FINANCE - GENERAL

1989

FEBRUARY.

LIFE ASSURERS HELD UP BY GOVT PROBLEMS WITH VAT

CHRIS CAIRNCROSS

CAPE TOWN — The problems government is experiencing in getting to grips with VAT legislation are also delaying any official response to submissions made by the life assurance industry for a review of the substantial increase in taxes imposed on this sector in last year's Budget.

Representatives of the Life Offices Association (LOA) came away from a meeting with Finance Minister Barend du Plessis and officials of his department on Friday with little to smile about.

Sources within the industry indicated yesterday they had only slight hopes government would reconsider and ease the 75% increase in the tax burden imposed on life offices last year.

Their appeal to the revenue authorities is that attention should preferably be given to reaching some agreement with the industry on the basic tax structure first, before becoming too concerned with VAT.

Attention should also be given to reviewing the status of prescribed investments.

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They suggested there was still time to reach a compromise that could in broad outline be accommodated in the March Budget, and detailed in the Income Tax Bill that generally follows in June.

Du Plessis was not prepared to disclose what transpired at the meeting.

It is understood the occasion was also used by the industry to express concern over Du Plessis' December warning that government intended to clamp down on schemes adopted by the industry to lessen the tax burden.

Rhomberg-Brasler gets big cash boost

BDay 1/2/89 (556)

TANIA LEVY

OLD Mutual, Finansbank and the Ivor Ferreira Trust have acquired a 33% interest in Cape-based electronics manufacturer Rhomberg-Brasler Holdings.

MD Peter Brasler declined to disclose the amount invested but said it would double the company's capital base.

He added the boost paved the way for a listing when prices hit attractive levels.

Financial institutions, including long-standing investor Nefic, and managment now hold about 50% of Rhomberg-Brasler's shares.

Ex-Old Mutual investment GM Peter Bieber is to become chairman of Rhomberg-Brasler and new non-executive directors include Nefic MD Mike Holmes and ex-IDC official Ivor Ferreira.

Brasler said the additional capital was needed for growth locally and overseas.

In the past 12 months 68% growth has been achieved locally while export sales have increased 200% to contribute 26% to overall profits.

Inflow of capital will allow a more aggressive export drive — important considering the group's product range is designed and developed in SA, said Brasler.

The company is the only manufacturer in the southern hemisphere of solid-state proximity sensors — the feeling fingers of industrial automatons.

Umbrella body for financial institutions under consideration

Star 1/2/89 (58)

CAPE TOWN — A committee has been appointed to consider the establishment of a national council for financial institutions similar to the National Energy Council.

The Minister of Finance, Mr Barend du Plessis, said yesterday the formation of the committee, to be headed by the chairman of Old Mutual, Dr JG van der Horst, had been recommended by the Melamet Commission of Inquiry into the AA Mutual short-term insurance crash.

The committee would conduct the inquiry and make recommendations.

Other members were the chairman of Sanlam, Dr FJ du Plessis; the chairman of UBS Holdings, Mr HV Hefer; the president of the Johannesburg Stock Exchange, Mr RA Norton; the senior deputy governor of the Reserve Bank, Dr AS Jacobs; the Registrar of Financial Institutions, Mr T van Wyk and his deputy, Mr PJ Badenhorst.

APPROACH

Mr du Plessis said the fact that the Melamet Commission had suggested the creation of an independent body of this kind should not be taken to mean that this particular approach had been accepted or was supported by himself or the Government.

The committee had an open agenda to find the best solution with regard to both principles and practice, even should this mean a departure from the commission's recommendation.

It would hold its first meeting on March 6 in Johannesburg. — Sapa.

National council for financial bodies studied

Cape Times 1/2/85

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CAPE TOWN. — A committee had been appointed to consider the establishment of a national council for financial institutions similar to the National Energy Council, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said the formation of the committee, to be headed by the chairman of the Old Mutual chairman, Dr J G van der Horst, had been recommended by the Melamet Commission of Inquiry into the AA Mutual short-term insurance crash.

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Mr Du Plessis said the fact that the Melamet Commission had suggested the creation of an independent body of this kind should not be taken to mean that this particular approach had been accepted or was supported by himself or the government.

The committee had an open agenda to find the best solution "with regard to both principles and practice" even should this mean a departure from the Commission's recommendation. It would hold its first meeting on March 6 in Johannesburg. — Sapa

JSE gold shares

Du Plessis sets up expert committee

58

Monitoring body for SA insurers to be investigated

B/Day 1/2/89

MIKE ROBERTSON and KAY TURVEY

FINANCE Minister Barend du Plessis has appointed a new committee to investigate the creation of a national council for financial institutions to monitor life offices and short-term insurers.

The appointment of the committee to be headed by Old Mutual chairman Jan van der Horst flows from a recommendation of the Melamet Commission of Inquiry into the winding up of the short-term insurance business of AA Mutual.

The commission had recommended that a working group be appointed to consider the establishment of a national council for financial institutions, similar to the National Energy Council.

● DU PLESSIS

Du Plessis said the fact that the Melamet Commission had suggested the creation of such a body should not be taken to mean that this had been accepted or was supported by government.

The committee has an open agenda, as experts, to find the best solution with regard to both principles and practice, even if this should mean a departure from the recommendation of the Melamet Commission."

Melamet recommended such a committee to draw up the details and ramifications of the council be set up as a matter of urgency.

Such a council, to be established under and financed by central government and the private sector, would address the difficulties experienced by the Registrar of Financial Institutions, given his lack of experienced and qualified staff.

Meeting

Other members of the committee are: Sanlam chairman Fred du Plessis; UBS Holdings Ltd chairman Herc Hefer; JSE president Tony Norton; Reserve Bank deputy governor Japie Jacobs; Financial Institutions Registrar Theo van Wyk; and Financial Institutions deputy Registrar Piet Badenhorst.

Various insurance industry bodies have been invited to submit suggestions to the council by February 7.

Business Day

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A TIMES MEDIA PUBLICATION

ESDAY, FEBRUARY 1 1989

and CAPE 80c (71c + 9c tax)

Now JSE launches venture capital board in move to protect investors

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BDay 1/2/89

ZILLA EFRAT

THE JSE is to launch a new board — the Venture Capital Market (VCM) — JSE president Tony Norton announced yesterday.

He said the JSE was ready to consider applications for the listing of companies specialising in venture capital projects or of single venture companies.

The VCM was being introduced to meet a market need and not to boost broker turnover, said Norton.

He said the move would bring venture capital into a regulated environment and avoid the "widows and orphans" situation.

Each VCM company would have to indicate in bold letters at the beginning of its prospectus or pre-listing statement a warning to potential investors of the speculative nature of the enterprise.

Companies that intended listing on the VCM would have to supply an analysis of future earnings that indicated credible returns on capital which, on a time-weighted basis, were above average, he said.

A profit history would not be required, but companies had to have issued capital and reserves of more than R1,6m at the time of listing.

VCM companies would enjoy the same concessions as companies listed on the Development Capital Market (DCM) in terms of the number of shareholders. But only 5% of the shares in issue would have to be held by the public as opposed to the DCM requirement of 10%.

The majority of directors and management in VCM companies had to have successful records in their repective roles, said Norton. However, because of the nature of the VCM, it was not possible to give final requirements for a listing in this sector.

The VCM would be monitored in the same way as other sectors. Results would be reviewed annually and the normal listing agreement would be signed.

Norton said the JSE was the right agency to handle the VCM, as a separate market would not be economically viable because the increased need for surveillance was without volume and value.

To be able to list, the main business of a venture capital enterprise would have to be the holding, or future holding, of a portfolio of investments in ventures and each investment had to be on an equity basis.

It had to be able to support these venture projects with added value and have researched the management strength and commercial viability of each project.

Norton said he hoped some VCM companies would move to the DCM or directly to the main board.

Star 3/2/89 (58)

SA needs a 'thousand new homes every day'

By Michael Chester

South Africa was reminded yesterday by Mr Bob Tucker, managing director of the Perm building society, that it needed to deliver 1 000 new homes every working day in the next decade to close the backlog in demand from all race groups.

Mr Tucker was addressing a conference in Johannesburg — "Retail strategies for the 1990s" — called by the Institute of Retail Studies at the Cape Town University's Graduate School of Business in association with Systems Conferences.

CHANGES

Mr Tucker used the estimate to show the changing shape of the retail market in the course of black advancement.

The changes in the racial mix of the market, he said, were demonstrated in trends at the Perm, with 3,3 million clients and an annual outflow of home loans running at R2,2 billion.

No fewer than 20 126 out of a total of 72 700 home loans approved last year had been granted to Africans, he said. The loans amounted to R547 million.

In 1985, the Perm discovered that in and around Durban, the average white client had to travel less than four kilometres to the nearest outlet, but the typical black client had to travel more than 20 km.

Today, on the heels of the closure of a number of unprofitable sub-branches and agencies in white areas, outlets were in operation in such areas as Umlazi, Reunion and kwaMashu — and the number of black clients had grown from 160 000 to 460 000, with their total savings topping R200 million a year.

The automatic teller machines run by the society were programmed to talk in seven different languages.

On the West Rand, formal notices about fixed deposit savings had been replaced by friendly invitations to come in and talk to business managers.

The society was learning to simplify communications with clients. Long letters had been trimmed to four-line letters.

"The driving force and culture of the business unit and its entire staff should be a deeply felt care for the customer and enthusiasm to serve his needs — rather than a desire to see how much can be made out of the market."

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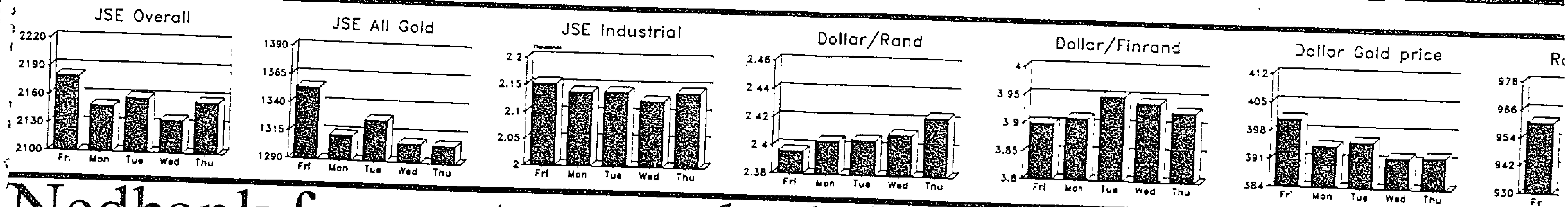

Nedbank forecasts a gradual decline in interest rates

Star 3/2/89

(58)

A current account surplus of more than R6 billion is expected for 1989, and with debt repayments in June and December expected to amount to about $1 billion, the net reserve position should improve, Nedbank says in its latest Guide to the Economy.

With the slackening in economic growth and in credit demand, the contribution of notes in circulation and bankers' balances with the Reserve Bank will have a lesser effect on the overall liquidity drain.

Nedbank points out that although some growth is expected, it will be tempered since the present levels of interest rates can contain increases in private consumption.

It notes that as a result there should be an overall addition to liquidity in 1989, and points out that the outlook for interest rates accordingly is one of gradual decline from present levels.

However, this decline in interest rates is unlikely to be maintained into 1990 when the large drain on the capital account is expected.

Nedbank says that if severe restrictions are placed on departmental vote increments, limiting the overall increase to 11,5 percent before taking into account new salary and pension increases, the government will be able to budget for a R13 billion deficit in 1989/90.

It believes that a R13 billion deficit can be financed quite easily through stock issues at lower market rates. At this deficit level, the new issues of government stock that would have to be raised would amount to R13,3 billion compared with R10,2 billion in the 1988/89 and the R8 billion in the previous year.

However an additional R1 billion or so stock may have to be raised in order to match the withdrawal of moneys of the Central Energy Fund (CEF), presently held as treasury bills with the SRA for the financing of the Mossel Bay development.

According to Nedbank the 1989/90 R13 billion projected deficit would represent a deficit/GDP ratio of some 5,0 percent. This is considerably higher than the 3 percent usually recommended by the IMF.

The 3 percent, however, is appropriate for countries with a nominal GDP growth rate of about 10 percent, whereas South Africa's nominal growth rate is almost double that at about 18 percent. The deficit ratio for 1986/87 was 5,2 percent and that for 1987/88 4,6 percent.

The R13 billion deficit for 1989/90 would raise the debt/gdp ratio to 32,7 percent by the end of the financial year, Nedbank says.— Sapa.

BANK AUTOMATION

58 FMAIL 3/2/89

Nedbank changes partners

Nedbank, which is reputed to run the most cost-efficient — though not the most advanced — computer systems in SA banking, has signed a contract with Olivetti for new technology that Nedcor chief executive Piet Liebenberg says will be the platform for a five-year automation plan.

The Olivetti systems will extend Nedbank's branch and office automation. They will be based on an "open" (as opposed to proprietary) architecture deploying networks of financial workstations. The workstations themselves are based on standard PC technology but incorporate advanced features such as multi-tasking, networking and banking-specific functions.

No figure for the deal has been announced, but it is estimated that Nedbank will spend at least R50m with Olivetti over the next five years, and probably a good deal more. The move to PC-based systems is a major departure for Nedbank, and, in tying up with Olivetti, it is clearly going for quality. The Italian-headquartered multinational has a deserved reputation manufacturing reliable, high-performance PCs.

The deal is a blow for Unidata, the South African-owned company which bought the local subsidiary of Unisys six months ago when the US company divested. Nedbank's current banking systems are based on Unisys's Burroughs mainframes. Over the years these have provided sterling service - not least by logging an unusually high record of "up-time". On this base, Nedbank's data processing staff have built systems that provide corporate clients with services that many regard as second to none in SA.

In view of this past success and also in the light of First National's costly and continuing troubles with its move to IBM/Hogan-based systems, Nedbank might have been expected to stay with Unisys technology, which is strong in the financial area.

A Nedbank statement on the deal says nothing about its previous arrangements. However, Unisys's divestment does seem to have been a factor, with Nedbank insisting on assurances that it would have access to the highest level of Olivetti support and expertise.

Underlining the assurances his company has given, Olivetti group MD Vittorio Cassoni, who is based in Italy, paid a flying visit to SA last week. At a dinner in Johannesburg to celebrate the deal, host Liebenberg named Olivetti as "Nedbank's long-term partner and supplier."

Cassoni replied with an unequivocal statement of Olivetti's commitment to SA.

Liebenberg notes that innovative deployment of information technology is one of the most critical factors for remaining competitive and achieving pre-eminence in the banking environment.

"Banking has experienced an ever-increasing rate of change over the last few years," he says. "No other generation has lived or conducted business under such fascinating and challenging conditions. The only certainty today is that things will change even faster tomorrow and the next day."

It is this rate of change, according to Olivetti, that is forcing financial institutions to concentrate on "flexible" computing to survive.

"Olivetti has been involved in international banking for over 40 years and, having formed similar partnerships at international level, feels itself well represented in this high-powered and demanding world," says a spokesman.

The banking sector is said to account for one-third of the company's international business, and a large part of its R&D spending is in building what it calls "solution-orientated infrastructures" for financial institutions.

Liebenberg says Nedbank recognises that the deployment of workstation technology is a key to managing its business. He adds: "We realise, however, that any organisation which is arrogant to the extent of believing it has all the knowledge in-house, assumes the risk of making strategic errors. By being able to rely on a partner whom one can trust to implement key plans, and who has the same attitude to quality and maintaining pre-eminence in respect of technology, can only produce a mutually beneficial relationship."

Just how beneficial will be seen over the next five years and longer. However, Olivetti is likely to find plenty of the challenge that Liebenberg speaks about when it begins grafting its new open systems on to the old proprietary ones. ■

We'll aid policyholders in financial fix — Metpol

Star 4/12/89

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METROPOLITAN Life is helping policy holders with financial problems in an effort to cut down on surrenders, says chairman, Mr Marinus Daling.

Surrenders of individual Metpol policies soared to R18,4 million last year from R14,3 million in 1987, while group surrenders almost doubled to R18 million.

Mr Daling said at the company's annual meeting: "Surrenders and lapses have been dramatically reduced at this company over the last four years.

"We have a duty to protect our policyholders as far as possible and we do whatever we can to try and solve their problems."

If people surrendered a policy in its first three years, it could mean a loss for the company, he said in reply to questions by Mr Issy Goldberg, chairman of the South African Shareholders' Association.

Surrenders were an indication of the shape of the economy, forcing a policyholder to give up when he was under duress, said Mr Goldberg.

However, he blamed some agents — Metpol employs 1 700 — for taking advantage of unsophisticated clients, selling them policies they did not fully understand so as to earn commission.

Later, policyholders found they could not afford the premiums.

The onus should be on the agent to prove that people knew what they were signing, Mr Goldberg said.

The company should also make sure that when people subscribed to a policy they knew what benefits they were covered for and their rights and obligations.

"You should have a division in the company to look into complaints," added Mr Goldberg.

Mr Daling, replying to a suggestion that Metpol should introduce a policy linked with inflation and guaranteeing the same purchasing power as when written, said: "You must first control the Government — they control inflation.

"It would be dangerous to guarantee something outside your control."

Star
4/2/89

(58)

Money Matters

Magnus Heystek

Let's hope Nats don't slash rates

PROBABLY the most common question I am asked is what interest rates are going to do in 1989. This is understandable, as most people now face the consequences of last year's spending spree.

Mortgage rates have moved up to 18 percent while interest rates on other financial transactions (overdrafts, personal loans and hire purchase agreements) vary from 18 percent to about 25 percent.

Indications are that higher monthly repayments are starting to bite and spending is slowing in some areas.

But before addressing the question of likely movements in interest rates, it should be pointed out that interest rates are not solely determined by economic factors.

The politicians have in the past used and abused interest rates to their advantage, and may do so again. It all depends on the timing of the next general election.

Interest rates are a favoured instrument of the authorities to try to fine-tune spending behaviour.

This happened in 1983 when the country was induced into an unprecedented spending spree by opportunistic politicians who tried to create a feeling of prosperous euphoria on the run-in to the referendum.

But, the subsequent sharp rise in interest rates to 25 percent — in the case of the prime overdraft rate — shook the economy to its roots and nearly wrecked the political structure.

On economic factors alone, there is not scope for interest rates to decline materially this year.

Consumption expenditure is showing signs of dropping, but is still far too high for a country hit by capital sanctions. At best, prime overdraft rates can drift as low as 16 percent by year-end.

I do not expect to see a rate of 12,5 percent in the foreseeable future.

However, the ruling politicians once again might decide to artificially lower rates prior to a general election.

Naturally, many consumers (who are also voters) would be relieved by a drop in rates. But if this decline is for the wrong reasons, it should be greeted with dismay rather than joy.

Temporary relief followed by rocketing rates, perhaps to the punitive levels of 1984, could be disastrous.

Another factor militating against a current drop in interest rates is the weak performance of gold. A sharp drop in the gold price, which cannot be ruled out completely, will force the authorities to tighten monetary policy even more in a bid to cut imports.

The only other alternative in the case of a drop in the gold price is further suppression of the rand exchange rate.

If interest rates do decline this year, I would consider it an opportunity to reduce debt rather than to take on new debt.

Barring an unforeseen rise in the gold price, I would not be totally surprised if prime rate at the end of the year is close to current levels.

Nedbank tip-off led to forex arrests

BDay 6/2/89 (58)

GRETA STEYN

A TIP-OFF from Nedbank led to the arrest last week of three Pretoria bank employees in connection with illegal foreign exchange transactions amounting to more than R1,8m, a spokesman for the bank said at the weekend.

He said one of the suspects had still been in Nedbank's employ at the time of the arrests. Two others, who had previously worked for Nedbank, had already left the bank and were working for another bank when they were arrested. The name of the other bank could not be established yesterday.

Police said a fourth man, described by police as a "middleman", had also been arrested.

The bank employees allegedly purchased US dollars from travel agents on behalf of middlemen without official bank approval. The purchases were made possible because of the bank employees' presence at the travel agents.

Nedbank did not suffer any losses as the deals did not go through the bank's books, the spokesman said. He added that the suspects had been on a junior level in the bank.

Further arrests are expected.

COMPANIES

BI Day 6/2/89 (58)

Results for year as a whole ahead of forecast

BRUCE ANDERSON

FINAL dividends have risen by more than 10% for each of the Sage Group's three property trusts, Federated Property Trust (Fedfund), Pioneer Property Fund (Pioneer) and CBD Property Fund (CBD Fund).

The management company of the three trusts, Sage Property Trust Managers Limited, says the trusts' results for the 1988 year as a whole are ahead of the forecasts made in the 1987 annual reports and at least in line with the interim projections.

Fedfund's final dividend was up by 10,1% from 14,11c (12,82c) while Pioneer was up 10,2% to 13,19c (11,97c).

CBD Fund rose by 11% to 16,26c (14,65c).

Fedfund's net distributable income for the year was R18 076 000 (R15 355 000). Net distributable income and dividends per unit rose by 10,3% from 22,70c in 1987 to 25,04c in 1988.

Pioneer's net distributable income for 1988 rose to R23 356 000 from R21 230 000 last year, and net income and dividends per unit rose by 10% from 22,87c last year to 25,16c.

Net income for CBD Fund rose to R17 810 000 (R16 667 000) resulting in a 6,9% increase in net income and dividends per unit from 27,10c to 28,96c.

CBD Fund had 61 500 000 units in issue against Pioneer's 92 830 000 units and Fedfund's 72 187 000 units.

The number of units in issue for Fedfund was increased by 6 562 500 in September 1987 as a result of a rights issue.

Insurance claims set to soar

KAY TURVEY

SHARP increases in insurance claims for burglaries are expected this year, largely as a result of the recently introduced import surcharge on the cost of many household items. BDay 6/2/89

Santam Insurance senior GM J F "Mac" McLachlan, writing in the company's newsletter, says the surcharge has left the majority of SA households under-insured.

Insurance claims received so far this year quite clearly indicate the waves set up by the import surcharge last year are now showing up in larger insurance claims.

It is feared the average amount for a motor claim will rise by about 25% in 1989 after a 20,1% jump in 1988.

McLachlan says the surcharge has significantly pushed up the price of new imported vehicles so that second-hand imports have become an attractive alternative.

Not only vehicles are likely to be under-insured as the surcharge has heightened the value of household goods such as imported TVs, videos, radios, audio equipment, jewellery, photographic and sporting equipment.

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McLachalan, warning of the dangers of under-insurance, those assessing values for insurance purposes should bear in mind the import surcharge, the faster-rising inflation rate and the inclusion of GST in the value of the goods.

Bullish signs are seeping back ...

Bl Day 6/2/89

(58)

IN THE MONEY MARKETS

Harold Fridjhon

SIGNS that a nascent bullishness is seeping into the money market were apparent on Friday. These were not the mechanical adjustments to the day-to-day rates following the easing of month-end tautness; they were apparent in perceptions of where some think rates will be half a year ahead.

The Reserve Bank has said Bank rate would remain unchanged until January's economic indicators were available and its firm action has curbed those who might have exploited the market's seasonal hyper-illiquidity.

Consequently, the rate for the now better-trader 90-day liquid bankers' acceptances (BAs) is gradually coming into line with the re-discount rate, falling to 15,25% from its end-of-year 15,6%.

The Treasury bill (TB) rate, too, is now a market-related asset priced closer to its discount rate. Since the start of the year, the authorities have withdrawn from the weekly TB tender and the rate is no longer subject to official manipulation.

For the last two weeks, the size of the tender has been reduced to R20m. This suggests the central bank is feeling out the market's appetite for TBs so that the demand/supply ratio does not become distorted. Incidently, the last two R20m tenders, compared with the R40m and R50m maturities, does not mean the Treasury is pumping money into the market; most of the bills issued last year were taken up by the Bank.

Other rates that have eased are the Big Money call rate, now 15,5% against 16,5%, the tender rate on the Bank's buy-back deals, down from 16,28% to 15,70%, and that on 90-day non-liquid BAs, from 16,05% to 15,85%.

All these shorter-term rates are indicating bullishness, a sentiment emanating from the reduction in the banks' debt to the Bank from Tuesday's R4,36bn to Friday's R3,53bn.

But the perception that rates, far from rising, will ease during the next nine to 12 months is apparent from the banks, and particularly the building societies, not issuing 12-month CDs — because they regard that as buying expensive money.

Cautious

The young bulls say that a Bank-rate rise ahead of an October election is unthinkable and that the economy is moving along satisfactorily with economists forecasting a 2% to 3% growth rate this year.

In the market, however, the conservative element is more cautious. Before blindly stabbing at future trends, they want to see the December and January money supply figures, the hard numbers reflecting bank advances, the January trade figures, the course of the gold price and the state of the reserves.

And whether the Bank will be coerced by the politicians to put political expediency ahead of financial and economic realities.

BDay 4/2/89

Demand for credit still high

KAY TURVEY

DEMAND for credit financing continues to be strong in the face of last year's austerity measures, instalment credit providers report.

In spite of the 2% rise in the prime overdraft rate last November, credit growth has remained buoyant during December and January — the traditionally quiet months for general banks.

First Industrial MD Viv Bartlett reports their book for January is 60% up over January last year as the corporate demand for motor vehicles, computers, aircraft, earth-moving equipment and other durables remains strong.

However, he says the viewpoint among the bank's 35 joint financing companies is that demand will begin tapering in March.

(SS)

Stannic MD Gutch Vickers says there has been little slowdown in corporate and commercial financing of vehicles and capital equipment, although individual demand has come off slightly.

He says it is still early days to judge the effects of tighter monetary policy and believes the demand for credit will begin levelling off towards the second quarter of the year.

Predominantly motor vehicle financier Wesbank MD Peter THompson says: "The demand is still out there and the only constraint is one of supply."

Bank tip-off leads to arrests

Own Correspondent

9/1 Times 6/8/87 (58)

JOHANNESBURG. — A tip-off from Nedbank led to the arrests last week of three Pretoria bank employees in connection with illegal foreign exchange transactions amounting to more than R1,8m.

A spokesman for Nedbank said at the weekend that one of the suspects had still been in the bank's employ at the time of the arrests. Two others, who had previously worked for Nedbank, had already left the bank and were working for another bank when they were arrested.

Police said a fourth man, described by police as a "middleman", had also been arrested.

Police are expected to arrest more bank employees in connection with the illegal deals.

Competition fierce but early start pays off as. . .

(58) B/Day 7/2/87

Finansbank cashes in on privatisation expertise

GRETA STEYN

FINANSBANK is leading the merchant banks' race for privatisation business, prompting talk that other banks are not getting a fair deal.

However, most banks concede that Finansbank deserves to be ahead as it has built up expertise during three years of extensive research.

Finansbank is involved in the privatisation of three of the "big four" — Eskom, Iscor and Sats. With auditors Pim Goldby, the bank has been appointed as government's consultant in the Iscor privatisation. Finansbank staff feature on Eskom's privatisation steering committee and Sats will also make use of the merchant bank's services.

Competition is fierce and no fewer than nine merchant banks tendered for the Sats consultancy, which eventually went to Standard Merchant Bank (SMB) and Finansbank. SMB staff members also serve on Eskom's privatisation steering committee.

Another merchant bank involved in the "big four" is Senbank, which was appointed consultant to Iscor.

Finansies en Tegniek (F & T) reports in its latest issue that "a pressure group, representing mainly one merchant bank" recently took up the alleged bias in favour of Finansbank with Privatisation Minister Dawie de Villiers.

F & T said certain merchant banks felt favouritism had resulted from the secondment of an alternative director of Finansbank, Pieter van Huyssteen, to the Minister's office.

Expressed

Business Day yesterday canvassed seven merchant banks for their views on the issue. The majority had no quarrel with Finansbank, saying "the best man had won". Some banks said the early stages of privatisation were not lucrative and they had not put any special effort into getting a piece of the action.

But one merchant banker expressed disappointment with the way in which appointments were made. He said government appeared to have chosen Finansbank as its consultant for the Iscor privatisation before any of the other banks had responded to the tender invitation.

Another banker wondered whether the committee which appointed government's consultants "was doing its homework properly".

A spokesman for De Villiers's office said no complaints had been received from any merchant bank objecting to Finansbank's involvement He said the corporations earmarked for privatisation chose their own consultants without government intervention.

He said government's criteria for choosing a consultant were expertise and experience, coupled with a demonstrated understanding of the issues outlined in the tender requisition letter. The costs involved were a third aspect determining government's choice.

Finansbank MD Hennie van der Merwe ascribed Finansbank's success in the privatisation race to an early start. "Three years ago we were already researching privatisation, drawing on overseas expertise. We can talk with authority — and people know that."

if De Kock: Spotlight on banks

Exchange control to be tightened up

Cape Times 7/12/89

58

By AUDREY D'ANGELO
Financial Editor

THE Reserve Bank will tighten up exchange control and its supervision of banks dealing in foreign exchange, Reserve Bank Governor Gerhard de Kock announced last night.

Staff in the banking supervision and exchange control departments will be extended and their activities more closely co-ordinated under the supervision of A S Jacobs, senior deputy governor of the bank.

Admitting that exchange control "is at best a supplementary measure" suffering from inherent weaknesses, De Kock said last night that, in spite of this, "given the stresses and strains in SA's foreign relations and specifically the existence of sanctions and disinvestment, exchange control over both non-residents and residents in respect of capital movements remains essential as a supplement to monetary and fiscal policies.

"And as long as this is the case the control must be made as effective as possible."

However, he said, the bank was taking action "with due regard to the need to avoid the creation of an unduly large bureaucratic control structure with all the attendant red tape".

It would not allow the intensified application of exchange control to have an adverse effect on SA's foreign trade and general economic development.

De Kock said that the process of expanding its exchange control department, and the inspection section in particular, had begun months ago. In October the total number of employees in the department was 184 of whom only 33 were signing officers authorized to take decisions on exchange control applications.

Such applications "have in recent months numbered about 1 300 per week."

By the beginning of this month the department had been expanded to 193 of whom 40 were signing officers including 10 inspectors. "Further expansion is planned including the appointment of five more inspectors."

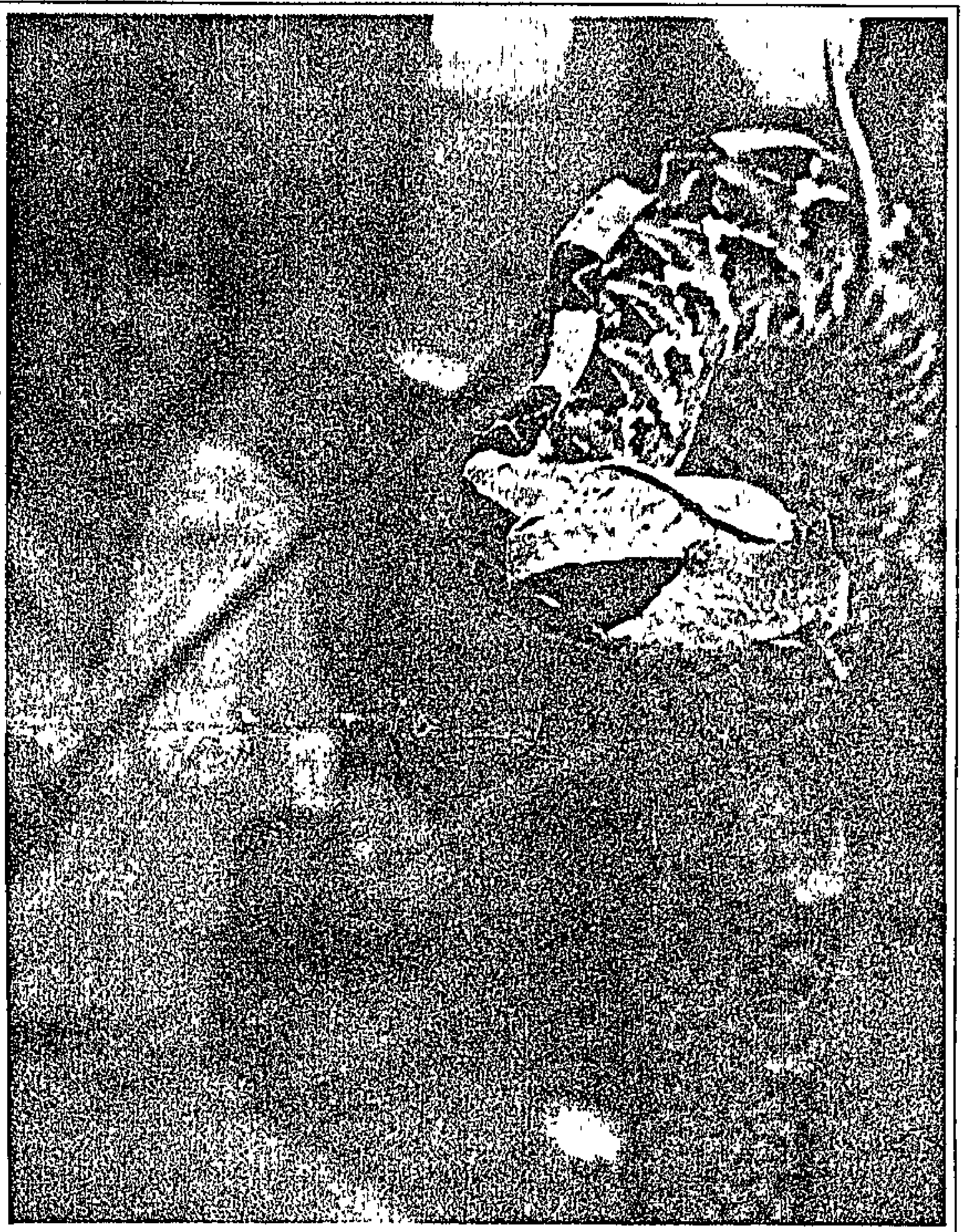
The banking supervision department was also being expanded, and it would make more use of qualified accountants in future.

De Kock said earlier steps taken had included amending the Banks Act to extend the Reserve Bank's right of inspection "to individuals or institutions not registered as banks or building societies but suspected of contravening the Banks Act by taking deposits from the general public."

The unsatisfactory nature of the way banking business was conducted across the borders of SA and the TBVC countries (Transkei, Bophutatswana, Venda and Ciskei) had also been discussed at a meeting with their representatives and an enquiry launched into ways of improving the situation.

Corruption clampdown

Cape Times 7/2/89



THE Reserve Bank last night clamped down on foreign exchange dealings following the exposure by the Harms Commission of fraud of more than R100 million.

A statement by the governor of the Reserve Bank, Dr Gerhard de Kock, came as opposition parties in Parliament yesterday launched a blistering attack on the government rocked by corruption scandals in recent months

Dr De Kock announced a tightening up of exchange control and supervision of banks dealing in foreign exchange

Staff in the banking supervision and exchange control departments will be extended and their activities more closely co-ordinated under the overall control of Dr A S Jacobs, senior deputy governor of the bank

Nats attacked

Deputy governor Dr Jan Lombard, who previously reported to Dr De Kock, will now report to Dr Jacobs

ANTHONY JOHNSON reports from Parliament that parties across the political spectrum laid into the government for the epidemic of corruption and maladministration that has bedevilled Nationalist politicians and apartheid institutions of late, and mocked the government's commitment to clean administration

Opening the joint debate on the Acting State President's opening of Parliament speech, the leader of the opposition in the Assembly and Conservative Party leader, Dr Andries Treurnicht, said corruption had reached the point where the office of MP was being "tragically demeaned

"The ordinary public official argues that if he is found guilty of malpractice, he loses his job, his salary and his pension

"If MPs are not guilty, why do they resign? If they are guilty of serious irregularities, how can they retire with full pension and a luxurious gratuity?"

The leader of the Progressive Federal Party, Dr Zach de Beer, said it was the foolish, morally unacceptable, and in the longer term impractical policy of apartheid which helped foster the conditions in which corruption flourished

The government's failed homeland policy was doing no one any good and provision of huge sums of money to these territories without proper controls provided a "complete recipe for corruption that is now appearing everywhere".

● Full details of the Reserve Bank's new measures — Page [illegible]

Another reason for the surge in incidents of corruption was the increasing secrecy surrounding the activities of government

Dr De Beer said corruption was also being fuelled by "the complacency and arrogance that tends to develop among human beings who have had power and privilege for too long"

The leader of the National Democratic Movement Mr Wynand Malan, said members of the cabinet and MPs should think carefully about the people from whom they received hunting invitations and about the extent of transactions between these people and the state and state related organisations

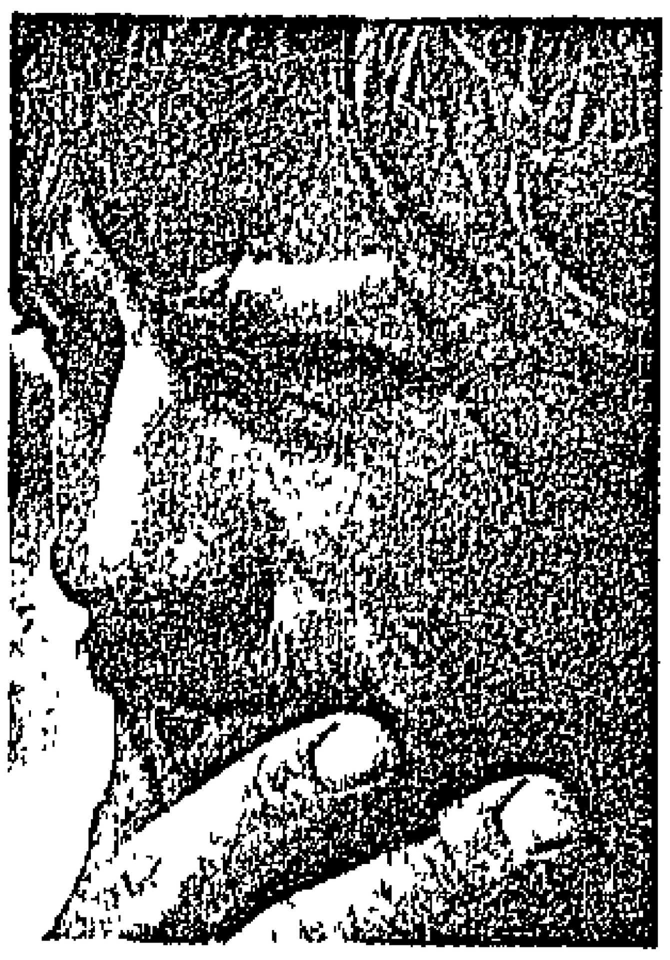
Whether it was a Kerzner who paid R2 million or a Vermaas who was given an Armscor directorship without security clearance, "it smells bad", he said

Responding to Opposition charges on corrution, the NP MP for Maritzburg North, Mr Danie Schutte, said the government's recent actions were a clear indication that it was committed to clean administration

While no government could guarantee the complete absence of corruption, the real test was whether a government had created effective machinery to expose it

Mr Schutte said proof of the government's sincerity about maintaining clean administration could be found in the very existence of the Advocate General, as well as the work of the Harms and James commissions

Once bitten . . .



THIS deadly Gaboon viper bit Strandfontein snake park director Mr Bryan Vorster on Sunday — and Mr Vorster lived to tell the tale.

Usually a Gaboon viper's bite means death, but Mr Vorster was lucky because the snake failed to inject any venom when he bit him on the finger.

Mr Vorster was bitten when he was showing one of the snakes to a friend on Sunday night.

No venom was injected because the Gaboon viper has the longest fangs of any poisonous snake, with the venom ducts sited a few millimetres higher than the points, Mr Vorster said. The venom had spurted past the wound.

RIGHT: The twin puncture marks of the viper's bite are clearly visible on Mr Vorster's middle finger.

Picture: JIM FREEMAN

crack of dawn

Power corrupts and absolute power corrupts absolutely, and too many crooks spoil the broth

COVERING 58 THE COST OF SANCTIONS

BiDay 7/2/89

INCREASED sanctions could lead to costly insurance complications for SA businesses which rely on imported machinery and raw materials, says insurance brokers Priceforbes Federale Volkskas (PFV) Transvaal director Alan Sherriff.

The complications relate to machinery damage and business interruption policy claims highlighted by recent developments on the sanctions front.

A company could lose much money if the indemnity period of the business interruption policy expires before the replacement plant — needed for full operations — arrives in SA, he says.

"With increased sanctions, long delays in obtaining replacement machinery or spare parts, or in arranging alternative sources of raw material supply, could become the rule rather than the exception."

Business interruption insurance covers loss of income when a company is unable to operate normally because vital equipment is damaged and turnover cannot be maintained.

The length of time over which income loss will be covered by insurance is the indemnity period. It could be a month, six months or several years — depending on normal equipment replacement lead times and other factors.

With sanctions a continuing threat, replacement delays should be anticipated and Sherriff sees no alternative for companies other than to review and extend indemnity periods.

Indemnity periods should be decided on the basis of a genuine worst-case evaluation of how long it would take to get the replacement plant or equipment.

"The amount of insurance taken out to cover machinery or equipment damage should also be looked at because of price escalation factors applying over longer replacement periods," says Sherriff.

CORPORATE COVER

Co-op schemes are hammered

B/Day 7/2/89 58

A LEADING broker has slammed the recent emergence of co-operatives in short-term "insurance" because of the high risk these co-ops pose to clients.

Insurance Brokers Council (IBC) chairman Dave Burgess says co-ops are a development by certain small brokers in the short-term insurance industry against which there is insufficient control.

Speaking as Trident Insurance Brokers MD, he says these co-ops are highly dangerous and could well develop into a rip-off.

"They should be investigated by the Registrar of Financial Institutions," he adds.

In his capacity as IBC chairman, Burgess cautions any client against doing business with a co-op on the grounds of receiving a discount on premiums, particularly as cheap rates can also be negotiated by brokers in the present competitive short-term insurance market.

Theory behind the formation of these co-ops, he says, is that some smaller brokers would be far more selective in choosing their clients than a conventional insurance company would be, thus enabling the co-op to charge a lower premium to these selected clients.

The premiums paid to co-ops would then go into a pool from which claims would be paid.

And in the event of claims not exceeding the amount in the pool the clients would receive a profit distribution in proportion to the premiums paid at the end of each year.

However, Burgess says if the claims were to exceed the amount in the pool then either no further claims would be paid during the remainder of that year or all the members of the co-op would have to pay in more premium.

Additionally, if the claims experience were to be "bad" and a client wished to cancel his insurance for any reason, or withdraw from the co-op, then there would be no guarantee of funds being available for a refund.

His reasons for believing co-ops to an exceptionally risky option for a client to consider "insuring" with are:

☐ These smaller brokers are not subject to the restraints of the Insurance Act and do not have to build up the large reserves mandatory for the conventional insurance companies;

☐ There are no constraints against an unscrupulous broker, or anyone, from forming an "insurance" co-op, collecting premiums from clients and then absconding with the premiums, or just repudiating the claims, leaving clients without any form of cover;

☐ Only a percentage of the premium paid by the clients to the co-op is available to pay claims — the balance is retained by the broker in the form of commission and administrative charges;

☐ Unforseen catastrophe-type claims could not be eliminated and one or two claims could easily completely deplete all of the premiums paid by all the co-op members as the number of members would not be sufficient to spread the risk as is the position with conventional insurers.

☐ BURGESS ... smaller brokers more selective

"It appears that the only person who is guaranteed to benefit from the formation of these co-ops is the insurance broker — he still gets his commission and an admi fee no matter what happens," notes Burgess.

"This commission and admin fee not only applies to the initial premium, but will also of course apply to any additional premium which may have to be paid in by the co-op members."

Burgess feels that in today's soft market most conventional insurers are "more than willing" to negotiate reduced premiums and these could quite possibly be in excess of any potential saving that may be available via one of the more risky insurance co-ops.

"In view of such opportunities it would not be in any client's interest to take on the risk associated with becoming a member of one of these co-ops," he adds.

Governor acts on Harms exposé

Big forex shake-up at Bank's HQ

B|Day 7/2/89 (58)

MANDY JEAN WOODS

TOUGHER new measures to tighten checks on foreign exchange dealings were announced last night by the Reserve Bank.

This move comes after the Harms Commission's exposure last year of forex fraud totalling more than R100m.

Bank Governor Gerhard de Kock said that after consultations with Finance Minister Barend du Plessis, it had been decided senior deputy governor Japie Jacobs would assume "co-ordination responsibility" — or effective control — of the banking supervision and exchange control departments.

● DE KOCK

The banking supervision department will continue to be headed up by Jacobs and the forex department by deputy governor Jan Lombard.

De Kock said the commission's exposure of Pretoria attorney Albert Vermaas's alleged illegal banking activities underlined the need for "intensified and expanded banking supervision and exchange control and for improved co-ordination between these two departments. The new measures are intended to meet this need."

The commission heard last year that during the 18 months the Registrar of Banks and Institutions was investigating Vermaas for allegedly illegally accepting deposits, the forex department approved more than R100m in commercial rand transactions and R92m in finrand transactions for him.

The commission heard that none of the Bank's departments dealing with Vermaas's applications was aware of the activities of the other department, of the Registrar's investigation or public warnings on Eurobank.

De Kock said the Bank would expand its forex department — which handled about 1 300 applications weekly — and increase staff in the inspectorate division from 184 to 193.

The Bank had increased the numbers of inspectors from seven in October last year to 10 in February this year, and another five were still to be appointed. The total number of employees in the department had already increased from 184 — with 33 officers authorised to make decisions on forex applications — to 193 with 40 signing officers.

The Registrar would in future make more use of accountants.

De Kock said: "The Bank has been reviewing the part played in forex administration by banks for some months. The commission's investigations have underlined the need to ensure that these banks, which operate in the front line of exchange control, perform their control functions more diligently and effectively."

SA Eagle profits soar as thefts fall

B/Day 7/2/89 (58)

MERVYN HARRIS

SA EAGLE Insurance profits soared last year in the wake of an excellent underwriting surplus as crime and motor vehicle thefts levelled off and no major catastrophes affected the company.

Earnings climbed 83,6% to 389c a share (211,8c) but the rise in total dividend payments for the year to December was limited to 44% on an increase in dividend cover from 1,7 to 2,2 times.

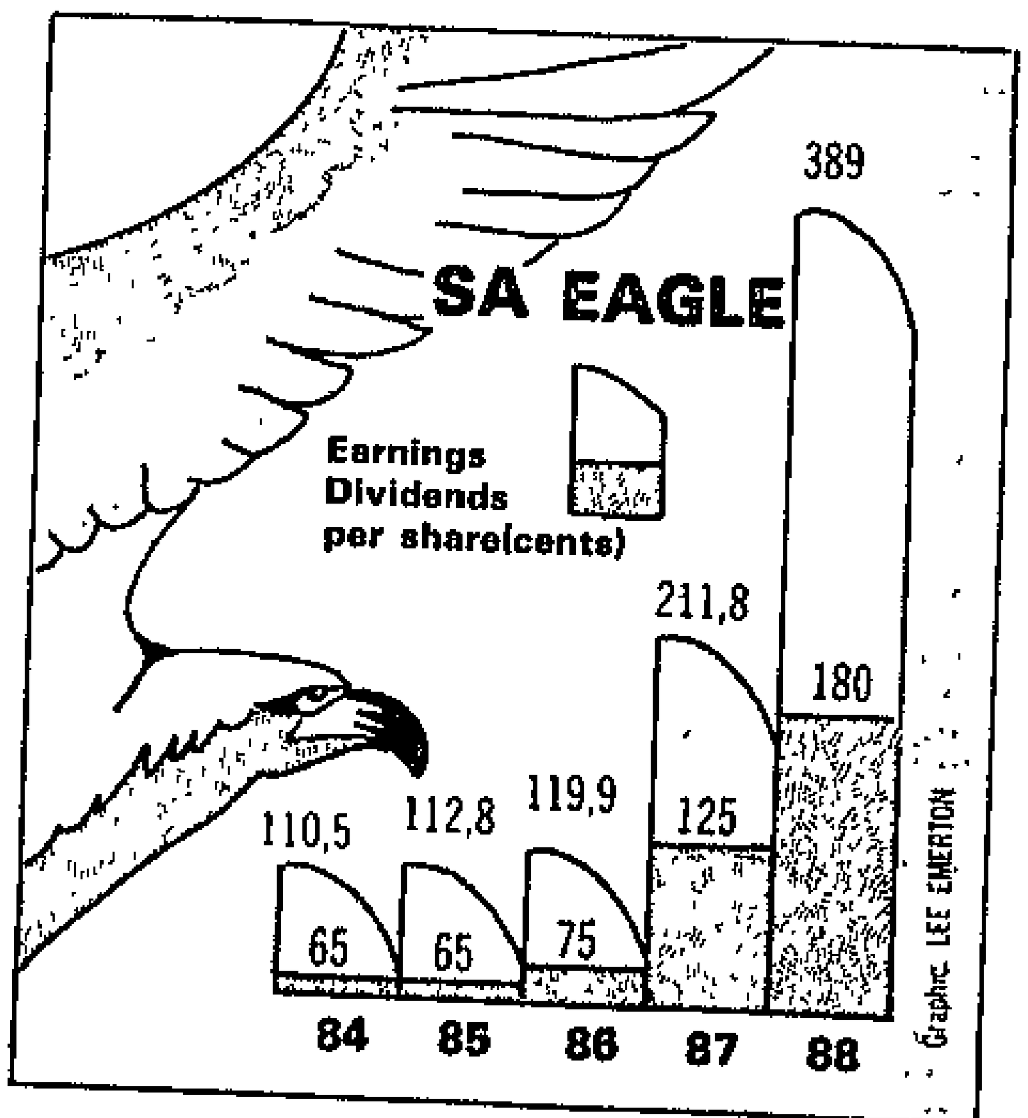
The dividend increase — the final was raised from 91c to 120c a share — was slightly less than the 50% increase in SA Eagle's share price over the past year to its current peak of R18.

MD Peter Martin said the underwriting surpluses most insurers were producing — SA Eagle's shot up 278,2% from R8,3m to R31,4m — contributed to a softening market, with consequent pressure to reduce rates.

"Our industry sells up front. Not enough cognizance is being taken of the effect of import surcharges of 20%-60% on claims costs in the coming months.

"Furthermore, the costs of goods and services will increase because of the lower value of the rand and inflation.

"Current underwriting surpluses have given the industry an opportunity to re-



build reserves.

"It will also give an opportunity to provide for the heavy reserve requirements the industry will have to meet to comply with the Melamet Commission's recommendations."

These requirements were deemed necessary by authorities to ensure the public was protected against the possible

● To Page 2

SA Eagle profits soar as theft claims fall

(58) B/Day 7/2/89

● From Page 1

collapse of short-term insurers

SA Eagle's gross written premiums rose 10,1% from R527,9m to R581,3m and net written premiums were up by 14,5%. Premium growth slowed considerably as rates were held at 1987 levels despite rising inflation and the increase in self-insurance undertaken by many major corporations.

The outstanding result on the underwriting account reflected an improvement in claims due to the limited effect of major natural catastrophes.

High interest rates during most of the year and higher dividend receipts from equities pushed investment income up 39,7% from RR31,3m to R43,7m. After minor deductions for expenses, operating income almost doubled from R37,4m to R73,7m.

Taxation more than doubled from R12m to R27m to leave attributable net income 83,4% higher at R46,6m against R25,4m in the previous financial year.

Additional funds retained as a result of the increase in dividend cover will further strengthen the solvency margin of the company

Tighter forex checks please top bankers

BDay 3/2/84 KAY TURVEY 58

BANKS have welcomed tougher moves announced by Reserve Bank Governor Gerhard de Kock to tighten checks on foreign exchange dealings.

Nedbank MD Chris Liebenberg said they were happy with the Bank's intention to increase its staff and improve policing.

He also called for greater clarity on the commercial banks' responsibilities and emphasised that, while they welcomed moves to eradicate fraud and circumventions, they could not become part of a policing structure.

Standard Bank international division deputy GM Roco Rossouw said they supported central bank actions to clean-up operations.

He agreed with Liebenberg that, while authorised dealers should apply the rules and implement internal controls to avoid inefficiences and fraud, it was not a bank's function to police exchange control regulations.

Rossouw said plans by the Reserve Bank to increase staff in the inspectorate division from 184 to 193 were a step in the right direction.

The banks declined to comment on the internal restructuring of the Reserve Bank. De Kock announced senior deputy governor Japie Jacobs would assume responsibility for co-ordination of activities and deputy governor Jan Lombard, who previously reported directly to De Kock, would now report directly to Jacobs.

Housing prices up by 10% — United

Mday 8/2/89 (S9)

HOUSING prices rose by 11% on a year-on-year basis during the final quarter of 1988, the United said.

This meant the average increase in housing prices was more than 10% during past year.

The group said a medium-sized house was now priced at R89 000 compared to R80 000 a year ago. On average, larger houses were priced at R128 000 Smaller homes were trading at R71 000. This gave an increase of between 14% and 9% over the past year.

The United said the price differential between new and existing housing widened to 33% during the last quarter of the year. A new medium-sized home now cost R116 000 Buying and establishing a similar sized home would cost R87 000.

An increase of 10% in building costs was cited as the main reason for the price differential.

The highest quarter-on-quarter increases in medium-sized houses was recorded in the Vaal Triangle with 8%, followed by the Free State and northern Cape with 7% and the East Rand with 6%.

House prices went down by 9% on the West Rand and 3% in the Durban-Pinetown area.

In spite of the fact that the bond rate rose by 36% during past year, in real terms this was 22%.

The United said the level of average mortgage repayments was still 48% below its 1984 peak and blamed the poor performance on the high level of inflation.

It said the market was expected to remain buoyant for the first part of this year because of a reversal in the net migration trend and the improved economic position in SA during last year and the first portion of this year.

However, the economic slowdown and higher real mortgage rate could have an adverse effect on property prices. — Sapa.

Stanbic ups its earnings by 20%

B/Day 8/2/89 (58)

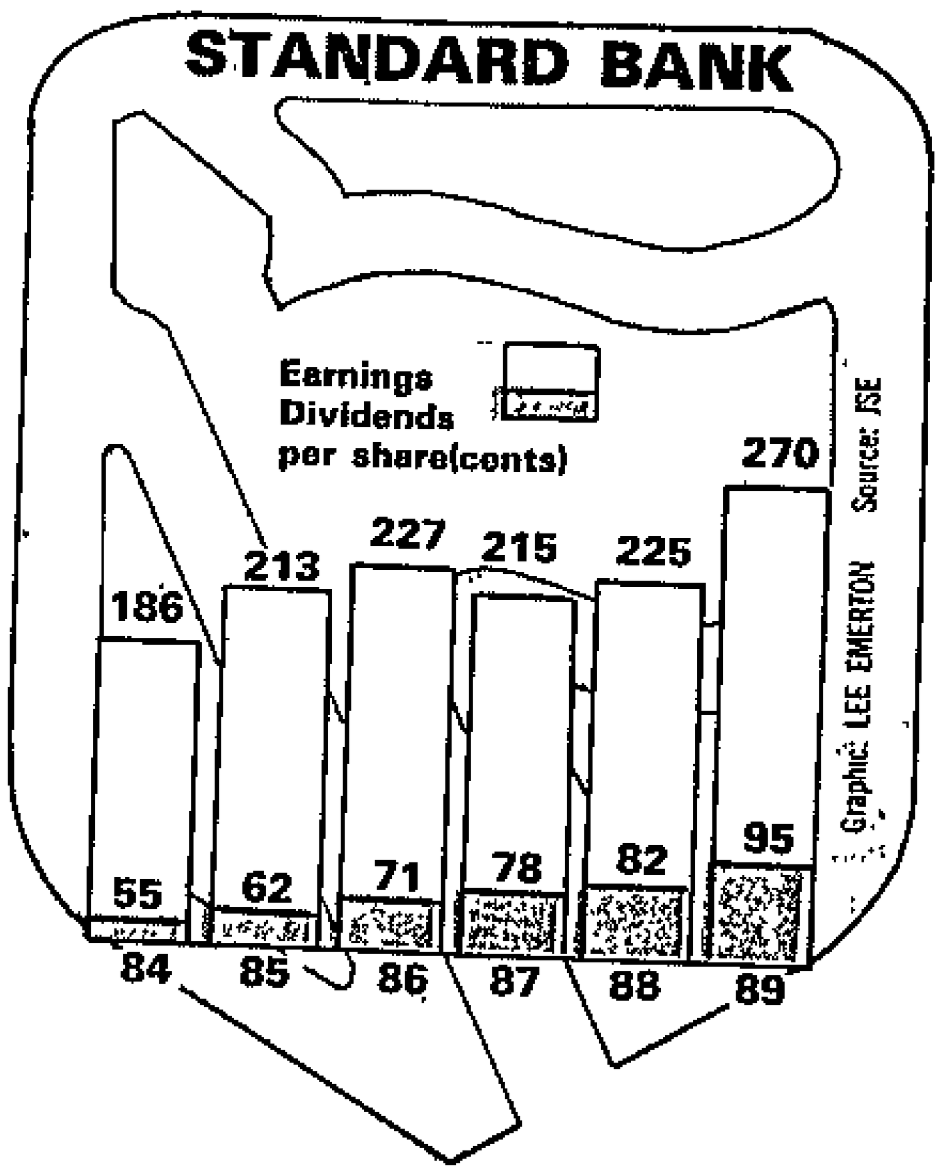
GRETA STEYN

THE STANDARD Bank Investment Corporation (Stanbic) took a squeeze on margins in its stride last year and marched on to a 20% increase in earnings a share to 270c.

In the year to December 1988, Stanbic's taxed income rose to R268,6m from R224,5m — in spite of a three-month period in which the prime overdraft rate was at an artificially low level.

Stanbic MD Conrad Strauss said: "Margins narrowed by 23% over the year, largely because the authorities were reluctant to allow the prime overdraft rate to rise."

As a result, the 23% growth in operating profit lagged behind the 34% surge in lending.



The balance sheet grew by almost 35%, bringing Stanbic's net asset value (NAV) to R16 a share. This value implies the shares, at R19,50 yesterday, are trading at a premium to the NAV. However, Strauss calculates the NAV is understated at that level, because the balance sheet does not take into account the market value of certain Stanbic investments as well as that of its land and buildings.

Strauss calculates that the market value of these exceed the book value by a total of about R460m. If this figure is added to the assets on balance sheet, it brings the net asset value a share to

● To Page 2

Stanbic ups earnings a share by 20%

B/Day 8/2/89

about R22,50 — and the shares are trading at a discount to the "real" NAV.

● From Page 1 (58)

The group's profits emerged unscathed from the Shareworld debacle, as is clear from its specific provisions for bad debt. Provision for doubtful accounts was R46,4m — the bulk of which was for Shareworld — but the figure is still down on the previous year's R52,2m.

However, general provisions for bad debt trebled from R19,7m in 1987 to R57,2m in 1988. Strauss said it was company policy to build up the general debt provision when lending volumes were growing and specific debt provision was low.

The jump in general debt provision was one of the main reasons for the drop in Stanbic's return on total assets to 0,9% from 1,02%.

COMPANIES

NK64S 8/2/89 (58) ...

Stanbic home loans up R2-billion

STANDARD Bank's home loan business grew R2-billion in the year ended December 1988.

It now accounts for more than R3-billion of Standard Bank Group (Stanbic) assets and management sees scope for expansion as it is currently seen as one of the bank's core products.

This emerged from the group's annual report for the year ended December 1988.

Of the R7,6-billion rise in group assets to nearly R30-billion,the increase in the home-loan book accounted for more than R2-billion.

Standard Bank's 29 percent increase to R157-million at the taxed profit level in its contribution to group profits reflected the sharp increase in home loan business.

Group MD Dr Conrad Strauss was not specific about margins in the home loan business, but said he was happy with the returns.

Stanbic, boosted by the strong showing from Standard, increased trading profit by 27 percent to R510-million.

Stannic made the second largest contribution to taxed income.

But its R31-million was down on the previous year's R34,6-million. The net figure was knocked by an increase in the general provision for bad debt.

Strong demand for instalment and leasing finance resulted in Stannic accounting for about R1,2-billion of the increase in total assets.

Corporate demand accounted for about 50 percent of the R7,6-billion increase in the asset base.

The dividend has been raised 16 percent to 95c.

● Industrial holding company **Klipton** reported a 66 percent increase in turnover to R28-million for the six months to December 31.

Operating profit rose 101 percent to R2,6-million and pre-tax profit 89 per cent to R2,3-million.

Dick Usher

Rand Merchant lifts income 15%

CM: 1/1/8 8/2/89

RAND Merchant Bank Holdings lifted net income after tax for the six months to December by 15% to R7,5m (R6,5m). Group earnings rose by 53% to 18,1c (11,8c) a share. Earnings by the banking subsidiary rose by 15% to 13,6c (11,8c).

Attributable income rose to R9,9m (R6,5m) and retained income at the end of the period to R10m (R6,9m). No interim dividend has been declared.

The directors explain that a special interim dividend paid in December 1987 was of a nonrecurring nature and was due to the restructuring of the group.

The directors say the improved earnings in the first half of the current year were achieved in spite of disappointing results from traditional banking services.

"These divisions experienced squeezed margins as a result of a rising interest pattern and a resistance by the banking authorities to allowing lending rates to reflect market conditions."

Although the fee earning divisions of the bank exceeded budget the trading divisions were operating in more competitive conditions which resulted in lower margins and they were hard pressed to achieve their targets.

Income of R2,5m from the holding companies and nonbanking subsidiaries was mainly due to a nonrecurring surplus from the realization of a strategic minority shareholding in CGP Investments.

This was sold to the major shareholder, Bonuskor, to enable it to acquire 100% of CGP.

Glynwed kicks free of SA links

Own Correspondent

LONDON. — Glynwed International, the Birmingham-based industrial group, yesterday confirmed it had disposed of its remaining interests in five SA companies via a management buyout.

The largest is Glynwed's wholly owned subsidiary Falkirk Industries. In 1987, it reported a loss of £1m. Also being sold are four unnamed associated property companies.

Glynwed said the interests in the five companies will be taken on board by Adval Group Investments.

The purchase consideration was not disclosed, but it is understood to be close to £1,3m, as the net effect of the transaction reduces Glynwed's borrowings by this amount.

'Sharply higher taxes essential'

CM 7/1/5 8/2/89

Own Correspondent

JOHANNESBURG. — A sharp tax increase is needed in the upcoming budget to demonstrate a serious commitment by the authorities to cooling the economy.

Southern Life economist Mike Daly says higher taxes to bring the deficit before borrowing well below this fiscal year's 5% of GDP are essential, for unless further demand restraining measures are taken soon there is little reason for economy to "land" this year.

Daly says since it is impossible to expect government expenditure growth to fall below the expected average inflation rate of 15% to 16% for 1989, it is on the revenue side that action will have to be taken.

Following the early salary increase to civil servants, he notes the onus on sound management of the economy has been shifted from the Reserve Bank to Treasury.

Daly said that as the authorities were probably loathe to raise interest rates in an election year, ongoing clampdowns on tax avoidance schemes for companies were likely.

Reserves: Slight rise disappoints

Own Correspondent

JOHANNESBURG. — The Reserve Bank's holding of gold and foreign exchange reserves in January

Bad news for

Strong consumer demand

Cit Times 8/2/89 58

Stanbic lifts profit by 23%

By AUDREY D'ANGELO
Financial Editor

LAST year's buoyant economic conditions, with strong consumer demand, helped Standard Bank Investment Corporation (Stanbic) to lift its pre-tax operating profit by more than 23% for the second year running.

It rose to R406,2m (R329,4m) in the year to December 31, an increase of 23,3%.

But a higher effective tax rate of 39,3% compared with 37% in 1987 meant that net income inclusive of attributable earnings from the associated Liberty group rose by 19,6% to R268,6m.

Earnings rose 20% to 270c (225c) a share. The final dividend is 68c (60c) a share making a total of 95c (82c) for the year.

The tax bill was R159,6m compared with R122m.

The directors say demand for the group's products and services was firm throughout the year. Total lendings were up by 33,6% and demand for home loans was particularly strong.

Increases in foreign business and other service revenues were "satisfactory".

However, the directors say, income growth was constrained by pressure on interest margins which narrowed by 23%.

The group made a provision of R57,2m for general debt out of current earnings, compared with R19,7m in 1987. But in fact bad debts fell 12% below those of 1987.

The group's commercial bank, the Standard Bank of SA, lifted profit by 29,2% and Standard Merchant Bank by 14,1%.

Stannic lifted operating income before general debt provision and tax by 28,4%. Stannic's net earnings fell by 9,8% but the directors say this was caused by an exceptional charge of R41,8m in general debt provisions required under group procedures.

Stanbic, which has achieved a steady rise in earnings for years regardless of downturns, is budgeting for a further increase this year.

Group chairman Henri de Villiers says he "discerns some encouraging signs although social and political conditions make predictions of business performance difficult."

Closing gold

(In $ an ounce)
NEW YORK
390,50/391,00
LONDON:
392,50/393,00
Fixing am: 391,45
Fixing pm: 391,00
ZURICH:
390,00/393,00

8/2/89

RMB in rescue of troubled NDH?

BDay 8/2/89 (58)

GRETA STEYN

MARKET talk is that Rand Merchant Bank (RMB) is working on a rescue operation for National Discount House Group (NDH), which has been battered by declining profitability.

Although RMB and NDH are tightlipped, sources said RMB was looking at the restructuring of NDH's shareholding, possibly with a view to a takeover.

The talk could be the reason for the jump in NDH's share price last week.

It rose 15c to 80c — an increase of 23% in one week after bottoming at 58c in mid-December after a pre-crash peak of 90c.

There is speculation that RMB itself might take over NDH, but according to the Banks Act, it is not allowed to hold more than 10% in NDH. However, there is talk of individuals in RMB taking up shares, thus giving RMB effective control.

In his annual report, NDH chairman Malcolm Macdonald described the results for the year to September 1988 as "poor". Profit was R3,3m — down a decline of 31%.

Stanbic posts a 20% increase in earnings

(58)

Star 8/2/89

By Ann Crotty

Standard Bank Group (Stanbic) has surpassed expectations with the announcement of a 20 percent increase in earnings to 270c (225c) for the 12 months to December.

The dividend has been raised 15,8 percent to 95c (82c), which means that cover rose to 2,7 times from 2,5.

The performance should help underpin the improved sentiment that has seen the bank sector index move from the 950 at which it languished before Christmas to its current 1200.

Boosted by a strong showing from the commercial bank (Standard), trading profit was up 27 percent to R509,8 million from R401,3 million.

But a 44 percent increase in the bad debt provision held this back to a 23,3 percent improvement at the operating profit level.

Tax was up 30,8 percent, which meant taxed profit showed an increase of 18,9 percent to R246,6 million (R207,4 million).

Associates chipped in with R22 million (R17,1 million), taking taxed income to R268,6 million (R224,5 million).

At the taxed-profit level, Standard turned in the strongest contribution in both absolute and relative terms.

Its contribution was up 29 percent to R157 million (R121,5 million). This strong performance reflected a sharp increase in the home loan business.

Of the R7,6 billion rise in group assets (to R29,7 billion from R22,1 billion), the increase in the home-loan book accounted for over R2 billion.

The strong overall profit performance was achieved despite the squeeze on interest-rate margins, which was particularly severe in the final quarter.

Group MD, Dr Conrad Strauss, is not specific about margins in the home loan business, but says he is happy with the returns in that area.

Home loans account for over R3 billion of the group's assets and management says there is scope for it to make a larger percentage contribution as it is currently seen as one of the bank's core products.

Stannic made the second largest contribution to taxed income.

But its R31,2 million was down on the previous year's R34,6 million. The net figure was knocked by an increase in the general provision for bad debt and hides the 28 percent profit advance made by the division.

Dr Conrad Strauss

Strong demand for instalment and leasing finance resulted in Stannic accounting for about R1,2 billion of the increase in total assets.

The overall increase in bad debt provision included a drop in the specific portion (from R52,2 million to R46,4 million) and an increase in the general portion (from R19,7 million to R57,2 million).

Stannic, which enjoyed a lower specific bad debt experience, carried the bulk of the increase in the general provision.

It seems much of the specific bad debt related to the group's exposure to Shareworld.

Corporate demand accounted for about 50 percent of the R7,6 billion increase in the asset base.

In view of the strong performances currently being reported by industrial companies, the increase in demand for finance from this sector looks almost staid.

This situation reflects the fact that after three or four years of hardship, corporate SA is now paying very close attention to asset management, which has helped significantly to cut back on the need for external finance.

In turn, the banks are responding by paying greater attention to fee-earning business and to core products such as home loans.

Dr Strauss is looking for real earnings growth in the current financial year. This should be attainable if the expected improvement in margins is realised.

Results in line with forecasts

STAR 5/2/89

Rand Merchant Bank Holdings' income after tax increased by 15 percent to R7,5 million for the six months to December 31, despite disappointing results from traditional banking services.

The income from the holding company and non-banking subsidiaries amounted to R2,5 million and mainly comprised a non-recurring surplus from the realisation of a strategic minority shareholding in CGP Investments Limited which was sold to the major shareholder, Bonuskor, to enable it to acquire 100 percent of CGP.

No dividend has been declared. 58

Deputy chairman GT Ferreira said the results were in line with forecasts for more modest growth, but they were not in line with expectations.

"It is anticipated that the group will show improved results in the current year compared to the 1988 financial year. However, as a result of the difficult banking environment, the rate of growth in profits is expected to be more modest than than achieved in previous years."

Malan not prepared to be 'a carcass'

(58) BD 9/2/87

MIKE ROBERTSON

MALAN

CAPE TOWN — Defence Minister Magnus Malan told Parliament this week he was not prepared to offer himself as a carcass for the vultures which had gathered around the Harms Commission inquiry into the affairs of Albert Vermaas.

He said: "My conscience is clean."

Malan said he was willing to co-operate fully with the inquiry but was not prepared to respond to insinuations and rumours that arose outside the official investigation.

In recent weeks, certain insinuations had been made that he had behaved recklessly over state security and secrets.

He had co-operated with journalists inquiring about his connections with Vermaas, but the time had come to call a halt to that.

Malan said he wanted to put the record straight in regard to Vermaas's dealings with Armscor.

Subject a security clearance, Vermaas was appointed as a director of Eloptro, a branch of Armscor. There was a big difference between Armscor and Eloptro and Eloptro was not concerned with highly classified products as had been suggested.

'He will now be able to conduct probes anywhere' B/Day 9/2/89 (58)

Govt extends powers of Advocate-General

CAPE TOWN — The powers of the Advocate-General are to be expanded to allow him to appoint a commissioner anywhere in SA to conduct an investigation on his behalf.

Political Staff

Announcing this yesterday during the state-of-the-nation debate, Justice Minister Kobie Coetsee said the action was being taken because it now appeared the Advocate-General's investigative powers were not wide enough.

Coetsee said it would also be suggested in legislation that powers of the Advocate-General be widened to enable him to investigate complaints of "prejudicial acts or omissions on the part of the authorities".

Coetsee said perhaps the most important development brought about by the proposed amendments would be the swiftness with which the Advoate-General would be able to deal with complaints.

Invaluable experience had been gained from the Harms Commission. The purpose of a commission was to gather information on behalf of the state to enable it to decide on what measures should be taken. It was not the commission's task to prosecute or convict a person.

This implied a commission had limited powers, but the Harms Commission had proved it was possible to evaluate rumours and get to the crux of the matter without delay.

Coetsee said government believed that if the Advocate-General was to be given similar powers, it would have to use commissions only in cases where absolutely necessary.

Changes at Stanbic, SBSA

By Magnus Heystek Star 9/2/89

(58)

Standard Bank Investment Corporation (Stanbic) and the Standard Bank of South Africa (SBSA) have announced a series of changes to their general management structures.

Stanbic says this has been done to rationalise the management structure of SBSA to reduce the number of executives reporting directly to the MD, Dr Conrad Strauss.

In Stanbic's case, management has been restructured to make it more responsive to the changing environment the group has become exposed to since the international debt payment standstill and the disposal by Standard Chartered PLC of its shareholding in SBIC.

The following changes have been made to the executive structure of SBIC:

- Mr Div Geeringh, senior general manager, corporate services, assumes a new senior executive position at SBIC. He becomes chairman of Standard Merchant Bank in place of Dr Conrad Strauss and chairman of Standard Bank Arena, Ellis Park, succeeding Mr B Miskin.

Mr Manfred Schutte, general manager, treasury division SBSA, has been appointed senior general manager, corporate services, SBIC. He also becomes chairman of Diners Club.

Dr JM Verster, group consultant, human resources, SBIC, becomes divisional manager of the new human resources division of SBSA.

Several changes to the general management of SBSA have also been announced.

Star 10/2/89 158

Santam ordered to pay man R1,2-m

BLOEMFONTEIN — The Free State Supreme Court confirmed yesterday a rule nisi by which Santam Insurance was ordered to pay out a Polish immigrant under policies held by three men found to have been responsible for him becoming a quadriplegic.

Costs were awarded against Santam and leave to appeal was refused.

Mr Miroslaw Pryzbylak (30) of the Anne Harding Cheshire Home in Randburg was paralysed when he was thrown into a swimming pool during a picnic at Viljoensdrif on November 7 1982.

On December 15 1988, Mr Justice D A Kotze, in the Free State Supreme Court, found that three employees of the Coalbrook Coal Mine — Mr Nick von Ronge, Mr Paul Gericke and Mr Sarel Grundlingh — were jointly and severally responsible for damages of R1 225 000.

On the same day, the judge granted an urgent application against Santam to show cause why it should not pay the limit of its liability under policies direct to Mr Przybylak or his legal representation and not to the policyholders.

Last week, the return date of the rule nisi was extended after Mr F W A Danzfuss, for Sanlam, and his instructing attorney, Mr W J J Spangenberg, had given the court an undertaking that they would try to persuade Santam to obtain cession from the policyholders.

Rights

Mr von Ronge and Mr Gericke told the court yesterday they had been told by a lawyer, Mr J A M Prinsloo, that if they agreed to cede their rights to the money, they might possibly be in breach of the conditions of the policies.

They told the court that they had no objection to the cession.

Mr Justice Kotze said that on March 31 1988 Santam personally had given an undertaking to Mr Przybylak's attorneys that any monies to be paid in terms of a court order would be paid to its attorneys-of-record to settle with his attorneys.

Mr Justice Kotze said it was strange that Santam, for a year after the hearing took place, was not willing to take the court or its opposition into its confidence and reveal the contents of the policy.

Mr Przybylak would be entitled to interest of only 12 percent, whereas he could have invested the money and earned interest of 18 percent.

"He is losing 6 percent interest on this amount which, theoretically speaking, is about R6 000 a month.

"Put otherwise, there exists the possibility that the respondent (Santam) is lending this money or using it at 18 percent. For every month that they delay with payment they are making 6 percent profit."

Mr Justice Kotze said that if that was not the intention of Santam, it was a realistic possibility. Whether or not the company intended it, there was prejudice to Mr Przybylak. — Sapa.

Vermaas planes for sale, Harms Commission told

Argus 10/2/89 (58)

Staff Reporters

PROVISIONAL liquidators of Pretoria attorney and businessman Mr Albert Vermaas will file affidavits urgently in the Pretoria Supreme Court today following yesterday's extraordinary sitting of the Harms Commission in Cape Town.

The commission heard that Mr Vermaas's agent in the United States was trying to sell secretly to a South American country at least two aircraft belonging to a Vermaas-owned company.

The Harms Commission learnt this from a Texas attorney, Mr Roy Beene, who sent a letter by facsimile machine to Cape Attorney-General Mr Frank Kahn, appointed to help the commission's inquiries into cross-border irregularities.

Mr Beene recommended that an American business associate of Mr Vermaas, Mr Chuck Rittenberry, be restrained from disposing of assets derived from Mr Vermaas's South African company, Chieftain Aviation Holdings.

Speaking from Pretoria today, liquidator Mr Wally Edelstein said he consulted senior counsel last night "in view of what transpired".

"I will be filing affidavits in the Verco Holdings (Mr Vermaas's holding company) matter in the Supreme Court first thing this morning.

"We have set other steps in motion — I can't tell you at the moment — in order to protect the aircraft in the United States. What I am told will depend on what action I and my co-liquidators take in connection with Chieftain and the aircraft," Mr Edelstein said

At yesterday's unscheduled sitting the commission also heard that corporate stock of the American-based company Deutsch Aviation Incorporated had been transferred to the estate of a dead German.

"The books and records of Deutsch are being prepared to be shipped to Germany where it is presumed that those records will be destroyed," Mr Beene said in the letter.

In the light of this information Mr Beene recommended that the Deutsch company and Mr Rittenberry be restrained from disposing of the assets derived from Chieftain.

Mr Beene said he had learnt of these dealings when a client, who wanted his name withheld, was searching the market to buy planes.

"It was also learnt that prior to the Chieftain matter, Mr Rittenberry was without funds and now has a surplus of funds, presumably being monies derived from Chieftain," Mr Beene continued.

In other documents handed in to the commission Mr Vermaas's last tax payment was shown to be R3 641, although he owes the Receiver of Revenue more than R44-million in tax.

Originally, in 1987, Mr Vermaas's tax assessment showed a R87 936 loss of income but a re-assessment showed his taxable income for 1987 to be R12,7-million.

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INSURANCE 58 FMML 10/2/89

Ensure insurers

Ahead of expectations of an increase in the present 15% solvency requirement, short-term insurers are increasing this margin of safety — free reserves. They are simultaneously building up technical reserves which, together with the solvency margin (SM), forms a firm's financial base.

Of four companies which have published year-end reports since June, three — Santam, Hollard and Sentraboer — have increased their financial bases. The fourth, Mutual & Federal (M&F), is a special case in that it had an unusually high SM in 1987.

A Quest Insurance Advisory Services survey records M&F's financial base fell to 133,5% in June (compared with 165% in June 1987), its SM dipped to 67,3% (91%), and technical reserves were almost unchanged at 59% (58,5%). Both the financial base and solvency margin still compare favourably with an industry average of 104,9% and 41,4% respectively.

Santam's financial base rose to 77,8% in September (62,1%). Its SM rose marginally to 25,4% (23,7%).

Technical reserves rose significantly to 52% (38,1%).

Hollard's financial base rose to 108% in March 1988 (64,7%). Its SM was up to 45,4% (30%) and technical reserves increased substantially to 49,8% (25,8%).

Sentraboer's financial base rose to 94,3% (75,1%), its SM was up to a more acceptable 25,8% (10,4%) and technical reserves remained strong at 66,7% (64,1%).

While SMs have been the subject of concern, the more crucial level of financial base is often ignored by stockbrokers' analysts and the press.

Quest chairman Denzil Curgenven believes more emphasis should be placed on this ratio, which includes both free and technical reserves.

The SM is assets minus liabilities as a proportion of net premium income (NPI). Technical reserves consist of outstanding

FMML 58 10/2/89.

claims reserves, reserves for claims incurred but not reported (IBNRs), unexpired risk premium reserves and a catastrophe reserve.

According to Melamet: "Inadequate technical reserves played an important part in AA Mutual's downfall and, over several years, gave a false impression of trading results, profitability and solvency margin."

Lack of proper reserving, apart from being a danger to policyholders, presented a false picture to management and the Registrar — "and camouflaged the fact that published and reported results were incorrect."

Says Curgenven: "Figures in financial statements often misrepresent real solvency." A better reflection is the detailed figures (F247s) submitted annually to the Registrar.

Even these, however, are not necessarily accurate as methods of calculating technical reserves vary. Standardisation, which would alleviate the problem of inflated reserves, is due to be discussed in parliament in the 1989 session, along with other recommendations of the Melamet Commission.

BDay 18/2/89

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Bank rate to rise again, says UBS

SYLVIA DU PLESSIS

BANK rate could rise by another percentage point during the first half of this year and a decline in money market rates should occur only towards the third quarter, the UBS says.

The UBS says in its latest Economic Monitor that interest rates are unlikely to start falling soon, given the time lag with which monetary policy affects credit demand.

Monetary policy might not be stringent enough to curtail total domestic spending significantly, considering the current stance of fiscal policy. Fiscal policy is still too expansionary and unless it is curtailed, the upward pressure on money market rates will remain.

Failure to apply a firm financial policy could also threaten the already low level of foreign exchange reserves.

The Monitor says although the surplus on the current account of the balance of payments is expected to increase to R5bn this year, capital outflows of debt inside and outside the net could reach $1,7bn.

This means SA's gold and forex reserves are likely to remain low, with the rand expected to remain a weak currency, possibly depreciating to R2,60 against the dollar.

The inflation rate is expected to rise to 15,5% in the second half of the year.

Syfrets, in its latest investment newsletter, Money Matters, echoes the view the prime overdraft rate will rise by another one percentage point — especially if an election is held later rather than sooner.

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Anglo loosens grip on JSE but the 'big four' are still on top

W Mail (58) 10-16/2/89.

Despite the shuffle of control on the Johannesburg Stock Exchange not much has changed.

By HILARY JOFFE

THE Anglo American group's control of Johannesburg Stock Exchange companies has slipped by more than 10 percent in the last year.

This emerges from the latest edition of Robin McGregor's *Who Owns Whom*, which shows that Anglo's control declined from 60 percent in 1987 to 49,5 percent in September last year.

The main reason for the drop is the decline in the value of gold shares, which make up a large proportion of Anglo's investment portfolio, reflected in the fall of the JSE All Gold index from 1774 in December 1987 to 1266 in September 1988.

McGregor's research also reveals that the Rembrandt group has gained in power, as it has moved into a wide range of industries. Its share of the JSE has surged from 4,9 percent in 1987 to 7,6 percent at the end of last year. The group is now into steel and timber in addition to its traditional fields of tobacco and liquor, and its financial and mining interests have grown rapidly along with its international investments.

However, despite the redistribution of power among the groups, overall control of the South African economy is still heavily concentrated in the hands of Anglo, Sanlam, SA Mutual and Rembrandt — for many years "the big four" of the South African economy.

SUMMARY - JSE CONTROL - BASED ON MARKET CAPITALISATION

CONTROLLING BODY	% JSE CONTROL						
	MARCH					DEC	SEP
	1983	1984	1985	1986	1987	1987	1988
Anglo American Group	52,5	54,1	53,6	54,1	60,1	56,1	49,5*
Sanlam	9,4	10,7	12,2	11,3	10,7	9,7	10,8
S. A. Mutual	0,6	2,7	10,6	10,9	8,0	8,9	9,8
Rembrandt Group	2,1	2,8	3,8	4,4	4,3	4,9	7,6
Foreign Controlled	5,4	5,7	5,9	6,1	4,1	4,9	5,1

The "big four" have controlled over 70 percent of the shares for the past five years

McGregor's figures show that in September last year the four together controlled 77,7 percent of the Johannesburg Stock Exchange, based on market capitalisation. This figure is down on 1987, when their share stood at 83 percent.

But McGregor, who annually highlights the way economic power is concentrated in the hands of the few, says he's not trying to hammer the "big boys". What he's against, is the structure which allows such concentration to happen.

Anglo, for example, controls a large number of companies from an associate position (holding between 20 and 50 percent of the shares) — something which would not be allowed elsewhere, McGregor says.

In other countries, an investor who holds a certain maximum percentage of the shares of a company has to bid for the majority shareholding. In Britain and the US, this maximum figure is 30 percent, while in Australia it is 25 percent. Minorco's bid for Consgold was an example of the rule operating on the London Stock Exchange.

"If we had such a rule, it would mean companies wouldn't be able to spread their wealth and control a massive slice of the stock exchange with minimal outlay," McGregor says.

He believes also that South Africa needs a Monopolies Act, like those in the UK and US, so that, for example, a company which owns more than 30 percent of the factors of production in an industry can't extend its participation by acquisition or merger (though it can by capital expenditure).

"South Africa has thousands of regulations which push the economy in the wrong direction — but it doesn't have two really simple ones which would make for a far healthier economy," he says.

He does acknowledge that South Africa's restrictions on exporting money are a major factor in the concentration of share ownership on the JSE.

But he believes the concentration of power lends itself to cartels, to large companies which become as bureaucratic as the public sector, and to powerful political lobbies controlled by a small number of individuals. All that is inflationary, he argues.

Cartels also mean barriers to entry which tend to prevent smaller entrepreneurs getting in to compete.

However, figures calculated from *Who Owns Whom* show family- and director-controlled companies have increased their share of the JSE, from 4,9 percent of market capitalisation in 1983 to 6,9 percent in September 1988. It's a development McGregor welcomes, because, he says, "we need entrepreneurs".

McGregor's figures are based not on the asset value of companies but on market capitalisation (the share price times the number of shares in issue), reflecting the way stock market investors value the performance of listed companies. This makes for quite volatile figures on control.

His control figures are not the number of shares these companies own. They are the total market capitalisation of the companies he considers they control.

His definition of control is controversial. Ultimate control through a faceless group of nominee companies may have little effect on a company's strategy. The identity and approach of chief executives or boards of directors may be far more important than the shareholders, who may be institutional investors with limited interest in the day-to-day running of the company.

However, McGregor defines ultimate control as that effected by the shareholders: "They have the power to appoint the board of directors, who in turn appoint the chairman and the chief executive officer, and it is the chairman, the directors and the CEO who control the company," he says.

SBIC (58) FMML 10/2/89

Provisions rise

Banks which are not on full disclosure have offered many reasons for treating their shareholders like children who might start a run if they were told the full story. Results from Standard Bank Investment Corporation (SBIC) for the year to end-December illustrate very clearly why there should be

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(58) FMML 10/2/89.

SOLID SBIC

Year to December 31	1987	1988
Op profit before interest (Rm)	1 711	2 573
Pre-tax profit (Rm)	329	406
Attributable earnings (Rm) ..	220	264
Earnings (c)	225	270
Dividends (c)	82	95

full disclosure.

Looking at EPS and total assets alone, an investor would simply see solid growth and have the strong suspicion that there might be more to the picture. SBIC has actually shown that its results could have been very much better, but an ultra-conservative policy of bad debt provisions has had a substantial effect. Because of this, the bad debt charge against profits leapt 44% though actual bad debts fell 12%.

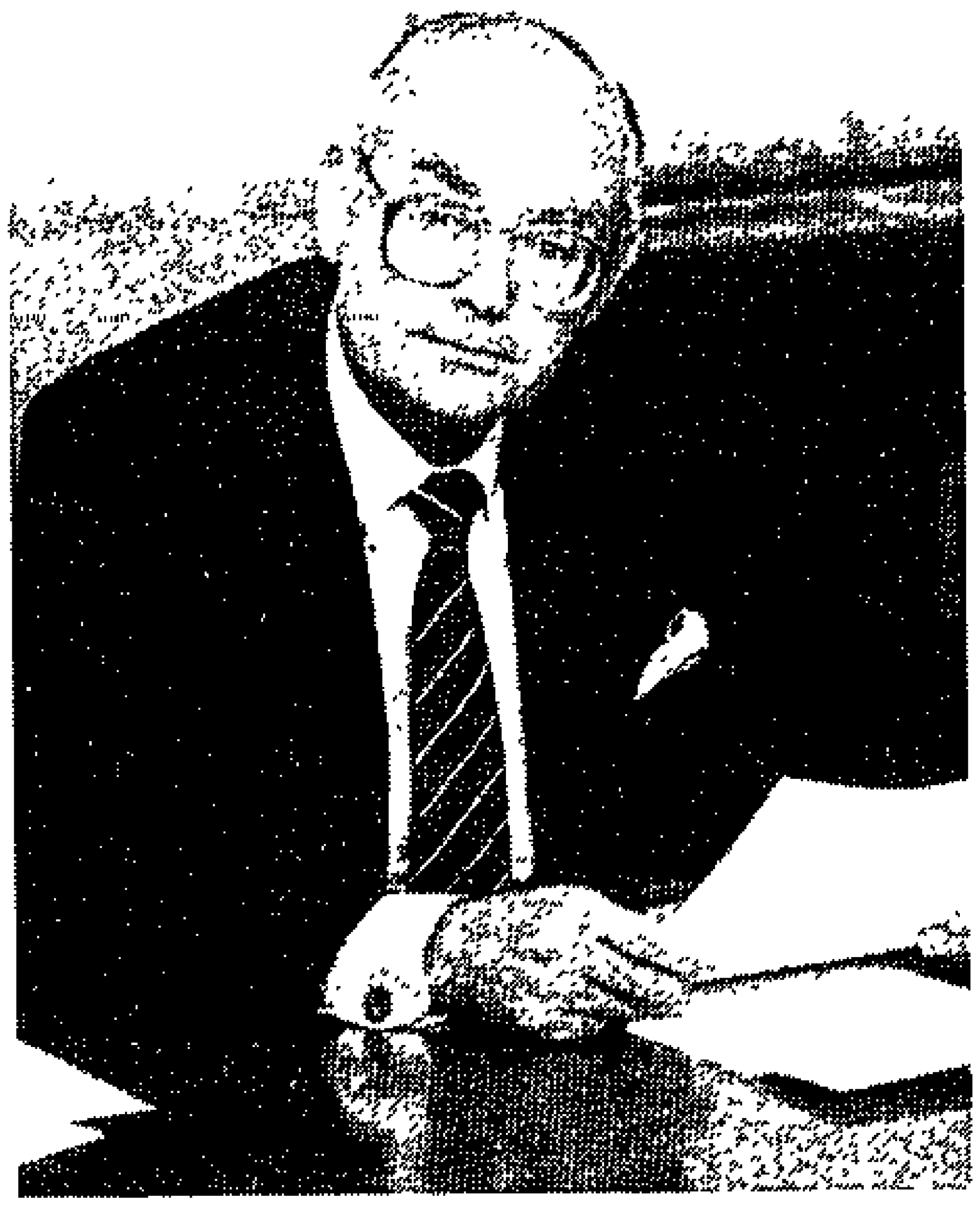
Apart from Shareworld, which group MD Conrad Strauss says is "very adequately" provided for, this was mainly due to the excellent year experienced by Stannic. With low bad debts and low specific provisions to be made, the general provision was escalated. Conversely, when Stannic has a less auspicious year, its provisions will fall and profit performance will even out.

The provisions changed a rise of 28% in Stannic and Stancor's income to a fall of 10% and reduced the 44% increase in group profit to a 23% rise in pre-tax operating income. With tax climbing 31%, growth in taxed profit was reduced to a 19% climb to R264,2m.

The banking company's 29% rise in income to R157m was particularly laudable in view of pressure on margins, which fell by 23% during the year. In addition, Strauss says SBIC's return on assets was deliberately reduced because of its large capital base.

Added to the high general debt provisions, this cut return on total assets from 1,02% to 0,90%, which remains well above First National's 0,70%, though comparisons are difficult because of the differing debt policies.

In keeping with the rest of the banking



SBIC's Strauss ... keeping provisions conservative

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sector, SBIC's deposit mix shortened, which Strauss attributes to reluctance to commit funds to longer-term investments at a time of rising rates, to depositors' inflationary expectations and to negative real interest rates, plus the attractive short-term investments being offered by insurance companies.

Like other banks, SBIC saw major growth in home loans. Total home loans nearly tripled to R3bn and new loans are being granted at a rate of R120m to R150m a month, despite the downturn experienced in the fourth quarter of last year; SBIC's margins are 0,25% below the market average. As banks in the UK have 20% of assets in home loans there is still some way to go. "They are a core product," says Strauss, "though obviously not large compared with the total balance sheet."

Looking at the coming year, Strauss admits to being uncertain about the trend in interest rates, but suggests that rates could remain around current levels until mid-year, when they could ease, provided the economy is cooling. But SBIC sees the risk as rather on the upside than the downside.

