returns for people who invest with us".

STRENGTHS

The group is streamlining its systems at a time when its growth has certainly been faster than most of its competitors' (according to a league table published in the Financial Mail's Top Companies Survey this year, Fedlife, the group's life assurance arm, ranked second among all life assurers in 1987 in terms of net premium income growth).

Before Fedsure's listing in October 1987, its investment income had grown by 30% a year, prompting analysts to observe "a good performance highlighting the structural strengths of the group".

For 1987, investment income amounted to R231m, representing an increase of 41% over the previous year.

The group's "strong forward momentum", as analysts noted, has been indicated by impressive five-year compound growth figures. Since 1982, after-tax profit has advanced by 27% a year; earnings per share by 25% a year; and assets by 31% a year.

Despite the fact that the stock market crash came just a few days after Fedsure was listed on October 15, 1987, Basserabie sees positive implications in the fact that the company's highly successful R50m listing brought money into the company at the market's peak.

"You could say we raised capital at the lowest possible price. This will work to the medium-term benefit of both our shareholders and policyholders," he says.

He also notes that the share, trading extensively at increasing prices lately, has gradually moved into stronger, more permanent, hands.

At its current price of around 240c, with a dividend yield of 5,5 compared with a sector average of 3,1, the share offers investors good value for money.

With 67-million shares in issue, the group has a current market capitalisation of more than R160m. Apart from raising capital to finance expansion by Fedlife, the group's listing provided the opportunity to existing shareholders, policyholders, employees, the public and the professional investment community to participate in group equity.

PROUD HISTORY

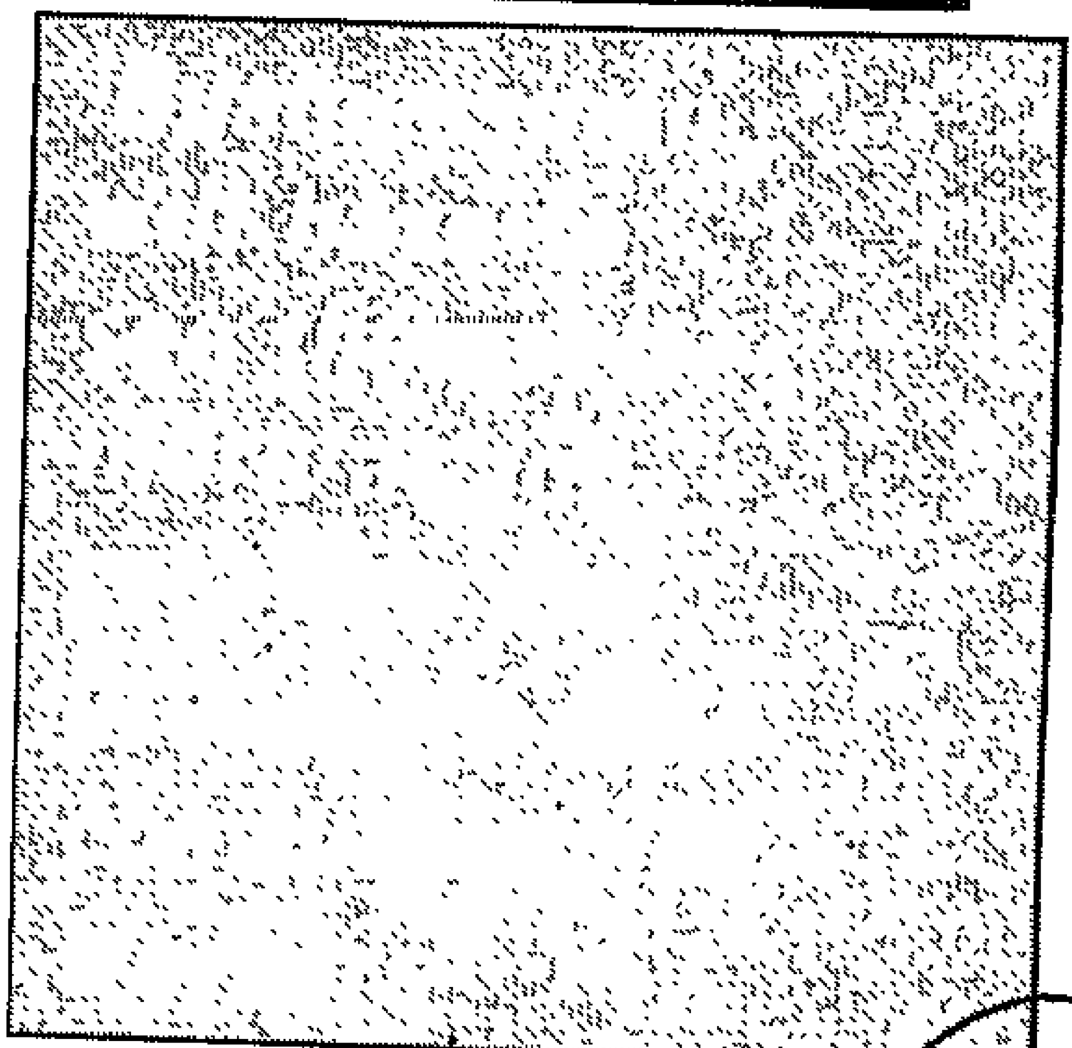
The structure of Fedsure's shareholding is such that the largest single stake (46%) is held by the public, 20% by directors, 6% by an executive share trust, 15% by the building industry and 13% by Federated Mutual.

The group has a proud 51-year history in SA, and with flexibility and strong management, it is proving its corporate strategies are staying ahead of rapid changes and are well equipped to meet the challenge of today's competitive and high-tech financial services sector.

WHEN black business leaders meet for their annual conference this weekend their future role in the economy of this country will be at the back of their minds in all decisions they take.

This sums up Mr Sam Motsuenyane's views on the future of black business in an interview with the *Sowetan*. The conference is at Sun City and starts on Sunday.

FOCUS



MR SAM Motsuenyane . . . Nafcoc president.

58

Forward march...

4/8/88 Sowetan 58

Mr Motsuenyane, who has been president of the National African Federated Chamber of Commerce over the past 20 years, said black businessmen would have to see themselves more as job creators and producers than consumers and workers.

"Figures indicate that out of a workforce of 12,5 million about 4,8 million are unemployed. Whites cannot deal with the problem of unemployment single-handedly.

"We thus have to see ourselves as producers and creators of jobs. We must be in the mainstream of the economy and not in the periphery as in the past," he said.

According to him there has been a new sense of purpose with every black businessman. "We are now determined, as we have always been, to get on with the job. We have identified our role in the struggle for human dignity in this country. We are part of that struggle.

"Political liberation goes hand in glove with economic liberation. The business community cannot be ignored in the development of our people," he said.

According to him, black business has been looking at its role objectively. At this conference businessmen would now talk as a community that had a vital role to play.

He was critical of the Government's policy of deregulation and privatisation, which, he said, offered very little for the township trader.

On privatisation he said his great concern was how much will go to white business and whether blacks will get anything.

"The Government should provide that a certain percentage of what is privatised must go to black business. We spoke of 10 percent. There has been no response on this from the Government.

"We believe that the sorghum industry should be given to blacks as the original formulae was obtained from them. There are 23 breweries presently in the offing and the Government's greatest concern seems to be what will happen to whites employed in them.

Schools

"We also believe that the building of black schools, housing and many other services provided to the black community by the Government should be given to blacks," he said.

He said there were discussions held with the Department of Education and Training in this direction, but nothing had as yet come of them. They were still waiting.

On deregulation he said his greatest fear was that the Government would not go far enough.

"As far as we are concerned they must scrap laws such as the Group Areas and the Population Registration Acts.

Interview by THAMI MAZWAI

"For deregulation to be meaningful it must be drastic. They will not go far enough and I am very sceptical of deregulation."

He said while the black business community in the past lacked drive because of the many laws that tied it down, it was now becoming more aggressive. "Aggression is a growing phenomenon in our business community," he said.

"Because of our achievements in confronting Government there are more opportunities for black business than there were say 13 years ago when we could not even form companies. Our efforts have opened up more and more opportunities and more sophisticated businessmen are now emerging.

"There is mental liberation, greater entrepreneurship and we are creating companies," he said.

He reiterated his opposition to white business on the borders of black areas or in the areas themselves.

He said that blacks have always subsidised white affluence and the endeavours of white business to get into black areas was part of this.

Competition

"We do not have fair competition when the black businessman has his hands and feet tied. White business should instead be assisting black business to do those things it wants to do in our areas," he said.

Mr Motsuenyane said Nafcoc would continue to play a leading role in the development of black business.

"Improving Nafcoc's services to its members would be a priority, just as Nafcoc's educational programme would now be vigorously pursued.

"There are many foundations set up by whites that are providing certain services. Some of these foundations are fly-by-nights and they charge exorbitant fees. Because the black businessman wants training he pays for services at exorbitant prices.

"We must make sure we look after the interests of our members," he

4/8/88 (58) Sowetan

AFRICAN Bank's Mr Gaby Magomola.

KANGWANE'S Chief Minister, Mr Enos Mabuza.

NAFCOC president, Dr Sam Motsuenyane.

Nafcoc's big indaba

VARIOUS black community leaders and clergymen are scheduled to address delegates at the 5-day 24th annual conference of the National African Federated Chamber of Commerce at Sun City on Sunday night.

The conference, whose theme is *Black Unity – Actions for Economic Empowerment",* to be held in the Pilanesburg Conference Centre, will discuss various strategies for participation in the country's mainstream economy.

Nafcoc's executive director Mr Sam Molebatsi, said the conference would take resolutions about what action black business needed to take regarding upliftment of the economy.

He said: "All the talking has been done by black leaders. What is left is the doing. We need to mobilise greater private sector resources in support of black unity and economic empowerment.

Some of the speakers are: The president-elect of the Methodist Church of South Africa, the Reverend Stanley Mogoba, KaNgwane Chief Minister Mr Enos Mabuza, Advocate Dikgang Moseneke, African Bank's executive Mr Gaby Magomola, Vista University lecturer, Dr J S Mohlamme, Dr Sam Motsuenyane and Mrs Ellen Kuzwayo of the National Consumer Union.

Mr Molebatsi said Nafcoc had decided to undertake a research into its structure in order to position black business to move away from the fringes of the economy into the mainstream economy.

"The conference intends to cut across all business, trade, labour and professional lines and to coalesce with various divergent elements for unity and ecomic empowerment," he said.

Mr Molebatsi said the conference was hoping to primarily identify critical goals to be achieved in the economic arena by black people with the view to have a fair share of ownership and wealth in South Africa.

"We are also hoping to internationalise Nafcoc's role in the liberation struggle," he added.

(48) Star 4/8/80

Alan Young and Henry Harper arriving at the Rand Supreme Court yesterday.

Mr Gaby Magomola, managing director of African Bank since April last year, and the chairman of the bank's board of directors, Dr Sam Motsuenyane, outside the court yesterday.

African Bank cleared of all charges

Ex-managers are convicted

By Cathy Stagg

The African Bank was acquitted yesterday of all charges against it while three former managers were each convicted of 99 counts of fraud and 12 contraventions of the exchange control regulations.

Alan Young (36), former general manager of the foreign exchange division, Henry Harper (43), former general manager of the money market division, and Arthur Ferreira (40), former assistant manager of the foreign exchange division, were all dismissed when the bank's board of directors learnt they had dealt in financial rands while not authorised to do so.

Claimed ignorance

The former managing director, Mr Moses Maubane (44), was dismissed with the other three. He was also an accused but died before the trial began in the Rand Supreme Court.

The three former managers claimed they did not know they were breaking the law by dealing in financial rands and by exporting capital. During a six-month period, foreign currency amounting to about $119 million left the country.

Mr Justice Gordon said the scheme was cleverly devised, well monitored and kept secret.

Reserve Bank officials uncovered the scheme in May 1986. In the six-month period a profit of more than R100 million had been made.

The three men had not worked for salaries but received a percentage of the profits.

Mr Maubane, Young and Harper were members of a close corporation which received R26 million, Ferreira received R6 million and staff in the dealing room received more than R1 million each.

The State argued that the African Bank was responsible for the acts of its servants because they were furthering the interests of the bank even if they were doing so without permission.

The judge said he could not find that the State had proved beyond reasonable doubt that the three men were servants of the bank.

The corporate division of the bank was run by the accused and they paid the staff's salaries. It was as if they were the bank's partners, he said. He disagreed with the submission that Trust Bank had been grossly negligent.

Cheques for the African Bank's "financial rand account" were paid into an ordinary account. The judge said it was understandable a clerk might miss these words if they were typed on an ordinary cheque form and suggested that a special cheque form for financial rands should be designed.

The three men were granted an extension of their bail until today when evidence in mitigation will begin.

Import curbs could stunt country's economic recovery

By TOM HOOD
Business Editor

4/8/88

NEW import controls and a tighter credit squeeze are on the horizon as the government tries to fight a balance of payments crisis threatening the country's gold and foreign exchange reserves.

Combined, the curbs could seriously restrict the country's economic recovery.

The Minister of Finance, Mr Barend du Plessis, confirmed today that the government is considering imposing import controls.

And the Reserve Bank governor, Dr Gerhard de Kock, said in a television interview that the credit curbs announced in May to cool the economy were being reviewed by the monetary authorities and could be tightened.

Dr Jan Hupkes, professor of management economics at Unisa, said South Africa was having to repay foreign debt out of its reserves and this was putting intense pressure on the rand.

Foreign trade reports show imports, particularly of machinery, have soared in the past 12 months — a normal event in an economic upswing. But exports have been stagnant.

A R6-billion surplus a year ago has been wiped out and the balance of payments is in deficit to the tune of about R400-million, estimates Old Mutual's chief economist, Mr David Mohr.

"The country needs to run surpluses of around R2-billion to R3-billion a year to meet its foreign debt repayments," he believes.

Extensive import control measures would hit local industry and the higher bill would inevitably be carried by the consumer, said Mr Colin McCarthy, director of the Cape Chamber of Industries.

Economists say the government must either raise interest rates to punitive levels or control imports if it is to protect the reserves.

Commerce and industry may not like curbs on imports but will probably accept them as the lesser of two evils, they believe.

Dr Hupkes said South Africa had a "hole in the bucket" economy which made it necessary to curb spending on imports to conserve foreign exchange.

BALANCE OF PAYMENTS

Busting the boom

The business cycle has always had its ups and downs. But until August 1985, with the freeze on foreign funds flowing into SA, the tempo was reasonably rhythmic and we could rely on bouncing back from recessions.

Even that yo-yo movement now seems surprisingly attractive. Because, for the foreseeable future, the economy is more likely to perform like a punctured balloon.

With reduced capital inflows it may prove harder and harder to reverse recessionary trends, and each trough may be followed by a lower peak, as expansion is automatically and prematurely aborted.

Whether a halt is called by rising interest rates which cut consumer demand, by a depreciating currency which can't pay for capital imports to generate growth, or by inflationary distortions and other inefficiencies caused by import controls, the result is an early end to recovery, brought about by a deteriorating balance of payments.

In the past, said Finance Minister Barend du Plessis recently on SABC-TV's *Diagonal Street*, it took a current account deficit of R3bn to require restrictive measures. Now, he said, steps to curb demand are necessary when there is a R3bn surplus.

Where the pressure is coming from is clear. When Bank rate was increased from 11,5% to 12,5% last week, Reserve Bank Governor Gerhard de Kock referred to large capital outflows in the second quarter.

"Non-reserve-related capital outflow increased to a provisionally estimated figure of more than R2bn, most of which occurred during June. Of this, about R520m represented debt repayments inside the net and R400m other identifiable debt repayments."

Not entirely coincidentally, the current account has moved into deficit relatively early in the business cycle, which has still seen only a marginal increase in fixed investment. Old Mutual chief economist, David Mohr, writing in this week's *Economic Monitor*, compares the situation with the 1977-1981 upswing, in which fixed investment "had been on a sharply rising trend for more than two years before the current account moved into deficit early in 1981."

This premature deficit is due in part to the poor performance of non-gold exports, largely as a result of sanctions, which has increased our reliance on a volatile gold price (particularly undependable of late).

The combined effect of the deterioration in both current and capital account has been a disturbing drop in net gold and foreign reserves this year. Official figures, however, mask the extent of the damage because they represent rand values.

"If the dollar value of foreign reserves was included in official figures, the public and financial markets would have a better appreciation of the BoP problem," says Trust Bank economist Nick Barnardt, who puts the situation in perspective in this week's *Economic Report*.

"Foreign reserve holdings of the Reserve Bank at the end of May amounted to R6,19bn, seemingly higher than the R6,14bn at the end of December. In dollar terms, however, there had been a drop from $3,17bn to $2,76bn."

This 13% drop in dollar value was overshadowed by that of June. "While the rand figure for June of R5,65bn was 8% lower than December, the dollar equivalent of $2,49bn was 22% lower," says Barnardt.

The reserve figures signal what the economy has already experienced — a reduction of liquidity which drives up interest rates. Rather than keep the official rate at which the Bank accommodates the banking sector artificially low, which would fuel inflation and demand for imports, the authorities (at some point) allow it to follow the market.

This, however, simply acknowledges an economic fait accompli. It is not the rise in official rates that is ending the expansion, it is limited foreign exchange resources.

Until export income and capital flows recover, we seem trapped in a pattern of diminishing expansion and deepening recession.

In our favour, perhaps, is that we have partially adjusted to changed circumstances. Says Mohr: "In the previous recession of 1985, when final demand for goods and services contracted 8,6%, we had to go through the trauma of the foreign debt crisis and its accompanying uncertainty. The agreement with foreign creditors allows some breathing space and more certainty. So a subsequent recession should not be as severe."

However, only a sustained rise in the gold price or a dramatic (and equally miraculous) change of political direction will bring us closer to the mainstream of the global economy, and restore normal economic cycles. ■

INTEREST RATES

Always chasing rainbows

Perhaps one of the worst things that ever happened to SA was the gold boom at the start of the Eighties. This sent the price of the metal to unprecedented levels and triggered a spending binge, almost as debilitating as subsequent recessions.

More damaging, it created an illusion which persisted when reality has long receded.

Believing still that at the end of every rainbow is a gold price over $800/oz, many are unable to come to grips with the present. Faith that sooner or later gold will rise fosters feelings of false security, dulls their sense of urgency and allows them to see interest rates coming to rest on some safe plateau (with prime at, say, 16%?).

How influential this viewpoint has been is demonstrated by our artificially low interest rates. As Reserve Bank Governor Gerhard de Kock has pointed out, they have been abnormally low most years since 1970, with "the notable exception of the 18 months between late 1983-early 1985."

Even after recent rises, real rates are low by international standards (**see graphs**). In the US, the UK and West Germany, prime is more than five percentage points higher than inflation. The differential in SA is only 3,6 percentage points.

The implication is that we don't need to generate savings because we have other resources — and the only conceivable one is gold.

However, the likelihood of a substantial, sustained rise in the gold price is remote, for several reasons. With the international market in options and futures expanding fast, it is no longer the most effective hedge. With US inflationary impulses promptly constrained by interest rate rises, it is not immediately needed as a hedge against inflation. And with G7 countries managing exchange rates, it is no longer as useful a hedge against currency volatility.

So for the moment (until there is a major change in the international outlook) its prospects are limited. We will have to look for other ways of solving economic crises.

The most obvious, of course, is to allow interest rates to rise when they should — not at some later date dictated by political considerations. Whatever the price short-term, it is the lowest price in the long term because it is the only way to constrain inflation and stem the forex outflow (**see P44**).

Other solutions are as illusory as rainbows. Selective import controls would amount to promoting sanctions from within, while quantitative credit ceilings on banks and deposit rate control result in disintermediation, not reduced demand for credit — as De Kock has explained many times.

When facing a balance of payments deficit, the only real alternative to rising interest rates is rising inflation.

Says Trust Bank economist Nick Barnardt: "Inflation acts as a deflator and brings the value of domestic spending into line with what we can afford in real terms."

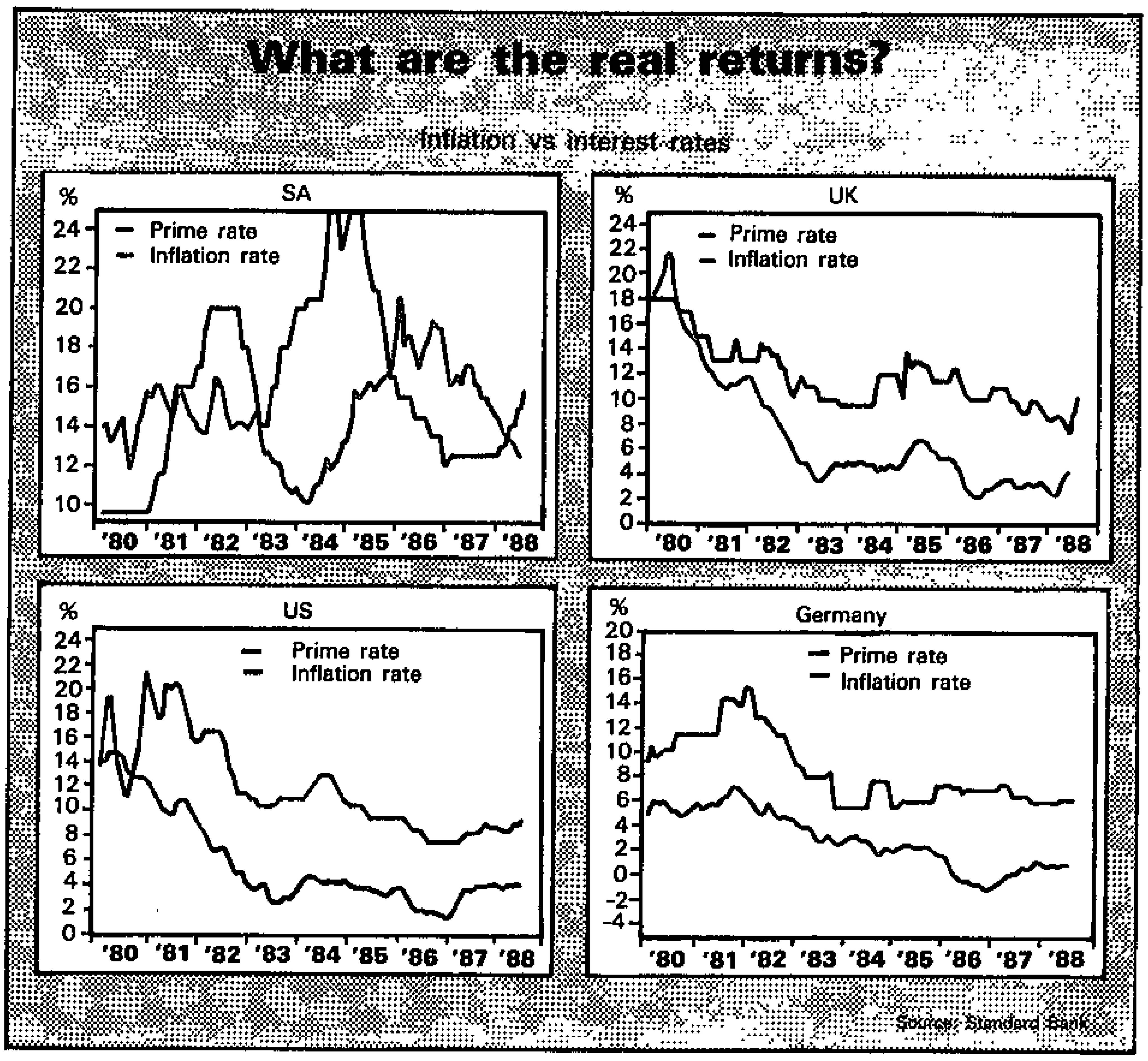
Inflation may be more politically acceptable for some, but De Kock is well aware of the hazards. His problem is that he can't afford to be wrong. Having put prime up three percentage points to 25% in August 1984, he is hesitant to move decisively again. Though it was the unrest, erupting almost simultaneously, which knocked the economy flat on its back, rising rates are now regarded by some as inherently dangerous.

Apart from these unreal problems that flow from the world of fantasy in which so many decisions are made, there are also real problems confronting De Kock when he is called on to raise interest rates.

Says Anglo American economist Jim Buys: "The strength of the economy is a changing variable, as is the forex situation. Domestic demand has shown some sign of abating, which would lead to lower imports when stockpiling tendencies end. But export earnings and net capital flows have been disappointing, so SA can afford less. The combined effect is difficult to assess and constantly shifting."

De Kock has the unenviable job of shooting at two moving targets; he needs time to take aim.

So, sometimes for sound and sometimes for unsound reasons, rises in key interest rates don't come easily. The price for decisions *not* rooted in fundamentals is high. The longer we wait to act against inflation, the more drastic the action needed and the more serious the consequences for the economy. ■



TAX AND LIFE OFFICES

Play it again, Piet

Should any savings institutions pay tax? That's the real question

Never before has the issue of the taxation of financial institutions been more confusing. In particular, the current public debate generated — yet again — by the UBS's Piet Badenhorst has triggered fairly acrimonious responses, particularly from sundry life office spokesmen.

And now the SA Actuarial Society has said that the results of a study by McGregor Research Services, commissioned by the UBS, "are evidence of a total lack of understanding of the fundamental principles on which life assurance is transacted ... "

Stirring stuff. What's really going on? The truth is that the debate about financial institutions' tax liabilities is littered with misconceptions. Lobby groups are at work, one arguing that the taxman favours the other to its disadvantage, and so on.

Liberty Life joint MD Dorian Wharton-Hood thinks it's time to "clear up the misunderstandings, to put an end to the futile debate about life office taxation."

The crux of the matter — not clearly articulated in any of the debates — is the difference between what may be called one-tier and two-tier investments. A one-tier investment is one that earns only *income*: for example, a building society's grant of a mortgage bond to a client. The society receives a monthly payment which is a part-repayment of the capital amount, and partly interest or the "cost" of the bond to the consumer. If the bondholder sells the bonded house, any capital gains are entirely for his account.

In other words, shareholders of, or depositors in, a building society stand to make only one kind of profit: net interest earned (after building society expenses) on bonds granted.

A two-tier investment is one that earns income *and* a capital gain. Here the classic example is a listed share: the shareholder stands to pocket dividends (income) over the years, and gains, hopefully, from the increase in the share price when he finally sells out (capital gain).

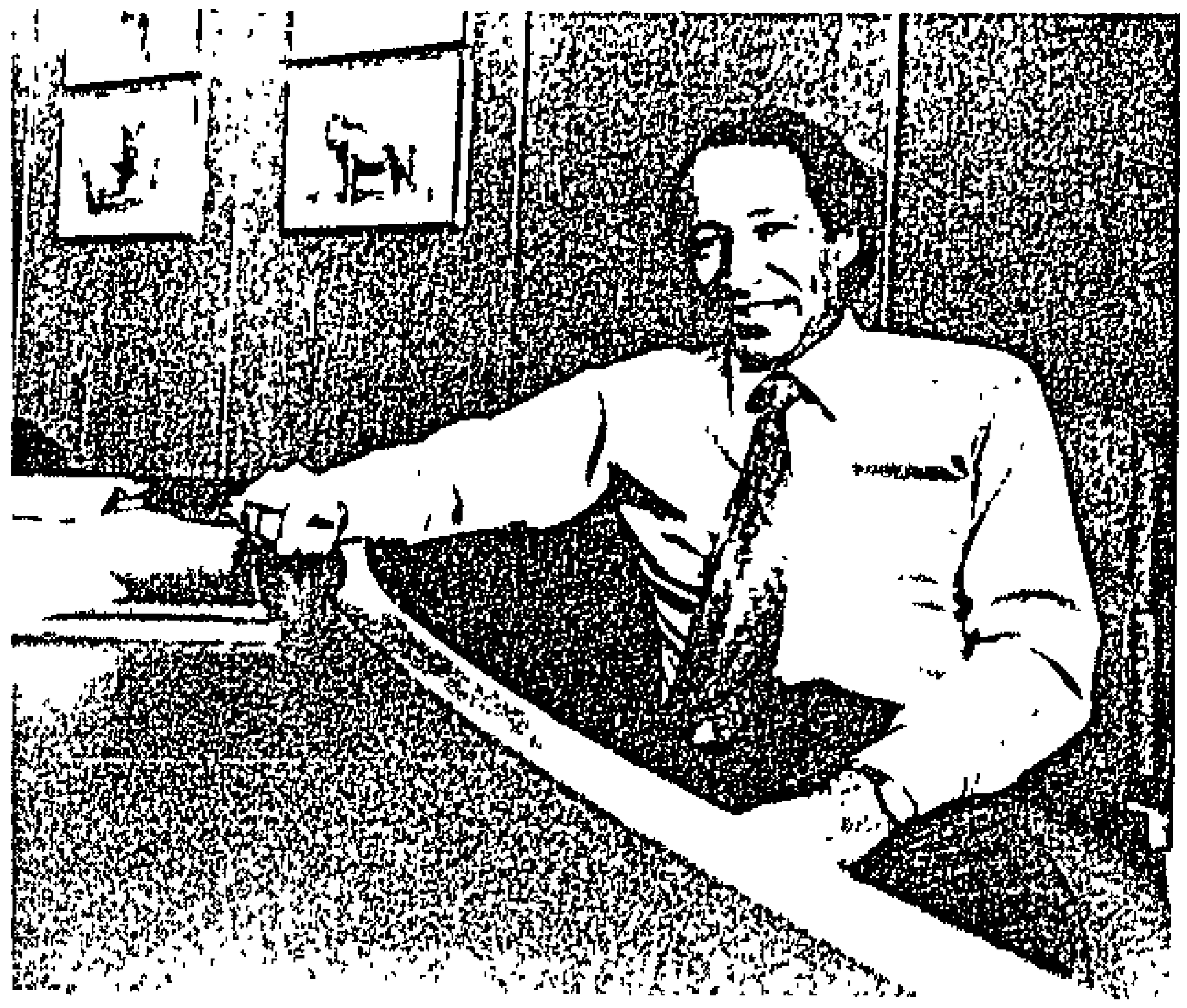
Income, of course, is fully taxed at the taxpayer's marginal rate, currently a maximum of 45%; capital gains are zero-rated for tax purposes. (Of course, many forms of "capital gains" may in fact be income, which is why more than 90% of SA's tax cases dwell on the point.)

As for SA's financial institutions generally, regulations remain compelling a certain per-

UBS's Badenhorst ... playing fields should be level centage of total assets to be held in prescribed assets. These blue-chip public-sector gilts give the appearance of one-tier investments but in reality are almost certainly in the two-tier category. The biggest holders of prescribed assets are the life offices.

Financial institutions are subject to regulation on compulsory and discretionary investments. Building societies are the most restricted: 80% of assets must be held in mortgage bonds (one-tier investment). Indeed, at end-1987, 93,7% of building societies' R22,7bn funds on loan were with personal borrowers.

Historically, since building societies offer deposit rates at, or often below, the general deposit rate, government has had to offer a subsidy. This is still in the form of certain tax-free or partially tax-free deposits.



Liberty's Wharton-Hood . . . end the debate

The tax benefits, due to be phased out within three years, meant that 77% of deposits in building societies — R15,9bn at end-1986 — were held by individuals.

The two-tier investment profile of life offices, along with more relaxed regulations, has led to a substantially different industry investment structure. Of R65,8bn life office assets at end-1987, R25,7bn were represented in public-sector securities and R26,1bn in shares and unit trusts. *Both* assets are classified in the two-tier category, offering income and capital growth.

Here the most confusing issue is the relative proportions of life offices' life insurance and retirement business. All life offices peddle two basic products — life insurance policies (which have tax consequences for the institution and the individual) and retirement benefits (with tax consequences only for the individual).

In 1987, life office investment income for both life and retirement business was R4,9bn.

Tax paid by the industry is computed only on life, and not retirement business; and it amounted to R256m in 1987. This, calculated in 1987 at 40% of the corporate tax rate of 50% (that is, 20%), meant that R1,3bn (26%) of life office investment income was earned from life business.

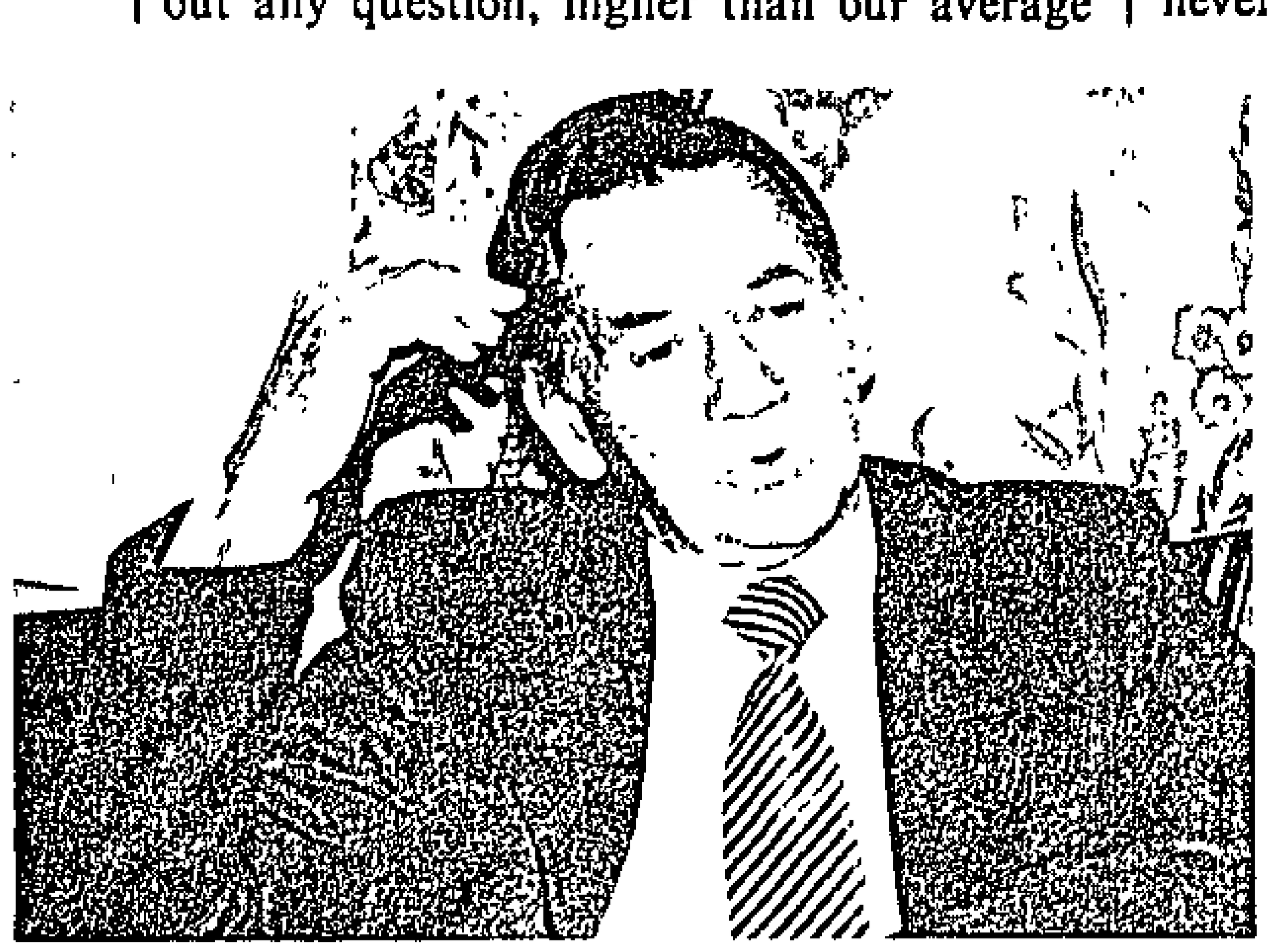
The balance of R3,6bn, earned on retirement business, is not taxable. But it is widely believed that the R256m tax paid by life offices *should* be calculated as a percentage of total investment income earned of R4,9bn, producing 5%. The nature of life assurance has so changed towards investment and away from assurance that there are really no compelling arguments for treating one part of life offices' business differently from another. Those who do so tend to fall back on precedent which is probably outdated.

In computing their tax, life offices may not deduct any expenses. It may be assumed, conservatively, that 26% of life office expenses (including commissions) of R2bn were attributable to life investment income. Allowing the deduction of expenses in 1987 would have meant that R756m was taxable. At the full 50% corporate rate this produces an amount of R378m tax payable — more than the actual R256m paid in 1987.

In 1988, life offices are due to pay tax of R472m (crudely annualised) after their tax rate was upped 75% to 35% in the Budget. Even with an increase in life investment income, life office tax payable of R472m in 1988 is more than would be paid if expenses were deductible and life offices paid the full 50% tax rate.

But some question whether life offices should pay tax at all on their life business investment income. The tax paid on such income, in theory, is an "advance tax" paid by the life office on behalf of the policyholder. This disadvantage for the policyholder is countered by the advantage that all proceeds on maturity of the policy are tax-free in the hands of the policyholder.

The argument that life offices pay tax on behalf of policyholders continues by holding out that the tax paid should be at the average tax rate of all its policyholders. "The new rate of 35%," says Wharton-Hood, "is, without any question, higher than our average



McGregor . . . high-profile charges

policyholders' average tax rate."

This is not difficult to accept with a top personal marginal rate of 45%, for which a low percentage of taxpayers actually qualify. On this argument too, life offices are paying too much tax.

This raises the question of fiscal privilege. At what marginal tax rate does it *now* become more profitable to invest in a tax-free building society deposit, rather than a life office product with a high investment value? While precise figures require in-depth computer analysis, the life offices tell us the answer falls somewhere between 20% and 30%.

In other words, for some taxpayers who save, it is now more profitable to invest in a building society than in a life office product. What is the answer? Firstly, we believe that it's pointless citing anomaly after anomaly; the tax system is replete with them (just look at the mining industry). Tax anomalies can be found throughout the financial institutions. In banking, for example, it was only recently that certain banks emerged from years of paying an effective 0%-5% tax rate thanks to huge industry tax allowances exploited by them. Defenders of banks constantly remind us that — as tax breaks have been steadily eroded — the sector is returning to paying closer to the nominal 50% rate every year.

With life offices, one of the major anomalies is that corporate, or listed (as opposed to mutual) institutions pay dividends to shareholders — on income that is 74% tax-free because it is derived from non-taxable retirement business.

The intervention of Margo has done little to change the tax formulas applicable to different financial institutions. No final recommendations of a fundamental nature were given. The permanent tax advisory committee, a Margo byproduct, is now looking at the question of life office taxation — but not that of other institutions. This in itself lends perhaps undue credence to those who argue that life offices pay too little tax.

In an inflationary climate, building societies' one-tier mortgage investments will never be able to compete with two-tier life office investments. This is true even with the current government subsidy enjoyed by building societies.

The answer, as we see it, is twofold. First, there should be further deregulation of building societies, so that they can offer products which compete on equal terms with those of life offices. Second, tax on all forms of savings should be abolished.

On the question of tax-free capital gains — where, on the evidence, life offices make their big growth numbers — the industry is not averse to a capital gains tax (CGT). Says Wharton-Hood: "A CGT that applied across the economy would not alter the competitive situation. Most important

Cape Times 5/8/88

Cusaf profits spurt to R13m

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Own Correspondent

JOHANNESBURG. — A dramatic reduction in personal claims for housebreak and car thefts spurred Commercial Union (Cusaf), SA's largest composite insurer, to raise taxed profits by 54% to R13m in the first six months of this year from the same period last year.

The reduction in personal claims combined with a satisfactory situation on the commercial front resulted in an underwriting surplus of R10m, sharply higher than last year's R3,7m.

An interim dividend of 23c a share was declared, up 28% from 18c in the previous half-year period.

MD Bill Rutherford, describing the results as "most satisfactory", said he was happy Cusaf had managed to push up earnings per share (EPS) in spite of the increase in the company's issued share capital.

Two million shares were issued to UBS Holdings earlier this year, but EPS still rose to 130,3c from 106c in the 1987 half-year period.

Net assets per share also rose, from 1 213c to 1 384c.

The capital inflow from the UBS deal was the main reason why investment income rose by a massive 83%, although this was partially offset by realized losses of R3,2m.

The company's life and pensions business showed strong growth, with premium income up by 88% to R108m. The life business contributed R970 000 to CU's after-tax profits.

Rutherford, however, do not expect the second half of the financial year to be as good as the first half.

"Competition is already putting downward pressure on premiums, which usually curtail underwriting profits for short-term insurers."

The hearing continues today.

Business response to detentions was 'mild'

Cape Times 5/8/88

Own Correspondent

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PORT ELIZABETH. — At the height of the unrest and consumer boycotts, when business had its "back against the wall", firms were quick to negotiate and meet community-based organizations.

But not much care was shown when these leaders were detained, Mr Ayanda Mjekula, manager of the SA Perm in Grahamstown, told students at Rhodes University yesterday.

While there had been "mild platitudes" about the inequities of detention without trial and calls for the release of detainees, not many companies had bothered to establish how the families of the detainees were surviving.

Mr Mjekula warned that if management failed to respond adequately to calls for help, actions like stayaways would continue to escalate.

Mr Mjekula said he had been the SA Perm's first black manager to be appointed a branch manager in a "so-called white branch".

"I have not come across any hostility and I would like to believe that this is an indication of South Africa changing and of people becoming more tolerant."

Mr Mjekula said he did not advocate sanctions, but neither would he "deny another person's right to call for sanctions".

The aggressive new face of black business

THAMI MAZWAI

WHEN black business leaders meet for their yearly conference at Sun City this weekend, their future role in the economy of this country will be at the back of their minds in all decisions they take.

This sums up Mr Sam Motsuenyane's views on the future of black business.

Mr Motsuenyane, who has been president of the National African Federated Chamber of Commerce over the past 20 years, said black businessmen and women would have to see themselves more as job creators and producers than consumers and workers.

"Figures indicate that out of a workforce of 12,5 million about 4,8 million are unemployed. Whites cannot deal with the problem of unemployment single-handedly.

"We thus have to see ourselves as producers and creators of jobs. We must be in the mainstream of the economy and not in the periphery as in the past," he said.

According to him, there is a new sense of purpose in black business. "We are determined to get on with the job. We have identified our role in the struggle for human dignity in this country. We are part of that struggle.

"Political liberation goes hand in glove with economic liberation. The business community cannot be ignored in the development of our people," he said.

According to him, black business has been looking at its role objectively. At this conference businessmen would now talk as a community that had a vital role to play.

He was critical of the Government's policy of deregulation and privatisation, which, he said, offered very little for the township trader.

On privatisation, he said his great concern was how much would go to white business and whether blacks would get anything.

"The Government should provide that a certain percentage of what is privatised must go to black business. We spoke of 10 percent. There has been no response on this from the Government.

"We believe that the sorghum industry should be given to blacks as the original formulae were obtained from them. There are 23 breweries presently in the offing and the Government's greatest concern seems to be what will happen to whites employed in them.

"We also believe that the building of black schools, housing and many other services provided to the black community by the Government should be given to blacks," he said.

On deregulation, he said his greatest fear was that the Government would not go far enough.

"As far as we are concerned, they must scrap laws such as the Group Areas and the Population Registration Acts.

"For deregulation to be meaningful, it must be drastic. They will not go far enough and I am very sceptical of deregulation."

He said that, while the black business community in the past had lacked drive because of the many laws that tied it down, it was now becoming more aggressive: "Aggression is a growing phenomenon in our business community."

"Because of our achievements in confronting government, there are more opportunities for black business than there were say 13 years ago when we could not even form companies. Our efforts have opened up more and more opportunities and more sophisticated businessmen are now emerging.

"There is mental liberation, greater entrepreneurship and we are creating companies," he said.

He reiterated his opposition to white business on the borders of black areas or in the areas themselves.

He said blacks had always subsidised white affluence and the endeavours of white business to get into black areas was part of this.

"We do not have fair competition when the black businssman has his hands and feet tied. White business should, instead, be assisting black business to do those things it wants to do in our areas," he said.

Mr Motsuenyane said Nafcoc would continue to play a leading role in the development of black business.

"Improving Nafcoc's services to its members would be a priority, just as Nafcoc's educational programme would now be vigorously pursued.

"There are many foundations set up by whites that are providing certain services. Some of these foundations are fly-by-nights and they charge exorbitant fees. Because the black businssman wants training, he pays for services at exorbitant prices.

"We must make sure we look after the interests of our members," he said.

6/8/88 Star (58)

W/t Argus 6/8/88

Afbank sets sights on city

58

By TOM HOOD
Business Editor

BLACK bankers inspected the Peninsula this week and decided to meet local competition head-on by opening a branch of African Bank, South Africa's only black owned and managed bank.

One of the targets is likely to be the lucrative accounts of large companies, including multi-nationals whose overseas shareholders might prefer the name of a black-owned bank on the company's notepaper to one with white South African connotations.

The bank, though small by Johannesburg standards, already has a number of large corporate customers in Cape Town, says chief executive Mr Gaby Magomola, who viewed prospects in the Peninsula this week.

"We are also handling corporate business from Cape Town on the money market," he said this week.

"We certainly plan to open a branch in Cape Town, but we have not decided when or where.

"It is our intention to have a presence to serve not only the corporate market but also the consumer market and the small retail client.

"We have had meetings with community people in Cape Town with a view to finding out the most appropriate area. We do not have the ability to open a series of outlets in one area so that the location becomes very critical."

The bank had decided to go full ahead with ambitious plans for growth now that the "nightmare" of a court case was over, said Mr Magomola.

Afbank was cleared by Mr Justice Gordon in the Rand Supreme Court this week of all charges of fraud and contraventions of exchange regulations involving former bank employees.

"We have the potential to achieve this within five years but we must tread with restraint, with the emphasis on managed growth.

"The first step, apart from applying for the reinstatement of our forex licence, is a drive to attract more shareholders from the black community.

"This is where our strength lies, for we are a people's bank and our primary role is to assist in wealth creation."

Seventy percent of the bank's shareholding is made up of people owning up to 500 shares, with no single shareholder holding more than 10 percent of the equity.

"Resurgence"

"The bank's image had suffered because of the forex scam and we lost some corporate business as a result.

