FINANCE - GENERAL

APRIL 1989

Assurers panic over new tax trick with old policies

Star 1/4/89

A NEW tax trick with old policies has sent life assurers into something of a panic. This follows investigations by the Inland Revenue and warnings by Finance Minister Barend du Plessis.

But this time round, life companies don't appear to be the culprits skirting the tax laws.

According to the latest issue of *Insurance Times* the scheme involves pre-1972 pure endowment (PE) policies, selected because of their flexibility and the fact that they can be ceded and premiums increased. Also they do not automatically terminate when the policyholder dies.

FINANCE STAFF

The trick is to find owners of pre-1972 PEs and make them an offer they can't refuse.

The cessionary, having actively hunted around for a pre-1972 scheme, say, with premiums of R10 a month, takes the policy over — paying a "purchase price" to the current owner or beneficiary.

In one case a policy was taken over and its premiums increased to R1 million a month.

In effect, the cessionary has "purchased" a product that is no longer legally available. He can then continue holding the policy as a bearer instrument until such time as he wishes to cash it in. Proceeds are totally tax-free at maturity.

Another attraction of such PEs is the absence of life cover.

Over the years Government policymakers have applied severe restrictions on PEs, mainly because they did not carry life cover since this was seen by some as defeating the prime objective of a life assurer.

The most recent restriction to PEs was made in 1985 in Finance Minister Barend du Plessis' so-called "after-dinner speech". This, given on a Friday evening, was retroactive (the worst form of law) and made without discussion with the life offices.

Today PEs contain a relatively high proportion of life cover. The cost in such products, of course, reduces the overall returns. Modern schemes also terminate either on maturity or when the policyhoder dies.

But this latest scheme skirts all that.

Life assurers, sensitive about their tax position and worried about further fiscal impositions, are naturally concerned and keen to divert responsibility.

A spokesman for the Life Offices' Association (LOA) says that it first became aware of the scheme early in 1988. In February that year the LOA sent a "confidential" circular to members asking them for written assurance that they would abstain from participation in such schemes.

This assurance, says the OA, was forthcoming from each member. It did not want the notice to become public at the time because it feared a backlash from reaction to what may have been perceived as a "scam".

But a year later the scheme is alive and well with the LOA denying knowledge of the fact.

One complicating factor is that assurers are not necessarily party to schemes involving these pre-1972 life products.

Many life products are used as integral parts of many schemes, for example as security for bonds and loans raised. So it is quite possible that none of the life offices are party to any of the pre-1972 schemes. It is also possible that they are unaware of such schemes, other than noticing a substantial increase in premiums.

This leads to the other complicating factor, the creation and execution of pre-1972 schemes by brokers acting — officially — but independently of the life offices.

What is known is that some very large financial institutions have pumped some big money into the pre-1972 schemes. At least one of them has been recently questioned by Inland Revenue's investigative team.

● Due to lack of space Money Matters will appear tomorrow.

Inside Out
Ann Crotty

Small is not so bountiful

Star 1/4/89

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'HE REASON why the blue chip counters hog so uch of investor buying interest was probably driven ome quite forcefully yesterday with the release of isappointing results from many of the market's maller companies — certainly not the sort of figures hat are likely to precipitate a major rush into the smaller counters.

At last something happened at Mooiriver. After months of widespread speculation that there was going to be a change of control, interspersed with one or two cautionary statements, the share was suspended yesterday at 750c. This may have taken the local management team as much by surprise as it did the market because indications from that source (as late as Thursday evening) suggested that they did not know how long the negotiations would take or with whom they were being conducted.

Myles reckoned this was either a ploy to deter media hounds or reflected a fairly high-handed attitude on the part of the Dutch parents who have been negotiating the sale of Mooiriver with a number of parties since as far back as 1981. Apparently over the years the rand price they've demanded has moved up steadily to counter the fall in the exchange rate.

And typical of the bind that South Africans are caught in, as the rand depreciates there seems to be a proportionately greater increase in the degree of desperation with which they want to acquire assets.

There's talk that the deal has been struck at around 850c which does seem high on the basis of historic earnings but there's currently a lot of smart money trying to corner the SA textile industry and, with the control issue out of the way local management may be able to produce better earnings.

Sechold has issued a cautionary and speculation is that it involves a deal with Rand Merchant Bank and Cape Investment Bank about the future of the National Discount House.

Vanadium shares shot up late in the week, on the back of news of vanadium price increases. A lot of the less professional investors were caught short by the profit-taking that brought the shares down yesterday morning.

According to Myles there are reports that Chris Ball is setting up a European bank in London with the backing of a Swiss consortium and Barclays Bank.

On a related issue ... his Mum somehow managed to swing an invitation to view this afternoon's implosion — the third biggest in the world.

She hopes the guys who are doing it are as professional as the IRA whom she says were one of the first to use this method — back in 1965 when they removed Nelson's Column from the centre of Dublin late one summer's night. In fact, as Myles points out, they weren't that professional 'cos they left the sailor's booted feet on the pedestal.

According to Myles the cautionary that Marlin released some time ago, related to plans to pyramid the company. It seems that nothing is to come of these plans because of JSE regulations requiring the company to have been listed for two years.

Also on the mining front, there's talk of a new company coming to the exploration sector. Myles thinks its going to be called something like Digoco and that it's involved in diamonds and granite.

No news yet about what's happening on the Mightymeat front but it seems that most of the details have been finalised and that something should be announced in the very near future.

Conshu and Phoenix Rubber have issued a joint cautionary. Myles wasn't able to get any gen but reckons that it could be significant that SAB has a major holding in Conshu (as does Sankorp) and that Phoenix supplies materials to many sectors of industry including shoe manufacturers.

There was a lot of trade in Dashaus towards the end of the week, on a weaker price.

Allied continued to attract lots of attention with the latest speculation relating to a deal with Liberty.

Motsuenyane gets another headache

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Chues 2/4/89.

Afbank shock – now Nafcoc court action

Sam Molebatsi . . . fights dismissal by Nafcoc.

By SOPHIE TEMA

FORMER executive director of the National African Federated Chambers of Commerce and Industry Sam Molebatsi will challenge the organisation in the industrial court over his dismissal last year.

Molebatsi, who held the position for about 10 months, was sacked on October 16.

This week he met his attorneys for an in-depth consultation with a view to preparing a statement to be placed before court.

Molebatsi said the reasons for his dismissal were discussed with him by the executive committee of Nafcoc but he regarded the matter as an "unfair labour practice" and decided to take it to the labour court.

Soon thereafter, Molebatsi and his attorneys applied for a conciliation board hearing in a bid to solve the matter amicably, but Nafcoc president Dr Sam Motsuenyane and Nafcoc's executive body declined to attend.

His attorneys have now submitted another application to the court for a hearing.

The move is another hot potato dropped at Motsuenyane's door following the controversy surrounding the dismissal of two top executives of African Bank – Gaby Magomola and Joe Modibane.

And this week, at the bank's annual shareholders meeting, a startling revelation was made when former treasury officer Modibane said Afbank would have collapsed had the Reserve Bank not bailed it out.

Modibane was cut short by Motsuenyane, who gave the shareholders the assurance that the "se[illegible]ency of the bank has never been in dispute".

Sage views market strength with caution

Star 3/4/89.

The sustainability of the recent strength in both the South Africa and global share markets must be viewed with considerable caution, Sage Fund directors say in their annual report to unitholders.

Although most of the world's stock exchanges are currently trading at their highest levels since the lows of October 1987, Sage points out that many of the factors that gave rise to investor concern in late 1987 remain unsolved.

The American twin deficit problem still remains as an unstable and disruptive element in the world economy. At the same time, United States imports remain stubbornly high, Sage says.

It adds that in South Africa there are a number of dynamic variables framing the investment environment, many in direct conflict with each other in their likely effect on investments.

Sage believes, however, that the South African economy should still record positive growth in 1989, although at a lower rate. Much will depend on consumer behaviour, in turn related to inflation trends, real interest rates and credit availability.

Encouraging aspects of the South African economic outlook for 1989 include continued attractive prospects for non-gold exporters, Sage says.

It warns, however, that the inflation rate must be expected to re-accelerate during the current year. On the other hand, consumer and corporate lending rates are probably close to an upper turning point with the prospect of only a very gradual decline thereafter.

Sage believes that it is likely that the commercial rand will depreciate further, albeit at a slower rate. Regarding the financial rand, it sees a narrowing of the discount rate towards the 30 percent level; the average for the past three years, as a reasonable prospect which could have unfavourable implications for many share prices. — Sapa

Crusader enters UK assurance market

(58)

Crusader Life yesterday announced it had entered the British life assurance industry by capturing 26 percent of the issued share capital of the newly-formed Pegasus Financial Holdings, the main subsidiary of which is Pegasus Assurance.

Crusader Life executive chairman Don Rowand will become chairman of the new company, with Rupert Hambro as deputy chairman.

Managing Director of Pegasus will be Dan Dane, previously right hand man to ex-South African Sir Mark Weinberg, architect of the highly acknowledged Abbey Life and Allied Dunbar companies.

Mr Rowand's position at Pegasus will be in a non-excecutive capacity, as he will continue as Crusader Life's chief executive in South Africa.

"The finalisation of the lengthy negotiations which have taken place in the UK over a number of years has been well worthwhile," said Mr Rowand.

"Furthermore, with Dan Dane and a full management structure in place, my time and that of other Crulife executives will, once again, be more appropriately divided between our South African and offshore operations. (58) Star 3/4/87

"With legal agreements, exchange control reports, budget plans, actuarial reports and the like out of the way we can devote the additional time to promoting Crulife in South Africa."

Mr Dan Dane forecasts that Pegasus Assurance — to be launched on May 2 will build a life business valued at £100 million sterling with a 750 person strong sales force and approximately 100 000 policy holders over the next five years.

One of the first products to be launched by Pegasus will be Dread Disease Insurance where the expertise will be provided by Crusader Life, the world innovaters of the product during 1983. — Sapa

TRUSTBANK ANNOUNCES DISCOVERY OF R47M FRAUD

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MANDY JEAN WOODS

TRUSTBANK announced yesterday that it had uncovered a R47m fraud on Friday. B/Day 4/4/87

The bank said in a statement the case also appeared to involve First National Bank.

However, no First National officials could be reached for comment.

Witwatersrand police spokesman Col Frans Malherbe confirmed the Commercial Branch was investigating the case.

Trustbank said the fraud appeared to include only commercial rands and could involve a group of people.

Trustbank MD Kobus Roetz said the bank was working closely with the Reserve Bank and the SAP.

No Reserve Bank officials could be reached for comment last night.

This is the second large fraud to rock Trustbank in the past seven months.

In August last year a R63m forex fraud was uncovered.

RMB will protect clients' anonymity

BD 4/4/89 LESLEY LAMBERT (58)

RAND Merchant Bank is implementing a new futures clearing system to cope with growing volumes and improve the distinction between its clearing and trading divisions, thereby ensuring more anonymity in the market.

RMB, the pioneer of futures in SA and one of a handful of market makers, has provided an interim clearing facility for the market since it started two years ago and will continue to do so until the official SA Futures Exchange (Safex) opens later this year.

But, as the market has grown, the system has strained under the weight of increasing volumes and claims by other users that its direct link with RMB's futures trading division has given the bank an unfair advantage by enabling it to determine other players' positions and to trade on that knowledge.

● To Page 2

RMB improves futures clearing system

BD 4/4/89 (58)

● From Page 1

"The old system was splitting at the seams, we could not afford to wait for Safex to come on-line," says Rogan Etheredge, RMB's assistant GM responsible for implementing the new system. "After upgrading it each time pressure increased and we finally decided to re-write the system completely."

Whereas the old futures clearing operation, which was adapted from RMB's capital market trading system, had RMB as an intermediary between trading parties, now RMB will merely be another member of the market.

In another development to ensure anonymity, member institution's clients will be identified by means of code numbers issued by the members.

RMB has also proposed a standard "additional" margin on top of the upfront deposit to cover the potential credit risk that complete anonymity might create.

RMB had hoped to implement the new system this week, said Etheredge, but decided to phase it in over the month, running it parallel to the old systmem and enabling members to become accustomed to it.

R2,3bn to go on roads

GERALD REILLY

PRETORIA — Spending on road building and maintenance this financial year by government, private sector and the provinces will exceed R2,3bn and, according to National Roads Director Malcolm Mitchell, the National Transport Commission has estimated total expenditure from the National Road Fund at R844m.

This amount, which still has to be approved by Transport Minister Eli Louw, is R80m more than last year's total. Most of government funds will go on rehabilitation and maintenance of roads. The private sector will spend between R400m and R500m and the provinces in excess of R1bn.

Mitchell said, although the amount spent by government on roads increases every year, no more will be spent in real terms than in 1973.

Of the transport department's R844m, only R236m will be spent on new works; R100m will go to the Urban Transport Fund for road and related development, and R320m on rehabilitation and maintenance.

Mitchell said, because of the greater use of national roads by heavy transport, increasing amounts had to be spent on maintenance.

SA has to save more for growth

BDay KAY TURVEY 4/4/89

IT has become imperative that South Africans save more to generate capital for economic growth, Santam GM investments Roy Justus says in the company's latest quarterly economic review.

Savings plunged to a record low last year at 1,7% of disposable income, the latest Reserve Bank bulletin shows. SA needs a savings ratio of at least 6% to 7% to ensure a measure of growth, Justus argues.

"Even the 4,5% or 5% savings ratio which was achieved in the first half of the '80s would be more acceptable than the present situation," he says.

Savings in the emergent nations of the Far East are four to five times higher.

Justus says incentives to encourage savings should be introduced. These should be superior to the old post office and building society tax-free incentives.

A way would also have to be found to offer investors a real rate of return. Given the current rate of inflation of 15% or higher and tax at a marginal rate of 45%, it is difficult to achieve an after-tax real rate of return from savings, Justus says.

There had been a move towards the freeing of the capital market with the Budget announcement that prescribed assets were to be abolished.

However, there was still considerable confusion surrounding this as it was subsequently announced that there would still be some form of control over the investment of funds.

These controls were yet to be negotiated and were creating uncertainty.

Falling import trend

BDay 4/4/89

KAY TURVEY

IMPORTS appear to have reached a high and will maintain a falling trend in the current year, says Sanlam's latest economic survey.

The expected sluggish economic growth rate will result in a notably slower increase in imports this year compared with the exceptionally high rate of about 40% in 1988.

This, combined with sustained growth in the economies of the major industrial countries and renewed local efforts to promote exports, should have a favourable effect on the current account of the BoP.

In spite of a poor start to the year when exports fell as a result in the slump of gold and base metals, Sanlam is optimistic over exports.

However, the performance of the gold price will be the most crucial factor for the BoP this year. Should the shaky trend continue, it will harm net trade.

Yet a lasting deterioration in the gold price will also lead to a depreciation of the rand, discouraging imports and encouraging exports, mitigating the effect of a slide in the gold price on the trade account.

Sanlam forecasts a current account surplus on the BoP of about R4,5bn in 1989 as opposed to R2,9bn for 1988, assuming an average gold price of about $400 and an average exchange rate of R2,55 to the dollar.

On the capital account Sanlam envisages a net outflow of between R3bn and R4bn, indicating the BoP will remain a fundamental constraint in view of the large capital payments to be made in 1990 and 1991.

HAWKER GROUP TO LAUNCH AN INFORMATION CAMPAIGN

SYLVIA DU PLESSIS

RETAILERS lost an "insignificant" amount of money to SA's 900 000 hawkers and spaza shop owners, said African Council of Hawkers and Informal Businesses (Achib) president Lawrence Mavundla.

However, the battle between the two camps persisted, and the only way to solve the problem was through an education campaign to show retailers hawkers did not threaten their business, he said.

Achib, representing 14 400 informal traders, would focus this year on encouraging retailers to work with hawkers, he said.

The organisation was launching a media campaign to dispel the myths surrounding the burgeoning informal sector, and would also be arranging discussions with trading associations later this year.

Mavundla said these moves were a response to retailers' allegations that hawkers provided unfair competition and did not pay rates or sales tax.

Achib is also negotiating with the Johannesburg City Council on the possibility of launching a "Keep Clean" campaign among hawkers.

Retailers needed to understand South Africans were not living in an equal society and many hawkers were unable to find alternative employment in the formal sector, Mavundla added.

Unit trusts see lower growth in share prices

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Star 4/4/89

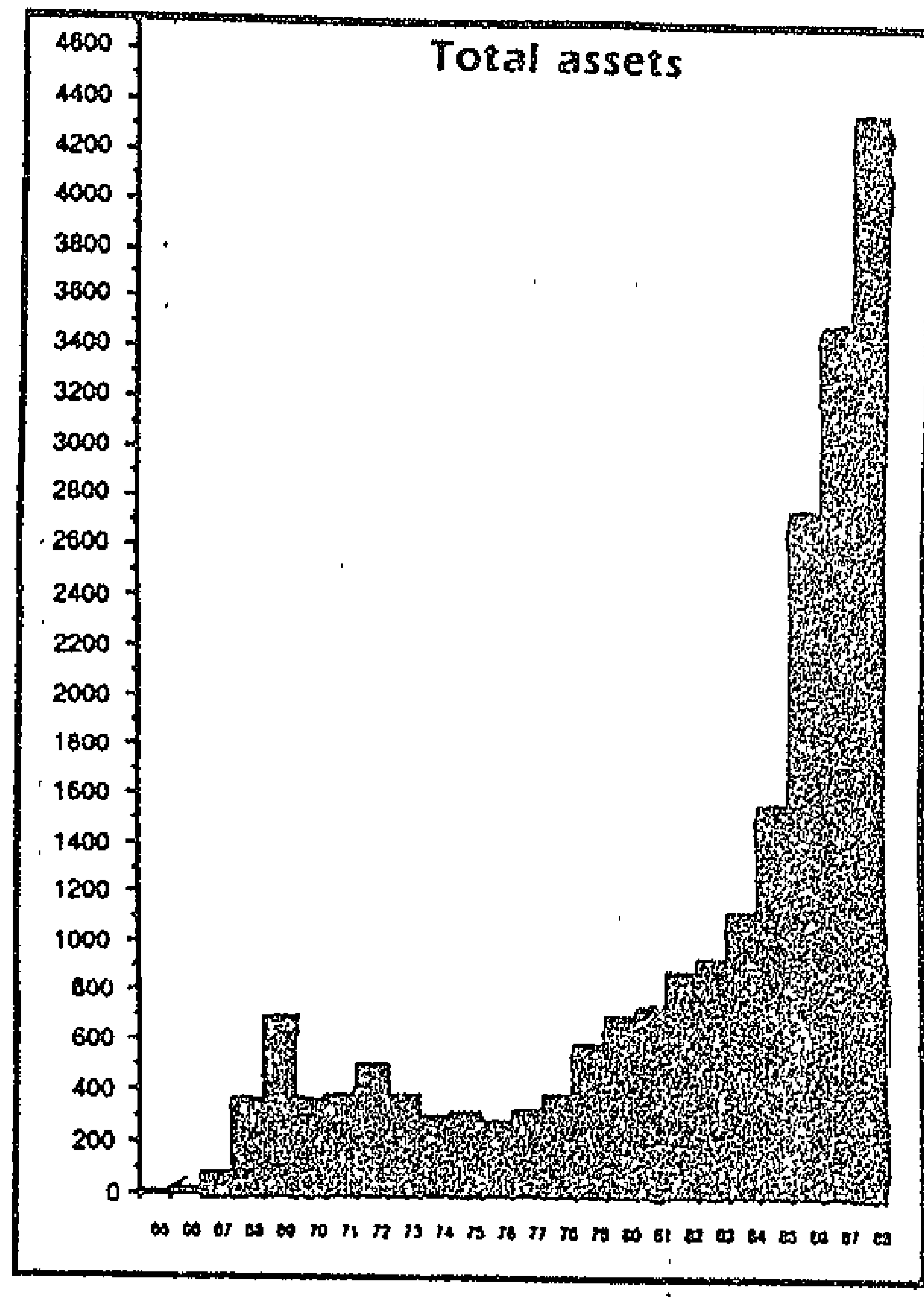
By Sven Lünsche

Share prices on the JSE will continue to rise during the course of 1989, albeit at a slower rate than last year, says Roy McAlpine, chairman of the Association of Unit Trusts.

Writing in the latest issue of the Association's annual yearbook, Mr McAlpine points out that the financial and industrial indices in 1989 will not reflect last year's strong growth rates of 10,9 and 35,4 percent respectively.

During 1988, financial and industrials formed the bulk of unit trust holdings with 41 percent of total assets being invested in this area. Liquid assets were second at 18 percent, mining financials at 17 percent, other minings at 12 percent and gold at 10 percent.

The decline in the gold holdings of unit trust can be ascribed mainly to the disappointing 26,7 percent decline in the JSE's all-gold index.



Mr McAlpine bases his forecast of a lower growth rate in share prices this year, on the assumption that GDP growth will not reach last year's level of three percent.

"The very high interest rate pattern which currently prevails must inevitably have an adverse effect on the level of consumption expenditure in 1989," he writes, adding that this would inevitably impact negatively on growth.

"South Africa as a developing country cannot sustain for any meaningful period of time a very high interest pattern, such as exists at present, without creating permanent damage to the economy.

"Accordingly, it is hoped that the economy will cool off sufficiently to allow interest rates to be lowered towards the middle or latter half of the year," Mr McAlpine says.

During 1988 the total value of unit trust assets rose from R3,4 billion to R4,4 billion, an increase of 29,4 percent. The yearbook points out that the market value of unit trusts was now only 10 percent lower than at the peak in 1987.

These funds represent the savings of 490 000 unitholders, with 1988's new inflow amounting to R394 million, comprising sales of R787 million and repurchases of R393 million.

Commenting on the industry's performance, Mr McAlpine, says: "The unit trust capital index rose by 17,2 percent over the year and the income index by 28,8 percent, but it must be recognised that the performance of this index was adversely affected in 1988 by the inclusion of the specialist trusts which, in general, did not perform as well as the general trusts."

The report says that the reasons for the climb in the index were a higher level of liquidity than in 1987 and the subsequent benefits received from higher interest rate levels, and higher dividend declarations by most equities held by the funds.

New arm for Standard

Standard Bank Financial Services (Stanfin), has been launched to market non-banking and assurance investments offered by Standard Bank Group companies.

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In effect the marketing resources of Standard Bank Assurance Brokers (SBAB), Standard Trust (Stantrust) and Standard Bank Fund Managers (SBFM) have been merged under the Stanfin banner.

Stantrust and SBFM will still retain their corporate identities and continue to provide administration and technical services.

COMPANIES

More good news for Crulife shareholders

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B Day 5/4/89

KAY TURVEY

CRUSADER Life shareholders can be well pleased with announcements made by the the assurer this week.

Following hard on the heels of news of the acquisition of a 26% stake in UK-based Pegasus Assurance, the company has reported a 43% increase in taxed surplus to R18,5m for the year to end-December.

Annual premium income rose 21% to R63,3m and investment income soared 109% to R8,4m, taking total assets over the R100m mark.

In view of the substantial growth in premium income anticipated in 1989, which will exert additional business strain, the directors have decided to strengthen the life fund by restricting the transfer to the income statement to an amount sufficient to cover the increased dividend.

A final dividend of 6,1c has been declared giving a total distribution of 11,5c (9,6c) a share for the year.

Chairman Don Rowand says he is confident the company will continue to show consistent growth, given the successful conclusion of the Pegasus negotiations.

He hints at further growth in the area of health care protection. Crusader Life is one of the pioneers in dread disease cover and has established a niche market in combining life assurance with health care protection.

BDay 5/4/89

Life assurance benefits rose 37,5% in 1988

(58)

CAPE TOWN — The SA life assurance industry paid benefits totalling more than R7,3bn last year, an increase of 37,5% over benefits paid in 1987.

Figures released by the Life Offices' Association (LOA) yesterday indicated that benefit payments to policy-owners increased by an average of 36% a year during the past five years. Pierre Steyn, Sanlam's LOA chairman and MD, said: "The benefits flowing back to the public have now reached an average amount of approximately R30m per working day."

Investments held on behalf of policy-owners were valued at R83,3bn at the end of last year. This represents an increase of more than 28% during 1988.

Tax paid by the life assurance industry on behalf of policy-owners increased by almost 125% between 1987 and 1988 — from R256m to R575m. This is attributable to a normal increase in taxed business and an increase of 75% in life offices' tax rate above that of 1987.

Correct rates

Steyn said that the new tax basis announced in this year's Budget was a positive step because, among other things, it accepted the principle that a life assurance company should be taxed on behalf of its policy-owners and that the normal tax rate applicable to its policy-owners should be an important determinant of the tax rate that should apply to a life assurance company.

"It is unfortunate that, owing to fiscal constraints, the minister was obliged to take into account the maximum marginal rate applicable to individuals instead of their average rate, which would have been more equitable and correct in principle. Similarly only 55% of the actual deductible expenses are allowed this year. However, I am optimistic that in future the minister will be able to apply the correct rates," he said.

Premium income of group schemes and pension funds increased by about 21,5%, while premium income of individual policies increased by 13,8%, said Steyn.

"Recent results indicate that policy-owners need not fear that taxation has prevented life assurers from achieving returns in excess of the inflation rate. Life assurance is one of the very few channels which provides the man in the street with a hedge against inflation.

"What is more, the abolition of compulsory investments in low-yielding government and semi-government stock will enable our industry to achieve even better investment returns for our policy-owners." — Sapa.

Bank acts to prevent leaks

B/Day 5/4/89

KAY TURVEY

THE Reserve Bank is keeping a tighter watch over its security after statistics were leaked to top broking firm Martin & Co two weeks ahead of the official release of the Reserve Bank Quarterly Bulletin last month.

Head of the Bank's economics department Jaap Meyer said yesterday there had been an investigation and it had been decided no action was called for. "The matter has been cleared up and we are satisfied it will not happen again."

Meyer would not confirm or deny whether a Bank employee had furnished Martin & Co economist Carmen Maynard with the figures.

The release of information relating to the affairs of the Bank by a Bank or Finance Department employee is an offence under the Reserve Bank Act.

In terms of preservation of secrecy provisions in section 20 of the South African Reserve Bank Act of 1944, no employee of the bank, and no officer in the Department of Finance shall disclose to anyone person except the Treasury any information relating to the affairs of the bank.

It is understood the Reserve Bank originally tried to persaude Martin & Co to reveal where the leak had occurred.

Maynard's report, Economic Comment, Reserve Bank Quarterly Bulletin, which provided the highlights of the bulletin, was sent to clients around the time of the Budget on March 15.

The Reserve Bank Bulletin was officially released on March 30.

Martin & Co senior partner Winston Floquet could not be reached for comment yesterday.

BDay 5/4/89

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MASSIVE BANKING FRAUD EXPOSED

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BANKING circles were rocked yesterday by the exposure of the second multi-million-rand fraud to hit Trust Bank in less than a year.

The latest swindle to be uncovered involves about R47 million.

Unofficial reports suggested that the scam revolved around a well-known businessman.

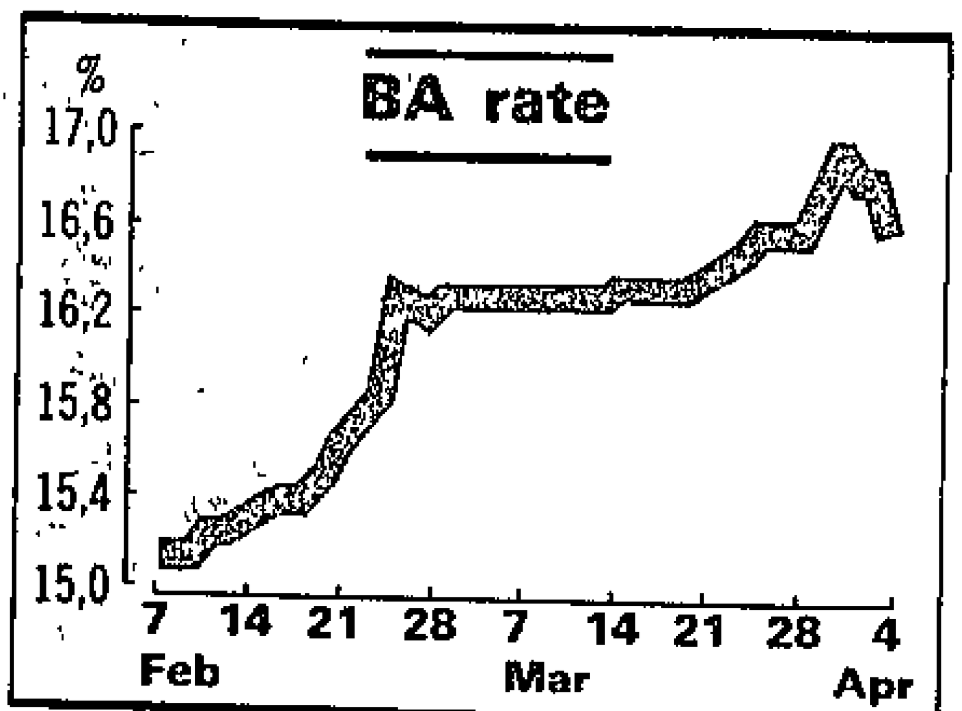
Initial investigations suspect that First National Bank may also be involved in the case, according to a Trust Bank statement.

Trust Bank managing director Mr Kobus Roetz said the bank was working closely with the Reserve Bank and the SA Police to track down the culprits, but declined to reveal more details.

Police spokesman Colonel Frans Malherbe also declined to divulge details beyond confirming that the commercial branch had launched investigations.

Exposure of the new R47 million fraud comes less than 12 months after the shock disclosure of a R60 million swindle inside the Trust Bank.

The earlier scam, which revolved around exchange control contraventions, centred on a Trust Bank junior executive named Simon Samuels, who left South Africa last July and is now believed to be living in New York.



Graphic: FIONA KRISCH Source: REUTERS

The 90-day liquid BA rate rose from 15,27% in the first week of February to peak at 17% at end March. It fell 40 points after Reserve Bank intervention in the money market.

B/Day 5/4/89

Money market rates fall

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MONEY market rates are falling as a flood of liquidity is swirling into the banking systems, reducing the market shortage — its debt to the Reserve Bank — to R110m on Monday, the lowest level since mid-June 1988.

The rate for 90-day bankers acceptances (BAs) has eased to 16,60% from 17% last Wednesday. The wholesale one-night call rate has dropped sharply to 15,75% from 17,25% last Friday. And investors have been showing interest in money market assets which they were cold-shouldering a week ago when they

HAROLD FRIDJHON

could have obtained a higher return on their money.

Bankers say that accurately quantifying this two-day inflow of money is virtually impossible but they estimate that it could be as much as several billions of rands.

About R1,25bn is believed to come from Treasury payouts to the black

● To Page 2

Money market rates fall: debt level low

states, comprising their monthly subsidies and their three-month share of custom union receipts. In addition, government spending is usually higher than usual in the first month of a new fiscal year because of the carry-over of payments from the previous year.

Other possible sources of this unexpected bonanza could be cash paid out by the Reserve Bank for the purchase of Krugerrands, as well as payments to the banks from their sales of foreign exchange to the central bank.

The turnaround has been quite dramatic. A week ago the market shortage was close to R2,5bn in spite of the Reserve Bank providing liquidity to the market estimated at more than R1bn through parastatals depositing funds with the banks and by buying BAs from

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the discount houses.

Yesterday the Reserve Bank was selling back those BAs to private sector investors so as to mop up money market liquidity. Market sources believe that if this liquidity build-up continues, the Bank could issue special tax anticipation Treasury bills.

This was done in June, when the market shortage was R98m, prime rate was 15%, the BA rate was 12,05% and the wholesale call rate was 11,5%.

Cynics are distrustful of this apparently manipulated brake on interest rates because, they say, it appears to run counter to economic fundamentals, and they question whether this is a scene-setter for a September election.

Bankers reassure Holomisa

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Own Correspondent

EAST LONDON — Officials of the African Bank met the chairman of the Transkei Military Council Maj-Gen Bantu Holomisa to assure him of the stability and solvency of the bank yesterday.

B/Day 5/4/89

The bank officials included the acting chief executive J C D Theron, a member of the bank's central board and chairman of the local board A N Gadi, and the manager of the bank in Transkei C M Xundu.

A statement released by the military council said Holomisa had accepted the officials' assurances but further talks with the bank's central board of directors had been arranged for April 10.

A joint statement would be released after that meeting.

Theron paid his respects to Holomisa and exchanged thoughts and ideas with him.

The State, Finance and Commerce Ministers and other senior Transkei government officials also attended the meeting.

Holomisa asked the bank for reassurance on their financial position as the his government had R38m invested in the bank.

Metfund ups holdings in top shares

F B/DAY 5/4/89 (58)

LIZ ROUSE

METBOARD Mutual Fund (Metfund) was an active investor in leading stocks in the March quarter, and either reduced or sold less attractive holdings.

The fund's liquidity level was reduced to 19,77% from 35% (including cash and an Elfi bear) at the end of the December quarter. Total worth of its equity portfolio rose to R14,4m (R9,3m) and cash resources were reduced to just more than R3m (R4,1m).

The last quarter of Metfund's financial year, ended March 1989, saw the unit price, taking into account both income and capital appreciation, rise 17,73%.

An final income distribution of 3,63c a unit has been declared, bringing the year's distribution to 7,73c, yielding 6,41% against the all share index yield of 3,8%.

The top five holdings at the end of the quarter were Anglos, Anglovaal A, Hunts CD, Johnnies and Cadswep.

Shocks

New investments were Hunts CD, Waicor preferred ordinaries and W & A preferred ordinaries, Cadswep and Bidcor CD. Sales included Amgold, Growthpoint, Plate Glass, Safren, Tradegro convertible prefs and Tegkor.

Holdings were increased in Anglovaal A, Johnnies, East Dagga, Hosken, LibHold, Amic, AVI, Barlows, SA Brews, Chemserv, Tiger, Sappi, Waltons and TIB.

Holdings were reduced in Richemont and Rem Beheer.

Fund managers say in the absence of any major international stock market shocks, it is expected the JSE will advance further in the next quarter, although it is not expected to perform as strongly as in the past quarter.

Metfund is well positioned to take advantage of any changes in the investment environment, say the managers.

many such persons were (i) White, (ii) Black, (iii) Coloured and (iv) Indian, and (c) (i) in which positions and (ii) where were these (aa) Black, (bb) Coloured and (cc) Indian persons employed, as at 31 December 1988?

B493E

The MINISTER OF JUSTICE:

(a) 2 537

(b) (i) 2 409

(ii) 27

(iii) 61

(iv) 40

(c) (i) (aa) State Prosecutor 27

(bb) State Prosecutor 54
Magistrate 4
Estate Controller 3

(cc) State Prosecutor 28
Magistrate 10
Assistant State Attorney 1
Articled Clerk 1

(ii) (aa)

East London	1
Pretoria	2
Pretoria North	1
Pietermaritzburg	1
Johannesburg	5
Verulam	2
Springs	2
Wynberg	2
Stanger	1
Alberton	1
Durban	1
Benoni	1
Germiston	1
Krugersdorp	2
Greytown	1
Soshanguve	1
Evander	1
Moutse	1

(bb)

Malmesbury	1
Cape Town	6
Bellville	4
Wynberg	18
Paarl	2
Worcester	1
Port Elizabeth	11
Vanderbijlpark	1
Johannesburg	6
Alberton	1
Alexandria	1
Evander	1
Randfontein	1
Queenstown	1
East London	2
Goodwood	2
Uitenhage	1
Pretoria	1

(cc)

Verulam	10
Chatsworth	5
Scottsburgh	1
Durban	7
Port Shepstone	1
Ladysmith	1
Pietermaritzburg	2
Pinetown	3
Johannesburg	3
Camperdown	1
Wynberg	2 (Malay)
Stanger	2
Empangeni	1
Heidelberg (T)	1

Regional prosecutors and prosecutors

210. Mr D J DALLING asked the Minister of Justice:

(a) How many persons in the Republic, excluding the self-governing territories, held the position of (i) regional court prosecutor and (ii) prosecutor, (b) how many such persons were (i) White, (ii) Black, (iii) Coloured and (iv) Indian, and (c) in which magistrates' courts were these (i) Black, (ii) Coloured and (iii) Indian persons employed, as at 31 December 1988?

B494E

The MINISTER OF JUSTICE:

(a) (i) 238

(ii) 718

(b) (i) 847

(ii) 27

(iii) 54

(iv) 28

(c) (i)

East London	1
Pretoria	2
Pretoria North	1
Pietermaritzburg	1
Johannesburg	5
Verulam	2
Springs	2
Wynberg	2
Stanger	1
Alberton	1
Durban	1
Benoni	1
Germiston	1
Krugersdorp	2
Greytown	1
Soshanguve	1
Evander	1
Moutse	1

(ii)

Cape Town	4
Bellville	3
Wynberg	16
Paarl	2
Worcester	1
Port Elizabeth	11
Vanderbijlpark	1
Johannesburg	6
Alberton	1
Alexandria	1
Evander	1
Randfontein	1
Queenstown	1
East London	2
Goodwood	2
Uitenhage	1

(iii)

Verulam	5
Chatsworth	3
Durban	5
Scottburgh	1
Port Shepstone	1
Camperdown	1
Ladysmith	1
Stanger	2
Pietermaritzburg	2
Pinetown	3
Johannesburg	1
Empangeni	1
Heidelberg (T)	1
Wynberg	1 (Malay)

Regional court magistrates and magistrates

211. Mr D J DALLING asked the Minister of Justice:

(a) How many persons in the Republic, excluding the self-governing territories, held the position of (i) regional court magistrate and (ii) magistrate, (b) how many such persons were (i) White, (ii) Black, (iii) Coloured and (iv) Indian, and (c) in which magistrates' courts were these (i) Black, (ii) Coloured and (iii) Indian persons employed, as at 31 December 1988?

B495E

The MINISTER OF JUSTICE:

(a) (i) 144

(ii) 782

(b)

	Regional Magistrate		Magistrate
(i)	144	(i)	768
(ii)	0	(ii)	0
(iii)	0	(iii)	4
(iv)	0	(iv)	10

(c)

	Regional Magistrate		Magistrate	
(i)	Falls away.	(i)	Falls away.	
(ii)	Falls away.	(ii)	Wynberg	2
			Bellville	1
			Malmesbury	1
(iii)	Falls away.	(iii)	Stanger	2
			Verulam	5
			Chatsworth	2
			Wynberg (Malay)	1

Land and Agricultural Bank loans: applications 58

218. Mr R J LORIMER asked the Minister of Finance:

(1) How many (a) Black, (b) White, (c) Coloured and (d) Indian farmers (i) applied for loans from and (ii) were granted loans by the Land and Agricultural Bank in 1988;

(2) what was the total value of the loans so (a) applied for and (b) granted in respect of each of the above-mentioned population groups in that year?

B502E

The MINISTER OF FINANCE:

1(a)(i)	1(b)(i)	1(c)(i)	1(d)(i)
None	3 871	25	11
1(a)(ii)	1(b)(ii)	1(c)(ii)	1(d)(ii)
None	3 156	21	6

Black farmers

2(a) — Nil

(b) — Nil

White farmers

2(a) — R681 490 183

(b) — R509 147 300

Hansard.

Coloured farmers

2(a) — R530 800

(b) — R451 700

Indian farmers

2(a) — R2 311 500

(b) — R 771 000

Land and Agricultural Bank loans granted: amount

219. Mr R J LORIMER asked the Minister of Finance:

(a) What total amount had been granted in loans to farmers by the Land and Agricultural Bank as at 31 December 1988 and (b) to how many farmers had these loans been granted?

B503E

The MINISTER OF FINANCE:

(a) R2 774 658 227
(b) 38 835

Internal Security Act: persons detained under section 28

255. Mrs H SUZMAN asked the Minister of Justice:

(1) How many persons in each race group were detained in terms of section 28 of the Internal Security Act, No 74 of 1982, (a) in 1988 and (b) as at 31 December 1988;

(2) for how long had each such person been detained as at 31 December 1988?

B560E

The MINISTER OF JUSTICE:

(1) (a) None
(b) None
(2) Falls away.

Internal Security Act: women detained

256. Mrs H SUZMAN asked the Minister of Justice:

(1) How many women were detained under section 31 of the Internal Security Act, No 74 of 1982, (a) in 1988 and (b) as at 31 December 1988;

(2) for how long had each such woman been detained as at 31 December 1988?

B561E

The MINISTER OF JUSTICE:

(1) (a) One
(b) None
(2) Falls away.

Own Affairs:

Sea Point: rent-controlled premises

22. Mr C W EGLIN asked the Minister of Local Government and Housing:

(1) How many rent-controlled premises were there in the Sea Point constituency as at 31 December 1988;

(2) (a) how many such premises were decontrolled in 1988 and (b) what is the (i) address and (ii) description of each of the properties concerned?

B282E

The MINISTER OF LOCAL GOVERNMENT AND HOUSING:

(1) On 31 December 1988 there were still 698 units, comprising of 580 dwellings and 118 flats, subject to rent control;

(2) (a) 452 units, comprising of 28 dwellings and 424 flats, were exempted from rent control of which 396 units, comprising of 20 dwellings and 376 flats, were conditionally exempted from rent control subject to the granting of continued protection to the tenants thereof if and for as long as such tenants comply with the prescribed requirements for continued protection;

(b)

(i) Address	(ii) Property description
Flats 1, 11 and 15 Embassy, 198 High Level Road, Sea Point, Cape Town	Erf 202, Cape Town at Sea Point
Flat 14, Arrow Court, 263 Main Road, Sea Point East, Cape Town	Erf 120, Cape Town at Sea Point East
Flats 1-4, Clarendon Court, 167 High Level Road, Sea Point, Cape Town	Erf 1063, Cape Town at Sea Point
Flat 14 and 19, Ark Royal, 18 Hall Road, Sea Point, Cape Town	Erf 630, Cape Town at Sea Point
Flats 2-10, 12, 14 and 16, Embassy, 197 High Level Road, Sea Point, Cape Town	Erf 202, Cape Town at Sea Point
Flats 1-12 and 15-18, Ark Royal, 18 Hall Road, Sea Point, Cape Town	Erf 630, Cape Town at Sea Point
Flats 2 and 3 Irwinten Flats, 7 Irwinten Road, Sea Point, Cape Town	Erf 427, Cape Town at Sea Point
Flat 1, Wisbeach Court, Wisbeach Road, Sea Point, Cape Town	Erf 1165, Cape Town at Sea Point
12A and 12B, Bertram Road, Sea Point East, Cape Town	Erf 525, Cape Town at Sea Point East
Flats 1 and 4, Irwinten Flats, 7 Irwinten Road, Sea Point, Cape Town	Erf 427, Cape Town at Sea Point
Flats 3, 5, 7-9 and 11, Whitehall Flats, 10 London Road, Sea Point, Cape Town	Erf 594, Cape Town at Sea Point
Savoy Flats 10, High Level Road, Sea Point, Cape Town	Erf 996, Cape Town at Sea Point
Savoy Flats 1-9 and 11-12, High Level Road, Sea Point, Cape Town	Erf 996, Cape Town at Sea Point
Flats 1-41, 43, 44 Graham Court, c/o Graham and Milton Roads, Sea Point, Cape Town	Erf 476, Cape Town at Sea Point
Flats 1-6, London House and 1-2 Cardew, London Road, Sea Point, Cape Town	Erf 564, Cape Town at Sea Point
Flats 1-12, 14-17, Palm Court, London Road, Sea Point, Cape Town	Erf 617, Cape Town at Sea Point
Flats 102, Terminus Building, 102 Regent Road, Sea Point, Cape Town	Erf 78, Cape Town at Sea Point
Flats 1-2, Dunoon Building, 12 Solomon Road, Sea Point, Cape Town	Erf 79, Cape Town at Sea Point
Flats 2-11, Thelma Court, 24 Regent Road, Sea Point, Cape Town	Erf 322, Cape Town at Sea Point
Flats 1-8, 10-15, Victory Court, c/o Graham and Oliver Roads, Sea Point, Cape Town	Erf 511, Cape Town at Sea Point
Flats 12, 14-14A, Graham Road, Sea Point, Cape Town	Erf 1017, Cape Town at Sea Point
Flats 5-6, Fairmont Court, Solomon Road, Sea Point, Cape Town	Erf 72, Cape Town at Sea Point
Flats 1-5, 7, 9, 10, 12, 15-21, Marais Mansions, Marais Road, Sea Point, Cape Town	Erf 1151, Cape Town at Sea Point
1-7 Charnwood, c/o Lincoln and Oliver Roads, Sea Point, Cape Town	Erf 551, Cape Town at Sea Point
A-R Achilles Park, 8 Cassel Road, Sea Point, Cape Town	Erf 175, Cape Town at Sea Point
Flats 1-7, Queensbury Court, Solomons Road, Sea Point, Cape Town	Erf 67, Cape Town at Sea Point
Flats 1-7, Cassel Mansions, 7 Cassel Road, Sea Point, Cape Town	Erf 174, Cape Town at Sea Point
Flats 1-11, 12, 14, 17, 24 and 25, Cloucester Court, Beach Road, Sea Point, Cape Town	Erf 806, Cape Town at Sea Point
Flats 1-12, La Plaza Flats, London Road, Sea Point, Cape Town	Erf 595, Cape Town at Sea Point
Flats 1-12, 14-19, Ark Royal Flats, Hall Road, Sea Point, Cape Town	Erf 630, Cape Town at Sea Point
Flats 1-8, St Paola Flats, Worcester Road, Sea Point, Cape Town	Erf 456, Cape Town at Sea Point
Section 2-Section 4, Tobi Lodge, 16 Oliver Road, Sea Point West, Cape Town	Erf 530, Cape Town at Sea Point West
Flats 1-9, Audubon, c/o Kloof and Church Roads, Sea Point, Cape Town	Erf 351, Cape Town at Sea Point

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Catch 22

Whether or not the immediate controversy surrounding the bank is resolved, longer-term problems remain.

Adverse publicity surrounding the firing of CE Gaby Magomola and treasurer Joe Modibane may subside. And anxieties of the largest depositor, Transkei, about the circumstances surrounding the firings may be allayed. But there are fundamental problems that will not go away.

Like all banks, African Bank is finding the need to meet statutory reserve requirements a constraint on building assets. Since 1987, when a new approach to capital requirements was adopted internationally, banks have not been free to go headlong for growth at all costs but have had simultaneously to build up their capital base in line with quality and quantity of assets.

Limited resources and its capital structure constrain African Bank more than most.

In the recently released report for the year to September 1988, chairman Sam Motsuenyane refers to the difficulty of funding growth internally and the need to attract capital from external sources. "Reliance," he said, "is placed on preference shares."

Capital and reserves include 750 000 16% R1 cumulative redeemable preference shares and 3,75m 8% "A" R1 cumulative redeemable pref shares. The bank has a high annual fixed interest rate burden — a serious drain on profits when interest rates were much lower, though less so now.

Constraint number two is that retail deposits increased proportionately less than assets last year. Magomola points out that growth in assets was predominantly funded from wholesale funds, "reflecting the relative decrease of retail deposits and savings in the entire banking market."


Motsuenyane

Reliance on more expensive wholesale funding reduced margins and contributed to a 43% decline to R348 000 in taxed income, while capital and reserves rose less than R240 000. With insufficient profits to build adequate reserves and expensive subordinated capital continuing to drain profits, the problems continued to feed each other.

The share, issued at R1, is estimated by banking analysts now to be worth only about 20c-30c.

Attempts to attract new capital will be hampered by the need to restrict white shareholding to 25% — already 14% is held by the five major banks.

The rest is held in small quantities by black shareholders.

However, acting CE Jack Theron sees light at the end of the tunnel. "Management and directors are addressing the capital constraint and it will soon be resolved. Moreover, hidden reserves are raised annually, which will give us more freedom to grow assets." ■

Economists predict 20% ceiling

Imminent rise in prime rate likely

CM. TIMES 7/4/89

(58)

By AUDREY D'ANGELO
Financial Editor

ANY further fall in the gold price or an upsurge in overseas interest rates could make it necessary for prime rate to rise to 20% within a few weeks, say Trust Bank economists Nick Barnardt and Jacques du Toit.

But they do not believe the authorities will allow it to rise above this level for socio-political reasons.

They expect the rand to fall to R2,60 to the dollar during April unless there is a rise in the gold price or a visible decline in the dollar.

However, they say: "We still foresee that a widening balance of payments (BoP) surplus will limit the rand's downward potential during the course of 1989.

"Nevertheless the price of gold is set to exert a crucial specific influence on the currency's performance this year.

"A gold price of $400 would prevent the rand-dollar exchange rate from worsening to above R2,60 — but gold at $340 would produce a rand-dollar rate of close on R3."

Barnardt and Du Toit say in their Trufox Rand report that economic indicators released in March showed there was no further fundamental need for higher interest rates at this stage.

"Consequently it was clear that no further immediate monetary policy action was necessary. The tightness in the money market was probably caused by unexpectedly low net outflows from the exchequer account — mainly a reflection of continued high Government revenues.

"The Reserve Bank responded by providing unusually large aid to the market at the end of March, thus indicating its present stance on official interest rates and simultaneously pre-empting an anticipated substantial net inflow of funds from the Exchequer account during April."

But, the report continues, there is still a distinct possibility of a further 1% rise in official lending rates before midyear.

"In this context, economic indicators during the next few weeks will play a deciding role. Of particular importance are the March figures for foreign reserves and monetary growth."

Trufox expects moderately higher reserves and a further slowdown in monetary growth, making a further rise in official interest rates improbable.

"Of course," Barnardt and du Toit warn, "a visible decline in the gold price or a renewed upsurge in overseas interest rates during April could push the domestic prime rate to 20% within a very short period.

"In the same breath, a prime rate exceeding this level could probably be considered politically impossible in SA in 1989.

"Should further economic pressures for policy restriction become untenable, the authorities would probably resort to non-interest rate measures rather than raising prime above 20%."

WMail 7-13/4/89

New injuries to Afbank before the old ones heal

The sacking of African Bank's Gaby Magomola has simply raised new questions, reports SHELLEY FRANCES

NEW allegations have wounded African Bank's image before the scars from the foreign exchange scandal it was involved in 1986 have had time to fade.

In the wake of chief executive Gaby Magomola's firing by the board, questions have been raised about the bank's finances — and about the board itself.

There is no doubt that the African Bank's financial performance has been poor. Its earnings dropped 45 percent for the year to September 1988 to R353 458 and preference dividend payments of R420 000 cut into earnings with reserves dropping 47 percent. These results do not reveal movements to and from internal reserves as is permitted by the Companies Act.

An ordinary dividend was not declared and bank chairman Sam Motsuenyane said shareholders would be asked for more money this year.

The bank's solvency was questioned at last week's annual general meeting when a shareholder said that without Reserve Bank assistance the bank would be insolvent. He was stopped by Motsuenyane who said the information was "sensitive" and should not be divulged in public.