With rates unlikely to increase at the same pace as last year, and prime unlikely to be suppressed to the same extent (if there is a further increase in the rates structure), Strauss says that SBIC has budgeted for real growth in earnings. This would be based on better margins and probably lower volumes.

Pat Kenney

The secret of a good bank is good people

Star 1/12/89

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DAVID BULLARD

COULD it be that the prevalent habit of losing money in financial markets has finally been acquired by South African banks?

Well, yes and no.

Firstly, there are some banks which repeatedly make good returns in even the most difficult markets.

We all know who they are.

On the other hand, there are other banks which repeatedly fail to sparkle and we probably don't know who they are; the ashes are carefully raked over the bond losses hidden among the forex profits.

How is it then, that some banks can keep up consistently good performances in financial markets, while others can barely break even?

The answer is people.

The profitable banks have senior managers who have made a point of understanding the intricacies of the new instruments such as options and futures.

Trading limits are monitored constantly and risk management is the key.

If markets move against the bank, dealers are disciplined enough to take losses.

Managements are sufficiently experienced to understand that markets are not always profitable and that you have to take the rough with the smooth.

They see no point in being wise after the event.

In the derivative markets, which are highly geared, decisions are based on a series of what-ifs.

The bank is always looking at a worst-case scenario and balancing it against its view on rates.

The trading room is well-equipped and run with military precision.

Serious market operators compare this to warfare, with profit representing victory.

As traders arrive in the morning they switch on the Reuters monitor looking for opportunities.

They answer phones promptly and tend to be back from lunch before 2:15.

They are remunerated on a profit-sharing basis, which means the more successful they are, the more successful the bank is. No profits, no money. They very rarely change jobs.

The unprofitable banks, however, spend a lot of time wondering when the profitable banks' luck will run out.

They are convinced that they (the profitable banks) must have made a pact with the devil or some such thing.

Their senior managers can just about remember how to convert a discount into a yield on a BA, but probably can't even spell the names of some of the new instruments, let alone explain them.

Although cost-conscious, they have still had to pay relatively high prices for people claiming to be traders.

In return they have got a mixture of semi-skilled neanderthals.

Some never do anything, in case it's wrong. Some did something once and are still waiting for it to come right.

Some believe they function better when making investment decisions when anaesthetised with drink.

Most have trouble understanding simple market terminology and some still don't know the difference between a bid and an offer.

The dealing room is full of sparkling high-tech gadgetry (courtesy of the shareholders), which no one knows how to use.

It's not easy to function profitably when you can't even remember a four-letter Reuter code.

As markets veer this way and that, the unprofitable banks, with their total lack of controls, manage to make the wrong decision every time.

No losses are taken unless absolutely necessary because they appear on a management print-out the next morning and could adversely affect the expense account.

In the event of a major foul up, losses are blamed on cosmic forces out of management's control.

The managing director must wonder at times why he has to pay someone R120 000 a year to lose a million rand. I know the shareholders do.

● *The author is Director of Johannesburg's Options Market.*

BUSINESSMAN OF THE WEEK

Handling a R1,3-bn stake of the JSE

By TOM HOOD
Business Editor

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AFTER a few weeks of mini-boom, some investors scurried out of the share market the moment gold slipped below the $400-line.

But someone who takes a calmer view than most investors is Rowland Chute, even though he has to look after one of the biggest stakes in the market — worth R1,3-billion

At 35, he makes some major investment decisions for Old Mutual, though at Pinelands he can lean on one of the country's largest investment teams for advice.

Shake-out

He is senior portfolio manager of Old Mutual Investors Fund, the country's market leader, whose market value rose about R100-million last month in spite of the month-end shake-out on the JSE.

The Old Mutual investment team of 20 professionals which includes economists, CAs, two geologists and share traders — plus clerical and computer staff — is one of the country's largest and does a tremendous amount of research.

"We analyse companies in terms of their dividends and make forecasts for a number of years ahead. We do company management visits, look at growth prospects, look at their position in terms of their industry, look at the financial risks and the risks of competition in the market in which they operate," he said.

First job

Mr Chute took his first job as a clerk with Old Mutual in 1971 and did research and portfolio management for several years — in fact he has done almost every job in the investments section.

Mr Chute is a committed unit trust man and believes the only sensible way is to buy in monthly instalments to iron out cost fluctuations.

As prices eased in the last week of January, his nature was to shrug it off and take a long view — in OM's case, this showed that R100 invested over 10 years brought a return of 22 percent against inflation's 14,5 percent.

Pull-out

In the 1987 crash, other investors probably thought as he did for there was a surprisingly low pull-out in contrast to 1969, a time of credit buying, he says.

The extent of the bear market has not been as long as 1969's and people were not so pessimistic. The market turned round in the first quarter of 1988 after only five months of real bear market sentiment.

As a savings medium the unit trust movement is growing in popularity because people see it has provided a real rate of return.

Rowland Chute . . . a calmer view.

Looking at the JSE, he says the industrial market has made the running and will continue to do so in the short term, but he believes there will be a correction later this year.

Under-performed

On the mining side the dollar price of gold has been disappointing and gold shares have under-performed.

"It is hard to see an upturn but they have performed so poorly that they must begin to offer some relative value at some stage."

The gold price was influenced by the fact that worldwide inflation was relatively low and people were getting real rates of return in the bond market.

There had also been a big increase in the gold supply from other countries. "We can expect to see the volume increase but the rate of increase should slow. We will see more production from Australia and America because we have had a relatively high gold price for several years."

Mutual's Investors Funds is about 18 percent liquid, indicating a conservative view of the market.

Cautious approach

"We are still looking for value but we are adopting a cautious approach.

"I don't fully subscribe to the scrip shortage argument. You may struggle for a short time there is no need to push up the price: you need patience."

Nedbank rights issue, TSI and R28-million of Safmarine are among recent purchases.

"It is a pity we have such low tradeability of shares in South Africa. The uncertainty of taxes makes mining houses and institutions hesitant to trade, thus limiting the freely available shares.

"After many years of high inflation, if you don't do something to protect your savings you lose in the end."

Advice for the man in the street: try and locate the company that is going going to be the next Pick 'n Pay: look for a company whose head is an entrepreneur with lots of vision.

The fact that South African investors have suffered under a negative after-tax real rate of return over the past decade has encouraged the move into equities.

Domestic pensions

St Times 14/4/89

AS attitudes to employees, change for the better, many people are considering a pension fund for their domestic employees.

Federated Life was the first group to introduce the Domestic Pension Fund. The premium income is invested in the same way as any other pension fund handled by the group, and its record of growth has been strong.

The minimum contribution is only R15 a month. No medical examination is required, and disability and life assurance start immediately. Life and disability pensions are paid for life. An additional R3 000 is paid into the account should death or disability occur.

Premiums are increased automatically by 12% a year. Employees can retire at any time between the ages of 55 and 70 years and a third of the pension's value can be taken in cash.

BUSINESS TIMES SURVE

Golden oldies can avoid the mould

58 S Times 12/2/89

By Julie Walker

RETIREMENT is something that happens to other people.

That is the attitude which Bob Woodgate, assistant general manager of pensions development at Fedlife Assurance, meets frequently.

Mr Woodgate says: "South Africans are notably bad planners. They can manage next year's holidays and not much more. There is always an idea that something will turn up. But what happens when the people who have enjoyed the sweet life stop work?"

Nest egg

Mr Woodgate believes that investment in the stock exchange is the only sure way to retain the value of one's retirement nest egg. The building society movement is big in South Africa, and people feel comfortable with the guarantees they offer.

But in the long term, the returns and the value of money invested with them will not keep pace with inflation.

"Buying equities regularly will not let you down. You have the best businessmen in SA doing the work for you. But even better is to is to place one's investments with an insurance company."

Insurance companies manage pension funds and investments on behalf of clients, so the risk is lower than for an individual trading his own portfolio of shares.

Age next birthday at entry	Illustrated retirement fund at age 65*	Loss of retirement fund caused by delaying entry date by 1 year
	R	%
40	302 384	
41	261 873	13,4
45	146 213	
46	126 072	13,8
50	68 568	
51	58 555	14,6
55	29 965	
56	24 987	16,6

Only top-quality shares are bought, many beyond the means of an individual. A spread of shares means that if one counter turns out to be a bad apple, the performance of the others will lessen the effect of poor growth from it.

"Get the experts to do it for you," says Mr Woodgate.

Unit trusts present another good way of getting into equities, but without the tax and benefits attached to life cover one would get with an insurance policy.

Minimum

Life assurers have to adhere to mininum investments in prescribed assets — a third of the fund must be placed on behalf of individuals, and 53% for group pension funds.

Mr Woodgate is philosophical about the requirements, which many fund managers believe should be scrapped or relaxed.

He says: "Other taxes would be higher if there were no prescribed asset requirement. On the other hand, the experience in other countries where the rules have been relaxed has not been a sharp fall in the amount invested in these assets."

An insurance company receives premium income, which it invests. The investments can be in prescribed assets, equities and property — these are the traditional realms of business.

From these investments the insurer receives interest, dividend and rental income. These are termed investment income.

The expenditure side of the equation is: "The main reason we are in business is to pay claims. There are management expenses so we can fulfil these oligations."

Claims are paid when people die, retire, are disabled or when policies mature.

Mr Woodgate says only six in every hundred people retiring make adequate provision for income.

"People know more about their cars then they do about their company pension fund," he says.

When changing jobs it is often the last thing that crosses the mind. The salary, leave, car, parking and housing allowance are much more important at the time.

"The rules of funds vary, but the benefit on retirement is often according to this formula: 2% multiplied by the number of years' service multiplied by the salary at retirement.

This means that an employee with 30 years' service to a company will retire on 60% of his last salary.

Excuses

How many people can boast that kind of record?

Mr Woodgate says he would rather speak to 40-year-olds than the 50- and 60-year-olds who seek advice on retirement planning.

"Of all the excuses that people use to avoid making a rational decision about pension provisions, the one most frequently heard is, 'Let me think about it.' "

But a delay of even one or two years in beginning one's personal retirement programme can make a significant difference to the eventual benefit, as shown in the table.

The lives considered are men at standard rates of premium, R100 a month contribution, retiring at 65. The projections are based on growth of 15% a year in a Fedlife retirement annuity.

"In absolute terms, at age 40 next birthday, if you saved retirement annuity contributions of R100 a month for one year by delaying taking out an RA while you thought about it, at age 65 the capital sum available to buy you a pension would be less by R40 511. Some saving," says Mr Woodgate.

A delay of five years diminishes the expected capital available by more than 50%.

The message is clear, he says. Retirement is an event that we will probably all have to face. The more remote it is, the easier it becomes to make provision now. Get into the savings habit sooner than later

Behind the bull run on the JSE

By David Carte

STOCKBROKER PLJ van Rensburg uses a graph (right) as evidence that the JSE bull market will continue.

It contends that as long as foreign creditors deny South Africa access to capital, it will have to run a surplus on the current account of the balance of payments.

The result, argues PLJ, will be a build-up of investment funds, which will bolster share prices. It contends that until SA can again run deficits on the current account the bull market should remain intact.

Correlation

The broking house observes a close correlation historically between movements on the current account and stock-market indices.

The reason? According to PLJ, the surplus or deficit on the current account equals the difference between gross domestic savings and gross domestic investment.

If investment is greater than savings, a deficit arises. Conversely, if savings exceed investment, a current account surplus results. It can either be invested abroad or be used to chase existing assets in SA. PLJ believes that there is a chase for assets in SA.

Upwards

The graph plots the market capitalisation of the JSE and the current account of the balance of payments over a decade. To eliminate fluctuating growth, both are divided by gross domestic product.

The graph suggests that movements in the current account occur up to nine months ahead of those in the JSE market capitalisation. The graph would have given early warning of the October 1987 crash.

Right now the current account trend is steeply upwards, hence PLJ's bullishness for the stock market.

Does PLJ have the infallible tool for stock market prediction that investors have sought for decades?

An institutional analyst is doubtful. He says it is true that the current account has been the tail that wagged the dog of the SA economy for years.

There is a fundamental explanation. When the current account has gone into deep deficit, the authorities have put the brakes on the economy in the form of higher interest and tax rates, bringing it and the stock market to heel.

Conversely, when domestic economic activity is low, depressing imports and lifting exports, the current account has gone into surplus. Interest and tax rates have been allowed to fall and the stock market has risen.

In the past, foreign capital inflows permitted SA to go deeply into deficit and it was thus possible to allow growth to rise to 8% before inflation necessitated brakes on the economy.

Steaming

No longer. Now that the economy is steaming along at a growth rate of 3%, imports are sucked in and a deficit threatens.

Because foreign capital is no longer available to bolster the reserves, brakes have to be applied before the upswing can get going.

There has been a more hopeful trend in imports. They appear to be slowing, although it is still not certain whether the improvement reflects only lower arms and oil purchases. Exports have been boosted by vigorous growth in major economies plus a fallen rand.

SA's economy is being permitted to run along at a fair clip, with the reserves as low as possible. Confidence in commerce and industry is running high and the stock market reflects it.

Ignored

But, complains the analyst, the PLJ van Rensburg analysis seems to ignore that the current account surplus has been needed to permit repayment of foreign debt.

The capital account has also to be taken into account. As Finance Minister Barend du Plessis said this week, R25-billion of capital has flowed out of SA since 1985. (Imagine liquidity in SA had capital flows been positive.)

Institutions are liquid because of exchange control, their domination of private savings and a shortage of on-the-ground fixed investment. As a result they have been obliged to chase the same small parcel of blue chips higher and higher.

But they are not too uncomfortable with their liquidity. They do like to match the length of their assets with the length of their liabilities, hence some pressure on them to acquire equities, properties and gilts.

But, together with the corporate sector, they are funding two-thirds of the banking system's liability base by way of wholesale deposits. They are receiving real returns on this money.

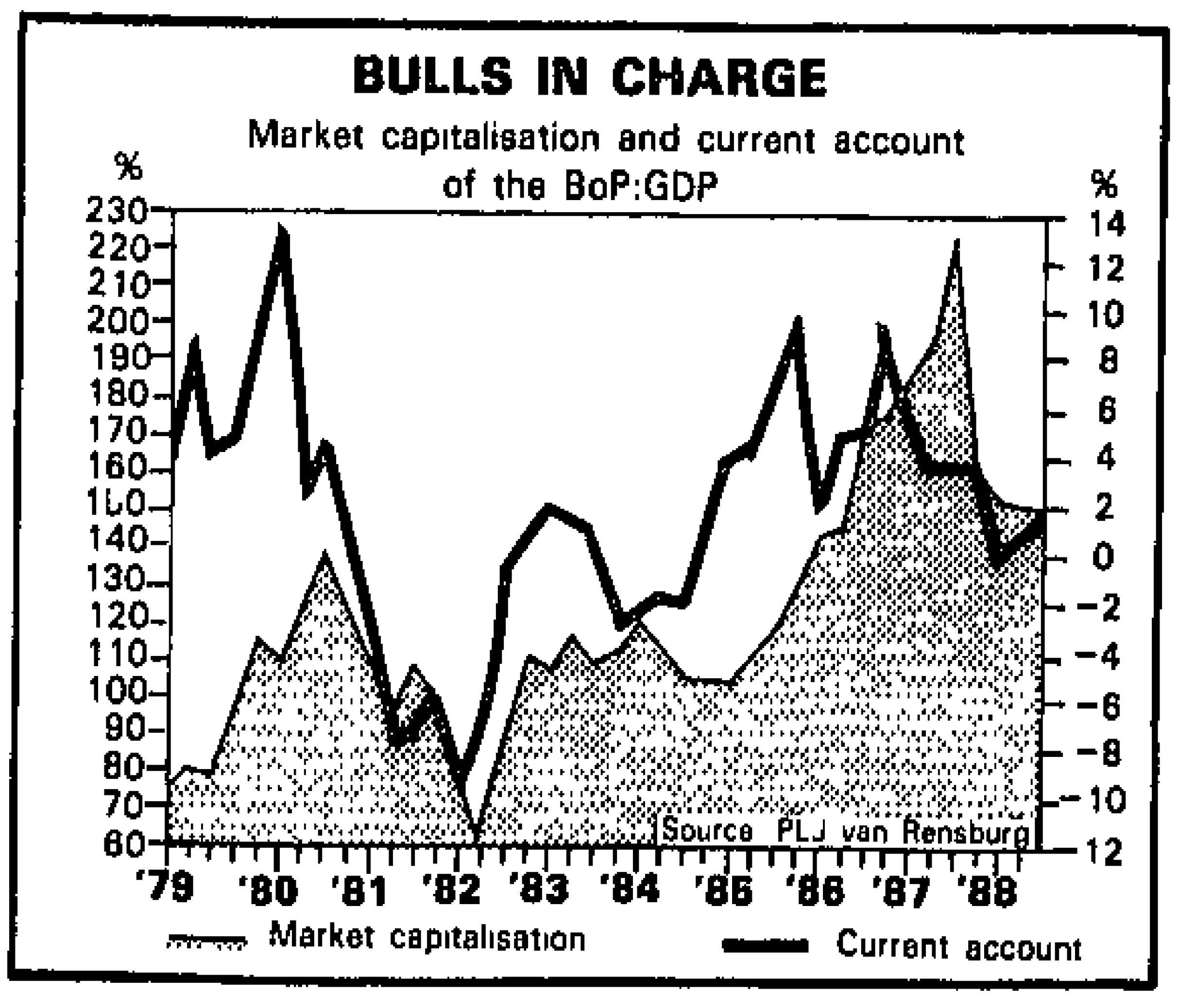
Gold

The October 1987 crash showed that the weight of funds will not always underpin the market.

If real interest rates go even more positive, if privatisation siphons off a couple of billion at the time when the gold price is depressed, today's bullishness could evaporate.

Gold is the final determinant. If the dollar price weakens substantially, the already depleted reserves will require hard brakes that could suddenly dent the bull trend.

But right now, says the analyst, PLJ is probably right in being positive about the market, albeit for questionable reasons.



Liberty, is enormous at R25,2-million. commitments run to R188,5-million, com- SBIC's depreciation charge wa

S Times 12/2/89. (58)

Aids clamp by assurers

By Robyn Chalmers

NEARLY R1-million of the R3,5-million claims for deaths caused by Aids are being disputed by life-assurance companies.

Mercantile & General senior underwriter Jakes Greyling is collating information on Aids for the Life Offices Association (LOA). Since 1984, 30 policyholders have lodged 48 Aids-related claims totalling R3,496-million.

In accordance with an LOA agreement reached in October last year, assurers have put an Aids exclusion clause in new policies of more than R200 000.

People who find the exclusion clause unacceptable will have to undergo a blood test to determine if they have the Aids virus or not.

Life assurers are sticking to their guns and disputing or repudiating claims on the grounds of early suicide and/or non-disclosure of facts material to the assessment of risks.

Largest

Mr Greyling says: "My research shows there are eight policies in dispute. The amount involved is about R744 000, the largest being for R500 000.

"The number of disputes and repudiations, especially with assurers implementing the LOA agreement, will increase. One company has applied exclusion clauses on all its policies."

A Business Times survey of the bigger assurance companies showed that most have paid Aids-related claims.

Old Mutual has received eight claims relating to Aids. Three have been paid, one repudiated and four are being processed. Sanlam has paid nine Aids claims — seven death claims and two disability.

Sanlam senior general manager of administration and personnel Johan Sohnge says the company has not disputed or repudiated any claims.

Liberty Life has paid seven claims and repudiated three because of non-disclosure. Southern Life has met five claims — three death and two disability and like Sanlam has had no disputes or repudiations.

Term

Southern Life general manager, life actuarial department, Paul Truyens says all five claims were met more than two years ago. Southern has not noticed an increase of Aids-related claims in recent months.

"We will put an exclusion clause into our policies from March 1, but prospective policyholders will be able to have the choice of such a clause or undergoing a blood test."

Commercial Union general manager John van der Linde says the company has paid three Aids claims for small amounts and repudiated a large one.

"The claim we repudiated was a term assurance, and we did so on the grounds that the person knew he was HIV positive when he took the policy out."

LOA public relations officer Jurie Wessels says the criteria for life policies have been tightened.

"Policyholders will find it far more difficult to defraud a company now than 18 months or two years ago."

Figures from the Advisory Group on Aids show that 115 people have died of the disease since 1982. In 1988, a total of 86 Aids cases was diagnosed in SA compared with three in 1982.

The World Health Organisation indicates that almost 500 000 Aids cases are expected in the next two years, and that between 5-million and 10-million people are infected with the disease.

SBIC out of the shadows to shade FNB

By David Carte

STANDARD Bank Investment Corporation (SBIC) produced results for the year to December this week that are a daunting challenge to First National's new boss, Barry Swart

For years SBIC ran in the shadow of the former Barclays But the tables have been turned in the past five years

Today, as the table shows, SBIC is No 1 by nearly every measure, from shareholders funds to taxed profit.

On a dividend yield of 4 3%, against FNB's 7% and a PE of 7 5 against FNB's 5,6, SBIC enjoys a far higher stock-market rating

The table also shows that it is in its commercial bank that SBIC enjoys a particular advantage It raised its profit there by R30-million to R157-million But largely because of horrendous computer costs FNB went backwards by R11-million

Wesbank has the beating of Stannic, which was hurt by a change in the bad-debt formula which lopped R14-million off profits SBIC's merchant bank also enjoys a big advantage

SBIC's "other" income, ranging from the holding company's contribution to Stanswa, Stanbo and its investment in Liberty, is enormous at R25,2-million

In 1984 SBIC had total assets of R15,7-billion — R900-million less than Barclays R16,7-billion Now, at R35,3-billion, SBIC's assets are R7-billion ahead

The table is a little unflattering to FNB because its yearend was September and SBIC's December It makes a difference when balance sheets are growing at 35% a year and more.

In reporting earnings growth of 20% in the year to December, SBIC provided in full for its exposure to Share World — and it virtually trebled its general provision against doubtful debts

Without Share World, the specific provision would have been less than R20-million instead of the R46,4-million actually knocked off profits There was not one other bad debt of more than R1-million.

Interestingly SBIC's bad and doubtful debt provisions at R103,6-million are still much lower than FNB's R124 5-million, even though SBIC had a slightly bigger advances book at its yearend

Either SBIC husbands its debts better than FNB does, or it is less conservative in providing against mishaps

SBIC continues to spend heavily on computers, vehicles and buildings Capex commitments run to R188,5-million, compared with FNB's R254,4-million.

Emphasising that banking nowadays is capital intensive, the depreciation charge for SBIC was a whopping R80,6-million and for FNB R97,4-million.

SBIC's depreciation charge was 28% of equipment, furniture and vehicles, against FNB's 15,6%, suggesting that it has taken a conservative view in this area as well These ratios may reflect that SBIC's equipment has been installed longer

THE BIG TWO SIDE BY SIDE

	STANDARD (Rm) 88	87	% Change	FIRST NATIONAL (Rm) 88	87	% Change
Equity	1 597	1 434	11	1 018	900	13
Advances	2 3508	18 546	27	21 104	16 363	29
Assets	35 329	26 133	35	28 150	20 603	37
Deposits	26 335	20 275	30	25 063	18 382	36
Gross income	2 573	1 711	50	2 194	1 645	33
Interest cost	2 187	1 381	57	1 888	1 343	40
Doubtful debts	104	72	45	124	129	-3
Pre-tax profit	406	329	23	306	302	-1
Tax	160	122	31	129	141	-8
Earnings	269	224	20	207	185	12
Tax rate	39	37	—	42	46	—
Eps (c)	270	225	20	284	254	12

HOW THEY CHIPPED IN

	STANDARD 88	87	% Change	FIRST NATIONAL 88	87	% Change
Commercial bank	157	121	29	111	122	9
HP Bank	31	35	-10	52	40	29
Merchant bank	22	19	14	14	5	152
Industrial bank	—	—	—	13	12	14
Other	59	49	19	18	5	206
Total	269	224	20	207	185	12

FNB's equipment is valued at R624,7-million against SBIC's R288,7-million. The large difference is partly because SBIC has leased vehicles in the past and these are off the balance sheet It could also reflect FNB's heavier recent spending on electronic equipment.

The biggest advantage SBIC enjoys over its rival is in shareholders' funds. Thanks to better profitability for several years and cleverly pitched rights issues, SBIC had a R500-million edge.

SBIC managing director Conrad Strauss says one can add another R460-million to equity for real land, building and investment values, bringing shareholders funds to R2 032-million, or R20,70 a share If these revaluations are made, return on equity falls appreciably lower than the published 16,8% (FNB 20,3%)

SBIC's capital base is more than adequate, while FNB talks of a rights issue.

Banks and building societies are being squeezed by the refusal of the authorities to allow lending to rise in line with deposit rates — for political reasons. The prospect of a general election is likely to keep the squeeze on Inflation ensures that balance sheets keep expanding No wonder banks suffer from capital shortages

If banks cannot attain reasonable profitability, they will keep on having to make rights issues That is why the entire sector has underperformed the stock market

SBIC has been more tax efficient than FNB which says it has not used prefs to dodge tax and that it will not be affected by Finance Minister Barend du Plessis s December clampdown

Dr Strauss says suggestions that his bank will be knocked to the tune of millions by the changed rules are nonsense. Assets will merely have to be redeployed He says the effect on 1989 is likely to be "marginal at most"

[redacted]

The big banks appear to be winning the war against the building societies FNB has a home-loan portfolio of R4-billion and SBIC R3-billion SBIC claims it is market leader with 30% of all new housing loans Because of their branch networks, the banks have been able to take on housing loans without large increases in staff numbers

FNB has a staff of 100 overseeing its housing-loan portfolio and SBIC 500 The difference in numbers could be because FNB uses branch managers as assessors and SBIC uses specialist staff

Some analysts believe FNB is underrated relative to its rivals but the prospect of a rights issue will restrain advances in its share price SBIC's main difficulty must be to avoid hubris

Chris Ball says SBIC should earn more than FNB because of the "endowment effect" of larger shareholders' funds The additional R500-million earning SBIC's return on equity of 16,8% gives it an advantage of about R84-million.

FNB has had the disadvantage of running two computer systems. Once its IBM-based Hogan system is fully established (in about a year), he believes FNB should be able to add R25-million to the bottom line Meanwhile, FNB labours with much higher staff costs.

FNB's affirmative action plan aims at a 40% black staff by the end of 1990 It is now 26% black Surprisingly, SBIC claims to be 30% black.

As part of an efficiency drive, FNB is about to deploy R500-million in property SBIC's big new head office cost decidedly less and is virtually in place.

FNB may be ready for a grand recovery in the next two years But judging by the big depreciation and doubtful-debt provisions, SBIC has a few rabbits that it can pull out of its hat in time to come — particularly once the authorities take the grip of political expediency off the banks.

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N/A — not applicable, not available.

S Times 12/2/89 (58)

Southern heads north

SOUTHERN Life investments have made a strong recovery from post-crash depths.

By Ian Smith

The institution's largest pensions portfolio posted an annual return of 30,4% in the year to January, recovering all the ground lost in the October 1987 market collapse and hitting a record high.

Executive director, investments, Jan Calitz says Southern's Managegrowth portfolio recovered dramatically from the end of January last year to achieve a return more than double the estimated year-on-year inflation .e of 13%.

"This was due to the fact that the stock market hit its low in January-February 1988," he says.

The JSE all-share index recovered from 1 568 on January 31 last year to 2 175 at the end of last January — a 38.7% improvement.

"The equity component of the Managegrowth portfolio, which accounts for more than half of its R1,8-billion assets, easily outperformed the index and yielded a return of 52,5% over the same period," says Mr Calitz.

Rand-hedge counters dominate the equity portfolio — Richemont, De Beers-Anamint, Anglo American, Gencor and GFSA are among the major holdings.

The top 10 holdings account for 50% of the equity exposure, with an even split between mining shares and industrial-financial shares.

Mr Calitz says the equity market is in a confirmed upward trend after its strong rise in recent weeks.

But he warns: "I would not be surprised if there is a downward correction in the months ahead, particularly for industrials."

BUSINESS TIMES SURVEYS PERSONAL FINANCIAL PL

Three pillars for sound investment

S|Times 12/2/89 (58)

By Julie Walker

METBOARD offers more than a high-quality product range for investors. It claims to offer great service from a team of qualified consultants — many of them women.

Marketing consultant Kim Gibson says: "Metboard believes in the concept of three pillars of investment — cash, equity and property."

When a client approaches Metboard with a lump sum to invest or with a view to monthly investment, all the avenues available are explored.

"We look at the needs of each individual," says Miss Gibson, "and advise on how to maximise return."

Changing

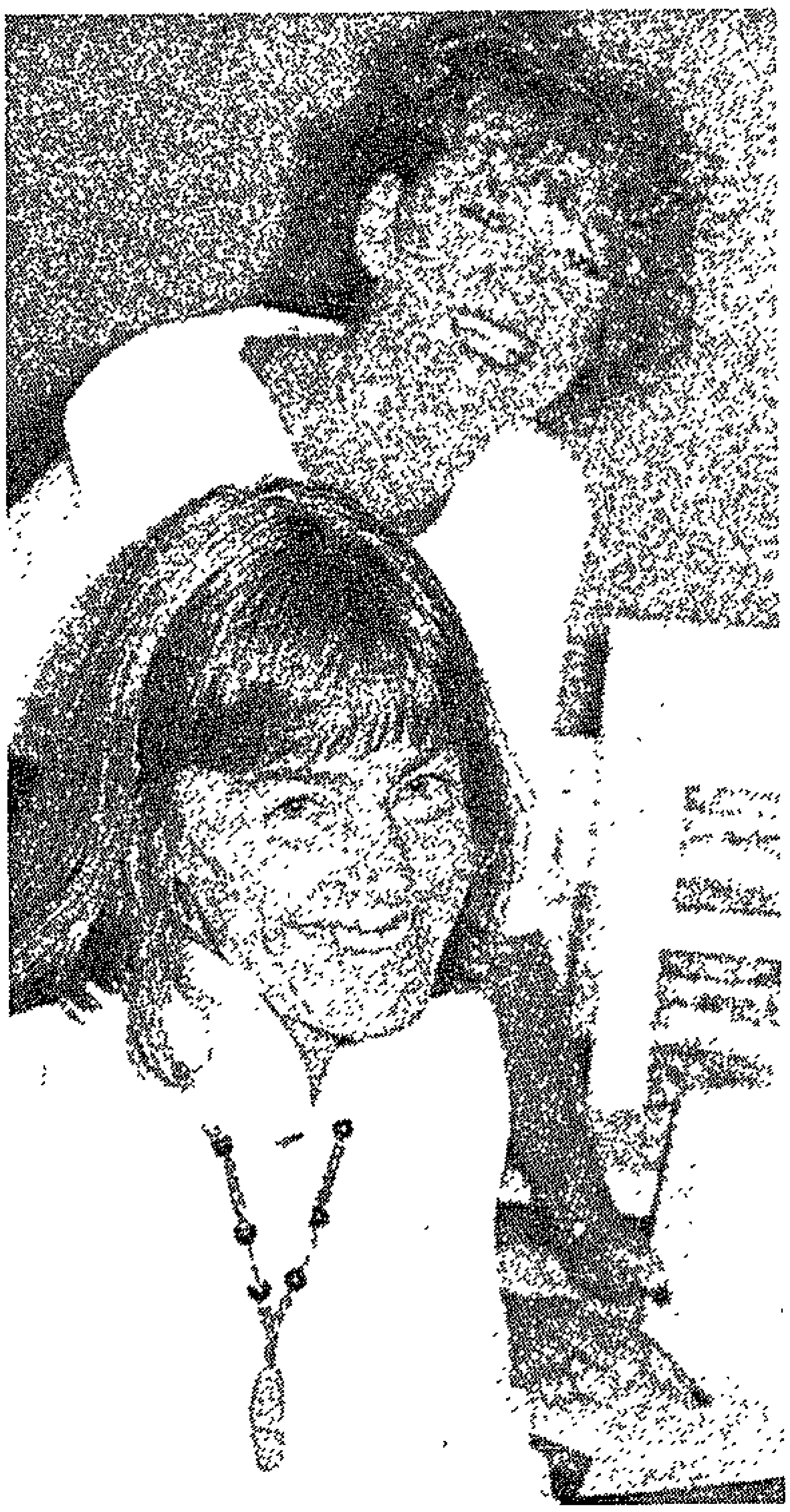
I asked what kind of investor Metboard attracted. Many similar institutions used to direct their marketing at prospective investors who were perhaps retired or close to it. That lump sum investment could have come from a mature insurance policy, which had been built up specifically to buy a pension.

But now the emphasis is changing.

Miss Gibson says: "There is no reason why a young person with R5 000 or R10 000 to invest should not be interested in, for example, participation mortgage bonds (part bonds), which have traditionally attracted older investors."

Metboard's Dee Freund says that after a client has had initial discussions and selected his investment spread, he does not think about reviewing it.

"Investment opportunities are cyclical. Under differing circumstances it might be better to reduce the exposure to a certain type of investment."



Kim Gibson (above) and Dee Freund

Dealer

The options for cash investment include Metmoney — an agency call account in the money market. An individual's capital of, say, R10 000 may earn only half the interest rate available to a pool of individuals' funds, such as are available to a money-market dealer.

Hundred lots of R10 000 pooled command much more respect from banks, and a lot more interest. An investor's funds are available on two hours' notice.

Part bonds have long been regarded as secure, low-risk, high-income investments. They are secure because the rules governing their issue provide that the principal can lend only two-thirds of the value of the property as a mortgage bond to the buyer.

However, the minimum investment period of five years is regarded as an eternity, especially by younger people. So Cashbond has been developed. It allows the part-bond investor to borrow up to 100% of the amount he has invested at exactly the same rate of interest charged as he earns on his money. The minimum investment for Cashbond is R20 000.

Multiples

Metboard also runs a general equity unit trust — Metfund. The minimum investment is R5 000, thereafter in multiples of R500.

Metboard has introduced a syndication scheme whereby it purchases a property outright, then issues share blocks of R10 000 to clients.

The client receives income from rents, and as Metboard puts it, has all the advantages of being a landlord without any hassles.

Metboard manages, maintains and administers the property.

Miss Freund says: "It is a relatively new field of investment, but a secondary market is being developed for those who wish to sell their share blocks. Property has always been associated with capital appreciation over time."

A geared property syndication is investment is also offered by Metboard. It enables investors to take part in syndication by putting a margin down and borrowing the balance from Investec Bank.

Metboard intends to combine the administration of the three investment pillars to give clients a single monthly statement itemising each account and the income accrued.

Crime battle pays off for insurers

S/Times 12/2/89

58

By Robyn Chalmers

SHORT-TERM insurers are reporting greatly improved underwriting profits, largely because of a drop in crime and motor thefts.

SA Eagle reported soaring profits this week for the year to December 1988. The underwriting surplus jumped by 278,2% from R8,3-million in 1987 to R31,4-million in the past year.

Managing director Peter Martin says the surge in the underwriting surplus was mainly because of an improvement in claims experience. There were few natural catastrophes and crime-class claims fell.

Security

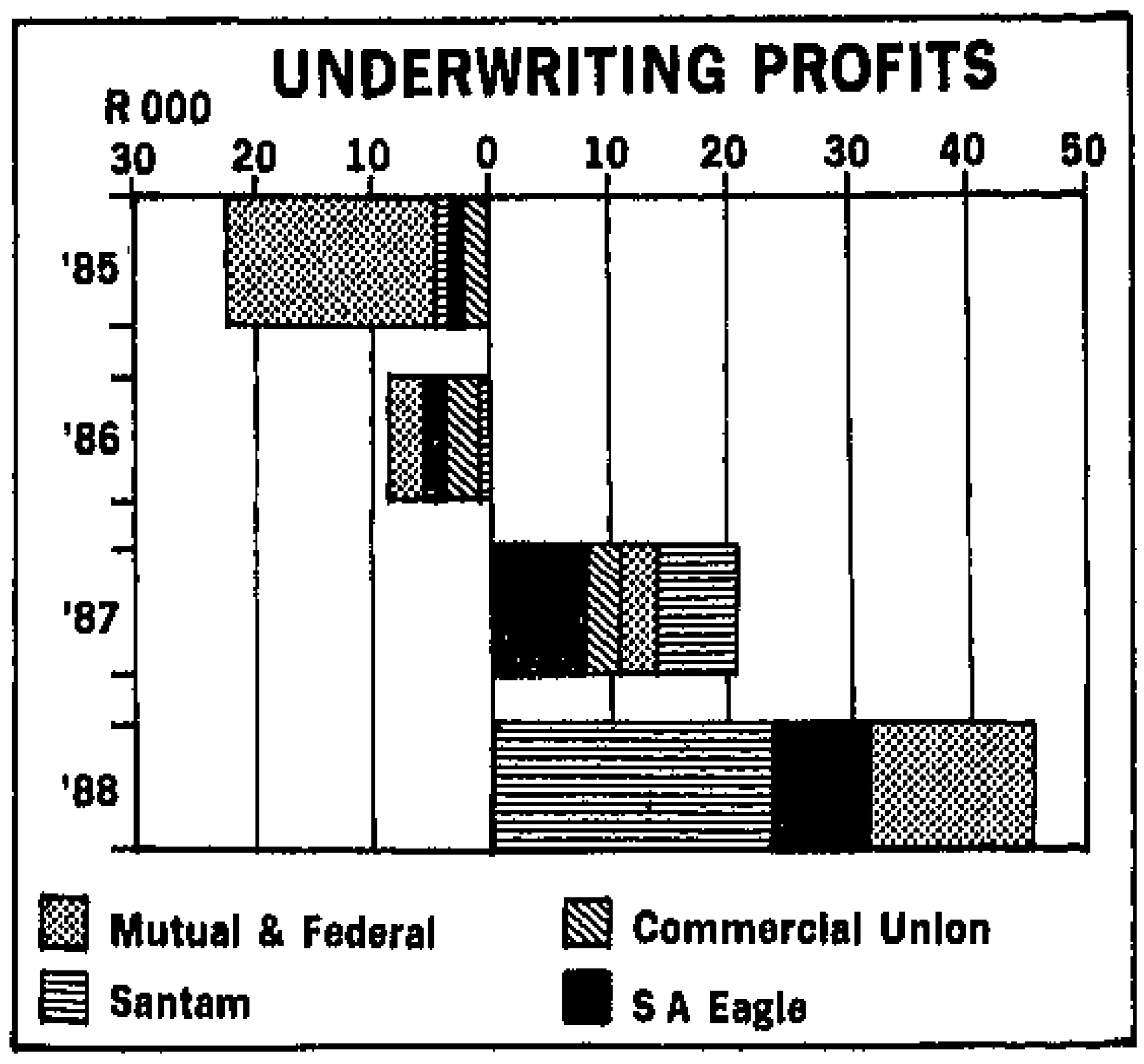
"The drop in these claims was due to the general tightening of security measures by the police, industry and commerce and the public.

"Current underwriting surpluses have given the industry an opportunity to rebuild reserves which were substantially reduced by losses suffered in the previous year."

Mutual & Federal realised an underwriting surplus of R45,4-million for 1988 after taking into account general and commission expenses. This contrasts with the R13 594 surplus of 1987 and the R8 940 loss of 1986.

Chairman Jan van der Horst says the surplus can be put down to the abnormally low incidence of major fire losses and the fact that the authorities have been successful in uncovering a number of crime syndicates.

Santam Insurance reports a R23,3-million underwriting surplus for 1988 against a surplus of R20,3-million last year and a loss of R700 000 in 1986.



The company received 35% fewer claims for stolen vehicles than in 1987. Burglary claims fell by 33% from 39 000 to 26 000, which Santam attributes to greater efficiency by the police as well as improved awareness among the public and the installation of anti-theft devices.

Another reason for the drop in the crime rate is a campaign started by the South African Insurance Association (SAIA) and the SA Police in 1987.

SAIA chief executive Rodney Schneeberger says he is gratified at the success of the campaign.

"Its success is due in no small part to the co-operative attitude of the police. Because political terrorism has abated, the police have been able to return to their more conventional functions."

Mr Schneeberger warns, however, that there could be clouds on the horizon.

"We expect claims to increase because of the imposition of the tax surcharge. We also have a serious problem in identifying stolen vehicles recovered and the incidence of housebreaking remains unacceptably high.

"Last, but not least, we should bear in mind the fact that insurers were not faced with major catastrophe claims in 1988 and that we cannot expect this trend to continue."

Waves

Mac McLachlan, senior general manager, insurance, at Santam, agrees with Mr Schneeberger, saying the average motor insurance claim could rise by as much as 25% this year — largely because of the import surcharge.

Mr McLachlan says insurance claims received early in 1989 indicate that the waves caused by the import surcharge last year are showing up.

"One of the most obvious examples is that of second-hand imported cars. Prices have moved sharply higher in spite of the fact that these vehicles are not directly affected by the surcharge.

"The reason is that the surcharge has pushed the prices of new imported models so high that second-hand imports have beome attractive.

"Apart from the vehicles, there are spare parts. Many of them are imported and so attract the surcharge, meaning that repairs will cost considerably more than in 1988."

Bankorp replies . . .

Star 13/2/89

(58)

Bankorp's directors have joined issue with Michael Menof on some of the points raised in his column above. Here they express their dissent.

Bankorp had a good year and no fancy footwork was needed to produce these results. The so-called massive cover-up was merely redemption, at a premium, of preference shares held in Santambank (previously Mercabank), rendering R36 million of distributable reserves no longer distributable.

The end-result was a transfer from distributable reserves to non-distributable reserves, with no effect on earnings per share or net asset value per share whatsoever.

Our joint auditors, being two of the most reputable firms in SA, had no problem with the accounting treatment of the above redemption.

Other seemingly harsh statements are made in the article, which are open to incorrect interpretation and may even be considered malicious. Some of them are:

"Apart from the jewels in its financial crown, Trust Bank, owned 78 per cent, and wholly owned Santambank and Senbank, the group remains cloaked in mystery."

The total assets of the rest — the non-banking part of the group — represent 1,1 percent of the total assets of Bankorp and now perform, almost exclusively, a supporting role for the banking subsidiaries.

Other subsidiaries and associates (Mr Menof was the managing director of one of them) were sold to the most appropriate buyer. Why not concentrate on the 99 percent jewels in the crown and not on the 1 percent non-banking subsidiaries we cleaned up in prior years.

"Nothing is said about Mondorp's extensive building, construction and property interests."

Total assets of Mondorp represents 0,2 percent of the Bankorp group and the former is, in fact, operating profitably.

"If radical surgery was needed, why not simply say so. The new management team should not be accountable for the past non-banking interest problems".

The drastic measures were taken in previous years and we cannot speak about radical surgery which, in fact, did not take place in 1988.

"But why did he wait so long to get rid of weak and ineffective management? Pandora's Box Mercabank, Mondorp and property interests and Repfin (now owned by former employees) must be culprits, but why is management so quiet?"

The known and forseeable culprits had been dealt with in prior years — in fact in certain cases even some years ago. To comment on matters which the group corrected and put behind it some years ago seems to be unwarranted and irrelevant when commenting on the 1988 accounts.

"Was this the reason for omitting the group's source and application numbers which would have highlighted the significant write-offs?"

Being on a non-disclosure basis, Bankorp has never in the past presented a "group source and application of funds statement" due to the limited information it would provide. Furthermore, the so-called write-off of goodwill would not have featured in the source and application of funds, the real nature of which is a transfer between reserves.

"At long last he now has an able team in play."

If that were true, why such a negative and suspicious article about Bankorp?

"But do not forget Santambank has hidden Mercabank's woes."

The fact that the merged Santambank showed the best profit improvement of our three banking subsidiaries surely proves that the "woes" could not have been that bad.

Bankorp's reserves appear manipulated

Star 13/2/89 (58)

Bottom Line

MICHAEL MENOF

Bankorp's restructuring needed some fancy footwork applied to goodwill, distributable and non-distributable reserves. Management claims the amalgamation of Santambank and Mercabank in July last year was successful and no undue problems were encountered.

Apart from the jewels in its financial crown, Trustbank, owned 78 percent, and wholly-owned Santambank and Senbank, the group remains cloaked in mystery. Senbank suffered when Reg Sherrill and his team left. The reorganisation also included selling some service companies and Repfin Factors whose troubles were compounded by the Ewing McDonald deal. Nothing is said about Mondorp's extensive building, construction and property interests of Mercabank. There is little doubt that poor management in non banking interests prompted Dr Fred Du Plessis to take remedial action with a new strategy. Now there is the computer technology and service subsidiary BankBes and non banking subsidiary BankFin.

The bottom line was designed to show Bankorp's best year ever with almost R100 million in earnings. Two major issues tarnish the result. Was the missing group source and application of funds statement a genuine mistake or a deliberate omission? And why was the write off of millions on the so-called restructuring of a subsidary's capital and goodwill buried in the notes and not featured in the income statement? How come the auditors allowed such a massive ecover-up? These write-offs would have wiped out nearly 70 percent of the profits for the year either abnormal or extraordinary and did not even warrant management's comment. Is this the reason the JSE marketprice of R4,50 is way off the next asset value of R6,46 a share?

Net operating income of the banking subsidiaries after tax and transfer to contingency reserves was R109,6 million (1987: R82,7 million). The non banking subsidiaries only contributed an unchanged R2,5 million income where reduced interest expense of R18,5 million (1987: R52,7 million) helped.

After deducting outside shareholders' interest R12,5 million (1987: R10,3 million), pref dividend R2 million (1987: R1,8 million) and extraordinary losses R2,1 million (1987: gain R3,7 million), total net earnings were R95,5 million (1987: R86,8 million). Earnings per share were 108,6 cents (1987: 93,2 cents). Coincidentally, retained earnings for both years were R64 million. Return on average total assets has declined. Non banking subsidiaries tax disclosed by note was only R3,1 million (1987: R8 million) with tax losses R38 million (1987: R49,2 million) carried forward.

Note 10 was cause for major concern where R36 million was charged to distributable reserves during the year — "transfer to non distributable reserves on restructuring of capital of subsidiary" and note 8 where goodwill of R32,7 million — an asset in 1987 — has suddenly disappeared. In fact the goodwill of R32,7 million in 1987 is replaced by a R6,9 million premium on consolidation in 1988 — a massive swing of R39,6 million. Why was the R36 million restructuring loss and goodwill write off not shown in 1988s income statement? Was this the reason for omitting the group's source and application numbers which would have highlighted the significant write-offs?

Chairman Dr Fred Du Plessis says the continued pattern of sound growth by the operating subsidiaries was mainly from the change in group structure from July 1987. At long last he now has an able team in place. But why did he wait so long to get rid of weak and ineffective management? Pandora's Box Mercabank, Mondorp and property interests and Repfin (now owned by former employees) must be the culprits but why is management so quiet?

Total assets increased from R1[illegible] billion to R22,43 billion including cash and short-term funds now R1,19 billion (1987 R635 million).

Investments have doubled — with building societies R105 million (198[illegible] R4,8 million) and unlisted investments held by banking subsidiary group R431,3 million (1987: R231,1 million) — no explanations are offered. The consolidated balance sheet reflects the surgery.

Capital increased to R580,3 million (1087: R539,6 million) mainly through true profits retained and R4,9 million premium on preference shares issued in 1988. "Despite factors which will impact negatively on SA's business climate," Dr Du Plessis is predicting that 1989's profits will at least equal 1988. Management is obviously embarrassed by the restructuring. Full and honest disclosure is necessary Bankorp even if you are mighty Sanlam's financial arm. If radical surgery is needed why not simply say so. The new management team should not be accountable for the past non-banking interest problems. Excluding the banking interests, there are four pages listing investments and subsidiaries that produced only R2,5 million profit — less than the tax they had to pay. This is proof enough but do not forget Santambank has hidden Mercabank's woes.

Syfrets foresees rise in prime rate

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STAR 13/1/89

With strong indications of a general election towards the latter half of this year, the authorities could increase the prime overdraft rate by a further one percent, says Syfrets head of research, Matt Brenzel.

Writing in Syfrets latest investment newsletter, *Money Matters,* Mr Brenzel says that in terms of the capital market, he expects an upturn in the months ahead on the back of inflationary pressures and increased government borrowing requirements, in spite of the current downward move in long-term capital market rates. He believs that long rates could peak at about 16,75 percent.

Although the stock market is currently fully priced, a 10 to 20 percent short-term correction cannot be excluded when taking into account weakness in the gold price, a possible decline in international stockmarkets and various technical considerations at home, he says.

In its economic forecasts for 1989, Syfrets predicts a slowdown around mid-year, possibly accelerated by a further increase in prime rate to 19 percent; a real economic growth rate of 1,5 percent for the year; an improved balance of payments, with the current account recording an estimated surplus of R4 billion; continued rand weakness, with the currency probably trading at about 38 US cents by year-end.

Commenting on the gold outlook, Syfrets says that worldwide mine production is in a rapid growth phase and mine output is expected to continue to rise into the early 1990s.

However, it expects the gold price to move up to $430, with a high of $450 in 1990 as US interest rates should be peaking towards the end of 1989 and demand for gold could increase. In addition, pressure from gold loans should not be repeated. — Sapa.

De Beers' dramatic profits

CAPE TIMES 13/2/89 58

Sparkling 77% boost from the 'cheapest share in the world'

Own Correspondent

LONDON. — De Beers is about to reveal one of the sharpest rises in profits ever recorded in the company's 100-year history.

London reports yesterday said that De Beers will declare, on March 7, a 77% leap in 1988 attributable profits to some $800m against $429m previously. Analysts expect a massive boost in dividends of some 70%, perhaps taking the form of a centenary bonus.

The results were hailed yesterday as a "coming of age" for Nicholas Oppenheimer, 43, De Beers deputy chairman and head of the CSO.

The Sunday Telegraph said the figures marked an astonishing recovery for De Beers from the diamond industry collapse in the early 1980s. The newspaper paid tribute to the "quietest and most diffident of all the Oppenheimers".

Oppenheimer's problem is now to put the sparkle back in the shares. Despite the profits surge, they are trading at $12,50 on a p/e multiple of under 5 and a discount to net assets of 50%. It is often referred to by share analysts as the cheapest share in the world.

Mark Wood, mining analyst at Kleinwort Benson who is forecasting further profits growth this year, rates the shares a strong buy "for those with gigantic performance requirements". Robert Weinberg at James Capel reckons the group's diamond inventory and investment portfolio alone are together worth the market capitalisation of $4,7bn. The core diamond production, and marketing operation — the entire heart of the business — is in for free.

Part of the reason for the depressed price is the South African stigma. Without it, Warburgs analyst Michael Spriggs reckons the shares would be nearer $30.

Ironically, almost 70% of De Beers profits are derived from outside the Republic. Oppenheimer ~~adds: "We~~ have been cast in the basket with South Africa and in the same basket with the government, in a very simplistic way. People do undervaluate us and I think this is a mindless thing. De Beers is an international company."

There have also been worries about the investment appeal of diamonds per se. But last April a 52-carat diamond went for a recond-breaking $7,48m. CSO sales surged 36% last year to $4,2bn helped by strong jewellery demand.

The CSO cartel faces a possible Office of Fair Trading probe.

The basis of the Consolidated Gold Fields complaint to the OFT is that De Beers, through the CSO, has operated a price fixing cartel and has suspended the laws of economic gravity: Not once in 20 years has it ever reduced the price of diamonds. Figures sent to the OFT allege that diamond prices are 15% higher than they would be in an uncartelised market. The full cost of this inflated price to the world jewellery trade across 51 million pieces of jewellery sold each years is thus reckoned at £780m.

The counter argument is that, without stability in price and supply, the capital intensive diamond industry would almost certainly have collapsed in the early 1980s. In addition, countries like Botswana depend for some 80% of their income on diamond exports. The CSO, which has operated in this way for some 30 years, is also a net contributor to Britain's balance of payments.

Meanwhile, when will the younger Oppenheimer take over the wheel at sister company Anglo ?

"The time is coming when I must spend more time in Jo'burg. Anglo has a significant role to play and a contribution to make to the process of change. I see myself as South African and it is my home ultimately." But his committment to the CSO in London is enduring: "There is never going to be a time when I am going to abandon the CSO business."

Star 13/2/89 (58)

Insurance firms' profits up

A bonanza for policy owners, shareholders

By Norman Chandler

Insurance companies will have good news for shareholders and policy owners in the next few weeks — they are declaring high profits as a result of a 26 percent drop in crime, particularly car theft and burglaries, and virtually no natural catastrophes.

The improved income trend has already started, with the announcement by SA Eagle Insurance of an 83,6 percent rise in earnings last year.

Half-yearly reports — for the latter stages of last year — by many companies indicated record figures for the industry.

The industry went through a traumatic time between 1985 and 1987 with increased crime and disasters, such as flooding, taking its toll on profits and dividends. The Free State floods of 1987 resulted in a massive payout of nearly R96 million by insurance companies.

Mr Rodney Schneeberger, chief executive of the South African Insurance Association (SAIA), confirmed to The Star that the industry had, after five years of catastrophes, shown "generally speaking a welcome return to profitability."

Mr Schneeberger said there had been "a fortunate dearth of serious claims". The industry, however, could not rely on this to continue.

"This factor, combined with police successes in reducing crime has been extremely helpful," he added.

The SAIA believed that the reason why police action against crime has been so successful recently is because of closer co-operation between the association and the police as well as a change in the unrest situation "which has enabled the police to return to their more conventional methods of fighting crime."

Last year, the Minister of Law and Order, Mr Adriaan Vlok, revealed that crime was on the decrease after a high in 1986 — when there were almost 1,5 million serious crimes committed.

All theft dropped 26 percent up to the end of October last year, while car theft dropped to 45 183 by November last year and burglaries of white homes had also dropped to 68 016 compared to 82 000 in 1986.

Armed robberies were down 3,78 percent, other robberies by 5,6 percent, stock theft by 2,2 percent, and arson by 20 percent.

Top companies such as Metropolitan Life, Liberty Life, Southern Life, Santam, Protea and IGI have all reported increased profits as well as a surplus in underwriting profits brought about through what SA Eagle's managing director, Mr Peter Martin, describes as "a softening market".

SA Eagle says its underwriting surpluses shot up 278,2 percent — from R8,3 million to R31,4 million.

Dividend increase

IGI reported in a statement in September last year that the writing up of premiums had increased 20 percent, and that the dividend paid had been increased by as much as 150 percent.

Santam's six-month report said that profits after tax rose 33,3 percent, with a similar rise in earnings overall.

Underwriting income for Protea Assurance went up 81 percent, and a 36 percent increase in the company's interim dividend was also announced

Metropolitan Life's total income increased by 29 percent while the company's earnings per share rose to 36c at September last year.

Figures for some insurance companies have not as yet been released, but Southern Life Association's end of March 1988 figures indicated that total income had increased 32 percent to over R1,8 billion and the dividend for the year April 1987 to March 31 1988, based on 31,5c per share, was showing an increase of 21 percent.

Slash in SA funding

Cape Times 14/2/89

Treasury to repay billions by year's end?

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Own Correspondent

JOHANNESBURG. — Treasury is likely to repay part of the billions of rands it owes the Reserve Bank on forward cover losses — incurred by the Bank for Treasury's account — at the end of this fiscal year.

Senior officials said Finance Minister Barend du Plessis was "seriously considering" the repayment of part of the debt, estimated at R6bn. Du Plessis declined to comment, saying it was an issue which would be addressed in the Budget.

However, monetary officials said government was expected to end the fiscal year with a "small surplus" in the bank, which could be used towards the forward cover debt. The exchequer's balance with the Bank was R6bn at the end of January — a record high.

Economists said the effect of a repayment on the economy would be restrictive because it reduced potential government spending.

The Bank incurred heavy losses on forward cover provided to the banking sector last year because of the declining rand. Importers were taking cover while exporters were holding off.

Reserve Bank Governor Gerhard de Kock last year described the forward losses as an "involuntary increase in central bank credit creation," which had boosted money supply growth.

Let the good times roll, cry insurers

(58) Star 14/2/89

South Africa's insurance industry appears to be coming out of the doldrums after years of paying for the results of natural catastrophes, housebreaking and theft. Companies are making profits again — but say bigger profits are necessary. Norman Chandler reports.

The insurance industry, after paying out millions of rands in claims as a result of increased crime and havoc caused by natural disasters, is literally praying that the bad times are over.

And the almost two-year respite that it has been enjoying so far has, in the 1988-89 financial year, meant greater profits for companies that have managed their affairs well.

Companies had already started to report an improvement in their fortunes — some had made more than R10 million, others up to R40 million, industry spokesmen said this week.

"It's essential to make larger profits so that companies can plough back profits to broaden their capital bases because the influx of foreign capital, which would normally be available, is just about non-existent," says Mr Rodney Schneeberger, chief executive of the industry watchdog, South African Insurance Association.

Most short-term insurance companies will only be issuing annual reports at the end of February and March, but judging from six-month reports, which came out in the latter half of last year, there is much hand-shaking going on in palatial boardrooms in Johannesburg and Cape Town — traditionally the homes of South African insurance giants.

But boards of directors are at pains to state that company profits are modest, and they hope the 1989-90 gross premium income will be more than the expected R4,5 billion.

Haggling

Mr Schneeberger says it is also important for insurance companies to show profits in order to attract investors, "because of the industry's volatile nature, investment in short-term insurance companies is not always deemed desirable, especially if profits are paltry, or there are none at all".

And profit-making in the 1988-89 financial year has brought great sighs of relief to an industry that has, in its time, taken its share of brickbats from a public which has been unsuccessful in obtaining what is perceived to be its right — repayment of insurance claims and the expression of displeasure at what is regarded as unnecessary haggling over claims.

The insurance industry has come through a particularly nasty period — the worst decade it has experienced in terms of meeting claims, with South Africa's greatest natural disasters, a huge leap in crime and the arrival of sophisticated car-theft gangs.

Insurance data shows that the greatest natural disaster to hit the country was the killer storms which struck Natal, the Eastern Cape, and Transkei during late September-October of 1987. Damage was five times greater than any other disaster — including 1984's Cyclone Domoina and the devastating Free State-Northern Cape floods last year.

The Natal flood cost the industry R399 509 261 — just more than 50 percent of all insurance premiums written up in that area.

A total of 26 548 claims were received, and of these more than 18 000 were from householders. This is the greatest single number recorded by the industry and in some instances is more than claims entered for storm damage in a year.

The 1981 Port Elizabeth flood is now regarded by the industry as the second-greatest natural disaster, costing companies R47,6 million — representing 16 percent of all insurance written up in Port Elizabeth at that time.

This is despite the fact that the Free State floods caused damage estimated at R95 million and nationwide storms in October and November 1985 cost more than R50 million.

shd12/163**House breaking** Theft, however, has also affected the insurance companies badly.

"The incidence of general crime, such as house breaking and theft, is still far too high," says Mr Schneeberger.

Statistics show that one in four of South Africa's insured motor vehicles were stolen during the first 10 months of last year.

The year's average was 25,11 percent — better than 1987, when 31 percent were stolen.

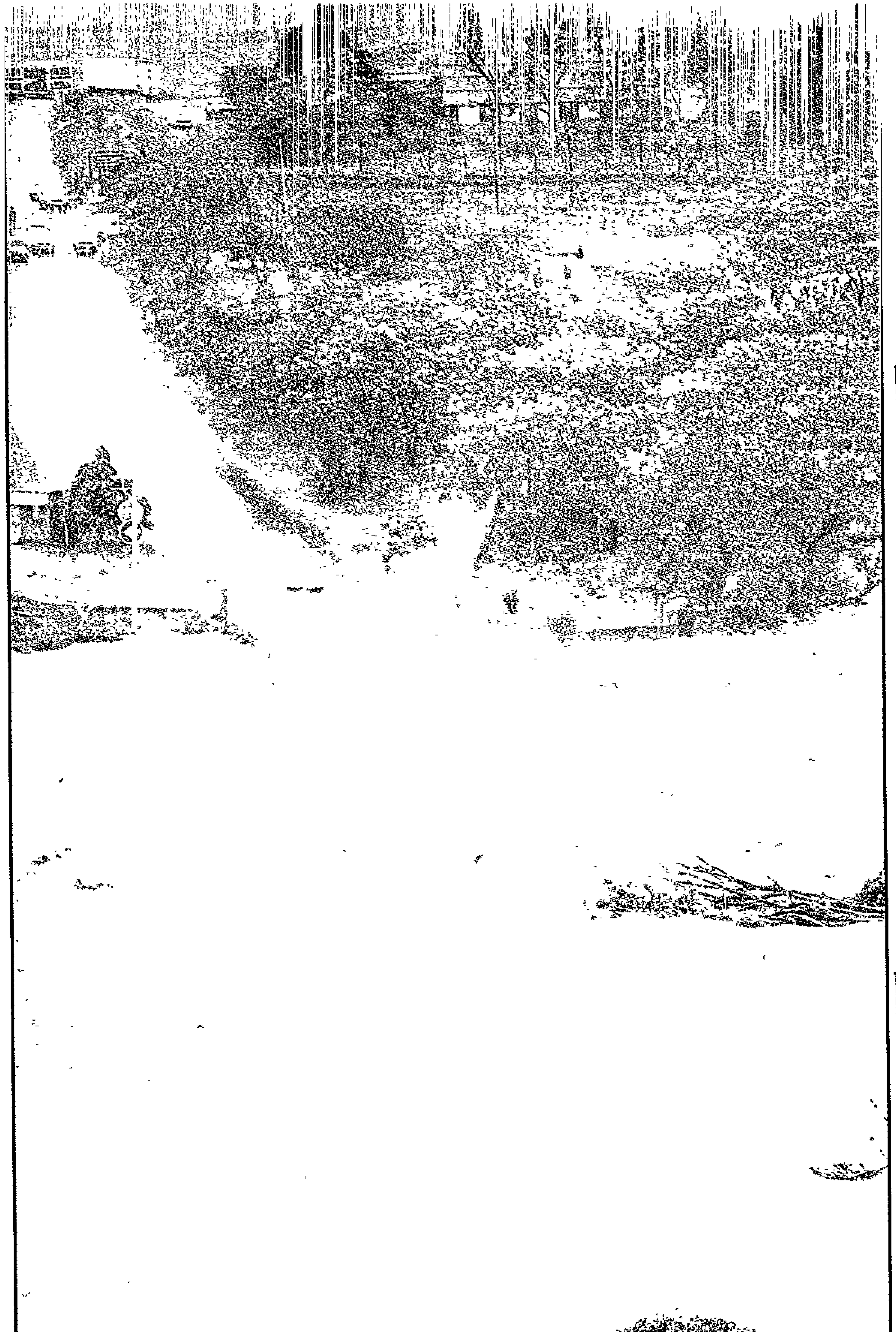
For the period up until October last year, the police had, according to latest statistics, recovered an average of 51 percent of the vehicles every month.

Of the 47 506 vehicles stolen in this period, 24 516 were recovered.

Insurance companies remember with anguish 1986, the worst year on record for stolen vehicles — 79 000 were nicked of which about 30 percent were recovered.

"Our most notable area of success has been in the car-theft situation," says Mr Schneeberger.

"We are very gratified with the results achieved to date."



Troubled water . . . a bridge is swept away in Natal's floods of October 1987, which cost insurance companies R399 509 261.

The industry is, however, trying to overcome what it terms its "one major obstacle" — returning recovered vehicles to their owners.

Identification marks are erased or vehicles are altered in appearance.

"We are giving a great deal of thought to ways and means of overcoming this. We are thinking of forensic methods, but details are too sketchy at this stage to make any public announcement," Mr Schneeber er said.

Business manager, Cape, Colin McGregor is on the right.

BoP outflow R6,5bn last year — Du Plessis

CAPE TIMES 15/2/89

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JOHANNESBURG. — The outflow from the capital account of the balance of payments last year was R6,5bn states the Minister of Finance Mr Barend du Plessis.

Speaking at the Frankel Kruger Vinderine investment conference in Johannesburg yesterday he said: "Over the past four years the total net outflow of capital from the country therefore absorbed about R25bn of the scarce savings of this country.

"Details of this large outflow of capital are not yet available, but it is known that the redemption of debt in terms of the second interim arrangement with foreign creditors only absorbed about R920m. The major part of the net capital loss therefore represented outflows on on account of items not subject to the debt standstill arrangement, for example the short term finance related to international trade transactions.

"South African importers and exporters have developed a sometimes unexplainable reluctance to make use of foreign finance in their trade transactions despite the fact that forward cover facilities on reasonable terms remains available through the Reserve Bank."

Du Plessis said that South Africa was still undergoing a period of structural adjustment which is not yet complete.

He told delegates:"During 1989 it will still continue and we will have to generate yet a further surplus on the current account of the balance of payments to meet the country's international capital commitments".

He said to do this South Africa needs strict anti-inflationary control.

Du Plessis said that while some critics had said the process of tax reform had ground to a halt, in fact the process was well underway.

He told the conference that of the 280 recommendations in the Margo Commision report, only 40 had been rejected. While fifty have already been implemented, although somewhat modified, during the course of the past year.

Reports by Star finance staff and Sapa.

Banks battling to remain viable, says Strauss

Star 15/2/85

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Banks are facing a serious problem and to remain efficient and viable, contrary to popular belief, they need higher, not lower, profits, Dr Conrad Strauss, group managing director of Standard Bank Investment Corporation, told the conference.

Dr Strauss, commenting on the myth of excess profit in the banking industry, said banks were not generating enough profit to provide shareholders with a real return on their investment, and, at the same time, through retentions, support real growth in assets.

He said that as a rule of thumb, return on shareholders' funds should be equivalent to the growth rate in assets plus 30 percent.

Given three times dividend cover and a ratio of capital to total assets of four percent, in an environment of 15 percent inflation, a bank required a return on year-on-year shareholders' funds of almost 21 percent if it was to be self-funding, Dr Strauss said.

No South African bank came near that level, which was why some had to resort to shareholders at fairly regular intervals for additional capital to fund growth.

Compared with their counterparts overseas, South African banks were not doing exceptionally well and operating costs were rising because of inflation.

High absolute rates were thus necessary to maintain adequate real returns.

In fact, over the past five years banks were barely able to stay ahead of the inflation rate of 15,4 percent, Dr Strauss said.

INVESTMENT CONFERE

'Banks need higher profits'

B|Day 15/2/89 (58)

SYLVIA DU PLESSIS

SA BANKS faced a serious problem and required higher profits to remain efficient and viable, Standard Bank Investment Corporation group MD Conrad Strauss said yesterday.

Addressing the Frankel, Kruger, Vinderine investment conference in Johannesburg on banking myths, Strauss said contrary to popular belief, banks were not generating enough profit to provide shareholders with a real return on their investment and at the same time — through retentions — support real growth in assets.

As a rule of thumb, return on shareholders' funds should be equivalent to the growth rate in assets plus 30%.

"Given three times dividend cover and a ratio of capital to total assets of 4%, in an environment of 15% inflation, a bank requires a return on year-end shareholders' funds of almost 21% if it is to be self-funding," he added.

"No SA bank comes anywhere near that level, which is why some banks have to resort to shareholders at fairly regular intervals for additional capital to fund their growth. This is unhealthy in the longer term," Strauss said.

Rated

Compared with their counterparts abroad, SA banks were "not doing exceptionally well", which was why the financial services sector was rated so low on the JSE.

Strauss said the most pervasive myth was that banks pushed up interest rates without economic justification to boost their profits at the expense of borrowers.

Banks were only the agents through which fiscal and monetary policy were implemented and the cash base upon which they operated and which ultimately determined money price was outside their control.

"If the allegation that banks push up lending rates artificially were true, one would expect to see positive real interest rates in SA at all times.

"In fact we do not. Lending rates have been often negative in real terms over recent years. By contrast, the situation in the major Western economies shows rates consistently positive in real terms."

Short-term cover is making money

M\Dm 15\4\89. (56)

STEPHEN RICHTER

JUDGING by SA Eagle's strong 1988 performance, the short-term insurance industry is alive and well. Many other short-term insurers are due to report results shortly and their bottom-line figures should put a smile on shareholders' faces.

Eagle says there were no major natural disasters to speak of while the incidents of crime have been levelling off. The lower crime rate appears to have been a direct result of increasing and more sophisticated security devices which most policyholders have been required to install in their homes and motor vehicles.

This raises the question whether premiums have risen to excessive levels. Insurance premiums are intangibles, so policyholders are reluctant to pay for something which in most cases shows no return.

Defend

Analyst Dave Southey of Max, Pollak, Freemantle points out that over the past two years, insurance costs to policyholders have risen by more than 100% when looking at "the total cost factor" and feels this increase is exorbitant. The total cost factor refers to both increased premiums and security devices, which many policyholders have been required to buy on the insistence of their insurance companies.

A leading insurance spokesman agrees that premiums may be a bit high at present, but is prepared to defend this position, saying rates have not increased for 18 months, while a lack of major natural disasters last year is no guarantee of things to come. The cost of vehicles continues to escalate, while added import surcharges will increase replacement values.

The fact that companies need to build up reserves due to the stricter solvency margin requirements makes it difficult for the short-term insurers to drop premiums significantly.

Last year policyholders noticed a softening in premiums on certain forms of coverage but most companies are reluctant to admit that a price war has developed.

Uninspiring

Nevertheless, short-term companies have problems pricing their products to account for all eventualities. But if the industry dropped rates suddenly, resulting in a price war, and 1989 turned out to be a terrible year, then many companies would take a giant step backwards.

SA Eagle MD Peter Martin describes January 1989 as a very uninspiring month as various bad things happened — the major fires at Sasol and Frame, as well as the M & R foundry explosion.

A major indicator that the local market has regained credibility among overseas insurers is that reinsurance companies are again visiting SA in an effort to drum up business. Martin says reinsurers worldwide now have spare underwriting capacity, enabling local short-term insurers to spread risk tremendously.

Short-term insurance shares have traditionally offered investors an above average return, because underwriting performance is the major factor responsible for the wide earnings swing that these companies traditionally experience from year to year.

In addition, very few short-term insurance shares trade in sufficient quantities to allow institutions to build up a reasonable stake.

This was clearly illustrated last week when SA Eagle rose 700c to 2 500c on volume of only 800 shares. But other sellers have appeared and the share appears to be heading south at the moment.

These shares are more suitable for long-term investors willing to accept an above average degree of risk.

Vermaas's overseas assets frozen

CAPE TIMES 15/2/89

58 30[illegible] 30 32

Own Correspondent

JOHANNESBURG. — The Reserve Bank will institute legal action in the US and Europe in an attempt to secure all the assets of Verco Holdings and Chieftain Aviation both of which are wholly owned by Pretoria attorney Mr Albert Vermaas.

The bank served an attachment notice to the provisional liquidators of Verco yesterday because it had reasonable grounds to suspect foreign exchange regulations had been contravened, Reserve Bank attorney Mr Tippy Luttig said. Mr Vermaas can challenge the Reserve Bank's attachment notice served yesterday.

"The reason for serving the attachment was to prevent the sale of assets pending an investigation by the bank in the US, Europe and SA," Mr Luttig said.

The move effectively blocks attempts by the Luxembourg-based United Ordnance Procurement SA to purchase Mr Vermaas's airline Chieftain Aviation for R155m.

Last Friday, the Pretoria Supreme Court extended the return date of liquidation and sequestration applications against Verco, Eurotrust and Mr Vermaas to February 28, the effective date for the sale of the airline.

The applicants — the provisional liquidators and Sentra-Oes — were given leave to anticipate the return date within 24 hours if further information came to light.

Mr Vermaas's business affairs have been the subject of an investigation by the Harms Commission since November. In December the Reserve Bank set up a special committee to investigate forex fraud, including Mr Vermaas's commercial rand transactions totalling R100m and finrand transactions totalling R92m.

Mr Vermaas sent the money out of South Africa during an 18-month period to pay for the purchase of spares and aircraft for his airline, Chieftain Aviation, and R92m was returned to South Africa during the same period by "overseas investors" who purchased various companies owned by Mr Vermaas.

The Harms Commission heard last year that in several of these finrand transactions Mr Vermaas acted as an agent for himself and for the overseas buyer.

The provisional liquidators said yesterday that the interests of creditors would be protected and to this end they would take whatever steps were necessary.

Assets which have been attached include all the right title and interest of: The entire issued share capital of Verco, Verco loan accounts, the luxury fishing boat Gabriella, the entire issued share capital of Chieftain Aviation, loan accounts which Verco or Mr Vermaas has with Chieftain, and all Mr Vermaas's and Verco's right, title and interest in and to the entire issued share capital in FDI Anstalt Vaduz, Lichtenstein.

In addition, three Cessna aircraft in SA were attached, three helicopters and 14 other aircraft that are currently in SA and overseas.

Cape T

CAPE TIMES 15/2/89

'Job creation not encouraged'

Own Correspondent

JOHANNESBURG. — Privatisation Minister Dawie de Villiers said the current system of prescribed investments did not encourage entrepreneurship and job creation in the SA economy.

Addressing the Frankel Kruger & Vindrine Inc Investment Conference in Johannesburg yesterday he said government realised the economy needed a structural adjustment in which privatisation would play a big role.

However, an announcement on the status of prescibed assets would be made by the Finance Minister. Both departments had had talks on their problems with "prescribeds" and the matter now rested with the Finance department. An announcement in this regard was expected in the "near future", he said in reply to a question.

The SA economy was dominated by the control of instutional funds by a small number of large undertakings. This had resulted in investments in non-productive investments like prestige buildings or take-overs of existing successful businesses.

Meanwhile, public sector corporations and state enterprises had been run by statute. Social and commercial objectives became confused with no basis for profit and return on capital. In short, they had become burden to tax payers.

"I hardly need to emphasis that capital that would have been used more efficiently on the basis of return on capital has been captured by non-productive investments by the state whilst the taxpayer had to provide the necessary capital for infrastructural development.

"In addition the state had to avail itself of loan capital from the private sector to fund these investments in the broad public sector."

Regarding consumers fears that tariff of newly-privatised institutions would rise de Villiers said it was preferable to subsidise the consumer instead of subsididsing the total supplying industy at the taxpayer's expense.

Huge Sasol fire insurance bill

B/Day 16/2/89.

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STEPHEN RICHTER

THE fire at Sasol Three in Secunda will result in a bill of about R400m for the insurance industry — the largest single loss in SA history, say industry sources.

The damage caused by the Natal floods was bigger in rand terms, but that involved many individual claims.

Eleven people died in the fire at Sasol's synthol plant on January 31.

The Sasol estimate was raised from an original R50m which took into consideration only material damage to the plant.

But the main insurers for Sasol, Guardian National, say that material damage could now range between R50m and R80m.

Sasol will also be able to claim for consequential losses which are now estimated to be between R320m and R350m, and the inclusion of this figure accounts for the substantial deviation from the original estimate.

Guardian's deputy MD Keith Nilsson says it could take up to 18 months before final settlement is made.

A team of assessors and qualified professionals will be involved in working out the actual amount of loss due to the company.

Even though Guardian is the major insurer, it will not have to bear the majority of the loss.

Nilsson says as the capacity for the local insurance market is limited for a risk of this size and complexity, more than 50% of Sasol's insurances are placed on the overseas market.

In addition, the local market would have protected itself by reinsuring portions of the risk both locally and internationally so that, ultimately, a vast number of insurers will share in the loss.

Strategy

The fact that the local insurance industry is sharing the Sasol loss with overseas insurers may help soothe the nerves of investors who hold short-term insurance shares.

Nevertheless the news comes at an unfortunate time for the industry as this month's flooding, coupled with the January fire at Frame and the M & R foundry explosion should significantly affect bottom-line performance for the current period, overshadowing the excellent results which most short-term insurers are expected to report for the period ended December 1988.

B/Day 16/2/89 58

SANLAM TO PUMP R2bn INTO SANKORP PROJECTS

CHRIS CAIRNCROSS

CAPE TOWN — Sanlam had earmarked R2bn in new development capital over five years to investment subsidiary Sankorp for creating new or expanding existing undertakings in which it already had interests, Sanlam chairman Fred du Plessis announced yesterday.

In an interview with Business Day, Du Plessis said as Sankorp never took more than a 50% stake in any company, he hoped this capital commitment would spur other participating investors to gross up this amount to at least R8bn over the five years.

He stressed the R2bn would not go into high-risk ventures and should not be classified as venture capital. Rather, the investment would help Sankorp create new enterprises and assist existing, viable undertakings in need of financial aid to expand.

Areas listed by Du Plessis included Mossgas, the torbanite energy development in which Gencor is involved, and possibly an expansion of Sankorp's motor component manufacturing interests.

He said he was also waiting for suggestions form Sankorp management teams.

The philosophy behind the decision was to stimulate wealth creation and the redeployment of capital to encourage job creation within SA.

"By making this large sum of investment capital available, Sanlam and Sankorp will make an even greater contribution to job creation and economic growth," Du Plessis said, expressing concern over the lack of investment activity.

He said the commitment was a continuation of a policy Sanlam had been following for decades: creating and expanding new enterprises, and not merely making safe investments in established undertakings.

Sanlam sinks R2 bn into development

(58) Star 16/2/89

Over the next five years, Sanlam will be making R2 billion available for application as development capital by its wholly-owned subsidiary, Sanlam Investment Corporation (Sankorp).

This announcement, made in Cape Town by Dr Fred du Plessis, Chairman of Sanlam and Sankorp, is an imaginative step to encourage job creation.

"At the same time, Sanlam and its policy-owners will derive considerable benefit, in the longer term, from investments envisaged as a result of this action," said Dr du Plessis.

This investment will enable Sankorp, the company controlling Sanlam's strategic investments in mining, industry, finance and trade, to create new enterprises and to help existing, viable undertakings in need of financial aid to expand. This should make a substantial contribution to the development of South Africa.

Dr du Plessis said the lack of investment in recent times had been cause for some concern.

Dr Fred du Plessis

"By making this large sum of investment capital available, Sanlam and Sankorp will make an even greater contribution to job creation and economic growth — both so essential for the stability and progress of the country."

He pointed out that this step was the continuation of a policy that Sanlam had been following for decades: to create and expand new enterprises and not merely make safe investments in established undertakings.

Good examples from the past are the founding of Federale Volksbeleggings in the forties and the subsequent establishment and development of Federale Mynbou and Gencor.

Historical trend

More recently, this policy was expanded further with th establishment and development of many subsidiaries in the group. According to Dr du Plessis, a typical example of this is Sappi, which produces paper and pulp products and earns large amounts in foreign exchange for South Africa.

"These enterprises in the Sanlam group provide work for thousands of people and yield excellent investment returns for Sanlam's policy-owners. The whole country therefore benefits," said Dr du Plessis. — Sapa

Sanlam earmarks R2bn for Sankorp

Cape Times 16/2/89

By CHRIS CAIRNCROSS

SANLAM has earmarked R2bn in new development capital to its investment subsidiary Sankorp for spending over the next five years on creating new or expanding existing undertakings in which it already has interests, Sanlam chairman Fred du Plessis announced in Cape Town yesterday.

In an interview, Du Plessis said that in view of the fact Sankorp never takes more than a 50% stake in any company, he hoped this capital commitment would spur other participating investors to gross up this amount to total at least R8bn over the five years.

He stressed the R2bn would not go into high risk ventures, and in that sense it should not be classified as venture capital.

Areas listed for expansion by Du Plessis included the Mosgas project and the turbonite energy development in which Gencor is involved, and possibly an expansion of Sankorp's motor component manufacturing interests.

African Life business boosted by bumper 100%

CAPE TIMES 16/2/89 58

Financial Editor

DIRECT mail campaigns and the recruitment of 300 extra salesmen have enabled Southern Life subsidiary African Life to increase new business by 100% in the financial year which has just ended, says MD Bill Jack.

But Jack regards this as having failed. He had set a target of 103% for the year.

He said yesterday that although African Life has a mainly black target market its direct mail campaigns in association with First National Bank and Readers Digest have brought it more white customers — particularly for a savings campaign aimed at children with pay-outs at any age from 18 onwards.

This has now become one of its most popular policies. The most popular is an endowment policy with extra benefits including cover against loss of earnings due to sickness or injury.

Like other insurance companies African Life is concerned about the possible effect of Aids, but Jack, who earlier considered an exclusion clause in its life policies, has rejected this idea.

He believes that the rate at which the disease is spreading will slow down once people have seen its effects and become better educated about its causes.

"It is not contagious like the Black Death," he pointed out. "It is passed on mainly through infected blood. People who stick to one partner, who is not already infected, are quite safe.

"I think it will be like smoking. People started giving that up only when the dangers were brought home to them by someone they knew dying of lung cancer or emphysema.

"But we are handicapped by a lack of reliable statistics about Aids. If they were available we would have some idea of the extent of the problem and know how much would have to be set aside to meet pay-outs on deaths from this cause."

Weight of funds enough to support market, says broker

Star 17/7/87.

58

By Magnus Heystek

The outlook for industrial shares on the JSE for the rest of 1989 is still considered to be favourable, despite the rise in equity prices since the market bottomed out in February last year.

One factor, in particular, will underpin the market, says economist John Banos of stockbroking firm Simpson Mckie, and that is the huge institutional cash flow that has been growing at an annual compound rate of 27 percent since 1978.

Cash flow

Institutional cash flow is estimated to grow by another 23 percent to more than R13 billion this year, of which about R5,6 billion could potentially be invested in the equity market.

Added to this, is the historically high level of discretionary cash reserves held by private pension firms, estimated at R5 billion.

Liquidity levels of life assurers are reckoned to be similar.

Since the 1987 crash, new listing activity — which always tends to absorb huge amounts of capital — has tailed off significantly. However, rights issues in 1988 have continued at roughly the same pace as in 1987.

Overall, Mr Banos estimates that the potential institutional cash flow into equities will exceed the demand for capital from rights issues and new listings by R2,6 billion this year.

The sharp rise in equity prices in the first six months of 1989 was largely ascribed to a massive buying spree by leading financial institutions, which, it seems, suddenly woke up to the good value offered by many blue chip.

The improved economic outlook contributed largely to this flight of capital into equities after earlier forecasts had painted a rather gloomy growth scenario for 1989.

The downturn in the gold price has kept institutions on the sidelines since last Friday. But yesterday brokers noted several institutions back in the market.

Brokers say equity prices were driven higher as a result of the lack of sufficient scrip of blue chips in the market.

At one stage last week, amid scenes reminiscent of the peak of the bull market in 1987, institutions went on a panic buying spree for blue-chip industrials, as one broker puts it.

Other brokers agree that SA's closed-shop environment could engender a hot-house effect, with vast amounts of money chasing a limited number of shares.

The low tradeability of SA equities, compared with other international markets, tends to reinforce this effect.

However, some economists warn that the excess supply of institutional cash flow into equities has in the past been alleviated by net foreign sales of JSE equities.

Although such sales have been insignificant this year, the threat remains.

In the latest client letter of stockbroking firm PLJ Van Rensburg and Partners, analysts David Meades and Gerhard Lampen, come to a similar conclusion, basing their arguments on the surplus on the current account of the balance of payments that SA is forced to maintain.

Total capitalisation

They point to a remarkable correlation between the total market capitalisation of the JSE and the the balance of payments.

With SA currently under international pressure to maintain a surplus on the current account of the balance of payments, coupled with other control measures over the flow of foreign exchange, this should contribute to upward momentum on the JSE, they say.

BANKING 58 FM 17/2/89.

Dispelling the myths

Bankers are far from being fat cats. In fact no bank comes close to being self-funding, Standard Bank Investment Corp (SBIC) MD Conrad Strauss told the Frankel Kruger conference.

Strauss

Given three times dividend cover and a ratio of capital to total assets of 4%, in an environment of 15% inflation and 1% real growth, a bank requires a return on year-end shareholders' funds of almost 21%. The fact that no banks achieve this means they do not generate enough profit to provide real returns and, moreover, "have to resort to shareholders at fairly regular intervals for additional capital to fund growth."

How the JSE rates banks' profit records can be seen by comparing 7,5% average dividend yields against 4,6% for mining houses and 5,9% in the motor sector.

Strauss dealt with other myths about the banking sector:

☐ Banks behave like monopolists. In fact there are 62 banks, building societies and banking institutions in SA. In the past two years alone, aside from the move by building societies into the banking business, seven new banks were approved by the registrar;

☐ Banks are too large. SBIC has the largest capital base of any SA banking group, yet shareholders' funds are only about a fifth of the equity of Anglo American and 80% of SA Breweries;

☐ Banks push up interest rates without economic justification to boost profits at the expense of borrowers. Banks are not the source of fiscal and monetary policy, but agents through which policy is implemented. The cash base on which banks operate and which ultimately determines the price of money is outside their control; and

☐ Banks have hidden, intra-group resources which neutralise monetary policy. Money supply is finite and institutions, whether or not representing intra-group resources, are subject to the same logic of supply and demand as dictates all drawing from the pool. ■

Bill allows banks to use agents

Star 17/2/89

Banks will now be able to conduct their business through agents, subject to the approval of the Registrar of Banks, according to a Bill introduced in Parliament yesterday.

A memorandum attached to the Banking Institutions, Mutual Building Societies and Building Societies Amendment Bill, said present legislation prohibited banks from conducting their business through a person who was not a full-time bank employee.

This had impeded the amalgamation of banks and building societies.

Another clause makes provision for the Minister of Finance to approve a financial company. It would also enable associates of such a company to exercise voting rights attached to all the shares registered in their names.

Maximum penalties for the carrying on of a business of a banking institution by anyone not registered as a banking institution would be increased from R1 000 to R5 000.

The current penalty was believed to be an inadequate deterrent for an offence which contained all the elements of fraud, the memorandum said.

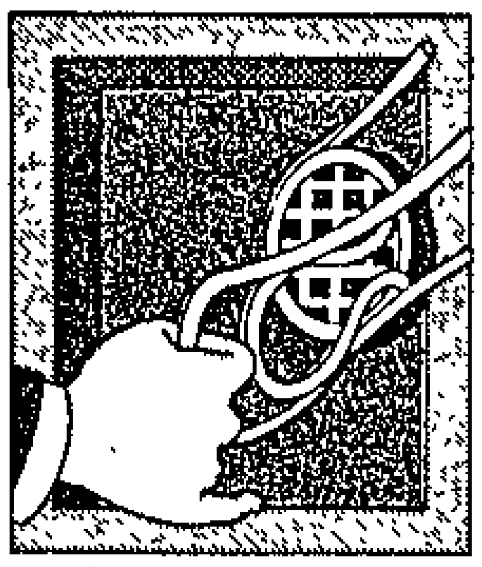
To reduce the administrative burden on banks, the Bill has provided that information on the conditions applicable to deposits be made in writing to the depositor on opening a savings or transmission account or when making a fixed deposit.

The Bill has also been amended so that employees of a building society, who purchase property owned by or mortgaged to the institution, will not be found guilty of an offence. — Sapa.

THE RESERVE BANK

Time to make a stand

■ Even its limited "independence" is in jeopardy



If central banking be the art of the possible, the style of SA's central banker was seriously cramped in 1988 — at least until the two percentage point increase in Bank rate on November 2.

Whether 1989 offers more or less freedom to act independently, according to the dictates of monetary policy, probably depends on the pattern of power that emerges when the present interregnum in our political life is over. Until then the critical factor may be the extent to which Governor Gerhard de Kock uses his own initiative.

Certainly, the nominal independence of the Bank (if that is how it can be described) has been under political siege — with movements in official interest rates for most of the year scarcely reflecting De Kock's market approach to monetary policy. The Bank has been constrained, De Kock admits, by factors outside the marketplace. And despite his eight-year crusade to depoliticise movements in key rates, they have never been more political than they are now.

His attempt, last March, to implement a recommendation in the report of his Commission of Inquiry into the Monetary System and Monetary Policy, that Bank rate be changed frequently and by small margins, met failure. Each of the four moves — from 9,5% at the start of the year to 14,5% at the end — came only after weeks of hard work on the part of the Bank to persuade government the hike was essential.

The success of powerful lobbies in delaying necessary increases in Bank rate, and De Kock's inability to implement timeously the market-related policies for which he has fought since his appointment in 1981, does suggest that the Bank is now no more than an arm of government — another bureaucratic appendage through which politicians can subvert sensible economic policy to dubious political purpose.

De Kock has said often enough that it would be naive to expect total independence for the Central Bank — "government decides on and accepts responsibility for economic policy and this is the way it should be."

He says, however, that provided the Bank stays within the broad framework of official policy it should have freedom to operate in the money, capital and forex markets. And he agrees "that means interest rates must be free to move in response to the markets and monetary policy actions."

Clearly then, the political constraints on interest rates of recent months represent an erosion of even the governor's limited view of the Bank's independence.

Theoretically, the Bank enjoys a large measure of autonomy. It is entirely in the hands of about 700 private shareholders, who may not own more than R10 000 worth of the Bank's total capital of R2m. Shareholders appoint six of the 12 directors; the others, including the governor and his three deputies, are appointed by the State President (SP) for five-year terms.

Despite his appointment by the SP, De Kock is no political yes-man. He has on several occasions spoken bluntly on government expenditure. "I believe it is the duty of the Bank to point out the consequences of excessive spending and of the size of the deficit."

One such occasion was his Annual Address to stockholders in August 1984. In the fiscal year ending March 1984, total government expenditure, budgeted to grow only 10,3%, grew 16%. And the budgeted deficit of 2,4% of GDP before borrowing, became an actual 3,5%. With a similar situation emerging in the 1984-1985 fiscal year, De Kock criticised high government spending.

In recent months he has sent tactful but firm messages to government on the need to hold down spending. At the *FM* Investment Conference in November, he made it clear that to reduce downward pressure on the rand and limit upward pressure on inflation "there should be little if any increase in real spending in 1989."

On December 2, when latest indications were that the deficit before borrowing would be R10,6bn against a budgeted R9,9bn, he repeated the message that government spending was the key to successful economic policy. Announcing there was no immediate need to increase Bank rate, he added his decision was based on the estimate that the increase in the deficit would be no higher than R700m — after predictions in the private sector that it could be R2bn-R3bn up on forecast. (In the event it may be lower than R700m — not because of lower spending but because of larger than expected revenues.)

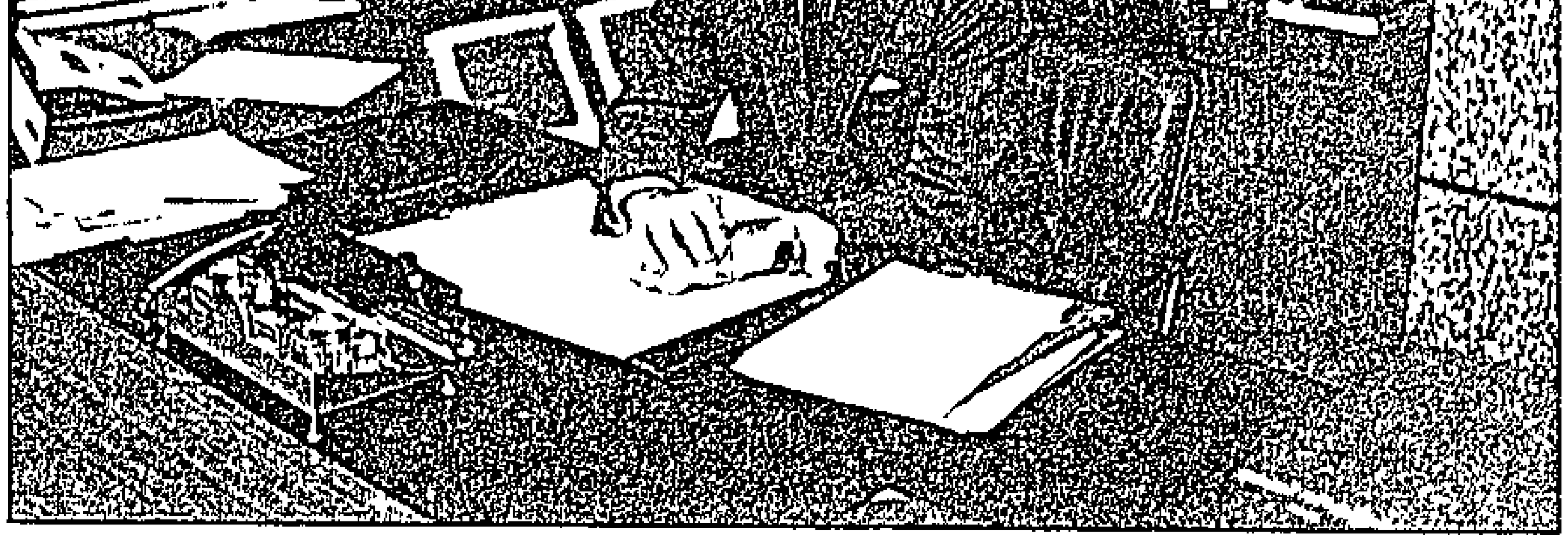
The right mix of monetary and fiscal policy is crucial, he stresses. "It's like mixing a martini. Any good bartender will tell you how important it is to get the right proportion of gin and vermouth. If the mix is wrong the result is a flop."