"However, since restructuring and strengthening our organisation, we have experienced a major resurgence of business from the corporate community.

"I expect this surge to increase dramatically now that we have been fully exonerated."

While the court proceedings placed great emotional strain on the bank and its executives, the event put the bank on the map both locally and overseas and Mr Magomola believes this can be turned into a positive base upon which to build for the future.

The bank is confident that an application for the reinstatement of its foreign exchange licence will be received favourably by the Reserve Bank.

He expects the growth achieved by the bank last year

(Continued on page 3.)

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(From page 1.)

to continue — profit after tax and transfer to internal reserves rose to R639 000 from R83 000 in 1986 and the asset base increased by 69 percent to R134-million.

However, he warned that the costs of the court proceedings and the carrying of a dormant forex infrastructure over a period of more than two years would have an effect on the bank's performance in the current year to September 30.

The publicity surrounding the court case had no effect on the bank's bread-and-butter retail (consumer) division, which had continued to expand steadily.

Mr Magomola added: "Our problems are now behind us. We have the controls in place and have attracted experienced, committed people with sound track records to take this people's bank into the 21st century."

BMF is set to take initiative

C/Press 7/8/88

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CP Correspondent

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BLACKS have for too long allowed other people to define for them, articulate their problems and prescribe solutions, said Black Management Forum president Don Mkhwanazi at BMF's fourth national conference.

The BMF fully subscribed to Frederick Douglas' sentiment of more than a century ago that "if we blacks are ever elevated, our elevation will have been accomplished through our own instrumentality".

The BMF had identified the current corporate culture as one of the impediments "on the road to the top echelons of management", he told the Cape Town congress.

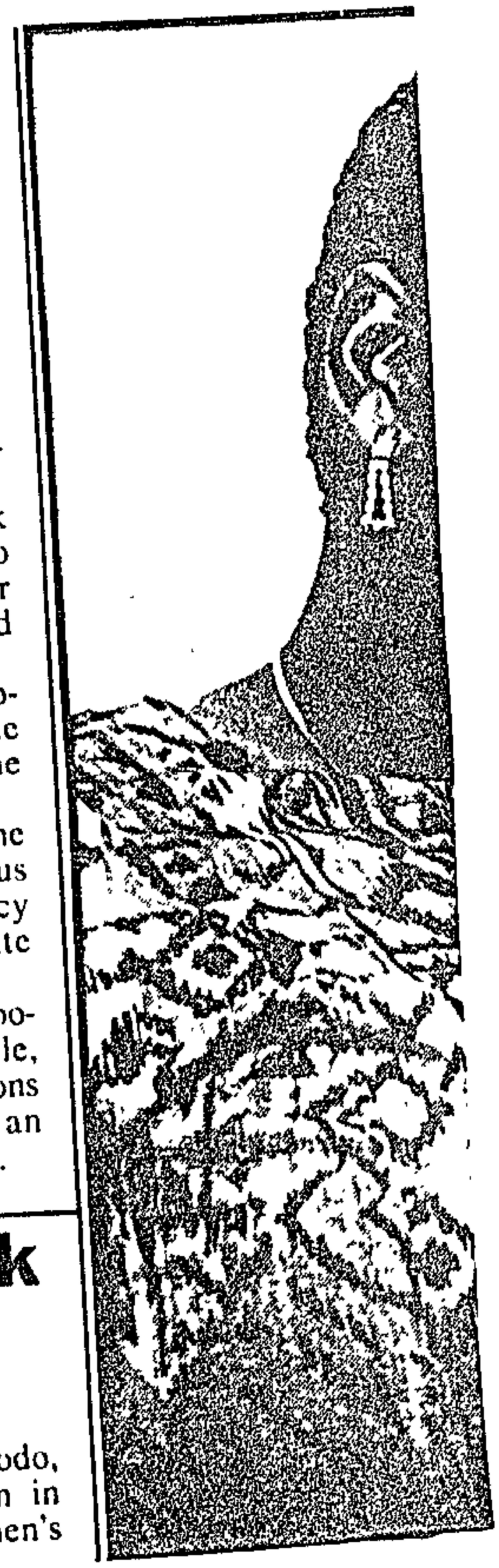
He said the BMF would continue to define the "new and continuing problems that face us as a nation and will communicate the urgency of these challenges and offer and initiate solutions".

The country needed a South African corporate culture that "blends thinking about style, skills, staff and subordinate goals with notions of strategy, structures and systems into an independent reinforcing network", he said.

Natal women mark August 9 march

By GUGU KUNENE

"WATHINT 'abafazi, Wathint 'imbokodo, Uzokufa", will be the cry when women in Durban commemorate "National Women's Day" on Saturday.



African Bank plans to expand to Cape

By Tom Hood

CAPE TOWN — African Bank, South Africa's only black-owned and-managed bank, plans to expand to Cape Town after a visit by top executives last week.

One of the targets is likely to be the lucrative accounts of large companies, including multi-nationals whose overseas shareholders might prefer a black-owned bank listed on the company's notepaper to one with Afrikaans connotations.

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"The bank's image suffered because of the forex scam and we lost some corporate business as a result. However, since restructuring and strengthening our organisation, we have experienced a major resurgence of business from the corporate community.

"I expect this to increase dramatically now that we have been exonerated."

While the court proceedings placed great emotional strain on the bank,the event put it on the map both locally and overseas and Mr Magomola believed this could be turned into a positive base upon which to build.

He was confident that an application for the reinstatement of its foreign exchange licence would be favourably received.

He spoke of the growth achieved by the bank last year when taxed profit and transfers to internal reserves rose to R639 000 from R83 000 in 1986 and the asset base increased by 69 percent to R134 million.

But he warned that the costs of the court proceedings and carrying of a dormant forex infrastructure for more than two years would have an adverse effect on the bank's performance in the current year to September 30.

The publicity surrounding the case had no effect on the bank's bread and butter retail (consumer) division, which had continued to expand steadily.

Mr Magomola said: "Our problems are now behind us. We have the controls in place and have attracted experienced, committed people with sound track records to take this people's bank into the 21st century.

"Our aim is to focus on creating wealth in our communities, for we are a community needs-based bank and are responsive to the needs and aspirations of our people."

CHRIS CAIRNCROSS
and GRETA STEYN

New economic decision soon

58

ECONOMIC policy-makers would decide finally this week on whether to implement a package of additional economic measures to supplement interest rate policy, Finance Director-General Chris Stals said yesterday.

"Government departments have handed us their suggestions and a final decision will be taken this week on what measures, if any, will be implemented," he said.

However, Department of Trade and Industry sources in Pretoria indicated that preparations were in train for some sort of official announcement to be made soon, possibly on Friday.

Department of Finance sources said the measures would amount to fine tuning with no major policy changes.

Both Finance Minister Barend du Plessis and Reserve Bank Governor Gerhard de Kock have recently indicated that direct import controls were not preferred options.

B/Day 9/8/88

Take the lead, Nafcoc told

(58)

Black business urged to ensure SA democracy

BDay 9/8/88

THEO RAWANA

BLACK business should start taking the lead in ensuring that post-apartheid SA would be a non-racial, industrial democracy, Premier Group CE Peter Wrighton said yesterday.

Addressing the National African Federated Chamber of Commerce (Nafcoc) conference at Sun City, Wrighton also called on trade unions to encourage leaders to move into management positions.

"There is no guarantee that post-apartheid SA will be a non-racial, industrial democracy — we may well end up swapping one totalitarian regime for another, where the economy still does not grow quickly enough to meet demands, skilled people leave the country in alarming numbers, productivity remains abysmal and where foreign investment is just a memory."

Some black companies had taken the lead on their own and others with the help of organisations committed to liberating SA's entrepreneurial flair, he said.

"It is now time for you to step out of the shadow of paternalism and take your rightful place in the economy. Black entrepreneurs should learn from establishment big business as much as they can, they should look for possibilities for joint ventures....

"Entrepreneurs should carefully study the mission statements of the large corporations, and press them to live to those philosophies."

He said union leaders' joining management would be beneficial to both business and the union movement, and added: "It is my earnest wish that a black man, on merit, will take my job one day as head of Premier."

Meeting proves an 'eye-opener'

ALAN FINE

THE weekend meeting between 40 businessmen and representatives of "progressive" organisations was notable for the intense willingness of both sides to get to grips with consultation without setting uncompromising demands.

Christo Nel, co-ordinator of the Consultative Business Movement (CBM) which called the meeting with Cosatu and several UDF affiliates, said it had been encouraging to see businessmen getting to grips with political issues. For many the meeting had been an eye-opener on the grievances felt by these bodies.

CBM members included Toncoro chairman Cedric Savage, Southern Life's Neil Chapman, AECI CE Mike Sander, former Judge Anton Mostert and Turner & Newall CE M C Pretorius. The group had several academics and professionals, including Professor Sampie Terblanche.

Nel said the CBM did not see itself as supplanting other business organisations and aimed to "interface" with them.

About turn on employee benefits

CAPE TIMES 10/8/88 58

By AUDREY D'ANGELO
Financial Editor

BLACK trade unions have become extremely sophisticated about employee benefits — demanding packages tailored to meet the needs of their members — and all the major life insurance offices have been courting them in recent years.

Dave Geary, senior marketing manager (pensions) at Sanlam explained yesterday:"Black pension and provident fund business amounts to at least as much as white. Although on average black wages and salaries are lower than white, there are many more blacks than whites in the total workforce and numbers are growing."

Sanlam, Old Mutual and Southern Life are among life offices which emphasize that the days of "paternalistic" schemes are over and that employers should consult the workforce on the benefits they want. All three advise that worker representatives, either through the union or from the shop floor, should be among the trustees of pension or provident fund schemes.

Against this background Old Mutual has offered a package of what appears to be three existing schemes, all offered by all the major life offices — pension scheme, provident fund and group savings scheme — as a new product under the name "bridgebuilder."

An announcement accompanying the launch this week laid great emphasis on the fact that the scheme does not tie up all a worker's contributions but makes money available as loans when it is needed, and gives complete flexibility to meet individual requirements.

Old Mutual's group marketing manager, Eric Le Roux, explained that this was done by putting each individual worker's arrangements on a computer. The worker can choose whether to belong to a pension scheme, with regular monthly payments after retirement, or a provident scheme with a lump sum payment. He can decide his retirement age. He can also decide how much to pay into a group savings scheme.

Funds can be withdrawn from the pension or provident scheme — up to the amount he has contributed — only towards the purchase of a house. But he can withdraw money he has invested in the group savings scheme at any time when faced with a "life crisis."

Pointing out that lower-paid workers usually have no chance of a bank overdraft, Le Roux said that many left jobs if they needed money, purely to recover their pension contributions, and later suffered hardship as a result.

Geary said Sanlam could also offer complete flexibility to any organization by offering a choice between pension and provident funds and had been offering such packages for 10 or 12 years . Its research showed that 94% of lower-paid workers realized the necessity of providing for retirement, and 51% preferred a single lump sum to a monthly pension while 49% preferred a pension.

But, Geary said, although Sanlam provided group savings schemes when required it had never actively marketed them. "To utilize funds earmarked for long-term needs to meet short-term needs does not make sense."

Geary agreed that such schemes might not be the best way of saving because there was a risk of double taxation if a contributor withdrew funds from a group savings scheme set up through an insurance policy. The insurance company was taxed on the proceeds, and the individual could also be taxed on any funds withdrawn in less than 10 years.

Charles Davies, Southern Life GM (employee benefits) said that Southern strongly advocated consultation with employees over benefits and had stressed its importance in a statement issued two and a half years ago.

This was one of the reasons for its success in this market. It provided flexible schemes "we are like a pantry. We can provide what the organization wants us to."

Perm merger with bank was expected

10/8/88

Star

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Finance Staff

The acquisition of the South African Permanent Building Society (the Perm) by the Nedbank Group was inevitable, given the poor financial performance of the building society, banking analysts said yesterday.

They added that, in retrospect, the Perm was wrong not to follow other building societies in seeking a listing on the Johannesburg Stock Exchange.

The merger was announced last night by the chairmen of Nedbank and the Perm, Mr Owen Horwood and Mr Alistair Macmillan, and if accepted by shareholders will catapult Nedbank into the country's third largest financial services group with combined assets of more than R23 billion.

But thus also may end the much-publicised dream of the Perm to remain a mutual society despite the deregulation of the building society movement in South Africa.

"Changes in legislation affecting banks and building societies have severely hampered the Perm, restricting its borrowing and lending capacities. Taking a longer term viewpoint, it was clear that the situation would eventually become untenable," Mr Macmillan said last night.

Analysts add that the Perm's profit margins had come under increased pressure from the intense competition in the financial services sector. Its profits in the previous financial year fell by R3 million to R23 million and the situation had become intolerable to the Old Mutual, which has a major stake in both the Perm and Nedbank, analysts said.

The merger between the two institutions is the latest move in the war between banks and building societies, which has seen boundaries between the various activities of the two institutions become more and more vague.

Only two weeks ago the United Bank, a joint venture by the United Building Society and Volskas, announced significant reductions in bank charges and above average interest rates on savings accounts.

● See Page 18.

SA Perm to become Nedbank arm

CAPE TIMES 10/8/88

58

Own Correspondent

JOHANNESBURG. — The SA Perm, with assets of R8bn, is to be dissolved and will become a division of Nedbank in terms of a proposal to be put to the shareholders of the different companies.

The Nedbank Group will pay Perm shareholders R180m in a deal made possible by far-reaching changes to banking legislation earlier this year. The Perm's assets and liabilities will be transferred to Nedbank to create a banking giant with assets of about R23bn.

The Nedbank Group's commercial bank, Nedbank Ltd, will change its name to NedPerm Bank in terms of the proposal, a joint statement by the Perm and the Nedbank Group said yesterday.

NedPerm will consist of two divisions, Nedbank and the Perm, with the bank's Perm division continuing the existing business of the Perm building society.

Perm MD Bob Tucker, who is to remain as MD of the bank's Perm division, was tightlipped last night. He declined to comment on any details of the proposal, other than to say: "I am excited about the merger."

However, the statement released late yesterday afternoon said the building society had become increasingly "inhibited" by its status as a mutual building society in a rapidly changing banking environment.

The Perm had not been able to diversify into new products and services, and its growth had been constrained. But the option of taking the equity route, as other societies had done, had been rejected because "the potential benefit to shareholders of converting to an equity building society is limited."

The profits of the Perm will be for the benefit of NedPerm from October this year, but the implementation date of the agreement to transfer the Perm's assets and liabilities is expected to be 31 March 1989.

Perm shares, which include fixed period, indefinite period and subscription shares, will become fixed deposits with NedPerm from April 1989. Shareholders will receive a cash bonus from the Nedbank Group, amounting to about 11,5% of their existing shareholding.

But shareholders can opt for equities instead of a cash bonus if they wish. For every R10 000 worth of shares held in the Perm they can receive, instead of a cash bonus, 100 Nedbank Group shares valued at R6 a share in blocks of 100 shares.

Funds to pay the cash bonus to shareholders will be raised by way of a rights offer by Nedbank Group, scheduled for October or November this year. The amount needed via the rights issue will only be determined after the election by the Perm shareholders on whether to take Nedbank Group shares is known.

But a maximum of R180m will be raised through the issue of 30-million ordinary shares at R6 a share, underwritten by Old Mutual.

The cash bonuses and the equities will be paid to shareholders once the rights issue is completed towards the end of this year. Only shareholders of shares in the Perm which were in issue on September 30, 1987 and which are still in issue on March 31, 1989 qualify.

One of the advantages of the deal was that the Perm would retain its identity, the statement said. Its branches would continue to operate as before, independently of the branches of the Nedbank division of NedPerm. The operations of both Nedbank and the Perm would be rationalized and the new bank would have the benefit of immediately establishing the largest home lending portfolio among the banks.

Sowetan 10/8/88

THE HOUR HAS COME

MR Peter Wrighton

Black businessmen are told

"South Africa is a society in conflict, a conflict that stems essentially from the recognition by many of the country's main actors that Verwoerdian apartheid has been a mammoth failure.

The reassessment of the values and norms which have guided South Africa politically, socially and economically for 40 years has in itself been destabilising . .

The situation has been exacerbated by Government's grudging and painfully slow reform programme, threats posed by an increasingly bellicose and unrealistic rightwing, the near annihilation of extra-parliamentary groupings to the left of government and its inevitable consequence of boosting the pro-violence lobby, sanctions and disinvestment and the growing isolation of South Africa, politically, economically and culturally . . .

All this is reducing South Africa to more of a Third World society than a First World one — a recent newspaper article on the state of the rand concluded that in the last seven-and-a-half years the South African economy had worsened by an average 71 percent relative to the world's major industrial nations

The tragic reality of all this is that South Africa is becoming a less attractive place in which to live for us all Yet somehow we must muddle through this conflict, debate and rhetoric in pursuit of that dream — the post-apartheid society

But there is no guarantee that post-apartheid South Africa will be a non-racial, industrial democracy — we may well end up swapping one totalitarian regime for another, where.

- The economy still does not grow quickly enough to meet demands,
- Where skilled people continue to leave the country in alarming numbers,
- Where productivity levels remain abysmal, and
- Where foreign investment is just a memory.

Avoid

How do we avoid this very real possibility? Business generally, but particularly black business, should now grasp the nettle of responsibility and gradually start taking the lead.

Some have already done it on their own, others with the help of specialist organisations such as the Small Business Development Corporation, job creation, financial institutions and other organisations committed to liberating South Africa's entrepreneurial flair.

FOCUS

The quite dramatic rise of the South African Black Taxi Association is the perfect example of just what can be achieved. It has some 45 000 members and there are an estimated 60 000 unlicensed operators. And consider how it has spawned a range of support industries, from vehicle washing services to spares operators.

Ladies and gentlemen, we need more of the same. It is now time for you to step out of the shadow of paternalism and take your rightful place in the economy.

Learn

Black entrepreneurs should learn from 'establishment' big business as much as it can They should look for possibilities for joint ventures . . perhaps large corporations can sub-contract out certain services to independent operators which will provide additional employment opportunities

ADDRESS by Mr Peter Wrighton, chief executive of the Premier Group at the Nafcoc 1988 conference at Sun City this week.

Entrepreneurs should carefully study the mission statements of the large corporations, and press them to live out those philosophies.

I would also like to see the trade union movement encourage its leaders to move into management positions . . . while this may sound heresy to some unions, and crazy to some businessmen, I believe it would have hugely beneficial consequences to both business and the union movement.

Wish

It is my earnest wish that a black man, on merit, will take my job one day as head of Premier. Because only then will the free enterprise system be safe in South Africa and the so-called 'white' companies lose their racial tag.

Labour / management interaction represents one of the few working examples of negotiation in South Africa, and it seems to me to be logical to extend this process even further

Whatever the rhetoric, our future will not be built on smashing what exists in the romantic belief that a new order can easily be created Our future depends on developing a new approach to business, a new business culture, by building on the strengths of the past.

We desperately need to move away from present day strategies where business and the trade union movements see themselves as opponents . . . we need to move away from the sterile war of words on capitalism and socialism . . . neither is a holy cow, and what we ought to be doing is finding common ground and developing a new economic system that provides a South African solution to a South African challenge

We have to recognise that black businessmen and women have laboured under almost impossible circumstances for decades . . . and it is really only in the last 10 or so years that gaps have emerged, that a window of opportunity has begun to show itself.

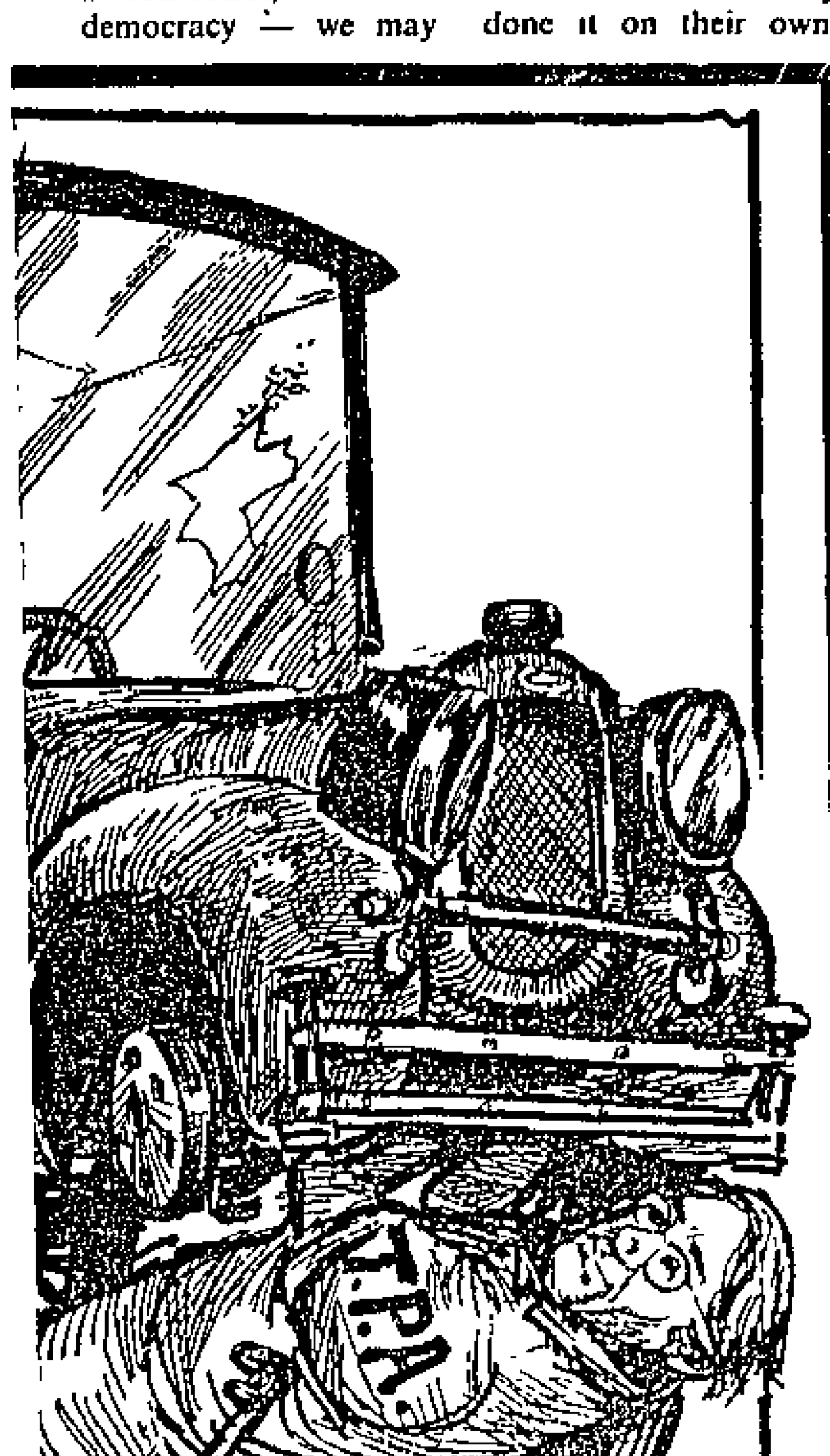
The response gives hope for the future.

Black entrepreneurs have hungrily taken advantage of opportunities that have emerged . . . thousands of carpenters, metal workers, dressmakers, upholsterers and other low capital intensive, independent manufacturers have staked their claim to a place in the sun

Soweto Civic Association leader Dr Nthato Motlana told a business challenge seminar in Johannesburg earlier this year that blacks need to make money too

Ladies and gentlemen, the future has already begun . the process has started towards the society we are striving for Whatever investments we are making, be they good or bad, will inevitably affect the future society we are all waiting for

Let us grasp that future now and steer it to a brighter deal for us all"



Political comment in this issue by Aggrey Klaaste and Joe Thloloe Sub editing, headlines and posters by Sydney Matlhaku. All of 61 Commando Road, Industria West, Johannesburg

• Write to the Editor at PO Box [illegible] Johannesburg 2000 Nom de plumes can be used but full names and addresses should be supplied or the letter will not be published

Rand under 40c

By AUDREY D'ANGELO and BRUCE WILLAN

THE rand last night continued its slide against the dollar to close below $0,40 as gold plummeted.

Still at $0,41 on Monday, yesterday's slump revived memories of the "post-Rubicon" period when the rand sank to $0,35.

It is now almost certain that import controls will be slapped on to conserve South Africa's dwindling foreign exchange reserves.

Travel allowances are also likely to be cut, making overseas holidays virtually impossible for South Africans.

Even with import controls, the high rand prices which will have to be paid for essential components and materials will give a boost to inflation, already expected to start rising as a result of higher producer prices.

'Free-fall'

The gold price — which in the past has come to SA's rescue by rising at critical times — seems unlikely to do so now. The announcement of a cease-fire in the Gulf triggered large-scale selling of gold by wealthy people in the Middle East, bringing the price in London to a seven-month low of $425,25 an ounce.

Though it recovered marginally to close at $427,75 in New York last night it is still at a critical support level. Some analysts said yesterday that they feared its next move could be steeply downwards. "It could go into free-fall," said one.

The next support level for gold is at $380 which some analysts believe is not impossible.

Some gold shares are already showing signs of dropping further — and weakness in the gold share market often precedes a drop in the gold bullion price.

Any weakening in the gold price is likely to drag the rand down further. "We shall soon need glasses to see it," said one Cape Town financial consultant gloomily.

But — one bright spot for investors — the weakness of the financial rand is keeping share prices on the Johannesburg Stock Exchange from falling. At its present level below $0,27 it is not attractive for foreign investors to sell their shares and they will hang on in the hope of a recovery.

CT Times 10/8/88

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Group assets will stand at R23bn

B/Day

SA Perm to merge with Nedbank

10/8/88

(S8)

GRETA STEYN

THE SA Perm, with assets of R8bn, is to be dissolved and become a division of Nedbank in terms of a proposal to be put to shareholders of the different companies.

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Perm shares, which include fixed-

● To Page 2

SA Perm is to merge with Nedbank

(S8)

● From Page 1

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The cash bonuses and equities will be paid to shareholders once the rights issue is completed towards the end of this year.

FNB denies NBS takeover

1/9/88

GRETA STEYN

FIRST National Bank yesterday quashed rumours that it was poised to take over the NBS in a similar deal to the SA Perm-Nedbank merger.

The rumours sprang up when it emerged that First National had been steadily buying NBS shares since the building society group's listing.

First National's stake in NBS has been pusjed up to 10%.

First National Bank senior GM Jimmy McKenzie said there was no grand plan behind acquiring NBS shares and rejected suggestions that the NBS would join the bank's fold as "speculation."

NBS MD John Gafney could not be reached for comment.

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Transfer

B/Day

Registrar of Banks Chris de Swardt yesterday noted that while a bank was not allowed to hold more than a 10% stake in a building society, it was possible to dissolve any society — not only a mutual such as the SA Perm — and transfer its assets and liabilities on to a bank's balance sheet.

Briefing 11/8/88 Star

Swallowing of Perm sign of a new season

(58)

By SVEN LUNSCHE, Economics Editor

The merger between the Perm and the Nedbank Group, welcomed by Mr Barend du Plessis, is an indication of a rationalisation trend which could see only three major financial institutions competing in the market, say banking analysts.

The acquisition of the South African Permanent Building Society (the Perm) by the Nedbank Group was an inevitable consequence of Government's stated policy to level the "financial playing field".

And banking analysts are convinced that the merger between the two institutions will not be the last rationalisation effort in the industry, which has already seen banks and building societies vigorously entering each other's terrain.

"At the end of the day there might only be three major financial institutions competing in a market which only a few months had about ten major players," a senior banking analyst at a stockbroking firm said yesterday.

It was therefore not surprising that the Government welcomed the merger, in line with its objective of achieving fair competition between banks and building societies.

Commenting on the deal Finance Minister Barend du Plessis told The Star: "This merger will not only be advantageous from a cost rationalisation point of view for the group as such, but it is indicative of the essential rationalisation needed in our banking sector at large.

"Ultimately, it can only benefit the industry and the economy as a whole since it will contribute towards the optimal utilisation of scarce capital and human resources.

"The sooner this process concludes itself, the better," Mr du Plessis said.

Building society spokesmen have long been calling for greater freedom in their operations, especially since banks made huge inroads into the home loan markets, while societies have been hampered by laws to defend their traditional turf, not to mention their expansion into banking services.

The success of the bank's foray into the home loan market was highlighted by Reserve Bank figures showing that banks gained over R1 billion in new bonds in the first quarter this year, while the building societies had to be satisfied with just under R700 million.

The building societies' calls have not gone unheeded.

Towards the end of June the omnibus SA Reserve Bank, Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill was tabled, paving the way for building societies to conduct more banking business.

The draft legislation is currently being debated by the Standing Committee and is still subject to change, but is likely to be accepted as it has been generally welcomed by both banks and building societies.

Building societies are the major beneficiaries of the amendment, as they look set to be allowed to grant more than the currently prescribed 20 percent of their total lending as general and business loans, while at the same time improving the percentage of fixed deposits held as short-term funds.

Outlining the Government's new approach to financial institutions Reserve Bank governor Dr Gerhard de Kock said last week that there must be equitable competition between banks and building societies on the one hand, and other financial institutions and operators on the other.

"An eventual decision by the building societies to register as banks would have many advantages. It would most of all contribute to freer and more competitive markets and to more realistic market related interest rates.

"In this way it would bring about a better allocation of resources and therefore sounder and faster economic growth."

He also said it was only a matter of time before most, if not all, building societies would be registered. "Mergers between banks and building societies could also be expected," Dr de Kock prophesied.

The inevitability of a merger between Perm and Nedbank was confirmed by senior executives on both sides after the announcement of the deal which, if accepted by shareholders, will catapult Nedbank into the country's third largest financial services group with combined assets of more than R23 billion.

"Changes in legislation affecting banks and building society have severely hampered the Perm, restricting its borrowing and lending capacities. Taking a longer term viewpoint, it was clear that the situation would eventually become untenable," Perm chairman Alistair Macmillan said.

The proposed merger is therefore intended to broaden the range of services and products currently offered by the Perm, while Nedbank benefits by gaining access to the Perm's far greater client base.

olved

Move to keep black money in black hands

B/Day 11/8/88

PATRICK MAFAFO

THE Foundation of African Business and Consumer Services (Fabcos) has transferred its bank account to African Bank.

Fabcos consists of the Southern Africa Bus and Taxi Association, National Black Consumer Union and Transvaal African Builders' Association.

It described the move as one to preserve black wealth in black hands.

Fabcos, which will be formally launched on October 1, is negotiating with Nafcoc and other black institutions such as Achib and the National Stokvel Association to join it.

All Fabcos members will qualify to become shareholders in Sabta petrol stations and, through Taba, members can participate in special housing schemes. Restricted credit cards will give them retail discount privileges.

Market cautious on NedPerm merger

12/8/88 Star (58)

Diagonal St

Sven Forssman

Market reaction to Nedbank's merger with the Perm building society has not been as positive as both parties might have hoped for.

The proposed merger, still to be ratified by shareholders of both companies, will make Nedbank the third largest financial services group behind First National and SBIC, with combined assets of more than R23 billion.

But, there is a market fear that Nedbank will be acquiring a number of weak shareholders on board.

Building Society shareholders are usually first-time share owners and tend to run like hares when they see a small profit.

A few analysts have even described the merger as a "rescue operation". They point to the fact that as the Perm never went public it was an indication that all was not well.

The Perm's results for the year to March 31 were not encouraging. After-tax profit decreased 12,5 percent from R26,3 million to R23 million and return on assets expressed as a percentage of net after-tax profits to assets was 0,29 percent compared with the United's 0,61 percent.

While an eventual end to the Perm's mutual position was long predicted in financial circles, the merger announcement came as a surprise — especially in view of the Perm's much publicised stance on the issue. But when all is considered, the proposed merger has benefits for both parties concerned.

For the Perm, it will broaden the range of services and products they can offer, while Nedbank will benefit by gaining access to the Perm's far greater client base.

Nedbank will benefit by having a firm consumer leg in the Perm and the benefits of passing business back and forth raises interesting possibilities, as does rationalisation in terms of infrastructure.

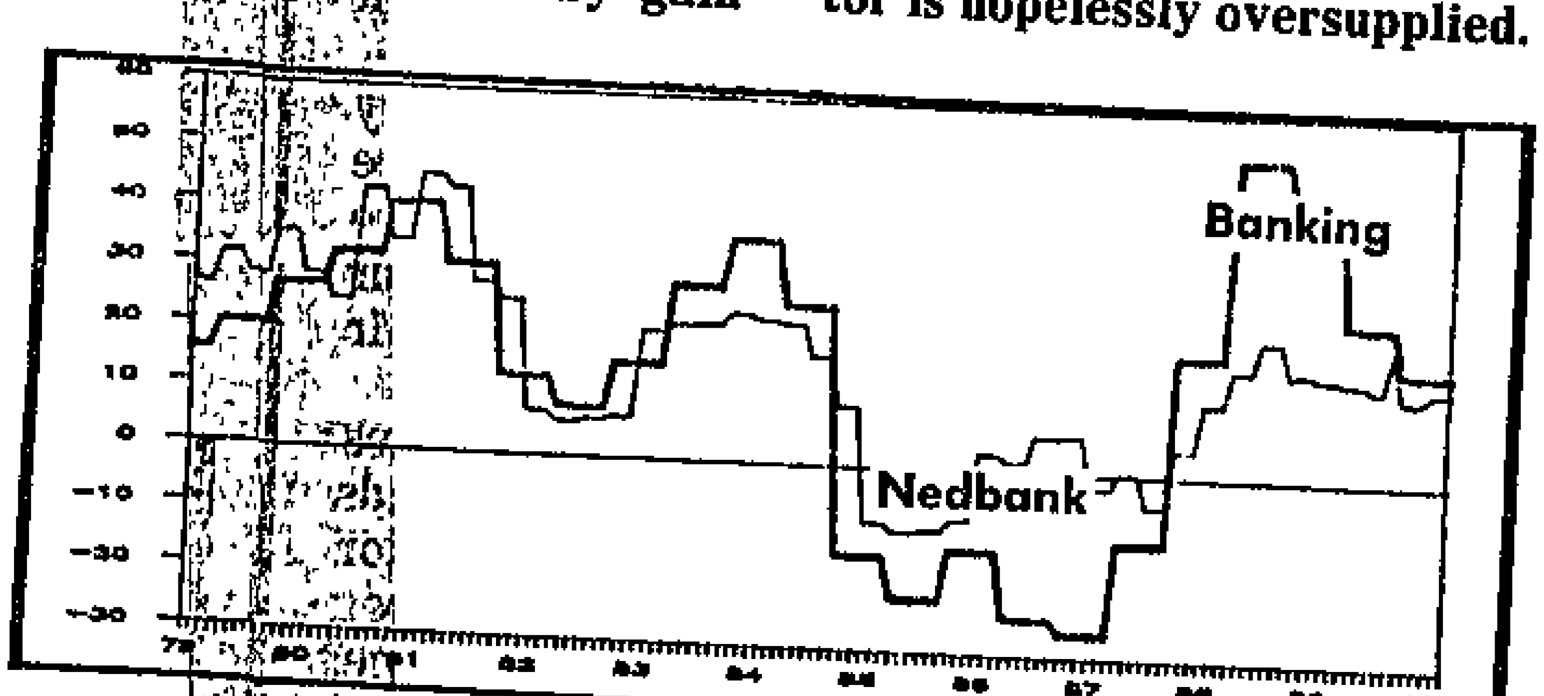
The proposed merger is also likely to have very little dilution effect on NedPerm's earnings per share when adding back the Perm's profits to Nedbank.

Also, Nedbank is expected to produce excellent results in the year to September which should sustain share price gains.

In the six months to March, Nedbank reported earnings per share growth of 53 percent to 54c and increased the dividend to 13c (11c).

By coming in line with other financial institutions in charging for computer transactions and insisting on minimum balances being kept in savings accounts, the Perm's profits are also expected to increase considerably in the current financial year.

Another reason why the merger should be welcomed is that the financial services sector is hopelessly oversupplied.



Earnings per share growth of Nedbank and the banking sector.

BLACK BUSINESS

No more the middleman

Organised black business is tired of being caught in the middle. The National African Federated Chambers of Commerce (Nafcoc) has chosen to identify itself more closely with "the people's struggle."

The decision was taken at Nafcoc's annual congress in Sun City this week. Other business organisations like Assocom and the Federated Chamber of Industries (FCI) sympathise with Nafcoc's dilemma. The prospect of becoming an isolated, middle-class group in a largely hostile black community has never been welcomed by black traders.

It's a matter that needs to be handled with sensitivity.

As Nafcoc President Sam Motsuenyane says: "Our whole image and credibility as a distinct and seemingly better endowed group operating within a predominantly under-privileged society, will be made or destroyed by the manner in which we respond to the broader issues and challenges facing the communities we serve and belong to."

With the support of the US Agency for International Development, Nafcoc has commissioned a study on how the organisation can respond more effectively to the needs of both black business and the wider black community.

Nafcoc's problems are real. Despite the growth in black consumption, Nafcoc affiliates in the northern and eastern Cape, Bophuthatswana and Ciskei have declined significantly over the last two years, both in membership and in their scope of activity.

The reason is that members are ill at ease with Nafcoc's "schizophrenic" role in SA society.

Says national co-ordinator Gabriel Mokgoko: "We must become relevant to our membership and to do this we have to address far greater issues now than at the time of our formation in 1964."

How that will square with trying to forge new links with the white business sector, is hard to say. As it is, links with Assocom are developing with painful slowness. An attempt to form a joint Nafcoc/Assocom committee was abandoned because too few members applied.

Nafcoc's relationship with government has presented another difficulty. The organisation has spurned all offers to get involved in the proposed National Council and its new charter makes it clear it will not negotiate on constitutional matters until the State of Emergency is lifted and government offers "a clear commitment to a democratic non-racial society."

A meeting with the Minister of Finance was postponed indefinitely in April after

Nafcoc's Motsuenyane ... isolated

government was angered by the tone of resolutions at last year's Nafcoc conference.

However, it has had discussions with the Department of Education and Training on other issues including:

- Introduction of a career-orientated curriculum in black education;
- More educational projects for black entrepreneurs; and
- Further government contracts for black builders.

Says Motsuenyane: "The country has no future if blacks are kept at the periphery. Government and private sector must bring us into the mainstream." ■

NEDBANK/PERM

58

Permanent bale-out

The unlimited Perm has clearly become unstuck. It is being taken over by Nedbank, with the mighty Old Mutual as the backstop, in a deal the size of which hasn't been seen among financial institutions here since Anglo American bought Schlesingers in the Seventies.

In one hit, it puts Nedbank in the big league, with First National and Standard, and could have a profound impact on the future trend of competition among the financial institutions.

The Perm is the first of the large building societies to be absorbed by a bank and our guess is that it won't be the last one.

Fierce competition has already forced a number of banks, building societies and other financial institutions to combine forces and, in view of the suspected state of the Perm's finances and its individualist business philosophies, the bale-out by Nedbank comes as no surprise.

For Nedbank it is an acquisition with long-term potential, but one that could in the meantime bring short-term indigestion to a bank which itself was only recently rescued by the Old Mutual and is still struggling to find a new identity in a highly competitive market.

The Perm's problems, according to analysts, is that it is under-capitalised. It also has a relatively high cost structure, due to the high ratio of small savings accounts, which are expensive to administer, and building schemes for the black community which were very favourable to the borrower. It was reluctant also to impose banking charges on its customers.

The Perm created additional problems for itself by refusing to go for a listing, while its competitors all raised cash this way in recent years. After the October crash, MD Bob Tucker and his board lost this opportunity. For the market will not now provide potential shareholders with the windfall profits that other societies were able to hold out.

Now the Perm has to change its tune. It will no longer be a mutual building society, but investors will at least receive some benefit for their loyalty in the form of a bonus, although they will not "own the Perm" as they might have felt they did before. Small wonder Tucker initially denied on Tuesday that a deal was imminent.

The deal is that Nedbank will pay qualifying Perm shareholders (those with share investments of R10 000 or more) R180m, which will provide them with a bonus of 11,5% on their existing shareholding. They will be offered an alternative to the cash offer in the form of 100 Nedbank shares for every completed R10 000 investment, valued at R6 per share.

The takeover has been made possible by the amendment to the Banks Act promulgated last month, which enables a bank to own 100% of a building society.

For Nedbank the advantages are that it is buying an already established retail network of 350 outlets (Nedbank currently has about 240) and gross assets of R8bn. Nedbank could do with these outlets in the fiercely competitive climate that exists among financial institutions.

But the price seems rather high. Nedbank

Perm's Tucker ... changing tune

is paying a p:e of 7,8 based upon the taxed profit for the year to end-March, compared with an average of 6,2 for the listed building societies. However, it is paying R180m for net assets of R256m.

The role of Old Mutual cannot be underestimated. It owns 53% of Nedbank, which it rescued two years ago, and through its board connections it effectively controls the Perm, which has provided a very useful satellite for insurance marketing.

Nedbank (or Nedperm as it will now be known) now has the difficult task of gingering up the Perm into profitability. It should fare better this year because of higher margins from lower interest rates on its long-term deposits and the higher bond rates. There is also the consideration that the two institutions have compatible Burroughs and Unisys computer systems and Nedperm should benefit from rationalisation.

Margins should improve as business is channelled through a leaner and rationalised electronic infrastructure. Above all, it will open the retail market to Nedbank.

Not all is rosy, though. The bank may have had problems in the past, but basically has good management now under former Finansbank chief Piet Liebenberg. However, there have been some clashes of culture which don't yet appear to have been fully resolved. Now yet another management culture has to be absorbed.

As with the sudden departure of the bank's previous MD, Rob Abrahamsen, Nedbank has declined to enlarge upon the bald facts of its public announcement yesterday, which will probably cause some shareholders to think.

Nedbank's Liebenberg ... good management

It is possible that in swallowing the Perm, Nedbank will require additional capital to meet the requirements of the Banks Act, although this could be solved by the rights issue planned for later this year. Pitched at 600c (current price 640c), the size of the issue will depend upon how many Perm shareholders take the cash option.

What Nedbank shareholders will have to weigh up is whether the management traumas of recent years have sufficiently abated to enable this massive merger to settle down quickly. Of course, Old Mutual will always be there as a backstop, which is comforting. But that will not make the synthesis any easier.

Louis Venter

E W TARRY

Taxing Tarry

It seems that the reason why the announcement of the Tarry results was delayed was that FSI CE Jeff Liebesman wanted to attend the board meeting and the meeting had to be rescheduled to fit in with his overseas trips (see *FM* August 5).

Much has been made in analyses of the FSI restructuring of the fact that E W Tarry is moving on to a full tax rate, but the results for the six months to end-June still show a 51% increase in EPS to 42,5c.

According to joint MD Dave Rosevear, the tax rate for the year will average 20%, up from almost zero last year, but, with earnings in the second half expected to equal those in the first half, EPS should rise by around 20% for the year as a whole.

Tarry is enjoying the benefit of better margins, which improved from 3,6% to 4,9%, mainly as a result of tight control of overheads and a turnover increase of 27% was thus translated into a 77% climb in pre-tax profit. Rosevear admits a weak rand will reduce motor sales in the long run, but Delta is gaining market share, benefiting Williams Hunt, and models planned for next year should ensure maintained sales.

In the industrial division, a declining rand means inventory profits and Rosevear expects that, even if less units are sold, the value of turnover should increase. Tarry has brand leaders and high quality products and expects to see little impact from price increases.

Rosevear will not comment on the question which must be of most interest to Tarry shareholders, which is what FSI plans to do with the company.

It is clear that Tarry's London listing is of great value and will be used by the group to best advantage, but what exactly the intentions are remain undisclosed at this stage. It seems that the FSI restructuring needs to be completed first. Shareholders will have to wait and see what FSI's intentions are.

Pat Kenney

SUGARBUSH EXPLORATION

Gold play on spec

The prospectus from Loucas Pouroulis's new exploration company, Sugarbush, provides useful information explaining the surge of gold exploration activity by itself, Anglo American Corporation and Gencor in the area lying south-west of the existing Evander gold field.

General market reaction is that, although the venture is high-risk, the area controlled by Sugarbush is worth drilling because the new geological theories developed by managers Golden Dumps appear feasible.

However, some JSE analysts are unhappy with the terms of the offer because they feel it is too expensive for current market conditions and that the promoters are holding back too much of the stock, and thus weighting the risk-reward ratio heavily in their own favour.

The allegation is rejected by Sugarbush executive director Roger Daniel. He says that, when the company is evaluated on the basis of market capitalisation in relation to

Sugarbush's Pouroulis ... keeping 80%

the mineral rights held, then Sugarbush's price is attractive.

He says the average value on this basis is R2 400/ha which is at the bottom of the range of values for these "grassroots" mineral rights over ground on which there is little geological information available.

A report assessing Lydenburg Exploration (Lydex) on this basis by Martin & Co analyst Lloyd Pengilly placed values ranging from R2 000/ha to R10 000/ha on grassroots mineral rights brought to the market by Lydex.

In terms of the Sugarbush offer 4,4m linked units each consisting of two shares and one option are being offered at 320c a linked unit. Investors accepting the offer get the two shares now at a price of 160c each and can exercise the option by January 26 1990, to take up another share in Sugarbush at 225c.

There are at present 50m Sugarbush shares in issue of which 39,5m (79%) are held by Loucas Pouroulis through his mining holding company, Salene, in which he is the major shareholder. Salene has spent R2,25m on exploration work in the area and that cost will not be recovered from Sugarbush.

The initial issue to raise R14,1m will increase the shares in issue to 58,8m of which 15% will be in the hands of the investing public leaving 85% with the promoters. After the options are exercised to raise a further R9,9m, the total issued capital will be 63,2m of which 20% will be in the hands of the investing public. The R24m will be used to fund the exploration programme. Purchase of the mineral rights presently held under option by Sugarbush will cost extra.

Comments one analyst: "Sugarbush is a punter's share because it is concentrating its efforts in one area which it controls completely. That makes it high-risk/high-reward because no attempt has been made to spread risk by bringing in partners or going for other exploration regions.