Motsuenyane said he met the Reserve Bank and the solvency of the bank was not in dispute.

The chairman of the Transkei military council, Major General Bantu Holomisa, in assessing his government's R38-million in deposits in African Bank, expressed concern over the bank's position, but after talks with bank officials this week, said he accepted assurances of the stability and solvency of the bank.

Almost 70 percent of the bank's shareholding consists of small investors with less than 500 shares each. Five major commercial banks hold less than 15 percent, but are the major preference share holders and are therefore entitled to dividends regardless of the bank's performance.

This week, Magomola confirmed he was still instituting legal action against his dismissal on the grounds that it was an "unfair labour practice". He had previously suspended this action while mediating efforts by an anonymous group of "high profile community leaders" were underway. Sources said Magomola declined a large settlement offer.

In November last year a "document of concern" signed by managers of the bank — some of whom have subsequently dissociated themselves from it — was sent to the bank's board of directors requesting Magomola's resignation.

The document questioned Magomola's leadership style, alleged racism in the bank, referred to the bank's recruitment practices as "irregular and detrimental" and complained about the manning of key positions by whites and the disparity in white and black salaries.

It said Magomola personalised the bank by overselling himself and that over-exposure in the media had boomeranged back on to the bank, harming its image.

In a letter of response to the board, Magomola said job insecurity associated with his rationalisation plans, protection of vested interests and pure jealousy led to this document.

Magomola said managers were informed that the bank's profitability was low, operating costs too high, delinquencies unacceptable and cost cutting at all levels was required. A retrenchment programme was agreed on, but the retrenchment list leaked out.

Magomola later said he had also requested that the bank's board be reconstituted with more financially literate members.

Shareholders have questioned the way Magomola was dismissed, asking why the board had not waited for the AGM which was held two weeks later. Sources said many of the bank's employees were "anti-Magomola".

Two days after Magomola's dismissal, the bank's treasury officer, Joe Modibane, was fired for writing to the Reserve Bank requesting an investigation into certain activities. The Reserve Bank confirmed it was investigating the bank, as the usual response to complaints. Details of activities investigated have not been made known.

Leading up to what was expected to be a stormy AGM, Motsuenyane barred African Bank staff from talking to the press. During this period, the Reserve Bank obtained an urgent court interdict to stop *Business Day* publishing an article relating to a letter from Reserve Bank to the African Bank.

All planned motions were passed at the AGM but some contentious issues were raised.

Shareholders questioned the writing off of an outstanding amount of R424 000 to African Development and Construction holdings, a company in which Motsuenyuane and other board members had interests.

Auditors explained that initial loan had been part of a R2-million loan made along with a large commercial bank and a major construction company. African Bank's share of the loan was R200 000, the balance was capitalised interest. The amount had not been written off, but had been "provided for".

Gaby Magomola: Asked for a 'more financially literate' board

It emerged that advances to directors grew from R454 071 in 1987 to R2,85-million in 1988. Motsuenyane said these advances had been made on commercial terms.

Managerial services amounting to R73 729 were questioned and a shareholder said Motsuenyane was one of the highest paid bank chairmen in South Africa.

Motsuenyane said this payment was authorised by the board and reflected in the annual report. Shareholders had not questioned it before but could do so.

An auditor responded to allegations that the auditors had problems approving the bank's financial statements without qualification, by saying that now the statements were signed, the decision would not be protracted.

The value of an African Bank share was queried. Shareholders paid R1 a share 13 years ago and Motsuenyane said they were still worth R1.

Analysts estimate the value to be between 20c and 30c a share.

But with the AGM over and Motsuenyane set to meet Holomisa on Monday for further discussions, it is "business as usual" at the African Bank.

Life assurers pay out a bumper R7,3 billion

(58) Star 5/4/89

CAPE TOWN — Life assurance policy-owners had a bumper year in 1988 when benefits of R7,3 billion were paid out.

This represents an increase of 37,5 percent over those of 1987.

Figures released by the Life Offices' Association (LOA) yesterday showed that benefit payments have risen by an average of 36 percent per annum over the past five years.

Mr Pierre Steyn, LOA chairman, and managing director of Sanlam, said the figures illustrated that the life assurance industry was playing an increasingly important role in the lives of all.

"The benefits flowing back to the public have now reached an average amount of approximately R30 million per working day.

"Bearing in mind that most people are normally insured for relatively small amounts, this indicates that hundreds of thousands of South Africans each year receive some form of financial assistance for their own care through our industry," Mr Steyn said.

Investments held on behalf of policy-owners were valued at R83,3 billion at the end of last year, representing a rise of more than 28 percent in 1988.

Tax paid by the industry on behalf of policy-owners increased by 125 percent between 1987 and 1988 — from R256 million to R575 million.

This was attributable to a normal increase in taxed business and an increase of 75 percent in life offices' tax rate above that of 1987.

"When one compares the rate at which policy-owners were effectively taxed with the rates applicable to other savings, it is evident that they have been called upon to carry an unfair tax burden," said Mr Steyn.

"Against the background of our economy's dire need for capital, it is clear that long-term saving through life assurance should be encouraged.

"People should also be encouraged to provide for themselves and their own dependants against the risk of loss of income in order to relieve the state of this burden."

Mr Steyn said the new tax basis, announced in this year's Budget, was a positive step because, inter alia, it accepted the principle that a life assurance company should be taxed on behalf of its policy-owners.

Hunt is on for R47m missing in bank fraud

9/4/89.

A HUGE operation has been mounted to recover R47-million which went missing in fraudulent deals affecting Trust Bank and First National Bank.

By IAN SMITH

Both banks refused to talk about the scam yesterday while delicate negotiations went on in West Germany, the US and South Africa.

Banking circles were rocked by the scandal, the second to hit Trust Bank in less than a year.

However, Trust Bank officials are confident that most of the money will be recovered. Criminal charges are, however, expected to arise after three deals which were based on the banking system's clearance vouchers. Warrants of arrest have been issued.

Trust Bank's share price took a mild tumble from 170c to around 155c, but sources say it is unlikely that the full amount will be reflected on the bank's bottom line.

The recovery of a significant amount would avert a battle between the two big banks over final responsibility. Clearance vouchers are used between banks to guarantee payments, and traditionally there is no question about settlement.

Syndicate

However, problems could arise where vouchers have been stolen or signatures forged.

The R47-million went missing when three clearance vouchers were presented — one to cover the $10,5-million purchase of a second-hand Falcon 50 executive jet in the US, the second to pay for R18-million worth of Krugerrands, and the third for the balance.

A syndicate is believed to have been responsible for the missing millions, and Trust Bank representatives have flown to West Germany to talk to two former bank officials in Frankfurt.

The aircraft was bought from the US-based National Aircraft Company through a broker and efforts are being made to ascertain whether the deal can be cancelled. In any event, the aircraft is an asset which could be seized.

The Krugerrands are also a tangible asset, and the banks know where they are.

The gold coins were bought from Krugerrand Trading in the Carlton Centre by a man calling himself David Smith. He presented a bank clearance voucher which was accepted by the company after it had ascertained from its own bank, First National, that it was "better than a bank-guaranteed cheque".

FINANCE

Over-ruling reason

B/Day 10/4/89

IN THE MONEY MARKETS

Harold Fridjhon

58

NOT economic fundamentals but the third-quarter general election will be the strongest element in shaping money market perceptions in the months to come.

A strongly held view by bank treasury managers and other market participants is that political influences will strive to persuade the monetary authorities that Bank rate should remain unchanged until the voters have marked their ballot papers.

The consensus opinion in the market is that fundamentals such as continuing pressure on the gold and foreign exchange reserves and the unremitting demand for credit suggest that another Bank rate increase might be necessary in June. To the politicians such a move would be undesirable. And to raise Bank rate and prime in May or June and then to lower them in July would be a too transparent a replay of the Primrose prime of 1984.

This suggests interest rates will be frozen and that the Reserve Bank will be compelled to use extensively open-market operations and to feed and withdraw deposits from the CPD and parastals to hold down the call rate.

These tactics were efficiently used at the end of February and March and they could work again, provided the longer-term deleterious effects on the economy as a whole are conveniently overlooked. It will be just another sacrifice which will have to be made in the pursuit for power.

In mid-March, the market expected the final reckoning for the end of the month would be a shortage — its debt to the Bank — of R3bn. The outcome was R1,7bn with the Big Money call rate at 17,25% and the rate for 90-day bankers acceptances (BAs) at 16,90%.

A flood of money from government spending, and possibly from the buy-back contractual sales of Krugerrands to the Bank, has since reduced that debt to the Bank to R853m, with all rates showing an easier trend.

The Bank has sold back all the BAs which it had bought to support the market and these have been eagerly snapped up by investors who are now showing an appetite for three-month paper. This demand for BAs has brought the rate down to 16,55% with the rate for non-liquids to 16,80% from 17,10%. These rates could ease further because most investors might feel comfortable holding three-month paper, carrying them through to July/August, on the assumption that the will of the politicians over-rules reason.

But investors, apparently, are not interested in longer-period paper. The banks have been offering six- and 12-month certificates of deposit, but the margin between their asking price and what the investors are prepared to pay is, at present, too wide to be bridged.

Bullishness turns to bearishness

B/Day 16/4/89

(58)

HAROLD FRIDJHON

SENTIMENT in the bond market appears ~~to be~~ swinging from its recent short-lived bullishness to an understandable bearishness. It is correctly being influenced by longer-term forces rather than those which shape the money market.

Yields have been moving upwards as sellers outnumber buyers. Even the institutions are reluctant buyers. In the previous week, the Reserve Bank made small offerings of RSA bonds 13,5% 1996, but there were no bidders.

Lst week, the Bank accepted that its asking rate was too low and market reports suggested that between R100m and R200m worth of stock was tapped into the market at 16,90%. This suggests an institutional reluctance to deal and that, possibly, yields had to be raised to attract the money, not a happy augury for the Treasury's funding programme.

Futures trading is exerting considerable influence as the put rates for May contracts are sharply higher.

The most traded bond in the market, the Eskom 168, has seen the yield rise by no less than 19 points to 17,28% from 17,07%.

And the other well-traded SVO6 1991, issued by Sats, too, has been sold down to a yield of 16,76% from 16,47% — a 29-point spread.

The 13% 2005 RSA, a key indicator, although not as well traded as the Eskom 168, dropped 15 points during the week to 17,26%.

Volumes traded daily in the JSE market were about average, with the turnover in a short week reaching about R3,5bn. On Friday, the market was distinctly dull as many of the players were absent, having used the Thursday holiday to take a long weekend.

Interest rates make GuardBank cautious

58 BDay 10/4/87

LIZ ROUSE

GuardBank
MANAGEMENT CORPORATION LIMITED

GUARDBANK unit trust managers take a cautious approach to equities in the short-term because of sharp price rises in the past six months and deteriorating economic prospects.

While the likely trend in prices in the immediate future is difficult to assess, in the long term they believe the trend in prime blue chip counters will continue to be upward, according to the March quarterly report.

It would be premature to predict that interest rates have peaked, although the scope for further increases must be somewhat limited, say the portfolio managers. In SA's long-term interests it remains essential that the economy be cooled down and interest rates be reduced to a more acceptable level.

GuardBank Growth Fund enjoyed a bumper March quarter as total assets increased by more than 25% to R672,9m from R537,7m in the December quarter. Value of its equity portfolio rose to R571,4m, (84,91% of total assets) from R444,5m (82,66%), while the gilt content was reduced to R31,7m (4,72%) from R35,3m (6,55%).

A significant feature was an increase in liquidity to R69,8m from R57,9m, while the percentage of total assets declined to 10,37% from 10,79%. The rise in liquidity value reflects the strong cash inflow. The repurchase price of 1 397,19c a unit at March 31 reflects an increase of 19,86% over the ex-distribution repurchase price of 1 165,73c a unit at the end of December.

GuardBank's fund managers were fairly active in the market. In the financial and industrial sectors additions were made to the holdings in UBS, SA Breweries, Sasol, Premier Group and Wooltru, while only one new counter — 2-million TSI shares — was added.

The holding in Safcor was reduced by 100 000 shares. The fund swopped R10m Sats 12,5% 1991 for R7m RSA 14% 1994.

In the mining sector, the holding of 300 000 Anglovaal loan stock was sold, while the holding in Rusplats was reduced by 50 000 shares. The remainder of 140 000 ConsGold was eliminated from the portfolio.

Top 10

The decision was taken to replace this holding with three prime gold counters — 20 000 Vaal Reefs, 50 000 Western Deep Levels and 200 000 Kinross shares were bought. Holdings of De Beers and Gencor rose significantly.

Top 10 holdings at the end the March were Richemont, De Beers, Gencor, Anglos, Liberty Holdings, Barlows, SA Brews, Adcock, First International Trust (FIT) and Sappi.

The GuardBank Resources Fund also had a satisfactory quarter with the repurchase price reflecting an increase of 21,6% and total assets rose to nearly R48m from R39,3m.

The equity content was increased to 84,02% (81,18%), but value rose by 26% to R40,2m from R31,9m. Liquidity was reduced to 12,14% (14,03%), but value increased to R5,8m (R5,5m).

Newcomers to the portfolio were 7 500 GFSA ordinaries and 14 000 GFSA convertible prefs, while the holding in Lindum was augmented by 100 000 shares. The only counter eliminated was ConsGold (10 000 shares were sold) while the hollings in Palamin, Samancor, Lebowa Plat and JCI were reduced.

Top 10 holdings were Anamint, De Beers, Southvaal, Sasol, Anglos, Gencor, East Dagga, Vaal Reefs, Kinross and Vansa.

GuardBank Income Fund experienced a difficult quarter as a result of the sharp rise in both short- and long-term rates. The market values of capital market stocks, in particular, were adversely affected as the result of the decision to abolish prescribed asset requirements for pension funds and life assurance companies.

Defensive

Notwithstanding that the average life of the portfolio was extremely short, it was still not possible to avoid a marginal deterioration of the value of the fund's capital market stocks.

The income fund's total assets declined slightly to R7,4m from R7,6m at the end of December. Its cash content increased to R3,8m (50,78% of the total portfolio) from R3,4m (44,29%).

Fund managers say that although the scope for interest rates to rise meaningfully higher is becoming increasingly limited, the fund will continue to adopt a defensive policy until fund managers think rates have peaked.

Path cleared for transfer of Mint

CHRIS CAIRNCROSS

CAPE TOWN — Legislation controlling the affairs of the Reserve Bank has been materially amended to enable the legal transfer of the SA Mint and its operations to the Bank, in terms of the SA Reserve Bank Bill tabled in Parliament last week.

The changes give effect to recommendations by the De Kock Commission, and try to distance the Bank from the political administration.

Amendments abolish the office of alternate director and also stipulate that any director, officer or employee of a banking institution, mutual building society or building society will be prohibited from being appointed, elected or remaining as a director of the Bank.

MPs and members of a legislative assembly of a self-governing territory will also be prohibited from being appointed directors.

The amending Bill vests the Bank with the sole right to issue coins or coins to be issued — through its control of the SA Mint — provided all coins in circulation within the country are legal tender and may remain in circulation.

The amount of share capital of the Bank remains intact at R2m but provision is made for its subdivision and the allocation of a nominal value to individual shares.

A provision is inserted in the main Act requiring the Bank governor to submit an annual report to the Finance Minister outlining the implimentation of monetary policy, which must also be submitted to Parliament.

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R47m bank fraud: Five warrants out

Cpt Times 18/4/89 Own Correspondent 58

JOHANNESBURG. — Warrants for the arrest of five people believed to be involved in the R47-million Trust Bank fraud exposed last week were issued at the weekend, police said yesterday.

Trust Bank managing director Mr Kobus Roetz said the investigation was proceeding "well".

Well-placed sources confirmed that the money had been sent overseas to various banks in Europe and the United States.

The whereabouts of R19 million worth of Krugerrands — part of the R47 million — was unknown.

The Reserve Bank approved that part of the money — believed to be R27 million — be sent out of the country for the purchase of an executive jet, the source said. The deal was subsequently cancelled and the money was sent overseas illegally.

At least one of the suspects — a prominent Johannesburg businessman — has been traced to the US.

The whereabouts of the other four suspects — one of whom is a German national — was not yet known.

(58)

Unit trusts continue to show good growth

STAR 10/4/89

By Sven Lünsche

The remarkable growth rate of investments in unit trust was demonstrated by the performance of funds in the Sanlam, Guardbank and UAL stable, reporting over the weekend.

Guardbank Growth Fund's total assets rose by 25 percent to R672,9 million in the first quarter of the year compared to the December 1988 quarter, with the liquidity content rising by R12 million to R70 million. The repurchase price rose by 19,86 percent.

Sharp rises in interest rates and the deteriorating economic conditions will see the fund managers take a cautious view of equities in the near future, although they add that blue-chip counters should continue to do well. They add that the scape for further rises in interest rates was limited.

Guardbank's Resources Fund also had a good quarter with total assets rising by about R9 million to R48 million and the repurchase price increasing by 21,7 percent.

The sharp rise in interest rates saw the Guardbank Income Fund's total assets decline slightly from R7,6 million to R7,4 million. The cash content of the fund was reduced from 50,78 percent to 44,29 percent of the portfolio.

The total proceeds of all five unit trusts in the Sanlam stable beat the inflation rate hands down over the period.

Sanlam Trust's total proceeds were 37,90 percent and those of the Dividend Trust 28,24 percent. The Index Trust rendered proceeds 53,76, the Industrial Trust 37,65 percent and the Mining Trust 38,43 percent.

The Sanlam Trust and the Sanlam Dividend Trust declared substantially improved dividend distributions over the last six months.

Sanlam Trust's income distribution of 28c represented a 41,4 percent rise on the same period last year, while Sanlam Dividend's Trust distribution was 33,3 percent higher.

All five funds reduced their liquidity level in the first three months of the year and concentrated purchases in non-gold rand-hedge stocks.

According to Sanlam's portfolio manager Stafford Thomas, JSE shares are expensive when viewed against economic fundamentals such as rising interest rates, balance-of-payments problems and the volatile gold price.

The UAL Unit Trust acheived a 52,5 percent return for the 12 months to the end of March and increased income distribution over the year by 25,68 percent.

The distrubution for the first quarter of 1989 was 17,15c a unit.

UAL Unit Trust managing director Clive Turner said: "The portfolio is largely unchanged from the position as at the end of 1988 although the managers reduced the exposure to the gold sector through the disposal of Western Deep Levels. A new holding was introduced to the portfolio in Richmont and the existing holding in Barlow Rand was increased."

UAL Mining & Resources Unit Trust made a distribution of 4,71c for the quarter and reported an overall increase in the annual return of 41,8 percent.

Randfontein, Western Deep Levels, Randex and Lefkochrysos were sold while the fund's existing position in Eastern Traansvaal Consolidated, Lebowa and Middle Witwatersrand (Western Areas) were consolidated.

Fund managers say the outlook for the rest of 1989 depends on the gold price, the rand exchange rate and the direction of interest rates.

Star 10/4/89 (58)

FBI may issue warrant for suspect

Fraud proceeds found in overseas accounts

By Dan Side

Money from a R27 million bank fraud in South Africa has been located — and frozen — in various bank accounts in Europe and the United States, a report in the Sunday Star said yesterday.

However, a spokesman for the Witwatersrand Division of the SA Police last night said no comment "of any kind" could yet be made on the matter.

A total of R47 million was last week reported missing after transfer deals between First National Bank and Trust Bank.

The money apparently went astray after false clearance vouchers — normally ultra-safe instruments used for transferring funds between banks — were exchanged between Reef branches of the banks.

The R27 million, said the Sunday Star report, was sent from South Africa to the US in commercial rands as the purchase price of $10,5 million for a Falcon 50 executive jet.

However, the report said, no plane had been bought and the money was instead channelled into various private accounts in the names of fictitious companies at financial institutions in Luxembourg, and in Washington and other American cities.

The Sunday Star article said a syndicate of at least four men, the names of whom were known to it, was involved in the fraud. It comprised three businessmen and a former bank clerk.

America's Federal Bureau of Investigation could soon be asked to issue a warrant for one of the men in the US but, in the meantime, R5 million of the R27 million was already on its way back to South Africa.

It is believed that the same clearance voucher scam was used to fund the buying of 14 000 Krugerrands worth R19 million from an unsuspecting Johannesburg gold dealer, Mr Leo Levine of Krugerrand Trading.

Mr Levine accepted a clearance voucher as full payment after being told by a bank that the instrument was safer than a bank-guaranteed cheque.

The coins, however, have not been traced and it is not known whether they have been smuggled out of South Africa.

They were picked up from three Johannesburg banks in a combi by a Mr David Smith on March 23, with the explanation that the syndicate had effected the purchase as a hedge against a falling rand.

The remaining R1 million of the total R47 million exchanged through clearance vouchers between FNB and Trust Bank has not yet been accounted for.

First National Bank managing director Mr Barry Swart said last night he was "genuinely unaware that any recovery had been made", although he had been told a team from the SA Reserve Bank was overseas investigating the matter.

He said he could not comment further as FNB and Trust Bank were treating the fraud case as *sub judice* during the investigations by police and the Reserve Bank.

Mr Kobus Roetz, managing director of Trust Bank, has also declined to comment.

Implosions 'are the best way'

People in the city centre should welcome implosions, says Central Business District Association chairman, Mr Nigel Mandy.

He said criticism surrounding the recent Bank City site implosion of four buildings at once was unwarranted.

"It is by far the most rapid method for demolishing and people who complain should reflect on the much longer period of noise, dust and disruption when conventional methods are used."

The implosion for the Bank City project on April 1 probably reduced overall demolition time — including rubble removal — from about 32 weeks to only 8 to 10 weeks.

Mr Mandy said implosions are always at weekends and occupants of nearby buildings could effectively seal doors and windows against dust and cover sensitive equipment and stocks.

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Vermaas got R135 million 'illegally'

JOHANNESBURG. — In the 14 months it took the Reserve Bank to take decisive action against Pretoria attorney Albert Vermaas, he illegally collected R135m from "widows and orphans", earning himself R40m along the way, says the Harms Commission report on Mr Vermaas released on Friday.

Mr Justice Louis Harms found, however, that while there were instances of negligence on the part of Reserve Bank officials, there was no evidence of impropriety.

Reserve Bank deputy governor Mr Japie Jacobs declined to comment on the findings, saying that the matter would probably be discussed in Parliament by Finance Minister Mr Barend du Plessis this week.

Mr Justice Harms found that Vermaas's applications to the Reserve Bank were handled in an unsatisfactory manner in that:

- He was allowed to conceal the identity of the foreign buyers of his properties without giving good reasons.
- While extensive documents were given in with the applications it was clear that the documentation was never read, or, if they were read, were never critically appraised.
- The bank neglected to attach proper and effective pre-conditions to the forex authorisations to enusre that goods Mr Vermaas purchased actually came to SA.
- No control measures existed to ascertain if conditions attached to such applications were met.

"The questions arises that if foreign exchange controls cannot be strictly applied does it make any sense to apply them at all?" the report asked.

The Reserve Bank took literally the idiom that the left hand should not know what the right hand was doing, Mr Justice Harms said.

"While the Registrar of Banks was grappling with Mr Vermaas's illegal bank business, the foreign exchange control division was approving forex transactions and operating as if nothing was wrong," Mr Justice Harms said.

"This is not to say that the Foreign Exchange Control Division did not know about the Registrar's investigation. Their point of view was simply that it was none of their business."

Mr Justice Harms said it was notable that the opinions of top officials in the Foreign Exchange Control Division differed substantially on the workings of control mechanisms.

There were also differences of opinion between the Bank and its agents (commercial banks) in that the Bank believed applications recommended by its agent confirms the bona fides of the applicant. But commercial banks believed their recommendations did not have any influence on the Reserve Bank's decision-making.

The report also found that most of the investors whose money financed Vermaas's extravagant lifestyle, were motivated by the fact that extraordinary returns on investments were paid.

"Greed remains extremely infectious and untreatable," Mr Justice Harms said.

While the fraud uncovered by the Commission was exceptional, no evidence of corruption was found. What was found, however, was that alleged enrichment and influence uncovered by the commission impressed people no end, he said.

Mr Justice Harms likened Vermaas to Ali Baba saying both had magic words which opened "solid doors" and they got their hands on huge treasures.

Police track down R25-m moved out of SA

Investigators close in on fraud suspects

58

Star 11/4/84

Mr Stuart Pegg ... with wife and children at American ski resort.

By Craig Kotze, Crime Reporter

Police will apply for the extradition of Mr Stuart Pegg — said to be at the centre of the R47 million Trust Bank fraud — if he does not return to South Africa from his ski resort hide-out in the American state of Colorado.

An extradition agreement exists between the United States and South Africa.

Should Mr Pegg, in America with his wife Helen and their four children, not return, South African police would "take the necessary steps" to have him extradited, The Star was told today.

"An application will be made for extradition," said a source.

Another four alleged syndicate members are on the run. Apart from Mr Pegg, two of them are known to have left the country.

Warrants for their arrest have been issued.

Trust Bank is offering a "considerable" reward for information leading to the arrest and conviction of the suspects and the return of emeralds valued at R1 million and Krugerrands worth more than R19 million.

All the suspects are from the Reef. One is a senior clerk at Trust Bank.

Police confirmed that a South African team of detectives and bank experts was in the US co-operating with the Federal Bureau of Investigation (FBI).

The team is believed to include representatives of the Reserve Bank, Trust Bank and First National Bank.

Witwatersrand police spokesman Lieutenant-Colonel Frans Malherbe said police were searching for emeralds worth more than R1 million bought with a bank clearance voucher.

Frozen

The names of the other suspects are:

- Trust Bank clerk Mr Gotz Guntenhoner of Roodepoort, who holds a West German passport.
- Mr Hendrik Kritzinger Welman of Parkhurst, Johannesburg.
- Mr Keith Greenwood of Ponte City, Berea, Johannesburg.
- Mr Harry Williams of Krugersdorp.

Mr Guntenhoner left the country with Mr Welman on March 24 and arrived in Frankfurt, West Germany, the next day.

So far, police have tracked down and frozen R25 433 195 allegedly stolen by the syndicate after funds intended for the purchase of a jet in the US were diverted to other accounts.

The deal was cancelled after the funds left South Africa.

The 16 388 missing Krugerrands and the emeralds were bought with a bank clearance voucher allegedly issued by Mr Guntenhoner, police said.

Deficit is cause for alarm

58

Star 11/4/89.

Finance Staff

It is alarming that in spite of the vast increases in tax receipts, the deficit before borrowing remains large, and relatively large amounts of loan funds are being used to help finance current expenditure, Volkskas says in its latest *Economic Spotlight*.

Volkskas stresses the importance of the expenditure figure corresponding more or less with the budgeted figure. Exceeding this by even a small amount could have a stimulatory effect on demand, instead of a moderately dampening effect.

It expresses concern too that tax revenues are still increasing sharply which, Volkskas points out, is undermining the growth potential of the economy in various ways.

PUBLIC DEBT

Also of concern is the interest burden on public debt which is rising fast. Volkskas notes that in the 1988/89 financial year public debt costs rose by 26,6 percent, and that for the current financial year, provision was made for a further rise of 23,8 percent.

The final figure could even be higher, given the higher interest rates levels in the capital market, possible currency losses and greater borrowing by the government than allowed for in the Budget.

The objective of the Budget was to help curb domestic spending in the short-term, while encouraging growth in the longer term, Volkskas says. However, it doubts whether the Budget has come up to expectation in this respect.

For the individual, little has been done that could encourage initiative and savings which could contribute to a higher growth rate. In this regard, it feels that the sharp rise in the progression of personal income tax rates, stimulated by inflation, arouses particular concern.

Names of 5 fraud suspects released

Cape Times 11/4/89

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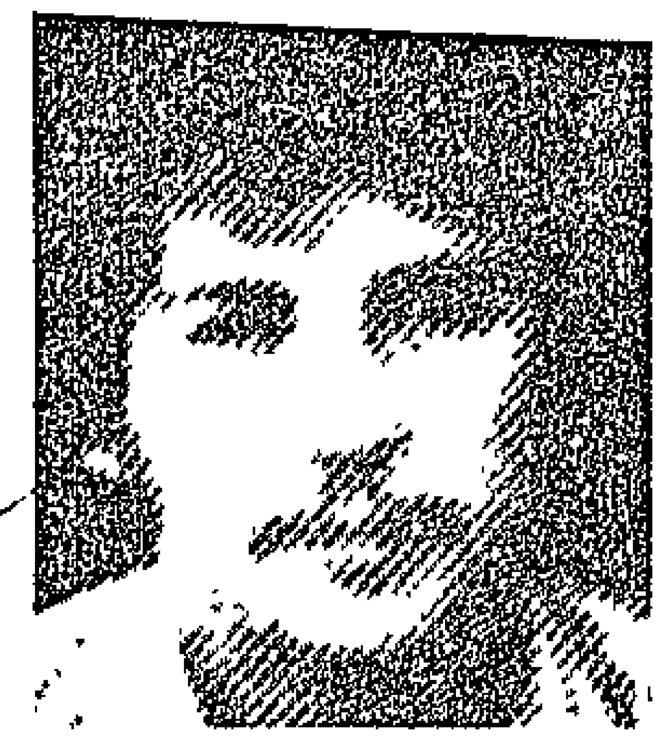

FRAUD SUSPECT ... Mr Hendrik Welman

Own Correspondent

JOHANNESBURG. — Police yesterday released the names of the five men for whom warrants of arrest were issued at the weekend in connection with an alleged R47m fraud involving Trust Bank and First National Bank.

The men are Johannesburg businessman Mr Stuart Pegg of Sandhurst, Trust Bank senior clerk Mr Götz Guntenhöner of Roodepoort North, Mr Hendrik Welman of Parkhurst, Mr Harry Williams of Krugersdorp and Mr Keith Greenwood of Berea.

Mr Pegg is said by police to be with his family at a ski resort in the US and the whereabouts of the other suspects are unknown. Mr Guntenhöner flew with Mr Welman to Frankfurt on March 23.

It is alleged that the signature of a senior Trust Bank official was forged on clearance vouchers — inter-bank documents used to approve cash withdrawals at one bank from an account at another bank — valued at R47m, police said yesterday.

Police said their investigation focused on four transactions: The purchase of a R25,4m Falcon 50 executive jet in the US; Krugerrands worth R19m bought by a Londoner in Johannesburg; uncut emeralds worth R1,024m bought from a Muizenberg firm, and R130 000 allegedly unlawfully transferred from Trust Bank to a private account.

We'll carry on investing in Afbank, says Transkei

SA 11/4/86

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Transkei's Military Council met the African Bank's central board of directors yesterday.

Talks centred around council chairman Major-General Bantu Holomisa's demands regarding the safety of investments by his government with the bank, the bank's solvency, and moves taken by the bank to bring about management stability.

A joint statement issued after the Johannesburg meeting said it had been decided that:

- Transkei's government shall continue to invest funds in the bank but reserves the right to seek comfort as to the safety of its customers by consulting immediately and from time to time with the Reserve Bank and the joint auditors of the bank.
- The government encourages the bank's board to expedite any negotiations there might be with dismissed employees so that the matter is settled as soon as possible in order to eliminate any adverse publicity against the bank which may place its position, and the government's investments, in jeopardy. — Sapa.

COMPANIES

Sanlam trusts keep liquidity

LIZ ROUSE BD 11/4/89

SHARES are expensive at present, viewed against rising interest rates, balance of payment problems and a vulnerable gold price, says Sanlam unit trust portfolio manager Stafford Thomas.

Thomas has, therefore, opted for the retention of sound liquidity levels for the Sanlam trusts, with the exception of Index Trust, which follows policy to remain fully invested at all times.

Sanlam Trust and Sanlam Dividend Trust declared substantial income distributions on March 31 while total proceeds of all five Sanlam unit trusts beat inflation in the past 12 months.

Sanlam Trust's income distribution of 28c a unit for the six months to March represents a 41,4% increase over the corresponding period in 1988. During the past quarter the trust's liquidity level was reduced from 32% to 20% with purchases concentrated in non-gold rand hedged shares.

Sanlam Dividend Trust's 11,2c a unit distribution is 33,3% up on the 1988 level. Liquidity is at 23% compared with 37% at the end of 1988. Again purchases were concentrated in non-gold rand hedged shares.

The remaining three Sanlam Trusts, namely Index Trust, Industrial Trust and Mining Trust will declare their next income distributions at the end of June.

Inflation

Index Trust's liquidity level declined from 13% to 7% and that of Industrial Trust from 25% to 20%. At Mining Trust liquidity was down from 33% to 24% with investments again concentrated in non-gold rand hedged stocks.

For the year ending March 1989 the total proceeds of the Sanlam trusts all easily outperformed the inflation rate. Sanlam Trust's total proceeds for the period was 37,9% and those of Sanlam Dividend Trust 28,24%. Sanlam Index Trust rendered exceptional total proceeds of 53,76%, while Sanlam Industrial Trust's total proceeds were 37,65% and those of Sanlam Mining Trust 38,43%.

Draft Bill on futures tabled

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CHRIS CAIRNCROSS

CAPE TOWN — Major draft legislation paving the way for formalised trading in financial futures contracts, options and gilts outside the stock exchange was tabled in Parliament yesterday by Finance Minister Barend du Plessis.

The Financial Markets Control Bill flows from recommendations by the Stals and Jacobs committees appointed to investigate the development of financial futures transactions in SA, and the market for gilts.

The Bill provides for the appointment of a Registrar of Financial Markets; a Financial Markets Advisory Board to co-ordinate the financial markets, advise the Registrar and make recommendations to the Minister of Finance relating to financial markets and stock exchanges; the licensing of financial markets; and an appeal board to adjudicate disputes.

These structures are designed to promote the development of a financial markets industry in SA on the principle of self-regulation within a statutory framework.

The Bill amends the Stock Exchange Control Act, doing away with a provision which stipulates that 30 or more persons are necessary to apply for a certificate authorising the issue of a stock exchange licence.

Instead, the draft legislation gives the Registrar discretionary power to consider any application from fewer than 30 persons.

B/Day 11/4/89

JSE markets will still be subject to the provisions of the Stock Exchange Control Act of 1985.

The detailed Bill sets out the terms of reference of the Financial Markets Advisory Board; spells out the restrictions which still apply to the carrying on of business of a financial market or of buying and selling financial instruments of any kind; the circumstances whereby a licence to run a financial market will be authorised; the rules of a financial exchange; and undesirable practices against which action will be taken.

LESLEY LAMBERT reports that the new legislation adds an official stamp of approval to the opening of new derivatives markets like the SA Futures Exchange and the JSE's traded options market, both of which are scheduled for later this year.

Finrand is open to abuse, says bank

BDay 11/4/89 (58)

KAY TURVEY

THE abuses of the financial rand system which have been exposed might be the tip of an iceberg, the Bank of Lisbon says in its latest Economic Focus.

A substantial discount on the financial rand — which has exceeded 50% at times — strains the system, as economic agents are furnished with powerful incentives to engage in illegal transactions.

Any two-tier exchange rate system can only work smoothly if the gap between the two rates is relatively narrow, the report says.

Steps to tighten the control regulations have been taken, and further moves could be in the pipeline, the bank suggests. But this action could not be expected to eradicate the problem in the face of the large discount on the financial rand, currently more than 30% to the commercial rand.

Attention has also been focused on administering the existing controls more effectively.

Commercial banks could exercise better control over foreign exchange transactions by more closely monitoring the release of financial rand balances to nonresidents for the purchase of nonquoted equity investments. However, this would increase the administrative burden of banks.

The report states that it is widely assumed that the large discount on the financial rand largely reflects the political risks perceived by foreigners, but this could be open to question.

OM fund payments soar

CMT Tim ES 12/4/89

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By BRUCE WILLAN

A record distribution of 42,46c for the six months ended March 31, ~~1989~~ has been declared by Old Mutual Investors' Fund, an increase of some 60% compared with the previous distribution, bringing the total for the year to 78,41c.

The past quarter experienced a large inflow from investors coupled with a strong equity market resulting in a R274m increase in the market value of the fund.

The repurchase price of the investors fund increased by 20%, while that of the Mining Fund increased by 16,8%.

A strong gold and mining market aided the mining fund considerably with the market value of the fund increasing by almost R30m to R156m.

Commenting on the future strength of the markets, Investors' Fund portfolio manager Rowland Chute, says "the recent strong gains in both the industrial and gold markets seem to indicate that unless the fundamentals improve, the recent period of strength could suffer a setback".

Whereas the Investors' Fund experienced a quiet trading period with only an initial purchase of Barprop, the Mining Fund was an active buyer of quality gold shares such as ET Cons, Elandsrand and Unisel.

Further purchases were also made in Anamint, PGA and De Beers.

The ten largest holdings in the Investors' Fund are Anamint/De Beers, Richemont DR, Rembrant Group, Safren, Anglo, Sasol, Gencor, JCI, Anglovaal Industries anbd Driefontein.

The ten largest holdings in the Mining Fund are, Anamint/De Beers, Gencor, Anglo, Sasol, Driefontein Cons, Amcoal, Samancor, GFSA, Witbank and Western Deep.

Star 12/4/89 (32) (58)

Saambou chief calls for better inflation controls

Saambou chairman Hendrik Sloet says SA's decline will continue while only the symptoms of economic problems are treated.

He told the Afrikaanse Sakekamer at De Aar yesterday the rand's poor exchange rate against other currencies should not serve to retain competitiveness on foreign markets.

SA should rather combat inflation because this would in time lead to a better exchange rate.

Mr Sloet said it was a pity the economy did not follow the same course as the West in respect of inflation control.

Despite various studies on the causes of inflation and proposals to address the problem, the result was disappointing.

Mr Sloet said even the most uninformed consumer believed it was better to buy a product on credit now than to pay 15 percent more for it within a year. This led to an overheated economy.

Interest rates were then raised to cool the economy. However, without the support of sufficient fiscal discipline, interest rates were a blunt instrument.

Mr Sloet said that it was essential that the country take a serious look at the contribution of personal savings and higher productivity as a means of combating inflation.

Tax incentives should be applied to encourage the individual to save. Drastic steps to this end were required now.

He suggested that tax on personal income from interest be abolished.

The loss of R800 million should not be raised by way of alternative taxes, but rather through government expenditure. The existing tax-free and partially tax-free investments offered by the Post Office, building societies and the Treasury should also be abolished because this kind of investment was to the advantage of the high-income group only.

Mr Sloet suggested the tax rebate currently applicable to pension fund contributions be repealed and that pension income be left untaxed.

Mr Sloet said that in future strong emphasis should be placed on increased productivity and improved training. — Sapa.

Old Mutual fund achieves record distribution

LIZ ROUSE

OLD Mutual Investors' Fund has declared a record distribution of 42,46c for the six months ended March 1989, an increase of more than 60% over the previous distribution and bringing the total for the year to 78,41c.

During the past quarter substantial inflows from investors and the strength in the equity market resulted in a R274m increase in the market value of the fund, now totalling R1,5bn. This fund is by far the largest in the SA unit trust industry.

During the quarter the repurchase price of units in the Investors' Fund rose by 20% and by 16,8% in the Mining Fund.

"The Investors' Fund has yielded excellent returns for investors," said Stuart Fish, AGM marketing. "On March 31 a R100 a month investment yielded 47,9% after one year, 22,8% a year after three years, and 29,3% a year after five years. In all cases dividends were re-invested."

Old Mutual Mining Fund benefited from the strength in the gold and mining counters, with the market value of the fund increasing by almost R30m to R156m.

Commenting on market trends, Investors' Fund portfolio manager Rowland Chute said the March quarter saw the JSE industrial and all gold indices appreciate substantially by 25,5% and 22,7% respectively.

"The industrial index was supported by very good dividend and earnings growth and the all gold index moved strongly in spite of a decline in the dollar gold price and a flat rand gold price.

"The recent strong gains in both the industrial and gold markets seem to indicate that unless the fundamentals improve, the recent period of strength could suffer a setback."

The Investors' Fund experienced a quiet trading quarter, the only acquisition being an initial purchase of Barprop. The 10 largest holdings in the fund are Anamint/De Beers, Richemont, Rembrandt Group, Safren, Anglos, Sasol, Gencor, JCI, Anglovaal Industries and Driefontein.

The Mining Fund was a net buyer with the action centred mainly on good-quality gold shares such as ET Cons, Elandsrand and Unisel. The fund also added to its Anamint, De Beers and PGA holdings.

As a result of the buying activity and better share prices, liquidity was reduced to 16,1%. The 10 largest holdings in the fund are Anamint/De Beers, Gencor, Anglos, Sasol, Driefontein, Amcoal, Samancor, GFSA, Witbank and Western Deep.

PLAN FOR EMPLOYEES

KEY staff and employers could gain from an innovative financial scheme launched by Protea Assurance which claims major retirement and in-service benefits.

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Protea Life Division senior executive Jim Brayson says the Corporate Goal Getter Plan has the added advantage of enabling companies to retain valuable employees by giving them substantial and regular awards for long service.

ST 10 Day 12/4/87

These key people can draw a tax-free lump sum after 10 years, followed by a payment every five years until retirement.

A service agreement is concluded whereby the employee's salary is increased by a set amount, a percentage of which funds a Goal Getter endowment policy. The balance pays the interest in his tax liability.

The employee then cedes the policy to the company as security for his services.

After 10 years and every five years thereafter, the policy is ceded back to the employee and he part-surrenders it — thus obtaining the cash payout — before ceding it back to the employer.

Trust leads banks' market-share rush

GRETA STEYN

THE Trust Bank was at the forefront of banks' rush for market share last year as credit demand surged.

TRUST BANK Registered Bank Reg. No 54/01539/06

Apart from a few exceptions, most banks piled on assets and bank credit grew at an annual rate of 33%.

The Trust Bank dramatically increased its share of total bank lending from 11,3% to 13,3% in the year to December, according to First National's analysis of the banks' BA9 returns to the Reserve Bank. The Trust piled on R3,7bn in advances in a year — the highest growth of the big commercial banks. The Standard was close behind with R3,3bn and First National added on R2,4bn as the economic upswing roared ahead.

In the last quarter of the year, the race was between the Trust Bank, which put almost R1bn on to its books in three months, and the Standard with R860,5m. First National commercial bank lagged with almost R600m.

However, while Trust Bank chased market share as a deliberate strategy, Nedbank apparently opted for a different plan and put only R1,3bn on to its books in the year to December.

FNB lost market share while the Trust Bank gained. First National Group's share dropped to 26,7% in December last year from 29% the previous year. By contrast, the Bankorp Group upped its market share to 20,8% from 18,4%, edging closer to the Standard Bank Investment Corporation's 23,4%.

Trust Bank contributes about 65% of the assets of the Bankorp group. With assets of more than R25bn, Bankorp is now No 2 in MacGregor's Top 100 companies, ranked in terms of asset value.

But the time for piling on assets has ended, with the Reserve Bank applying moral suasion to the banks to restrain credit extension. And banks are now concentrating furiously on increasing profitability in an industry under pressure.

Bankers say asset growth means nothing without profitability because banks need to keep capital against their assets. If profits are inadequate, banks face the prospect of a rights issue in an unenthusiastic market. Profitability has been under pressure, largely because of a squeeze on margins.

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Consolidate

New Trust Bank MD Kobus Roetz says the Trust Bank will place less emphasis on asset growth now that it has the volumes to achieve greater profitability.

Says Roetz: "The Trust Bank's assets have doubled in two years and it's now time to consolidate. Growth will be at a more moderate pace, with the emphasis on profitability."

The strategy will apply to all banks in the Bankorp group, now headed by former Trust Bank MD Chris van Wyk.

COMPANIES

BDay 13/4/87

S8

Standard mutual fund managers still cautious

LIZ ROUSE

WHILE Standard Bank Mutual Fund portfolio managers remain cautious, they are constantly looking for undervalued situations on the JSE.

They say in their March quarter report the debate at the moment is whether or not world economies will be able to have a soft landing, which would imply moderating inflation and smoothing out trade imbalances without a major disruption in exchange rates and interest rates.

The increased pace of US inflation and its pull on the level of interest rates casts a reasonable doubt on the world's major monetary authorities' ability to negotiate a soft landing.

Standard Bank Gold Fund portfolio managers do not expect much further downward pressure on gold, as most market commentators are anticipating a peak in rates being reached during the second or third quarter of this year.

Both views imply a bullish long-term view of the stock market, although fund managers are treading with caution at the moment.

Standard Bank Extra Income Fund reports that concern over economic fundamentals and the announcement of abolition of prescribed requirements for institutional investors led to capital market rates rising strongly during the last two weeks of the quarter.

This higher income from the capital market protected the fund's performance against the adverse effects of falling bond prices.

All three funds maintained a relatively high liquid position during the March quarter. The general fund's liquid assets were 32,83% (including 1,66% for distribution), the extra income fund's at 27,35% and the gold fund's at 14,59%.

Standard Bank Mutual Fund's portfolio was little changed. Its portfolio consisted of 28,81% minings, 29,46% industrials and 8,9% banks and insurance. Additions were made to holdings in Kloof and Genbel, while its entire holding of 32 000 Mid Wits was sold.

The fund's repurchase price increased 16,12% from 600,61c a unit to 697,41c over the quarter.

The gold fund was more active and its repurchase price increased 18,89% from 172,17c a unit to 204,8c. In line with policy to concentrate on low cost producers, the fund sold its holdings in Lorraine and Doornfontein, while major acquisitions were made in Kloof, Deelkraal and Zandpan.

The extra income fund's price appreciated by 2,45c during the quarter to 87,83c a unit at the end of March, reflecting an annualised compound return of 11,98% for the quarter.

Retco set to revamp its operations

1/04/1987 (58)

RETCO is to revamp the operations of both itself and subsidiary Premier Consolidated, says MD David Chapman.

Speaking yesterday, he said that now that the group was tax-free and cash-rich, plans for the changes could be implemented.

"Having disposed of its properties and related debentures, our mission is to develop Retco as an industrial holding company. One of our first moves will be to seek JSE permission for reclassification and to give Retco a new name".

He said the new-look group would seek to obtain a controlling interest in medium to large industrial companies with a sound asset base, strong managment and potential for long-term growth. The mininum investment, said Chapman, would be unlikely to be less than R10m. Two propositions were already being considered. Each investment leg would be listed separately.

The immediate target for the more refined investment policy would be Premcon, which owned a mix of companies on the fields of specialised sportswear, material manufacture, marketing research, medical clinics and home-building.

Some of these operations would be moved to the revamped Retco and further acquisitions made to give Premco a cleaner and more indentifiable corporate form.

Chapman said he intended to move Premcon out of the investment trust sector of the JSE. Its final destination would be determined by the nature and identity of further acquisitions and companies remaining within the Precon operation. — Sapa.

Too many bankers

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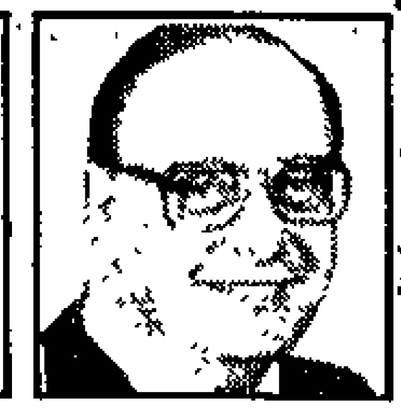
ST 13/4/89

Diagonal Street

DEREK TOMMEY



One area of the stock exchange where the rumour mongers are having a field day is the banking sector. Scarcely a week passes without some story doing the rounds that a certain bank and building society are to merge or that a bank or building society is to link up with a major insurance company.

Many of the rumours have centred on the Allied, though none has been proved true. It is not easy to say why so many merger and take-over stories have centred on this institution. A possible reason is that it is one of the smaller institutions.

It is also possible that a recent Bankorp study, which found the Allied to be one of the most efficient of the banks and building societies, may also have attracted attention to it.

However, the Allied had some respite this week when there were rumours instead of a possible merger of the United and some other financial institution.

The fact is that the banking institutions are having a difficult time containing costs and maintaining profits.

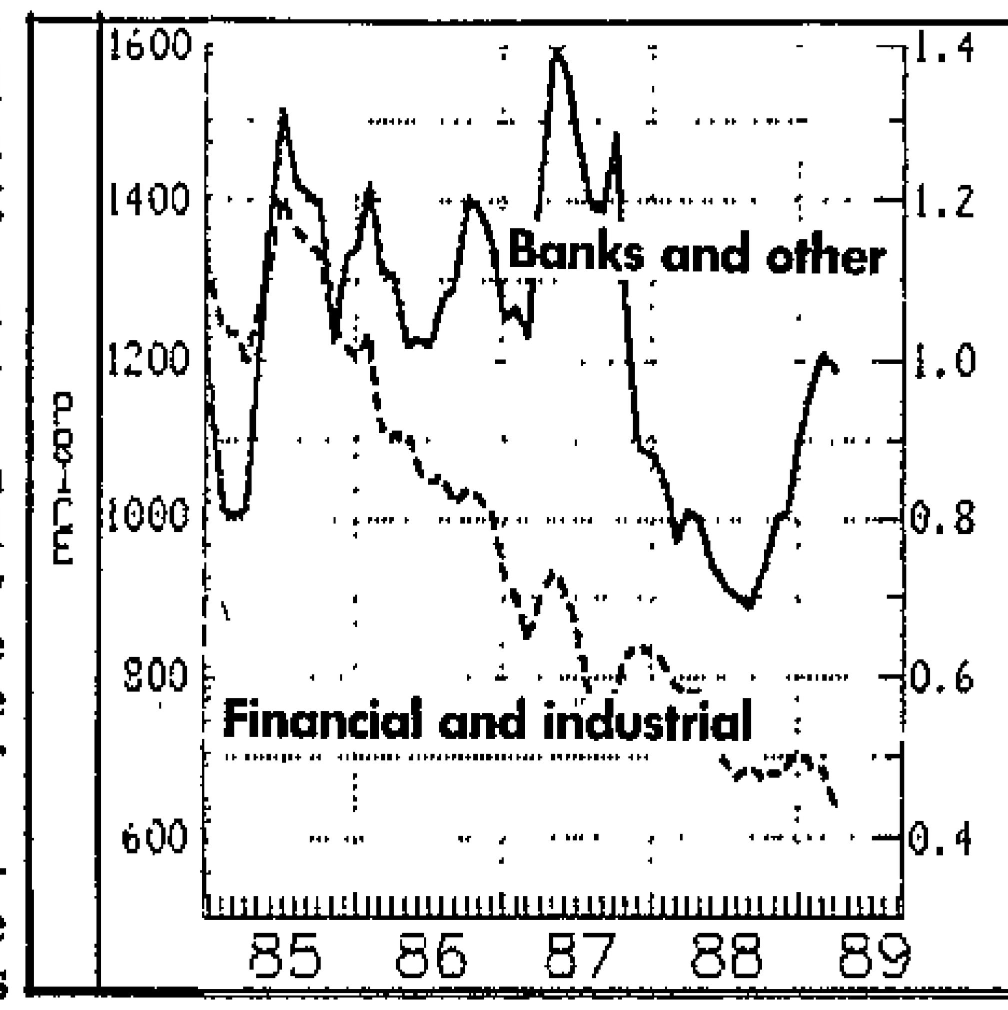
As can be seen from the accompanying graph, banking shares have been out of favour with investors since 1985, when the banking share index was on a par with the financial and industrial index. Today it is less than half of it.