He argues that, without fiscal restraint, it is "in practice very difficult to keep down money supply growth. Monetarists tell you if you keep down growth in the cash base of the banks, closing the discount window if necessary, you will be able to contain inflation. True, but if fiscal discipline is lacking, there are consequences. Interest rates will go sky high in the short term, banks will call in loans, there will be insolvencies, unemployment, suicides. No central banker can allow that to go too far."

In which case he is particularly vulnerable to political decisions which disrupt co-ordination of monetary and fiscal policy. On two recent occasions a surge in government spending has thrown overall policy out of kilter. One was the runaway expenditure of 1983-1985, the other was the decision last year to give teachers a 7% increase from December 1 followed by an announcement of a 15% increase in civil servants' salaries (including, once again, teachers) from January 1.

However, whatever problems there may be in co-ordination, De Kock insists there is no lack of co-operation between the Bank and Treasury. "In some countries, there are such clashes. That is not the problem here."

In that case, the problem clearly lies elsewhere (our



Governor Gerhard de Kock . . . no political yes-man

guess it is in the Cabinet) and implementation of co-ordinated policy can by no means be taken for granted.

After the natural predisposition of politicians to overspend, one of De Kock's most serious problems is the influence of those who believe in the existence of an economic Utopia that can be achieved through application of direct controls.

"Some people argue we should make the fight against inflation the priority and keep up the exchange value of the rand. They accept that the price includes higher interest rates and lower government spending and/or higher taxes.

"Others say growth and employment creation are the priority and accept that the price in the short term might include exchange rate depreciation and higher inflation. Whether one agrees with either of these views, they are honest respectable arguments.

"The problem lies with those who tell government it can have it all without pain. If it was that easy everyone would do it and no country would be in trouble. You have to pay a price for economic stability. I believe that price includes realistic exchange and interest rates and a Budget deficit which is not excessive."

With the worldwide depoliticisation of currency exchange rates, SA's monetary authorities have had a measure of success with the rand. Though there is much to support an argument for a still lower rand as a means of restoring a comfortable surplus on the current account, De Kock has at least been able to counter suggestions that the rand should once again be pegged.

He has not been similarly successful in explaining to the uninformed the relationship between the deficit and interest rates.

He regards the 1988-1989 budgeted deficit of 4,9% of GDP as too high for present circumstances — "though I don't want to be dogmatic about the right size of the ratio and there is nothing sacrosanct about the 3% widely regarded as appropriate for stimulating growth without fuelling inflation."

He advocates lower spending — "but if, rightly or wrongly, that does not happen, it is important to finance the deficit in a non-inflationary way."

The right prescription, he says, then becomes higher taxes. "If fiscal drag doesn't go far enough, it may be necessary to raise the rates."

If tax doesn't go up and the deficit remains too large, interest rates will have to go up, with government borrowing crowding out the private sector.

"If government spending cannot be curbed, and taxes cannot go up and interest rates may not go up, the only remaining option is that money supply and total spending will increase excessively, the rand will depreciate and inflation will take off.""

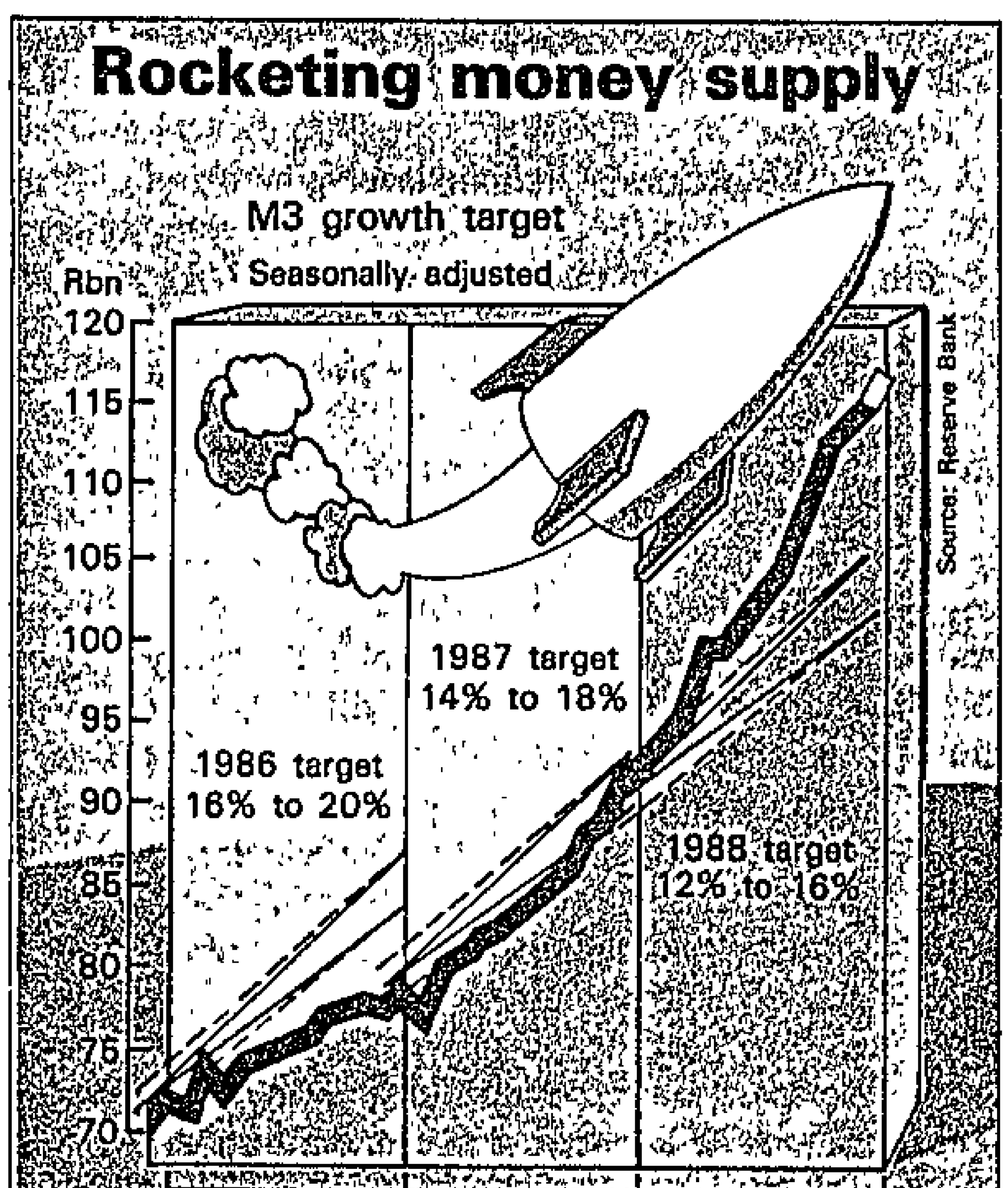
How successful will he be in avoiding the fourth ghastly option?

His tightrope act of 1988 succeeded in curtailing growth of demand, he says. Gold and foreign exchange reserves have stopped declining and the rand's sharp fall has been halted — despite further large debt repayments in recent months.

But the inflationary impulses of excessive money supply growth will be a while working their way through the system. He acknowledges the price of tardy increases in official key rates has yet to be paid in full, both in the form of taxes and further inflation.

De Kock clearly does not see himself in the position of the chairman of the Federal Reserve System in the US or the head of West Germany's Bundesbank. Perhaps that is a fault. In both those countries the Central Bank has a degree of independence that represents a real check on the sovereignty of government. Low inflation is the result.

De Kock, while drawing attention to government's folly, does acquiesce and try instead to mitigate its blunders — which he has more than once spelled out — through persuasion. Confrontation is not within his style and, given the character of the Nat administration, this may well at times in the past have been the best means of cushioning Pretoria's more flagrant excesses.



Trouble is that in the past two years he has become progressively less successful and the country is paying a heavy price as a result.

Former Fed chairman Paul Volcker is the man acknowledged to have squeezed inflation out of America. He too was not a completely free agent in that he could have been replaced, as the previous governor Bob de Jongh was here after he defied government over exchange controls.

Asked recently what the president should expect from the Fed and what the Fed should expect from the president, he replied: "I'm tempted to say silence from both sides. But . . . so much depends upon personal relationships. I certainly think that they owe each other a willingness to communicate . . . I do think, under our system, in monetary policy the Federal Reserve has to go off and in the end make its own decisions."

Today, the Reserve Bank is at bay. It is under fire for allowing a substantial capital flight, though the governor knows the line cannot be held by the exchange controls he has to administer — his commission's report says as much. He admits culpability for inflation because he did not limit growth in the money supply to predetermined targets, seeking justification from the belief that if government had wanted him to do so without financial disruption it would have moderated its own spending.

If De Kock had not been around these past two years with his patient persuasion, maybe government excesses would have been greater and the cost to the country higher. On the other hand, De Kock is a man of international stature whom the rustic politicians of this country cannot dismiss without grave consequence. His policy of persuasion is becoming less effective and his credibilty correspondingly lower. There is no one in the Union Buildings to match his intelligence and knowledge of economics. Maybe it's time he went off and made his own decisions before he becomes a spent force

Sure, there is a risk that in open confrontation with government he might be sacrificed and replaced by some control maniac.

No reasonable person could be sanguine about that. But if De Kock does not stand by his views and back them with action, in time his sensible economics will be corrupted by the exigencies of political convenience. Of what good will he be then? ■

(58) FMAC 17/2/89.

ECONOMIC OUTLOOK

Don't lose touch with reality

The price of gold and the value of the rand used to determine economic perceptions in SA. Perhaps because we have become inured to bad news, the recent slide in both has not prevented a comfortable feeling of economic wellbeing from settling on the community.

There are reasons for optimism: order books are up, company profits are up, demand for industrial property is exceeding expectations (see ***Property***), activity on the JSE is pushing the Industrial index to levels last seen pre-October 19 1987, civil servants are spending their 15%-22% salary increases — and economists who last year forecast growth of around 1% in 1989, following 3% in 1988, are now thinking in terms of 2%, as is Reserve Bank Governor Gerhard de Kock. While this falls far short of the 5% needed in developing countries with rapidly increasing populations, it is good in our circumstances.

Too good perhaps?

Almost certainly. But first let's look on the bright side. Of considerable importance to SA is the extended international upswing which started in 1982. "Economic indicators," says the Union Bank of Switzerland, "point to a continuation of the favourable trend, with the seventh year of economic growth in a row being predicted."

Says Standard Bank chief economist Nico Czypionka: "Because of increasing demand in industrial countries both volumes and prices of commodity exports have risen, while non-commodity exports across the board are also relatively strong. Most significant has been the performance of base metals and minerals, which together constitute nearly 25% of exports and combined are our major source of foreign exchange earnings after gold. In 1988 the value of base metal exports increased 42% to R6,7bn, while minerals export value increased 29% to R5bn."

The outlook for 1989 remains encouraging, as are the prospects for some agricultural exports (see ***Business***).

So there has been a fundamentally positive development, which is rebuilding the current account surplus. Together with an illusory one — rate stability in the money market (courtesy of the Bank) — it is creating the impression the authorities won't further attempt to curb demand.

This confidence may not be misplaced. But it raises the question whether demand *should* be further curbed.

Certainly we seem to be sailing close to the wind. De Kock's estimate of a R4bn-R6bn 1989 current account surplus sounds encouraging but may be optimistic. The price of gold is pointing downwards and anyway is too volatile for early chicken counting. The strength of demand is equally incalculable. While a soft landing is the most desirable conclusion to a period of expansion, the revision of growth estimates seems to indicate no landing has taken place.

So though the decline in reserves has been reversed for the moment there is no certainty we can accumulate the resources needed to meet debt repayments in 1990-1991.

And we are left with the central problem of inflation. Unlike the major industrial countries, which have projected 1989 inflation rates ranging from 1% to 7%, SA's inflation rate is expected to average 14%-15%. Money supply growth in 1988, which was 10 percentage points above the 16% upper limit of the target, has shown little sign yet of responding to contractionary measures.

Most economists, whatever their orientation, are perturbed by inflation prospects and believe contraction must take place. What is in dispute is whether it *has*.

"It's all a matter of semantics and hindsight," says Rand Merchant Bank's Rudolf Gouws. "Growth is slower and that's all we can be sure of."

The danger of overheating, he points out, comes not from GDP but GDE. "Last year it grew more than 7%, outstripping GPD, while this year it may not grow at all."

Certainly the reversal of the six-year decline in gross domestic fixed investment (GDFI) is a positive aspect. Figures in the

(58) FMAC 17/2/89.

Czypionka

Gouws

Bank's December *Quarterly Bulletin* show GDFI rose 17,9% in the fourth quarter of 1987, 10,2% (the figure was revised from 6,4%) in the first quarter 1988, 4,4% (4,6%) in the second and 13% in the third.

However, Gouws's belief that GDE growth will be low or zero this year is not shared by all. Some believe that while production has been increasing, so has consumption. And if the BoP has improved, it has been at the expense of inventories. Which spells still more pent-up demand.

So, while the good news is good, the bad news is bad.

And a rerun of last year's long-delayed interest rate rises will be disastrous both medium- and long-term. An immediate one percentage point increase in interest rates seems appropriate. And a sober approach to fiscal policy is essential. While the gold price is not within our control, government expenditure theoretically is. Unless the 1988-1989 fiscal year brings a radical change in policy and implementation, good export fortunes will be dissipated as rapidly as in the past. ■

ECONOMIC CONTROLS: THE BATTLE HOTS UP?

(58)

Du Plessis

In one of his most strongly worded attacks yet, Reserve Bank Governor Gerhard de Kock has told supporters of direct controls to stop pretending they support free enterprise.

"There is one approach to the implementation of economic policy which I for one cannot support," he told the Frankel Kruger investment conference this week. "That is the proposal that the economy should be treated like a large private company — some kind of 'SA Inc' — and subjected to so-called hands-on management, involving direct controls such as quantitative import quotas, selective bank credit ceilings, exchange rate pegging, and wage and price controls.

"Some proponents of 'hands-on management' claim their approach can be reconciled with free enterprise and a market economy. They are wrong. They are sailing under false colours. If they are consistent, they will recognise that what they propose is in fact a system of central planning and direct economic control. It is dirigisme. Proponents of such a system are, of course, entitled to their views. But they should hoist the correct flag. They cannot claim that the system they propogate is reconcilable with free enterprise and the market economy. It is not."

Most notable about De Kock's statement is the attack on SA Inc, the phrase used by Sanlam's Fred du Plessis in calling for an "MD" for the economy last year. Du Plessis' dirigiste views are known to carry weight with some Cabinet ministers. Analysts say De Kock's broadside suggests that the much-vaunted split in the National Party isn't just about the pace of political reform but also about the nature of economic reform.

Were De Kock convinced free market ideas were under no threat, he'd never have made such an attack. His speech suggests a battle is brewing in Cabinet over whether the economy should be set free or further shackled — and De Kock clearly believes those in favour of the former should speak up.

Finance Minister Barend du Plessis, who spoke just before De Kock, said much the same, if with less colourful language: "There is a school of thought that believes in a policy of greater direct intervention to steer the economy on the difficult path of structural adjustment... Government, however, continues to believe in the virtues of the marketplace, and therefore in the application of broad economic policy based on the free market system. We shall therefore continue our declared policy of privatisation, deregulation and the protection and promotion of private-sector initiatives."

Increase on the cards in short-term insurance rates

(58)

Star 18/12/89

NORMAN CHANDLER

THERE is likely to be an increase in short-term insurance premiums over the next few months, despite the industry being able to report improved profitability for the first time in several years.

There are three main reasons:

- The current storms and floods which have struck South Africa.
- A trio of industrial accidents.
- The import surcharge is making replacement of goods very expensive.

Statements

Although spokesmen were loath to make any definite statements this week, it would appear that the public will be paying more for cover because of higher costs in just about every sector of the economy.

And coupled to this is, the industry says, a "desire to ensure safer insurance companies" through improved premium payments.

Rodney Schneeberger, chief executive of the South African Insurance Association — the industry watchdog — told Saturday Star yesterday that while modest profits were all well and good, "1989 had started off dismally for the industry in general".

The biggest shock had been the disastrous R400 million fire at Sasol 3, which the industry says is the biggest single claim ever made in South Africa.

At least half of the claim will have to be met by South African insurance companies.

The remainder is insured overseas.

The Natal and Eastern Cape flood disaster of 1987 was, in rand terms, the largest, but there were more than 26 000 claims in that instance.

That disaster cost the industry a whopping R399 509 261.

The poor start to 1989 had also been caused over the past seven weeks by an explosion at the Murray & Roberts foundry and a major fire at a Frame Group factory.

"Modest profits made by insurance companies could not have been more timeous," said Mr Schneeberg.

"They were seriously needed to bolster company reserves in general terms, particularly in the light of the recommendations of the Melamet Commission.

"These recommendations, we believe, will be adopted for the Financial Insurance Office (FIO), which controls our industry.

"From the point of view of the public, modest profits are extremely fortunate, too, because the main benefit to them will be that insurance company reserves will have been strengthened, ensuring safer insurance companies."

The SAIA says that one of the problems being encountered by the industry is the high replacement cost of stolen motor vehicles, household theft and related burglaries.

Increase

"Just about every motor insurer has reported a significant increase in the number of vehicle repair claims, which naturally flows from an ever-increasing accident rate.

"While housebreaking and related burglaries have also diminished, unfortunately the cost of the claims is soaring and, in this respect, the recently introduced import surcharge is already beginning to manifest itself in the higher cost of claims to replace goods," Mr Schneeberger said.

Pictures: WILLIE de KLERK, Weekend Argus

Some of the pupils at the Noluthando School for ~~the Deaf~~ in Khayelitsha are busy building a house.

WA 18/2/89 (60)

School is ray of hope for deaf Khayelitsha kids

By VUYO BAVUMA
Weekend Argus Reporter

AMID the sand-dunes in Khayelitsha, there is a beacon of hope for deaf children in the under-privileged squatter camp.

The project, the first of its kind in the Peninsula townships, teaches skills to the deaf children so that they have a brighter future.

The school also tries to "arm" the pupils by instilling a sense of self-productivity among them

This is because in the labour market employers are wary of employing people with such a handicap.

Started in November 1987 with 10 pupils, the school — aptly called Noluthando or simply love — is now being run by four teachers

They are full of exuberance and love as they teach the pupils the basics of communication

Bright rooms

The classes are held in a three-roomed structure which is decorated with colourful pictures on the walls. Pictures of the pupils with their names below also add to the rooms classrooms.

The school, housed in a pre-fab structures owned by the Cape Provincial Administration, is co-ordinated by Mr Richard Nieder-Heitmann, a former head of the school for the deaf in Lebowa.

It is a brainchild of Mfesane, a Christian organisation which is involved in uplifting community projects.

The school is registered with the Department of Education and Training

The daily programme kicks off just after 7am when a kombi fetches the pupils from their homes

An hour later, they start lessons which include sign language and lip reading.

From 2pm the three teachers — Mrs Sheila Sontange, Ms Joyce Mgquba, Mrs Lulama Swartbooi — catch up on sign language.

Before the pupils are admitted, they are sent to either Tygerberg or Groote Schuur for tests

Outlining the aims of the project, Mr Nieder-Heitman said "The aim is to help carve out a career for the pupils. We relise that they cannot compete in the labour market on even terms with other people.

Sipho Dlambula, five, of Khayelitsha, comes to grips with the art of learning a language.

"However, we hope that in the end, with our training, they won't have much difficulty in filling a post."

This week, the first stage of an estimated R7-million project, which will be financed by Department of Education and Training and Mfesane, was approved.

Mr Nieder-Heitmann said. "We want to set up own quarters where we can run a fully-fledged school. In April, we will employ three more teachers and there after we will admit 30 more pupils."

He added that the first stage of the new complex included setting up a sewage system and building pavements

When completed, the centre will have several workshops, hostels for boys and girls and a para-medical centre.

Appeal

Mr Nieder-Heitman said "The community seems to experience some difficulty about reaching us Some parents seem to be hiding their deaf children. Others don't know about the school.

"We would like to appeal to all parents who have children with such a handicap to come forward."

He added that they needed funding to ensure that their projects would succeed.

Under-insurance can cost you a packet

Star 18/2/89

58

FINANCE STAFF

MANY, if not the majority, of South African households are probably under-insured by perhaps as much as 25 percent.

This is largely a result of the impact of the recently introduced import surcharge on the cost of many household items, says Mr JF (Mac) McLachlan, senior general manager, insurance, of Santam Insurance.

Writing in *"Focus"*, the company's newsletter for brokers and agents, he says that insurance claims received early in 1989 show quite clearly that the waves set up by the import surcharge last year are now showing up in increased insurance claims.

"One of the most obvious examples is that of second-hand imported cars.

"Prices have moved sharply higher in spite of the fact that these vehicles are not directly affected by the surcharge.

"The reason is that the surcharge has pushed the prices of new imported models so high that second-hand imported cars have become attractive alternatives," say Mr McLachlan.

"Apart from the actual vehicles, there is the matter of spare parts.

"Many of these are imported and so attract the surcharge, meaning that repairs will cost considerably more in 1989 than in 1988."

Santam's experience in recent years has been that the average amount per motor insurance claim (theft, accident, damage, etc) in 1987 was 17 percent higher than in 1986.

In 1988 it jumped 20,1 percent above the 1987 figure.

In the course of 1989 it is feared that the average amount per motor claim could rise by 25 percent.

In money terms, this means the claim of R1 000 in 1986 became a claim of R1 170 in 1987, R1 405 in 1988 and this year it is likely to be R1 755.

Mr McLachlan stresses that it wasn't only motor vehicles that were involved.

Of equal importance were the general possessions of a household, since the surcharge had pushed up the prices of a vast variety of everyday goods such as imported TV sets, video recorders, radios, audio equipment, compact discs, jewellery, photographic equipment and many types of sporting equipment — the favourite of burglars.

"We expect a fairly sharp increase in the average amount per claim in respect of burglary and theft.

"In 1987 the average amount per burglary claim rose by 13,5 percent above the 1986 level and in 1988 it rose a more modest 9 percent. I can't see a similarly small increase this year and we must expect a relatively sharp rise in the average amount of claims — the trend is already there and I expect it to become worse as the year progresses," says Mr McLachlan.

He points out that the majority of Santam policies apply the "new for old" princple and insurance values should, therefore, be based on replacement value — that is what the item would cost new today, and not what it cost five years ago.

Bond dealers now look to the screen

B/Day 20/2/89 (58)

LESLEY LAMBERT

BOND dealers on the JSE are weighing up their futures in changing financial markets and many are moving from the trading floor to the screen as banks assume an increasingly significant role in the markets.

New technology has enabled banks to sidestep the JSE floor and deal directly with counterparties or to offer their clients over-the-counter services in the bond and new futures markets.

The financial institutions have become particularly active in options where they have the advantage of being able to issue commercial paper and to act as the principal in a deal. Although they do not yet offer the security of a central clearing house, one major advantage to their clients is that transaction costs are low compared with brokerage fees.

The competitive threat does not end here. In future the banking sector's participation in the markets will not be limited to off-exchange activities.

As part of proposed expansion plans, banks may soon be entitled to trade alongside brokers on a growing number of exchange floors, including futures and bonds. This has serious implications for the future role of brokers, some of whose biggest clients are banks.

They will not necessarily lose this substantial portion of their business as many banks will continue to conduct their deals through brokers. But those banks which do commit a full trading team to the floor are likely to attract much business from the major life insurance companies with which they have family ties.

The younger JSE dealers in particular are being tempted by screen trading in institutions which are backed up by large capital bases and the infrastructure to accommodate technological changes. An important consideration is that banks offer employees a highly competitive remuneration package which normally includes a basic salary, a profit related bonus, a heavily subsidised housing loan and a car.

R120 000 package

According to Dan van Schalkwyk, an ex-JSE bond dealer who has set up a recruitment agency which places staff in the financial markets, a medium rated dealer with three or four years of experience and a financial degree can expect a package of up to R120 000. This would include a basic salary of about R60 000, a car and a subsidised housing loan.

Those who are confident in their ability to make trading profits can request a small basic salary and up to 50% of divisional profits. The best in the market can write their own cheques, according to dealers.

The migration of JSE dealers to the world of screens is not necessarily an overnight phenomenon or one which has been encouraged, belatedly, by the dangerous glamour portrayed in the movies.

As one JSE dealer points out, it is not unusual at this time of the year for dealers who are dissatisfied with their annual bonuses, paid at the end of February, to seek out more profitable opportunities. "Most have a good idea of what their bonuses will be and have already negotiated new jobs." Many are looking at the futures and options markets, given the current state of the underlying bond markets.

Substantial growth in the banking sector's demand for experienced screen dealers has added momentum to the trend, so much so that in many cases supply outweighs demand.

"We have young men with MBAs, BComm Honours degrees and three years' experience and we are having difficulty placing them all because the demand is for the best dealers who have proved their worth. Basically, there is a lot of big money chasing a few products."

Gone are the days in the early 1980s when rates were down at 10% or 11% and a small clique of bond dealers all drove Porsches, sipped French champagne and earned annual bonuses alone of R100 000 a year. The number of trained dealers has increased and those who have adapted their knowledge to the new derivative markets like futures and options, and are prepared to work through lunch when the markets move, are threatening the charmed existence of the old school of floor dealers.

147% leap in profits for Faircape

B/Day 20/3/89

(58)

MARC HASENFUSS

CAPE property developer Faircape Homes reported a 147% leap in operating profits and a doubling of dividends last year.

Earnings a share rose from 16,9c to 30,3c, enabling the board to declare a dividend of 10c a share for the year compared with 1987 when the company paid a maiden dividend of 5c a share.

The Faircape board said the 147% increase in operating income before interest to R7,7m was achieved through the increase in sales coupled with improved efficiencies.

The increased sales, together with rising interest rates, affected the interest bill which was up from 1987's R790 000 to R2,3m.

After allowing for taxation of R2,5m and outside shareholders' interest of R195 000, attributable profits increased by 129% to R2,7m.

Confident

Joint MD Mike Vietri said increased penetration into the black housing market contributed significantly to the Cape-based housing developer increasing turnover by 65% to R33m.

He said: "Our decision to expand into the black housing market proved more than worthwhile and there is no doubt that demand from this sector will continue to burgeon and, in spite of the current uncertainty in the economy as a whole, we are confident shareholders can look forward to a another increase in profits during this financial year."

Faircape directors said the company had borrowed against pre-sold properties — in the form of building bonds taken out on projects — as two new townships were launched last year escalating short-term borrowings accordingly.

They said: "These will reduce materially in the first four months of this financial year when transfer to individual purchasers takes place."

Vietri also expected a meaningful contribution to earnings from the company's recently acquired 49,9% interest in the recreation, health and leisure group, Health and Racquet Club Holdings.

B Day 20/2/84

58

Yields on bonds soar

TOWARDS the end of the week, and particularly on Friday, the bond market — somewhat belatedly — swung into a bearish phase as the gold price continued on its downward path and with the January trade figures showing why the latest Reserve Bank statement was not a document of hope.

Yields on all bonds soared as prices retreated in heavy turnovers.

Market favourite, the Eskom 169 rose to 16,69% from a low of 16,42%. Key RSA stock, 13% 2005 rose to 16,80% from 16,53% and, at the shorter end, Sats 1991 reached 15,73% from 15.30%.

POLITICS

Barend tries to get his banking Acts together

(58)

BD 31/2/87

CAPE TOWN — After last year's major revisions to banking and building society legislation only minor revisions are envisaged this year.

This assurance was given in Parliament yesterday by Finance Minister Barend du Plessis during the second reading of the Banking Institutions, Societies and Building Societies Amendment Bill.

Likely changes will deal with practical problems that have occurred to ensure business is not unnecessarily constrained.

The omnibus Bill is aimed at cleaning up many of the laws passed last year.

Du Plessis said it was not considered appropriate at this stage to introduce any comprehensive amendments to bank and building society laws because a complete revision of the Banks Act was under way.

He said it was preferable to do only a single revision to bring it into line with important changes in recent years in financial markets, banking practices and banking supervisory procedures.

Any changes for this year will be limited mostly to clarifying the intention of certain provisions; increasing penalties for offences under the Banks Act; and eliminating practical problems in banking and building society business.

In the wake of the Eurobank affair, the Amendment Bill states more explicitly the conduct of a banking business is reserved for institutions registered under Section 4 of the Banks Act.

Unregistered institutions, and those registered only in other countries, may not conduct banking in SA.

CHRIS CAIRNCROSS

Du Plessis said it was also necessary to confirm that, if a minister of finance had approved — before implementation of the compendium SA Reserve Bank, Banking Institutions, Mutual Building Societies and Building Societies Amendment Act of 1986 — a shareholding in a bank or controlling bank in excess of the maximum specified, the full voting right of that shareholding may be exercised.

Auction

Banks Act laws prohibiting a clearing bank from doing business through a person not a full-time employee could constitute a serious impediment to amalgamations of banks and building societies.

Du Plessis said this legislation was amended to empower the Registrar of Banks to approve that business may be conducted through agents.

Under present law, it is an offence for an officer or employee of a building society to buy property owned by or mortgaged to the society unless it is acquired at an advertised auction.

Du Plessis said this requirement seemed unduly restrictive.

It was proposed this curb should apply only to properties attached by a building society and sold by or at the instance of the same society.

Trust Bank blames economic policies for lower profits

Star 21/2/89 (58)

By Derek Tommey

Dr Chris van Wyk, managing director of Trust Bank, is most unhappy with some of last year's economic policies.

His reason: in holding down interest rates ahead of the municipal elections the Government also held down Trust Bank profits.

The bank earned R25,9 million after tax and transfer to contingency reserves in the six months to December, it reported last night.

This was an increase of only 7,9 percent on the R24 million earned a year earlier.

It was not much recompense for a 21 percent increase in the bank's business of lending. This lifted its assets by R2,8 billion to R16,4 billion.

Interim dividend

Earnings a share rose from 18,1c to 19,4c. The interim dividend has been lifted from 5c to 5,5c a share.

Dr van Wyk said in the interim statement: "Profit growth was severely hampered by the authorities' reluctance to permit a prime lending rate increase commensurate with increases in deposit rates in August, September and October. This placed untenable pressure on interest margins.

"The situation improved in November and December. In these circumstances the increase of 7,9 percent in net income can be regarded as satisfactory."

In an interview last night he said the losses arising from the Government's refusal to allow the bank to raise interest rates cost it, in terms of net interest margins, tens of millions of rands.

It led to the bank lending R8 billion at rates one percent to 1,5 percent below what they should have been.

He said the bank had experienced a year of good growth, especially in the provision of home loans and in the area of new cheque accounts.

Between December 1987 and December 1988, home loans had risen by 250 percent to reach R1,6 billion by the end of the year.

Although the margins on building society business were being squeezed a little, it was sound long-term business financed by long-term liabilities.

The security was high, bad debts were infinitely less than in other instalment business, and it was a core product leading to demand for other services.

The bank had been successful in getting new cheque accounts, which had led to an increase in advances.

Other good new was that bad debt experience had improved considerably and income from commissions and fees had increased.

Operating costs increased at a much slower rate than business volumes. The ratio of operating costs to average assets continued to decline as it had in the past two financial years.

Dr van Wyk said he expected a more favourable second half, but that one should not underestimate the risk of uncontrollable external factors taking an adverse turn.

Dr Chris van Wyk

The softness in the gold price had led to increasing uncertainty in business circles.

The price affected almost everything, included consumer spending and the financial markets.

While expectations of lower interest rates later this year might not yet be out of court, the probability of higher rates had increased.

Because the cost of money had started rising before the lending rate, banks were having a difficult time making profits.

He was cautiously optimistic, though the uncertainty factor was high.

One factor that had to be considered was the possibility of a general election. "This could also interfere with the financial system," he said.

De Kock says burgeoning credit demand is forcing reappraisal

58

Star 2/2/89

Money supply soars by 28,5%

By Sven Lünsche

Reserve Bank Governor Dr Gerhard de Kock yesterday called for a tighter monetary and fiscal policy in the months ahead.

Reacting to the 28,5 percent surge in M3 money supply in the year to January, Dr de Kock said that "the combination of rising money supply and the lower gold bullion price would imply a reappraisal of current economic policy.

"Although we still believe economic demand is slowing down, we under-estimated the duration and the intensity of the upswing."

Money supply as measured by M3 (the broadest measure) has risen steadily since November.

The Reserve Bank said yesterday the increase in M3 had gone from 25,03 percent in November to 27,55 percent in December to an estimated 28,47 percent in January this year.

The increase in M3 in cash terms for December 1988 over December 1987 was from R93,142 billion to R118,813 billion.

The seasonally adjusted estimate for January was R121,37 billion.

The narrow measure of money supply, M1, rose by 23,02 percent December-on-December. M2 over the same period rose by 35,55 percent.

Dr de Kock said the increase in credit demand originated from all sources.

"We are experiencing an increase in demand from the consumer, as well as from the corporate sector, which is utilising unused credit facilities to finance investments," he said.

Dr de Kock said the preliminary money supply estimates for January would help the authorities to formulate new growth targets for the year. These would be released within the next few weeks.

Last year the target was set at 12 to 16 percent. Given the

Dr Gerhard de Kock

dramatic growth rate, it is likely that the target from the fourth quarter of 1988 to the fourth quarter this year will remain unchanged.

Commenting on the gold price, De de Kock said bullion could still pick up over the next few months.

"But it would be unwise to base economic policy on any marked increase in bullion because an average $50 decline from last year's average of about $440 would cost the country $1 billion.

"Given these two factors, there can be no question of a relaxation of either fiscal or monetary policy and the forthcoming budget will have to be extremely tight," he said.

Volkskas economist Adam Jacobs reiterated Dr de Kock's call for tough fiscal and monetary measures.

"Given the impact of high domestic expenditure on the balance of payments it is essential that the authorities act quickly and decisively.

"If they don't act proactively through measures like higher interest rates and a tough Budget, the economy will do it for them and respond with high inflation," he said.

The surge in credit demand was also underlined by the commercial banks' BA9 figures for 1988, which were released yesterday.

An analysis of the figures by Nedfin shows that demand for hire purchase and lease receivables surged by 30 percent over the year to R4,3 billion, despite the restrictive measures introduced last year.

Nedfin MD Ron Rundle said an analysis had shown that in the last quarter alone credit had grown by 7,4 percent, or R1,3 billion.

But he said the consumer spending spree appeared to have slowed down slightly in January.

Nedfin said its study showed that by the end of December last year, bank instalment sales had totalled R12,3 billion, an increase of R907 million, or eight percent, on the September 1988 figure.

Lease agreements grew by 6,4 percent in the quarter to R6,5 billion (R6,1 billion). Savings rose slightly less than the inflation rate at 12,8 percent and stood at R8,4 billion at the end of the year.

Mr Rundle said corporate demand was strong, with the expectation that interest rates had peaked.

Mounting pressure on interest rates

Money supply growth 'disturbs'

2/2/89 Cape Times 58

By **BRUCE WILLAN** and **GRETA STEYN**

UPWARD pressure on interest rates intensified yesterday when it emerged that money supply growth is still out of control.

Preliminary figures released by the Reserve Bank show M-3 grew by 28,47% in the year to January 1989. The news came as the rand hit R2,50 to the dollar — a level last seen before Bank rate was increased on 2 November.

December's M-3 growth was revised upward to 27,55% from a preliminary 26,37% — light years away from the Reserve Bank's 12% to 16% target range for 1988.

Old Mutual economist Rian le Roux said: "There is no evidence yet of the economy slowing down. Interest rates will come under upward pressure as Bank rate may have to rise again."

Simpson McKie's John Banos described the growth as "disturbing." Surging money supply growth, a weak gold price and a current account deficit in January were signalling the need for tighter monetary policy.

Bankers said the demand for credit remained high, although mortgage finance had become less buoyant.

In the money market, rates maintained their recent harder trend as talk centred around a possible increase in Bank rate. The 90-day liquid BA rate rose to 15,7% from Friday's 15,65%.

Standard Bank's money market chief John Lloyd said money market rates were expected to remain under upward pressure. The money supply figures, the weak gold price and a tightening in liquidity were bearish signals, he said.

First National Group Treasurer Mike Steenfeldt said: "The pressures for another increase in Bank rate are building up, but it all depends on the Reserve Bank. If the Bank accommodates the market with repurchase agreements, it could keep the lid on lending rates."

The money supply figures and the low gold price had upset the general belief that rates had peaked.

Meanwhile, Governor of the Reserve Bank, Gerhard de Kock says the figures indicate the domestic economy is far stronger and more buoyant than was initially expected.

With the current softening of the gold price and the continued growth in the domestic economy De Kock says "there is cause for reappraisal of monetary and fiscal policy."

However, he said that "draconian" measures would not be considered.

Legal query on mortgages

BMay 21/1987

GRETA STEYN

THE Registrar of financial institutions is investigating the possibility that building societies are breaking the Usury Act, deputy director of financial institutions Herman le Roux said yesterday.

Le Roux said the Registrar's office was concerned about the widespread practice of capitalising administration costs, such as inspection and cancellation fees, as part of a mortgage.

Example

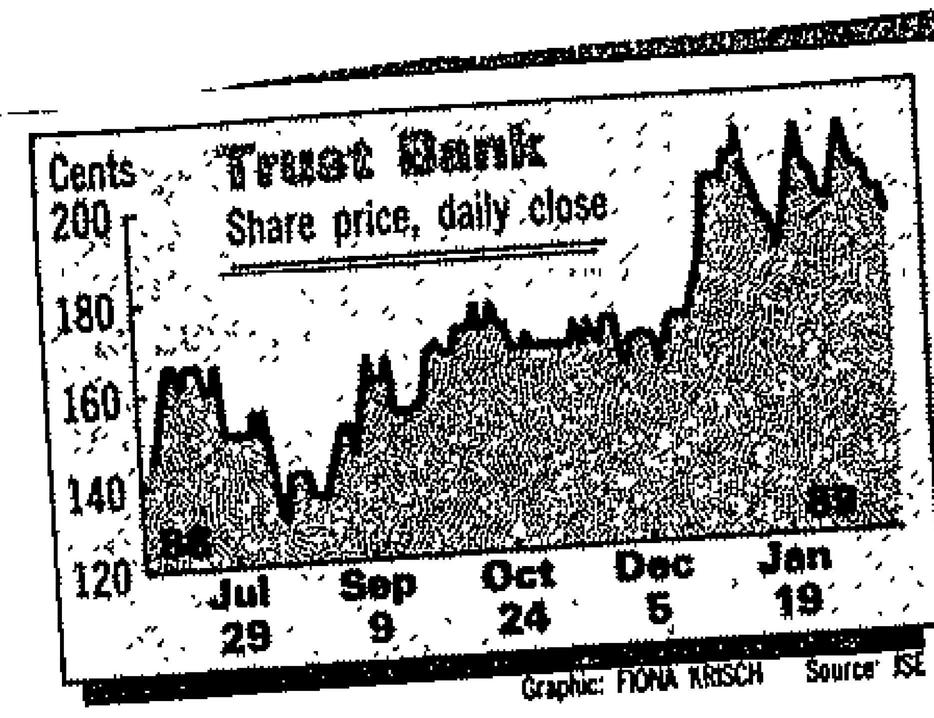
He gave the example of inspection fees of R300, which, if paid off over 30 years as part of the bond, would eventually amount to R1 627 at an interest rate of 18%.

"We have sent letters to banks and societies warning them against continuing with this practice.

"In my opinion these societies are breaking the law and if they continue to do so, we will have to refer cases to the Attorney-General," Le Roux said.

Some building societies, however, dispute Le Roux's interpretation of the law. There was talk that building societies would take up the matter with the Finance Minister, but Association of Building Societies president Bob Tucker said yesterday the association was not yet planning representations.

"We have taken legal advice on how to interpret the law and are studying the Registrar's interpretation. Hopefully, the matter can be resolved with the Registrar without the need for further action."



Trust feels the margin squeeze

BDay 20/2/89 GRETA STEYN (58)

SQUEEZED margins were to blame for Trust Bank's mediocre earnings growth in the six months to December last year when earnings per share rose only 7,2% — from 18,1c to 19,4c.

Net income, after taxation and transfer to contingency reserve, increased to R25,9m from R24m in the previous interim period. By contrast, buoyant credit demand resulted in a 21% jump in assets from June 1988 to R16,4bn.

Trust Bank MD Chris van Wyk ascribed the slow growth in net income to the authorities' reluctance to allow lending rates to rise last year. But he was not unhappy with earnings growth.

"Our traditionally conservative approach, in the first half of the financial year, tends to understate earnings. Transfers to our contingency reserve are larger in the first half of the financial year, leaving us with more leeway

● To Page 2

Trust Bank feels squeeze on margins

BDay 21/2/89 (58)

● From Page 1

in the second half. The decline in the gold price is evidence that prudence is well advised," Van Wyk said.

The bank's practice of limited disclosure means details of transfers to its contingency reserve are not available.

Asked whether the strong asset growth meant the bank would have difficulties in meeting capital requirements, Van Wyk said: "We are still comfortable — there is no need to think of a rights issue."

Trust Bank accounted for 44% of Bankorp group's half-year earnings of R59,2m. Bankorp's earnings rose 10,6% a share to 57,2c. Total assets of the group rose by 16,9% to R25,3bn.

Bankbes MD Johan Howell said: "The group went for asset growth in the past year as the demand for credit was strong. We gained market share, especially on the home loans side. The larger asset base provides great potential for future profitability."

BDay 21/2/87. (58)

Trust Bank stresses savings

SYLVIA DU PLESSIS

BALANCE of payments problems and rising interest rates reflect an acute savings shortage, Trust Bank says in its latest Econovision review.

And it adds the situation is aggravated by the falling gold price.

Trust Bank says increased saving is a national priority together with better utilisation of saving funds.

It advocates, in view of last year's record low in personal savings, a national saving campaign related to virtually all economic activity.

"Privatisation and disciplined government spending are essential to reduce the claims of government borrowing on the existing pool of saving.

"The rapid normalisation of international relations is equally essential to relieve the burden of debt repayment. It would terminate the large-scale outflow of capital through the balance of payments, freeing the entire pool of domestic saving for use in domestic investment."

Trust Bank also says tax on personal interest income should be phased out.

"The consequent revenue loss of about R800m to the fiscus would preferably be compensated by lower government spending but, if necessary, it could be financed by higher indirect taxation."

Trust Bank says there are indications the economy could perform above average this year with an expected increase in gold and agricultural output.

A good reaction by other exports to the low rand exchange rate, and continued economic growth, would also contribute to a real growth rate of 3% in total exports and 2,5% in GDP.

Trust Bank says higher exports, coupled with lower imports and a smaller capital outflow, could produce a net surplus of R2bn on the balance of payments.

"Consequently, the exchange rate and interest rates will remain relatively stable and inflation will not get out of hand. If the gold price stays close to $400 we foresee a year-end rate of R2,55 to the dollar, a prime rate of 17% and a CPI inflation rate of 14,5%."

Inflation and secrecy are blamed for bribery wave

21/2/87

Business Day Reporter BDay

HIGH inflation and official secrecy were prime causes of the wave of bribery and corruption, Nasionale Pers MD Ton Vosloo said.

Vosloo, speaking at the Consumer Council's media award ceremony in Pretoria on Friday night, said "hard questions" had to be asked if SA was to address the causes of corruption and not merely the effects.

"Unhealthy high inflation and unhealthy secrecy are a fertile breeding ground for unhealthy practices."

Inflation was an active agent in the corruption in public life. Government did not take inflation seriously and it should be given a priority similar to security action as it fed instability.

Vosloo said inflation led to irregularities by debauching the currency.

Sanctions and boycotts had led to the statutory protection of information about strategic supplies such as oil and nuclear material, and a veil of secrecy had been drawn over foreign trade. The flow of information was further restricted by legislation against terror and unrest, and by the emergency regulations.

"Such circumstances have led to officials and political leaders being given exceptional powers and this has increased the potential for corruption. It also serves as a smokescreen behind which dishonest businessmen can hide their activities."

Vosloo suggested SA adopt a law similar to New Zealand's Official Information Act of 1982. This was aimed at promoting good government through the progressive increase of official information available to the public.

SA-Mozambique meeting

BDay 21/2/87 GERALD REILLY

PRETORIA — A plenary meeting of the joint SA-Mozambique Economic Affairs Commission would take place in Cape Town today, a Foreign Affairs spokesman said yesterday.

The commission's establishment was agreed to by President P W Botha and President Joachim Chissano at their Songo meeting last September.

Foreign Affairs Deputy Minister Kobus Meiring and Mozambique's Labour Minister Aguiar Mazula are joint chairmen of the commission.

The spokesman said closer economic co-operation was of the utmost importance to SA and Mozambique.

Protea policies blossom

b/Day 22/2/89

(55)

FIGURES released earlier this month by Protea Assurance show the company's investment team received exceptional returns for policy holders during the 12 months to December.

Policy holders paying monthly premiums into the Prosure retirement annuity fund saw their investment grow by 32%, while holders of taxable endowment policies whose premiums were directed into the Investor portfolio earned 28% on their investments.

These figures were achieved despite restrictions placed on the investment team by the statutory prescribed asset requirements applicable to life insurance products.

Jim Brayson, senior executive of Protea's life division, points out that holders of the company's Prospector 2 000 Universal series of policies have several different portfolio options available.

"In addition to the Protea-managed funds, policy holders can select the UAL unit trust portfolio, the Smooth Growth and Deposit portfolios, the new UAL unitised property portfolio or a combination of these

"We are particularly delighted with the performance of the unitised property portfolio which, although introduced only six months ago, has chalked up an annualised return of 48%," he says.

Protea is currently the only life assurer in the country able to offer its policy holders a number of investment options on a single contract, with an option to alter the investment mix throughout the life of the contract

"This means the policy holder can react to changing market conditions," comments Brayson

"For example, if the equity market is depressed, he could channel his premiums into the property portfolio Conversely, if the equity market is performing well, he could direct his premiums into the Investor fund or the UAL unit trusts, or a combination of these

"The Smooth Growth and Deposit portfolios cater for a more conservative investment requirement "

'Living benefits' policy

B/Day 22/2/81 (58)

THE new concept Easibond policy introduced by assurers AA Life has extended the company's "living benefits" scheme to homeowners burdened by high mortgage bonds.

Easibond holds two powerful advantages, says AA Life It provides death cover for one or both spouses and it also covers permanent disablement suffered by bondholders.

Easibond also offers an optional savings plan to help the holder repay bonds ahead of time.

"With the recent distressing rise in bond repayments, we could not have timed Easibond's market entry better," says Bruce Howard, AA Life's Deputy General Manager, Marketing.

"By investing as little as 10% off a current bond instalment, the repayment term of a 20-year bond of R100 000 at 18% would be reduced by as much as 6,25 years, thereby saving the houseowner R104 325 in subsequent repayments."

Howard says that increasing rate levels have again focused houseowners' attention on just how strategic an investment his home really is — and the importance of shortening the repayment period if this is possible.

A survey among houseowners highlights two real needs — repayment of the bond in full in the event of death or disability, and bond repayment as soon as possible.

"Furthermore, the option is there to purchase new amounts of life assurance should the owner wish to purchase a more expensive home — and we make this available without any further evidence of assurability," says Howard.

"The flexibility of Easibond counters rising interest rates since cover can be increased at regular intervals regardless of the homeowners' state of health."

Vermaas row

Minister summons A-G

Ott Times 22/2/89

Own Correspondent

JOHANNESBURG. — The Attorney-General of Transvaal, Mr Don Brunette, has been summoned to Cape Town today to discuss with Minister of Justice Mr Kobie Coetsee his decision provisionally to withdraw charges against Pretoria lawyers Mr Albert Vermaas and Mr Eugene Berg.

Mr Coetsee said last night that he personally would be seeing Mr Brunette about the issue.

The minister's involvement comes amid an escalating row in the legal profession over the withdrawal of the charges.

Mr Brunette said yesterday that he made his decision to withdraw the charges without seeing or requesting copies of evidence from the Harms Commission.

The commission has been investigating the activities of Eurobank, a company formerly headed by Mr Berg and by Mr Vermaas since last November.

'Changes picture'

Asked if he had considered the evidence heard by the commission last Tuesday that the whereabouts of at least R80m sent out of SA by Mr Vermaas was unknown, Mr Brunette said: "I have no knowledge of that. This information is something new.

"I understood Mr Vermaas had a permit for R26m to buy spares and aircraft," he said.

"If the Reserve Bank gave Mr Vermaas permission to send that much out of the country then it means he may have assets overseas far greater than we appreciate. This changes the whole picture."

Mr Brunette said he had based his decision on the simple fact that he could not render a charge sheet.

"I cannot draft an indictment unless that information is placed before me. I am not entitled to ask the commission for evidence. I cannot demand information from them. It is the commission's discretion to see what information to put before the Attorney-General."

Mr Brunette said he had not requested any copies of the commis-

To page 3

Times 22/2/89

sion's evidence nor had he been given any, except for a portion of the commission transcript in December, when Mr Vermaas was arrested, which was sufficient to satisfy him that there was a prima facie case against Mr Berg and Mr Vermaas.

"My difficulty was that I had nothing on which to base my decision." He said he had not had an opportunity to investigate or read "lots of evidence" still in the possession of the commission.

A commission spokesman said evidence put before it was available to all interested parties on request only, as commissions were prohibited from disseminating information.

Mr Brunette said he had been given a "totally incomplete" preliminary police docket which could take six months or more to complete. This could not be done until the commission had completed its investigation.

He said Mr Vermaas had used the criminal charges as a protection from giving evidence to the commission and provisional liquidators. By provisionally withdrawing the charges he had hoped to afford Mr Vermaas the opportunity of testifying.

"I could have asked for a longer postponement but then the liquidators would have been in the same position of having Mr Vermaas refusing to testify because of the criminal charges."

He said a provisional withdrawal of charges meant he could still be obliged to prosecute Mr Vermaas at a later date.

Sun Life casts hunter's eyes on Touche Remnant

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Own Correspondent

LONDON — Sun Life, headed by Peter Grant and still ruffled from last year's mauling by South African Donald Gordon, is casting hunter's eyes on Touche Remnant (TR) which manages funds worth more than £2bn.

There have been talks between the two sides about Sun Life acquiring TR, which is worth about £35m, but the indications are that Grant could be in for another fight.

Neither TR's chairman Lord Remnant nor vice-chairman Paul Manduca would comment on the position this week, although they have consistently said they want to preserve the independence of TR and the funds it manages.

TR hired Morgan Grenfell subsidiary Phoenix Securities in December to advise on its shareholding structure and several options have been considered.

Sun Life is remaining equally tight-lipped and it could be some weeks before a definite move is made.

Before Grant decides to act he will want to be confident his proposals do not meet the same end as his ill-fated share swap with the French UAP insurance group late last year, which was thwarted by Gordon's Liberty Life's TransAtlantic Holdings subsidiary and other shareholders.

Gordon could not be contacted for comment.

TR's trusts have been under intense pressure during the past two years from companies either wishing to bid for them, break them up or unitise them. Last August, the British Coal Pension Fund bought the biggest, TR Industrial and General (TRIG), for £560m.

The management company, which employs about 200 people, is almost wholly owned by the TR trusts, TRIG's 28% stake having been distributed among the others after the British Coal deal. Last August, the American Liberty Mutual bought 17% and is thought likely to be supportive.

If a deal is done, it is likely to involve a significant incentive for the TR investment team. In Manduca and the other group managers, Lord Remnant has a widely respected team which is known to value its independence.

Sun Life, with well over £5bn of funds under management, would have to find a structure acceptable to its own managers and those of TR.

Sun Life has thrived under Grant who, until last year, was deputy chairman of Lazards as well. When he became chairman of Sun Life in 1983, profits were £9,9m. In 1987, profits rose by 20% on the previous year to £21m.

Magnus Malan to give evidence to Harms

Off Trips 22/2/89

Political Staff

THE Minister of Defence, General Magnus Malan, is to give evidence to the Harms Commission on his dealings with Mr Albert Vermaas.

General Malan was asked in Parliament by Mr Jasper Walsh (PFP Pinelands) if he had visited Mauritius last year, at whose invitation and in whose aircraft.

General Malan said he would answer the questions in his evidence to the Harms Commission.

Last night Mr Walsh said the minister's reply was a "non-reply".

"The minister has an obligation to reply to questions put to him in Parliament," he said.

Press reports of personal links between General Malan and Mr Vermaas have focused on a fishing trip to Mauritius in which General Malan allegedly used an aircraft owned by Mr Vermaas's Chieftain Airlines and visits by the general to Mr Vermaas's game farm in Namibia.

General Malan has said his group paid for their travel, hotel and fishing expenses.

Chieftain Airlines has reportedly been contracted in the past by the SADF to carry out official missions.

Foreign Minister Mr Pik Botha said on Monday that he was "sick and tired" of his department being linked to Chieftain Airlines, saying the department had used the company just three times out of 90 charter flights.

Star 22/2/89 (58)

Registrar: financial institutions are breaking law

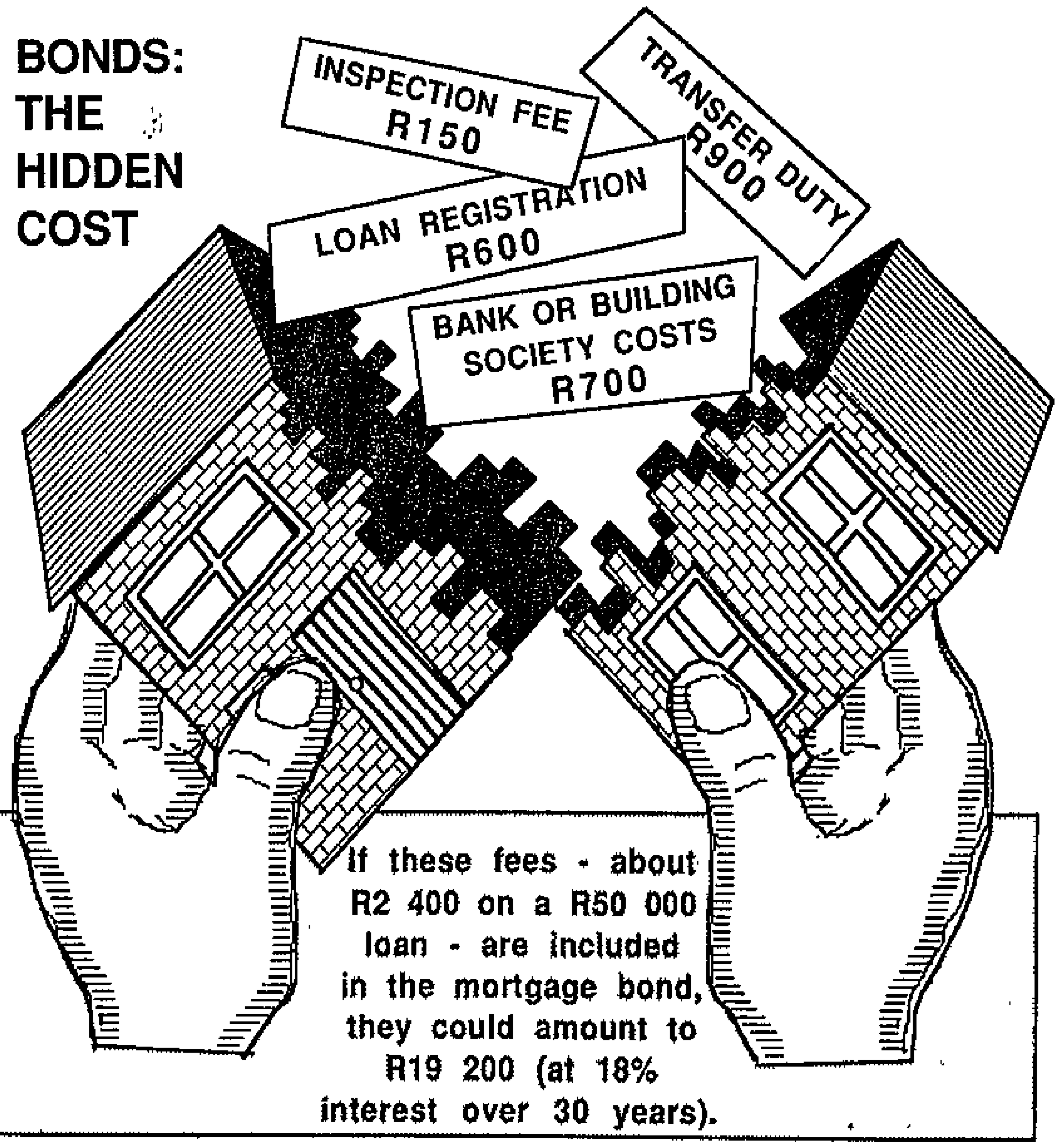
Bond costs dispute rages

By Helen Grange

Mortgage bond holders may be saved thousands of rands in bond attached administration costs following an investigation into the possibility that building societies and banks are contravening the Usury Act.

The deputy director of the Registrar of Financial Institutions, Mr Herman le Roux, said this week that the Registrar's office was "very concerned" about the widespread practice of capitalising administration costs as part of a mortgage.

A survey by The Star yesterday found that bond holders who were charged R2 400 in administration fees as part of a R50 000 bond today could end up paying R19 200 for these fees in 30 years' time at an interest rate of 18 percent.



Breakdown

The figure of R2 400 would include an inspection fee of R150, a loan registration fee (which includes attorneys' fees) of R600 and a total of R1 600 in transfer fees if the bond holder was changing institutions and required the fee to be added to the new bond.

According to Mrs Amanda Dreyer, media liaison officer for the Perm Building Society, these administration fees would be even higher if the bond holder included a bond cancellation fee of R200 in his new bond.

"A large sector of the public seems to be unaware that by adding administration costs to the bond these costs will escalate along with the bond rate, eventually adding up to very high amounts.

"Obviously, the amounts would vary according to the size of the bond and the time taken to repay it. On a bigger bond, the inspection fee alone could cost R300, which, if paid off over 30 years, would eventually amount to R1 627 at an interest rate of 18 percent.

"But many building societies make our bond holders aware of this, and a large number of clients prefer to pay administration fees up front," Mrs Dreyer said.

However, the practice of including these fees in the bond is currently the subject of a dispute between the Registrar's office and the Association of Building Societies, which insists that this practice is legal.

"We have sent letters to banks and societies warning them against continuing this practice," Mr le Roux said.

"In my opinion, these societies are breaking the law and if they continue to do so, we will have to refer cases to the Attorney General."

He could not say when the investigations would be completed.

Mr Bob Tucker, president of the Association of Building Societies, said many societies disputed Mr le Roux's interpretation of the law.

"We have taken legal advice on how to interpret the law and are studying the Registrar's interpretation. Hopefully, the matter can be resolved with the Registrar without need for further action," Mr Tucker said.

house J D Anderson says: Labour accounts for 31 percent of working caution in determining pay levels," says Mr Liebenberg. — Sapa-Reuter.

Industry must protect public, says LOA chief

58

STAR 22/2/89

Finance Staff

The life insurance industry is an excellent example of the success with which some sections of the private sector can exercise self-restraint in the public interest, says Mr Pierre Steyn, chairman of the Life Offices' Association (LOA).

Speaking at a meeting of the LOA management committee, Mr Steyn said the LOA members had on a number of occasions entered into agreements to ensure that the life insurance industry was not used in any manner that would not be beneficial to the South African community. The LOA is one of the most successful self-regulating bodies in the country.

Among examples of agreements entered into in the public interest that have come to light are the agreements not to allow people to circumvent South African taxation through the misuse of policies issued in the Ciskei tax haven, and the agreement to limit the use of deferred compensation policies in order to exclude certain tax avoidance schemes.

The most important of these agreements is possibly the so-called Short-term Investment Policies Agreement. The purpose of this agreement is to demarcate a boundary between business conducted by banks and building societies, on the one hand, and life insurers, on the other.

The agreement stipulates that life insurers will not issue life policies or annuity contracts for a term of less than five years, nor policies that offer attractive surrender values.

This agreement was entered into specifically to allow marketing space for the building society industry. It has for some time been unable to offer to depositors an after-tax return that beats inflation. Consequently, it has attracted a decreasing percentage of the country's savings.

Transatlantic notches 34% jump in profit

Cape Times 22/2/89

By ROBERT GENTLE

LONDON. — Transatlantic Holdings, the UK financial services giant in which SA life assurer Liberty Life has a 49,2% stake, yesterday announced a 34% jump in year-end pre-tax profits to £52,5m (£39,1m).

The performance, described by TransAtlantic chairman Donny Gordon as an impressive achievement, saw net earnings per share for the year ending December 1988 increase 18% to 15,5p (13,1p).

A dividend of 10p (8p) was declared, 25% up on the previous year and covered 1,6 times by earnings.

"By any standards, 1988 must rank as a year of outstanding progress for TransAtlanctic", said Gordon, adding that the company had passed the £1bn mark in shareholders funds.

"All can feel justifiably proud at the milestones achieved by a company which started business in 1980 with a mere £20 000 of share capital."

TransAtlantic's star performer was its 72%-owned property arm Capital & Counties (C & C), which underwent a major transformation with a £188m rights issue.

C & C profits more than tripled on the back of a number of significant deals.

These included the £64m acquisition of a major shopping centre site, the £33m purchase of strategically located Thames freehold property and the £79m purchase of seven department stores.

As for TransAtlantic's 29,8%-owned Sun Life insurance group, Gordon said that while it continued to be a core strategic investment, it could no longer be regarded as the dominant factor in TransAtlantic's business.

The high point of the year was the the alliance struck with French insurer UAP International.

The net asset value of Continental, TransAtlantic's £155m investment trust, increased marginally during the year, and was augmented by a £3,4m profit made on a key asset disposal.

Car insurance rise foreseen

Star 23/2/89

(58)

By Derek Tommey

A general increase in car insurance premiums later this year has been forecast by Mr Douw Steyn, chairman of Auto & General.

Savings resulting from the sharp drop in car thefts had enabled the insurance companies to absorb increases in repair costs caused by last year's decline in the rand and the import surcharge, he said yesterday.

But with the cost of parts continuing to rise, he expected short-term insurance companies to start incurring losses on their motor claims towards the end of the year.

This would lead to another increase in insurance premiums.

Auto & General, the "no-frills electronic" short-term insurance company, which was started four years ago by a handful of young South Africans, appears to have overcome its teething troubles and is now poised for major growth in new business and profitability, figures issued yesterday show.

Although it has been operating in an extremely competitive market, which has been made more difficult by South Africans' deeply entrenched distrust of new insurance companies, its 1988 figures show steady growth in business and profits, despite heavy establishment costs.

Gross premiums

Gross premiums in 1988 rose 66,4 percent, from R46,6 million to R77,6 million, and retained premiums increased by 32,8 percent, from R35,0 million to R46,5 million.

Gross claims were R43,6 million (R30,9 million), while net claims, after reinsurance recoveries and contribution from the company's motor repair company, Automend, were 33 percent higher at R30,7 million (R23,0 million), giving a claims ratio of 66 percent, which Mr Steyn said was below the industry average.

Commissions and other expenses, which included considerable expenditure to cope with an expansion in the company's operations, jumped 46 percent to R15,6 million (R10,7 million).

This led to an underwriting deficit of R352 000, against an underwriting profit of R683 000 in 1987.

After taking into account investment income of R3,5 million (R686 000), company income before tax was R3,1 million (R1,4 million).

In December the company's shareholders increased its capital by R20 million to R39,6 million, which doubled its solvency ratio to 85 percent, the highest in the industry, said Mr Steyn.

Mr Steyn said that the expense ratio would be much lower this year as the company's systems were operating.

Mr Douw Steyn

Offices had been established in all the major centres and a start had been made in moving into the Platteland.

Among the factors contributing to the company's success were the elimination of paperwork and highly selective underwriting.

People seeking insurance cover did not have to fill in applications forms.

Everything was done by phone and recorded on a voice-logging system.

The applicant gave details of cover sought, these were printed into the company's computer and a quotation was immediatly available.

Payment was arranged by sending the client a reply-paid card on which he authorised a monthly stop-order on his bank account.

Claims were handled in a similar way. Claim forms were not used.

The claimant supplied details over the phone. These were fed into the computer which analysed the claim and authorised payment. Only when the claim exceeded a certain figure were assessors called in.

Auto and General writes both motor and domestic insurance. Its underwriting policy was to avoid abnormal claims by being selective.

In this way it could give cheaper rates to the ordinary motorist and householder, Mr Steyn said.

"Many insurance companies operate like a bottle store which has only one price — say R5 — for every bottle in the shop.

"However, we sell our whisky for R15 and this lets us sell our beer for R1 a bottle."

CAP Trips 23/2/89 (30) 58

Ca

Coetsee, A-G in talks over Vermaas, Berg

THE Minister of Justice, Mr Kobie Coetsee, met the Attorney-General of the Transvaal, Mr Don Brunette, yesterday afternoon about his decision provisionally to withdraw charges against Pretoria lawyers Mr Albert Vermaas and Mr Eugene Berg.

But Mr Coetsee gave no indication of what was discussed or whether any decisions were taken.

A spokesman for his office confirmed last night that the minister was considering issues that Mr Brunette submitted to him.

Mr Coetsee is expected to make an announcement soon on his decisions.

Mr Brunette said earlier that he did not have sufficient information with which to draw up indictments. He also said he had not seen or read evidence from the Harms Commission before making his decision except for a portion of the commission's transcript given to him at the time of Mr Vermaas's arrest.

Mr Brunette said he had no knowledge of evidence heard by the commission last Tuesday that at least R80 million which Mr Vermaas had obtained Reserve Bank permission to send to the US to purchase aircraft and spares, had not arrived at its intended destination. — Political Staff and Own Correspondent

Malan to testify on 'fishing trip'

Cape Times 23/2/89 58

Own Correspondent

JOHANNESBURG. — The Minister of Defence, General Magnus Malan, spent a brief fishing trip in Mauritius on a boat called Nitor which at one time was going to be bought by Jalc Holdings Mauritius, former Nitor Construction director Mr Dennis Stevens said in an interview.

Nitor Construction is a subsidiary of the SA-based Jalc Holdings.

General Malan is to testify before the Harms Commission to answer questions about his involvement in a fishing trip to Mauritius last October.

He was one member of a private party who flew to Mauritius on a chartered Chieftain Air aircraft last October. Chieftain Air is a subsidiary of Chieftain Aviation which is wholly owned by Pretoria attorney Mr Albert Vermaas whose business activities are the focus of an investigation by the Harms Commission.

General Malan

On Tuesday, General Malan told Parliament he would give evidence about the fishing trip and other things to the Harms Commission at a future date. He was responding to questions about the fishing trip put to him by PFP MP Mr Jasper Walsh.

Speaking from Mauritius, Mr Stevens said General Malan was one of 10 people who went on a fishing trip to Mauritius in October last year. He said the trip was organised by Mr Joe de Decker.

In an interview, Mr De Decker said he was a personal friend of General Malan's but declined to say if the general joined the trip at his invitation.

Mr Stevens said the Nitor was at one time going to be purchased by Jalc but it remained registered in the name of the Mauritian owner.

"However I have access to the boat when it is not on charter," he said.

Both Mr Stevens and Mr De Decker said Mr Vermaas was not a member of their party and that he had arrived in Mauritius after their group had.

"We bumped into him because he was staying at the same hotel as we were," Mr De Decker said. He said Mr Vermaas never went fishing with the group nor did any of the group go fishing on Mr Vermaas's luxury boat Gabriella.

Vermaas properties to be attached

Own Correspondent

JOHANNESBURG. — The Reserve Bank will attach three properties, sold by Pretoria attorney Mr Albert Vermaas to alleged overseas investors, this week, Bank attorney Mr Tippy Luttig said yesterday.

He said the Bank had grounds to suspect that foreign exchange regulations had been contravened. Legal action was also being taken overseas to secure assets belonging to Mr Vermaas.

The properties that are to be attached are:

- Kingsway Developments, comprising about 80ha of land adjacent to Lanseria Airport. The Harms Commission heard that the property was purchased for R1,4m and sold 15 months later (December 1986) to Mr Otto Repa of West Germany for R22m.
- Shenandoah Investments, which was wholly owned by Mr Vermaas and which held certain mining and prospecting rights. The Commission heard that Mr Vermaas purchased the company for R1m before selling it in March 1987 to an off-shore company registered in Panama, Syncaz Commercial Inc, for R25,9m
- Curver Investments, which was purchased by Mr Vermaas for R700 000 and later sold to an overseas buyer for R6m.

The Commission heard that in at least one of the finrand deals, Mr Vermaas had been the seller and had acted as agent for the buyer.

In December, the Commission heard that Mr Vermaas had obtained Reserve Bank approval for finrand transactions totalling R92m during an 18-month period.

Pik wants to give evidence

THE Minister of Foreign Affairs, Mr Pik Botha, says he would welcome the opportunity to give evidence to the Harms Commission.

Mr Botha was responding to media inquiries after ~~the Minister of De-~~ fence, General Magnus Malan, told Parliament yesterday that he too would be testifying.

Both Mr Botha and Gen Malan have been linked to Pretoria lawyer Mr Albert Vermaas against whom allegations of foreign exchange fraud have been made.

Mr Botha has also been linked to Mr Chris van Rensburg of Jalc which is also under investigation. He said yesterday that he had requested his department to give the Commission its fullest co-operation.

BUSINESS

COMPANIES

AKGW 23/2/89 58

Bumper Remgro divs

ALL FOUR companies in the Rembrandt group are paying sharply higher final dividends for the year ending March 31.

● **Remgro** has raised its final dividend by 23,7 percent from 10,1c to 12,5c a share, bringing the total payout for the year to 20c a share — a 17,5 percent increase on last years' 17c a share.

● **Rembrandt Controlling Investments** has increased its final dividend by 30,3 percent to 9,2c (7,47c) a share for a total of 14,81c a share for the year. This represents a 17,7 percent increase on last year's total of 12,58c a share.

● **Technical and Industrial Investments** will pay 8,62c (6,95c) a share bringing the total to 13,78c (11,70c).

● **Technical Investment Corporation** is paying 8,13c (6,56c) a share, for a total of 13c (11,04c) a share.

● **Blue Circle** has reported record earnings of 227,4c share for the year ending December against 151,2c the previous year.

A final dividend of 70c will be paid bringing the total for the year to 100c, double that paid out the previous year. The total distribution for the full year is covered 2,3 times by earnings.

Turnover shows a 39,4 percent increase to R527-million reflecting more buoyant conditions existing in the building and construction industry during 1988. Turnover also includes for the first time the effects of the acquisitions of Tarmac (SA) and Yucon Coil Company.

Profit before income and tax increased by 51,8 percent to R110 225 (R72 632).

The group's effective tax rate has risen from 35 percent in 1987 to 42 percent in 1988 due to losses previously available, having been mainly exhausted in the previous year.

● **Delta Electrical** has increased operating profit by 26 percent for the year to December to R22,5-million (R17,8-million).

With the help of interest income from the group's cash resources, earnings rose 30 percent to R11,5-million (R8,8-million) equivalent to 32,3c (24,9c) a share. Dividends were up 25 percent to 12,5c (10c).

The two acquisitions announced towards the end of the year, Delta EMD and 20 percent of Valard, were only effective from January 1989 and so are not included in the 1988 figures.

● **Elcentre**, 54 percent-held by Elgro, has made an acquisition that will add a second arm to group structure.

Elcentre, whose sole activity to date has been the distribution of electrical and electronic products to the mining, industrial and electrical contracting markets, is to establish a trading division to concentrate on the distribution of pre-packed hardware, tool, electrical, lighting, video and audio products to the DIY and consumer markets.

The deal is not expected to have any immediate effect on earnings or on the NAV of Elgro or Elcentre, but should have long-term positive effects.

● The **Imerman** group is paying R45-million for its 100 percent control of the shares and tradenames of the South African subsidiary of the international Royal Beech-Nut company (RBN).

● **Utico** has reported a 20 percent growth in earnings to 260,2c (217,6c) a share for the year ending December 31.

Operating profit was up 17 percent to R31,5-million (R26,9-million) on a 15 percent increase in turnover to R310,6-million (R269,3-million).

The final dividend of 70c (62c) a share brings the total for the year to 110c (87c) a share.

Maggie Rowley

ST Trib 23/2/84

Bank rate up to 16% to counter inflation

By AUDREY D'ANGELO
Financial Editor

ANNOUNCING a rise in the bank rate to 16%, Reserve Bank Governor Gerhard de Kock said last night that it was necessary to curb consumer spending further because of the lower gold price, higher interest rates in Europe and the US, and "a further excessive rise in the money supply during January".

The Reserve Bank would curb its own domestic credit creation in the form of both discount window accommodation and open-market operations.

1% rise in prime

Explaining that the rise from a bank rate of 14,5% would in fact mean a rise of only up to 1% in prime rate, De Kock said the Reserve Bank would abolish the preferential margin of 0,5% previously extended to discount houses on its various refinancing rates.

"In future the bank will therefore have only one set of refinancing rates applicable to both banks and discount houses.

"This is basically a technical adjustment made in recognition of the evolutionary changes that have occurred in recent years in the functions of discount houses, and, in particular, of the fact that they no longer serve as the main conduit through which banks obtain accommodation from the Reserve Bank.

"For some time now the Reserve Bank's key rediscount rates have, in fact, been the rates that apply to banks and not the rates charged to discount houses."

The term "bank rate" would in future refer to the Reserve Bank's uniform rediscount rate for Treasury bills for both banks and discount houses. "In practice this means that from February 23 bank rate will be 16% instead of 14,5%.

"A consequential change is that the traditional maximum margin between 'bank rate' and the banks' prime overdraft rate now becomes 3% instead of 3,5%."

De Kock continued: "It is expected that the planned reduction in Reserve Bank accommodation to the banks will result in increases of up to 1% in the prime overdraft rates of at least some banks and in certain other short-term lending and deposit rates.

"This will bring these rates into alignment with those money market rates that have already moved up in recent weeks, such as the rates on Treasury bills, Land Bank bills and bankers' acceptances.

"It goes without saying that there is no compulsion on any bank or building society to increase any of its lending rates if it does not deem it necessary to do so.

"Whether long-term interest rates, including home mortgage rates and the yields on Government stock and semi-gilt edged securities, will be materially affected by the expected increases in short-term rates will, of course, depend on supply and demand conditions in the capital market.

"At present it is not self-evident that these long-term rates will rise to any significant extent."

De Kock pointed out that interest rates in Europe and the US had risen to levels which "in real terms greatly exceed those in SA."

Levelling off

He said there were indications that the upswing in total spending and general economic activity was levelling off "and that, in a technical sense, an upper turning point of the business cycle has either already been passed or is about to be reached.

"But for the time being it remains the objective of monetary policy to reduce the rates of increase of the money supply and total spending in order to counter inflation and to strengthen the balance of payments."

Fuel price to go up again on April 1

Homeowners reel as bond rates rocket

Star 23/2/89 (58)

By Peter Fabricius and Finance Staff

Hit by higher transport tariffs, a fuel price increase, rising inflation and a one percent rise in the bank rate, South Africa's economic Indian summer has ended and a bleak economic winter lies ahead.

This was today forecast by Mr Harry Schwarz, Progressive Federal Party finance spokesman, following the latest round of increases announced yesterday.

Mortgage rates and all other interest rates affecting borrowers are set to rise by another one percentage point as a result of yesterday's rise in the bank rate from 14,5 to 16 percent.

Banks and building societies have made no announcements so far, but there is little doubt that the prime lending rate and most other interest rates are due to be increased by at least one percent.

Senior bankers indicated this morning that they will increase the prime rate by one percentage point to 19 percent, paving the way for higher hire-purchase rates and other borrowing rates linked to prime.

There is some consolation for consumers in the fact that interest rates on savings will also rise.

It also seems certain that mortgage bond rates are set to increase by one percentage point.

Most of the major banks and building societies currently charge 18 percent on both new and existing bonds, with the exception of Standard Bank and Nedbank (17,75 percent on new bonds) and Saambou (18,25 percent on new bonds).

One month's notice

Building societies will have to give one month notice of an increase, so the earliest they could implement an average 19 percent bond rate is by April 1. Banks, however, can affect changes in their rates immediately.

Says Mr Terry Power, Standard Bank's general manager, home loans "Bond rates will certainly increase but details are still being worked out."

Hardest hit by the latest increase in mortgage rates will be homeowners with outstanding mortgages to banks and building societies. Since April last year the mortgage rate has increased on average from 13 percent to current levels of around 18 percent.

A further increase of one percent in mortgage rates will mean that the monthly repayments on a mortgage of R100 000 will increase to R1 621 a month, compared with a repayment of R1 172 a month when the rate was 13 percent.

Repayments on a mortgage bond bond of R50 000 will increase to R810 a month at an interest rate of 19 percent compared with R584 a month in April last year.

Reacting to the depressing economic news, Finance Minister Mr Barend du Plessis said that South Africa was paying the penalty for too rapid growth and too much credit last year.

Minister of Transport, Mr Eli Louw, announced an average increase of 8,7 percent in all Sats tarifs yesterday.

Mr Danie Steyn, Minister of Economic Affairs and Technology, confirmed the increases would be automatically added to fuel prices when the new tariffs came into effect on April 1.

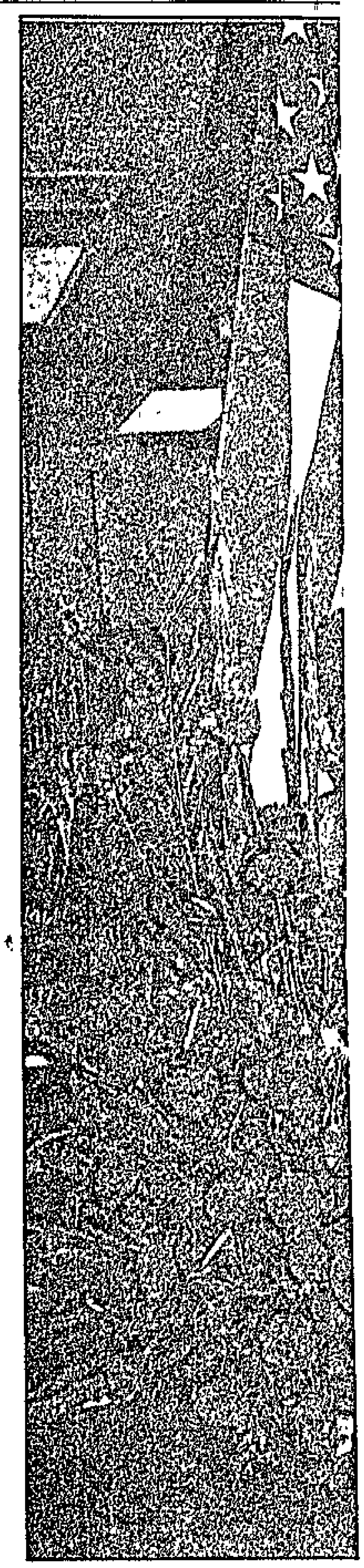
'Additional hardship' for SA's consumers

Star 23/2/89

By Paula Fray

The Housewives' League reacted sharply today to yesterday's announcement of increases in the bank rate and South African Transport Services (Sats) tariffs, and warned of possible ripple effects in the economy.

Mrs Lyn Morris, president of the league, said the Sats budget would mean additional hardship for the "already hard-pressed South African consumer".



Top floral arrangers from arou
flower show staged in South Af
centre in Johannesburg. Inspec
window is Tracey McNamara (
which ends on Sunday, will incl
arrangers, a wedding bouquet
housewives and scholars. The
Chelsea Flower Show in Englan

Now one Bank rate for all

GRETA STEYN

IN RECOGNITION of the changed role of discount houses, the Reserve Bank yesterday abolished the lower rate the houses had previously enjoyed on cash borrowed from it.

Previously, the houses had a 0,5 percentage point margin in their favour.

The Bank now has only one set of refinancing rates for banks and discount houses.

"Bank rate" now refers to the rediscount rate on Treasury Bills for banks and discount houses.

"This is basically a technical adjustment made in recognition of the evolutionary changes that have occurred in recent years in the functions of discount houses and, in particular, of the fact that they no longer serve as the main conduit through which banks obtain accommodation from the Reserve Bank," yesterday's statement said.

Both banks and discount houses had some reservations about the change, although they agreed it was necessary in

To Page 2

3/2/89

(58)

Discount houses lose Bank rate edge

the long run. B/Day 2/7/89 (58)

From Page 1

Discount House of SA MD Ian Huddy said: "We are a little surprised that the Bank has taken away our preferential rates without lifting some of the restrictions on our activities."

Discount houses face restrictions on their deposit raising, as well as on their asset portfolios.

Securities MD Mike Haskins said the house would not really be affected by the change, as it had moved away from the old-style discount house business. He believed the Bank would have to lift restrictions on the houses now that it had done away with preferential rates.

Standard Bank treasury GM John Lloyd said the adjustment would raise the cost of banks' and discount houses' funds.

"The houses will pay up to 0,5 percentage points more to depositors to stay out of the Bank, which should put upward pressure on the cost of some deposits."

De Kock moves swiftly to tighten policy

Prime, bond rates set to rise

B|Day 23/2/89 (58)

● DE KOCK

GRETA STEYN

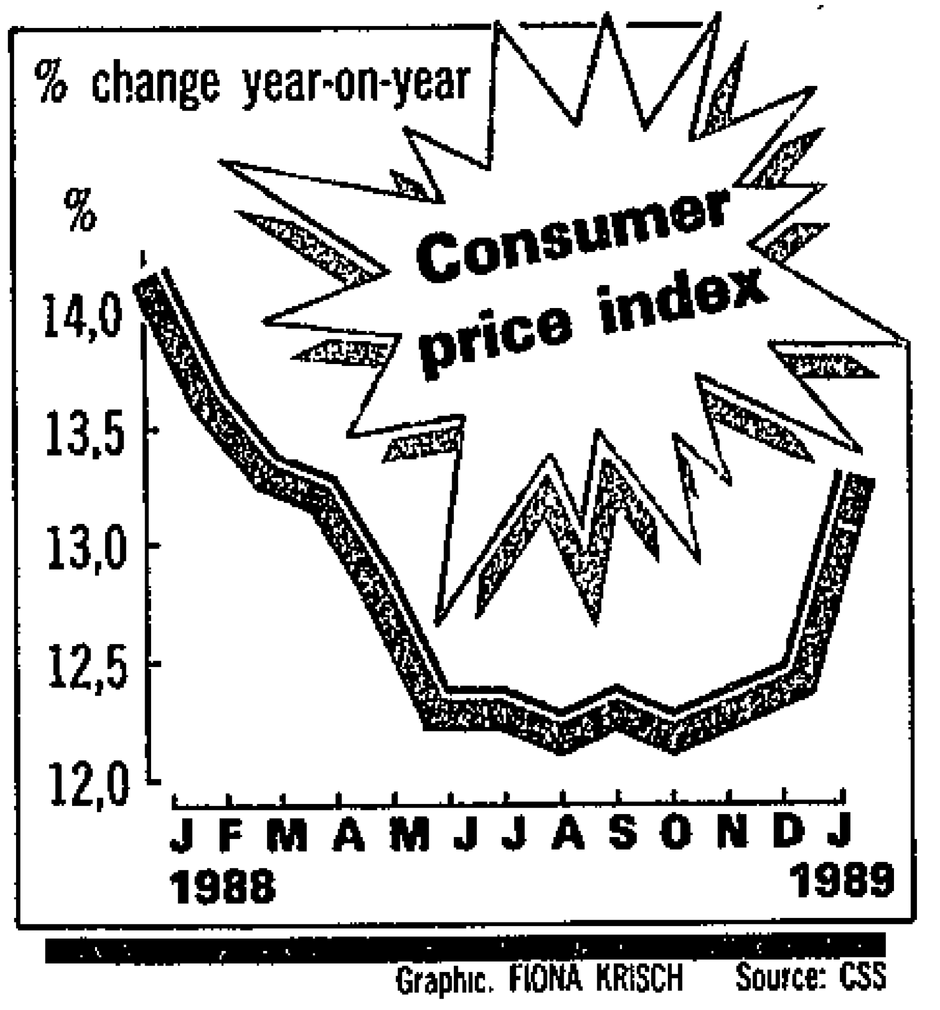
BANKS' lending rates are set to rise by one percentage point after Reserve Bank Governor Gerhard de Kock's swift move yesterday to tighten monetary policy.

De Kock raised Bank rate to 16% with effect from today and pledged to slow down the Bank's provision of cash reserves to the banks.

Senior bankers last night indicated the move would be followed by announcements of a one percentage point hike in their prime overdraft rates to 19% today. Home loan rates of banks and building societies are also expected to rise soon.

In contrast to last year, when market pressures were allowed to reach boiling point before action was taken, the Reserve Bank this time led the market on an increase in Bank rate.

De Kock's statement on monetary policy came only hours after the release of January's inflation figures, which showed a further quickening in the rate to 13,3% from 12,5%.



Graphic. FIONA KRISCH Source: CSS

De Kock said the ultimate objective of monetary policy was to counter inflation and to strengthen the balance of payments. He mentioned the weaker gold price, the further rise of interest rates in Europe and the US and the excessive increase in the money supply as clear signals that a policy shift was needed.

Economists Rudolf Gouws of Rand Merchant Bank and Aubrey Dickman of Anglo American praised the swift action taken by De Kock.

Dickman said: "The prompt action shows a greater willingness to face up to the realities. The move towards greater flexibility is welcome after the heavy price paid last year."

He hoped the burden of short-term stabilisation policy would not be left entirely to monetary policy.

"It is imperative that fiscal policy be tightened too."

Other economists said it was a relief that politics had not again been allowed to interfere with the Bank's independence.

MIKE ROBERTSON reports from Cape Town that Deputy Finance Minister Org Marais said any other action than that taken by the Bank would have been irresponsible.

Marais was speaking because Finance Minister Barend du Plessis was involved with Budget meetings.

The interest rate, he said, was the most important tool available to man-

● To Page 2

Prime and bond rates set for increase

B|Day 23/2/89 (58)

● From Page 1

age the economy.

"We have to allow the interest rates to indicate the market trends. Business people have to plan for variations in interest rates."

Marais said the percentage hike should not be seen as a "permanent thing. The moment we see a decline in economic activity we will act."

Marais said government was satisfied that last year's interest rate hikes had brought about a decline in consumer spending, but there was now a large-scale movement to corporate credit.

He said another important factor that had decided the hike was that SA importers and exporters were getting their credit in Johannesburg.

"They are not using foreign credit. We can't ignore the relationship between SA interest rates and interest rates overseas. Interest rates were increased last night in the US. The moment there is a disparity people move to the local market and with our reserve position and need to maintain a blanace of payments surplus, we simply cannot afford it."

De Kock moves to cool overheating economy

Star 23/2/89

By Derek Tommey

The Reserve Bank moved last night to cool down the overheated economy by raising Bank rate from 14,5 percent to 16 percent — its highest level since September 1985.

This should lead almost immediately to an increase in the commercial banks' prime rates from 18 percent to 19 percent and a similar increase in all bank lending rates.

This is the sixth increase in bank lending rates since January last year. It means that since then the cost of borrowing money at prime rate from banks will have risen more than 50 percent — from 12,5 percent to the expected 19 percent.

With total bank lending running at R85 billion (though not all of it is at variable interest rates), the expected rise in the prime rate is likely to cost borrowers an extra R500 million a year.

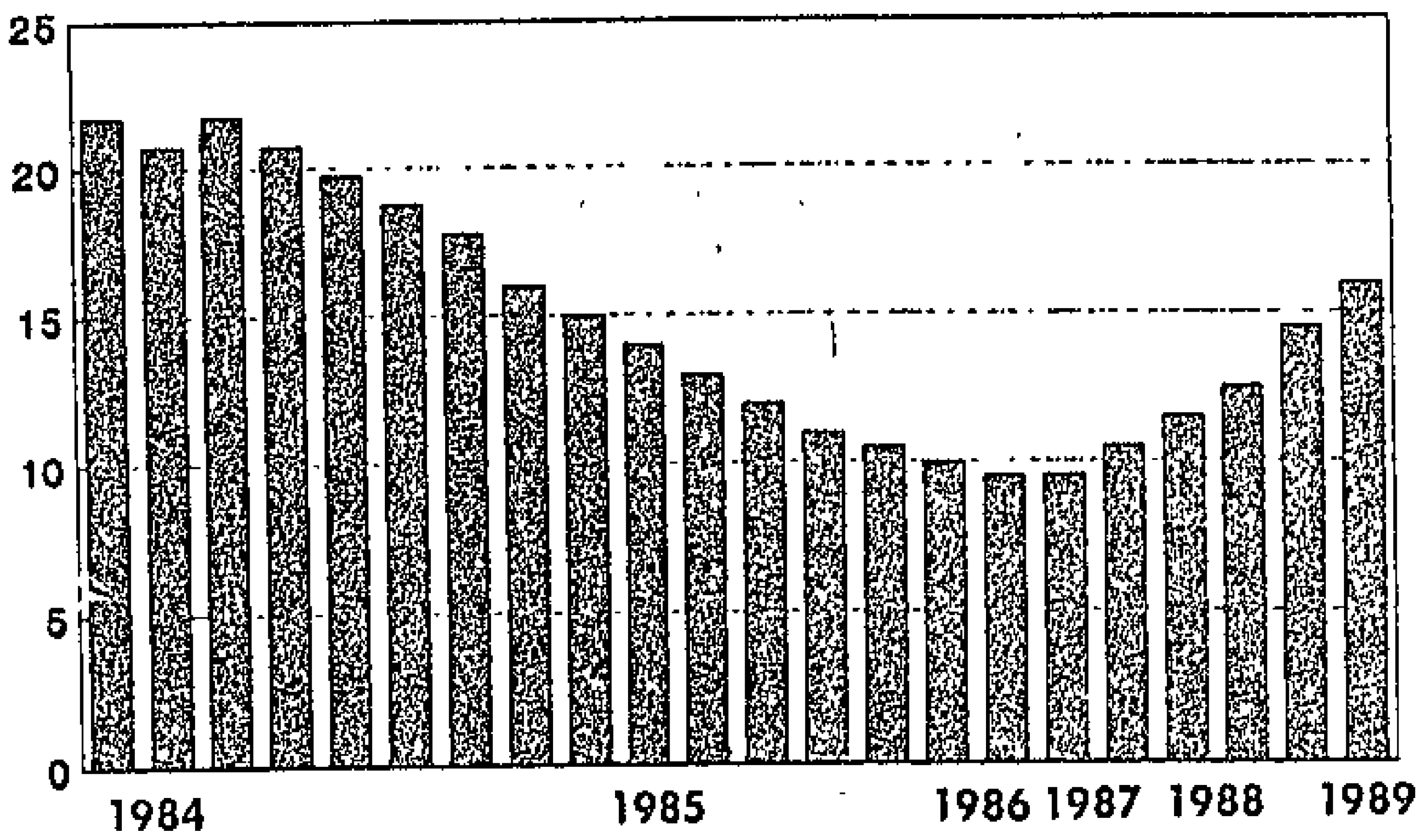
Many large companies are now liquid and the rise in prime is not likely to have any direct effect on their plans.