"The bottom line is that the promoters have put up R2,25m to keep 80% of any benefits that accrue while the punters are being asked to put up R24m to pay for the exploration work in return for 20% of any benefits. If nothing develops then all the promoters lose is R2,25m. Those are the wrong odds to offer a punter."

New theory put forward by Golden Dumps geologists concerns the major Sugarbush fault line which was previously believed to run from west to east along the southern boundary of the Evander gold field.

Golden Dumps now estimate the fault changes direction near the town of Balfour and runs from south to north along the western side of the Evander gold field. That opens up a whole region south of the Evander field which could contain gold-bearing reefs. The Sugarbush prospectus says that, following a drilling programme, Anglo has bought mineral rights along the eastern boundary of the Sugarbush area while Gencor has bought mineral rights on the south-western boundary of the Sugarbush area.

The prospectus says there are five specific target areas within the 38 000 ha of ground controlled by Sugarbush.

An alternative route for investors into the exploration work in this area is offered by Gencor exploration company Marievale which holds a 25% interest in the 36 000 ha area which Gencor controls there.

Marievale's interim report published this week says drilling in this area has already intersected Kimberley Reef containing "encouraging" gold values in several widely-spaced boreholes at relatively shallow depths. Marievale is a lower risk investment than Sugarbush because of its spread of interests in a number of gold exploration projects in the Transvaal and Orange Free State.

Brendan Ryan

HOMEMAKERS

More synergies

Investors in Homemakers, listed with such fanfare earlier this year, may react warily to the forthcoming merger of its furniture interests, World and Bradlows, with uncle Joshua Doore. But the deal does hold promise, if only because it will bring those interests into a focused, listed group.

Homemakers CE Hilton Nowitz says the deal will involve the sale of World and Bradlows to Joshua Doore in exchange for shares, with Homemakers acquiring close to control of Joshua Doore. This also implies a massive increase in Joshua Doore's capital.

Assuming about half of Homemakers R17,2m interim pre-tax earnings are from its furniture interests, this R8,6m is about equal to earnings expected from Joshua Doore for the six months to end June on turnovers which are also similar. This makes a near-equal split of the combined company seem fair.

News of the deal was made simultaneous-

Still room to manoeuvre

There is a little life in these stocks — herewith a few suggestions

As SA investors continue to adjust to operating in a siege economy, the idea of the rand hedge stock has become something of a cliché on the JSE. This category of share has in fact offered one of the few bright spots on the stock market during the first seven months of 1988. But for the present the flurry of interest in them has probably run its course.

With the general exception of gold shares, most of the currency-sensitive stocks have already risen a long way. Interest in them was renewed early this year when it became clear that the currency was in for another bout of weakness after its phase of relative strength in 1987. In a stock market that for much of this year has been buoyed only by highly selective buying, pessimism about the currency — not surprisingly — offered a beacon for investors.

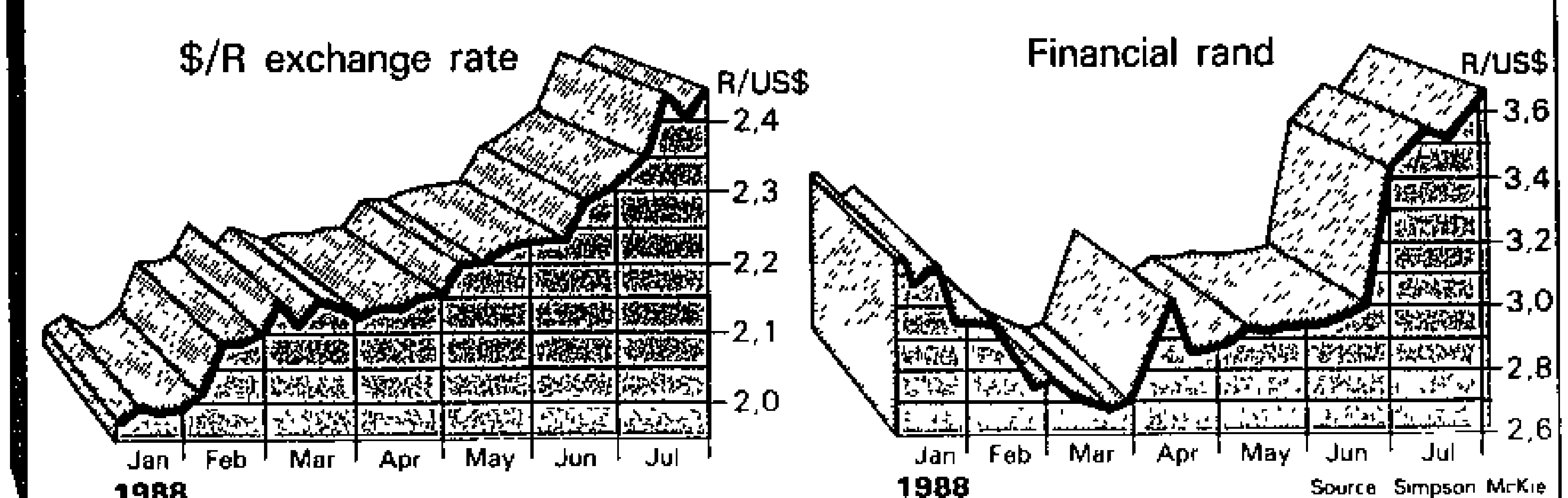
As Sanlam investment GM Ronnie Masson says, virtually the only economic certainty at this stage is that the rand is under pressure. With all the other uncertainties over factors such as interest rates, economic growth prospects and the financial rand, it is hardly surprising that Diagonal Street homed in on the companies expected to benefit.

Thus, stocks such as De Beers, Liberty, Remgro and Sappi, as well as certain of the non-gold companies in the mining sector, have been among the top performers. Although moving in many cases off depressed levels, the percentage gains shown by these counters since January 1 has been very substantial, ranging at the upper end as high at 92% for the previously neglected ferrochrome producer Consolidated Metallurgical Industries (CMI).

Indeed, for those who timed their purchases correctly, the gains notched up by many is hardly in keeping with the picture of a bear market — and would have been nothing to be spurned when the JSE was marching upwards a couple of years ago.

Anybody considering the rand hedge now needs

Runaway rand



Source Simpson McKie

to ask himself how much further the currency is likely to depreciate in the next three to six months; and also look carefully at fundamental prospects for the company concerned. Despite the often bearish views on the currency, the rand's outlook is never easy to call. As the graph shows, it has taken a severe tumble against the dollar in recent months — but this was due, at least in part, to a sudden rebound in the strength of the dollar, which bottomed and turned upward against other currencies.

Still, even though there has been no real change for the better in other factors that determine the value of the rand — such as the dollar price of gold, the inflation rate or even the political climate — it may well be wise to assume that the currency has fallen far enough for the time being. As one stockbroker's analyst points out, the pattern set over the past few years has been that the authorities have allowed the rand to absorb the initial shock waves of a negative turn in the economic or political environment. After some months of that, awareness of the adverse implications of currency depreciation tends to grow.

With the economy at the present stage of the business cycle, the effect of a still weaker rand on the cost of imports would not be helpful towards allaying balance of payments fears — and nor would it ease inflation pressures.

If — and it remains speculation — one then assumes that the rand has reached a plateau that will last for some months, there could yet be grounds for holding rand hedge shares on the basis that the currency will remain weak in the long term. But in that case it would be as well to wait for the overall market to drift lower before buying at these levels.

In choosing shares, a view should be taken of the type of rand hedge involved. Simpson McKie's Charles Booth distinguishes three categories: the purest currency hedge available is the share quoted locally but holding all of its assets abroad. Among these, which tend to stand on particularly thin dividend yields, are Minorco, Oceana, Copi, Lonrho, Charter, and, soon, Remgro, whose foreign interests are to be listed separately.

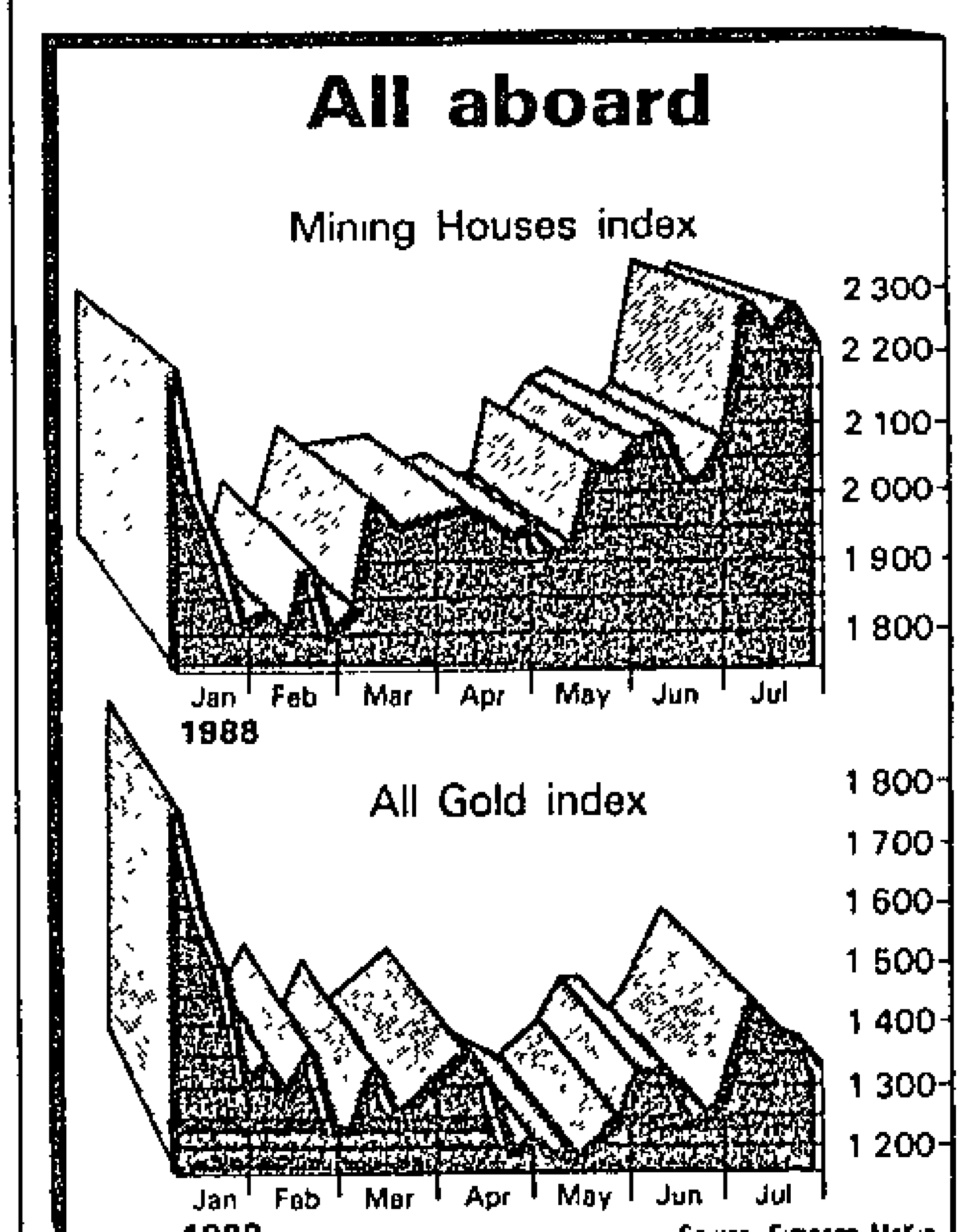
With the notable exception of Remgro, these stocks are largely for the small investor with patience, as marketability is limited. In any event, investment in assets abroad is all very well but that tells nothing about quality of the assets or the fundamental performance.

Here, Booth cites the contrast between Minorco and Remgro. Until very recently, Minorco's historical results have been uninspiring to say the least, although plans announced late last year for a more active investment and management policy add a speculative overlay. On the other hand, Remgro's foreign interests are top quality, including such companies as Rothmans International, Transatlantic, Cartier and Piaget.

Even with Remgro's price already above R15, Booth considers the share attractive simply as a means of obtaining the new, foreign-listed shares. Once that issue is complete, however, Remgro's only rand hedge element will consist of its 10% stake in Gold Fields of SA. The rest will be made up largely of stakes in big but generally dour local groups such as Metkor, Dorbyl and Volkskas, with the tobacco division — seen as a powerful cash generator — offering the main point of interest.

In a second tier of rand hedges are those which hold substantial interests abroad but still produce much — usually the bulk — of their income at home. Examples are Liberty, Plate Glass, Barlow Rand, Altron and FSI. Problems with these are that information about foreign operations is increasingly tight — apart from Barlow's London-listed J Bibby — and that solid profits produced abroad do not necessarily equate with cash flow to shareholders in the home country.

Liberty's Donald Gordon has indicated



All aboard

that dividends paid by the assurer's extensive foreign investments held in Transatlantic and Sun Life (among others) will be brought home in future. Barlow has used Bibby's dividends to repay foreign debt and remain geared for expansion; but Bibby in itself is not a sufficiently large or exciting enough part of Barlow's life to justify buying Barlow as a rand hedge. FSI has remained particularly silent about its foreign operations.

By far the largest group of rand hedges is represented by exporters, which include virtually all producing mines, the mining financials and a considerable number of industrials. And, in many instances, there are companies that gain income both from exports and from offshore assets. Barlow estimated last year that about 43% of attributable profits were either earned in foreign currencies or derived from exports. But the group remains broadly exposed to local business conditions while the mining operations in Rand Mines have lagged, so the share has remained obdurately soggy; the same could be said for Amic. The mining houses and mining financials also straddle these categories, holding a broad range of local mining operations and foreign investments.

In this vein, De Beers, which gains investment income from Anglo American and Minorco as well as income on its diamond account from sales by the Central Selling Organisation, is a prime rand hedge. Its diamond sales are transacted in dollars but converted to rands at the end of the financial period. The share, which is often influenced by fluctuations in the financial rand rate, appears at present to be taking a breather after recovering from a patently underpriced low around 2 250c in January to the recent high above R40.

Among industrial exporters, Sappi has been the major focus of attention this year. News of its R1bn deal involving Courtaulds and Usutu a few weeks ago pushed the price to R35 from the low of R17 but the deal also made assessment more difficult and now it, too, is consolidating at levels below R30.

Pickups were also shown by other exporters like Gubb & Inggs, RIH and Haggie; but for most industrial exporters these earnings are a relatively small — if increasingly important — profit component. AECI and Sentrachem are among the many industrials that have established an export base but whose overall profits are still dominated by local demand.

One advantage in the industrials is that they rarely have foreign shareholders in significant numbers and so are not exposed to the volatility that can arise from financial rand movements. While the recent weakness of the finrand has tended to bolster prices in the mining sector, the volatility of the finrand represents an additional risk element for those affected. Conversely though, the finrand is seen as a crucial cushion for stocks that might have to take the brunt of a forced sell-off of SA shares from abroad.

Sanctions concerns, particularly as related to the proposed Dellums amendment, are helping to depress gold shares, which would be among those hit first in the event of new restrictions on US holdings in SA shares. Almost regardless of what happens in the months leading up to the US presidential election, the sanctions question is unlikely to go away. Meanwhile, it remains a major uncertainty overhanging the market.

For that sort of reason, analysts are at present citing the houses and mining financials as the preferred type of rand hedge. Although for some, notably Anglo American and GFSA, gold remains the core of their profit base, all of the mining houses are standing at deep discounts to asset values; while the mineral rights and potential new ventures — centre of so much attention last year — have faded into the background. The base metals and related stocks are also favoured, but these have already moved strongly and there is limited choice available.

Exporters aside, there is another type of

cont

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rand beneficiary to be considered. Many local manufacturers have seen competitive imports squeezed out by the weaker rand. These could do well for longer than is presently appreciated — although the longer-term effects of displaced competition are not encouraging.

That, of course, underscores the ultimately illusory nature of this form of investment unless the causes of the currency's weakness are resolved. The rand hedges may have lost momentum for the next few months but may well outperform the rest of the market in the medium term. But in the really long term it is debatable whether a case can in fact be made for the rand hedge share as a category. The more immediate concern is that if these stocks are indeed on a plateau, that may mean investors will have to live with a generally dreary stock market for some time.

Andrew McNulty

Union power prompts pension deal

WITH organised workers gaining an increasing say in company pension and provident funds, many of the life insurance companies have realised that trade unions are an important actor in their market.

One of the largest life assurers, Old Mutual, is advocating union participation in the provision of employee benefits and this week launched a package which builds in negotiation.

Most of the large life assurers have been involved in investing new-style provident funds and even those who initially resisted change are looking for business in this market.

Southern Life's call for union representation on the boards of pension funds in 1986 was at that time greeted with derision in some financial circles — clearly things have changed.

Old Mutual assistant general manager Henk Beets describes the new package, "Bridgebuilder", as an approach to the issue of employee benefits rather than just a new product.

The plan is to identify employees' differing needs and design the combination of financial instruments which would best meet these. Employee benefits for black unskilled workers is seen as the area most in need of innovative approaches.

General manager Gerhard van Niekerk said this week: "The union movement has in recent years articulated their members' employee benefit needs very well. Employers generally reacted positively ... However, it became quite clear that the traditional legal and structural employee benefit framework, the choice between a pension or provident fund, could no longer satisfactorily accommodate the varying and changing needs of South Africa's complex workforce."

Unions with majority black membership have tended to reject pension funds because, they argue, these do not meet workers' needs and are perceived as inequitable.

In many companies, unions have since 1985 negotiated provident funds, managed jointly by union and employer representatives. This went

Trade union pressure and the growth of union power is changing attitudes in the employee benefit business. HILARY JOFFE reports

some way to meeting workers' demands, since they felt if they contributed to benefit funds, they should have a say in these.

The fundamental difference between the two is a provident fund can pay out the full lump sum which is the member's stake at any time. Pension funds only pay out in full when the member retires, usually at 65, and only a third of this can be taken as a lump sum. The rest is paid out as monthly income.

Black manual workers feel they may not get as far as the mandatory retirement age. Most also prefer lump sum payments because of the difficulty of collecting monthly pensions, especially if they retire to rural areas. And their needs are often for funds to tide them over financial emergencies.

The new provident funds are less complicated and more flexible than pension funds. In most, a worker who is retrenched or dismissed is paid out in full — his/her contribution, the employers contribution and the full interest earned. This is in contrast to pension funds, most of which have been earning 20 to 30 percent on their investments but pay interest of only about 4,5 percent to members who leave early and want to claim back their contributions.

Some employers have expressed fears that workers in provident funds will end up without provision for retirement. And the provident funds have the disadvantage that members cannot draw on them unless they leave their jobs.

A new product which "Bridgebuilder" will include is a group savings policy. This is similar to a provident fund in that members earn the full interest yield on their contributions, but has the advantage that workers can borrow from it, on

terms that the fund trustees would determine. It can accommodate different contribution levels and different maturity dates. It doesn't have the tax advantages of pension or provident funds but these are irrelevant for low paid workers.

Beets envisages that low-paid workers might, for example, be covered by both a savings policy and a provident fund. The worker would contribute to the savings policy while the employer would put his contribution for each worker into the provident fund, which would have tax advantages for the employer and might also be a way of ensuring the worker has funds for retirement.

There could be a joint union-employer board of trustees for the benefit package as a whole or each fund could be differently managed.

Old Mutual has developed computer back-up for the scheme such that an individual worker receives a monthly statement reflecting his or her contributions in the benefit fund or funds and the interest earned.

It is also running training courses for benefit fund trustees and has published guidelines for trustees as well as information booklets for members.

In developing "Bridgebuilder" Old Mutual consulted officials of several trade unions in Cosatu and Nactu, as well as some employers, Beets said.

W/Mail 12-18/8/88

W/Mail 12-18/8/88

Insurers gearing to handle possible SA Aids onslaught

13/8/88 Star (58) (92)

SOUTH AFRICA is in a particularly vulnerable posi tion as far as Aids is concerned and must be regarded as a potential pandemic area, says Don McKay, deputy general manager of Mercantile and General Reinsurance.

If projections concerning Aids are correct it could mean that insurance premiums could possibly double in the next number of years.

Mr McKay says the country is threatened by First World and, with the migrant labour factor, Third World Aids as well.

Both the Life Offices Association (LOA) and the Actuarial Society of South Africa (Assa) have formed sub-committees to study the problem but latest projections on the future incidence of the disease paint a gloomy picture and the position now appears to be much worse than suspected.

Aids was first diagnosed in South Africa in 1982 and latest statistics, which are continually being updated, show 118 cases of full-blown Aids, 96 of them South African citizens.

It is estimated that the number of carriers is roughly 100 times the number of known cases which would put it at 12 000.

For the insurance industry therefore, Aids is an unknown quantity and this uncertainty is likely to continue for a number of years.

Mr McKay says there are several options open to the life industry in dealing with Aids.

"Underwriting procedures will almost certainly be tightened and this will be achieved by including Aids-related questions in proposals and medical examiners' report forms. Proposers may be asked to undergo blood tests for HIV antibodies whenever the sum assured exceeds a certain figure."

A possible solution for the life industry could be the simple exclusion of Aids and Aids-related conditions but Mr McKay points out that in recent years life companies have aimed to offer cover that is as wide as possible rather than increase restrictions.

An exclusion clause would probably be ineffective because Aids is seldom specifically mentioned on death certificates.

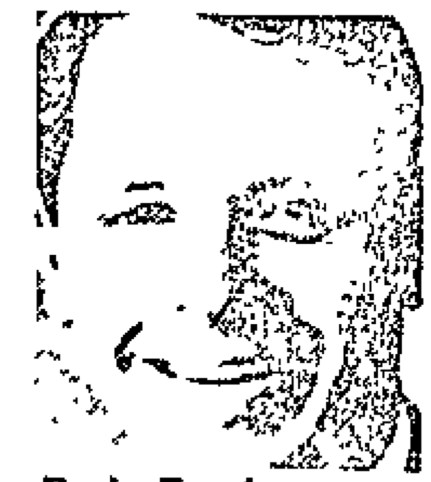
"Aids is unfortunately not only a matter of concern to the life industry but also impacts on certain classes of short-term insurance such as travel, medical expenses, personal accident and sickness.

General insurance contracts are usually only a year in duration which gives the insurer an opportunity to renegotiate terms on a regular basis.

"We cannot escape the fact that Aids is a serious problem. It will inevitably cost the indutry a great deal of money and must of necessity impact on future results. I am confident, however, that life companies will react responsibly to the challenge and that action will be taken to ensure that the industry continues to flourish," says Mr McKay.

NedPerm merger not a rescue, says Tucker

W/E ARGUS 13/8/88 (58)



Bob Tucker . . . benefits for all concerned.

From CHRIS MOERDYK

JOHANNESBURG. — The multi-billion rand NedPerm bank merger has released the Perm from the shackles of legislation, according to the building society's managing director, Mr Bob Tucker

The process of deregulation, he said, had effectively "tied the Perm up tighter and tighter".

Building society legislation was about three years behind banking legislation which placed the Perm at a distinct disadvantage.

"This merger holds benefits for all concerned. As far as Perm customers are concerned, there are no negative elements at all.

"Our branches will retain their identities and, in fact, our customers will have access to a wider range of services — all those offered by a bank — without being denied the standards of personal service the Perm has prided itself on."

Mr Tucker denied that the merger represented any sort of rescue mission.

"Our taxed profits were R23-million last year and that represents a lot of money in anyone's language. On top of that Nedbank saw sufficient advantage in the merger to offer Perm stakeholders R180-million in bonuses. That's hardly a rescue operation."

He added that the marriage between Nedbank and the Perm was a natural one.

"With Nedbank focusing on the high value corporate market, it was natural to put the Perm alongside it. We will benefit from Nedbank technology and expertise in offering our customers cheque accounts and other traditional banking services without losing that personal touch."

Mr Tucker said that if the Perm had decided to "go it alone" it would have forfeited access to banking skills and technology and would have ended up in a position "somewhere between Allied and Saambou" with customers benefiting from a mere three-percent bonus instead of the 11,5 percent created by the merger.

"The Perm mission to serve the savers and home-oweners of South Africa is vital and because of this it remains intact," said Mr Tucker

Industrial relations enter simulation era

By DICK USHER

INDUSTRIAL relations are increasingly taking up methods used for other types of training — one of them being the simulation of real events.

One programme consisting of a series of playlets, designed for use in the Seardel Group by John Hartley and his staff, has had great success in raising the level of understanding by shop stewards and supervisors of each others role and their importance in a company's operations.

There are six modules in the programme and each module has several playlets on which group discussions are based. Each module lasts about 90 minutes and are conducted at a company once a week.

Depending on the size of the company, groups of between eight and 22 people take part with each group including shop stewards and supervisors.

So far they have been used by about nine companies in the Seardel Group.

Hartley said the idea was to make industrial relations "come alive" in a non-threatening way to clarify the role of shop stewards and give confidence to supervisors.

"Very often you find situations where supervisors, with responsibility for discipline, feel their authority threatened by shop stewards. We are trying to remove misunderstandings, remove fear and promote industrial peace and productivity," he said.

"We try to get supervisors to see that shop stewards are not a nuisance but an asset to the company. We also get shop stewards to look at their approach to situations.

"Sometimes this can be over-aggressive or over-legalistic."

Johann Baard, group industrial relations executive, said of the programme that communication and training in the industrial relations field was probably the single most important challenge facing management.

"Common goals, mutual respect and dignity in the workplace are the broad objectives. Having imparted basic industrial relations and general people management skills to our supervisors and shop stewards, our training seeks to establish an understanding at this critical interface that all rights have corresponding obligations and that the two are inter-dependent," he said.

One of the modules will be presented at a meeting of the South African Society for Training and Development on August 30. The meeting is at the Boston School of Advertising, Prudential House, St George's Mall, at 5,30pm.

Those interested in attending should call Tania Donald at ☎790-4563 or 790-3699.

Sappi deal too good to miss

Weekend Argus Foreign Service

LONDON. — The opportunity presented by Courtaulds' decision to withdraw from the world wood pulp industry was too good to miss, according to Mr Eugene van As, MD of Sappi, which bought Courtaulds' South African and Swazi interests.

The deal made eminent financial sense for Courtaulds and was strategically important for Sappi. The R1-billion acquisition is expected to lift Sappi's annual sales from R1,5-billion to R2,5-billion and lift the proportion of its output going abroad to about 40 percent.

"Our worst enemies are our competitors, said Van As.

He was quoted in an article

Financial rand: immigrant boon, emigrant's bane

Article contributed by DIRK PETERSON, Johannesburg-based financial and tax consultant

THERE'S a lot of mystique around the financial rand, with misconceptions about it cause and its result.

The financial rand started its life as blocked rand, became securities rand, died for almost three years and was resurrected in August 1985.

Non-residents of SA, who own assets here can sell these but they are not, by virtue of exchange control, allowed to take the proceeds of the sale out of SA.

These non-residents can sell their investments in South Africa to other non-residents.

These new investors are, however, not prepared to pay the full price for these assets and this discounted value is then known as the financial rand.

The financial rand market is the pool of rand held by non-residents. The size of the pool is limited to the value of all assets held by non-residents.

The financial rand now has official status with the authorities having laid down rules and regulations governing its use.

Residents of SA are not allowed to possess FR or to deal in them, and non-residents may only use their FR to:

- Invest in SA securities quoted on the JSE including the payment for rights issues on shares already held by them.
- Invest in non-quoted companies but only by way of equity participations, not in the form of loans to such companies.
- Purchase property with the specific approval of the Exchange Control authorities.
- Immigrants to SA (in other words non-residents changing their status to that of residents) may purchase up to R100 000 per family in FR which may be released to them over a period of five years.
- Where permission is granted for the use of FR to acquire fixed property, profits made on the resale must be remitted in FR.
- Legacies by SA residents to non-residents must be remitted in FR and are only allowed up to R100 000.

Should immigrants wish to take more money out after three years, up to six years from the date of their arrival, they may apply to Excon for permission to do so.

Immigrants must bring all their foreign income to SA with Excon however readily granting permission to leave some of the income abroad for the payment of commitments on taxes, insurance premiums, subscriptions and so on.

Emigrant families may take up to R100 000 out of SA and single persons up to R50 000.

Where the SA assets exceed these figures, Excon needs to be informed. The balance of the assets in excess of these amounts will be blocked.

The so-called Emigration Allowance is transferable at the financial rand rate of exchange.

On top of the emigration allowance, the normal travel allowances as in force from time to time are available. These may be transferred at the commercial rand rate of exchange.

Old Mutual makes it formal as Nedbank gets the Perm

By David Carte

NEDBANK'S takeover of the Perm this week consolidates and formalises the Old Mutual power bloc.

Old Mutual has long vied with Anglo American, Sanlam, Liberty and Rembrandt as one of the great financial houses in SA. But until Premier and SA Breweries were moved suddenly into the Anglo-Liberty camp five years ago, it took pains not to control associates.

After that, it made sure that its effective control of Barlows, Rennies and Safmarine was beyond challenge.

Until the Cape mutual took outright, unfettered control of Nedbank in the rescue 30 months ago its alliance in financial services with Nedbank and the SA Perm was informal.

Hostile world

For years, by somehow dominating the Perm board with its own representatives, it controlled the building society without owning it.

Now, through Nedbank, which will take 100% of the Perm, the alliance has been established formally beyond question. There is a lot of sensitivity in Cape Town and Pretoria about the power of the various camps, but they would doubtless argue that SA needs strong banks and financial institutions in a hostile world.

The Nedperm marriage also establishes Old Mutual, Nedbank and the Perm as a giant one-stop financial services empire. The Perm will operate independently under the Nedbank Group umbrella as Syfrets, UAL, Finansbank, Nedfin and Nefic do.

The transaction puts a lot of pressure on other building societies to follow suit. It will be no surprise if Volkskas and United Group do a similar deal — perhaps the other way around, with United's aggressive Piet Badenhorst in the driving seat.

NBS insists that it can continue independently, but First National Bank's nominee company has built up a 10% stake in NBS — so it may not have much say in the matter. The Allied and Standard might well like the look of each other in the new environment.

Shareholders of the Perm — the paid-up and subscription shareholders — will have to ratify the Nedperm deal. There is little doubt they will.

Bob Tucker ... victory not defeat

Piet Liebenberg ... out to make small accounts pay

Chris Liebenberg ... twice a managing director

Effectively SA Perm shareholders, who may redeem their deposits plus 11,5%, are offered R180-million for a company with taxed profit of R23-million — about 7,8 times earnings.

Ratification

For a financial services company with fairly bleak prospects (that describes the Perm before the deal) the price offered is generous. Nedbank is issuing 30-million new shares for the Perm. Its own earnings are expected to be at least R1 a share this year, so the Perm need only lift its taxed profit to R30-million if it is not to dilute Nedbank's earnings.

The Perm and Nedbank marry well. Nedbank is primarily a wholesale organisation. The get-together increases its retail penetration. It has lacked a mortgage bond book. It will acquire a book of more than R5-billion.

Nedbank's branch network has been less extensive than the other banks'. There will thus be little overlap or need to close offices.

Nedbank group chief executive Piet Liebenberg told me there would be rationalisation and some people could be asked to move to other positions in the enlarged group, but there were unlikely to be any lay-offs.

It is such a good deal for all parties, so logical, that many outsiders are kicking themselves for not having foreseen it. It was "no surprise", said the Star, which strangely neglected to forewarn its readers.

Team effort

Piet Liebenberg is given the credit for conceiving such a good deal, but he contends that it was a team effort, something that emerged spontaneously in a year of discussions among the three parties.

Pointing out that the Perm was technically unable to take over Nedbank, he even tries to call the deal a merger, rather than a takeover, although he concedes that he is Bob Tucker's boss.

Mr Tucker believes that far from being a defeat for the Perm, the takeover and conversion of the society into an equity institution were victories.

"This was no rescue. You don't pay R180-million in a rescue. The transaction leapfrogs us over all the competition as a single class of legislation evolves for all financial institutions."

Mr Tucker says he did the right thing in holding out against conversion to a proprietory company earlier.

"Our shareholders are getting an 11,5% premium AFTER the stock exchange crash. They are being more handsomely rewarded than any of the others. The Perm is being legislatively unshackled. Together with Nedbank we can do more to exploit new technology. We can offer our staff better career paths."

Conscience

Mr Tucker says the Perm will retain its social conscience. He denies that its preparedness to operate small accounts for depositors and lenders was the wrong strategy.

"In the short term that strategy was not highly profitable, but it will pay off in the long term. Our new partners accept that basic point."

Mr Tucker says black mortgage borrowers have turned out to be extremely reliable.

Mr Liebenberg says a priority will be to find ways of making small accounts more profitable.

"We are a commercial enterprise. We can't render unprofitable services."

Mr Tucker says the Perm was constrained by "unthinking, irrational legislation, which made it necessary to build reserve ratios out of retained profits and thus compelled short-term thinking".

The old Building Societies Act limited the societies' access to short-term finance and obliged them to lend only in the mortgage area.

Culture gap

I asked Piet Liebenberg whether the cultures of the two organisations would gel.

His reply was: "At general manager level, there will be considerable interface between the two organisations, but otherwise they retain their identity and most of the staff are unaffected.

"There was a culture gap between Nedbank and Syfrets in the early years. I guess there is still a difference of culture between the subsidiaries of this group. The culture may have changed since I came on board. I don't see reconciling cultures as a major problem."

Divisional chiefs

Mr Liebenberg obviously believes that the group chief executive's function will be a full-time job because he has appointed Chris Liebenberg managing director of the commercial bank, the position held by Anton van der Merwe Vance until his retirement in July. Since then Piet Liebenberg has been managing director of the group as well the bank.

Chris Liebenberg is supported by line divisional chiefs Richard Laubscher and Johan Westraat and general managers Phil Baccioni (human resources), John Bunting (accounting and administraction), Frans Brits (technology), Kay Davidson (credit), Merton Dagut (planning and marketing) and Tom Euijen (international).

C/Press (58) 14/8/88

Close ranks to get rid of domination – Mabuza

By DERRICK LUTHAYI

SOUTH Africa has to adopt a new agenda to move forward to a just and equitable future, according to KaNgwane chief minister, Enos Mabuza.

Mabuza was delivering his key-note address to more than 1 000 delegates who attended the 24th Nafcoc conference which ended yesterday at Sun City.

He said the theme of the conference, Black Unity Action: An Economic Empowerment, was a timely one.

"Our people know where they are going, how and why, and some of them have paid for their belief and action with their blood.

"This is not the time for the luxury of division and disunity.

"At all levels and in every walk of life, we must close ranks, differences must be submerged for the achievement of a single goal – the complete overthrow of apartheid and race domination," said Mabuza.

Nafcoc president, Dr Sam Motsuenyane, who is due to retire in 1990, said it had to be admitted that sanctions and disinvestments were detrimental to the short and long term interests of South Africans.

He said it would not be easy to sway world opinion away from the propensity to put pressure on South Africa until its present policies – which were perceived by the world as contrary to accepted notions of justice – were radically changed.

"The country – especially the Afrikaner – must understand it is in their interest spiritually, intellectually, politically and economically to end the insanity of apartheid.

"South Africa is called upon to create conditions which will unable us to achieve internal peace and stability through equality, justice and the abandonment of apartheid," said Motsuenyane.

He said the SA Black Taxi Association should consider joining a broader structure as a specialist group involved in passenger transport only.

Nafcoc and the SA Black Taxi Association had held one meeting this year at which bases for co-operation between them in transport and other fields was examined, he said.

"Sabta wants to be recognised as the only national transport organisation serving blacks in the country.

"But we hold the view that transport business does not entail passenger transport only, which Sabta represents, but embraces other factors of transport such as cartage, shipping, railways and airways.

"Nafcoc's interest in transport goes far wider than passenger serives and we would therefore wish Sabta to join in a broader structure as a specialist group involved in passenger transport only," said Motsuenyane.

History lecturer at Soweto's Vista University, Dr JS Mohlamme, told delegates that when Jan van Riebeeck landed in the Cape, he introduced apartheid by planting trees across the Cape flats to cut off 6 000 acres of the Peninsula from the interior. This effectively separated the Khoi and the whites.

13/8/88

Ability to mobilise collective capital stressed

Update on prospects for black business

Staff Reporter

The obstacles facing black business could prevent it from becoming a significant force if it has to rely only on normal market mechanisms, says the South African Institute of Race Relations.

In its latest "Social and Economic Update" the institute says that while some forms of deregulation — like the removal of racial restrictions — are preconditions for black business growth, the prospects for black business may depend largely on its ability to mobilise collective capital to extract concessions from established businesses and Government.

"Update", a regular review published by the institute, also warns against expectations that black business will soon become a key generator of jobs.

For black business the most significant current development is its continued effort to form associations to pool black resources and to mobilise collective bargaining power, it says.

The publication reports that one recent sign of black mobilisation is the formation of the National Stokvels Association, which aims to strengthen the thousands of informal, traditional money-lending and saving schemes in African townships.

In addition, the Southern Africa Bus and Taxi Association (Sabta) is pressurising white developers to participate in township business projects in return for directing black consumers to white retailing centres.

Sabta has the leverage to do this because black taxi drivers play a key role in shaping black shopping habits through their "grocery circuits", which take customers from their homes to shopping centres and back.

Also, the African Council of Hawkers and Informal Business, whose membership grew from 12 000 to 14 000 between January and May this year, is urging retailers to gain access to the African consumer market by selling their products to hawkers.

Doctors urge new rugby laws

The Star's Foreign News Service

MELBOURNE — Two Sydney surgeons today claimed that failure to change hazardous rugby union rules could be considered culpable negligence.

Writing in the *Medical Journal of Australia*, Dr Tom Taylor and Dr Myles Coolican said some rules should be changed to reduce the risk of spinal injuries.

They said preventive programmes focusing on

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L and CAPE 80c (71c + 9c tax) 11/8/88 (58) B/Day A TIME

JSE in big push for inflation accounting

CHRIS CAIRNCROSS

CAPE TOWN — The JSE would use its considerable muscle to "persuade" its corporate membership to provide meaningful disclosures in future in their financial reporting on the impact of inflation on their published results.

Inflation accounting would be the JSE's issue for 1989, JSE executive president Tony Norton said.

The JSE intended to rule that all new listings would have to provide meaningful information in their prospectuses.

While it would be difficult for the JSE to lay down or legislate guidelines on a matter that had been vexing the accounting profession for years, the intention was to challenge boards of directors to come up with "stewardship reporting" that gave small investors a clear understanding of what impact inflation played on the company's affairs.

New listings would be dealt with first because it would be more difficult to persuade those companies already established on the JSE lists to incorporate inflation accounting in their reports.

UCT accounting professor Geoff Everingham said last week: "The JSE has considerable influence and it should use it to lend credence to the comments of its executive president in attempting to obtain a better portrayal of economic reality in financial statements."

But the financial manager of a major industrial conglomerate, who wished to remain anonymous, said yesterday there were practical problems and that until adjusted figures were used meaningfully as a management tool, it would be worthless to publish them.

Forex control to ease BoP

GRETA STEYN

THE drain on the current account of the balance of payments would be eased by tighter foreign exchange control over emigrants' income from assets held in SA, Reserve Bank senior deputy governor Jan Lombard said yesterday.

In terms of the economic package unveiled on Friday, emigrants' returns on blocked assets held in SA which may be transferred abroad via the commercial rand have been limited to R300 000.

"Provisional calculations show that the saving on the current account will run into a few hundred million rands," Lombard said.

The surplus on the current account for the first half of the year was R430m.

Emigrants had been freely transferring the full return earned on assets via the commercial rand system, Finance Minister Barend du Plessis said. However, transfers of income over and above the R300 000 limit would now have to be via the financial rand and only with the approval of the exchange control authorities.

16/8/88

The authorities are still to provide banks with full details of the new rules.

NAFCOC president Mr Sam Motsuenyane and KaNgwane Chief Minister, Mr Enos Mabuza, at the Nafcoc conference held at Sun City last week.

Nafcoc flexes muscles

Sowetan 16/8/88

FOCUS

Demand for new national labour code

By JOSHUA RABOROKO

THE decision to involve black business in politics and the adoption of a business charter were among the highlights of the 24th annual conference of Nafcoc held at Sun City last week

The conference, whose theme was "Black Unity — Actions for Economic Empowerment" was attended by about 1 700 delegates from local and international business communities.

According to Nafcoc's president, Mr Sam Motsuenyane, the charter was adopted to address a quest for socio-economic and political opportunity and advancement for blacks and all South Africans

He said it had been Nafcoc's mission to have a charter that would persuade large corporations and employers to accept that more blacks needed to be hired, to be promoted to positions of higher authority and higher pay.

"There is great need to spur black entrepreneurism, which in turn spurs the employment of black workers. The charter was established to look into the feasibility of formulating a new national code of fair employment practices in South Africa that supercedes all previous employment codes such as the EEC, Saccola and the Sullivan Code

"It is our strong contention that the measures instituted in terms of the present codes do not go far enough to significantly alter the basic character on which the country's socio-political structure is based," Mr Motsuenyane said.

The charter sets out a unique agenda designed by black people to achieve a desirable long-term policy objective of economic empowerment of blacks and elimination of apartheid in all facets of social, economic and political activity in South Africa.

In the charter Nafcoc resolved:

- Since apartheid permeates all facets of life it needs to be challenged from all fronts;
- As Nafcoc operates primarily in the economic sphere its contribution will be made from within this context, but in co-operation with other bodies with similar convictions, both within and outside the economic sphere;
- That it subscribes to the philosophy of non-racialism, non-ethnicity and a democratic South African society;
- That it believes in a mixed economy which offers equal opportunity to all irrespective of race, colour, religion, creed and sex

Mr Motsuenyane said Nafcoc viewed political rights and principles as follows:

- All people are born equal and entitled to freedom to attain maximum self realisation;
- That everyone has the right to freedom of expression and movement without any interference and hindrance, and
- All people have the right to freedom of association.

On economic rights and principles Nafcoc believed all South Africans had the right of access to the wealth of the country and to secure democratic control over their economic destiny.

Nafcoc believed that it was the right of everyone to have housing with all basic necessities, free and compulsory education and social security services.

"We believe the speediest route would be to enter into genuine negotiations with authentic leaders for the establishment of a democratic non-racial South Africa," Mr Motsuenyane said

All negotiations would have to be preceeded by a number of conditions including

- Release of all political prisoners and detainees, the unbanning of all political organisations and the return of exiles;
- End of harassment and or intimidation of trade unions;
- The lifting of the state of emergency and withdrawal of troops from black townships.
- Repeal of repressive legislation which empowers the State to proscribe political activity and persons;
- A clear commitment from the Government to a perspective of a democratic non-racial society.

The conference also touched on various divergent elements for unity and economic empowerment.

Mr Motsuenyane said Nafcoc had directed its council to meet the State President to discuss many issues regarding problems of black people in South Africa.

Lest we forget

THE *Sowetan* today remembers journalists around the country who are in detention-

(58) B/Day 16/8/88

Fraud wipes out 5% of foreign reserves

Defence counsel slams big banks

SUSAN RUSSELL

TWO big banks were described yesterday as grossly negligent for failing to detect a massive financial rand swindle.

Defence counsel H Bornman told the Rand Supreme Court that the country had lost 5% of its foreign reserves in the $119m fraud by three Trust Bank former officials.

He added in mitigation that gross negligence by Barclays Bank and the Trust Bank should be taken into account when sentencing the swindlers.

Bornman said the finrand transactions were allowed through negligence of the two banks, which should have been watchdogs for the Reserve Bank.

Arthur Ferreira, 40, Alan Young, 36, and Henry Harper, 43, were convicted on 99 counts of fraud and 12 contraventions of the exchange control regulations.

They had pleaded not guilty to all the charges.

The swindle, between December 1985 and May 1986, made a R100m profit.

The African Bank, which pleaded not guilty to the same charges, was acquitted on all counts by Mr Justice G Gordon.

Bornman argued it was clear that control over foreign exchange was not exercised properly.

An economist, Prof S J P du Plessis, giving evidence in mitigation, described the structure of control as a temptation.

Bornman said the Reserve Bank, with the other banks, should rectify the lack of control.

He added that Ferreira was going to lose more than he got out of the transactions.

Bornman said the assets of his client, with those of the other accused, had been seized and, if they were forfeited, this would counter the effect of what he received through the illegal finrand deals.

The hearing continues today.

Pre-tax income soars by 201%

Offshore arm a boost for Sasfin earnings

(58)

Cape Times, 16/8/88

By AUDREY D'ANGELO
Financial Editor

PROFITS by overseas subsidiaries "domiciled in low tax jurisdictions" helped to boost attributable earnings by trade and equipment financing group Sasfin Holdings in the year to June. They rose by 138% to R1,1m compared with R465 000 last year.

An increasing number of SA companies with offshore interests are making similar disclosures, as the weak rand helps to boost profits made overseas.

And Sasfin, with an overseas confirming division able to offer finance to SA companies, expects to do more such business in the current year as a result of sanctions and the credit squeeze.

The group, listed on the Johannesburg Stock Exchange last year, turned in results well ahead of those forecast in the prospectus.

Earnings were 90% higher at 11,1c (5,8c) a share and the maiden dividend 2,5c. The net asset value per share has risen to 32c (24c).

Pre-tax income was 201% higher at R1,1m compared with R381 000 the previous year and the tax bill sharply lower at R26 000 (R84 000).

The directors explain that "the low tax arises from export allowances and the fact that 50% of net income was earned by the group's overseas subsidiaries."

They say the increase in earnings was achieved in spite of a gearing ratio of 1,6:1 — "low in relation to industry norms".

Discussing the present, and future prospects, MD Roland Sassoon says that from the beginning of the current financial year "the capital and earnings of the group's overseas operations were converted from Swiss francs to sterling".

He continues: "Increases in the cost of imports through the levying of surcharges will increase the rand value of individual transactions in the instalment finance division.

"As Sasfin's instalment finance division focuses solely on business requirements, the changes in legislation relating to deposits and repayment periods affecting consumer goods do not affect our market."