South African banks individually are also small in relation to the size of the country's economy. So it is only natural that observers believe that a regrouping must be on the cards.

One banker said this week that he would not rule out a merger between some of the "big five" banks. He did not exclude the possibility that one day even First National, United and Volkskas might get together.

Some of the problems facing South African banks were described recently by Dr Conrad Strauss, chairman of the Standard Bank Investment Corporation, which controls the Standard Bank.

One of these problems is that no South African bank is self-funding, he



Source: Simpson McKie.

said. In an environment of 15 percent inflation a bank requires a return on year-end funds of almost 21 percent to be self-funding. No South African bank comes anywhere near that level, which was unhealthy in the longer term.

A second problem is that South African banks are small in relation to the major industrial and mining groups they served.

The Standard Bank Investment Corporation had the largest capital base of any South African banking group yet its shareholders funds amounted to only about a fifth of the equity of Anglo American Corporation and about 80 percent of South African Breweries.

In contrast, in Britain the capitalisation of Barclays PLC was 104 percent of BAT Industries and 119 percent of the chemical giant ICI. Banks in West Germany and Australia were also highly capitalised in relation to their major clients.

The South African figures indicated that by international standards the credit risk profile of South Africa banks may be high, because of the relatively large size of the industries they serve, said Dr Strauss.

"It would seem that even some further rationalisation in financial services would not be against the national interest," he continued. Unit costs drop rapidly as capacity utilisation improves, so business volumes have become an important determinant.

These remarks by Dr Strauss suggest that the emergence of the First United Volkskas Bank (FUV) or some similar large grouping might well be a possibility — and that this is not the

Borrowing to be slashed by R1,5bn

Govt move to counter interest rates

B/Day 17/4/89

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GRETA STEYN

GOVERNMENT will counter painfully high interest rates in the capital market by slashing at least R1,5bn off its borrowing requirement.

Fiscal policy chief Gerhard Croeser said yesterday: "Government's net borrowing requirement for the fiscal year could be as low as R2,5bn, compared with a budgeted R4,37bn. The size of our borrowing requirement should not put any upward pressure on capital market rates. Yields are artificially high and we are in no hurry to borrow with rates at these levels."

It is understood the Treasury will avoid selling long-term RSA stock into the market while rates remain above 17%. Long-term rates closed at around 17,18% yesterday with sentiment still bearish.

Croeser said revenue from privatisation, mainly Iscor but also of small state-owned enterprises, could reduce the borrowing requirement by as much as R1,5bn.

In addition, last year's revenue overrun had been even greater than expected at the time of the Budget speech. The surplus carried over from the 1988/89 fiscal year to this year would exceed the budgeted R294m — but Croeser could not yet quantify how much had been reaped in unexpected revenue.

He could not confirm or deny market talk that as much as R1,5bn might be carried over to this fiscal year.

If government manages to reduce its borrowing requirement to R2,5bn, it will more than halve its demand from the capital market from the previous fiscal year. In 1988/89, Treasury took R6,5bn on the capital market.

It is understood that Eskom, too, is working on a plan to sharply reduce its capital market borrowing from its budgeted R1,5bn. No comment could be obtained from Eskom spokesmen yesterday.

With institutional cash flows for the year put at about R30bn, Treasury expected not to encounter difficulties in meeting a budgeted borrowing requirement of R4,37bn. However, the institutions have indicated they would only buy long-term stock at 17,5%-18% — which would be disastrously expensive for government.

● To Page 2

Govt to slash R1,5bn off borrowing

● From Page 1

Government will borrow on the short end of the market rather than pay these rates. The Reserve Bank has already made a small issue of 1996 stock at 16,9%.

Senbank capital market researcher Heinrich van Wyk said long-term rates could soften because of a smaller borrowing requirement.

"However, government has not yet stated which investment requirements it will put in place of prescribed assets — and everything in the market depends on this. While that question remains unanswered, there will be no demand for government stock."

The announcement that prescribed assets would be abolished caused an eruption of bearish sentiment in the capital market as government now no longer had a captive market for its stock. Monetary officials tried to calm the market as long-term rates were testing 17,4%. However, after easing to about 17,10% at the end of last month, long rates came back to their present levels of around 17,18%.

The Trust Bank said in a market comment today: "The disappointing performance of the gold price — and concerns that the impending general election may distort monetary policy — are keeping market participants nervous and hesitant."

Homeowners affect wage talks

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ALAN FINE

THE increase in the number of black homeowners and rising mortgage rates was causing pressure on managements during wage negotiations, consultant Steuart Pennington said yesterday.

Pennington, publisher of the SA Township Annual which is to be released this week, said in almost every set of negotiations in which he had been involved in the past six months, demands for wage increases had been related to increases in bond repayments.

The SA Township Annual found that 35% to 40% of homes in black townships were now privately owned.

Pennington said many employers had encouraged and facilitated home ownership. They were now saying they should have been more careful in terms of examining employees' eligibility and circumstances.

He said financial institutions which granted bonds in terms of company housing schemes had made "inappropriate assumptions about financing". For example, financing was often based on remuneration calculations which included overtime.

"This means that when mortgage rates rise, as is happening now, new homeowners have little leeway. The possibility of eviction means that employers are pressured to make up shortfalls."

Urbanisation

He said housing development had generally grown dramatically in 1988 in line with the state's policy of shifting some responsibility for housing provision to the private sector.

Pennington said the growing momentum of urbanisation had created further housing needs and pressure to upgrade existing homes, along with a mushrooming of squatter development.

Informal activity in townships had also increased dramatically — the result of the removal of restrictive legislation, he said.

However, he added, there was evidence of this contributing to the housing shortage as entrepreneurs converted living quarters to work quarters.

The annual contains extensive information on living and social conditions in 28 townships and contributions on the economy and various aspects of industrial relations.

It was designed, said Pennington, to narrow the information gap between parties to negotiations. Very often, he said, neither party had any idea of the other's circumstances so negotiations took place on the basis of threats and a destructive power play.

The survey found the average monthly budget for a five-person family was R870,56 — a 7,5% increase on the previous year's figure. At R276, he said, the monthly food budget had increased by only 7%, a decline in real terms.

REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

Government Gazette
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Vol. 286 PRETORIA, 14 APRIL 1989 No. 11827

PROCLAMATION

by the

State President of the Republic of South Africa

No. 45, 1989

COMMISSION OF INQUIRY INTO THE FLOW OF SHORT-TERM INSURANCE PREMIUMS OUT OF THE REPUBLIC AND THE OPERATIONS OF CAPTIVE INSURERS

Under the powers vested in me by section 1 of the Commissions Act, 1947 (Act No. 8 of 1947), I hereby declare that the provisions of the said Act shall be applicable to the Commission of Inquiry into the Flow of Short-term Insurance Premiums out of the Republic and the Operations of Captive Insurers, and I hereby make the regulations set out in the Schedule with reference to the said Commission.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town this Twenty-ninth day of March, One thousand Nine hundred and Eighty-nine.

P. W. BOTHA,
State President.

By Order of the State President-in-Cabinet:

B. J. DU PLESSIS,
Minister of the Cabinet.

SCHEDULE

REGULATIONS

1. In these Regulations, unless the context otherwise indicates—

"Chairman" means the Chairman of the Commission;

"Commission" means the Commission of Inquiry into the Flow of Short-term Insurance Premiums out of the Republic and the Operations of Captive Insurers;

PROKLAMASIE

van die

Staatspresident van die Republiek van Suid-Afrika

No. 45, 1989

KOMMISSIE VAN ONDERSOEK NA DIE VLOEI VAN KORTTERMYNVERSEKERINGSPREMIES UIT DIE REPUBLIEK EN DIE BEDRYWIGHEDE VAN GEVANGE VERSEKERAARS

Kragtens die bevoegdheid my verleen by artikel 1 van die Kommissiewet, 1947 (Wet No. 8 van 1947), verklaar ek hierby dat die bepalings van genoemde Wet van toepassing is op die Kommissie van Ondersoek na die Vloei van Korttermynversekeringspremies uit die Republiek en die Bedrywighede van Gevange Versekeraars, en vaardig ek hierby die regulasies in die Bylae vervat met betrekking tot genoemde Kommissie uit.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Kaapstad, op hede die Nege-en-twintigste dag van Maart Eenduisend Negehonderd Nege-en-tagtig.

P. W. BOTHA,
Staatspresident.

Op las van die Staatspresident-in-Kabinet:

B. J. DU PLESSIS,
Minister van die Kabinet.

BYLAE

REGULASIES

1. In hierdie Regulasies, tensy uit die samehang anders blyk, beteken—

"beampte" iemand wat in die heeltydse diens van die Staat is en aangestel of aangewys is om die Kommissie by die verrigting van sy werksaamhede behulpsaam te wees;

"dokument" ook 'n boek, pamflet, aantekening, lys, omsendbrief, plan, plakkaat, aanplakbiljet, publikasie, tekening, foto of prent;

R650-m swindle

Cape Times 14/4/89

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Own Correspondent

JOHANNESBURG. — South Africa's foreign exchange reserves have taken a R650m hammering through fraud.

Reserve Bank deputy governor Mr Japie Jacobs said yesterday that the value of forex fraud cases — discovered by the bank but not yet solved — totalled R850m.

He said: "Those outstanding cases which would have affected forex reserves total R650m."

Forex reserves are only affected by transactions involving financial rands.

Forex reserves declined from R6,14bn in December 1987 to R4,93bn in December 1988, a drop of R1,2bn. This excluded the R100m Afbank case, which alone accounted for a 4,9% loss in reserves in 1985/1986.

Mr Jacobs said the bank was investigating more cases — but those involving the R850m had been handed over to the police.

The largest case being investigated was the case involving former Trust Bank corporate division assistant manager Mr Simon Samuels, 32.

Police deputy CID chief Major-General Jaap Joubert said in earlier reports that the alleged swindle involving Mr Samuels totalled R157m.

Mr Jacobs said most of the cases being investigated by the bank dated from last year. Other cases were the Eskom stocks fraud case said to involve "tens of millions of rands" and the alleged R47m Trust Bank fraud involving businessman Mr Stuart Pegg and four others.

Trust Bank managing director Mr Kobus Roetz said he could not confirm a report that Mr Pegg and Mr Samuels were personal friends.

When asked how the investigation into the Samuels case was going, he said: "From what I know it is not going well." He declined to comment further.

Police are keeping a tight clamp on information relating to the Trust Bank case.

It was learnt from sources yesterday that R3m in Krugerrands, allegedly purchased with falsified clearance vouchers (CVs), had been found. More than R19m in Krugerrands and R1m in uncut emeralds were bought with false CVs.

Another R25m, which had been approved by the bank for the purchase of a Falcon 50 executive jet, has been located overseas and frozen by bank investigators.

Mr Jacobs said forex investigations had been hampered because the police had limited resources. "The bank does not have the power to prosecute and convict people. Such cases must be handed over to police. It is time-consuming following up these contraventions because they often take place overseas and are therefore not so easy to trace."

Sanlam speeds up decentralization

C/T Times 14/4/89 58

By AUDREY D'ANGELO
Financial Editor

SANLAM will speed up a process of decentralization begun under the chairmanship of Fred du Plessis its new chairman, Tjaart van der Walt, said last night.

After addressing 900 policyholders at his first Cape Town report-back meeting Van der Walt said that more announcements similar to the appointment of Chris van Wyk as CE of Bankorp would be made in the next few months.

Disclosing that he and Du Plessis had discussed the succession the day before the former chairman's tragic death in a road accident, Van der Walt said: "I suggested we should review it and Du Plessis said he was happy about it.

"I don't want to name anyone specifically, but he said 'In any case, you've got these, and these and these chaps. All you've got to do is keep them together'.

"My approach," continued Van der Walt, "will be to work closely enough to our key men to remain a team going in the same direction.

"At the same time there will be ample scope for them to use their initiative and do their own thing.

"We shall control but not interfere. There is such a strong team in the Sanlam group and we have decided to give more scope to the specialist managers."

He said the policy of decentralization would not be confined to the top but would spread down to lower levels of management.

"We don't want to be a monolithic group at all.

"We believe our diversity is our strength."

Du Plessis, he said, had symbolized the unity of the group.

"I will not be a second Du Plessis — I must develop a style of my own."

Van der Walt has a particular interest in Sanlam's social involvement plan. He learnt a lot about strategy from Du Plessis but his own particular interest was "in the human side".

He believes in the profit motive and is opposed to hand-outs and paternalism. But he thinks the specialist companies in the Sanlam group have a part to play in entering partnerships with black people to develop profitable businesses.

Later, he said, the black partner could buy control.

As examples of the way to give help, he mentioned a Toyota scheme to train black mechanics to maintain black taxis, and the training given by Metro Cash & Carry to owners of 'spaza' shops which sell a huge variety of goods in houses in black townships.

In answer to a question at the report back meeting, Sanlam MD Pierre Steyn told a policyholder that Sanlam did not invest overseas because there were better opportunities in SA.

Van der Walt said that Sanlam itself had no overseas investments but companies in the group, such as General Mining Union Corporation (Gencor), had investments all over the world including Britain, the US and Australia.

"The importance of that for us is not only financial. It enables us to keep abreast of new developments and expertise."

Yesterday's was the 201st report back meeting since Fred du Plessis started the custom in 1984. The meetings, held regularly all over the country, will continue and another 23 have been planned for this year.

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which he will own about 25%; John Scott and Boetie Toerien will also own a stake in their new company, where the majority shareholder is Corbank; and Davies will be CE of Norwich.

"The top people at Southern are very young and it is not surprising that young and dynamic executives look elsewhere for advancement," says Chapman. "We have almost been a breeding ground for top executives in other life companies for many years."

But the third reason Chapman gives for the departures is regarded by others in the industry as most important: the merger between Southern Life and Anglo American Life. "The merger was twins coming together," comments Chapman. "There were almost identical structures and in every key job we could make only one top appointment. Each of the recent departures gave a long overdue opportunity to someone else. We have almost an embarrassment of riches, a super-abundance of leaders."

Others in the industry see it a bit differently, suggesting that it proves two contrasting corporate cultures cannot be put together. The men who left are regarded as top in their profession and, though Southern obviously has a lot of talent, it will take time for the new appointees to fully replace those who have left.

A stockbroker suggests that Southern is running substantially under strength in the investment department, though executive director in charge of investments Jan Calitz says that Scott has been replaced and that vacancies for analysts are already filled. Calitz himself is one of the senior managers whose responsibilities have been increased following the departures; his portfolio now also includes the computer, actuarial and finance divisions.

Nevertheless, some industry sources suggest that profits could be hurt, and, until replacees are settled in their new jobs, morale affected. Chapman denies this. "Profits will not be hurt now or later," he says. "Southern is on a strong upward trend, as our profit announcement will prove."

Southern's year-end is March and results should be announced in mid-May. Chapman suggests that they will be "outstanding again," despite the fact that the tax increase was expected to curtail earnings and dividend growth, as indicated at the interim. Another factor which has hit life companies is the sharp drop in single premium policies: Chapman suggests that Southern has had a better year in this respect than its competitors in the field.

He thinks that Southern will do better with the latest tax proposals for life companies, made in the Budget. "Early indications are that Southern will pay less in tax," he says. "This is due to the business mix and cost mix."

Costs are still a problem, again a hangover from the merger. Though Chapman admits that the company did not compare well with the industry immediately after the merger, he says there has been improvement since. Marketing and administration expenses as a percentage of net premium income fell from 15,4% in the year to end-March 1985 to 9,9% in financial 1988. Southern remains a shade above the industry average, and Chapman comments that "one is never satisfied with one's cost ratios."

The industry average includes a wide range, from high-cost, small companies to low-cost, giant mutuals — but the fact that Southern is only a shade above the average is surprising. The group is running two head offices and has senior executives continuously flying between Cape Town and Johannesburg.

This is one reason why the merger was far more difficult to undertake than that between Liberty and Prudential, another being that the Pru was much smaller than Liberty, while Southern and Anglo American Life were, as Chapman puts it, "twins."

Widely admired in the industry is the size of Southern's assets, which have climbed at an average annual rate of 23% since 1985. Southern may have lagged on the foreign investment scene, which has boosted rival Liberty's assets enormously, both because of high growth and the fall in the rand, but it has made its local assets work. Net taxed investment revenue has climbed at an average annual rate of 15,2% since 1985, though as a return on assets, it has fallen from 8,6% to 7% in the same period. This is affected, however, by the fact that assets are at market value and dividend yields and interest rates were substantially less in financial 1988 than in financial 1985.

Chapman says he is satisfied with the investment portfolio and therefore expects little change due to abolition of prescribed investments for life assurers. It will certainly make interesting reading to see the composition of the group's investments now. While Southern was heavily liquid, with R1,3m in funds on deposit a year ago, it was one of the first institutions to recognise the end of the bear market last year and must have increased its equity content. Last year, gilts had also been run down from R1,9m to R1,3m, which, if maintained this year, could be the reason why Chapman sees no reason to make drastic changes. "We are fairly fully invested," he says, "and our investments are looking superb."

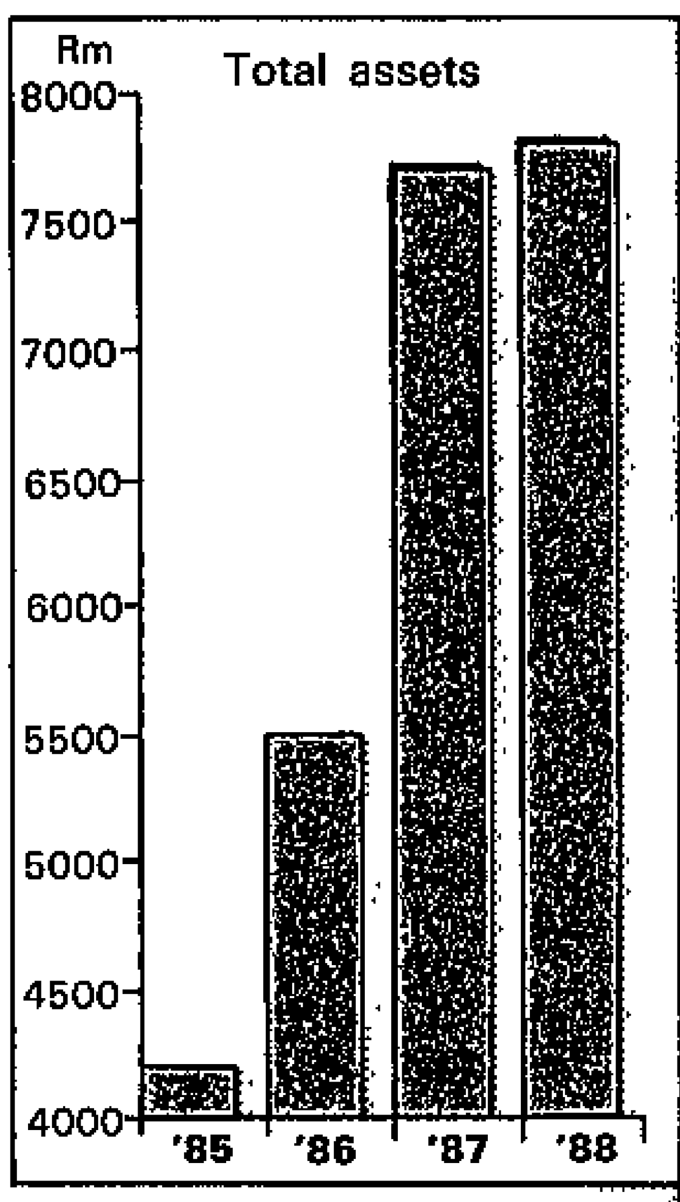
Chapman believes that life companies should help in the area of black housing. "We have supplied the SA Housing Trust with considerable funds and we are also looking to the needs of our staff. Nearly all the developments we are involved in have viable returns and we do not use policyholders' money, but earmark shareholders' funds for this purpose."

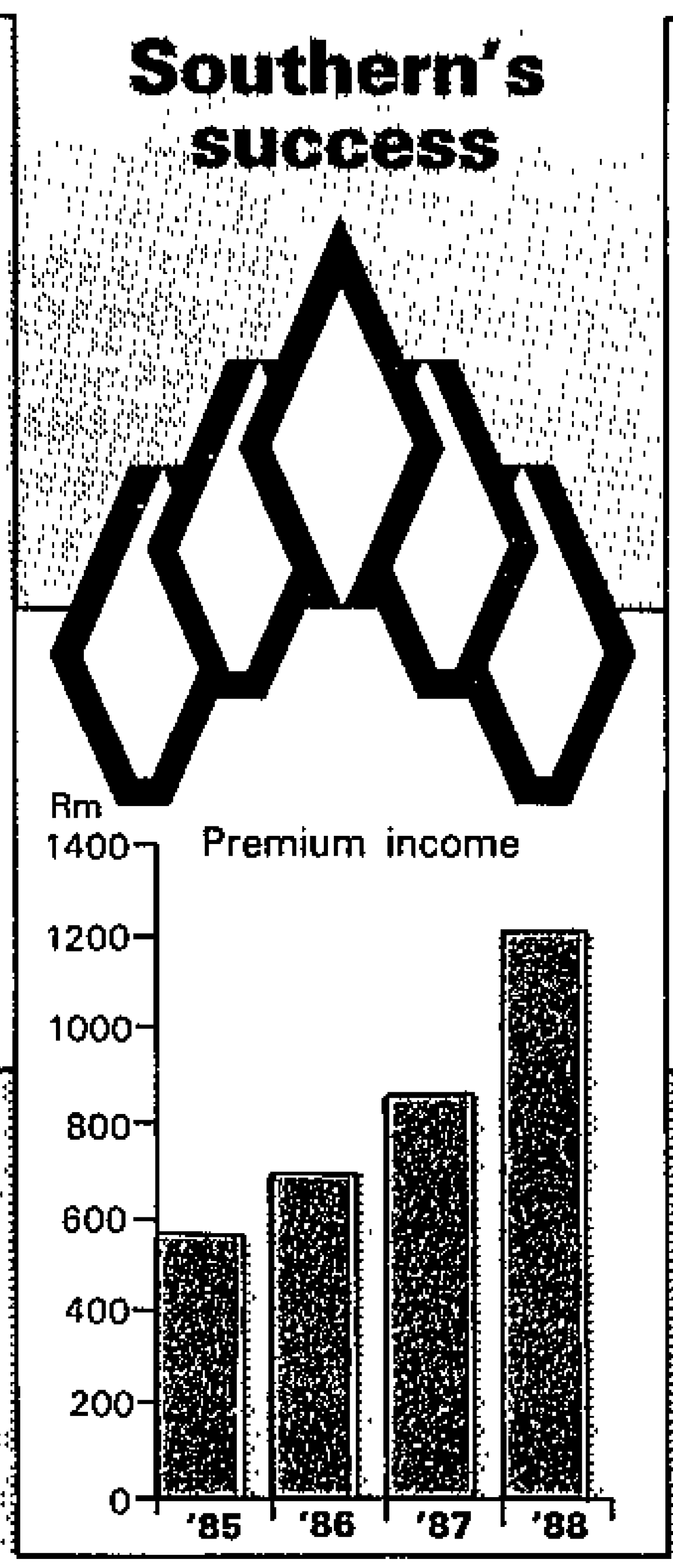
The distinction between shareholders' and policyholders' funds is a growing trend in the industry. Shareholders used to receive any surplus arising after the needs of policyholders had been met, but increasingly a distinction is being drawn between the two, especially by Liberty Life in its overseas investments. It seems that investments which appear to have more risk are made with shareholders' funds.

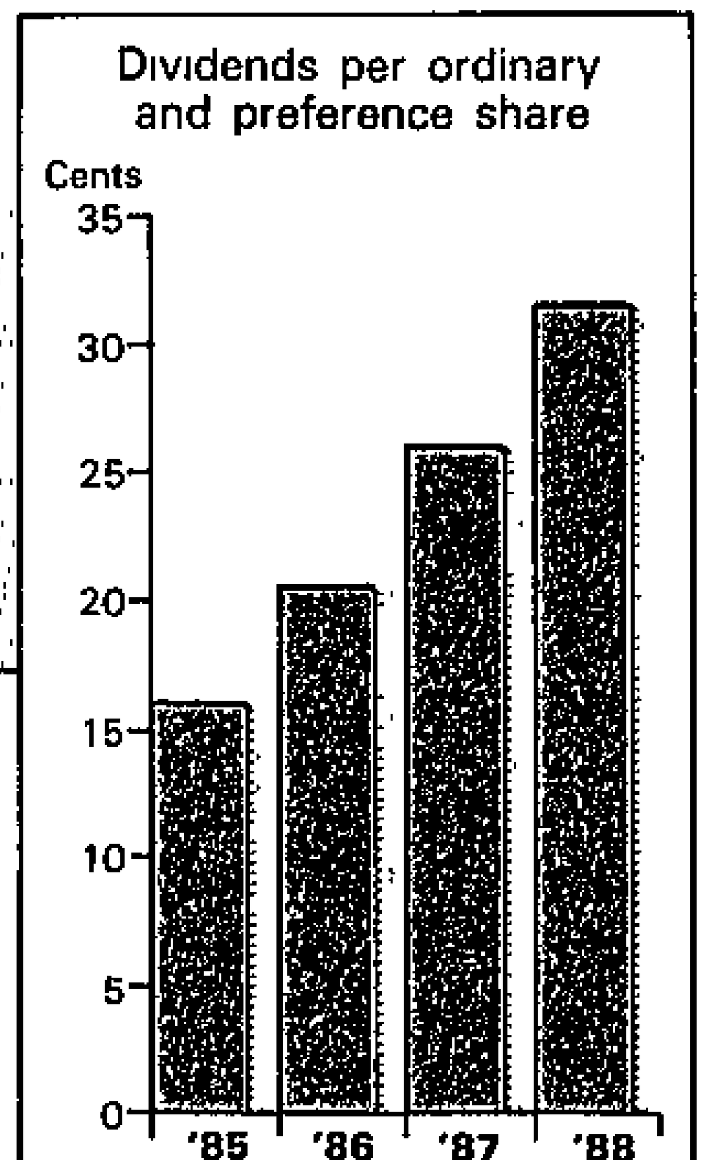
Investment abroad is another assurance company trend. Southern has been relatively late to climb on that bandwagon, but earlier this year announced that it was taking a small stake in Hansard Financial Trust, a UK financial services company with life interests. Chapman is reluctant to say anything further about this investment other than that it is reporting good profits and there are no problems.

An inevitable question in the life industry is about the impact of Aids. Though Southern has substantial reserves, there is a fear that life companies will need additional reserves to provide for Aids deaths under old policies which do not have Aids exclusion clauses.

Chapman is fairly phlegmatic. "All the life assurers are studying the extent to which we need to strengthen our reserves, but most







policies go off the books in about seven years," he says, "and new policyholders have to submit to a test or have an Aids exclusion clause."

The problem lies not with individual life sales, which account for some 35% of all new policies in the lower income brackets, but with the group plans. Chapman feels that the industry has survived many problems before and will also ride this one out.

Southern's Chapman ... embarrassment of riches

The industry and analysts feel similarly about Southern. The key is seen as Chapman himself, who is expected to hold his team together and bring Southern safely through the organisational changes resulting from the recent staff departures. A competitor summarises the situation by saying that Southern has huge reserves and it can ride out any problems.

Southern is still rated second only to Liberty among the life assurers, but comparisons are invalid because of Liberty's large overseas interests and the impact in the past year upon the Liberty price of injecting its foreign assets into FIT. Southern's price is 25% higher than the low of 590c on April 28 last year, though at 735c it is 10% down from its peak of 815c in February. "It is a core-type investment," says a stockbroker. *Pat Kenney*

THE DISCOUNT HOUSES

Facing the not-so-big bang

■ In a changing monetary system, the bill "trotters" seek new paths

Deep in the recesses of the monetary system, hidden from view by the high profiles of financial institutions that deal directly with the public, SA's four discount houses have been going through a functional revolution. It could lead to the emergence of wholesale super-brokers and market-makers in a wide range of securities that will enable the system to make better use of scarce capital resources.

The name "discount house" often causes confusion. It has nothing to do with cheap washing machines and stoves. They come from discount stores. The houses' name derives from the discounting of bills of exchange: essentially a promise from a buyer of goods to pay its supplier once the goods have been turned to commercial account. The most common period is 90 days.

These promises are turned into instant cash when a supplier takes them to a merchant bank which "accepts" them (that is, for a small share in the proceeds it guarantees the payment thereby creating a bankers' acceptance) and then discounts them (that is, pays out the cash minus a small discount determined by prevailing interest rates on the bill's face value).

Banks buy and sell these bills depending on whether they have short-term cash shortages or surpluses. In this way they turn idle resources into sources of income.

In the monetary system, the discount houses were the conduits through which the clearing banks, using bankers' acceptances and other securities, were given last-resort assistance (or accommodation) by the central bank when this was needed temporarily to balance their books.

In the City of London, the men who walk around with the bills to the Bank of England at 2.30 pm each day for this assistance are known as bill "trotters." They still wear a topper when doing so. Our market is less antediluvian — although some clearing bankers have been heard to quip "not much so."

These transactions, while at the heart of the banking system, are by their very nature not much in the public eye. Nor, it follows, are the discount houses themselves. So the recent press conference to announce the financial results of the Discount House of SA (DHSA) was a rare — if not a singular — event. It certainly was a complete departure from the traditional reticence of these rarified institutions, whose activities have nevertheless been evolving over the years.

DHSA is the oldest and largest of the houses. However, it is not listed on the JSE and the conference was called not so much to present the year-end statement as to discuss the future status of the discount houses as a whole. Their original role of channelling liquidity between the central bank and the institutions that take money from and lend to the public is being phased out for a number of reasons.

The rapidity of this evolution in recent times is highlighted in the latest edition of the Bank of Lisbon's *Economic Focus* which points out that, less than four years ago, in the final report of the De Kock Commission, "concern was expressed at the relatively large rediscounts and overnight loans extended by the Reserve Bank to the discount houses on occasions." Yet, since August 1985, the houses have "had no direct loans from the Bank and their bills discounted by the Bank fell from R2 429m at the end of 1984 to R243m at the end of 1987."

The sharp fall in accommodation is a reflection of their declining importance as, in effect, the sump of the monetary system. "They are no longer," comments *Focus*, "the vital link in the daily balancing of the cash shortages and surpluses of the banking system."

All this is partly because of the changed monetary environment in which the houses must operate.

In the years preceding the establishment of the first house in 1957, that environment was very different. Nedbank's Merton Dagut, who as an economist and former merchant banker has been closely involved in the development of SA's money market, says: "After World War 2, SA was going to be the new North America. We were rapidly industrialising, we had new mines coming on stream — and we had a stable society which attracted immigrants and investment capital."

SA's banking system was dominated by the two imperial giants Barclays and Standard and surpluses were stored in London because there was no alternative outlet. But with the scene set for a money market by increasing issues of government securities, both public and private sector moved to remedy this.

So, in 1949, the government established the National Finance Corporation. It accepted call and short-term deposits and invested them in Treasury bills, short- and medium-term government stock, and high-quality paper placed by the private sector (and did so until its demise in 1984).

This was not enough, however, to cope with the waves of liquidity generated by the discovery of gold in the Free State, then Anglo chairman Sir Ernest Oppenheimer established SA's first merchant bank in 1955 — Union Acceptances (UAL). Two years later UAL's discount arm was hived off to become DHSA.

A technical definition is necessary. Liquidity, which keeps the banking system operative on a day-to-day basis, is the excess of the supply of money in the market over demand. Simply put, it is cash and assets which are immediately convertible into cash.

BUSINESS

Will the Nats fiddle interest rates for the election (as usual)?

The Nats take no chances before the elections: they invariably raise interest rates. The question this year is how high a prime level the economy can tolerate

By BRIAN GOLD

WHAT will a general election mean for interest rates? The question assumes increasing relevance as election day — which, it is now popularly assumed, will be between July and early September — approaches.

The concern all along has been that the National Party will not be willing to contest an election with high interest rates, in particular the high-profile prime overdraft and mortgage rates. Disgruntled homeowners, small business owners and farmers are a problem they can do without.

Whether their votes are cast on economic criteria is doubtful — no recent South African election has been dominated by economics. Certainly if this were the case, inflation has been so high, unemployment so rampant and growth and productive investment so miserable that the Nats would have been voted out of power long ago.

Few Western governments would have survived with such an appalling economic record.

But the Nats have also never taken the chance. Even by-elections (remember rates rose just before the Primrose by-election in November 1984, only to be brought back up soon afterwards) and municipal elections (witness October 1988) have taken precedence over monetary policy. It is safe to assume this election will prove no exception.

The question is: how high is a tolerable mortgage and prime level for the Nats? They are unlikely to sanction another rise from present levels if the election is in July. There is too short a time to increase rates and then to bring them down just before the election, or for borrowers to become accustomed to even higher levels than they are complaining about now.

Most economists still reckon on a drop in rates towards the end of the year, whether from the present 19 percent or a 20 percent prime. A July election could disrupt this.

Why, it might be asked, is it a matter of concern that an upward movement in rates might be prevented by an election?

One consequence of delaying a hike in rates is that by the end of the year, it could bring a higher prime rate. If rates are not sufficiently high to cool domestic demand, particularly for imports, the economy will require even more drastic measures, as still-buoyant demand does more harm to the balance of payments and reserves. This means, at the best, higher rates at a later stage. It could even necessitate further import surcharges and restrictions.

A sufficient surplus on the current account of the balance of payments to repay foreign debt is non-negotiable as far as the authorities are concerned.

The prospect of an election could do more than delay a hike in rates. Possible fiscal sweeteners such as salary increases for civil servants will fuel domestic demand as the extra money is spent.

On a more positive note, July could be early enough to prevent harsh action later on. For this reason many economists favour a July election rather than one later in the year. "The longer the delay the worse the eventual pain," appears to be the popular view, even among the monetary authorities.

But to assume a hike in rates will be necessary before July is also premature. It is far from clear whether economic circumstances will justify a rise. The latest car sales (4,5 percent down on the first quarter compared to the same period in 1988) seem to confirm that demand is slowing. On the other hand the Bank's reserves are not improving (R5,1-billion in March, the same as in February).

For the moment the authorities are making it clear that the present situation requires no adjustment. The Reserve Bank actively assisted the market towards the end of March by buying short-term assets — increasing liquidity by putting money into the system and reducing pressure on interest rates. -

Further information on reserves, the money supply and consumption is needed before the authorities reassess the situation. This month, too, the money market is seasonally liquid, with little pressure on rates.

After a hectic few weeks following the budget on March 15, the markets seem to have realised this. They have returned to some semblance of normality, with movements being based more on economic fundamentals than speculation.

The three-month bankers' acceptance rate is down to 16,6 percent after reaching 17,1 percent at the end of March. It was 16,4 percent on budget day.

At the long end of the capital market, rates are around 17,1 percent, compared to nearly 17,5 percent two weeks ago and under 16,5 percent on budget day.

State may overspend by R2 bill

Reichmans pays more

Star 14/4/89 (38)

Reichmans had an 84 percent increase in operating income to R15,1 million (R8,2 million) for the year to February.

Despite a rise in the weighted average number of shares in issue, it translated into earnings of 35,6c per share (22,8c).

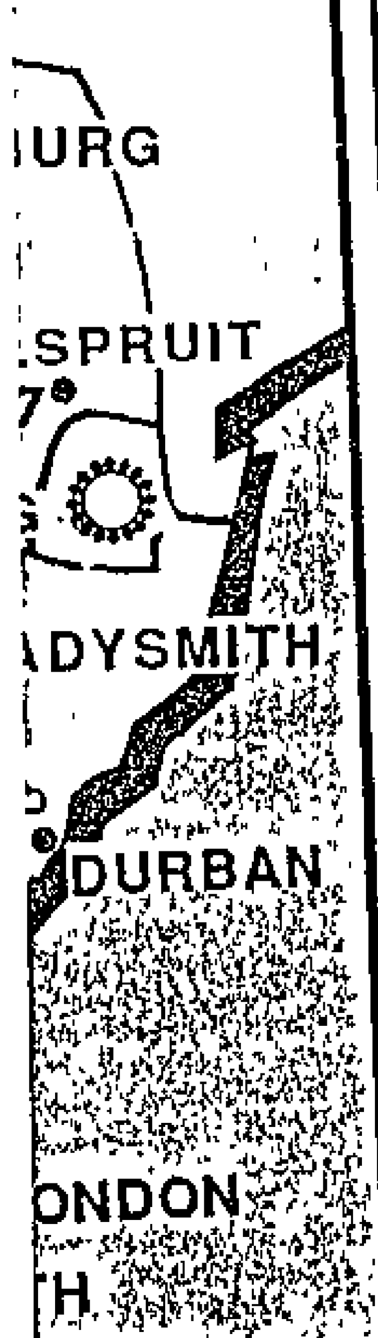
A final dividend of 9,5c (5c) has been declared for a total of 15c a share, compared with the 9c paid out a year ago.

Attributable income, which rose 76 percent to R12,8 million, was boosted by the R1,5 million contribution from its 20 percent investment in the specialist steel trading group, Van Reenen and Nicholls.

Van Reenen and Nichols' attributable income for the 12 months to December rose to R7,4 million.

Financial director Lewis Freidus forecasts real growth again in the 1990 financial year.

But he cautions that it would be unreasonable to expect the company to repeat the outstanding 56 percent increase in earnings again next year. — Sapa.



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Return funds, orders bank

Star 14/4/84

Pretoria-based Fingro Finance has begun carrying out Reserve Bank orders by returning money to investors who had deposited about R4,5 million with the company, said managing director Mr John Barry.

The Reserve Bank issued the order, saying the company was not registered in terms of the Banks Act. Mr Barry said it had been impossible to return all the money to investors by March 31 as instructed. He said the company had asked for an extension of the deadline but sincerely intended to refund the money.

The Reserve Bank investigation of the company found it had accepted deposits unlawfully, said a Reserve Bank official. — Pretoria Bureau.

Speak Out!

Police this week were reported to be cracking down on prostitution — "both buyers and sellers", to quote one police official. Several prostitutes arrested this week were caught in traps. What do readers think about the question in general, in all its aspects? Remember to keep replies short and to the point. Phone your views to **Speak Out!** on 834-7747 between 5.30 and 7 pm this evening. Readers' views will be published in The Saturday Star tomorrow.

AFRICAN BANK (54) FM

Holomisa moves 14/4/87

The withdrawal of African Bank's single largest depositor has been averted. Transkei leader Major General Bantu Holomisa says his government will "continue to invest funds in the bank." This ends speculation triggered last month when Holomisa asked chairman Sam Motsuenyane for assurances "as to the safety of his government's investments, the solvency of the bank and stability in the management."

After meeting the bank's central board on Monday, Holomisa decided not to pull out his R38m — with an important proviso. Transkei, he said, "reserves the right to seek comfort as to the safety of customers by consulting immediately and from time to time with the Reserve Bank and the joint auditors of the bank."

Holomisa tells the *FM* that once he has been briefed by the bank and consulted the auditors, he will consider attaching Transkei representatives to the board to scrutinise operations and monitor progress. This effectively puts Transkei in the steering seat.

Holomisa also urged the bank "to expedite any negotiations with dismissed employees so that the matter is settled to eliminate any adverse publicity which may place its position and the (Transkei) government's investments in jeopardy."

Meanwhile, shareholders who feel all issues were not adequately aired at the recent AGM remain dissatisfied. In answer to questions by the *FM*, Motsuenyane says:

- There has been "some increase" in loans to directors recently but "on exactly the same terms as to other borrowers;"
- He does not know what loans to directors are as a percentage of total advances;
- He is unaware of the writing-off of any loans to organisations in which directors or their relatives have a direct interest; and
- A moratorium has been declared on an amount owed the bank by African Development & Construction Holdings, a company in which he is a shareholder. ■

Lump-sum payments to retirement annuities are well worth looking at

58

Star 15/4/87

Money Matters

Magnus Heystek

IN recent months I have written quite often and in great depth about the advantages and disadvantages of investing in retirement annuities (RAs).

I think my thoughts on this subject are now quite well known in that I would seriously recommend to people to consider topping-up their retirement benefits by purchasing additional pension contributions by means of retirement annuities.

Most working people purchase RAs on a monthly basis, but what is perhaps not too well known is that single or lump-sum contributions can be made to retirement annuity funds whenever it suits you. In many cases the benefits from single-premuim contracts on RAs are greater than contributions made on a regular basis, whether it be monthly or annually.

People who reach mandatory retirement age can under current legislation commute up to one-third of their pensions in the form of cash, of which the first R120 000 is tax-free. With the remaining two-thirds a pension has to be purchased.

Choice

Many people blithely assume that they have to leave their pension with the firm they've been working for. This is not always the case. In many instances a retiring person has the option of transferring his accumulated pension fund to another one of his choice, which in many instances might be paying a far higher pension. It is definitely worth inquiring about.

Single-premuim RAs are particularly suitable to people whose earnings tend to fluctuate from year to year, like property salesmen or stockbrokers, who cannot safely commit themselves to large annual or monthly premiums.

Single-premuim contracts are also quite often used where a person leaves a pension fund as a consequence of changing jobs, which is quite common in the highly mobile South African labour market.

In these cases I cannot stress too much that the lump-sum benefit receivable from one's previous employer should be used to purchase retirement annuities rather than accepting the paltry-cash payment. What many people don't realise is that this pay-out is considered taxable income by the Receiver of Revenue and is taxed at the marginal rate.

By arranging beforehand for any lump-sum "withdrawal" benefit to be paid directly to a retirement annuity fund of our choice, you escape all tax liabilities on that sum.

But coming back to single-premium RAs, they are particularly appealing as there is no future commitment. People can decide each year how much they can afford to contribute to an RA — and where to place their money.

Single-premium RA's offer the following advantages compared with the traditional type:

- Where larger sums are involved, the expenses charged against the contribution are smaller, leaving a greater proportion to be invested on your behalf. This means you get a slightly higher rate of return on your money.
- Another advantage which I find particularly appealing is that you can decide each year (or whenever) where you want to place your money. As there is no on-going commitment to any particular firm or fund, you can compare investment performances and decide accordingly.

Too many SA bankers

Argus 15/4/89

Business Staff

ONE area of the Johannesburg Stock Exchange where the rumour mongers are having a field day is the banking sector.

Scarcely a week passes without some story doing the rounds that a certain bank and building society are to merge or that a bank or building society is to link up with a major insurance company.

Many of the rumours have centred on the Allied, though none has been proved true.

It is not easy to say why so many merger and takeover stories have centred on this institution. A possible reason is that it is one of the smaller institutions.

It is also possible that a recent Bankorp study, which found the Allied to be one of the most efficient of the banks and building societies, may also have attracted attention to it.

However, the Allied had some respite this week when there were rumours instead of a possible merger of the United and some other financial institution.

The fact is that the banking institutions are having a difficult time containing costs and maintaining profits.

Banking shares have been out of favour with investors since 1985, when the banking share index was on a par with the financial and industrial index. Today it is less than half of it.

South African banks individually are also small in relation to the size of the country's economy. So it is only natural that observers believe that a regrouping must be on the cards.

One banker said this week that he would not rule out a merger between some of the "big five" banks. He did not exclude the possibility that one day even First National, United and Volkskas might get together.

Some of the problems facing South African banks were described recently by Dr Conrad Strauss, chairman of the Standard Bank Investment Corporation, which controls the Standard Bank.

One of these problems is that no South African bank is self-funding, he said. In an environment of 15 percent inflation a bank requires a return on year-end funds of almost 21 percent to be self-funding. No South African bank comes anywhere near that level, which was unhealthy in the longer term.

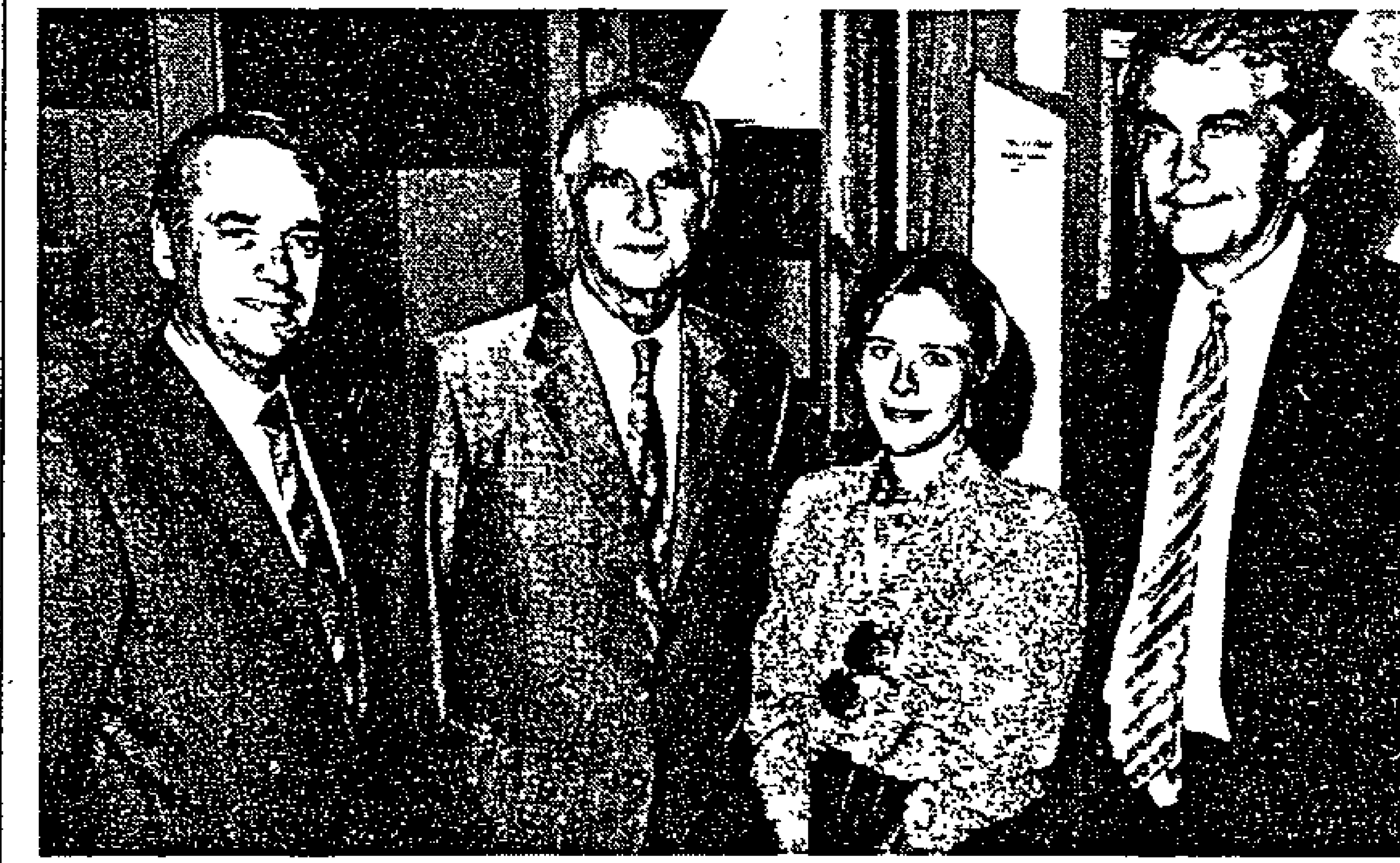
A second problem is that South African banks are small in relation to the major industrial and mining groups they serve.

Standard Bank Investment Corporation had the largest capital base of any South African banking group yet its shareholders funds amounted to only about a fifth of the equity of Anglo American Corporation and about 80 percent of South African Breweries.

In contrast, in Britain the capitalisation of Barclays PLC was 104 percent of BAT Industries and 119 percent of the chemical giant ICI. Banks in West Germany and Australia were also highly capitalised in relation to their major clients.

South African figures indicated that by international standards the credit risk profile of local banks may be high, because of the relatively large size of the industries they serve, said Dr Strauss.

"It would seem that even some further rationalisation in financial services would not be against the national interest," he continued. Unit costs drop rapidly as capacity utilisation improves, so business volumes have become an important determinant of costs and profitability.



EXTENSION CELEBRATIONS: After 15 extensions over 36 years, a reception was held in the Cape Town Building Centre for architects, builders and industrialists to view the 300 display stands updated for the occasion. From left: Mr Stephen Jones, president of the Western Cape Master Builders Association; Mr Laurie Wale, chairman of the building centre; Mrs Leigh King, secretary of the Cape Province Institute of Architects; and Mr Alex Robertson, president of the institute.

Upturn in gold price is unlikely in short-term

Weekend Argus Foreign Service

LONDON. — The gold price weakness last year and so far this year, is not the beginning of a major cyclical downturn, but "should be viewed as an interruption in the rally that began in 1985 which should be expected to resume, with vigour, in the next few years".

This is stated by the annual review of the gold market released by Goldman Sachs, the securities group.

It says investor disenchantment with gold is behind the weakness, was offset by a decrease in secondary recovery.

Christian, Podleska, and van Musschenbroek, the precious metals research and consulting group which produced the report suggest total gold supply this year will rise by 5,5 percent to a record 67,5-million ounces.

The main propellant will be a 15 percent rise in non-South African production to 27,5-million ounces. Mine production in South Africa is excpected to rise slightly, two percent to

Rate-fixing will need explaining

B/Day 7/4/89 (58)

IN THE MONEY MARKETS

Harold Fridjhon

RESERVE BANK monetary policy will be difficult for Governor Gerhard de Kock to explain away in economic terms when he gives his annual address in August, possibly about three weeks ahead of the general election.

In retrospect, he has skated around the Bank's role in helping to fix the "Primrose prime" when rates were suitably adjusted for six weeks to accommodate the skirmishing around the hustings. But he will need the fancy footwork of a Fred Astaire or a Gene Kelly to sidestep what appears will be a five-month controlling of interest rates during an economically critical period.

For there is no denying that rates are being controlled to prevent them going up to the distress of voters, and from going down — which will ultimately cause economic distress when the day of reckoning dawns.

If the market shows signs of becoming too liquid, the Bank will act, as it did last week when it issued three-tranches each of R300m of very short-dated Treasury bills offsetting tomorrow's cash inflow from the Exchequer's payment of public servant's wages.