Shelve plans

However, the possibility of another rise in interest rates, should the present move fail to depress the economy sufficiently, could cause them to shelve plans.

Property developments are the most likely to be constrained by higher rates. Plans to expand manufacturing production, especially if it is for the export market or for import replacement, should go ahead.

Higher HP rates could have a depressing effect on new car sales. But as most new cars these days are sold to companies which deduct the increased costs from their tax payments, the effect of the higher rates is likely to be marginal.



Increases in the bank rate since 1984

Mortgage rates are expected to rise, but bankers are not certain of the size of the increase.

Mr Kevin de Villiers, MD of Allied, said yesterday prime would certainly rise one percent. Mortgage rates would also rise; but the situation needed to be examined.

Mr Terry Power, general manager of home loans at Standard, agreed that mortgage rates were likely to rise but was unable to say by what figure.

He cautioned borrowers against trying to lessen the interest burden by stretching their repayment period.

If a borrower with a R100 000 mortgage extended it from 20 years to 30 years, he would save R36 a month, but would have to pay an extra R190 000 in capital and interest.

Housebuyers owe the building societies R30 billion. A one percent rise in the mortgage rate would add R300 million a year to housebuyers' costs.

A housebuyer with a R100 000 bond would have to pay an extra R78 a month. Other bondholders would have to pay a proportionate amount.

Hardest hit will be those who can barely afford the 100 percent, 12,5 percent bank bonds available a year ago.

The monthly repayments on their bonds will have risen by 50 percent in this period, if the rate moves to 19 percent.

It is this area where the increase in interest rates could bite the hardest.

Even so, not all people will be affected because many with subsidised bonds can expect increased subsidies.

It is time, it seems, that the authorities had a rethink about ways to cool the economy. Increasing bank rate has been the weapon most used by central banks. But while it might have been an efficient weapon in a relatively unconstrained pre-World War 2 untaxed economy, it seems to have a number of defects in today's tax-driven business conditions.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said last night the need to tighten monetary policy was brought about by three developments.

They were:

- The decline in the gold price from an average of $437 in 1988 to below $400 in recent weeks. Over a full year, a $50 drop in the price would cost SA about $1 billion at present exchange rates.
- The further rise in interest rates in Europe and the US to levels that in real terms greatly exceed those in SA.

Excessive rise

- The further excessive rise in the money supply in January to a level 28 percent higher than a year ago, which showed that the vigour and duration of the upswing in the domestic economy last year was consistently underestimated.

He said the upswing in total spending and general economic activity was levelling off and that an upper turning point of the business cycle had either been passed or was about to be reached.

But it was intended to reduce the rates of increase in the money supply and total spending to counter inflation and strengthen the balance of payments.

CAPE TIMES 23/2/89 58

Cape Ti

Coetsee, A-G in talks over Vermaas, Berg

THE Minister of Justice, Mr Kobie Coetsee, met the Attorney-General of the Transvaal, Mr Don Brunette, yesterday afternoon about his decision provisionally to withdraw charges against Pretoria lawyers Mr Albert Vermaas and Mr Eugene Berg.

But Mr Coetsee gave no indication of what was discussed or whether any decisions were taken.

A spokesman for his office confirmed last night that the minister was considering issues that Mr Brunette submitted to him.

Mr Coetsee is expected to make an announcement soon on his decisions.

Mr Brunette said earlier that he did not have sufficient information with which to draw up indictments. He also said he had not seen or read evidence from the Harms Commission before making his decision except for a portion of the commission's transcript given to him at the time of Mr Vermaas's arrest.

Mr Brunette said he had no knowledge of evidence heard by the commission last Tuesday that at least R80 million which Mr Vermaas had obtained Reserve Bank permission to send to the US to purchase aircraft and spares, had not arrived at its intended destination. — Political Staff and Own Correspondent

Malan to testify on 'fishing trip'

CAPE TIMES 23/2/89 (30) 58

Own Correspondent

JOHANNESBURG. — The Minister of Defence, General Magnus Malan, spent a brief fishing trip in Mauritius on a boat called Nitor which at one time was going to be bought by Jalc Holdings Mauritius, former Nitor Construction director Mr Dennis Stevens said in an interview.

Nitor Construction is a subsidiary of the SA-based Jalc Holdings.

General Malan is to testify before the Harms Commission to answer questions about his involvement in a fishing trip to Mauritius last October.

He was one member of a private party who flew to Mauritius on a chartered Chieftain Air aircraft last October. Chieftain Air is a subsidiary of Chieftain Aviation which is wholly owned by Pretoria attorney Mr Albert Vermaas whose business activities are the focus of an investigation by the Harms Commission.

General Malan

On Tuesday, General Malan told Parliament he would give evidence about the fishing trip and other things to the Harms Commission at a future date. He was responding to questions about the fishing trip put to him by PFP MP Mr Jasper Walsh.

Speaking from Mauritius, Mr Stevens said General Malan was one of 10 people who went on a fishing trip to Mauritius in October last year. He said the trip was organised by Mr Joe de Decker

In an interview, Mr De Decker said he was a personal friend of General Malan's but declined to say if the general joined the trip at his invitation.

Mr Stevens said the Nitor was at one time going to be purchased by Jalc but it remained registered in the name of the Mauritian owner.

"However I have access to the boat when it is not on charter," he said.

Both Mr Stevens and Mr De Decker said Mr Vermaas was not a member of their party and that he had arrived in Mauritius after their group had.

"We bumped into him because he was staying at the same hotel as we were," Mr De Decker said. He said Mr Vermaas never went fishing with the group nor did any of the group go fishing on Mr Vermaas's luxury boat Gabriella.

Vermaas properties to be attached

Own Correspondent

JOHANNESBURG. — The Reserve Bank will attach three properties, sold by Pretoria attorney Mr Albert Vermaas to alleged overseas investors, this week, Bank attorney Mr Tippy Luttig said yesterday.

He said the Bank had grounds to suspect that foreign exchange regulations had been contravened. Legal action was also being taken overseas to secure assets belonging to Mr Vermaas.

The properties that are to be attached are:

- Kingsway Developments, comprising about 80ha of land adjacent to Lanseria Airport. The Harms Commission heard that the property was purchased for R1,4m and sold 15 months later (December 1986) to Mr Otto Repa of West Germany for R22m.
- Shenandoah Investments, which was wholly owned by Mr Vermaas and which held certain mining and prospecting rights. The Commission heard that Mr Vermaas purchased the company for R1m before selling it in March 1987 to an off-shore company registered in Panama, Syncaz Commercial Inc, for R25,9m.
- Curver Investments, which was purchased by Mr Vermaas for R700 000 and later sold to an overseas buyer for R6m

The Commission heard that in at least one of the finrand deals, Mr Vermaas had been the seller and had acted as agent for the buyer.

In December, the Commission heard that Mr Vermaas had obtained Reserve Bank approval for finrand transactions totalling R92m during an 18-month period

Pik wants to give evidence

THE Minister of Foreign Affairs, Mr Pik Botha, says he would welcome the opportunity to give evidence to the Harms Commission.

Mr Botha was responding to media inquiries after the Minister of Defence, General Magnus Malan, told Parliament yesterday that he too would be testifying.

Both Mr Botha and Gen Malan have been linked to Pretoria lawyer Mr Albert Vermaas against whom allegations of foreign exchange fraud have been made.

Mr Botha has also been linked to Mr Chris van Rensburg of Jalc which is also under investigation. He said yesterday that he had requested his department to give the Commission its fullest co-operation.

Ballot to decide city planner post

Municipal Reporter

A SUCCESSOR to Mr David Jack, Cape Town's city planner who is stepping down at the end of the month to take charge of the redevelopment of the waterfront, will be decided by ballot at Tuesday's City Council meeting.

This was confirmed yesterday by deputy town clerk Mr Gys Hofmeyr, who said appointments to senior posts such as town clerk and heads of departments had to be approved by the full council using a formal voting procedure

The ballot will put an end to months of keen speculation on who will occupy this influential post.

Mr Neville Riley and Mr Peter de Tolly are widely thought to be the most serious contenders Mr Hofmeyr did confirm that Mr De Tolly had been promoted recently to the post of deputy city planner. This puts him on the same level as Mr Riley, who is also a deputy city planner.

For a long time after the city engineer's department was split to form a separate city planner's department, Mr Riley was the only deputy city planner while Mr De Tolly was director of planning Mr Hofmeyr said that two posts of deputy city planner had been created at that time, but only one had been filled

When the management structure and the areas of responsibility were sorted out late last year, the second post had been filled, he said, and Mr De Tolly had been chosen for the post.

Mr Riley, who is the brother of the city engineer Mr Des Riley, has a degree in land surveying from UCT.

Mr De Tolly holds a degree in architecture from UCT and a degree in urban design from the University of Toronto.

Southern buys 13% stake in British group

Star 23/2/89

58

Finance Staff

Southern Life last night announced that it had acquired a stake of 13 percent in a UK-based international financial services group called Hansard Financial Trust Limited (Hansard) at a cost of £12 million.

An official announcement by Southern reads: "The nature of the relationship with Hansard affords Southern an opportunity to bring its expertise and know-how to bear, and to increase its involvement with Hansard in the future.

"The transaction is not expected to have a significant impact on Southern's earnings or dividends in the short term, but will have longer-term benefits."

A-G sidelined

CAPE TIMES 24/2/89

By CHRIS CAIRNCROSS

MINISTER of Justice Mr Kobie Coetsee has overruled the decision taken this week by Transvaal Attorney-General Mr Don Brunette provisionally to withdraw criminal charges against Pretoria attorney Mr Albert Vermaas.

It was also learnt last night that:

- The case has been removed summarily from Mr Brunette's jurisdiction and given to Kimberley Attorney-General Mr Charl du Plessis.
- Mr Brunette's instruction that bail conditions imposed on Mr Vermaas be lifted has also been partly rescinded — Mr Vermaas's passport has been confiscated.

Legal circles described the development as an extreme case of official censure, and one without precedent.

The development follows the summoning of Mr Brunette to Cape Town earlier this week to explain his decision to Mr Coetsee.

Official sources in Cape Town disclosed yesterday that the instruction that Mr Vermaas's passport be confiscated came from Home Affairs Minister Mr Stoffel Botha.

At the time of going to press no official confirmation could be obtained. But a spokesman for Mr Coetsee's office did say that a full statement was being prepared and that various departments had to be consulted before it could be released.

Harms Commission transcript

Meanwhile, it was learnt from the Harms Commission yesterday that Mr Brunette — seemingly on the instructions of Mr Coetsee — has requested a full transcript of all the evidence led so far concerning Mr Vermaas's activities.

Presumably this evidence will be handed over to Kimberley Attorney-General Mr Du Plessis.

Mr Brunette is on record as saying that his decision to withdraw charges against Mr Vermaas was made without considering any of the evidence submitted to the commission.

'His explanation for provisionally withdrawing charges was that he did not have sufficient evidence against Mr Vermaas on which to render a charge sheet, and that it could take months to do so.

Mr Brunette also said Mr Vermaas had used the criminal charges laid against him as a pretext for refusing to give evidence to the Harms Commission.

It is not yet clear whether, in the light of these most recent developments, Mr Vermaas will be asked again to appear before the commission

Cape Times
24/2/89

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Brace yourself for the squeeze

Star 24/2/89

58

The predicted increases in prime rate and Bank Rate will have far-reaching effects throughout the South African economy, and strained household budgets will feel the brunt of them, reports **HELEN GRANGE**.

Household budgets, already stretched by last year's cost-of-living increases, will be strained even further by another increase in the prime lending rate, which is expected any day now.

This follows the announcement by the Reserve Bank that monetary policy is being tightened even further by an increase of 1,5 percent in the Bank Rate.

Mortgage rates and all other interest rates affecting borrowers are expected to increase from 18 to 19 percent, paving the way for higher hire purchase rates and most other borrowing rates linked to prime.

In addition, the new 8,7 percent increase in transport fares has resulted in an increase in the petrol price from April.

Some estate agents and property economists expect mortgage rates to go as high as 20 percent before the end of June, causing a slowdown in property sales and lower prices.

Repayments rocket

Mortgage rates will have increased by 3 percent in only five months, which means that a monthly repayment of R695 on a R50 000 bond over 20 years paid last October (at 16 percent) will cost R810,34 a month (at 19 percent).

A R75 000 bond taken over 20 years at 19 percent will cost R1 215,51 a month and a bond for R100 000 will cost R1 620,68 a month. A monthly repayment of R2 025,85 will be made on a R125 000 bond and a R2 431,02 monthly repayment on a R150 000 bond.

Economists have predicted that, as a result of the new prime rate, the maximum hire purchase rate will be raised from 28 to 29 percent. This is in the wake of the 4 percent increase in Usury Act ceilings last November.

At the current maximum hire purchase rate of 28 percent, buying a car on HP can also prove to be a very costly exercise in the long run.

Mr Mike Carstens, general manager in charge of marketing at Nedfin, gave the following figures:

A R30 000 car at 28 percent paid over four years can eventually cost R53 786, compared with a final cost of R50 546,88 at the old maximum rate of 24 percent.

A R70 000 purchase at a 28 percent HP rate paid over four years could eventually amount to R148 400.

Only 18 months ago, the maximum rate under the Usury Act was 22 percent.

Mr Carstens stressed however that these figures correlated with the maximum lending rate and that lower rates could be negotiated with financial institutions in most cases.

How increases will hit your pocket

BOND	16%	17%	18%	19%
R50 000	R695	R734	R772	R810
R75 000	R1 043	R1 100	R1 158	R1 215
R100 000	R1 391	R1 467	R1 543	R1 620
R125 000	R1 737	R1 834	R1 929	R2 025

The interest rate for bonds is expected to reach 19 percent.

HIRE PURCHASE		24%	28%
PRICE	R30 000	R50 546	R53 786
	R70 000	R137 200	R148 400

FINAL COST (applies to the 28% column)

The maximum interest for car hire purchase will reach 28 percent.

FINANCE IS FLEXIBLE

BIDay 24/12/85 (58) ([illegible])

GREATER flexibility in vehicle finance has been introduced by WesBank through a new finance plan for companies, businessmen and employees on allowance schemes.

Called WheelRent 2000, the scheme applies to passenger and light delivery vehicles up to the age of two years. Heavy vehicles have not been considered at this stage.

WesBank senior GM Neville Nightingale says people who receive company car allowances and are eligible to claim tax concessions rank among those who will benefit most.

The scheme provides several conversion options and claims to combine the best of lease, rental and hire purchase.

At the same time it includes the option of taking ownership or returning the vehicle at the end of the lease or rental period.

A unique facility is that payment can be designed to suit a customer's needs by being set for a period of time at a fixed instalment or payment — regardless of the frequency and extent of fluctuations up or down,in interest rates.

The first monthly payment is the first cash outlay. And GST is only paid on the monthly rental as opposed to the full vehicle price.

"This is handy for when VAT is introduced the customer is able to re-assess his position."

INSURANCE (83) FMAIL

A rainy day 24/2/89

Santam's umbrella has folded on three Personal Multiplex policyholders. "The widest choice under one umbrella" — the slogan used in the Multiplex advertising campaign — has left people wondering what the choices are, after the insurer repudiated claims by the three.

Nic von Ronge, Paul Gericke and Sarel Grundlingh were sued by Polish immigrant Miroslaw Przybylak for bodily injury. He became a quadriplegic when he was thrown into a swimming pool at the OFS Groen Oewers Pleasure Resort in November 1982.

The policies included a Personal Legal Liability clause indemnifying a policyholder should he "become legally liable to pay compensation in respect of accidental death of or bodily injury to . . . any person. . ."

Six years later, on December 15 1988, in the Bloemfontein Supreme Court, Judge Dirk Kotze ordered the sum of R1,225m to be paid to Przybylak. He granted a request (opposed by Santam) that any money due in terms of the policies be paid directly to Przybylak or to his attorneys.

On February 2, Santam repudiated liability. No reasons were given.

On February 9, Santam was ordered to pay the costs of the action on a special punitive scale. The judge said Santam's delays had resulted in loss of interest for the applicant. He said Santam had disregarded its undertaking to get the consent of policyholders to pay the applicant direct.

"Santam has had since 1985 to repudiate," says Przybylak's attorney Hilton Munro. "And only now, with legal costs on each side amounting to about R225 000, does it say anything."

MD Oosie Oosthuizen says Santam is entitled to make this decision after hearing evidence in court. "The judge found the policyholders were liars. Only when we heard this, on December 15, could we decide to repudiate," he says. "There were discrepancies in their accounts of the incident, which also differed from that given by Przybylak. We don't pay out if we find the holders are not telling the truth." Oosthuizen adds that the policy does not cover deliberate action. "This was not an accident."

(58) FMAIL 24/2/89.

Policyholders are covered for only R200 000 each, under Personal Legal Liability. Przybylak and his legal representatives did not know the value of the cover and Santam refused to produce the policy — "the secret document" as the judge called it — in court. The judge said: "I find it strange that a public company behaves like this."

Says Oosthuizen: "The policy was never relevant to the action so there was no reason to produce it."

The three policyholders won't challenge the repudiation. "We do not have the finances," says Von Ronge.

Munro says the only course now is to sequestrate the three defendants, giving Przybylak the right to sue Santam. "This case could drag on for some time." ■

Commercial Union has outstanding rise in profits

B| Day 24/2/89 (58)

KAY TURVEY

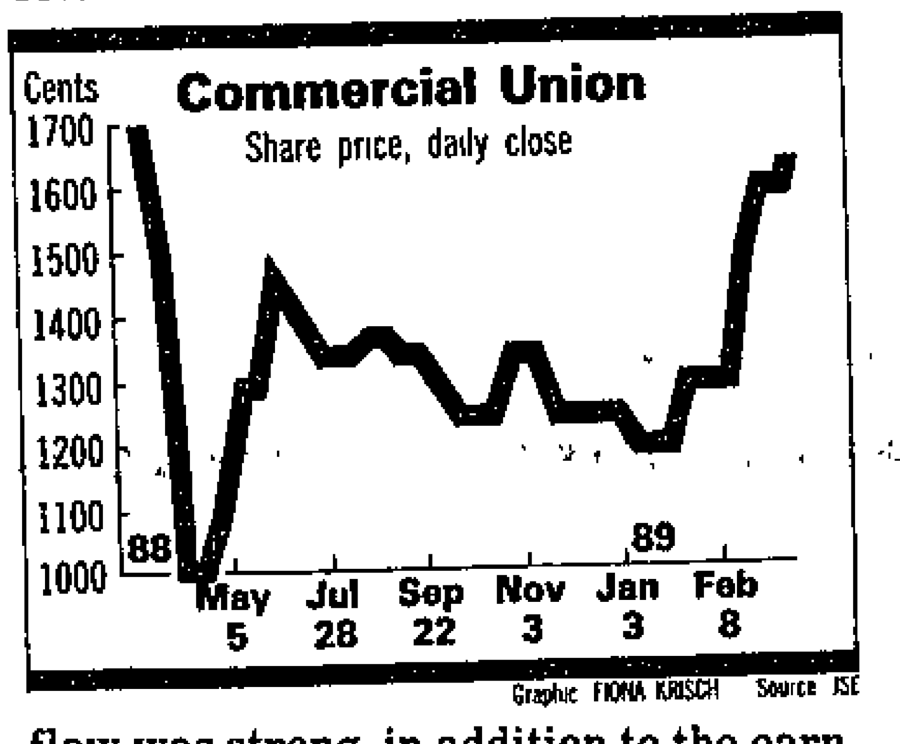
BUOYED by an excellent investment performance and a low incidence of claims, Commercial Union — the country's largest composite insurer — reported an outstanding 109% rise in taxed profits to R31,2m.

On an enlarged share base, as two-million new shares were issued to UBS in 1988, earnings a share climbed from 187,1c to 312,4c. This allowed for a final dividend of 52c (39c) to be paid and made for a total distribution of 75c (57c) for the year to end-December.

The underwriting surplus for the year doubled to R21,2m contributing to the strong bottom-line performance.

MD Bill Rutherford attributed the good short-term underwriting result to the continued low incidence of claims, especially in the crime classes, and a year relatively free from major losses or natural catastrophes, apart from the Free State floods, which had little direct impact on the underwriting results.

Investment income showed a strong 44% rise from R18m to R26,1m as cash flow was strong, in addition to the earnings on the proceeds received from the sale of shares to UBS.



The impact of taxation on earnings was reduced by allowances and increased investment in ordinary and preference shares.

Life profits climbed from R1,8m to R1,9m in spite of the heavier tax burden on life assurers.

New life premiums were up 53% to R139,3m, total premium income grew 45% to R206,3m and investment income swelled by 34% to R104,6m.

Commercial Union's share price moved up 25c yesterday to R16,25 on expectations of good results. This took it to just below its R17 high of February last year and put it on a PE of 5,2 times, well below the industry average of 13,3 times.

However, Rutherford cautioned the good performance would be hard to match in the current year. The incidence of claims had not yet shown signs of increasing, but the average claim cost was rising quite strongly due to inflation and the import surcharge.

Heightened competitive forces were also being felt and this was likely to translate to more modest underwriting results in the immediate future.

Banks stymied on prime hike

B Day 24/2/89

(58)

GRETA STEYN

FEAR of breaking the law prevented banks from raising their prime overdraft rates from 18% to 19% yesterday.

An amendment to the Usury Act in November 1988 stipulates that lenders have to give borrowers seven days' written notice of a change in interest rates. The full implications of the amendment only became clear yesterday as banks' legal experts looked hard at the letter of the law.

Frustrated banks now face a temporary squeeze on their margins as the usual instantaneous response to a Bank rate hike is no longer possible. They also face an administrative nightmare to give written notice to overdraft customers.

However, it is expected that some relief will be granted to the battered banks, already feeling the pinch of higher cost of funding. Reserve Bank Governor Gerhard de Kock described the amendment as a snag and stressed it had not been the Bank's intention to punish the banks. He noted that the Act was the responsibility of the Registrar of Financial Institutions and not the Bank.

"The Bank believes the requirement should not apply to an overdraft because it is a loan which can be withdrawn on demand. We were unaware of the interpretation of the Act but steps will be taken to rectify the situation."

Registrar of Financial Institutions Theo van Wyk last night said he had received representations from the Clearing Bankers' Association.

"We regard the banks' problem with the Act in a serious light and hope to hammer out a solution at a meeting with them tomorrow."

Angry

None of the banks have taken any steps to give customers written notice of the rate increase in the hope that the legal hurdle will be cleared. If the issue drags on for days, the escalation in the cost of funds will cause banks to lose millions of rands.

Officials said it was surprising the banks' legal advisors had not earlier realised the full implications of the amendment. However, some bankers are angry because they were not consulted before the changes were made. One senior banker described the situation as "bureaucracy at its worst".

Commercial Union doubles up

Star 24/2/89 (58)

Finance Staff

Commercial Union (CU) the country's largest composite insurer, has announced a taxed profit of R31,2-million for 1988, a 109 percent increase on the previous year.

The major impetus to this substantial increase was the good short-term underwriting results where a R10,8 million surplus for 1987 almost doubled to R21,2 million in the year under review.

The final dividend is 52c (39c), making a total for the year of 75c (57c).

Chairman John Birkinshaw says: "The dividend — which shows an increase of 32 percent over the previous year — is most satisfactory, especially in view of the need to service the 25 percent increase in the number of shares." (Two million new shares were issued to UBS Holdings in 1988).

The bottom line has been boosted by a substantial increase in investment income — up 44 percent from R18 million to R26,1 million and an increased share of life profits — R1,9-million from R1,8 million. The latter despite the increased tax burden being borne by life assurers.

On future short-term underwriting, he cautions that the good performance will be very hard to match, at least in 1989.

Banks (58) hit snag in bid to raise overdraft rates

By TOM HOOD ARGUS 24/2/89
Business Editor

COMMERCIAL banks are trying to overcome a legal snag to raise overdraft — and possibly home-loan — rates today.

They are fighting to temporarily suspend an amendment to the Usury Act which prevented them from raising rates yesterday.

The amendment stipulates lenders have to give borrowers seven days written notice of a change in interest rates.

If banks receive temporary clearence from the Reserve Bank and the Registrar of Financial Institutions today they could immediately raise their prime rate by one percent to 19 percent.

Mr Jimmy McKenzie, First National Bank's senior general manager, said he expected banks to seek a permanent clearence from the clause soon.

Normally their prime lending rates rise in line with the higher bank rate and bond rates follow.

50 PERCENT JUMP

Home-owners with building society bonds face a rise in their monthly repayments after May.

They have to be given one month's notice and the forecast one percent rise to 19 percent is expected to be announced towards the end of March.

Home-owners without subsidies have seen their monthly

(Turn to page 3, col 7)

ARGUS 24/1/89

Banks' bid to raise rates 58

(Contd from Page 1)

repayments jump by 50 percent in just over 12 months.

The president of the Association of Building Societies, Mr Bob Tucker, said an increase in the bank rate would lead to an increase in the cost of funds to building societies.

Should the higher cost continue it was unlikely they could avoid an increase in the bond rate.

POSITIVE MOVE

But it was also unlikely that building societies would raise their bond rates before May.

Mr Tucker said while long-term interest rates were not directly affected, building societies were now forced to fund themselves extensively in the wholesale market.

The cost of these funds was directly affected by the rise in the bank rate.

The higher bank rate was a positive move by the government to manage the economy.

"Too many South Africans have been living on credit beyond their means."

BEST RETURNS

But bad news for borrowers is also good news for investors and pensioners.

They can expect an increase in their interest, making the returns on their savings the best in years. In many cases their earnings will exceed the country's inflation rate.

● Protesting against South African Transport Services' announcement this week of fare increases, the Association of South African Travel Agents said air fares for business travellers had jumped by more than 20 percent in six months.

Business travellers could cut corners to make necessary trips but the leisure traveller would resist increased prices by taking fewer holidays.

The increased tariffs would have a ripple effect on inflation as transport costs affected the prices of almost all goods.

Policy has early payout option

BDay 24/2/84

SYLVIA DU PLESSIS

IN a drive to attract new business, Norwich Life has launched a policy which gives the holder his first payout cheque after just five years.

The policy could well represent more than 30% of the company's new business income this year, Norwich advertising and products manager Stirling Kotze said yesterday.

The second payout of the policy — Nu-Cash Booster — becomes due at the end of the 10th year of the policy, with subsequent payouts possible every three years.

However, it is up to the client to decide when, and how often, he will receive his maturity payments.

One feature of the programme is the Standard Option, in terms of which the policy will pay out every five years during the entire term of the policy contract.

The more traditional benefits the product offers the client include life cover, disability and accident insurance, monthly income protection, bond cover and disease insurance.

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In addition, Norwich ~~has~~ introduced two insurance options, both available as accessories to the Nu-Cash Booster programme.

The first enables the policyholder to insure someone else's life within the same policy contract.

The second allows the client to invest further lump sum amounts into the Nu-Cash Booster programme after the expiry of 10 years or longer.

Auto & General has 66% rise in premium income

(58)

B/Day KAY TURVEY 24/2/89

AUTO & General's intensive marketing campaign and rapid expansion last year reaped a 66% increase in premium income, which rose to R77,6m.

After reinsurance, retained premiums rose from R35m to R46,5m and, in spite of this strong growth, claims were held in check. Net claims incurred were R30,7m and a claims ratio was unchanged at 66%.

High administration costs, which soared 46% to R30,6m as a result of opening branches in smaller cities resulted in an underwriting deficit of R352 000.

Chairman Douw Steyn, who has a 75% stake in the company, said the deficit did not relate to claims paid but to administrative costs.

To enable the company to continue its expected growth in 1989, Steyn said shareholders had injected R20m into the company. This, combined with retained income of R1,5m for 1988, boosted shareholders' funds to R39,6m (R18,1m).

This boosted the solvency margin to 85%.

FIRST NATIONAL BANK

(58)

The woes of Hogan's heroes

FNB says its computer hassles are waning — it is getting the edge it wanted

That famous tide, which in the affairs of men can lead on to greatness — or disaster — applies to companies as well. For First National Bank (FNB), formerly Barclays, the tide is perceived to have been running strongly against it of late.

The bank's catalogue of woes, according to the wags, can be listed alphabetically, starting with Aldworth, Ball and computers ... While there has been progress towards solving the computer problems, much still has to be accomplished if the bank is ever to realise its ambition of using technology to give it a competitive edge in its field.

For those customers — and they are many — who have been inconvenienced by the hi-tech hassles, the problems began with a system called Hogan. Here, in their eyes, lies the responsibility for innumerable foul-ups. Is this fair?

Hogan is, in fact, a major part of the biggest computer conversion project in SA history. It has already cost about R400m, has fallen behind schedule, suffered cost overruns and produced systems that have caused significant problems for both retail and corporate customers on the Reef. At first the bank tried to keep the lid on — but since large-scale customer dissatisfaction became public knowledge, it has started blitzing the press with belated admissions of its problems and now says the worst is over.

How is one to judge this? For the necessary perspective on FNB's current problems and protestations, it is useful to go back four years. At that time, the perceived leader in electronic banking was arch-rival Standard, whose highly visible Autobank facilities were giving it an increasing share of customers, especially those opening accounts for the first time. Nedbank was providing corporate customers with very high levels of service based largely on computer systems that its programmers had developed in-house. Other banks, too, were making ground, using their computer systems to offer customers improved service and innovative products.

"Back in 1985, the bank took a hard look at what it had to do to be able to support the business environment of the Nineties," says Mike Jarvis, FNB GM in charge of computer systems. "The objective was to try to identify the type of business we would be in then."

FNB's Jarvis ... meshing systems for the Nineties

That business would be different, the bank concluded, for a number of reasons: deregulation; volatile interest and exchange rates; high inflation requiring increased capital reserves; and increased competition, not merely from other banks but from retailers, building societies, insurance companies, airlines — anyone, in fact, with a major electronic network. And sophisticated customers, particularly corporate treasurers, would require appropriately sophisticated services.

"Pressure on margins dictated moving into a far wider financial services structure," says Jarvis. "The bank had to look to alternative sources of income and these, fundamentally, are going to be fee-generating services such as providing consultancy, financial advice, insurance, travel, broking — anything that can be related closely with the financial and banking services industry."

But in 1985 the bank's infrastructure did not lend itself to the type of system the new business environment demanded. Since computerisation had been introduced 20 years before, many applications (programs designed to accomplish particular tasks) had been developed — but they ran on different types of equipment that were mutually incompatible. ICL equipment dealt with branch systems based in seven computer centres scattered around SA. The Merchant Bank also ran on ICL — but a different

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series. Accounting systems and the Wesbank operation were predominantly IBM. The trustee operation ran on DEC machines. The bank's personnel system operated on Burroughs. And the terminal system was similarly chaotic with units from a dozen or so different vendors, each with its own proprietary system.

Worse, the bank had six separate countrywide networks connecting the same points but speaking different computer languages. If one network went down, it was impossible to use one of the other five to transfer its data.

What the bank needed, says Jarvis, was to replace this hodge-podge of systems with a computer architecture that would cover both integrated and non-integrated applications (those that could talk to each other and those that did not need to). This would give the bank far better access to information about its customers and their needs. It chose Hogan software from the US which had already proved successful in a number of financial institutions there, in Europe and SA.

At the top of the Hogan infrastructure sits the Processing Environment Module, commonly called the "umbrella" system. This protects the applications from changes that a vendor may make to hardware. Without such protection, every hardware change is likely to require changes to applications programs to accommodate it. With Hogan, these changes can be made in the umbrella module and the applications run the same.

Also, Hogan has a series of financial support systems which can be switched on or off depending on the kind of characteristic required for a particular application. Thus, interest can be calculated on a daily or monthly basis, to last day of month or last working day. New applications can be developed very quickly.

"It took three months to introduce the Bob T and Junior Bob products in the ICL environment," says Jarvis. "It took 36 hours to introduce it into Hogan."

Hogan runs on IBM mainframes and FNB decided to standardise on this environment, though not on IBM as sole supplier. "We wanted to leave ourselves as open as possible to the development of software and inclusion within the infrastructure of hardware. Most manufacturers and software suppliers recognise — whether you like it or not — that the IBM environment has 70% of the world market, so they are going to move into that marketplace before any other."

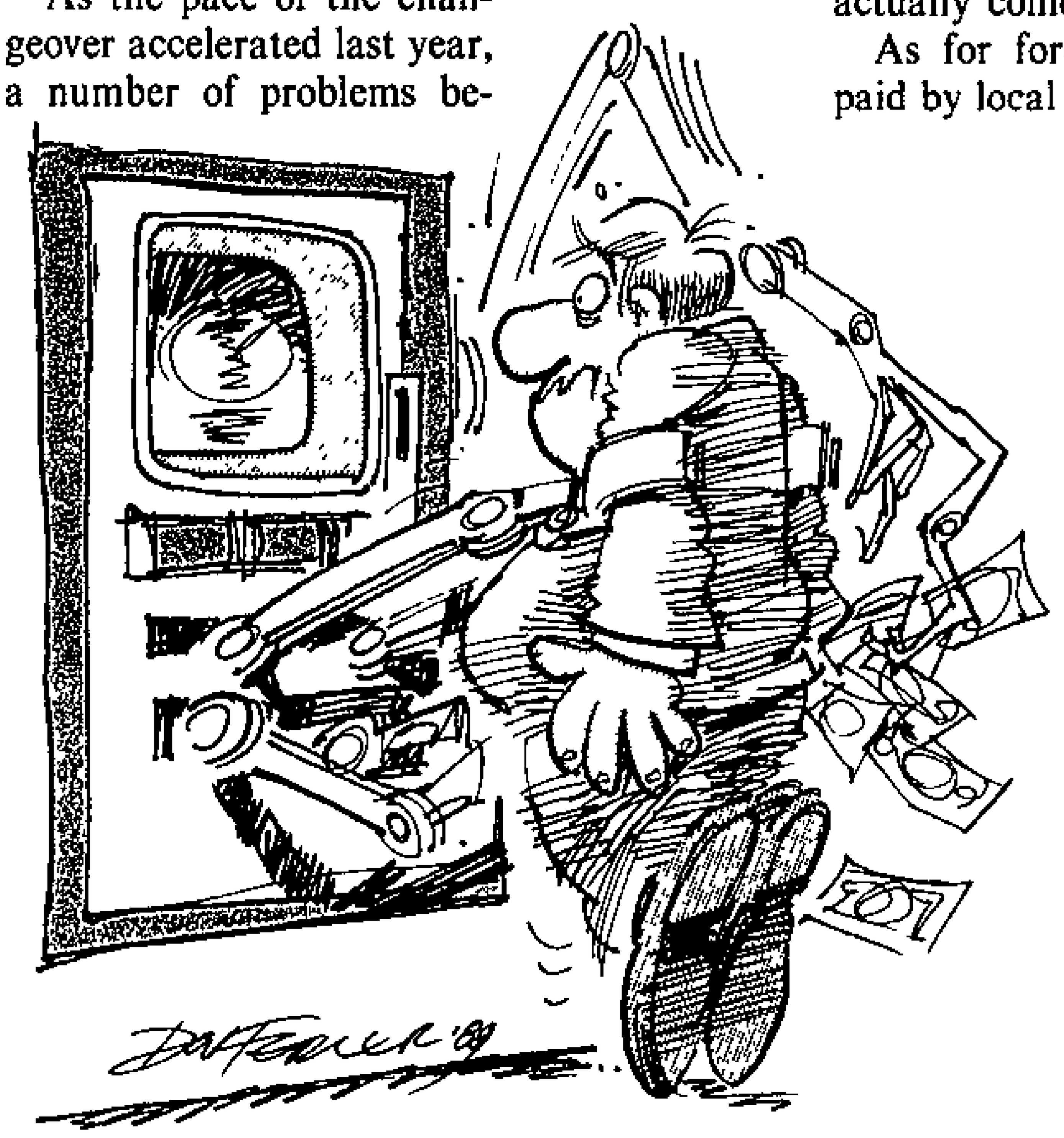
Since 1985, more than R140m has been spent on installing a high-speed backbone network around the country and equipping two main computer centres, in Johannesburg and Pretoria, with IBM's most powerful mainframes. In the event of a disaster at one centre, the other can take over FNB's entire centralised computer functions.

It is hard to fault the strategy — so what went wrong? According to Jarvis, the biggest problems stem from having to run the old and the new systems side by side during the lengthy changeover period. This is technically complex and time-consuming.

In the meantime, Hogan's reputation has suffered from a number of highly publicised problems. In the UK for instance, Midland Bank aborted its Hogan-based "Superbank" project which was even more ambitious than FNB's scheme. However, as the cancellation came at a time when Midland was reeling under the impact of Third World debt problems, to blame Hogan's alleged deficiencies may be unfair.

The public perception of Hogan as the cause of FNB's problems irritates Jarvis, though he admits that the bank is partly to blame for not having been more open with the public. "If we were implementing only the Hogan branch system, that would be easy," he says. "We are changing mainframes and their locations, our whole network and all of our terminals and applications, as well as the branch system."

As the pace of the changeover accelerated last year, a number of problems became evident. "For six weeks from mid-October to the beginning of December we gave our customers an absolutely lousy service," he admits. "But this had nothing to do with Hogan. There were a number of issues and one was to do with our lack of understanding of the intricacies of designing real-time systems. Some design features we built in were not as good as they ought to have been."



Clients, big and small, were fuming. Not a few went to other banks. SAB was strongly rumoured to be ready to transfer its account.

Jarvis counters: "I don't think SAB was on the point of pulling its account, but it wasn't pleased with us. Instead of a cash management service that was available from 7 am, it was sometimes available only from midday because we had not finished the overnight processing."

However, things have since improved dramatically, he says. "One of our corporate branches has been monitoring the situation, and since December 4 we have given a service way above 95% and our customers are now saying service is better than the other banks."

But how badly has the bank been hurt? Jarvis believes that an important indicator that customers have forgiven the end-of-year problems is that FNB once again leads the log of Saswitch automated teller (ATM) network users in terms of net revenue — the difference between what it earns from non-FNB customers using its ATMs and what it pays for its own customers using those of other institutions.

The cost overruns resulting from being six months behind the original schedule are R1m-R2m. "Our operation costs over five years are hundreds of millions of rands," he says, "so this is not a significant problem and I have been able to accommodate it in the operating budget. Operating costs have kept within budget every year since 1985 and, in relation to the bank's non-interest costs, have actually come down."

As for foreign contract staff — highly paid by local standards — the total amount is "buttons" when viewed against the size of the project. "We needed them to help us over the hump and to train our own staff. There were simply not enough senior staff available to do the job locally; but in any case the foreign contract staff never numbered more than 35 from a total computer staff of about 1 200."

The objective now is to convince people that the rough times are over. The project has still four months to run and there may be more glitches to come. However last weekend the new system took on the whole of Natal's 80 branches and 600 000 accounts, so far without any appearance of trouble. But is it not a case that, having spent so much money on the project, it simply has to be driven through? Jarvis is adamant: "Nobody in the bank at this time has any doubt that it will give us the advantages we expect . . . I think I have made a few mistakes since I have been here, (but) if I could turn the clock back and start again, I still wouldn't change the Hogan decision."

FNB hopes that its new systems will eventually give it a leapfrog advantage over its competitors. This would work for the system it was developing jointly with Hogan for promoting its card business. If Hogan sells the system elsewhere, the bank will share the revenue; meanwhile the company is restrained from selling it to other SA financial institutions to give FNB a competitive edge.

If, in the longer term, FNB is able to make its systems run as well as planned it will have a powerful information resource that will carry it through, beyond the end of the century. If so, perhaps the bank can get on with making money for its shareholders and clients.

Matthew White

Harms: Special team appointed

CAPE Times 25/2/89

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Political Staff

A TEAM is to be appointed to conduct possible prosecutions which may arise from the investigation of the Harms Commission within the jurisdiction of the Attorney-General of the Transvaal, according to the Minister of Justice, Mr Kobie Coetsee, yesterday

In another development, the passports of Mr Albert Vermaas and Mr Eugene Berg have been withdrawn by the Minister of Home Affairs, Mr Stoffel Botha, on the grounds of information made available to him.

The decision to form the special team follows discussions in Cape Town between the Transvaal A-G, Mr Don Brunette, and Mr Coetsee over the past few days.

Mr Coetsee said new facets had been brought to the attention of Mr Brunette. These were currently being investigated and Mr Brunette had requested that the team be appointed.

Mr Brunette was called to Cape Town at the beginning of the week to explain why he had decided to provisionally drop charges against Mr Vermaas and Mr Berg.

Property market surges

SEV 25/2/89

FRANK JEANS

THERE has been a sudden surge in the property market with thousands of homes being offered for sale and some experts believe it has been caused by sellers anxious to clinch deals before there is another rise in the bond rate.

Although there is no indication from banks and building societies yet that the bond rate will go up, the latest increase in the prime rate must inevitably mean another increase in the bond rate sooner or later.

And as the country's economic situation is widely expected to worsen, many more homes may come on to the market as people begin looking for ways to consolidate their financial positions by selling bigger homes and buying smaller ones.

Estate agents, however, dismiss the idea that the surge in selling is a "panic situation". They say it is more in line with present buoyant conditions.

Mr Mannie Osband, chairman of Camdon's Nationwide, says: "We have vast numbers of potential buyers on our books and people, generally, are avidly looking at property.

"This is in line with the enthu-

● To Page 2

People keen to buy

SEV 25/2/89

● FROM PAGE 1.

siasm among South Africans today to own their own homes. Certainly, there is no running scared by buyers."

Mr Piet Hamman, chairman of De Huizemark, endorses this view and points out that his group has had "an incredible month", recording nearly R40 million in turnover.

And the effect of the bond rate going to 19 percent? Mr Hamman says it will be another knock for the homeowner at the lower end of the market but there will no change in the middle to upper income sectors.

Respite for consumers

Star 25/1/89 58

SVEN LUNSCHE

BANKS will only be able to raise their prime lending rates early next week, as discussions with financial authorities aimed at temporarily lifting an amendment to the Usury Act proved fruitless yesterday.

This means that consumers will be given a brief respite from higher interest rates, which were expected to follow immediately on Wednesday's announcement of an increase in the bank rate.

But the delay could also cost the banks millions of rands as their margins will be under severe pressure.

At the meeting between banks, the Reserve Bank, other financial organisations and the Registrar of Financial Institutions, Mr Theo van Wyk, no conclusion was reached, Mr Van Wyk said yesterday.

"But we trust that the matter will be resolved next week."

The Usury Act snag for the banks arises from a 1988 amendment stipulating that lenders have to give borrowers seven days' written notice of a change in interest rates.

Reacting to criticism by the banks, the Reserve Bank Gover-

● To Page 2

Allied pushes ahead

Star 25/1/89 ● FROM PAGE 1. 58

nor, Dr Gerhard de Kock, told Sapa that the clause was not intended to apply to overdrafts but mainly to leasing and loan facilities.

So far, the banks have refused to comment openly on the situation, although the chairman of the Clearing Bankers Association, Dr Chris van Wyk said that it was inevitable that overdraft rates would have to increase.

Despite the restraints set by the Usury Act, the Allied Bank has gone ahead and announced an immediate hike in its overdraft (prime) rate by one percent to 19 percent.

The bank said it had studied the Act and there were ways of coping with the legalities.

BUSINESSMAN OF THE WEEK

Taking on the giants in the trust sector

O/Argus 25/2/89

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By TREVOR WALKER
Business Staff

CAPE Town is the mother city of the world's trust movement and no company epitomises this type of business better than Fairheads.

Chairman Mr Peter Fairhead's grandfather started the business and was followed by his two sons.

Peter, a third generation Fairhead, is a firm believer that tradition does impart a sense of soundness to a business.

Wealthy people

The city is the headquarters of some of the country's largest trust companies such as The Board of Executors and Syfrets.

Fairheads, although much smaller, offers a similar range of services.

The company handles the money affairs of wealthy people and, it is perhaps a sad indictment of the country's attractiveness as a place to live, that a large proportion of the funds that Fairheads administers are owned by people who have emigrated.

It is a fact that wealthy people leave the country, in spite of and perhaps because of the severe monetary restrictions imposed on them by the government.

Blocked funds

Their "blocked" funds are administered by trust companies such as Fairheads.

The South African economy of today is vastly different from that when founder Mr John Tyrrel Fairhead conducted business.

The economy is beset with foreign sanctions, international money embargoes, internal political unhappyness, and inordinantly high tax rates.

"The heart of our business is that of handling personal funds, but other aspects such as pension fund management and corporate financial services are rapidly developing.

Recent merger

The recent merger of Fairheads' real estate division with Divaris Real Estate will enable the group to provide an improved property administration and broking service.

"We see ourselves as an exclusive financial boutique which prides itself in the quality of the service it has to offer.

"Our approach is 'personalised' to each client's requirments and it was because of this that the company established a base in the Cayman Islands in 1974.

Asset protection

"The Cayman Islands is now recognised as one of the foremost off-shore financial centres in the world and ideally suited to provide a highly sophisticated base for international asset protection.

"We established a group of companies which offer a comprehensive range of services.

"Our structures are tailored to provide maximum protection from income tax and exchange control legislation and also to provide maximum flexibility for the ultimate beneficiaries of the assets."

The business of money management since the 1970s has changed substantially.

The developments in international communications have led to a single world market and the role of the trust manager has also altered to reflect this new way of doing business.

The staid, conservative and unobtrusive manner of Mr John Fairhead has had to make way for the much more open and visible style of today.

Horrified

"My father and certainly my grandfather would have been horrified at the mere thought of talking to a newsman.

"But today marketing and style are important. Nevertheless, one has to maintain close contact with individual clients so that the quality of service we offer can be extended."

A "small client" would be one with assets of R250 000.

Modern image

"Most of our clients are very wealthy people and they are all very aware of what sort of return on their assets they should expect to receive," he says.

Mr Peter Fairhead reflects the modern business image. Young, confident, quickly likeable and with an obvious drive to succeed.

Schooled at Bishops and with degrees in law and accounting from Stellenbosch and UCT, those sunning themselves in the Florida Keys or enjoying the genteel life in Mayfair, or the pleasures of sunny South Africa can sit back and relax because Fairheads has a very sound head looking after their assets.

Peter Fairhead . . . a sense of soundness.

Little hope seen in effectiveness of higher rates

Star 25/2/89

(58)

SVEN LUNSCHE

ECONOMISTS doubt that higher interest rates will cool credit and consumer demand and expect that more measures will be needed to achieve a slowdown in growth

Over the past few years the authorities have relied on monetary measures in general, and interest rates in particular, to curb or stimulate demand.

Economists contend, however, that unless rates reach the debilitating level of 1984, used on their own they are not effective

This week's increase in Bank rate and the subsequent one percentage point rise in prime lending rate to 19 percent illustrates the point.

Since the beginning of last year prime has risen by 6,5 percentage points, and while a certain time has to be allowed for the increases to take effect, the results have been dismal, judging from the latest economic statistics:

- The broad money supply measure, M3, rose by an annual 28,5 percent in January
- Total bank receivables grew by 30 percent to R18,8 billion from December 1987 to December 1988.
- Total expected retail sales for February at R3,95 billion are 16,9 percent higher than in February last year

Nedbank economist Edward Osborn highlights the reasons for these increases against the background of the restrictive measures.

He contends, firstly, that interest rates have little effect on government expenditure, which is once again set to exceed budgeted levels.

Secondly, high growth rates can be partially attributed to investment spending by companies, 'which is often financed either through own resources, equity cash or the amortisation of bank loans", Mr Osborn says.

"Higher interest rates may curb the level of inventories, but this cycle has already reached its peak and was set to decline anyway," he says.

Consumer spending is also relatively insensitive to interest rate changes, which Sanlam economist Johan Louw ascribes to the fact that higher rates on home loans are neutralised to a large degree by the common practice of extending the repayment period

Furthermore, says Mr Louw, interest rate rises have a relatively minor effect on current HP agreements and, given the sustained high inflation rate, stength-en the attitude of "buy now — the price will be up tomorrow"

There has been a decline in HP sales of furniture and cars, but spending on durables has to a large extent originated in the corporate sector — in the case of cars it is estimated at 70 percent of all purchases last year — which is less succeptible to interest rate increases.

Given these factors, it is not surprising that more economists are calling for a change in strategy

"The interest mechanism alone is not sufficient and should be supported by appropriate fiscal measures," says Volkskas' Adam Jacobs.

"Sharp rises in interest rates have an extremely detrimental effect on small businesses in particular, and large fluctuations in rates and the uncertaintly they cause hamper our export efforts," he says

Ironically, interest rate "bluntness" could lead to a further increase in prime over the next few months because this week's rise might not be sufficient to trim spending to required levels.

"The authorities see interest rates as the only means available, but unfortunately it is not very effective," says Mr Osborn.

Rainy-day funds for all

S/Times (58)

WILLIAM Wolke, general manager of marketing at Sage's FPS personal financial planning company, says everybody should have an emergency fund of three to six months' salary in a savings account where accessibility is more important than interest rates. Alternatively, an overdraft facility could be arranged to provide the funds should the need arise.

"For economically active people, usually in the 25-55-year bracket, deriving an income from an investment is not usually the determining factor in deciding on a suitable investment medium. Their objectives are to accumulate the capital to fulfil dreams and desires.

"The dream is often a home — and it is a fact that home ownership is the primary wealth creator in SA."

But for older individuals there is almost always a need for additional income and the investment medium they select even in the short term will be based on the ability to produce this income.

He warns to be careful of organisations offering investors a very high rate of return in the very short term. Remember, the higher the return, the higher the risk

Building beckons blacks

S Times 26/2/89

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THE need for black building managers, whether with university or technikon qualifications, is urgent, says South African Insitute of Building registrar Lynn Fletcher.

Graduates must complete a BSc in building management before they can register with the Insitute.

Mrs Fletcher says only 900 managers have registered since the insitute's inception 25 years ago.

"The insitute maintains an employment registrar and we could have placed at least 25 management professionals in the past five or six months. Organisations such as the Urban Foundation and the South African Housing Trust are always looking for qualified candidates."

Mrs Fletcher says the reason why the demand is so high is that the emphasis throughout South Africa is swinging from huge, First-World-type projects to housing and elementary infrastructural needs in the less-developed areas.

IMAGE

"The black building manager is often more acceptable in these areas than his white counterpart."

The institute faces two major problems in attracting black school leavers to university and technikon courses.

"The first is that relatively few blacks have the required university exemption or a pass in mathematics. The second problem is that those few who do have the qualifications all too often choose careers in other disciplines.

"It is regrettable, but it seems that the image of the site construction manager is often not attractive to blacks. They associate site work with manual labour.

"The fact that the construction manager probably earns 30% more than his professional colleague and is eligible for professional qualifications is either not known or ignored."

Mrs Fletcher says the insitute aims to promote careers in building managment to school leavers, including those in the black community. A video programme is available to schools and service organisations.

She says there are a few funds which assist the young black to get his university exemption or a school leaver's certificate for a technikon entrance

"Once he has these, there are suitable courses throughout the country at technikons and universities. The battle to get the initial matric symbols can be tough for the average young black, but it is worth fighting because the rewards in the construction industry are high."

Degrees in building management can be obtained from six universities — Wits, Pretoria, Free State, Cape Town, Port Elizabeth and Durban.

New cover for banks backing exporters

SI Times 26/2/89

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By Udo Rypstra

CREDIT Guarantee Insurance Corporation has a new way to protect banks against default by export clients.

It will be in addition to cover protecting banks against failure by foreign buyers to pay for goods or services provided by South Africans.

The policy — a first for SA — makes finance available to approved exporters who, under normal banking practices, would not qualify for it and would be unable to secure certain orders.

The Short-term Export Finance Guarantee protects banks to the extent of 90% of their loan to an exporter. It offers protection against a loss resulting from non-repayment caused by insolvency or protracted default by an approved SA exporter.

Managing director Chris Leisewitz says a bank qualifies for the policy if its loan relates to the financing of approved costs of materials and services required for the production of goods or for the financing of approved export trade debtors.

A pre-shipment guarantee will apply only in transactions covered under a pre-shipment policy issued by CGIC. A post-shipment guarantee will apply only to debtors who are credit insured under a post-shipment policy. As security for the loan, the policies have to ceded to the lender.

CGIC says the amount of the loan must be expressed in rands and the transactions must cover mainly SA goods.

The premium varies between 1% and 1,5% of the amount of the loan — depending on whether the term for repayment is six or 12 months.

To qualify for the facility, the exporter has to authorise his bank to disclose any information to CGIC and present at least three audited financial statements about his business.

The exporter must also show he can repay the loan from the proceeds of the export transaction.

CGIC has the SA Government as its reinsurer.

Time ditches R11m Vista deal

S Times 26/2/89 58

TIME Holdings announced excellent results for the year to December simultaneously with the news that it is to walk away from its R11-million Vista Homes investment.

Chairman Colin Hibbert says "We did the Vista deal in October based on financial projections, not audited numbers. Vista guaranteed a taxed profit of R3-million. The pre-tax projection was R6-million for three years.

"But when it became apparent Vista would not make that figure, we decided to terminate the deal. We did not want a problem child diverting our attention."

Maximum

Time paid an initial R3-million to the Bezuidenhout family for its stake and lent Vista R1,5-million. It has written off R1,5-million in case it is unable to recover the full amount.

Mr Hibbert says the provision is the maximum amount at risk. Vista has liquidity problems But it should be able to trade its way out of its difficulties, he says.

Time is also not interested in the "interest-sensitive" white housing market, to which Vista is still exposed.

Time reports sales up by 72% to R182,6-million, trading profit 90% ahead at R12,2-million and taxed attributable profit up 132% to R8-million Earnings a share rose by 86% to 26c A 10c dividend has been declared.

Safe

Shareholders may receive new shares instead of dividends. The price of the shares will be based on market value at April 14.

The results are startling viewed against the company's short history Turnover in 1984 was R4,1-million and taxed profit R48 000. Earnings leapt to R306 000 in

By David Carte

1985 and to R3,5-million last year.

Mr Hibbert says Time Housing is four times the size of Vista It accounts for 45% of group profits. Time does no speculative building. It sells housing, then manages township development Its debtors, being building societies, are safe.

Mr Hibbert says the black housing market is so big that Time can afford to concentrate on people in secure employment whose employers assist generously with housing.

Time Housing procures options over property, lays out and designs townships before signing up buyers. It gets townships proclaimed and then hires contractors to lay in roads and services and to build the houses. It is selling 5 000 houses a year.

"It sounds like a licence to print money but it isn't. It takes considerable management skill. A few companies have lost a fortune in this business We attribute our success to the high quality of our people and their generous incentives"

Margins

Mr Hibbert says the emphasis in housing has been on growth Now the company has acquired critical mass, new emphasis will be placed on margins

"If we can improve our margins by three percentage points, we can lift pre-tax profit in the housing division by 50%."

The property management division, which concentrates on commercial, industrial and mining property development, brought in 30% of taxed profit. This division spots good property, procures options, designs a concept for the property, then sells the idea to an institution. It oversees construction

A burgeoning interest these days is executive education. Rex Drew, former head of management training at Damelin, provides management education that fills a gap between "elitist" university business schools and correspondence colleges

An "exotic" diversification for Time is the life-assurance side, which grew out of house sales

"When you sell a house, you invariably sell a mortgage protection policy. Several of our house salesmen have experience in selling life cover. Selling mortgage protection comes naturally to them.

"We have had a couple of general managers from life companies in the division, but we lacked an overall boss and an in-house actuary. That is why we were delighted when Bill Haslam, a senior general manager of Southern Life and an actuary, expressed interest in joining us.

"Our life company made a profit from year one, which is unusual. We expect earnings growth in life to be good, but the division will also help us to grow assets. Many a life company has diversified into property. We are doing the reverse"

Tankers

Mr Hibbert is not deterred by the competition in life assurance. He belives the big assurers are like oil tankers — small ones, which are more manoeuvrable, can score.

Time's dividend cover has been increased from 2,3 to 2,6. This, together with the bonus dividend offer, indicate a desire to conserve cash.

"We can turn over every rand we retain so many times, we virtually spin it. It makes sense to hold on to what you can"

The directors decline to forecast, but Mr Hibbert says 30% growth is the group estimate The share price of 130c is 5 times earnings and gives a yield of 7,7% Time is one of the best companies of the 1987 listings boom Management is top calibre and prospects are bright. It deserves a better rating

THE WEEK ON THE JSE

De Beers for the best

By Julie Walker

DE Beers took on a brilliant sheen in the eyes o investors this week, the share surging to a year' high.

The price jumped from 4 925c to 5 375c before easing 15c Results are due in a few days and are expected to be the bes ever. The share's all-time high was 5 915c in October 198 Trans-Hex also climbed by 100c to 1 000c

All the rand hedges strengthened because of a weak gol price But gold picked up towards the end of the week on th back of a lower dollar, stronger oil and higher American inflation

The rand rallied to 248,50c to the dollar as gold clawed its way back from $381 to $389

The bank-rate rise from 15% to 16% and coming increases in bond and overdraft costs did not dampen market sentiment — they had been expected.

RALLY

The 90-day bankers' acceptance rate reached 16,4% — the highest for three years, reflecting the shortage of money at this time of the year.

Richemont climbed for the second successive week to a high of 1 355c, closing 20c lower, but 75c up on the week First Investment Trust put on 160c to 1 450c.

Metkor added 75c to 315c, and Dorbyl 20c to 1 650c, but Berzack eased after its recent gallop. It gave up 80c to 650c.

Autopage picked up 5c to 125c after dropping to 105c Control of the group has been taken over by Altech, but Autopage has in turn bought Telerate after outbidding Times Media.

Samancor hit a new high of 2 250c, closing at 2 200c for a 150c gain. CMI added 50c to a peak of R19 a share Palamin also added 50c to 5 325c

Msauli picked up another 55c to 430c, bringing its gains since March last year to 330c. Gefco also hit a new high of 155c, closing at 145c

Zaaiplaats jumped by 40c to 260c after a warning notice.

Mining financials rallied towards the weekend. Anglo American added 325c to R73, Gencor 600c to 7 775c and Johnnies R10 to R640 Gold Fields of SA firmed R2 to R68 and Cons Gold put on 120c to R101 Minorco eased R1 to 5 275c

The Allied was again volume leader as talk resurfaced of a deal with First National Bank The price added 25c to 160c

Hunts added 100c to 900c, but the preferred ordinaries eased 15c to the same level W&A put on 100c to 4 800c and the preferred ords climbed 150c to 4 750c

Kersaf gained 150c to R14 ahead of results and after good results from Sunbop, Transkei Sun and Interleisure.

An arm and a leg the cost of loans

58

S/Times 26/2/89

Business Times Reporter

BANKS have been prevented by a technical hitch from increasing their lending rates. But higher rates will come in the next few days.

Financial Institutions Registrar Theo van Wyk and and Reserve Bank Deputy Governor Japie Jacobs spent Friday with representatives of the Association of Clearing Banks and the Association of General Banks trying to sort out the matter.

They admitted they could not get around the hitch, but expressed confidence they could fix it soon.

A new provision in the Usury Act requires banks to give borrowers seven days' written notice of interest-rate increases.

Delay

Allied Bank and African Bank have lifted prime overdraft to 19%. Allied says it is allowed to do so on new overdrafts and those of more than R100 000 — they are exempt from the Usury Act.

Banks claim the delay costs them R20-million a day. They blame the authorities for bureaucratic bungling.

The authorities say the banks have had sight of the legislation since December, but have reacted only now.

None of the parties will say how they will overcome the problem. There are civil and criminal sanctions enforcing the Usury Act.

The Reserve Bank lifted its bank rate by 1,5 percentage points this week. Banks are expected to raise their lending rates one percentage point once they get around the technicality.

Consensus among bank economists and money-market operators this week was that only a rise in the gold price could stave off higher interest rates.

The impending interest rate rises will be a heavy blow to many who bought houses on 100% loans when rates were 12,5% a year ago. When mortgage rates are adjusted, as expected, to 19%, their charges will have risen by 52% in a year. Higher mortgage rates have hit property values.

Shocking

The cash flows of households will also be hit by more costly overdraft and hire-purchase rates.

Companies will take a knock. The effect will be to slow economic activity markedly.

Rising foreign interest rates, a low gold price and shocking January import-export trade figures, money supply and inflation figures forced the Reserve Bank to raise its discount rate by 1,5 percentage points on Thursday.

An economist says: "The authorities have been driving the economy as fast as they can. The gold and foreign-currency reserves have been desperately low. There was no leeway. When the authorities hit a setback, they had to slam on the brakes."

Sankorp economist Peet Strydom says the pressure on interest rates is still upwards.

"Gold is not doing well in a season in which it normally does.

Mike Steenfeldt-Kristensen, head of First National Bank money-market operations, says that in addition to the low gold price, seasonal money flows will spur interest rates.

"The prime overdraft rate in the UK has risen from 7,5% a year ago to 11,5% and in the US, it is up from 9% to 13%. Inflation abroad is a good deal lower than in SA. We have to more than match these trends to protect the rand and the capital account.

Seasonal

"The money-market shortage is still rising. There are seasonal note outflows. In addition, the Receiver is raking in GST payments and tax from the mining houses. The shortage at the end of the month could top R4-billion."

Mr Steenfeldt-Kristensen is surprised that the money market is "so calm with an

● To Page 3

• From Page 1 58

approaching storm like this one". S Times 26/2/89

Anglo American chief economist Aubrey Dickman says an expected inflation rate of 15% and prime overdraft of 19% leave a narrow positive margin.

Econometrix director Azar Jammine says: "For the first time in more than a year the authorities have acted pro-actively."

The gold-price slide to between $380 and $390 an ounce has helped to depress foreign-exchange reserves to R5-billion — barely enough for six weeks' imports at January's level of R3,3-billion.

Rates to rise

Some economists believe this week's decisive action reflects the increased stature of Finance Minister Barend du Plessis after the Nationalist Party leadership poll.

Trust Bank economist Ulrich Joubert says the Reserve Bank had no alternative but to act. He says 28% growth in money supply (M3) shows that there is still strong demand and therefore pressure on the balance of payments.

Year-on-year growth of retail sales fell sharply from 10% a few months ago to 2,2% in February

Furniture retailers' returns show that the value of sales in December increased by 8,48%.

Nedbank economist Ted Osborne doubts that the increase in interest rates will reduce demand sufficiently.

Increases in the price of food, housing, medicine and transport lifted the inflation rate for January to 13,3% — 0,8% higher than in December.

Insurance newcomer has 8% market share

(58) S/Times 26/2/89

AUTO & General plans to expand after posting encouraging results for the year to December 1988.

By Robyn Chalmers

The company estimates that it has captured about 8% of the short-term insurance market since its inception four years ago. Chairman Douw Steyn believes this is because it keeps premiums low by being selective.

"We have been compared with AA Mutual because of our low rates and expanded client base. However, we keep only certain rates below the market average by not insuring high-risk commodities.

"Another accusation levelled at us is that we are slow in meeting claims. In fact, we have the fastest claims payment in the world because it is all computerised. If the claim meets the computer requirements, it is settled immediatly."

Premium income rose by 66,4% and pre-tax earnings by 129,6% in 1988 over 1987.

Mr Steyn believes Auto & General's solvency margin is the highest in the industry at 85%.

"We have kept our solvency margin high for two reasons — being a new and small company we have had to gain the confidence of the broking community and because we have been gearing up for growth."

It is building an R18-million head office in Milpark, Johannesburg, and has had to bear heavy establishment costs. Commission and other expenses rose by 46% from R10,7-million to R15,6-million last year.

Growth led to an underwriting deficit of R352 000, contrasting sharply with the large surpluses shown in competitors' results. General manager Steve Klinkert says it was offset by investment income of R3,5-million — up from R686 000 in 1987 — and a doubling in income before tax of R3,1-million.

Mr Steyn believes the company's solvency margin and its technical reserves of R14,4-million ensure that rapid expansion can continue without undue strain.

He expects gross premiums in the curent year to exceed R110-million.

Cape Times, Monday, February 27, 1989 3

Charges to be made by A-G 'task force'

Own Correspondent

JOHANNESBURG. — A team of three or four advocates from the Transvaal Attorney-General's office would spearhead a "task force" to formulate prosecution charges against Pretoria attorneys Mr Albert Vermaas and Mr Eugene Berg, Transvaal Attorney-General Mr Don Brunette said yesterday.

He said he had assembled a team of his own staff. If necessary, others might be seconded to the team.

Mr Brunette's statement came after Friday's announcement by Justice Minister Mr Kobie Coetsee that Mr Brunette had asked him to constitute a special team to conduct possible prosecutions originating from the Harms Commission investigation, in his area of jurisdiction.

Last week Mr Brunette provisionally withdrew charges against Mr Berg and Mr Vermaas because, he said, he did not have sufficient evidence on which to formulate charges and it could take months to do so. Two days later Mr Brunette met Mr Coetsee in Cape Town for lengthy discussions.

In his statement on Friday the minister said: "New facts have come to the attention of Mr Brunette which are at present being investigated.

"The Home Affairs Minister has in the meanwhile, on grounds of information made available to him by Mr Brunette, withdrawn the passports of Berg and Vermaas."

Mr Coetsee was reported to have denied reports he had taken Mr Brunette off the Vermaas case.

On Friday it was learnt in Cape Town that the case had been given to Kimberley Attorney-General Mr Charl du Plessis. Mr Du Plessis declined to comment on Friday.

Mr Coetsee was unavailable for comment yesterday.

● The sequestration and liquidation application against Mr Vermaas and his company will be heard in the Supreme Court, Pretoria, tomorrow. The cases were postponed in December to give Mr Vermaas a chance to conclude the sale of his airline, Chieftain Aviation Holdings, to an overseas buyer for R155 million. The effective date of the deal is February 28.

● No impropriety implied in seizure — Page 5

play the game by the same rules — by transferring the publicly owned entities to

government to sell it at a higher price. Deregulation before sale of assets would also take time.

Insurance inspection plan

58

3134 27/2/89

KAY TURVEY

A SCHEME to assess security and possessions on premises before insurance is taken out is currently being investigated.

Johan Beukes of Pre-Sure, which hopes to offer the service to insurers, believes on-site inspections will go a long way towards reducing losses for both insurers and insured.

Pre-Sure will visit each property proposed for insurance cover and provide the insurer and owner with the security status of the property and the actual contents and valuation of items covered by the policy.

At present Auto & General is one of the few insurers offering such a service. North Rand regional manager Chris Carstens describes the practice as an underwriting decision, which can improve claims ratios by minimising the owner's risk.

Banks look set to raise rates

Finance Staff (58)

Banks are expected to raise their prime lending rates to 19 percent with effect from tomorrow, as Finance Minister Mr Barend du Plessis is expected to move an amendment to the Usury Act today. Star 27/4/87

The decision comes after negotiations between banks and the authorities to lift a clause in the Act, which requires banks to give seven days' notice to their borrowers of a change in rates.

The delay would have cost the banks millions of rands as their margins have been under pressure, after the 1,5 percentage point rise in the bank rate to 16 percent last Wednesday.

But Mr du Plessis and the parliamentary joint standing committee on finance are expected to issue a retroactive clause to the Usury Act today.

At a meeting between banks, the Reserve Bank, other financial organisations and the Registrar of Financial Instititutions on Friday, a draft resolution was drawn up and sent to Mr du Plessis.

Reacting to criticism by the banks, Reserve Bank Governor Dr Gerhard de Kock said on Friday that the clause was not intended to apply to overdrafts but mainly to leasing and loan facilities.

Despite restraints set by the Usury Act, the Allied Bank on Friday went ahead and raised its prime rate by one percent to 19 percent.

The bank said the clause was applicable to loans below R100 000 and since the majority of its loans were above that amount it felt justified in raising the rate.

Barend not likely to part with R200m

58

Budget holds little hope for life office tax relief

B/Day 27/2/87

KAY TURVEY

LIFE assurers are unlikely to receive any tax relief in the March Budget as the state can ill-afford the loss of revenue.

In one of the biggest shocks in last year's Budget, life assurers were hit with a 75% tax jump as their effective tax rate was lifted from 20% to 35%.

A return to the previous rate would entail a revenue loss to the state of more than R200m.

Tax base

Industry sources believe Finance Minister Barend du Plessis accepts that life offices, as important vehicles for harnessing savings, are too severely taxed, but is reluctant to reduce their taxes given the demands on the fiscus.

Life Offices Association PRO Jurie Wessels said it was hoped the permanent tax committee would give recognition to the importance of life assurers to the national economy.

Any new tax base to be established should consider the role played by assurers in the formation of capital, particularly against the backdrop of sanctions and the dearth of foreign financing, he said.

But the industry believes the Budget will hold no good news for them and that the the standing committee on taxation of life assurance, headed by Chris Stals, is unlikely to report until recommendations on VAT are made public.

Not only has the taxation of life offices been put on a back-burner by VAT, but any chance of the scrapping of prescribed assets remains unlikely until the assurers' tax structure has been decided.

The authorities would see any reduction or abolition of prescribed assets as a trade-off for higher taxes, the industry believes.

The withdrawal of prescribed assets -- whereby life offices and pension funds are required to invest in the capital market — is seen as a necessary step to freeing funds for privatisation.

The LOA argues that as income is taxed in their hands and not in those of the policyholder, they should pay tax at the average marginal rate of taxpayers — their policyholders. This rate should be set at 30% after expenses.

Barend likely to amend Usury Act

B/Day 27/2/89 (58)

GRETA STEYN

FINANCE Minister Barend du Plessis is expected to announce today a hasty amendment to the Usury Act, banking sources said yesterday.

This would enable banks to raise their prime overdraft rates immediately instead of giving seven days written notice to customers, as required by a clause in the Act.

Du Plessis and the parliamentary joint standing committee on finance are to discuss a retroactive change to the clause today.

Depending on the decision of the standing committee, bankers expect an announcement by late afternoon enabling them to lift their prime overdraft rates to 19% with effect from tomorrow. Du Plessis is expected to provide details on the amendment in a special Government Gazette proclamation.

Instead of informing customers by letter of an increase in rates, notice would probably have to be given in the media, the sources said.

Today's meeting in Cape Town follows exhaustive discussions at the weekend between senior bankers, Financial Institutions Registrar Theo van Wyk and Reserve Bank senior Deputy-Governor Japie Jacobs.

Van Wyk yesterday said a committee comprising all parties had drawn up a draft solution and he expected the matter to be resolved early this week.

A banker said everyone had agreed the clause had to change. It "paralysed monetary policy" — as the banks had been unable to respond to the Reserve Bank's increase in Bank rate on Thursday. In addition, banks stood to lose millions of rands through no fault of their own.

Meanwhile, the Allied Bank surprised the banking community on Friday with an announcement of an immediate increase in its prime overdraft rate to 19%. Allied Group MD Kevin de Villiers said there were ways around the legal problem.

"The clause is applicable to loans below R100 000 and since the bulk of our lending is above that, we can raise prime."

● To Page 2

Barend expected to amend Usury Act

B/Day 27/2/89 (58)

● From Page 1

Sapa reports Reserve Bank Governor Gerhard de Kock said at the weekend it would be physically impossible for the banks to contact all their clients within the seven day period called for in the Act.

He said one bank alone had 900 000 current account holders and that it would be incapable of sending off the required letters in the allotted time span. It could mean heavy pressure on the banks' margins.

De Kock said one way out of the problem would be to advise clients via the media rather than by means of individual letters.

It was never the intention of the changes in the Usury Act to control the prime overdraft rates. He said it was intended to control term loans such as hire purchase and lease interest rates to protect the public.

Fedsure meets forecast as taxed profits grow by 55%

B Day 27/2/89

(58)

LESLEY LAMBERT

FEDSURE, the holding company for Fedlife and short-term insurer Fedgen, met forecasts made at its JSE listing last year by achieving 22% earnings growth to 23c a share on the weighted average number of shares in 1987.

● BASSERABIE

Group taxed profits grew by an impressive 55% to R15,4m during the year to December, with Fedlife, which represents about 97% of the assets, contributing the lion's share. Assets rose to more than R2,7bn.

A final dividend of 9,75c was declared, bringing the total dividend for the year to 16,5c, compared with the 1987 *pro forma* dividend of 13,45c (actual 9,57c).

While Fedlife's premium income growth was good, it did not achieve last year's levels. Annual premium increased 34% to R332m and single premiums 49% to R165m.

CEO Arnold Basserabie said the quality of business written was of a high standard with lapses in the life division contained at 10% of new business.

While analysts expected higher tax to knock between 3% and 15% off assurers' earnings in 1988, Basserabie said at mid-year the effect on Fedlife might have been reduced by the relatively higher element of retirement and pension business.

In spite of strong competition in the short-term insurance industry, Fedgen managed to boost its profits by 35% to R10,4m. While the underwriting division contributed R1,6m (R1,4m), the major contribution came from investment income which increased from R6,5m in 1987 to R8,8m.

Fedgen is wholly owned by Fedlife and its profits are included in the life companies investment income. While the short-term division's gross premium income has grown by 29%, its solvency margin has risen healthily from 41% to 61%.

Fedsure has been one of the strongest performers in its sector.

The share rallied slightly ahead of the results and closed on Friday at 285c, yielding 7,5% on earnings and 4,7% on dividend.

B.Day 27/2/89

REWARDS OF PRESCIENCE

SOME prescient traders in the bond market appear to have been anticipating a higher Bank rate by their persistent dealing in the marketable Sats stock SV06 12,5% 1991. During the past 10 days the yield has quietly been rising from a previous 15,78% to 15,94%. On Friday they reaped their reward while the rest of the market was figuring out the implications of De Kock's surprise move.

Trading on Friday was keen but cautious with turnover up to R1bn, double the value of the deals transacted on each of the other four days.

Yields were restricted within a very narrow range as stock was churned over in a market fundamentally short of scrip.

58

The Eskom 168, priced at 16,66% at the end of the previous week, reached a high of 16,72%, closing on Friday at 16,67%, while the neglected RSA 13% 2005, 16,74% the previous week, closed on Friday at 16,74% after trading in an 8-point spread.

Star 27/2/89 (58)

Brokers could be breaking Usury Act

By June Bearzi,
Star Line

Swan Brokers, a Johannesburg "money-lending" firm which offers loans up to R10 000 "within 24 hours without surety" for a R50 fee, could be contravening the Usury Act.

This has emerged after complaints that the firm, run from a sparsely furnished office in Von Wielligh Street, has been raking in profits by charging non-refundable "administration" fees and then refusing to grant loans.

Three unhappy loan seekers who lost cash when they were turned down by Swan Brokers said that, within a week, their credit references had easily secured loans for them at banks.

Star Line first highlighted Swan Brokers' operation three weeks ago. Since then several more dissatisfied clients have come forward to relate their experiences.

EXCELLENT

Johannesburg businessman Mr James Anderson said: "I have excellent credit references so I demand to know from Swan Brokers why they turned down my application for R7 000 and then refused to refund my R50.

"After they rejected my application I immediately arranged a R17 000 loan through a bank without having to pay an administration fee. One of Swan Brokers' attractions was their '24-hour approval' offer."

Mr Adrian Leonard and his assistant, Miss Theresa Joubert, who run Swan Brokers from Manchester House, have refused to respond to these charges or to give the name of at least one successful loan applicant.

Miss Joubert said "Swan Brokers' private board" approved all loans. She refused to give the names of any of the board members.

BLUE JEANS

It was also pointed out to Star Line that Swan Brokers' staff did not give a "professonal impression". On one occasion an employee interviewed clients dressed in a T-shirt, shorts and sandals and on another in blue jeans and a T-shirt, two prospective applicants said.

Other angry applicants told Star Line that, when their loans were not granted, they were treated rudely and evasively when they demanded further details about Swan Brokers.

A spokesman for the Registrar of Financial Institutions told Star Line that, if Swan Brokers was acting as an intermediary in raising loans through "the Swan Brokers Private Board", the Usury Act was being contravened.

The spokesman explained: "According to section 2 of the Act an intermediary is prohibited from levying a fee to a borrower. The intermediary is only entitled to take a fee from the money lender."

When this was pointed out to Miss Joubert, her reaction was: "I know nothing about the Registrar of Financial Institutions and I have nothing more to say to you."

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BUSINESS

INVESTMENT

MKGS 28/2/89 (58)

Standard tipped for link-up with Allied

From SVEN FORSSMAN

JOHANNESBURG.— It's becoming increasingly difficult to ignore the persistent rumours about Allied linking up with either First National or Standard Bank.

Either Allied is in the throes of a takeover or the jobbers are spreading rumours to move the share up and down.

Allied was of the most active shares last year and it has been one of the volume leaders so far this year. Last Friday alone, 1,5-million shares changed hands.

The share price has risen from 132c to 155c over the past week and market sources say the take-up offer (if any) is expected to be around 180c (Allied's net asset value is estimated to be 172c to 180c.

Allied's historic P/E ratio of 8,6 is above the sector average of 8,0, but its dividend yield of 6,3 percent is below the sector average of 6,4.

Allied's results for the six months to September 1988 were not all that rosy, despite a surge in lending, which saw total advances increase by 21 percent to R6,4-billion.

Earnings declined by 18 percent to 8,5c (10,5c) and taxed income from R30,9-million to R25,3-million.

Margins were squeezed in a scenario of intense competition in the mortgage bond market.

Speculation concerning a possible link-up with First National heated up towards the end of last year after the Nedbank-Permanent Building Society merger.

Before that the talk was that Allied was negotiating a merger with Saambou Building Society.

Rationalisation in the financial services sector was seen not only in the Ned-Perm merger, but in the restructuring that took place in individual organisations.

Allied was one of those that underwent radical change.

It became the first building society to establish a bank in January 1987 and, after a listing in June, it merged its bank and building society operations in October in preparation for legislation expected eventually to replace the existing Bank and Building Society Acts.

The bank's managing director, Kevin de Villiers, was formerly group treasurer at First National and he had brought with him from that bank Don Hunt (as senior GM in charge of Allied's treasury) and Fritz Rieseberg (as senior GM administration).

Two other First National men have since joined Allied — Mike Henderson (as senior GM in charge of the corporate division) and Andre Latre (to assume responsibility for the consumer division).

While it all seems to point to First National, market sources are now tipping Standard as the company most likely to take over Allied.

Spokesmen for Allied, First National and Standard yesterday denied there was anything in the pipeline.

First National's Jimmy McKenzie said: "Nothing is imminent, but it is bound to be one of the big banks."

Vermaas is back in dock

Cape Times 28/2/89

(58)

By MANDY JEAN WOODS

IN an astonishing turn of events, Pretoria attorneys Mr Albert Vermaas and Mr Eugene Berg were yesterday charged again on the instructions of Transvaal attorney-general Mr Don Brunette.

This move comes just one week after Mr Brunette, in a shock move, provisionally withdrew charges of fraud, contravening the Banks Act and contempt of court, alternatively theft, against Mr Vermaas and Mr Berg on the basis that he did not have sufficient information to draft charge sheets.

Senior public prosecutor Mr Francois de Beer said that by arrangement, Mr Vermaas and Mr Berg appeared in Pretoria Magistrate's Court late yesterday afternoon and were charged with "several charges similar to their first charges".

No travelling

Mr Vermaas, 52, was given R10 000 bail and Mr Berg, 42, R5 000. Both men had their passports withdrawn last Friday by the Minister of Home Affairs, Mr Stoffel Botha, on the grounds of information made available to him by Mr Brunette, according to a statement released by the Minister of Justice, Mr Kobie Coetsee, on Friday.

Bail conditions imposed yesterday

Three hurt in blast near house

C.T. 28/2/89

By PATRICK COLLINGS

THREE people, including two 13-year-old girls, were injured when a handgrenade detonator exploded after one of the girls unearthed the device during rubble-clearing at a half-built house in Charlesville yesterday.

The injured were taken to Groote Schuur Hospital. Two of the victims were discharged while one of the girls was kept overnight. A spokesman for the hospital said her condition was "stable".

Mr Charles Petersen, the grandfather of one of the girls, said members of his family and friends had gone to a half-built house in Michael Hendricks Street in Charlesville to clear up rubble.

His wife, Mrs Miriam Petersen, said her granddaughter Annelize and her son-in-law Mr Pieter Samuels, 29, were inside the house when their neighbour's daughter Gail Ratcliff uncovered the detonator in the sand soon after 5.30pm.

"She must have given it to Annelize who pulled something out, causing it to explode," Mrs Petersen said.

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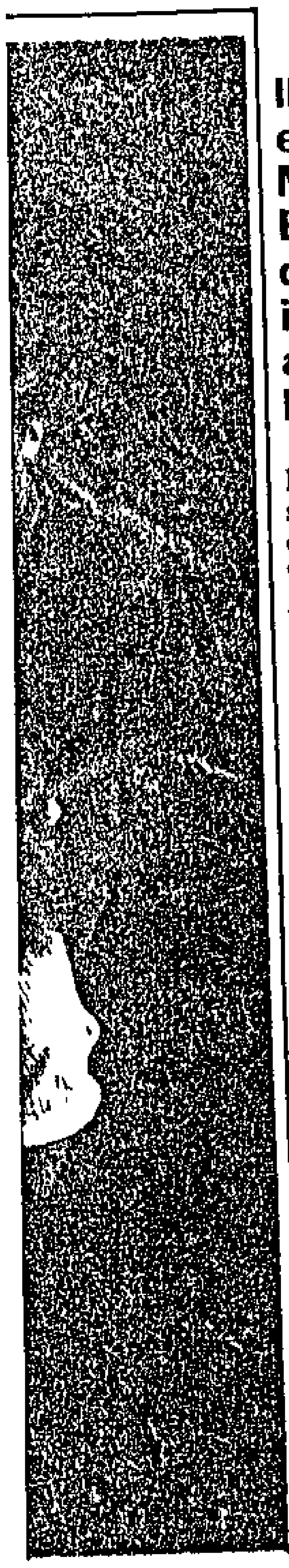
28/2/89

58



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Bail conditions imposed yesterday stipulate that the men may not apply for any travel documents and may not go to any points of departure, such as harbours or airports, Mr De Beer said.

The charging again of Mr Vermaas and Mr Berg follows the shock move by Mr Brunette last Monday in which he provisionally withdrew charges against them because he said he did not have enough information to formulate charges.

On Wednesday, Mr Brunette was summoned to Cape Town by Mr Coetsee for lengthy discussions, and on Friday the minister announced that "new facets had come to the attention of Brunette which are at present being investigated".

In an interview last Thursday, Mr Brunette gave the following reasons for his decision:

- The simple fact he could not render a charge sheet.
- He had not had an opportunity to investigate or read "lots of evidence" still in the possession of the Harms Commission.

Mr Brunette also said he made his decision

To page 2

The Star
Finance

Share activity fuels Allied speculation

Star 28/1/89. (58)

Diagonal Street

SVEN FORSSMAN

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Economists warn of further rate rises

More shocks possible as interest soars

(58)

StW 28/2/89

By Sven Lünsche

As banks prepared to increase their prime lending rates today, economists feared that further rises in interest rates could become necessary to curb domestic economic demand.

Central Statistical Services reported yesterday that South Africa's economy, as measured by the gross domestic product (GDP), grew by 3,2 percent during 1988, higher than forecast by most analysts.

It also meant that for the first time in three years South Africans were on aggregate getting richer, as Goverment estimates put population growth over the year at about 2,5 percent.

Over the three previous years, economic growth rates had not exceeded population growth rates. But given the constraints placed on the local economy by international sanctions and debt repayments, the authorities argue that South Africa cannot afford to grow by more than 3 percent and protect foreign exchange reserves.

Economists fear that the latest rise in rates (expected today) will not suffice to bring growth back down to the required levels, although it is expected that increases will affect a wide range of interest rates, including bond rates and hire-purchase rates.

Rate 'not effective'

"Unless the rise is supported by appropriate fiscal measures, including a tight Budget, we could see further inreases in rates," says Volkskas economist Mr Adam Jacobs.

Nedbank's chief economist, Mr Edward Osborn, says that interest rates are not very effective, "but because the authorities see interest rates as the only means available to slow growth", further rises could become necessary.

The Star's Political Correspondent, **Peter Fabricius**, reports that the Government only last night gave the go-ahead for banks to put up their interest rates.

The Minister of Finance, Mr Barend du Plessis, announced that retroactive legislation would soon be introduced to validate interest rate increases from today The Usury Act normally requires banks to give [illegible] days written notice to all customers before putting up rates.

This prevented banks from immediately putting up their rates last week when the Reserve Bank increased the bank rate — its interest rate to them — by 1 percent. Banks complained that the delay was costing them millions of rands a day. The banks can immediately adjust their bond rates, but building societies have to give a month's notice.

The Perm's managing director, Mr Bob Tucker, indicated that some building societies would only lift their rates from 18 percent to 19 percent by May 1. The Allied was scheduled to make an announcement later today.

● See Page 10.

This is all kids' stuff. "Doctors preparation programme run on

Cape Times 28/2/89

Overdraft rates up to 19% today

58

Own Correspondent

JOHANNESBURG. — Banks will announce increases in their prime overdraft rates to 19% today after being freed from the obligation to give seven days' written notice to overdraft customers.

A statement by Finance Minister Mr Barend du Plessis has announced a retroactive amendment to the Usury Act.

Mr Du Plessis said amending legislation would be introduced to Parliament as soon as possible, enabling banks to give notice of increases in lending rates from today.

Referring to cases where adjustments to variable rates were called for because of a change in bank rate, Mr Du Plessis said: "Monetary policy requires a rapid response from the banking sector to changes in the bank rate."

FINANCE - GENERAL

1989 — MARCH.

Bank rates going up (58)

NEDBANK has announced a one percent increase in its prime overdraft rate from 18 percent to 19 percent in line with Finance Minister Mr Barend du Plessis' announcement this week.

Mr du Plessis announced a retroactive amendment to the Usury Act and said amending legislation would be introduced to Parliament as soon as possible. — Sapa. Sowetan 1/3/89

Concern over big rise in bond repayments

(123) (58) B|Day 1/3/89

Political Staff

CAPE TOWN — Government should give urgent attention to the fact that bond repayments for many first-time buyers had gone up by 50% or more, PFP MP for Pinelands Jasper Walsh said yesterday.

He said the extra R13m needed by the House of Assembly Administration following keen response in the first-time home owner subsidy scheme was encouraging.

"However, despite the subsidy, we have to be concerned regarding the upward trend in interest rates," he said during the first reading debate on the Additional Appropriation Bill for the House of Assembly.

"In many instances, bond repayments have had to be increased 50% or more.

"Whereas the decision to buy a house would have been based on a considerably lower repayment which fell within the means of the purchaser, this is no longer the case. I believe this is most unfortunate and is placing a considerable financial burden on individual home owners."

Walsh urged Budget Minister Kent Durr to give the matter his urgent attention.

GDM control now in SA hands

Cape Times 1/3/89

By LIZ ROUSE

JOHANNESBURG. — Control of leading trade finance company GDM Finance has now moved into SA hands.

An announcement by the company says this is the final step in the localisation of the company.

The London-listed international conglomerate Goode Durrant, which held 59% of GDM, has agreed to sell 2,5-million GDM shares, or 10% of the company, to local investors.

Management has acquired 500 000 of the shares, taking its holding in the company to 12%, and SA Mutual has acquired 2-million shares, giving it an 8% stake in GDM.

GDM MD John Cowper said: "The price at which the transaction has been effected is 100c a share ex the final dividend which will be declared for the financial year ending April 30. The last reported sale prior to the conclusion of the transactions was 95c cum div.

"We are delighted with the move as it endorses GDM's independence as an SA-controlled company and that, in addition, further shares have found their way into firm institutional hands. With the Mutual's 8% interest, 27% of our shares are now held by major institutions."

Michael Waring, chairman of both GDM and Goode Durrant, said this was the next logical step in the process of ensuring GDM independence.

"The first step was GDM's listing in September 1987 and this agreement to reduce Goode Durrant's holding from 59% to 49,6% completes the independence exercise.

"We are delighted with the progress GDM is making under its SA management team and we remain firm holders of our 49,6% interest."

Cowper added that GDM was confident earnings growth would be maintained in the second half.

Vermaas on R300m fraud

Cape Times 1/3/89 58

By CHRIS CAIRNCROSS

THE new criminal charges formulated against Pretoria attorney Mr Albert Vermaas by Transvaal attorney-general Mr Don Brunette amount to 22 counts of fraud involving some R300 million, while those against his co-accused, Mr Eugene Berg, amount to four counts of fraud involving some R18,5m.

This is according to the charge sheet lodged at the Pretoria Magistrate's Court on Monday

The charges against Mr Vermaas and Mr Berg stem from evidence heard by the Harms Commission in Pretoria in November and December last year.