In spite of the levying of surcharges, Sassoon expects increased growth in the coming year from the group's confirming division which is able to offer importers off-shore financing through its London office.

"The credit squeeze being applied to importers through the reluctance of overseas suppliers to extend trade finance to SA importers has increased demand for our off-shore finance facilities — a trend we see increasing in the future, particularly with political pressure on foreign credit insurers and suppliers to apply sanctions against SA."

Sassoon says the confidential invoice discounting facility offered by the group has been a further growth area.

He says Sasfin's export division is continuing to perform well.

"Plans are underway to develop new markets for this division and to improve its service in the sourcing of goods on behalf of its clients."

Closing gold prices

(In $ an ounce)

LONDON:
430,80/431,30
Fixing am: 430,25
Fixing pm: 431,15

ZURICH:
429,50/432,50

— Reuter

Business Report

Prosure income rises by 82%

CAPE TIMES 17/8/88

58

Financial Editor

CAPE TOWN-based composite assurer Protea Assurance Co (Prosure) lifted underwriting income by 82% to R5,5m in the six months to June, in spite of claims resulting from the Natal and Free State floods. Investment income has also risen, to R6,1m (R5,1m).

Tony Crank

The interim dividend has risen by 36% to 15c (11c) a share. But attributable profits are slightly down at R7,1m compared with R7,4m in the first half of last year.

The directors say the drop is due to a higher tax bill. The amount is not disclosed but they explain that previous assessed losses have been eroded by higher profits in the past two years and the group is now paying tax at the full rate.

Although the higher interim dividend reflects improved profits to some extent, the main reason for the rise is to equalize the interim and final payouts.

The directors point out that the group's solvency margin, or ratio of free reserves to net written premium expressed as a percentage, stands at a healthy 98% — more than eight times the statutory minimum.

The shareholders' share of life profits is lower at R187 000 (R245 000). But MD Tony Crank says the 1987 figure included part of the profit transferred from the 1984 three-year valuation of the life fund. Since 1985 the fund has been valued on an annual basis.

Crank says that eliminating the effect of the final tranche of profit, the distribution from the life fund would have been 25% higher.

He says the life division "continues to perform extremely well and is likely to make a steadily increasing contribution to the bottom line in the years ahead."

Discussing future prospects, Crank warns that the recommendations of the Melamet Commission of Inquiry — that statutory reserves should be increased by 50% coupled with the creation of a catastrophe reserve — would put local short-term insurers at a disadvantage compared with overseas competitors.

"While Protea is in full agreement with the underlying philosophy propounded by the Melamet Commission, the recommendations proposed will, as they stand, place an additional financial burden on the industry and on direct insurers and re-insurers in particular.

"The debilitating effects of overseas competition on SA insurers have already been seen and the rise in operating costs that will inevitably flow from the commission's recommendations, if implemented, can only exacerbate the situation.

"Clearly, if overseas competitors are to continue to be allowed to operate in the local market, they should not be allowed to do so at an advantage.

"The SA insurance industry welcomes competition, provided that the playing fields are level, and this is not the case at present."

Business Report

Klipton beats forecast — profit up 153%

CAPE TIMES 17/8/88

58

JOHANNESBURG. — Klipton, the industrial holding company listed in September last year, increased attributable profit 153% to R2,2m in the year to June 30, 1988.

Earnings per share are 37,6c (27c forecast in the prospectus) and a dividend of 12c (9c forecast) has been declared.

Turnover of R40,5m, was 34% higher than forecast

Better margins and lower finance costs resulted in pre-tax profit of R2,7m.

"This was accomplished in spite of a fall in gold mining capex and signs of a levelling off in the industrial market in the last quarter," Klipton's joint chairman, Nigel Matthews, said.

"The three operating divisions of the group — Sapco, Gardwel and Harvey and Russell — experienced good organic growth, and their four acquisitions performed well."

The acquisitions were Rockweld and Champlas, effective October 1, 1987, HBI Valves, effective March 1, 1988 and McKinnon Hoist, effective April 1, 1988.

The cost of these acquisitions was R6,8m, financed from group resources and bank facilities. — Sapa

Industry 'must aid black business'

GLEN SHELTON

13 May

MULTI-NATIONALS and large local industries must get behind black entrepreneurs to aid black business growth, says Walter Hasselkus, management board chairman of BMW SA.

Speaking at a business management course at Potchefstroom University, Hasselkus said: "The way towards a better SA is via economic activity, and the most absurd misconception about SA in the world today is that sanctions is the way to rid SA of the last remnants of apartheid.

"What is needed now is a concerted effort on the part of the country's leading companies to support institutions such as the Small Business Advisory Bureau, to bring black entrepreneurs into contact with bodies such as the bureau and to encourage black business by, for instance, contracting them as regular suppliers of goods and services".

He said the irony of international investors virtual cut-off of capital to SA was not merely that it hampered large business — it also affected the chances of small, black-owned businesses to "get off the ground and flourish".

SA 'will have to boost net savings'

B/Day 17/8/88

(S8) (2)

ARI JACOBSON

FINANCIAL sanctions would force SA to generate net savings of 19% of GDP, compared with current levels of 6,3%, to achieve an annual growth rate of 4%, the United group's latest Economic Perspectives said.

With limited foreign capital inflows into the country, "the goal must be to increase savings to boost investment", said the review.

However, weak money management over the last five years had caused SA's savings and investment to decline.

Net savings, at 6,3% of GDP for 1987, were uncomfortably low.

Government had posted negative savings since 1982 and the United said it should correct this trend to restore faith in the economy.

"There was very little new production capacity created last year, no less than 86% of new investment in 1987 was used to replenish old stocks," it said.

Real fixed investment declined by 25% from R31,2m in 1983 to R23,3m in 1987 due to poor economic prospects and political uncertainties.

Personal and government sectors prejudiced gross domestic investment with negative savings of 2,7% in 1987 requiring corporate savings of 35% to support the little investment there was.

Contributing to the negligible level of savings had been negative real interest rates and inflationary expectations. With no real return on savings, consumers had opted for current consumption at the expense of future growth.

Cape Times 8/8/88 (58)

AAC pays employees first dividend

JOHANNESBURG. — A special employee shareholder report incorporating information about Anglo American Corporation (AAC) and its results for the 1987/88 financial year has been made available to employees who are members of the Anglo American Group Employee Shareholder Scheme.

A little more than 118 000 employees have accepted the offer to join the scheme.

"For the many thousands of new employee shareholders, the right to know about, and their interests in, the performance of the company in which they have a financial stake is greatly enhanced," says Julian Ogilvie Thompson, chairman of the Employee Shareholder Trust.

"Considerable research, including the canvassing of employee shareholder opinion, was carried out to ensure the production of a document that will tell its recipients what it is they want to know about their investment in a straight-forward, thorough way," he said.

In addition 111 850 employees whose shares were issued on or before June 17, 1988 have received their first dividend cheque.

This represents the final dividend of 162,5c a share declared by AAC on June 2, 1988 and paid on August 2, 1988.

As it is intended to make further allocations of shares annually for another four years. — Sapa

IGI buys 25% stake in Samatco

(58) Cape Times 9/9/88

By BRUCE WILLAN

IGI Life Investment Holdings (IGI) has bought a 25% stake in Samatco, a Johannesburg-based pension fund, portfolio and investment management house.

This will enable Samatco to increase its pension fund client base considerably and give it more bargaining power in the marketplace.

IGI paid R750 000 for its stake in Samatco. Recently Duros purchased a 30% stake in Samatco for R900 000.

Geoff Reich, who is the largest single shareholder (45%), says that it will mean an added turnover of about R1m to Samatco with the possibility of getting more pension fund business through IGI.

At present Samatco administers 10 pension funds with assets worth about R50m and total funds administered are about R90m.

Reich indicated that over the next two years Samatco would have a growth rate of about 400% as a direct result of the "marriage" with IGI and Duros.

Financial director of IGI, Martin Kapper, explained that with Duros being a 10% shareholder of IGI and with negotiations in process for Duros to obtain a further 15% it was a logical step for IGI to be introduced to Samatco.

Metals

LONDON. — Closing prices (in sterling) on the London Metal Exchange in the order of: Turnover, market tone, cash buyer/seller, three months buyer/seller, fifteen months buyer/seller and settlement:

Copper A: 1278,00/1286,00; 1282,00/1270,00; 1150,00.

Copper: Std — 1230,00/1240,00; 1240,00/1230,00.

Lead: 351,00/354,50; 356,00/356,00; 342,00.

Share index futures

Closing prices

	Bid	Offer
All Share Index: 1750	**Bid**	**Offer**
September/September	1730	1745
December/Desember	1740	1765
All Gold Index: 1257	**Bid**	**Offer**
September/September	1262	1290
December/Desember	1265	1280
Industrial Index: 1630	**Bid**	**Offer**
September/September	1576	1605
December/Desember	1587	1615
Krugerrand: 1192	**Bid**	**Offer**

Cash buyers plunder shops

18/8/88

GRETA STEYN

CASH sales of TV sets, video machines and other luxuries are booming as buyers splash out to beat heavy price hikes looming after the imposition of a 60% import surcharge.

Dion MD Hymie Sibul said the boom in cash sales started on Saturday, the day after the economic package was unveiled, with sales 40%-50% higher than projected.

He added major appliances looked like being sold out soon.

Credit buyers have already been discouraged, however, by the bite of the restrictions on HP and credit sales. This raised deposits and reduced the repayment periods.

O K Bazaars' marketing director Arthur Solomon said TV sales were buoyant with customers trying to avoid higher prices.

"But the credit curbs are already biting with demand falling off in some sectors," he added.

Morkels said the initial reaction of consumers seemed to be a surge in demand from cash-flush, upper-income buyers.

B/Day

It finished in New York at $431 as the dollar came off its highs.

... more than half of the rand's gains since the local currency rebounded on Friday ahead of the news of the government's package to stem imports.

Krugerrands beaten back

18/8/88 B/Day

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MIKE ROBERTSON

LONDON — Sanctions and the minting of 137 new types of gold coins have caused the Krugerrand's share of the world gold coin market to fall from 91% to just 3% in the past 10 years.

A new publication by the Washington-based Gold Institute, Modern Gold Coinage, says while in 1978 just two gold coins were produced, last year 46 countries minted 139 different types of coins.

In 1978, 7,3-million ounces of gold were used for coins. The Krugerrand accounted for 91% of the market while the Mexican 50 Peso Centenario took the other 9%.

Last year 6,2-million troy ounces were used for coins, a fall of 1,1-million ounces or 15%. The Kruggerrand reached only 135 000 ounces, or 3% of the market.

The decline in the Krugerrand market share to almost negligible proportions has resulted in Britain's two leading banks no longer trading them across the counter.

Both Barclays and National Westminster (NatWest) say after the EC ban on the importation of newly minted Krugerrands, across-the-counter trade fell to such negligible proportions that a decision was taken to stop trading.

A NatWest spokesman said all trade in gold coins had fallen.

Last year the rest of the 4-million ounce, gold bullion coin market was shared by US Eagles, Canadian Maple Leafs, Mexican Centenarios and British Britannias.

When commemorative coins are included with bullion coins, for the first time in recent history the US used more gold for the minting of gold money than any other nation last year.

It used 1,677-million ounces of gold, mostly from US mines, to mint Eagle bullion coins and Constitutional commemorative coins.

The second largest consumer of gold for coinage was Canada, which used 1,506-million ounces for Maple Leafs and its CAN100 gold coin commemorating the Calgary Winter Olympic games.

Banks extend 25% more credit

GRETA STEYN

CREDIT extended by SA's banks surged by 25% in the year to June, according to the banks' latest BA9 returns to the Reserve Bank.

Nedfin Bank's analysis of the BA9s shows banks' credit agreements with private and corporate customers rose by almost R3,3bn to R16,2bn.

However, the rate of credit expansion had slowed in the June quarter.

Nedfin MD Ron Rundle said the new restrictions on consumer credit could have a decided effect on the overall credit picture. However, banks offering finance for durable goods would not be hit very hard, as the terms for passenger motor vehicles had remained unchanged.

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B/Day 18/8/88

'Forward cover on finrand drawcard'

Own Correspondent

PORT ELIZABETH — One way to attract foreign investments to SA was for the Reserve Bank to allow forward cover to be taken on the financial rand at the time of investment.

Haifa University finance professor and World Bank consultant Nahum Begir suggested this yesterday.

He said foreigners were reluctant to invest in this country because of the instability of the rand.

By offering forward cover on the financial rand — the vehicle used by foreigners to invest on the JSE — the investor's uncertainty about protecting his money was removed.

Begir said with forward cover available on the commercial rand, dividends and interest payments had become attractive to foreign investors.

Sanctions

He did not believe forward cover for the fiancial rand would attract foreign government or big corporate investments because of sanctions. It would, however, be a start to make SA more attractive for others.

He said in the US sanctions were sometimes introduced at the request of companies under pressure from shareholders to stop doing business in SA.

Once sanctions were introduced, the companies could justify their disinvestment to those other shareholders who were not interested in politics, but only in the profits.

He said the US would not achieve its political objectives in SA by imposing sanctions — 28 years of US sanctions had not changed Cuba politically.

Delay in govt curbs filtering down

'Still pressure on short-term interest rates'

(58)

18/8/88 B/Day

CHRIS CAIRNCROSS

CAPE TOWN — Cape-based institutions believed there was still some upward pressure on short-term interest rates, with prime possibly peaking at not more than 17% in October.

They thought it would take that time for the effects of last week's restrictive import and credit package to work through the economy.

There was consensus that short-term rates would also not soften by more than 1,5% once demand cooled.

Sanlam's chief economist Johann Louw saw the prime rate going no higher than 17% or slightly less by October, further forecasting that the rate could see a 1% decline in 1989 as the economy started slowing.

Southern's Mike Daly expressed a similar view, reflecting some confidence in the latest package.

Daly surmised demand had already started to fall, but believed it would not lead to a downward correction in interest rates much before next year.

Old Mutual's David Mohr took a more cautious line.

Drawing attention to the selectivity of the new surcharge umbrella, Mohr noted they still affected only a small percentage of SA's imports.

He suggested those becoming aware of government's thinking on restricting imports might already have brought forward their orders.

Louw noted that long-term rates had recently declined, and doubted there would be much pressure on them to strengthen again as this could easily be accommodated by the excess of liquidity within the country.

With the Reserve Bank apparently still unconvinced the economy is showing signs of slowing, the institutions are not discounting further restrictive action.

Measures could include higher interest rates, a broadening of the surcharge base, a further clamp on hire purchase and the expansion of credit — and direct import controls as a last resort.

Interest rate rises: pro and con

In both America and Britain domestic worries have temporarily replaced exchange-rate ones in the setting of interest rates. How effective are interest rates at checking growth in domestic demand?

Mr Nigel Lawson marred his achievement this week in becoming Britain's longest-serving postwar Chancellor of the Exchequer.

He raised interest rates for the seventh time in three months.

A day later the Fed raised America's discount rate by half a percentage point. There was a common cause: on both sides of the Atlantic there are worrying portents of overheating and inflation.

With America's fiscal policy off-limits until after the presidential election and the British government refusing to tighten its fiscal policy when its budget is already in surplus, the policy-makers in both countries are having to use interest rates as their only instrument with which to steer demand. Exchange-rate targets, the previous mentor of interest-rate policy, have been temporarily shelved.

A lot of critics think that interest rates are too blunt an instrument for the purpose.

They argue that consumer spending is relatively insensitive to changes in rates, and that tax increases not interest rates, should be used to cool overheated demand.

By contrast, investment is sensitive to interest rates, so the very thing that is essential for growth to be sustained will suffer when rates rise.

A fair analysis? Assume, for the purposes of argument, that all countries increase their interest rates, leaving exchange rates unchanged. Then interest rates should affect consumer spending in two ways.

- Higher interest rates will make consumption today less attractive than consumption tomorrow. Households will therefore curb their spending, save more and borrow less.
- At the same time, higher interest payments on existing debts will squeeze households' disposable income.

Is this in fact what happens? On the face of it, no.

Far from saving more, American and British households have increased their debts relative to their income during the 1980s; despite the jump in real interest rates.

Interest payments have risen even faster: in Britain they have doubled over the past decade to nine percent of household income.

This surge of borrowing, though, is explained by factors other than interest rates. The borrowing surge reflects changes in the attitudes of both borrowers and lenders.

Today's big spenders are the baby-boomers of the 1950s and 1960s, who do not share their parents' hang-ups about being in debt.

Meanwhile, financial deregulation has spurred competition among lenders, and they are now falling over themselves to book loans.

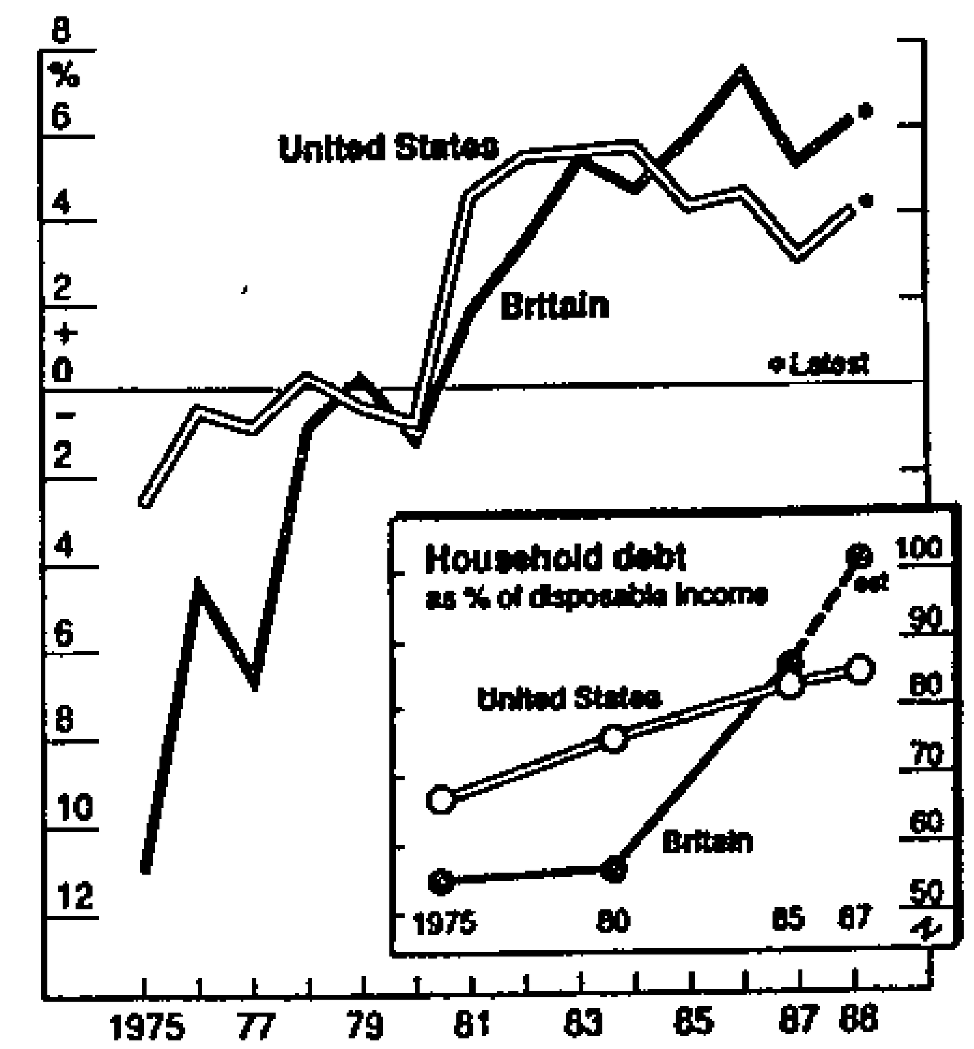
And while the expansion in debt in the 1980s has been more than matched by a rise in households' holdings of financial assets, deposits with floating interest rates have grown more slowly than other assets such as equities, bonds and pension fund reserves.

As a result, Britain's personal sector has recently switched from being a net creditor in terms of floating interest-rate assets and liabilities to becoming a net debtor.

This should make households more sensitive to interest rates: in the past the personal sector gained from a rise in interest rates, now its disposable income will be squeezed.

Morgan Grenfell, a London merchant bank, calculates that each one percent rise in interest rates reduces net personal incomes by an annual £320 million. This is only 0,1 percent of disposable income, but the impact on total spending will be larger. Why?

Real interest rates
Short-term rates deflated by consumer prices



Sources. CSO; Federal Reserve, Bank of England; IMF; Phillips & Drew

Savers tend to be older than borrowers. Almost 60 percent of the funds invested in British building societies are owned by investors over 55 years in age; those oldies account for only 15 percent of borrowing.

A rise in interest rates distributes income from young spendthrift borrowers to older and staider investors, who will usually spend their windfall more slowly than debtors cut their spending back.

This all suggests that interest rates have become a slightly more powerful instrument of policy than they once were.

The snag in Britain is that the link between interest rate changes and monthly mortgage payments has weakened in the past few years.

Annual review schemes for mortgages, where building societies fix monthly repayments for a year at a time, now cover about 40 percent of British borrowers. Most of them will not feel the impact of the recent 1,75 percent rise in the mortgage rate until next year, so the impact of the rise in interest rates will be delayed.

But depositors will feel the benefit of higher rates almost immediately.

In the near term, higher interest rates will therefore increase, not reduce, personal disposable income. On balance, interest rates in Britain remain a blunt instrument for controlling consumer demand.

They are even blunter in America. There, higher interest rates are likely to raise disposable income even in the longer term, because American households still have more adjustable-interest-rate assets than they do debts.

Mortgage borrowing for house purchases accounts for about two-thirds of total personal borrowing — roughly the same as in Britain.

The difference it that in Britain virtually all of it is on floating-interest rate terms; in America about half is at fixed interest rates.

Moreover, because tax relief on mortgage interest payments is more generous in America than in Britain, Americans may be even less sensitive to interest rates.

Recent tax reforms in both countries have tended to offset some of these effects, because lower marginal tax rates automatically cut the value of tax relief. Despite this, consumer spending still responds only jerkily to interest-rate changes.

Investment, meanwhile, responds all too readily. The British Treasury's model suggests that if interest rates rise by two percent, consumption will be 1,75 percent lower after two years than it would otherwise have been; investment will be 2,75 percent lower.

In theory, firms go ahead only with investment which promises a rate of return greater than the cost of funds; so, if interest rates rise, fewer projects pass this test.

In practice, investment decisions depend upon many other factors besides the cost of money; capacity utilisation, the strength of demand, business confidence and profits.

In both Britain and America, these all currently point to investment remaining strong — but for how long? — **The Economist.**

BLACK BUSINESS — 1

Everything to gain

Black business stands to gain handsomely from new legal reforms.

In particular, legislation is expected shortly which will allow blacks to operate businesses from home in black townships. It will legitimise tens of thousands of backyard businesses currently operating illegally.

Small Business Development Corporation (SBDC) spokesman Johan Naude says the Conversion of Certain Rights to Leasehold Bill, now before parliament, "could have a significant impact on informal sector business development in black towns throughout SA."

Current regulations lay down rules for allocating trading sites, types of businesses that can be conducted and restrictions on hawking activities.

"Of specific importance would be the repeal of provisions that prohibit home businesses," says Naude. "It is envisaged that draft regulations providing for the use of residential buildings for business purposes would replace these regulations. Thousands of backyard businesses currently operate in a technically illegal sense and, in most cases, proprietors face prosecution by local authorities."

Lawrence Mavundla, president of the 14 000-member African Council of Hawkers and Informal Businesses (Achib), says that in Tembisa alone, there are more than 2 000 *spaza* (home shops) compared with 30 formal shops.

Naude says dressmakers, laundry services, hairdressers, welders, repair shops and various other home crafts "could in future be permitted from home if the dominant use of the property remains residential, the activity is not noxious and does not interfere with the amenities of the neighbourhood."

The SBDC supports the changes. In developing industrial parks and shopping centres in neglected areas, Naude says it has relied heavily on businessmen who have gained their experience from home operations.

Louise Tager, executive officer of the private sector-funded Law Review Project, says many laws restricting black business activity have been repealed this year.

The repeal of Proclamation 293 of 1962 on March 9, replaced statutory controlled occupation in homeland areas or trust-owned townships, with the common law of lease. The repeal of Regulation R1036 of 1986 (replaced by the Conversion of Certain Rights to Leasehold Bill) does the same for urban areas.

Black businessmen, especially, suffered under the old laws, says Tager. She describes the former regulations as "restrictive in the extreme."

Besides dictating where blacks could trade, the regulations prohibited blacks from raising capital or sharing profits with non-blacks. They needed permission to employ non-blacks, had to submit to medical examinations and keep accounts open for inspection. They couldn't even dispose of their business without permission.

Tager says the new law will create a "deregulated, non-criminal environment" for the black community. And not before time either. ■

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NEDBANK/PERM

First step to a new era

There are mutual advantages — but the Perm does need help

The real point about the merger between Nedbank and The Perm into one of the country's largest financial institutions is that it sets the scene for the substantial rationalisation of the financial sector that lies ahead. The longer-run benefits from this will not only be material for shareholders and consumers alike, but will keep financial instituions here in line with international trends.

The reasons why the deal now looks so obviously synergistic to its proponents are, first, the influence Old Mutual has in the affairs of both; second, Nedbank's obvious desire for a large consumer market; and third, The Perm's need to address a three-year decline in profits, constricted as it was by legislation — especially as it refused to go for a listing.

Shareholders in The Perm can count themselves lucky to receive the bonus to be paid by Nedbank, especially since the other building society share prices fell sharply after the stock market crash. For MD Bob Tucker made very clear that his board would not list the society. So shareholders are perhaps receiving more than they deserve.

But was The Perm right in refusing to go the listing route? Tucker argues that "the authorities, for reasons I don't understand, are absolutely determined that mutual building societies be forced into a new dimension of one category of institution under one law," he says. The result is that mutual building societies can grow only at the pace of their after-tax profits.

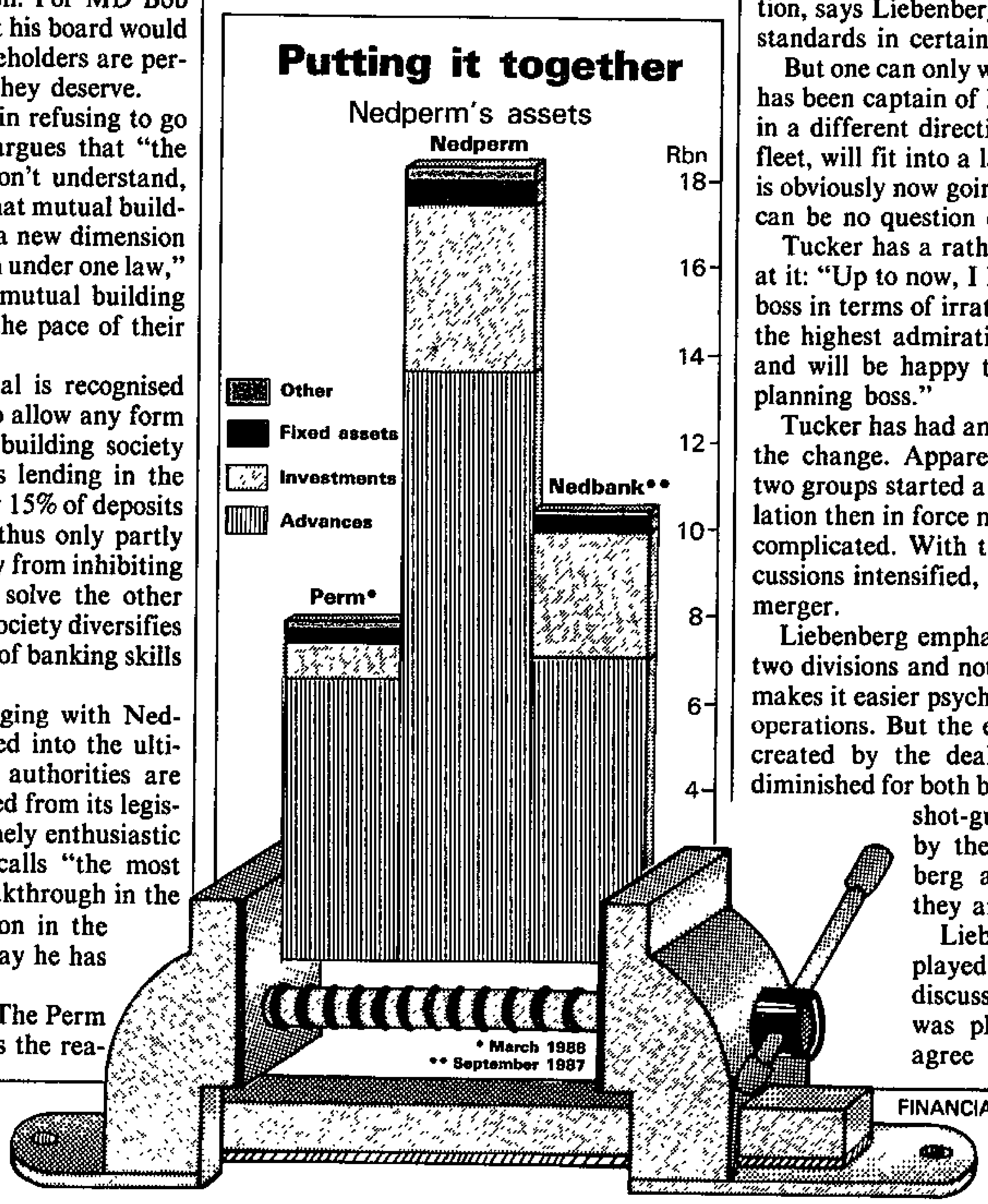
"No other form of capital is recognised and the authorities refuse to allow any form of diversification. A listed building society still has to have 70% of its lending in the form of home loans and only 15% of deposits can be short-term. Listing thus only partly unshackles a building society from inhibiting legislation and it does not solve the other problem which arises if the society diversifies into banking — that of lack of banking skills and systems."

Tucker says that by merging with Nedbank The Perm is catapulted into the ultimate institution which the authorities are looking for and is totally freed from its legislative shackles. He is extremely enthusiastic about the deal, which he calls "the most exciting and significant breakthrough in the whole process of deregulation in the history of SA." Some may say he has no other choice.

Certainly the benefits for The Perm are substantial. Tucker gives the reason for the declining profits as being its enormous client base, which is reflected in the cost structure. The Perm was not recovering a sufficient contribution for the cost of providing the services and infrastructure and was also not as cost-efficient as it should have been.

It has instituted a programme for recovering a larger contribution and for improving the cost structure. Tucker expects this to be strengthened by rationalisation benefits from the merger with Nedbank, which will also permit the society to offer a wider range of products and services, which he expects to generate additional revenue.

Another potential problem area is the large number of loans which The Perm has extended to blacks. Nedbank Group CE Piet Liebenberg, who will head the whole Nedperm operation, points out that not one black house has been repossessed. Tucker remains adamant that "unless some more institutions take the trouble to understand the black market, this country will not be worth living in." The loans are at the same rate as for whites, but there is increased cost in extending a large number of smaller loans rather than fewer larger ones to the white market. There was a cost to philanthropy.



But what is in the merger for Nedbank shareholders? Is Nedbank simply taking over The Perm's problems when it has just got shot of its own? Both institutions think not. Firstly, The Perm will be freed to operate in a more efficient manner. Secondly, even without the rationalisation benefits that the merger will bring, The Perm is forecast to make profits of R30m for the first 12 months it will be under the direction of Nedbank (the year to September 1989), based simply upon better cost control and a greater contribution from investors towards the services provided. Thirdly, the ability to offer banking services without the infrastructure cost the other building societies must incur should help the bottom line. Fourthly, the directing hand and the management of Nedbank should assist.

Liebenberg sees one of The Perm's problems as a lack of focus. "The focus was too broad and when this happens you are bound to pick up administrative problems," he says. "We can help them to focus and help supply the skills for this." The Perm's administration, says Liebenberg, is not up to Nedbank standards in certain areas.

But one can only wonder how Tucker, who has been captain of his own ship and sailing in a different direction from the rest of the fleet, will fit into a large corporation, which is obviously now going to take charge. There can be no question of turning a blind eye.

Tucker has a rather novel way of looking at it: "Up to now, I have had an unthinking boss in terms of irrational legislation. I have the highest admiration for Piet Liebenberg and will be happy to work for a thinking, planning boss."

Tucker has had ample time to think about the change. Apparently talks between the two groups started a year ago; but the legislation then in force made the task extremely complicated. With the new legislation, discussions intensified, resulting in the current merger.

Liebenberg emphasises that there will be two divisions and not two companies, which makes it easier psychologically to rationalise operations. But the euphoria (if such it be) created by the deal has apparently been diminished for both by suggestions that it is a shot-gun marriage arranged by the Old Mutual. Liebenberg and Tucker deny that they are reluctant partners.

Liebenberg says Mutual played a role in three-party discussions — but no pressure was placed on any party to agree to the deal. Now that

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the deal has been consummated, bank MD Chris Liebenberg says the more they examine the two groups, the more perfect the fit appears.

There is little doubt that The Perm brings advantages to Nedbank. Liebenberg puts the building society's net assets at R300m (after revaluation of properties) which Nedbank purchased for R180m. On consolidation, net worth per share, fully diluted after the rights issue, will thus increase 14,6%.

"And we shall be improving our net asset value without affecting earnings," adds Chris Liebenberg. Nedbank expects that earnings fully diluted will not change, even without any benefits from rationalisation.

The Perm fills a gap which Nedbank identified a year ago. Piet Liebenberg says: "We decided that we needed three divisions: corporate, consumer, and commercial. We had to build up the consumer side or have a merger. We decided to merge and thus we bought time." And that is probably the real essence of the deal for the bank.

Van der Horst

Liebenberg

Tucker

Liebenberg also emphasises that Nedbank's basic principle is specialisation and, while it has expertise in corporate and commercial banking, it lacks knowledge of the consumer side. "First mortgage bondholders are considered possibly the best target market on the consumer side," he points out.

But he is careful to emphasise that Nedbank is paying a fair price at a p:e of 7,8, which represents a tax-free bonus of 11,5% to shareholders.

A problem may be the Nedbank share price. Currently at 570c, which is below the 600c at which the offer to Perm shareholders is calculated and at which the rights issue will be pitched, its level will incline Perm shareholders to take the cash and discourage Nedbank shareholders from taking up their rights. The Mutual will then have to put in substantial sums again as underwriter and inevitably there will be criticism over an increased concentration of ownership.

Analysts expect excellent results from Nedbank and these will be announced before the last day to register for the rights issue, which could be as early as end-November. The rights issue will probably be a restraint on any upward momentum that these results might have been expected to give to the bank's share price. And it is possible that the current fall in the bank's share price has been due to disillusion because Nedbank is raising capital again so soon after its massive dilution of two years ago.

Liebenberg contends that no bank could have done a deal of this size without raising additional capital and points out that on consolidation the new Nedperm group will meet the requirements of the Banks' Act regarding capital ratios without using the phasing-in period.

Chris Liebenberg says that the anticipated earnings by The Perm amount to R1 per share for the new shares issued (Nedbank's EPS for 1987 was 85,1c), making them self-financing. This, he believes, should assuage any fears about earnings dilution.

But what the lower price could also reflect is the fears that Nedbank has swallowed more than it can digest quickly with ease. Liebenberg says that the Finansbank merger has settled down. But that is not the entire point. For he had other problems inherited from former MD Rob Abrahamsen to overcome as well. That was the reason for his appointment, not the acquisition of Finansbank.

Moreover, there will inevitably be clashes of culture in a merger of this size and some managers will leave as a result. That is a fact of corporate life. It is also quite clear that Liebenberg is the man who is going to have to carry the can. Obviously in the eyes of Old Mutual's chairman Jan van der Horst, he has turned a problematic Nedbank to good account which must single him out in the OM agglomeration as the man best fitted to enhance the fortunes of The Perm.

Be that as it may, this is one of the biggest mergers in SA history and is setting a new trend in the financial sector. The merger has taken Nedbank from fourth largest in the banking sector to a position where it is close to the two largest, Standard and First National.

Liebenberg thinks that the size of the home loan book, compared with other services in Nedperm, will not be unusual in the light of other subsequent mergers. For it is common cause that further rationalisation in the industry is likely.

The bets are now that First National could take acquisitive action to increase its size and enhance its dominance. Both it and Standard have close ties with life assurers but lack substantial building society links, although their organic mortgage growth has been substantial. Both have flirted with the UBS and ended up as rejected suitors. Volkskas and UBS could move closer together, though Volkskas cannot increase its shareholding. The attitude of Rembrandt here may prove to be as influential in this sphere as that of Old Mutual in Nedperm's case. Allied is expected to look for a partner, despite the holding by Sage. NBS is hardly likely to sit still and even Saambou could emerge from its ennui.

While we accept that rationalisation and large financial institutions are a fact of modern life, and of profound benefit to the consumer, it is also vital that the authorities allow ease of entry to smaller, more specialist banks and other financial institutions. There are intimations that the Registrar's office is alive to this need. They need to be given substance.

Pat Kenney

BLACK BUSINESS — 2

Piggy in the middle

It's no fun. being piggy in the middle. Despite attempts at its annual congress last week's to align itself more closely with "the people's struggle," the National African Federated Chambers of Commerce

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and Industries (Nafcoc) can expect little respite from critics on either side.

Its new business charter seeks to identify black business more closely with movements seeking political change. But, while unequivocal in its demand that change must come soon, it is likely to be criticised by more militant blacks as favouring incrementalist options.

From the other side, government's slowness in recognising the potential of the black business community as a moderate force for change, is unlikely to be hastened by the charter's political emphasis.

The charter recognises the removal of apartheid and the economic empowerment of blacks as two key objectives. But as Nafcoc operates primarily in the economic sphere, it says its contribution to social improvement will be made in an economic context. That, in itself, won't please the extremists.

Politically, it supports freedom of expression and association, and believes everyone should have the right to join political parties or organisations. Moreover, it sees SA as a unitary state that should be governed according to the wishes of the majority.

It contends everyone should have access to the wealth of the country, to work, unfettered property ownership, housing, medical care and free education.

The business charter calls for the freeing of political prisoners, unbanning of organisations and legitimisation of trade union activities as a prelude to negotiations with authentic leaders of the people. A further precondition is that the State of Emergency be lifted and troops withdrawn from the townships.

To help achieve all this, it calls upon the private sector to lend vigorous support — especially in education where it says blacks have a legacy of being disadvantaged.

"In the light of past disparities," it notes, "business has a commitment towards the promotion of community development." ■

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Safe as houses

Building societies, traditional sources of home loans, are facing enormous challenges in the wider world of financial services. The swallowing of the Perm, SA's second largest,

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by Nedbank **(See P28)** is an indication of how difficult it is to carry on conventional building society business in an industry heading for financial supermarkets.

Nor is diversification an automatic solution, as US experience has shown.

For some time, the equivalent of our building society movement has been taking a pounding. Economic changes in the Sixties and Seventies, which introduced huge volatility risks, threw traditional savings and loan institutions (S&Ls) into disarray. Problems were rooted in the fixed interest rate structure of their mortgages at a time of rising interest rates. *Forbes* has reported that in 1981 and 1982, "S&Ls paid higher rates to depositors than they earned on mortgages and other assets."

To remedy the situation, S&Ls were allowed to diversify into non-mortgage business. But with large numbers of fixed loans on the books and the high cost of funds (partly because of high Federal insurance premiums), many continue to battle. The July *Euromoney* reports 500 S&Ls in the US as insolvent — 20 hopelessly so — while "S&Ls as a whole lost US$3,8bn during the first quarter and $3,2bn in the previous quarter." *Euromoney* predicts a $70bn rescue operation will eventually be needed.

The situation in SA is not directly comparable — mainly because building societies scrapped limits on interest rate increases in the Sixties. The industry is essentially sound, with all major societies profitable.

However, the transformation of the financial services industry worldwide has the same implications as in the US — there is a need for rapid and ongoing adjustments.

Financing residential property is a specialised business, which leaves little room to manoeuvre in the face of changing circumstances; but it is secured by immovable property which makes it intrinsically sound. Bankers, on the other hand, have flexibility of investment, which allows room to switch strategies when the cycle moves against them, but their assets are riskier. So diversification into banking services calls for a new set of asset management skills.

On the funding side, too, there are challenges, as traditional retail money has been scarce in recent years.

Increasing tax

One reason is increasing rates of tax, which enhance the attraction of investments linked to life and pension policies — which provide some tax relief. The outlook for these is uncertain. Tax benefits on building society investments are due to be phased out in the next few years and the dispensation for life assurers is also likely to change; so there may be a net gain for societies.

Also competing for funds in recent years have been equity investments. Negative real interest rates discourage conventional savings. Despite the October shakeout, unit trusts, for instance, are absorbing money that would in earlier years have gone to building societies.

So in terms of both temperament and expertise, great demands are being made on an industry which, only a few years ago, was both constrained and protected by legislation designed to promote home ownership.

This comes at a time of technological innovation which is making its own demands. Enormous sums are needed to install and maintain electronic banking systems. Only a large client base makes them feasible.

No wonder competition is cut-throat. ■

UK hesitates

British building societies are not rushing to take advantage of the 1986 Act, which allows them to convert to public listed companies, free to borrow on the wholesale money markets and meet rising competition from banks and insurance groups in lending to homebuyers. The provision which enables societies to make the transformation came into effect at the beginning of this year, but so far Abbey National, the second biggest with 6m members, is the only one to take advantage of it.

Halifax, the largest, and Leeds Permanent, fourth in the league, say they will remain mutual operations for the time being; the rest are studying the implications.

Abbey National, however, is determined to get out from under the restrictions of the Building Society Act which forces it to raise 90% of its money from small savers through the expensive retail market.

So while societies are increasingly challenging banks in the retail market — offering cheque accounts, electronic access to customers to pay their bills and automated cash dispensers — they suffer the disadvantage of being limited in raising large chunks of money at low cost.

The logistics of conversion are considerable and costly. The Act requires a quorum of voters of 20% of all depositors with balances of £100; of that number, 75% must agree. Abbey National also has to get a simple majority of borrowers to vote in favour.

"In our case, it means getting more than 1m people to vote, which is the biggest plebiscite in Britain outside a general election. We have started writing to members to explain the case for becoming a quoted company and expect to complete the education process by March. But getting people to vote will be the most difficult aspect of the exercise," says an Abbey National spokesman. ■

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Perfect match

It is improbable that two more compatible financial institutions could be found for a marriage than Nedbank and Perm — technologically speaking that is.

That may sound like a glib remark drawn straight from a best man's textbook wedding day speech, but in general terms it is true of Nedperm because the computer technologies used by the bride and groom are remarkably similar, and it is unlikely that customers using the new financial giant's electronic banking facilities will know the difference in the short term, while the combined operations could bring them tangible benefits in the longer run.

In hardware terms, even most banking staff will not have to know whether they are using the processing power of the Nedbank or the Perm's mainframe computers when they log on to a terminal. It will be only in the respective "engine rooms" that there will be a tangible difference because, although the machines are of the same make, they are different series.

Both parties in Nedperm use Burroughs mainframe computers (now Unisys), but Nedbank's is a Burroughs V series configuration and the Perm runs on A series processors. These machines use the same peripherals (printers, terminals and other add-on devices) and network protocols (to link the branch office computing functions to the mainframe). Both institutions also use Timplex terminal links (the interface between the hundreds of terminals in branches around the country and the mainframe computers) supplied by Datakor.

All branches in both organisations are on line (in direct contact with the host mainframe computer) and they were also both pioneers in the use of counter terminals which interact directly with the mainframe.

While Nedbank's automated teller machines (ATMs) are made by Docutel and supplied by Olivetti, the Perm's are NCR and Datakor machines. There should be no problems, however, as both are already hooked into the Saswitch network.

Unless the two organisations intend operating as separate entities, which seems unlikely in the longer run, the biggest technological changes will involve software. Both organisations have developed their own

19/8/88 (58) FM

banking systems rather than buying ready-made "packaged" solutions.

Nedbank information systems executive Bill Burns says the advantage of in-house software is that packages are typically developed abroad, based around the banking rules and regulations of a specific country. "In all instances software landed in SA has to be customised towards the financial and institutional environments. If 80% of the bought software needs customising you may as well do it yourself. Customising is often more difficult than working from scratch."

In terms of raw computing power industry estimates suggest that the combination of Nedbank's and Perm's mainframes will match those of either the Standard or First National Bank. However, the combined data processing staffs of the two (at around 500) will probably add up to only 30% of the other two big leaguers. Therefore rationalisation is more likely to affect capital equipment than its people.

It will take time for a cohesive technological policy to emerge, but some areas where there could be benefits as a result of the existing common synergies include sharing of common networks and using duplicated equipment for the establishment of a sophisticated disaster recovery system without the addition of new infrastructure.

In terms of infrastructural savings it is quite possible that where both institutions are represented at one location there could be a reduction of the number of dedicated leased data transmission lines and a rationalisation of terminal points.

One of the immediately obvious areas that the new organisation (with its Old Mutual, Syfrets and other financial and insurance service activities) could be looking at in terms of using technology to gain competitive edge, is through the application customer service centres to provide one-stop financial services ranging from long- and short-term insurance through to front-end commercial banking. ■

Cape Times 19/8/88

Liberty keeps hitting highs

58

Own Correspondent

JOHANNESBURG. — Liberty Life Association continues to hit new highs in business premium incomes, but interim results show that the insurance giant has made provisions for higher tax.

The group's net taxed surplus a share for the six months to June is 294,9c a share, up 17,8% on the 1987 half-year's 250,3c a share. Analysts expected an rise of 22%/23% at the halfway stage, based on the fact that interim earnings are usually based on half the earnings for the previous full financial year.

Last year's net taxed surplus a share was 618,3c a share, so about 14c a share has gone into provision for the increase in tax on investment income to 70% this year.

Liberty's net attributable taxed surplus for the six months was up 18,6% to R51,7m (R43,6m).

The interim dividend has been raised by 22,2% to 220c from 180c. The level of the interim is predictable as it is half the total paid in the previous year.