Reserve Bank policy is to prevent the market going into surplus, that is not to remain in debt to the central bank. When there is a market shortage, the Bank is in a position of control. On Friday the market shortage was R815m, R125m higher than on Thursday. The bank-note issue has dropped to R6,77m compared with the month-end R7,63bn.

One assumes that when market liquidity dries up, as it normally does at month-ends, the Reserve Bank will usurp a building society's role and become the biggest helping hand in the land.

There is little doubt that the Bank will claim it is doing no more than smoothing out the fluctuations in the market, but this smoothing-out process is going somewhat too far. It is tantamount to swaddling it so that the money market won't be a real market until the votes have been counted.

This is patent from the desultory trading last week and for a couple of weeks previous. And it is also reflected in investor reluctance to commit funds for longer than three months, cautiously distancing them from election day. The Big Money call rate has been static between 15,5% and 15,75%.

Eager issuers

Trade in liquid bankers acceptances (BAs) has been reported as being "reasonably brisk", as investors look for assets, resulting in last week's more-than-usual volatility in the rate for 90-day BAs. The BA rate dropped five points a day from Monday's 16,60% to Thursday's 16,45%, closing on Friday at 16,50%.

Demand for non-liquids, which command a higher rate because they are not eligible for re-discounting at the Bank, has also been strong.

Perhaps the post-election perceptions of rates are more clearly defined by last week's relatively large issuing of nine-month and one-year negotiable certificates of deposit (CDs) at rates around 17,5%.

Some banks appear to be eager issuers at these rates because of the belief that by the end of this year the level of rates will probably be higher than they are at present. And they always have a safe let-out if their crystal balls have let them down. They can allocate these apparently expensive funds to their hire-purchase subsidiaries which are not backward when fixing their finance charges.

For the third week in succession, no Treasury bills have been offered. A possible reason is that the exchequer is still in funds and doesn't need the money, but more probably the Treasury is reluctant to pay the rates which investors might demand in an open tender.

And that, of course, might also expose the present fallacious level of rates.

Bears make money amid confusion

BI Day 17/4/89

58

THE bond market was in a state of profitable confusion last week as conflicting views enabled jobbers to trade actively in and out of stocks.

They were jolted out of their bearish mood which had been nudging up yields after Treasury director-general Chris Stals said it would cut back on its borrowing programme if yields remained at levels government considered too high.

This bombshell was followed by another from Eskom which announced its borrowing programme would be cut by half.

The third development, which should have sent the bears scuttling off into hibernation, was Friday's improved gold price.

But the bears were not so eager to take refuge. Yields have been volatile but, measured over the week, they have shown little real movement although closing a shade easier.

Longer term, perhaps, they know more than the bulls do.

B/Day 17/4/89

Limited flood claims boost Cusaf profit

LIZ ROUSE

S8

COMPOSITE insurer, Commercial Union Assurance (Cusaf), almost doubled its underwriting profit in 1988 and had its best year ever in long-term insurance.

The underwriting surplus was 95% higher at R21,3m. Chairman John Birkinshaw says in the annual report the company was fortunate that losses arising from the Free State and northern Cape floods amounted to only R2,3m.

MD Bill Rutherford says growth of 14,5% in net short-term premiums written was slower as a result of the reappearance of softer market conditions, with increased competition from local insurers and fierce competition for large accounts from overseas markets.

Cusaf's solvency ratio rose to 70% from 43% in 1987 — all technical reserving being in accordance with the recommendations of the Melamet Commission.

Rutherford says all three arms — short-term, long-term and investments — made a record contribution to the company's atributable profit of R31,2m. The dividend rose from 57c to 75c.

The record performance of the long-term arm was due to effective targeted marketing, careful selection of lives to be insured, efficient and economical administration of fixed-price insurance contracts, and successful investment of cash flow.

Retirement annuity sales were 82% up on 1987. New recurring premium income from other policies sold to individuals grew by 52%, with policies sold through direct mail accounting for 23% of this premium income.

Birkinshaw says life profits have grown at an average of 20% a year for the past 15 years. In 1988, the growth was achieved despite the 75% increase in life company tax.

Although 95% of life profits are ploughed back for the benefit of with-profit policyholders, the 5% allocated to shareholders amounted to R1,9m.

The investment arm pushed up its income by 44%. General funds of the company were swelled by the proceeds of the share issue to UBS Holdings as well as strong cash flow from the profitable short-term operations.

Birkinshaw says the investment team committed a steady flow of funds to quality industrial shares, which they rightly judged would out-perform the mining sector and the high-flyers of 1987.

Birkinshaw will retire at the AGM in May.

B/Day 17/4/89

State asks for 13 death penalties

Own Correspondent

UPINGTON — The State has asked that no extenuating circumstances be found for 13 of the 25 defendants in the Upington 25 trial.

The trial was postponed on Friday to May 22 for judgment on extenuation.

The 25 have been convicted of murdering municipal policeman Constable Lucas Sethwala in 1985 in Upington's Paballelo township on the grounds of common purpose. Among the 13 are a 60-year-old mother of 10 children, Evelina de Bruin, and a former mayor of Paballelo, Kenneth Khumalo.

If no extenuating factors are found by Mr Justice Jan Basson he will be bound to sentence the 13 to death.

700 Vermaas creditors given delay of meeting

B/Day 17/4/89

PRETORIA — More than 700 creditors representing R100m worth of claims against Pretoria attorney Wessel Albert Vermaas have won an urgent application against the Master of the Pretoria Supreme Court.

Mr Justice Goldstein granted an order late last week overruling the Master's decision to hold a creditors' meeting on April 19 concerning Verco Holdings — Vermaas's holding company.

The reason for the application, said Tony Michael, elected spokesman of 725 creditors, was that the creditors in the Vermaas and Eurotrust matters could appoint new trustees in terms of the Insolvency Act.

However, the creditors who brought the application do not have a say in the Verco meeting because their money was invested with Vermaas or Eurotrust, and subsequently they could not elect new trustees.

Michael said it was not in the interest of these creditors to have the meetings as advertised in the Government Gazette.

Michael said the creditors were unhappy with the existing provisional liquidators, Messrs Walter Edelstein, Brian Nel, Andre Hessels and Lewis Klopper — who were appointed on December 9 last year after Verco was provisionally liquidated, and after a judgment awarded against them in the Ciskei Supreme Court on March 3.

The Master of the Supreme Court, B C Nell, had refused to postpone the Verco meeting until after the Vermaas and Eurotrust meetings, which were to be held on April 20 and 21 respectively.

As a result of the court order, the Vermaas and Eurotrust creditors' meetings will be held on April 20, before the Verco meeting, which will enable the creditors to appoint trustees of their choice. — Sapa.

Bank reduces liquidity

B/Day 17/4/89

GRETA STEYN

GOVERNMENT spending is flooding the money market with liquidity, and the Reserve Bank has acted to stop the situation from becoming too comfortable.

Through open market operations — the selling of short-dated securities to the market — the Bank has taken cash out of the system to ensure the market has to go to the discount window for accommodation at the Bank's rediscount rates.

The Bank's open market operations is estimated to have reduced liquidity in the market by almost R2bn. Its sales of short-dated stock from the portfolio of the Corporation of Public Deposits (CPD) to the market amounted to about R700m-R1bn, and tenders of special short-dated Treasury Bills (TBs) took out another R900m.

Reserve Bank Senior Deputy Governor Japie Jacobs said government spending had already increased by R2,5bn in April, seasonally a period when a surge in such spending is experienced.

Bankers said another reason for the liquidity was an increase in forex.

Some dealers believed another increase in the Bank rate remained inevitable. Pressure would only emerge once the seasonally liquid period was over. There was a growing suspicion that rates might be kept down artificially because of the election.

Level

However, Standard Bank economist Nico Czypionka believed the Reserve Bank was following the right course of "wait-and-see" on interest rates. There was clear evidence that the economy was growing at a slower rate, which showed in a lower rate of growth in credit demand, retail sales, car sales, housing and manufacturing production.

"But is economic activity perhaps still at a level that we cannot afford?"

● See Page 9

By KEN OWEN

R650m frauds: Where are our moral standards?

Cape Times 17/4/89

THE extent of foreign exchange frauds in the past year is not yet known but we do know that probably half the loss during 1988 of the country's gold and foreign currency reserves, its accumulated national treasure, can be attributed to fraud.

Theft did us more harm than sanctions.

The disclosure last week that frauds cost us R650 million in foreign reserves — not quite as much as we paid off our foreign debt, but a sizeable sum anyway — has made nonsense of the theories put forward last year to "explain" why the national treasure was draining away.

Leave aside the fact that these frauds were of a magnitude to dwarf all other crime put together — all muggings, all thefts, all car thefts, all armed robberies, all bank robberies, all dud cheques — and ask instead the question that hovers constantly in South African minds these days: What has happened to the moral standards of South Africans?

Tax collector Clive Kingon, desperately contemplating the equally desperate attempts by major corporations to find loopholes in the tax law, accuses his victims of a "moral sickness", but it goes beyond mere tax avoidance or the illegal exports of capital.

History of fraud

Corruption has rotted the very warp of South African life. This is not the place to recount the appalling, if half-forgotten, record of the past 20 years, but we all know what has been happening: Eschel Rhoodie and the crooked accounting in the government, the first-class "freebie" trips abroad; deputy minister Mr Hennie van der Walt stealing trust funds; the officials giving each other free Krugerrands at a party; the lavish parties to celebrate such mundane events as the opening of a toll road; the fleets of Mercedes-Benzes in the basement of the SABC; and so much more.

These are mere symptoms of a deeper rot. At the heart of all these examples lies a failure of the law to hold the allegiance of the people, a failure of the authority of the state. The people of this country, excepting a couple of million whites, hold the state and its agents in profound contempt.

That is, of course, the inevitable consequence of replacing the rule of law with the rule of men. It began, one suspects, when John Vorster destroyed what is loosely known in this country as the right of habeas corpus, permitting his policemen to lock people away without trial.

The trouble is not simply that the detention laws led, inevitably, to the complicity of the state in various murders. That was bad enough, but worse was that the law — the very idea of law — lost its hold on men's minds. First on the rulers, then on the keepers of the law.

We have descended so far that the state not only accepts the danger of its own complicity in unlawful killings, so that judges of the Supreme Courts must go from prison to prison to protect inmates against the fate of Neil Aggett or Steve Biko, but the state sets aside the law in order to protect people accused of outright murder. At this very time, the State President is doing all he can to prevent the trial of six men accused of murder in Namibia.

When the law against murder is made subject to the judgment — or prejudice, or caprice, or malice — of one elected official, it is vain to talk of a government under law. In a real sense, there is no law.

Other laws besides the law against murder go unenforced. Some are simply so bad, like the pass laws, that they cannot be enforced, and must in the end be repealed. Others are simply too difficult, or costly, to enforce At first, government tried to overcome the problem by giving officials discretionary powers to "regulate"; but that doesn't work any longer, and the escape mechanisms become increasingly bizarre.

As the law weakens, so does convention, and the concern for the decent appearance of things is lost. The Harms Commission has found that neither the Defence Minister nor the Foreign Minister, each of whom accepted a hunting rifle as a gift from Wessel Albertus Vermaas, did anything wrong.

That, in the present climate, is a welcome finding, but it does not entirely cover the appearance of things. The Defence Minister did, as it happens, recommend Vermaas for a position as a director of an Armscor company, and Vermaas was appointed.

A year later, on the very day of the appointment of the Harms Commission, Vermaas's directorship was terminated because, the commission was told, he failed to get a security clearance. The commission, more alert to the appearance of things than the cabinet ministers, was struck by the coincidence, but found it was just that — coincidence.

Nevertheless, the episode does demonstrate the need for public officials, if they wish to maintain moral authority, to be sensitive to appearances, and to be careful of gifts like hunting rifles or hunting trips. For one thing, lesser officials take their cue from the cabinet.

'Who you know'

These days, it's not what you know, but who you know. Merchant bankers complain that there are people walking around Pretoria who claim that, for a fee, they can get applications for foreign currency expedited. Certainly it is obvious, not only from the Vermaas affair, that Reserve Bank officials will intervene to assist those applicants who can marshal powerful support.

This brings us back to the forex frauds. They represent in part the determination — indeed, the desperation — of people to get money out of the country before the currency decays even more (They also represent, obviously, the efforts of criminals to exploit the existence of foreign exchange restrictions intended to prevent honest people from getting their money out).

During the Great Plague, the citizens of Milan are said to have cavorted drunkenly about the graveyards as they waited to die. Something similar happens when people lose trust in both the law and the currency: When your world is falling apart, cynicism becomes a refuge.

(58)

Short-term insurance outflow to be probed

A commission has been appointed to investigate the flow of short-term insurance premiums out of South Africa, and the operations of captive insurers.

This was announced in a notice published in the Government Gazette on Friday by the State President and the Minister of Finance.

Mr Justice DA Melamet, who headed the investigation into the demise of the AA Mutual, has been appointed chairman of the commission.

According to the terms of reference, the commission will inquire into, report and make recommendations on the outflow of short-term insurance premiums and the most appropriate measures to ensure equitable competition between local and foreign insurers.

It will also report on the operations of captive insurers and the necessity for South African insurers to use their services inside or outside the Republic.

Another matter the commission will investigate is the extent to which the services of captive insurers are currently being used by South African insurers and the effect on:

- The insurance industry.
- The outflow of funds.
- The loss of tax.
- The build-up and value of foreign assets held by captive insurers.
- The investment of the funds of captive insurers.
- The fees payable to brokers and consultants in respect of administration, and where such fees are payable.
- The disclosure of the assets of, or the interests in, captive insurers in the consolidated financial statements of the South African domiciled controlling company.

The commission will, moreover, inquire into the advantage gained from captive insurers as genuine risk carriers for the South African insurance industry as to:

- The quality and quantity of local insurance coverage, with particular reference to pricing, terms, conditions and capacity.
- Financial loss prevention and other services.
- An awareness of risk management by the local personnel, and their training therein.
- The expertise for the setting up of reinsurance programmes and the evaluation of reinsurers. — Sapa.

Cape Times 17/4/89

Trust Bank fraud case: Focus shifts

Own Correspondent

JOHANNESBURG. — The focus of police investigations into the R47-million Trust Bank fraud has shifted from former Info agent Mr Stuart Pegg to the lesser-known Mr Hendrik Welman, with police disclosing that three of the warrants issued last week were for Mr Welman's aliases.

Mr Pegg said in an interview in yesterday's Sunday Star that he merely acted as an agent in the allegedly fraudulent R27-million bid to buy an American aircraft and alleged that Mr Welman had masterminded the deal.

Mr Welman is believed to be in West Germany, along with his co-suspect, former Trust Bank chief clerk Mr Gotz Guntenhoner.

Trust Bank managing director Mr Kobus Roetz agreed yesterday that efforts to retrieve the R47 million, obtained through the fraudulent issuing of bank clearance vouchers, now centered on Mr Welman.

Police were making encouraging progress, Mr Roetz said, adding: "I am sure we will have some good news soon."

Witwatersrand police liaison officer Col Frans Malherbe said yesterday that Harry Williams and Keith Greenwood were aliases used by Mr Welman.

In an earlier statement police alleged that Greenwood, of Ponte City, Berea, acted as a go-between for a Londoner, David Smith, in the purchase of more than R1 million in uncut emeralds, of which there is a world shortage.

The police also alleged that Harry Williams, of Krugersdorp, operated a business in Norwood called Harry Williams Import and Export Company and that R130 000 was transferred unlawfully from a Trust Bank account into his account. The money has subsequently been transferred out and its whereabouts are unknown.

Col Malherbe said R2 million in cash and Krugerrands had been recovered.

Mr Pegg was reported yesterday to have protested his innocence and promised to return to SA before the end of this month. He denied that funds from the cancelled aircraft deal were transferred to bank accounts in his name in Luxembourg and Switzerland.

Mr Pegg reportedly claimed he earned $100 000 (R253 000) commission from the National Airways Corporation for his part in the deal. This, he said, had been deposited in his account in SA.

Cape Times 17/4/89

Extent of forex fraud 'appalling'

Own Correspondent

JOHANNESBURG. — Economists were shocked at the extent to which fraud hit SA's foreign exchange reserves last year.

They described as "astonishing" and "appalling" Reserve Bank senior deputy Governor Japie Jacobs's disclosure last week that fraud knocked the reserves by R650m. The figure is more than 50% of the R1,2bn decline in reserves in 1988.

Volkskas economist Adam Jacobs said the prevalence of this crime had the potential to make an economist's life very difficult.

"Projections of interest rates, exchange rates and inflation depend on one's estimate of the reserves. Obviously, one cannot try to estimate how much capital will be lost through fraud. It becomes very difficult to sketch an interest rate scenario when fraud is a major factor determining foreign reserves."

"But this is a crime that affects the country as a whole, every man in the street, and it can only be reduced to a minimum by tightening controls and making punishment as severe as possible."

However, Standard Bank economist Nico Czypionka did not agree with this solution.

"The real problem is the existence of exchange control regulations and clearly these are not working. The answer is definitely not an increase in the number of bureaucrats to implement more controls. Perhaps the solution is the opposite — abolish exchange control."

He said a device such as the financial rand was "tailor made" for abuse.

On the other hand, it was quite possible that fraud had not become more prevalent last year.

"Activities such as over and under-invoicing may have been going on for quite some time and the authorities are perhaps only detecting them now. Possibly, last year was not an exception. But whichever way you look at it, the reserves would obviously have looked better if such a large amount had not been lost due to foreign exchange fraud."

Nedbank economist Edward Osborn said: "Errors and omissions on the balance of payments accounts, which could include fraudulent transactions, were an overwhelming R5,7bn last year. That, together with unfavourable leads and lags, were the important reasons for the decline in the reserves last year," he said.

Impressive growth in Malbak earnings

CAPE TIMES 17/4/89

From STEPHEN RICHTER

JOHANNESBURG. — Malbak has once again produced impressive results — as earnings a share jumped 35% to 52,5c (39,0c) while the dividend was raised 25% to 12,5c (10,0c) for the six months ended February. Hopefully, this performance will spark interest in the industrial holding giant which has underperformed the market over the past two months.

For some reason, investors have recently been avoiding Malbak shares. On February 9, which was the last time the group established a new 52-week high, Malbak closed at 885c after touching 890c earlier that day, while the industrial index finished at 2 246.

By Friday's close, however, Malbak had failed to surpass this peak and closed at 870c. This contrasts with other industrials as the industrial index closed at 2 454 — a gain of 9,3% or 208 points.

Malbak's strong 58% operating-income rise to R277m (R175m), coupled with the 45% jump in attributable earnings to R97m (R67m), makes pleasant reading for shareholders.

But the reasons for Malbak's lethargic JSE performance seem to be evident elsewhere.

The biggest worry on investors minds must be the huge 91% increase in borrowings to R832m (R436m) to help finance the acquisition of UK-based MY Holding and Kanhym. Interest paid for the latest period rose 79% to R61m.

Malbak's gearing has now jumped to 58,6% compared with only 34,0% at last year's interim stage. While management insists it is comfortable with this level of borrowings, investors may take a different view. With local interest rates remaining at abnormally high levels, this will continue to place pressure on Malbak's bottom line.

This is not to say the group will be unable to handle the situation. Malbak's management team, led by executive chairman Grant Thomas, is highly regarded in the market-place and the latest acquisitions make the industrial holding giant one of SA's largest.

The group increased its Kanhym stake to 85% (37%), while the holding in Tedelex is now 96% (55%). Effective January 1989, a 100% interest in Wiggins Teape Holdings was acquired. This helps explain why turnover jumped 64% to R3,3bn (R2,0bn).

It appears the reorganisation of most of the group's engineering interests under Standard Engineering (formerly Standard Brass) is being favourably received. Shareholders will be paid their first dividend since 1985, and that development helped boost Standard's share price by 90c to 420c last week.

Whether significant buying interest now develops for Malbak will depend on how confident investors are that the group can generate sufficient growth to cover the debt burden while maintaining its fine track record. A move above 900c will establish a new yearly high.

In spite of the increased interim dividend, Malbak's historic dividend yield is still below the 3,3% return earned on industrial shares. This suggests any advances from current levels should occur only when the market senses the combination of high interest rates and possibly lower economic activity will not hurt Malbak's performance.

Coffee up

CHICAGO. — Coffee prices surged to their highest levels in three months on Friday as the United States indicated it may support a one-year extension of the International Coffee Agreement, which expires in September.

Talks on extending the six-year pact, which aims to stabilise world coffee prices by limiting supply through export quotas, are currently underway in London between representatives of major world producers and consumers. — Sapa-AP

Plan to avert wild interest rate swings

58

B/Day 18/4/89

HAROLD FRIDJHON

WILD swings in short-term interest rates, particularly at certain month-ends, could be prevented if the Treasury were to open special accounts with private banks, SDH director Pierre Faure writes in the first quarter's issue of The Securities Markets.

At regular periods of the year, as tax payments fall due, very large sums of money flow from the private sector to government's accounts in the Reserve Bank.

Faure says this distorting influence could be avoided if the Treasury opened Tax and Loan Accounts with the major commercial banks.

Income tax and other payments could be made by debits from taxpayers' bank accounts to the credit of Treasury accounts in the commercial banks. Proceeds from the issue of government securities could also be deposited to these accounts. These transactions would have no effect on money market liquidity.

Disbursements would unlikely be made from these Treasury accounts as the Exchequer would probably withdraw fairly large amounts as and when required. Faure says these withdrawals would not necessarily affect market liquidity becaueW they would usually coincide with government expenditure payments.

He claims Treasury accounts with commercial banks would not be advantageous only to the private sector, but also assist the Reserve Bank manage monetary policy. By judiciously switching funds from the private banks to the Reserve Bank, the liquidity situation could almost perfectly be balanced.

"This contrasts sharply with the present system where changes in liquidity are not known in advance, necessitating large-scale accommodation by the Reserve Bank — a situation which at times could be misinterpreted by the (private) banking system."

Faure warns that a potential problem could be choosing the banks at which Treasury accounts would be held, but he says that a set of criteria could be established.

A similar Treasury tax and loan account system operates successuly in the US. Some legislative changes would have to made to introduce the principle into SA.

Old Mutual issues a new unit trust 558

B/Day 19/4/89

LESLEY LAMBERT

OLD Mutual has launched a new unit trust which will give investors a chance to benefit from current high interest rates and allow them to switch into its equity funds if rates decline and the share market strengthens.

With interest rates unlikely to decline in the short term as the demand for money remains strong, the new income fund will offer investors who do not want to put lump sums into equities, optimum capital income and reasonable stability in the medium term, says Old Mutual assistant GM Stuart Fish.

The fund is not ideal for long-term investments because equities tend to outperform interest-bearing investments over the longer term. But, with no exposure to equities, volatility should be lower than that of the growth funds, providing more stability.

By buying units for a minimum investment of R5 000 or R500 a month, at a cost of 2%, investors will be able to participate in the capital and money markets through a portfolio consisting of government and public corporation stock, debentures and money market instruments.

Unit trusts now worth R5,2-bn

SKI 19/4/87

58

At the end of the March quarter the total market value of South Africa's 30 unit trusts stood at R5,2 billion.

This reflects a 51 percent increase over the total value a year ago, says Roy McAlpine, chairman of the Association of Unit Trusts.

He said yesterday that a further net R146,2 million had flowed into the industry in the quarter.

"This means the industry has attracted a net inflow of over R440 million in the past year. In addition, in the past six months, over 35 000 new investors have been attracted to unit trusts."

The funds sold a total of R323,8 million new units in the quarter. Repurchases amounted to R177,6 million.

The figures show that the 12 general equity funds, which constitute the bulk of the industry, held assets worth R3,6 billion at March 31.

The general equity funds held six percent of their assets in gold shares, 16 percent in mining finance and 12 percent in other mining.

Industrials comprised 47 percent of the portfolios. The proportion held in liquid assets at 17 percent was little changed from last quarter's 18 percent.

The six funds that have been in existence for the past five years have notched up an average total return of 21,2 percent a year, while the average performance of the nine general equity funds in the past 12 months was 46,5 percent.

The specialist equity funds reflect an average total return of of 18,2 percent a year for the six funds over five years.

Over the past 12 months the average of the 10 specialist funds was 38,3 percent.

The seven high-income funds held assets of R223,2 million at March 31, with the bulk of the portfolios held on the short end. The average performance of six funds for the past 12 months was 13 percent.

Bank's forward cover losses could top R2bn

17/4/89 58

GRETA STEYN

FORWARD cover losses on the Reserve Bank's books could have been as high as R2bn in the first quarter of 1989 after last year's R6bn knock.

These losses inflate the money supply and increase government's debt burden.

Losses are regarded as government debt because the Bank provides forward cover on Treasury's behalf. This debt is reflected in the Bank's balance sheet under "other assets".

The extent of the Bank's losses on its forward book is the only explanation for the excessive growth in the Bank's "other assets". These assets grew by 270% in the year to March 1989 — a record. The previous year saw a decline in this component of the balance sheet.

In the three months to March this year, other assets jumped R2bn to R11,7bn.

The Bank says it wants to withdraw from the forward market, but has instead become more active. Through the provision of cheaper forward cover to companies using foreign trade finance, it is increasing its stake in the market, heightening the possibility of further losses.

In March last year, a breakdown of "other assets" showed Treasury owed the Reserve Bank only R2,55bn for the provision of forward cover — about 80% of total "other assets".

Boost for Old Mutual-managed funds

B\T/ay 2\4\89 (58)

PENSION and provident fund investments managed by the Old Mutual have received a major boost from the strong performance of a range of mining and industrial shares.

The Mutual's Multifund yielded returns of between 28% and 44% for participating pension and provident funds, says the Mutual Employee Benefits GM Gerhard van Niekerk.

Multifund is a market-related investment system which offers trustees the opportunity to select a range of investment channels to build the ideal portfolio which best serves their needs. The investment profiles of funds participating in Multifund, and consequent returns, can differ significantly.

LIZ ROUSE

Funds participating in the Omnifund portfolio during the year from April 1 1988, to March 31 1989, reaped returns of 28,3% — more than double the 13,8% inflation rate. This reflects a real increase in the wealth of the funds investing in this portfolio of 14,5%.

The portfolio grew by 63,6% to R427,8m. Main contributors to Omnifund and Multifund's strong showing were the Mutual's selection of industrial and mining shares. Returns of 72,4% were shown by the industrial channel and 66,5% by the mining channel.

The leading performers were Rusplat, Anamint/De Beers, Anglo and Gencor.

Flexible fund for self-employed

B/Day 21/4/87 (58)

FEW small business or professional people realise the retirement annuity is the only private pension fund available to them.

This is the view of AA Life marketing assistant GM Bruce Howard who says participation in a pension fund, or similar employee benefit, requires an employer/employee relationship and a sizeable business to benefit from the economies of larger payments.

"The retirement annuity fund is specially designed for self-employed people, since employment is not a pre-requisite, and the income tax rules encourage the use of retirement annuities by the self-employed.

CREDITORS

"The reason is that, while an employee, who is a member of a pension fund, can contribute only a maximum tax deductible amount of the greater of either R3 500 minus deductible pension fund contributions, or R1 750 a year, self-employed people can provide up to 15% of their taxable income," Howard explains.

Another benefit for self-employed people is that funds are locked in until the age of 55. This makes the annuity a compulsory saving for retirement and it cannot be attached by creditors.

The range of universal life retirement annuities with built-in flexibility to vary premiums and benefits, recognises the changing nature of requirements for the self-employed.

"For example, life cover and disability can be added in earlier years when the need is greatest, and removed or reduced in later years, when the emphasis is on retirement capital.

NEEDS

"This flexibility also allows for various contributions based on a conservative profit expectation, and the top-up to 15% at the end of the tax year, when profits for the year have been determined.

"The structure of the retirement annuity, its tax advantages in respect of deduction of contributions, and the flexibility inherent in the company's Universal Life Retirement Annuity series, makes it suited to finance the retirement needs of self-employed people," Howard continues.

The built-in flexibility of AA Life's living benefits Universal Life policy enables it to respond to the immediate needs of the fast emerging self-employed business fraternity, according to Howard.

CHANGE

Features of this recently-launched policy are flexibility of cover, flexible premiums and the estate growth factor, with cash values increasing at attractive market rates. Self-employed people may be subject to cash flow problems occasionally and will benefit from these features.

"Our policy changes the traditional face of life insurance for entrepreneurs because it is finely-tuned to what they need and can afford.

Entrepreneurs decide to what extent they wish to buy life and disability cover and invest in a managed investment fund. The key feature is that this can be done whenever required on monthly or yearly as their financial situation permits.

"Our policy has been structured as a once-in-a-lifetime package. It is not necessary to buy another policy as needs change because flexible upgrades and options available allow tailoring of the package," Howard adds.

ESTATE

He claims this modern, financial vehicle offers significant advantages over traditional policies, including:

- ☐ Flexibility of cover, which assures client protection. The level of life cover can be increased or decreased without buying a new policy;
- ☐ Building an estate can be done with the policy, as cash values grow at attractive market rates;
- ☐ Flexible premiums are of particular interest to the self-employed. Payments to the cash fund can be increased as circumstances permit, or decreased or skipped, as long as there are adequate funds in the policy's cash value to keep it in force.

Clients may even elect to pay all premiums over a few years and not worry about paying any more after that.

Howard stresses: "The policy gives professional access to an investment portfolio normally available only to large investors, which provides significant investment growth that puts them well ahead of inflation."

Flexibility is enhanced by being able to add disability riders to the plan. For example, special drawing rights can be added to provide protection against heart attacks, strokes, cancer and terrorism, as well as occupational and accidental disability benefits.

"Premiums can also be increased annually to counter the effects of inflation, with a unique upgrade facility, and no policy fees are added," he explains.

Liberty looks closer at risk

B/Day 21/4/89 (58)

UNTIL recently information on volatility or risk factors had not been included in published investment performance surveys.

Without this information it was impossible to assess reward in relation to the amount of risk involved.

Standard deviation is the most frequently used method of assessing risk, possibly because it is arguably the easiest to understand; it measures the volatility of investment performance — the likelihood of obtaining a return either lower or higher than expected.

Deputy GM investment marketing at Liberty Life, Harry Brews, says that in the past too much emphasis was placed on return and not enough on risk.

In a study of the performance of unit trusts, in the 10 years to June, Pretoria University Business School found that GuardBank, managed by Liberty Life, and Old Mutual tied for first place among general funds. However, on a risk-adjusted basis, GuardBank emerged a clear winner.

Brews says many portfolios were light on property investments but Liberty liked the stability which was offered by a high quality property portfolio. He points out that in property, the return had always been positive.

The same could not be said for equities.

"Liberty is bound to under-perform rivals when the stock market is booming but enjoys more protection when the market declines. Also, there is less risk in our portfolios," he explains.

Personal savings need a few breaks

(58) B\Day 21\4\89

ONE of the cornerstones of the capitalist society is investment. Synonymous with investments and the creation of wealth are personal savings.

In today's economic climate and given the present tax structure, few South Africans have the necessary disposable funds to really be able to save.

Aiken & Peat partner Glynn Herbert dismisses the incentive offered in the current tax structure of tax exemption on the first R1 000 of income from investments as "laughable".

He said: "There is a desperate need to persuade people to save. This country's propensity for, or ability to, save is at an all-time low. People either do not have disposable income to put money into savings. Or, if they do have funds, there is a tendency to spend today because they know inflation will diminish the value of their money tomorrow."

It was well-known that a priority of the standing tax committee under the chairmanship of Finance director-general Chris Stals was a study on the impact of tax on personal incomes and the ability of people to save.

However, its more immediate focus was on combating inflation and trying to bring down government spending.

It was also looking at ways of implementing a system to tax those engaged in the informal sector of the economy who escaped the tax net: this would help to widen the tax base. Any measures which might eventually help lighten the tax burden as a result of the existing small tax base must be welcomed.

Meanwhile, Herbert said the high level of personal taxation and indirect taxes was steadily eroding the ability of the man in the street to put any money aside on a regular basis.

"What the policy makers really should be doing is to seek more adventurous ways of creating imaginative tax breaks to encourage people to save, particularly in schemes that offer returns ahead of double digit inflation. In Britain, people are given a tax break if they invest in certain types of stocks and shares."

The R1 000 "investment incentive" was obviously far too low. However, any new level had to be carefully thought out in order to find a balance which would persuade more taxpayers to save without opening yet another tax haven for the wealthy.

Herbert said: "The trouble is that most tax-free incentives introduced in the past have tended to favour only the rich, this is especially so when the rate of inflation is high and the lower income groups are looking for the highest return possible. The tax rate in such cases is not a factor at all.

"Retirement annuities are a case in point: they were originally introduced to encourage self-employed people to make provision for their retirement. They have since become a form of contractual saving for anyone who has disposable income and can take that route. Usually this is open only to those in the middle- and upper-income groups."

Referring to lump-sum tax-free incentive investments, Herbert said: "Let's say a man earns R30 000 a year. His tax rate would be 27,5%. He probably would have little left over after tax and living expenses to put money away. But assuming he had a windfall inheritance of R100 000, using straight-line calculations, it simply wouldn't pay him to put it into tax-free savings at a rate of 8,25%.

"After tax, his annual income on that investment would be R8 250. On the other hand, it isn't difficult to find investments offering interest on daily balance at call rates of 15%. If he invested his money that way, his after-tax return on the investment would be about R10 875. The difference speaks for itself. However, it doesn't take into account the erosion of inflation at 15%-16%.

"To put that R100 000 into tax-free savings, given this rate of tax, is not viable. Conversely, a person paying the maximum tax rate of 45% would find a tax-free rate of 8,25% an attractive proposition."

A taxpayer earning R30 000 who scrimped to save R100 a month would be hard pressed to find an investment earning more than 10% interest.

IN simple terms, venture capital is the "start up" money that entrepreneurs with great profit making ideas need to obtain the other resources that will allow them to establish successful businesses.

Investing early enough in a venture of this nature gives investors a share in the extraordinary profits normally reserved for the founders of the company.

The venture capital industry in the US has, since 1969, produced average returns of 25% to 30% per annum compound for its investors. Some of the more famous examples like Apple Computers, Genitech and Nike Running Shoes have, in fact, produced returns of 40 times the original investment.

In SA, the venture capital industry has, until recently, remained unstructured. With the introduction of the Venture Capital Market on the Johannesburg Stock Exchange, the facility has been created for the South African market to emulate its highly successful overseas counterparts.

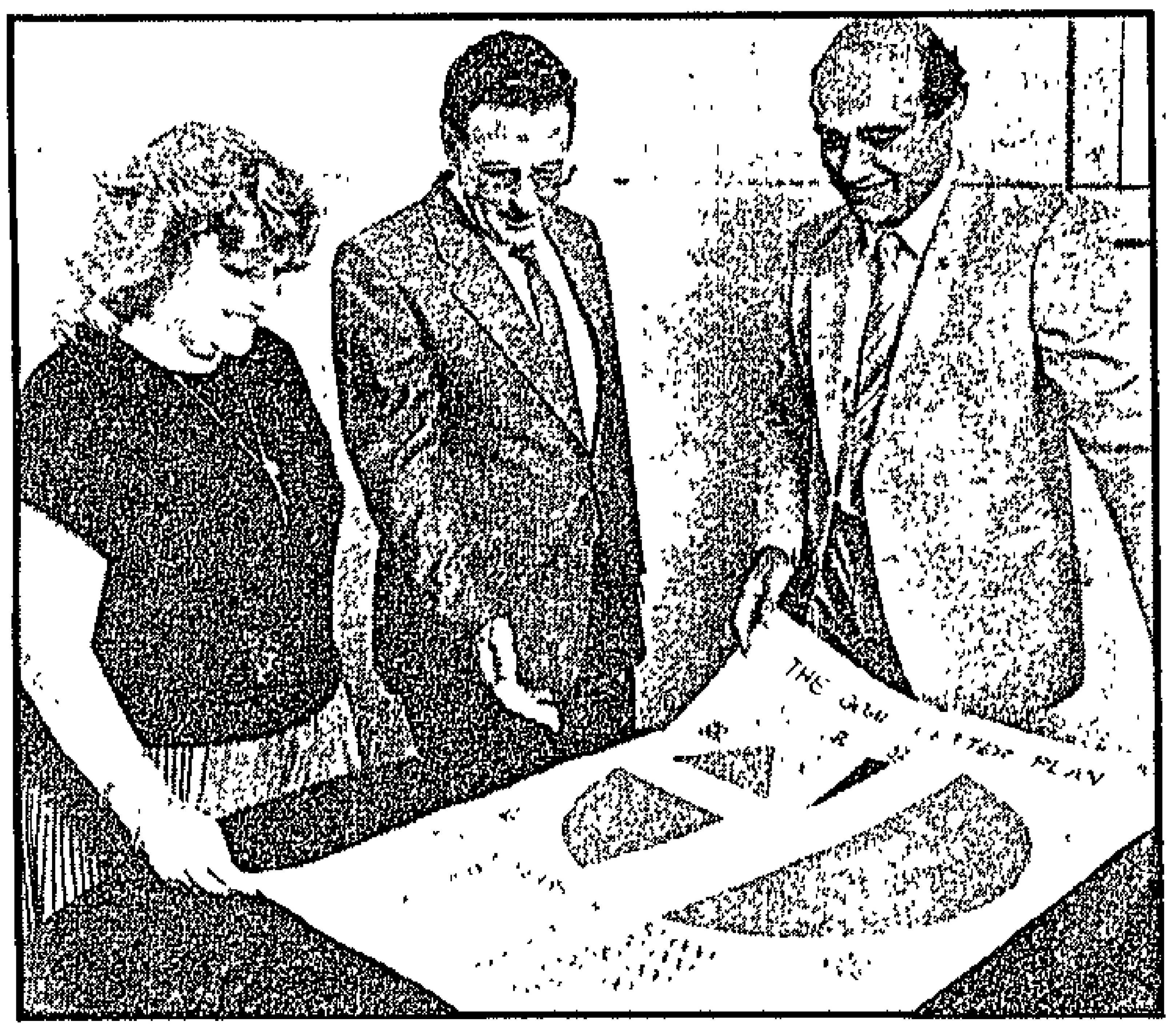
NICHE

New Company Investments (NCI) Group, being an early player in the SA market, now claims to be a leading player in the market. Chief executive of the Group, Mike Clarke, says his company has developed a formula to identify venture projects that are potential winners.

"A venture capital project is a new business venture where a need within a clear market niche has been identified, and where, through a process of innovative thinking, a product or service to meet this need on an ongoing basis has been developed.

"The project must have associated with it, the appropriately qualified team under the leadership of a person who is a champion entrepreneur by nature.

"The four stages of equity growth are researching the project, establishing and stabilising the project, growth and development, and expansion into a listing or selling out to a big



THE TEAM BEHIND THE GOAL GETTER PLAN ... Marie-Louise de Cort, marketing superintendent of Protea's life division; senior executive Jim Brayson; and marketing actuary Geoff London

GET GOING WITH GOAL GETTER

B\Day 21\4\89

A NEW financial product, which provides substantial cash payments across the life of an investment, has been launched

The Goal Getter plan is aimed at those who wish to draw large sums of cash from time to time to fund special purchases, rather than waiting for a lump sum payment at retirement age.

Under the Protea Assurance plan a tax-free lump sum becomes available after 10 years followed by the payment every five years of ever-increasing amounts until retirement.

Senior executive of the Life Division, Jim Brayson, says the returns cited by the company are impressive. Figures released show that a non-smoking male, turning 35 next birthday, investing R140 a month with the contribution linked to the consumer price index, could look forward to cash payments totalling in excess of R1m tax-free over 30 years.

Based on current projections, investors can draw a lump sum of R30 000 at 45, with a further R70 000 becoming available five years later An additional R132 000 would be paid five years after that and, at 60, he could draw R262 000.

R540 000 paid out on retirement at 65 would bring his total drawings over the period to R1 034 000

Brayson points out that the figures assume an average annual return of 15% but the company has produced investment returns in excess of the inflation rate over the past decade.

He says that the plan was evolved for self-motivated people who take active steps to achieve their goals in life.

"Our Goal Getter investment is an eminently practical way of attaining articles, which for many people remain only a dream.

"These include the deposit on a house or car, financing children's education, regular overseas holidays, or any of an number of other major items," he adds

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Hope in store for Natprop shareholders

STEPHEN RICHTER

NATIONAL Properties (Natprop) shareholders should not despair as it appears Unidev's long promised offer to minorities will finally materialise.

Troubled Natprop was suspended from November 22 1988 when controlling shareholders of Natprop reached agreement in principle to dispose of their holdings to a company controlled by Unidev.

At that time, Unidev was planning a scheme of arrangement which would have resulted in an offer to minority shareholders.

An announcement on February 21 informed Natprop shareholders that Natprop had been restored to solvency. Further assets were to be acquired by Natprop while an application to reinstate Natprop's JSE listing was to follow.

All of this was expected to be completed in March this year, but until Wednesday Unidev had remained silent on the matter.

Natprop shareholders are not alone in their thirst for knowledge about Unidev's next move. The JSE listings department has also been anxiously awaiting further developments, and it seems Wednesday's announcement in Business Day has temporarily soothed their nerves.

Unidev chairman Geoff Grylls confirms that "the delay has been caused by the complicated financial position of Natprop and therefore our company has been waiting for figures from both the reporting auditors and the receivers appointed to handle the S311 scheme of arrangement".

It appears that once Unidev receives confirmation of Natprop's financial position the wheels will be set in motion to reinstate Natprop's JSE listing and present the long awaited offer to minorities.

Unidev is understood to have struck a deal with Natprop's major shareholders at a price approximating 6c to 7c a Natprop share.

Grylls would not confirm whether this figure was correct.

Assuming this information is accurate, minority shareholders can expect to receive a similar offer.

Grylls confirmed that Unidev paid R3,8m to satisfy Natprop's creditors.

☐ THE TEAM BEHIND THE GOAL GETTER PLAN ... Marie-Louise de Cort, marketing superintendent of Protea's life division; senior executive Jim Brayson; and marketing actuary Geoff London

GET GOING WITH GOAL GETTER

R Day 21/4/89

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A NEW financial product, which provides substantial cash payments across the life of an investment, has been launched.

The Goal Getter plan is aimed at those who wish to draw large sums of cash from time to time to fund special purchases, rather than waiting for a lump sum payment at retirement age.

Under the Protea Assurance plan a tax-free lump sum becomes available after 10 years followed by the payment every five years of ever-increasing amounts until retirement.

Senior executive of the Life Division, Jim Brayson, says the returns cited by the company are impressive. Figures released show that a non-smoking male, turning 35 next birthday, investing R140 a month with the contribution linked to the consumer price index, could look forward to cash payments totalling in excess of R1m tax-free over 30 years.

Based on current projections, investors can draw a lump sum of R30 000 at 45, with a further R70 000 becoming available five years later. An additional R132 000 would be paid five years after that and, at 60, he could draw R262 000.

R540 000 paid out on retirement at 65 would bring his total drawings over the period to R1 034 000.

Brayson points out that the figures assume an average annual return of 15% but the company has produced investment returns in excess of the inflation rate over the past decade.

He says that the plan was evolved for self-motivated people who take active steps to achieve their goals in life.

"Our Goal Getter investment is an eminently practical way of attaining articles, which for many people remain only a dream.

"These include the deposit on a house or car, financing children's education, regular overseas holidays, or any of an number of other major items," he adds.

TS

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TAX AND INFLATION

THE impact which inflation has on investments plays a large part in effective tax planning.

Tax savings planning in SA is not just a simple exercise of investing as much as legally possible in tax free building society and post office investments, says First Personal Asset Management (Persam) MD Ken Burgess.

"Naturally there is still a role for traditional fixed interest tax free investments. However, wise investors are still investing only enough to guarantee their minimum income requirements in such investments.

"Shrewd investors, who look at the long-term scenario, are generally far happier with a lower dividend producing investment with the potential for capital growth.

"For example, today's investors should compare the 9% tax free which they can earn in building society and post office investments, with quoted company shares. The dividend yield over the past five years has averaged at just over 4.5%, based on the Johannesburg Stock Exchange overall index," adds Burgess.

Of this dividend, one third would be tax free, and at the maximum marginal tax rate, would yield an after tax rate of just over 3%.

"To this income should be added the tax free capital gain of 20% per annum, which investors could have obtained via the overall index. These returns are naturally well in excess of those provided for by traditional fixed interest investments.

"The caveat, of course, is that if investors were to regularly sell their investments, the Commissioner for Inland Revenue could regard them as traders, and any capital gains made would be subject to tax.

"These figures include the 'crash' of October 1987, and naturally investors will be subjected to the vagaries of the stock market.

"It is therefore imperative that investors obtain asset management guidance from experts," Burgess concludes.

ACCOUNT

BOARD

A FIXED PERIOD OPTION

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B Day 21/4/89

WITH interest rates approaching their cyclical peak, investors would be wise to consider fixed-period options.

Masterbond Trust marketing director Jack McLeod says: "Interest rates have risen rapidly over the past year, and must be considered as having reached their peak, or as being very close to it.

"It makes sense to take advantage of current high rates by placing funds in an investment which ensures the rate is maintained over a fixed period of up to five years, say, for participation mortgage bonds."

The company offers investors the option of a fixed rate or fluctuating rate linked to a minimum floor rate, providing protection against falling interest rates. Interest is payable monthly in advance.

"Part bond investors can improve returns and get capital growth by investing their monthly interest in unit trusts, or use the interest to fund annuity premiums," adds McLeod.

A further benefit to part bond investors is that on expiry of an initial five-year term, investments are put on three-month notice, yet retain the benefit of long-term rates.

McLeod says part bonds offer excellent security, being backed by legislated principles:

- Only first mortgage bonds are granted, against income-producing property; and
- Before a bond is granted, borrowers must conform to strict credit requirements, and show that they can service the debt.

GAINS 3407

Allied plan taps frozen funding

B/Day 21/6/89 (58)

LONG-TERM directors' loans to businesses are often a vital source of working capital but the lenders must often leave the loan in the business. The problem can now be resolved in an effective and tax-efficient way through an assured loan account plan.

These long-term loans may be made by directors to their companies, members to a close corporation or partners to their firms or professional practices. They appear in balance sheets as credit loan accounts.

Marketing director of Sage Life, Bruce Ilsley, says: "The prime objective of the loan account plan, which we have arranged in conjunction with Allied Bank, is to release for the personal benefit of the director or partner, the money frozen in the loan account.

The Allied Loan Account Plan is implemented through a loan granted by the Allied Bank either directly to the firm or to the director or partner who made the loan. The plan works as follows in the case of the business borrowing the money:

- The business borrows a sum sufficient to enable it to repay the loan account from the Allied. Interest only (at 1% above prime) is payable by the firm to the Allied for 10 years, at which time the loan must be repaid;
- The credit loan account is repaid by the firm to the director or partner. The amount repaid is invested by the director or partner in an Allied Maximum Accumulation Plan (MAP) underwritten by Sage Life. The MAP may be ceded to the Allied as collateral;
- Interest paid by the firm to the Allied is deductible from income if the assets of the firm are used in producing 'income' as defined in the Income Tax Act.

At the end of 10 years, the MAP matures tax free. At this stage, many options are available. A fresh loan could be made to the firm so it can settle the Allied loan, leaving the balance in the MAP to grow tax free.

The entire amount in the MAP could be left to continue to grow tax free (if it was ceded to the Allied, the firm would have to negotiate an extension of the loan's term), or annual withdrawals could be made to provide a tax-free income.

"The example shows that the director or partner enhances the prospects of obtaining a tax-free return that will beat inflation. To find an alternative safe investment yielding 15,9% tax free would be very difficult," says Ilsley.

Assuming the client is aged 49 and has a marginal tax rate of 45%, that the interest rate on the loan is 15% and the growth rate on the MAP investment portfolio also 15%, the illustrative maturity value of the MAP, if R100 000 is lent, is R299 554.

If the original investment of R100 000 is repaid, the tax-free cash surplus at the end of 10 years is R199 554. The tax-free return needed to produce a surplus of R199 554 in an alternative investment is 15,9%. The before tax return needed in an alternative investment is 28,9%.

BRUCE ILSLEY

Define objectives and make a plan

(58) BDay 21/4/89

OUR economic climate is volatile and changing — 18 months ago, investors were clamouring to withdraw their money from fixed interest investments because rates had fallen sharply.

Fourteen months ago, they were fleeing the stock market which had experienced a decline of around 30% in real terms.

The current economic climate is not very different, only the figures have changed. Interest rates have risen sharply, and investors are once again looking at fixed interest with favour; the stock market is maintaining a relatively even keel, and inflation is rising.

The picture has changed substantially from earlier in the year, and yet, investors are displaying unwarranted caution.

Marketing GM of FPS, the personal financial planning company in the Sage Holdings Group, William Wolke, says: "Each time the stock market's buoyancy returns, as it inevitably does in the cyclical nature of economics, we see small investors rushing into the market for short-term gains, paying little heed to the market's proven volatility.

"Conversely, each time interest rates rise, we see investors committing long-term funds into essentially short term products, such as one-year fixed interest investments, and regretting their decisions when rates plummet.

"In the quiet times in-between, investors 'fence-sit'. They delay committing funds because they 'want to see what will happen'. The effect of this delay is that inflation and taxation continually erode the value of their capital.

"This thinking is a result of looking at interest rates or share prices, as opposed to establishing personal objectives, and than devising and implementing the financial plan that will achieve these objectives."

Wolke points out that everybody should have an emergency fund — three to six months' salary in a savings account — where accessibility is more important than interest rates. Alternatively, people may wish to arrange an overdraft facility to provide funds should the need arise.

"For economically active people, those in the 25 — 55 age bracket, deriving income from an investment is not usually a determining factor in deciding on a suitable investment medium. The objective for these people is generally accumulating capital to fulfill future dreams and desires.

"The dream for many in this bracket, is often a home of their own — and it is proven that home-ownership is the primary wealth creator in SA — or perhaps they are saving for a special holiday, a new car, or any number of other objectives.

"For older individuals, where there is almost always a need for additional income. The investment medium they select, even in the short term, will be based on the ability to produce this income.

"Frequently, people view short and long term periods as the same thing, particularly those at the upper end of the age scale. There is real danger in this type of thinking, because by placing money in a short-term vehicle, and then simply rolling it over for a longer term period, your investment is unprotected against inflation," Wolke stresses.

He say investors should be careful of organisations offering a very high rate of return, far exceeding those offered by the institutions over the short term.

"Remember, the higher the return, the higher the risk. The truth behind many of these schemes is often revealed in banner headlines, and more often than not, unwary investors are left empty-handed and with no recourse.

"If you are making any investment decision, you would be well-advised to do so with the assistance of an experienced and professional financial planner.

"Part of the dynamism of financial planning is the emphasis placed on establishing objectives, implementing the plan, and then repositioning assets on a regular basis, both as individual's needs and desires change, and as legislation and economic trends change," Wolke concludes.