'Spurious and false'

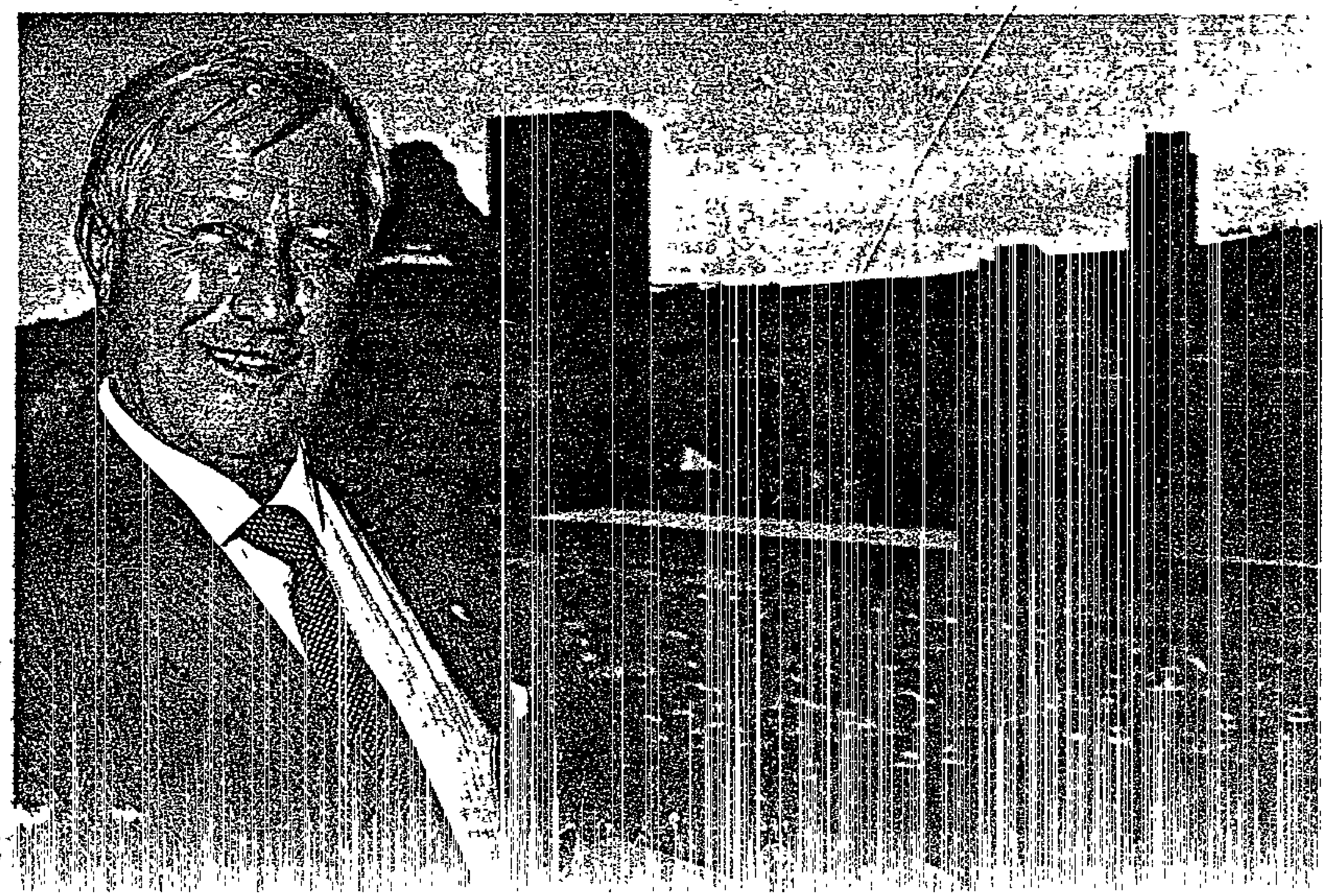
The new charges follow Mr Brunette's decision a week ago to provisionally drop all charges against the two men. Mr Brunette maintained he did not have sufficient evidence on which to render a charge sheet.

Mr Brunette's original decision was described in Parliament yesterday as spurious and false, having no basis in law and not in the interests of justice.

This was said by PFP MP for Groote Schuur Mr Jan van Gend, who spoke during a mini-debate in which the Minister of Justice, Mr Kobie Coetsee, was called on to explain his involvement in the saga and why Mr Brunette had decided originally to withdraw the charges.

Mr Coetsee said Mr Brunette had first informed him that the charges had been withdrawn in the light of six civil cases involving Mr Vermaas and concerning sequestrations and liquidation, which were underway in the Transvaal.

Mr Brunette subsequently informed him on Monday that in the light of information contained in



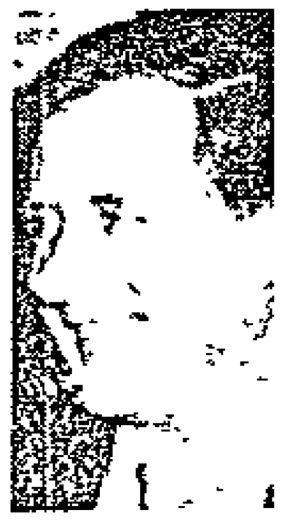
Coetsee calls for probe of Corruption Act defects

Political Staff

THE Minister of Justice, Mr Kobie Coetsee, has asked the South African Law Commission to investigate defects in the Prevention of Corruption Act.

He was acting after the Harms Commission had pointed out certain shortcomings in the act.

Mr Coetsee who was responding to a question from PFP MP Mr Dave Dalling in Parliament yesterday, said that at this stage the government was not considering tabling a white paper on the first two reports of the Harms Commission.



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Mr Coetsee said various attorneys-general were considering possible charges in- [illegible]

SHE Times 1/3/89 (58)

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Mr Coetsee

This was because the recommendations in the first two reports were well defined and had already been given effect to.

Mr Coetsee said various attorneys-general were considering possible charges indicated in the first two reports.

The Law Society of the Cape was also considering the reports.

He added that "the finding of the commission in connection with certain political-ethical issues and the violation of the inter-state relationship with Ciskei were referred to the Speaker of Parliament and the Department of Foreign Affairs, respectively for possible action".

Mr Coetzee said that further investigation arising from the Harms Commission report would be "a matter of decision for the commisssion".

By CHRIS CAIRNCROSS

THE new criminal charges formulated against Pretoria attorney Mr Albert Vermaas by Transvaal attorney-general Mr Don Brunette amount to 22 counts of fraud involving some R300 million, while those against his co-accused, Mr Eugene Berg, amount to four counts of fraud involving some R18,5m.

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Mr Brunette subsequently informed him on Monday that in the light of information contained in evidence to the Harms Commission, he had decided to re-institute charges in a case now postponed to June 5.

Mr Van Gend said during the debate that Mr Coetsee, by his conduct, had admitted that Mr Brunette's action in withdrawing the charges against Mr Vermaas was unwarranted and not in the interests of justice.

He said that in his view the action was "patently stupid". Every reason Mr Brunette had given for it had been both "spurious and false".

"They have no basis in law and are contradicted by the specific provisions of the Criminal Procedure Act and the Commissions Act, with which Mr Brunette, as attorney-general, must surely be familiar."

Mr Van Gend asked what had motivated Mr Brunette to withdraw the original charges and return Mr Vermaas' and Mr Berg's passports, observing that if ever there were two men who had pressing reasons to skip the country it was they.

"It could, of course, be that Vermaas' disappearance would allow a few of his friends in high places to sleep comfortably at night," Mr Van Gend said.

He added that Mr Vermaas was no ordinary criminal.

"His underworld appears to be very much intertwined with the corridors of power and I would like to know why our ministers of finance, defence, foreign affairs and Economic Affairs and Technology and a number of top officials ... became embroiled in the affairs of this master of round-tripping and foreign-exchange fraud."

Mr Van Gend noted that both the department of foreign affairs and defence had conducted business with Mr Vermaas and that the Minister of Foreign Affairs, Mr Pik Botha, had admitted he and Mr Vermaas were close friends of many years standing.

"Did our ministers really not see through this man? Were his criminal and other shady dealings not so patently obvious as to demand caution?" he asked.

It appeared this was not so, for on Sunday, November 20 — the day before the Harms Commission was due to start its investigation into Mr Vermaas — Mr Botha arranged through the Min-

To page 3

From page 1

ister of Finance, Mr Barend du Plessis, for Mr Vermaas to receive help and advice from a top Reserve Bank official, "presumably in connection with his fraudulent foreign exchange dealing".

"Even after failing to submit tax returns for 10 years the man was not investigated, let alone prosecuted. The result is a potential loss to the state of R44 million in tax alone, let alone the millions lost in his foreign-exchange dealings," Mr Van Gend said.

During the debate, Mr Coetsee announced the names of the members appointed to the special team, under Mr Brunette, charged with investigating the Vermaas affair.

They are deputy attorney-general of the Transvaal Mr Miller van der Merwe, who said he had been informed of his appointment by the Department of Justice only yesterday morning; Mr Jan Swanepoel, deputy attorney-general in Johannesburg, and Mr Francois de Beer, senior state advocate in Mr Brunette's office, who said last night he had yet to hear officially about his appointment.

Details of how they intend to carry out their task were not clear last night.

● The re-institution of charges against Mr Vermaas and Mr Berg has caused the Harms Commission investigating foreign exchange contraventions to be postponed until today, a spokesman for the commission said.

More increases feared

Bond rate rise gets under way

By Sven Lünsche

The Allied Building Society and Trust Bank yesterday announced a one percentage point rise in their mortgage (bond) rates, setting the scene for a general rise in interest rates over the next few weeks.

First National Bank is likely to announce a decision this morning but other banks and building societies have indicated that their bond rate would remain unchanged for the time being.

Trust Bank's higher bond rate of 19 percent (previously 18 percent) comes into effect immediately on both new and existing loans.

On April 1

Allied's traditional bond rate has been increased by 0,75 percentage point to 18,75 percent but, as building societies have to give a month's notice of a change in rates, these rises will come into effect only on April 1.

All the major banks have raised their prime lending rate from 18 to 19 percent with immediate effect, after the Minister of Finance, Mr Barend du Plessis, clarified a clause in the Usury Act which had bogged down an immediate rise in the bank's prime rates following the increase in the Reserve Bank's bank rate last week.

The higher prime rate is expected to be followed by higher rates on loans and hire-purchase transactions — but also increased rates on savings.

Homeowners with outstanding mortgages are again hardest hit as they have seen the rate on their bonds rise from 13 to 19 percent in less then a year. The concurrent rise in monthly interest payments for a R100 000 bond is from R1 172 at 13 percent to R1 621 at 19 percent.

Despite today's increases, economists fear that further rises in interest rates could become necessary to curb domestic economic demand.

The economy is growing strongly as Central Statistical Services (CSS) reported this week.

The CSS said that the economy, as measured by the gross domestic product (GDP), grew by 3,2 percent during 1988, higher than forecast by most analysts.

But, given the constraints placed on the local economy by international sanctions and debt repayments, the authorities argue that South Africa cannot afford to grow by more than 3 percent and protect foreign exchange reserves.

Economists fear that the current rise in rates will not suffice to bring growth back down to the required levels although it is expected that increases will affect a wide range of interest rates, including bond rates and hire-purchase rates.

The Star Finance

Star 1/3/89. (58)

M & F earns R39,4-m underwriting surplus

By Sven Forssman

The bouyant period being experienced by short term insurance firms is reflected in Mutual & Federal's results for the six months to December 31, with pre-tax profit shooting up by 92 percent from R41 million to R79 million.

After-tax profit advanced by 81 percent to R47 million and gross premiums increased by 10 percent to R378,5 million.

Net premiums rose 16 percent to R317,2 million and an underwriting surplus of R39,4 million was achieved.

Investment income reached R39,8 million — a 54 percent increase — benefiting from stronger cash flows and higher prevailing rates of interest.

The market value of the company's assets crept over R1 billion and its solvency margin was in excess of 75 percent at December 31.

Managing director Ken Saggers said that because of the volatility of short term insurance business there was no guarantee similar results could be achieved in the second half of the financial year.

He said the improvement in the underwriting position was in line with current insurance market trends and attributed it to:

- An unusually low incidence of weather related losses, particularly in the hailbelt regions of the country.
- No major fire losses.
- A reduction in the number of crime related losses.

In view of these factors, Mr Saggers said, the company had been able to hold premium rates at their 1987 levels. Significant discounts in the form of no claim bonuses have been passed on to a large number of policyholders with good claim histories.

Mr Saggers welcomed the increasing security awareness of the public and believes that coupled with on-going success of the authorities in curbing cime related losses, augers well for maintaining stable market conditions in the industry.

He warned, however, that the improved profitability of the industry had led to fierce competition.

"Whilst I am firmly of the opinion that market forces must be allowed to oper ate freely, I am equally convinced that violent fluctuations in premiums are to be deplored.

"It is essential that insurers take a long view and adopt a sensible approach to rating. Irresponsible price-cutting can only be detrimental to the industry as a whole."

M & F maintains insurers' results record

B/Day 1/3/89

KAY TURVEY

MUTUAL & Federal reported a whopping 80% climb in taxed profits to R47,4m for the six months to end-December, in line with outstanding results posted by other short-term insurers recently.

Earnings a share, at 102c (56,6c), made for a healthy 85% increase in dividends paid at 12c a share.

Gross premium income rose 10% to R378,5m and net premium income grew 16% to R317,2.

A strong 105% increase in underwriting surplus to R39,4m was achieved as a result of favourable factors in the insurance market.

MD Ken Saggers attributes the good out-turn for the six months to an unusually low incidence of weather-related losses, no major fire losses and reduction in the number of crime-related losses.

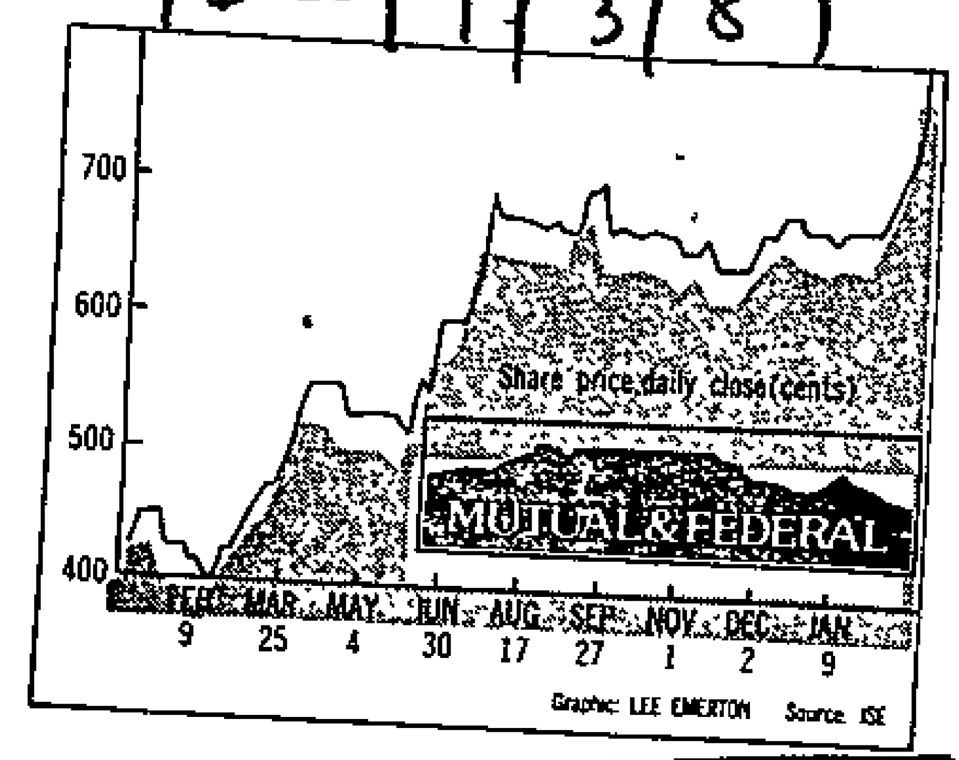
Investment income appreciated 53% to R39,8m, benefiting from stronger cash flows and higher prevailing interest rates.

In view of the improvement in the expense ratio, Saggers says, the group has been able to hold premium rates at their 1987 levels and significant discounts in the form of no claims bonuses had been passed on to policyholders with good claim histories.

However, he warns irresponsible price-cutting will be detrimental to the entire industry as improved profitability has led to fierce competition.

He says although market forces should be allowed to operate freely, violent fluctuations in premiums in response to ever changing circumstances are to be deplored.

SA's vulnerability to weather-related catastrophes and the major impact they have had on insurers in the past should not be forgotten, he cautions.



(58)

Although the interim results provide a solid foundation for the remainder of the year, trends cannot be predicted in the volatile short-term insurance industry and there is no guarantee that equivalent results will be achieved in the second half, Saggers says.

The shares were untraded yesterday having reached a new high for the year of 850c earlier in the week.

Reserve Bank helps head off pressure on interest rates

BI Day 1/3/89 58

GRETA STEYN

THE Reserve Bank is helping the money market over a liquidity squeeze to head off renewed upward pressure on interest rates after last week's hike in Bank rate.

The Bank's move to 16% triggered a wave of increases in banks' and building societies' lending rates. But the Bank has been careful to signal that the one percentage point move in Bank rate is enough for the time being.

Through open market operations — for instance, purchasing Bankers' Acceptances — the Bank has put extra liquidity into a tight market. A market source put the Bank's assistance through open market operations at R400m between Friday and yesterday. In addition, the Bank has provided extra cash in the form of buy-backs of non-liquid assets, which amounted to R1bn yesterday.

Cash is being drained from the market as large tax payments, including individuals' provisional tax and mining tax, flow to government. The tax outflow is put at about R1,5bn. The scramble for cash pushed call rates up to an average 17,38% yesterday from an average 16,75% on Monday.

Higher rate

But banks' margins are relatively safe as they announced increases of one percentage point in their prime rates yesterday. The United is undercutting the bigger banks with a prime rate of only 18,75% compared with 19%.

First National has indicated it will today become the second bank to announce a higher home loan rate after Trust Bank's announcement of an immediate increase to 19%.

The Allied has announced only a 0,75 percentage point increase in its building society bond rate to 18,75%, which becomes effective only from next month. The Allied's Bank Bond rate was raised by 1,5 percentage points to 19%. Standard Bank, however, said its home loan rate would remain unchanged at 17,75%.

Standard ups savings rates

Star 2/3/89

Finance Staff 58

Standard Bank yesterday became the first financial institution to increase a broad range of retail deposit interest rates in the wake of this week's 19 percent rise in the prime lending rate.

Many of the increases are in line with the one percentage point rise in prime rate, and come into effect today.

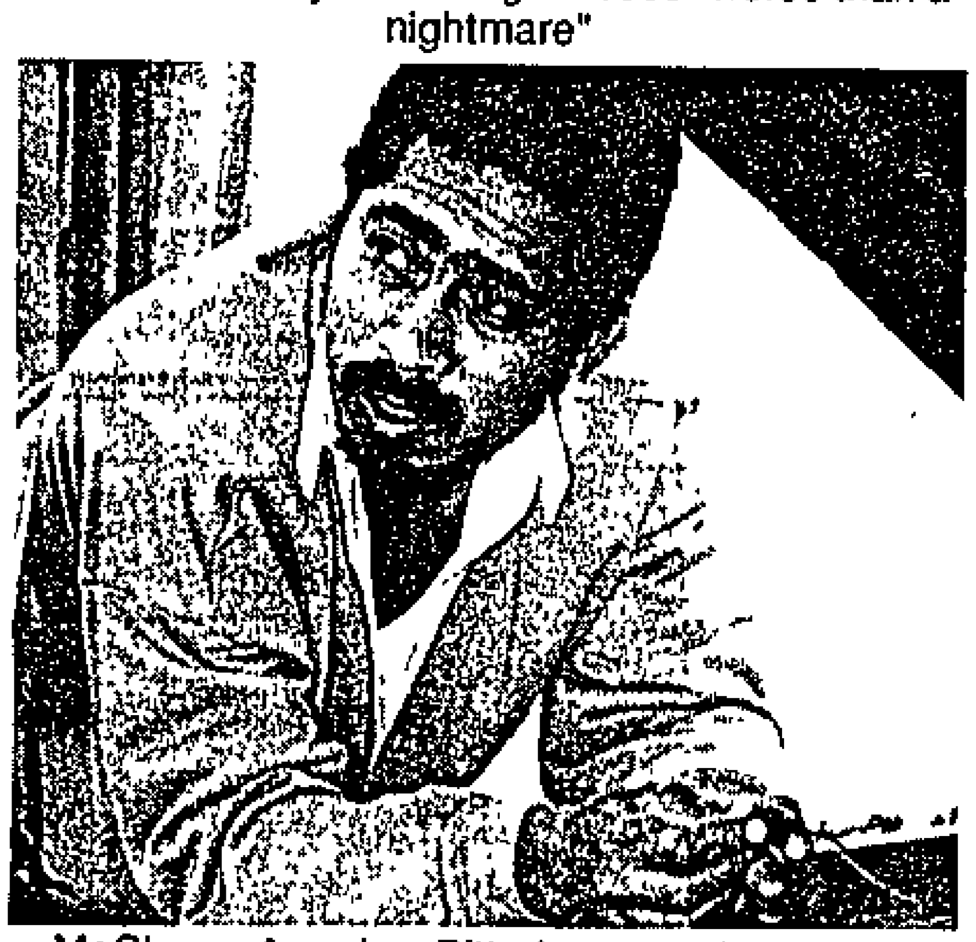
Increases of one percent apply to retail call, notice, SuperPlan, FlexiPlan and BonusPlan deposits.

All other banks and building societies are expected to increase deposit rates over the next few weeks.

Breaking po


Mrs Rosemary Magiera: Struggling to sell her house


Mrs Karen Leetjer: Owning a house "worse than a nightmare"


Mr Shawn Arendse: Bitterly regrets buying his house


Mrs Yasmin and Nuraan Samsodien: No money for food soon

THE dream of owning one's own home has turned into a nightmare for thousands of homeowners faced with crippling interest rates and the soaring cost of living.

In Morgenster, a new housing scheme in Mitchells Plain, at least seven homes have been repossessed in the past three months, with several families moving out in the middle of night.

As the latest jump in the interest rate takes its inevitable toll, hundreds of families are teetering on the brink of what estate agents call the "breaking-point".

In Morgenster, despair hangs like a dark cloud over the neat rows of attractive, freshly-painted homes.

A year after the first families moved in the "For Sale" boards are fast being erected in almost every street

But Morgenster is only one of many areas where homeowners are showing signs of buckling under financial pressure

Many residents, several months in arrears with bond repayments, are abandoning their homes in the middle of the night.

The hike in interest rates — up from 13 percent to a staggering 18 percent in the past nine months — has pushed up bond repayments from as much as R200 to R400 a month.

Some families, who qualified for a home a year ago on the joint income of husband and wife, are having to fork out up to 80 percent of a salary as one of the partners becomes unemployed.

With scores of families several months in arrears with their rents, an alarming number of homes are being repossessed by banks and building societies as families fail to meet the higher repayments.

The housing boom of the past two years — which fulfilled a dream of owning one's own home for thousands of families — has come to an abrupt end.

Not surprising, the demand for new houses has dropped by about 50 percent.

"It's worse than a nightmare," said Morgenster resident Mrs Karen Leetjer, echoing the frustration of hundreds of familes who are fast reaching their "breaking-point".

Jump in interest rate

"Who on earth can afford to pay these high rents? All we can do is wait for another summons "

Leetjer admits she and her husband are several months in arrears with their repayments.

In less than a year their repayments have almost doubled from R476 in March last year to R912 with the current jump in the interest rate.

For example, the Leetjer's bought their home when interest rates were at an all-time low of 12,5 percent in early 1987. They then watched in horror as interest rates increased by more than 40 percent over the next 10 months

Leetjer, like many other residents, has got used to the phenomenon of neighbours suddenly packing up and disappearing — often during the night.

"They're there in the evening and then gone in the morning," she said.

For those families reeling from the shock of their increased bond repayments, the spiralling cost of living has placed on them an even heavier burden

"It's been a terrible year," bemoaned Mrs Yasmin Samsodien, of Morgenster.

"When we moved in they made it sound so simple, only R450, but now we are paying R750 a month.

"The house is not worth it, but I don't think I can go back to living in a room or separate entrance with four children," she said

Like so many first-time homeowners, the Samsodiens qualified for a house on the basis of their joint income.

She has since become unemployed and now about 75 percent of her husband's salary is spent on repayments.

Mrs Rosemary Magiera, whose repayments have increased from R726 to R906 in recent months, said she bought her house because she was "desperate" for accommodation

"But I don't know for how long we can continue going to the bank to say that we can't meet our repayments," she said

"It's becoming impossible. My husband can just about afford to feed us.

"And it isn't just our family. There is hardly a person in this area who isn't in arrears."

The Magiera's have tried four different estate agents to get their house sold, but without success.

"I don't think we will be able to afford to feed ourselves if the interest rate goes up again," she said

Morgenster resident Mr Shawn Arendse said he deeply regretted having bought his home

"I would have been much better off just living in a room now that my payments have increased from R500 to R870," he said.

If it's a boom why all t

By IRAJ ABEDIAN

THE current economic situation in the country seems at best confusing to the man in the street.

The economic professionals as well as the authorities speak of an economic boom. But reality proves different.

Daily it is becoming harder to make ends meet. Prices keep going up, salaries don't seem to keep pace with inflation, and the authorities continue to raise the rate of interest.

For instance, last February the prime overdraft rate was 13 percent; this year it is over 18 percent. At the same time the mortgage bond rate was 12 percent as opposed to more than 17 percent currently.

Such dramatic rises in the interest rates have a substantial impact on the well being of all, especially the middle and lower income groups

In terms of mortgage payments alone, it has caused close to an average 45 percent increase in the monthly bond repayments

For the average income earner this is almost unbearable; its financial consequences are devastating

Not only must a larger percentage of the disposable income need to be set aside for housing (at the cost of less consumption of everything else), but families are left wondering if interest rates will rise again

This uncertainty forces many families to sell their properties, often in a depressed housing market with falling prices.

Such developments could hardly be associated with a boom situation

Generally, an economic boom implies more employment, higher income, a higher standard of living, or "easier times"

But South Africa's situation is peculiar; the country faces a dilemma. On the one hand, the country needs economic growth to help raise the standard of living in general On the other hand, it cannot afford growth

Because as a developing economy, South Africa's economic activity requires more capital goods to be imported

Ordinarily it would not have mattered, but with the international financial sanctions in effect, the situation is quite different.

Not only can we not rely on foreigners to provide bridging finance, but we are also forced to pay back their previous loans.

This means that from the proceeds of the country's exports we have to pay our debts first, and then spend the balance on necessary imports.

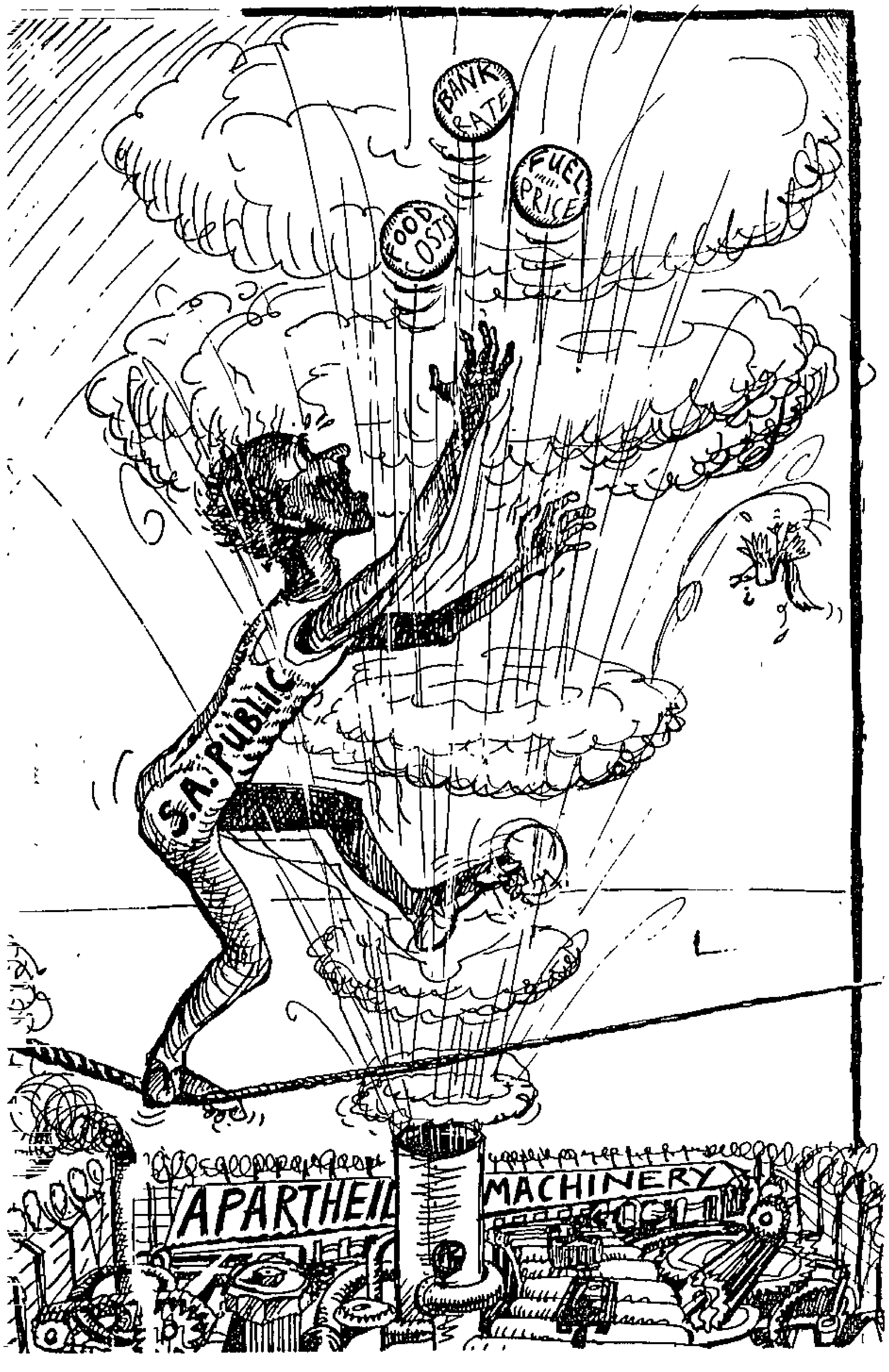
For example, our 1989 debt repayment requirement, in terms of the debt moratorium, is R875-million

Outside the debt moratorium arrangements, a further R2 812-million is required for 1989.

ash Crisis

g point!

Trapped in a vortex of spiralling rates and prices, many families are battling to keep up their mortgage repayments. And for some families facing "breaking point", the only option is to abandon their homes. HENRY LUDSKI reports:



Playing here today, somewhere else tomorrow? The worries of arrears and repossessions affect everyone in Morgenster

Brace yourself for more hikes

A LEADING economist has issued a dire warning to all consumers staggering under the weight of soaring interest rates, fuel, transport and food price hikes.

Brace yourself, he says — there are even tougher times ahead with more shock increases expected in the next few months.

Dr Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, views the latest round of price increases as the start of a new upward inflationary cycle.

Stuart expects the crunch to come towards the end of 1989 when the economy will be in "very bad shape" and inflation set to take an even bigger chunk out of pay packets.

In recent years South Africans have generally become poorer with salaries lagging behind inflation

A survey of cost increases over the past few years reveals a grim picture of how South Africans have been affected

Thousands have been pushed below the minimum subsistence levels

And according to a monthly comparison of food prices conducted by a local housewives' organisation, a basic "food basket" of 29 items, which cost about R50 two years ago, now costs about R75 — a 50 percent increase

The consumer has taken a battering from all sides with rail and air fares and bus tariffs increasing by an average of more than 30 percent since 1986.

A first-class single ticket from Cape Town to Mitchells Plain has jumped from R1,90 in January 1986 to R2,80 — and fares are set to increase again by between eight and 13 percent in April

A single bus fare ticket to Mitchells Plain has increased from R2,21 in 1986 to R3,00 in January

Very little has escaped the inflationary cycle — not even the once inflation free box of matches, which has shot up in price from one cent to seven cents in the past five years

Price increases have been registered across the entire spectrum, but the biggest blow to the consumer came late last year when the price of petrol rose by more than 10 cents per litre — unleashing a wave of price increases

And more shocks are in store for the hard-pressed consumer in the next few months, with the price of petrol and rail and air tariffs set to increase again on April 1

Thousands of homeowners throughout the country have in the past year faced a staggering interest rate increase of more than 40 percent

Many families, already reeling from the escalating cost of living, are now paying hundreds of rands more on their bond repayments.

v all the gloom

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For example, our 1989 debt repayment requirement, in terms of the debt moratorium, is R875-million.

Outside the debt moratorium arrangements, a further R2 812-million is required for 1989.

In total, the country requires R3 687-million (roughly 1,5 billion dollars) in 1989 to finance the foreign debt.

Our foreign asset holdings, meanwhile, stands at R4 975-million (Jan 1989)

At the same time the prospects for gold, by far our most important export, are gloomy

In short, given a low price of gold and the presence of international financial sanctions, South Africa cannot afford any sustainable economic boom

This is a fundamental economic dichotomy that underlies the current situation.

At the root of it are two government failures

First there is the failure to address the political problems of the country to prevent financial sanctions.

Secondly, there is the failure to diversify the economy's export and/or enlarge the domestic market to reduce the impact of the gold price volatility

These two basic factors are further exacerbated by the dogmatic quest of the (Reserve Bank) authorities for a high level of foreign asset holdings.

Otherwise, as the figures suggest there is no obvious reason why the interest rates should go up now

(Abedian is a senior lecturer at the University of Cape Town's School of Economics)

CNt Times 2/3/89

Vermaas' estate sequestrated

PRETORIA. — Mr Albert Wessel Vermaas's estate was finally sequestrated while his business empire — barring Eurobank — was finally liquidated by the Supreme Court here yesterday.

The orders, by Mr Justice Van Niekerk, brought to an end months of legal wrangling.

Mr Vermaas is yet to face criminal charges allegedly stemming from the affair.

Transvaal Attorney-General Mr Don Brunette is in charge of a special task force that is preparing criminal charges against Mr Vermaas.

An action brought by Mr Vermaas to prevent him from being summonsed to be interrogated in terms of the Insolvency Act was postponed yesterday to March 14.

The court heard there were 661 intervening creditors claiming a total of R107 million from the Vermaas empire, while the total claim could come to R150 million.

Mr Justice Van Niekerk also turned down a "never-say-die" application from Mr Vermaas yesterday that an extension to close a contract to sell Chieftain Aviation Holdings to an overseas buyer be further extended.

Mr Vermaas said the creditors could have been reimbursed from the R155 million he would have received from the sale.

But the judge said there was no concrete information before the court about the deal. — Sapa

Pref share move hobbles deals

BDay 2/3/87 (58)

KAY TURVEY

MULTI-MILLION rand deals have had to be re-financed, after the disruption of the corporate-financial community by government's retrospective crackdown of preference shares redeemable in three years.

At least one planned R40m management buyout of a listed company is having to be restructured.

More than R120m of redeemable preference shares in the giant FSI group are also being renegotiated.

Fresh deals will have to be struck for about half of banks' estimated R500m exposure to redeemable preference shares.

The proposed legislation, which will result in dividends on preference shares redeemable within three years being taxed as interest in the hands of the recipient, has been criticised for blocking an avenue of capital funding.

Financiers believe the legislation will drive up the cost of borrowings.

Dividends paid on short-term redeemable shares vary from about 63% to 75% of the prime rate and if re-negotiated for a longer period, shareholders will expect a return equal to prime or 1% below prime, says Finansbank MD Hennie van der Merwe.

Banks which have taken up preference shares with an escape clause providing for a change in legislation, will be protected as they will be able to get out of the deal.

FSI financial director Neville Cohen says the group is negotiating to convert its redeemable shares on a six month and yearly rollover to longer term prefs with no security..

The legislation is also aimed at shares subject to a put option or guarantee.

However, Cohen says this will make little difference to the group's funding and will not affect bottom line performance. The group has about R600m unutilised bank facility.

He estimates, given balance sheet considerations, banks participation in preference shares roughly match their shareholders capital, which for the banking sector is R500m.

A financier says short-term preference shares as a form of financing management buyouts of listed companies will no longer be possible.

OLD MUTUAL SET FOR A BUMPER YEAR

KAY TURVEY

OLD MUTUAL looks set for another bumber year after recording strong gains for the half-year to end December.

GM (individual life) Bobbie Jooste says healthy growth has been experienced in individual recurring premium business, which increased by 40% in the year ended 31 December 1988.

Some 572 244 policies were sold during this period — an SA record for 12 months.

Sales of retirement annuities are 52% ahead of those for the previous year, and Jooste notes the most recent market share figure indicates that four out of every 10 RAs sold are issued by Old Mutual.

Retirement annuity payouts are currently yielding an after-tax return of 24,3% a year. Jooste says: "One of the major reasons for the strong sales are the good returns policyholders have earned, enabling them to beat double-digit inflation."

Single premium business grew at a more moderate level of almost 17% in the face of heightened competition from high interest rates.

SITE 'mess' for life assurers

KAY TURVEY

LIFE offices, caught out by the enormous administrative problem of applying SITE tax on retirement annuities, are having to tax annuitants at the maximum rate — with no chance of over-payments being adjusted.

The Life Offices Association (LOA) made an unsuccesful bid to the Commissioner of Inland Revenue last year for a moratorium on SITE until the end of the 1989/90 tax year to enable them to gather the necessary details from policy holders.

Without the information, assurers are obliged to tax annuitants at the maximum rate for the past tax year, which ended yesterday. Over-payments are non-refundable.

Southern Life senior manager Nigel Scott described the situation as a "real mess" resulting from too little time to gather the necessary information to apply the tax.

The LOA has sent a memorandum to the Receiver outlining the problem. LOA executive director Richard Geary-Cooke said they were awaiting a meeting with the Receiver to discuss the issue.

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1/3/90

Perks tax rise expected as rates soar

3/3/89

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By TREVOR WALKER
Business Staff

THE "perks" tax may be increased following the steep rise in the general pattern of interest rates, and an announcement is expected within the next few days.

"An increase in the present official rate of 13 percent is under consideration and recommendations will be forwarded to the Minister of Finance for approval shortly," said Mr Clive Kingon, head of Inland Revenue. "The present rate is out of line."

Banking sources said the increase could be as much as three percentage points, to 16 percent. Government sources said if an increase was approved the new rate would probably become effective on June 1.

When the "perks" tax was introduced in March 1985 the rate was set at 18 percent. But as interest rates in the market place declined, the rate was reduced to 15 percent in December 1985 and then in January 1987 to the present 13 percent.

The tax is levied on employment-related loans, the Receiver of Revenue considering low-interest loans to an employee as part of income.

For example, if a worker is granted a cheap loan by his company for a house or a car at five percent, and the Receiver says this should be charged at 13 percent, the eight percentage points between five and 13 percent will be taxed as income.

But people who have no access to this form of cheap money are being forced to pay in some cases close to 30 percent for loans from financial institutions.

Two-thirds of all bonds in South Africa are assisted in some form or other. All government departments, insurance companies, banks, building societies, mining houses and many large and small industrial companies grant cheap housing loans.

Phased in

The practice is so widespread that when the perks tax was introduced in 1985, the tax on cheap housing loans had to be phased in over seven years.

It is only new cheap housing loans that attract the full 13 percent.

Those hundreds of thousands of people who already had assisted housing loans before the 1986 tax year will be subject to the full official rate only in the 1993 tax year.

For the current tax year they are subject only to 55 percent of the present 13 percent official rate.

TWISTING BRUNETTE'S (H)ARMS

What is Transvaal Attorney General Don Brunette up to? On Monday last week he provisionally withdrew charges of fraud, contravening the Banks Act and contempt of court against Pretoria attorneys Albert Vermaas and Eugene Berg. A week later he reinstated the charges. What happened during the week to explain his change of heart? At the level of public facts, nothing. At the level of facts known by Brunette, apparently a lot.

In the week prior to the dismissal of the charges, the Harms Commission established that Vermaas had over-invoiced to the tune of R80m for planes he was buying from the US. He claimed that they were worth R100m but even his own insurance showed that he only had them insured for R23m. A US business associate of Vermaas, Chuck Rittenberry, testified that only R20m ever made it to the US as payment for planes. A Reserve Bank official said they suspected the missing R80m had been used in the round-tripping of funds.

Brunette's reasons for withdrawing charges only days after these revelations seem decidedly flimsy:

- He couldn't draw up a charge sheet (an assertion, not an explanation);
- He hadn't had the opportunity to read much of the evidence which had come before the commission. His claim that he was not entitled to request evidence from the commission is not true. The press have done so regularly and Brunette himself has now also exercised this right;
- That a "lengthy postponement" of at least six months would be required in order to formulate charges. In the end six days were enough to draw up the 22 fraud charges which Vermaas faces involving sums of nearly R300m. These charges are all based upon information which emerged from the commission in late November or early December;
- That Vermaas was using the fact of criminal charges pending against him as an excuse for not testifying in civil proceedings on the grounds that he had the right to avoid self-incrimination. A provisional withdrawal of charges, though, would not have allayed Vermaas's fears in any way; and
- Criminal charges should make way for the civil proceedings (liquidation and sequestration applications) and the commission's hearings. Yet this week Brunette reinstated charges the day before proceedings on all three of these fronts were due to commence.

One can only assume that the flimsiness of this reasoning was brought home to Brunette by Justice Minister Kobie Coetzee when they met last week. Coetzee, in fact, has handled matters with great aplomb — he has secured the reversal of a patently bad decision while avoiding major controversy, as yet, over the independence of the Attorney General.

FINANCIAL MAIL MARCH 3 1989

Pik Botha rejects allegations of Vermaas link

Cape Times 3/3/89 58

By BARRY STREEK
Political Staff

Mr Pik Botha

MR Pik Botha yesterday rejected allegations made against him in regard to the Harms Commission investigations and said he could not fulfil his task as Minister of Foreign Affairs if he was presented as a scoundrel.

He also insisted that Mr Jan van Gend, the Progressive Federal Party MP for Groote Schuur, repeat the "allegations" he made in Parliament under oath to the Harms Commission.

But Mr Van Gend said Mr Botha's challenge was "ridiculous" as everything he said in Parliament was based on evidence already given to the commission.

In a statement yesterday, the PFP caucus criticised "the disgraceful, one-sided behaviour by the SABC in reporting in isolation" the attack by Mr Botha on Mr Van Gend and said this was typical of the corporation's bias towards the government.

In his statement, Mr Botha said certain media reports had continued to link the Department of Foreign Affairs and himself to irregularities allegedly committed by people whose activities were being investigated by the Harms Commission.

"Allegations are also being made in Parliament presenting some of my colleagues and myself as scoundrels without the opportunity for us to refute this. I refuse to accept this degradation of my department and myself any longer," said Mr Botha.

"I emphatically deny the allegations of involvement in irregularities by the department or myself and it is clear to me that there is an orchestrated campaign against us."

Mr Van Gend said his primary purpose had been to question the withdrawal of the original charges by the Attorney-General of the Transvaal, Mr Don Brunette, against Mr Albert Vermaas.

The intervention of the Minister of Justice had backed his views, Mr Van Gend added.

"I also, in referring to evidence led before the Harms Commission, referred to the undisputed fact that the Minister of Foreign Affairs has had a long-standing friendship with Vermaas and the fact that both the departments of Foreign Affairs and Defence had had business dealings with one of Vermaas's companies.

"I also referred to the fact that on the very day before the Harms Commission started its investigations, Vermaas approached the Minister of Foreign Affairs and, with the aid of the Minister of Finance, was given an audience by two highly-placed government officials, amongst others Mr Van Greunen from the Reserve Bank," said Mr Van Gend.

"As it appeared to me, again from the evidence given before the Harms Commission, that Vermaas had a fairly long history of fairly dubious business dealings and had not filed tax returns for many years, I was of the opinion that the government should have exercised more caution in dealing with him."

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BANKING 58 FINMAIL 3/3/89.

New wave

Less than three years ago — August 1986 — legislation partially deregulated building societies, allowing them to expand into banking services. The result was fierce competition for a profitable share of the market. The problem of too many institutions fighting to build volumes in a limited market is nowhere near resolved.

Now there is a new set of competitors on the horizon. SA's four discount houses may ask Banks & Building Societies Registrar Chris de Swardt for licences to operate as banks.

Though never the sole channel of liquidity between the Central Bank and the banking sector, they were originally the main channel. Since 1983, however, their position has been eroded.

Deprived of their original status, discount houses, who are not allowed to create credit or borrow from the public, and restricted to a limited range of investment, continued to operate with the help of a preferential discount rate from the Reserve Bank.

Last week, however, along with the increase in Bank rate, Governor Gerhard de Kock abolished the preferential margin on discount houses' refinancing rates. So while the Bank's key discount rate for banks moved one percentage point from 15% to 16%, the rate paid by discount houses moved 1,5 percentage points from 14,5% to 16%.

"This is basically a technical adjustment in recognition of the evolutionary changes that have occurred in recent years," said De Kock. "For some time, the Reserve Bank's key rediscount rates have, in fact, been the rates that apply to banks and not those charged discount houses."

While the decision did not take the discount houses by surprise, its timing did.

Says Ian Huddy, MD of Discount House of SA (DHSA): "That our role has changed is not in dispute. Moreover, it is well known that Dr de Kock is not comfortable with six different discount rates — he voiced unhappiness about this in November. We have had discussions with the Bank for six months on where we go from here and a further meeting was scheduled for March 3. So we were surprised to hear the decision to formalise our change in status was taken before the decision on our future course of action."

The houses are not entirely unprepared, of course. "We saw the need to adapt as early as 1979," says Huddy, whose DHSA, formed in 1957 as an offshoot of UAL, was SA's first discount house. "And we became more security-dealer orientated.

Discount houses are, however, confined to prime assets. In the main, these are Treasury bills, bankers' acceptances, Land Bank bills and debentures, and government stock with a maturity of under three years. And 12,5% of their portfolios may consist of other — though "similar" — assets such as NCDs and longer-term government stock.

A solution would be a change in legislation to allow the houses to become market-makers in a wider range of investment. This could not happen before next year, however.

Another option is rationalisation.

Last year the most recently established discount house, Securities Discount House, which opened in 1985, took a 30% share of Interbank, formed in 1972, to become its biggest shareholder.

Now the governor's move follows rumours in recent weeks of further rationalisation.

At the start of February, Rand Merchant Bank (RMB), which holds 10% of Interbank, and stockbroker Senekal Mouton & Kitshoff made a cautionary announcement regarding National Discount House. In mid-February it was said that talks continue. Speculation is that RMB is directly involved.

Perhaps the strength of the discount

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houses is their wide range of clients which gives them enormous power to place merchant bank paper.

Banks may well plan, with permission from the authorities to hold more than 10% of a banking institution, to take over their new competitors rather than take them on. ■

INSURANCE — 2 (58) FMML 3/3/89.

Disputing cover

Over 90% of household policyholders are underinsured. High inflation — fuelled by the rand's depreciation and import surcharges — is sending replacement costs soaring, but few update valuations.

The most widely used method of valuation is the replacement value system (RVS). An insurer (at each policy renewal date) estimates possible future market valuations and advises the insured to increase premiums to protect policy values. However, price shocks in recent years have led to future values being underestimated by "as much as 25%," says Santam senior GM Mac McLachlan, in a February newsletter.

SA Eagle GM Jim McIntosh, however, believes the system is basically functional and that "important variables can be predicted with fair accuracy." He adds that underinsurance is a result of a general reluctance of insureds to increase premiums.

A further defect of RVS is that it does not provide for updating of motor vehicles. "That would be unrealistic," says McIntosh. "It's not insurers' policy to place an insured in a better position after a loss than before."

Auto & General executive director Don Campbell disagrees. "Providing certain parameters are established — period of policy, level of rates, liability limits on type and age of vehicle — there's no reason why motor vehicle cover can't be included under the RVS. An insured who is willing to pay higher premiums should be able to insure a vehicle under an RVS, providing the sum insured doesn't provide an incentive for loss."

He suggests changes should not be automatic but the option of the insured.

Miles Japhet, Hollard's MD, points out motor cover based on market value (a value between trade-in and retail prices) need not be the only available choice. "Some insurers now offer, at slightly higher premiums, cover at retail prices." These premiums would on average be 10% higher, depending on the type of vehicle covered.

Transvaal PFV Insurance Brokers MD Adrian Leighton-Morris suggests a way of allowing for the rand's decline. "Fluctuations against the dollar can be eliminated by insuring in dollars — there are facilities to do this. In the event of total loss, the insured receives payment in dollars. For partial loss, imported spares are paid in dollars and local repairs in rands." ■

Sanlam: R200m for future AIDS claims

CHRIS CAIRNCROSS

CAPE TOWN — Insurance giant Sanlam has laid aside a special contingency reserve — an initial R200m — to cater for future AIDS claims, according to its 1988 annual report, released yesterday.

The contingency reserve of R200m would be increased yearly on the basis of interest earned at between 14% to 16% annually, said Sanlam chief actuary Jan Pretorius. B|Day 3|3| 89

He said the decision to establish this specific reserve and the base amount was made on a prediction that the incidence of AIDS in SA was destined to climb rapidly over the next 20 years, with the number of claims-related cases doubling every year. 58

Sanlam had set down new guidelines which demanded that any person taking out life assurance policies of more than R100 000 either agree to an AIDS test or sign an exclusion clause.

Business Day was unable to ascertain whether other major life assurance groups had adopted similar policy approaches and contingency reserves in respect of AIDS, or were planning to follow the lead of Sanlam.

 SD FMAIL

Risky business 3/3/89

Auto & General (A&G) chairman Douw Steyn believes people prefer to forego the frills and pay less for insurance cover. So A&G rates are very competitive and the extent of cover often minimal — though customers do have the option to select full cover at higher rates.

The result, says Steyn, is that gross premium income rose 66,4% to R77,5m in the financial year ending December 31 1988. Unfortunately, there was also an underwriting deficit of R352 000. This Steyn attributes to once-off administration costs "which will be greatly reduced. Setting up new branches, employing and training staff and introducing computer systems is costly."

MD Steve Klinkert says low rates are possible because of careful risk selection.

"About 20% of applicants are turned away. We say no to high risk vehicles like sports cars and taxi-type vehicles. And we don't take any scheme business on flat rates. So the many low risks don't have to pay for the few high risks."

A&G also considers repair costs. "We don't insure cars according to market value. The cost of repairing two vehicles of the same value can differ greatly."

Policies are written over the telephone. Each application is recorded and a computer assesses the information given, eliminating the need for application forms. Claims are handled in a similar manner.

The financial statement also records:

- Solvency margin increased from 52% to 85%, way above the statutory requirement of 15% and industry average of 41,4%;
- Technical reserves remained at 31% — acceptable because A&G writes 100% monthly business; and
- Financial base rose from 82,6% to 116% compared to an industry average of 104,9%. ■

Stable tax base 'is needed'

BDay 3/3/89

CAPE TOWN — Establishing a permanent basis for the taxation of life insurers is essential for the creation of a more stable environment in which long-term savings can be encouraged, says Life Offices' Association (LOA) chairman Pierre Steyn.

Subsequent to the 75% increase in life insurance taxation last year, the standing taxation committee under the chairmanship of Chris Stals has been considering appropriate bases for taxing life insurers.

Steyn told a LOA management committee meeting yesterday the importance of encouraging savings, and especially long-term savings, was widely appreciated. The life insurance industry was, therefore, confident an equitable basis on which to tax life insurance would be found.

Steyn said it was important the tax paid on policyholders' savings with life insurers should be about the same as the tax those policyholders would have paid themselves, had they channelled their savings elsewhere and obtained an equivalent return.

In the current sanctions climate, economic growth had to be financed by domestic long-term savings. A tax discrimination against life insurers would discourage long-term saving, which was essential for capital formation. At the same time, it would discourage people from making provision for the risk of death and disablement, which would increase the state's social pensions burden.

Steyn said it was important people keep in mind that life insurers in effect paid tax on behalf of their policyholders. The tax rate of life insurers would necessarily affect the after-tax benefit policyholders were able to receive. — Sapa.

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Mutual claims huge cash inflows

Business Editor

OLD MUTUAL has disclosed some interim figures for the first time in its history and claims new business is booming with all divisions reporting substantially higher premium inflows for the first six months.

Retirement annuity sales are almost 85 percent ahead in the six months ended December, says Mutual.

However, the company will not disclose how many millions of rands has been raked into its coffers.

Recurring

Recurring premium business through monthly premiums, which last year formed about 60 percent of total business, is up 34 percent on a year ago, the Pinelands assurance giant said.

The rise in RA sales was due to Mutual's long-term investment performance, said Mr Bobbie Jooste, general manager (individual life),

The taxed return on RAs is currently 24,3 percent while the return on endowments is more than 17 percent, he said.

Mutual said the first half's results indicated an impressive growth in assets, which increased by R2,4-billion to R28,5-billion in the year to last June.

Mr Jooste said portfolios were showing strong growth partly helped by the recovery from the stock market crash.

Mutal will probably benefit from renewed investment confidence by launching several new products.

The company claimed a South African record for the number of policies sold — 572 200 in the 12 months to December.

Foreign capital flows in again

SATURDAY MARCH 4 1989

C/C Argus 4/3/89

BY·TOM HOOD
Business Editor

FOREIGN capital is coming into the country again in spite of boycotts and disinvestment.

This is the belief of Professor Brian Kantor, director of the School of Economics at the University of Cape Town.

"Six months ago I would have expected a very significant depreciation of the rand but it has not happened," he said this week.

"The only explanation is there must be some substantial capital coming in."

"Overseas perceptions may be improving, maybe the Namibian settlement is bringing in more business."

Professor Kantor was speaking at a discussion of the results of the latest survey of owner-managed businesses in the Western Cape sponsored by The Argus, Arthur Andersen & Co and the Graduate School of Business at the University of Cape Towm.

Discussing taxes, he warned that South Africans could expect more taxes on petrol.

The reason: "It is a very efficient way of raising taxes, it is easy to collect — you simply alter the petrol pumps and only four or five companies collect it for the government at minimum cost."

The country had a growing informal sector which did not keep books and could not be taxed.

"You will not get Value Added Tax from companies that don't keep books. The advantage of keeping books is you get access to credit. If you don't keep books you don't pay taxes."

Referring to the survey's disclosure that 82 percent of businessmen believed VAT would mean additional cost, he said consumers would end up paying the additional cost of collecting VAT.

An "extra thousand people" employed by the Receiveer for VAT would be a small cost.

"The authorities will be able to raise VAT in a way that they cannot raise sales tax. It should enable the authorities to switch away from direct taxes.

"If you want political advantage, the way is to reduce direct taxes and substitute indirect taxes."

Professor Kantor said the previous survey showed an enthusiastic response to privatisation but the latest one showed a lot of scepticism.

"Make no mistake — it is going to happen. We are going to see some major developments involving Iscor and Sats.

"When it happens shareholders are going to become managers of these businesses. If you don't think that will make any difference, you don't understand the nature of man."

Picking up

Official statistics said growth was only 3 percent last year but GDP as a number was increasingly irrelevant because of under-reporting of income in the informal sector. If that was taken into account, GDP growth could exceed 10 percent.

"Substantial growth is still being achieved in the economy and I don't think we are seeing it in the official numbers.

"The Western Cape is picking up more than the economy at large because of the new influx of people into the Cape.

"The great opportunities for growth are going to be in the informal sector — that is where the action is taking place.

"The economy certainly has not slowed down as yet so we can expect interest rates to be higher still.

"The growth rate must come off from these high levels, though I don't think it will go into negative growth because the buoyancy of the informal sector is going to hold it up," he added.

No changes in marketing focus at First Industrial

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Star 4/7/89

FINANCE STAFF

THE FOCUS of First Industrial Bank will not change as a result of its absorption into the general banking group of First National Bank (FNB), says First Industrial's managing director Viv Bartlett.

Mr Bartlett was reacting to press reports on the major restructuring of the group's corporate and general banking functions, as a result of the move towards greater cost efficiency by FNB's new managing director Barry Swart.

Mr Bartlett said that the marketing focus of First Industrial would not change and that the reorganisation was purely an internal structural change.

Both First Industrial Bank and the Corporate Banking Division will be incorporated under the general banking division.

The restructurering has apparently met with criticism by staff members and is said to the reason for the early retirement of Peter Springett, FNB's senior general manager (corporate banking).

Mr Bartlett emphasised that there would be no change in the service that First Industrial Bank clients receive.

"Furthermore, there will be no change in the systems or modus operandi in which the service of First Industrial will be managed.

"Customers will in no way be detrimentally affected by this reorganisation ... and there will be no change in the people presently dealing with customers," Mr Bartlett said.

Record cash flow into life insurance offices

SVEN LUNSCHE 58

THE LIFE insurance industry has confirmed its standing as the most important sector for channelling savings against the background of the rising inflation rate.

Both Old Mutual and Liberty Life yesterday reported significant growth in recurring premium income.

A record 572 000 new policies were sold by Old Mutual during 1988 and some four out of every 10 retirement annuities' are now being sold by the Mutual.

The major sector — individual recurring premium business — rose by an impressive 40 percent in the 12 months ended December. Single premium business in line with the expected industry performance grew at a more moderate rate of almost 17 percent in spite of increased competition from high interest rates. Star 31/3/89

Liberty's new annualised recurring premium business also rose by around 10 percent to R247,4 million, with individual business accounting for R200,9 million (a 39 percent rise on 1987) and pensions business for R46,5 million (40 percent).

However, single premium and annuity considerations declined by 24 percent to R477,2 million.

Old Mutual's general manager individual life, Bobbie Jooste, said yesterday the growth was a good example of market forces channelling savings into the most appropriate investments at any time.

"With overseas sources of capital becoming even more inaccessible, life assurance remains one of the most important vehicles in mobilising personal savings to create the domestic capital so badly needed," Mr Jooste said.

Mr Pierre Steyn, Chairman of the Life Offices' Association (LOA), earlier this week called for a more permanent basis for the taxation of life insurers, in order to create a more stable environment in which long-term savings could be encouraged.

Mr Steyn said that the importance of encouraging savings, and especially long-term savings, was widely appreciated. The life insurance industry was therefore confident that an equitable basis on which to tax life insurance would be found.

Mr Steyn said that it was important that the tax paid on policyholders' savings with life insurers should be approximately the same as the tax those policyholders would have paid themselves, had they channelled their savings elsewhere and obtained an equivalent return.

Imperial truck systems gets a R20m boost

CAPE TIMES 6/3/87

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JOHANNESBURG. — A group of major financial institutions led by UAL Merchant Bank has invested R20-million for a 25% stake in the truck systems division of Imperial Group.

Making the announcement this weekend joint managing director Bill Lynch said that the capital injection will fund the further expansion of the truck systems division.

"Of the Group's three divisions — car rental, motor and truck systems — the truck systems division has grown dramatically in recent years as management has capitalised on the opportunities available in the industry. The division has grown both by way of acquisition and also organically and the future growth prospects for the division are very exciting".

Mr Lynch added that the R20-million investment, which puts a value of some R80-million on the division, will be applied to reducing debt and to funding future acquisitions.

The division, which now offers the most broadly based trucking and transport service in South Africa (excluding passenger transport), has made rapid strides in the area of dedicated transport. Imperial supplies its blue chip clients with trucks, fuel and staff so relieving the corporation of its transport problems and releasing its cash for other purposes.

Contracts run over a period of four to eight years and Imperial's orderbook currently stands at R400-million (the orderbook stood at R65-million just two years ago when Imperial Group was listed) with contracts having an average life of around five to six years.

Mr Lynch commented: "Transport contracts and truck hire are both regarded as having excellent growth potential, mainly due to the high (and ever increasing) cost of new vehicles and the resulting scarcity of commercial vehicles.

"Long term hire comprises 23% of vehicles in the United Kingdom and 30% of vehicles in the USA. In South Africa long term hire is still in its infancy and comprises only 2% of vehicles. The supply of dedicated transport and full maintenance leasing particularly are seen as two growth areas".

He added that substantial elements of the profits from this sector are virtually certain because of the underlying contracts which have built-in inflation clauses. — Sapa

Cape Times 6/3/89 58

Investors angry as Vermaas fails to meet deadline

By MANDY JEAN WOODS

THE status of a R155m deal to sell Chieftain Aviation by Pretoria businessman Mr Albert Vermaas was still unclear at the weekend.

Mr Tony Michael, a spokesman for the investors, said the guarantee of payment had not been received by yesterday, although the Supreme Court, Pretoria, was told last Tuesday that it was expected by Friday.

Some investors were now hostile and "quite desperate", he said.

Mr Vermaas could not be reached for comment yesterday.

Mr Michael said: "I spoke to Vermaas on Sunday morning and he told me the guarantee had not come yet and that he was still negotiating with the buyer. He is still confident the deal will come off but I'm not so sure."

Since December, Mr Vermaas has been battling to postpone liquidation and sequestration proceedings against him to conclude the sale which he said would enable him to pay back creditors and investors.

Mr Michael and numerous other investors last month supported Mr Vermaas's postponement request. The Supreme Court, Pretoria, granted a postponement to February 28. Then Mr Vermaas requested a futher postponement to Friday, March 3. The judge ruled against the request and the final liquidation and sequestration orders were granted last week.

Govt may scrap assets rules

BDay 6/3/89

(58)

Business Day Reporter

FINANCE director-general Chris Stals yesterday confirmed government may scrap the prescribed assets rules which forced banks and institutions to invest a proportion of their funds in the capital market.

Stals said the move had been recommended by the De Kock, Margo and Jacobs commissions. Government was considering their proposals and an announcement would be made in the March 15 Budget.

He would not say whether there would be a trade-off between the tax rate affecting life assurers and prescribed assets. Some observers expect the authorities to impose yet another increase in the effective tax rate on life assurers in return for the reduction or abolition of prescribed assets.

The prescribed assets rules were originally imposed on banks and institutions to protect policyholders, pension fund members and bank clients by ensuring a proportion of their funds were invested in stable, low-risk assets.

The institutions have, however, complained during recent years that the prescribed assets rules have enabled government to borrow funds cheaply at their expense. They have viewed it as an unfair tax on their profitability.

One of the shocks of last year's Budget was a 75% jump in the effective tax rate on life offices, from 20% to 35%, and the industry is apprehensive at the possibility of another rise in their tax rate.

Weekend reports said about R12bn was invested in prescribed assets by insurance and pension companies last year. Some observers believe it is essential for government's privatisation campaign that these funds be freed.

The release of these funds from prescribed assets could also have an enormous impact on the JSE, if the institutions choose to invest in quoted companies.

Observers say it will also result in a rise in capital market rates and a rise in government's interest bill.

Reserve Bank keeps balls in air

ASTUTE management by the Reserve Bank, of the movement of funds during the first three days of March, prevented a fundamental illiquidity of more than R4bn from squeezing the money market and stopped short-term rates rocketing.

The published shortage figure, including repros — buy-back deals between the Reserve Bank and the banks — never exceeded about R3,7bn, but there is reason to believe that other, less obvious, central bank assistance amounted at least to R500m.

In open market operations Bank bought an unquantifiable amount of assets from the market and, acccording to market sources, was also instrumental in pumping in temporary liquidity through overnight deposits placed by unnamed parastatals which accepted quoted rates without haggling or bargaining.

As a results overnight rates never reached much above 17,5% — in spite of the banknote issue soaring to R7,3bn — and when the market closed on Friday, Big Money call rates remained at a relatively modest 16,5%, which is low, bearing in mind the higher Bank rate.

It was said that some smaller banks took deposits at 17,25%, more to retain customer goodwill than for any other reason; they could have bought funds from other banks at 16,25%.

Inter-bank transactions helped to keep down the market shortage — and the rates — because marginal bidding for funds might have increased the cost of money for all.

The increase in the Treasury bill (TB) rate, to a four-year high of 15,91% from 15,60% brings the yield on the premier money market asset to 16,55%, a very desirable three-month investment, particularly as the wholesale call rate is more likely to ease than go higher.

The 90-day liquid bankers' acceptances (BAs), priced unchanged at 16,35%, are more attractive, and better still are prime non-liquid BAs at 16,65% yielding 17,36%.

There appear to be no options for institutional investors. Banks and building societies are reluctant to issue negotiable certificates of deposit (CDs) although some banks are showing rates

IN THE MONEY MARKETS

Harold Fridjhon

for CDs, one-year at 17,10% and six months at 16,90%.

A mite of business has been transacted in the 12-month range but generally no one wants to lock in to, say, a six-month or one-year investment, neither the borrower nor the lender, until next week's Budget gives some indication of the trend of interest rates.

Budget

If fiscal policy reinforces current monetary policy, rates should not rise further. But, if Finance Minister Barend du Plessis is too generous, either to the taxpayer or to his Cabinet colleagues, rates must soar.

A tight rein now could, however, see rates easing in a few months — before a possible general election?

Indeed, caution is the watchword in the market.

Bond market trading appeared confused last week. Technically there is no reason for sentiment shifting from a fundamental bearishness while the gold price remains in a trough and with the Budget only a fortnight away.

Some dealers attributed the bullish indications on Friday more to a covering of short positions than as a pointer to future trends.

With brokers' books closing for the market's financial year-end on Friday night, partners did not want to disclose large open positions on their balance sheet. With scrip in short supply buyers were compelled to bid for their requirements, sending yields down.

Yields on all the tradeabale stocks were lower at the close than they had been on the previous Friday.

The bellwether bond, Eskom 168, which ended the previous week at 16,67%, finished last week at 16,57% after touching a high of 16,69%. Similar trends were apparent in the RSA 13% 2005, dropping to 16,64% from 16,74%, and at the short end the Sats 11%, the most active bond after the Eskom, fell to 15,77% from 15,94%.

The turnover was R3bn with a third of the business being transacted on Friday. With the institutions still not interested, no new funds came into the market, leaving the same parcels of stock to be churned over and over again. A statistic on the velocity of the circulation of bonds would be interesting.

ST Tues 7/12/89

Benfield accolade

AA LIFE managing director Brian Benfield, who steered the company to stand-alone success after the collapse of its short-term parent company, has been given the life-asurance industry's highest accolade — the Multi Rand Forum's Man of the Year Award.

The award, the ~~fourth~~ 5th made by the MRF, is based on the company's contribution to the industry and its standard of service.

Dr Benfield joined the company as chief executive in 1982 when it was the life department of the AA Mutual short-term company.

He and his management team have turned AA Life into a medium-sized life office which ranks No 10 by assets and net premium income.

In the past four years the Financial Mail To Companies Survey has twice ranke AA Life the fastest-growing life office — including the year in which the short-term company collapsed.

Interest rates spiralling worldwide

58

Star 8/3/89

By Neil Behrmann

LONDON — South African interest rates are likely to remain high because of the rate spiral worldwide

High and rising rates of Sou[illegible]ca's major trading partn[illegible] ing a lid on the gold pr[illegible] precipitate a slowdown [illegible].

If such a slowdown [illegible] occur prices of base meta[illegible] key exports will decline. These fa[illegible] will limit the authorities' ability to reduce rates.

The rise in international interest rates has been insidious

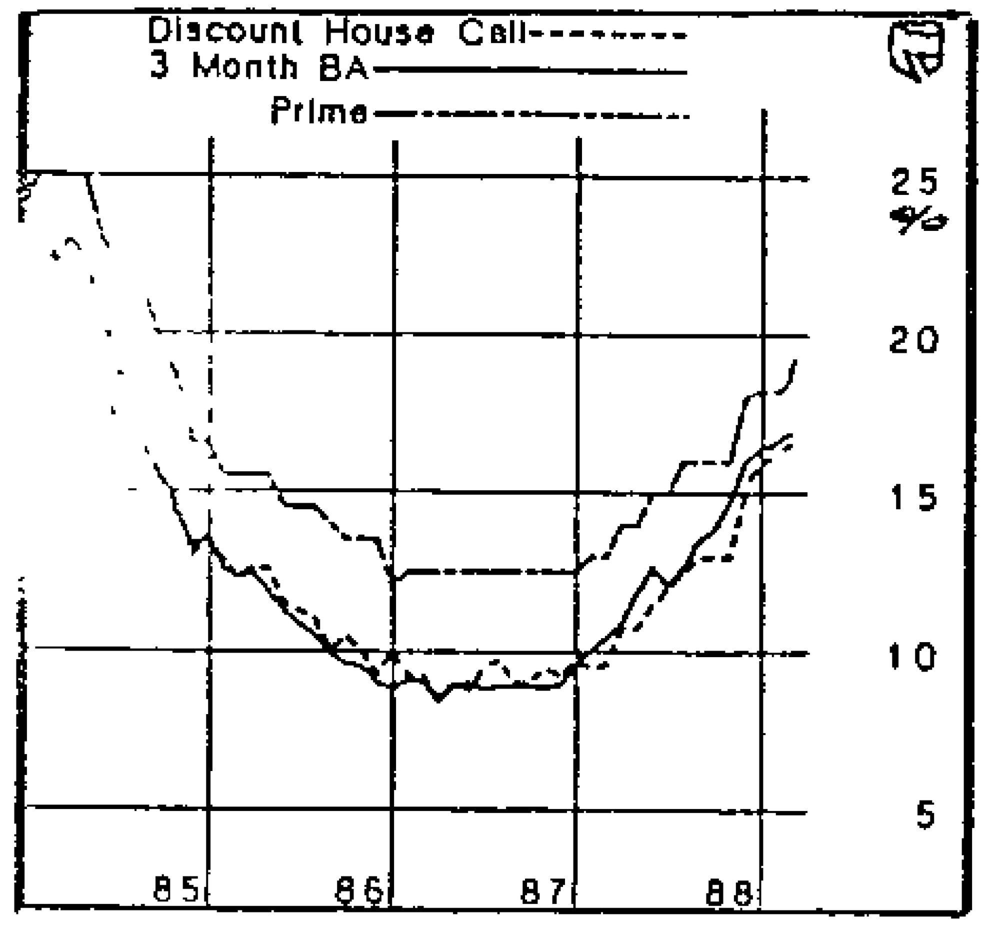
In only a year three month US dollar rates have risen to 10,13 percent from 6,9 percent and sterling to 13 percent from 9,1 percent.

Three months Swiss franc Eurocurrency rates have risen to 5,9 percent from 1,9 percent in the same time[illegible] Deutschemarks to 6,6 percent from [illegible] percent and yen to 4,8 percent from [illegible] percent

For the first time in a year, Australian short term money market rates at 17 percent are matching their South African counterparts. From an economic point of view the two nations are comparable because their main exports are raw materials

The squeeze in the money markets has only just begun to place pressure on international bond prices

During the past 12 months, the international bond market refused to believe that the rise in short term interest rates would last. As a result there are "downward sloping yield curves" in the bond markets, be they US dollars or sterling. Thus the long term US dollar bond yield is 9 percent, about 1 percent below short term rates and long term UK gilts and Eurosterling bonds are on yields 3 to 4 percent below short term rates.



SA interest rates are likely to remain high for some time.

Wheras the yield curve is on a marginal slope or flat in South Africa — ie short term rates are only slightly higher than long term levels — yields of long term Australian bonds are 2,5 percent below short term rates.

High and rising interest rates are also enabling central banks to keep foreign exchange rates within a tight trading range. The proviso is that American political events, notably the potential flak from the Senator Tower affair, do not unsettle the US dollar.

Now that German, Swiss and Yen rates are rising, investors have become more reluctant to hold US dollars, sterling, Canadian and Australian dollars.

"Investors sold pounds because they were worried that high interest rates would not be able to underpin the currency,' says Brendan Brown, head of research at Mitsubishi Finance International

Interest rates of the so -called "hard currency" nations have been increasing, despite large balance of trade surplusses

But central banks have stated that they intend curbing inflation by maintaining a high interest rate policy for the foreseeable future .

Economic expansion in the United States and West Germany continues at a rapid pace. West German inflation has risen to an annual rate of 2,6 percent in February whereas inflation was almost non-existent two years ago. Japan's inflation has increased to 1,1 percent from 0,3 percent in 1987 and prices in the United States are increasing at an annual rate of 4,7 percent compared with 2 percent in 1986.

UK inflation at 7,5 percent compares with 3,4 percent in 1986

Inflation rates are much lower than they were in the early part of the decade, but central banks have decided on preventative health measures to prevent further acceleration

Since oil prices and commodity prices are firm, say analysts, the interest rate spiral could continue. At best rates could stabilise at high levels.

Gold prices

Gold prices should be supported because of fears about inflation, but price rises are limited because interest rates are rising.

Many economists expect high interest rates to undermine equity markets and eventually reduce world economic growth.

"Set against interest rate developments, the stock markets' friendly tone is quite remarkable," says banker Julius Baer. "But they are now more susceptible to negative influences."

Historical trends show that interest rates rise to their peaks after economies start declining

An example is the UK. Interest rates have stubbornly refused to fall even though there is evidence that economic growth is slowing down.

Rates follow the downward slope of economies, only after a timelag.

Unfortunately, that means high interest rates are likely to remain a fact of life for some months to come.

Societies undercut banks' home loans

RICHARD BARTLETT (58)

BUILDING societies are starting to turn the tables on some of the banks by undercutting them on home loan rates.

The Trust Bank and First National, both big players in the home-loan rate war of 1987, now charge 19% — the highest rates in the market. The major societies are still at 18%, with the Allied's increase to 18,75% coming into effect in April. M/Day 8/3/88

Although Standard's bond rate is still lower at 17,75%, the bank is set to announce an increase soon.

Societies have managed to reverse the rates situation as their funding is largely longer-term, while banks rely heavily on more volatile short-term finance. Short-term rates have risen faster than longer-term rates, enabling societies to undercut banks.

However, building societies do not expect to gain substantial market shares from banks.

Perm Building Society senior GM Hugh Maclachlan said: "I would like to think the building societies will benefit, but the high level of rates will discourage borrowing."

Property unit trusts benefit

BD 8/3/89 LIZ ROUSE

THE benefits of higher rentals will flow through to property unit trust portfolios this year, say directors of Umdoni and Tamboti Property Funds.

Demand for industrial space is likely to continue as SA remains committed to accelerate exports and cater for possible effects of sanctions promoting import replacement.

Reduced vacancies (1% for Umdoni's properties), higher rentals and lower cash resources sums up the scenario, which in general terms best describes the property unit trust industry at the end of 1988.

The trusts generally are in a stronger position now than ever before, notwithstanding disappointing performance of the property unit trust index throughout 1988, say directors of Umdoni and Tamboti in their annual reviews.

Competition

The strength of rising rental levels in most portfolios should attract investor attention this year, and this is likely to increase once interest rates decline.

The competition for new commercial and industrial investments continues. Prime properties are changing hands at prices which yield single figure returns, out of line with the yields of the property unit trust industry last year.

Rental levels have risen appreciably during 1988, with the result that new developments in selected areas have been made possible. Should building costs continue to rise, new development will slow down, once again putting upward pressure on the rental levels of existing accommodation.

Umdoni renewed about 25% of its leases at improved rentals last year, and a further 23% falls due for renewal or review this year. Escalation rates are being increased to 11%-12%. This augurs well for Umdoni's profits.

About 6% of Tamboti's portfolio falls due for renewal or review, and rental growth should be consistent with existing escalation rates of between 8% and 9%.

Retprop on target with interim results

BDay 8/3/89

LIZ ROUSE

RETPROP Investments, the variable loan stock company, is on target with its interim results.

The company achieved a taxed profit of R166 000 in the six months to December compared with R149 000 in the seven months to June 1988. It forecast a taxed income of R264 000 in the year to June 1989 and a debenture interest of 58,09c.

Retprop declared a debenture interest payment of 28,5c, realising an annualised yield on issue price of 11,4%. Forecast at the time of listing at 11,5% for the full year, this projection was adjusted upwards during 1988 to 11,62%.

A dividend of 1,5c has been declared, equivalent to an annualised yield of 8,57% on the share issue price.

Retprop MD Howard Schachat says the results posted are satisfactory, not withstanding the sale in June 1988 of four smaller properties yielding more than Retprop's average portfolio yield.

However, the quality of the portfolio has been improved through the rationalisation which also provides a cash injection into the company.

In January this year the company acquired a 50% interest in Durban's Newspaper House for R8m. R3m cash was paid with the balance payable in July 1990.

Schachat says the initial return on this property and the growth potential that should emanate for the refurbishment programme are attractive.

Lack of active development in Durban in recent years has resulted in a shortage of new office accommodation in the city.

Existing buildings are consequently enjoying strong rental growth.

The refurbishment of Newspaper House will put it in a good position to take its share of that growth at a cost substantially less than that of rebuilding. The acquisition of a share of Newspaper House consolidates Retprop's investment in the Durban property market.

In June 1988 it bought the 13-storey Salmon Grove Chambers for R12,5m.

Retprop's portfolio focuses on retail and office investments and the latest purchase brings its asset base close to R200m.

Schachat said the company was satisfied with the vacancy factor reflected in its portfolio.

NU 158

BUSINESS DAY, Wednesday, March 8 1989

Nampak share account reduced

SUSAN RUSSELL

THE Rand Supreme Court yesterday granted an order confirming the reduction of Nampak's share premium account by R46 764 214.

Nampak applied for the order in terms of a special resolution passed at its AGM in January.

A Nampak director David Mcfadden said the company's share premium of R216 204 235 would be reduced to R169 440 021. The R46m is the excess of the cost incurred by Nampak in acquiring additional shares in subsidiary Metal Box SA, over the net book value of that company's assets.

Mcfadden said by writing off the R46m excess against Nampak's share premium the company would be giving effect to an accepted accounting policy it had adopted.

It would leave Nampak's assets intact and would not affect or prejudice the rights of its creditors.

BDay 8/3/89

Court approves Lifegro deal

SS

SUSAN RUSSELL

A SCHEME of arrangement between Lifegro and its ordinary shareholders, in terms of which the company will become a wholly-owned subsidiary of Momentum Life, was sanctioned by the Rand Supreme Court yesterday.

Lifegro MD R B Gouws said in an affidavit a meeting to consider the scheme was held on February 27. It was approved by the required majority.

Gouws said investigations had shown that, despite its excellent track record, changes in the competitive environment had made it necessary for Lifegro to reposition itself strategically.

It became clear to the board, he said, that the restructuring of the company on its own was not a viable prospect and Lifegro's activities should be rationalised with those of an efficient assurer.

Under the scheme Momentum will acquire Lifegro's entire issued share capital in exchange for new ordinary shares in Momentum.

Gouws said existing Momentum shares had been valued at R21 each and Lifegro at R2 each.

However, prior to implementation of the scheme Momentum shares would be split on a 10 for 1 basis. Hence 95 new Momentum shares would be issued for every 100 Lifegro shares held at the recorded date for the scheme.

CROWDS JEER

Thirty organisations launch campaign

Sapa.

pets, and livestock in some areas. — Sapa.

Aurochs reports benefits

(58) B Day 8/3/89

TANIA LEVY

AUROCHS Investment Company leased almost its entire property portfolio to continue strong earnings growth in the year to December.

Attributable profits climbed 68% to R1,4m (R815 000) and were passed on to shareholders as a 33c (20c) dividend.

This brings the dividend for the year to 42c (25c), covered 1,36 times.

MD Gerald Licker said the increase in earnings also reflected the acquisition of the Lentex property-owning group for R9m last July.

Aurochs recorded a 113% rise in pretax profits after boosting operating profits 94% to R4,2m (R2,2m).

Southern Unit Trusts make their maiden distribution

SOUTHERN Unit Trusts have declared a maiden income distribution of 2,7c a unit for the Southern Equity Fund and 2,79c on Southern Mining Fund for the period ended January 31. The trusts were launched in October.

"This distribution is one of the highest initial dividends to be declared by a unit trust fund and was paid to unitholders on March 1," Southern says.

Portfolio manager and head of Southern Unit Trusts, Carel de Ridder, says the income will automatically be reinvested on behalf of monthly investors while lump-sum investors may request cash.

"We advise that it be reinvested to maximise capital growth and most investors have opted for this route. Our objective is to provide long-term capital appreciation and a steadily increasing income year after year."

Ridder adds: "We have assembled two portfolios of good quality shares to achieve this."

The combined value of the funds is R25m with more than 4 800 inidividual investors. — Sapa.

Gr/t Times 10/3/89 (58)

Intense demand for JMF shares

Own Correspondents

JOHANNESBURG. — Demand for shares linked to Joe Berardo's cash-strapped mining group — Johannesburg Mining and Finance (JMF) — intensified on the JSE yesterday on speculation that a foreign investor was negotiating to bail the group out of its difficulties.

JMF deputy-chairman Don Grant-Hodge yesterday declined to confirm or deny the speculation. He also declined to comment on persistent rumours that chairman Berardo was negotiating a deal in Portugal.

"That's private information," said Grant-Hodge. He said Berardo was on holiday.

Last month panic-stricken shareholders dumped enormous volumes of group shares when news filtered through to the market that group companies had struck liquidity problems and were negotiating disposal of assets to raise funds for debt obligations.

JMF was the most traded share on the JSE last month, with 27 million shares changing hands, compared to a JSE total of 222 million.

A group company — Witwatersrand Nigel — yesterday cautioned shareholders that it was engaged in negotiations with Southgo and Nigel "which could affect the price of the companies' shares".

It is rumoured the entire Wit Nigel workforce was given notice on Friday. The share closed unchanged yesterday at 75c, on small volume.

B/Day 10/3/89 (58)

Rabie to pay R14,2m for Zozo

EDWARD WEST

RABIE Investment Holdings, parent of Rabie Property Developers, will obtain Zozo Holdings for R14,2m in an acquisition signalling a new thrust into low-cost housing.

Investec Bank announced yesterday it had agreed to aquire 15-million Zozo shares from the Joubert family to facilitate Rabie's proposed acquisition of Zozo's assets.

The deal in which Rabie will acquire 82% of Zozo's issued share capital at a price of 78,3c a share is payable in cash with a similar offer being made to minorities.

Zozo which makes, rents and sells a range of portable accommodation and playground equipment will increase Rabie's forecast taxed earnings at the year's end to June by 13,5% to R6,7m (R5,9m).

Earnings a share, based on a weighted average of 16,9-million Rabie shares in issue for the year's end, will increase from 36,6c to 39,6c.

Net asset value for Rabie will increase 52,7% from 38,3c to 58,5c following the aquisition of Zozo's business.

Rabie intends funding the acquisition by issuing to Zozo 2,3-million shares at 200c each, with the balance paid in cash and additional borrowings.

The acquisition enables Rabie Property Developers to serve the mass market of people who can afford homes up to R30 000.

Rabie could only develop houses from R30 000 upwards.

Trade in Rabie and Zozo shares will resume today.

Mining fund pays out R4m

58

01Day 10/3/89

CAPE TOWN — Old Mutual Mining Fund this week paid out more than R4,2m to about 27 000 investors in its latest distribution of 7c a unit, a 35,6% increase on the distribution of 5,20c paid six months earlier.

The latest distribution brings the total value of dividends paid to unitholders during the year to date to R7,1m.

About 80% of the total was re-invested, with the majority of investors opting to maximise capital growth.

"Bearish sentiments in the mining sector notwithstanding, investors in Old Mutual Mining Fund have earned handsome returns," said the marketing division's Stuart Fish.

Although essentially a long-term investment, a R10 000 lump sum invested on March 1, 1988, was worth R12 917 on February 28, 1989 — a return of 29,2%. In this case distributions were re-invested.

Portfolio manager Marco Celotti stressed that the mining fund offered long-term value mainly for two reasons:

Although current sentiment towards gold is bearish, there are still serious risks within the world economic structure, such as the US twin deficits, which have not been resolved and would lend support to the dollar price of gold.

Secondly, the mining sector is on the whole a beneficiary of a weak rand. This implies that the price of gold in rands will improve, which will benefit the profitability of gold mines. This trend is likely to prevail for the foreseeable future. — Sapa.

58

82% accept workers' share plan

10/3/89

The Argus Correspondent

JOHANNESBURG. — Eighty-two percent of Anglo American Industrial Corporation (Amic) employees accepted an offer to take part in the parent group's employee shareholders scheme, Amic chairman Mr W G Boustred says in his annual report today.

He called the take-up of Anglo American Corporation shares by 14 798 of the 18 142 employees encouraging and said group companies were proposing the second annual share offer.

During the year the rules of the employees' trust of Samcor, makers of Ford vehicles, were widened to enable the trust to make payments directly to employees.

NVESTMENT

ARC 45 10/3/89 (58)

PO, building society tax perks to stay till 1990

Business Editor

INVESTORS with tax-protected investments in the Post Office and building societies will continue to benefit for at least another year.

The Reserve Bank has told building society chiefs that the planned phase- out of tax concessions for building societies and Post Office investments has been postponed by a year to March 1, 1990.

This means that concessions and current tax protected investments will now be available to new and existing investors for at least one more year.

Tax concessions on building society investments will then be phased out over a five-year period.

"This is good news for anyone investing in a five-year fixed period tax protected investment because the tax concessions would be in force for the duration of the investment," says Mr Brian Short, NBS public affairs general manager.

There is however confusion over the suitability of investing in tax-protected investments which attract lower interest rates than the higher-rated fixed deposit investments.

"Recent analysis of tax free concessions as an investment medium show that anyone with a 25 percent marginal rate of tax (a married man earning R1 700 or a single person earning R1 350 a month) would be better off investing in a five-year protected investment — unless thay can find a fully taxable equivalent of 17,25 percent," he said.

"Likewise with the partly tax free investment at 12,75 percent a year, if you have a marginal tax rate of 35 percent (a married man earning over R2 500 a month or a single man earning R2 160) you would be better off in this investment than in a fixed deposit paying 15 percent."

He added: "With an inflation rate running at about 13,5 percent, investors are for the first time in many years earning a real rate of return and now the opportunity exists for South Africans to return to the savings ethic, which in the long term is good for the country."

- Group managing director of Saambou, Mr Christie Kuun, told the Afrikaanse Sakekamer in Cape Town this week he expected the taxation question in next week's Budget would revolve around doing away with concessions.

"It is in line with the Margo Commission's recommendations that better results may be obtained by reducing tax concessions and lowering rates of taxation.

"However, to avoid higher consumer spending, it is more likely that rates will appear to be lowered, but because of fiscal delays, a result of inflation, the State will, in fact, not lose any income."

Mr Kuun said it was also possible that in accordance with the Margo Commission, the rate of personal taxation may fall, but that GST may increase.

As a result of the higher than expected income because of increased income from GST, greater company gains and higher income from minimum company taxation, imports could drop sharply and the economy level out.

(58)

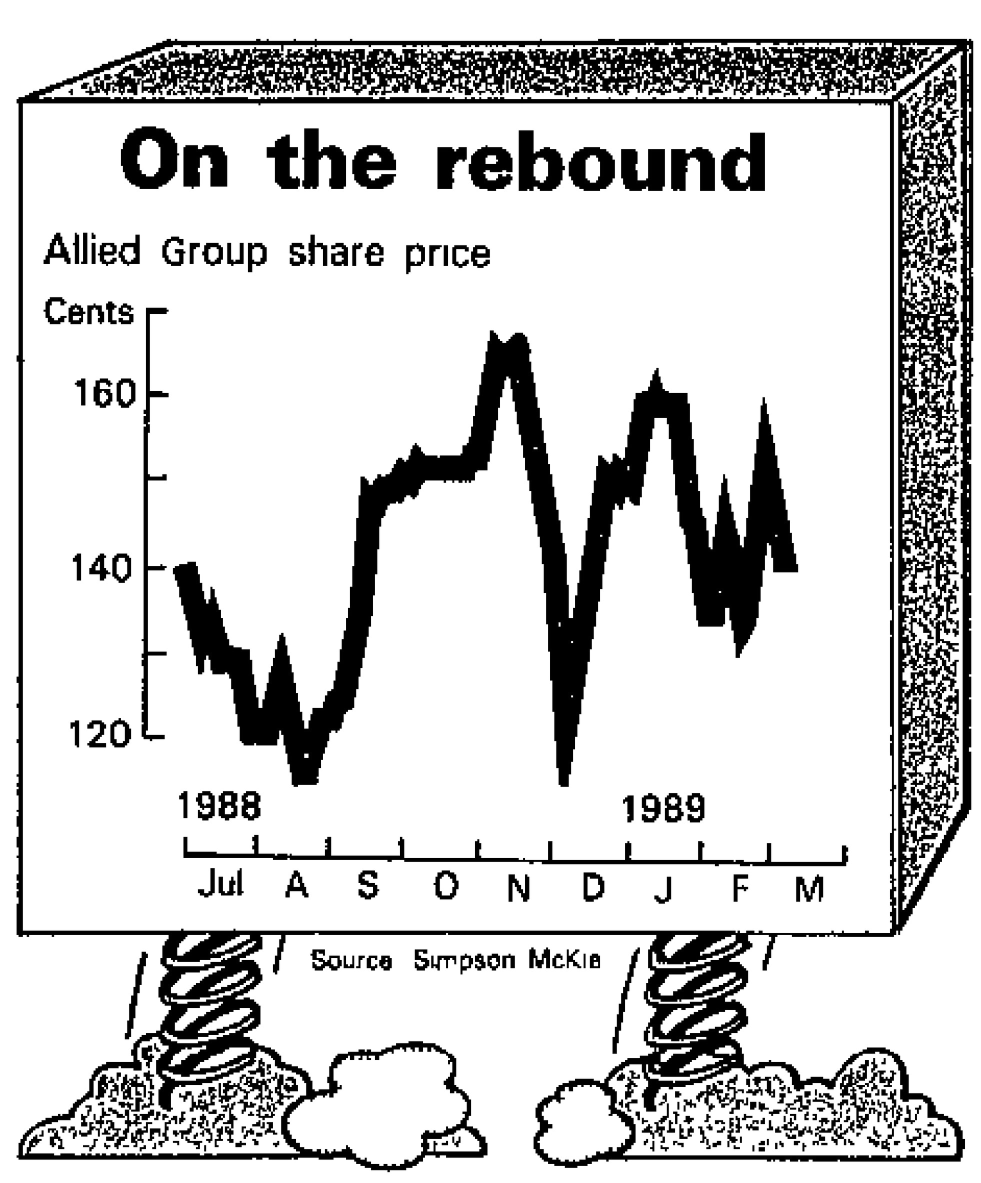
ALLIED (58) FMAIL 10/3/89.

Mystery message

Speculation about the future of the Allied Group which has sent the share price ricocheting between a low of 105c in August and a high of 167c in November, prompted group MD Kevin de Villiers to take the unusual step of making a public announcement after a renewed bout of rumours last week.

But, so guarded was the statement placed in the press by group secretary Harold Donn, that it has mystified rather than enlightened the investing community.

It says, in essence, that if any approaches which are made from time to time to the Allied "ever evolve into serious negotiations, the Allied would issue cautionary advices at the appropriate time." As this is stating the obvious it would seem that another message is to be found in the text.



The concluding sentence states: "Nor would the board consider any proposal which would result in an association which detracted from the prestige of the Allied or proved offensive to its 1,4m clients throughout SA."

Though this refers specifically to clients, it is also intended to reassure people considering a job offer from the Allied that the identity of their future employers would not be changing. Previously employed by First National Bank (FNB), De Villiers has placed former FNB staff in many key positions at the Allied. Changes in management structure at FNB, where MD Barry Swart has recently taken over from Chris Ball, could prompt others to join him.

Speculation over the past year about a possible merger with or takeover of the Allied has centred chiefly on FNB. Fuelling this has been the recent increase in the number of shares held by First National Nominees (FNN).

After Sage Life with whom Allied formed a working relationship in 1987 and which holds 10% of the shares, biggest shareholder is FNN. Research by McGregor's Online Information, shows that in January it held 4,5% of the 295m shares. And, by the end of last week this holding had increased to 5,8%.

Next largest shareholding at the close of last week was that of Nedbank Nominees, holders of Sage Unit Trust shares, with 3,6%, while Standard Bank, on whom speculation in recent weeks has focused, holds little more than 0,2% through its nominees.

This comparatively small holding does not put Standard Bank out of the picture. Under the Banks Act, no one may hold more than 10% (or in certain circumstances 30%) of a bank's shares without permission from the authorities. So it would be difficult for anyone to wage a conventional takeover battle. The most likely route to a takeover or merger would be the one followed by Nedbank and the Perm last year — a sale of assets and liabilities.

This opens the door to any party with or without a shareholding, provided agreement is reached by the board — and endorsed by shareholders.

If De Villiers has his way, any future agreement will have to "include retention of the Allied name and its operating independence," but not necessarily, he says, his own position in it.

☐ An amendment last year to bank and building society legislation precludes the registration of shares in the name of nominees, with certain exceptions — holders of unit trusts, estate executors and stockbrokers and so on.

The holding of FNN is covered by a further exemption, says an FNN spokesman, relating to "other special circumstances determined by the minister (of finance) by notice in the (*Government*) *Gazette*." In this case the special circumstances are that "the shares form part of client investment portfolios" ■

Reserve Bank to allow tax breather

(330 58 (2A))

BDay 10/3/89

LIZ ROUSE

THE Reserve Bank has given building societies and post office investors a tax breather — the phase-out of tax concessions for building societies and post office investments has been postponed to March 1 1990.