Liberty directors predict satisfactory growth at the year-end, barring unforeseen factors.

In the past six months Liberty's net premium income rose by 21% to R714,1m (R590,4m) while net income from investments and sundry income increased by 20,9% to R463,4m (R361m), lifting total income by nearly 21% to R1,15bn from R951,4m in the 1987 half-year.

Liberty directors report that during the six months new annualized premiums, which include single premiums and annuity considerations, rose by 33,6% to R110,6m from R82,8m. Total new business premium income amounted to a record R300,2m compared with R274,9m in the 1987 half-year.

The solidity of Liberty is reflected in a 6,8% growth in value of the group's investments to nearly R11,6bn from just under R10,85bn at the end of December, when investments showed that the October crash had some impact on its investment portfolio.

Even then, shareholders were protected from the worst effects of the crash by Liberty's fairly heavy investment in property.

Liberty interim dividend up 22%

19/8/88 B/Day (58)

LIZ ROUSE

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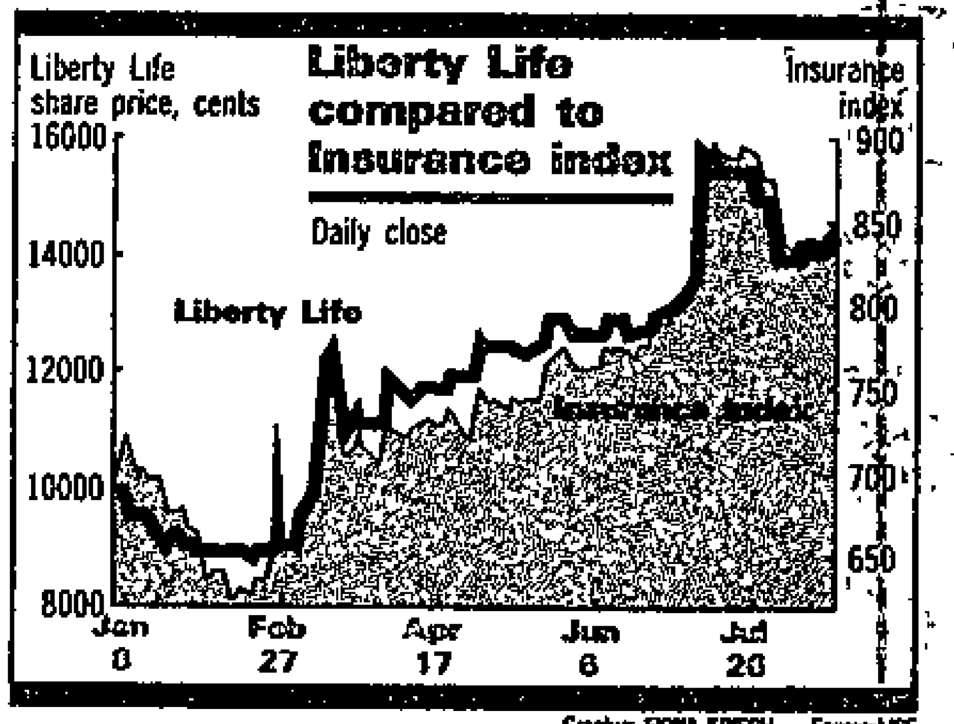

Graphic: FIONA KIRSCH Source: JSE.

The group's total assets increased 6,9% to R12,2bn from R11,4bn at the end of December. Last year total assets were boosted by 50% when Prudential Assurance became a wholly owned subsidiary and Liberty acquired major interests in Standard Bank and Premier.

The pyramid company Liberty Holdings reports an 18,9% rise in attributable profits to R37,7m (R31,7m) for the first half, translating into an 18,8% increase in earnings to 82,7c a share (69,6c).

Libhold has raised its interim dividend 26,3% to 48c (38c), being half the 96c total paid last year. Its assets increased to R12,4bn (R11,7bn).

Both stocks firmed ahead of results, with Liberty up 300c to R145 and Libhold 100c firmer at R34,50.

80% of insurers top solvency margin

ST Times 2/8/88

By Robyn Chalmers

ALLEGATIONS that the insurance industry is not financially sound have been denied by the SA Insurance Association (SAIA).

Chief executive Rodney Schneeberger and chairman Ken Saggers say at least 80% of short-term insurers exceed the 20% solvency margin.

Mr Schneeberger says the "fundamental solvency requirements prescribed by the Insurance Act for short-term companies are far ahead of those for any other normal commercial enterprise".

"As a result, an insurance company may be declared insolvent when by normal standards it is not."

Catastrophe

The Melamet Commission report is commended by Mr Schneeberger and Mr Saggers, who believe that it will strengthen the financial reserves of the industry.

The SAIA has met the Registrar of Financial Institutions, Theo van Wyk, who "is anxious to get certain recommendations of the commission into the Act as early as 1989".

Two recommendations to be implemented as soon as possible are the increase in the solvency margin and the formation of a catastrophe reserve.

Strain

These two regulations — if implemented immediately — could place much strain on some insurers. Mr Saggers says that instead of small companies going under, the industry could see a shrinkage in the market.

"Stricter solvency margins could result in several small companies merging with the result that there will be fewer operating."

Talk in the industry, says Mr Saggers, is that the market is softening, which is of concern to both insurers and Mr van Wyk.

"The Melamet report is vitally important in view of the softening market to ensure financial stability and stop the possibility of its going down the slippery slope of 1983 and 1984."

The softening of the SA market is inherited directly from abroad.

Mr Saggers says: "The American insurance industry had a lot of problems in the 1980s which led insurers to place business in Europe. As the European markets came right and rates began to harden, the insurers moved their business back to the US.

"To maintain its premium income, the European industry looked at new markets, one of them being SA. There is a theory that overseas markets are writing more business on the erosion of the rand, which is disastrous."

There is also a suspicion in the market that several maverick companies are being overly aggressive in their pricing. That could be another reason for the soft market.

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MANPOWER MIRROR by ROBYN CHALMERS

Staff cuts likely as bank scene changes

MORE rationalisation in banking and building societies after the Nedbank-SA Perm merger will almost certainly result in staff cutbacks.

Speculation is also rife on further shake-outs in the financial services.

Authorities have said for some time that SA is overbanked, too many institutions competing for a limited market.

The Nedbank-Perm deal caused renewed speculation that First National Bank and the NBS would link up. But there was a swift denial from First National.

CULTURE

However, analysts believe NBS would fit into the culture of First National well. The size of its home-loan book is similar to First National's, which already has the maximum permitted stake of 10% in NBS.

Mergers between United and Volkskas and Trust and Saambou are talked about.

Nedbank group chief executive Piet Liebenberg has assured the newly merged Nedperm that there are unlikely to be any lay-offs, although "there will be rationalisation and some people could be asked to move to other positions".

Considering that Nedbank's branch network is not extensive and there will be little overlap with Perm outlets, there probably will not be major retrenchments.

This, however, is not the case with other banks, especially First National and Standard.

TECHNOLOGY

Corbank executive chairman Laurie Korsten agrees that the Nedperm is unlikely to have surplus staff, but says that if "First National or Standard begin merging with other institutions, it will be an altogether different story".

"Rationalisation at the moment is good, especially because of the rising cost of high-technology systems. In the past 12 months we have spent R400-million on hardware alone."

The first sign of the rationalisation scenario affecting staff members comes possibly from the two unions representing bank and the building society workers.

The SA Society of Bank Officials (Sasbo) decided this year to merge with the Building Society Officials Association (BSOA). This has paved the way for one of the most powerful white-collar unions in SA, representing more than 50 000 employees.

Laurie Korsten ... staff rationalisation inevitable

BSOA general secretary designate Angus McCallum-Brown says the amalgamation is not yet final, but "it has been tentatively approved by the Department of Manpower".

"We have drawn up a constitution to be put to BSOA's executive council in September. Much discussion is needed before the merger is accomplished."

Mr McCallum-Brown says the merger is proposed because "we forecast further amalgamations in line with Nedperm".

DWINDLED

"The whole banking game is changing. This can be seen from the fact that there were 74 building societies in the mid-1920's. This number has dwindled to eight, and two of the societies are small.

"Although it is difficult to predict things such as staff cut-backs, there will be some sort of shake-up."

In five to 10 years, the growth of people employed in financial institutions has been about 70% compared with 8% to 10% for industry.

Amalgamation between financial institutions could leave a huge surplus of staff. Mr McCallum-Brown says retraining is part of the solution.

"We have approached several building societies to retrain staff rather than retrench. It would also solve many problems caused by automation."

(80) (58) STimes 21/8/88

1981-82 again for borrowing

A 25% jump in credit granted by SA's 41 banks in the year to June 30 underlines the need for official concern at the growth of borrowings.

An analysis of the banks' BA9 figures shows that credit agreeements between banks and corporate and private borrowers increased by almost R3,3-billion — from R12,9-billion to R16,2-billion.

Making allowance for the removal of finance charges from the totals on the returns, Nedfin managing director Ron Rundle says an increase of this magnitude has probably not been seen in SA since 1981-1982.

Business Times Reporter

Nedfin's analysis also shows that lease agreements increased more dramatically than instalment sale, or hire-purchase, agreements. The lease total increased 34% in the year to R5,6-billion and the instalment total rose by 20,9% to R10,5-billion.

The BA9 figures do not differentiate between lease and rental agreements and the jump in the leasing total is largely attributed to rental schemes, mainly for vehicles, which were heavily promoted by the banks.

This sector has, however, been curbed by official action since last May banning private rentals and making GST up-front applicable to lease agreements.

Mr Rundle says: "The dramatic increase in credit, particularly in the lease area, highlights the authorities' need to curb credit creation in South Africa.

Uncertain

"Although the rate of increase slowed somewhat in the June quarter, the continual demand for credit has naturally worried the authorities, particularly with an economy under balance of payments pressure."

In the three months to the end of June the value of lease agreements increased by R497,8-million (or 9,6%) and the value of instalment sale agreements rose by R368,8-million, or 3,6%.

The picture of credit expansion after last week's new moves to dampen demand and restrict HP sales is uncertain.

The restrictions on consumer credit could have a "decided effect", but the main demand for durable finance is for cars and terms have not changed in this sector, says Mr Rundle.

"Credit levels should be maintained in this area," he says.

Corporate demand for credit might be depressed by rising interest rates, but expansion of plant and machinery credit should continue for at least six months because many goods were still in the pipeline when the higher rates came into effect.

Big Five

The BA9 figures show that on June 30 the Standard group led the Big Five bank groups in the provision of lease and HP finance with R4,5-billion, or 27,9% of the total. First National had 27,3%, Bankorp 22,8%, Nedbank 7,3% and Volkskas had 7%.

ST imes 21/8/88

THE WEEK ON THE JSE

The Nelson factor

(58)

By Julie Walker

THE possibility of Nelson Mandela's release had a sterling effect on the financial rand this week.

One stockbroker reported that London believed that he had been released. London became net buyers of the finrand.

As recently as August 10, the finrand was at a low of 376c to the dollar. By Friday it had climbed to 332c — a rise of 12%. But when the jailed man's position became clear, the finrand fell to 351c.

The commercial rand gave up the previous week's gains, closing at 245,5c.

Deficit

The gold price reacted positively to the dollar's fall against other currencies on worse-than-expected US trade deficit figures. But the rally was short and gold was almost unchanged at $432.

Gold shares weakened. Among newer listings Osprey shed 20c to 100c, Eersteling gave up 17c to 138c and Sub Nigel lost a quarter to 175c, but regained 20c.

There were bookovers in Vaal Reefs and Southvaal, which closed at R101,50 and R260 respectively, both down on the week.

Among platinums Lefkochrysos was weak on reports that the mine had either overspent or underbudgeted. From 650c on Monday, Lefko shares hit a low of 480c on Wednesday. They rallied on institutional buying to close at 585c.

Market talk is that Gencor is interested in Lefko. A stockbroker doing the Lefko buying often acts on Gencor's behalf.

Impala was steady at 2 950c and Messina put on 125c to 1 325c on great results.

Rustenburg continued 100c softer to 3 250c, but Lebowa reversed its slide and added 20c to 590c. Northam shed 50c to 1 875c. Its rights offer at R19 a share was 95% subscribed.

Mine closes

De Beers rise in recent months had already discounted its results. Nevertheless they did not disappoint the market. De Beers added 125c to 3 900c in spite of the stronger finrand.

Anglo American Investment Trust (Anamint) rose 500c to R460, and Trans Hex a quarter to 675c.

Vierfontein colliery was active after the mine's notice of closure. The price fell from 50c at the start of the week to 37c after the announcement, but it rallied to 45c on Friday.

Deale & Huth sprinted on the Development Capital Market after a change of control was announced. The offer to minorities is 35c a share. The share price jumped from 29c to 42c. Tollgate subsidiary Entercor plans to expand the bicycle specialist.

Hunt rally

Among industrial holdings Arban put on 5c or 17% to 35c after a spell of weakness.

Barlow Rand shed 30c to 2 100c and is starting to look cheap again. Hunts, which lost heavily last week, rallied 75c to 7000c on Friday.

Murray & Roberts started the week at 1 200c, rose to 1 275c then fell to 1 175c ahead of results. Holding company Anchusa gave up 160c to 900c on small volume.

FS-Team lost 20c to 200c on a 47% increase in earnings a share to 45,6c. FSI was offered 25c lower at 600c, but W&A was weak, losing 550c, or 13%, to R36.

Utico added 70c to 1 300c on modest results. In the same sector Rembrandt fortunes were mixed. Rembeheer put on 5c to 1 120c, but Rembgro shed 35c to 1 485c.

NedPerm

Corbank slipped 30c to 150c as nervousness descended on the banking and financial sector. Nedbank gave up 30c to 570c after its deal with the SA Perm, but Saambou attracted attention.

The price jumped from 98c to 118c in two days as the market frothed with takeover talk. It eased to 110c. First National denied it was involved in a Saambou deal or with NBS, but there is a big buyer in the market. The price added 50c to 1 425c.

Trust Bank is also fancied. The price climbed 10c to 140c.

There was a bookover of 600 000 Columbia shares at 220c — 15c above the ruling price. Concorde Travel added 15c to 50c after looking oversold, then lost 5c.

Milstan shed 10c to 60c on poor sentiment about the change in duty on imported goods.

Mercedes Datakor firmed 20c to 185c. The share price has been like a yo-yo since the market got wind of the deal with Unisys.

Old Mutual sets income record

(183) 23/8/88 (58) BDay

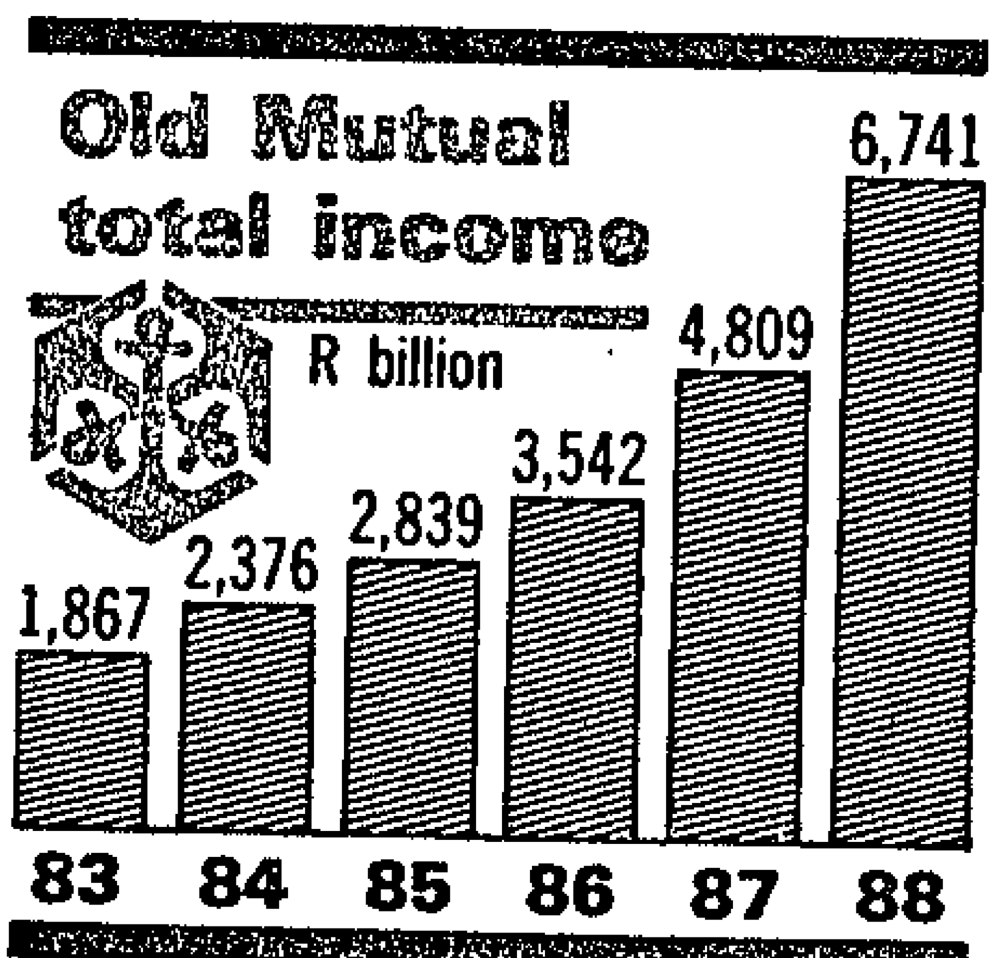
ROBERT GENTLE

OLD Mutual (OM) has produced a set of record results for the year ending June 1988 with total income from premiums and investments up 41% to R6,74bn on a total asset base which increased 12% to R31,4bn.

On the outflow side, benefits of R1,82bn (R1,37bn) were paid out — equivalent to around R1m every office hour.

Nevertheless, with total income comfortably exceeding total outflow, operating income was up 41% to R4,08bn (R2,90bn).

Describing the past financial year as one during which all cylinders were firing, a year "of the type insurers dream of", OM's GM Employee Benefits Gerhard van Niekerk said the increasing



Graphic: FIONA KRISCH Source: OLD MUTUAL

growth momentum firmly established OM as SA's leading and largest life assurer.

OM now had well over three million policy holders and members of pension funds and group schemes, he said.

The 12% growth in this R31,4bn asset base arose in spite of a 25% drop in the value of the all share index over the same period.

Equities represented the major portion of OM's total portfolio, accounting for some 43% — or R12bn.

Of the year's total income of R6,74bn (R4,81bn), R4,94bn (R3,39bn) came from premiums and R1,80bn (R1,42bn) from investments. Van Niekerk said premiums and contributions received during the past three years exceeded the total received in all the preceding years of the company's history.

FlexiProgram, the universal life policy introduced four years ago, accounted for the largest portion of new premiums. New individual policies reached over 566 000 — an average of 10 000 a week — the highest-ever figure reported in the local life industry.

Van Niekerk said OM was constantly meeting the challenge of the future with innovative policies and products. He quoted the example of OM's recently introduced Bridgebuilder employee benefits package, which he said was a milestone for the industry.

SA debt default tipped

'CAPE TIMES 23/8/88

By CHRIS CAIRNCROSS

IN the current circumstances it is most unlikely South Africa will be able to accumulate sufficient reserves to meet its total foreign debt commitments, director-general of finance Dr Chris Stals conceded yesterday.

These reserves have now declined to a worrisome level, where they are barely enough to cover two months' imports.

Dr Stals said the country could not depend too much on exports to bring them to a more healthy level.

He indicated that he was reasonably confident the recent "conservative" measures which were taken to protect the balance of payments will be effective, noting there are early signals that imports are slowing.

But he could not discount that further restrictive measures will be necessary to ease the strain on the balance of payments (BoP), and would not be led on what these could be.

Economists now appear to be unanimous that monetary authorities will have no option but to cause interest rates to climb still further.

There is also a possibility the surcharge umbrella will be extended — and ultimately, that some sort of quota system could be placed on foreign exchange levels granted to importers.

Dr Stals stressed that South Africa remained firmly resolved to honouring its debt obligations included within the standstill net.

This commitment amounted to six-monthly repayments of about $150 million (R340 million) through to 1990-1.

There is no question at this stage of seeking to reschedule these payments with the major foreign debtor banks.

Dr Stals said it was also still too early to speculate on how South Africa would deal with its foreign debt problems in two years' time, when the current interim arrangement is terminated.

Rand Merchant Bank shows 31% growth in income

Cape Times 24/8/88

By BRUCE WILLAN

RAND MERCHANT BANK has recorded an increase of 31% in net income to R17m (R13m) for the year-end to June 30 1988.

The bank's asset base increased to R1 102m (R677m) which was due largely to greater credit demand.

Earnings per share were increased by 27% to 101,3c (79,7c) and dividends increased by 27% to 35,5c (28c).

Earnings per share have been calculated on a weighted average due to the issue of shares to the holding company.

The directors say that although higher profits are projected for the 1988/1989 financial year, the merchant bank industry is going to be hard pressed to maintain the growth in after-tax profits as the industry becomes more competitive with the establishment of three new merchant banks, which will also sharpen competition for skilled staff.

The holding company of Rand Merchant Bank, Rand Merchant Bank Holdings has reported earnings of 32,8c a share for the eight months ended June 30, 1988 and a dividend of 8c a share.

Net income after tax and transfers was R17m.

Comparable figures are not available as the holding company has only been in existance for the past eight months.

Hints of banking changes ahead

24/8/88 B/Day

GRETA STEYN

RESERVE Bank Governor Gerhard de Kock yesterday subtly hinted banking legislation might be changed to encompass life assurers which were doing business traditionally regarded as banking.

De Kock said the aim of level playing fields in the financial services sector extended beyond banks and building societies to other institutions such as "insurers, security dealers, money brokers and other operators in the financial services sector".

The financial services sector was undergoing a period of fundamental change with traditional boundaries becoming blurred.

"Even non-deposit-taking institutions, such as insurers, have developed quasi-deposit products and have engaged in the provision of credit to corporate and other borrowers."

The aim of creating "more equitable competition" was receiving high-level attention, De Kock said.

Insurance companies now dominate savings industry

24/8/88 (58) Star

58

By Derek Tommey

The outstanding figures announced by the Old Mutual this week highlight the extent to which the insurance companies now dominate the savings industry.

The days have gone when a building society deposit was the first choice of savers. Today when people think of savings what most have in mind is a 10-year or longer endowment policy with an insurance company.

The Old Mutual's figures show this. In the year ended June it had a premium income of R4,94 billion — considerably more than the R4,3 billion which was all the entire building society movement received last year.

Altogether the life insurers had a premium income last year of R13,6 billion which was three times the building societies net income.

Pension and provident funds were the life insurance industry's nearest rivals last year, with a R10,6 billion increase in assets — of which R1,83 billion went to the insurance companies.

BANKS

Other savings mediums hardly counted. The general banks took in R2,6 billion last year, the unit trusts R985 million and the participating mortgage bond schemes R185 million.

One does not have to look far to find the reason for the poplarity of the insurance companies with savers. Put simply, in present conditions they offer the best performance available. They are also seen as being divorced from normal investment setbacks - even though last October's share market collapse knocked some R11 billion off the value of their share investments.

Their main attraction as a savings medium is that investment income accruing to life insurance policies is not taxed in the policy holder's hands if the policy is held for 10 years. Additionally, they also invest in the share market where prices and dividends have generally risen in line with inflation.

Together these enable the insurance companies to offer investors a probable 15 percent tax free return which they cannot obtain anywhere else.

An investment of R1000 with them will grow to around R4 046 in 10 years.

The best return the building societies can offer is 13,5 percent of which two-thirds is taxable. This gives the average investor a net return of 10 percent which means his R1000 will grow to only R2 594 in 10 years.

So far, the insurance companies' profits have not fully reflected the big increase in their operations.

But the benefits of the big increases in the business written since 1986 should soon start to come through — and life insurance shares could become desirable stocks.

INVESTMENT

ARGUS 25/8/88 (58)

Insurers scoop country's savings

From DEREK TOMMEY

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PENSION FUNDS

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LISTED COMPANY

Unfortunately Old Mutual is not a listed company. But Southern, which has now finished absorbing Anglo American Life, should be one of the better performers.

Liberty Life, or the lower-priced Liberty Holdings, can be relied upon perform well.

Prosure, which transacts both life and short-term insurance, also seems poised to deliver good results.

Lifegro's income declines by nearly 20%

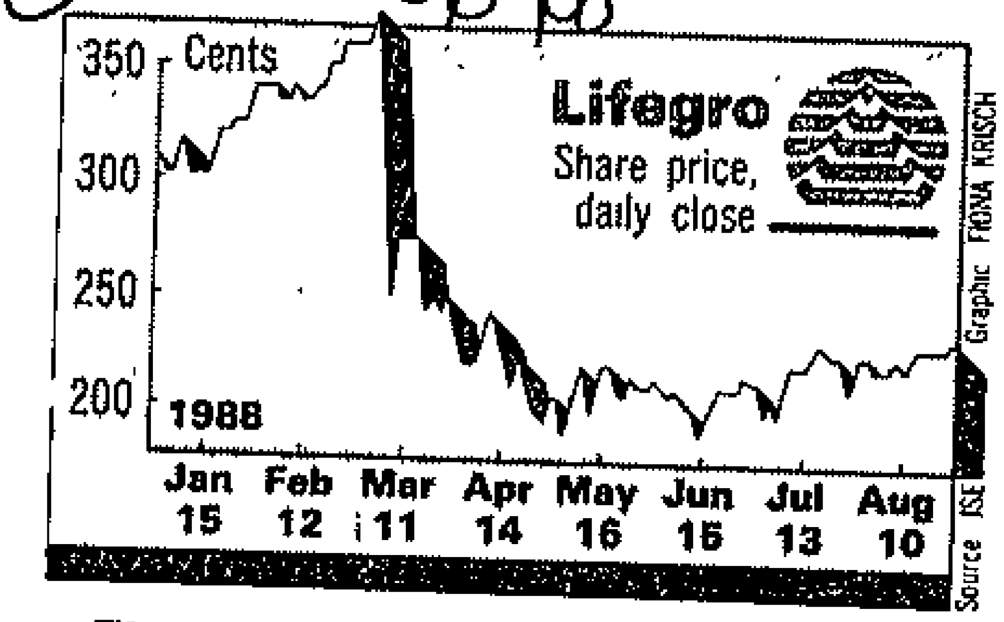
B/Day 25/8/88

HAROLD FRIDJHON

LIFEGRO'S total income for the half year to June 30 1988 declined by nearly 20% to R561,8m from R694,8m in 1987.

Responsible for the reduced income was the lower revenue from premiums which dropped to R389,9m from R573,9m at June 1987 and from R507,2 for the six months ended December 1987.

This reduction stems from Lifegro deciding to restrict the writing of single premium business. Early this year the company came under heavy criticism for writing business involving the Fenton investment schemes and tax avoidance in the Ciskei.



The only indirect reference to these schemes in the half-year report is: "A number of short-term investment contracts were terminated during the period under review which resulted in an outflow of funds amounting to R175m."

In future Lifegro will concentrate on increasing hard-core business with recurring premium income.

The excellent investment performance has to some extent offset the reduction in premium income. Investments brought in R171,8m in the 1988 June half-year, compared with R120,8m in the same period last year.

Policy-holders funds showed only scant growth, to R3 598m from R3 463m at June last year and R3 520 at the December year-end, probably resulting from the outflow of funds.

Shareholder earnings are marginally lower at 11,35c (11,5c) a share and the interim dividend is an unchanged 7c.

58

(58) BDay 25/8/88

FINANCE

Scramble for slice of privatisation pie

MERCHANT banks and auditing firms are scrambling to secure a foothold in the privatisation market which, while low-key at present in terms of fee income, has the potential of large rewards once the initiatives get underway.

State bodies have put out tenders to merchant bankers and auditing firms to assess the feasibility of their being privatised and if not, what should be done to become so.

Contacts

Competition is fairly tough in terms of rates quoted and while the work may not be lucrative at this stage, banks are hoping to cash in on the high-income implementation phase to provide the bulk of the revenue.

It is a case of building up contacts, establishing relationships and developing expertise. Management and tax consultants and accountants are also involved.

These tenders, usually of two merchant banks jointly, will strengthen the banks' position when implementation gets underway.

LINDA ENSOR

Standard Merchant Bank (SMB) and Finansbank have emerged as leaders in the field and have established specialised departments, or sub-sections of their corporate finance divisions, to handle the task.

SMB GM: privatisation Johan Smit says the merchant banks' involvement is limited to providing assistance to the legal, accounting and financial teams of experts internal to the larger corporations such as Eskom, Sats, Iscor, Foskor and the Post Office, which are working on assessing the possibility of privatisation.

In addition, there are a myriad of smaller state departments being investigated.

Smit says as the field is a relatively new one for SA, a great deal of innovative and creative thinking is required to meet the country's particular circumstances.

Finansbank corporate services GM Willy Ross says: "We are involved in initial feasibility studies of several parastatals and state corporations, and are assessing whether they are privatisable."

Finansbank, he says, is involved in three issues relating to privatisation — one of them the tollroad between Springs and Krugersdorp.

After completion of the feasibility study — undertaken together with management — the approval of the board has to be obtained before the report is submitted to the Privatisation Unit, which forwards it to the Cabinet committe on privatisation, headed by Dawie de Villiers.

Secondment

Finansbank was the co-ordinating merchant bank for the Sasol issue and its GM Peter van Huysteen, who headed the bank's privatisation thrust, has been seconded for three years to chair the unit.

But Smit said because of the enormity of the Sasol issue, almost all merchant banks were involved in it.

A unit spokesman said no major developments were expected before the end of the year. It is likely the first report submitted will be one for Iscor.

As others come to fruition, so the merchant banks' activity will get into full swing.

LIFE ASSURANCE TAX

No to Badenhorst

The premise, method of analysis and conclusions of the McGregor report on the taxation of life assurers have been rejected by two large auditing firms. Deloitte Haskins & Sells and Theron Du Toit were appointed by the Life Offices' Association (LOA) to critically analyse the report, which was commissioned by UBS Holdings.

In short, the auditing firms describe the McGregor report as a thinly disguised attack on the long-term insurance sector. The background to the dispute is a series of charges regarding life assurers made by the UBS's Piet Badenhorst, who has repeatedly claimed that they have an unfair tax advantage.

The general reaction of life assurers is, in the words of Liberty Life's Dorian Wharton-Hood: "Building societies claim they have been losing funds to life assurers in recent years. They will not face up to the real issue, which is simple — they have been unable to provide investors with real returns above the inflation rate, whereas life assurers have achieved this for many years."

The McGregor report, Badenhorst's latest attack, postulated that tax collections from individuals could be substantially cut by an increased contribution from life assurers — and the corporate sector in general.

Instead of, as now, taxing *gross* taxable investment income at 35%, McGregor said life assurers should be taxed at the corporate tax rate (50%) on:

- ☐ Gross premium income;
- ☐ Plus gross investment income;
- ☐ Less policy benefits actually paid; and
- ☐ Less administration and other expenses.

The fundamental flaw is that McGregor lumps life insurance business together with pension and retirement annuity business. Retirement business is, of course, exempt from tax by law; pensions are taxed when received by the pensioner.

While government is investigating the possibility of taxing pension funds, such an assumption by McGregor confuses the life assurers *vs* building society issue.

"To equate (life assurers') surplus," say the auditors, "to profit or taxable income is incorrect and disregards the fundamental principles upon which life assurance business is based. Such a surplus is held against actuarial liabilities calculated by reference to insurance risks; it does not, therefore, equate to any significant degree to profit."

Moreover, the auditors believe that even if life assurers were taxed on such a basis, they would be entitled to the S24C deduction, in respect of future expenditure on contracts. If so, the auditors believe that "additional tax collections from such a basis of taxation of life assurers would be substantially less than the amount postulated (by McGregor)."

In general terms, a total rejection of McGregor is found in almost every line:

- ☐ "The hypothesis" that individual tax can be reduced by collecting more from life assurers "is somewhat trite;"
- ☐ "... there is little of substance in McGregor ..."
- ☐ "The report ignores the many complex issues raised by, inter alia, the Margo Commission, the Van der Walt Committee and the Meiring Commission ..." and
- ☐ "... its findings and conclusions ... are based on a simplistic analysis ..."

Perhaps the most telling comment is that McGregor's findings and conclusions "are couched in sensationalistic terms in order to 'sell' their message."

Badenhorst's basic argument that life assurers have an unfair tax advantage is dubious. Figures for 1986, submitted to the Margo Commission by the LOA, assumed the *maximum* tax paid by building societies, and the *minimum* tax paid by life assurers.

These assumptions were made because detailed figures are not available on certain things, for example, tax paid on interest. It was assumed that *all* tax paid on interest was paid on interest derived from building societies. Of course, this is not so, as this tax is also paid on interest derived from banks and other fixed interest investments.

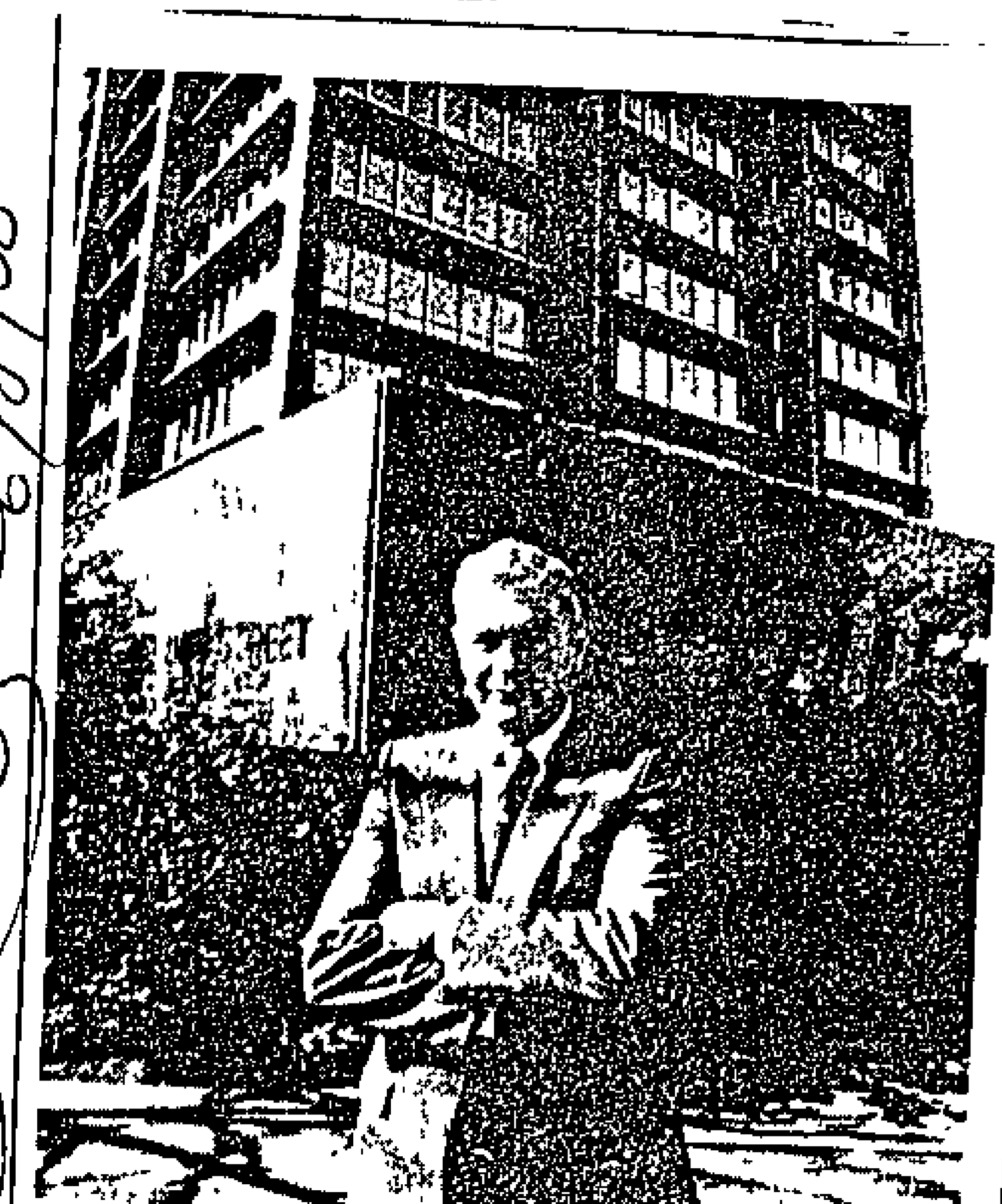
On the other hand, stamp duty paid by life assurers and tax paid on non-standard policies by policyholders was ignored. The analysis showed that building societies and their investors paid R615m on gross investment income of R3,9bn (a rate of 15,7%) and life assurers paid R236m on R1,2bn gross taxable investment income (a rate of 20%).

The figure for life assurers, of course, excluded investment income on tax-free pension business. The 1988 position of life assurers will be worse after the 75% increase in the life assurers' tax rate.

What is the answer? According to Wharton-Hood, it's simple: building societies must come out from cover and argue for deregulation. "Building societies are overregulated in that they are not permitted the same investment freedom as we are — 80% of their funds have to be invested in housing.

"They have never gone to government and said they cannot compete with life assurers because they are overregulated — which we would have supported. Instead, they have attacked the basis of taxation of life assurers.

26/8/88



Badenhorst ... series of charges

"Tax has nothing to do with this issue. It is simply a question of the returns we have produced for investors." ■

FINANCIAL MAIL AUGUST 26 1988

LIB LIFE/LIB HOLD

Tax effects

Interim results from Liberty Life and Liberty Holdings to end-June give first notice of the expected effect of higher taxation applied to the life assurance group in the 1988 financial year.

After-tax profit at the interim stage is usually offered simply as a reflection of half of the past year's total, owing to the impracticability of undertaking full actuarial valuations other than at financial year-ends.

On this occasion, however, while the same general method has been followed, a provision has been made to take into account the effect of the additional tax. Thus it is merely necessary to halve the previous year's figures and compare the result with the latest interim figures to establish what Liberty expects the additional tax-bite to be for this year to December at least.

The sum shows that Liberty Life's latest net taxed surplus of R59,2m has involved a provision of R2,4m, or 3,9%. At the per share level, and following deduction of preference dividends of R7,5m (R7,7m) and marginally higher share capital in the latest six months, the provision amounts to a 14,3c deduction, leaving the "earnings" figure at 294,9c (250,3).

For Liberty Holdings, interim profit after tax becomes R68,8m rather than the R71,3m that would have been attributed without the provision. Effect of the provision on earnings has been a decrease of 2,9c to 82,7c (69,6c). None of these effects looks too terrifying for shareholders.

The interim dividend of Liberty Life has been increased from 180c to 220c, while that of Liberty Holdings is up from 38c to 48c.

David Ross

26/8/88 FM

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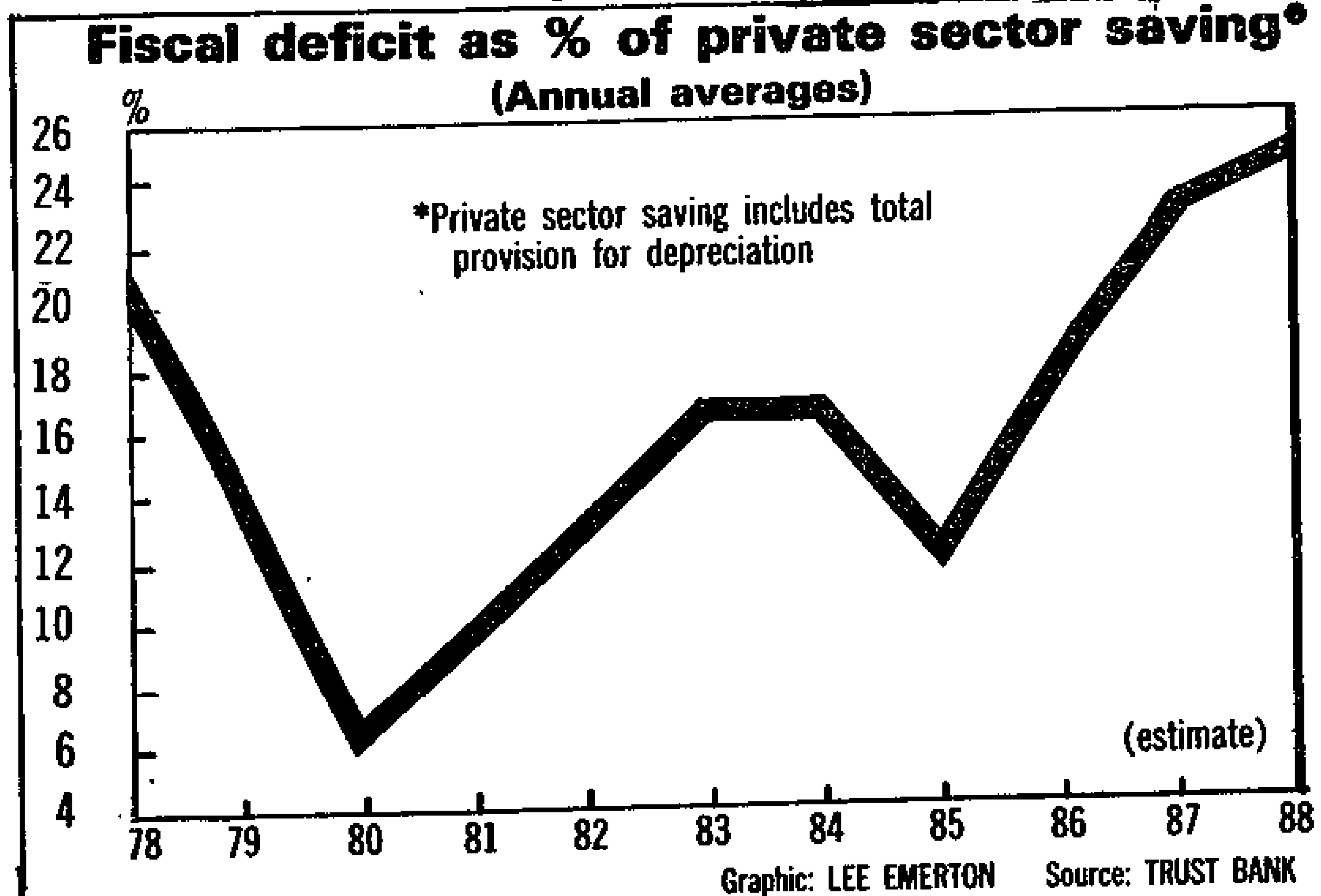



☐ GOVERNOR DE KOCK

Why the Governor need not have apologised

Trust Bank economist NICK BARNARDT comes out in defence of Reserve Bank Governor Gerhard de Kock

IN ANY major public statement, frankness and honesty are always to be welcomed. The candid words of Reserve Bank Governor Gerhard de Kock in his annual address that the blame for monetary over-expansion in 1988 lies squarely on the Bank's own shoulders was a brave and almost poignant *mea culpa*. Seen in a wider context, however, the "apology" was perhaps unnecessary.

Any superficial examination of SA's financial statistics provides a seemingly clear explanation for the Governor's admission.

Quite simply, the Reserve Bank provided the banking sector with too much credit for too long and too cheaply. The banks, being normal profit-motivated business concerns, responded vigorously by passing on the credit to eager private borrowers who had perforce been practising internal disinvestment for six long years.

The private sector's capital stock had been ageing and depreciating in value for too long, and was in urgent need of updating and replacement. Real personal disposable incomes had reached a 20-year low last year, with many individuals desperate to recover at least some of the living standards lost since 1980.

The credit-based spending boom of the past 12 months should be seen in the perspective of the low base from which it occurred.

Even as we now witness the peak of the present cycle, per capita private consumption is still 10% below 1984 levels in real terms. Fixed investment is still about 20% lower than it was four years ago. And domestic credit levels, even after rising 30% since August last year, are still lower in real terms than in 1984. And 1984, of course, was in itself nothing to brag about.

The 1987/88 upswing can therefore at best be described as a partial recovery of the South African economy.

In particular, it was only a partial recovery in the private sector, which had been emaciated especially badly in the slump of 1985/86. The private sector, especially, desperately needed an opportunity to restore its cash-flow and balance sheet wounds. After all, the government sector survived relatively unscathed.

Any economic policy-maker would have given his right arm to revive the private sector in these circumstances.

The Governor rightly expressed the authorities' satisfaction at the achievement of the revival, even though the recovery has at best been a partial one.

As he said: "The good news is, we've had a wonderful year". But he had to counter this immediately with: "The bad news is, we can't afford it" — a sorry admission that even the partial recovery of the private sector over the past year could not be afforded, and that the credit required to finance it should not have been provided.

The balance of payments figures carry the full message, with a 30% decline in the dollar value of the country's gross foreign reserve holdings over the past 12 months.

This substantial deficit says it loud and clear: the country's pool of savings is not sufficient to simultaneously finance the repayment of foreign debt and the current modest level of gross domestic investment. And it is from an analysis of savings in a wider structural context that the possible superfluity of the Governor's "apology" becomes apparent.

As the graph above illustrates, the fiscal deficit is claiming a larger portion of the country's pool of (private sector) savings than at any other stage in the past 10 years — and probably in the past 40 years, for that matter.

Despite the commendable tightening of fiscal policy this year, the share of the total savings pool left for non-government purposes is smaller than ever. The sudden drop in the gold price earlier this year was, of course, a major factor in this regard, directly reducing the pool of domestic corporate savings.

Furthermore, about 10% of total savings were spent on financing capital outflows over the past 12 months. This squeezed the savings pool still further.

Consequently, the business sector — "crowded out" of the savings pool by the fiscal deficit on the one hand and capital sanctions on the other — was by the same token "crowded into" the refuge of last resort — the discount window.

The monetary authorities had to choose between clamping down and preventing even a modest revival in private sector investment, or providing the required credit and allowing the country's reserves to be run down in the process. An unenviable dilemma indeed.

The middle road was chosen. Monetary policy was tightened only moderately, and a moderate decline in reserves allowed.