A broader view pays sometimes

B/Day 21/4/89 58

FINANCIAL planning is often put off, but a sudden change in personal circumstances can force you to take a new and much closer look at your personal financial situation and objectives.

Recently, an Executive Financial Planner of FPS, the personal financial planning company in the Sage Holdings Group, Dixon Orr, was approached to advise Mrs Henderson. She is a widow in her early 40s with two dependent children, who was left a substantial amount of money after her husband's death.

Orr explains: "Mrs Henderson had received over R500 000 and although she had been approached by an insurance representative, she was reluctant to commit all the funds to one long-term policy, preferring the broader approach of a professional financial planner."

After detailed discussion, the following objectives were identified:

- Monthly income;
- Protection against inflation in the longer term;
- Liquidity;
- Estate duty provision;
- Tax efficiency;
- Tertiary education for the children;
- Several short-term needs, such as provision for an elderly relative, replacing a motor vehicle and so on.

Orr drew up a detailed, strategic financial plan with his client which fulfilled these criteria.

Henderson's inheritance was invested in a spread of institutions, across different time scales and with different objectives in mind.

A sum of R50 000 was invested in a short-term fixed deposit plan with a building society for liquidity and emergency needs.

R40 000 was spread across two other fixed deposit plans for different time periods, providing for short-term needs.

R250 000 was placed with a life insurer, providing a monthly income of over R3 000 for 10 years, plus a pure endowment — minimum life cover — plan for R2 171 per month for 10 years. This will protect Henderson's capital against inflation, providing at least a tax-free return of capital at the end of the period, plus growth.

R170 000 was left with the company her late husband worked for, as part of a special executive scheme which provided a growing investment and a life-time income, which can be reinvested for maximum returns.

Working on the various incomes Henderson was now receiving, Orr advised a retirement annuity of R775 per month, which took full advantage of the available tax relief, and will provide a capital sum on retirement.

R5 000 was placed in a specialist unit trust for long-term growth in capital and income.

R1 170 per month is being invested in a general unit trust to take advantage of the benefits of rand cost averaging, and to provide long-term growth in capital and income as well.

The net result is that, using the broad-based objective approach to her personal financial situation, Henderson has invested her inheritance in such a way that she receives sufficient income, protects the value of her capital on the longer term, and has adequately provided for income after retirement.

"As Mrs Henderson's personal situation changes, her financial plans will be reviewed and adjusted accordingly — an essential element of the dynamic financial planning process," adds Orr.

Anglovaal moves into life assurance

B\Day 21/6/89 (58)

LESLEY LAMBERT

ANGLOVAAL has acquired a 41,6% stake in fast-growing AA Life (AAL) for R30m, becoming the largest single shareholder and turning the life assurance company into one of the most highly capitalised in the industry.

The acquisition is being implemented through a R30m rights issue and will more than double AAL's issued share capital. While Anglovaal will buy 95% of the new shares, the rest are expected to be taken up by executive staff members as part of a share scheme.

● BENFIELD

Existing shareholders — the Automobile Association and a consortium of Volkskas Merchant Bank, AAL chairman Mervyn King and MD Brian Benfield which bought Kirsh Industries' interest last year — will keep the remaining 58,6%, in which executive staff have a small stake.

The rights issue brings to a total of R50m the capital injections AAL has had within the past 12 months. The first R20m came from a rights issue shortly after the sale of the Kirsh interests.

AA Life has overcome the disastrous collapse in 1986 of its short-term insurance parent company to become one of the fastest growers in the industry in terms of new premium income.

The Anglovaal link has obvious benefits for the company. Besides expanding its financial and operating bases, the financial boost will alleviate any new business strain it may be subjected to during a period of rapid growth.

It is unlikely AAL will have immediate access to business through Anglovaal's substantial employee base or its pension fund. Given the industry's competitive na-

● To Page 2

Anglovaal moves into life assurance

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● From Page 1

ture, any suggestion that an assurer has exclusive access to the business of its major shareholder, is frowned upon.

Benfield said yesterday: "Our association with Anglovaal won't change our position now. But I believe its influence will affect future growth. We will have to operate at an arm's length, but, there will be natural-marketing opportunities."

AAL is ranked 10th in the industry, a position it gained rapidly, moving from 24th place in 1982 as its assets quadrupled from R50m to R200m.

From Anglovaal's point of view, the acquisition provides an investment in an industry which boasted income of almost R16bn in new premium income last year and has enormous future growth potential.

Anglovaal buys 42% of AA Life

Star 21/4/87

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Finance Staff

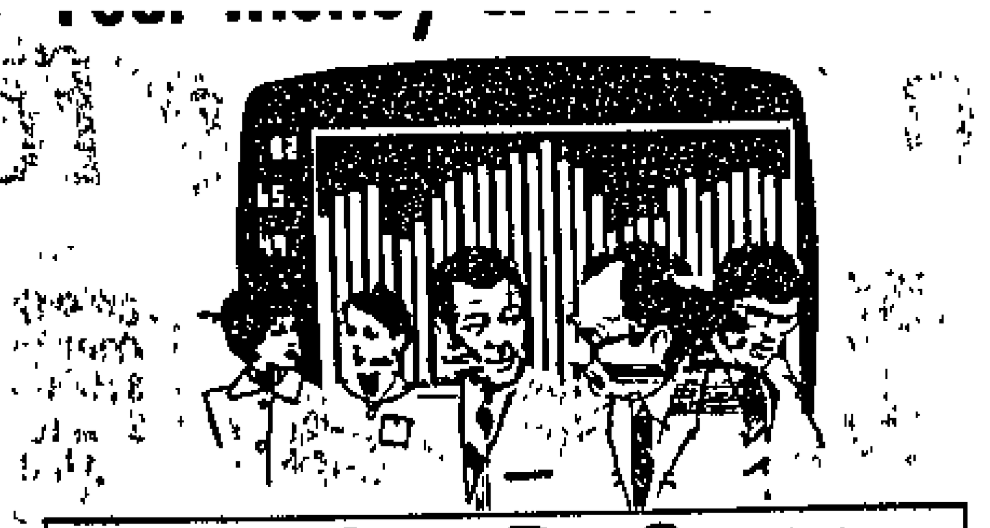
Anglovaal has acquired a 41,6 percent stake in AA Life Assurance Association in a surpise move announced yesterday.

This makes Anglovaal the largest single shareholder in AA Life, the other shareholders being the consortium which, a year ago, bought out Kirsh Industries' interest in the company. They are Volkskas Merchant Bank, the management of AA Life and the Automobile Association.

The purchase will set Anglovaal back by about R30 million which will be financed by means of a rights issue, of which Anglovaal will take 95 percent.

This is the first time that Anglovaal has invested directly in the South African financial services sector andmeans that within the last 12 months AA life has received capital injections totalling over R50 million — the first R20 million came from a rights issue shortly after the consortium took over the Kirsh interests earlier last year.

Commenting on the deal AA Life managing director, Dr Brian Benfield said: "The challenging new circumstances in which we find ourselves will most certainly lead to exponential growth enhanced by the Anglovaal association."



A Business Day Survey

MANAGING YOUR CASH

B/Day 21/4/88

CASH management has fast become one of the most important methods of improving your financial position against high inflation and high interest rates.

TrustBank GM Renier van Niekerk says: "The high cost of living and the erosion of the rand's buying power has affected all South Africans. Net disposable income, the money available for spending, has shrunk drastically in recent years, causing problems for many individuals, families and businesses, judging by the rising number of liquidations and sequestrations.

"Insecurity has become a major stress factor, and all have had to reconsider their financial position, but not many people are professionally able to take the necessary steps to ensure a balance between income and expenditure, particularly with the rapid changes taking place which affect our pockets.

"Your cash and the way you manage it is a key factor determining your standard of living. It is a basis on which long-term wealth can be built and therefore deserves a great deal of attention and commitment."

He says the cash flow of any business or individual can meet with disaster if day-to-day expenses aren't carefully monitored. Fixed commitments like bond repayments and instalments on semi-durable goods such as cars are equally critical.

"Whether your object is to build up a nest egg, save for some special item or merely to survive, cash management is vital; the dice is loaded against your having anything left to save when you have paid the monthly bills if you do not pay special attention to this.

"And it's not easy for the average individual . . . it is a bugbear to many in business. One solution to the problem is to develop a professional yet personal relationship with your banker. Expert opinion will help you to draft a budget which takes all the critical factors into account and ensures that you use your cash resources to best advantage.

"A clear understanding of your needs is essential if your banker is to assist you in drawing up an effective cash flow budget, or to put together a package designed to meet your particular financial requirements — including investments."

And investments must be carefully planned to produce the desired result, be it improved cash flow, tax relief, capital appreciation, provision for retirement, or to beat inflation.

Van Niekerk points out that when and how you invest will depend on interest rate movements and expectations — you will invest for a short term if rates are rising, and for a longer term if they have reached their peak, for instance — the type of investment available (like fixed investments, call investments, unit trusts), and the ultimate objective of your investment.

"The element of risk must also be taken into account. The degree of risk is usually proportional to the potential reward, like in the case of investing on the JSE. The amount of risk you can afford to take will depend on the amount of cash available after provision has been made for all essentials. This again relates to the effectiveness of your cash flow management," he explains.

Foreign debt crisis fears 'unfounded'

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CAPE TIMES 21/4/89

From GRETA STEYN

JOHANNESBURG. — Fears that next year will see a foreign debt crisis are unfounded because the SA economy is sound and relations with foreign bankers are improving.

That is the message Reserve Bank Governor Gerhard de Kock brought home to SA after a trip to Europe and the US.

He told a press conference in Pretoria yesterday: "I worry about a lot of things but I don't worry all that much about debt repayment in 1990/91.

"The \$2,1bn of bonded debt falling due in 1990 must be seen as an absolute worst case scenario. It has been proved that we have not been without success in rolling over maturing bonds."

Foreign banks did not want to be seen increasing their exposure to SA, but rolling over was different.

"Foreign bankers are attaching enormous importance to recent political developments in the region.

"It has now become possible for these banks to do things for us which they could not do a year or two ago.

"If we do not shoot ourselves in the foot, the international situation could improve to such an extent in the next 18 months resulting in dramatic effects on the capital account of the balance of payments."

But even if SA had to repay every cent of the debt outside the standstill net, De Kock had no doubts the country would manage to do that.

If SA had to run large current account surpluses in 1990, it would.

"Of course, that will not be possible without some pain in the form of lower growth and stringent monetary and fiscal policies.

"But the media has been overplaying the danger of a possible debt default. There are other things which might be more dangerous."

The expiry of the second interim agreement on debt inside the net next year was not a headache.

"I foresee no problems with our next foreign debt negotiations provided we can present a sound balance of payments picture."

Politically, it is important that the country build on the gains in recent months — such as the settlement in Namibia and talks with British Prime Minister Margaret Thatcher.

Economically, the country's balance of payments adjustment had been impressive.

"We have shown the world that a developing country can achieve balance of payments adjustment and still grow at a rate of three percent. Foreign bankers and central bankers regard this achievement as impressive and the SA case study is cited in arguments against debt forgiveness for developing countries."

There was also a growing belief that economic conditions in sub-Saharan Africa could not improve if the SA economy was not strong. The sanctions issue in the US was being reassessed from this point of view.

However, he stressed there was no question yet of new capital inflows into the country from foreign bankers. Pressure on foreign banks not to do business with SA remained "enormous".

US banks were under pressure to write off debt and there was also pressure on banks in Switzerland and West Germany.

(58)

BDay 21/4/89

Options outlined for small man

IT'S improbable that today's investors have anything more than a nominal amount of their salary remaining at the end of each month to spend on discretionary savings.

Metboard's Bernard Kantor says the avenues available to such investors are limited, and their cash, therefore, should be carefully deployed to protect standards of living from the wealth erosion process which is so endemic in SA today.

"Fiscal drag, inflation and taxes, direct or indirect, all have the effect of making careful husbandry of one's resources a top priority for any serious investor today."

This category of investor has few options open to him, but the following list is fairly definitive:

☐ Insurance policies: these are an essential element of any person's portfolio, but the high entry cost and inflexibility of many types of policies does not make them a viable alternative to direct equity investments;

☐ Banks and building society deposits or savings plans: investors have always derived enormous comfort from knowing they have the ultimate in liquidity, but Kantor says that the sacrifice in terms of negative real yields has greatly diminished the importance of this type of saving in one's overall financial affairs. "This is not to say that this type of investment has no place in the overall design of long-term wealth preservation, but holding cash should be seen as the premium one pays for the ability to manufacture opportunity."

☐ Hard assets: Gold coins are the most common hard asset, and wouldn't be amiss in any portfolio. Kantor says they should be seen as hedges rather than as positive forms of investment. "Remember they have, for small investors, no income-yielding properties. Corporates have, until recently, been able to indulge in carries with banks which have yielded them a small return. With the withdrawal of coins from the definition of liquid assets, this has become a marginal exercise, but nevertheless corporates can still write options against their coins to manufacture returns. This situation will not apply to small investors who don't hold coins in bulk."

☐ Unit trusts, says Kantor, are an absolutely essential form of investment for any investor's long-term portfolio. The relatively low entry costs and flexibility these provide have opened up equity investment to small investors.

"Small investors don't have the capital, flexibility or sophistication to trade with market cycles or to evaluate risk reward ratios. Unit trust investments have out-performed the Life Insurance industry with no concomitant increase in the investors' risk profile and at the same time have provided investors with flexibility and liquidity. The importance of this kind of investment to small investors can't be over-stressed."

☐ Property syndications. "If investors want exposure to property over and above that of their own houses, this is the best way of participating," says Kantor.

Property yields on syndications are about 11,5% with an additional implied capital growth rate of about 10% compounded annually.

"Sanctions have denied South Africans access to foreign capital. Political events and mismanagement of SA's economy has resulted in negative investor sentiment to the extent that Gross Domestic Fixed Investment is still running at marginally negative figures. Utilisation of domestic capital has thus become vitally important if the economy is to grow positively. Property syndications have enormous relevance in this area, as private syndications can pool their resources and buy property, for instance from a manufacturer on a lease-back arrangement, thus freeing capital to the manufacturer to bring additional capacity on stream or to replace inefficient or redundant plant and equipment.

"Good quality properties with sound syndication management should thus become an increasingly important market for all investors."

BERNARD KANTOR

AFTER BLACK ARMBAND IS RED TAPE

D Day 21/4/89

58

A VERY worrying piece of legislation has been lurking close to the statute books for some time.

Strangely, it has not attracted the comment it deserves, as it could have profound consequences for members of retirement annuity, pension and provident funds, because it could drastically change the way in which benefit payments are disposed of on death.

Liberty Life's Alan McCulloch points out that the piece of legislation is the Financial Institutions Amendment Act 1988 and in particular the clauses dealing with the definition of a dependant and those amending Section 37C.

Although passed by Parliament, these clauses have not yet become operational until a date is announced by the State President.

"The present way of dealing with the disposition of death benefits in terms of the Pension Funds Act has served SA well for many years. Trustees and principal officers of funds have been given wide powers of discretion to decide who are dependants and the amount each will receive.

CRITICISM

"A member who has no dependants can nominate someone to receive a benefit, but the Trustees are not compelled to take notice of this nomination. Failing payment to a dependant or nominee, the benefit devolves on the deceased's estate or the Guardian's fund. The vast majority of death benefits were settled with little fuss and bother."

Apparently, because of representations to the authorities, this situation is to change radically. Criticism was voiced that an individual who, having made adequate provision for his dependants, has no means to ensure trustees pay an amount to a nominated beneficiary. But what was set out to be achieved was not realised in the Financial Institutions Amendment Act.

The definition of dependant was altered to exclude persons not legally entitled to maintenance by a member. Thus, both a working spouse and major children are automatically excluded as dependants. Also, the previous rights of trustees to decide on who was a dependant, has vanished.

CLAIMANTS

There are to be four major categories, which appear to cover dependant spouses, dependant children, unborn children, fiancees and certain non legally dependant persons dependent on the deceased's estate for maintenance.

McCulloch points out that where there are only dependants to be dealt with under new legislation, the matter is fairly simple except that claimant dependants have 12 months in which to appear.

"A result could be the unwillingness of trustees to make any payment until the 12 months have expired in case another dependant comes to light. Litigation could almost certainly arise in that case. At present, most claims are settled fairly quickly after death, which was undoubtedly the pragmatic rationale for the current legislation," he explains.

However, meeting the criticism for effective beneficiary nomination has been met in full — with surely unexpected consequences.

"Where a person has been nominated he will now receive a full benefit as a right subject only to a requirement that the previously defined dependants are adequately taken care of. Trustees must now assess the maintenance needs of those dependants and only then pay the balance to nominees.

"Apart from the obvious question of the possible cost of these investigations and who will pay for this, the average trustee of a retirement annuity fund is not in a position to assess maintenance needs of dependants.

BALANCE

"He doesn't have the intimate knowledge available to the trustee of the average pension or provident fund who can make reasonable enquiries through the deceased's employer," he argues.

Adding to this confusion is the fact that there is no provision for a partial nomination. The nominee cannot be granted say 25% of the balance of the benefit after seeing to the dependants — it's a case of all or nothing.

Also, McCulloch says it is understood authorities view pensions previously reserved exclusively for widows/widowers and children to fall within the ambit of the new legislation and, therefore, paid to a nominee rather than to those for whom it was originally intended.

"Representations are being made to redress these and other problems, and we hope the negotiations are successful with a practical outcome," he says.

BUSINESS

Time companies decided on AIDS policy, warns Sanlam

AIDS deaths could put up the cost of employee benefits unless employers and unions agree on a general strategy, reports HILARY JOFFE

SANLAM has launched a campaign urging employers to develop workplace strategies to deal with AIDS — and will encourage companies to involve trade unions in the process.

The life assurer is raising the issue because of the effect AIDS (Acquired Immune Deficiency Syndrome) could have on the cost of employee benefits, particularly death and disability benefits. These "insured benefits" are usually administered as part of company pension or provident funds.

"There is no doubt AIDS will increase the costs of employee benefit programmes," says Dave Geary, Sanlam's group benefits senior marketing manager. "We hope, however, that the campaign will not only limit possible cost increases but also the spread of the disease.

"We believe that with current treatment being only palliative and the chance of a cure in the short term being remote, it is imperative that companies develop a coherent AIDS management policy."

Geary estimates the cost of group life cover could increase by 50 to 100 percent over the next few years.

So, for example, a company currently paying three percent of a R10,4-million salary roll towards death and disability benefits could see a R156 000 increase in its benefit payments.

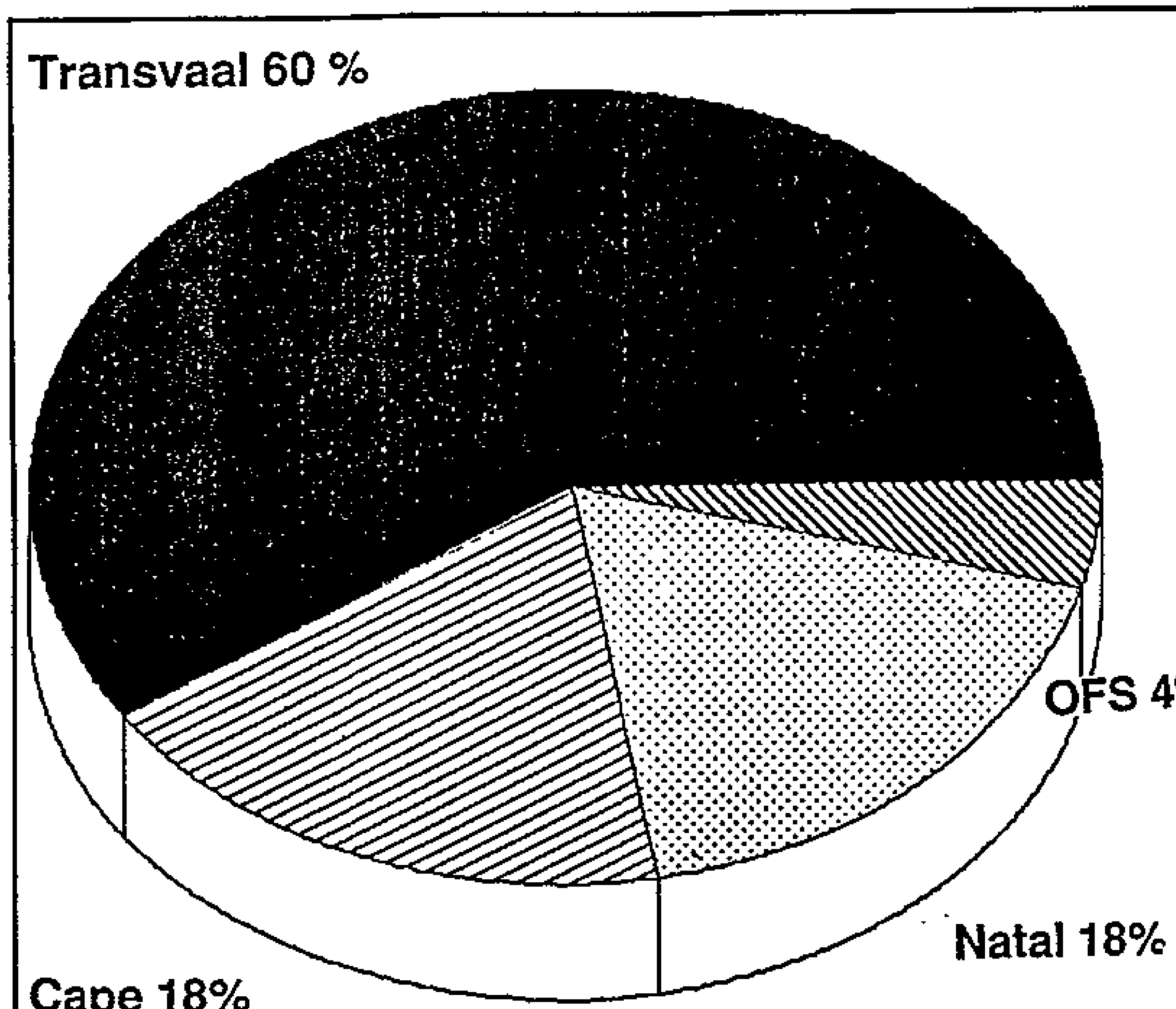
The increase for individual companies would depend on the composition of the workforce.

In addition to the increased cost of death and disability benefits, employers could also face higher medical and absenteeism costs.

Geary says in group benefit schemes there is little scope for measures such as stricter medical selection, blood tests or exclusion clauses to keep the cost of assurance down. Employers have a moral and/or contractual obligation to provide death and disability benefits to all employees.

Group assurance rates are not guaranteed for longer than a year or two, and assurance companies will therefore increase premiums if the mortality rates go up as a result of AIDS. Sanlam has developed a costing model which enables funds to examine the cost implications of AIDS on a best/worse scenario basis, Geary says.

Sanlam, which is in contact with hundreds of employers through the provident and pension funds it underwrites, is inviting representatives of company funds, trade unions and employer organisations to a series of AIDS workshops.



Most of South Africa's Aids victims come from the Transvaal

Graph: SANLAM

It recommends that a specific AIDS task force be set up by a company, which should include trade union representatives and should be responsible for formulating company policy.

Apart from the moral responsibility, Geary argues that it is in both employers' and trade unions' financial interests to develop preventative strategies. Employers face rising costs. And for trade unions, if employers have to pay more towards "insured benefits" there will be less room to win wage concessions.

One of the most important aspects of a workplace strategy will be to implement educational programmes. This will not be easy, says Geary. "Research has shown that blacks and whites have significantly different perceptions of the disease and any educational programme must take cognisance of this."

According to figures cited by Sanlam, by March this year there were 183 known cases of AIDS in South Africa. This year there have been seven AIDS deaths and 15 new cases reported: last year there were 41 AIDS deaths and 84 new cases.

A high proportion of AIDS cases have been reported among people aged between 20 and 49. Geary points out that 98 of the 121 cases the age of the sufferer is known fall into this category, so that the disease mainly affects people in their most productive working years.

National Union of Metalworkers' (Numsa) organiser Geoff Schreiner said he supported the principle of companies negotiating policies on AIDS with unions.

"AIDS is not an issue which can be tackled unilaterally by employers — but neither can it be tackled by one financial institution. Tackling the problem requires a process of wide consultation and negotiation," he said.

A Business Day Survey

MANAGING YOUR CASH

B Day 21/4/89 (58)

CASH management has fast become one of the most important methods of improving your financial position against high inflation and high interest rates.

TrustBank GM Renier van Niekerk says: "The high cost of living and the erosion of the rand's buying power has affected all South Africans. Net disposable income, the money available for spending, has shrunk drastically in recent years, causing problems for many individuals, families and businesses, judging by the rising number of liquidations and sequestrations.

"Insecurity has become a major stress factor, and all have had to reconsider their financial position, but not many people are professionally able to take the necessary steps to ensure a balance between income and expenditure, particularly with the rapid changes taking place which affect our pockets.

"Your cash and the way you manage it is a key factor determining your standard of living. It is a basis on which long-term wealth can be built and therefore deserves a great deal of attention and commitment."

He says the cash flow of any business or individual can meet with disaster if day-to-day expenses aren't carefully monitored. Fixed commitments like bond repayments and instalments on semi-durable goods such as cars are equally critical.

"Whether your object is to build up a nest egg, save for some special item or merely to survive, cash management is vital; the dice is loaded against your having anything left to save when you have paid the monthly bills if you do not pay special attention to this.

"And it's not easy for the average individual." It is a bugbear to many in business. One solution to the problem is to develop a professional yet personal relationship with your banker. Expert opinion will help you to draft a budget which takes all the critical factors into account and ensures that you use your cash resources to best advantage.

"A clear understanding of your needs is essential if your banker is to assist you in drawing up an effective cash flow budget, or to put together a package designed to meet your particular financial requirements — including investments."

And investments must be carefully planned to produce the desired result, be it improved cash flow, tax relief, capital appreciation, provision for retirement, or to beat inflation.

Van Niekerk points out that when and how you invest will depend on interest rate movements and expectations — you will invest for a short term if rates are rising, and for a longer term if they have reached their peak, for instance — the type of investment available (like fixed investments, call invest-

Business Report

Money market

JOHANNESBURG. — Money market rates continued their steady sideways trend yesterday, with the 90-day liquid bankers' acceptance (BA) rate holding at 16,55%, dealers said.

The Reserve Bank indicated the market shortage slightly lower at R887m on Wednesday against R979m on Tuesday.

The following buying rates were indicated:

BAs: One month 16,40-45; two months 16,50-55 (16,55); three months 16,55.

NCDs: One month 17,00 (17,15); two months 17,15 (17,25); three months 17,30 (17,35).

Treasury Bill: 16,00.

Land Bank: 16,20.

— Reuter

Gencor earnings soar by 55%

CT Times 21/4/89

REINIE BOOYSEN

JOHANNESBURG. — Gencor's earnings in the six months to February are 55% higher, at R456m (R294m). Earnings per capital unit are also 55% higher at 465c (300c).

The board has declared an interim dividend of 120c — 20% higher than last year's 100c. Dividend cover is more conservative, at 3,8 times (3 times).

The improvement is largely attributable to a surge in profit from Gencor's two happiest divisions:

- Metals and minerals — including ferrometals producer Samancor and heavy sands processor Richards Bay Minerals — which lifted attributable earnings by 195% to R186m (R63m); and
- Paper/pulp producer Sappi, which lifted its contribution by 64% to R128m (R78m).

Executive chairman Derek Keys says Sappi moved quickly to bring its greatly enlarged responsibilities under control.

"Export price movements are no longer only upward but are nevertheless firm enough to be attractive in prospect."

Less impressive, but nonetheless good improvements were recorded by Malbak and associates, which lifted earnings by 39% to R64m (R46m); Gencor's platinum producer, Impala, which lifted its contribution by 24% to R31m (R25m); and coal producer Trans-Natal, to R16m (R3m).

These performances overshadowed the cost of investing in mining exploration (R52m as opposed to R42m last year) and in Gencor's energy programme, which includes Mossgas, the Torbanite project and oil and gas exploration (R22m as opposed to R7m).

They also countered the following burdens: a 14% decline in gold's contribution, to R78m (R91m); and a 7,5% decline in earnings from Genbel and investments to R74m (R80m).

Keys says "the group is enjoying its best year yet and in consequence all past benchmarks of financial excellence are in the process of being surpassed."

He adds that his restructuring of the house, so as to establish "independent entrepreneurially-minded managements to realize the group mission" was completed with the launch of Genmin, responsible for the house's mining, metal and mineral interests.

- Sapa reports that Federale Mynbou, which draws its income from its sole investment, a 54,7% investment in Gencor, achieved an attributable income of R246m for the six months to February. This is 56% ahead of the comparable R158m for the six months to February 1988.

After allowing for a dividend on redeemable preference shares, Fedmyn's income translates into attributable earnings of 425c. The cash earnings figure is equivalent to 112c (97c) per capital unit out of which an interim dividend of 108c (990c) has been declared.

NEW LOWS

	PRICE	PREV
BESTER	210	220
GLODINA	165	170
STREBEL	165	170
DARMAG	80	90
MASTBOR	85	100
VALARD	65	70
ALFA	60	65
SAFIMED	105	110
REGGIES	40	44
LEPPIN	15	20

The Star
Finance

58

Fidelity Bank improves

21/4/89
Star 21/4/89

Finance Staff

Fidelity Bank has shown a healthy 31,3 percent increase in income for the six months to March 31.

Despite an unsympathetic market, which encompasses frequent rate changes (presently upwards), rising inflation, and an expected cooling down of the economy, Fidelity beat its management projections.

Despite squeezed margins and ever increasing competition in the market place, Fidelity pushed assets up to R263 million (from R212 million at the year end) and net income attributable to ordinary shareholders from R883 721 to R1,114 million.

Dividends on ordinary shares for the interim period have been increased from 5c to 5,25c, and interest on loan stock to 10,5c. Earnings per ordinary share moved up from 12,6c to 15,9c.

Cape Times 1/4/89

Anglovaal acquires 41,6% stake in AAL

58

From LESLEY LAMBERT

JOHANNESBURG. — Anglovaal has acquired a 41,6% stake in fast-growing AA Life (AAL) for R30m, becoming the largest single shareholder and turning the life assurance company into one of the most highly capitalized in the industry.

The acquisition is being implemented through a R30m rights issue and will more than double AAL's issued share capital.

While Anglovaal will buy 95% of the new shares, the rest are expected to be taken up by executive staff members as part of a share scheme.

Existing shareholders — the Automobile Association and a consortium of Volkskas Merchant Bank, AAL chairman Mervyn King and MD Brian Benfield which bought Kirsh Industries' interest last year — will keep the remaining 58,6%, in which executive staff have a small stake.

The rights issue brings to a total of R50m the capital injections AAL has had within the past 12 months. The first R20m came from a rights issue shortly after the sale of the Kirsh interests.

AA Life has overcome the disastrous collapse in 1986 of its short-term insurance parent company to become one of the fastest growers in the industry in terms of new premium income.

The Anglovaal link has obvious benefits for the company.

Besides expanding its financial and operating bases, the financial boost will alleviate any new business strain it may be subjected to in a period of rapid growth.

It is unlikely AAL will have immediate access to business through Anglovaal's substantial employee base or its pension fund.

Given the industry's competitive nature, any suggestion that an assurer has exclusive access to the business of its major shareholder, is frowned upon.

Benfield said yesterday: "Our association with Anglovaal won't change our position now. But I believe its influence will affect future growth. We will have to operate at an arm's length, but, there will be natural marketing opportunities."

AAL is ranked 10th in the industry, a position it gained rapidly, moving from 24th place in 1982 as its assets quadrupled from R50m to R200m.

Last year, Benfield forecast that assets would quadruple again in two years to R1bn. Now he is talking in terms of exponential growth.

"We are astride a growing new SA assurance giant and our ambition and intentions are to vie, within a few years, with the major SA proprietory life offices."

From Anglovaal's point of view, the acquisition provides an investment in an industry which boasted income of almost R16bn in new premium income last year and has enormous future growth potential.

Corporate finance and planning manager David Barber said the acquisition was a direct investment by the mining house in an area it felt it had been underinvested in.

Stockbrokers to 'tout' for business?

Sew 24/4/89

58

DEREK TOMMEY

Parliamentary Bills permitting stockbrokers to advertise and also ending the obligation of financial intitutions to invest in prescribed assets, were published in Cape Town yesterday.

A memorandum published with the Bills states that the Committee of the Johanesburg Stock Exchange believes the present prohibition on advertising is no longer relevant and was an unreasonable constraint on stockbrokers.

The proposed amendment will permit such canvassing, advertising or touting on certain conditions to be determined in consultation with the Registrar of Financial Institutions. However, the Registrar can express his disapproval with any advertisement or document and have its publication stopped.

Although the bill provides for the ending of investments in prescribed assets by insurance companies, pension funds and friendly societies this does not mean that these institutions will have complete investment freedom.

The Minister of Finance is to be given powers to regulate how much money, registered insurers, funds and societies may invest in particular kinds of categories of assets. This was being done because this investment freedom would not necessarily be accompanied by sound investment policies, says the memorandum.

Mr Theo van Wyk, Registrar of Finance Institutions, said last night that the new requirements had not yet been defined. These was being negotiated with the financial institutions.

The memorandum says the main considerations in support of the abolition of the prescribed investment requirements are:

- Compulsory investments in prescribed assets create a captive market in which rates of interest are necessarily lower than market rates;
- The lower rates penalise financial institutions and those persons (pensioners and policyholders) who invest their savings at such institutions;
- Lower rates on public sector stock restrict the ability of the Reserve Bank to operate on the open market. They also distort the allocation of scarce resources in the sense that the activities of the public sector are subsidised at the expense of other sectors; and
- As potential investors avoid a captive market, the development of an active market capable of providing liquidity and competitive prices for investments in public sector stock is inhibited.

Contingency reserves

The Bill also makes provision for the implementation of recommendations of the Melamet Commission which investigated the collapse of the AA Mutual short-term insurance company.

These include the introduction by short-term insurance company of a contingency reserve of 10 percent of premium income and the building up of the reserve over five years.

The Bill also calls for a reduction in the time in which insurance companies have to render returns from six months to four months after the end of the financial year.

It also provides for the Registrar of Finance Institutions to employ outside accountants and actuaries in the inspection of financial institutions.

The Bill also gives the Registrar power to vet major shareholders in insurance companies to determine whether they have the financial resources and are also fit and proper to efficiently manage an insurance company.

Auditors of short-term insurance companies will have to indicate how they have satisfied themselves about the adequacy, instead of just the reasonableness of the provision for unexpired risks, intimated claims, unintimated claims and its income tax liabilities.

Bears bully bulls

B/Day 24/4/84 HAROLD FRIDJHON (58)

BOND market bears staged a coup on Friday to leave claw marks on retreating bulls as yields on long-dated stocks rose to 17,28% from 17,11%.

Triggering the switch in sentiment were several factors, such as a rumoured further increase in the money supply aggregates, the rise in the measured inflation rate and gold's dismal performance, but the telling, fourth blow was a report which purported to give details of assurers' investment ratios when the prescribed asset requirement is abolished.

The one ratio which sent the market into a decline was that for gilts. The report suggested assurers could hold as little as 10% of their assets in bonds.

This was the *coup de grace*. The bulls fled. Turnover, modest at around R500m most of the week, doubled as traders tried to job their way out of the trap.

The Eskom 168, which started the week around 17,14%, touched a high of 17,32% before closing around 17,28%. The RSA 13% 2005 moved from a base of 17,12% to finish at the same level as the 168s. The Sats SV06 dropped to yield 16,86% from 16,62%.

These yields are jobbers' perceptions of the market. They do not reflect how real investors would perform if the issuers of bonds, largely the Treasury and Eskom, were to cut back on requirements. And, more importantly, what yields institutions would demand on funds.

Judging from their response to Reserve Bank feelers, their sights appear to be set at about 17,5% on long-dated stocks.

Unex exchange proposal scaled down

58 B/Day 24/4/89

LESLEY LAMBERT

THE Unex proposal for an integrated electronic exchange incorporating all the financial markets has been scaled down to a more practical system aimed at reducing the problems of cost and ownership.

After months of debating the creation of a brand new system, market participants have opted for a short-term solution which will provide exchange services to facilitate ongoing growth of the markets.

In addition, they have decided to hand the project over to the Clearing Banker's Association (CBA). The project managers who drew up the original proposal and presented it to potential participants, will be consultants.

The original proposal, widely accepted in principle, met with resistance from participants who felt that, besides being too costly, the system would have to be a

● To Page 2

Unex exchange proposal scaled down

58 B/Day 24/4/89

● From Page 1

monopoly to achieve the necessary economies of scale, leading to inefficiency and unnecessary additional costs.

During the next three months, a team consisting of the five major clearing banks and six other financial instititutions, will investigate interim solutions to facilitate the development of the bond and futures markets, according to Unex project manager Burgert Oosthuizen.

They will look at: □ The acquisition of the JSE's Gilts Clearing House by Unexcor, the company established to facilitate the Unex proposal. The GCH would then continue to clear gilts in a more formalised market.

□ The acquisition of the SA Futures Clearing Company (Safcom) from the SA Futures Exchange, with a view to establishing a central clearing house providing short-term exchange services to both the bond and the futures markets.

While the futures exchange, scheduled to open in August, will go ahead with its plans regardless of the outcome of the investigations, the bond market, consisting of JSE stockbrokers and banks dealing in bonds, is expected to formalise itself into the official Bond Market Association this week.

This will enable the market to decide whether or not to pursue plans to merge or co-operate with the futures market.

Investments need flexible approach

BDay 24/4/89 (58)

INTEREST and foreign exchange losses are no longer easily tolerated by shareholders as valid excuses for poor financial performance in US and UK markets, where corporate treasurers are expected to have familiarised themselves with the use of new investment instruments like futures and options to manage rate risk.

By using interest rate futures or swaps or combining them with other hedging techniques like caps and floors, corporate borrowers can insure themselves against rising interest rates, profit from falling rates and adapt debt structures to express changing views.

In SA, for want of a more sizeable and liquid derivatives market, most companies still manage their interest rate risk through debt raising exercises where hedging decisions are simply whether to service the debt with fixed or floating interest rates.

The need to maintain reasonable debt ratios on their balance sheets limits companies in the financing alternatives they can apply and this is further exacerbated by the difficulty they face in adapting debt structures to changing economic environments once the financing decisions have been taken

But, even though SA's fledgling derivative markets are still too small to enable companies and financial institutions to hedge substantial exposure, as Old Mutual portfolio manager Heather McLeod points out, at least they give them an opportunity to exercise their views

While BA futures provide an opportunity to hedge interest rate risk at the shorter end of the market, the Escom long bond E168 allows companies and financial institutions to hedge their longer term exposure. Stock index futures and options allow portfolio managers to protect their equity investments and access a market in which paper is in short supply.

Interest rate swaps broaden the range of risk management products by allowing two parties to exchange interest rate payments on a notional principal amount, in order to convert the periodic payments on an asset or liability from fixed to floating, vice versa, or from one type of floating rate to another

Products like interest rate "caps" and "floors" set ceilings and floors on interest rate exposures, while "collars" combine the guarantees on maximum and minimum interest rates to fix the range within which interest costs can fluctuate in the long term

The management of both asset and liability sides of the balance sheet has become an increasingly important discipline in an environment of interest rate volatility, deregulation and intensified competition. Off-balance sheet derivative products have provided opportunities to manage this risk.

To understand the way asset-liability management works, it is important to understand the concept, duration which is generally used by fund managers as a means of measuring the price sensitivity of a bond to changes in interest rates. Bonds with different maturities and coupons are affected in different ways to these changes and duration expresses each bond's exposure in a single number.

Fixed income risk managers use duration to rank fixed income securities according to their interest rate risk and to manage that risk. For example, bonds with low duration are relativley less risky, or interest rate sensitive than bonds with high durations.

Buying futures increases the duration of a bond or portfolio of bonds and therefore increases interest rate sensitivity. By increasing sensitivity, the portfolio will gain in value at a faster rate. So if the portfolio manager is expecting interest rates to decline, he may choose to increase his exposure by buying interest rate futures.

When rates are rising, on the other hand, and bond prices are falling, the portfolio manager can reduce exposure, thereby decreasing duration, by selling interest rate futures.

Participants in the futures markets generally have different objectives. According to US broker Kidder Peabody's Options Portfolio Service manager, Gary Gastineau, dealers and underwriters face one of the most difficult interest-rate risk control problems in the fixed income securities markets.

But, since the introduction and widespread use of financial futures in the US, there have been fewer reported cases of huge losses by bond dealers and underwriters, despite dramatic interest rate fluctuations. In SA, the market is still developing products which market makers can use to hedge their own risk.

The most obvious use of the new markets by commercial banks is to balance maturities on the asset side of the balance sheet with those on the liability side, given that their major problem is that their assets are usually of longer duration than their liabilities. Building societies have an even more severe asset/liabiltiy mismatch than commercial banks. Gastineau suggests that the use of futures gives them more flexibility, reducing the need to rely on increases in mortgage rates as a means of offsetting changes in the cost of money.

Two important uses of derivative securities by companies are corporate cash management and control of the cost of borrowing.

Of the life insurance companies involved in the futures market, the two majors Old Mutual and Sanlam are probably the most active. But, because the market is not big enough to allow them to hedge their enormous positions on the market, they tend to be in and out of the market during periods of price uncertainty. The size of the hedging operations of smaller pension funds are more realistic in terms of the SA market's size and more easily accommodated.

"When there is uncertainty the life companies use derivatives in conjunction with the physical market. One major advantage of the market [illegible] it allows to the stock market when there is a shortage of paper," says Old Mutual's McCleod.

"When money is moving into mutual funds and there is a shortage of paper in the counters the portfolio managers want, rather than hold cash, they have the opportunity of exposure to a general market movement by investing in a stock index future or option."

When you consider that equity turnover is 5% on average over a long period, it is very difficult for any portfolio manager to meaningfully change a portfolio. The derivatives market at least gives them greater flexibility.

WHERE CAN YOU EXPECT

Fidelity Bank ups profits

58 13 4 Day 24.4.89

CHARLOTTE MATHEWS

FIDELITY Bank has posted an above inflation rise of 26% in profits attributable to ordinary shareholders to R1,1m, against last year's R884 0000, in its interim results to March.

A dividend of 5,25c a share was declared, compared with 5c for the six months to March 1988. Earnings lifted to 15,9c (12,6c) a share and showed a rise in dividend cover to three times from two-and-a-half times.

According to the directors, Fidelity has not only met but exceeded its management projections despite frequent rate rises, escalating inflation and an expected cooling down of the economy. They say there is every indication that the present level of performance will be maintained for the rest of the financial year.

B/Day 24/4/89

Institutions can hedge exposure

(58)

THE opening of a formal futures exchange should boost volumes and liquidity, giving major institutions a better chance to effectively hedge their larger exposures. But, the growth will not necessarily happen overnight and the entry of new players into the market is expected to be gradual.

Scheduled to open no later than August, the SA Futures Exchange (Safex) will be based on a traditional open-outcry trading floor in the new JSE annexe and will accommodate telephone and, eventually, fully automated trade from offices outside the floor.

By providing a formal trading structure and the security of a self-regulatory framework envisaged in the recently tabled Financial Markets Control Bill, Safex hopes to draw more users into the market.

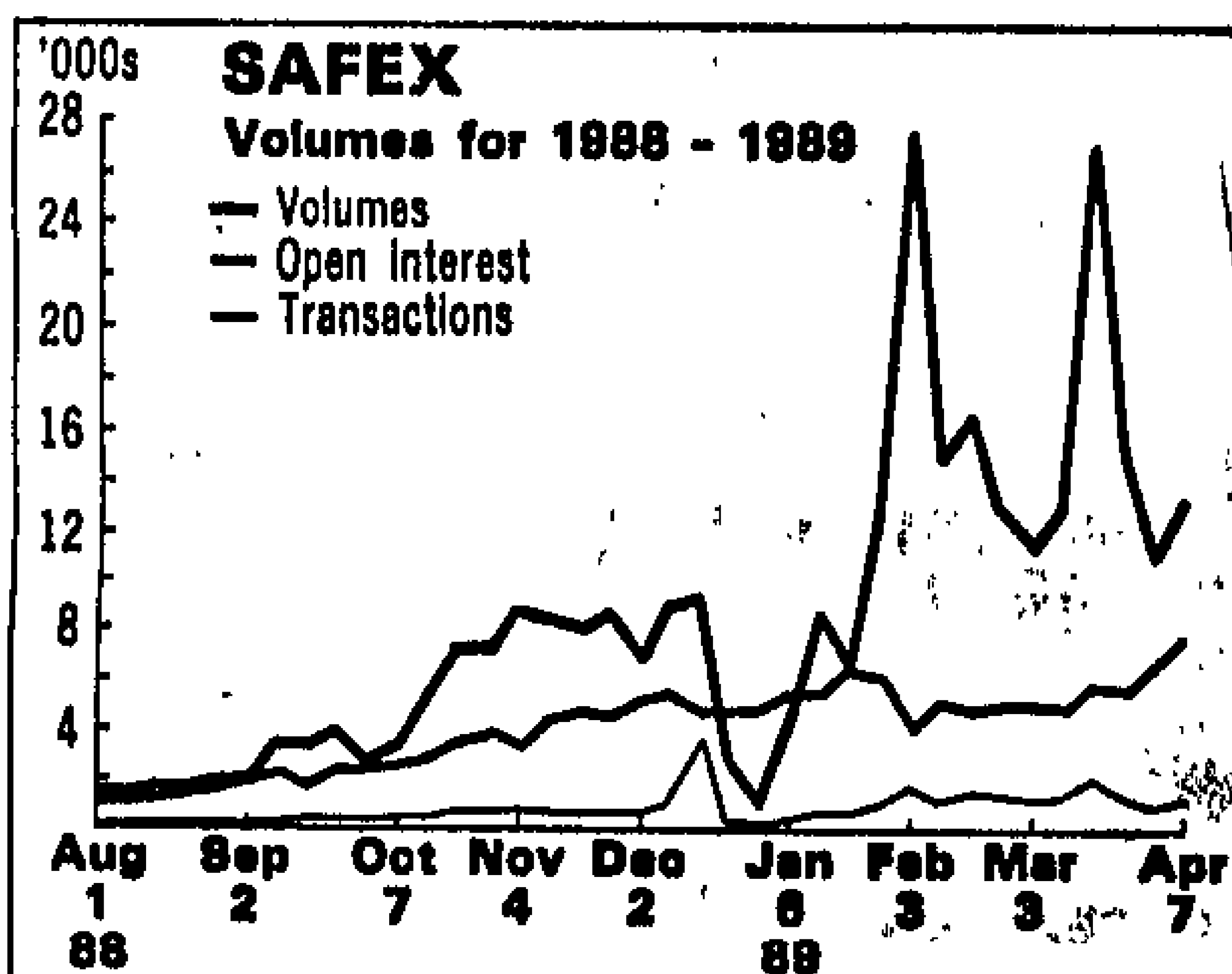
The early development in SA of derivative products to protect institutional, corporate and private investments against future price fluctuations and to enable the investors to exercise their views on future movements, has been rapid.

To its credit, the informal market has managed to facilitate not only the ongoing growth and occasional dramatic bursts of activity but also to maintain control in the absence of a formal self-regulatory framework.

In 1987, Rand Merchant Bank (RMB), the initiator of futures in SA, established in-house trade in futures contracts based on the JSE Actuaries all-share, industrial and gold indices. A year later, RMB and Cape Investment Bank introduced a future on Eskom's largest and most liquid long-dated bond, E168, which, after a slow initial response now claims about 70% of all futures trade.

The market is currently considering proposals for a new five-year notional bond future to bridge the gap between the E168 future and the relatively new contract based on the three-month BA interest rate. It is also considering a notional long-dated bond contract, given that the E168 is regarded as a wasting asset with a constantly reducing lifespan.

Over the past year, the market has gained 23 members, including major banks and institutions. Between them, they have bought 80 seats on the exchange which was initially scheduled to open last year. But, an unexpected surge in volumes convinced members of Safcom — the company set up to clear Safex's business — to cancel its first phase of development and commission a system able to cope with far heavier loads. The next few months proved it right.



Graphic: FIONA KRISCH Source: SAFEX

In February, volumes which normally average about 12 000 contracts a week doubled to a weekly record of almost 28 000 as a bull run on the JSE boosted trade in the exchange's stock index futures and the February close-out of the E168 future pushed volumes in all series of the contract to a record 12 160.

Volumes soared again in March to 27 000 in response to activity in the underlying equity and gilts markets after the Budget announcement. They were buoyed by bullish post-Budget sentiment on the JSE and a bearish gilts market.

The launch of Eskom's new short-term equity linked cash investment (Elci) stock, which was issued in equal bull and bear tranches, also played a part in boosting share index futures contracts. With issue and maturity dates coinciding with the stock index futures, participants, particularly market makers, can use it for hedging and arbitrage activities as well as investment. By providing a hedging mechanism, the new instrument allows them to quote prices and trade more aggressively in the stock index futures. It has also helped to nudge the price of futures nearer their "fair value."

As the market has grown, the RMB system has strained under the weight of increasing volumes and claims by other users that its direct link with RMB's futures trading division has given the bank an unfair advantage by enabling it to determine other players' positions and to trade on that knowledge.

To cope with volumes and dispel dissatisfaction about the fine line between its clearing and trading operations, RMB has implemented a new clearing system.

As a clearing member of the exchange, the merchant bank will continue to use its system to clear its members' trade after the Safex system takes over as the official clearing house.

Initially the Safex system will offer members two trading mechanisms — open outcry on a floor in the JSE annexe and telephonic trade, with off-exchange traders accessing prices on Reuters screens in their offices, by phoning the price-maker directly.

In time, it will offer a fully automated service with off-exchange members keying matched deals directly into the system.

"Safex's philosophy is to develop with the market," says Safcom MD Stuart Rees. "Our first step will be to take it from where it is now and then upgrade and develop that according to members' requirements. Automated trading surely cannot be too far down this line."

Participants welcome the security of formal clearing and regulatory structures and many have held back in anticipation of the formation of these structures. While volumes have increased steadily, the number of transactions (including any number of contracts, but averaging about 10 in normal trading conditions) have remained relatively low, suggesting a slow entry of new players. Modest but consistent growth in open interest — the number of positions which remain uncovered — implies a longer-term commitment to the market and is generally a good indicator of a market's real growth and depth.

However, many participants are critical of the decision to have a dual trading system. With an effective off-exchange network already in operation, and growing emphasis in international markets on the advantages of off-exchange trade, they object to the additional cost — estimated at R250 000 — of setting up a floor trader.

With a dual system, screen traders would need a dealer and supporting infrastructure on the floor to keep up with arbitrage opportunities pit traders would have. They feel that with with volumes at levels they are now, the cost could be prohibitive for smaller users.