Brian Short, NBS public affairs general manager, says this means tax concessions (and protected investments) will now be available for new investors, as well as existing investors, for another year.

He says it seems likely that tax concessions on building society investments will then be phased out over a five-year period.

This is good news for anyone investing in a five-year (fixed period) tax protected investment because the tax concessions will be in force for the duration of the investment.

Short says there is, however, confusion over the suitability of investing in tax-protected investments which attract lower interest rates than the higher rated fixed-deposit investments.

Recent analysis of tax-free concessions as an investment medium show that anyone with a 25% marginal rate of tax (a married man earning R1 700 or a single person earning R1 350 a month) would be better off investing in a five-year tax-protected investment — unless they can find a fully taxed equivalent of 17,25%.

Likewise, with the partly tax-free investments at 12,75% per annum, if a person has a marginal tax rate of 35% (a married man earning R2 500 a month or a single person earning R2 160 a month) the individual would be better off in this investment than in a fixed deposit paying 15%.

Short says that with the inflation rate running at about 13,5%, investors are, for the first time in many years, earning a real rate of return and now the opportunity arises for people to return to the savings ethic — which, in the long term, is good for SA.

Star 10/3/89 58

Tax rebates are safe for another year

Own Correspondant

DURBAN — The planned phase-out of tax concessions for building societies and the post office investments has been postponed by a year — to March 1 1990.

Mr Brian Short, NBS public affairs general manager, says this means that tax concessions and current tax-protected investments will now be available to new and existing investors for at least one more year.

"It is our understanding that tax concessions on building society investments will then be phased out over a five-year period.

"This is good news for anyone investing in a five-year, fixed-period, tax-protected investment because the tax concessions would be in force for the duration of the investment."

There is however confusion over the suitability of investing in tax-protected investments which attract lower interest rates than the higher-rated fixed deposit investments.

"Recent analysis of tax-free concessions as an investment medium show that anyone with a 25 percent marginal rate of tax (a married man earning R1 700 or a single person earning R1 350 per month) would be better off investing in a five-year protected investment — unless thay can find a fully taxable equivalent of 17,25 percent.

High, stable interest rates 'lead to growth'

BDay 10/3/89 (58)

SYLVIA DU PLESSIS

TWO economists have come out in favour of relatively high and stable real interest rates.

They were responding to Senbank chief economist Johann du Pisanie's argument that high inflation adjusted interest rates discouraged the use of capital goods and employment.

Rand Merchant Bank economist Rudolf Gouws said high real interest rates did not lead to unemployment in the long run.

High positive interest rates in the 1960s were coupled with a strong growth in fixed investments and the creation of employment.

He said that since the 1970s, when real interest rates were on average far lower — and sometimes negative — growth in fixed investment and job creation was "a fraction" of what it had been in the previous decade.

"If you look at short-run cyclical developments, then you'll certainly find a period of high real interest rates followed by a fall in investment spending and higher unemployment.

"But over the long run, positive real interest rates make for higher savings, more capital formation and more fixed investment. This has also been the international experience."

Standard Bank economist Nico Czypionka dismissed arguments in favour of negative real interest rates as "fallacious" and said he supported relatively high real inflation rates, as advocated by the Reserve Bank.

He said in "successful" countries such as the US, Germany and Japan positive real interest rates had stabilised business cycles and reduced inflation. This would apply to SA.

"One of the biggest problems is the belief that cheap money leads to growth. Rather, it leads to misallocation of the savings base and resources. It doesn't make sense to penalise savers and reward people who borrow."

It was important rates remained consistent.

Cape Times 10/3/89 (58)

Amic boosts earnings by record 47%

Own Correspondent

JOHANNESBURG. — Anglo American Industrial Corporation (Amic), has achieved a record 47% increase in attributable earnings to R517m for the year to December, with major contributions coming from four operating subsidiaries and associates which account for the bulk of earnings.

Earnings a share exceeded analysts expectations of about 950c, advancing 43% to 963c. The increase in EPS was reduced by a larger share base.

A final dividend of 205c was declared, bringing the total dividend to 290c and reflecting 29% growth. Dividend cover was further increased from 2,9 to 3,3 times.

Amic chairman Graham Boustred said in his annual review that the results were largely a reflection of a strengthening South African economy and the continuing resilience of world economies which stimulated strong export growth in both volume and value.

While 85% of earnings were contributed by AECI, Boart, Mondi, Scaw Metals and Highveld Steel, Boustred said every company in the widely diversified group recorded growth in operating profits.

Highveld Steel achieved record production in excess of one million tons of steel and turnover exceeded R1bn for the first time. Attributable earnings increased by 114% to R121m, or 171c (80c) a share.

Higher pulp and paper production and higher export prices enabled Mondi Paper to increase attributable profit by 56% to R162m, while Boart International achieved 54% growth in attributable earnings to R97m.

Although Scaw Metals was affected by the depressed state of the heavy engineering and transport industries, earnings for the year, including the equity accounted earnings of an investment in Haggie Limited, increased from R56m to R62m.

The group's major associate, AECI, boosted earnings by 20% to R255m, reflecting firm demand in the plastics, specialty chemicals, fibres, explosives and paints divisions. The Tongaat group continued to build on its strong recovery and in the year to March, increased earnings by 90% to R119m. Good results were maintained in the six months to September and the group has forecast earnings of at least R147m for the full year.

The Ventron group continued to prove a rewarding investment with a 25% increase in its contribution to Amic earnings, while Dorbyl increased earnings in the year to September by 36% to R78m.

Samcor benefitted from the strength of the new vehicle market last year, declaring a maiden dividend of which the Amic share was R3,4m in December.

The McCarthy group also benefitted from the buoyant vehicle market. Following its excellent performance in the year to June when attributable profits increased by 51%, earnings in the half year to December increased by 93% compared with the corresponding period in 1987.

During the year, Amic significantly reduced net borrowings from R976m to R720m. At the year end, the debt/equity had fallen to 25% compared with 47% last year and 71% in 1986.

The share gained R3 ahead of the results to close at a new peak of R80. It has doubled in value over the past year and its rating relative to the industrial sector is no longer low. At the current level, analysts regard the share as slightly overpriced.

Scramble for shares on JSE continues

Bus Times 10/3/89

58

By BRUCE WILLAN

INVESTORS continued to chase share prices up yesterday on the Johannesburg Stock Exchange as the Overall Index gained a further eight points to end the day at 2428.

The overall index has gained 4,3% (100 points) since Monday in a share-buying spree dominated mainly by professional investors and financial institutions.

With a shortage of shares and a demand for quality stocks, prices have gone up in a hectic scramble, supported by a weakening rand and a firmer gold price.

The overall index peaked at 2437 yesterday afternoon before easing back towards the close in nervous trading.

The All Gold index closed at 1539, off the day's high of 1548 but still five points higher than on Wednesday.

This was in spite of a softer gold price which drifted down from the overnight close of $393,50 to be fixed in London in the afternoon at $391,50 and was later trading at $391 as gold futures drifted downwards.

The Industrial Index, however, shed seven points in light profit-taking to close at 2335, some nine points below the 2344 high recorded earlier in the afternoon.

● **JSE slows — Page 8**

● **Japan crisis — Page 2**

Cape Times 10/3/89 (58)

Mutual minings up 35,6%

OLD MUTUAL MINING FUND this week paid out more than R4,2m to some 27 000 investors in its latest distribution of 7c a unit, a 35,6% increase on the distribution of 5,20 cents paid 6 months earlier.

The latest distribution brings the total value of dividends paid to unitholders during the year to date to R7,1m.

Some 80% of the total was re-invested, with the majority of investors opting to maximise capital growth.

"Bearish sentiments in the mining sector notwithstanding, investors in Old Mutual Mining Fund have earned handsome returns," said Stuart Fish, GM marketing.

Although essentially a long-term investment, a R10 000 lump sum invested on March 1, 1988 was worth R12917 on February 28 1989 — a return of 29,2%. In this case distributions were re-invested.

Portfolio manager Marco Celotti stressed that the Mining Fund offered long-term value mainly for two reasons:

Although current sentiment towards gold is bearish, there are still serious risks within the world economic structure, such as the US deficits, which have not been resolved and lend support to the dollar price of gold.

Secondly, the mining sector is on the whole a beneficiary of a weak rand. This implies that the price of gold in rands will improve, which will benefit the profitability of gold mines. This trend is likely to prevail for the foreseeable future. — Sapa

DISCOUNT HOUSES 58

Making markets

At a meeting between the Reserve Bank and the four discount houses last Friday, it was decided to form a committee with representatives of the Bank and the industry to investigate the future of the houses. Another meeting is scheduled for mid-April.

Two likely options are:

- ☐ Reregistration as banks; and
- ☐ Becoming security dealers outside the ambit of the Banks Act.

Both options would allow the houses to

10/3/89 FM.

58

become official market-makers. This would involve a change in the present informal market-making system where paper is issued in the primary market and secondary trading is open to anyone able to quote prices.

In open market operations, including placing government debt, the Bank could establish a special dealing relationship with banking institutions and security dealers, including existing discount houses.

These moves follow the recent decision by Governor Gerhard de Kock to eliminate the preferential margin on discount houses' refinancing rates (*FM* March 3), formalising the end of their role as the main channel of liquidity in the monetary system. ■

... de Kock speaks

WC 9K60 11/3/89

Will bank rate go up again? Does the Reserve Bank care about marginal mines? Do money supply targets have any credibility? These are some of the questions Claire Gebhardt put to Governor of the Reserve Bank, Dr Gerhard de Kock, on the eve of the Budget.

Q: You have been criticised in some quarters for not raising bank rate by two or even three percent to administer a shock to the economy. Will the recent 1,5percent increase be enough to dampen demand?

A Yes Politically it is very unpopular to allow rates to rise But the Reserve Bank does not arbitrarily put up interest rates There is between R3-billion to R4-billion accommodation outstanding at times and if we did not push money into the system, rates would soar

Right now, if we had not injected about R4,5-billion, interest rates would have been much higher

The Reserve Bank's must decide whether or not to create more money and the consequence of that decision affects interest rates.

The bottom line, however, is that if the demand for credit was not there, the prime rate would be down.

We acted early in putting up bank rate because of the combination of a falling gold price and tighter money — and indications that American rates were moving up In fact, the day after we announced our increase, (US Federal Reserve chairman) Greenspan acted.

Last year we tried to prevent overkill — instead we underkill d But if we had acted sooner, the prime rate would not have been higher than now, though we would have had less inflation and the reserves would have been higher

So much for the benefit of hindsight.

This year we had the same fear of overkill and a two or three percent rise in bank rate might have done this

In June last year, Britain started raising interest rates — via a whole series of half-percentage-point increases That sort of incremental move has advantages because it causes less disruption in money markets and in the end you get the same result

Q: Under what conditions would you envisage a further rise in bank rate?

A. For the moment we will make these rates stick and provide enough accommodation to banks and discount houses for this purpose

During March, April and May, short term rates may edge downward because the government will spend more than it takes in in taxes. This is because it takes in tax in lumps but spends more regularly

The government is sitting with an enormous balance of some R5-billion, so regardless of the nature of the Budget no matter how sound it is — for the first few months of the fiscal year it is expansionary To counter this, we will sell a lot of government stock in those months

A further rise in bank rate would only come about if the economy continues to expand at the present high rate It depends also on if the gold price falls further and if interest rates go up in Germany, Britain and the United States. But I do not expect any of these possibilities to materialise

Q: What sort of conditions would lead to a relaxation of your monetary stance?


Dr de Kock

A If the economy cooled down rapidly and if money supply growth falls below the target zone, one could expect a fall in Bank rate

A very encouraging sign is that fixed investment is rising and this is something you don't switch on and off like a light switch. A programme of capital expansion has begun and even if there were second thoughts, it is too late to stop This is one reason why imports are so high. Most of our imports are capital goods.

Q. Can the country afford so high a level of imports?

A: If government spends too much money and private consumers buy too many consumer goods on credit and, at the same time, fixed investment is rising in the face of a weak gold price, we have a problem

In 1989, there must be virtually no increase in real spending, which in nominal terms means no more than 15percent. We can't take chances because, for political reasons, the only credit freely available to us is trade credit. For the rest, we occasionally manage to roll over a small loan in Switzerland

Q: What success do you envisage in achieving a roll-over of foreign debt repayment which is heavily bunched over the next three years?

A. We can meet all our committments inside and outside the net even if the gold price stays down.

We have repaid R6-billion in four years and this has not gone unnoticed abroad. In 1989, scheduled debt repayments are about R1-billion inside and outside the net, with the worst case sceпario being R1,7-billion

In 1990, debt repayments are higher, but I suspect by then the economy will have slowed down and the current account surplus will be under control.

What worries me are the implications of these repayment constraints They imply that we cannot grow at more than 3 percent a year and that is not enough It is not natural for a country like South Africa to run a current account surplus. The whole of sub-Saharan Africa needs massive investment in new ventures.

Q: What about the credibility of money supply targets?

A: It is no good setting targets you cannot meet. You cannot be too ambitious — you have to view it as the art of the possible

We have had a process of bringing inflation down by 2,5percent a year. The average rate of inflation in 1986 was 18,6 percent, dropping to an average of 16,1percent in 1987 and last year 12,9 percent.

Unfortunately, the record has been broken this year and inflation will go up to 14 to 16 percent on average, because of the depreciation of the rand plus the impact of the import surcharges, the fuel levy in January and now increases in electricity, petrol and railway tariffs.

For us to get excited by this now and use draconian policy to force inflation down is not on

If we had started with a clean slate we would set very low money supply targets. But we know our rate of inflation is going to be about 15 percent, so we cannot set targets much lower than that — particularly in an election year.

We have black unemployment and township unrest so we can't force the pace.

But while we expect inflation to be at 15 percent this year, we are not complacent about it and know we must reduce it before the end of this year

Money suppy must be kept within the new targets and we have to bring Reserve Bank credit down But we cannot simply close our discount window If we did this, short term rates would go through the roof

Q: Looking at the money supply figures, do we have, as some are predicting, a potential inflation rate of some 21 percent by the end of next year?

A· There are many reasons why the rate of increase of MV (the effective money supply, incorporating the velocity of circulation) can diverge significantly from that of M (unadjusted money supply)

One is changes in the public's "liquidity preference proper". After the stock market crash of October 1987, people were reluctant to go into the stock exchange and tere was an enormous increase in one-to-six month deposits.

This led to a 7,3 percent decline in the velocity of circulation of M3 (the broad money supply) during the course of 1988 So MV increased by 17,3 percent, which is much less than 26,5 percent. If velocity had remained constant, inflation would have soared by now

Q: Why does the Reserve Bank not target MV instead of M3?

A. Because money supply figures are available every month with a time lag of two weeks, while you only get velocity figures once a quarter, with a time lag of 6 weeks.

Q: What about M1? Is this not the more direct measure of credit extended?

A M3 is the safest measure and is targeted by most central banks M1 is too volatile, because you can get shifts between one to three month deposits.

Q: In the light of Dr Lombard's recent plea for real interest rates, what would an appropriate level be?

A: We now have a level which is appropriate The bottom line is that interest rates must be flexible

Q: Would you be prepared to see the disappearance of the 12 marginal mines rather than see the rand depreciate further?

A: One obviously has to do something about the marginal mines but it has never been Reserve Bank policy to manipulate the exchange rate in such a way as to keep the rand price of gold up.

At one stage — years ago — we had subsidies for marginal mines This is fine if one is confident that the dollar price of gold is going up.

Obviously, we are hoping the price of gold will rise. If it doesn't, we'll cross that bridge when we come to it.

Q: Are major industrialised countries letting monetary policy bear the full brunt of economic adjustments?

A. No. All central banks have a mix of fiscal and monetary policy Britain has a very tight fiscal policy and is in the enviable position where their deficit before borrowing is in surplus

Britain is actually repaying government debt, which is a wonderful situation for (Chancellor of the Exchequer) Mr Lawson Monetary policy has a much better chance of working when it is supported by a good fiscal policy.

Q: What would you predict for the economy if government spending does not come under control?

A: If government spending is not curbed then taxes must rise enough to keep the deficit to reasonable limits and, in addition, that deficit will have to be financed by money creation

Scots gripped by gold fever

Weekend Argus
Foreign Service

LONDON — Prospectors from 15 firms are digging up an 80km stretch of the Scottish Highlands in a search for gold

They are exploring an area between Oban and Aberfeldy in what is said to be Scotland's biggest gold rush for more than 100 years

But environmentalists fear that their workings could scar some of the most beautiful glens in the country And geological experts say only time will tell whether there is enough gold to support a major mining industry

The Crown Estate Commission in Edinburgh, which owns most of the mineral rights for Scotland, has so far issued 30 exploration licences.

One Canadian firm which is leading the race for Scottish gold has already spent more than R4-million in Tyndrum.

Scottish gold fever has gripped millionaire businessman Dennis MacLeod to such a degree that he has sold out most of his Canadian mining interests to return to the country of his birth

He says he is so optimistic that he is prepared to sink millions into prospecting at Kildonian

PROPERTY SALES

LATEST property sales (municipal valuation in brackets; SO denotes site only) recorded by Cape Town City Council are as follows:

BERGVLIET
11 Sillery Rd, 1 006 m², R132 000 (R31 970).
3 Vineyard Rd, 784 m², R160 000 (R44 590).

CAMPS BAY
2 Willesden Rd, 595 m², R335 000 (R51 570)

CAPE TOWN
9 Bayview Terrace, De Waterkant, 208 m², R145 000 (R14 440)

CLAREMONT
4 Shirley Rd, 595 m², R135 000 (R39 680)
32 Harfield Rd, 244 m², R170 000 (R13 940)
16 Stanford Rd, 496 m², R105 000 (R21 460)

DIEP RIVER
27 Kendal Rd, 347 m², R86 000 (R22 400).
17 Bradley Rd, 1 109 m², R120 000 (R6 630)

EPPING
29 Bofors Circle, 7 448 m², R300 637 (R506 750).

FRESNAYE
6 Ave Bordeaux, 850 m², R182 000 (R37 810)
Vacant Land, Erf 1609, Arcadia Rd, 615 m², R212 000 (R2 861).
25 Arcadia Rd, 636 m², R193 000 (R11 320 SO).

GARDENS
5 Prince St, 168 m², R118 000 (R16 890).

GREEN POINT
21/23 Braemar Rd, 501 m², R185 000 (R23 730).
4 Ben Nevis Rd, 685 m², R179 000 (R24 850).

13 Pine Rd, 999 m², R150 000 (R49 550).
31-33 Valley Rd, 3 766 m², R550 000 (R119 540).
20 Kenilworth Rd, 369 m², R135 000 (R23 630)

LAKESIDE
7 Leicester Rd, 929 m², R153 500 (R35 830)
7 Driver St, 674 m², R92 000 (R29 580).

LANSDOWNE
42 Heatherley Rd, 422 m², R85 000 (R20 670)

MARINA DA GAMA
32 Eastlake Island Way, 240 m², R110 000 (R19 690).

MUIZENBERG
49 Windemere Rd, 498 m², R92 000 (R41 080)

NEWLANDS
8 Balfour Ave, 447 m², R243 000 (R43 530).
66 Rhodes Ave, 1 060

New policy will woo homeowners

4W 11/3/89 (58)

AA Mutual Life has introduced a novel insurance policy to woo homeowners battling with high interest rates and long repayment periods.

The policy, Easibond, has been designed for fluctuating interest rates and the need for affordable life and disability cover.

Easibond provides inexpensive death cover for one or both spouses and covers permanent disablement suffered by bondholders (disablement is not always catered for). It also offers an optional savings plan to repay bonds years ahead of schedule.

Said Mr Bruce Howard, AA Life's deputy general manager (marketing): "By investing as little as 10 percent of your current bond instalment, the repayment term of a 20-year-bond of R100 000 at 18 percent would be reduced by as much as 6,25 years, thereby saving the houseowner R104 325."

Mr Howard said a survey had highlighted two needs — repayment of the bond in full in the event of death or disability and bond repayment as soon as possible so that high interest rates will not result bondholders paying several times the purchase price of a house.

Said Mr Howard: "This scenario led to the creation of Easibond as an assured way of repaying bonds.

"Furthermore, the option is there to buy new amounts of life assurance should the homeowner wish to buy a more expensive home. This is available without further evidence of assurability."

AA Life's Easibond policy covers life for a specified number of years and is directly geared to the bond — with the amount of cover reducing each year in proporation to bond reduction.

Easibond counters rising interest rates as cover can be increased at regular intervals regardless of the homeowner's state of health.

Earlier, full bond repayment, is dealt with through AA Life's linked savings plan, which can be arranged for a small additonal premium.

AFBANK COUP SHOCK

Magomola asked to tender his resignation

(58)

City 12/3/89

By SOPHIE TEMA

***CITY PRESS* is today able to reveal a shock move by senior staff of the African Bank to try to get rid of their boss, Gaby Magomola.**

The news – which is expected to cause shock waves in banking circles – was leaked to *City Press* this week by sources close to the board of directors of African Bank.

The tension between Magomola and the bank's senior staff has been simmering for months, it is claimed, but was kept under wraps in the hope that the matter could be settled amicably.

City Press was this week informed that the senior staff could no longer tolerate Magomola's "erratic behaviour".

Most branch managers are apparently behind the move to get rid of Magomola, it was reliably learnt this week.

"They have asked him to resign his post as chief executive. The request for his resignation was contained in a memorandum submitted to the board of directors headed by Dr Sam Motsuenyane, also head of Nafcoc.

The memo, believed to have been submitted a week ago, is still under discussion. Yesterday a delegation of the discontented managers was expected to have met Motsuenyane.

The managers also submitted a petition to the board in which they levelled several allegations of "incompetence" against Magomola.

Meanwhile, strong rumours claiming that Magomola has already been asked by the board of directors to resign have been circulating. This week, Motsuenyane denied that the board had asked Magomola to resign saying "we are still considering the matter".

Speaking to *City Press* yesterday, Magomola said he was aware of moves to oust him, but said they were orchestrated by "some clerical employees and a few middle-managers". He said no senior management was involved.

Magomola said the group represented "a tiny minority".

The "back-stabbers" were feeling insecure because of rationalisation plans and a cost cutting programme that senior management had planned, he said.

Magomola – who often advised others to brace themselves for a possible fall – was appointed to his present post in 1987. He previously held a senior post at First National Bank (then Barclays).

Magomola was an assistant to Chris Ball, who was then managing director of the bank.

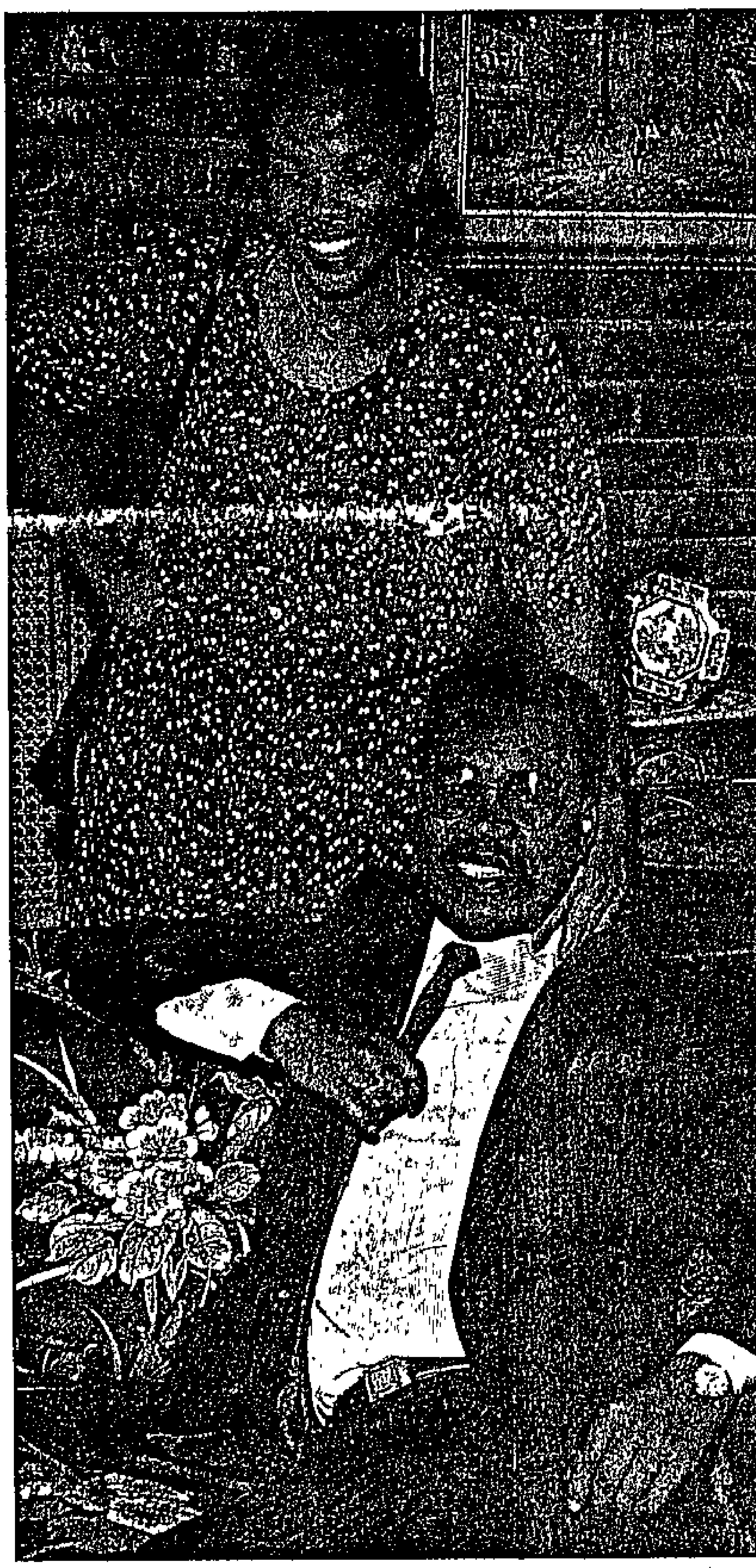
Born at the Venterspos gold mine, Magomola was educated on the West Rand and at Madibane High School, which was then in Western Native Township. He dropped out, but decided to go back to school in 1969. He passed his matric through correspondence with several distinctions and two years later he moved to Pretoria where he worked at Rosslyn as an internal auditor.

He graduated from Unisa with a B Comm in 1974 and then enrolled for an honours course.

After serving articles with a Pretoria accounting firm he was awarded a Fulbright Scholarship at Ball State University in the US, where he obtained an MBA in 1975. He lived in the US for about eight years.

Magomola started his banking career in New York City and has behind him a brilliant record in banking in the US, Europe and the Middle East.

He returned to South Africa in 1983 and held his first senior post on the management of Citibank.



African Bank chief executive Gaby Magomola ... currently at the centre of a storm over demands by senior bank management for his resignation, relaxes at their luxury home home with his wife, Nana.

Hunger strike starts again

CP Reporters

STATE of emergency detainees – unhappy with Minister of Law and Order Adriaan Vlok's release plan – have resumed their hunger strike.

The renewed strike will focus new attention on the plight of detainees – some of whom have been detained for three years.

Prayer services are to be countrywide this weekend.

● Full story page 2

Bakki[e] on fir[e] CP bo[ycott] contin[ues]

City 12/3/89.

By DAN DHLAMINI

A BAKKIE belonging to a white farmer was set alight this week in Khutsong Township outside the CP-controlled town of Carletonville, now in the second week of a paralysing black consumer boycott.

The farmer, defying warnings, allegedly went into the township to sell mielies. Carletonville Chamber of Commerce chairperson Annetjie Claasen said a survey this week of 139 businesses showed that 47 percent had a drop in turnover of up to 40 percent, and 43 percent a drop of between 41 and 100 percent.

SUNDAY TIMES, Business Times, March 12, 1989

S/Times 12/3/89

SA reinsurers threaten to quit

(88)

By Robyn Chalmers

LARGE losses sustained by South African reinsurers in 1987 and alleged unfair advantages of foreign competitors may force some companies to domicile themselves abroad.

Reinsurers back direct insurers in calling for protection against cheap imports of insurance capacity. Until now, the authorities have declined to intervene

At the centre of the debate is the estimated R950-million in premiums exported from SA out of a total gross income (gpi) of R4,8-billion by December last year

SA's seven reinsurance companies, some of which have foreign owners, have had a rough time in the recent past. In 1987, five of them reported underwriting losses totalling R12,9-million. From 1983 to 1987, they lost about R90-million after accounting for management expenses.

Ken Saggers ... SA rules should apply to foreigners

Swiss Re general manager Gareth Bradburn says foreign reinsurers have many advantages over SA companies by being able to offer cheaper rates. His company is subject the SA restrictions because it is domiciled here.

The reasons foreign companies with no domicile here are at an advantage to the SA companies are that they:

- Have no SA infrastructure, assets or staff, pay no taxes here and are not subject to solvency requirements, or the additional reserving to be adopted shortly;

FOCUS ON A TROUBLED INDUSTRY

- Are free to generate immediate underwriting advantages by converting premiums received into foreign currencies;
- Have no long-term commitments;
- Do not have to invest in South African Government and semi-government securities under prescribed asset requirements;

- Are able to spread their underwriting book worldwide;
- Enjoy lower taxes on investments and profits abroad and can gamble successfully on a depreciating rand.

Mr Bradburn says: "The increases in solvency margin and establishment of a catastrophe fund will put added pressure on domestic companies to make bigger profits to fund the additional requirements.

"This will result in further increases in pricing and put foreign competitors in an even more advantageous position."

Some SA reinsurers believe that they could operate more freely from a foreign base, escaping several SA legal and taxation requirements.

Mutual & Federal managing director Ken Saggers believes foreign competitors should be subject to the same constraints as SA companies regarding tax and commission.

"Insurance premiums can leave SA in four ways — through Lloyd's, the so-called fringe market, exchange control and reinsurance.

"Circular RV55 of 1981, issued by the Registrar of Insurance, lays down the rules. Registered insurers, Lloyd's agents and brokers should make their contribution towards developing SA's insurance market by exploiting its capacity to the full before turning to foreign markets."

In spite of this directive, Mr Saggers says foreign market share of commercial and industrial business has doubled in the past seven years.

Mr Bradburn says the problem is acute.

"The December 1988 treaty renewals were among the biggest ever. There was intense competition from foreign reinsurers and no evidence that they are withdrawing their support."

With most insurance companies reporting excellents results for 1988, and reinsurers benefiting, the emigration may be no more than a passing fit of pique. Munich Re managing director Ernst Kahle says his company's subsidiary will stay — even though it is subject to SA restrictions.

"We are confident of the market's ability to meet and overcome the current problems and of co-operation from the authorities to achieve the stability this market needs."

by DAVID CARTE

Momentum could bring new bloom to Lifegro orchids

(58) S/Times 12/3/89

"WHAT shall I do with my Lifegro shares?" was the question this week on the day that Lifegro shares were to be swopped for Momentum.

For the purposes of Momentum's takeover, Lifegro shares were valued at 200c and Momentum at 210c. On Tuesday, Lifegro was languishing at 170c.

I told the caller I thought the worst news about Lifegro was reflected in the share price and that, like Nedbank, it could probably only go better now that remedial action was being taken by Big Brother Rembrandt.

PALATIAL

But I said I would visit Lifegro, or should I say, Momentum's managing director, Blignault Gouws, to find out if this was a correct impression. Mr Gouws received me at a moment's notice.

Visiting him in Lifegro's palatial premises in Sandton was eery. The head office that previous management built is breathtaking, one of the finest buildings, I think, in the Pretoria-Witwatersrand-Vereeniging area.

But what was creepy about visiting the magnificent edifice was that there was hardly a person in sight. I was led along largely deserted corridors to Mr Gouws's office.

There were orchids on the coffee table outside, helping the place to look slightly lived in — but Mr Gouws told me that he, like the few others in the cavernous mansion, was only a temporary resident.

HUGE

As part of the great cutback, Lifegro will either sell or let its Morningside palace. Lifegro staff will join their Momentum colleagues in Verwoerdburg. Only Peter du Toit's pensions and investment division will stay somewhere north of Johannesburg.

Momentum has a huge building going up in Randburg, but Mr Gouws says it is an investment that will be leased to GBS, the Murray & Roberts computer company.

He summed up what he is

BLIGNAULT GOUWS

doing: "We are not taking medicine here. We are engaging in major surgery, but I would say the prognosis for the patient is good."

Mr Gouws is most of the way through cutting group staff numbers from 2 000 to about 1 000. He believes his rationalisation programme will save R30-million to R40-million a year.

"The first thing we did was to trim down the agency force by several hundred. We are consolidating branches where there is duplication in the 11 or 12 places where Momentum is also represented."

PRODUCTIVE

Why trim the sales force? "We wanted a smaller, more productive sales force. In the past the force was too big. There was high staff turnover. From now on, we will go after high-quality business, not volume at any price.

"Surprisingly, sales have been buoyant. Even though we have reduced the sales effort, 1988's volumes are well up on those of 1987."

The other area where large numbers have been laid off is in head office.

"The structure was top heavy. We have reduced our staff here by a half."

Mr Gouws says retrenchments were done on a "last-in-first-out" basis. He thinks Lifegro was generous with retrenchments, paying a sum equal to a month's salary for every year of service. Those with 10 years or fewer to retirement were allowed to go with recognition of future service.

"The human resource division found 2 500 vacancies for departing staff to consider, so I doubt that any of those who left will be out of work for long."

ACTUARIES

Mr Gouws says there were relatively few departures among long-serving staff members. The company has lost its two senior actuaries. Actuarial work is now handled by an outside consultancy.

The cost of retrenchments will be large. Lifegro will take it on the chin in one hit this year.

"We warned shareholders there would not be a dividend this year, so nobody should expect great results. But we have forecast a dividend of 12,5c for 1990, so you can see we expect to get over this quickly."

Policyholders will not be affected by all the traumas suffered by SA's No 5 life assurer.

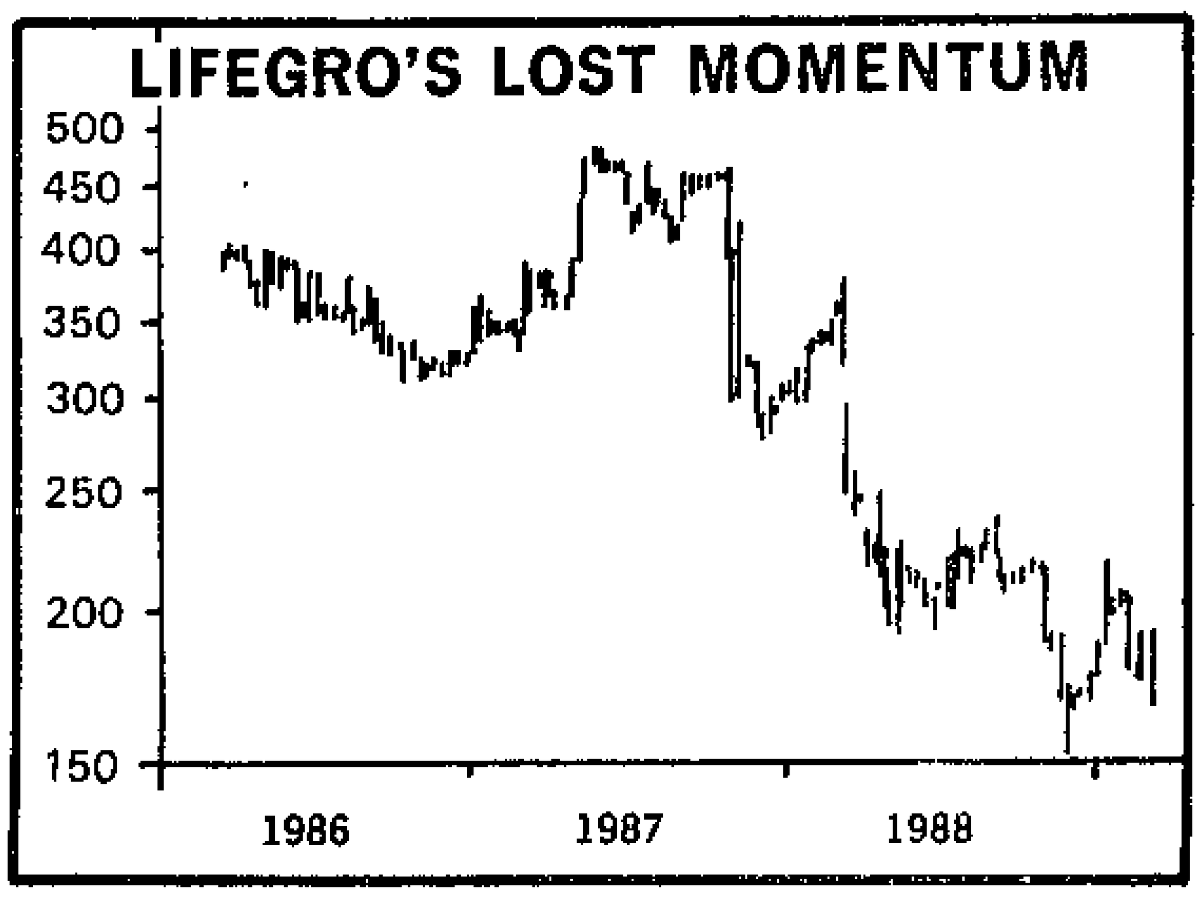
"Taxation has been a problem, but we shall declare bonuses in line with those of other companies," says Mr Gouws.

PROFILE

Momentum will not change its market profile much. It will still go for the A and B income bracket that Old Mutual, Sanlam, Liberty and the rest court.

"We think that as a lean, efficient and flexible organisation, a bit like Momentum is today, we will be competitive. The emphasis will be on service. Momentum was built on service and because of its strength in that area, attracted strong support from brokers."

Better service implies



large spending on computer systems.

After all the bloodletting, Lifegro's problems have still not been publicly defined or quantified.

Most observers have gained the impression that Fenton and similar tax avoidance schemes were its undoing. Last year's annual report was a shameful gloss job.

"This is a peculiar business," says Mr Gouws, "involving the confidence and trust of policy holders. It is different from a trading company. Profits fluctuate violently and our job is to smooth the experience. That is why we have special disclosure rules.

CARDS

"No assurance company anywhere in the world shows all its cards. Liberty, for example, shows earnings growth of 20% reliably every year. You cannot tell me that is the actual experience."

Point taken. The banks on lower standards of disclosure than First National and Standard argue along similar lines. But I am not sure I buy it. I cannot believe that secrecy inspires confidence.

Perhaps in normal times, there is no need to spell out every detail But when a company has been through a trauma, I think its nature and extent should be even partially described.

Having been told by investment analysts and fund managers that it would be good for its rating, Nedbank has moved to fuller disclosure. Lifegro should give consideration to doing something similar.

DAMAGE

As to Fenton schemes, they are only part of the picture. Mr Gouws says Lifegro made huge profits on some of those schemes.

One way of calculating the damage is by reference to the share price Listed at 285c, Lifegro's shares quickly went to 400c. In 1987 they reached 450c before the great slide to 170c began. That means that since 1987 there has been a loss in value of about R145-million.

That is based, not on fact, but on impressions. One thinks that the correction has been overdone and like those who stayed with Nedbank, those who stay with Lifegro — to be called Momentum from now — will one day laugh again.

Tollgate profits soar by 154%

Cape Times 13/3/89

By BRUCE WILLAN

THE 128-year-old Tollgate Holdings has turned its acquisitions and investments of the past nine months into money spinners for the group.

The interim results for the six months ended December 31, 1988 announced reveal a massive hike of 154% in after tax profits to R10,211m on an increase of 188% in turnover to R246,244m.

Attributable earnings went up by 126% while earnings per share increased to 24,2c per share compared to 16,8c for the same period the previous year.

Although the interim dividend declared remains the same as the previous year at 10c, the number of shares in issue has increased by 57% to 37,854m.

The group has come a long way since it was first established as a passenger transport company.

The diverse range of companies within the group has changed Tollgate into an industrial conglomerate and to this end all the companies are geared to the mass consumer market.

This diversity is reflected in the interim results by the contribution made by each operation; transport 32%, engineering 29%, textiles 23%, food processing 11% and entertainment/leisure 5%.

The active acquisition phase and transformation Tollgate has experienced is over for the time being.

All that there is left to do is refine the group says MD Hennie Diedericks.

Part of the transformation is the transmuted listing of the holding company to the Industrial Holdings sector of the JSE as of March 20, 1988 under the new identity of TGH.

The refinement process will take place with internal restructuring and a commitment to organic growth he says.

The internal restructuring has already started and is evident in the interim results.

Certain properties and land holdings as well as parts of Drivetech were disposed of during the six months under review.

Interestingly goodwill on consolidation for the six months has been written off against shareholders funds.

Diedericks points out that to help investors, it is the planned to have all the companies within the group listed.

Arwa, Gants and Drivetech are already listed and it is hoped that the entertainments division Entercor will be listed via a reverse takeover of DCM listed Deale- & Huth (51% owned by Entercor) soon.

Tramway Holdings is also earmarked for a listing shortly.

The listing of all the companies will aid investors says Diedericks by giving them the opportunity to invest in either the holding company or any of the individual operations.

Prospects for the group look good indicates Diedericks with all divisions contributing to the success of Tollgate.

Further acquisitions are not planned as part of the growth of the group but should they arise, will be looked at individually and based on merit.

The position of the group is strong says Diedericks, the pro forma balance sheet has a more manageable debt-equity ratio of 50% and any funding which the group may require can easily be facilitated through the group's own resources and borrowings.

New Bank move on credit growth

B/Day 13/3/89 (58)

KAY TURVEY

IN AN attempt to monitor credit demand and keep money supply within its targets, the Reserve Bank has asked banks to report monthly credit growth above 1%.

Banks have responded willingly to the request, but say if it is a prelude to the imposition of credit ceilings there could be an outcry.

At a regular meeting with commercial banks in Pretoria on Thursday, where the new M3 target growth of 14%-18% was discussed, Governor Gerhard de Kock asked for the banks' co-operation on money supply.

In 1988 money supply rose by 26,5%, well above the 12%-16% target range.

To assist the Reserve Bank in pinpointing credit demand, banks were also asked to keep the Bank informed on the form credit growth was taking, be it among corporate borrowers, importers or consumers.

De Kock emphasised credit ceilings were not discussed, nor were any steps that the Bank might be forced to take should the 1% monthly growth rate be exceeded.

"There is certainly no question of quantative ceilings on bank credit. In raising the prime rate to 19% we used the normal kind of moral suasion on the banks. For the rest, it's merely a request — at MD level — to keep us informed of any growth in credit exceeding 1%."

● DE KOCK

Standard Bank's GM credit Ian Gilbert said while there was no harm in monitoring credit to help the Bank establish where demand lay, if it took on any semblance of control there could be problems.

Nedbank MD Chris Liebenberg said the move exerted a measure of control stronger than moral suasion, but hoped money supply and consumer spending could be checked in this way to avoid credit ceilings.

In another move reflecting the Reserve Bank's tougher line on credit growth, the Bank made it clear to banks last week it would not pump liquidity into the system through buy-backs and repurchase agreements except to neutralise purely seasonal flows.

Old Mutual Investors leads field of unit trusts

B/Day 13/3/89

LIZ ROUSE

OLD Mutual Investors, whose assets total R1,25bn, remains the top performer among the 14 unit trusts.

The general unit trust gave investors an excellent return on their units of 31,4% over a four-year period and a highly satisfactory return of 28% over a three-year period.

According to the 1988 Unit Trust Survey released by Alexander Forbes Consultants and Actuaries, Old Mutual's returns were well over 25% for all other periods — five, six and seven years.

Holding steady in second place is GuardBank Growth, with its highest return of 27% over a four-year period and a return of 24,2% over the past three years.

The third best performer over three years was Standard Bank Mutual, which rewarded its unitholders with a 23,2% return and 25,4% over four years.

But over the longer eight-year period Sage Fund has outperformed GuardBank, having stayed in third place with returns of 22% to 23% for the six, seven and eight year periods.

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However, Sage Fund slipped to sixth best performer over shorter periods with returns of 19,9% over three years and 24,3% over four years.

Sanlam Trust was ranked seventh among all units trusts, with a return of 18,2% over the past three years.

Investors 'may be ultimate victims of rise in rates

Star 14/3/89

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Property & Construction

FRANK JEANS

By Frank Jeans

The rise in interest rates could result in a number of property men who have financed their investments by way of loan finance being faced with incurring losses on their stakes.

This is the view of Mr Alvin Els, a partner in accountancy group Price Waterhouse.

"Although rents have increased over the past two years it is unlikely the increase has kept pace with interest rates, which have risen by nearly 50 percent since the beginning of 1987," he says.

Mr Els believes highly geared property investors who have incurred losses on their investments might attempt to offset the losses against other sources of income, for tax purposes.

"Unfortunately," he says, "the chances of success are not guaranteed but are dependant on the facts of each particular investor and investment."

He gives as an example a recent case decided by the Special Income Tax Court.

A man had bought a house in Pretoria during 1982 as a hedge against inflation, and to produce income. Although he worked outside Pretoria, he did hope, one day, to return to the city.

"The Commissioner for Inland Revenue found that the rental expenditure was not wholly or exclusively incurred for the purposes of trade and limited rental expenditure to rental income, thereby disallowing the rental loss.

"The court ruled that the man appeared to have bought the house with mixed intentions, to live in the house when he returned to Pretoria and as an investment. The court upheld the views of the commissioner and disallowed the loss."

Mr Els makes the point that where a taxpayer invests in property with the sole intention of earning income, and there is an acceptable probabilty or likelihood of net income being earned on the investment, then initial or temporary losses due to fluctuations in interest rates should be allowed as a tax deduction against other income.

"However, if an investment is made in property and there is no likelihood of profit in the future, such losses would normally not be allowed as they would not have been incurred in the production of current or future income," he says.

RATIONALISATION RUFFLES FEATHERS

BDay 14/3/89 ZILLA EFRAT (58)

AFRICAN Bank CE Gaby Magomola's moves to carry out a rationalisation and cost-cutting programme have resulted in calls for his resignation.

Magomola said yesterday a "handful" of staff had submitted a memorandum requesting his resignation to the bank's board. The board had not yet acted on the matter.

He said in the meanwhile it was business as usual and urged clients and shareholders not to react to any speculation over his position with the bank.

"The rationalisation programme is essential if the bank is to to be placed on a competitive and sound financial footing and I will not be deviated from that course."

The rationalisation programme had been approved by the audit committee of the board.

First National MD puts personal stamp on group

BDay 14/3/89

58

GRETA STEYN

● SWART

FIRST National's new MD Barry Swart has wasted no time in putting his personal stamp on the group's structure. Described by some senior staff as "a shake-up" and by others as "internal re-organisation", SA's largest bank is experiencing a period of change.

One of the most talked-about changes will affect First Industrial Bank, which operates as a separate bank within the group. First Industrial will cease to exist as a bank and will operate in future as a division of the general bank.

"But First Industrial Bank will retain its name. From the customer's point of view, nothing will change," says First Industrial MD Vivian Bartlett.

The divisionalisation of First Industrial, which deals predominantly with corporate clients, is in line with government's moratorium on stamp duties to encourage rationalisation.

The division will not move from First National House, the blue diamond building next to the stock exchange.

Its status as a division means it will keep a separate reporting line and there will be no impact on the four business units — Joint Finance Companies, Leasing, Factoring and Fleet Management. But its investment in the agricultural market will be phased-out into other divisions in the group, leaving First Industrial free to focus entirely on corporates.

Bartlett, who has been with First Industrial since its inception 17 years ago, believes the move will result in substantially lower costs.

"All the support-type functions that go with a separate bank, including systems, marketing, public relations and personnel, will be done at head-office level. Only a small nucleus of staff performing these functions will remain with us, but on the whole the infrastructure of the commercial bank will provide these services."

Bartlett says structural changes are inevitable if the group is to become the lowest-cost producer of financial services.

"Bank profitability has become the most important issue in the industry. Intense competition, escalating costs and static interest rate margins because of extraneous factors have all contributed to pressure on meeting capital requirements through retained earnings. When Swart became group MD, it was only logical that he would look at ways to improve profitability."

Change has caused some uneasiness among staff members, but Bartlett and senior GM Jimmy McKenzie have made it clear there will be no retrenchments.

Says Bartlett: "Staff turnover in the banking industry has been high over the past few years. We will accommodate First Industrial staff who cannot be accommodated within the division status."

Bartlett himself will no longer be MD once First Industrial ceases to exist as a bank.

Protea Assurance profits climb a marginal 6,7%

B Day 15/3/87 58

KAY TURVEY

PROTEA Assurance's attributable profits climbed a marginal 6,7% to R11,7m for the year to end-December as the group focused on strengthening reserves ahead of more stringent legislation.

Investment income, which grew at 11% to R14,3m, contributed to the group's profitability as the underwriting surplus declined by 2% to R2,6m as a result of the more prudent approach.

However, in spite of the modest increase in profits, the group's underlying financial strength allowed for a 28% boost in dividends paid at 46c a share.

Net written premium income increased from R120,8m to R127m. This Premium income is backed by free reserves of R128,1m, giving the company an exceptionally strong solvency margin of 111%, or 10 times the statutory minimum.

Protea MD Tony Crank says the strengthening of the capital base reflects the group's historic prudence in managing insurance liabilities and shareholders' interests.

Aggressive

He predicts the next few years will prove extremely difficult for the insurance industry as low economic growth, a weak rand, continuing double digit inflation, import surcharges and increasing competition from local and foreign sources do not augur well for them.

However, Crank emphasises that Protea is well equipped to deal with aggressive pricing which results from SA's over-traded market.

"We are already having to renew worthwhile business at — in some instances — quite heavily discounted rates. I hope that sanity will prevail in the industry and that we will not see a return to the mindless price cutting of the not-too-distant past."

Crank notes investment action has also been cautious in view of the R24m committed to the redevelopment of the group's head office building.

Protea's life division reported a healthy 37% growth in premium income to R16,5m, and the contribution to shareholders' income rose from R311 000 in 1987 to R374 000. Protea shares were untraded yesterday after they moved to a high of R10 last week.

WEDNESDAY, MARCH 15, 1989 MORNING FINAL RSA 40c (36c + 4c GST) OUTSIDE 40c

Board gives shocked Magomola the boot

AFRIBANK CHIEF EXEC FIRED

(58)

THE AFRICAN BANK LIMITED

Sowetan 15/3/89

By JOSHUA RABOROKO

THE chief executive officer of the African Bank, Mr Gaby Magomola, has been fired.

This was confirmed yesterday by the chairman of the bank's board of directors, Dr Sam Motsuenyane, who said the termination of Mr Magomola's services came after numerous consultations.

He said the board of directors resolved after very careful consideration of the facts before it, that it was in the best interest of the bank if the employment of Mr Magomola was terminated.

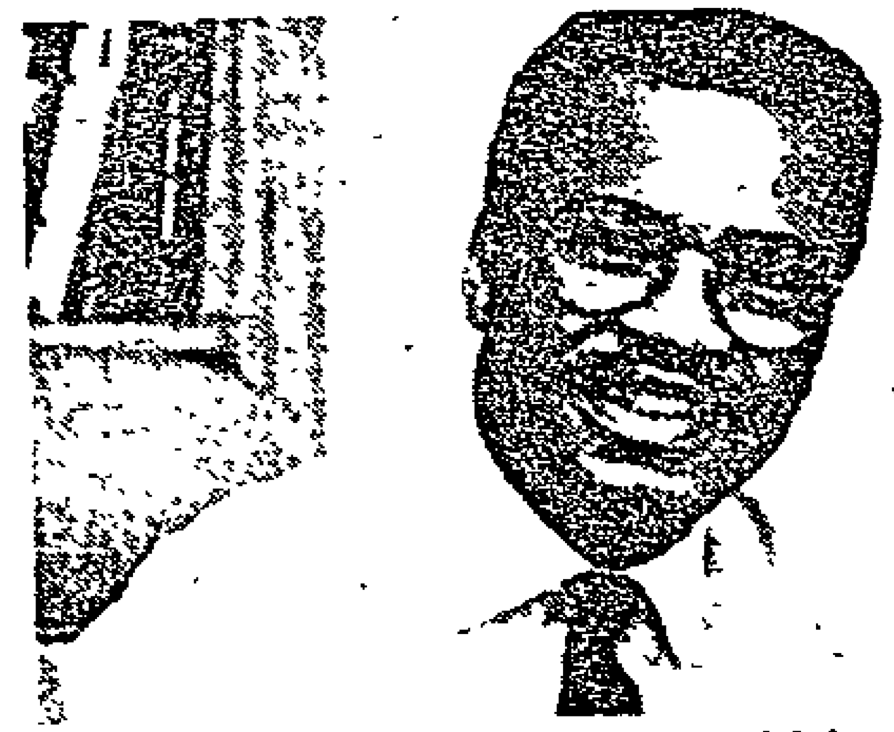
Speaking from his home in Johannesburg's northern suburbs, Mr Magomola last night said he was terribly disappointed by the decision of the board to fire him.

He said he served the bank in its best interest and that of its shareholders.

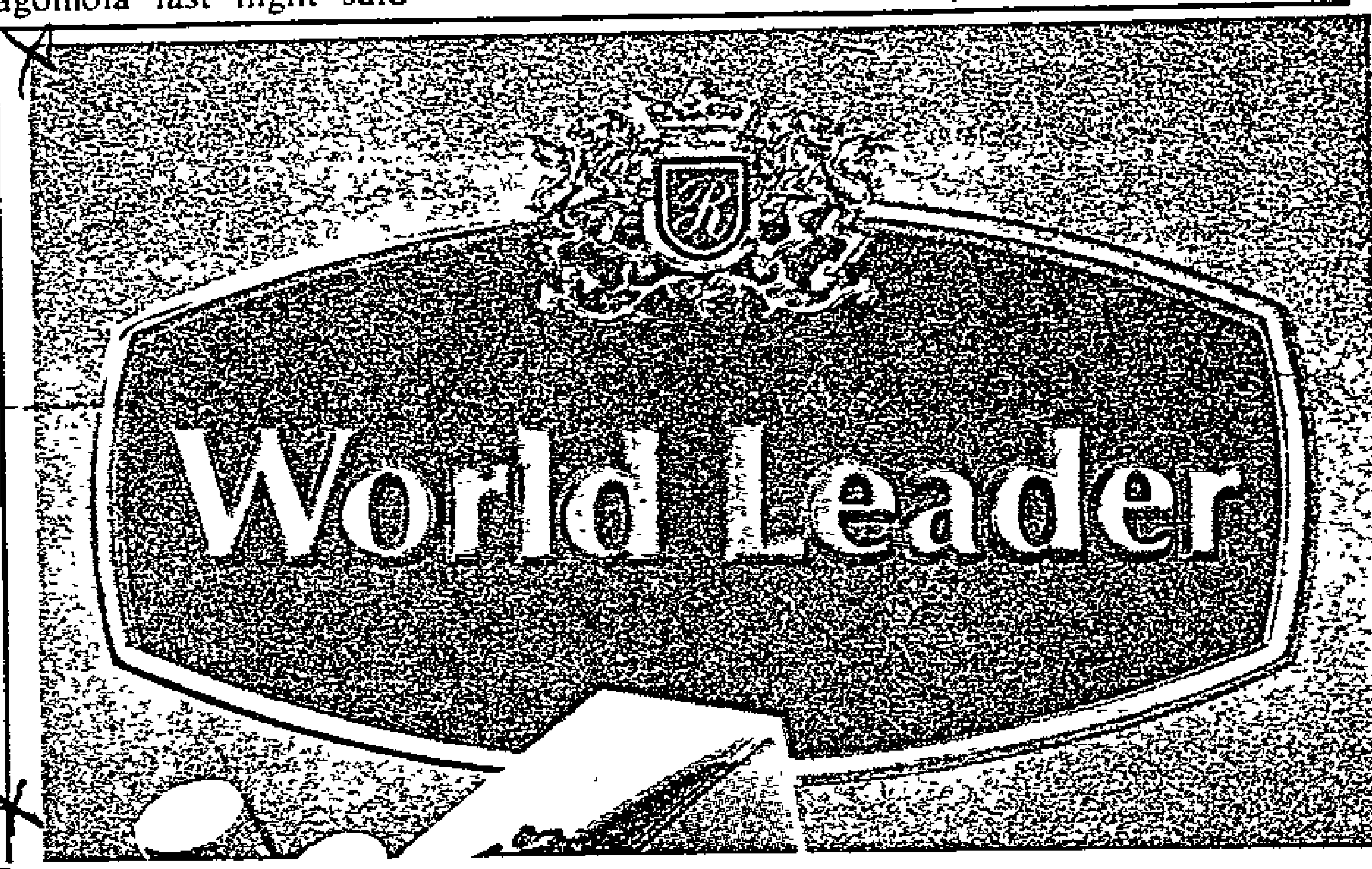
He would give a full response to the letter terminating his services after consulting with his lawyers tomorrow.

Mr J C D Theron, an experienced banker, who has been with the bank for sometime, has been appointed acting chief

• To Page 2



CASHED OUT: Former African Bank Chief Executive Mr Gaby Magomola.



P.T.O.

NOT unexpectedly, our photographer JOE MOLEFE did not find Mr Gaby Magomola at work yesterday. He did find a woman employee at the bank's Marshall Street premises . . . but she was not pleased to see him.

550

Bank boss booted out

Sowetan 15/3/89

• **From page 1**

senior general manager with immediate effect. He replaces Mr Magomola.

Dr Motsuenyane and the board of directors have wished Mr Magomola well in his future endeavours.

Mr Theron was yesterday said to be in an executive meeting with bank officials and referred all enquiries about Mr Magomola to Dr Motsuenyane.

Mr Magomola's sacking follows calls for him to step down by staff of the bank after he tried to carry out a cost cutting programme which he said was essential if the bank was to be placed on a competitive and sound footing.

The rationalisation programme had been approved by the audit committee of the bank, said Mr Magomola in a statement issued last weekend.

In a series of events prior to his dismissal, a Johannesburg Afrikaans newspaper published a report about his "untenable situation" at the bank.

In the report he was alleged to have said that the African National Congress and Nafcoc radicals were after his blood.

However, in a statement Mr Magomola denied the report that he was being forced out of the bank by a combination of the ANC and so-called radicals.

He had no knowledge of whoever passed on such information to the newspaper which he said was slanted.

"I am unaware of any Nafcoc-engineered and ANC attempts to remove me as CEO of the bank and would like to reject with contempt any insinuations that are contained in this report," he said.

Mr Magomola previously held a senior position at the First National Bank.

Reserve Bank acts to curtail forex abuse

Star 15/3/89

The Reserve Bank has decided to standardise the existing requirements for the transfer of foreign currency payments to non-resident and emigrant parties.

The deputy Governor, Professor JA Lombard, said that the new arrangements were in no way intended to interfere with normal commercial activities but rather to ensure that abuse of the country's foreign exchange reserves was curtailed to a minimum.

As a first step in implementing these requirements, an auditor's report and supporting letter of representation from non-quoted companies confirming the nature and origin of the funds to be transferred, will be called for. The implementation date of these arrangements will be May, Professor Lombard said.—Sapa.

The Star
Finance

Life and pension funds have role to play in housing

SH 15/3/89

58

By Frank Jeans

A plan will have to be worked out to mobilise the vast funds of life and pension fund institutions for the country's housing needs.

And while it might be arguable that direct involvement by the institutions in homebuilding is inappropriate, there is scope to expand their role in the provision of housing finance through, for example, a "meaningful secondary mortgage market".

These points were thumped home at the annual meeting of the National Association of Home Builders in Johannesburg last night by the chairman, Mr Riley Schachat.

"There has been much debate on the potential role of the life insurance and pension fund industries in contributing more significantly in meeting the housing challenge," he said.

"This is a complex subject with many contradictory views. However, these major investment institutions are the primary channel for the savings of South Africa.

"Because of this, and the vital socio-political need to satisfy housing demand, it is essential that a mutually-acceptable solution for increased participation be found."

Commenting on the amendments to the Government's first-time home subsidy scheme which has "long needed significant revision", Mr Schachat said they have had a marked effect on the home-buying public and, consequently, the industry.

Original objective

He pointed out, too, that when the scheme was introduced in 1983, the prime objective was to create employment and increase the housing stock, predominantly in the white sector.

"With the recent proposed amendments, however, activity under the scheme has virtually come to a standstill," said Mr Schachat.

"To meet the stated objectives, the authorities will have to increase the budget allocated to the scheme significantly."

The NAHB chairman was bullish over economic prospects and believes a satisfactory growth rate can be achieved and maintained.

He is encouraged, too, by the positive flow of immigrants and the clear signs of a decrease in vacant housing stock.

Another plus factor was the marked shift towards black housing.

"By November last year, black housing development accounted for 55,4 percent of the total," said Mr Schachat.

"On the basis of value of plans passed, black housing represented 24 percent. With innovative design, construction and financing packages, these percentages can be considerably increased.

"However, high volumes are required to make development in this market sector viable, bearing in mind the relatively low margins and high risk factor."

Mr Schachat added that despite the current impact of high interest rates, the homebuilding industry is now offering clients the opportunity of acquiring new homes at prices which are unlikely to be repeated, particularly in view of the continuing steep escalations in building costs.

African Bank chief seeks legal advice after dismissal

(58
Star 15/3/89

By Michael Chester and Dawn Barkhuizen

Mr Gaby Magomola ... stunned after dismissal.

Dismissed African Bank chief executive Mr Gaby Magomola is seeking legal advice over his shock sacking this week.

The man viewed as a rising star among a new generation of black bankers was last night "terribly disappointed by the decision of the board as I was only acting in the best interests of the bank and shareholders".

Mr Magomola's dismissal, announced by the board of directors yesterday,comes after several weeks of high drama at the African Bank over a staff revolution about its management hierarchy.

It is believed that Mr Magomola's tough approach to the rationalisation and cost-cutting programme which he was called in to do two years ago caused a section of the staff to revolt in recent weeks and prepare a memorandum demanding that the board of directors remove him from the post.

Mr Magomola was appointed chief executive following the multi-million rand foreign exchange swindles by three African Bank senior staffers in 1987.

His dismissal was confirmed yesterday by Dr Sam Motsuenyane, chairman of the bank.

Dr Motsuenyane, also head of the National Association of African Chambers of Commerce, said in a statement that the decision had been reached after numerous consultations at board level.

He named Mr Jack Theron, a former general manager of Trust Bank, who has been acting as second in charge of the management team, as acting chief executive officer and senior general manager.

Mr Magomola said last night: "I find it rather odd that the board had taken such strong action over a clash with lower management."

CONTRIBUTION

He had, he said, made a sound contribution to the bank, leaving it in a far stronger position than it had been when he took comtrol two years ago.

Although there had been conflict over his rationalisation scheme for some months, he was "reeling with shock" last night at the final outcome and had not considered the future.

He declined to detail the reasons for his dismissal, saying he was studying the motivation letter with his attorneys and would respond fully later in the week.

Mr Theron (62) said last night he was determined to press ahead with programmes which had been assigned to Mr Magomola.

Mr Theron, with 41 years' experience in banking, was seconded by Trust Bank to manage African Bank operations until he reached retirement age almost two years ago and stayed on as a consultant.

'Best' capital base at Protea

(58)

Protea Assurance's results for the year to December 1988, show that the company's capital base is arguably the strongest in the industry. Star 15/3/89

With free reserves of R128,1 million backing net written premium income of R127,2 million, the company's solvency margin stands at 111 percent, or some ten times the statutory minimum.

Net asset value per share is up from R14,01 in 1987 to R17,91.

Net written premiums are up from R120,8 million to R127,2 million while investment income at R14,3 million compares to the R12,8 million achieved during 1987.

The focus on stronger reserving criteria has, however, had a negative short-term effect on earnings: Attributable profits have risen marginally from 1987's R11 million to R11,7 million on account of investment income growth while the underwriting surplus has remained virtually static at R2,6 million.

The dividend payment for the year is boosted 28 percent to 46 cents. Cover, at 3,2 times, remains in line with group policy. — Sapa.

Unit trusts growing more popular and more profitable

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STAR 15/3/89.

By Sven Lünsche

The stock market crash of October 1987 did not impact on the sales of unit trusts and the industry reported another excellent year during 1988.

Unit trusts have also outperformed most other investments over the last ten years.

The latest quarterly *Unit Trust Survey* by the University of Pretoria's Graduate School of Management shows that during 1988 most indices in the industry showed healthy growth compared with 1987.

The total number of funds increased from 25 to 30, while the unit trust capital index — which measures the capital values represented by the repurchase price of unit trusts — increased by 17,2 percent.

The market value of unit trust investments at the end of 1988 amounted to R4,387 billion which is 10,2 percent lower than the R4,883 billion at the end of September 1987, just before the big crash. But it is still about 26,4 percent higher than the corresponding figure of R3,469 billion at the end of December 1987.

Furthermore the unit trust income index, which measures the income distribution of unit trusts, increased by 28,8 percent during 1988 and net cash flow to the unit trusts amounted to R393,8 million.

For the first time since the 1987 stock market crash the net inflow to the funds showed a significant increase of R137,7 million during the fourth quarter of last year, **(See top table)**, while repurchases of units showed a slight decrease.

On a more long term basis, the University of Pretoria academics show that unit trusts are one of the most competitive investments.

The **bottom table** compares the average annual compounded percentage yields on selected investment alternatives. The performance of the unit trust is based on the range between the worst and the best performers among general equity funds between 1977 and 1988.

Over 12 years the performance of unit trusts has closely matched those of share prices, although the best performers — Guardbank's Growth Fund and Old Mutual Investors' Fund — averaged returns of 29 percent over the last 12 years compared with 25 percent for equities. Inflation since 1977 has averaged 14 percent per annum.

Since 1985, however, returns on the average unit trust were very much in line with the yield on other investments and some funds actually did not beat the average inflation rate of 15,3 percent since then.

But once again during 1988 unit trusts proved to be one of the most solid investments, especially if your money was with Guardbank, which showed a return of 32 percent, if the growth in the repurchase price is measured.

According to the survey the yields on shares and fixed deposits during 1988 were only 14,3 and 10,5 percent respectively.

Liquidity level

Interestingly enough Guardbank had one of the lowest liquidity levels last year — the percentage of money not invested in equities — and as a result outperformed most of the JSE indices with the exception of the industrial index.

Other funds which did particularly well last year were UAL (27,7 percent) and Sage (27,2 percent) and they also reported particularly low liquidity levels **(see centre table)**.

Over the last five years the general equity funds invested, on average, six percent of their total funds in gold shares, 16 percent in mining financial shares and 47 percent in industrial shares, while 18 percent of the total market value of R3,02 billion was kept liquid.

The specialist equity funds also held about 18 percent in liquid assets at the end of 1988, with a further 22 percent held in gold shares, 20 percent in mining houses, 14 percent in other mining shares and 24 percent in industrial shares.

MARKET VALUE OF UNIT TRUSTS, NET FLOW OF FUNDS, NUMBER OF UNIT TRUSTS AND THE INDEX VALUES OVER THE PREVIOUS FIVE QUARTERS

QUARTER ENDING	DEC 88 Rm	SEP 88 Rm	JUN 88 Rm	MAR 88 Rm	DEC 87 Rm
Market value of all equities	4 386,6	3 974,7	3 725,1	3 484,0	3 469,3
New sales of units	248,3	182,3	165,6	190,4	347,8
Repurchases of units	110,6	112,3	81,2	88,7	256,6
Net cash flow	+137,7	+70,0	+84,4	+19,7	+91,2
Number of unit trusts	30	27	25	25	25
Capital index	1 072,63	994,48	952,04	898,59	914,90
Income index	1 380,52	1 246,50	1 180,50	1 076,02	1 071,60

LIQUIDITY LEVEL OF GENERAL EQUITY FUNDS SINCE SEPTEMBER 1987

GENERAL EQUITY FUNDS	PERCENTAGE LIQUIDITY OF THE PORTFOLIO					
	SEP 87	DEC 87	MAR 88	JUNE 88	SEPT 88	DEC 88
Guardbank	7	14	18	8	12	11
Lifegro	–	–	–	–	18	11
Metfund	–	–	–	–	25	28
NBS Hallmark	–	–	–	–	41	21
Norwich NBS	–	–	–	–	25	4
Old Mutual Investors'	13	17	22	22	21	19
Sage	6	12	22	14	17	17
Sanlam Trust	7	22	17	30	30	32
Southern Equity	–	–	–	–	–	15
Standard Bank	18	34	36	25	35	27
Sygro	8	24	21	17	12	13
UAL Unit Trust	7	15	16	14	13	13
TOTAL						18 (R535,8m)

AVERAGE ANNUAL COMPOUNDED RETURNS ON SELECTED INVESTMENTS BETWEEN 1977 AND 1988: CAPITAL AND INCOME COMBINED (%)

PERIOD	EQUITIES	GILTS	DEBENTURES	FIXED DEPOSITS	INFLATION	UNIT TRUSTS*
One year	14,3	10,3	14,1	10,5	12,4	16,9-32,3
Three years	18,9	20,0	20,3	11,8	15,5	12,5-24,3
Five years	16,5	12,8	14,8	13,3	15,3	15,7-24,2
Seven years	17,9	12,3	13,2	12,9	14,5	18,4-24,4
Ten years	24,9	8,5	9,9	11,5	14,5	23,1-28,6
Twelve years	25,5	9,9	12,5	11,1	14,0	24,3-29,5

* Based on the range between worst and best performers among general equity funds for the twelve-year period between 1977 and 1988.

Source. Standard Bank Fund Managers.

High rates produce unemployment

Cape Times 15/3/89 58

Financial Editor

HIGH interest rates cause unemployment and low interest rates lead to more jobs being available, Senbank chief economist Johann du Pisanie says in his February economic review.

Admitting that this is contrary to conventional wisdom which suggests that high interest rates encourage investment, providing more jobs, Du Pisanie points out that credit is not used only for the purchase of capital goods.

"Households often incur debt to finance consumption.

"Businesses likewise use credit to finance current expenditure including salaries and wages. Thus a rise in interest rates discourages not only the use of capital goods but also the employment of workers.

"Employment will be discouraged all the more if the employer is already deeply in debt.

"If interest rates rise under such circumstances he will have to pay more each month merely to service the existing debt.

"To solve this problem he has four options open to him.

"He can increase the price of his products, which will probably cause his sales to drop — especially since the rising interest rates will also be affecting his customers.

"He can repay debt by selling capital goods. This would, however, mean that his production capacity would diminish or even disappear.

"He can attempt to limit his current materials usage by exercising better control over the production process. In an effectively managed business this would not make much difference.

"Lastly, he can try to limit his current expenditure by reducing the number of his employees.

"This would be particularly sensible if his sales were also declining. Moreover it is easier to partially reduce the workforce than the plant.

"It therefore seems highly likely that the employer will choose this fourth option."

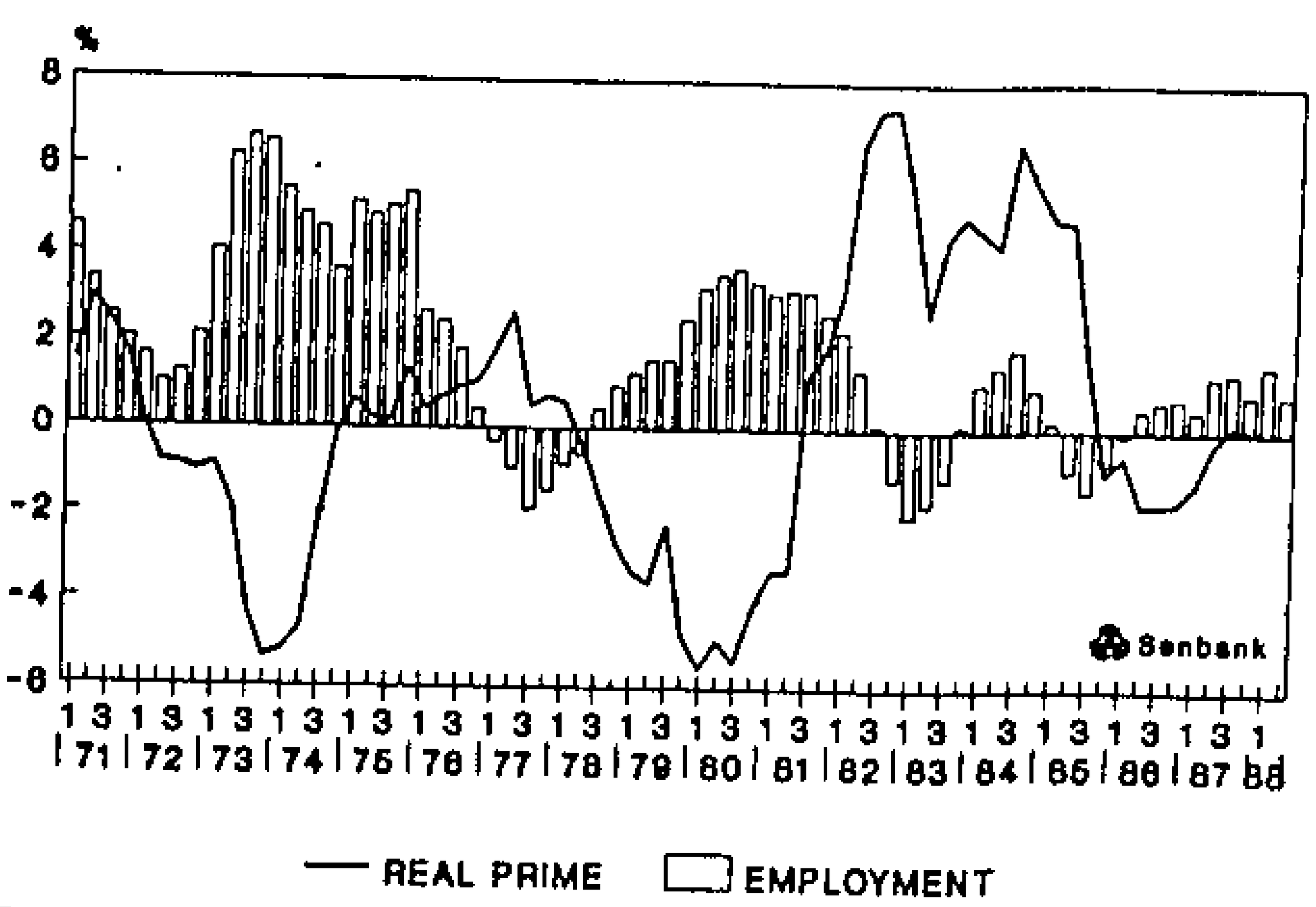
Du Pisanie continues that, since the quantity of capital goods used in the production process remained constant, the ratio of capital to labour would increase after the dismissal of some workers "rendering production more capital intensive, not less" as a result of higher interest rates.

Finally, Du Pisanie says, "employment is encouraged by increasing the after-tax yield on business enterprise. Reducing tax on individuals is a good starting point

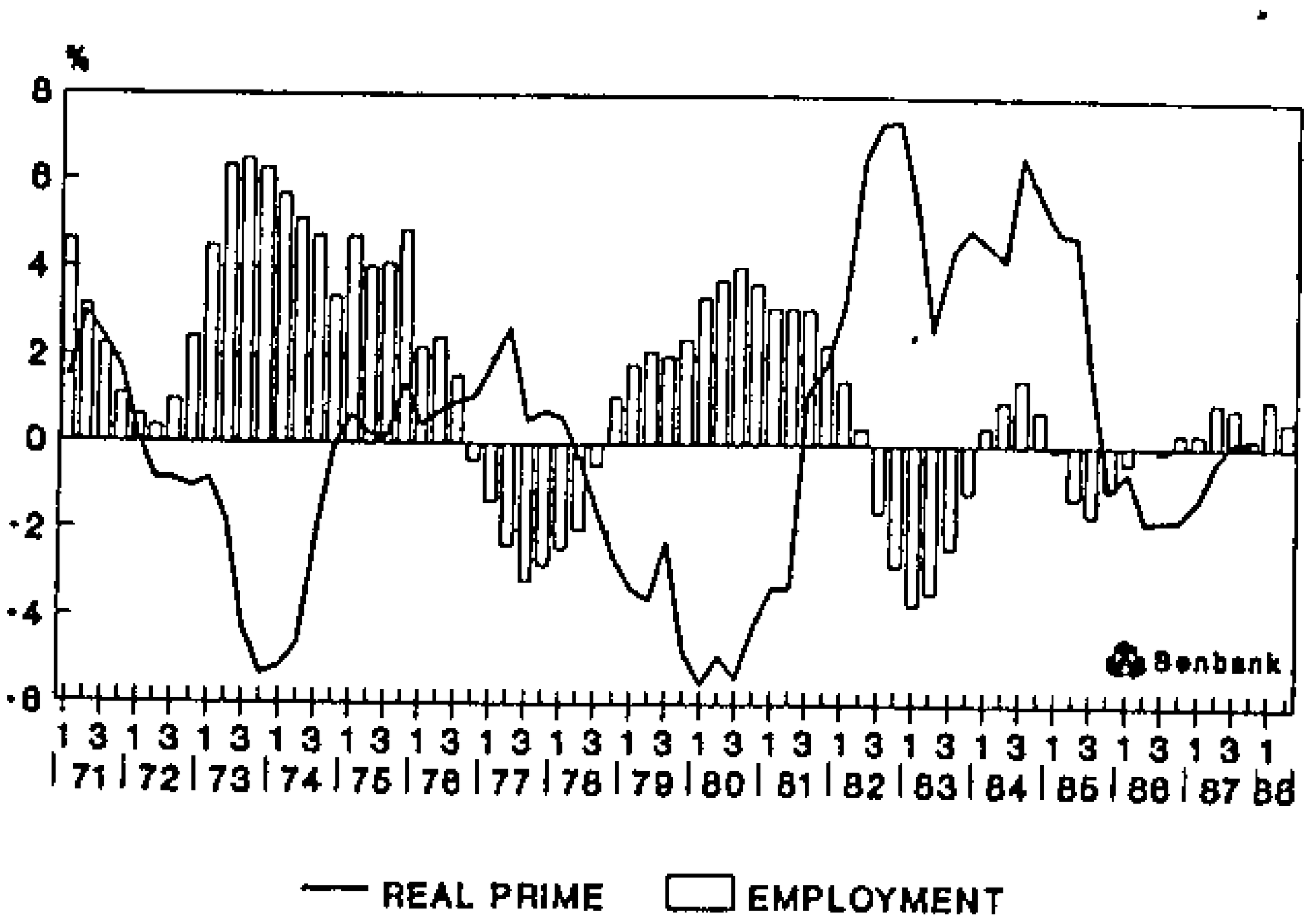
"This would enable people to work for lower pre-tax real wages and salaries which would reduce real production costs of businesses.

"Artificial increases of interest rates by policymakers in the mistaken belief that it will help solve SA's unemployment problem must be avoided at all costs."

1 - REAL PRIME INTEREST RATE & CHANGE IN TOTAL NON-AGRICULTURAL EMPLOYMENT



2 - REAL INTEREST RATES & CHANGE IN PRIVATE NON-AGRICULTURAL EMPLOYMENT



Bonds to strengthen

B Day 15/3/89

(58)

AMID current volatile financial and monetary markets worldwide, indications are the participation bond movement will continue to strengthen, says Fidelity Bank GM specialised services and marketing Tony Bennett.

For medium- to long-term borrowers and investors, part bonds should remain the ideal "sleep easy" scheme in the forseeable future, he suggests.

"Every investor should find a place for this type of investment in a well-balanced portfolio while the serious borrower should tread carefully if his borrowings on long term projects are being financed on a short term basis instead of with long-term loans as provided by as with part bonds."

However, much will depend on how part bond managers market their products, so it is important to choose both manager and scheme carefully.

Because managers of various registered schemes have kept abreast of modern trends and movements in the financial arena, and made their own particular schemes attractive and innovative, the part bond concept has grown in leaps and bounds, says Bennett.

While investors have a wide choice of bonds, legislation stipulates they lock their money in a particular scheme, but not a particular bond.

"Although the interest rate at any point in time will be highly competitive and market related, after the initial five-year period, investors' funds are virtually on call at an extremely attractive rate of interest," he says.

It is noteworthy that interest is usually paid quarterly in advance, and that during the initial period, depending on the institution involved, loans may be granted against the security of the investment.

In the event of death during the five-year period capital may be paid out when required.

Assuming the amount of the bond is fully allocated to its investors, or investor, the managing company then no longer has an investment in that particular part bond and can thus use a similar amount for a new bond.

Purchasers and developers of properties have learnt that long term projects should be secured by long term loans, and this is where part bonds come in.

Any borrower — entrepreneur, individual or company — should ensure that flexibility, service (granted within a week in the case of Fidelity) and a structured loan to meet individual requirements are available.

Other important factors include a competitive rate of interest, no commitment or holding fee, a low service fee, no upfront inspection fee or other hidden costs and no floor rate, he says.

At the time a loan is granted to a borrower, the first investor in that part bond is normally the managing company which then immediately invites investors to participate offering the reward of an agreed rate of interest, which may fluctuate over the investment period.

Unlike the investor who must leave his funds in any part bond scheme for a five-year period, with Fidelity, the borrower has the option of reducing the capital subject to three months notice. However, most other part bond managers won't allow this as their period is normally fixed.

For its efforts the managing company is entitled to take a maximum commission of 7,5% from the rate received from the borrower and pass the difference to the investor.

"This is the reason why borrowers are quoted unusual interest rates, in the case of Fidelity Bank currently 18,92%, and investors a clean rate — currently 17,5% at the bank," says Bennett.

In summary, the investor should look for a recognised registered scheme and a manager who is flexible in his approach to loans and the payment of interest.

Full disclosure of the bond/s into which funds have been invested and a competitive rate of interest are also essential.

48-HOUR TURNAROUND

Business Day 15/3/89

(58)

THE ability to turn part bond applications for finance around within 48 hours, along with high interest rates for investors, stands Supreme Bond (Supreme) in good stead.

Claiming a growing reputation as a payer of top interest rates on part bonds, Supreme says it has boosted funds under its administration by more than 50% in the past year.

Supreme MD Jerry Couvaras says a key factor in paying top rates is speedy fund placing.

He says businessmen (borrowers) are prepared to pay an extra point if their applications are speedily processed and they can cut lead times in bringing developments to the market.

The company, which has offices in Johannesburg, Durban, Cape Town, Pretoria, Pietermaritzburg and Newcastle, is currently paying 18,75% on funds — a figure only recently matched by Lisabond.

Couvaras says Supreme's investors tend mainly to be financial institutions as well as senior citizens concerned about beating the ravages of inflation.

Part bonds' status as an ideal investment for senior citizens should continue to grow because interest rates can be expected to stay at high for some time.

On borrowings, he believes demand for funds will grow in the wake of increasing shortage of prime commercial and industrial space in SA's major centres.

Swing away from CBD development

B/Day 15/3/89 (58)

MATCHING the big increase in investor demand for participation bonds since 1987 has been the upsurge from borrowers pursuing property developments in regional areas.

The swing to property developments in the suburban areas of the country's major metropolitan centres, at the expense of ventures in CBDs, is reported by the Association of Participation Mortgage Bond Managers of SA.

Representing about 25 of the biggest managing companies, the association also notes not much part bond business has been conducted with developers of industrial and commercial parks.

However, there have been some borrowers developing mini-factory complexes, says association chairman Al Human.

While it is difficult for him to put a number on growth factors, he estimates that last year's overall investment in part bonds would be up by about 40% on the 1987 figure.

☐ AL HUMAN

"About 80% of part bond lending is going to commercial and industrial ventures, possibly 7% to farming enterprises with a similar portion going to the individual domestic market," he says.

Virtually no lendings have been provided to those decentralised areas where government subsidies are made available to new businesses.

Metboard assistant GM (property finance) Cedric Amoils says the size of CBD investments, in terms of their rand cost, has become too large for part bond financing.

"There has been a trend towards smaller non-institutional borrowers, with loans ranging from R500 000 to R15m, developing outside the CBD using part bond financing."

Black retail developments have shown the best part bond return for borrowers, because the ratio of income to building costs is the best.

Standard Bank Bond Investment MD Angus Mathieson cautions that SA's volatile economy could have an increasing dampening effect on borrower demand.

Stanbond, the second biggest part bond managers, reports business from borrowers as being "steady".

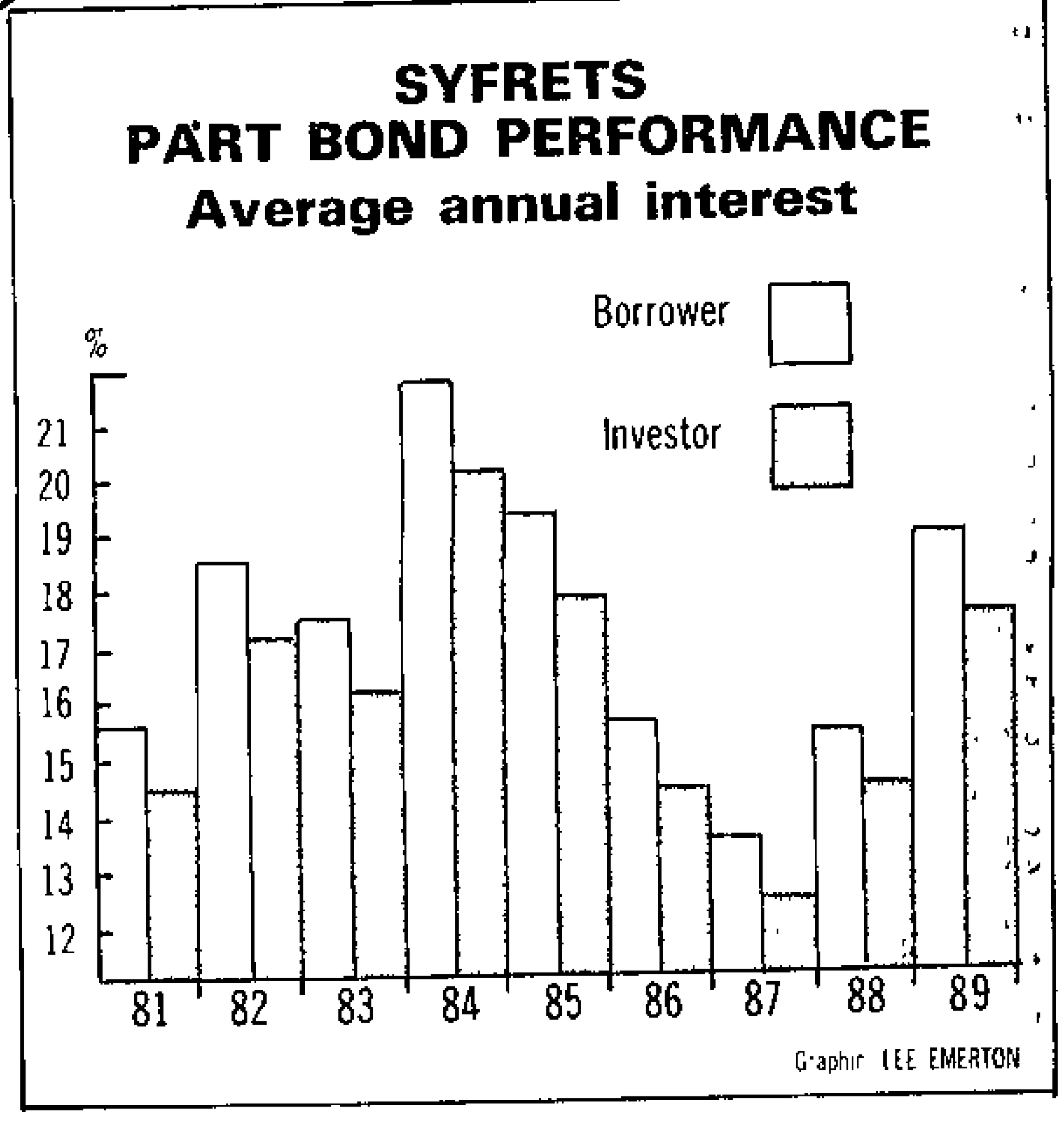
"Higher interest rates mean less inclination for developers to start projects and borrow money," says Mathieson.

A major attraction of part bonds to borrowers is the five-year moratorium on capital repayments which part bonds offer, with any borrower only having to pay interest to a manager at least four times a year throughout this lock-in period.

As part bonds usually have to be paid off only over the 20 years following the moratorium period, the borrower has ample breathing space to get his project fully off the ground before loan capital repayments commence along with continuing interest payments.

Human cannot give an overall industry picture on the nature of recent deals clinched or being negotiated.

But if Syfrets Participation Bond Managers — easily the country's biggest scheme managers, administering almost R1,1bn of investors' funds in February — is used as a yardstick



these are significant, as are interest rates averages to investors over the year.

Changing to wearing his Syfrets MD hat, Human discloses his company is negotiating with borrowers seeking loans between R30m and R60m.

At industry level, both a steady upsurge in the number of investors over recent years and an increase in the amounts of their investments is also noted.

"Investors are generally older people who seek the security and real interest paid quarterly in advance. These are the strong features that make part bond investments attractive."

Another appealing factor is investments can be withdrawn at three months notice after being locked in for the first five years, while the same high interest rates are paid after the lock-in period, says Human.

(58)

PARTICIPATION MORTGAGE BONDS

Big buffer means low risk

LEADING participation mortgage bonds (part bond) managers assure their investments are set to continue to rank among the safest investments.

Lisabond manager Fernando Santos forwards several reasons why risk has been and will remain low. A moral obligation by reputable managers to provide a buffer against loss, arising from the borrower or property market turning sour, is high among them.

Theoretically and legally an investor could lose money he has lent through a part bond scheme manager to a borrower developing a property through a part bond scheme manager.

PROBLEM

No legislation binds any scheme manager, acting as agent in the part bond deal to full liability but experience has shown that, where any problem property investment deal has arisen, reputable managers have been known to shelter their investors from loss.

It is comforting that most serving the industry are made up of well established companies who have long-standing unblemished records of handling this type of investment.

Some smaller part bond managers are also known to be reputable and include small schemes handled by firms of chartered accountants and legal practices.

"Bigger managing companies have always stood firmly behind the investor even in the rare event of such an occurance," assures SA Association of Participation Mortgage Scheme Managers secretary John Hill.

Even though such an occurrence is unlikely the scheme manager would almost certainly take over the bond in the first instance and switch the investor into another sound bond that met with mutual approval.

"To my mind there is no record in the history of our market of any investor ever having lost a cent," adds Santos.

CHECKED

Reason for this is all borrowers are thoroughly screened and their property development progress thoroughly checked.

Experience has alerted them to the early telltale signs of when a borrower or property development is about to get into financial trouble.

In the event of a serious slump in property values, Santos says that a part bond manager would purchase the properties, hold them and sell them when the market improves.

"This was the case when property values nosedived as a result of the 1976 Soweto riots."

Santos says other reasons interests of investors have been safeguard by managers is due to the:

☐ Way bonds are is structured in favour of safeguarding managers and investors by providing an effective 50% buffer on the value of every property;

☐ Importance of keeping the investor fully invested after expiry of the mandatory five-year period.

"This means that the value of a problem property would have to drop by half before it represented a loss to us while, when the five-year period is up, we would like the investor to have no reason to want to withdraw his money."