This was not necessarily the wrong choice. If the monetary policy clampdown had been sharper, preventing any private sector expansion and maintaining the reserves at all costs, it would have meant implicit acceptance of the current high fiscal claim on the pool of savings.

Instead, allowing a moderate private sector revival — with the accompanying balance of payments deficit — has starkly highlighted to government the full implications of its high borrowings — and of SA's estrangement from the international community.

The message is clear: you cannot have high fiscal borrowings, international isolation and a booming private sector and expect the country's foreign reserves to survive.

The application of a monetary policy which favoured an essential private sector revival has left the fiscal authorities with no other choice than to reduce government's claims on the national savings pool.

This can only help to limit government spending increases in 1989, to enhance the prospects of disengagement from the south-western part of Africa and to hasten the privatisation process. Also, it can only strengthen the hand of those South Africans pressing for dramatic steps to normalise the country's international relations.

Equally important, it may prod the fiscal authorities into more a pro-active campaign to boost domestic saving. How about a total abolition of tax on the interest income of individuals for starters?

The hands of the State President and the Minister of Finance have been strengthened to follow up 1988's promising improvement in fiscal discipline with still more concrete action in 1989. The position of the spend-hungry sections of government is much weaker now than it would have been if the private sector revival had been choked off at an earlier stage.

Perhaps, after all, the Governor has no need to be sorry. The monetary stimulus of 1987/88 could yet prove to have been a blessing in disguise.

DEVELOPMENT CAPITAL MARKET

The struggle continues

■ The DCM has a mixed track record. But lessons from mistakes are being learnt

Low trading volumes, some poor results and a few fiascos have tarnished the image of the Development Capital Market (DCM). Yet in many respects, as a capital-raising forum, it has succeeded.

For two years after the DCM's formation in August 1984, it looked to be a failure, with only a few lonely members — one of which, construction group TDH, was delisted in 1985. But the listing of Juicy Lucy in December 1985 ushered in the DCM boom. In 1986, 24 new listings came to the board, and last year there were 78 — 36% of all new listings. The enthusiasm last year for going for a listing on the DCM was reflected by the fact that its largest numbers of new listings came in October and November, during and after the crash.

But since the end of the boom, the DCM has been one of the least profitable sectors for investors. There have been a number of high-profile disasters and disappointments and although the companies in the sector differ greatly in activity and quality, they have generally been painted with the same tainted brush. So although most DCM companies have met their pre-listing forecasts, most are trading at low prices: of 87 counters listed on August 19, about 67% were standing below their issue prices.

But judged by its original objective to facilitate capital raising by companies unable to satisfy requirements for the main board, the DCM has been successful. Indeed, so much so that the JSE is considering extending the principle to accommodate venture capital. JSE president Tony Norton says present thinking is that a possible venture capital market (VCM) sector for the JSE would not list companies smaller than those on the DCM, but could include companies with holdings in a number of venture capital enterprises. Scrutiny of the credentials of prospective VCM listings would be particularly rigorous, he says, but profitability requirements might be gentler than those for the DCM.

The reception given to a VCM in current stock market conditions, when the high risk-high return profile of even the DCM is not popular, may not turn out to be warm. That may not be a bad thing. Launch of such a sector in a bear market would mean investors would treat entrants with a lot more care than they might have done a year ago.

Analysts Nolan Menachemson and Grant Eckersley at stockbroker Frankel, Kruger, Vinderine produce a periodical DCM report and believe that in current stock market, economic and political conditions, the DCM will soften further short-term, or at best stagnate. Menachemson and Eckersley are preparing an index of the DCM — a difficult task because other JSE indices are based on criteria such as quality, market capitalisation and trading volume. A DCM index would differ in that all stocks in the sector would be eligible.

Existing data indicate — as many suspected — that the DCM rose more steeply than the rest of the market before the October crash; but it apparently peaked a few months before that, then started a slow slide until the crash, after which it speedily went downhill.

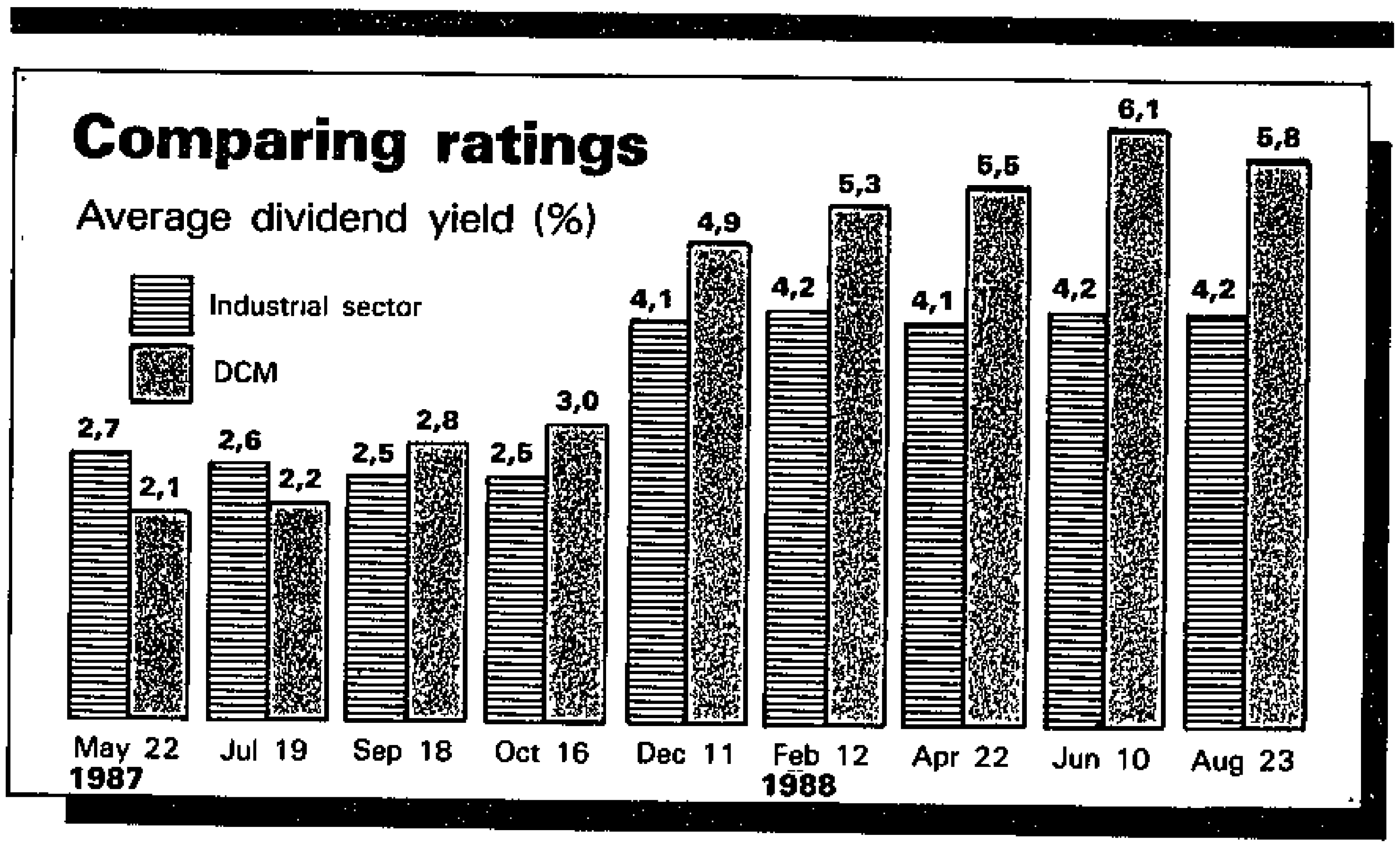
If that is so — an index would make verification easier — then the DCM may have acted as an indicator of market trend. What is definite even in the absence of an index is that the negative gap between the DCM and the JSE's industrial sector has widened continually since the crash. Is that an indicator of a continuing downtrend in the market generally? A few more years of the DCM should provide an answer.

The problem is not simply the ratings of the shares; trading volumes and marketability have remained low. Given the DCM's speculative profile and relative unattractiveness in a bear market, companies have been opting to leave the sector for the main board where possible. Net of removals to the main board, and a few new listings, the DCM currrently has 10 fewer counters than at the beginning of 1988. Menachemson and Eckersley say they advise any DCM companies which can to move to the main board for better long-term ratings and to gain positions in specialised sectors. Despite this, DCM shares which move do not invariably show price gains; some are lower currently than before they left.

The net emigration of larger companies from the DCM, leaving smaller and, often, mediocre companies behind, accentuates the sector's downward trend. By the end of the bear market, the DCM may have few quality members, and the nursery may have become a playground for takeovers and mergers.

Assessment of the performance of the DCM depends on when the measurement is taken and what is used as a comparison, but the sector's average dividend yield is at present significantly higher than the average for the industrial sector (**see table**).

Former Simpson McKie analyst Mike Calothi pointed out in a recent DCM survey that studies of Britain's Unlisted Securities Market have shown that its counters generally trade at p:e rations of about twice those on the main board because of their perceived higher growth potential. Their lower prices have inherently more leverage.



Calothi traces five stages of the DCM. In the initial 1986-1987 bull market, share prices were pushed beyond normally justifiable expectations by rumours, takeovers and greed rather than earnings, dividends and growth. (At the top of the market the DCM average p:e was 22, and dividend yield around 2%.) With their shares rising in value every day, most newly listed companies indulged in takeovers by paper.

A levelling off followed in mid-1987, with the demand for new listings from stags diminishing. Then there was a slide from July onwards and the collapse after October: shareholders found that to offload large holdings of DCM shares, they were forced to accept large price drops as buyers evaporated. Stale bulls sold into any rally. The doldrums followed, volumes fell and prices drifted. Generally, buying interest on the sector is scarce.

But Calothi and other analysts believe the DCM is reaching a stage where it offers long-term value. According to a DCM survey by Davis, Borkhum Hare analysts, about R164,3m in new capital was raised on the DCM in 1987. While small compared to the R1,8bn raised on the JSE as a whole, this was highly significant for the companies involved.

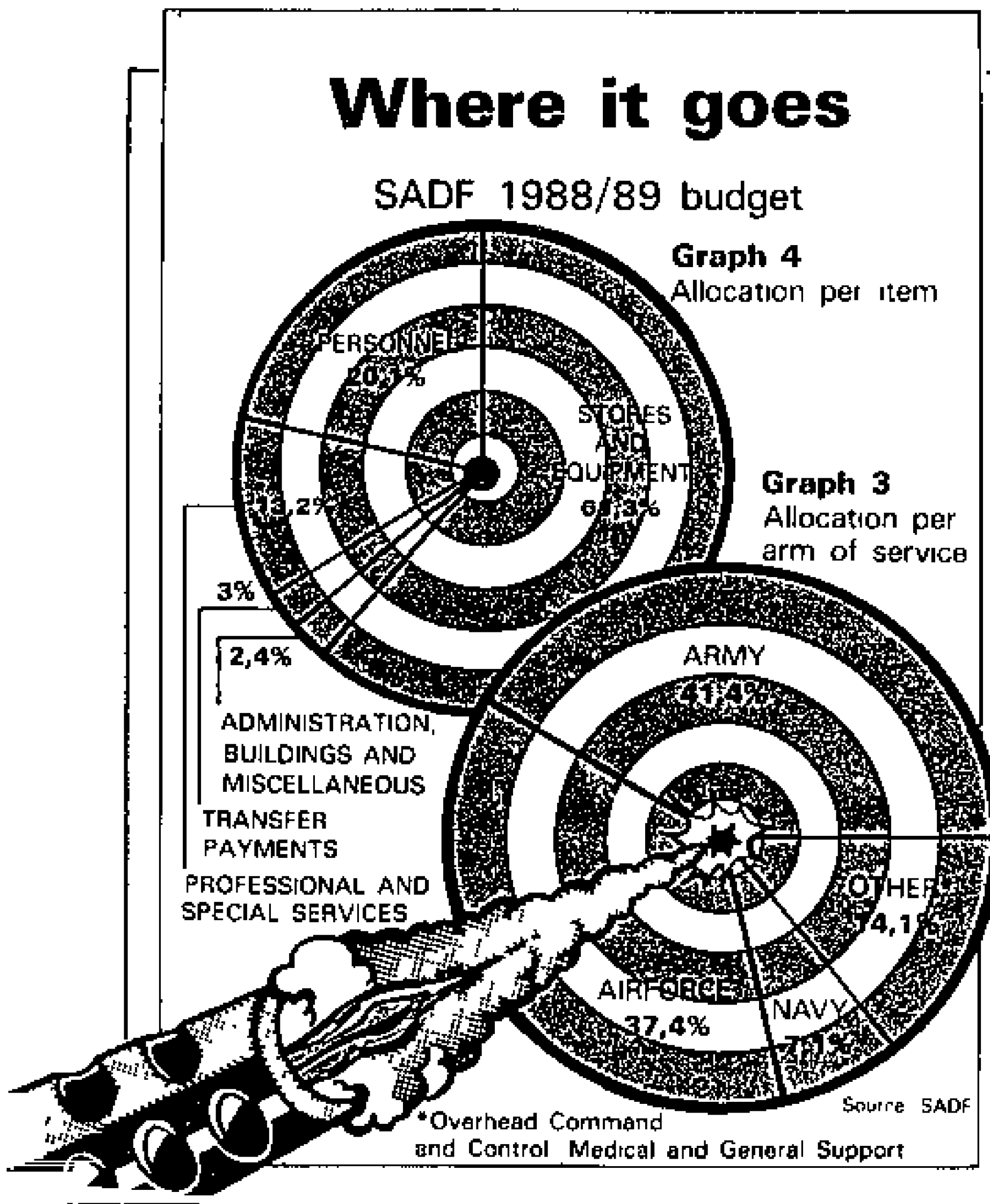
By end-March this year, the market capitalisation of ordinary shares on the DCM was about R730m, compared with the JSE's total R262bn capitalisation. Last year, according to the survey, shares traded on the DCM accounted for 1,9% of the total turnover of JSE in 1987 in value terms; in the five months ended May this year, the percentage had wilted to 0,096%.

Only two DCM companies have been delisted because of liquidations, although a number have been rescued and taken over. Most striking was the Brokers debacle. Latest information indicates that R12m of the R20m raised by associate Brovent has been lost, and that listed Brokers Investment Company (BIC) is only marginally solvent. The police investigation of the group has been handed to the Attorney-General. Brokers shares, originally offered at 30c, traded between 45c to 250c before their suspension on September 30 last year. They remain suspended, and the saga appears far from over despite offers being constructed by a consortium which has revealed little about itself.

On a smaller scale, Millys' unaudited interim results to December 1987 under the tenure of MD Michael Bruchhausen, showed earnings of 4,4c a share. The shares were suspended after major shareholder Unidev decided the results were inaccurate — a rare occurrence for a listed company. Revised figures showed a loss of 15c a share, with no explanation from Bruchhausen. Unidev has said the most likely cause was incompetence. Issued at 50c, Millys ordinaries have traded to 165c, and currently stand at 50c.

Elex was an example of what could happen when technically competent entrepreneurs gained capital from a listing and had to meet their pre-listing forecasts. A spending and takeover spree led the company to the door of penury. Two original directors, who had to sell their controlling stakes to Senbank for a pittance and are now employees of the company, must bitterly regret the listing. So must holders of the shares, which were placed at 100c, and traded between 35c and 140c before suspension. They stand at 10c, and Senbank is proceeding with a large rights issue at 5c.

Some DCM companies, like CCTV and Transvaal Mining Supplies, have sold the operating subsidiaries and assets, with others being backed into the remaining cash shells. Yet others are not performing because of



tiers to the passage of weapons, explosives and trained men that has permitted the upsurge in urban bombings.

In the immediate past, it has been military doctrine that the best way — in the purely tactical sense — to restrain the urban terror campaign was to strike back directly at the insurgents' forward bases in neighbouring states through Israeli-type commando raids.

Unfortunately for the future applicability of pure military doctrine, this approach to internal security has already become, internationally speaking, politically too expensive to be prudent. Any SA cross-border raid in future will simply be grist to the mill of the sanctioneers breathing heavily down Pretoria's neck — so we will simply have to find other means of defence against the guerrilla threat.

This leaves SA with an expensive but rational alternative — to spend what it takes to reduce the level of infiltration to a point at which back-up patrols can take care of most of the guerrillas who get across the border.

SA already has an electrified fence, known as Caftan, which traverses sensitive portions of the eastern frontier, and sensitive areas of the northern, Zimbabwean frontier too.

It was reported officially in late 1986 that the cost of the fencing (carrying a lethal 4 000 volts) was then R130 000/km.

Expensive though electrification may seem, it was then reported that successful infiltrations along a 20 km stretch of electrified fencing numbered only seven during most of 1986, while there were no fewer than 67 along an adjoining 7 km stretch of unelectrified fence. These statistics suggest that electrified fencing can cut the number of penetrations to under 5% of the number that would have occurred without electrification.

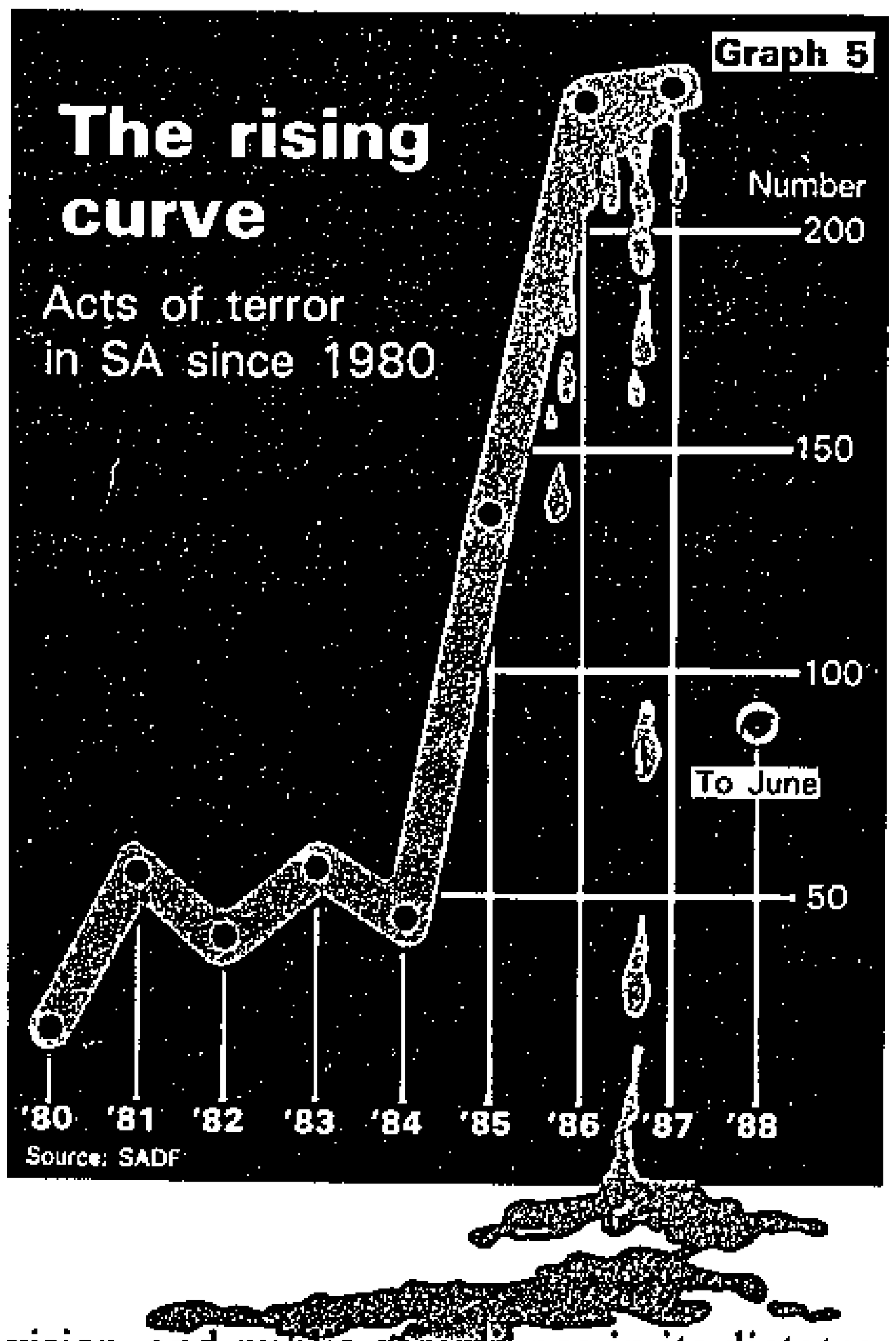
As 70% of infiltrations currently affect the Botswana border, this is the sector which needs urgent attention. Rumour has it that a start has already been made to create such a barrier along sensitive stretches.

The objections to this form of defence would hinge largely on cost, and on the acceptance that a few individuals infiltrating simply to find work in SA would die from time to time — as has already happened with the fence along the Mozambique frontier.

But the objection of cost (and even of loss of innocent life) has to be read in the context of the manifold costs of an escalating urban terror campaign. Those costs include the obvious and measurable cost of damage to property and the actuarially calculable costs of loss of life and limb — terrifyingly large in the case of young and able-bodied victims.

There is also the intangible issue of the effect on national morale. It is arguable that this effect is already becoming perceptible though it is almost impossible to measure. It could well even have an influence on adverse financial trends such as the outflow of capital, both legitimate and illegitimate.

SA needs to buy a fair degree of immunity from this form of coercion — even at high cost — if we are to have the time to resolve our intractable political deadlock in a satisfactory way. It might prove cheap at the price to spend even many hundreds of millions a year on border defences to make the streets and shopping centres of Johannesburg and Pretoria as safe again as they only recently were, and SA should be braced for the financial burden involved. It needs to be remembered that even the most liberal opponents of government would accept the need for such spending — providing there was political movement which would in the end make it unnecessary. Without such movement, the burden would become not only increasingly intolerable — and measurable in emigration and tax avoidance — but morally questionable, too. An overall strategic



vision, and public compliance in its dictates, would be greatly assisted by a freer flow of information about the security situation. Few governments are fond of such openness.

Withdrawal from Angola and Namibia will not therefore necessarily carry the financial benefits that a superficial reading of the military situation might suggest. But the need for a defence perimeter implies the need for a matching and appropriate internal settlement. ■

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Generally, however, most CEs of companies on the DCM appear not to regret their listings. The downside is public scrutiny, increased responsibility for directors, more pressure to pay dividends, the risk of takeover and the disclosure of sensitive information. Advantages include big capital inflow, marketability of wealth or portions of it, greater ability to raise capital and grow by acquisition; added status and prestige and greater possibilities for employee share incentive schemes.

Negative experiences of the DCM are a reason why the JSE is considering how to make companies' disclosure more uniform and copious. DCM-listed Mighty Meat offered an example of poor disclosure: shareholders were not informed until July 27 that a cheque accompanying an original application for 444 500 shares before its listing in November was dishonoured.

A more balanced picture of the DCM is reflected in an analysis in May of 50 representative DCM companies by Menachemson and Eckersley.

They found that while 11 companies did not achieve their prospectus forecasts, nine came within 5% of forecasts, and 30 exceeded forecasts by more than 5%.

Although the current low levels, inherent leverage and possible good earnings growth of selected DCM counters might be expected to attract long-term investors like institutions, analysts report little interest at present from institutions. This underlines another feature of JSE investors — the institutional herd instinct of moving towards safety in blue-chip investments.

For investors still interested in the DCM, and for trapped bulls, the question now to be answered is how an environment of higher interest rates, a lower rand, slower economic growth and MTC will affect the DCM counters they back. The answers to those questions may represent the next level in learning about the DCM — and the JSE.

Teigue Payne

26/8/88 FM (58)

BUILDING SOCIETIES

Go, go, grow

Whatever the thrust of monetary policy, financial institutions have no alternative but to go for growth. The increasing cost of skills and technology has inflation in the sector running at nearly 20%, so they need to grow at this rate just to stand still.

Quarterly returns to the Registrar of Banks and Building Societies show the only building societies to achieve such growth in the second quarter are the United and Allied (**see table**). United led the field with increases in mortgage advances in the quarter of 4,8% (after 3,2% in the previous quarter). This put its book at R10,4bn by June 30. In the same period, Allied built its book by 4,2% (2,9%) to R5,6bn.

Natal Building Society (NBS) grew more slowly — 3,4% (2,9%) to R2,7bn. However: "Our asset growth will exceed operating costs as these are running at only 15% a year," says GM Mark Farrer.

Saambou mortgages increased only 2,5% (1,6%) to R1,8bn. GM Hennie Prinsloo concedes growth was low but says a marked improvement is expected in the third quarter when loans in the pipeline come through.

Slowest growth was at the Perm — soon to merge with Nedbank. Its mortgage loans increased by 1% (2,2%) to R6,5bn.

Says Perm asssistant GM Peter von Broembsen: "Though, over time, growth is necessary, on a quarter-to-quarter basis strategic situations vary. We decided in May to restrict growth because the cost of funding that growth would be high in the volatile wholesale market. We prefer to concentrate on the retail market, which responds more slowly to interest rate variations."

The combined mortgage portfolio of the five major societies rose 3,4% to R26,1bn.

Loans coming on to the books in this period largely reflect business in the first quarter, when the economy was growing at an annualised rate of about 3,5%. Despite increases in interest rates, which started after the rises in Bank rate in March and May and some levelling off in economic growth in the second quarter, demand for home loans continued. Third-quarter figures are expected to be of the same order.

The testing time lies ahead.

Home loan finance played an important part in the runaway consumption earlier this year; so, if the authorities are to curb demand for credit, they will have to make life hard for providers of home loans. Liquidity, which has been shrinking with the build-up in demand this year, is likely to get even tighter towards year-end.

Fortunately, societies benefited from the introduction of Senior Citizen Savings Deposits. Available to people over 65, the deposits pay interest of 15%, of which 1,5% is subsidised by the State. This provided a welcome inflow of retail deposits (which have been rapidly diminishing in recent years of negative real returns on savings).

Biggest growth in total deposits was achieved by NBS — 9,4% to R3,3bn (after only 2,7% in the first quarter). Growth of 7,3% (4,1%) to R10,4bn was reported by United and 6,1% (2,4%) to R6,4bn by Allied.

Saambou's, however, grew 2,2% (5,2%) to R2,4bn. "We deliberately limited the inflow," says Prinsloo. "Amendments reducing liquid asset requirements came into effect in July. For us, this freed R40m for funding loans. Another R50m was paid to us by Saambou Bank for general advances it took over from us." Neither of these sums was reflected in the June quarterly returns.

Slowest growth was at the Perm, whose deposits grew only 1,5% (2,5%) to R7,4bn.

Even the societies with a funding advantage are in for a tough time. The 20% import surcharge on computer capital goods (**see *Technology***) will push operating costs even higher; cost of funds is bound to keep rising for a while, despite the authorities' reluctance to use further interest rate rises to slow the economy; and, though banks can no longer undercut societies as freely as when short-term money was cheap, they will continue to compete aggressively for customers.

The scene is set for future rationalisations. Perm-Nedbank is only the first. ■

BDay 26/8/88

Phase-out of tax benefits: details still to come

GRETA STEYN

BUILDING societies are still awaiting details on how their tax privileges are to be phased out over five years from March 1989.

The gradual end to tax-free investments will put upward pressure on bond rates because societies will lose a cheap source of funds. While it is difficult to quantify, analysts said the phasing out would add less than half a percentage point to the bond rate.

Phasing-out has been on the cards for years, but Reserve Bank Governor Gerhard de Kock set the date only this week, saying it was a step towards a more level playing field in the financial services sector.

Circulated

The building societies have submitted suggestions to Reserve Bank Senior Deputy Governor Japie Jacobs, who is chairman of the technical committee on banks and societies, on how to put the plan into action.

Their suggestions are contained in a letter from Association of Building Societies president Bob Tucker which was circulated among the societies.

The letter also calls for "levelling the playing fields" between the life and pensions business and the building societies.

The societies' plan amounts to phasing out 20% of the tax privileges every year for five years.

However, the letter suggests tax privileges on subscription shares and fixed-period shares issued before the announcement of the withdrawal should continue for four years — when full tax exemption would cease at once.

Jacobs said yesterday the issue extended beyond the societies to investments with the Post Office and Treasury which also carried tax benefits.

2/8/88

Nafcoc's R11-m complex to open

By REVELATION NTOULA

THE National African Federated Chamber of Commerce and Industry will open its R11-million shopping centre in Soshanguve in late October.

This was announced by the organisation's national president, Dr Sam Motsuenyane, this week.

The project is among the biggest Nafcoc has undertaken since its inception 25 years ago.

Another was the launching of the African Bank, which became the first black-initiated banking institution south of the equator.

Motsuenyane said the big stride in launching the centre was indicative of Nafcoc's determination to expand its business involvement.

Although the organisation was proud to have initiated the project, said Motsuenyane, one of the major problems facing black business was the lack of trained business managers. He said only a small percentage of the total business management structure in South Africa represented blacks.

"This is a serious indictment on our society," he said.

The problem of the acute shortage of trained black managers could only be solved through a concerted effort to train blacks.

It was for this reason, he said, that Nafcoc's next major project would be the establishment of a management development centre.

Concerning the African Bank, Motsuenyane said there had been steady progress in the development of the institution. To expand even further, the bank's directors had decided to encourage all Nafcoc members to purchase a minimum of 500 shares "and thereby have a stake". Referring to the recent Supreme Court case in which the bank and some employees were charged with foreign currency irregularities, Motsuenyane said he and other board members were amazed by the enormous amount of backing they got from the black public.

He said although the trial adversely affected the bank as far as its "corporate supporters" were concerned, the opposite was true from the ordinary people.

ST Times 28/8/88

Old Mutual portfolio stands test of time

58

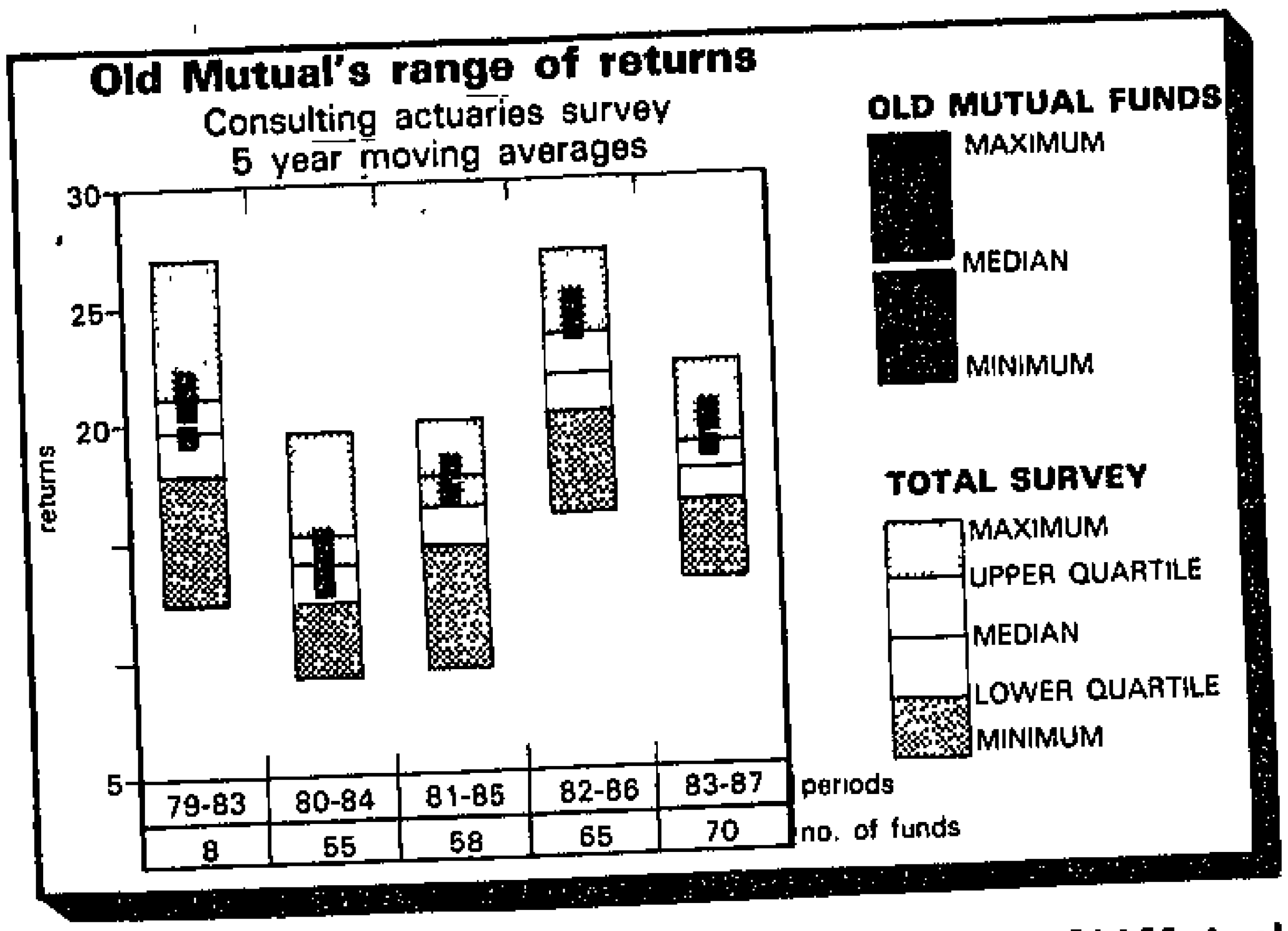
By David Carte

LAST October's stock-market crash made 1988 a year of negative returns for Old Mutual's investment division. But investment chief Johannes van der Horst finds plenty of consolations.

He says Old Mutual did better than most with its huge portfolios and in three years outperformed the JSE Actuaries indices and inflation.

"We didn't walk on water, but we whipped all the averages," he says.

In the year to June, Old Mutual's major funds yielded on average about minus 15% on their equities — the same as the financial and industrial index, but considerably better than the all-share index's minus 21% and the mining financial index's minus 28%.



The graph shows that 1980-1984 was a bad time for Old Mutual, but 1982-1986 was a blinder. The big rectangles show best and worst performances and the mean for all funds. The smaller show Old Mutual's best, worst and mean returns.

Pooled funds

Over three years, the average return on the equities in the managed pension funds was a little more than 30% a year, beating the mining financial index return of 23%, the all-share index's 21% and the financial and industrial index return of 18%.

In the past year, the return on all assets, including gilts and properties, was better than that on equities.

On conventional business it was minus 6,9%, on individual linked business minus 7,5%, on pooled pension funds minus 5,1% and the range on managed pension funds was from minus 10,3% to plus 11%.

Over three years, the total return was 19,5% a year on conventional business, 20,6% on individual linked business, 19,8% on pooled pension funds, and from 16,9% to 22,8% on managed pension funds. These returns compared with inflation of 15,6% a year in the three-year period.

Old Mutual has numerous separate portfolios with differing performances. In the Consulting Actuaries survey of five three-year moving averages, Old Mutual's median performance is on the 75th percentile in two of five three-year periods and above 59th percentile in the other three three-year periods.

Dr Van der Horst says: "We have always had a high equity content and we were fully invested in October. We also had a big exposure to mining and mining finance stocks.

"On the gilts side, we adopted a low-risk profile, sacrificing running yields in getting into short-term paper. We were convinced interest rates would rise to reflect underlying inflation — and we were right. Our strategy minimised capital losses in gilts when interest rates rose early this year."

Dr Van der Horst says Mutual "insured" itself in the gilts market with call and put options with underlying values of R3-billion.

Happier

"Altogether, we paid out and received about R13-million in 'premiums' on options and came out about R4-million ahead, though this was not the purpose of our action, which was actually risk management."

Dr Van der Horst is even happier with more recent post-crash results. In the six months to June the R3,3-billion Multifund did well in the Alexander Forbes survey of single payment business, returning more than 8% in six months. Metropolitan Life and Liberty were the only others which came close. Mutual's R250-million Omnifund did less well, returning 4,4%.

Altogether Old Mutual manages R30,6-billion of assets. Of these R3-billion are outside SA, mainly in Zimbabwe, but also in the UK, Malawi and Kenya. Providence Capital, the UK subsidiary, has R1-billion of assets under management.

Dr Van der Horst and 400 others in Cape Town oversee R27,5-billion of SA assets. Conventional business accounts for R15,9-billion, or 58% of the total, and linked for R11,7-billion, or 42%.

Market-linked business breaks down thus: individual linked R2,8-billion, pooled pension funds representing 400 pension funds, R4-billion, about 20 large managed pension funds R3,9-billion and unit trusts R940-million.

The R26,6-billion of SA assets excluding unit trusts under management break down: equities R12,7-billion (down from R14,4-billion), prescribed R10,3-billion, property R2,9-billion and other R732-million. So Old Mutual had 47% of its funds in equities, 39% in gilts and 11% in property.

The top 10 shares alphabetically are Anamint-De Beers, Anglo, Anglovaal, Barlow Rand, Lydenburg, Nedbank, Remgro, SA Breweries, Safren and Sasol.

"They are nearly all rand hedge counters," says Dr Van der Horst.

Dr Van der Horst is apprehensive about the international outlook. Old Mutual is perturbed at rising foreign interest rates. They are starting to exceed the level which precipitated the October crash

High foreign rates are no comfort for SA, which, for balance of payments reasons, must keep the cost of borrowing abroad cheaper than at home. So the pressure is on SA rates as well.

Mutual also worries about the continuing twin US deficits, which oblige high interest rates in the US, and the reluctance of Japan, Germany and other European nations to keep expanding their money supplies because of inflation fears.

Dr Van der Horst says: "Does the US go into recession, can it achieve a soft landing? The margins of safety are not so great.

"There has been a lot of credit growth in Organisation for Econmic Co-operation and Development nations. Last crash, the authorities everywhere eased monetary policy. In the event of another crash, they could flip the coin by throwing too much money at the problem and then gold could run.

Rand gold price

"We are more confident about the rand gold price than the dollar price and are putting most of the modest amount of new money we are investing in equities into mining shares — in spite of the threat of the Dellums Bill. In the past year we added to our positions in Gencor, Anglo, GFSA, Driefontein, Randfontein and Sasol.

"Although we are concerned about another sell-off abroad, we do not see the market falling to pieces. Top quality stocks such as Barlows are on low forward multiples, so there is finite downside."

Falling rand means higher insurance cover is needed

S Times 28/8/88

THE rand's continued depreciation against major foreign currencies means SA manufacturers relying on imported plant and machinery will be drastically underinsured.

By Robyn Chalmers

Priceforbes Federale Volkskas (PFV) director Charles van der Byl says: "Although most manufacturers have increased the value of their insurance policies to allow for the rand's decline, there is a danger that the adjustment is made on an incorrect calculation of depreciation.

"Foreign currencies are often shown in relation to the rand. On this basis, the rand which bought 91 US cents at the end of the 1983's first quarter, bought only 43c at the end of this year's second quarter — a depreciation of 53%."

The problem is that if a manufacturer adjusts his overall insurance values on the basis of a 53% depreciation, he will still be underinsured if the rand continues to decline.

The rand has also declined by 65% against the mark, 60% against the pound and 74% against the yen since 1983.

58

Frequently

Mr van der Byl says: "These countries are major suppliers of plant equipment and machinery to SA. If manufacturers are forced to replace equipment in the event of a loss, they have to pay considerably more for it.

"In the light of this and exchange-rate fluctuations, insurance limits should be frequently reviewed. Failure to keep up to date with exchange-rate movements could prove very costly.

"Manufacturers who have orders for plant and machinery pending from overseas countries should also ensure that their marine insurance is adequate on replacement values."

Monitored

Another area of concern arises from the effect of the declining rand on earnings projections, particularly in the mining sector and some export companies which were now receiving many rands because projections were based on dollar prices.

"As a result, business interruption sums insured will now be inadequate where original projections were geared to the then dollar exchange rate, and must also be reviewed," notes Mr van der Byl.

Significant strengthening of the rand in future also has to be monitored by manufacturers to avoid the reverse situation of being overinsured.

(58) (…) S Times 28/8/88

Climatic changes raise the risks

By Robyn Chalmers

ONE of the most serious threats to future short-term insurance profits is catastrophes caused by climatic changes.

SA Insurance Association (SAIA) chief executive Rodney Schneeberger says storms are "possibly the most worrisome to the industry".

"The Natal storms last year, which cost insurers R400-million, were not as meteorologically freakish as many think. They could easily happen again and not only in Natal.

"SAIA has directed its special perils committee to review the situation."

Crosshead

Munich Reinsurance seismologist and meteorologist Gerhard Berz expresses similar ideas in Insurance and Finance.

"The increasing frequency and intensity of weather-related incidence resulting in damages constitute a risk that has not yet generally been taken seriously.

"In addition to the increased value concentration and the pushing ahead of man and industry into danger zones which formerly were not or hardly populated, this must be seen as associated with a definitely more apparent change in the earth's climate."

Mr Schneeberger says one of the major problems is that SA's population has grown.

"If a heavy storm took place 15 or 20 years ago it could easily have hit open land. Nowadays the chances are that it could easily strike a built-up area."

Dr Berz says "agriculture and forestry have reshaped the picture of the earth's surface."

"Think of the enormous clearing operations — formerly in the middle latitudes, today also in the tropics — which have reduced the forestry area from 36% to 25%.

"The use of fossil fuels changes the composition of the earth's protective gas envelope.

"The carbon dioxide released during these combustion processes has increased by nearly 30% since industrialisation started, and will at least double in the next century."

Dr Berz believes that change in climatic conditions will be accompanied by an extraordinary accumulation of anomalies which as a rule will turn out to be catastrophes.

Who'll be the first to break ranks?

Bond rates move likely this week

29/8/88

B Day (8)

GRETA STEYN

BANKS and building societies want to raise home loan rates this week because of intense pressure on their margins.

However, the market is waiting for someone to break ranks and be the first to lift mortgage rates to 16%. None of the banks or societies are keen to take the first step.

Talk of higher mortgage rates has been around since banks lifted the prime overdraft rate to 16% at the end of July. However, pressure on banks' and societies' margins intensified last week as liquidity in the money market tightened considerably.

Trust Bank senior GM Kobus Roetz said there was no doubt that home loan rates, now at about 15%, were under pressure. He noted that money market conditions were tight, with the Reserve Bank's accommodation to the market at about R2bn.

He said: "The first signs of the next upward move in prime are there."

First National's Norman Axten agreed there was upward pressure on rates "across the board".

Standard Bank's Terry Power said Standard's home loan rate would not exceed the average charged by building societies until December.

While the societies are not keen to say "on the record" that they want home loan rates to rise, it is understood at least two of the major societies are preparing to raise rates this week. The average rate charged by societies is just over 15%, with the major banks charging 15%.

Sapa reports that unlike the banks, the societies have to give a full calendar month's notice of any rise in rates.

If this is not done by Wednesday, most building societies will not be able to increase rates before November 1.

First National increases bond rate

AK 645 30/8/88

The Argus Correspondent

PRETORIA. — First National Bank today became the first commercial bank to increase its home loan rate following similar increases just announced by most of the major building societies.

Senior general manager (public affairs and communications), Mr Jimmy McKenzie, said they had decided to increase their mortgage bond rate for both new and existing bonds to 16 percent effective from September 24.

Other major commercial banks are expected to announce increases soon.

Meanwhile, four of the five major building socities have now announced increases in their home loan rate to 16 percent.

"FORCED"

The Natal Building Society (NBS) today became the latest to announce an increase of 1 percent to 16 percent from October 1.

NBS public affairs general manager Mr Brian Short said the NBS had held its bond rate at 15 percent although the prime rate had been at 16 percent for some time.

"General economic conditions have forced the NBS to match the prime rate of 16 percent and notification of this has been sent to all our bondholders," he said.

The EP Building Society has also increased its rate to 16 percent.

Cape Times 31/8/88 (58)

Speculation after Liberty group suspension

From HAROLD FRIDJHON

JOHANNESBURG. — Intense speculation has been triggered off in financial circles by yesterday's surprise suspension — in Johannesburg and London — of the major shares in the Liberty Life Group.

In Johannesburg Liberty Life, Liberty Holdings, Liberty Investors and Fugit are affected and on the International Stock Exchange in London both Liberty Life and Fugit have been suspended.

The usual laconic announcement says that negotiations are taking place, "which if successful could have a material effect on the shares of the companies".

All that one could get from chairman Donald Gordon's aides was "no comment".

The immediate reaction in stock exchange circles was that chairman Donald Gordon might be following a path similar to that taken by the Rembrandt Group.

That it would list an offshore-based holding company which would acquire Liberty's foreign investments, probably giving participation rights to Liberty's SA investors.

Credence to this view is hardened by the presence on the Libvest board of Johann Rupert who played a key role in the Rembrandt restructuring.

The Liberty Group has, according to the latest accounts to December 31 1987, a 48,7% stake in the £751m (R3,09bn) TransAtlantic Holdings.

TransAtlantic owns 77,5% in London-listed property company Capital & Counties, 25,7% in Sun Life Assurance and 41% of the listed Continental and Industrial Trust.

Last year TransAtlantic's profits rose to £39,1m from £24,4m

Gordon's plans to list TransAtlantic in London have been thwarted by the reluctance of the stock exchange to list TransAtlantic because its main business is holding large blocks of shares in other companies.

Last year its shares were listed in Luxembourg, a poor second.

The London Stock Exchange, however, does list investment trusts and this suggests where Fugit comes into the scheme of things. It is an investment trust, listed in both London and Johannesburg and would appear to be a perfect vehicle for a Rembrandt-type operation.

About 90% of Fugit's 79 246 917 shares are held by Liberty Group companies.

An offer to buy out the minorities as part of a reconstruction would involve about R60m and as a wholly-owned subsidiary, Liberty companies could acquire the R600m Fugit portfolio which could be paid for by the sale of shares in TransAtlantic, before reversing TransAtlantic into Fugit.

And to compensate SA shareholders in the Liberty Group, the new-look Fugit could make a rights offer to them — a la Rupert.