Up to now, problems inherent to the SA market have hindered institutions' use of the futures market as an effective hedging medium. Local underlying markets are thin with relatively few participants. This tends to exacerbate price movements. Liquidity is confined to a handful of contracts and, with the high concentration of wealth in five major financial institutions, the opposing market views which encourage more activity are relatively scarce.

On the other hand, a shortage of skills has forced many young or inexperienced portfolio managers to perform functions and take on responsibilities that they should only be confronted by later in their careers.

However, users believe that the introduction of a formal market should boost volumes and liquidity to a large extent, and, provided the system copes with the expected increase in volumes, the market should provide institutional users with better opportunities to hedge their positions in the cash markets.

FINANCE

Bank has a dilemma

(58)

B/Day 24/7/89

A MID-MONTH tranquillity blanketed the money market last week with most rates shuffling sideways as the supply/demand equation appeared to be kept in balance by deft Reserve Bank action.

For the past three weeks the Big Money call rate has been static at 15,5% for prime borrowers and at 15,75% for other banks with a slightly lesser ranking.

The rate for 90-day liquid bankers acceptances (BAs) has been poised comfortably at 16,55% for three-and-a-half days, having risen from Monday's 16,50%.

And as the banknote issue sank close to its nadir around R6,5bn the market shortage — its debt to the Reserve Bank — went down to R623m after the Reserve Bank had tapped off R1,3bn surplus liquidity through very short-dated Treasury bills, which will mature this week. If the Bank had not taken this action the market would have been in surplus, stimulating what might have been a false downward blip in rates.

At midday on Friday the BA rate moved up five points to 16,55% in response to the rate struck in the Treasury bill (TB) tender which had been revived after three weeks in cold storage. With R70m tendered for R40m bills on offer, the TB rate came out at 16,15%; it had been 16% — its rediscount rate — at the last tender.

This surely has put the Reserve Bank in a dilemma. It knows the 16,15% rate is not entirely market-determined because official bids offset private sector bidding. Had the "hidden hand" not intervened, one questions where the real rate might have been. The question is: will Bank rate be threatened if the market were permitted the freedom to determine the TB rate?

With the BA rate at 16,60%, the TB rate should be 16,30% on the Reserve Bank's rediscount scale. And at that rate TBs give a yield of 16,98%.

Although the Treasury's bank accounts are still strongly in credit, the Reserve Bank has been sounding out the insitutions by offering 1996 stock at 16,90%. But according to reports, it is meeting a lukewarm reception. Market sources suggest that the Treasury might have to resort temporarily to starting its funding programme by using TBs, not necessarily 90-day TBs. But at what rate — 17%-plus?

Investors are already getting 17,6% on 12-month negotiable certificates of deposit, and it is believed that if the banks were willing issuers, there would be no shortage of takers, because even if rates were to rise by one percentage point in, say, mid-September, the return would not be too far out of line.

A TB would be more highly rated than a BA, but investors do want a profitable return on their money. But if the TB rate were permitted to move up too many notches above its rediscount rate, would the Governor be able to hold down Bank rate?

At present this is an esoteric argument, but it does point to the paradoxes which must inevitably arise when rates are — one must not use the word controlled — inclined to be regimented for reasons other than monetary policy.

BDay 24/4/89

58

BA FUTURES CAN PROTECT YOUR ASSETS

BA FUTURES provide a good opportunity for companies, financial institutions, parastatals and individual investors to protect assets in an increasingly volatile interest rate environment.

Yet while the market has seen slight growth in interest, volumes are still not large enough to ensure its success.

The BA future, based largely on the successful three-month sterling contracts offered on the London International Financial Futures Exchange, is a contract with a set expiry date during which a R1m position is taken in a notional Bankers' Acceptance.

The contract is ideal for people wanting to hedge against or speculate movements in the 90-day liquid BA rate, although reasonable correlation with other money market rates such as non-liquid BA's or prime is also achievable.

Aimed largely at financial institutions like banks for more efficient management of asset-liability mismatches on their balance sheets, the contract is also invaluable for corporate treasurers.

By using BA futures, they can lock in the cost of anticipated money market borrowings or protect their money market assets against a fall in yields for periods of up to 9 months.

Similarly, portfolio managers can use the contracts to increase or decrease the level of risk on their exposure.

To trade the contract, investors can approach any market making member of Safex for a price, which is quoted as 100 less the futures discount rate. For example, a quotation of 86 implies a futures discount rate of 14%. Prices are quoted on the Reuters Screen on pages SAFY and SAFZ.

At R1 a contract and R4 a transaction, the cost of trading, excluding the upfront margin payment, is relatively low.

In addition to the trading fees, market makers will also request an upfront margin of at least R3 000. The margin is small in relation to the value of the contract, providing good leverage and efficient financing for hedging and speculative purposes.

If rates move against the buyer, additional margin will be called for. However, if they move in his favour, the margin account will be credited with the profit. At the expiry date when the contract is "closed out", the balance on the margin account is paid to the buyer.

In a paper on the use of BA futures as hedging instruments, Rand Merchant Bank researchers Lindsay-Pierre Collet and Peter Jaeger provide an example to illustrate how BA Futures work.

EXAMPLE:

90 day liquid BA discount rate	16% pa
Futures dealing date	22/2/89
Futures expiry date	18/5/89
May BA futures bid price	83,25
May BA futures offer price	83,35
Contract size	R1m
Number of contracts sold	10
Change in value per point change in price (tick)	R25

Date	BA Spot discount rate	May BA Futures price Bid	May BA Futures price Offer	May BA Futures discount rate Bid	May BA Futures discount rate Offer	Accumulated profit/loss
22/2/89	16	83,25	83,35	16,75	16,65	—
30/3/89	16,08	83,05	83,15	16,95	16,85	2 500
30/4/89	16,05	83,10	83,20	16,90	16,80	1 250
18/5/89	17,30	82,70	82,70	17,30	17,30	13 750

Suppose that on February 22 1989, a corporate treasurer foresees a rise in the BA rate and wishes to capitalise on this view to hedge against higher interest payments on existing floating rate liabilities. The treasurer acts by selling an appropriate number of BA Future contracts.

A choice could be made between the near contract (May), the following one (August) or a proportion of each depending on the anticipated incidence of the rise. Sale of the May contract would lock in the current futures discount rate for 90 day BA borrowings, starting on the third Thursday of May. An August contract sale would similarly lock in the current futures discount rate for BA's startig on the third Thursday of August.

Assume that the May contract was selected to protect R10m of BA linked borrowings.

On February 22 with the current BA rate at 16%, the futures market anticipated a rate of 16,75% for borrowings starting on May 18 1989, the latter rate being the one which could be locked in. The futures rate may have been higher, lower or similar to the current spot rate depending on market expectations.

The corporate treasurer sold 10 contracts at a price of 83,25 equating to a May futures discount of (100 - 83,25) or 16,75%.

If, on March 30, the May future offer contract price has dropped to 83,15, thereby anticipating a yield of 16,85%, a profit of (83,25 - 83,15) x R25 x 10 contracts x 100 — R2 500 has been made.

At this stage or at any stage prior to expiry, the treasurer may close the contract and take the profit or loss. If instead, he decides to hold the position until expiry, then the profit would be R13 750.

To determine the profit for this hypothetical scenario and establish the success of the hedge, the following calculations are necessary:

Profit on futures contract:
(83,25 - 82,70) x R25 x 10 contracts x 100 = R13 750

If it had been possible to issue R10m of BAs starting in May at the May futures rate of 16,75% ruling on February 22, the issuer would receive R10m - R10m x 16,75 x 91 over 365 x 100 = R9 582 397

As this would not have been possible, one would have had to issue R10 of BAs on May 18 at the rate of 17,3% then ruling, thereby receiving only:
R10 - R10m x 17,30 x 91 over 365 x 100 = R9 568 685

These figures exclude issue expenses.

The additional cost of R13 719 (R9 582 397 - R9 568 685) is almost exactly offset by the futures profit of R13 750.

What would the treasurer's position have been if rates had not risen as anticipated and the BA spot discount was 16% of May 18 and not 17,3% as suggested above? The position on expiry date would be as follows:

Loss on futures contract:
(84,00 - 83,25) x R25 x 10 contracts x 100 = R18 750

The hedge was taken against an increase in rates above 16,75%, being the rate at which the futures contract was written. BAs can now be issued on May 18 at 16% resulting in a cash flow of:
R10m - R10 x 16,00 x 91, over 365 x 100 = R9 601 096

Effective proceeds would however be R9 582 346, the proceeds of the issue of R9 601 096 less the loss on the futures contract of R18 750. An opportunity loss of R18 750 is therefore incurred, resulting in a cost of borrowing for the period being 16,75%. However, the company succeeded in its original goal which was to ensure that the cost of borrowing for the period starting May 18, would not exceed 16,75%.

The treasurer has thus eliminated the possible loss which would have been incurred if rates had risen as expected in the example. The opposite procedure would be adopted to protect the level of income from an invement linked to a floating rate when it is believed that rates are going to drop.

FNB still top of heap

Star 4/4/89

Bottom Line

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MICHAEL MENOF

First National Bank shareholders should do themselves a favour and read Basil Hersov's 1988 chairman's report. Objectively, he looks at the past year when the SA economy was invited on a binge by a government intent on restoring confidence and using economic benefits to ease the pains in society.

This approach, says Mr Hersov, tends to overlook the constraints and thus the inevitable resultant imbalances in the economy now needing attention.

First National, celebrating its 150th anniversary, is still Number One based on its 29,3 percent of total assets.

A total of R385,2 million capex was spent on property acquisitions and accelerated purchases of data processing equipment in advance of import surcharges in anticiaption of a deterioration in the rand/dollar exchange rate.

Criticised in the past for over-spending, First National can feel smug because the heavy expenditure on information systems must yield a postive cost-saving and revenue opportunities in the years ahead.

The trend in the US is to improved information technology — this means giving clients accurate facts and figures faster than before.

The banking sector also needs to give clients specialised management reports showing cost savings, rather than just providing a service.

Those banks that can comply will be the leaders in the already cut-throat SA banking industry. In 1988, home loans grew by R1,7 billion to R3,1 billion, with R698 million still in the process of registration.

Cleverly, the SWA/Namibia branches have been separately incorporated as wholly owned subsidiaries of the main SA company and closer integration with First Corp and First National Merchant Bank has been achieved.

The associates — Southern Life, First Bowring, Guardbank and newcomer General Accident Insurance stepped up their income contributions.

I still suspect First National overpaid for goodwill R117,6 million when it bought Citicorp in 1987 as First Corp, now renamed, only produced a R13,9-million bottom line (1987: R5,5 million).

Interest income increased to R2,84 billion (1987: R2,2 billion), with interest expenditure R1,89 billion (1987: R1,34 billion) and net interest income up only 11 percent at R955 million (1987: R860 million) despite a balance-sheet growth of 37 percent.

Doubtful-debt provision reduced to R124,5 million (1987: R128,7 million) despite increased advances of R4,7 billion.

Higher operating expenditure, mainly salary increases and running costs, were unable to be passed off. Pre-tax income hardly changed at R306,4 million (1987: R301,9 million).

Helped by a lower tax rate — tax R128,9 million (1987: R140,5 million) — and increased share of associated companies income of R29,3 million (1987: R23,2 million), the bottom line improved to R206,8 million (1987: R184,6 million).

The position looked even more attractive with no extraordinary write-offs in 1988 (1987: R106,6 million), giving net income after extraordinary items of R206,8 million (1987: R78 million).

Earnings per share totalled 284,5c (1987: 254,6c) and the ordinary dividend increased to 112,5c (1987: 105c).

Net income contribution from the five divisions explains all — First National Bank down to R113,3 million (1987: R121,8 million), while Wesbank, First National Merchant Bank, First Corp and other subsidiaries all improved.

Shareholders' equity at end-September 1988 totalled R1 018,5 million (1987: R900 million).

With R255 million of subordinated debentures, capital available for banking purposes totalled R1,27 billion.

Total assets increased to R28,15 billion (1987: R20,6 billion), with total liabilities R26,88 billion (1987: R19,6 billion).

Is saturation forcing First National to rely on allied areas to achieve growth? Wesbank, First National Industrial Bank, First Card and the home loan book are saving the day, helped by steady progress from life assurance and short-term insurance.

The challenge is the 90s when banking services must expand, providing full financial services and selected information services, while improving performance in traditional banking.

What will this cost the banks and how will they perform in a climate of deregulation, increasing competition, high inflation, escalating interest rates, exchange rates and a country starved of capital.?

First National has both the experience and trained manpower and, with help from its controlling shareholders Anglo American (29,9 percent) and Southern Life Association (24,9 percent), it should come out on top.

The interim results due on April 26 should indicate whether Mr Hersov's forecast of a further advance in profits is a reality or not.

Further decline seen for rand

By Sven Lünsche

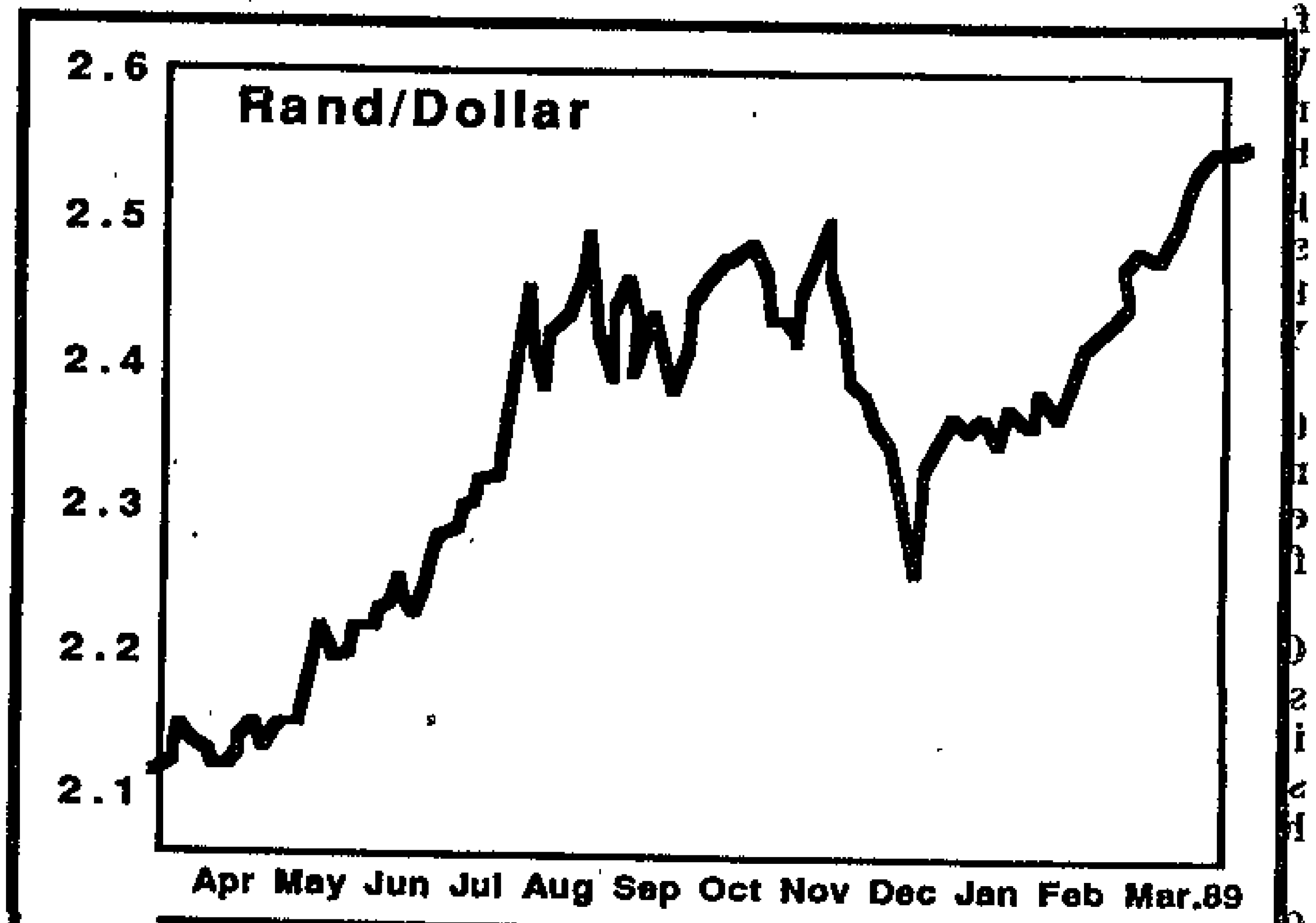
The rand exchange rate, which has already dipped by over nine percent against the dollar in the first three months of the year, is set to fall further in months to come.

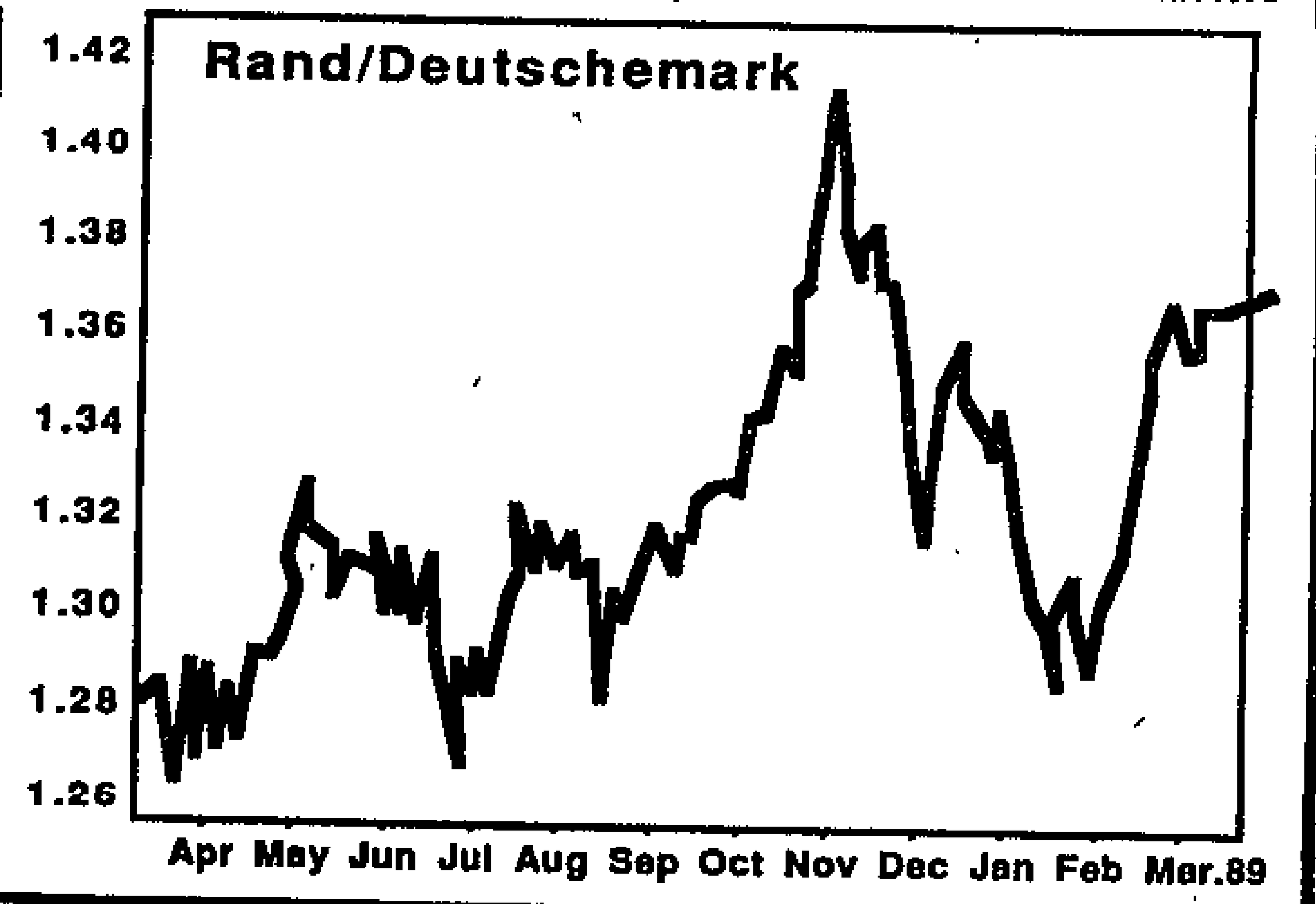
It closed on Friday at R2,532, about 1c up on the day on the back of a weaker dollar, which was hit by rising interest rates in West Germany and other European countries.

But economists are virtually unanimous that the rand could fall to R2,70, or even further, before the end of the year.

A similar picture is forecast for the rand, against other major Western currencies.

Behind its expected weakness are two major factors: the continuing low level of the gold price and SA's weak balance of payments position.





In a recent report, Trust Bank economists said the downward trend of the rand gold price suggested the rand exchange rate had definite downward potential if gold did not recover visibly.

"It would indeed appear that the monetary authorities are delaying the rand's decline during the first half of the year, possibly to contain inflation," Trust Bank said.

But it is doubtful whether this is effective, or whether it will be maintained in the second half.

Leon Steenkamp, economist at Senekal, Mouton, Kitshoff, says: "Reserve Bank intervention in the foreign exchange market will be without teeth in the absence of more effective measures to curb domestic spending.

"From the Governor of the Reserve Bank's statement on March 7, when he referred to 'the exchange rate implications of the need to maintain a large surplus on the current account, it has, however, to be concluded that the currency will not be propped up artificially.

"In fact, my interpretation is that it has virtually been accepted that the currency will depreciate," Mr Steenkamp says.

There might be slight relief for the rand in an expected surplus on the current account during the first quarter of the year in the wake of the unexpectedly high trade surplus achieved in March.

Many economists, however, consider the trade surplus in March to reflect corrections of badly understated figures in January and February.

But more importantly, they expect the surplus on the current account in March to have been virtually wiped out by massive outflows on the capital account.

It is, therefore, not surprising that both Trust Bank and Mr Steenkamp expect a further fall in the rand.

Trust Bank sees the rand declining to R2,70 against the dollar and to R1,43 against the D-mark.

Mr Steenkamp sees a weighted depreciation of ten to 15 percent over the next year.

did not link it to sexual activity.

Prof warns AIDS will hit insurance firms

GERALD REILLY

PRETORIA — The rising incidence of AIDS would soon have major financial implications for insurance companies and medical aid schemes, Unisa law professor S A S Strauss said here at the weekend.

Speaking at an AIDS seminar, he warned the insurance industry had never been faced with the uncertainties posed by AIDS.

Insurers could become selective and insist on strict testing to determine insurability and to set appropriate premium rates. There was a need, he said, for insurers to "pool" information on people with AIDS.

Strauss also warned that people with AIDS who transmitted the disease through sexual contact could incur civil as well as criminal liability.

On employment, Strauss said it was highly unlikely a court would uphold the right of an employer to fire an employee merely on the grounds that he was diagnosed as suffering from an incurable disease which could not be communicated to fellow employees in the work situation.

However, a very real concern for AIDS patients was the discrimination and fear within medical facilities themselves.

In SA there was no absolute duty on the part of hospital authorities, state or private, to admit patients.

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Secrecy surrounds assurance talks

LESLEY LAMBERT

SECRECY surrounds talks held on Friday between the Life Offices Association and the Financial Institutions' Registrar on the guidelines to replace abolished prescribed asset requirements.

The LOA is understood to have proposed greater freedom for the industry within a broad set of guidelines which ensure the basic norms of prudency and give actuaries more responsibility.

The proposal was in response to a set of guidelines issued in the form of discussion papers by the Registrar last week.

A spokesman from one of the life offices declined to comment on the specific issues at the request of the registrar, but conceded participants had established a proposal to present to Finance Minister Barend du Plessis this week. He said Du Plessis was expected to respond on Friday.

A spokesman for the LOA said the registrar's main concern was to establish a benchmark or standard by which he could gauge the prudency of an institution's investment activities.

"The issue now is not so much exact requirements in percentage terms — that detail can be negotiated later — but rather a broad mechanism by which the registrar can determine and manage it. I would be very surprised if they came away with a set of regulations on Friday."

One set of proposals circulating in the market last week, which was understood to have been discussed at the meeting, set the following investment limits. a maximum 40% and a minimum 10% in gilts, a maximum 30% in property with a maximum 5% on any one project and a maximum 20% of Krugerrands. While the proposal set no limit on investment in equities in general, it set a 15% limit on investment in a single main board company and a 5% limit on a single DCM company.

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BD 27/11/89

Unex forced to sharply cut back plans

BDay 28/9/89 (58)

LESLEY LAMBERT

THE Universal Exchange (Unex) proposal for an electronic exchange incorporating all the financial markets has been severely scaled down in an attempt to reduce costs and facilitate short-term developments in the bond and futures markets.

Unex, the project team established by the financial community to explore its future needs, proposed a brand new system which offered automated trading, clearing and information services to all the financial markets.

But, after months of debate, market participants have finally opted for a more modest short-term solution, using existing structures to provide ongoing exchange services.

The original proposal, widely accepted in principle, met with resistance from participants who felt that, besides being too costly, the system would have to be a monopoly. This, they argued, would lead to inefficiency and additional costs.

Unworkable

"The proposal was exciting, but, for the time being, it proved to be too all-embracing, expensive and difficult to implement," said JSE president Tony Norton, who chaired the Unex working party and was a member of its steering committee.

The most pressing short-term requirements of the futures and bond markets are central facilities to clear transactions and ensure security in growing and volatile markets.

The task of investigating the provision of these facilities has been handed over to the Clearing Bankers' Association (CBA) with the Unex project managers as consultants.

During the next three months, a team consisting of the five major clearing banks and six other financial institutions, will consider:

- ☐ The use of the JSE's gilts clearing house by both its current users, JSE stockbrokers who trade bonds on an exchange floor, and financial institutions which trade them on screen.

According to Norton, if agreement is reached, the JSE will probably operate on contract to the Bond Market Association (BMA), which, once formalised, will incorporate the floor and screen markets.

This, he feels, will achieve the necessary economies of scale.

- ☐ The possibility of developing the SA Futures Clearing Company (Safcom) into a central clearing house providing short-term exchange services to both the bond and the futures markets.

While the futures exchange, opening in August, will proceed regardless of the outcome of the investigations, the bond market is formalising itself into the official BMA this week.

Formalisation

Once it has established a formal structure, the bond market will be able to decide whether or not to pursue current proposals for a merger or co-operation with the futures market.

With futures and bonds expected to trade on the same floor in the new JSE annexe, it is likely the investigating team will consider the possibilities of rationalisation between the markets.

COMPANIES

Tax rate dip helps NBS to 32% earnings rise

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B Day 25/4/89

GRETA STEYN

A DROP in NBS Holdings' effective tax rate was the main factor behind the group's 32% increase in earnings to 55,2c a share (1988: 42c) in the year to March.

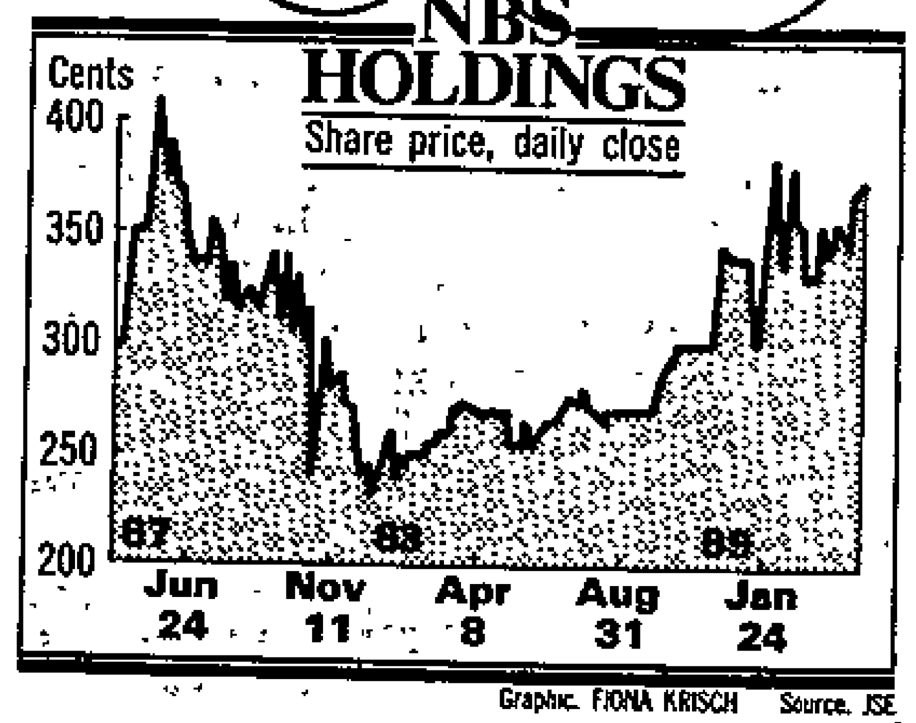
Although net income before taxation rose by only 18% to R48,6m, the drop in the effective tax rate from 42% to 35% had a positive effect on earnings, which were well ahead of forecasts for the year.

NBS GM Mark Farrer said yesterday the tax rate had dropped because a higher percentage of the group's earnings had been dividends from subsidiaries, such as the group's insurance arm. He cited diversification and control over costs as the main factors underpinning the group's performance.

A final dividend of 14,5c a share was declared, making 23c (18,5c) for the year.

NBS's shares rose 5c yesterday to 375c but are trading at a discount to the net asset value, which is 481c (1988: 447c). The shares reached a peak of 385c in January this year on rumours of a takeover by First National Bank.

In spite of the persistent takeover talk, the group is holding its own in the competitive banking market. Strong demand for home loans underpinned asset growth of 32% (17,6%) to R4,34bn



(R3,29bn) with advances growing by 30% to R3,5bn.

Farrer said pressure on margins had not been a problem, although there had been some strain in the first half of the financial year when increases in bond rates had lagged the cost of funds in the money market.

Banks reporting results to December last year complained that a squeeze on margins had had a major effect on earnings.

"But the fact that both earnings and assets rose by 32% indicates that we were not affected by pressure on margins," Farrer said.

Tight control on costs was reflected in the decline of expenses as a percentage of total assets in the building society, from 2,95% to 2,69%. Costs will be further curtailed by the rationalisation of the NBS's branch network to concentrate on its geographic areas of strength.

The Durban-based group expects the factors which influenced the past year's favourable performance to continue and forecasts continued real growth in earnings.

More staff leave African Bank

By Kaizer Nyatsumba

Five senior employees of the embattled African Bank have resigned at a time when over R20 million is believed to have been withdrawn from the bank since former chief executive Mr Gaby Magomola was fired.

Acting Afbank chief executive Mr Jack Theron has confirmed the resignations, but said he believed the total amount of withdrawals made was less than R20 million.

Mr Magomola, who has demanded to be reinstated, could not be reached for comment.

underperforming the JSE chemical index.

Spending curbs still needed, says OM

Star 26/4/89

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By Sven Lünsche

Short-term interest rates are likely to remain at current high levels throughout the year and the authorities cannot afford to relax economic restraints until foreign exchange reserves are rebuilt, says Old Mutual's chief economist David Mohr.

In the latest *Old Mutual Economic Monitor* Mr Mohr says recently released economic data indicate that a considerable amount of buoyancy is still prevalent in the economy.

He says, however: "Certain underlying trends suggest the forces that will bring about a slowdown are already taking hold."

Mr Mohr says a large part of the expansion in real private consumption expenditure (PCE) had been financed through increased use of credit facilities.

Against the background of an expected decline in real disposable income and the higher cost of credit this year, the increased debt burden of consumers should therefore further restrict the scope for another sharp rise in PCE from current levels.

"Overall, PCE could still record a positive growth figure for 1989 as a whole, but is likely to be less than the 4,8 percent growth recorded in 1988," Old Mutual says.

Against this, real gross domestic fixed investment (GDFI), which is responsible for one fifth of total domestic spendng, registered its first increase in seven years last year. Given the current momentum of GDFI and high levels of confidence, this type of domestic spending is expected to rise even further this year.

Overall it would thus appear that the growth rate in real domestic spending could more than halve from the increase recorded last year and the underlying momentum should taper off during the course of the year, Mr Mohr says.

However, domestic spending should still register its fourth consecutive year of growth, with the result that some short-term pressure on interest rates is still evident.

Mr Mohr predicts another rise in the prime rate in the second quarter, given the sustained increase in general money market rates, but a further rise in rates can only be avoided if budget estimates are strictly adhered to, ensuring a slowdown in the economy.

"If this restrictive fiscal policy is adhered to, we believe that short-term interest rates have come close to their cyclical peak.

"However, in the absence of such fiscal discipline, a further significant rise in interest rates cannot be discounted."

The need for strict control of government spending was highlighted by the fact that two of the largest components of total government expenditure — the wage bill and interest payments on outstanding debts — were estimated to have expanded by more than the 15 percent budgeted increase.

Debt standstill a priority

New posts for kingpins Stals and Croeser

CITY PRESS 26/4/89

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By MIKE ROBERTSON and GRETA STEYN

TWO of government's top finance officials, Gerhard Croeser and Chris Stals, are to get new jobs.

Stals is to be appointed a special adviser to Finance Minister Barend du Plessis and Croeser is to take over as finance director-general.

Croeser, who has been CE, policy, since 1986, is a career civil servant who has spent almost 30 years in the Department of Finance. He was the architect of the RSCs — created in terms of his report on local authority finance.

No stranger to controversy, Croeser was the only member of the Jacobs Committee to express reservations about the abolition of prescribed assets. A Stellenbosch B Com graduate, he has been an outspoken critic of excessive government spending and the financing of current spending through borrowing.

Du Plessis is expected to announce the Croeser/Stals changes when he returns from London at the the end of the week.

While it was speculated yesterday that the moves were a precursor to Reserve Bank Governor Gerhard de Kock's possible retirement at the end of next year, when his five-year term ends, well-placed sources emphatically denied that.

The end of De Kock's term will virtually coincide with Stals's expected return to the Bank.

Monetary officials expect Stals to return to the Bank in August next year when his secondment to the department ends, although this is by no means certain.

Stals, who has been tipped for a long time to take over from De Kock, was seconded from the Bank to the department in August 1985 when he was senior deputy governor.

Asked to comment on the expected announcement, Stals would only say: "This is still being considered. The minister will make an announcement within a few days."

It is understood Stals will concentrate on certain specialised aspects of the department's work, while Croeser takes over the day-to-day running.

High on Stals's list of priorities will be the re-negotiation of the debt standstill. The present standstill expires in June next year.

He will also concentrate on the activities of the tax advisory committee, in particular the introduction of VAT.

Stals and Du Plessis have apparently been keen for some time that the director-general be freed of administrative responsibilities and be allowed to play a more hands-on role in certain key areas.

Govt considering allowing capitalisation of inspection fees

(58) MIKE ROBERTSON B/Day 26/4/89

CAPE TOWN — Government was considering allowing building societies and banks to capitalise inspection fees levied in regard to mortgage bonds, Finance Minister Barend du Plessis said yesterday.

Du Plessis was responding to a question from W J D van Wyk (CP Witbank) who asked whether possible contraventions in respect of the capitalisation of inspection fees by building societies had been brought to his notice.

He said the Registrar of Financial Institutions had received complaints in this regard. He had discovered inspection fees were being capitalised as part of the main debt and finance costs were levied on them over the term of the loan.

Tricom trust set to meet earnings forecasts

(58) EDWARD WEST

TRICOM property unit trust, managed by UAL Property Fund Managers, is on target to achieve its forecasted 56c a unit earnings for the 1989 financial year.

The property unit trust consists of decentralised commercial properties in selected areas.

Interim results to March show a net distributable income of R6,313m, translating into 28,96c a unit of which 28,9c will be distributed to unit holders.

hLOay 26/4/89

Tricom MD John Peters said the fund had enjoyed high money market returns on its cash balances which were later invested in property.

As a result, he did not expect the fund's distributable income to match that achieved in the first half.

On an annualised basis Tricom's distributable earnings for 1988 were 52,38c a unit.

Building on one of Tricom's properties, North 88, is on schedule and is due to be completed in July. Letting should commence from August.

The three Hurlingham office buildings were let and were rental-producing from March 1.

Demand for quality premises remained firm and rentals were expected to hold up well for the rest of 1989.

Sapa reports that in spite of a marked increase in the number of units in issue, Property Unit Trust Syfrets and Commercial Union Property Fund (Sycom), have shown an interim distribution 24,5% higher than last year.

FNB held back by squeeze on margins

Star 27/4/89

By Ann Crotty (56)

A squeeze on interest margins and higher costs held the increase in earnings at First National Bank to 10,8 percent for the six months to March.

The performance, which was at the lower end of most analysts' forecasts, is unlikely to have much impact on the share price.

The second-half performance is not expected to show any marked improvement.

Group MD Barry Swart says the environment is too uncertain to forecast a second-half earnings figure, but feels the pressure on interest-rate margins could be countered by the benefits from efforts being made to control costs.

Given these prospects, the share will only look attractive to investors who are prepared to take a longer-term view and believe Mr Swart will implement significant cost controls, boost productivity, get the Hogan computer system into full working order and and go for profit, instead of asset growth.

The balance sheet shows a 25 percent increase in advances to R23,4 billion (R18,8 billion).

Mr Swart says Wesbank and the home-loan business again accounted for the bulk of the increase in advances.

Of the R4,6 billion increase, R1,3 billion was accounted for by home loans. Wesbank accounted for an additional R1 billion.

Mr Swart says the rest of the increase was fairly well spread across other divisions.

The income statement shows interest income up 85 percent to just over R2 billion, while interest expenditure was up 129 percent to R1,5 billion, leaving net interest income showing a 21 percent increase to R548,4 million (R454,1 million).

Barry Swart

This and the fact that advances were up 25 percent, reflects the pressure on banks to hold back interest-rate increases.

The pressure was most apparent in the first two months of the review period and seems set to knock performance again for the last four months of the financial year.

The doubtful-debt provision was up 27,1 percent to R76,3 million. Other operating expenditure was up 19,6 percent to R692,7 million.

This left pre-tax income showing an increase of just two percent.

A lower tax rate and income from associates lifted the improvement at net income level to a 10,9 percent increase, taking it to R98,9 million (R89,1 million).

Cost-cutting is likely to involve some reduction in staff and Mr Swart says that over the next 18 months, staff could be reduced by well over 1 000.

But he says that as annual staff turnover is 4 500 (equivalent to 20 percent of the total workforce), the reductions will be effected chiefly through attrition.

Credit takes 28,4% leap during year

(58)

01 Our 27/4/89

GRETA STEYN

CREDIT extended by banks, building societies and the Post Office jumped by 28,4% in February from a year ago, Reserve Bank figures show.

The rate of growth was slightly down from January's 29,9% increase, but the movement will probably be sharply upward in March, as indicated by the latest money supply data. If the growth in the money supply between February and March is annualised, it comes to a startling 46%.

Bankers say the demand for credit is being underpinned by spending on investment in plant and equipment, which took off last year. Real fixed investment by the private sector, growing off a low base, was on average 16% higher than in 1988.

Benchmark

Economists say spending on fixed investment cannot be stopped "at the press of a button" and the momentum will ensure a steady demand for credit for most of this year.

Consumer spending on credit is also still racing along, with total HP debt in February up by 29,4% from the same month last year. The increase between February from January this year was 2,1% — double the 1% benchmark for bank lending set by the Reserve Bank. The buoyancy of consumer demand for credit is obvious from the R270m of HP credit extended in February this year, compared with R116m of business written last year, at a time when credit spending was already surging.

With new

FINANCE

BMA rejects proposal to merge

58

LESLEY LAMBERT

THE provisional Bond Market Association (BMA), which, once formalised, will run the JSE's exchange floor and the banks' screen-traded bond markets, has rejected a proposal by the SA Futures Exchange (Safex) to merge.

The association's committee decided this week not to commit itself to a merger until the BMA had been formally launched in June and was in a position to determine whether or not it should co-operate with other self-regulatory associations like Safex.

The decision comes soon after the re-evaluation of a proposal to establish a central electronic exchange, the Universal Exchange (Unex), incorporating all SA's financial markets.

Participants of the proposed Unex felt it would be too costly and complex to suit their immediate needs for reliable and secure clearing facilities.

However, with futures and bonds scheduled to trade on the same floor in the new JSE annexe later this year, it is likely the markets will reconsider plans to co-operate and thus rationalise their activities.

Reached stage

In the meantime, the BMA and Safex will apply, separately, to become licensed financial exchanges as envisaged in the Financial Markets Control Bill, recently tabled for the first time in Parliament.

Stuart Rees, MD of Safex's clearing company, Safcom, said yesterday that the proposal to merge the two markets at the outset, had seemed the most sensible route.

He said: "Safex has reached a stage where it must extend its membership to non-clearing members like stockbrokers and the BMA is inviting members to join its association.

"With research showing that all bond dealers will deal in futures and *vice versa*, it makes more sense to merge now, under the same constitution, than to establish the two markets separately and then try to combine them into one exchange."

The official futures exchange is scheduled to open in August and will accommodate open outcry trade on the new JSE floor and off-exchange telephone trade.

Fully electronic trade which will automate the various stages of a transaction from order making to clearing, is expected further down the line.

First National banks on group shake-up

B/Day 27/4/89 (58)

GRETA STEYN

KNOCKED by high operating costs and squeezed margins, First National Group reported sluggish interim results but announced details of a shake-up to improve profitability.

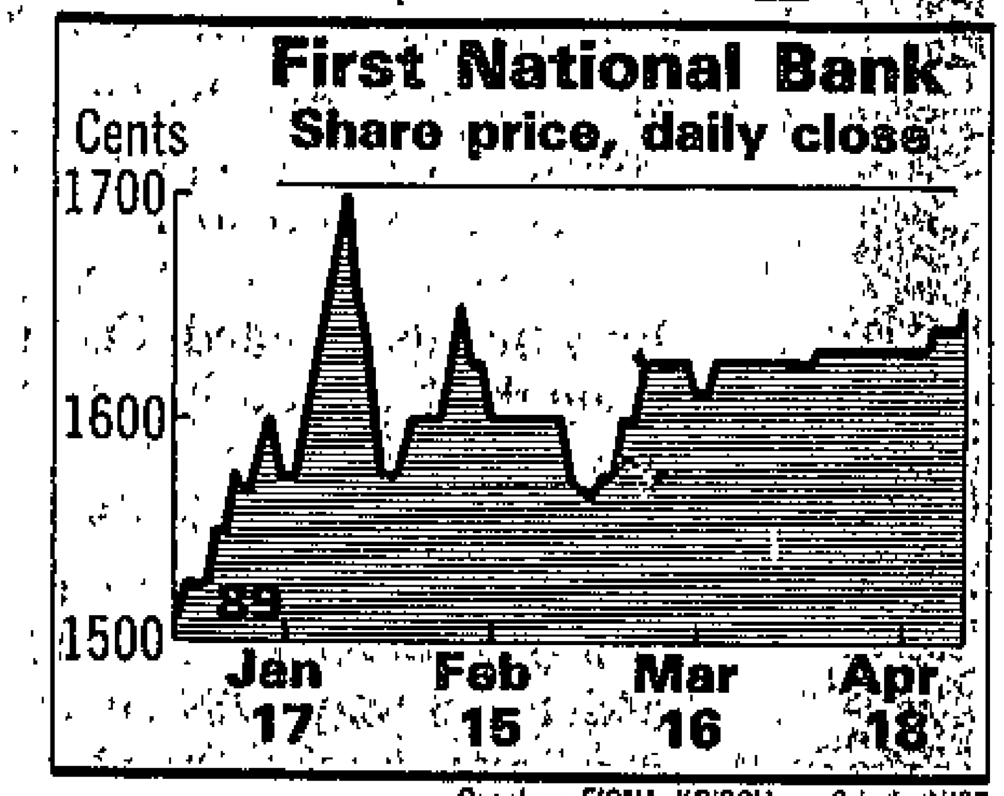
Earnings improved 10,8% to 135,9c a share (1988: 122,7) in the six months ending March 1989. The increase is below the inflation rate but senior GM Jimmy McKenzie said it was satisfying, given the difficult period the group had gone through.

"Our greatest problem has been operating expenditure, which rose by 19,6%. That is why we have embarked on a rationalisation drive, which is already paying off."

The group was already seeing savings from the rationalisation of First Industrial Bank. In addition to that, it had merged its three local headquarters into two and was reviewing "every bit of expenditure" in the bank. There would also be a reduction in costs once the duplication involved in implementing the Hogan computer system ended.

"We are looking at every department and position in the bank to pinpoint the unnecessary spending. Although there is no retrenchment programme, we plan to reduce staff numbers from the present 25 000 through attrition," McKenzie said.

Another major problem was the squeeze on margins. The interim report shows the group's expenditure on interest far outstripped its income from interest, which



Graphic: FIONA KRISCH Source: JSE

rose by 85% compared with a 129% increase on the cost of funds. McKenzie said an important factor affecting margins had been the Reserve Bank's inflexibility on banks' prime overdraft rates.

Although the earnings increase looks reasonable, another criterion for measuring banks' results, return on assets (ROA), dropped to 0,65% from 0,74%.

In its last annual report, First National said ROA was a better economic criterion. It said an ROA of 1,4% seemed appropriate for SA banks — by its own standards, it has some way to go.

A further indication that the group is not performing well is the increase in pre-tax profits of only 2%. This was offset by a decline in the effective tax rate, from 49% to 45%.

FNB posts higher earnings

CNT Trap 27/4/89

58

By BRUCE WILLAN

FIRST NATIONAL BANK (FNB) fears that if nothing is done to curb the demand for money, bank margins could be under pressure again.

Announcing FNB's interim results for the half year ended March 31, 1989 yesterday, Senior GM Jimmy McKenzie said that he was happy with the present margins but indicated the growth in the money supply was cause for concern.

He added that from October to December last year margins were under pressure when prime was held down. And if interest rates were not raised in the near future to curb demand then margins will again be squeezed.

The interim results show an increase in net interest income of some 20,8% to R548,4m compared with the same period last year when net interest income was R454,1m.

But, McKenzie said the increase could have been larger had the prime rate not been held down towards the end of 1988.

However, group MD Barry Swart said, "considering the tight market conditions, the increase is satisfactory".

McKenzie said the bank has undertaken a major drive to reduce operating expenditure and reduce bad debts.

To this end a training programme has been initiated to retrain managers and upgrade lending standards.

Advances in the period under review increased by some 24,8% to R23 439m and in accordance with this the provision for doubtful debts was increased by 27,2% to R76,3m (R60m).

To reduce operating expenditure, which rose to R692,7m (R579,3m) tight budgets have been drawn up for all departments.

It is hoped that this will produce positive results in the next six months according to McKenzie.

For the period under review operating costs increased by 19,6% due to an increase in staff costs and the higher depreciation charged on the growth of fixed assets.

The bank has increased fixed assets by R149,7m to R827,2m. This amount includes the initial holding costs of the new head office complex, Bankcity, as well as the ongoing development in systems and computers.

Swart explained that the holding costs reflect the immediate return on establishing a hightech centralized administrative complex which will take FNB well into the next century.

In addition he said that the complex will be a "living" environment and is expected to generate an income from the retail trade.

Earnings per share increased by 10,8% to 135,9c (122,7c) with the dividend remaining unchanged at 35c.

Income from associated companies showed an encouraging increased of 17% to R15,1m compared with the R12,9m recorded during the same period in the previous year.

The return on shareholders' fund is slightly down from the same accounting period last year at 18,4% compared with 18,6%.

McKenzie is confident that the bank will be able to contain costs and maintain margins for the remainder of the year.

SA's debt converted

Cape Times 27/4/89

58

From GRETA STEYN

JOHANNESBURG. — SA's debt inside the standstill net has probably dropped to about $8bn from some $13bn in 1987, mainly as a result of conversion of frozen debt to longer term loans.

Nedbank economist Edward Osborn said the reduction of the debt inside the net gave SA more room for manoeuvre in the difficult period of 1990/91, because no capital would be repaid on these loans from mid-1990 to 1992.

Apart from taking some pressure off the capital account of the balance of payments, it could also strengthen SA's hand in negotiations when the current debt standstill agreement expires in June next year.

Osborn arrived at the $8bn estimate of SA's frozen debt by taking into account conversions to long-term loans, repayments in terms of the standstill agreement and debt-to-equity conversions.

He suspected the total amount converted to 10-year loans would be as high as R3,5bn after the conversion by US banks, including Citicorp and Manufacturer Hanover.

A further R300m left the standstill net in debt-equity swaps and R1,1bn was repaid in terms of the agreement with SA's creditors.

"If US banks yielded to stockholders' pressure to get out of SA, they could do so at tremendous cost through the finrand, or even write off the debt.

"But 'debt forgiveness' to SA would be embarrassing at a time when many other Third World countries are pressing for that.

"And, as Reserve Bank Governor Gerhard de Kock pointed out, SA has a good debt repayment record. So it makes sense for these banks to convert."

Allied MD Kevin de Villiers noted that a number of US banks had swapped SA debt for South American debt held by European banks, and had lost on the deals.

Obviously, that trend was being reversed as US banks believed conversion was the best way to get their money back.

Disa Homes reports 44% earnings drop

B/Day 27/4/89

BRENT MELVILLE

CAPE-based property group Disa Homes has posted dismal results for the six months to end-February with earnings dropping 44% to 4,3c (6,2c) a share.

DISA HOMES

Lowered margins resulted in a 25% decrease in operating profit of R1,9m (R2,4m) on a 37,4% boost in turnover, which was expressed as a base index of 100.

Pre-tax income dropped 20% to R2,1m (R2,5m) and a 12% tax hike lopped off R805 000 (R717 000), which left attributable income 40% lower at R1,3m (R1,8m).

Disa declared a special dividend of 5c a share, or R1,5m on February 10, free of normal tax for shareholders.

The dividend, which will not be paid out to shareholders but will instead be credited to a special loan account, is a step which will benefit all shareholders, says chairman Theo Stergianos.

The loan is linked to the company's ordinary shares at the rate of R5 for every 100 shares.

The results are especially disappointing in the wake of last year's impressive 200% profit increase.

"The period under review has been a difficult one for the housing sector," explains Stergianos.

"There has been a levelling off in the demand for houses because of increasing interest rates and changes in the first-time homebuyers' subsidy scheme which effectively lower the price of a house qualifying for this scheme," he says.

However, Stergianos is confident of improved results during the second half of the year.

Disa is trading at a share price of 35c on a historical dividend yield of 11,4% and a price/earnings ratio of 2,6, as against sector averages of 6,3% and 7,1, respectively.

analyses the results by the mines over ... of the long-term decline of foreign ... Foreign ownership of ... mining

Banks ease up, but the debt pressure's not off yet

(58)

WMAIL 28/4-4/5/89

By HILARY JOFFE

THE question which might be asked this week following the actions of two major United States banks to extend the period in which South African debtors can pay back their loans is: is the pressure off?