He says investors seldom withdraw after five years because the interest benefits, which are market related, remain the same while the greater flexibility of only 90 days' notice is another advantage.

As Board of Executors mortgage department manager Hill says, it is legal to advance a borrower up to 75% of the value of any property, but his company would not go beyond 33% of total value.

This provides an adequate buffer against the value of any property depreciating during the five-year term when investor and developer are locked into the deal.

Should a borrower go sour in that period any good part bond manager would have no trouble in winding up and selling a problem property to recoup the investors' money.

The biggest part bond scheme managers, Syfrets Participation Bond Managers, is among those which thoroughly check out borrowers and their ventures before proceeding with the investment/loan business.

"It is noteworthy that Syfrets has been dealing in these investment instruments for 60 years and have never had a single case of an investor having lost money," says Syfrets Participation Bond Managers MD Al Human.

Growing awareness of low risk since the October 1987 stock market crash, the spate of interest rate hikes and forecasts of economic growth slowing this year have probably accounted for the upsurge in part bonds, he says.

In spite of new investment instruments continually being launched, well-established market related part bonds continue to demonstrate they are far from being an outmoded product.

This is understandable in many ways because few other investments combine a good rate of return with low risk.

Participation mortgage bonds

B/Day 15/3/89 (58)

SHORTAGES of factory space and the spread of small unit sectional title industrial premises promise a bright future for the participation mortgage bond sector.

This is the view of NBS Part Bond Managers MD Mike Maidment, who says sectoral growth is already good.

"In a year when the part bond industry grew by about 7,5%, the 102% growth figures claimed by NBS Part Bond Managers for the past 12 months are staggering," he says.

While this growth is real, Maidment concedes it has come from a small base as the company started business only about three years ago.

"Understandably we are very happy with our growth, but more important is that this represents a doubling of our market share to 1,8% of the industry."

One of the factors behind this success, he says, is the secure backing and resources the NBS group has provided to this relatively small part bonds company.

"We also are able to keep our management fees to a minimum," he adds.

The maximum allowed by law for a management company to charge as a percentage of overall interest is 7,5%.

"We currently work to 6,9%, thereby remaining highly competitive in rates charges to borrowers and paid to investors alike."

At present the company's charges borrowers 18,37% while investors get 17,5%, yielding an operating margin of 1,12%. But in the wake of recent prime rate increases these rates could increase in the months ahead.

NBS Part Bond Managers has a simple investment policy, notes Maidment.

"In every case I ask myself the question: 'Would I put my mother's money into this loan?' If the answer is no, then we don't invest; after all part bonds appeal mainly to the middle-aged or pensioned investor."

Traditionally, part bonds are subject to legal restraints whereby borrowers can only borrow up to two-thirds of the value. In the unlikely event of a borrower defaulting NBS's exposure is low and the risk reduced.

On the other side, potential borrowers are assured of prompt attention from the highest level, and often decisions are made within 24 hours.

In most instances Maidment personally processes applications and interacts with the borrower on a personal level.

"We always lend money against market related property values and do not incorporate a floor rate in our bonds. This is a big plus from a borrower's point of view because should bond rates begin to drop, the rate is not left artificially high by virtue of the fact that the floor rate was set when rates were high."

We generally favour borrowers who are able to show that the commercial buildings or industrial premises are multi-purpose and multi-tenanted."

However, there are certain exceptions and the company has recently granted part bonds in diverse operations such as farming.

Being part of a large financial group has other distinct service advantages to the service NBS Part Bond Managers is able to offer and the company is able to construct packages specifically tailored to meet the needs of its borrowers.

"However, with the help of the NBS Bank we can in some instances lend up to 90% of the valuation," says Maidment.

Participation Mortgage Bonds

A Business Day Survey

Safe bet for individuals

B|Day 15/3/89 58

ANY small investor seeking to benefit from the development of prime space, such as in multimillion-rand buildings, can do so through participation mortgage bonds (part bonds) for as little as R1 000 for the individual.

Provided an investor is prepared to tie money up for five years while receiving market-related interest payments quarterly or monthly in advance, most part bonds are reputed to be highly secure investments in SA.

Representing a controlled investment instrument similar to participating in a consortium, part bonds are handled by professional managers/trust companies which meticulously check out all borrowers and then spread the risks and costs.

Part bonds are a loan (bond) of money the investor advances, with others (bond participants), to a screened property owner secured by a first mortgage bond over his/her property.

In other words, they are units in comparatively large mortgage loans granted against the security of first-class commercial, industrial, residential and agricultural properties.

Syfrets Participation Bond Managers says such a mortgage bond is for not less than R20 000 registered over immovable property which is financed by the amalgamation of relatively small amounts of capital.

This capital is handed to a registered bond manager by investment clients so as to meet the needs of a particular borrower.

In terms of the Participation Bonds Act, 1981, the bond must be described as a part bond which is included in a scheme, and has to be registered in the name of an approved nominee company.

The nominee company has as its sole object the holding of part bonds in trust as nominee for or representative of the participants in each particular bond registered in its name.

The nominee company cannot incur liabilities. All its expenses have to be borne by the scheme manager, by virtue of an agreement between the manager and the nominee company in terms of the rules.

All part bonds, other than collateral or surety bonds, must be first mortgages and the property must be situated in SA.

Although the bond is registered in the name of a nominee company, the participants have the same rights in the bond as if they were the registered mortgagees.

It would therefore not affect the participants if the company went insolvent, as the bonds themselves would form no part of the insolvent estate of either the nominee company or the manager company.

Factors which Syfrets takes into consideration when valuing a property are the moral risk of the borrower; whether the property can service the bond as far as interest and capital redemptions are concerned; and that the property must be readily saleable.

When bonds are granted to private companies, the shareholders are usually required to sign as sureties and co-principal debtors for the amount of the bond.

Written by LYNN CARLISLE

Syfrets' negotiates individually

SINCE Syfrets introduced its Escalator Bond 10 months ago, long-term borrowers and investors have found an instrument which effectively removes uncertainty arising from interest rate fluctuations.

This part bond features an individually-negotiated interest rate with predetermined annual escalations over a five-year period, says Syfrets part bond manager GM Ken Pettit.

"The Escalator bond facility provides the long-term investor with a set income that grows annually, compounded over five years.

"The borrower pays a set interest rate that increases at a predetermined rate, allowing him to scale costs accordingly, whichever way market interest rates go," says Pettit.

The original Syfrets Escalator Bond was one of the largest part bond packages in SA — R30m to meet the needs of its long-term associates, the Henkro group of companies.

Interest rates are individually negotiated for borrowers and on behalf of investors. However, once the agreement is reached both parties are committed to the deal for five years.

"Although there are naturally times within the five-year period when the interest rate is not market-related, the uncertainty of having an income that fluctuates dramatically is removed, thus enabling investors to plan accurately for the future."

Pettit adds that minimum investment as is the case with regular part bonds, is fixed at R1 000. Interest is paid quarterly in advance.

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whole page except adverts.

TION MORTGAGE BONDS

B/Day 15/7/89

New part bond assures security

58

SECURED INVESTMENTS is marketing a part bond scheme where interest is fixed for a year and thereafter escalates at a set rate for the next four years.

The special part bond, representing a re-launch six months ago of a similar product, is aimed at removing uncertainty arising from fluctuations in interest rates affecting most investments in addition to the conventional fluctuating rate part bonds.

Claiming other advantages, Secured Investments MD Glen Smart says it is available for investors and borrowers along with this Nedbank subsidiary's conventional fluctuating rate part bonds.

Smart says its latest scheme prevents the situation arising whereby either borrower or investor might receive as much as 20% in one year followed by a much lower rate the following year.

The thinking behind it is that controlled interest aids the borrower wishing to develop commercial properties in pegging his expenses at a certain level.

SA's volatile interest factor is the one unknown that can throw the gearing out on even the most carefully budgeted returns.

Smart says a large number of commercial properties have predetermined incomes due to leases with fixed escalation.

"If these properties are financed with an open-ended interest rate bond, a reverse gearing situation can easily develop when interest rates are on the increase. This painful experience can be eliminated by the fixed-escalation participation bond."

With a fixed rate in the first year, the borrower can plan with a high degree of accuracy all his expenses, and with the escalation in rentals he would be in a position to pay the slightly higher rate in the four subsequent years.

Similarly, the investor knows what interest rate to expect from one year to the next. With such an annual escalation rate the lender can even expand his budget in subsequent years.

□ GLEN SMART

"This protects him against the 'feast or famine' type situation where he may have more disposable income in times of high rates and then the anomoly of a smaller income when rates decrease, even if one ignores the ravages of inflation," says Smart.

Although the average rate over the five-year term should not be out of line with other market rates, the fixed rate irons out the peaks and valleys for both lenders and borrowers.

Interest for a new investor is set at 16% for this year and will increase by half a percentage point for each of the next four years.

The low risk factor is achieved by the controls called for under the Participation Bonds Act of 1981. Each investment in a registered part bond managing company must be covered by a first mortgage on the property.

The maximum percentages of the loan to value are not to exceed 66,3% on an interest-only bond, or in the case of a capital reducing bond, 75%.

Full details of location, value and additional security of the bond have to be furnished to investors, and independent assessment of the security can therefore be made.

PARTICIPAT

EXAMINE DIFFERENT MARKETS

58

BDay 15/3/89

IT is important to consider both markets in the event of any participation mortgage bonds (part-bonds) development, says Metboard assistant GM property finance, Cedric Amoils.

In making a few salient points affecting the different market factors, he says part bonds are matched investments comprising two different markets — investors and borrowers — with a scheme manager acting as agent.

While black retail developments have shown the best part-bond return for borrowers, because the ratio of income to building costs is the best, this makes no difference to the investor.

"An investor's return is a standard rate of interest, regardless of whether his bond is in the central business district, an industrial area or residential area."

However, there is a direct relationship between the prime overdraft rate and the investor's part-bond rate — except prime can move faster.

"The part-bond rate is usually fixed for a full quarter period," says Amoils.

With part-bond investments paying one of the highest interest rates on an interest-yielding investment, it allows one to gain the benefits of an increase in interest rates, while often limiting a fall in interest rates to a minimum base rate.

And where the institution acting as agent is a reputable one, a part-bond also remains one of the most secure investments around.

If there are any shortcomings with part-bonds it relates to the minimum investment period, laid down in legislation as five years. This is regarded as an eternity in today's investment horizons, especially by younger people.

Through Cashbond, an innovation developed by Metboard, the investor is alowed to borrow up to 100% of the amount he has invested at exactly the same rate of interest as he will earn on his part-bond investment.

However, Amoils says that being governed by an act which is very restrictive, part-bonds for borrowers allow little room for innovation.

BODY CALLS FOR POWER

BDay 15/3/89

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THE Association of Participation Bond Managers of SA has asked its 25 member managing companies to consider whether the body should be given enhanced powers of control.

As a voluntary body the association, with membership of mostly major companies, is currently without teeth; but this could change if members ask the next executive committee meeting on June 5 to begin representations with financial authorities in Pretoria.

Comparing the present association to a tennis club, chairman Al Human says it has rules and is a forum for exchanging views.

"But we have no power to bring an errant member into line or authorise an audit of any member's business, should this be deemed necessary," he adds.

Giving it more teeth would bring the body more in line with organisations like the SA Institute of Chartered Secretaries and Administrators, where standards, effective rates and even advertising are subject to control.

Human does not wish to amplify, but of interest is whether all SA's 150 part bond managers would be required to come into the membership fold, should a reconstituted association result.

As it stands the industry, comprising managers whose operations must first be approved by the Registrar of Financial Institutions and conduct business in terms of certain legislation, has an outstanding reputation.

Asked whether the association intended taking any other initiatives, such as lobbying the Registrar to shorten the mandatory five-year investment period to three years, Human says there was nothing planned.

"Part bonds will remain a five-year instrument as opposed to mortgage related investments of shorter duration which will remain the province of the banking sector."

Few investments better than bonds

B/Day 15/3/89 58

INVESTORS with limited funds seeking the highest rate of interest will find few investments capable of matching part bonds for return, Board of Executors (BOE) regional GM (Johannesburg) Mike Hyslop says.

He says: "And part bonds are particularly secure because funds are invested in what is one of the most solid of all securities — property."

This is partly attributable to the Participation Bonds Act which lays down strict requirements to protect investors and to ensure security is of the highest order.

Although every investment today entails a certain degree of risk, few people can afford high risk, usually because they have little money to invest and what they possess often represents their only source of income.

Because of aspirations and tax considerations some may opt for growth, which may mean a low initial return, while others — usually elderly people — are likely to settle for low or no growth in return for relatively high income.

Entrusted during the past 150 years with the responsibility of investing clients' money in the most appropriate channels, the BOE is able to offer part bonds which yield investors 17,5% net.

"While rates may vary upwards or downwards, depending on the general level of interest rates prevailing in the country at any given time, part bonds are always subject to a guaranteed minimum."

Hyslop says this ensures the investor always receives a market-related rate and does not get locked into a rate which, in time, may prove to have been too low a level.

However, any change in the rate of interest is subject to three months' notice being given.

One advantage with part bonds is interest is paid quarterly in advance compared with fixed interest investments where it is paid either monthly, quarterly or half-yearly in arrear.

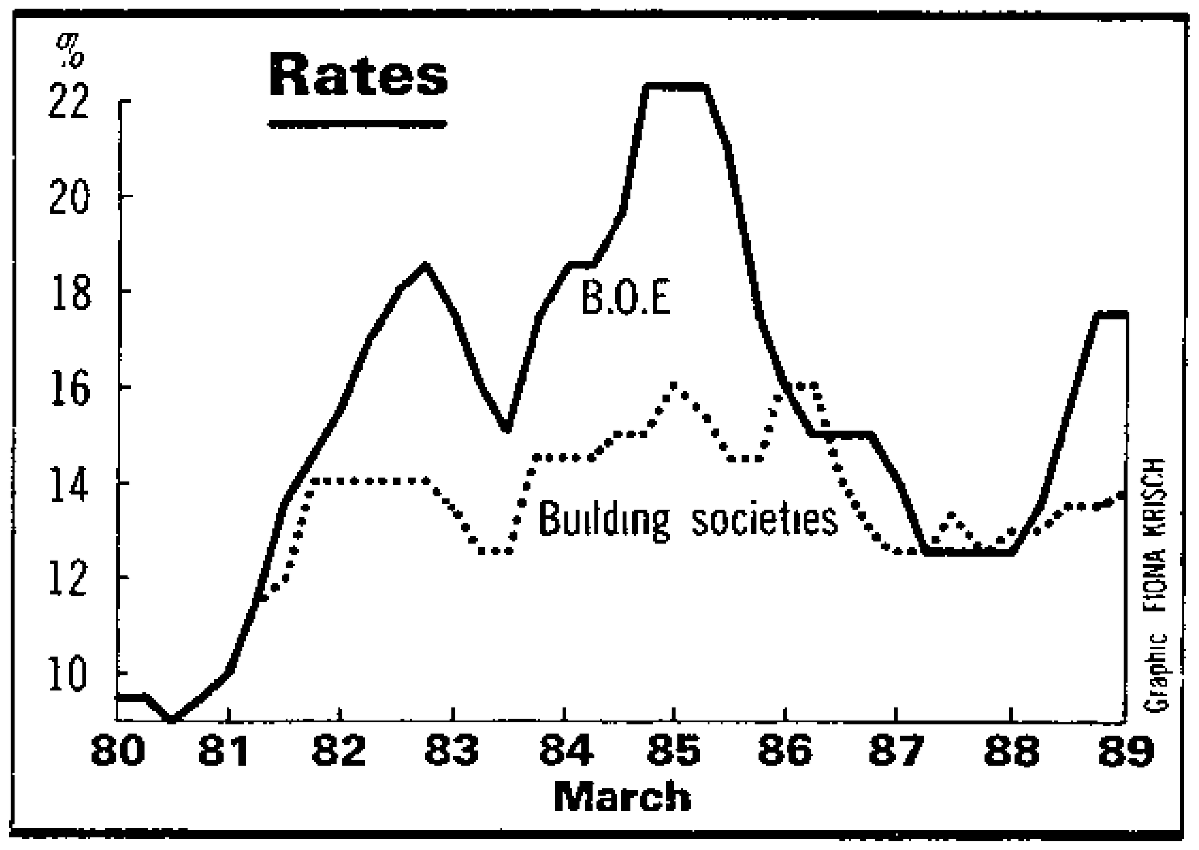
Part-bonds interest rates also tend to be higher than rates on most fixed interest investments, including those offered by building societies and banks.

Thus, at a nominal rate of interest of 17,5% paid quarterly in advance, part bonds yield an effective return of 19,5%. This compares with an effective rate paid monthly in arrears yielding 19%, or 18,7% when paid quarterly and 18,3% when paid half-yearly.

Comparisons between part-bonds, fixed period shares and tax-free investments at various taxable incomes, also make interesting reading.

In terms of legislation, part-bond investments are fixed for a period of five years from date on which funds are invested. Thereafter, any investment is subject to three months' notice.

"This means a five-year rate of interest on a three-month investment," says Hyslop.



Overall slice of market improving

B/Day 15/3/89. 58

☐ TOMMY SPENCE

TIGHTER conditions arising from higher interest rates are gradually forcing many commercial banks to conduct less part bond-type lending.

Combined Participation Bond Managers says as a result specialist part bond managers are improving their overall slice of the part bond market.

Combined, formed six months ago by amalgamating the part bond business divisions of the J H Isaacs group, Volkskas Bank and United Holdings (UBS and its bank), made this deduction after input from its partners and their sources.

And, in spite of the company's investments achieving new record levels each month along with business almost double what it was when the joint-venture was launched last August, Transvaal regional manager Tommy Spence expects the company to gain more market share at the expense of competitors.

Specialist part bond industry business had become fairly brisk in recent months mainly because of higher rates in the money market.

Spence says: "With lower rates some months ago most commercial banks were doing a lot of part bond type lending. Now, due to tighter conditions prevailing, the banks are placing their funds elsewhere."

Again, many commercial borrowers are switching from using overdraft facilities to finance property to the traditional long-term lending that part bonds offer.

While the specialist part bond movement is set for a larger slice of its market, Combined aims to get a lion's share of new part bond business in "a short period".

Key to its growing success is the synergy created between Combined and its three partners which enables it to offer a one-stop service through more than 1 500 offices countrywide.

"This has made us extremely competitive and we can offer one of the lowest borrowing rates in the market."

Spence concedes that by keeping borrowing rates low certain short-term sacrifices on profits will have to be made. But in this way Combined can build up its book and create better long-term returns than would otherwise be achievable.

Although market-related interest rates are high, it offers a fluctuating rate of interest with rates subject to one month's notice instead of the usual three months from most part bond managing companies.

Further aiding Combined's future prospects is it tailors terms and conditions of applications to suit the individual borrower's needs while also setting no upper limit on lending.

Spence says: "We are prepared to entertain short-term financing mainly out of those investors' funds which are on 90 days' notice. This scheme is popular with many developers of sectional title projects such as townhouses, offices and factory situations."

Main area of lending has been for commercial and industrial property from a minimum of R100 000 upwards.

Staggered payments

58 B/Day 15/3/89.

STAGGERED payments provide an option with many advantages for part bond investors not happy about paying a large lump sum towards a long-term investment that is taxable, Sage Trust GM Kevin Bell says.

Pointing out that part bonds can be used to plan for a steady future income stream with staggered payments, he says this disproves conventional wisdom that they are an inflexible lump sum, long-term investment medium.

"Not all part bond investors can or want to commit a large, single amount to a long-term investment which matures in a taxable lump sum.

"Many would rather stagger the investment as this approach may be closer to their financial circumstances and provide more current investment discretion in choosing investment media as rates patterns change."

In addition, it allows for a future flow of capital repayments, rather than a single lump sum payment, at the end of the mandatory five-year part bond term.

Bell says: "This can allow for significant retirement planning benefits."

Assuming a client invests R5 000 every two months for a year, a total of R30 000, the advantages include the second and succeeding investments are regarded as "additions" to one's investment in a particular part bond scheme.

This means that no new documentation is necessary when these payments are made and Sage's client receives interest on all the separate investments in one convenient payment — quarterly or monthly as the case may be.

Bell says: "The investor who would much rather make a regular and smaller investment over time gets the same rate of interest as would apply to the large lump sum investment."

Another option this creates is that apart from the "plain vanilla" part bonds, an investor might have the opportunity to invest in a "special" during the build-up period.

A fixed-rate or escalating rate bond might become available and the client could elect to put one or more R5 000 tranche into this offering.

This adds to the portfolio of investments concept within one scheme.

Another advantage is in maturity dates. In five years' time the same bi-monthly intervals will shape the maturation.

"In other words, every two months the investor would receive his or her initial R5 000 — a firm, steady tax-free flow on top of the normal interest payments."

If capital is not required then the client simply allows the investment to continue for as long as required thus earning an exceptionally high return on what is effectively a three-month investment.

In summary, one can use a single part bond scheme to build a portfolio of investments with different maturity dates — sometimes with different characteristics and spread geograpically.

INTEREST RATES RISE

56

AFTER the spate of recent hikes in bank interest rates, several leading part bond managers announced increases in their interest rates to borrowers and investors. More are expected to follow in the months ahead. B/Day 15/3/89

Keeping tabs on all of these increases, which are staggered in accordance with managers' own "quarterly" payment periods, is difficult as there are about 150 part bond scheme managers in SA.

However, most of the 25 bigger managers which make up membership of the Association of Participation Mortgage Bond Managers of SA, have made their latest rates known.

Some say they have still to announce new rates and are being influenced by the country's biggest part bond managers, Syfrets, which has just increased its rate for investors to 18%.

While Syfrets is the leading association member administering total part bond funds valued at R1,15bn, the Board of Executors (BOE) ranks among the oldest scheme managers.

With dealings in part bonds stretching back 150 years, the BOE has a good and clean record. Although Syfrets has 60 years of part bond history in 1972, it took over the SA Association for the Administration of Estates which began part bond business four years before (1838) the BOE.

Among other leading managers and members of the association are Standard Bank Bond Investments, First Persam, Secured Investments, Metboard, Combined Part Bond Managers, Bloemfontein Board of Exectors, Sage, Sage Trust Natal, Lisabond, Supreme, Santambank, Russel, Marriot-& Boyd, PW Harvey, Pagden Christian Hanley-& Parkin, Table Mountain Trust and Owen Wiggins Trust, Boland Bank, Investment Services, Fidelity Bank, Fairheads Trust, Graaffs Trust, Haley's Trust Investments, NBS Part Bond Managers, Corporate Merchant Bank (Bankorp) and Trust Finance Corporation.

'TOOTHLESS' BODY CALLS FOR POWER

B/Day 15/3/89

(58)

THE Association of Participation Bond Managers of SA has asked its 25 member managing companies to consider whether the body should be given enhanced powers of control.

As a voluntary body the association, with membership of mostly major companies, is currently without teeth; but this could change if members ask the next executive committee meeting on June 5 to begin representations with financial authorities in Pretoria.

Comparing the present association to a tennis club, chairman Al Human says it has rules and is a forum for exchanging views.

"But we have no power to bring an errant member into line or authorise an audit of any member's business, should this be deemed necessary," he adds.

Giving it more teeth would bring the body more in line with organisations like the SA Institute of Chartered Secretaries and Administrators, where standards, effective rates and even advertising are subject to control.

Human does not wish to amplify, but of interest is whether all SA's 150 part bond managers would be required to come into the membership fold, should a reconstituted association result.

As it stands the industry, comprising managers whose operations must first be approved by the Registrar of Financial Institutions and conduct business in terms of certain legislation, has an outstanding reputation.

Asked whether the association intended taking any other initiatives, such as lobbying the Registrar to shorten the mandatory five-year investment period to three years, Human says there was nothing planned.

"Part bonds will remain a five-year instrument as opposed to mortgage related investments of shorter duration which will remain the province of the banking sector."

An integral part of a porfolio

B/Day 15/3/89

(58)

☐ **JACK McLEOD ... investment portfolios should contain three basic elements**

AS INTEREST rates soar, investors should consider the longer-term advantages of fixed-rate part bonds, not forgetting the important lessons arising from the high interest rates of 1984/85, says Masterbond Trust marketing director Jack McLeod.

This means that although the fixed rates are marginally lower than fluctuating rates now, as soon as rates come off they will score handsomely in the years to come.

McLeod says that all investment portfolios should contain three basic elements — property, equities and interest-bearing investments. Part bonds are well suited to the latter element, providing a steady monthly income to investors.

Masterbond, one of the country's fastest-growing independent financial institutions, offers investors options in part bonds by either:

☐ Selecting a fluctuating rate linked to a minimum floor rate, which provides protection against falling interest rates; or

☐ Selecting a fixed rate which assures the investor of a continued, steady monthly income.

"Investors can further improve their returns and obtain capital growth by investing their monthly interest in unit trusts or alternatively using the interest to fund annuity premiums."

McLeod says part bonds should form an integral part of any investor's portfolio, and can be linked to a number of other investments such as quoted shares and property participation investments — both of which provide the necessary capital growth element.

With part bonds creating positive real returns against inflation and the interest rates cycle almost at peak, it is time for investors to start looking at investing for longer periods.

By following such a plan of action they will obtain higher returns which could be assured, he says.

While shorter-term investments are currently offering reasonable returns, it is anticipated that the current high interest rate will come down towards the second half of this year.

"This would obviously leave short-term investors with a problem on maturity, in that they will then not be able to invest at good returns.

"And this is in fact what happened to those people who fixed their investments in the 1984/'85 period when interest rates had reached record levels," says McLeod.

Liberty Life still on growth path

CAPE TIMES 16/3/89 58

Own Correspondent

JOHANNESBURG. — Liberty Life continuing along its spectacular growth path reported an outstanding 21% increase in attributable income to R130m for the year to ended December, in spite of the 75% rise in the effective tax rate on life assurers.

Against the odds of the hefty tax bill which rose from R50,6m in 1987 to R99,4m, earnings a share were 18% up to 730,2c and shareholders were rewarded with a 19% hike in the final dividend to 310c, making for a total distribution of 530c (440c).

Total income climbed 12% to R2,5bn largely as a result of the excellent 30% rise in investment income to R1bn. Growth in net premium income was a modest 3% to R1,5bn as single premium and annuity considerations declined.

Chairman Donald Gordon pointed out the reduction of some R150m to R477,2m in single premium income given the uncertain stockmarket conditions obscured the organic growth of the better quality recurring business, which soared by 39% to a record level of R247,4m.

The group's balance sheet is exceptionally healthy showing a 69% rise in non-distributable reserves to R1bn, reflecting the increase in the market value of Liberty's investments attributable to shareholders, as well as the rise in the group's offshore interests represented by the market value of shares of First International Trust (FIT) on the JSE.

Total capital and reserves employed now exceed R3bn having advanced by 57% which Gordon attributes to "outstanding organic investment growth" and the impact of the R484m rights issue involved in restructuring of FIT.

Liberty Holdings attributable profits grew 19% to R93m translating to earnings a share of 204,7c and making for a final dividend of 68c (58c).

FIT, Liberty's offshore holding arm posted a 55% hike in attributable income to R38,9m and declared a dividend of 30c a share well up on the pro forma 16c forecast.

Regulation of markets welcomed

Cmt Times 16/3/89 (58)

By BRUCE WILLAN

THE decision by the Minister of Finance, Barend du Plessis, to regulate the financial markets with the introduction of the Financial Markets Control Act has been welcomed by leaders in the industry.

This is seen as a move by government to limit its involvement in the markets but at the same time to develop an efficient marketplace which will be self regulated.

President of the Johannesburg Stock Exchange, Tony Norton says the draft bill, which is still to be tabled in Parliament, is an excellent one, providing the various financial markets with self regulation as well as co-regulation with government.

Effectively every participant in each of the markets will be brought into the same arena on a national basis offering greater competition among the various players.

The equity market already operates on a central national system in the form of the JSE.

However, the bond, futures and options markets are fragmented although the futures market has already started to formulate a strategy towards a central market.

The form the different markets will take are still to be decided by the industry itself.

SA Futures Industry Association MD Brenda Greyling says the move to place the onus of regulation on the industry itself is a welcome one and the participants in the markets will now bear the costs of regulation instead of the taxpayer.

While these recommendations are favoured by the indsutry, it will place a heavy responsibility on industry to formulate rules and regulations to govern the participants within the market.

SA Futures Exchange MD Stewart Rees says the implementation of the Act will create a level playing field for all the participants with the number possibly increasing.

Brokers indicated that the Act was a positive move as is the abolition of the prescribed assets which forced insurance companies and pension funds to invest in certain government and quasi-State stocks.

Abolishing the prescribed assets has been received with open arms by the insurance and pension fund industry.

Not only will it free funds but will also aid the government's stated policy of privatization and lead to the creation of more jobs.

Government's decision to consolidate several of the existing issued stocks into a few large new issues will make the stocks more marketable and reduce the cost of borrowing for the State.

The stockmarket itself reflected the optimism regarding the abolition of the prescribed assets ruling.

Funds may now be placed by the various institutions into investments which they deem to be beneficial, creating a freer market.

Shortly after the announcement there was renewed interest in the blue chip shares.

Quality counter shares gained with Gold Fields SA adding 210c to 7 400c, Anglos reached a new high of 8 400c, while Gencor gained 150c to end at 8 400c.

However, industrial shares were slightly neglected with analysts of the opinion that this sector is overheated and is due for a correction.

Only the quality shares such as Sappi and C G Smith were in demand.

The Industrial Index gained only six points to close at 2 325.

Gold and mining finance shares dominated with the news that the surcharge on mining tax will be reduced from 70,5% to 68,72%.

Winkels gained 300c to 6 050c, Vaal Reefs added 500c to 14 800c and Ofsil went up by 250c to end at 8 650c.

The All Gold Index added a massive 25 points to end at 1 616 reflecting the buoyant mood of the market in response to the Budget proposals.

The Overall Index closed 22 points higher at 2 468.

Capital market rates, however, were slightly bearish with rates hardening from their previous softer levels.

Rates went back up to their recent highs with the firmer gold price unable to stem the rise.

Financing of the deficit will aid money and capital markets as the R4,5bn will come from this sector. And according to Gerhard Croeser CE, policy, of the Department of Finance, and should not place undue upward pressure on the interest rates.

In contrast, Attie de Vries of the Graduate School of Business at the University of Stellenbosch says there will be upward pressure on interest rates in the short term.

This in itself should attract funds to the capital markets dispelling fears that there would be a large outward flow of funds from the gilt market once the prescribed assets ruling was abolished.

Even in countries where there are no prescribed asset requirements capital markets are buoyant and interest bearing investments are highly regarded by the business community.

interest rates."

CMC Trip 16/3/89 (68)

Scrapping of prescribed assets hailed as positive

Own Correspondent

JOHANNESBURG. — The scrapping of prescribed assets and Finance Minister Barend du Plessis' commitment to pay off public debt with the proceeds of privatisation were hailed as positive for both long and short-term financial markets.

However, Pim Goldby Management Consultants director Roger Keyte said in reaction to the Budget that the key issue in making privatisation work was that government reduce its participation in the economy. This was one of the tenets adopted in the White Paper on Privatisation.

"The minister said government has not increased its share, the key issue is that is should decrease its share in the economy.

"There is no visible evidence in his Budget speech that government has increased the productivity of its departments because there is no drop-off in expenditure — and this in spite of the fact that it has already started contracting out many of its functions to profit-making private sector organizations."

JSE President Tony Norton said if national debt were redeemed and institutions were not forced to hold government stock any longer the capital then available would seek the most suitable investment.

This made him believe that capital market yields would become economic, rather than forced and gilts would be more attractive to hold.

At the same time institutional funds could be channelled to the equity market providing ample liquidity for the flotation of privatised blue-chip stock.

Rand Merchant Bank chief economist Rudolf Gouws said the redemption of national debt would take the pressure off both the long and short-term financial markets with the bullish effect of not letting interest rates go any higher.

"However, we can't afford to have interest rates come off sharply because we need real interest rates to induce savings."

Keyte warned that only adopting the approach that national debt be redeemed could result in the short-term effect of putting more capital at the discretion of the investing public and leaving the responsibility of strategic infrastructural development in the institutional investors hands.

Institutions have billions more to invest in shares

(58)

Star 16/3/89

Diagonal Street

ANN CROTTY

As of yesterday the institutions were sitting with discretionary cash assets of some R30 billion.

Ahead of the announcement that prescribed asset requirements were going to be abolished the institutions had an estimated R15 million in cash which was part of their prescribed requirements. In addition they had a surplus R15 billion in cash which could be invested at the discretion of the institutional fund managers.

As one leading analyst pointed out, whatever happens about the actual allocation of the funds the mere fact that institutions will be looking at a pool of R30 billion available for investment will inevitably have a positive impact on the market even allowing for privatisation issues.

The abolition of prescribed requirements and tamer than expected measures ensured that the budget was well received by the JSE.

Sentiment firmed significantly after the news filtered through to the market and by the close of trade the Overall index was 22 points higher at 2468.

But, although the move is seen as bullish for the equity market and bearish for gilts, there is considerable uncertainty as to the extent of the actual impact in terms of the additional funds that will be channelled to the JSE.

Spokesmen for the institutions stressed that there would not be a scramble out of gilts and into equities. As Liberty Life's Roy McAlpine noted, the limited availability of good quality equities puts a lid on the extent to which the institutions can pile into the JSE.

In addition, prudence will demand that institutions have balanced portfolios and this will involve a significant commitment to the fixed interest market as well as properties and equities. In the unlikely event that prudence does not ensure this, and there is a rush out of gilts, it is possible that the authorities will step in to try and persuade the institutions of the need to have balanced portfolios.

It is significant that in countries where there are no prescribed asset requirements, institutions have maintained a large exposure to fixed interest investments. In England fixed investment has represented about 40 percent of institutional portfolios; in the US the figure is around 60 percent and in Japan it is as high as 70 percent.

In SA, tax regulations and inflation tend to favour equity investment.

The move out of gilts is likely to be restrained by the expected increase in long term interest rates as the government sees the need to offer more market related rates. Some analysts point out that the hike in rates may not have to be too sharp as (in the absence of the obligatory element) the gilt market will present a more attractive trading environment.

The type of shares that seem certain to benefit most from the move are the blue chips that have been the major beneficiaries of the recent bull run in the JSE. Institutions will only be attracted out of secure fixed interest investments by a solid equity alternative. However second liners could benefit from a spill over.

There is a possibility that any sign of improved sentiment on the JSE could lure back the small investor who will bid up the lower quality shares and precipitate a wide spread bull run.

But in the long-term as Mr McAlpine has pointed out, if too much money is poured into the JSE then yields will drop to a level where fixed interest returns become more attractive.

It looks as though institutional fund managers will be in a much more active investment environment where the discretionary element is considerably greater. This suggests that there could be a greater divergence between the profile of assets in institutional portfolios which in turn suggests a greater divergence in returns.

Abolition of prescribed assets lauded

58

Star 16/3/89

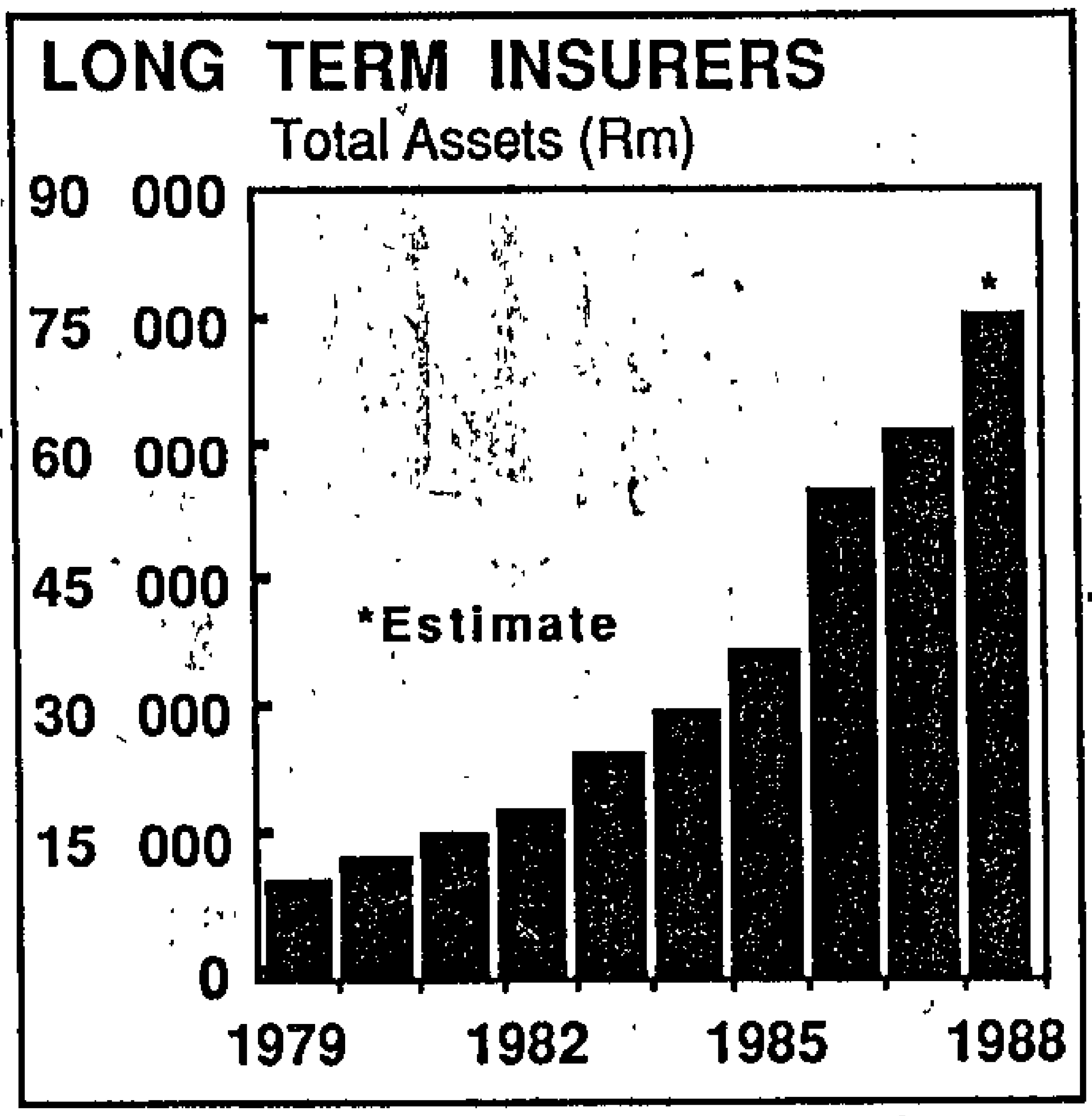
Assurers are delighted over their new tax deal

By Dave Cummings

Life assurers were cock-à-hoop last night over the Budget's abolition of prescribed asset requirements for institutional investors and the introduction of a new tax deal for the insurance industry.

Dr Brian Benfield of AA Life said he was delighted the Minister had seen fit, finally, to jettison the "folly of 1943".

"Our industry has been campaigning against prescribed asset requirements since they were introduced in 1943. The effect of this measure will be to free up the market and probably provide financial institutions, particularly life assurers, with a better return on investments," he said.



Welcomed

Mr Pierre Steyn, managing director of Sanlam and chairman of the Life Offices Association, welcomed both the taxation and prescribed assets moves. "The LOA has in the past regularly made representations for the lifting or the phasing out of the obligation on life assurers and pension funds to invest in government stock and other prescribed investments," he said.

He was convinced that it was a step in the right direction which would not necessarily see assurers suddenly selling government stock. On the contrary, even more could be invested in this field since any well-balanced investment portfolio needed stable investments with a stable income

Future investments would, however, be made on merit, rather than under compulsion, which distorted investment terms such as interest rates.

On the question of the new tax regime, he said it was similar to that applied in countries overseas and was scientifically more justifiable than the existing system

However, he expressed disappointment at the 45 percent level at which the tax would be levied. A more equitable level might have been 30 percent, roughly equivalent to the rate at which the average policyholder paid tax.

Mr Arnold Basserabie of Federated Life echoed his sentiments, saying he did not foresee a wholesale disinvestment in government stock, as long as it retained its marketability.

On the question of taxation, Dr Benfield said the new "I — E" formula was particularly welcome, since it was the only theoretically acceptable basis of taxation of insurers. "I am delighted to hear this, but the industry will have to study the definition of income and expenses before final judgment can be passed."

He said the 55 percent figure which insurers would be allowed to deduct from expenses appeared at this stage to be gratuitous and was probably based on the Minister's estimate of potential income from this source. There was nothing to prevent this figure from being adjusted in the future.

Positive impact

Mr Basserabie said this basis of taxation would have different effects on different companies but, on the face of it, would have a positive impact on his company's ability to pay bonuses. "We must still study the fine print on this one, but for the present we are assuming it applies only to life assurers' taxable business and not to their pension business."

Mr Donald Gordon, Liberty Life chairman said the prescribed asset move had come at a surprising time in the economic cycle. But he did not believe it would have a major immediate impact on investment patterns, particularly in the light of the relative shortage of suitable scrip on the market.

It would require greater judgment of institutional investors in future.

Heavy tax increase dents Liberty's growth

Star 16/3/89

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By Ann Crotty

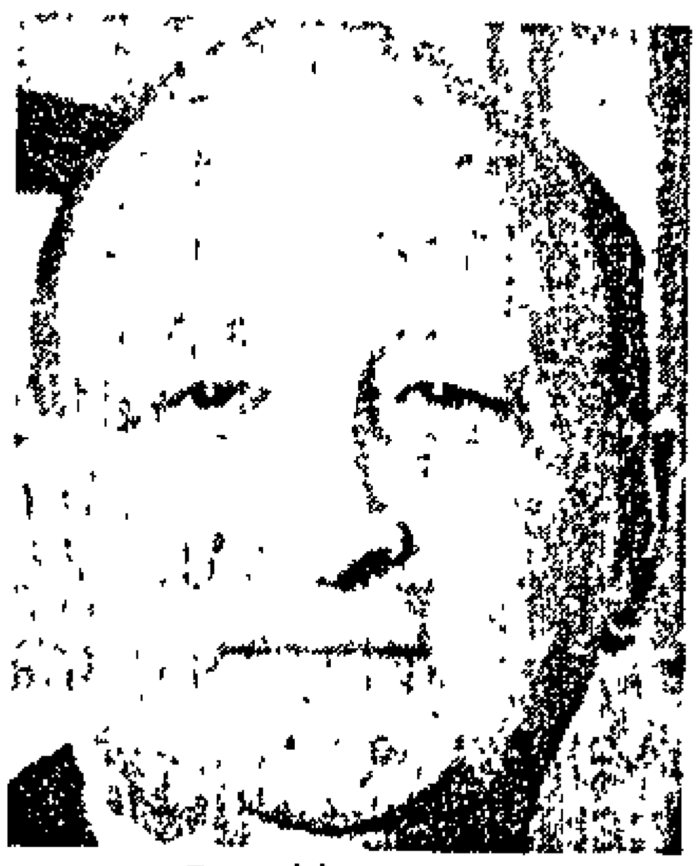
Despite a 96 percent hike in the tax charge, Liberty Life managed to report an earnings improvement of 18,1 percent which is not too far out of line with its long-term trend of an annual earnings' increase of around 20 percent.

The group reported earnings of 730,2c (618,3c) a share for the 12 months to end-December from which it will be paying a total dividend of 530c (440c).

Total income was up just 12,3 percent with a strong performance from investments helping to counter a pedestrian increase in premium income.

Net income from investments and sundry income was up 29,7 percent to just over R1 billion (R795,5 million) and net premium income and annuity considerations were up 2,6 percent to R1,4 billion.

Referring to the increase in net premium income, Liberty Life chairman Donald Gordon points out: "The reduction of some R150 million in single premium business written in 1988 has the effect of obscuring the organic growth of the more important annualised premium income component reflected in the income statement, which although showing an increase of only R36,6 million, now has a much higher proportion of better quality recurring annualised premium income than in 1987."



Donald Gordon

Tax was up sharply to R99,4 million from R50,6 million. The steepness of the increase reflected the 75 percent increase in the effective rate of tax imposed on life insurance in 1988.

According to Mr Gordon, speaking ahead of yesterday's budget announcement of changes in tax on life assurers: "By any standards, taxation of this order must be patently excessive and not in the interests of encouraging personal savings or recognising the vital importance of life insurance

"The tax paid is also equivalent to to 70,6 percent of Liberty Life's management expenses for the year, which clearly demonstrates the penal impact of the tax rate bearing in mind that the basis of taxation of life insurance companies precludes taxation being imposed on pensions business which normally constitutes the predominant proportion of a life insurer's operations."

Mr Gordon indicated that, as of yesterday afternoon, it was too early to assess the likely impact of the proposed tax changes on life assurers.

The balance sheet shows a 30 percent increase in assets from R11,1 billion to R14,4 billion.

Shares and mutual fund units comprise R7,4 billion (R5,7 billion) of the R14,2 billion (R10,8 billion) total investments. Government and semi-government stock accounted for R3,5 billion (R2,6 billion).

A break-down of the group's investment portfolio shows that the equity investments are dominated by just 16 blue chip counters.

FIT has reported earnings per share of 41,3c (31,7c) from which it has declared a dividend of 30c.

US trims trade deficit in January

Star 16/3/89

WASHINGTON — The US merchandise trade deficit narrowed to $9,49 billion in January, as the nation posted a rare trade surplus with Western Europe and the imbalance with Japan declined to its lowest point in almost four years, the US government reported yesterday.

The Commerce Department said the sharp 13,7 percent improvement in the overall trade deficit, the best showing since October, reflected a 6,9 percent drop in imports that was enough to offset a 4,3 percent decline in US export sales.

The improvement was better than many analysts had been expecting, although they cautioned against reading too much into a one-month swing.

The $9,49 billion January deficit would translate into an annual imbalance of $114 billion, compared with a deficit for all of 1988 of $119,76 billion.

While that would represent a small improvement, many economists are not looking for any change in the nation's trade performance this year.

They contend that the trade deficit has stalled out at a very high level, a forecast that would spell bad news for President George Bush's administration, which hopes an aggressive market-opening strategy will boost US export sales. — Sapa-AP.

...dditional funds persuade the institutions of the ... certain to benefit most from the move are the blue chips that ... portfolios which in turn suggests a greater divergence in returns.

Market analysts unimpressed

Star 16/3/89

By Derek Tommey

Share market analysts have little good to say about yesterday's Budget. Comments ranged from "bland" to "stingy" to even worse.

It is only the change in working wives' tax, which effectively gives the higher paid ones a 15 percent pay rise, and the prospects of what they would do with this money aroused any enthusiasm.

By including all married women in "SITE" their maximum marginal tax rate has been lowered from 35 percent to 25 percent. This means they will now take home 75 percent of their income as against 65 percent in the past. Also of great importance is that they will not have to pay in any tax at the end of the tax year.

The general impression among male analysts was that much of the extra take-home pay was likely to be spent, much of it in clothing stores catering for the women's market. (This view was also confirmed by a number of working wives!)

This suggest that good times could lie ahead for middle and upper market fashion chains such as Truworths, Foschini (which recently reported excellent results), Woolworths, Garlicks and Edgars.

The up-market fashion stores Stuttafords and Greatermans would also seem destined to benefit, but even so would make only a minor contribution to the profits of their parent company Tradgro.

However, other retail businesses could be in for a lean time. The Government's failure to adjust the income tax rates for inflation and the increase in GST means that this year most families, unless they contain a working wife, will have to pay more tax and have less to spend.

In the run-up to the Budget, some of the heavy-weight blue chip gold mining shares were in demand on hopes that the Government would lower gold mining taxes to encourage the establishment of new mines.

But although a small reduction in mining tax, which was likely to cost the Government some R31 million a year, was announced, analysts regarded this as insignificant. However, if the blue-chip mines were to slightly increase their grade, their taxed profits could show a worthwhile increase, one said.

The sharp increase in defence expenditure (20 percent on last year's Budget figure and 13 percent on actual expenditure) should also be a market factor.

But South African companies are not allowed to divulge defence contracts so an investor hoping to cash in on Government spending has to work in the dark.

Brokers suggest that blue-chip electronic companies are possible bets as could be listed heavy engineering and motor assembly companies.

Overall, it seems that yesterday's budget will direct investors away from consumer-oriented companies.

UK, SA budgets have little in common

SW 16/3/89

By John Spira

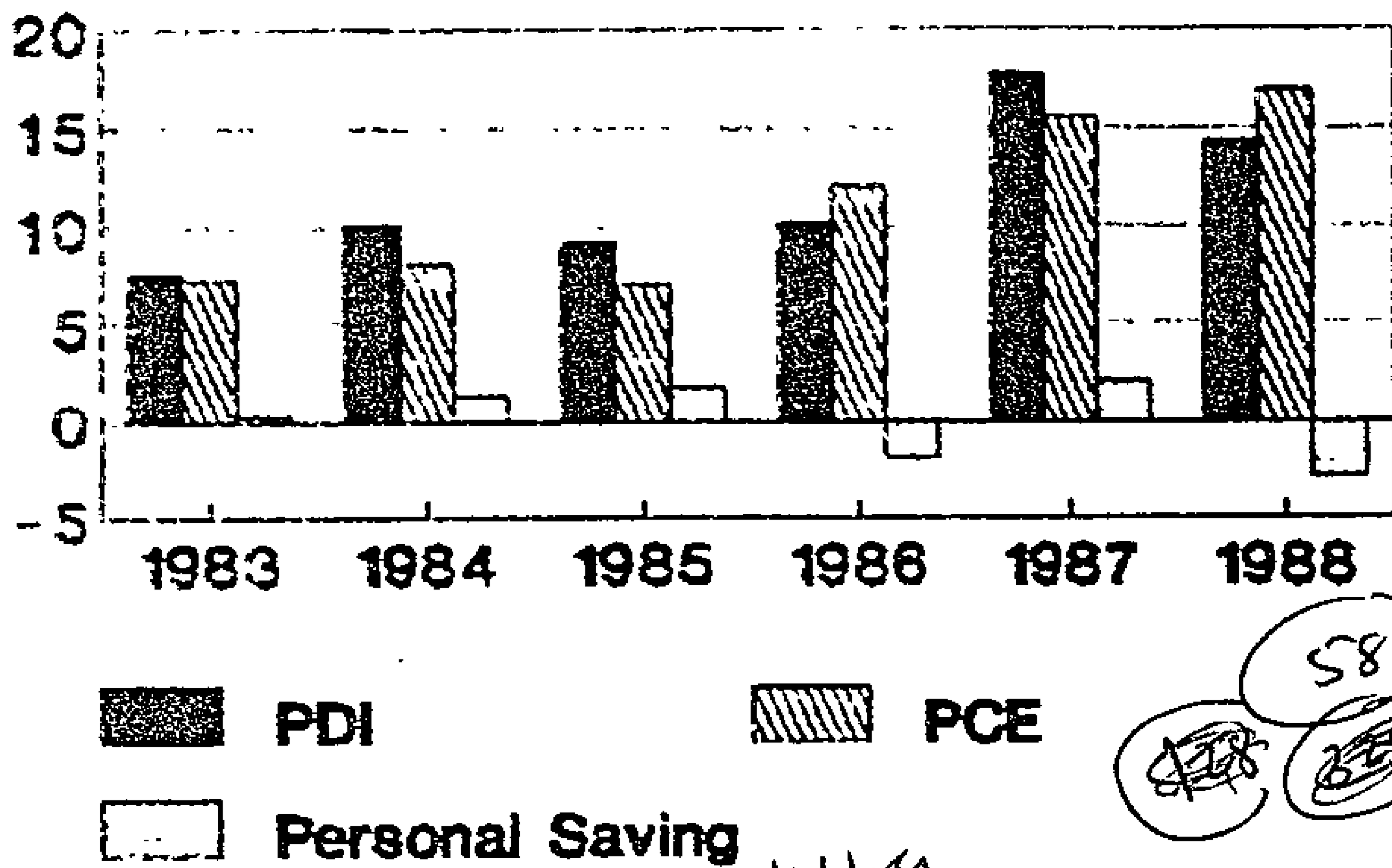
The British Budget, presented on Tuesday, bears a marked similarity to yesterday's South African Budget insofar as neither granted meaningful relief to taxpayers.

Both the British Chancellor of the Exchequer, Mr Nigel Lawson, and the Minister of Finance, Mr Barend du Plessis, considered that tax reductions would exacerbate inflationary pressures. There, however, the similarity ends.

Mr Lawson's goalposts were planted in an economic playing field where inflation is 7,5 percent (against SA's 13,3 percent) and the surplus is pretty hefty (in contrast to SA's large deficit).

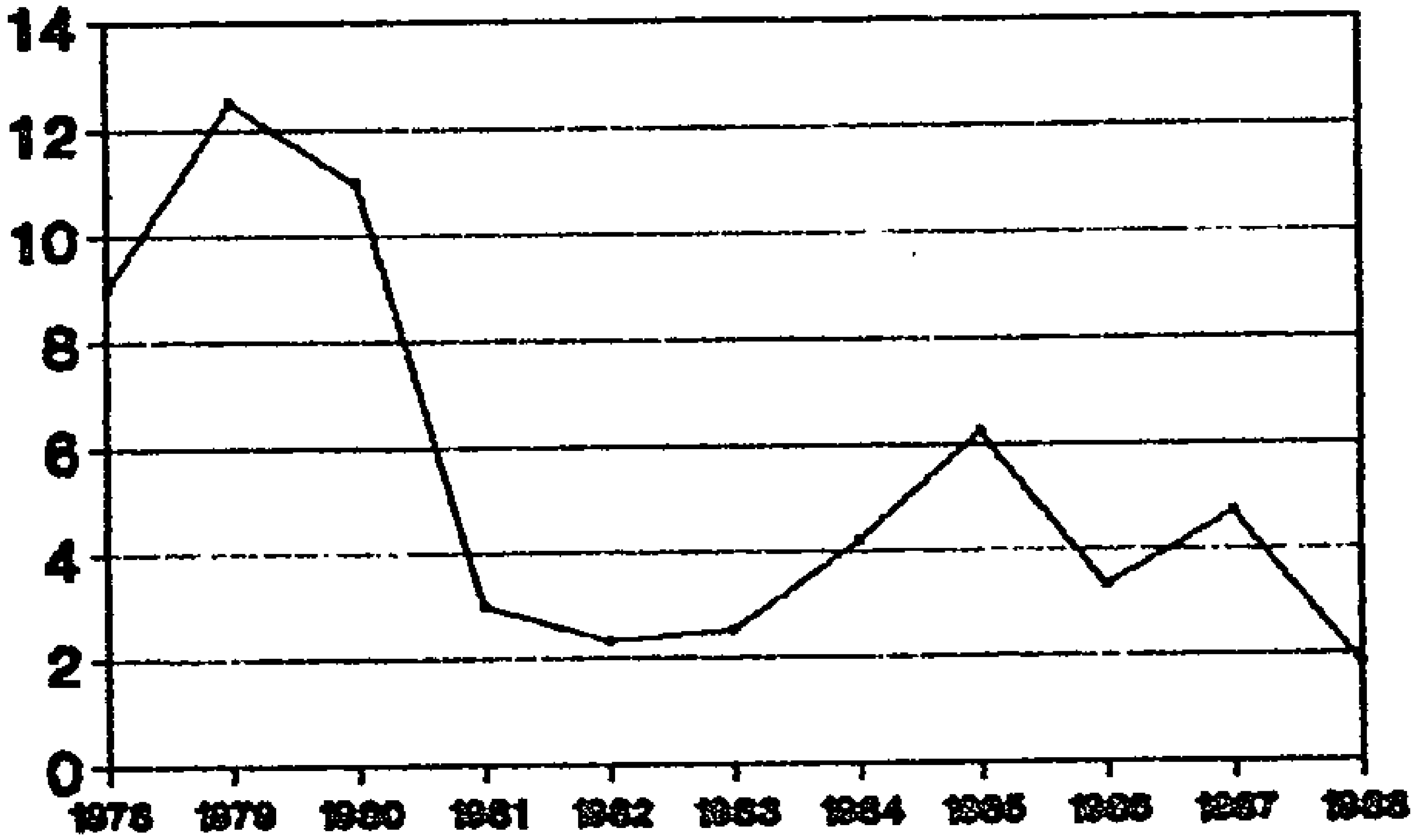
Significantly, too, Mr Lawson's decision not to announce tax cuts follows a year in which he slashed income tax rates, cutting the top band from 60 percent to 40 percent. These moves contrast sharply with a SA taxpayer who, for the past decade, has experienced no more than minimal relief.

Personal income and expenditure



Personal Propensity to save

Personal saving as % of PDI



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Tax burden has a role in decline in savings

Finance Staff Stew 16/3/89

The sharp decline in personal savings to record lows in recent times was most probably caused in part by the increase in personal taxes.

This reluctant acknowledgement was made in the *Statistical/Economic Review* which is released annually on the eve of the Budget speech.

"Over the past few years, direct taxes on individuals as a percentage of their current income increased from 6,2 percent in 1980 to 11,3 percent in 1986. There was then a moderate decline to 10,4 percent in 1988. During the same period, individuals' propensity to save declined from 11 percent of disposable income in 1980 to only 1,7 percent last year.

"Though there are various factors that contributed to this decline, for example interest rates, inflation and inflationary expectations, and the availability of credit, the increase in the tax burden has probably also played a role.

"While the increase in corporate savings during this period partly compensated for the decline in personal savings, the sum of corporate and personal savings, expressed as a percentage of the gross domestic product, nevertheless declined from 10 percent in 1979 and 17,5 percent in 1980 to only 5.9 percent last year.

"At the same time the central Government absorbed a larger part of these savings, as evidenced by the increase in the Government's deficit before borrowings as a percentage of private savings (excluding provisions for depreciation) from an average of 37,1 percent in the Seventies to to 46,3 percent in the Eighties. This ratio amounted to 78,1 percent in 1988," says the *Review*.

Budget supports stable rate

(58) Star 16/3/89

By Frank Jeans

While there was nothing to emerge from the Budget to affect the property industry directly, estate agents see a positive note its neutrality which supports the present restrictive monetary policy.

In that way, hopes of more control on interest rates are well founded.

One leading real estate man, Mr Scott McRae, managing director of Camdon's Nationwide, believes the Government's commitment to keeping a rein on rates, augurs well for a probable drop in the bond rate possibly later this year.

"It is nevertheless, a pity, that the Government has not heeded calls from the property industry for tax relief on mortgage payments as well as for further incentives for home buyers, including an increase in the first-time buyer's subsidy," he says.

"Also, it seems that inflation has been put on the back burner and the authorities have opted for full employment rather than the tough economic medicine that would be needed to bring inflation down."

Mr McRae believes that under the circumstances, home owners will do well to keep their properties as an inflation hedge.

At the same time, he urges the young couples to make every effort to get into home ownership now as prices will "virtually double every five years".

"There seems to be a lack of sensitivity at Government level to the im portance of home ownership in increasing wealth and in generating business throughout the economy," says Mr McRae.

RMB and (58) consortium take control of NDH

BW 16/3/89

Finance Staff

Rand Merchant Bank (RMB) yesterday announced that it was taking effective control of the beleaguered Cape-based National Discount House (NDH).

The deal will give RMB and a consortium of shareholders a 35,4 percent stake in NDH and negotiations are under way that will eventually see RMB, Picardi Holdings and Cape Investment Bank (CIB) take their interest to over 50 percent.

The acquisition will cost RMB and the consortium 76,5c per share and an additional amount determined by NDH's net asset value at the end of March. NAV is not expected to be less than 71c.

Picardi Holdings is the current holding company of CIB, which in terms of the deal will be purchased by NDH for R7,5 million.

NDH will subscribe for additional shares in CIB for an amount of R15 million in cash thus capitalising CIB at about R22 million.

CIB will become NDH's major contributor to earnings and the new group will change its name to CIB Holdings.

The NDH will be coming back to the JSE board today under the new ownership.

An involvement with CIB has definite attractions for all the parties and should help to lift the NDH share price out of the doldrums that poor operating results have committed it to.

The "new" listed company's assets will include all that was in the NDH group (namely NDH, a 50 percent stake in London and Dominion and, a stake in London-based brokers RND) as well as the CIB assets.

CIB was set up just over a year ago and led by an aggressive management team has grown rapidly and established a solid reputation. Recently CIB management has indicated that in order to facilitate further organic growth it was important to expand its capital base.

interest rates."

CT (Cape Times) 16/3/89 (68)

Scrapping of prescribed assets hailed as positive

Own Correspondent

JOHANNESBURG. — The scrapping of prescribed assets and Finance Minister Barend du Plessis' commitment to pay off public debt with the proceeds of privatisation were hailed as positive for both long and short-term financial markets.

However, Pim Goldby Management Consultants director Roger Keyte said in reaction to the Budget that the key issue in making privatisation work was that government reduce its participation in the economy. This was one of the tenets adopted in the White Paper on Privatisation.

"The minister said government has not increased its share, the key issue is that is should decrease its share in the economy.

"There is no visible evidence in his Budget speech that government has increased the productivity of its departments because there is no drop-off in expenditure — and this in spite of the fact that it has already started contracting out many of its functions to profit-making private sector organizations."

JSE President Tony Norton said if national debt were redeemed and institutions were not forced to hold government stock any longer the capital then available would seek the most suitable investment.

This made him believe that capital market yields would become economic, rather than forced and gilts would be more attractive to hold.

At the same time institutional funds could be channelled to the equity market providing ample liquidity for the flotation of privatised blue-chip stock.

Rand Merchant Bank chief economist Rudolf Gouws said the redemption of national debt would take the pressure off both the long and short-term financial markets with the bullish effect of not letting interest rates go any higher.

"However, we can't afford to have interest rates come off sharply because we need real interest rates to induce savings."

Keyte warned that only adopting the approach that national debt be redeemed could result in the short-term effect of putting more capital at the discretion of the investing public and leaving the responsibility of strategic infrastructural development in the institutional investors hands.

17/3/89

BANKING 58 FMMC

Risk management

In October 1979, when the chairman of the US Federal Reserve Board Paul Volcker decided on a more quantitative approach to monetary policy, he effectively rewrote the rule books for financial institutions. Prime moved from 14% that month to [illegible] in April 1980, went down to 11,1% in August and back up to 20,4% by the end of the year.

This volatility introduced a new dimension to financial management, says asset-liability management specialist William Murray a high degree of interest rate risk. Murray, of KPMG Peat Marwick, Boston, held a seminar on asset-liability management in Johannesburg last week, focusing on interest rate risk, which has become more "troublesome" than liquidity and solvency risks.

Murray

"You can't eliminate the interest rate risk but you can manage it. You must know what contributes to the risk, how much you have, how much you can afford, and what policies you should have in place to protect yourself if rates turn against you," says Murray.

It is essential to look at funding and assets at the same time and formulate an overall policy. First decision, of course, is on the term structure of funding. In times of rising rates the longer the book the better; and when interest rates are heading down a short position is preferable. Also relevant to the decision is the term structure of assets; theoretically these should be matched.

However, "It can be profitable to mismatch assets and liabilities," says Murray. "If the yield curve is very steep the cost of longer-term funding may be greater than the risk of short-term funding. But the mismatching shouldn't be so large that a change in interest rate direction will have a dramatic negative impact on earnings."

Several analytical tools are used to measure the risk.

One is gap analysis, to assess the effects of repricing in a time period. Another is matching analysis, which works out what assets are funded by what liabilities and what profit is involved in the relationship. A third compares duration of assets and liabilities and compares cash flows from assets with those to liabilities.

Using information from various analyses, a manager can hedge his position. A range of instruments protects against adverse interest rate movements. "These include interest rate futures, interest rate swaps, forward rate agreements and options."

Formulation of policy has become complex. US financial managers rely heavily on ALM models in making policy and strategy decisions.

Afribank suspends another employee

Sowetan 17/3/89 (58)

By JOSHUA RABOROKO

A SHAREHOLDER and senior employee of the African Bank has been suspended from his duties, barely a week after the bank's former Chief Executive, Mr Gabriel Magomola, was dismissed.

A source told the *Sowetan* yesterday that more heads might roll at the bank following the suspension of Mr Joe Modibane, who is a close associate of Mr Magomola.

Fear is growing at the bank that violence might erupt after certain employees received death threats from a faction of the staff and shareholders.

Confirmed

However, the acting chief senior general manager of the bank, Mr J D Theron, yesterday confirmed that Mr Modibane was suspended and that his case was being discussed at high level.

He would not discuss details of the suspension as the matter was still confidential, he said.

He denied that there were internal wrangles in the bank following the dismissal of Mr Magomola, adding, "everything is normal and everybody who is not satisfied should approach me."

17/3/89.

AFRICAN BANK (58) FMML

Unhappy with Gaby

Staffers at the African Bank have called for chief executive Gaby Magomola to quit because, they claim, he is incompetent — or at least out of tune with the needs of the black community. Magomola says only a "handful" of people are behind the call; yet sources at the bank tell the *FM* the majority are discontented. Obviously the position has symbolic meaning to blacks — but what lies behind the accusations, and are they fair?

The call for Magomola's resignation is contained in a memorandum submitted by bank management to the [illegible] headed by Sam Motsuenyane, [illegible] the National African Federated Chamber of Commerce (Nafcoc). [illegible] memorandum — which the [illegible] acted on — was a letter [illegible] incompetence against Magomola. [illegible] tled staffers say tension [illegible] agement and the CE has [illegible] months, but was kept [illegible] hope the matter could be settled [illegible].

According to Magomola some staff [illegible] simply reacting badly to his [illegible] plan to rationalise and cut costs. "[illegible] some lower level managers and clerks [illegible] felt threatened by the rationalisation plans [illegible] the extent of calling for me to quit." [illegible] claims only a "handful" of staff submitted the memorandum to the board. "The [illegible] alisation and cost-cutting prog[illegible] approved by the audit committee [illegible] board of directors," he points out.

Magomola also tells the *FM* [illegible] for "recomposing" the board, which he [illegible] helps explain the animosity of certain directors. He adds that the plans stem from findings of several major studies undertaken by outside consultants — "strategists from one of SA's largest banks, a top black American banking consultant and an international accounting firm."

It is believed the American consultant is Tab Buford, former president of Freedom National Bank, a black-owned bank [illegible]

(58) FMML 17/3/89.

Harlem. It was reported in late 1987 that Magomola had appointed Buford to advise him on future planning strategy and on how to improve the bank's frayed image after the US$119m forex fraud case involving three former African Bank officials.

Buford's claim to fame is the turning around of Freedom Bank, which had been making losses for 13 years.

Sources at African Bank — including some at board level — complain that Magomola, who studied and worked in the US for eight years, is importing US solutions for wooing corporate business, rather than building up the bank in line with its original goals.

"One of African Bank's stated objectives when it was formed was to respond to the black community's financial needs and provide an appropriate range of services and facilities. To date, nothing significant in this regard has been achieved. Instead Magomola is obsessed with wooing corporate business," claimed one source.

These sources say African Bank's potential strength lies in building a devoted customer base among blacks — including those involved in stokvels, spaza shops, taxis and other township enterprises.

"Magomola should lift a page out of Volkskas's book to understand the role of African Bank," says another source, referring to the way that bank initially built itself up by wooing Afrikaners. "What Magomola is trying to do is to make the bank walk before it crawls. He is setting First World standards in a Third World sector. He is not attuned to black business needs."

If Magomola does indeed go, the board faces another dilemma: finding a replacement who can match his qualifications for the job.

African Bank man suspended

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By Michael Chester 17/3/89

The management crisis inside the African Bank worsened today with confirmation that the treasury officer, Mr Joe Modibane, has been suspended after triggering a South African Reserve Bank probe into the bank's affairs.

The suspension comes less than a week since the board of directors announced the shock dismissal of Mr Gaby Magomola from the post of chief executive.

Mr Jack Theron, who has been named acting chief executive officer and senior general manager, said Mr Modibane had disclosed inside information to the Reserve Bank without authority to do so.

He confirmed that discussions between the African Bank and the Reserve Bank were held yesterday but no details were disclosed.

Guardian increases earnings

S/W 17/3/87

By Ann Crotty

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Guardian National, the short-term insurer that is 44 percent held by the Liberty group, has reported a 52 percent increase in earnings to 251,6c (165,9c) a share for the year to end-December. The final dividend has been increased by 34 percent to 55c (41c) a share bringing the total dividend payment to 90c (70c) a share.

A strong increase in underwriting profit was the major reason for the good percentage rise at the earnings level.

Gross premium income was up only 8,2 percent to R316 million (R292 million). The directors attributed the relatively low income growth to a reduction in inward treaty reinsurance and the impact of lower rating levels for both corporate and personal insurance.

The 77 percent increase in underwriting profit to R16,8 million (R9,5 million) is attributed to "an unusually low incidence of major fire and weather losses, combined with an improved experience in crime related classes."

The 32 percent increase in income from investments to R24,5 million (R18,6 million) reflects the increase in available funds and generally hgiher rates of interest and company dividends.

The directors refer to evidence of intensified price competition and note that "the additional reserving requirements that will flow from the Melamet Commission Report will impose stricter financial disciplines upon insurers and, it is to be hoped, will eliminate the excesses of price competition."

Commission to inquire into premium outflow

58

Star 17/3/89

The Government has decided to appoint a Commission of Enquiry to investigate the flow of short-term insurance premiums out of the country and the operations of captive insurers, the Minister of Finance announced yesterday.

The Minister said that the Government had taken note of representations that structural biases which increase the flow of short-term insurance premiums off-shore should be addressed.

In its interim and final reports the Melamet Commission referred to the problems concerning foreign captive insurers and recommended that a further inquiry be undertaken.

The Government has accordingly decided to appoint a Commission of Enquiry consisting of Mr Justice DSA Melamet as chairman, and Messrs HV Hefer and KG Raine as members, the statement says.

The areas which the Commission will cover include:

- The flow of short-term insurance premiums out of the country and the most appropriate measures to ensure equitable competition between local and foreign insurers.
- The operations of captive insurers and the necessity for South African insurers to use their services.
- The extent to which the services of captive insurers are currently being used by South African insurers as well as the advantage gained from captive insurers as genuine risk carriers for the South African insurance industry.

The Commission will also report on the practice whereby local insurers act as fronts for foreign captive insurers as well as the effect captive insurers have on the strength and growth of the local insurance industry.

Also included in the Commission's frame of reference is the measure of control required in respect of the operations of captive insurers. —Sapa.

Sacked African Bank chief Gaby replies to critics who claim his actions caused grave concern

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Sowetan 17/3/89

MOGOMOLA . . . "ethnic base has disadvantages."

MY VISION

FOCUS

By JOSHUA RABOROKO

WHEN the ebullient Gaby Magomola became chief executive of the African Bank in April, 1987, he took over a financial institution that had a tarnished image.

He took over at a time when eight former employees were found guilty of charges relating to foreign exchange.

It was Mr Magomola's ambition to shape a new image for the financial institution, a brain-child of the National African Federated Chamber of Commerce, which represents black business people in the country.

Re-establishing the bank's credibility became Mr Magomola's primary objective.

After taking over he received support from many blacks and whites, including political organisations that hailed his appointment as "the right man at the right time".

But, there were some who were jealous of him, and critical, especially after he left his Soweto home to live in Johannesburg's northern suburbs.

They sneered at his American accent.

In a long memorandum presented to the board of directors of the bank before Mr Magomola's dismissal the staff said certain disturbing developments had caused "grave concern within the bank".

These included: The bank's financial position; dwindling staff morale; confusing and chaotic organisational structure; worsened channels of communication; irregular recruitment practices; the continued employment of white staff to senior positions; the racist attitude; Mr Magomola's style which lacked confidence; and his over-exposure in the public media which created the impression that the bank was a one-man show.

The memorandum said continuous losses were being incurred and the bank's financial position had deteriorated.

Staff morale had dwindled to a low ebb because of uncertainty about direction and an inevitable sense of insecurity.

The atmosphere at the bank was so bad that there was a totally confusing and chaotic organisational structure which lacked a lot in terms of clearly defined lines of responsibility, authority and line of relationships which resulted in communication breakdown.

They also claim that the channels of communication were worsened by cult differences that were emerging not only between black and white, but also between black staffers themselves.

They claim there had been several cases of appointments made by the chief executive in mysterious circumstances. This was coupled with the continued employment of white staffers in key positions without any black secondments.

Another surprising factor was the racist attitude, typical of white baasskap which excluded blacks in the corporate division.

They claim he expressed a total lack of confidence in black management, except for his friends.

In reply Mr Magomola said the memorandum was packed with wild accusations that had no foundation. It created a smokescreen to cloud fears that prevailed over the retrenchments that were inevitable at the bank.

"I find it rather odd that the board has taken such a strong action over a clash with lower management," he said.

"I am terribly disappointed by the decision as I was acting in the best interest of the bank and its shareholders.

"I made a sound contribution to the bank leaving it in a far stronger position than it had been when I took the reigns two years ago.

"I am still reeling with shock, he said, adding, "I have no immediate plans for the future".

Mr Magomola said he perceived the bank as an indigenous institution and belonging to the community. To many, it was a symbol of blacks' achievement against tremendous odds, he said.

A sophisticated institution like a bank required an infrastructure that took time to develop.

But as people move towards a more integrated economy and political legitimacy, their ethnic base, and even their name, may have its disadvantages, Mr Magomola said.

He was committed to the cause of economic and political development, although he could not clothe himself in political garb.

His innovations had been an attempt to extend further bank share ownership to the community. To that end, he had plans to raise R5 million in equity capital from workers employed in 10 progressive South African companies.

SAM Motsuenyane . . . African Bank chairman.

"The bank is a community-based organisation. We are not apostles of capitalism though we do believe in wealth creation. The bank is not an elitist bank, but has a mission to assist people to acquire wealth to improve their way of life," he said.

Some of the people who worked with Mr Magomola said he had a great vision for the bank.

"Despite his faults as a man, he was a nice guy who loved all and his job," a senior bank official who did not want his name mentioned, said.

Another said: "Gaby's appointment was an incentive to all of us after the bank's image was tarnished."

But others said he was "an impressionist" who was proud and underestimated views of lower management.

"He loved smart cars and clothes and even left township life to settle in the suburbs. He did not have the interest of blacks at heart, they said.

Mr Magomola was born in Ventersport on the West Rand. He received his education locally and abroad. He holds a B Comm degree and an MBA.

The bulls are back as market surges

STAR 18/3/89

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MAGNUS HEYSTEK
Finance Editor

THE SURGE on the Johannesburg Stock Exchange this week threatened to turn into a stampede as cash-flush investors scrambled for blue-chip industrial stocks, pushing the index to new record highs.

The JSE Industrial index yesterday rose by an astonishing 64 points to close at 2430 which, in turn buoyed the Overall index by 32 points to 2513. Gold shares, however, lost some of their attraction due to the drop in the gold price to below $390 an ounce, with the All Gold index closing 3 points lower at 1594.

For the week as a whole, the Industrial index soared by nearly 4 percent.

The surge in equity prices followed on the announcement in Wednesday's budget that the prescribed asset requirments for life offices and pension funds are to be abolished — a move that is bound to free billions of rands for discretionary investments in other fields, notably equties, properties and grassroots developments.

Low returns

Large financial institutions have since 1943 been forced to invest major parts of their investment income in government and semi-government gilts, which, historically have not managed to outperform the inflation rate.

Pension funds were obliged to put at least 53 percent of their investment funds in such stocks while for life insurance funds the minimum level has been 33 percent.

This prescription has significantly reduced the discretionary funds available for investments in other fields such as equties and property which have outperformed the inflation rate.

While the government intends holding discussions with life and pension funds about the solvency requirements in the near future, the announcement of the abolishment of prescribed assets, while widely expected, induced investors to participate in a fullscale buying spree of high-quality industrial equties.

Bellweather blue-chip stock Barlows, for instance, rose from R34,50 on Tuesday to close at R38,25 — a rise of close on 5 percent in three trading days. Other heavyweight stocks recorded similar rises as investors clamoured for quality scrip. According to analysts the situation was exacerbated by the endemic shortage of scrip.

Sidelined

Institutional investors, while mostly agreeing that the abolishment of the prescribed asset requirement would bolster equity investments, were mostly on the sidelines during the week with only occasional buying in evidence.

Mr Ronnie Masson, senior general manager:investments at Sanlam this week said that share prices would most probably be underpinned by the Government's decision while long-term rates would climb as well. So far his predictions have been remarkably accurate, with long-term rates closing at 17,15 percent yesterday in the case of RSA's, up nearly 75 points before Wednesday's announcement.

Analysts are concerned that the market has over-reacted and that a period of consolidation, and even a decline is in the offing, particularly after Friday's sharp drop in the Wall Street stock market.

But, as so often is the case, the gold price rose by more than $5 an ounce late yesterday afternoon which is bound to boost gold shares on Monday.

Gloom on Wall Street

NEW YORK — Wall Street share prices tumbled yesterday on rekindled inflation fears after a report of surging US wholesale prices last month. The Dow Jones industrial average fell 42,67 points to 2298,04 within a half hour of the market's opening.

Stocks sank on fears the Federal Reserve would soon nudge up interest rates further to wring inflation out of the booming American economy, share traders said.

The bad news for shares and bonds was good news for the dollar, which rose sharply to Dm1,8740 from Dm1,8688 just before the inflation report was released. The dollar closed in New York on Thursday at Dm1,8690. — Reuter.

Investors who burnt their fingers in the Crash of '87 are back in the market in force, hoping to recoup their losses.

Housing subsidies defect 'robs lower-income group'

Star 18/3/87. 58

ABOUT 70 percent of building society mortgage bonds are subsidised and are indicative of a serious misallocation of capital, says independent market researcher Mr Erwin Rode, who has called for the Government to abolish State housing subsidies for second-time buyers by 1992.

In the latest edition of the Rode Report, published by Real Estate Surveys, Mr Rode says there are two distinct groups of housing subsidy beneficiaries.

On the one hand there are those who are very poor and who would have been unable to afford decent shelter without subsidies, and "starter" families, including young middle-class people who are striving to acquire their first home.

"Most would agree that these subsidies are laudable and necessary," he says.

However, on the other hand, there are "non-starter families" who benefit from employer subsidies.

Major employer groups who offer this type of benefit include, among others, the State and semi-state organisations and financial institutions.

Mr Rode argues that mortgage bond subsidies encourage beneficiaries to occupy a standard of accommodation above their normal level.

"Not only do these subsidies encourage a higher standard of housing, but many austere-minded employees are forced from time to time to trade up their accommodation to make full use of their total remuneration package.

"This results is building societies and banks having less funds available for low-cost housing or productive projects like financing commerce and industry."

Mr Rode argues that a first step for South Africa to rid itself of this "pernicious dependency disease" would be for the Government to spell out its intention with regard to the elimination of the tax benefit associated with subsidies so employers could start re-considering their pay-package policy.

The Government should set an example by announcing that all housing subsidisation to non-starter families will be eliminated by 1992 and that, in the meantime, no further subsidised loan limit increases will be granted.

PO BANK IS NOT CLOSING

Sowetan 20/3/89

THE dissolution or closure of the Post Office Savings Bank was totally out of question, the Postmaster General Mr Johan de Villiers said in a statement in response to reports in the media.

A committee had been appointed to investigate the effect that the phasing out of tax-free investments would have on the Post Office Savings Bank. The committee would also make recommendations on further action in this regard, the statement said.

The Post Office Savings Bank had great value for a large part of the population. The phasing out of the tax exemptions rendered it desirable to introduce new market related taxable instruments in the bank.

Mr de Villiers also said that there was considerable potential for expanding the bank to render better and more comprehensive services than at present to the public at the hundreds of post office counters countrywide.

PO savings bank 'will not close'

HELOISE HENNING

THE Post Office savings bank was in no danger of being dissolved or closed after the Budget announcement on the phasing-out of tax-free investments, postmaster general Johan de Villiers said at the weekend.

Reacting to post-Budget media reports, De Villiers said a committee had been appointed to investigate the effect that the phasing out of tax-free investments would have on the bank.

The committee would also investigate the desirability of introducing a new market-related taxable instrument in the bank.

"There is considerable potential for expanding the bank to render better and more comprehensive services."

☐ De Villiers said in Rustenburg on Friday legislation providing for the separation of the Department of Posts and Telecommunications into two separate companies with government as the shareholder before privatisation, would be tabled in Parliament during this session.

He said privatisation of either of the two companies was not possible within two to three years and that the profit-making telecommunications would be the first to be privatised.

New scheme aimed at unlocking fresh foreign funds

ROBERT GENTLE

LONDON — A $51m loan securitisation scheme, which could unlock fresh foreign funds for SA, was unveiled by UK corporate finance group Gemini Capital on Friday.

The move, approved by the Reserve Bank and a group of institutional SA investors, is seen as an effort to broaden the shrinking pool of foreign lenders. It involves a swap process whereby banks with loans to SA can "securitise" them by trading them for higher-yielding floating-rate notes partly backed by 20-year zero-coupon US treasury bonds.

Gemini Capital, in which Johannesburg-based UAL Merchant Bank has a one-third stake, has set up a company called Stratus which will own the treasury bonds, worth $40m.

Stratus will offer to buy up SA loans with a face value of $51m

ARGUS 20/3/89 (58)

ECONOMY

Deal improves SA's foreign loans outlook

Business Staff

JOHANNESBURG. — South Africa's commercial bank lenders will be offered a first-ever chance to secure their loans in a deal which could encourage new foreign lending to the country.

The Financial Times reported last week that the deal involved a complex trade for higher-yielding tradeable floating rate notes partly backed by 20-year zero-coupon US Treasury bonds.

The plan, which has the approval of the South African Reserve Bank and the backing of a group of local investors, led by UAL Merchant Bank, is seen as an effort to broaden what has been a shrinking pool of lenders to the country.

South Africa has been hard pressed for new foreign loans since 1985 when US banks refused to role over existing short-term debt and while the country received its first foreign loan in over three years last year, the chance of new loans are minimal in the near future.

The plan's promotors say it is not clear that development of a secondary market in South African debt will prompt a flow of new capital into the country, the Financial Times reported.

If the first offering is successful, they plan to follow up with further loans-for-notes offers, thus guaranteeing those who do lend fresh capital that they may quickly off-load their debts.

And if bank regulators agree that the new notes are not South African risk, they say it may help banks reduce the volume of reserves they are now required to hold against the loans.

The complex plan is being offered by UK-based Gemini Capital in which UAL is a one-third owner.

UAL and a group of local pension funds will invest the equivalent of 7,5million in capital which will represent the core equity investment in the scheme.

Outlining the plan, the Financial Times reported that Gemini had established a special purpose company in the British Virgin Islands, to be named Stratus, which will own the zero-coupon US Treasury bonds.

Stratus in turn will offer to buy, for \$40-million, South African loans from lenders with a face value of \$51-million.

The lenders in turn will receive \$40-million in nine-and-a-half year floating rate notes.

The 22 percent discount lenders will receive on their loans is much smaller than the roughly 40 percent discount now accorded to South African loans in the secondary market.

Co-owner of Gemini, Mr Christopher Hull, explained: "The loans are sold in exchange for a secure note with matured value of \$40-million. It is a listed security, backed by US Treasury bonds, and is therefore 100 percent ensured on a maturity of 20 years.

"We have already received a lot of inquiries and given the flexibility this deal offers to banks we expect a good response," Mr Hull said.

A spokesman for the Reserve Bank confirmed that the deal had been sanctioned.

"We support this form of debt swap as it makes South African debt more tradeable," the spokesman said.

Ever since the US banks ran for the exit in August 1985, South Africa has been cut off from new loans, apart from the odd trade credit, and obliged to become a substantial net capital exporter.

Over the last four years the country has repaid around \$6-billion of its 1985 foreign debt of some \$24-billion, although due to the declining rand exchange rate its total outstanding debt in dollar terms remains around the \$21,5-billion level.

Star 20/3/89 58

New systems can build homes swiftly and inexpensively

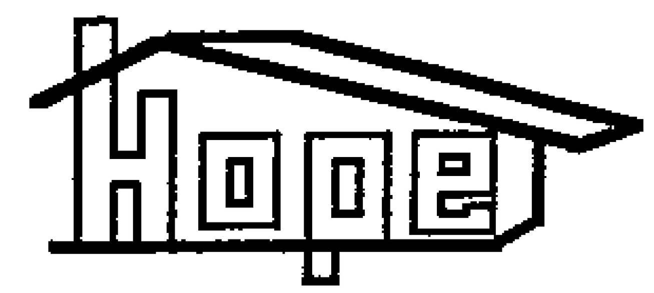
By Norman Chandler

New and inexpensive building systems, primarily aimed at the mass housing market, are in the process of launching.

First National Bank and the United Building Society have become the first financial institutions to approve the "Amper Mahala" non-conventional construction system, which has been awarded a Mantag certificate by the Agreement Board of South Africa.

The system, which basically involves pre-fabricated plastered welded wire mesh in panel form, is suitable for the construction of simple, detached single-storey houses in all climatic zones of southern Africa.

It has already been accepted by some local authorities, and several large companies are using it for labour housing requirements, Mr Keith Oliver of Ampher Mahala Housing Trust said last week.



The pré-fabricated framework can be erected in a matter of hours and a house would normally be completed within a few days. The Trust's factory at Jet Park in Boksburg has a capacity of 500 homes a month. These range from 102 sq m to 16 sq m and prices are from R30 336 to R4 434.

Another system is the "Husky", which has been introduced in the Transvaal after trials in the eastern Cape.

It is claimed to reduce construction costs and cut construction time compared with conventional building methods.

The system, which also has a Mantag certificate, was developed by Mastercrete (Pty) Ltd. It has been approved by a number of building societies.

The new system consists of external walls formed by factory-produced pre-stressed concrete posts and precast insulated concrete wall panels. The structure is maintenance-free and long-lasting.

The Transvaal franchise holders, Goede and Pieterse, say the system is quick and easy to erect. Cost of a house built through the system is about R18 000, including flooring, plumbing and electrical.

Debt-swop deal improves outlook on foreign loans

SPV 20/3/89

58

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Over the last four years the country has repaid around $6 billion of its 1985 foreign debt of some $24 billion, although due to the declining rand exchange rate its total outstanding debt in dollar terms remains around the $21,5 billion level.

Taken together with leads and lags on the trade account, the total capital loss over the last four years amounts to around R25 billion, Reserve Bank Governor Dr Gerhard de Kock said recently.

Failing a resumption of foreign loans and credits, South Africa faces a repayment hump over the next three years when $5,3 billion falls due, a figure which was confirmed by Finance Minister Barend du Plessis in last week's Budget speech.

Mr du Plessis said debt obligations in 1989 could reach $1,7 billion, while repayments in 1990 and 1991 could reach $2,1 billion and $1,5 billion respectively.

African Bank shareholders meet

58 Own Correspondent CT 20/3/89

JOHANNESBURG. — Some African Bank shareholders drafted a list of questions at a meeting yesterday, which they intend to put to the bank's board of directors.

Shareholders discussed issues at length, but have adopted a motion not to disclose action plans until the bank's AGM on March 29, said Mr Joe Modibane, a shareholder who was dismissed from his position of treasury officer at the bank on Thursday.

Mr Modibane said a list of questions relating to the bank's operations would be put before the chairman and the board. The questions arise from the annual report, recent affairs at the bank and the circumstances of CE Mr Gaby Magomola's dismissal.

A shareholder who attended the meeting, Mr Dave Matipa, said there had been a general feeling of distress at the meeting, and ill-feeling among shareholders who believed a person of Mr Magomola's standing should not have been dismissed this way.

Mr Matipa believed the board's decision to fire Mr Magomola was wrong and that the board should have waited until the AGM. He said he would like to see Mr Magomola reinstated at the AGM.

FINANCE

Money market placid, slothful

B/Day 20/3/84

58

IN THE MONEY MARKETS

Harold Fridjhon

WEDNESDAY'S Budget stimulated the bulls in the equities market, turned the bears loose in the bond market, but the money market remained placid and almost slothful.

Barend du Plessis said nothing to have injected activity in the money market, but his not unexpected announcement that prescribed assets for assurers and pension funds were to be abolished detonated an explosion of dealing in bonds.

On Thursday, turnover on the JSE floor reached a new peak of R3bn and screen traders, too, reported heavy trading. They said that volumes were high but they were unquantifiable. And, although the excitement tapered off a little on Friday, turnover was still high at an estimated R1,5bn, resulting in a record week which must have been close to R7bn.

Yields on bonds rose sharply with long-dateds moving as high as 17,17% on the Eskom 168, a two-year peak, to make a Friday-to-Friday increase of nearly 60 points in line with the RSA 13% 2005. And the short Sats 12,5% 1991, too, responded in similar vein.

The jobbers were forcing the market with massive short-selling and parcels of stock, mainly the Eskom 168, changed hands in quick succession with the yields rising, pausing, dropping slightly and then rising again as sellers covered positions before following the market up.

Floor dealers said the market was not only trading incestuously between jobbers. From the size of some of the deals it was apparent that some institutions had been offering stock into the market with orders in R5m lots, too large to have been jobbers or brokers taking positions.

Some dealers suggested that Eskom might close its trading window and withdraw from the market until trading cooled down, but I was assured on Friday afternoon that this was not so and that Eskom would continue to make double pricers with a five-point spread.

Sound reasoning triggered off bond market activity. With the institutions under no compulsion to allocate funds for prescribeds, yields must rise to make bonds an attractive investment in absolute terms. With inflation expected to average 15% this year, yields must be positive, about two to three percentage points above the inflation rate.

This indicates a yield on long-dated stock of between 17,5% and 18%, suggesting more scope for sellers, but the market must consolidate before yields move up again.

It also suggests that the new bonds which the Treasury will be issuing shortly are more likely to be in the seven- to 10-year area than in the once preferred 20-year stock. This will be less costly to the Treasury and more acceptable to investors.

WITH funds flowing into the market from government wages and, perhaps delayed departmental spending before the end of the fiscal year, the money market was more comfortable last week than it has been for some time past.

The shortage eased to below the R2bn level and the Big Money overnight call rate on Friday was 16,25% compared with the previous week's 16,5%. The banknote issue at R6,7bn, was down R600m from the February month-end peak.

The note issue, however, will start to escalate early this week as cash is drawn from the banks for the long weekend and, perhaps an extended holiday period with another holiday early in April. This might reach close to the R7,6bn at the height of the Christmas spending. GST payments are also due this week.

The banks say that they are comfortable in spite of the Reserve Bank's determination to maintain a tight rein on the market. Some Treasury managers do not expect interest rates to move off the current level with the 19% prime on a Bank rate base of 16%. But others are not quite so sanguine.

The rate for 90-day liquid bankers acceptances (BAs) rose to 16,45% from 16,40% on Friday, although non-liquids were unchanged at 16,65%. The now-suspect Treasury bill (TB) rate rose two points to 15,90%.

The discount houses said the rate was raised because buyers were reluctant to take paper at 16,4%, with one dealer advancing the view that rates should rise. But his appears to be a lone voice.

Bid to merge futures, bond markets hots up

B/Day 20/3/89 (58)

AN ATTEMPT to merge SA's fledgeling futures market with the more established bond market has gained momentum with the Bond Market Association (BMA) and the SA Futures Exchange agreeing to investigate unification.

The BMA, an association of banks and brokers dealing in bonds, and the SA Futures Exchange, which has 22 SA financial institutions as clearing members, have established themselves as the respective markets' self-regulatory associations (SRAs).