This is all conjecture but it has the ring of probability.

Speculation over future moves

Liberty Life Group shares suspended

3/8/88

B/Day 88

INTENSE speculation has been triggered off in financial circles by yesterday's surprise suspension — in Johannesburg and London — of the major shares in the Liberty Life Group.

In Johannesburg, Liberty Life, Liberty Holdings, Liberty Investors and Fugit are affected while in London Liberty Life and Fugit have been suspended.

● DONNY GORDON ... no comment

An announcement says negotiations are taking place, "which, if successful, could have a material effect on the shares of the companies".

And all that could be got from chairman Donny Gordon's aides was "no comment".

The immediate reaction in exchange circles is that chairman Gordon may be following a path similar to that taken by the Rembrandt Group. That is, it will list an offshore-based holding company which will acquire Liberty's foreign investments, probably giving participation rights to Liberty's SA investors.

Credence to this view was hardened by the presence on the Libvest board of Johann Rupert who played a key role in the Rembrandt re-structuring.

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M & F profits surge by 80%

C.T. Times 3/8/88

By BRUCE WILLAN

MUTUAL AND FEDERAL INSURANCE (M & F) has announced an increase of 80% in net after-tax profit for the year-end June 1988, to R64,3m (R35,8m).

The group has increased its final dividend by 3c to 16c a share bringing the total dividend for the year to 22,5c.

Earnings per share rose to 138c compared with 77c in the last financial year.

Growth was 10% on the year with the groups assets at market value standing in at R899m, but the net asset value dropped from 1 026c a share to 943c due to the October crash on the JSE.

MD Ken Saggers said that he was delighted with the considerable improvement in the group's overall performance.

The past financial year also saw the group exposed to some R50m claims due to the floods of Natal and the Free State but managed to claim R35m of this from reinsurers.

He attributed the increased net after-tax profit to the 49% growth in investment income which rose to R58,3m (R39,16m) and the substantial improvement in the underwriting surplus of R45,4m (R13,6m).

Gross premiums increased by 31% to R743m (R567m), while net premiums rose to R593m (R424), an increase of 40%. The group's investment portfolio advanced by R79,2m to R805,6m.

He stated that the future was clouded by uncertainty and that this would impact on the short-term insurance industry, nevertheless he is confident that Mutual and Federal has the necessary infrastructure, human resources and financial strength to meet the challenges of the future.

INVESTMENT

ARGUS 1/9/88 (58

Liberty group likely to reveal all today

From ANN CROTTY

JOHANNESBURG.— The Liberty Group is expected to announce details today of the deal that led to the three-day suspension of Liberty Investors, Liberty Holdings, Liberty Life and Fugit.

Although it seems set to remain a well-kept secret until management releases details, analysts are still speculating on the nature of what is likely to be one of the year's biggest investment deals.

At this stage there appear to be two broad fields of thought on the issue.

One is that the deal relates to a restructuring of Liberty's overseas investments.

The other is that it relates to a restructuring of the group's South African investments.

Common to both views is the belief that Fugit will be playing a crucial role in whatever is being planned to the extent that it will be the vehicle used to implement the deal.

This is the only explanation analysts can find for the suspension of Fugit, 90 percent-held by the Liberty group of companies.

Fugit is an investment trust with a broadly based holding of mainly listed shares.

But at the end of financial 1987 it did not have a significant holding of any shares in the Liberty stable.

This means that if anything happened to the Liberty group, it would not impact on Fugit. So there would be no need to suspend Fugit unless it was directly involved in the deal.

The issue, then, is whether the plan is to use Fugit to list Liberty's international assets through the reverse takeover of Transatlantic, or whether it is intended to use Fugit to list Liberty's SA investments, chief of which are Premier, Standard Bank, Gold Fields, and SAB.

If it is the former, then it seems likely that Fugit would have to acquire something more than Transatlantic.

An earlier attempt to list Transatlantic on the London Stock Exchange was thwarted because of the LSE's disapproval of the listing of purely holding companies.

So the LSE is unlikely to agree to list Transatlantic via Fugit unless it was to effect some changes that would make it look more like an operating group.

If it were to hive off its local interests via Fugit, it would be following the line adopted by Sanlam when Sankorp was used to manage the insurance giant's major investments.

Sources in the Rembrandt group have denied any involvement in the deal.

2/9/88 (58) B/day

Productive investment call

'Sound savings use could boost SA's growth'

GRETA STEYN

SA COULD achieve higher growth than the 3% ceiling imposed by the balance of payments constraint if the country employed its savings more productively, economists said yesterday.

They agreed with Reserve Bank Senior Deputy Governor Jan Lombard, who said in a speech on Tuesday that a more productive investment of savings could push SA's rate of growth to 4% a year.

Rand Merchant Bank economist Rudolf Gouws said domestic savings could be employed more productively if government curtailed its use of savings to finance current expenditure.

"Government's dissaving has diminished the pool of savings available for growth-inducing investment spending. If the trend to use savings for current expenditure could be reversed, the balance of payments constraint would be smaller. Fortunately, fiscal policy is at the moment geared towards achieving this."

Stellenbosch Bureau for Economic Research economist Glenn Moore agreed that a more productive utilisation of savings would generate higher growth. However, he was sceptical that this could be achieved in practice, given the pool of savings available at present.

"Domestic savings will have to increase if we want a higher growth rate. But this seems unlikely, given government's dissaving and the fact that personal savings are unlikely to grow significantly because of inadequate disposable incomes."

United economist Hans Falkena said positive real interest rates would stimulate savings. Monetary policy should be tightened to achieve higher real rates, implying that fiscal policy should be slackened and taxes cut.

Aids and insurance

Plan for special tests before giving cover over R200 000 limit

The Argus Correspondent Argus 2/9/88

DURBAN. — Insurance companies will do a series of Aids tests on clients who are HIV-positive before deciding whether they should be refused cover of more than R200 000.

Mr Jurie Wessels, public relations officer for the Life Officers' Association, said today insurance companies were aware that the HIV test was not infallible.

"We know it is not foolproof because it is oversensitive. So, if a client shows positive on this test he will then go through another battery of tests to confirm the results."

A committee made up of managers of all the large insurance companies in South Africa had met recently to discuss Aids and insurance.

They had drawn up an agreement which stipulated that people who took insurance cover of more than R200 000 would have to undergo Aids tests. If these proved positive, the company could refuse to insure the client or it could offer a policy which would become worthless if the client died from Aids.

Approval expected

"This agreement has been circulated and will be discussed at our annual meeting on October 5."

He expected it to be approved by members and it would probably come into effect in November.

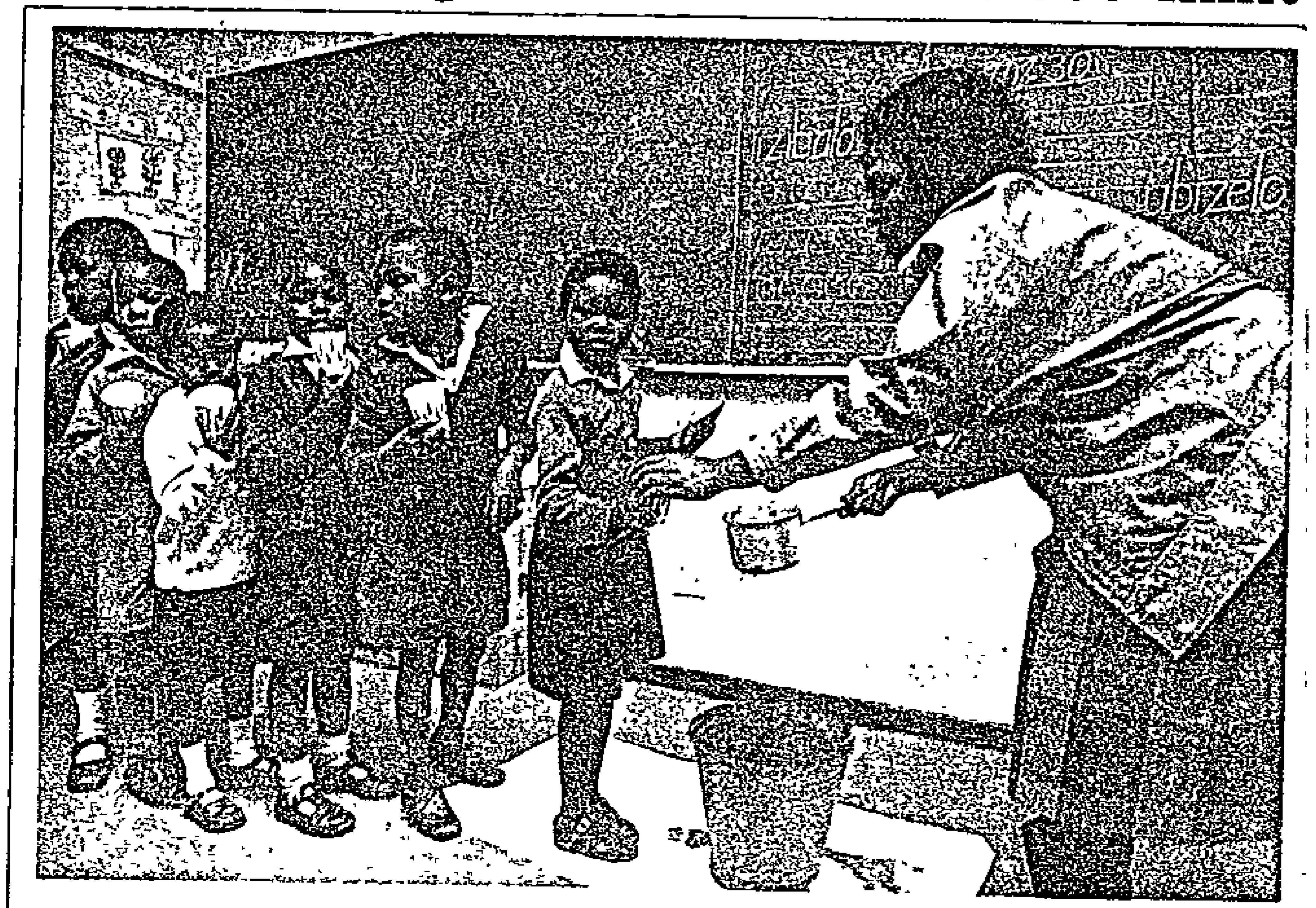
"At present, people who buy these policies already have to have medicals which include, for example, heart tests. Now the Aids test will be part of the medical. Some companies may decide to do the Aids tests at lower levels than the R200 000 mark, but that will be up to them," he said.

Present policy-holders would not be tested and they were covered even if they died of Aids.

There was concern among South African insurance companies about the disease.

"We have consulted with the Medical Association of South Africa, the National Aids Advisory Group and the Department of National Health and Population Development.

"We are doing exactly what insurance companies are doing in other parts of the world. In Britain the limit is £50 000 pounds and in the United States $50 000."



Picture: LEON MULLER, The Argus

HEARTWARMING: A child gets a helping of soup from Edendale Primary School's cook.

Lifesaving daily meals

By BRONWYN DAVIDS
Staff Reporter

FOR thousands of hungry schoolchildren on the Cape Flats the mug of soup and slice of bread they receive from the Peninsula School Feeding Association is their only meal of the day.

The association is, however, facing a financial crisis and R500 000 is needed if it is to continue feeding more than 150 000 needy children at 385

For many children it's their only food

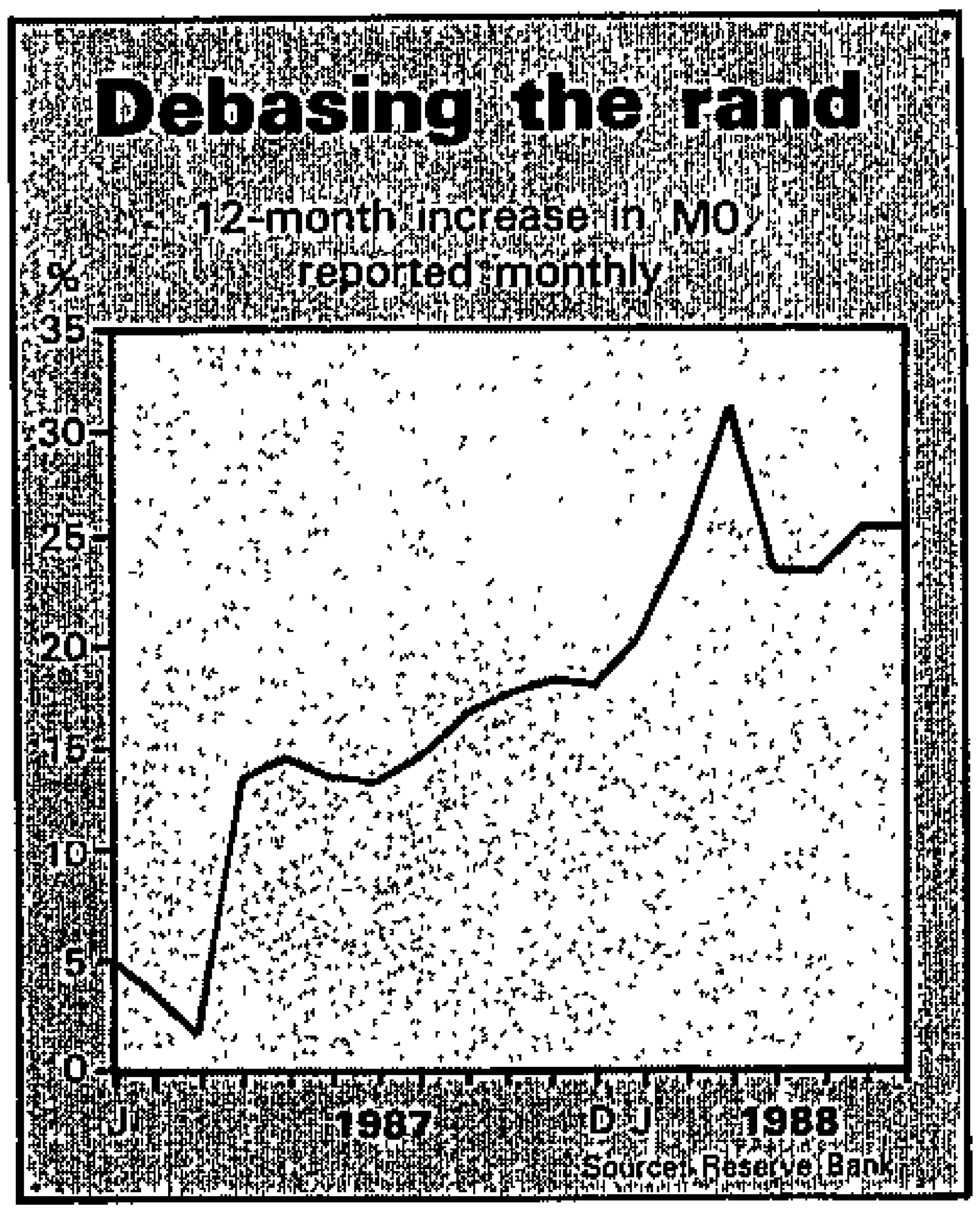
"We are having financial difficulties but we are determined not to turn away hungry children.

"Each school tries to reach a modest fundraising target to supplement the funds. The children want to be associated with feeding themselves," Mrs Pinshaw said.

BADLY NOURISHED

Mr Henry Petersen, principal of the Edendale Primary School in Manenberg, said his pupils had been assessed by the nutrition unit of the Red Cross Children's Hospital in 1986.

F.M. 2.9.88 (58)



of low rates. It's not their fault that the Bank "accommodates" this demand by creating new rands, which increases the monetary base, M0. If the Bank ignored credit demand and interest rates, it could control the money supply. Instead, it increased M0 25,5% in the year to July.

When the Bank waits too long to slow money supply growth, these interest rate cycles are reflected in booms and busts, as in 1984. This time around, De Kock says he wanted to avoid doing "too little, too late." But he states: "In retrospect there can be little doubt that monetary policy should have been tightened earlier and that interest rates should have been allowed to rise sooner."

Frank Vorhies of the Wits Department of Business Economics, a critic of the easy-money policy, hopes De Kock's comments will spark fresh debate. Among the questions he'd like discussed:

☐ Given its track record of wild swings in interest rates, is there any evidence that the Bank could set rates better than the market would? It's hard to believe so, Vorhies argues. When government infuences a price — in this case the price of credit — the side effects should be considered. He says it would be better for the Bank to focus only on money supply and allow the market to set and adjust interest rates.

☐ Should businessmen keep calling for low rates or take a broader view? "People want the Bank to make them rich overnight with instant, cheap credit," says Vorhies. "But they don't look at the long-run consequences: price inflation, the falling rand, malinvestment, distortion of relative prices, and cycles of growth and recession;" and

☐ Should the Bank be independent of government? "In the spirit of P W Botha's call for privatisation to bring about economic growth, the Bank should be a target. Then it could concentrate on providing a product that retains its value, rather than one that loses it at 12%-16% — or more — a year."

Vorhies believes shortsighted political and business pressure makes it impossible for the Bank to provide a sound rand. ■

cross-reference to another section would have effectively ring-fenced the allowance."

If the omission is an oversight, and it has been picked up quickly enough, there may be rectification in further amending legislation during this short sitting of parliament.

Otherwise, it'll be back to the good old days. ■

MONEY SUPPLY

58

Raising questions

For months, runaway money supply has been blamed on credit-happy consumers, reckless businessmen and greedy bankers.

Now, this is being refuted — by the Bank itself. In his remarkably frank address last week (*FM* August 26), Governor Gerhard de Kock says what free-market economists have been arguing that the bank fuelled the credit boom by printing rands, and could have controlled money supply, but didn't.

"It was the Reserve Bank that supplied the cash reserves necessary to underpin the increase in credit," De Kock says. "In the final analysis the Bank must therefore accept the responsibility for the excessive rise in the money supply."

The popular view of who's to blame isn't that far off track. It *seems* like increased credit demand by businessmen and consumers causes money supply to soar — but that's only because of the way the Bank responds.

It should work like this: as credit demand rises, interest rates rise to attract savings. Then, as savings rise, rates ease. Interest rates would constantly adjust, so capital supply equals credit demand. Wild swings in interest rates would be unlikely.

Problem is, the Bank does not let the market freely set interest rates. Under pressure from Pretoria, it temporarily keeps rates low by pumping new rands into the money market. De Kock even names the political constituency for low rates: "farmers, small businesses and homeowners."

But this can't go on. If it keeps creating new rands, money supply goes out of control, fuelling price inflation and a collapsing rand. So the Bank cuts back, and rates rise.

At the beginning of this cycle, businessmen and consumers rush to take advantage

FM 2/9/88

Liberty hives off offshore interests

Cape Times 2/9/88 (58)

From KAY TURVEY and HAROLD FRIDJHON

JOHANNESBURG. — Liberty Life Group shareholders will participate in a R475m rights issue to finance the acquisition by Fugit (First Union General Investment Trust) of the group's offshore interests valued in excess of R1bn.

To fund the deal Fugit will sell for cash its widespread portfolio of SA shares to Liberty Life (Liblife) for about R609m. The balance, to be paid in cash, will be raised in a 75-for-100 rights issue.

Liblife will renounce 83% of its entitlement to the holders of ordinary, preferred ordinary and convertible preference shares and option holders in the executive option scheme, in the ratio of 200 Fugit shares for every 100 held at about R8 a share.

Liberty Holdings (Libhold) which has a 52% interest in Liblife, will in turn make a rights issue to its shareholders, including holders of options to take up shares in the executive option scheme, in the ratio of 50 new Fugit shares for every 100, at the same price. Liberty Asset Management (LAM) will renounce its rights to Libhold shareholders.

Terms of the rights offers will be announced before Fugit and Liblife shareholders meetings in October 1988.

Liblife's off-shore investments are held through wholly owned subsidiary Conduit Insurance Holdings and comprise the Luxembourg-listed TransAtlantic, which, with total assets exceeding £843m, is among the 48 largest listed companies in the UK.

TransAtlantic, in which the Rembrandt group has 20%, has a 26% holding in Sun Life Assurance, 64,4% in London-listed Capital and Counties and 41% in the London-listed Continental & Industrial Trust in which Conduit has a further 29% share.

Capital & Counties is a property owning and development company.

Continental & Industrial at June 1988 held 89% of its £169m investments in gilt edged stocks "pending more favourable opportunities for equity investment".

Reserve Bank approval has been obtained for these transactions, which are based on the commercial rand equivalent of the net asset value of Conduit.

Provided they all follow their rights Liblife's direct stake in Fugit will be reduced from 84,9% to 55%, Liberty Investors (Libvest) will hold 5,7% of the enlarged Fugit, Standard Bank Investment Corporation 4,3%, Guardian Insurance 2,3%, Guardbank Management Corporation 0,8% and LAM 1,6%.

The rights issues will be underwritten by Liberty Life and the first dividend will be paid in respect of the 1989 financial year in April 1990.

At yesterday's press conference chairman Donald Gordon said the prime motivation for the reconstuction was to correct an imbalance in the apportionment of Liblife's shareholders funds because of the organic growth in its offshore portfolio. At June 1988 these investments constituted 68% of Liblife's shareholders funds of R1,55bn. This will be reduced to 37% calculated on the basis of the commercial rand exchange rate to the British pound.

The path was cleared for the reconstruction by the "stamp duty holiday" wich enabled the Fugit portfolio to be transferred to Liberty saving about R9m.

As Fugit had never traded the shares in its portfolio this one-off deal would be unlikely to attract tax.

Fugit's name will be changed to First International Trust and its London listing will be ended because its investment portfolio will have an insufficient spread to satisfy London's rules which are opposed to the listing of pyramid companies. A listing, however, will be sought on a Continental bourse.

The reconstruction will result in a "significant reduction" in Fugit's dividends with earnings down to about 22c from last year's 31,7c. But Gordon said shareholders would ultimately be compensated from the potential benefits resulting from a direct participation in its international investments.

Fugit shares will be a prime rand hedge investment because its profits will accrue from offshore interests earned in sterling.

This will make the R59m rights accruing to Liberty Group shareholders highly tradeable and shareholders who do not follow their rights can be assured of earning a handsome premium. But those who have the patience and the prescience and have followed the growth of Liberty's offshore investment should take up their rights and sit back and reap the harvest.

Gold edges up

An announcement will be made as soon as

Black elite has been co-opted

Giving a critical evaluation of current economic development programmes for blacks, Eugene Nyathi – internationally recognised political and economic journalist and former editor of the Namibia Features and Press Agency – addressed the recent annual general meeting of the Association for Black Accountants of Southern Africa.

Examples of organisations that I have looked at, are the Urban Foundation, the Small Business Development Corporation, various small business development schemes run by numerous financial institutions and I have also attempted to evaluate black management training schemes run by corporate institutions.

There is no doubt in my mind that South Africa has undergone certain discernible changes in the last twelve or so years.

Following the dramatic events of Soweto and elsewhere in 1976, the government realised the untenability of some of its rigid policies and sought to devise plans that it hoped would pre-empt future black unrest.

Government and private sector leaders pooled resources and ideas on how to best avoid "another Soweto 76".

It is no accident that both Harry Oppenheimer and Anton Rupert were instrumental in the formation of the Urban Foundation and similar outfits.

Within the context of apartheid's constraints, the government and corporate programmes can only benefit a small group of selected blacks.

Considerable success has been attained in numbing the political instincts of the small black petty bourgeoisie.

Most of the black so-called middleclass live artificial lives that are grounded in pretence and cultural capitulation.

Pretence to imaginary economic power has often gone hand in hand with an identity crisis.

So-called black economic empowerment has amounted to nothing more than selective embourgeoisment of a certain black elite with the specific aim of co-opting them, consciously or otherwise, into a collaborationist relationship with the status quo.

Most blacks who consider themselves made are nothing more than the recipients of breadcrumbs from the apartheid dinner table.

They can never surrender that leverage voluntarily. It does not matter how much money is spent on so called black improvement schemes, as long as the national political question is not addressed, economic power will remain chimerical.

The development of black business is terribly stunted. Save for shebeeners and drug smugglers, black business is virtually non-existent.

Because they can not own land under apartheid, black entrepreneurs cannot raise collateral for commercial loans.

The important lesson here is that until South Africa is politically free, black economic power will remain a cruel joke.

It is nonsense to think one can jump from being a hawker today and be an industrialist tomorrow.

Such analyses should be confined to Department of Information publications, for understandable reasons. Anyway while hawkers' trolleys may be manned by blacks, they are often employed by whites or Indians.

Some international aid agencies are part of the campaign to mislead the world in respect of black advancement. They also have an interest in promoting certain black elites for reasons that have little to do with the overall interests of the majority.

Eugene Nyathi . . . politico-economist

In the August 28 edition of *City Press*, we incorrectly published the name of the director of programmes and research at the SA Foundation. He is Dr Gavin Lewis, not Dr Gavin Evans as published. We apologise for any inconvenience caused.

4/9/88 C Press (58)

Police and banks probe missing millions

5/9/88 (58) CHRIS TUCHER B/day

THE SAP Commercial Branch is investigating a major new foreign exchange swindle in which R67m has allegedly been channelled out of SA, a Pretoria police spokesman confirmed yesterday.

He said police had searched and seized documents at the office in Braamfontein, Johannesburg, of Greek businessman Dimitrios Monokandilos.

While still awaiting a Reserve Bank report on the alleged swindle, police had opened a docket on Monokandilos, said the spokesman.

The 31-year-old Monokandilos ran a one-man trading company called International Trade and Export.

Investigations by both the police and internal auditors of at least one of three banks said to be unwittingly involved in the case, were prompted by the SA Reserve Bank's exchange-control division.

The R67m, filtered out during the past year, was allegedly procured with forged import documents, according to bank officials.

Monokandilos is said to have left SA.

(58) B/day 7/9/88

Reserve Bank gives go-ahead

Banks with a difference get new licences

GRETA STEYN

THE RESERVE Bank has granted three new banking licences for banks with a difference — two for banks run according to Islamic principles and one for a trailblazing merchant bank.

The merchant bank will be called Pinnacle Bank and is the first to hone in on the mining sector as a specific target market.

MD Reinhold Joubert said yesterday Pinnacle would concentrate on providing merchant banking services to the mining, mineral and public sectors of the economy.

"Unlike other merchant banks we are not going for the large corporates. That market is overbanked already, and our target market comprises about 75% of the SA economy. Mining projects are already in the pipeline."

Joubert said shareholding of the merchant bank, which would have a capital base of at least R10m, had yet to be finalised but Pinnacle Holdings would have 10%.

Also changing the face of banking are two licences granted to banks aimed at Muslims, who believe it is morally wrong to charge or pay interest.

The licences went to the Islamic Corporation, which is to change its name to the Islamic Bank Ltd, and a Durban-based businessman Aboobaker Mahomed. The latter, who has yet to choose a name for his bank, may not use the word Islam in its name as the Reserve Bank says this will create confusion.

The granting of a licence to the Islamic Corporation brings to an end the drawn-out battle by the Corporation's MD Ebrahim Kharsany to become a fully fledged bank. He applied for a licence in April 1981 and was only given the nod after the 11th application.

The Reserve Bank had been reluctant to grant a licence for a bank aimed only at one specific segment of the population.

The two Muslim banks introduce the concept of interest-free banking to SA. The Koran condemns the practice of paying interest as usury. Instead, borrowers are charged a fee. Depositors can earn a percentage of the profits while shareholders get a dividend.

Shock premium demand by AA Mutual liquidators

7/9/88

Star

By Derek Tommey

Thousands of people who were insured with the now-defunct AA Mutual short-term insurance division, as well as hundreds of insurance agents and brokers who delayed payment to the company because they believed it was going bust, could be in for a shock in the next few months.

The liquidators of the AA Mutual short-term life insurance company were hoping to collect an estimated R70 million in unpaid premiums from hundreds of brokers and insurance agents, one of the liquidators, David Rennie of Syfrets, said last night.

The move could set off a chain reaction with members of the public, who also delayed payment to brokers, being called on to pay their outstanding AA Mutual premiums in full, plus interest at 20 percent.

This means many people who were "on cover" with the AA Mutual for even just a few days could have to pay the annual premiums due in 1986, plus interest.

However, they would become concurrent creditors of the AA Mutual and have a chance of getting some of this money back if the company ever paid a dividend to creditors.

In mid-1986, the AA Mutual was South Africa's biggest short-term motor insurer. Its rates were the lowest in the country and this helped it capture a major portion of the motor insurance business. But in June 1986 the business world was already alive with rumours the company was insolvent.

This led many people to adopt a "wait-and-see attitude" and delay any payment due to the company or to their brokers.

It also led a large number of brokers who had been paid, to retain the premiums in the belief they were acting in the interest of their clients. However, in a test case recently against brokers Price Forbes Federale Volkskas and their client, Premier Milling, the court ruled that once premiums had been paid to a broker, they belonged to the insurer.

Therefore all the AA Mutual premiums received by brokers had to be paid to it, even if the client had instructed the broker to hold onto the funds, as Premier Milling had done.

Premier Milling is appealing against the judgment. But some people in the insurance industry see it as the writing on the wall.

Now the liquidators have taken an additional step in recovering what they believe is AA Mutual money.

They have summonsed a number of brokers to pay premiums, which they say are due to the AA Mutual — even if the brokers did not receive payment from their clients.

This action will also be in the nature of a test case and could go on appeal.

Clearly, if the liquidators were to win this case, many insurance agents and brokers could face serious financial problems.

This, is turn, could trigger a number of actions by brokers against clients. But much would depend on the size of the premium due, the client's ability to pay and the broker-client relationship, a senior insurance official said.

Earlier this year, it was estimated AA Mutual had assets of R210 million. The figure included R74 million the liquidators said was still owed to it.

Because many claims are still outstanding, no figure for liabilities has been published. But it was estimated at one time that they could exceed assets by as much as R70 million.

Aids could send premiums soaring

Star 8/9/88

By Sven Forssman

The cost of term assurance — life assurance without the savings element — could rocket by as much as 300 percent if the local industry follows the example of its overseas counterparts in dealing with the Aids crisis, Jim Brayson, manager of Protea's Life Division, said yesterday.

"The effects of the killer disease on term assurance, particularly in the UK, US and Australia, are an object lesson for the local industry," Mr Brayson said.

"Initially, overseas assurers believed they could underwrite for Aids without increasing premiums, simply by identifying the most likely victims and attaching higher rates to them. But, this has changed.

"Nearly all the assurance firms overseas have bumped up their premiums across the board — in some cases up to 300 percent for men in their 20s and 30s, the sector most likely to be affected by Aids.

"As the incidence of the disease increase in South Africa, this also appears to be a possible scenario here. This would result in higher premiums, compulsory tests and exclusion clauses."

Mr Brayson said professional reassurers and the Association of British Insurers have recommended that term assurance applicants undergo HIV antibody tests prior to granting cover.

"In fact, Aids is changing the face of the term insurance industry in other parts of the world. Certainly, the easy conversion and extension options, a standard feature on many contracts, are disappearing and being replaced by, in some instances, renewable term policies.

"Naturally, each time the policy is renewed, about every five years, the policyholder would have to submit to HIV antibody tests."

FM 9/9/88

ALLIED GROUP

Second National?

Rationalisation in the financial services industry can be seen not only in the recent merging of the second largest building society, the Perm, with Nedbank; internal stress is evident, too, as individual organisations restructure.

Most radically changed of the five major building societies since deregulation in August 1986, is the Allied. In January 1987, it became the first society to open a bank — under MD Kevin de Villiers. It went on, after a listing in June 1987, to merge bank and building society in October in preparation for single legislation which is expected to eventually replace the existing Bank and Building Society Acts.

The Allied Group — divided into consumer, corporate, treasury, administration and informations systems divisions — is now run by De Villiers as group MD responsible for day-to-day operations. Allan Tindall, MD of Allied Building Society in pre-listing days, is executive deputy chairman. Says De Villiers: "Acting with the board, Allan formulates the broad strategies within which the management team operates."

Formerly group treasurer of First National Bank (FNB), De Villiers brought with him from FNB Don Hunter as senior GM in charge of Allied's treasury and Fritz Rieseberg, senior GM (administration). He has since been joined by two other ex-First National men: Mike Henderson, who has become senior GM in charge of the corporate division, and Andre Latre, responsible for the consumer division which comprises the former building society and the retail business of the bank.

Apparently not all staff have been happy with the rearrangement and growing influence of De Villiers' ex-FNB cabal. Three senior people have resigned in recent months. Senior GM (marketing) William Wolke left in April and is now GM (marketing) at FPS, financial planning services company in the Sage group. He was followed last month by group accountant John Bayliss, who will shortly join another financial institution, and executive director Ian Fraser, who leaves at the end of September.

Tindall

It has been suggested that the emergence of De Villiers' team has in practice removed much of Tindall's responsibilities but there are no signs yet that he is joining the exodus. However, a straw in the wind may lie in the fact that when Allied, which moved to a costly new head office in Sandton less than three years ago, moves back to town, avowedly to get back closer to the banking centre, Tindall will stay in Sandton. This will house various subsidiary activities, the internal inspectorate and the computer centre.

De Villiers

De Villiers, however, denies that Tindall has been sidelined. "Allan and I have worked closely together for the past 12 months on all changes of importance and executed them together. It was at his behest and that of the board that the team I originally brought in to run the Allied Bank took on a greater group role. The senior management in the regional head offices is almost entirely made up of Allied Building Society staff."

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WHY WE WANT BLACKS

Bank explains new move

By MATHATHA TSEDU

THE decision by the First National Bank to recruit more blacks than whites affects all areas and not just the Northern Transvaal, the senior assistant general manager, Mr Jimmy McKenzie, said yesterday.

Speaking to the *Sowetan* yesterday about Press reports of anger among white staff members over the issue, Mr McKenzie said the move was a result of a survey that had proved that the bank would be twice its present size in the next 10 years.

He said the survey had proved that there would be a shortage of bank managers in the next 10 years and added that his bank was "recruiting the right people now to be trained as competent bankers of tomorrow".

Mr McKenzie said the decision to hire seven blacks for every white person hired, was part of a formal programme of equal opportunity within the whole bank.

He said he was surprised at the reaction in the Northern Transvaal as the decision was not political. He said the bank had based its decision on "a sound economic decision based on the population ratio".

The reports stemmed from alleged dissatisfaction among white staff members in the Northern Transvaal following a directive sent by the region's executive director, Mr M J Bosch, explaining the new hiring procedures.

Mr McKenzie said many companies including several Government departments, were already recruiting a higher quota of black staff as they also realised that the future demands would be immense.

Road safety plans for Papal visit

A COMPREHENSIVE road safety project to ensure the free and safe flow of traffic during the papal visit to Lesotho next week was announced in Pretoria yesterday.

The project is a joint venture between the National Road Safety Council, the South African Police, civic defence services, the SADF, the Free State's provincial and local traffic authorities stationed along the route, as well as that province's ambulance service and the Automobile Association.

Mr Eric Wise, depurty director of the NRSC, yesterday said most of the roads leading to Lesotho were in good condition but the roads were never intended to carry such high volume traffic as is expected.

He said inconvenience, frustration and even collisions could be limited to the minimum if more attention was paid to route planning, a proper vehicle check and a positive attitude towards driving was taken.

The NRSC will establish an information centre at its existing Rescue Centre at Bethlehem. The media and public can obtain the latest information by dialing (0431) 36110/1245.

The NRSC's rescue aircraft, stationed at Bethlehem, will also be used to provide urgent medical care. The service can be reached at (01431) 33333.

Road safety hints for travellers to Lesotho include:

- An overloaded vehicle — whether carrying passengers or luggage is more unstable on the road and more difficult to manoeuvre.
- Maintain a safe following distance at all times.
- Interrupt a long journey with regular halts and rest points
- Make use of seat belts and child restraints
- Adjust speed to prevailing conditions and
- Be aware of pedestrians and stray animals along the road side. They create a potentially dangerous situation.

Paraplegic hopes to lead normal life

R96 000 SURPRISE

(58) Sowetan 9/9/88

By MONK NKOMO

A MAMELODI man who is now a paraplegic after a car accident last year was paid R96 153 by an insurance company in Pretoria yesterday.

Mr Peter Mokgohloa (31), of Mamelodi East, was handed the cheque by Mr Hennie Kruger, branch manager of Southern Life Association Limited.

Interviewed at his home yesterday, Mr Mokgohloa said he was "very surprised to be paid out this large amount because I only took up the policy in 1986 and had only paid premiums totalling R900 before the accident.

Mr Mokgohloa, who has high hopes of leading a normal life again, said his limbs were now moving — "a sign that very soon I will be walking and using my hands again".

A repairman at a motor factory at the time of the accident, Mr Mokgohloa was sold the policy in April, 1986 by a former co-worker, Mr Nick Olivier. "I paid R50 a month", said Mr Mokgohloa.

He had the accident near Iscor, Pretoria

• To Page 2

Surprise payout

• From page 1

West, while travelling in his car from Atteridgeville to Mamelodi on November 7 last year. He broke his neck and was paralysed from the neck downwards.

Mr Mokgohloa is married to Paulina, a cashier at a wholesale company and the couple have three children.

"I thank the insurance company for the amount they paid me. I am going to invest it, build a house and make sure there is enough to take my kids to school", said Mr Mokgohloa.

(58) Sowetan 9/9/88

SA Perm kicked out of Venda

Sowetan 12/9/88

By SY MAKARINGE

THE SA Perm, one of the country's leading building societies, has been kicked out of Venda.

This shock move, confirmed last week by a spokesman for the SA Perm, came after the financial institution was given one month by the Venda Government to establish a full building society in Venda or withdraw its operations from the homeland.

Mrs Amanda Andreae, Public Relations Officer of the SA Perm, said the building society could not meet the Venda authorities' demands as it would be against the Building Societies Act.

She said the demands meant that SA Perm's operations in the homeland would assume a new corporate identity. Funds generated in Venda would also not be allowed to leave the homeland, Mrs Andreae said.

The building society's only branch in the homeland, which was situated in Thoho-Ya-Ndou, was closed down at the beginning of this month after both parties could not reach an agreement.

Mrs Andreae said SA Perm had also proposed to establish a bank in the area, "but we were not given enough time to do so."

"It was a sad thing for us to leave Venda. We did a lot of lending and had a comfortable operation. We really battled to stay there," she said.

She said people who had accounts at the Thoho-Ya-Ndou branch had a choice of transfering them either to Levubu or Louis Trichardt. Louis Trichardt is about 100 kilometres away from the Venda capital town.

Prospective home-builders in the homeland will now have to obtain loans from the Venda Development Corporation, which is the only financial institution recognised by the Venda authorities.

The Minister of Finance in Venda could not be reached for comment yesterday.

SA Perm forced to quit Venda

B/Day 13/9/88 THEO RAWANA (58)

THE SA Perm has had to pull out of Venda after the national state had given the building society one month to establish a full building society there or withdraw its operations.

SA Perm PRO Amanda Andreae said the building society had had to pull out because establishing a full building society there — which would have been a Venda operation — was against the SA Building Societies Act.

She said the building society's other option — that of establishing a bank there — was out of the question because no time had been given for that.

The SA Perm's only branch in Venda, situated in Thohoyandou, was closed down at the beginning of the month after both parties had failed to reach agreement.

Spokesmen for the other two major SA building societies, United Building Society and Allied, said they had no operations in the national states.

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13/dawn
14/9/88

Review says key pressures remain

Standard warns rates lid means harshness ahead

GRETA STEYN

STANDARD Bank warns against keeping interest rates artificially low while the economy is strong.

It adds this might eventually force harsh measures later.

The bank, in its latest Review, says Reserve Bank efforts recently to stabilise rates could undermine earlier steps to tighten monetary policy.

"The Bank's reluctance to respond quickly to the strong pressures present at the beginning of September may well have been influenced by a belief that the economy has already slowed down significantly."

Pressures in the market were, however, not only seasonal. Economic activity appeared to be running at a considerable pace after a temporary slowdown in the second quarter.

"The key pressure points therefore remain. Credit demand has stayed very buoyant, the stock of money continues to increase well above the officially set monetary targets and gold and foreign exchange reserves have dipped to a low R5,3bn."

The Review adds holding down rates now, in spite of buoyant demand for credit, might invite sharp increases later with rates moving higher than would be necessary if a timely response were forthcoming.

Pumping liquidiity into the banking system would facilitate credit demand. This would undermine steps to cool demand. The reluctance to act swiftly might also put further pressure on the value of the rand.

"This enhances the chance that further direct controls over imports will be forthcoming in an attempt to stem depletion of foreign reserves."

The Bank's decision to provide liquidity to the money market, rather than allow rates to rise, was probably prompted by uncertainty over the economy, compounded by political pressure, the Review says.

A ten-cents-a-time squeeze on the poor

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W/Mail
9-15/9/88

By HILARY JOFFE

PEOPLE with building society transmission accounts will have to pay a government duty of 10 cents on each withdrawal from October 1 — a tax which will hit lower income people who have preferred building society accounts to bank cheque accounts.

The introduction of the duty, contained in the current Taxation Act Amendment Bill, is expected to bring the government millions of rand in revenue.

Even a small building society branch can clock up 40 000 transactions a month — or R4 000 to the government purse.

The new charge brings building society accounts into line with bank current accounts and credit cards, on which consumers already pay a 10 cent charge for each debit.

Stamp duty on cheques was introduced several years ago and was subsequently extended to credit card and automatic teller machine transactions.

The new duty will not be charged on debits to building society savings accounts but will apply to all debit items to transmission account — such as cheques made out to a third party or withdrawals from an automatic teller machine.

Low income people are not the only ones who will be affected. "The duty brings all income earners into the ambit of tax collection," says Keir Dellar, assistant general manager (planning) of Natal Building Society. NBS research has shown people in a broad range of income groups hold transmission accounts.

Building society savings accounts are distinct from transmission accounts which are the "convenience" product. The main difference, according to the Perm's Peter van Broemsen, is that cheques to third parties cannot be drawn on savings accounts.

Savings accounts earn a higher rate of interest than do transmission accounts — on a balance of R1 000 the difference will be about two or three percent, says Dellar.

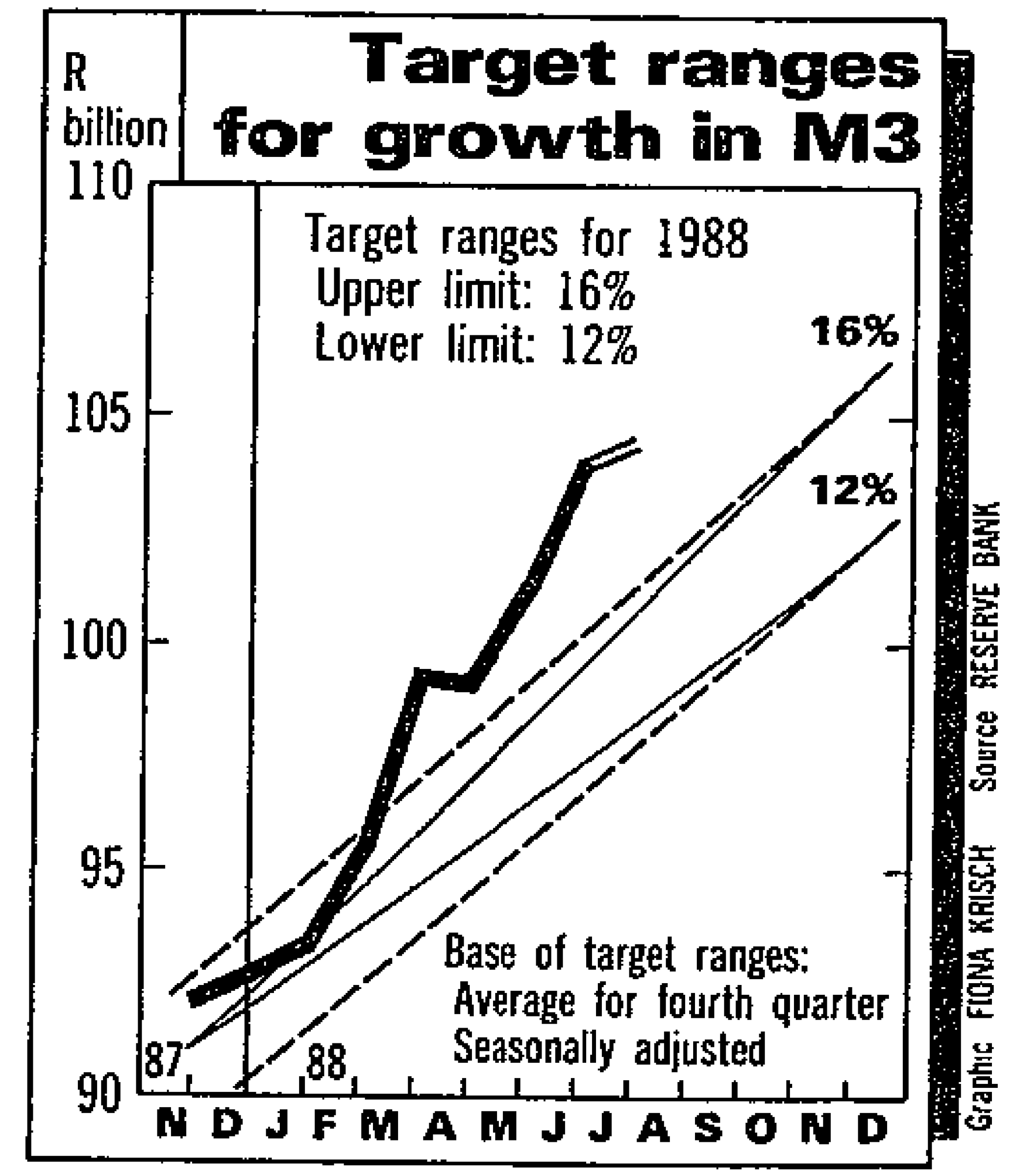
The NBS encourages customers to deposit their salary cheques into transmission accounts for convenient withdrawals but to put any surplus into a savings account.

All the building societies are liable to collect the new tax — including the Perm which will remain a building society until April 1 next year, when it is due to merge with Nedbank, if shareholders approve the deal.