This week US bank Manufacturers Hanover announced it would extend the repayment period on $230-million of loans to South African debtors. Last week Citicorp, the largest US lender to South Africa, confirmed it would reschedule payment on $666-million of loans until 1997.

The US banks' moves were seen as a positive sign, particularly since Manufacturers Hanover is one of two US banks on the international technical committee responsible for renegotiating South Africa's foreign debt.

South Africa's agreement with its foreign creditors reached after the 1985 debt crisis is due for renegotiation in June next year — this is the debt "inside the net". South Africa is also due to make large repayments "outside the net" over the next two years.

Looming foreign debt problems may have acted as a significant pressure for political flexibility on the part of the South African government in recent months.

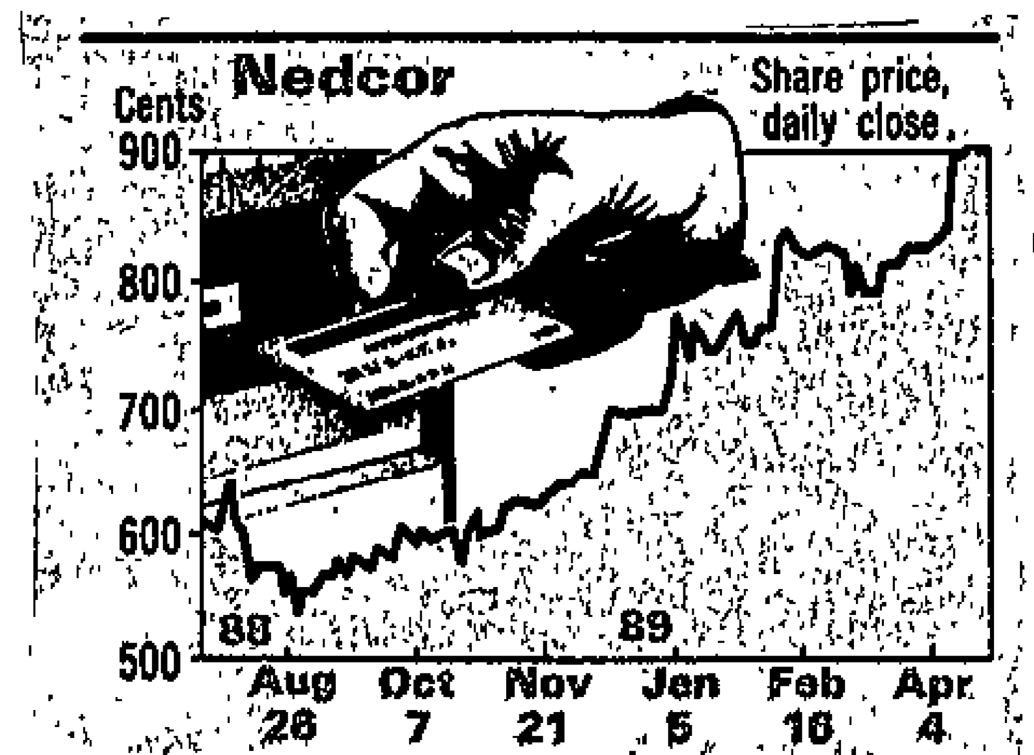
And in turn the foreign bankers have been reacting to what they see as positive political signals, such as the Namibia settlement, economists say.

But Sanlam economist Johan Louw this week cautioned against excessive optimism.

"The indicators are that overseas bankers are prepared to roll over our debt but we must realise that the follow-up of certain reforms here is essential, otherwise the door will be closed again," he said.

While South Africa would be able to meet its foreign debt commitments, he said, the balance of payments would remain a constraint on the economy. South Africa could not afford to pay debts out of reserves, which at around R6,8-billion would cover less than two months' worth of imports.

Rand Merchant Bank economist Rudolph Gouws said he forecast a balance between the surplus on the current account of the balance of payments and debt repayments for this year — each about R4-billion. The country's gold and foreign exchange reserves might therefore remain constant, in contrast to last year when they fell by R3,7-billion.



Graphic: FIONA KRISCH · Source: JSE

BIDay 28/4/89

New-look Nedcor proves a winner

GRETA STEYN (58)

NEW-look Nedcor — formerly the Nedbank Group — proved its tie-up with the Perm was a winner by chalking up a 77,6% increase in after-tax earnings, to R171m, in the six months to March 31 1989.

However, the group was helped to this impressive increase by a low tax charge because of accumulated losses. Nonetheless, its pre-tax earnings showed signficant growth at 56%, to R178,8m.

The Perm made an impressive debut, adding R36,5m to Nedcor's earnings of R171m. This division of the group's commercial bank improved from its previous financial year as a building society, when its pre-tax profits were R46,3m for the full 12 months ending March 1988. However, a direct comparison with its previous results is not possible.

Excluding the Perm's contribution, Nedcor's increase in net income is 39,7%, and including the Perm the increase is 77,6%.

Earnings per share (EPS) increased by a much lower percentage of 26%, from 50,8c to 64c. EPS was lower than the growth in net income because of a substantial contribution to a tax equalisation reserve (R52,1m) to provide for when Nedbank Ltd reaches a tax paying position, as well as an increase in the number of shares in issue.

The interim dividend was increased by 2c a share to 15c, with cover 4,3. Nedbank, the corporate and commercial bank of the group, had an excellent six months and remains the largest contributor to group profits. It raised its earnings by 45,5%, to R98,1m.

Increases in wholesale funding rates ahead of increases in the prime overdraft rate put margins under pressure. However, Nedcor chairman Owen Horwood and CE Piet Liebenberg said effective asset and liability management enabled the bank to improve its interest margin.

R47-m SA swindle: Arrests in UK, Geneva

ARGUS 28/4/89 (20) 58

The Argus Correspondent

JOHANNESBURG. — In a breakthrough in the R47-million Trust Bank swindle, police in Switzerland and Britain arrested a prominent South African-based businessman not previously named in the case, and two more suspects.

Johannesburg commercial branch chief, Colonel Daantjie le Roux, confirmed last night that Sandton commodities broker Mr Niko Shefer was arrested by Swiss police in Geneva yesterday at the request of the South African Police. A warrant for the arrest of Mr Shefer was been issued in South Africa.

Also caught up in yesterday's drama was former Trust Bank clerk Mr Gotz Guntenhoner, who was arrested by Scotland Yard detectives in a London hotel.

Colonel le Roux said that should Mr Guntenhoner, a West German citizen, be returned to his homeland, South African Police would request West German authorities to prosecute him there.

A third suspect was arrested by Scotland Yard, but on an unrelated charge. He is a Mr Scott who allegedly ordered and collected Krugerrands worth R17-million which are now missing and for which South African police have launched a search.

Send back

Colonel le Roux said Swiss authorities would be requested to send Mr Shefer back to South Africa.

The beakthrough was made after intensive investigations by Colonel le Roux and Major "Krappies" Deerhans, also of the John Vorster Square commercial branch.

Mr Shefer is a prominent Bryanston, Sandton, commodities broker and an international businessman who has extensive commercial links throughout Africa and other parts of the world.

Detectives are still trying to trace more than R1-million worth of emeralds and R17-million in Krugerrands also bought with funds obtained fraudulently from Trust Bank.

Police confirmed they had telefaxed a warrant of arrest for Mr Shefer, a Colombian/Israeli, to Switzerland.

Real brains

The drama comes after weeks of intensive investigations by Colonel le Roux and Major Deerhans. Police believe that by making these arrests they now have the real brains behind the swindle — one of the biggest in South Africa.

Commercial branch detectives had been aware of Mr Shefer as a suspect for some time but did not have the necessary proof to have a warrant issued for his arrest.

It is learned that Mr Shefer was due back in South Africa last Saturday from Geneva, where he was staying with a girlfriend in a luxury hotel.

However, at the last minute he apparently decided not to board the Swissair flight. His girlfriend, by whom he has a child, returned without him. Police were waiting at Jan Smuts Airport but she was not arrested and was allowed to go.

Mr Shefer, whose father owned a farm in Colombia, South America, has dealt extensively in diamonds and emeralds in the past. His contacts are believed to extend to Cabinet level in several Central African countries, all of which officially denounce trade with South Africa.

BANKING

M643 28/4/89 (58)

Nedcor earnings up 26 percent

NEDCOR (formerly Nedbank Group and now incorporating the Perm) reports a 26 percent increase in earnings a share to 64c (50,8c) for the six months to March.

The improvement was achieved after transferring R52,1-million to the tax equalisation reserve and is well ahead of most analysts' expectations.

The increase in earnings before the transfer was 49 percent to 92c (61,7c) a share.

Comparisons could be misleading because recovery is still an important factor in the Nedcor performance. The first-time inclusion of the Perm and its R36,5-million contribution to profits also complicates comparison.

However, the figures indicate that not only has Nedbank management stopped the bleeding, it is now making the assets work.

The previous years' caution — when asset growth was restricted and close attention was paid to interest margins and costs — is paying off.

Group operating income rose 49 percent to R210-million and the provision for bad debt took up R31,2-million (R26-million) of this, which marks a change from the financial 1988 experience when the provision for bad debt dropped eight percent.

This change may reflect a deterioration in the bad-debt experience or the impact of taking the Perm on board.

After a tax charge of R7,8-million (R18,3-million), net profit showed a 77 percent advance to R171-million.

Stripping out the R36,5-million from the Perm, net profit from the rest of the Nedbank group was up 40 percent to R134,5-million.

Nedbank — the commercial division — boosted its contribution 45,5 percent to R98,1-million.

The directors note that demand for lending was not as strong as expected and that pricing remained competitive.

As with FNB, Nedbank felt the squeeze from the authorities' monetary policy: "Increases in wholesale funding rates ahead of increases in the prime overdraft rate put margins under pressure," but effective asset and liability management enabled the bank to lift its interest margin.

The directors say continued improvement from this division depends on the ability to increase volumes and contain costs.

The Perm's interim contribution compares favourably with its financial 1988 net income of R46,3-million and is well ahead of analysts' expectations.

Ann Crotty

Nedcor shakes off the banking blues

Star 28/4/89 (58)

By Ann Crotty

Hot on the heels of FNB's pedestrian results, Nedcor (formerly Nedbank Group and now incorporating the Perm) has reported a 26 percent increase in earnings per share to 64c (50,8c) for the six months to March.

The 26 percent improvement at the earnings level was achieved after transferring R52,1 million to the tax equalisation reserve and is well ahead of most analysts' expectations.

The increase in earnings before the transfer was an excellent 49 percent to 92c (61,7c) a share.

Comparisons may be odious, but they are inevitable.

Important factor

In this instance they could be misleading because recovery is still an important factor in the Nedcor performance.

In addition, the first-time inclusion of the Perm complicates comparison, not only with other banks' performances, but to some extent with previous performances by Nedbank.

However, the figures indicate that there should be little doubt that not only has Nedbank management stopped the bleeding, it is now making the assets work.

The previous years' caution — when asset growth was restricted and close attention was paid to interest margins and costs — is paying off.

Group operating income rose 49 percent to R210 million (R140,6 million) and the provision for bad debt took up R31,2 million (R26 million) of this, which marks a change from the financial 1988 experience when the provision for bad debt dropped eight percent.

This change may reflect a deterioration in the bad-debt experience or the impact of taking the Perm on board.

After a tax charge of R7,8 million (R18,3 million), net income showed a 77 percent advance to R171 million (R96,3 million).

Stripping out the R36,5 million contribution from the Perm, net income from the rest of the Nedbank group was up 39,7 percent to R134,5 million.

Nedbank — the commercial division — boosted its contribution 45,5 percent to R98,1 million (R67,4 million).

The directors note that demand for lending was not as strong as expected and that pricing remained competitive.

As with FNB, Nedbank felt the squeeze from the authorities' monetary policy: "Increases in wholesale funding rates ahead of increases in the prime overdraft rate put margins under pressure," but effective asset and liability management enabled the bank to lift its interest margin.

The directors say continued improvement from this division depends on the ability to increase volumes and contain costs.

The Perm's interim contribution compares favourably with its financial 1988 net income of R46,3 million and is well ahead of analysts' expectations.

Although it is still too early to determine the wisdom of the Perm/Nedbank tie-up, this sort of performance indicates it was a good move.

The contribution from Finansbank was up 49 percent to R7,3 million (R4,9 million), despite the quieter level of activity in some of its markets.

Star performer was Nedfin, which managed to more than double its contribution to R7,1 million (R3,5 million) on the back of buoyant credit demand, particularly from the corporate sector.

Strong competition

Contribution from Syfrets rose 21,7 percent to R8,4 million (R6,9 million). Syfrets performance was constrained by the strong competition in the corporate sector, which reduced the contribution from bond lending fees.

UAL was hit by the increasing competitiveness in the merchant banking environment, as well as by the squeeze on interest margins. Its contribution was up only four percent to R13,2 million (R12,7 million).

The balance sheet highlights the impact of the Perm merger.

Nedcor reports assets of R27,3 billion, compared with Nedbank's assets of R16,8 billion in March 1988. The respective figures for advances are R18,7 billion and R10,9 billion.

Hunts, Tarry involved in negotiations

B Day 28/4/89 (58)

Business Day Reporter

TWO FSI companies — Hunts and E W Tarry — have announced they are negotiating transactions which, if implemented, could have an impact on the value of their shares.

FSI corporate services, which made the announcement on behalf of Hunts and Tarry, added: "Pending a further announcement, which will be made as soon as practicable, shareholders are advised to exercise caution in dealing in their shares."

A Tarry spokesman said the negotiations were part of the group's operations restructuring following last year's major corporate reorganisation.

They involved restructuring within the group as well as a number of small outside acquisitions, he said.

Mast Holdings' turnover boosted by 80%

B/Day 28/4/89. (58) ·100 (2589)

CHARLOTTE MATHEWS

DALLAMORE

A SUCCESSFUL year for all divisions of recently-listed Mast Holdings boosted group turnover by 80% to R8,4m for the year to February compared with last year's R4,7m.

In spite of a slightly higher tax bill, net profit rose 75% to R1,1m (R629 000), largely as a result of some trademark write-offs, says executive chairman Stephen Dallamore.

Earnings of 6,4c (5,3c) a share were above the 6c forecast in the prospectus in spite of an extra 4,5-million shares in issue. A dividend of 3c (2,4c) a share was declared.

Mast Holdings offers management, finance and micro-computer training as well as management planning through its division, Time/System.

The group's head-hunting and recruitment division, Paul Tingley Management Services (PTMS), which made its first contribution to the company's annual results, showed excellent growth and through cross-selling helped to boost Mast (SA) turnover.

PTMS was bought for R1m on an earn-out basis over three years with the full consideration to be paid in cash and shares.

As a result, the fully diluted earnings a share are 5,8c on a total issue of 18 998 668 shares at the year-end price of 45c. The unpaid portion of the R1m is reflected in long-term liabilities.

Since December 1, Mast has been selling Business Learning Systems, which teaches finance, marketing, operations and strategic decision-making.

"This group moved into profit at the end of the first three months of what will be a 15-month trading period to end-February 1990," says Dallamore.

Share premium declined to R1,8m from R3,3m because of the writing down of the group's listed investments to reflect current market value.

Metprop's distribution 558

BRUCE ANDERSON

METBOARD Property Fund (Metprop) has increased distributable income a unit by 4,6% to 34c (27,2c) for the 15 months to March. Total distributable income rose by 4,6% to R12,1m (R9,7m).

A final dividend of 7,5c was declared bringing the total dividend per unit to 34c (26c). BDay 20/4/89

Directors anticipate that the dividend distribution for the 12 months to March 1990 will not be less than 31c per unit.

Nedcor impresses with 77,6% rise in earnings

CNt Times 28/4/89

Own Correspondent

JOHANNESBURG. — Nedcor — formerly the Nedbank Group — proved its tie-up with the Perm was a winner by chalking up a 77,6% increase in after-tax earnings to R171m in the six months to March 31 1989.

However, the group was helped to this impressive increase by a low tax charge because of accumulated losses. Nonetheless, its pre-tax earnings showed signficant growth at 56% to R178,8m.

The Perm made an impressive debut, adding R36,5m to Nedcor's earnings of R171m.

This division of the group's commercial bank improved from its previous financial year as a building society when its pre-tax profits were R46,3m for the full 12 months ending March 1988.

However, a direct comparison with its previous results is not possible.

Excluding the Perm's contribution, Nedcor's increase in net income is 39,7%, and including the Perm the increase is 77,6%.

Earnings per share (EPS) increased by a much lower percentage of 26%, from 50,8c to 64c.

EPS was lower than the growth in net income because of a substantial contribution to a tax equalization reserve (R52,1m) to provide for when Nedbank Ltd reaches a tax paying position, as well as an increase in the number of shares in issue.

The interim dividend was increased by 2c a share to 15c with cover 4,3.

Nedbank, the corporate and commercial bank of the group, had an excellent six months and remains the largest contributor to group profits. It raised its earnings by 45,5% to R98,1m.

Increases in wholesale funding rates ahead of increases in the prime overdraft rate put margins under pressure.

Commission to probe short-term insurance

(58)

Star 29/4/89

A COMMISSION of inquiry has been appointed to inquire into and make recommendations on the flow of short-term insurance premiums out of South Africa and the most appropriate measures to ensure equitable competition between local and foreign insurers.

The Bureau for Information reports, on the behalf of the Department of Finance, that the commission will be chaired by Mr Justice D A Melamet.

The activities of captive insurers will be investigated as well as their effect on the insurance industry.

This appointment was announced in the Government Gazette of April 14.

The Department of Finance is also to institute better co-operation with the private sector and the academic world through a re-structuring of all research services under a special advisor.

Mr Du Plessis announced yesterday that the duties of the Director-General: Finance would be split, with the creation of a new post of special economic adviser. Dr Chris Stals, current Director-General, is to occupy the post from May 1.

Mr Gerhard Croeser, currently chief executive: policy, has been appointed Director-General from May 1.

Surcharges mean that most households are under-insured

58

STAR 29/4/89

FINANCE STAFF

MANY, if not the majority, of South African households are probably under-insured by perhaps as much as 25 percent, largely as a result of the impact of the recently introduced import surcharge on the cost of many household items, says Mr J F (Mac) McLachlan, senior general manager insurance of Santam Insurance.

Claims

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," said Mr McLachlan.

"Apart from the 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 and in 1988 it jumped 20,1 percent above the 1987 figure. During 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 stressed that it was not 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.

Sharp rise

"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," added Mr McLachlan.

He pointed 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.

Reserve Bank revamps foreign exchange dept

CAPE TIMES 29/4/89

58

JOHANNESBURG. — The SA Reserve Bank has embarked on a major restructuring campaign of its foreign exchange department.

Among the measures to be adopted are:

- The creation of a seperate investigations division to investigate contraventions of foreign exchange control regulations;
- The appointment of two senior commercial bankers with wide-ranging experience in international banking as deputy GMs in the foreign exchange department; and
- The creation of a number of divisions designed to speed up applications for exchange control approval as well as to make the general management process more efficient.

In addition to investigation of foreign exchange control contraventions, the investigations division will also provide technical assistance to the Commercial Branch of the SA Police, the identification of the techniques of contravention, the handling of all civil law matters relating to exchange control regulations involving the forfeiture and attachment of assets in terms of the exchange control regulations.

This function was previously combined with the inspection of authorized dealers. The new division will be headed by Charles van Staden, previously head of the inspection division.

The investigations division will also possibly have outside help.

The Bank stated: "The Reserve Bank is continuing its investigation into means of curbing certain malpractices. Immediate attention has been given to the practice of over-and-under invoicing as well as transfer pricing.

"The Bank has investigated the possibility of making use, on an experimental basis, of private inspection companies engaged in trade audits with a view to combating over-and-under invoicing, as well as the services of chartered accountants and other experts."

The Bank said it had also appointed a small group of experienced business personalities to serve on a advisory committee on exchange control and business practice in SA.

The main function will be to keep the Bank informed of private sector reaction to exchange control developments.

It said: "They should also suggest improvements with a view to serving both the aims of the control system and the often conflicting aim of deregulating the SA economy".

Those invited to serve on the committee are Michael Katz, a commercial law expert; Gilbert Bouveret, a retired bank MD; Malcolm Macdonald, a senior GM in the Industrial Development Corporation; Charles Stride, a partner in an auditing firm; and Martin van den Berg, formerly MD of a discount house and currently executive director of the Afrikaanse Handelsinstituut.

The bank also said the new appointments to the bank were Tom Euijen, an executive GM for Nedbank, who joins the Bank on June 1; and B E Gill, currently assistant GM at First National Bank. He will take up his duties on May 1. — Sapa

FINANCE - GENERAL - 1989

MAY -

INVESTMENT

ARGUS 2/5/89 (58)

Soaring profits boost industrials

Business Staff

THE steady climb in the Johannesburg Stock Exchange's industrial share index to new peaks has surprised many people.

The index closed at 2581 on Friday to bring the increase in the index since the end of December to 32,9 percent and to 69,8 percent in the past 12 months.

The industrial market at the moment appears to be reflecting the trend in industrial profits.

In the past few days the February year-end companies have started reporting. Since Friday there have been six industrial companies, some of fair size, which have issued preliminary profit statements.

Their combined pre-tax profits for this period amounted to just under R100-million, which is 65,3 percent higher than the R60,5-million they earned in the 12 months to March last year.

Although this is a small sample, the results confirm that well run companies are still experiencing extremely good times and it is likely that other companies will be reporting profit increases in line with the trend. The six companies are:

- **Powertech** which makes heavy electrical equipment, including power generation and power transmission equipment.
- **Spescom**, active in the elecronics industry.
- **Midas**, distributor of motor spares.
- **Autopage**, a major company in the radio paging industry.
- **Tafelberg**, a furniture retailer in the Western Cape.
- **Uniserv** which dominates the local courier industry.

An indication of how they fared in the year ended March can be gained from the following table of their respective profits before tax and the percentage increase on a year ago:

- **Powertech R61,3-million** (42 percent).
- **Spescom R4-million** (19,8 percent).
- **Midas R18,6-million** (103 percent).
- **Autopage R3,2-million** (193 percent).
- **Tafelberg R1,7-million** (34 percent).
- **Uniserv R11,1-million** (147 percent).

The average percentage increase is 89,8 percent which is higher than the total increase in profits before tax owing to the large increases experienced by some of the smaller companies.9

The earnings a share and the percentage increase in the 12 months period was: Powertech 21,4c (58,6 percent), Spescom 17,8c (30,9 percent), Midas 118,8c (94,1 percent), Autopage 12,0c (90,5 percent), Tafelberg 7,4c (34,5 percent), and Uniserv 20,3c (93,3c). The average increase in earnings was 67 percent.

And this is how shareholders fared (annual dividend and percentage increase): Powertech 6,5c (41,3 percent); Spescom 5c (53,8 percent); Midas 35c (75 percent); Autopage 8,5c (240 percent); Tafelberg 3,5c (no dividends paid last year) and Uniserv 6c (93 percent). Average increase in dividends is 100,6 percent.

Funding education in inflationary climate

Cape Times 2/5/89 58

THE importance of education in our increasingly challenging world — both at a personal level and in terms of the general well-being of our country — is well recognized by everyone.

Besides a good primary and secondary education, some form of tertiary education is becoming more and more essential, whatever the chosen career path may be.

While the State has, until now, funded the bulk of primary and secondary schooling costs, it has done proportionately less for tertiary education and indications are that in the future it will be left even more to the individual to make private provision for this vital third phase.

At the same time, it is an unfortunate fact that the cost of education is rising rapidly, as can be seen from the accompanying chart where the annual cost has been projected — using the average rate of increase actually experienced over the past decade.

Certainly it is clear that the amount of money that will be required by the parents is likely to be considerable, and thus it would seem essential that some thought be given to how the funds can be made available.

Broadly speaking, there are probably four possible courses of action which need to be looked at in turn:

(a) Wait until the fees are due and pay them out of current income.

Of course, the big question here is whether you will be able to afford them.

(b) Hope for a scholarship or a bursary.

The incredible demand for scholarships means that only the brightest students can really have much of a chance.

(c) Take a loan when fees are due.

By PETER ATKINSON
Assistant GM (life marketing) Southern Life

Alghouth banks in particular are usually highly supportive of student loans, offering suitable finance at attractive rates, it would hardly seem provident to base a financial plan on the future availability of a loan, especially as the interest rates applicable would only be known at that time.

(d) Make prior provision via long-term savings.

The choice of investment vehicle is not an easy one, as one needs to take into account such things as the likely investment yield, the security of the investment, tax implications and flexibility to allow for changing needs and circumstances.

Popular choices are unit trusts, bank or building society investments and insurance plans, although the need to generate an after-tax yield on the investment which will preferably match or better the inflation rate suggests that one cannot afford to opt for the security of a prime fixed-interest vehicle in the long term.

Unit trusts have been proven to be excellent in the long-term situation where dividends are reinvested and use is made of the stabilizing effect of rand cost averaging.

Life assurance plans too have a successful record and would seem ideal, provided the period of investment is 10 years or longer.

A unique benefit offered only via insurance policies is that the plan could be structured to include a cash payout in the event of the death of the investor or even a facility whereby subsequent allocation to the investment could be guaranteed by the insurance company should the investor become disabled.

Thus it is the one way of taking care of those unexpected events which could otherwise result in the programme being terminated in midstream.

University fees

SOUTHERN

Present and projected fees for the years 1989-2009

		BA	B Comm	B Sc	B Bus Sc	Residence*
Actual cost for 1989		R3 200	R3 600	R3 800	R3 600	R4 490
% increase pa over past 13 years		14,67%	15,71%	13,65%	15,71%	14,37%
Year	Future costs after . .	R	R	R	R	R
	1 year	3 669	4 166	4 319	4 166	5 135
	2 years	4 208	4 820	4 908	4 820	5 873

CAPE TIMES 2/5/89

Govt breakthrough

From GRETA STEYN

JOHANNESBURG. — Government has made a breakthrough with its borrowing programme by selling R1,7bn of new long-term stock on the private capital market, Reserve Bank senior deputy Governor Japie Jacobs said at the weekend.

The breakthrough follows talk after the Budget that government would never find buyers for its stock at the rates it wanted to pay.

Jacobs declined to disclose the rate at which government borrowed but observed the Reserve Bank was not prepared to market stock while long-term rates were at their present levels of around 17,4%.

He said the borrowing requirement should not put upward pressure on rates in the capital market.

"Government's claims on the capital market will be reduced by the use of R550m in Treasury Bills (TBs) to fund the deficit and the extra R200m saved from the last financial year," Jacobs said.

Because of the high rates in the long-term market, government would make more use of money market funding and the size of the weekly TB tender would be increased. On Friday, R80m were offered, the largest amount in almost a year.

Rumours that government had made a breakthrough with its borrowing hit the market on Friday, causing rates on 2005 stock to touch a low of 17,29% from a 17,36% opening rate.

However, as gold dropped below $380 an ounce, sentiment turned bearish again and rates rebounded to a 17.37% close.

(2) whether it is the intention to allow Soviet officials to enter South Africa; if so, for what reasons?

B732E

†The MINISTER OF FOREIGN AFFAIRS:

(1) I myself or the Deputy Minister did not hold any meetings with the Soviet Ambassador in Mozambique during the latter half of 1988. It is possible that the South African Trade Representative met with the Soviet Ambassador at social functions.

(2) Yes. In terms of the agreements reached on the implementation of UN Security Council Resolution 435 and Cuban withdrawal from Angola.

Comdt C J DERBY-LEWIS: Arising from the hon the Minister's reply, would he mind telling us what apartheid has to do with the Cuban settlement as raised by the Russian representative recently in Cape Town?

The MINISTER OF FOREIGN AFFAIRS: Absolutely nothing! [Interjections.]

Ciskei Ministers: meeting attended

*14. Mr P G SOAL asked the Minister of Foreign Affairs:

With reference to his reply to Question No 8 on 11 April 1989, (a) which senior Ciskei Ministers attended the meeting on 12 February 1989, (b) how many persons from East Peelton were present at this meeting, (c) at what time did the meeting (i) commence and (ii) finish and (d) what issues were discussed at it?

B739E

The MINISTER OF FOREIGN AFFAIRS:

The Government of Ciskei has supplied the following information:

(a) Three senior Ciskei Ministers visited the area on the said date.

(b) A survey of the number of persons present was not made.

(c) The visit took place during the morning.

(d) Discussions revolved around the attainment of peace and stability in the area.

Protection of citizens in independent Black states

*15. Mr P G SOAL asked the Minister of Foreign Affairs:

With reference to his reply to paragraph (2) of Question No 8 on 11 April 1989, under what circumstances is the South African Government prepared to take action to protect its citizens living in independent Black states?

B740E

†The MINISTER OF FOREIGN AFFAIRS:

In terms of the applicable rules of International law.

New questions:

Mr Speaker: Order! I put new Question No 1 to the hon the Minister of Finance.

I put Question No 2.

PWV area: allocation of township land

*2. Mr W J D VAN WYK asked the Minister of Constitutional Development and Planning:

(1) Whether recommendations regarding the allocation of township land for Blacks in the PWV area were submitted to him; if so, (a) when and (b) from whom;

(2) whether he has received a consultants' report on these recommendations; if so, who were the consultants;

(3) whether he has accepted all of these recommendations; if not, which recommendations did he (a) accept and (b) reject?

B691E

†The DEPUTY MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes.

(a) during March 1988;

(b) from the Department of Development Planning

(2) Yes, the firms:

Plan-Associates;
Rosmarin and Partners;
Plankonsult;
Osborne, Oakenfull and Meekel; and
Van der Schyff, Baylis, Gericke and Druce.

(3) No.

(a) and (b) In my statement of 2 June 1988 in this regard, the Government fully indicated which proposals were acceptable and which were not.

Mr H H SCHWARZ: Mr Speaker, on a point of order! what remedy is available to an hon member when he asks a question and the Minister concerned does not get up? In the circumstances I would submit that if the particular Minister is present the member is entitled to require that the Minister should at least get up and say that he will or will not answer.

Mr SPEAKER: Order! That is for the presiding officier to decide; not a member.

Mr H H SCHWARZ: Mr Speaker, I am raising a point of order.

Mr SPEAKER: Order! My ruling is that it is for the presiding officer and not for a member to decide. [Interjections.] In respect of Question No 1, is the hon the Minister or the hon the Deputy Minister present? I then put Question No 1 to the hon the Deputy Minister of Finance.

Reserve Bank: proceeds to mining houses

*1. Mr W J D VAN WYK asked the Minister of Finance:

Whether his Department authorized the Reserve Bank to pay mining houses the proceeds of their gold sales in dollars; if so, (a) what are the advantages to South Africa of this course of action and (b) whose responsibility will it be to see that the proceeds of these gold sales remain in South Africa?

B690E

†The DEPUTY MINISTER OF FINANCE:

On the recommendation of the South African Reserve Bank authorisation was granted to pay the mining houses the proceeds of their gold sales in US dollars, with effect from 1 February 1989.

(a) The Reserve Bank credits the $-accounts of the mining house concerned with the proceeds on day of delivery at the current $-price of gold. The mines therefore do not receive the dollar proceeds in a foreign country, but the dollar amount to their credit must within 7 days be sold to authorised South African foreign exchange dealers.

In this way the local exchange market is broadened and its effectiveness promoted, since private bodies can themselves offer dollars for rand, with the result that the exchange rate of the rand reflects, more effectively, the balance between supply and demand. The South African Reserve Bank, at its own discretion, intervenes in this market in order to stabilise the exchange rate when the market is in disequilibrium.

(b) The fact that the proceeds must be sold in South Africa within the confines of the banking system, and within 7 days, as indicated, obliges the mining houses to treat these proceeds just as does any other receiver of foreign exchange. It necessarily imposes a responsibility on the Reserve Bank to ensure that this system operates within the parameters of the exchange control regulations.

Windmill Park: free settlement area

*3. Mr H J COETZEE asked the Minister of Constitutional Development and Planning:

(1) Whether the Free Settlement Board is investigating the possibility of establishing a free settlement area in Windmill Park, Boskburg; if so,

(2) whether the lawful residents of Windmill Park have applied to this board for free settlement area status for their suburb; if so, (a) when and (b) what are the names of these applicants; if not, at whose request is the board investigating this possibility?

B729E

The DEPUTY MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes.

(2) The Act does not make provision for residents of an area to apply directly to the Free Settlement Board. In this case the Free Settlement Board has been requested in terms of the Act by the Minister's Council of the House of Assembly.

Relief for farms and bonds

THE Reserve Bank, in announcing the increase in Bank Rate by one percentage point to 17% from today, said on Friday it would ease the burden of higher rates for some borrowers.

These include farmers, small businesses and home-owners whose mortgage costs were not heavily subsidised by employers.

☐ The Reserve Bank will extend special facilities at a low rate of interest to the Land Bank to enable it to keep its short-term lending rates unchanged.

The expansionary impact of this credit expansion on bank reserves and the money supply will be offset by open market operation;

☐ The maximum interest rates on money loans and credit and leasing transactions, laid down under the Usury Act — 31% on amounts up to R6 000 and 28% on amounts between R6 001 and R500 000 — remains unchanged; and

☐ Additional financial assistance will be provided by the Department of Finance to the Industrial Development Corporation, the Small Business Development Corporation and other development corporations to enable them to keep their lending rates to small business as low as possible"

The Bank stated that, although previous restrictive measures had already started to take effect, domestic spending, which rose 6% in the first quarter of the year, was still too high.

It also said the increase in the rate of money supply was still excessive.

The Bank stated: "The need for a further tightening in monetary policy has been underlined by two recent external developments. The first is the decline in the dollar price of gold to around \$376 an ounce, compared with an average of \$437 in 1988, which naturally has adverse implications for both the balance of payments and economy.

"The second is recent increases in interest rates in Switzerland, Germany and several other European countries, following earlier marked upward movements in interest rates in the US and UK.

"The resultant widening in differentials between real interest rates in SA and those in the major industrial countries, with the further expectations of a further depreciation of the rand, has resulted in a new outflow of short-term capital from SA."

The Bank said these factors, combined with an excessive rate of increase in domestic spending, had led to a depreciation of the rand in — terms of a weighted basket of foreign currencies — of 4,4% since the beginning of this year, following a 13,1% decrease in 1988.

This depreciation had played a material role in the rise in the quarter-on-quarter increase in the consumer price index, from 9,2% for the first three months of 1988 to 14,3% in the first quarter of 1989.

The Bank said: "Against this background, it is imperative to reduce the rates of increase in bank credit, money supply and total spending and to achieve realistic rates on interest in order to:

☐ Prevent a further undue depreciation in the rand;

☐ First minimise and then reverse the current acceleration of the rate of inflation;

☐ Encourage domestic firms to make more use of foreign trade credits instead of switching to domestic sources of finance; and

☐ Ensure the achievement of a large enough surplus on the current account on the BoP to finance the anticipated foreign debt repayments and to strengthen the gold and foreign exchange reserves in the course of 1989.

The Bank said its rate was to rise from 16% to 17%, the rediscount rate for Land Bank bills from 16,15% to 17,15%, and that for liquid bankers' acceptances from 16,3% to 17,3%.

Restrictions are to be introduced on accommodation through the discount window operated by the Bank, and overnight loans will be granted only in exceptional circumstances and for short periods.

FINANCE

BDay 2/5/89

Bankers primed for strike at jugular

IN THE MONEY MARKETS

Harold Fridjhon

58

BANKERS fear that in the months ahead the Reserve Bank will apply near-strangulation pressures on the money market to curb growth in bank advances and, therefore, in money supply to avoid raising the Bank rate.

Bank treasury managers believe monetary authorities will use every technique to drain liquidity from the market and keep banks in a state of high indebtedness to the central bank.

The weekly offer of bills in the Treasury bill tender will increasingly be raised to tap funds out of the market. Last week R80m worth of bills were offered, the largest amount since June 14, and, without official sources influencing the outcome the TB rate rose 33 points to 16,48%, a level last reached in July 1985.

Authorities will not stop at increasing the TB tender, bankers say. Tax anticipation Treasury bills will be issued and the big sponge used to mop up any surplus liquidity.

This policy would give the Bank complete control of the market because the market shortage — its debt to the Reserve Bank — would absorb every surplus liquid asset in the banks' portfolios.

With an immutable Bank rate, and without the Reserve Bank sanctioning an increase in the banks' prime rates, bankers' margins would all but vanish for the next three months.

The Reserve Bank might suggest they should seek some compensation by raising all overdraft rates *except* prime and rates on home loans.

One conjectures whether this, or a similar strategy, will be unvelied by Governor Gerhard de Kock when he meets bankers on Friday.

April closed with the banks owing the Reserve Bank R1,2bn with rates across the board hardening as investors demand their pound of flesh, blood and all.

Big money call rose to 16,5%/16,75%, up a full point from the previous week. Non-liquid BAs were 16,80% from 16,70% and the building societies were said to be large issuers of 90-day negotiable certificates of deposit at about 17,35%, which is a slightly finer rate than that obtained on non-liquid BAs.

The note issue increased by R1bn last week to R7,605bn.

Ellis Park: 'Insider trading'

Cape Times 3/5/89

58

JOHANNESBURG. — The Johannesburg Stock Exchange (JSE) said it had found evidence of insider dealing in shares of Ellis Park Stadium Ltd, the target of a bid by the Transvaal Rugby Football Union (TRFU).

In a statement, the JSE said it had "found a prima facie case of insider trading after calling for returns from brokers concerning transactions in the shares of Ellis Park Stadium Ltd during the period 11 to 19 April 1989 inclusive".

The exchange had handed evidence to the Registrar of Companies, the regulatory body overseeing mergers and acquisitions.

Ellis Park Stadium Ltd, listed last July, holds a long lease on Johannesburg's Ellis Park stadium.

The TRFU, wishing to completely control its profitable home ground, announced a bid of 110c a linked unit (one ordinary share and one debenture) to holders of the 49% of Ellis Park shares it did not already own. This valued minority holdings at R33 million.

The prices of shares rose before the bid was announced, raising suspicions of insider dealing by an informed buyer.

The union's president, and chairman of Ellis Park, Dr Louis Luyt, has said he knows who bought the shares but denied that the buyer contravened insider trading rules, because the deal brought the buyer no financial advantage.

"Nobody will make one cent on these shares. They will go to the TRFU at the price paid. Only the TRFU will benefit," Dr Luyt told the magazine Finance Week.

The Companies Act says that any person who deals with inside knowledge will be breaking the law if he "deals in any way to his advantage, directly or indirectly . . . while such information is not public knowledge . . ."

Analysts said the inquiry could lead to a test case to determine whether a buyer who makes no financial gain can be found guilty of insider trading.

Stock Exchange officials acknowledge that insider trading is rife in Johannesburg and an independent judicial inquiry two years ago demanded a tightening of the law.

Several cases have been investigated but there has never been a prosecution or conviction for insider trading in South Africa. — Sapa-Reuter

Sta.,dard plans lending merger

(58)

CHARLOTTE MATHEWS

STANDARD Building Society (SBS) and the Standard Bank of SA (SBSA) plan to merge, subject to shareholder approval, because of a clash in lending activities, they announced today.

A spokesman for Standard Bank Investment Corporation said the merger was considered advisable because SBS lending had declined since SBSA had entered the home loans market in 1986.

"While the market value of SBS stocks is substantially lower than their book value, economies of scale that would be achieved by SBSA over time in taking over SBS assets and liabilities justify a compensation payment to the building society's shareholders," he said.

SBSA is offering a 5% payment to building society shareholders holding their shares from June 6 1988 to June 7 1989 or longer.

It advises shareholders not to dispose of their shares until they have had time to consider the proposals.

S/Day 3/5/89

Banking on restructuring pays off to tune of 49%

58

6/Day 3/5/89

LIZ ROUSE

FINANSBANK has achieved a 49% rise in interim earnings as a result of restructuring of its asset management and money and capital market divisions.

The bank's net profits for the six months to March amounts to R7,3m compared with R4,9m in the corresponding period last year.

Commenting on this performance, Finansbank's CE Hennie van der Merwe says that although certain sectors of the markets in which Finansbank operates have been quiet and competition fierce, the divisions in general performed well.

"Particularly gratifying is the fact that our asset management and money and capital market trading divisions, recently restructured to cater more closely for the needs of our clients, have already made a meaningful contribution to earnings.

"On the financial services side of our business, we are now looking forward to a real return on our investment in privatisation as we have been retained to assist in a number of privatisation exercises. Income from this source will, however, only flow in future years."

The bank's investment activity is producing good income while its project finance team has been successful in a number of tenders for large projects. In addition, the management consulting division is making good progress.

Van der Merwe says that Finansbank's investment in Cape of Good Hope Bank is proving to be profitable. The bank's profits have risen significantly following higher business volumes and increases in commission and fees.

Looking ahead, Van der Merwe says high interest rates and a slowdown in the economy are unlikely to affect Finansbank too much as most of the bank's clients, especially the larger corporations, are better capitalised than at the time of the last downturn.

Finansbank is well poised to achieve its budget, which is comfortably ahead of last year's net income of R11,2m.

Columbia working on new strategy

6104m 3/5767

STEPHEN RICHTER

COLUMBIA Consultants has been sitting on the sidelines with regard to the recent spate of disinvestment activity by overseas companies, but according to chief executive Gordon Polovin that could soon be changing

This week's sale by Columbia of its holdings in Toco follows closely on the heels of the Milstan disposal. These sales, combined with the proceeds from Trimtex, placed Columbia well on the road to accomplishing its goal of focusing on larger acquisitions valued in excess of R100m.

To allow this to happen, Columbia must first build up the necessary cash resources. Polovin says the group is well on its way, with proceeds from these sales amounting to roughly R35m. He feels Columbia needs to raise a total of R50m to R60m before the group can seriously consider implementing its new strategy.

The Toco disposal involved 32,9-million shares at a price of 48,6c, which brought in total proceeds of R16,2m. But since the shares were sold ex-dividend, Columbia will reap an additional R2m and therefore the total effective income from the Toco disposal will increase to R18m.

Polovin would not specify what other investments would be sold to raise further funds needed, but says that "within the next few months, there will be some more action".

The reason Columbia seems quite determined to shift its focus is that recently the group has been unable to capitalise on some very attractive opportunities owing to its financial situation. Although Columbia is conservatively geared and able to increase its borrowings, it appears that the group is unwilling to jeapardise its financial health in any way.

BDay 5/1/84

Mystery

50

Polovin says that the group has always been conservatively run, and therefore in order for Columbia to best finance its latest strategy, the directors have decided to cash in on various investments instead of approaching the banks for more funds. That seems a prudent strategy in view of the high interest rates and poor performance of second-line shares.

Exactly what acquisitions Columbia are contemplating at the moment remain a mystery. Polovin does disclose that the group is looking at some exceptional asset strip and turnaround situations. In addition, Columbia has been approached by other larger companies to go into partnership with regard to certain opportunities.

As these events unfolded last week, investors seemed to wake up to Columbia's inherent value, and pushed the share up 15%, or 30c, to 230c on Friday. If Columbia's directors would like to see a higher share price, then a generous payout from the latest proceeds might help.

In addition, an enhanced share price would place Columbia in a stronger position to pay either cash or paper for any future acquisition. But it seems that the market will only re-rate the shares once management shows its hand and invests in areas which offer above average growth prospects.

BOE increases share earnings by 145%

BDay 2/5/89 (56)

BRUCE ANDERSON

THE Board of Executors (BOE), a financial services and investment company, has increased earnings a share by an impressive 145% to 32,4c (13,3c) a share for the six months to March.

An interim dividend of 8c a share — 4,1 times covered — compared with last year's 2,2 times covered 6c a share, has been declared.

The sale of BOE's interest in Storeco Ltd to Mercury Trust in exchange for Mercury shares is reflected in the extraordinary profit of R8,5m, which has been transferred to general reserve.

Mercury has become an associated company whose equity-accounted profit boosted the BOE earnings by R815 000.

BOE chairman Paddy Wilson says the group has experienced a strong inflow of new business, with the level of the JSE bolstering revenues in the Investment Management division.

Wilson said the outlook for the balance of the year remained encouraging.

Focused

"We expect continued improvement in profitability but not to the same extent as for the period under review," he added.

BOE MD Bill McAdam says the group is clearly focused on asset management with its core activities concentrating on the management of equities, money market and property.

☐ BOARDPROP, a property investment company in the BOE stable, produced its first interim results yesterday for the six months to March this year.

The company, which was listed on June 13 1988, posted results in line with its prospectus forecast. An interim dividend of 0,13c a share and interest of 27c a debenture was declared.

'SA fully eligible for new loans from IMF'

58 ARGUS 4/5/89

The Argus Foreign Service

NEW YORK. — South Africa is now fully eligible to receive new loans from the International Monetary Fund and has only to demonstrate need and present a financial-adjustment programme.

This was stated in testimony to a United Nations panel by the Centre for International Policy, which opposes financial ties with South Africa.

Its vice-president, Mr James Morell, said in a statement to the UN Sub-Committee on Petitions that such loans could be arranged in utmost secrecy and could be accomplished before opponents had a chance to make objections.

He predicted that an argument would be made that South Africa's relationship to the IMF was governed by legal criteria and that it was entitled to access to funds under the agency's rules.

A new loan would perpetuate apartheid into the next century by providing cash and "an aura of international approval", said Mr Morell.

He said his organisation was instrumental in obtaining United States congressional legislation in 1983 that imposed strict conditions on American approval for new loans for South Africa, but he acknowledged that loopholes remained.

Mr Morell said that with the right scenario for the re-scheduling of South Africa's bank loans, the United States, Britain and West Germany might well decide that new IMF lending was politically acceptable.

In other testimony, the Namibia situation was raised by Mr Roger Clark, vice-president of the International League for Human Rights.

He said that in the initial phase last month the UN, South Africa and Swapo all made miscalculations.

It was announced that a "week of solidarity" with the people of Namibia would take place under UN auspices, beginning on May 22.

New credit squeeze

Argus 5/5/89

58

By TOM HOOD, Business Editor

A WIDE range of restrictive measures, including increased interest rates and more stringent hire purchase conditions, were announced today by the Minister of Finance, Mr Barend du Plessis, as a temporary measure to cool an "overheated" economy.

Today the Reserve Bank raised the bank rate by one percent to 17 percent in a move likely to force up overdraft rates from 19 to 20 percent and spark a host of other interest rate increases.

Announcing the credit curbs at the start of debate on his Budget Vote, Mr du Plessis said the continuing strong expansion in domestic expenditure and extension of credit was cause for concern.

Beyond means

The country was living beyond its means and the measures, though painful, were urgently necessary to restore a balance in the economy.

Mr Du Plessis said the measures would be relaxed again as soon as possible, maybe within a few months, but that this depended on the co-operation of every participant in the economy.

● The increase in the bank rate is the second this year and is aimed at curbing the soaring money supply growth and reining in inflation, according to bankers.

The drop in the gold price from $400 this year to below $380 could cost the country at least R600-million in foreign exchange.

Gold price drop

Dr Gerhard de Kock, governor of the Reserve Bank, said the higher interest rates were necessary because of the steep fall in the international gold price, which had affected South Africa's balance of payments, as well as recent increases in interest rates in several European countries.

"The resultant widening of the differentials between real interest rates in South Africa and those of the major industrial countries, and the expectation of further depreciation of the rand, has resulted in a new outflow of short-term capital from South Africa," Dr de Kock said.

The Reserve Bank would reinforce its tighter monetary policies by cutting back on the amount of monetary accommodation offered to commercial banks.

He said the aim of the moves was to curb domestic money supply growth, which jumped by 27,3 percent in February — well above the bank's target range of 14 to 18 percent.

JSE agrees to relist Toco shares today

BDay 5/5/94

SYLVIA DU PLESSIS 55

THE JSE has agreed to relist Toco shares with effect from today, Toco MD Adrian Goodman said in a statement yesterday.

However, he advised shareholders to exercise caution in their dealings in Toco shares until an announcement was made regarding fulfillment of certain suspensive conditions.

The move follows Columbia Consultants' sale this week of its holdings in the manufacturer and international distributor of industrial products for 32,9m shares at a price of 48,6c. The disposal brought in proceeds of R16,2m.

"Everyone is eager to participate directly in the success generated through their own efforts, hence our bid to increase our stake in Toco," he said.

On successful acquisition of the additional shares, management would speak for 62% of Toco's capital.

"We intend to retain Toco's listing and develop the company in partnership with the institutional and private investors who hold Toco shares," Goodman said.

Management would supplement the internally-generated growth with strategic acquisitions focused on manaufacture and international distribution of industrial products, he said.

Toco's results for the year to end-March will be released later this month.

Nedbank plays cool hand in bidding for market share

GRETA STEYN

INTENSE competition is a facet of banking that has seen its assets grow by more than 30%.

Lending is said to have been done at almost any price — in terms of quality and interest rates — in the fight for market share.

Banks now realise, however, asset growth without strong increases in earnings can pose a problem. They must keep capital against assets so slow profit growth could force banks to make rights issues to a reluctant market. This realisation, with Reserve Bank moral suasion, could cool the struggle for market share.

Banks will have reached a 5% capital-to-assets ratio by the end of 1992 and are about 80% of the way there. Overseas banks are at the 8% level.

If the Reserve Bank wanted to restrain credit extension, without using moral suasion or raising interest rates, it could speed up the phasing-in of the capital-to-assets requirements.

This would almost certainly force some major banks to curtail lending because their profitability is under pressure.

Lower lending volumes will not necessarily put further pressure on profitability. Nedbank — the commercial bank division of the new NedPerm bank — seems to have proved the point.

Increase

Nedbank has stayed out of the fight for market share and chosen a different strategy.

It focused less on volume and more on other aspects of profitability.

This paid off with a 45,5% increase in its pre-tax profits in the six months to March — the biggest contributor to the increase of 26% in the earnings a share of the group, Nedcor. The group outperformed First National Group, whose EPS rose 10,8%.

First National Group has the biggest market share.

The last BA9 returns showed Nedbank lost market share of total assets, from 8,6% to 7,8%, in the year to December. This year will probably not see a change in Nedbank's market share because the bank has not gone out of its way to get a bigger slice.

While some other banks, notably First National, have taken a knock on margins, Nedbank's assets and liabilities have been matched profitably.

Nedbank MD Chris Liebenberg ascribed the bank's success to profit on commission and exchange fees, a decline in realised bad debts and comfortable interest margins.

Liebenberg says: "The policy of a liquid balance sheet paid off. We had excess liquid assets with which to fund ourselves."

Gaining

On the issue of market share, he says the bank does not specifically target its overall share, which might be declining because of its specialisation in the corporate market.

"Nedbank's focus on the corporate market meant we were not aggressively competitive in the consumer market. We went into the bond war defensively, mainly to protect our existing client base."