Integration

While the Futures Exchange has already established a working group to investigate a joint exchange, the BMA — yet to be named the bond market's official SRA — has reserved judgment until the end of March.

A spokesman says the association needs to investigate the proposal more fully to determine the response of its members.

Integration of the financial markets has been considered for some time. Both the Stals Committee on futures and options and the Jacobs Committee on the bond market recommended new developments to ensure greater efficiency in the financial markets.

Many of these recommendations, particularly those calling for self-regulation of the markets, are encapsulated

LESLEY LAMBERT

in new legislation to be passed shortly. After that the various SRAs will be required to apply for licences enabling them to regulate their respective markets.

In a separate development last week the newly established Universal Exchange Corporation (Unexcor), which proposed a grand system ealier this year to achieve economies of scale by means of integration, considered proposals which, if approved, would provide a step towards a joint exchange.

The first was to merge the SA Futures Exchange and BMA into the Financial Markets Association (FMA).

The FMA has already been established as a non-profit company with the Unexcor steering committee, consisting of Discount House of SA chairman Colin Dunn, JSE president Tony Norton, Old Mutual's Pierre Steyn, UAL's Geoff Richardson and Standard Bank's Mike Vosloo, as its interim board of directors.

Unex proposes that the FMA should decide whether to apply for one or more licences once enabling laws have been passed. But futures market officials say the simplest solution would be to merge the two immediately into one exchange with one licence.

The second proposal considered by Unexcor is a merger between the two companies set up to provide exchange facilities for the two exchanges — SA Futures Clearing Company (Safcom) and the Sash, under Unexcor.

Unexcor proposes that while Safcom and Sash should initially maintain their independence, providing interim facilities for the two markets, they will eventually be absorbed into Unexcor.

The Unex proposal, widely accepted in principle, has met with some resistance from market users who fear it will have to be a monopoly to achieve the envisaged economies of scale and that this could lead to inefficiency and unecessary costs.

Clearing

While Unexcor works at achieving consensus from the various markets and associations affected by its plans, and the bond and futures markets negotiate the merger issue, the Futures Exchange is going ahead with plans to open a dual open-outcry and electronically traded exchange by July 1.

The exchange will probably trade on a floor in the new JSE annexe, using JSE trading facilities and its own clearing system which is being designed to cope with 200 000 contracts daily.

Unexcor sees this as an important development to facilitate futures trade until it provides its new network.

The futures exchange regards it as a clearing system which could be updated to serve other markets, like bonds.

Reserve Bank offering deals on Krugerrands

B/Day HAROLD FRIDJHON 20/3/89

THE Reserve Bank is offering to buy very large quantities of Krugerrands on one-year re-purchase contracts, bankers said on Friday. (58)

The deal involves the right of the seller to borrow 80% of the spot price of the coins from the Reserve Bank at 9,5% and to buy back the coins at the price ruling 12 months hence. This would give benefits to the "seller" and the Bank.

The "seller" would monetise what is a frozen asset on which he is getting no return. By using his "loan" from the Bank to invest in, say, a negotiable certificate of deposit (NCD) which would earn upwards of 17%, he would earn a net return of 7,5%.

The Bank, on the other hand, would add the Krugerrands to its gold reserves, which are under pressure from the weak price for the metal.

The monetisation of the coins would not materially increase money supply.

It is reputed that banks and other financial institutions are very large holders of Krugerrands involving hundreds of millions of rands.

A Reserve Bank spokesman said on Friday this was not a new move. Towards the end of last year the Bank had done a couple of these re-purchase deals but would welcome entering into further contracts.

it—then the CP says that it does not accept this; it rejects mixed education and the voters of South Africa reject it as well. [Interjections.]

*The MINISTER OF EDUCATION AND CULTURE: Mr Chairman, I want to thank the hon member for Brits for the way in which he has placed this whole matter in perspective.

*Mr D S PIENAAR: It was very well done!

*The MINISTER. Yes, he did it superbly There is no doubt about that. I think he summed up the crux of the matter.

I want to tell the hon member for Durban North that if he purports to be speaking on behalf of the other provincial education councils, I reject that! The hon member for Brits summed it up correctly. The hon member for Durban North was mainly speaking on behalf of the provincial education council of Natal. The reason for the hon member speaking on behalf of that education council, is that many people in Natal would like to see the education council as a decisive body which accepts responsibility and makes decisions in the same way that it did in Natal in the past under the system of provincial councils.

With the implementation of the legislation which amended the National Education Act it was stated very clearly what the functions of this provincial education council were, and not only what its composition was. It is an extremely important advisory body as I said in my introductory speech. Many people, representative of the provincial education councils of the Cape, Transvaal and the Free State, expressed their appreciation on several occasions for the particular opportunity which they had been given in terms of the legislation to make an extremely important contribution in the determination of policy, in education planning, as well as in matters regarding the training of teachers. If the hon member for Durban North would only take a look, he would see what important contributions these provincial education councils have already made. [Time expired.]

Mr K M ANDREW: Mr Chairman, to respond briefly to the hon member for Brits let me just say that this party stands and has always stood for one education system or structure but on a highly decentralised and non-racial basis. Hence, we believe in a federal policy for this country in education as well.

The crux of this matter is the question: Is the hon the Minister taking his provincial educational council seriously or is it just a sop to parents? I can assure hon members that there are many members of that council here in the Cape who have become irritated, frustrated, angered and finally desperate. [Interjections] Their worst initial fears have been realised.

Here are some examples. The Cape Education Council has been waiting for more than nine months for a reply from the hon the Minister. They get little, if any, feedback on many matters. Amongst the examples are their opinions in respect of disputes on teacher remuneration. Secondly, there is the question of augmenting the elected members on the executive of the provincial education council because many of the parents feel that there are not enough parents on the executive. It is too 'official' dominated. There is also their request in respect of devolution of authority that should be given to the Director of Education so decisions can be made at that provincial level. On all those subjects, outstanding for more than nine months, they have had no reply.

The Cape Education Council does not even know what decisions have been made in respect of recommendations which were sent through until they see an actual Bill tabled in Parliament or, alternatively, regulations in the *Government Gazette*. I believe that the Government and the hon the Minister have been paying lip-service to genuine parental involvement. If the hon the Minister does not believe in devolution and involvement, then he should not talk about it because it does not exist. He should not pretend that what exists now is what devolution and involvement are about. The parents have lost the control that they had via provincial councils on which they could use the vote. [Time expired.]

Mr M J ELLIS: Mr Chairman, I want to reply very briefly to the hon the Minister by saying that the information that I have is not based on Natal thinking alone. I have documentation from the Transvaal too, indicating the great frustration that members of the council in the Transvaal have at the way their council operates. It is certainly not only a Natal-based thing.

The problem is that it is all connected to the question of consultation. The hon the Minister must again be made aware of the need for real and effective consultation. There must be real and effective consultation with all the education councils on matters of very real importance. There has to be a measure of give and take on both sides with regard to consultation.

I sincerely hope—I know he is going to have

discussions with the provincial education councils—that the hon the Minister will take those discussions seriously and listen to what the education councils have to say and to the requests they put to him. Unless he does that, the provincial education councils are going to continue being the farce that they are at present

*The MINISTER OF EDUCATION AND CULTURE: Mr Chairman, allow me to tell the hon member for Cape Town Gardens at once that, of course I take the advice of these bodies very seriously. To allege that I am merely paying lip-service is devoid of all truth. The fact which lies at the centre of this whole matter is that these bodies are advisory bodies. I want to tell the hon member for Cape Town Gardens, who waxed lyrical about the Cape Provincial Education Council, that there is, to my knowledge, only one person who objects strongly to the fact that the provincial education council no longer has any so-called teeth. In all four provincial education councils there is great appreciation for the right and the opportunity which they have been given to make specific contributions.

Naturally many matters are involved, of which one is particularly important. If the advice which the provincial education councils give is not accepted, they would prefer the Minister to go back to them with regard to each piece of advice and explain to them why he did not accept it. This is simply not practicable because the different provincial education councils will also give conflicting advice with regard to a specific matter.

Mr K M ANDREW: At least reply to them!

*The MINISTER: It is simply not physically possible for the Minister to go back to them with regard to each matter and to explain why he did not accept their advice.

Allow me to conclude by saying that I have the highest, I repeat, the highest appreciation for the work that is done by the provincial education councils. Recently more has happened with regard to the structuring of White education in legislation and with regard to future planning for White education, than has taken place in the past five years. [Time expired.]

Debate concluded.

QUESTIONS

†Indicates translated version.

For oral reply:

Own Affairs

Municipal elections: permission granted to teachers

*1. Mr A GERBER asked the Minister of Education and Culture:†

(1) Whether his Department granted permission to certain teachers to take part in the 1988 municipal elections on a party-political basis; if so,

(2) whether this permission was granted in writing; if not, in what manner was it granted;

(3) whether he will furnish further information about the teachers concerned; if not, why not; if so, (a) what are the names of these teachers and (b) with which (i) schools and (ii) political parties are they associated?

B400E

†The MINISTER OF EDUCATION AND CULTURE:

(1) Yes;

(2) yes;

(3) yes,

(a)	(b)(i)	(b)(ii)
Transvaal		
Mr P E du Preez	Trans Oranje School for the Deaf	NP
Mr G C D S Joubert	Hoerskool Belfast	CP
Mr D J R Hattingh	Laerskool Rustenburg-Noord	NP
Mr G Bezuidenhout	Goudstadse Onderwyskollege	CP

In both Natal and the Orange Free State permission was granted to all teachers, irrespective of political affiliation, to stand as candidates. In the Cape all teachers stood as independent candidates.

Correspondence colleges: registration

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

Whether his Department registers students in all correspondence colleges in South Africa, if not, which Government Department registers such students; if so, how many (a) students and (b) colleges were so registered as at the latest specified date for which information is available?

B466E

†The MINISTER OF EDUCATION AND CULTURE:

No, correspondence colleges register with the Correspondence College Council in terms of section 11 of the Correspondence College Act (Act 59 of 1965). Students are not registered by a government department.

Senior Certificate examinations: Latin

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

How many Standard 10 pupils are taking Latin as a subject for the purposes of the Senior Certificate examinations at the end of 1989?

B467E

The MINISTER OF EDUCATION AND CULTURE:

600

For written reply:

General Affairs:

Regional services councils

25. Mr C W EGLIN asked the Minister of Constitutional Development and Planning:

(1) (a) For which areas have regional services councils been established, (b) in respect of each such council, what powers and functions have been transferred from local authorities and (c) in respect of what date is this information furnished;

(2) whether the value of the votes of each of the bodies represented has been determined; if not, why not; if so, what are the relevant details?

B80E

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1)(a)

Transvaal:

Pretoria
Central Rand
East Rand
West Rand
Vaal Triangle
Rustenburg-Marico
Wesvaal
Lowveld and Escarpment
Highveld
Oosvaal
Northern Transvaal
Bosveld

Orange Free State:

Bloemarea

Cape Province:

Algoa
Western Cape
Walvis Bay

Natal:

None

See (2) for list of constituent local authorities represented in each Regional Services Council

(1)(b)

Transvaal and Orange Free State: none
Cape Province:

Algoa Regional Services Council: All assets, liabilities, rights, duties and obligations of the Divisional Council of Dias (excluding assets, liabilities, rights, duties and obligations relating to local areas and those public resorts mentioned in paragraph 2.1 of Government Notice No. 1456 of 29 June 1987) were transferred to the Algoa Regional Services Council by the said Government Notice with effect from 30 June 1987.

All assets, liabilities, rights, duties and obligations of the Divisional Council of Humansdorp (excluding the powers or rights referred to in the Schedule to Proclamation No. R217 of 1988) were transferred to the Algoa Regional Services Council as from 1 January 1989 by Government Notice No. 2634 of 30 December 1988.

Western Cape Regional Services Council: All assets, liabilities, rights, duties and obligations of the Divisional Councils of Cape Town, Paarl and Stellenbosch (excluding assets, liabilities,

rights, duties and obligations relating to local areas and those public resorts mentioned in paragraph 2.1 of Government Notice No. 1456 of 29 June 1987) were transferred to the Western Cape Regional Services Council by the said Government Notice with effect from 30 June 1987.

Walvis Bay Regional Services Council: The powers and functions which arise from the following regional functions which previously vested in the Municipality of Walvis Bay have been entrusted to the Walvis Bay Regional Services Council:

Sewage purification works and main sewage disposal pipelines

Refuse dumps

Traffic matters

(1) (c) 13 February 1989

(2) Yes.

TRANSVAAL

PRETORIA

	% Voting Power
Verwoerdburg Town Council	22,36
Akasia Town Council	4,11
Atteridgeville City Council	3,40
Brits Town Council	2,80
Bronkhorstspruit Town Council	1,88
Hartbeespoort Town Council	1,83
Mamelodi City Council	4,47
Midrand Town Council	3,54
Pretoria City Council	50,00
Kosmos Village Council	0,18
Hammanskraal Health Committee	0,23
Rayton Local Area Committee	0,53
Rantesig Local Area Committee	0,37
Refilwe Town Council	0,12
Zithobeni Town Council	0,12
Eersterus Coloured Management Committee	1,43
Laudium Indian Management Committee	1,97
Primindia Indian Management Committee	0,21
Rabie Ridge Coloured Management Committee	0,45
Total	100,00

CENTRAL WITWATERSRAND

	% Voting Power
Alexandra City Council	0,71
Davidsonville Coloured Management Committee	0,26
Diepmeadow City Council	6,20
Dobsonville City Council	1,06
Enerdale Coloured Management Committee	0,86
Johannesburg City Council	41,15
Lenasia Indian Management Committee	1,33
Lenasia South Indian Management Committee	1,35
Marlboro Gardens Indian Management Committee	0,01
Randburg Town Council	8,23
Roodepoort City Council	15,61
Sandton Town Council	4,86
Eldorado Park Coloured Management Committee	1,83
Soweto City Council	16,54
Total	100,00

EAST RAND

	% Voting Power
Actonville Coloured Management Committee	1,52
Alberton Town Council	6,92
Alra Park Coloured Management Committee	0,20
Bakerton Indian Management Committee	0,32
Bedfordview Town Council	4,58
Benoni Town Council	7,60
Boksburg Town Council	9,19
Brakpan Town Council	4,63
Daveyton City Council	3,11
Duduza Town Council	0,23
Eden Park Coloured Management Committee	0,46
Edenvale Town Council	3,46
Geluksdal Coloured Management Committee	0,21
Germiston Town Council	15,25
Heidelberg Town Council	1,48
Katlehong City Council	4,09
Kempton Park Town Council	15,91
Kwa-Thema City Council	2,74
Mackenzieville Coloured Management Committee	0,06
Modderfontein Town Council	0,11
Nigel Town Council	2,06

Bank worries Holomisa

58 183 SAPA 1017 21/3/89

UMTATA. — The chairman of the Military Council of Transkei, Major-General Bantu Holomisa, has sent an open letter to the African Bank expressing concern over a recent spate of bad publicity.

General Holomisa's letter says the Transkeian government has invested over R38 million with the bank and asks for information about the dismissal of former bank officials and steps being taken to get the bank on a sound financial footing.

African Bank chairman Dr Sam Motsuenyane said shareholders need not worry about the bank's financial position. — Sapa

Little man could be left 'in the cold'

9/1/64 21/3/89 S8

By MICHAEL MORRIS, Parliamentary Staff

CHANGES in the role of building societies and their increasing preoccupation with profits would have a serious impact on the provision of middle-class housing in South Africa, Mr Harry Schwarz (PFP, Yeoville) said.

"We are moving into an era in which financial institutions will be less interested in lower mortgages," he said in the Local Government, Housing and Works Own Affairs budget debate.

Mr Schwarz said the middle classes were the "backbone" of the country and in it was in the country's interests to secure their housing needs.

He appealed to the government to give the matter "urgent attention".

"To my mind, there's a substantial change in the operation of building societies. It is becoming a more profit-oriented business because of its corporate nature.

Fewer problems, more profits

"The whole business will become more concentrated in larger entities and in the process, the maximising of profits will be the major objective.

"For the larger companies, less administration will mean fewer problems and more profits."

This meant financial institutions would become less interested in smaller mortgages and middle-class housing would suffer.

He said: "We must look at this carefully. I would like to know what plans the government has if tax-free and partially tax-free shares are done away with. "How will you ensure that the middle class, which is the backbone of the country, ~~has its~~ housing needs met?"

JSE surges to record high

Cpt Times 21/3/89

58

Own Correspondent

JOHANNESBURG. — Buoyed by a firmer gold price, Diagonal Street yesterday defied the softer trend on major global stock markets.

Led by a 2,4% jump in the All Gold Index to 1 632 points, the JSE Overall Index advanced almost 1% to 2 534 points.

The phenomenal rise of blue chip industrials in the wake of budget proposals to scrap prescribed assets showed few signs of abating.

The 1% rise in the Industrial Index to a new high of 2 455, lifted its gains to 5,4% in the past three trading sessions.

Except for a bout of hesitancy at mid-session, demand for scarce blue chips remained strong.

● JSE surges — Page 11

Capital market trading slows

B Day 23/3/89 KAY TURVEY (88) 158

TRADING on the capital market slowed yesterday as uncertainty followed a statement on prescribed assets, issued by financial institutions deputy registrar Piet Badenhorst.

This statement, designed to assure the market that prescribed assets would not be replaced by other prescriptive requirements, failed to allay fears or give clarity to the regulations being drafted.

Responding to speculation that prescribed assets would be replaced by measures which would have a similar effect, Badenhorst said the regulations would contain no obligation to hold government or other prescribed stocks.

However, it was likely assets would be restricted within certain limits — it is on this point the market is seeking information.

Badenhorst said: "Investment by an institution in a particular kind of asset could be limited in relation to its total liabilities or to the assets required to cover such liabilities."

Old Mutual chief actuary Theo Hartwig said institutions had been asked to submit proposals to the registrar ahead of the legislation.

President's men get hefty pay rises

Political Staff ARGUS 22/3/89

THE President's men and women have been given hefty pay rises.

The top nine public servants at Tuynhuys, listed last year as earning R59 200 and more, are listed in this year's Budget as receiving R80 000.

A presidential spokesman said today personnel expenditure had increased 22,8 percent from R9,5-million to R11,6-million.

"This increase can be ascribed to normal annual salary increases, general salary adjustments for the Public Service and new remuneration dispensations for certain professional categories," the official said.

He noted that salaries for the top two brackets of Tuynhuys employees were "strictly in accordance" with Public Service rules.

The President's department had 196 posts last year, not all filled. The Budget shows that they have been whittled down to 169.

Of those 43 will be earning between R40 300 and R79 999, 46 between R19 800 and R40 299, 57 between R8 900 and R19 799 and 14 below R8 899.

Troubled African Bank's earnings tumbled 45%

BDay 22/3/88 (56)

ZILLA EFRAT

AFRICAN Bank's earnings dropped 45% to R353 458 for the year to September and preference dividend payments of R420 000 cut into previous retained earnings. Reserves dropped 47% to R76 108 (R142 650).

An ordinary dividend was passed and shareholders will be asked for more money during the current year, said chairman Sam Motsuenyane.

The results, published in the annual report which was finalised on February 22, do not reveal movements to and from internal reserves as is permitted to banks under the Companies Act. Taxed income was stated after these transfers and non-recurring credits.

Motsuenyane said in his review: "At present the bank is unable to fund growth internally and must attract capital from external sources. Reliance is placed on preferance shares with the result that the bank has to carry the annual fixed interest rate burden."

The balance sheet showed lending growth with advances increasing to R112,5m from R67,2m. Deposits rose to R144,4m from R115,2m. Cash and short-term funds declined to R13,9m from R43,6m.

In his review, former CE Gaby Magomola said advances and other accounts increased by 67% because of a planned aggressive approach to improve the bank's assets while attempting to keep the bad-debt ratio down to an acceptable level.

With the limited amount of reserves available, the bank continued to grow its home loans book which stood at about R14m at the end of September, said Magomola.

Motsuenyane said margins in SA banking last year were under pressure and African Bank was no exception.

He added that the bank suffered damages, including loss of profits, because of the foreign exchange case underming credibilty and confidence, as well as incurring enormous legal costs.

The Star Finance

Credit explosion could force interest rates up again

Star 23/3/89

58

By Sven Lünsche

The rate at which credit continued to explode during January and February suggests that the prime rate must rise above 20 percent in order to keep the economy on an even keel, Bankorp's new chief executive, Dr Chris van Wyk, said yesterday.

Addressing the Randburg Chamber of Commerce and Industry Dr van Wyk said that overall financial policy during 1989 will have to be tight enough to correct the country's present financial imbalances.

To achieve this both the fiscal policies announced in the Budget and the money supply targets set by the Reserve Bank recently would have to be strictly adhered to.

"Our calculations indicate that if the offical target range of 14 to 18 percent in the broad money supply is to be achieved, domestic credit growth will have to slow from about 30 percent in February to 15 percent in December this year," Dr van Wyk said.

"In real or inflation adjusted terms, this represents a decline in the growth rate of credit extension from 17 percent to zero in just ten short months.

Prime rate

"If such a dramatic reduction is to be achieved no room whatsoever will be left for interest rate declines this year.

"In fact ... it suggests that the prime rate must rise to 20 percent — later perhaps even higher — and remain at such higher levels for the rest of 1989," Dr van Wyk commented.

However, the continued surge in credit demand during the first quarter of 1989, was nevertheless expected to continued up to mid-year producing an average real GDP growth rate of some 2,5 percent for the year as a whole.

"Hence, it does appear that at least one further percentage point rise in official lending rates is quite possible in the near future, together with a further depreciation of the rand and possibly even more direct measures to tame the boom.

"The inflation rate is likely to rise to about 15 percent in the second half of 1989 in response to the weak exchange rate and higher GST and fuel prices," Dr van Wyk said.

Dr Chris van Wyk

"The depressing impact of a significant measure of monetary and fiscal discipline combined with other restrictive policy measures and higher inflation will be felt in the real economy from the second half of 1989, but particularly in 1990.

Dr van Wyk forecast that import volumes will drop noticeably — showing up in a growing surplus on the balance of payment in 1990, a measure which will be supported by the opportunities arising on the export side as a result of the weaker rand.

"Investing in ventures to increase exports is already making a lot of sense these days, as the risk of higher interest rates is more than compensated for by the accompanying weakness in the exchange rate.

"Indeed, for some sectors of industry the message for the next few years is clear: export or suffer!

"Acquiring an export culture and developing an export drive is really the only way in which the real economy can escape from the country's present financial strait jacket.

"In this regard an interesting new approach to official export incentives might be in the offing," Dr van Wyk said.

● Dr van Wyk has been appointed Chairman of the International Bank of Johannesburg (IBJ) with immediate effect, following the death of company chairman Dr Fred du Plessis last week. Mr Peter Gray and Mr Charles Stride continue as managing director and deputy chairmån respectively.

Newspaper report on African Bank halted

Star 23/3/89 Staff Reporter (58)

The drama inside the African Bank, sparked by the shock dismissal of its chief executive, intensified today after a court ruling to halt publication of a newspaper report on the bank's affairs.

The national distribution today of the first edition of *Business Day* was stopped this morning after the Reserve Bank obtained an urgent interdict against the newspaper.

The newspaper's main front-page story featured a letter written by Reserve Bank Senior Deputy Governor Dr Japie Jacobs. It was replaced in the newspaper's second edition by an explanatory story about the court action.

The newspaper's editor, Mr Ken Owen, said today the court proceedings before Mr Justice Goldstein had closed just after 2.30 am. He said the return date of the *rule nisi* was April 11.

The story in the affected edition had revolved around a letter written by the Reserve Bank to the African Bank.

Mr Justice Goldstein made the order to stop distribution of the newspaper with immediate effect in Cape Town, Port Elizabeth, East London, Natal and the country areas of the Transvaal and the northern Free State.

Mr Owen told the hearing the first edition was on its way to selling points countrywide and it was not possible to reach distribution agents during the night.

Counsel for the Reserve Bank, Mr W de Villiers, SC, asked for a temporary order stopping distribution, pending the outcome of a main application.

The latest episode in the African Bank drama came only 48 hours after revelations that the Transkei government had given the bank's chairman, Dr Sam Motsuenyane, a deadline of March 30 to provide reassurances about the bank's affairs, or run the risk of withdrawal of the State's R38 million investment in deposits.

Mr Magomola confirmed today that he was going ahead with legal action to seek reinstatement. He said he had advised Reserve Bank officials yesterday about the background to his dismissal.

Neither Dr Jacobs nor Dr Motsuenyane could be contacted for comment.

Clamps on report in financial paper

Cape Times 24/3/89

JOHANNESBURG. — The drama inside the African Bank, sparked by the shock dismissal of its chief executive, intensified yesterday after a court ruling to halt publication of a newspaper report on the bank's affairs.

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The African Bank's chief executive, Mr Gaby Magomola, confirmed yesterday that he was going ahead with legal action to seek reinstatement. — Sapa

58 FM/FNC

AFRICAN BANK 24/3/89

The firing line

The two crises which erupted last week appear unrelated. The firing of CE Gaby Magomola, appointed in April 1987, arose out of clashes with staff. That of treasury officer Joe Modibane was the result of a letter he wrote the Reserve Bank, asking for certain activities of the bank to be investigated.

Says acting CE Jack Theron: "He was fired because he disclosed confidential information — it was the principle involved."

The link is Modibane, who supported Magomola and asked chairman Sam Motsuenyane to reconsider his decision to fire Magomola. Modibane joined African Bank a year ago, after a close association with Magomola which dates back to 1981 when both were working in the US.

Magomola's departure follows complaints from staff about, among other things, operational losses and structural defects. He countered with suggestions that the staff moves were prompted by his attempts at rationalisation. Motsuenyane, however, refutes this. "His rationalisation programme was never discussed or made known to the managers in general."

Reports are also circulating about liberal loan policies which led to bad debt problems. But Theron says: "This took place in the days of the late Moses Maubane. After my arrival in 1986 these policies were revised."

It seems that the bank has no fundamental problems: the present situation reflects stresses within the staff.

This is the second upheaval to hit the bank in recent years. A forex scandal resulted in the conviction last August of three former staff on 99 counts of fraud and 12 of contravening exchange control regulations.

Theron was seconded from Trust Bank to African Bank, at the request of the Reserve Bank, when the forex scandal broke over then-MD Maubane. The bank was put under the guardianship of Trust Bank until Magomola's arrival — at which point Theron was appointed consultant. ■

African Bank rumpus: Motsuenyane speaks out


DR MONSUENYANE: Sent reassuring letter.

Star 25/3/89

MICHAEL CHESTER

(58)

African Bank chairman Dr Sam Motsuenyane has broken his long silence over the controversy surrounding the bank with reassurances to investors that it remains "a financial institution in good and sound standing".

The reassurances were contained in a letter addressed to Major-General Bantu Holomisa, head of the Transkei Military Council, which had given the bank a March 30 deadline to deliver new pledges on its financial soundness, or risk the withdrawal of more than R38 million in investments by the homeland.

News of the ultimatum from Umtata, one of the African Bank's biggest investors, added to the controversy sparked by the dismissal of Mr Gaby Magomola as the bank's chief executive and Mr Joe Modibane as treasury officer.

This week the South African Reserve Bank obtained an urgent Supreme Court interdict blocking the national distribution of of *Business Day*, which was set to publish the contents of a confidential letter sent to the African Bank by Dr Japie Jacobs, Senior Deputy Governor of the Reserve Bank.

In turn, Dr Motsuenyane revealed the contents of the 2 000-word letter he had sent to General Holomisa, in which he strongly defended the dismissal of Mr Magomola as being "in the best interests of the bank".

The dismissal, he said, was agreed by the board of directors only after an intensive investigation, carried out by a special subcommittee, into "the general unhappiness in the manner in which the bank was being administered".

He added: "The board remains convinced that the decision it took was the correct one and it believes that the benefits which will accrue to the bank will become visible in the near future."

Mr Modibane, he said, was summarily dismissed following a disciplinary inquiry that found he had made "scurrilous and emotive" allegations in a letter he had sent to the Reserve Bank in an attempt to bring the African Bank into disrepute.

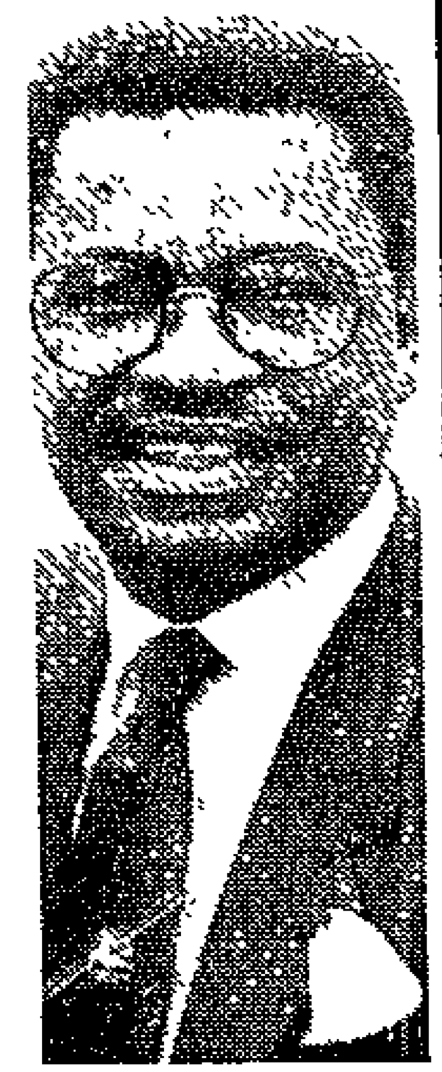
Reports that the bank was under investigation by the Reserve Bank were among a number of false and unfounded allegations that had generated adverse publicity around the bank.

"The directors have not been advised of any probe or investigation into the bank's activities," said Dr Motsuenyane.

"Obviously in the ordinary course the Reserve Bank monitors the position of all banks. We do not believe that the Reserve Bank is in any manner unduly concened about the position of the bank.

"The bank is not a debt-ridden financial institution and is a financial institution in good and sound standing.

"As chairman of the bank, I am quite confident that the directors have the necessary business acumen and financial background and ability to steer the bank on its course of stability, growth, profitability and integrity."


MR MAGOMOLA: Sacked after intensive probe.

Volcker shock tactics the muti to mend SA

S/Times, 26/3/89

(58)

REX

Cees Bruggemans reviews the local and world scene

ALTHOUGH professions do acquire stereotypes, one nevertheless encounters many variants. This also applies to central bankers.

There is, for instance, a contrast between the current chairman of the Federal Reserve, Alan Greenspan, and his predecessor, Paul Volcker. Except for the ever-present cheap cigar, Mr Volcker had a pose reminiscent of a De Gaulle — haughty, august, Olympian. One could also have described him as the thunderer.

Public appearances are an opportunity for any central banker to play to the gallery. For Mr Volcker, it meant an opprtunity to give dire warnings about the eventual outcomes if this or that were not done timeously. Most important, Mr Volcker had a Churchillian presence — a sigh here, a word there, and the world's markets trembled. If one wants to be in the earth-moving business, that is the profession to be in.

CHESHIRE

Mr Greenspan more resembles a purring Cheshire cat, as if to communicate to his audience that he is aware of everything, afraid of nothing, and mostly content with himself. Unlike his towering predecessor, who is more than 2m tall, Mr Greenspan is small of stature.

This also spills over into his projection, which is donnish. With Mr Volcker, one at times was left with the uncomfortable feeling that dire things would happen if his proposals were not followed.

Mr Greenspan does not appear to impart that aura. Instead, he appears to focus his utterences on things he does not like, leaving it at that. For instance, he considers that "the current level of (US) inflation, let alone an increase, is not acceptable". Bravo.

Instead of launching ominous warnings about higher inflation if preventive care is not taken, activating the financial markets to twitch and twitter at his every word, and to periodically nosedive as the great man once more airs his warnings, he seems to draw simple delight from saying what he does not like. This has had a soothing effect on the markets.

If Mr Greenspan says he does not like something, it is apparently considered as good as solved because he is bound to take quiet and determined action to eliminate whatever it is he does not approve of.

Mr Volcker used draconian shock tactics by allowing interest rates to go all over the place before the message finally sank in among the populace that it was no longer business as usual, that habits had to change, that inflation was public enemy No 1, a worm that had to be trampled on.

Mr Greenspan is using different tactics altogether. Perhaps he can afford the luxury of the gradualist approach because strong inflationary expectations are not now deeply ingrained in the public mind.

Although that is so, there is something charmingly disarming about the Greenspan approach of the past year. Mr Greenspan first of all came through his batpism of fire with flying colours. Only two months into his regency, Wall Street went into an unprecedented spasm.

OVERDRIVE

As cool as a cucumber, he authorised the opening of the monetary taps, providing liquidity when it was most needed, maintaining a confident public posture while persuading and no doubt arm-twisting institutions and foreign colleagues alike to do his bidding to head off what was potentially a monumental crisis.

That not-so-public success elevated his standing in the financial community immensely. However, such crisis management was also true Volcker-style. Mr Volcker in his day had the Mexican near-default and the Continental-Illinois bank collapse to contend with, both of which problems were diffused with consummate skill.

The real Greenspan mettle surfaced in the months after the October 1987 stock market debacle. By March 1988, the markets had concluded that no financial collapse was imminent and that the economic engine had gone into overdrive, fuelled by the worldwide lowering of interest rates. The US economy continued to grow, restructuring its imbalances as its export performance roared on

This capitalistic perestroika was investment-driven and also evident in Europe and especially the Far East. However, an accelerating investment boom can ignite a positive income cycle, as South Africa has also been experiencing since last year.

Such accelerating investment spending places new income in the hands of consumers, who in turn tend to spend It thus reinforces the economic growth momentum, but it also maintains import growth. Although the intense US investment brought about new export capacity and opportunities for import substitution, which together are the only real positive answers to a trade imbalance, such enhanced economic activity along with newly invigorated consumer spending tend to take the economy to higher utilisation levels in both labour and goods markets

In the end, this takes one to the point of overheating, unleashing inflationary forces, especially inflationary expectations.

In addition, the new lease of life given to import growth tends to lead to a stalling in the trade adjustment process because the export and import substitution efforts require time to benefit from all the frenzied new investment activity

With minimal contribution from fiscal policy, it is up to monetary policy to steer and prepare the economy for when it reaches its resource limits. Instead of lots of arm-waving that would have made the markets jittery and perhaps prematurely disrupt the restructuring growth phase, Mr Greenspan rose to the occasion.

With studied nonchalance, short-term interest rates were allowed to start rising, so gradually and yet so persistently that nobody took fright, and all in time seemed to accept a "soft" landing as self-evident and inevitable Such growing confidence was a far cry from the near panics of recent years when people could only think of imminent collapses.

For a full year now, Mr Greenspan has been positioning US monetary policy to ensure a gradual slowing of the domestic economy, which may allow sustainable non-inflationary growth and continuing trade adjustment without further stock market theatrics.

Bringing in this leaky boat in choppy weather would truly be a feat of competent management. Like Mr Volcker before him, Mr Greenspan is likely to be at least a two-term chairman — provided that he delivers the goods by 1991.

INGRAINED

It is a Herculean task, but possibly not beyond Mr Greenspan's ability to accomplish — the markets, Congress and Mr Bush being willing.

It is a pity that a similar monetary policy in SA does not at present reap similar benefits

The most likely explanation is that our inflationary expectations remain too deeply ingrained

We apparently only listen to Volckerian shock tactics, which is ever so wasteful and yet apparently inescapable

Insurance plan a boon for domestics

By CONNIE MOLUSI

A NEW retirement insurance plan is set to improve the lives of domestic workers after retirement.

The plan – introduced by insurance broker David Byrd – provides a life cover and incorporates a saving element for retirement.

Byrd said he was motivated to devise the scheme by the belief that "any relationship between employers and employees can only be enhanced if the employers look to the welfare, regular salary increases and good working conditions for workers".

"Often the relationship that develops between employers and domestic employees takes a deeper meaning. Domestic workers spend most of their time with the children of their employers, and very often a special bond is forged by these conditions," he said.

The plan is aimed at getting employers to make a meaningful contribution to the welfare of domestic workers. Employers can contribute a premium.

The plan is a boon to domestic workers, who are not protected by the country's labour relations laws.

Without regulated minimum wages, domestic workers do not usually have enough money for savings and investment, and have to spend their retired life depending on their children, which does not provide security.

The scheme is tailored to meet the needs of domestic workers, most of whom work without security, and can be dismissed at an employer's whim.

Daily [illegible] 26/3/89

Week of high drama for the African Bank

S Times 26/3/89 (58)

By MANDLA TYALA

THE African Bank, South Africa's only black financial institution, stood precariously on the brink yesterday as shareholders prepared for what is expected to be a stormy annual meeting on Wednesday.

In a week of startling developments in the saga that began when African Bank chief executive Gaby Magomola was suddenly fired:

- African Bank chairman Sam Motsuenyane gave assurances to the Transkei Government that the bank is in "good and sound standing".

The homeland's leader, Major-General Bantu Holomisa, had threatened to pull out his country's R38-million investment;

- It emerged that Dr Motsuenyane earns more than R70 000 a year — more than three times the income of the average non-executive bank chairman, according to industry sources.

The bank, recently rocked by a foreign exchange scandal, has experienced a 45% drop in earnings in the year up to September 1988. Reserves have dropped 47% to R76 000;

- The Reserve Bank won a post-midnight interdict stopping the distribution of an edition of Business Day which disclosed the contents of sensitive correspondence to the African Bank;

- It is understood that the summary dismissal of Mr Magomola last week has caused grave concern both in local banking circles and overseas, where several projects he initiated may be in jeopardy.

Dr Motsuenyane said this week that the 13-year-old bank had weathered storms in the past and would do so again.

He said Mr Magomola had lost the support of some of his subordinates and was dismissed after an "objective and very careful investigation".

Mr Magomola, widely regarded as the man who had the credentials to bring respectability to black banking, was also blamed for overstaffing the bank.

But it is understood there is dissatisfaction within the bank over the Magomola rumpus and Dr Motsuenyane's emoluments have come into question.

From Page 1 (58)

Bankorp

work on those factors which benefit earnings a share.

"We will maintain relatively high dividend cover because we do want to make rights issues which will dilute earnings. We will retain sufficient earnings to fund our growth."

The group hopes for a consistent increase in earnings and dividends at a rate which exceeds inflation.

S/Times 26/3/89

Bankorp hot on heels of the leaders

(58)

S/Times 26/3/89

By Ian Smith

CHRIS VAN WYK

THE executive shake-up in Sanlam's diversified banking operations will result in the emergence of a group which will challenge giants Stanbic and First National.

Former Trust Bank managing director Chris van Wyk, 51, has lost no time in pulling together the reins of South Africa's third-largest banking group, Bankorp.

With balance-sheet footings at the end of December of R27-billion, the Bankorp group is not far behind Stanbic's R35-billion and First National's R34-billion.

Chairman

Dr Van Wyk — one of Business Times' top five businessmen in 1987 — moved into the new post of chief executive officer of the Bankorp group this week.

He has also been appointed chairman of the constituent companies, Trust Bank, Santambank, Senbank, Bankfin and Bankbes, which provides group management services, and International Bank of Johannesburg, the group's 50% joint venture with an international financial institution.

Dr Van Wyk says his new role will result in his being more involved in strategic issues and less in day-to-day banking.

Critical

There will be no major change in group direction: "After all, I have been part of the executive management team for several years and we have a clear strategic direction. The new challenge to me is to implement the decisions which enable us to reach our targets."

Member companies of the group will work increasingly closely while Dr Van Wyk moulds the Bankorp team.

"I believe in teamwork and common vision with a specific focus on excellence. An important part of my job will be to shape and strengthen group values.

Communication among member companies will be improved.

"We will need effective interaction which will open up opportunities for the team to think more creatively."

The good news for shareholders is that Dr Van Wyk believes one of the most critical issues facing the banking industry and Bankorp is the need to increase profitability.

Fierce competition in the financial services sector has lowered margins to unrealistic levels, says Dr Van Wyk.

Bankorp has increased its market share in the past two years, but the emphasis will move to increasing profits.

Growth has been part of a strategy to strengthen the group's foothold in the market, mainly to enable it to recover the huge costs of hardware, software, branch networks and people through economies of scale and larger volumes.

"It has almost become an obsession in the industry that competition must be increased and that there should be more entrants to the market," says Dr Van Wyk. "But the test must be whether the public really benefits."

Expedient

There is already a shortage of banking skills, and if profitability is eroded, the quality of service will suffer.

More attention will have to be paid to profitability while banks work to meeting the requirements of the Banks Act by the end of 1992.

"At the moment it is expedient to portray us as fat cats. But we are still the custodians of the wealth of the people. It is in the interests of the whole community that we have an efficient and profitable banking sector."

Another major challenge which banks must face is how to provide a better service for lower-income groups: "This sector has unique requirements."

Dr Van Wyk says Bankorp will increasingly tend to

To Page 2

S Times 26/3/89

Sage record

58

Business Times Reporter

SAGE Holdings achieved a 30,7% growth in taxed profits and increased its earnings a share and dividend in the year to December 31, 1988.

Preliminary results show continued expansion in the group asset base to R1,6-billion at the yearend, taxed profit increasing to a record R34-million.

After allowing for increased earnings attributable to minorities in subsidiaries and preference dividends, profit attributable to ordinary shareholders increased by 13,5% to R24-million.

Earnings a share rose by 13,5% from 100,05c in 1987 to 113,53c, based on the weighted average number of ordinaries in issue.

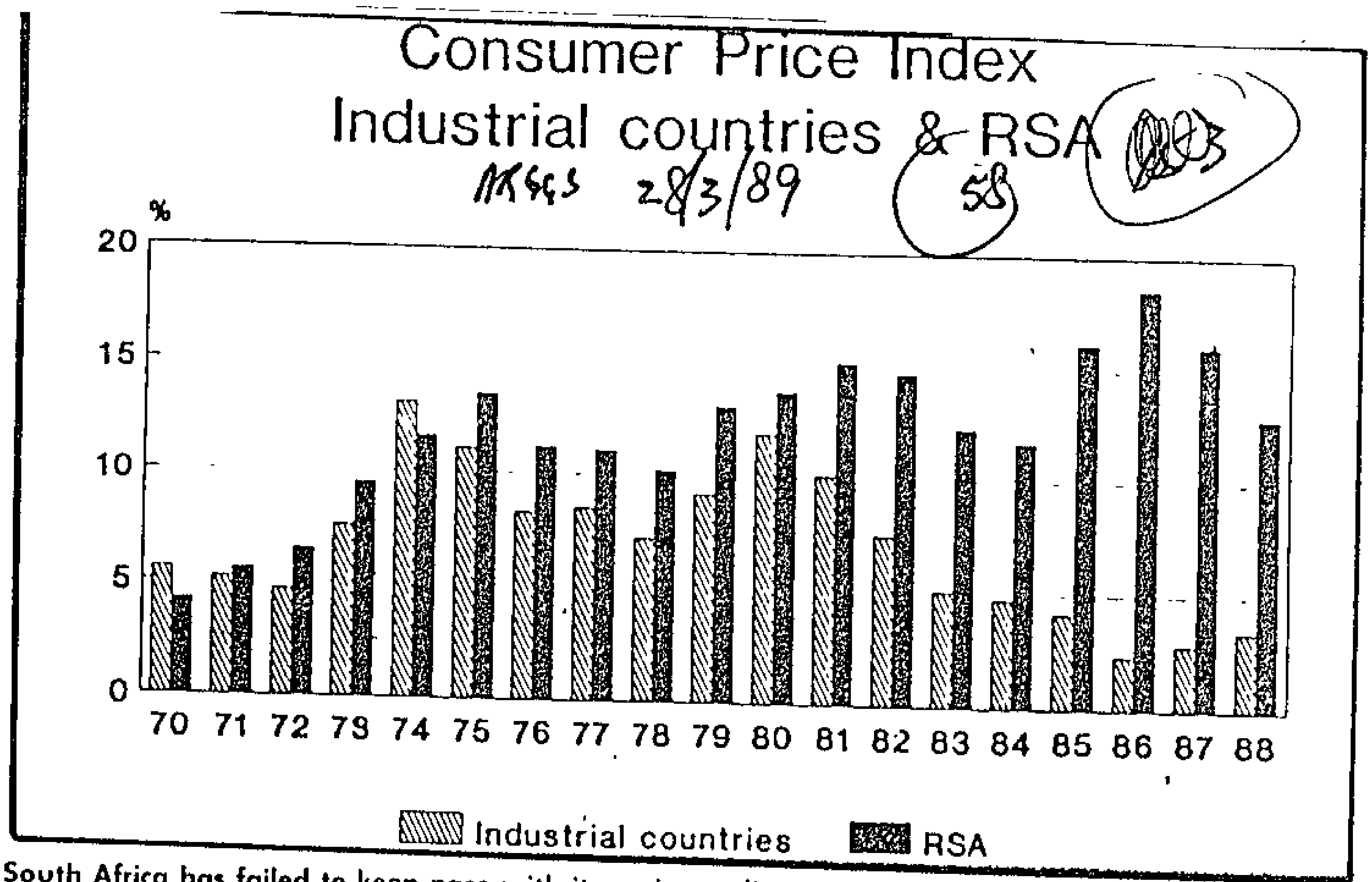
Sage's final dividend is unchanged at 38c. The total distribution is 60c compared with 58c in the previous year.

In line with the policy of twice-covered dividend in the major group subsidiaries, Sage Holdings has increased its cover to 1,89 from 1,72, reflecting current high interest rates and the large proportion of income from associated companies.

Pre-tax profit for 1988 includes attributable retained earnings of associated companies amounting to R9-million.

The profit in 1988 emanated from both financial services and the property and construction division. Financial services, which is scheduled for a listing by mid-year, contributed about 72% of group net earnings.

Sage Property Holdings reported a 34,9% increase in net earnings for 1988 to R7-million.



South Africa has failed to keep pace with its major trading partners in the fight against inflation. This graph clearly shows the strong impact high oil prices had on the inflation rates in the West and how quickly the strict fiscal and monetary measures that were adopted paid off. Volkskas says in its latest Economic Spotlight that South Africa has been unable to shake off the stranglehold of a high inflation rate. The bank says excessive growth in money supply played a pertinent role. Volkskas says seen its entirety, and especially at times, the fiscal policy in the years 1974-75 and during the 1980s was too expansive and not always in accord with the monetary policy.

ECONOMY

Call to halt interest rates spiral

WASHINGTON. — Industrial nations have called a halt for now to the spiral in worldwide interest rates, but officials are braced for new, painful increases unless inflationary pressures ease in the weeks ahead.

Dearer money would not only slow and possibly jeopardise economic growth in rich countries but also add billions of dollars to the interest bill of developing countries, blunting the benefit of the new US plan to slash Third World debt.

This nexus of problems will preoccupy the world's finance ministers when they gather here from March 31 to April 4 for the regular spring meeting of the 151-nation International Monetary Fund (IMF) and World Bank.

Although US Treasury Secretary Nicholas Brady's March 10 debt initiative will dominate the talks, officials recognise that the plan will not count for much if they cannot keep world trade growing and stop interest rates rising.

The 15 biggest debtors alone paid $10-billion more in interest in the past year, according to IMF managing director Michel Camdessus.

"Let us not lose sight of the contribution that industrial country governments could make to the recovery prospects of the indebted countries by progressively dismantling barriers to international trade and by adopting a more balanced mix of anti-inflationary financial policies," he said last week.

The big culprit in the eyes of most economists is the United States, which is likely to come under pressure yet again from its allies to cut its huge budget deficit.

"The foreign ministers who come to this country are more than interested in what we do about this problem," Brady says. "I tell them, we're going to get there one way or another."

The red ink in the government's accounts, expected to rise to $163-billion dollars this year, is a root cause of inflation because it soaks up scarce resources and domestic savings at a time when the economy is running close to full capacity.

This means not only that the nation must import vast amounts of capital every year — the mirror image of the trade deficit — but also that the Federal Reserve has had to raise interest rates steadily to let some steam out of the economy.

With some tentative signs emerging that US. growth is finally slowing, the central bank's chairman, Alan Greenspan, has indicated that he would not push rates any higher for now.

West Germany's central bank also signalled a pause in its credit tightening recently by lowering a key interest rate

"Whatever was exercising the Germans a few months ago has stopped. They don't seem too concerned at the moment," a senior US official said.

But central bankers, while crossing their fingers that the worst is over, are not declaring victory over inflation yet.

"Governments and central banks stand ready to respond promptly if further policy action turns out to be required," Bank of England governor Robin Leigh-Pemberton said last week.

Some economists say the threat of US inflation to the world economy is so severe that industrial nations should let the dollar rise. A higher dollar would make US imports cheaper and dampen growth by hurting American exporters.

"Having a higher dollar for a temporary period is preferable to ending up with higher interest rates later on," said Jim O'Neill, an economist with Swiss Bank Corp in London.

But the senior US. official said he had not detected any support within the Group of Seven industrial nations — the United States, Japan, West Germany, Britain, France, Italy and Canada — for a change in the G-7's exchange-rate arrangements.—Sapa-Reuter

IN THE MONEY MARKETS

Harold Fridjhon

What's going on in the garden?

(58)

B/Day 28/3/89

SENTIMENT in the money market has become progressively bearish during the six days which have followed the presentation of the 1989/90 Budget.

Since the authorities have reverted to the undesirable practice of manipulating the Treasury Bill (TB) rate, the barometer which best reflects market expectations of future trends in interest rates is that for 90-day liquid bankers acceptances (BA).

And most ominous is last week's upward thrust of the BA rate.

The first sign of unease and doubt about fiscal policy as unfolded by Finance Minister Barend du Plessis was manifest on the Friday after Budget day. It moved up by five points to 16,45% having remained steady at 16,40% for about a week. Last Monday, it went up another five points to 16,50% on the Tuesday, by 10 points on Wednesday and by 15 points last Thursday to reach 16,80%, a peak since August 1985 when prime was at 18%, but on the way down from 24%.

Significantly, however, prior to that the BA rate stood at 16,57% in November 1983 just before prime moved up to 19% on its way to 20%, which it reached four weeks later.

There are probably two main reasons for last week's acceleration in the BA rate: in order to monetise some of their advances, some banks have hurled excessive quantities of BAs at the discount houses which have progressively raised their rates to attract investors and even at 16,80% discount — which gives a positive yield of about 17,526% — investors are not interested.

Prevailing

They can do better with one-month negotiable certificates of deposit (CDs) which yield 17,60% and this rate is more attractive than being locked into a BA for three months for a marginally lower return.

In the prevailing bearish climate, portfolio managers prefer investing short lest rates move up against them. On overnight call, the Big Money investors are getting 17,25% with the probability of this rate rising at the end of the month — if the Reserve Bank does not indulge in open market operations.

Direct central bank intervention is improbable because the Governor is applying a strict monetary policy. But the Bank might buy BAs or insinuate deposits into the market from the parastatals or the Corporation for Public Deposits (CPD) over the month-end to keep interest rates from making Bank rate an ineffectual and meaningless benchmark.

Before the banking sector's books were squared on Thursday night, the market shortage had leapt to R2,5bn from R1,9bn — it was R1,5bn last Monday — as GST payments started flowing into the Treasury and as the note issue passed the R7bn mark and was set to go higher to finance holiday-makers's demands.

The Bank will probably try to assess how much bank illiquidity is a holiday phenomenon before taking any action. But the authorities will be hard put to convince investors their perception on rates is erroneous and that in spite of a current account deficit and the pressure on the reserves, the flowers in the autumnal garden are blooming.

Bonds are really and truly stuck in a bear pit

THE bond market is a bear pit.

And the only question that dealers and traders are asking is how much further will yields rise before buyers looking for bargains will puncture the balloon?

The well-traded Eskom loan 168 11% 2008 was priced to yield 16,615% before the Budget announcement that prescribed assets for life offices and pension funds were to be abolished. The stock closed at 17,37% on Thursday with some dealers talking the yield up to 17,50%, regardless of what sting there might be in the regulations which will govern institutional asset mixes in the proposed new legislation.

The well-traded 13% 2005 RSA bond, which is denied the market-making liquidity of the Eskom 168, was selling to yield pre-Budget 16,54% ~~is now~~ up to 17,36%.

(58)

Lively

B/Day 28/3/89

And the short-dated Sats 12,5% is now 16,75% up from about 15,77%.

While turnover last week in the JSE gilt market was not as lively as in the previous week, it did touch R3bn.

Dealers say that much of the movement in prices is being dictated by activity in the options market where the price of puts for the May options has increased from R1 000 to R4 700.

Traders are selling short with the comfort of knowing that borrowing physical stock for delivery, though a little costly, is not too difficult.

The Treasury is due to come to the market soon to start its borrowing programme for the current fiscal year. The market reports that the Reserve Bank was said to have put out feelers to ascertain whether the major institutions would be receptive to a tender offer for new bonds. The reaction reportedly was not favourable, at present. Presumably they are awaiting publication of the new regulations contained in the legislation abolishing prescribeds before coming to a decision.

Another rate rise possible

58

Star 28/3/89

SVEN LUNSCHE

THE RATE at which credit continued to explode during the first quarter of 1989 suggests that the prime lending rate could rise to 20 percent before July this year.

This is the consensus of leading bankers and economists, who suggest that consumers are still taking out loans at a rapid rate to finance major transactions.

An increase in the prime rate, currently at 19 percent, is inevitably followed by rises in most other interest rates, including home mortgage loan (bond) rates.

All evidence this week was pointing to higher interest rates. The crucial 90 day Bankers Acceptance rate on Thursday rose by 0,15 percentage point on Thursday to a close of 16,8 percent.

It has now rise by almost 0,40 percentage points since the Budget announcement and bankers will undoubtedly argue that their margins will be squeezed by the higher money market rates.

Bankorp's chief executive Dr Chris van Wyk said this week that if monetary targets, set earlier this month by the Reserve Bank, were to be met, the banks would have to cut back severely on their credit extensions to customers.

"Our calculations indicate that in inflation-adjusted terms, this represents a decline in the growth rate of credit extension from 17 percent to zero in just ten short months," Dr van Wyk said.

"If such a dramatic reduction is to be achieved prime must rise to 20 percent," he said.

His statements were echoed by other bankers, who suggested that the explosion in credit was also evident during the first few weeks in March.

In January alone the banks extended R2 billion worth of new credit, bringing the total level to a staggering R87,6 billion.

It was reported that credit extended by the bank in March had already exceeded the one percent increase set as a monthly target by the Reserve Bank recently.

Trust Bank economist Nick Barnardt said that while there was some easing in the demand for credit over the last few weeks, it was essential that the slowdown continued.

"Otherwise a one percent rise in prime seems inevitable before the end of June," Mr Barnardt said.

FNB is top company with assets of R28bn

CHARLOTTE MATHEWS

TOTAL assets of R28bn in 1988 put First National Bank at the head of the list of the top 100 companies ranked by total assets in a recent survey released by McGregor's On Line Information.

Banks filled the top five places in the survey.

FNB was followed by Bank Holding Corp with total assets of R22,4bn, Standard Bank Investment Corp with R22bn, Nedbank with R16,8bn and Volkskas with assets of R15bn.

Barlows, in sixth place, was the largest industrial/mining concern with R13,6bn in assets. It had the highest return on shareholders' funds — 26,1% — of the top 10 companies in the survey.

FNB's return on equity was 20,3% in 1988, slightly down on 1987's 20,5%.

Palamin achieved a 43,2% return on equity in 1988, Rusplats 33,9%, and Consolidated Gold Fields 32,8%.

CHAIRMAN WARNS AGAINST INSURANCE PREMIUM CUTS

58

A WARNING against premature reduction in short-term insurance premiums has been sounded by SA Eagle Insurance Company's chairman Fred Haslett in his annual review. MDM 28/4/87

LIZ ROUSE

After good results some companies have done so, ignoring the effects of a high inflation rate and increasing costs in their efforts to increase market share.

Haslett said such action could only lead to serious market consequences for the industry and was one of the contributing factors in the collapse of AA Mutual.

Business Report

AVI offers R41,8m to shareholders

Cape Times 28/3/89

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JOHANNESBURG. — The proposed rationalization scheme of Anglovaal Industries (AVI), involving a cash pay-out of R41,8m, if accepted, will result in the JSE listings of five AVI companies being terminated.

The companies involved are T W Beckett, Globe Engineering, Steelmetals, South Atlantic Corporation and Avbak.

The details of the scheme which were published today, reveal that the cash pay-out of R41,8m will be for minority interests in T W Beckett, Globe Engineering, and Steelmetals, a shareswop of AVI shares for South Atlantic Corporation's ordinary shares and the redemption of the latter's cumulative preference shares as well as those of T W Beckett and Avbak Food Holdings at a total cost R1,4m.

AVI says that its group structure is complex and that some of its subsidiaries' activities currently cut across the lines of the group's investment holdings.

This will be corrected by the rationalization of the investment holding structure and it is expected that substantial advantages will result.

The R43,2m required to buy out the minorities and to redeem the preference shares will be provided from AVI's group resources.

In the short-term AVI's consolidated results will not be affected significantly by the moves, but substantial operating benefits and administrative cost savings will accrue in the longer-term, AVI says.

The rationalization proposals are as follows:

South Atlantic ordinary shareholders will be offered 90 AVI ordinaries for every 100 held. This means that AVI will have to issue a further 2 805 652 ordinaries, as the group is already the beneficial owner of 76,9% of South Atlantic's ordinary equity.

Based on the ruling share prices on March 22, South Atlantic ordinary shareholders will in effect receive a premium of 11,3% for their shares and, although pro forma dividends are expected to decrease slightly, the underlying NAV will be 47,5% higher.

South Atlantic will also redeem all of its outstanding 6,5%, R2 redeemable cumulative preference shares and its 8%, R1 redeemable cumulative preference shares on June 30.

The former will be redeemed at R2,25 each and the latter at par. After allowing for the AVI group's own holdings of these shares, the redemptions will cost R320 544.

T W Beckett is to offer its minorities R1 325 cash for every 100 ordinaries held.

With the AVI group holding 71,2% of these shares, R23 230 165 will be needed to settle the offer.

Beckett's minorities will not be receiving a dividend for the current year, but the offer price takes this into account.

Based on the March 22 market price of Beckett's shares, the offer is equivalent to a 32,5% premium.

The Beckett 6%, R2 cumulative preference shares will be converted into redeemable preference shares and redeemed at par on June 30.

This will be equivalent to a redemption premium of 167% on the last market price and will cost R250 000.

Globe is to offer R2 650 cash for every 100 Globe shares held, which will cost R15 034 563, after allowing for the 83,8% owned by the AVI group.

Based on Globe's market price on March 22, this is equivalent to a 65,6% premium, which takes into account the non-payment of a dividend for the current year.

In the case of **Steelmetals,** the offer will be R425 cash for every 100 ordinaries.

Because the AVI group owns 73,6% of Steelmetals' equity, the total cost consideration will be R3 569 618.

Although the scheme is expected to become operative before June 30, it is unlikely that Steelmetals would have declared an ordinary dividend for the current financial year.

Based on Steelmetals' JSE price on March 22, the offer is equivalent to a 11,8% premium.

Avbak proposes to convert its 5,5%, R2 preference shares into R2 redeemable preference shares and then redeem them at at par.

This will cost R800 000. The redemption gives a premium of 199% on the last traded market price. — Sapa

Star 29/3/89

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Surging BA rate puts pressure on prime

By Sven Lunsche

The three months Bankers Acceptance (BA) rate closed at the crucial 17 percent mark for the first time in almost four years yesterday, as analysts predict further upward pressures on interest rates in months to come

Since Budget day the BA rate has now moved up by over 60 percentage points.

The mood in both the money and the capital markets has been bearish ever since the Budget two weeks ago and bankers have already indicated that an increase in the prime overdraft rate to 20 percent is necessary to protect their margins The prime rate is currently at 19 percent.

Sources in the banking industry say that, although the Reserve Bank seemed reluctant to agree to a higher Bank rate at this month meeting with bankers, most financial institutions are working on the assumption that a one percent rise is imminent.

Economists also say that a rise in interest rates was essential to curb any possibility of a further rise in consumer expenditure.

This situation has been exacerbated by the continued low level of the gold price, the country's major source of foreign exchange revenue.

The combination of a lower gold price and the continued high level of domestic demand led to the one percentage point rise in the Bank rate by the Reserve Bank earlier this month.

Against the background of yesterday's fall in the gold price, it is evident that both these economic factors are still causing headaches at the Reserve Bank.

The Bank is using an average $400 gold price as its target for this year's current account surplus and the recent volatile performance by bullion is a strong indication that monetary policy will have to be tightened once again.

There has been some indication that credit demand is slowing down.

The M3 money supply figures for February had the annual increase in M3 within the required target range for the first time in over a year and many traders in durable goods have stated that there has been a slowdown in demand for their goods

Nevertheless the money supply rise was still high and economists feel that a further one percentage point hike in prime will put the lid on the possibility that economic demand will continue at such a pace as to threaten the country's balance of payments.

Economists comment, however, that rates should peak towards the middle of the year.

Louis Geldenhuys, economist at Goerge Huysamer and Partners, said last week that it appeared a foregone conclusion that interest rates are still under upward pressure.

"In terms of traditional economic cyclical forces it may be unwise to expect delcines before late this year. I am, however, convinced, that rates will peak in 1989 and it is merely a question of how much rates could still rise and the timing of the peak," Mr Geldenhuys said.

He based his prediction of a fall in rates mainly on the fact that the economy had already started and was continuing to loose further momentum.

"It is merely a situation that the slowdown is too slow to undo upward pressure at this stage. However, there are processes at work which limit the upward potential of interest rates," Mr Geldenhuys said.

Matie students' 'controversial' Lusaka meetings spark row

Star 2/11/85

Own Correspondent and Esmaré van der Merwe

CAPE TOWN — President Kenneth Kaunda of Zambia would be prepared to meet his counterpart in South Africa if the country fulfilled its commitment to free elections in Namibia.

This was revealed yesterday by the chairman of the Students' Representative Council (SRC) at the University of Stellenbosch, Mr Pierre van der Spuy.

He was one of 18 Matie student leaders who visited Lusaka last week at the invitation of Dr Kaunda.

President Kaunda ... "I do not hate Afrikaners."

Speaking from Windhoek — the second leg of the students' southern African tour — Mr van der Spuy said that during a three-hour meeting, President Kaunda expressed hope that South Africa's political problems would be solved. He urged South Africans of all races to become true Africans.

President Kaunda told the students that he did not "hate Afrikaners, but rather the things President Botha and his regime are doing".

The Zambian visit, which included talks between three student leaders and the ANC, has sparked a controversy because the students did not inform the university authorities of the planned meeting with the outlawed organisation.

The students also met representatives of the Zambian Youth Movement, the Netherlands, the German Democratic Republic, Cuba, Tanzania and Zimbabwe.

Tour leader Mr Mark Behr, a former Nusas chairman, said the ANC had "excellent and well-considered proposals and constitutional guidelines" for South Africa. A future political dispensation would not be negotiated successfully without the ANC's participation.

The student group expect problems at Stellenbosch because they are accused of ignoring an SRC motion not to speak to the ANC.

Mr Behr said: "As a group, we are distressed by the way our statement has been manipulated by newspapers. We explicitly stated that the tour can be seen as a victory for the University of Stellenbosch and South Africa, and not as a victory for the ANC.

"It's a pity that certain members of the SRC said they felt betrayed, and spoke to the press without discussing the exact dynamics of the tour."

He said many of the issues had been cleared up at an SRC meeting before the group left for Lusaka. One of these was that the group was not sponsored by the Institute for a Democratic Alternative for South Africa (Idasa), but rather by Western governments.

Regarding the SRC's motion not to speak to the ANC, five SRC members, including Mr van der Spuy,who were in Lusaka as "individuals", did not participate in the forum with the ANC delegation.

Mr Behr said: "The fact that these issues had been cleared up, but are now being brought up again by some members of the SRC, reeks of a move to discredit the ultimate value of the tour, which was to break the country's isolation."

He said the meeting with President Kaunda had been very fruitful.

Further rise in interest rates likely

Star 2/11/85

Finance Staff

An increase in interest rates is looking probable as bankers demand a higher prime overdraft rate to protect them from soaring money market rates.

The three months Bankers' Acceptance (BA) rate closed at the crucial 17 percent mark for the first time in almost four years yesterday, as analysts predicted further upward pressures on interest rates over the next few weeks.

Bankers have already indicated that an increase in the prime overdraft rate to 20 percent is necessary to protect their margins.

The prime rate is currently at 19 percent and a rise is usually followed by higher general interest rates, including bond and hire-purchase rates.

Mr Louis Geldenhuys, economist at stockbrokers George Huysamer and Partners, said last week interest rates were still under upward pressure.

● The gold price has fallen by about $10 over the last 24 hours, in response to a seven-month high in the US dollar.

Bullion, often held by speculators as an alternative to dollars, slipped to a close of $382,75 in New York last night, after closing in London on Monday at around $394. In Hong Kong today the price opened $7 down at $384,60.

● See Page 11.

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Star 29/3/84

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● See Page 11.

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No evidence economy has slowed

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Pressure for another hike in Bank rate

B/Day 29/3/89

GRETA STEYN

PRESSURE for another increase in Bank rate emerged yesterday as the key BA rate rose to 17% — its highest level since August 1985.

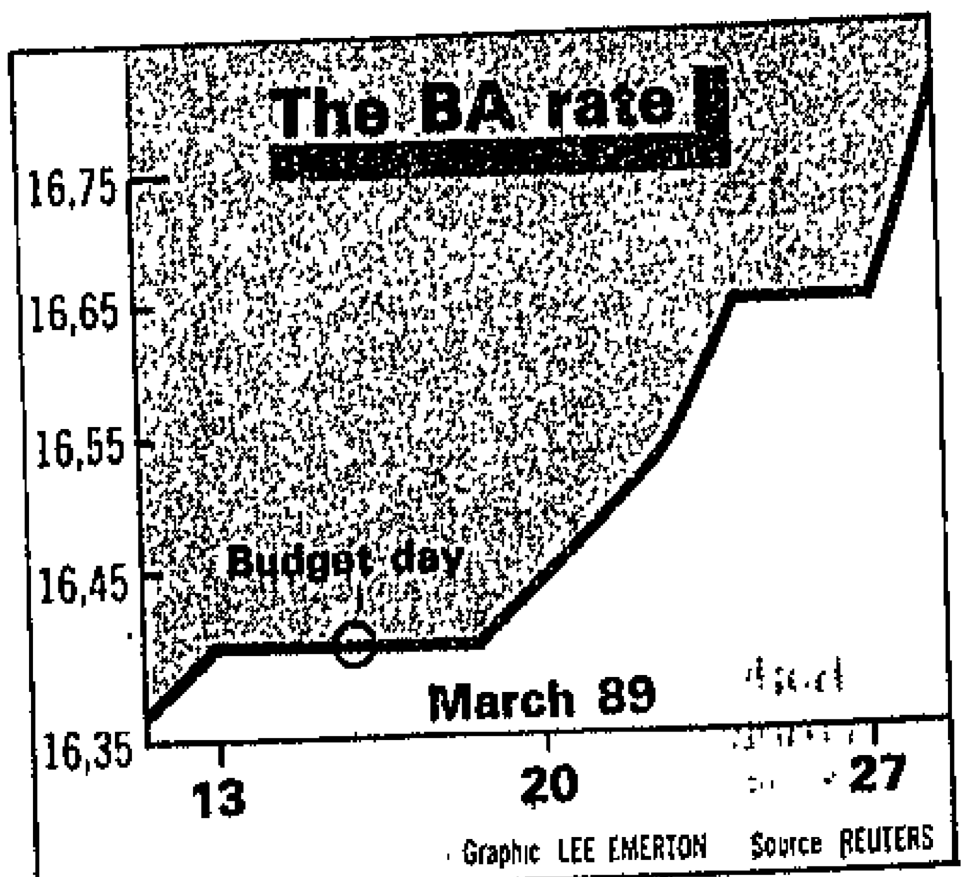
Sentiment in the money market is growing more bearish by the day on the belief that the Budget should have been tighter. Evidence that credit demand was still too strong underpinned the trend and the BA rate has moved up 60 points since the Budget on March 15.

Major banks are dealing on the assumption that Bank rate will rise by at least another one percentage point. However, a banker said yesterday the Reserve Bank had appeared reluctant to raise Bank rate again at its meeting with bankers this month.

● Comment: Page 4

Economic indicators have not yet provided any clear evidence that the economy has slowed down. A banker said the growth in bank credit was "far in excess" of the Bank's benchmark of 1% a month.

In addition, the balance of payments is still under pressure. Gold yesterday slipped to below \$385 an ounce, substantially below the Reserve Bank's average



of \$400 used to target the current account surplus for the year. Economists warned a repeat of last year's current account deficit in the first quarter was becoming a distinct possibility, saying this signalled monetary policy might have to be tightened yet again.

A discount house dealer said: "The market believes fiscal policy will not do enough to cool an overheating economy. The onus will probably have to fall on monetary policy to rein in domestic demand."

The BA rate is well on its way to

● To Page 2

Pressure for another hike in Bank rate

58 B/Day 29/3/89

● From Page 1

discounting another increase in Bank rate. It is already 70 points above the Bank's 16,30% rediscount rate for liquid BAs — the rate at which the Bank supplies cash to the banking system in return for BAs.

The demand for BA finance continues unabated and a significant amount of paper is flowing from the banks to discount houses. However, there are few buyers of BAs as investors expect rates to rise more and they are reluctant to lock into rates now.

Their reluctance is driving rates up on most money market instruments, with the rate on 12-month Negotiable Certificates of Deposit (NCDs) rising to 17,75% from 17,25% a week ago. Dealers said one-year NCDs were set to reach 18% as investors would not settle for anything less. The effective return on three-month liquid BAs is already 17,72% and that on non-liquids is 18%, which means investors are getting a real return.

Finrand weakens to R4,1650 58

LIZ ROUSE

THE financial rand came under pressure yesterday, weakening to R4,1650 to the dollar from R4,14 on Tuesday, mainly on heavy foreign offloading of De Beers shares on the JSE.

However, generally bearish sentiment about the finrand remains the basic factor depressing the currency. Dealers said no one was prepared to go long on the finrand because of lack of demand.

Meanwhile, this week saw large-scale creation of finrands in London through heavy sales of De Beers. The value of transactions in De Beers on the JSE climbed to nearly R150m in seven days' trade. B/Day 30/3/89

The result was a large pool of finrands for which there is no immediate foreseeable demand. There has been no local disinvestment factor to affect the finrand.

Bond rates up again

Business Staff

ARGUS 30/3/89

MAJOR building societies have notified mortgage borrowers of another increase in bond rates — at a time when the Reserve Bank is resisting pressure to increase the bank rate yet again.

The Natal Building Society, United Building Society, Perm, Provincial and Saambou have all sent out notices increasing their rates. Saambou has boosted its rate from 18,25 to 19 percent from May 1. Its commercial bond rate moves from 19 to 19,5 percent. The others have moved their rates on domestic dwellings from 18 to 18,75 percent.

Mr Barry Witfield, the Perm's general manager, marketing, said the new Perm rate of 18,75 percent applied to normal domestic dwellings. But bonds for commercial buildings increase to 19,75 percent, from 19 percent.

The effective date of the increase varied but, generally, the higher Perm repayments would be due from May 15.

Immediate effect

The UBS said its rate moves to 18,75 percent immediately for new bonds. For existing bonds the effective date is May 1.

Mr Brian Short of the NBS said his society had tried to keep the rate down for as long as possible.

But the Allied Building Society already had announced a move to 18,75 percent, First National Bank to 19 percent and Standard Bank to 18,75 percent.

As a result of the upward pressure, the NBS had lifted its deposit rates from March 20 and it was, therefore, necessary to adjust its lending rate. This would be effective from May 1.

Mr Short said the NBS would accommodate borrowers facing hardship as a result of the latest rise as bond repayment costs had soared by more than 50 percent in the past year.

R772 rises to R801

Borrowers with R50 000 bonds will see their repayments move from R772 to R801 a month as a result of this newest increase.

Those in difficulty could approach the NBS with a request that their repayment period be increased. This would mean holding repayments at current levels. Mr Short emphasised that this should be done only if essential.

Meanwhile building society chiefs today said they hoped rates in general would not increase again.

Yesterday, the banks were alive with rumours of another increase in the bank rate which would push mortgage rates up yet again. However, the Reserve Bank is reported to have eased the liquidity shortage and a Department of Finance official described the new market pressures as artificial.

● Low gold threatens Budget, page 23.

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IN THE BALANCE

Big row rages at the African Bank indaba

Sowetan 30/3/89 (58)

SOWETAN REPORTER

SHAREHOLDERS of the embattled African Bank were startled at their annual meeting in Johannesburg yesterday to hear allegations by a former executive that the bank would have faced collapse unless the South African Reserve Bank had come to the rescue.

The allegations were lodged after Mr Motsuenyane, chairman, had give shareholders the assurance: "The solvency of the African Bank has never been in dispute.

"Like in any bank at one time or another, there has been need for assistance. But our present position should cause no concern about solvency."

Despite heavy legal costs in the aftermath of a dramatic series of foreign exchange frauds committed by three former employees, the bank had made modest profits in the past financial year, he said.

Uproar broke out when Mr Joe Modibane, the former treasury officer, rose to join a rowdy debate on the financial affairs of the bank and claimed: "Without Reserve Bank assistance, the African Bank would be insolvent."

He was immediately cut short by Mr Motsuenyane, who responded: "You are divulging information which is sensitive and not normally discussed at a public meeting. The matter is sub judice."

Mr Motsuenyane ignored shouts from one shareholder: "Is it true?"

The chairman called a snap vote that won overwhelming approval for the annual financial statements.

The exchanges followed veiled cautions about the financial affairs of the bank by Mr Gaby Mogomola, the former chief executive, whose shock removal from the post three weeks ago was the trigger to the bitter controversies surrounding the bank.

Mr Magomola had told the meeting: "I'm a little perturbed. We should not gloss over any issues. The solvency of this institution is at stake.

"Let's not run into a situation where we prejudice the bank in the eyes of the monetary authorities."

Information

Mr Modibane emerged as one of the central figures in the bank saga when he was summarily sacked for leaking confidential information about the bank to the SA Reserve Bank.

The sacking followed the dismissal of Mr Magomola in the wake of an investigation by the board of directors into complaints from a segment of staffers about his handling of management affairs.

Mr Magomola confirmed yesterday that he was pressing ahead with legal action to seek reinstatement. "There was a truce while mediation talks were fixed," he said, "but the talks failed and the matter is now back with the lawyers."

Yesterday's annual meeting ended with an appeal by Mr Sam Motsuenyane for more financial support from black investors.

Reserve Bank acts to hold down rates

Star 30/3/89 58

Finance Staff and Sapa

The Reserve Bank is attempting to take pressure off the money market in order to prevent a rise in interest rates.

And senior government officials are also playing down the need for a further rise in rates.

The recent rise in short-term money market rates — the BA rate touched the 17 percent level for the first time in almost four years this week — has led to calls for higher interest rates by bankers and economists.

But the Director General of Finance, Dr Chris Stals, said yesterday there was no real upward pressure on interest rates.

Dr Stals said on television that interest rates on the money and capital markets had risen to unrealistic levels and were not based on sound facts.

He said big borrowers were confirming that rates were artificially high by not being prepared to borrow at these levels.

The market had not given the budget a chance to work and had over-reacted to proposals on prescribed asset requirements.

Despite the government's negative stance on higher rates, the recent surge in money market rates has led to led to suggestions that fiscal measures, in addition to higher interest rates, should be used to curb the demand for credit. This could include a further rise in GST.

The shortage on the money market stands at just under R3 billion and is an indication of the heavy upward pressure on interest rates.

Mike Haskins, a director of the Securities Discount House, says that while seasonal elements such as year-end tax payments played their role in the liquidity shortage, there was still a high level of demand for cash.

He added that the Reserve Bank was attempting to take pressure off the market until an inflow of Government funds to the market begins in April. Yesterday alone the Bank had bought R500 million of short dated securities.

Mr Haskins pointed out that commercial banks were paying 20 percent for their money and lending at 19 percent, a situation that would automatically forcé rates up as margins were under severe pressure.

He added that a rise of two to three percent in the Bank rate would be required but doubted if the authorities would do this. He felt they would rather bring in smaller increases over a period of time until the desired results had been achieved.

Policy not working

Dr Hans Falkena, economist at the UBS, said fiscal and monetary policy would have to be tightened if the economy carried on in its current pattern. He said at present the steps taken by the authorities appeared not to be working.

Dr Falkena commented that a new monetary and fiscal package could be introduced before the middle of the year. This could well consist of a further one percent hike in GST and one percent rise in the bank rate.

Colin Dunn, excecutive chairman of the Discount House of SA said he did not expect any increase in GST so soon after the budget. He pointed out, however, that the budget increase should have been in the order of two to three percent rather than one percent.

Mr Dunn said there could be increases of one percent in both the bank rate and GST in six to eight weeks time followed by another similar package within another six weeks after that.

Govt attacked over bank rate

S/N 20/5/84

An increase in the bank rate would cause "a tremendous amount of hardship" to consumers, bond holders and hire purchase buyers, the Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said yesterday. (58)

He slammed the Government for being unable to cut down on its expenditure, which he regarded as the main reason for the feared rise, which the Reserve Bank is at present resisting. — Political Reporter.

African Bank 'was facing collapse'

58

Star 30/3/87

By Michael Chester

Shareholders of the embattled African Bank were startled at the annual general meeting in Johannesburg yesterday to hear allegations by a former executive that the bank would have faced collapse if the South African Reserve Bank had not come to the rescue.

The allegations were made after African Bank chairman Dr Sam Motsuenyane had given shareholders the assurance: "The solvency of the African Bank has never been in dispute.

"Like in any bank at one time or another there has been need for assistance. But our present position should cause no concern about solvency."

Despite heavy legal costs in the aftermath of a series of foreign exchange frauds by three former employees, the bank had made modest profits in the past financial year, he said.

Uproar broke out when Mr Joe Modibane, the former treasury officer, claimed: "Without Reserve Bank assistance, the African Bank would be insolvent..."

SENSITIVE

He was cut short by Dr Motsuenyane, who responded: "You are divulging information which is sensitive and not normally discussed at a public meeting. The matter is sub judice."

Dr Motsuenyane ignored a shout from one shareholder: "Is it true?"

The chairman called a snap vote that won overwhelming approval for the annual financial statements.

The exchanges followed veiled cautions about the financial affairs of the bank by Mr Gaby Magomola, the former chief executive who was dismissed three weeks ago.

Mr Magomola told the meeting: "I'm a little perturbed. We should not gloss over any issues. The solvency of this institution is at stake.

"Let's not run into a situation where we prejudice the bank in the eyes of the monetary authorities."

Mr Modibane was dismissed for leaking information about the bank to the Reserve Bank.

Mr Magomola was dismissed after an investigation by the board of directors into complaints from a segment of the staff about his handling of management affairs.

Bank moves to curb rates hike

B/Day 30/3/89

GRETA STEYN 58

THE Reserve Bank moved to stem the rapid rise in interest rates yesterday, signalling it would keep the Bank rate unchanged at 16% for the time being.

The Bank put liquidity into the money market to moderate the upward pressure on rates. This was done through open market operations — buying of Bankers' Acceptances and other short-term money market instruments. Estimates of how much liquidity came in this way ranged from R100m to R500m.

The Bank did not buy enough BA's to push down the rate and it remained unchanged at 17%.

Analysts said the Bank's help calmed the market which had become panicky in the face of a desperate need for liquidity. Some bankers believe the liquidity problems are being aggravated by short-term capital outflows, but this will only become clear once the foreign exchange reserves figures are released next week.

The money market shortage stood at just under R3bn on Tuesday, but with the Bank's aid yesterday, the figure could drop. Dealers believe the Bank will be helpful until a R900m inflow of government spending next month puts more

● To Page 2

Bank moves to stem interest rates hike

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● From Page 1

B/Day 31/3/89

liquidity into the market.

Although dealers believe the current situation warrants an immediate move in Bank rate, economists are less certain, saying the Reserve Bank could not be expected to act before it had firm statistics.

The Trust Bank's Nick Barnardt said: "The reserves and money supply figures released next month will be crucial for rates."

Sapa reports United economist Hans Falkena said fiscal and monetary policy would have to be tightened if the the economy carried on in its current pattern. He said at present the steps taken by the authorities appeared not to be working.

Basil Starke ends year with loss

CAPE TIMES 3/3/89

By BRUCE WILLAN

BASIL Starke Investments (BSI) and Basil Starke Group (BSG) have both turned in substantial losses for the year ended December 31, 1988.

In spite of increased turnovers for both BSI and BSG the profits of the 1987 financial year have turned into massive losses for the 1988 financial year.

Turnover for BSI increased to R136,8m compared with the previous nine months's R77,29m whereas BSG reported increased turnover of R134,7m compared with R77,1m.

However the current loss before interest for BSI is R842 000 compared with a profit of R3,553m for the previous nine months. BSG has reported similar figures with the loss being R583 000 compared with a profit of R3,4m.

The loss of BSI after tax, extraordinary items, and payment of preference share dividends amounts to a massive R4,3m compared with the previous year's profit of R3,2m.

BSG reports a loss of R3,275m compared with a previous profit of R4,4m.

The losses of both BSI and BSG are attibutable to the civils division and Premier Wire.

Adjustments to extraordinary items concerning the sale of subsidiaries to Premier Holdings reported in the 1987 financial year had to be made which compounded the losses.

The adjustments were necessary because the stated profits made from these sales had been over stated.

Chairman Basil Starke said in a statement today that the office furniture division of Premier Wire accounted for a large portion of the loss in that company and was sold in December 1988.

Added to this the loss of key personnel, and the fact that the civils division took on too many projects over a widely spread area, resulted in a loss in the division he said.

However Starke says that the major problems have been identified and dealt with.

He believes these steps will lead to a significant improvement in the performance of the company.

No final dividend was declared by either BSI or BSG.

De Kock opposes rate rise

Star 31/3/87

58

Finance Staff

Reserve Bank Governor Dr Gerhard de Kock has reportedly expressed his opposition to a rise in the Bank rate for the time being.

Yesterday the banks were alive with rumours of yet another increase in the Bank Rate — which would have pushed up mortgage rates again, following on yesterday's increase in the bond rates of some building societies.

But Dr de Kock reportedly said that the recent sharp increases in money and capital market rates were abnormal, reiterating an earlier statement by the Director General of Finance, Dr Chris Stals.

Dr de Kock said that the bank was rather looking at reducing the cost of forward cover for all importers as a temporary measure to protect the reserves.

However, he did not rule that the Bank rate would rise at a future date, if it became clear that action was necessary in the wake of a lower gold price or higher international interest rates.

Major building societies yesterday notified mortgage borrowers of an increase in bond rates.

The rise in the bond rate, however, was expected as building societies announced they would up their rates when the Bank rate rose one percent in February.

The NBS, UBS, Perm, and the Provincial have all sent out notices lifting their rates, from 18 to 18,75. Saambou has boosted its rate from 18,25 to 19 percent from May 1.

The effective date of the increase varied — but generally the higher Perm repayments would be due from May 15. The other building societies said their rates would move to 18,75 percent immediately for new bonds. For existing bonds the effective date is May 1.

The Allied has already announced a move to 18,75, First National to 19 percent and Standard to 18,75 percent.

As a result of the upward pressure, most building societies are also raising their deposit rates to adjust to the higher lending rates. Meanwhile building society chiefs said they hoped that rates would not esclate again.

Market sees no lack of suitors for Allied

SW 31/3/89

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Diagonal Street

ANN CROTTY

The official statement from Allied early this month has done little to dampen the speculative trade in the share and most days Allied continues to feature on the list of the top most actively traded shares. Yesterday it rose 10c to a close of 135c.

Latest speculation is that a deal is about to be struck with Liberty. This represents something of a new twist as speculation previously linked Allied to one of the major banks.

First National appeared the most popular choice as far as the market was concerned with Standard Bank a close second.

Suggestions that Liberty is the interested party surfaced in the market a week or two ago. The talk has gained momentum in recent days.

The official announcement made at the beginning of March did not deny that approaches are occasionally made but Allied stressed that if any of these "ever evolve into serious negotiations, it would issue cautionary advices at the appropriate time".

The rumours appear to be underpinned by two major considerations: the realisation in the market that some rationalisation is inevitable in the financial sector and, following on this, the relative ease with which jobbers can encourage trade in the share on the back of each new round of speculation.

The speculation about a tie-up with Liberty has as much going for it as any of the other stories. A deal would give Liberty access to the home loan market as well as access to a banking licence. (According to the Banks Act no one may hold more than 10 percent of a bank without permission from the authorities.)

Liberty's 32,3 percent stake in Standard Bank Investment Corporation, already gives it access to both of these. But it may be that Liberty is looking to establish a different sort of relationship from the one that exists with Stanbic.

Anyone who trades in Allied on the back of some sort of tie-up with Liberty should bear in mind Liberty's excellent track record with regard to secrecy surrounding deals in which they are involved- as was highlighted by last year's reorganisation of its international assets.

This suggests that if Liberty was involved, a cautionary announcement would already have appeared.

NDH restructuring

There is also continued speculation about the nature of the restructuring of NDH Holdings following the change of control that was organised by Rand Merchant Bank.

NDH's major assets include the National Discount House; a 50 percent stake in London and Dominion; a stake in a London broking company and; the listing of NDH Holdings.

Market talk at present is that National Discount House and the stake in London and Dominion could end up with Securities Discount House (Sechold). Sechold has a portfolio management division which might fit neatly with London and Dominion.

This would leave Cape Investment Bank, which was a major player in the original restructuring plans, with the NDH Holdings' listing and a stake in the London broking company.

One factor that the NDH speculation highlights is the changing role of discount houses in South Africa.

The traditional role has altered significantly in recent years and it seems likely that the years ahead will see a continuation of this trend as the special relationship with the Reserve Bank is played down and trading in assets becomes increasingly important.

Transfer of Perm's assets heralds Nedperm merger

BDay 31/3/89

LESLEY LAMBERT

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THE Nedperm merger becomes official today, with the transfer of the SA Perm's assets and liabilities to Nedperm's balance sheet ending the Perm's traditional building society role and catapulting the enlarged group into the big banking league.

The courtship began in October last year, with Nedbank and the Perm operating as two divisions of Nedperm. But, while the Perm's profits went to Nedbank's account, the transfer of its assets and liabilities was delayed until legal changes, to accommodate certain building society activities in a banking environment, had been approved, according to Nedperm CE Piet Liebenberg.

The changes were promulgated during the current parliamentary session, enabling the Perm division to continue traditional building society activities like its agency operations.

Once the Perm's results are out next month, the market will be able to assess the full impact of the merger on Nedperm's balance sheet and to rank it in the banking sector.

Currently, the combined assets are estimated to be more than R22bn. Already this places Nedperm in direct competition with the Bankorp Group (R22,4bn) and closes the gap between it and the two majors, First National (R28bn) and Stanbic (R30bn).

Rationalisation of operations and outlets is expected to evolve slowly as Liebenberg, with the assistance of Nedbank division's MD Chris Liebenberg and the Perm division's MD Bob Tucker, combine two different cultures. But while the benefits are only expected to begin filtering through to the bottom line by the end of 1990, both institutions and their clients have already benefited.

Diversification

Essentially, the merger provides Nedbank with the retail credit and home-loan diversification it sought. The joint home-loan book currently stands at about R3,3bn. And, as a member of the Nedcor Group, the Perm has access to capital — a constraint it previously faced because of low returns and mutual status.

On the other hand, Perm shareholders who were paid out an 11,5% bonus and given a right to new Nedbank shares in last year's rights issue, have seen the share price rise from 600c to its current 820c.

Both institutions use Unisys computer hardware. But, as the Perm's architecture differs from Nedbank, a significant amount of networking between the systems will be necessary if they are to be compatible.

According to Bob Tucker, although they are not physically merged at this stage, a great deal of interaction is taking place between the two organisations. The Treasury functions, for instance, are already operating as a single unit.

Tucker says the divisions will continue to operate independently in the provision of financial services and, while both will have extensive networks of outlets, obvious duplications will be avoided. "Clients of both divisions will benefit by the services and expertise of either division being readily available to them."

The Perm results, due out before the end of April, are expected to reflect the benefits of cost containment programmes implemented by the building society in 1987 and its more recent decision to increase transaction charges.

Personal savings at record low

BDay 31/3/89

(58)

GRETA STEYN

PERSONAL savings sank to a record low last year, the latest Reserve Bank Quarterly Bulletin said.

It said individuals saved only 1,7% of disposable income last year compared with 4,6% in 1987. In the past six years, the lowest the figure it had dropped to was 2,4% in 1983.

Figures dating further back are being revised, but available statistics show that 1,7% is by far the lowest level for any recorded year.

In the final quarter of 1988, individuals saved only 0,5% of disposable income. Low savings last year were accompanied by excessive spending.

The bulletin showed bank credit exploded at an annualised rate of 48% in the fourth quarter of 1988 — within striking distance of the all-time record rate of 53,4% in the second quarter of the gold boom year of 1981.

Trust Bank economist Nick Barnardt said the interests of borrowers appeared to have weighed more heavily than those of savers in the execution of economic policy in recent years - with artificially low interest rates and other economic distortions as a result.

Earlier this year, Barnardt advocated a national savings campaign and called for an end to tax on personal interest income.

He noted the acute shortage of savings in the economy was reflected in balance of payments problems.

No Bank rate rise — De Kock

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GRETA STEYN

RESERVE Bank Governor Gerhard de Kock says there is no question of Bank rate rising for the time being.

Instead, he has opted to reduce the cost of forward cover for all importers as a temporary measure to protect the reserves.

He said yesterday: "The recent sharp increases in interest rates in the money and capital markets are abnormal. The markets have overreacted to the announcement on prescribed assets and the weaker gold price."

Also distorting the situation was the strong possibility that higher-than-expected tax payments were aggravating the money market's liquidity problems. In addition, strong demand for notes and coins had drained liquidity from the market because of the Easter holiday.

"It would be unwise to act while these abnormal factors are dominating the markets," he said.

However, he stressed this did not mean the Bank would put off raising Bank rate the moment it became clear action was necessary. The weaker gold price and higher US interest rates were cause for serious concern.

Added to that was the danger of excessive spending as confidence in the economy remained high.

"We do not want to raise Bank rate right now because we have to wait and see what happens on a number of fronts. Only one of these is the Group of Seven meeting in Washington over the weekend, which has implications for the dollar and possibly the gold price."

● DE KOCK

He also needed balance of payments figures for the first quarter, statistics on the real economy and a clear picture on credit demand before deciding whether or not to tighten monetary policy. He would be studying letters from bank MDs on credit demand over the next few days.

The lower gold price and higher US

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No rise in Bank rate yet, says De Kock

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rates meant there was a danger of renewed short-term capital outflows, but for the time being the problem would be addressed by adjusting the cost of forward cover to encourage the use of foreign finance.

Forward foreign exchange dealers said yesterday the Reserve Bank had reduced the cost of cover by about 60 points.

De Kock said it remained the Bank's aim to withdraw from the forward market, but it was faced with more urgent objectives at the moment. However, the decision to cut the cost of cover was not a signal that monetary policy would not be tightened.

"It is just that we do not want to rush in like a bull in a china shop right now."