(58) B/day 15/9/88

Haunted by the fear of overkill

GRETA STEYN



Graphic FIONA KRISCH Source RESERVE BANK

CRITICISM levelled at the Reserve Bank for doing "too little, too late" about interest rates this year has focused on politicians' interference in monetary policy. But perhaps the "fear of overkill" is as strong a reason for the Bank's reluctance to act on the interest rate front.

The Bank, which had not anticipated the surge in economic activity, chose to wait for conclusive evidence that the economy was overheating earlier this year. By its own admission, it did "too little, too late".

As Governor Gerhard de Kock said: "We did not want to nip the upswing in the bud."

Fear of crushing the economy is once again causing the Bank to follow a wait-and-see policy. Bank senior Deputy Governor Japie Jacobs said economic statistics in the next few weeks would provide the clues to the correct action on interest rates.

The Bank is in danger of repeating the same mistakes of earlier this year if it waits too long. But it would be an equally bad mistake to raise rates now and find out later the action was not needed — like a fool rushing in where angels fear to tread.

And that is precisely the Bank's dilemma, which the Standard Bank's latest Review described as "unenviable".

The Review said fine-tuning the economy was "notoriously difficult," given the lack of up-to-date information on the economy. And it noted that fear of another 1984/85 slump was an important reason for the Bank's inaction this year.

But, of course, much of this dilemma could have been resolved if the Bank had stuck to its plan, now long-forgotten, to move Bank rate more often and by small margins in response to market conditions. De Kock said in his March statement on monetary policy that the Bank would adopt this policy, moving the rate up or down more frequently.

Now it is clear the Bank has abandoned this plan. It has chosen instead to wait and see, haunted by the fear of overkill.

While waiting to get a clear picture on the current state of the economy, the Bank recently pumped liquidity into the money market. Its aim was to ease upward pressure on rates caused largely by seasonal factors, such as the August tax payments.

But Standard Bank economist Nico Czypionka is adamant current pressure in the market is not only seasonal.

"The economy is still buoyant and credit demand strong," says Czypionka. The view that credit demand had not yet subsided was echoed by First National Bank in a recent Financial Round-up.

Money supply growth indicates the strength of the demand for credit. August's figures, due to be released in the next week, are crucially important for interest rate policy.

Another important indicator is the level of the gold and foreign exchange reserves. The downward trend in this indicator is signalling the need for another rise in interest rates. The Bank's gold and foreign exchange reserves slipped by R256m to R5,31bn in August — the third successive monthly decline.

But August's decline alone has not been enough to spur the Bank into action.

Trust Bank economist Nick Barnardt said: "If the latest reserve figures are followed by worrying money supply statistics, another hike in interest rates might be inevitable."

But whether the Bank will regard strong growth in the money supply, which has been running at close to 25% from a year ago, as enough reason to act is another matter.

Jacobs expected money supply growth to be strong in August, but noted that the spending spree to beat the surcharge price increases could make it difficult to interpret the figures.

Other indicators which the Bank is watching closely are the trend on the balance of payments (BoP) and inflation. August's trade figures, also due to be released next week, will provide clues on the current account of the BoP. If July's surge in the trade surplus to R974m from R470m in June was not a once-off, and the trade surplus continues to improve, there is less cause for a further hike in interest rates.

But the capital account of the BoP might counteract possible good news on the current account. Short-term capital outflows are triggered when SA's interest rates are too low in relation to those of its foreign trading partners. Foreign interest rates are therefore also an important indicator for domestic rates.

"The recent rise in European interest rates is probably adding to the upward domestic pressure, since the South African authorities cannot afford to allow a continued strong outflow of short-term capital," the TrustBank said in a recent comment on the money market.

The inflation rate, too, is expected to signal that a hike in rates is needed to lessen demand-pull inflation. However, the inflation rate, as measured by changes in the consumer price index, might once again baffle economists by not rising from July's 12,4% in August.

Of course, even if all the indicators for August signal that rates must rise, it could be argued that they do not yet reflect the package of import surcharges and hire-purchase credit controls implemented in mid-month. The Bank will monitor the effects of the package closely. If it raises rates while economic growth is already failing, it could "overkill" the economy.

The Standard Bank's Review noted that this wariness to cause a repeat of the 1984/85 slump had caused the Bank's reluctance to allow rates to rise in spite of strong market signals for a need to act decisively.

And because the Bank is already reluctant to act, it is easier for politicians to twist central bankers' arms.

So will interest rates again, or have they peaked? We shall have to wait-and-see.

Perm joins the rest at 16%

(58) 16/9/88. SMR

Finance Staff

The Permanent Building Society has raised its bond rate to 16 percent with effect from October 16.

A spokeswoman for the Perm said yesterday: "We have reluctantly been compelled to increase our rates on mortgages by one percentage point, which brings us into line with other financial institutions. The increase applies to both new and existing funds.

"The rise has come about as a result of market forces, which have increased the cost of funds."

Most major banks and building societies raised their bond rate to 16 percent at the end of August.

The notable exceptions were Standard Bank and Nedbank.

Standard raised its bond rate to 15,75 percent in order to meet its commitment of staying below the average rate offered by the five building societies.

That rate was held back by the Perm's initial refusal to raise its bond rate.

According to Standard's assistant general manager, home bonds, Mr Terry Power, the bank has no intention of raising its rate to 16 percent at the moment, "although the rate is being reviewed all the time".

Nedbank has committed itself to a bond rate of 12,5 percent until the end of this month. But from October 1 the rate will move up to 14,75 percent.

DR JAPIE JACOBS

Reserve Bank hints at relief

Societies may soften tax blow

17/9/88 SM 58

DEREK TOMMEY

HOLDERS of tax-free investments may not be so hard hit after all when Government begins to phase out tax concessions next year.

Dr Japie Jacobs, senior deputy governor of the Reserve Bank, said in an interview this week that the building societies needed the money that had been brought in by the tax concessions.

Therefore, they were likely to make good any loss the investor might experience from the reduction in tax concessions by increasing .the total interest paid. This was likely even if it led to an increase in the mortgage rate.

Dr Jacobs said it was planned to phase out the tax concessions by reducing by a fifth every year for the next five years the tax-free amount in interest and dividends paid.

At present a third of the interest on building society dividends were tax free. It was intended that this tax-free proportion should be reduced to 26,4 percent in the first year, to 19,8 percent in the second year, and so on, until the tax-free element disappeared entirely.

As a result of this procedure, it would still be possible to put money in investment with some tax concessions for the next five years.

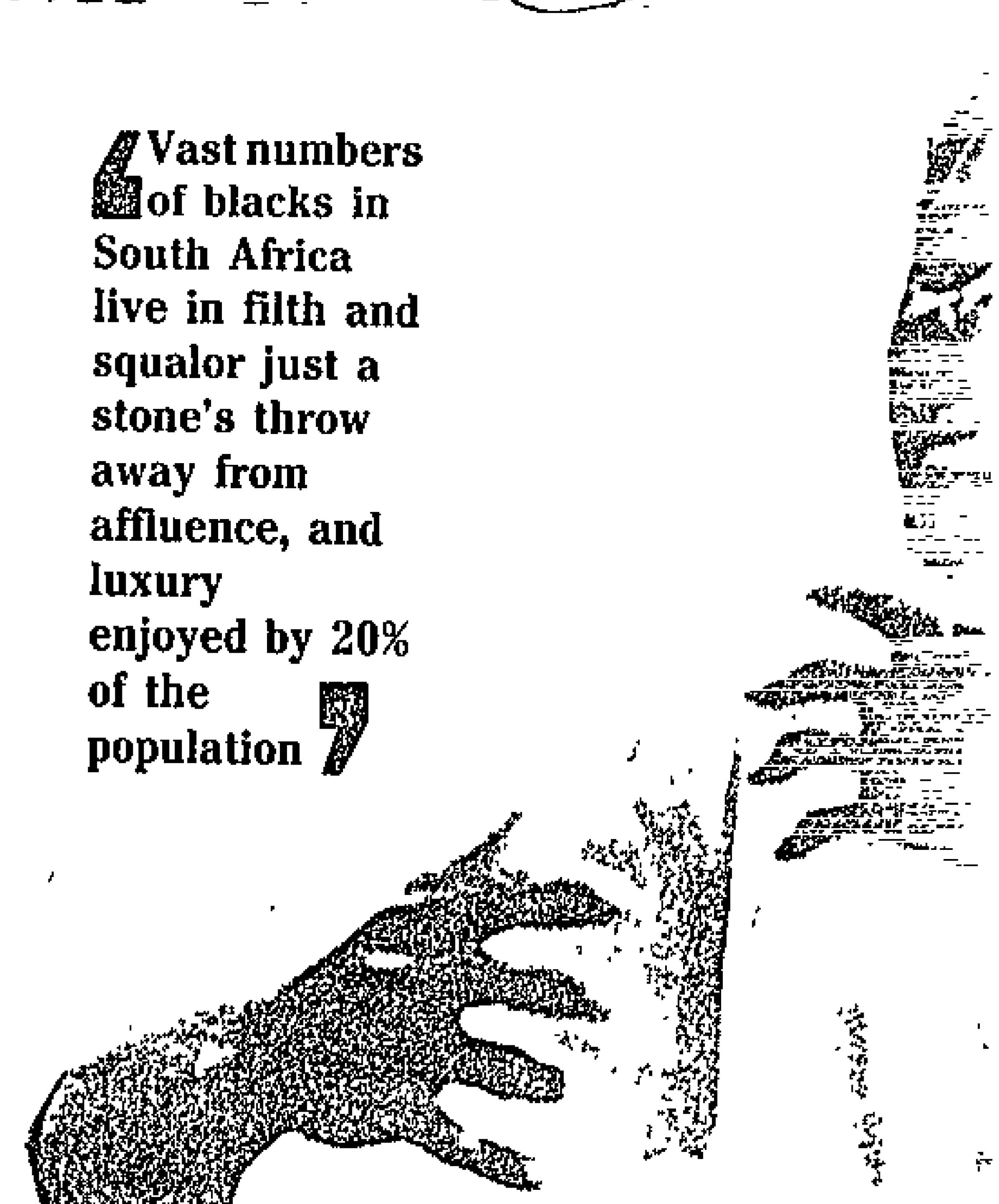
Dr Jacobs said it that the reduction in tax concessions would reduce the competitiveness of these investments. Therefore, the rate of interest offered would have to be increased.

He believed the elimination of the tax-free investments should boost Government revenue by at least R250 million a year.

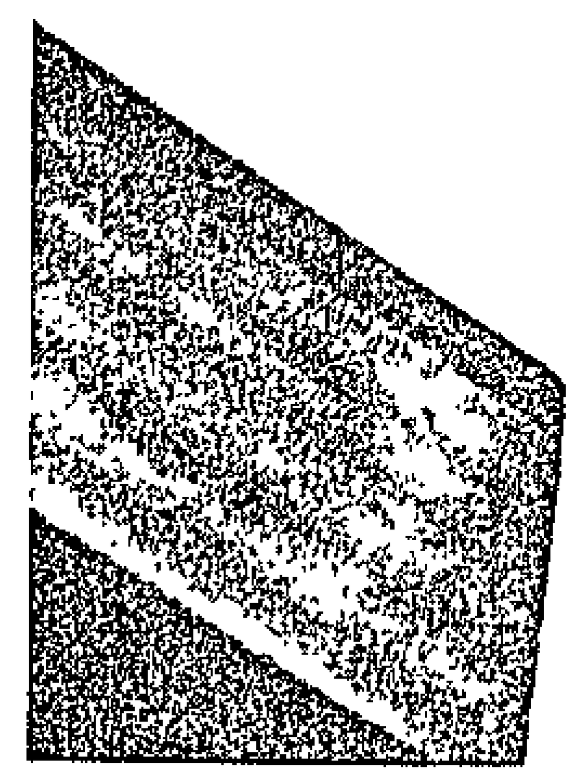
A different drum sounds a new march in Pretoria

Conference catchphrase is economic empowerment

> Vast numbers of blacks in South Africa live in filth and squalor just a stone's throw away from affluence, and luxury enjoyed by 20% of the population



Like a tide, the groundswell of black feeling on economic empowerment is growing in this country. ZB MOLEFE reports on some of the waves that lapped at the very edges of South Africa's capital city last week.



Breathing fire ... Eugene Nyathi added his heated feelings to the

SOMETHING politically strange happened in Pretoria last weekend.

The Conservative Party held its Transvaal congress. While the National Party held its youth congress.

And somewhere in the centre of the city, the Association of Black Accountants of Southern Africa (Abasa) held its annual convention.

The three bodies had one thing in common. Politics. But Abasa was looking at politics via economic strength.

Scores of local blacks were joined by their brethren from Lesotho, Swaziland, Zimbabwe, Malawi and the United States, to debate and examine probably one of the hottest political questions within black South Africa in the 80s – economic empowerment.

And it does not need a genius to know what aspect of the political question the CP and Nat Party congresses were discussing.

CLARENCE BUTCH

But it was the Abasa convention which gave a snapshot view of what troubles South Africa. It was no wonder journalist-economist Eugene Nyathi clashed with black American Clarence Butch on the question of sanctions.

Butch from the United States National Association of Black Accountants had suggested in his address that sanctions cannot work to bring about the necessary change in South Africa.

The fire-eating Nyathi could not take it. Outgoing Abasa president Jeffrey van Rooyen, shot from his chair to protect Butch and chide Nyathi for being personal.

That incident was eloquent testimony of how deep the question of sanctions has cut into the soul of black South Africa. It must have been an education for the sprinkling of white guests in the convention.

EMOTION-CHARGED

But it was in this emotion-charged atmosphere that an elderly Afrikaner academic came, saw and conquered. Political economist Sampie Terreblanche, with a mischievious twinkle in his eyes, mapped out the rocky and bumpy road that lay before black economic empowerment.

Ours is a Catch-22 situation, said the Stellenbosch University academic.

"Only a transitional government can transform South Africa into a true democracy," said Dr Terreblanche.

After this condition had been met it would then that something like a Marshall Plan could be put into operation – pumping billions of rands in aid into the economy – which would lead to a truly black economic empowerment.

At the end of his presentation Dr Terreblanche received a standing ovation. The man's honesty and bluntness won the day. This was very obvious during tea break and later at a braaivleis when the delegates relaxed after the convention's hard sessions.

Abasa executive director Mashudu Ramano, had put his finger on the pulse of the problem. Whereas blacks comprise 75% of the total population of South Africa they only share 20% of the country's wealth, Ramano said.

SUB-HUMAN

"Vast numbers of blacks in South Africa live in filth, squalor and sub-human conditions in shacks and cardboard shelters just a stone's throw away from affluence, and luxury enjoyed by 20% of the population," Ramano said, drawing this bleak picture.

Maybe it was a story repeated over and over for the accountants who packed the conference hall. But the way Ramano touched the heart strings made the difference.

Ramano then urged his audience: "This convention must explore and seek to answer these crucial questions if it is going to be meaningful and worthwhile. Black economic empowerment is a strategic imperative."

As if lashing out with a whip, unionist Piroshaw Camay was uncompromising. Particularly on the black accountants.

"Willy nilly accountants amongst the oppressed and exploited have become their masters' voices," Camay charged.

He had this advice for black accountants: "You need to start rediscovering those principles of communalism and consensus decision making and engaging that style as a new management style."

University of the Transkei principal Wiseman Nkuhlu was in a class on his own in his talk on the role of international institutions in the realisation of black economic empowerment dream in South Africa.

Professor Nkuhlu did not waste time in nailing his colours to the mast. He is a great believer in self-reliance "since the 60s when I was studying matric and I became aware of the (economic) position of blacks", he said.

"I fight and struggle for success. Against all odds. If any man puts hurdles in my way, I will fight," said Professor Nkuhlu.

Professor Nkuhlu's message was straightforward. Black South Africa had to aim at entering the technological age. There was undisputable scientific evidence, he pointed out, which showed that successful countries worldwide had a grip on technology.

"I do not mean this in a peronical sense that people must go to technikons as is fashionable," warned Professor Nkuhlu, who said recent studies in Zimbabwe had shown that African nations are waking up to the fact that technological excellence is a priority in economic empowerment.

INTERVENTIONISM

Another speaker who had the convention listening hard to what he said was Cape educationist Franklin Sonn. His arguement for black economic empowerment, basically, rested on blacks looking at interventionism.

This strategy, argued Sonn, would help a number of black organisation to network strongly with their counterparts countrywide.

For three days the Abasa convention had listened to an array of leading speakers in their fields. These included African Bank chief executive officer Gaby Magomola, Swaziland Finance Minister Sibusiso Dlamini and Association of Chambers of Commerce executive Raymond Parsons.

But the convention was also an emotional homecoming for Edwin Jenkins, National Association of Black Accountants student affairs director, when he said: "I'm the first in my family to return home (to Africa)."

His colleague, the association's executive director Linda Gaston, had a message for black South Africa as it grapples with economic empowerment. "Black Americans want you to avoid to make the mistakes we did.

"We want you to take five years to achieve what took us ten years to achieve."

And this dedication, Ms Gaston reminded her audience, came hours before the United States last Sunday, remembered Martin Luther King's great march in Washington, 25 years ago, when he made his "I have a dream" speech.

A few kilometres away the Conservative Party and the National Party junior congress were also mapping out their destiny.

Something politically strange had happened to Pretoria ...

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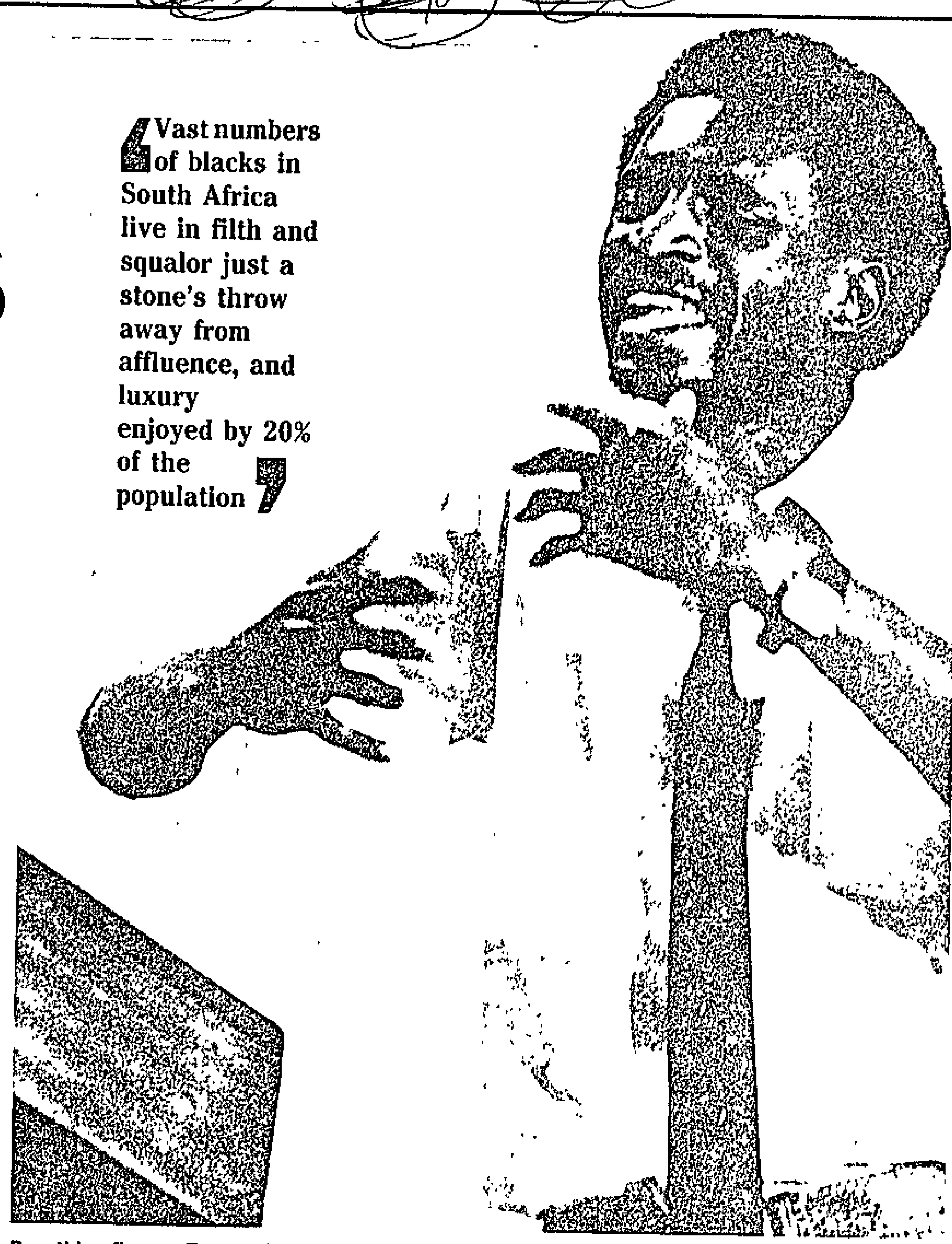

Breathing fire ... Eugene Nyathi added his heated feelings to the conference.

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Something politically strange had happened to Pretoria ...

Wiseman Nkhulu ... academic view.

Sterling results from Minorco

Sand 2/1/88 (58)

By Ann Crotty

Minorco, the international arm of Anglo-American, has reported sterling results for the 12 months to end-June which are in line with the market's recent bullish expectations.

Minorco gained 350c in yesterday's trading to close at R52,50c, this brought its gain over the past two weeks to R10. Dealers were uncertain as to whether the stronger trend reflected speculation about Minorco's possible involvement in a Consolidated Goldfields' deal or whether it was ahead of the expected announcement of strong results for the year to end-June.

Earnings from operations were up 58 percent to $104 million ($65,6 million), equivalent to $0,61 ($0,39) a share, and a dividend of $0,30 a share has been declared which is 15 percent ahead of the previous year's $0,26.

The declared dividend payment is ahead of market expectations. A dividend closer to $0,28 was expected in view of management's stated policy of reducing the disparity between the interim and final dividend.

Earnings from operations comprise dividend income, interest income and other income. Dividend income accounted for $61,5 million which was just marginally ahead of the previous year's $60 million. The increase is a much larger 40 percent if Salomon and Anglo American Investment Trust (which were sold during the first quarter of the financial year) are stripped out of financial 1987's figures.

Cash holding

Interest and other income shot up $34,8 million to $47,8 million. The increase was principally due to higher cash balances generated from the disposals of Salomon and Anglo American Investment Trust.

Equity accounted earnings, before extraordinary items, surged to $262,3 million ($87,7 million). Some $21,8 million of this improvement relates to the change to co-terminous equity accounting for investees with December year-ends. But management notes that the contributions by all Minorco's major investments increased, "in some cases significantly".

Extraordinary gains of $513 million lifted Minorco's net earnings to $775 million ($122 million). These gains chiefly reflect the proceeds from the sale of Minorco's remaining holding in Salomon and its interests in Anglo American Investment Trust.

On a per share basis, earnings before extraordinary items more than trebled to $1,54 ($0,51). At the net earnings level the improvement, reflecting the impact of the sale of the assets, is an even more impressive surge from $0,72 to $4,55.

The group's cash and short-term deposits, at $889,7 million, are only slightly higher than the interim level of $886 million. Management notes that these funds are held in various money market instruments with a view to preserving the purchasing power of Minorco's funds. A similar statement was made at the interim stage.

Net asset value per share at end-June was $17,75 ($18,05). Converting via the financial rand gives a value of R72,42. This, the excellent rand hedge attraction of the share and its massive cash holding, suggests that the market price could see continued strengthening.

Calls for increase in interest rates

58 B/day 8/9/88

KAY TURVEY 20

THE steep rise in money supply for the seventh straight month, coupled with the plunge in the gold price to below $400, has renewed calls from bankers and economists for a Reserve Bank-led increase in interest rates.

Preliminary figures indicate that M3 money supply at the end of August was 27,56% higher than in the preceding year, compared with 24,55% at the end of July.

Economists said this disturbing trend made a mockery of the Bank's targets of between 12% to 16% growth for the year and supported the need for a higher Bank rate to cool the economy.

Bank Senior Deputy Governor Japie Jacobs said the sharp rise pointed to a continued high level of credit extension by the banking sector, but included an element of reintermediation, or the switching of borrowings out of the grey market and back into the formal banking sector.

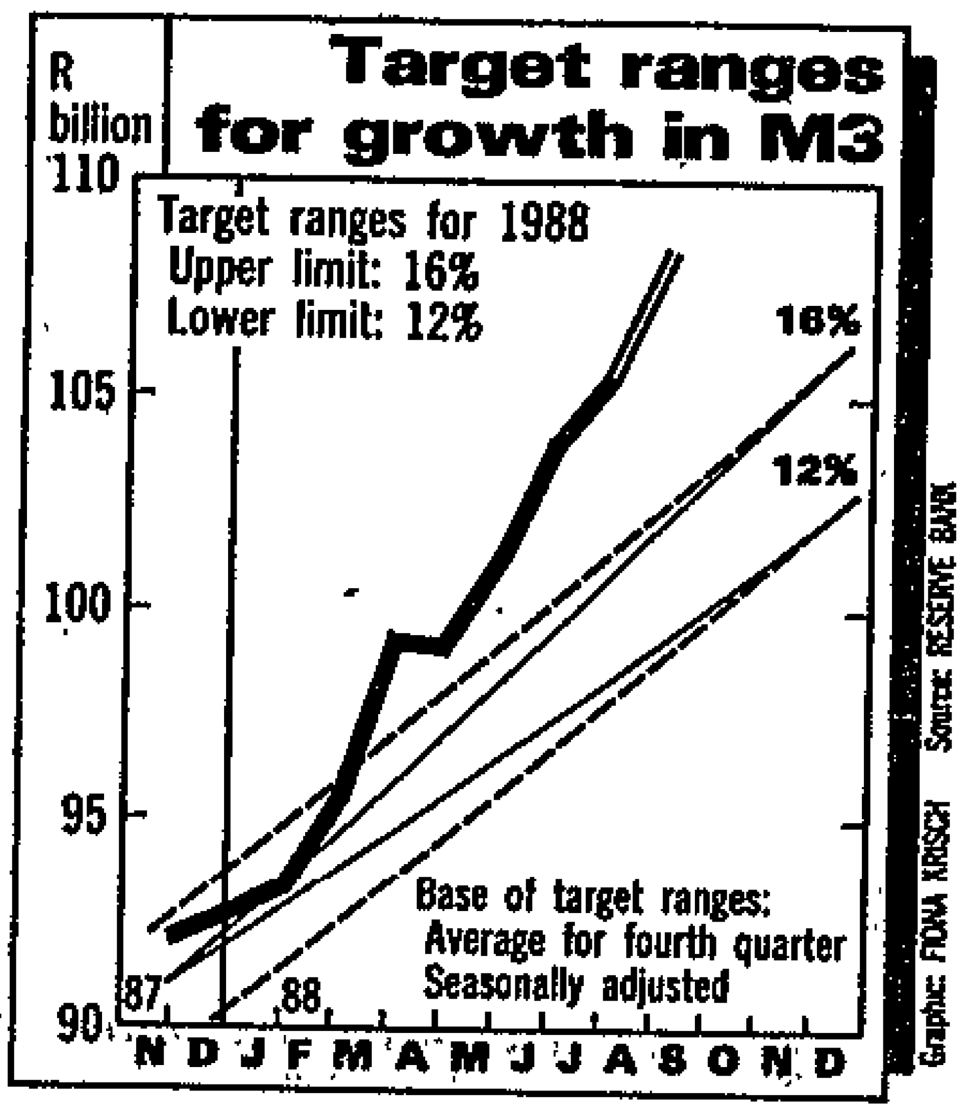
He said at this stage, no more restrictive measures were justified.

The Bank and economists attribute part of the sharp increase to the spending boom precipitated by expectations of price increases occasioned by import surcharges.

Jacobs said this acceleration in spending temporarily disrupted the slowdown in private consumption expenditure resulting from the tighter monetary policy measures.

He said preliminary statistics indicat-

● To Page 2



Calls for an increase in interest rates

59 B/day 22/9/88

● From Page 1

ed the current account of the balance of payments, after a surplus of R432m in the first six months of 1988, had shown more surpluses during July and August.

Although the object remained to curtail total domestic expenditure to realise a larger surplus on the current account, the decline in the gold price and higher spending could complicate and prolong the process of adjustment.

Standard Bank economist Nico Czypionka said the high growth in money supply and the faltering gold price made demands for a higher Bank rate.

Old Mutual's Rob Lee also urged the authorities not to "gamble" on a slowdown in spending, when foreign reserves were deteriorating.

And Trust Bank economist Ulrich Joubert described the growth in money supply as unhealthy, given the balance of payments constraint.

Fate of Minorco's bid rests on political front

23/9/88 Star (58)

By Ann Crotty

On day two of Minorco's battle for control of Consolidated Gold Fields, it appeared that only political considerations would prevent the South African backed Minorco team from winning control.

Before the close of trade on Wednesday, the Consgold share price had already eased back from its high of £15,05 to a close of £13,46. Yesterday the share was trading between £13,50 and £14. This relative sluggishness, in the face of what was expected to be one of the biggest takeover battles ever to hit the London Stock Exchange, suggests that investors are expecting a quick resolution, although talk of a possible inquiry into insider trading charges also contributed to the slip-back.

And, given that Minorco appears to have entered the fray with the cards stacked in its favour, the feeling is that on financial considerations Minorco has probably already sewn up the deal. However, political considerations could un-do this situation.

Analysts feel confident that Minorco entered the fray with around 40 percent made up of its own 29 percent holding, a further 5 percent in options and the backing of the Oppenheimer family and other "friendly investors", leaving only another 11 percent to win.

At this stage analysis of the deal is complicated by confusion surrounding Minorco's plans for American-based Newmont. Analysts in London seem confident that Minorco intends to sell off Consgold's 49 percent stake but local analysts are adamant that Newmont is the jewel in the Consgold crown and without it the deal would make little sense.

Minorco's statement, announcing the deal, was unclear: "Minorco will review Consgold's 49,3 percent passive investment in Newmont with Newmont's board and management and will consider whether to reduce the holding and re-deploy such proceeds more effectively within the enlarged group."

The London interpretation is that Minorco intends to sell off the debt-ridden Newmont in order to help finance the Consgold deal and avoid major political battles with the strong anti-SA lobby in the US.

Local analysts believe that the only reason Minorco went for Consgold was to get Newmont and that it would increase its holding to above 50 percent. Newmont is currently suffering debt and production problems, but has excellent long-term prospects.

It is the largest North American mining operation so a group with aspirations to become a leading player in the world's natural resources industry is unlikely to let go of it.

There are excellent synergistic opportunities between some of Consgold's existing interests and Newmonts' and there is scope to sell off some Newmont assets and realise cash.

Other reasons for not selling off the Newmont stake is that there is unlikely to be an active buyer in the market although the New York share price is currently a low $36. Consgold paid an effective $80 a share for almost half of its holding last year.

In addition, without Newmont, Consgold has only three other significant assets: ARC, Renison and Gold Fields. If the political argument was applied to these then much of ARC's assets would have to be sold off as well as Renison's big New Guinea project.

Agnew's R1-m job hangs in balance

By Derek Tommey

The concern that South Africans are showing over the drop in gold is probably slight compared with that felt by Mr Rudolph Agnew, chairman of Consgold. The slide could cost him his R1 million-a-year job and hand Consgold to Minorco.

Minorco, an associate company of Anglo American made a takeover bid on Wednesday for Consgold which Mr Agnew immediately rejected.

But he will not find it easy to stop Minorco, say market sources.

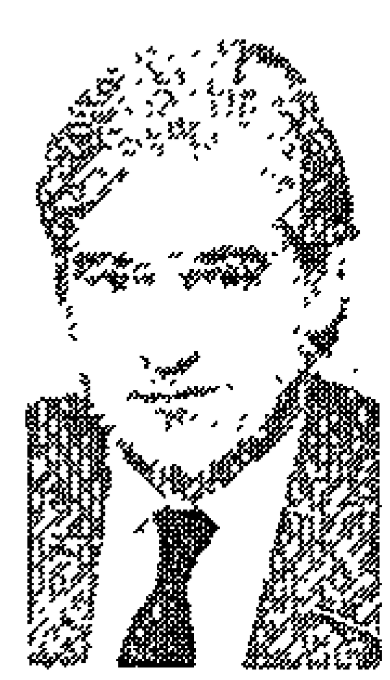
He has to convince shareholders hey will be better off holding Consgold shares than accepting the offer.

Almost half of Consgold's profits come from gold. And with the gold price sliding downwards, Consgold is going to a tough time maintaining profits and shareholder loyalty.

Luck is obviously still with the Oppenheimers because Minorco, in fortuitously making its bid the day the gold price fell below $400, could not have timed it better.

It is felt that the Minorco offer, roughly equal to £13,50 a share and almost £3,50 above Consgold's share price on Monday, will seem attractive to shareholders.

If the take-over goes through Minorco will get a mixed holding of mining and quarry companies. But Sir Michael Edwardes, newly appointed chairman of Minorco, said on Wednesday the intention was to consider selling all the holdings of Consgold, other than ARC, whicb runs its British and US aggregate operations, and Gold Fields Mining in the US.



Mr Agnew

This suggests he is planning to make a quick profit by selling Consgold's stake in Gold Fields of SA to the Rembrandt Group, which has had its eyes on what is acknowledged the lowest-cost and most profitable gold mining group in South Africa.

It also means he is probably planning to sell Newmont Mining, Consgold's troubled and indebted US investment. Newmont wants to become one of America's biggest producers. But it is in deep trouble in the wake of buying off a $6 billion takeover raid last year.

Its $1,6 billion debt exceeds its assets, despite sales of major holdings. Its profits are squeezed by interest payments and its shares are shunned by investors, the *Financial Times* reported this week.

So a major question is who would want to buy Newmont at the present gold price?

A sale of Consgold's assets could probably include its shares in Renison, which operates in Australia and mines mineral sand and has small gold-mining operations in the Northern Territory and Papua New Guinea.

Gold Fields Mining, which Mr Edwardes wants to retain, is a small but profitable producer with mines in California and Nevada.

ARC contributes the biggest proportion of group profit, making £83,6 million after tax in 1986-87. Consgold has a fairly extensive portfolio of precious metal and natural resource stocks.

In a bid to cast Minorco in a bad light, much has been made in London of its South African connections. But Consgold also has strong South African links and if Britons are happy holding shares in Consgold they cannot have much objection to doing business with Minorco.

58

Protea to build R24m head office

By AUDREY D'ANGELO
Financial Editor

A NEW R24m head office, between Greenmarket Square and St George's Street, is to be built for Protea Assurance. It will incorporate Protea's existing headquarters, which will be gutted, and a new structure on the sites of two neighbouring buildings which will be demolished to make way for it.

The elegant art deco style of Protea's existing building will be retained in the new one.

The buildings to be demolished are the former NBS Building and adjacent Lincoln House.

The project, which is being undertaken in partnership with Tamboti Development Trust, is believed to be the first joint venture development by a property unit trust.

It will be undertaken in two phases. The first will involve demolition and reconstruction on the two acquired sites and the second the refurbishment of the existing Protea Assurance Building and its integration into the entire scheme.

In the second phase the existing central core of the Protea Building — the lift shafts and stairwell — will be converted to a glass-covered atrium giving natural light to the upper five floors.

In addition to 7 200 m² of office space the new building will have 700 m² of ground floor retail space available for letting and there will be basement parking.

Architect Louis Karol said care had been taken to protect "the celebrated character of Greenmarket Square".

In spite of the narrowness of the planned extension to the existing elevation a new entrance focus had to be established on Greenmarket Square.

"Our solution has been to carry through, in detail, the architectural language from the existing elevation. The resulting whole thus appears consistent and finally complete."

Karol said that although recreating the art deco features of the existing building on the new parts added to the expense of the project, Protea had recognized the importance of preserving the city's historic core.

In spite of its traditional facade the interior of the building will follow the most modern trends in office development.

Trust your units to beat inflation

DEREK TOMMEY

IT IS ironic that many savers seek the best returns on investment yet refuse to touch what has proved time and again to be the most succesful savings medium — unit trusts.

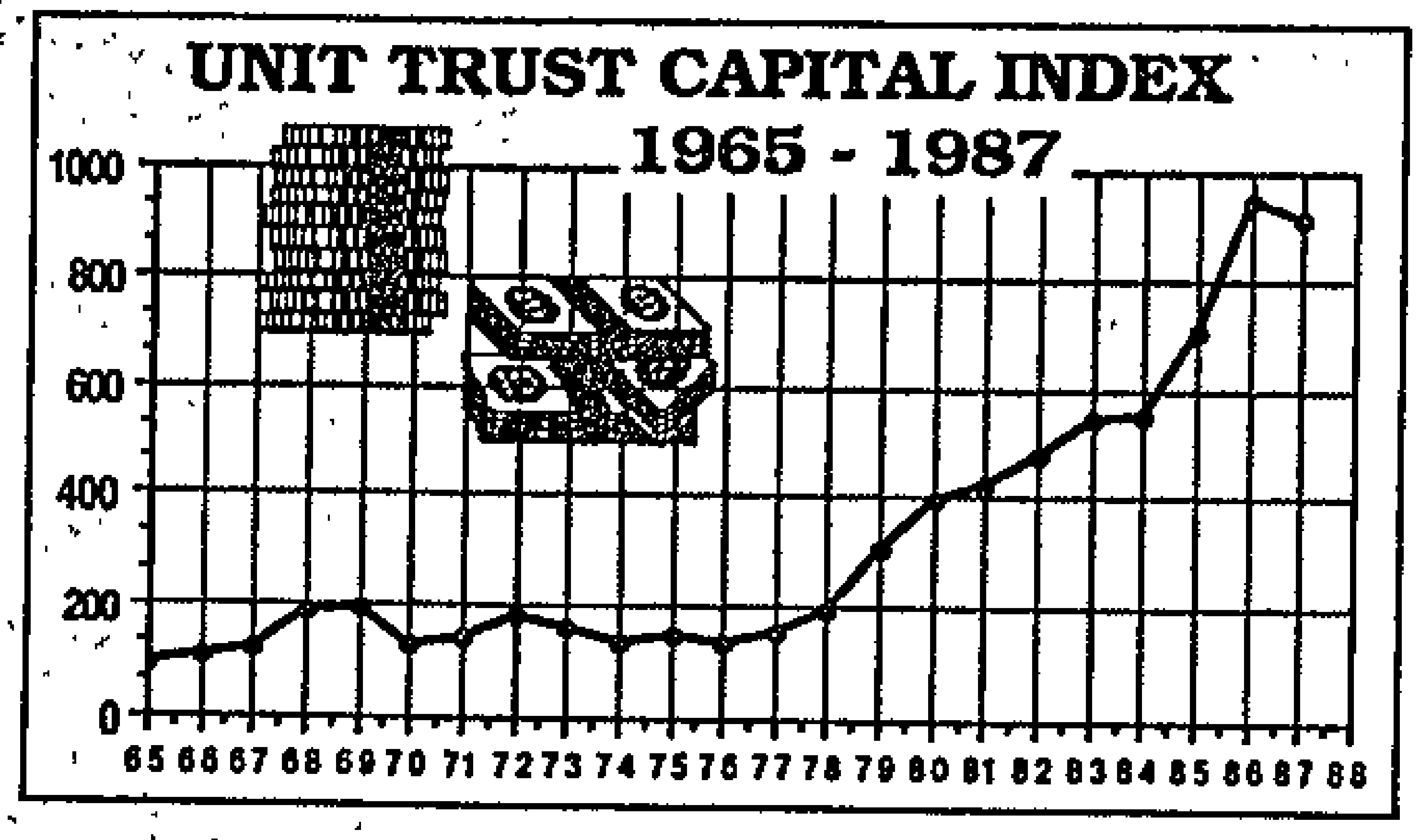
In the past five years, investors in units have received an annual average return of 19,1 percent in capital and dividends and for eight years the average annual return has been 20,8 percent.

Both these figures take into account last years's share market collapse.

No other investment available to the man in the street has produced a return anywhere near this.

Not even an investment in property, which made many poor people rich in the 1960s and 1970s, has performed this well in recent years — at least for whites.

White house prices have risen by an average 12,7 percent a year since 1980 and by only 6,8 percent a year since 1983. Both rates are well below inflation, and this situation seems likely continue until the number of people leaving this country falls and there is a sharp increase in the number of new arrivals.



Yet, despite the excellent record of unit trusts, many people refuse to have anything to do with them.

They fear the share market will collapse and they will lose their money.

It is true that from time to time there have been sharp drops in share prices. But share prices have always recovered and risen to new highs.

There is a sound economic reason for this. South Africa and the Western world is in a period of strong economic expansion. And, barring a major war, this should continue for years to come.

So although the economy and share market may experience setbacks, any well-established and well-run company can expect steady growth and rising profits over time, leading to a rise in share prices.

For evidence of this just look at the large number of successful companies in this country which have been around for 50 years years and longer.

However, there is another reason, of great importance in South Africa today, for investing in unit trusts. This is the high rate of inflation.

In times like the present, manufacturing and trading companies usually are able to pass on to their customers all their increased costs, so their turnover and profits tend to rise in line inflation.

As unit trusts hold shares in these companies, it means a unit trust investment is a good hedge against inflation

Unit trust managers said at a press seminar recently that the best way to buy units is to invest a regular sum each month.

This enables an investor to average the different prices he pays for his units, so his portfolio is not full of high-priced investments.

The point was also made that the best time to invest in units was when share prics and unit trust prices were low, as at present.

While none of the managers was prepared to say the share market had bottomed, they believed that in 18 months to two years investors who had not bought units now would be greatly regretting it.

Prime rate 'will hit 17% before year end'

58 3 day 27/9/88.

A PRIME rate of 17% appears almost a certainty before year end, with 18% a strong possibility if gold falls below $380, according to Trust Bank's latest weekly Tru Fox Rand Report.

The pressure of tight liquidity conditions towards month-end, high growth in money supply and the dwindling foreign reserve position — which is aggravated by the lower gold price — could very likely result in higher official interest rates in the next month or two.

At current levels the key 90-day liquid BA rate is already discounting a percentage point rise in the Bank rate, the report says.

Further, gold's weak performance and its probable effect on the balance of payments, together with the strong upward pressure on short-term rates and tight liquidity conditions, could result in a temporarily upward phase in bond market rates.

KAY TURVEY

The gold price, now testing the $400 level, is endangering the balance of payments, putting the exchange rate under downward pressure, the report says.

The impact of the lower rand gold price and its influence on the mining sector's profits would force the authorities to allow the rand to depreciate to keep the mines profitable.

Consequently the gold price has changed the prospects for the rand's performance in the coming months.

BoP pressure

Should gold stabilise around the $400 level an exchange rate of R2,60 to the dollar is most likely.

However the pressure on the balance of payments will continue to act as a depressant on the rand in the immediate future.

Horwitz policies may have been backdated

Insurance men in alleged 'cover-up'

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By Clare Harper

Lifegro officia˙ were yesterday alleged to b .nplicated in the "covering up' of insurance poli- cies worth R10 million by alter- ing the polic.es to place them outside the reach of the liquida- tors of Mr Basil Horwitz's es- tate.

Mr Horwitz's business affairs have been the subject of a com- plex insolvency inquiry at the Johannesburg Magistrate's Court since Westrust was ap- pointed the trustee.

At the hearing, four em- ployees and former employees of Lifegro were questioned about a R10 million insurance policy which originally belonged to Mr Horwitz but which was al- legedly ceded outright to the South African Transport Ser- vices only after Mr Horwitz's estate had been sequestrated.

Lifegro's legal adviser, Miss Sandra de Jager, told the inqui- ry that it appeared Lifegro offi- cials had assisted a Sats broker, Mr Clive Owen, in registering the cessions as outright cessions, after the sequestration.

She said it appeared the ces- sions were back-registered.

Asked who at Lifegro had as- sisted in the alleged cover-up, Miss de Jaager said she as- sumed it was a Mr Pieter Nieuwoudt and the general manager (sales) Mr Cunningh- am-Moorat.

If it is proved that the out- right session was entered into after sequestration, the policies will vest in the insolvent estate for the general benefit of credi- tors. But Sats will still hold se- curity.

Mr Horwitz returned to South Africa in May last year after he had left the country in October 1986 amid allegations that he owed investors millions of rands. His estate was provison- ally sequestrated in the Rand Supreme Court in November 1986. In February 1987 the order was made final

According to the report of the trustees, approximately R2,5 million of Mr Horwitz's es- tate had initially been account- ed for, while he owed at least R12,6 million. Since then, R1,1 million has been recovered from Lifegro.

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Steps to cool demand 'may fail'

Reserve Bank in hold mode, says report

KAY TURVEY

BY reducing liquidity pressures on the banking system, the Reserve Bank is artificially holding down lending rates and creating credit demand, which may undermine earlier steps to cool domestic and import demand, the Standard Bank says in the latest Economic Review.

It says lack of up-to-date statistics, compounded by political pressure to hold interest rates down, has caused the Bank to opt for a holding posture.

The Bank has continued to accommodate market shortages to relieve pressures for higher interest rates that have been looming since August.

This has involved offering repurchase agreements, outright purchase of financial assets and rediscounting of liquid assets which, if continued, will cause more credit creation.

The report says the holding down of interest rates in spite of the increase in credit demand at unaffordable high levels may invite interest-rate hikes at a later stage — by more than would be required if a timely response was forthcoming.

The reluctance to act swiftly may also put more pressure on the rand-exchange rate, which enhances the chance of additional direct controls over imports to stem depletion of SA's foreign reserves.

The Bank's unwillingness to respond may have been influenced by the belief that the economy has already slowed, but the Standard suggests this assessment may not be borne out, forcing actions later in the year which could be labelled "too much, too late".

The report says the impact of increased interest rates and tighter hire-purchase regulations have not yet been effectual in cooling overall demand, while pressures continue to build up.

Credit demand is buoyant and money stocks continue to grow well ahead of officially set targets, while gold and forex reserves have dipped to a low of R5,3bn.