He believes that if corporate market share figures could be extracted, Nedbank might well be gaining ground in that area.

He has strong views about piling on assets at any price because there is a danger of inadequate capitalisation.

Liebenberg says: "SA banks are lagging behind overseas standards on capitalisation. Foreign banks' holding of capital-to-assets is 8% while SA banks are still phasing in 5%, in terms of the new Banks Act. Once SA is allowed back into the international financial arena, it will not be able to play in the same league as foreign banks with more stringent capital requirements."

NEDCOR, (58) Fmm

No stopping 5/5/89

Just when one thinks Nedcor has run out of steam after its enormous turnaround, it produces another set of spectacular results. One expected a rise in earnings in the six months to end-March because of the Perm deal, but the actual figures show growth far in excess of this.

The Perm itself did particularly well. Group CE Piet Liebenberg says it is difficult to compare its performance, but in the year to end-September it made about R46m pre-tax and in the six months from October to March, which are included in Nedcor's results, earnings on a comparable basis amounted to R39m. In fact less was taken into Nedcor accounts, as a change to the Nedcor depreciation policy meant an additional depreciation charge of around R3m.

"There are a number of reasons for the improved performance," says Liebenberg. "But probably the most important are the rise in interest rates, which worked to its benefit, and a change in management orientation, which became more profit-conscious. Another factor is the steps taken to recoup cost of services rendered to customers."

Several analysts suggested there might be problems with the Perm's individualistic MD Bob Tucker. But Liebenberg says that he has adapted to the new circumstances and challenges very well.

The intention remains to keep Nedbank and the Perm separate. "Two market surveys showed that each have strong and very different images in the market place," says Liebenberg.

But there is far more to the group's results than the addition of the Perm. Nedbank's net income rose 45,5%, that of Finansbank climbed 49% and that of Nedfin leapt 102,9%. Syfrets continued its dependable growth with an increase of 21,7%, but UAL saw profits rise only 3,9% due, according to Liebenberg, to "a speed wobble primarily in

'5/6/89. (58) FMMML 5/5/89 (58)

the money market, but it will now continue its good performance of the past."

Nedfin is still in a recovery phase, after returning to its traditional commercial and industrial market after a very unprofitable flirtation with the retail market.

The banking division's profits must be the envy of many. "The rise was because it concentrated on improving underperforming assets and because the bank read the money market well and so margins were very good. We are not complaining about rates to the authorities and are well aware of the importance of the quality of our book."

The bottom line is that EPS increased by 49%, despite a rise in issued shares of 19%. With the addition of the Perm, though, Nedbank is expected to be paying tax sooner than anticipated and transfers to tax equalisation reserve leapt from R17m to R52m, reducing EPS growth after the transfer to 26%.

An interesting factor is that Nedcor's shareholders' funds now amount to R1,2bn compared with First National's R1,1bn. This shows a strong balance sheet as this capital backs assets amounting to R27,3bn against First National's approximately R36bn on a comparable basis.

Nedcor already more than meets the Banks Act capital requirements and has no need for another rights issue. Liebenberg says the intention is to continue concentrating upon specialisation and excellent team work.

Small wonder the share is on a premium rating — the same as SBIC, till the latest increase in dividend. *Pat Kenney*

FIRST NATIONAL (58)

Swart's first

Our review of First National's results for the year to end-September (*Fox* January 26) was headlined: "Volumes leap, margins tighten." In the first half of the current year, margins were again under pressure, but advances have climbed at a slightly slower pace year-on-year (24,8% against 28,7%), with the deceleration showing in the fact that advances were 11% higher at end-February than at end-September.

"Banks which go for quality should be treated differently from those which go for market share," says senior GM Jimmy McKenzie. Growth of more than 1% a month in advances now has to be reported to the Reserve Bank, which has been using moral suasion to curb increases in bank lending. McKenzie suggests that prime may rise again if the money supply stays up. First National's results were adversely affected by the belated rise in prime last year, whose tardiness, says McKenzie, pushed up interest expense (128,8%) more than interest income (85%).

There's been some improvement in the bad debt situation. The provision made in the six months amounted to 2,3% of total advances at the end of the period compared with 3,2% last year. However, as a percentage of other operating expenditure, it increased marginally from 10,4% to 11%. "We are having a drive to retrain managers and hope that the quality of loans will improve," says McKenzie.

Other operating expenditure includes systems development and staff costs. McKenzie complains that staff costs are high and that investigation of all costs has led to a decision to reduce the 25 000-strong work force. The intention is to cut back by 1 000 people through attrition.

Such actions are obviously needed as operating expenditure other than interest rose in the past year and stands at 82,1% of net interest and other operating income, against 79,6% a year ago. It is intended to examine all other expenditure with a view to cuts.

The Hogan computer system should come on stream in all branches by the end of July. Savings should be big as First National will no longer be running two systems simultaneously. "Hogan was not working properly because of the complexity of switching sys-

MARKET FOCUS

Landlock determined

Is it possible that the **Landlock** losses are finally coming to an end? Each previous time reassuring noises were made to investors, earnings were hit by new problems. But reassurance about the turnaround came this week from a heavyweight — John White, Group MD of British parent company BBA.

"There were peculiar local difficulties," he says, "but I am satisfied that Mintex Don will be making profits in the second half of the current year." Though he admits that two-and-a-half years is long for a turnaround, White points out that it took as long to turn Mintex Don around in the UK.

Mintex Don has been a chief cause of Landlock's difficulties. Other problem areas have been resolved with the sale of Tilghman Lasch to Valard, the sale of the Cape branch of Automotive Products (AP) to AutoParts and Veltol-Parko to Dancor. In addition, AP's warehouse was closed.

A major problem for Landlock has been its high debt and high interest bill. The BBA connection is helping by enabling Landlock to pay prime rates, and repaying borrowings with cash from the asset sales should also help. "The BBA comfort zone in debt:equity is 0,40," says White. At year-end Landlock's ratio was 0,94 but would be about 0,67 after the above sales.

BBA is expecting a good return for its patience. "Our policy is to aim for operating margins in double-digit figures and a balance of sales — about half automotive parts and half other products. Landlock will eventually do better than that." If that proves true, shareholders should be jubilant, as turnover was R116m last year and even 10% operating margin would mean doubling last year's operating profit.

Though the initial investment stands in BBA's books at less than £5m, its SA subsidiary's problems have meant a disproportionate amount of time being spent by BBA top management on Landlock; BBA has also helped with technology. But there has so far been no return, except for normal royalty payments.

Rumours have abounded that BBA is losing patience and is ready to sell. White says not, and nor is he amenable to suggestions of reducing the BBA shareholding. "Commitment to an overseas subsidiary is not worthwhile unless we can influence management and get the benefit of the turnaround," he says.

"The turnaround took long because of the difficulties in moving Mintex Don to Benoni; because we took over the difficulties of the original Landlock; and because initially management made mistakes."

White himself has been taking a more active interest in the past six months, since the departure of previous Landlock chairman Ray Mitchell, a director of BBA. This should make the difference. White's speciality is acquiring and turning companies around and BBA's sales for 1988 were £1bn, an increase of 50% on 1987.

The bottom-line has also climbed. BBA's fully diluted EPS showed an average annual growth rate of 119% over the past five years. "That is a record I am not prepared to ruin," he says. *Pat Kenney*

SAB's top reporting

When more and more SA companies are using the excuse of exports to conceal part of their results, it's nice to hear that some local groups are producing annual reports better than most companies overseas.

The February issue of the *International Accounting Bulletin* includes an extract from World Survey of Public Accounts produced for the Institute of Chartered Accountants.

This places SA Breweries (SAB) in 10th place and no less than three SA companies in the top 20 — Premier is 11th and Tiger Oats 20th. Of those which gained higher scores than SAB, four were from the UK and one each from Australia, Canada, France and the US.

In the scores for countries, SA came 10th. While it is highly praiseworthy that a company comes 10th in the world, it is less praiseworthy that nine countries have better reporting standards than SA. This seems to indicate something which those of us who watch the reports have seen: the standard of local reports is highly variable. Countries which did better were the UK, Australia, Sweden, Canada, Netherlands, US and France. *Pat Kenney*

SWART'S FIRST

Six months to	Mar 31 '88	Sep 30 '88	Mar 31 '89
Net interest inc (Rm)	454,1	501,1	548,4
Advances (Rb)	18,8	21,1	23,4
Attributable (Rm) ..	89,1	117,7	98,9
Earnings (c)	122,7	161,8	135,9
Dividends (c)	35,0	77,5	35,0

tems and because staff did not understand it. All our ATMs are NCR now and on the IBM computer (on which Hogan is operating). A further cost improvement will result as the name change is behind us."

The group has seen rationalisation, with the industrial bank made into a division and two head offices have been merged and one eliminated. McKenzie says that following the management changes, First National knows where the problems are. New MD Barry Swart is settling in and is well-known in the bank.

For these reasons, a better improvement is expected in the second half. Interim EPS increased only 10,8% year-on-year and First National will have to pick up if bottom-line growth is to keep pace with inflation. This will be even more important given that cover has been increased from 2,8 times to 3,1 times.

At 1 650c, the share is off the year's high of 1 775c and the rating remains well below that of blue-chip Standard and rival Nedbank.

Pat Kenney

CARGO

Carrying questions

Surprisingly bad results from Cargo Carriers for the year to end-February are an enigma for investors, particularly as comment accompanying the announcement was as laconic as possible.

Attributable earnings and EPS were 41,7% lower at R5,2m (R8,9m in the 1988 year) and 26c (44,6c). Brian Puchert, deputy chairman of Cargo, says a full explanation of the results, action taken and prospects will be given in the annual report.

At half-year, Cargo blamed the results then (1,9% lower earnings) on losses from two acquisitions. But the much worse figures for the full year indicated a major decline which could not have been caused only by the acquisitions. Changes in top management, cutbacks on unprofitable contracts, higher fuel prices and toll road tariffs also may be part of the explanation.

Last September, former MD Roy Marcus left the group. He was replaced by Puchert, former MD of Bolton Footwear. Marcus had been appointed by the founder, Des Bolton, who died in early 1988.

With effect from January 1989, Puchert appointed Patrick Murray as MD. Murray has been in transport in Africa, Europe and America for 30 years — 20 in the service of Cargo's competitor Unitrans and its British parent, United Transport. He was MD of Unitrans Natal before his Cargo appointment.

Puchert had begun rationalising Cargo and Murray has continued the process. Many of the systems he is implementing at Cargo are ex-Unitrans/United Transport. Cargo managers, who had been somewhat rudderless, apparently greeted Murray's advent with relief and enthusiasm.

The major thrust so far has been to change Cargo's centralised management structure, creating local profit centres. Murray has been implementing a study of costs and controls and has been negot
from unviable contracts.

Murray, 49, is said to
and appears self-confide
told analysts that Cargo
place" for success; it
"tuned."

It is unlikely that the
tuning were incurred in t
they could appear in the
sults. Another expensive
management must now
placement. Bolton reput
trucks should be bought
tracts, and the average a
apparently reflects this.

Murray's approach, lik
is more towards newer
chases of new vehicles
gearing and interest pa

Apparently on positive
new regime, Cargo's share
ly — from about 220c to
the results, it has dropped
may recover slightly agai
information is forthcomi
be rerated.

MIDAS

Might and

**Investors with Midas sha
the price rose from 570
past year and is now i
pressed too. EPS leapt 9
84% turnover rise in the
ary.**

Margins jumped from
which MD Georg von

UNIT TRUSTS

High/low since 1.1.89		Annual dividend cents			Price Apr 24	Price Apr 27	Yield on repurchase price %
			General equity funds				
1545,67	1254,40	53,28	Guardbank	Selling price	1535,59	1545,67	3,70
1440,42	1169,30			Repurchase price	1431,05	1440,42	
157,36	123,83	8,46	Lifegro	Selling price	157,16	157,36	5,77
146,57	115,83			Repurchase price	146,37	146,57	
129,80	109,68	7,73	Metfund	Selling price	128,34	129,30	6,42
121,06	102,64			Repurchase price	119,57	120,46	
673,28	553,19	*49,57	NBS Hallmark	Selling price	668,19	673,28	7,92
625,60	514,27			Repurchase price	620,86	625,60	
287,07	230,45	*17,30	Norwich NBS	Selling price	285,40	286,74	6,49
266,72	214,20			Repurchase price	265,17	266,41	
1838,29	1501,86	78,41	Old Mutual	Selling price	1827,94	1835,15	4,60
1707,42	1395,45		Invest	Repurchase price	1697,81	1704,51	
1535,60	1278,35	54,20	Sage	Selling price	1527,28	1535,60	3,79
1430,98	1192,56			Repurchase price	1423,24	1430,98	
1048,16	896,91	50,40	Santam	Selling price	1033,75	1046,09	5,17
978,03	838,61			Repurchase price	963,75	975,26	
133,23	109,30	8,10	Southern	Selling price	131,29	133,23	6,56
123,45	101,31			Repurchase price	121,65	123,45	
767,21	643,58	39,93	Standard	Selling price	761,61	767,21	5,56
717,79	602,24			Repurchase price	712,62	717,79	
149,11	122,47	5,56	Syfrets Growth	Selling price	147,47	149,11	4,01
138,74	114,05		Fund	Repurchase price	137,20	138,74	
1365,71	1078 51	53,95	UAL	Selling price	1362 24	1365,71	4,24
1272,32	1004,48			Repurchase price	1268,92	1272,32	
			Specialist equity funds				
131,25	105,07	5,53	Guardbank	Selling price	131,01	131,04	4,53
122,40	97,98		Resources	Repurchase price	122,17	122,20	
285,37	216 58	12.20	Old Mutual	Selling price	265,39	265,85	4,94
240,06	200,10		Mining	Repurchase price	240,29	240,72	
114,27	90,88	4,70	Sage	Selling price	112,78	114,27	4,41
106,55	84,74		Resources	Repurchase price	105,15	106,55	
298,05	258,13	20,30	Santam	Selling price	289,56	289,79	7,51

High/low since 1.1.89		Annual dividend cents		
			Specialist equity funds (cont)	
278,08	241,44		Dividend	Repurchase price
857,46	674,04	26,20	Sanlam	Selling price
797,30	627,18		Index	Repurchase price
552,37	477,98	23,50	Sanlam	Selling price
514,97	445,78		Industrial	Repurchase price
274,00	217,63	12,90	Sanlam	Selling price
255,79	203,33		Mining	Repurchase price
135,49	109,40	8,37	Southern	Selling price
125,54	101,40		Mining	Repurchase price
225,87	183,27	12,35	Standard	Selling price
210,64	170,94		Gold	Repurchase price
324,41	262,12	15,06	UAL Mining	Selling price
302,39	243,25		& Resources	Repurchase price
1155,76	984,43	53,82	UAL Select	Selling price
1076,62	914,67			Repurchase price
			Income/gilt funds	
104,96	99,45	14,46	Corbank	Selling price
103,85	98,55		Gilt	Repurchase price
108,72	104,48	13,67	Guardbank	Selling price
107,38	103,15		Income	Repurchase price
103,38	103,25	—	Old Mutual	Selling price
101,25	101,12		Income	Repurchase price
95,58	89,76	13,56	Senbank	Selling price
94,57	88,52			Repurchase price
95,25	89,05	13,58	Senbank	Selling price
94,25	88,12		Gilt	Repurchase price
88,85	85,18	11,64	Standard	Selling price
87,83	84,19		Income	Repurchase price
100,36	102,20		Syfrets	Selling price
104,20	100,22		Income	Repurchase price
1100,19	1024,94	146,72	UAL Gilt	Selling price
1089,19	1014,70			Repurchase price

* Annualised.

INSURANCE (58) FM 5/5/89

Judging captives

Judge David Melamet will lead a commission of inquiry into "captives" — offshore insurance companies set up by SA conglomerates, mainly in tax havens, through which to channel reinsurance funds.

"This stems from the report on the winding up of AA Mutual, where we found the captive system was being abused," says Melamet, who headed a three-man commission of inquiry which reported last year on the short-term business of AA Mutual. "We're investigating inter alia the desirability and need for captive insurers, whether there is proper control by the local authorities and whether the system is being abused."

Though offshore tax havens conjure up images of exotic islands used for dicey deals, a haven can be a place to escape from tax or a springboard to overseas markets closed to SA-based companies. Most SA captives are formed in tax havens such as Guernsey, Luxembourg or the Cayman Islands.

"A location is chosen for the soundness of its insurance regulations, acceptability to main markets and political stability," explains SA Risk & Insurance Management Association (Sarima) deputy chairman Peter Alexander.

But the negative connotations of a tax haven, combined with illegal dealings by the Kirsh captive (made public in the Melamet report), have left captives with a somewhat tarnished image. Melamet found that Kirsh Group's captive, Chiswick Reinsurance (Bermuda), was used "to evade the payment of income tax and defeat the exchange control regulations."

Kirsh trading companies benefited from the captive by receiving tax-deductible expenses from reinsurance premiums paid. In addition, each of the trading companies contributing to the scheme received tax-free dividends when "commission" was routed to an SA-registered company in which these companies were shareholders. These would have been legal if the captive was being used solely for insurance or reinsurance purposes.

Almost all members of Sarima, the large insurance buyers club, are thought to have captives. Anglo, SAB, Barlow and Sasol, among others, use captives to place risks abroad which can't be placed locally.

"Sometimes, cover needed is larger than a local insurer's total assets," says Alexander. "In the move to self-insurance, big buyers reinsure through their own (captive) insurance companies. Because of lack of capacity here, the local insurer would have to reinsure abroad anyway."

Local insurers complain funds routed to captives are harming forex reserves — and their business. But Alexander says this criticism is naive. "The captive route provides a lower net cost to SA than using an insurer. The insurer makes the process more expensive, because he also takes a cut."

SA Insurance Association (Saia) figures show R1,5bn of reinsurance was needed by the short-term market in 1987. Of this, local professional reinsurers absorbed R533m but returned R544m by way of claim payments, making an R11m loss.

Captives can also be used to keep overseas markets open should insurers and reinsurers impose sanctions on SA. "They can be used as a screen," says Alexander.

How easy is it to enjoy the tax advantages

(58) FM 5/5/89

which captives provide? Reinsurance premiums paid via the captive are tax-deductible. With Reserve Bank approval and compliance with its requirements, anyone can, in theory, form a captive offshore.

In practice, it's more difficult. Captives must comply with the regulations of the place of registration — usually rigid. The Cayman Islands, for example, asks for a solvency margin of 18% for the first £5m of assets and 16% over that. Fees are payable to the home of the captive, and managers have to be acceptable to the authorities. Also, investment has to comply with the rules of the country of registration. So it's only big operators that can afford their own captives.

"There will always be a few people who use the system for devious means," Alexander says. "But the honest shouldn't have to suffer for a few dishonest operators." ■

5/5/89

BANKING FMAIL

Into the futures

Major banks and the Reserve Bank are expected to take over the Universal Exchange (Unex) project, which could develop a facility to serve all financial markets but shares — including futures, bonds, options, money instruments and commodities.

The Bank and members of the Clearing Bankers' Association (CBA) are expected formally to take up all shares of Unex Corp soon after a CBA council meeting on May 18. Their priority will be to organise clearing and settlement services for the bond and futures markets. They will also study grander proposals for Unex, which is envisaged as a central exchange facility providing many financial markets with services, including trade execution, risk management, clearing and settlement. It would fund itself by charging a fee on each trade.

Standard Merchant Bank special-projects manager Burgert Oosthuizen, who helped develop Unex over the past year, explains: "CBA's Sash (SA Settlement House) subcommittee plans to reconstitute as the Unex committee on May 12. Over the next three months it will study Unex's short-term implementation."

He says it will immediately investigate three things:

☐ Acquiring the JSE's Gilt Clearing House system with a view to offering it under Unex management to the Bond Market Association (BMA);

☐ Acquiring the Safex Management System from Safcom — which is owned by the clearing members of the SA Futures Exchange (Safex) — and offering the system to Safex under Unex management or, alternatively, acquiring all Safcom shares not yet held by CBA members; and

☐ Obtaining a lease from the JSE to sub-let floor facilities in the annex, under Unex management, to BMA, Safex and other financial markets.

"The committee will simultaneously study long-term proposals, which could take until early-1990," says Oosthuizen. "Bankers support the Unex concept, but don't want to commit themselves to a multimillion rand investment without a detailed study."

FMAIL

In December, the Unex project proposed both a R3,5m software package, designed for "front-end" (trading) and "back-end" (clearing and settlement) services, and computer hardware costing between R1m (to handle current volumes of bond and futures trading) and R30m (for volumes of all instruments based on a 10-year projection). This month Oosthuizen will revise the proposal, including new cost estimates.

☐ In subscribing to shares in Unex Corp, CBA members and the Bank would assume, in whole or part, costs of the Unex project, estimated at R750 000. In distributing shares, they are expected to use the same formula as for their jointly owned cheque-clearing Automated Clearing Bureau. ■

Cit Times 6/5/89

58

Credit crunch

By BRUCE WILLAN and MEG BRITS

CONSUMERS with large bank loans or mortgages outstanding will be the hardest hit by the economic stabilisation package announced by Finance Minister Mr Barend du Plessis and the Reserve Bank yesterday.

While the Reserve Bank announced it was raising its rate to 17% — which is intended to push up lending and mortgage bond rates in the future — Mr Du Plessis announced new measures to further tighten hire-purchase requirements.

Opposition spokesmen said the new measures would have an adverse impact on the lower-income groups.

"We are concerned what impact the measures will have on pensioners generally, and social pensioners in particular, and on lower- and middle-income groups," said Mr Harry Schwarz, the Democratic Party's finance spokesman.

How it will hit consumers

- A 1% increase in the Reserve Bank rate to 17% with a government-sponsored relief programme for farmers, small businesses and lower-income home owners.
- A 10% loan levy on the normal tax payable by all companies, starting at R5 000 and repayable after five years.
- A reduction in the surcharge on the imports of capital goods to 15%, but a stop to the large number of expemption permits granted.
- A five to 10% increase in the minimum deposit for a range of goods bought on hire purchase, and a reduction in the repayment period.

On other pages ...

- 'Shock' at raised interest rates — Page 2
- Mixed reactions to government's economic curbs — Page 15

Mr Schwarz said the relief contained in the package was inadequate.

The new measures mean that consumers — already hard-pressed for cash and stretched to make repayments on current loans — are going to face demands for higher cash deposits on many items.

Home-owners will be hardest hit in a few weeks' time as banks and building societies will inevitably increase their mortgage bond rates in response to the Reserve Bank announcement.

Volkskas and First National have already stated that they are to raise the rate of prime by 1% to 20% effective from Monday.

Assuming a bond rate increase in line with the new prime rate, a bond of R50 000 over 20 years will cost about R850 a month compared with the present repayment of R810.

This is a vast increase from a year ago when bond rates were in the region of 13,5% or 14% and the same bond at 13,5% cost R604 a month.

However, it will be at least seven weeks before any increase in the bond rate affects existing home-owners.

Mr Du Plessis said yesterday that as from Monday, minimum deposits on a range of goods bought on hire purchase would increase from five to 10% and that repayment periods would be shortened.

This means that motor cars, electrical goods and appliances bought on HP will cost substantially more.

In real terms, the new measures will mean that an appliance such as a stove, bought before Monday for R1 000, would have required a deposit of R150 and repayments of R77 a month for two years at the maximum permissible interest rate of 31%.

With the new regulations the deposit increases to R200 and repayments go up to R84.

A spokesman for Hyperama said the initial deposit on a television set costing R999 would rise from R169,87 (15%) to R225,87 (20%), but that monthly repayments would drop slightly from R67,30 to R63,37.

The repayment period on motor cars has also been shortened from 48 to 42 months, with the exception of vehicles used for taxis. The repayment rate on these vehicles is being reduced from 42 to 36 months.

Mr Du Plessis said, however, that some relief would be forthcoming for low-income homebuyers, and that the new HP measures could be relaxed in the future if buying slowed.

Mixed reactions to government's economic curbs

CAPE TIMES 6/5/89

(58)

By BRUCE WILLAN

THE almost draconian measures reminiscent of 1984 announced by Finance Minister Barend du Plessis yesterday, to cool off the overheated economy have sparked off a mixed reaction from economists, businessmen and various organizations.

For businesses, the measures will be just as tough to swallow as for the consumer to adjust to the imminent rise in the bond rate and the tougher hire-purchase requirements introduced.

Added to this it is expected that all the banks will follow in raising the prime rate by one percent to 20%.

Both Volkskas and First National banks have already announced their increase effective from Monday when the package comes into force.

Although the 10% loan levy introduced on the tax payable by companies is to be calculated on last year's profits, payable by the end of July this year, will remove about R750m from the system and place a heavy burden on the companies, but there is a positive side as well.

The levy will attract a market-related interest rate of 16% and a negotiable certificate will be issued.

This certificate will be tradeable and may be discounted.

However, Du Plessis indicated in a statement yesterday that the Reserve Bank will not be accepting these certificates at the discounting window to facilitate accommodation.

In a separate statement issued by the Governor of the Reserve Bank Gerhard de Kock, who said the Reserve Bank will provide virtually no accommodation through repurchase agreements, the placing of funds of the Corporation for Public Deposits or other forms of open market operations.

De Kock said that these methods will only be used to smooth out unduly large month-end or other seasonal fluctuations in money market conditions.

Accommodation through the discount window will be restricted to the resdiscounting of Treasury bills, Land Bank bills and genuine liquid bankers' acceptances.

But in exceptional circumstances, and only for short periods of time, will overnight loans be extended against security of liquid or non-liquid assets at new penalty rates.

Companies which experience severe liquidity problems will be able to sell the loan levy certificates.

The decision to base the levy on last year's profits, says Du Plessis, is for the measures to become effective almost immediately instead of having to wait until the latter half of this year for the effect to begin.

Added to the interest, which will be earned on the levy, there is also the possibility that rates will go down before the levy is repayable and a capital profit can be made, which is not taxable.

Reacting to the restrictive measures, Assocom CEO Raymond Parsons said it was regrettable that it was neccessary to introduce such measures a mere six weeks after the Budget.

"While accepting that interim remedial measures may be neccessary in the course of any fiscal year, short-spanned decisions as reflected in this package suggest a lack of coherence in the management of the country's financial affairs.

"Such action is also very disruptive for business planning and will have a negative impact on business confidence," he said.

Standard Bank's chief economist Nico Czypionka said that while he is in favour of the measures being taken now instead of later in the year, because there is a deterioration in the financial status of the country, such as the weakening gold price and reserves, some of the measures are a bit too drastic.

He says that some of the stricter HP measures applied to goods were not necessary because these sectors are already showing a decline in activity such as appliances.

Czypionka is of the opinion that interest rates alone should have been allowed to curb the consumer demand.

On the "special treatment" afforded to the agricultural sector, he queried the reasoning behind this as farners are also businessmen and farming was also a business.

He said that the package runs the risk of an overkill situation where counter-measures would then have to be taken to rectify it.

However, he indicated that if the objectives are met then there is the possibility that interest rates could be reduced before the election in September.

Southern Life economist Mike Daly supported Czypionka's view and added that rates are far too volatile and this is not desirable.

The SA Agricultural Union (SAAU) has regretted the fact that interest rates increases were deemed necessary in the light of the recent increase.

SAAU president Kobus Jooste pointed out that interest rates were already unacceptably high for agriculture and that the pattern of rates over the past few years had had a negative effect on the industry.

Banking circles said that the measures appeared to be necessary and that it was better that they were taken now rather than more drastic measures later in the year.

SATURDAY MAY 6 1989

Clampdown on insider trading

BUSINESS PERSONALITY OF THE WEEK

W/CAGES 6/5/89 58

By TOM HOOD
Business Editor

INSIDER trading is rife, has been freely practised and the perpetrators practise their craft with profit and immunity.

So, claims Mr Issy Goldberg, chairman of the South African Shareholders Association, which champions the rights of small investors.

But a clampdown is on the way. New legislation is expected to define insider trading — making share-dealing profits by illegal use of secret information — as common law fraud, and proposes fines up to R500 000 and imprisonment, he said in an interview this week.

And the president of the Johannesburg Stock Exchange, Mr Tony Norton, also attacked the concealment of price-sensitive information, which could tempt people to use the information. "Two levels of knowledge in the market is not acceptable," he said this week.

A study by an analyst has thrown up the names of dozens of public companies that delay the publication of dividend, profit and other vital announcements — sometimes for days — by placing an "embargo" on publication.

"The question of embargoes is totally unacceptable," said Mr Norton this week.

"Dividends, for example, must be reported immediately they are decided.

"Where this is not happening, companies are in breach of the JSE requirement about disclosure.

"We require companies to release the information immediately even if it is during the course of the day.

"They don't need to wait until after trading. Companies are supposed to publish news

(See Page 3)

P. T. O.

JSE insider trading clampdown

(From Page 1)

generally through Sapa and Reuter.

"If brokers have the information, they can protect their clients and advise them about buying or selling because they know somewthing is happening.

"It is unfair to give information under embargo to people. The temptation to use it must be there.

"Companies now have the technology to broadcast information as quickly as possible."

Simmering disquiet came to the boil this week when the JSE claimed it had found a prima facie case of insider trading in Ellis Park Stadium units and had handed the evidence to the Registrar of Financial Institutions for his consideration.

Buy out minorities

Ellis Park chief executive Dr Louis Luyt has denied any knowledge of insider trading by any party in units of Ellis Park Stadium on the Johannesburg Stock Exchange.

Ellis Park units were suspended on Thursday, April 20 ahead of an announcement that the controlling shareholder, the Transvaal Rugby Football Union (TRFU), was intending to buy out the minority shareholders.

JSE figures show 1,6-million Ellis Park units were traded in the 10 days before the suspension on April 20, when the Transvaal Rugby Union announced it intended to buy out the minority shareholders, and prices soared 20c to 100c.

Mr Goldberg said in an interview that section 233 of the Companies Act had wide powers to inhibit insider trading and it was surprising that there had never been a prosecution of an insider trader in the South African courts.

It was absurd to suggest that no insider trading ever took place.

Among reasons for non-prosecution were the fact that the Registrar of Companies and his staff were ill-equipped to adjudicate on contraventions and where he referred an alleged contravention to the Attorney General, no further action was taken, he said.

Common law fraud

Mr Goldberg, who was part of the team in Mr Justice Cecil Margo's shareholders advisory committee that structured a draft Bill dealing with insider trading, said the committee put in tremendous research into insider trading and studied all major stock exchanges of the world.

The committee opted to emulate American legislation, where the principle embodied common law fraud as being connected with insider trading.

This concept, as had been proved in the United States, widened the net in bringing anybody or any corporation to book despite devious conduits being employed through third parties or even innocent recipients of private information about companies.

Pressure of time had prevented the draft Bill coming before Parliament at last year's session but it was hoped that this year the draft Bill would become part of the statute book.

Confiscate books

The guardians policing insider trading would be vested in a new takeover panel proposed in the draft Bill, according to Mr Goldberg.

They would be empowered to take evidence on oath and to confiscate any books or documents they considered appropriate to the investigation.

Penalties recommended in the Bill were up to R500 000 in fines and/or imprisonment.

"In a recent decision of the appelate division in Britain, it was held to be unlawful for even innocent recipients of private information about listed companies affairs to act on the information.

"I believe those found guilty by the courts of insider trading may well open themselves to action for redress by victims of such insider trading. If this does not cure the reckless insider trading syndrome, nothing will."

Danger signal

A danger signal of insider trading was often where volume suddenly picked up, even if there was no change of price.

"Hopefully our legislation will follow American legislation, where insider dealing in securities is classed as common law fraud."

"American legislation gives courts the right to impose fines and imprisonment and they can order offenders to 'disgorge' or refund their profits," added Mr Goldberg.

B/Day 8/1/89 (58)

IMPORTANT CATEGORY LIMITATIONS

	PENSION FUNDS AND FRIENDLY SOCIETIES % OF ASSETS	LONG-TERM INSURERS % OF LIBILITIES	SHORT-TERM INSURERS
1. Part 1 assets (public sector securities, cash, etc)			
Investment limit per institution (Escom, Sats)	100	100	100
2. Fixed property	20	20	30
Investment limit per one property	30	30	10
3. Company shares (listed and unlisted)	5	5	5
Investment limit per one company	65	65	40
4. Mortgage bonds: fixed property	15	15	15
Investment limit per one property	25	25	25
5. Combined limit on investment in fixed property, company shares and mortgage	5	5	5
bonds.	90	90	70

☐ SOURCE: Department of Finance

Mandatory investments put onus on managers

MIKE ROBERTSON

CAPE TOWN — Finance Minister Barend du Plessis has disclosed the new investment requirements which will apply to insurers, pension funds and friendly societies.

The requirements are in accordance with the Financial Institutions Amendment Bill, which does away with prescribed asset status.

In terms of the Bill, the Minister may specify certain investment requirements and authorise the Registrar to grant exemptions on them.

Du Plessis said that under the new arrangement, much reliance was placed on managers and directors of institutions to ensure sound investment criteria were applied. Actuaries, where applicable, should advise on prudent asset allocation to match the spread and nature of relevant liabilities.

Actuaries would regularly have to confirm in writing that sound investment policies were being followed.

However, he considered it necessary to prescribe certain objective prudential requirements that could be departed from only with prior approval of the Registrar.

In view of the general interest that existed in financial markets as to these requirements, it had been decided make the details public.

Formal regulations would be published as soon as the amending legislation was published in the Government Gazette.

Institutions which were unable, at that stage, to adapt their investment portfolios to comply with the new requirements, would be able to apply for relief from the Registrar.

Du Plessis said the new dispensation would grant substantial relief to financial institutions, and would grant much more freedom regarding investment policies.

He added: "I must impress upon institutions that greater freedom goes hand in hand with greater responsibility. In particular I wish to express the hope that institutions will adjust their portfolios in such a manner as not to disrupt the financial markets, and in this way exercise any negative influence on the economy."

(58) (44)

BDay 8/9/89 (200) (58)

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Measures are 'temporary'

BDay 8/5/89 SS

CAPE TOWN — The wide range of restrictions, including increased interest rates and tighter HP conditions, were a temporary move which would be relaxed again as soon as possible, Finance Minister Barend du Plessis said on Friday.

The measures could be lifted "within a few months" but this depended on the co-operation of "each and every participant in the economy".

He said continuing strong expansion in domestic expenditure and extension of credit was cause for concern.

The country was living beyond its means. The measures, although painful, were urgently necessary to restore balance to the overheated economy.

Among the measures were:

☐ A one percentage point increase in the bank rate to 17%, but with accompanying government-sponsored relief measures for farmers, small businesses and lower-income home owners, who would be hard hit by the subsequent higher interest rates;

☐ A 10% loan levy on the normal tax payable by all companies starting at R5 000 and repayable after five years.

☐ A reduction to 15% in the surcharge on capital goods imports, but a stop to the large number of exemption permits granted except in exceptional cases.

☐ A 5%-10% increase from Monday in the minimum deposit for a range of goods bought on hire-purchase, and shortening of repayment periods.

CAPE TOWN — Details of changes in hire-purchase requirements announced by Minister of Finance Barend du Plessis are:

	EXISTING Deposit	EXISTING Term	NEW Deposit	NEW Term
Electrical and non-electrical appliances for domestic use	15%	18	20	18
Camping equipment, including tents, but excluding caravans	15%	18	20	18
Jewellery and parts thereof, including clocks and watches	15%	18	25	12
Photographic and cinematographic cameras enlargers and reducers and projectors including articles, but excluding equipment for cinemas and theatre, microfilm equipment and lithographic process cameras	20	18	25	12
Television receivers and accessories therefor, but excluding communal television aerial systems	15	24	20	18
Video cassette recorders and players and video tape recorders and players	25	12	30	12
Video cassettes and video tapes	25	12	30	12
Electronic television games	25	12	30	12
Motor vehicles, including commercial vehicles but excluding tractors, harvesting machinery, agricultural machinery and implements and irrigation machinery	30	42	30	36
Mechanically propelled road passenger motor vehicles designed to seat not more than 15 people including motor-cycles and motor tricycles	12	48	15	42

☐ The new terms and deposit rates come into effect today.

Cause for concern

Du Plessis said although there were indications of a slight deceleration in the economy, a number of factors gave cause for concern:

☐ The banks' credit provision to the private sector, which increased to R23bn last year, was still increasing at an unacceptable rate, with the result that the broad money supply (M3) figures for March indicated an annual growth rate of nearly 27%;

☐ Although foreign trade statistics for March were favourable and indications were that the balance of payments would show a surplus of about R1bn in the first quarter of 1989, SA's gold and forex reserves had not changed much. "This indicates a further large net outflow of capital in the first three mdonths of this year;"

☐ Interest rates in the most important Western industrial countries were still going up, and the differential between this and local interest rates had narrowed with the result that "leads and lags" of foreign payments and receipts were starting again.

☐ This year's gold price had so far remained well below the average level of $437 an ounce of last year.

☐ Large seasonal government expenditure at the start of the new financial year had decreased the Treasury balance and placed considerably more liquidity in the private sector;

☐ The inflation rate measured by the CPI showed an upward tendency.

Du Plessis said government saw the implementation of further restrictive measures as unavoidable in the light of economic goals for 1989/90.

"This policy package was put together to quickly address the current imbalance caused by a too-rapid increase in total demand," he said.

"The measures are intended to interfere as little as possible, and only temporarily, in the long-term objective of increasing total production."

On the one percentage point increase in Bank Rate, the Minister said government was aware interest rates were already at a level causing serious problems for various sectors of the economy.

As long as temporary measures were in effect, the Reserve Bank would arrange with the Land Bank that interest rates on farmers' short-term loans did not increase.

For small businesses which would be hard-hit by the increased rates, government would make a maximum of R100m available to corporations like the Industrial Development Corporation and the Small Business Development Corporation to provide assistance. Further details of this would be announced in due course.

Du Plessis said R50m would be made available by government to assist home-owners in lower-income groups whose bonds were not subsidised.

Usury Act rates would not be increased yet, providing a measure of protection to smaller borrowers.

Du Plessis said some taxation adjustments announced in March were beginning to have an effect and it was therefore deemed not necessary to make any more changes in, for example, GST.

Total overspending in the economy was, however, not only caused by individuals' consumer demand but also by large corporate spending.

Owing to general large liquidity conditions it was decided to institute a compulsory, negotiable loan levy of 10% on normal tax payable by companies.

The amount of the loan levy for each company would be based on normal tax payable for the previous year. If any loan levy was less than R5 000, that company would be exempted. The amount of the levy to be paid would be rounded off downwards to the nearest R100 to facilitate administration.

BUDGET VOTE: FINANCE

PRESENTATION ACCORDING TO STANDARD ITEMS

Items	1989/90	1988/89
	R'000	R'000
Personnel expenditure	249 107	179 001
Administrative expenditure	24 383	18 225
Stores and livestock	13 478	8 867
Equipment	12 406	11 535
Land and buildings	—	—
Professional and special services	24 987	21 764
Transfer payments	484 259	1 050 632
Miscellaneous expenditure	4 532	3 716
Amount to be voted	813 152	1 293 740
Amounts forming a direct charge on the State Revenue Fund. Commitments iro the State Debt and loans by community councils		
Interest	9 831 284	7 459 888
Management	129 680	133 890
Cost of raising loans	2 508 350	998 335
Redemption	11 000	10 991
	12 480 314	8 603 104
Less: Discount	2 508 350	998 000
	9 971 964	7 605 104
Total estimated expenditure	10 785 116	8 898 844

Departmental and miscellaneous receipts R325 056 000
1989/90: Officials earning R60 000 and more — 100
1988/89: Officials earning R59 200 and more — 90
Source: Estimates of Expenditure

The levy would be payable on or before July 31. Interest on the levy would be paid half-yearly at 16% interest per annum, and this would be taxable.

The levy would be repaid after five years. Certificates issued by the Treasury would be a negotiable document in the finance market. Du Plessis said the income from the loan levy was estimated at R750m. — Sapa.

Relief for farms an

THE Reserve Bank, in announcing the increase in Bank Rate by one percentage point to 17% from today, said on Friday it would ease the burden of higher rates for some borrowers.

These include farmers, small businesses and home-owners whose mortgage costs were not heavily subsidised by employers.

☐ The Reserve Bank will extend special facilities at a low rate of interest to the Land Bank to enable it to keep its short-term lending rates unchanged.

The expansionary impact of this credit expansion on bank reserves and the money supply will be offset by open market operation;

☐ The maximum interest rates on money loans and credit and leasing transactions, laid down under the Usury Act — 31% on amounts up to R6 000 and 28% on amounts between R6 001 and R500 000 — remains unchanged; and

☐ Additional financial assistance will be provided by the Department of Finance to the Industrial Development Corporation, the Small Business Development Corporation and other development corporations to enable them to keep their lending rates to small business as low as possible.

The Bank stated that, although previous restrictive measures had already started to take effect, domestic spending, which rose 6% in the first quarter of the year, was still too high.

It also said the increase in the rate of money supply was still excessive.

The Bank stated: "The need for a further tightening in monetary policy has been underlined by two recent external developments. The first is the decline in the dollar price of gold to around $376 an ounce, compared with an average of $437 in 1988, which naturally has adverse implications for both the balance of payments and economy.

"The second is recent increases in interest rates in Switzerland, Germany and several other European countries, follo[wing] movements in inter[est]...

"The resultant wi[...] real interest rates i[n] industrial countries, of a further deprecia[tion] a new outflow of sh[...]

The Bank said th[e] excessive rate of in[...] had led to a deprecia[tion] weighted basket of [...] since the beginning [...] decrease in 1988.

This depreciation [...] the rise in the quar[ter] consumer price inde[x] months of 1988 to 14[...]

The Bank said: "[...]

New moves put pressure on banks' margins

8 Day 8/5/87

58

GRETA STEYN

BANKS face a tough time of intense pressure on their margins after Reserve Bank Governor Gerhard de Kock's moves to tighten monetary policy on Friday.

They will be forced to cut down on credit to both companies and consumers — or face a struggle for survival as their margins are eroded.

As lender of last resort, the Bank will make loans expensive for banks needing extra cash. De Kock announced the Bank would raise its interest rates on overnight loans by 1,5 percentage points and that these loans would be available only in exceptional circumstances.

This takes the cost of overnight loans against liquid BA's to a punitive 20% — and, with the prime overdraft rate also at 20%, it means margins will be wiped out. Even more painful is the cost of overnight loans on non-liquid assets, ranging between 1% and 1,5% above prime.

Adding to the squeeze on margins will be De Kock's pledge to drain the market of liquidity through open market operations such as the selling of government stock.

Bankers held meetings on Friday to discuss strategies to curb credit extension. Most banks indicated that marketing of credit would take a back seat. When credit facilities came up for review they would almost certainly not be increased, and in some cases they would be decreased.

Consumers would probably have to bear the brunt of the lending squeeze, bankers said. Lending to individuals was a high enough proportion of total lending to make a difference to overall credit figures. Bank figures show lending to individuals amounted to 28% of total bank lending at the end of 1986.

Corbank earnings have slipped 43% in past year

BDay 8/5/89 (58)

CHARLOTTE MATHEWS

A SHARP increase in interest rates, combined with inadequate systems, led Corbank to show a 43% decline in earnings a share to 14,5c (25,4c) in its results for the year to March, released on Friday.

Assets increased 63% to R813m (R498m), "evidence that good progress has been made in the partnership concept within which Corbank conducts its business with clients," said executive chairman Laurie Korsten.


● KORSTEN

No final dividend was declared, but an interim dividend of 5,25c was paid. This compares with 1988's interim 4,5c and final of 5,5c a share.

Corbank is an independent merchant bank which concentrates on the corporate sector. Its main areas of activity are corporate services, investment banking, investment management and financial services, and interest risk management.

Poor performance of the capital and money markets and the investment management division in the past year was tempered by record profits from the corporate finance and investment banking divisions, and instalment finance and property departments.

"Effectively we have come to a grinding halt in the capital market, but we have at least stopped the losses," said Korsten.

"There were two problems in the department — people and systems — which meant we did not identify unrealised potential losses in the money and capital markets, options and fixed-interest rate-bearing assets in time.

"We lost 16 people in the whole division, and have instituted management changes to rectify the shortcomings."

Blackie Swart has been appointed senior GM of capital market and investment management operations, assisted by directors John Scott and Boetie Toerien. The risk management and capital market division is now run by Charles Snyman.

"We are confident these new appointments will materially assist in putting these two important areas of business on a sound footing, and allow us to expand our operations in this area," Korsten said.

The directors have also decided to transfer R5m from the general reserve to the contingency reserve to cover any shortfall in market value of investments at March 31 1989, and to meet inherent but unidentified losses which may be present in the portfolio of bank advances.

Other factors affecting results were the increasingly competitive banking environment, pressure on margins of all loans and advances, and the final write-off of bad debts from the old Hill Samuel & Co industrial finance book.

Korsten said the bank's strategy during the next two years would be to improve quality of staff and concentrate on specialised banking services by focusing on a few large projects, rather than many small transactions.

A separate division has been established for privatisation business, and Corbank is the leading bank advising on the privatisation of the SA Mint.

"We look forward to greater achievements in the quest for even higher standards in the market place during the new financial year," Korsten said.

Cpt Times 8/5/89

Flexipension outstrips inflation

By BRUCE WILLAN

STATISTICS show that the drop in income from salary to pension when a person retires is on average 70%, says Old Mutual's GM (marketing) Stuart Fish.

Fish says it is sound investment planning to make provision to bridge this income gap and to use the available tax concessions.

Old Mutual's retirement annuity (RA) business is booming and new business premiums rose nearly 28% in the 12 months ended December 1988.

Over the past two years the Flexipension performance has outstripped inflation with an investment performance of nearly 25% per annum.

The linked RA fund, the Performance Profits Portfolio, has risen sharply and is now well above the pre-stockmarket crash levels.

Standing at R1 700m, the fund is one of the largest RA portfolio's in SA.

Old Mutual's share of new RA's written increased again and now four out of every 10 retirement annuities issued in SA are Flexipension policies.

He adds that while the Old Mutual is pleased with the growth, the low level of savings in SA is still cause for concern.

"This low savings ratio persists in spite of the trend which suggests South Africans are becoming more aware of the need to augment their company pensions.

Rates rise; lenders hit, investors gain

ARGUS 8/6/89

58

By TREVOR WALKER
Financial staff

THE latest rise in interest rates will hit borrowers hard, particularly home-owners, but investors in participation bonds and building society and bank instruments will benefit in the months ahead.

First National has already increased its prime overdraft to 20 percent and said it would be reviewing its home loan rate today.

The further restrictive monetary and fiscal measures announced last week are designed specifically to cool consumer spending and the one point rise in the bank rate to 17 percent will inevitably lead to higher mortgage rates.

The top mortgage rate at 19 percent has risen by nearly 40 percent in the past 15 months.

Commercial bank executives said it was possible that the banks' prime overdraft could be hoisted two points to 21 percent in response to the higher bank rate.

They noted the announcement by the Governor of the Reserve Bank, Dr Gerhard de Kock that in addition to raising the bank rate "until further notice the bank will provide virtually no accommodation through repurchase agreements."

Economists said the fall in the gold price and rise in interest rates in Europe and the US had worsened South Africa's trading position.

One economist said it was understood that the country's foreign exchange reserves had fallen to dangerously low levels.

The increased HP requirements are restricted largely to household electrical goods, TVs, video cassette recorders and players, TV games, video cassettes and tapes, jewellery, clocks and watches.

Furniture, fridges and washing machines, etc are not included.

The new requirements which come into effect today will mean a higher deposit (between 20 and 30 percent) and a shorter repayment period (12 to 18 months).

The deposit requirement for cars and bakkies remains at 30 percent, but the payment term is cut to 36 months.

Mini-busses and motorbikes have had their deposits increased from 12 to 15 percent.

Prime and bonds set for 20 pc

New round of higher rates likely today

(58)

8/5/89

Commercial banks and building societies are set to announce further increases on a wide range of interest rates today in the wake of Friday's tough package of a higher Bank Rate, tighter hire-purchase terms and forced company loans.

All major banks are geared to increase their prime overdraft rates by 1 percent to 20 percent and many institutions are considering raising their home mortgage bonds to similar levels.

By Sven Lünsche

First National Bank, Volkskas, Allied and Standard have said they will be increasing prime from today to 20 percent. Spokesmen for Nedbank and Trust said that while the matter had not yet be finalised, it was probable they would also increase prime today.

Banks' spokesmen said that while the mortgage bond rate was likely to move upwards, the matter would be studied before any decision was taken.

First National Bank managing director Mr Barry Swart said that the bank would be discussing a bond rate rise today.

Squeeze

The United Building Society said it had not yet discussed the matter and Allied would wait for a week or so before taking any decision.

The tough restriction measures, announced jointly by the Ministry of Finance and the Reserve Bank on Friday, will squeeze hard-pressed consumers even further.

And economists fear consumers could be paying more over the next few months as the Reserve Bank has indicated it would be pumping more money out of the economy.

This will put a squeeze on the remaining funds on the money market and borrowers at non-prime levels could soon be paying 1,5 or 2 percentage points more than will be the case after the latest round of increases.

The package of measures announced included:

- A rise in the bank rate from 19 to 20 percent.
- A 5 to 10 percent rise in minimum hire purchase deposits and shorter repayment periods.
- A R750 million forced loan from companies by imposing a 10 percent loan levy on top of normal company tax payments.
- Easing of prescribed asset requirements for life assurers.

The measures will hit the consumer mainly through the likely rise in bond rates.

Monthly payments on a R50 000 bond will rise from R568, when the rate was 12,5 percent early last year, to over R800 at the impending 20 percent.

On a R100 000 bond, the monthly repayments over the similar period will have risen from R1 140 to over R1 600.

But Reserve Bank Governor Dr Gerhard de Kock said the Government was to consider "ways and means of expanding interest rate subsidies on certain categories of housing loans extended by building societies and banks".

It will apply to those home-owners whose mortgage costs are not heavily subsidised by their employers.

The Reserve Bank also said it would extend special facilities at a low rate of interest to the Land Bank to enable it to keep its short term lending rates unchanged, a move which it hoped would be of great benefit to the farming community.

Unchanged

The maximum interest rates of 31 percent on amounts up to R6 000 and 28 percent on amounts between R6 001 and R500 000 on money loans and on credit and leasing transactions laid down at present under the Usury Act would also remain unchanged.

Economists have meanwhile criticised the choice of stricter hire-purchase financing conditions in order to curb consumer spending.

They point out that consumer spending in general, and hire-purchase sales in particular, has already slowed down and that the recent rise in credit was largely attributable to the corporate sector.

The latest tightening of the screw reflects Government concern that consumer spending, investment and public sector outlays remain too high even after a series of sharp interest rate rises in recent months and a supposedly neutral March budget.

Government's inability to curb spending, especially in an election year, external factors such as the lower gold price and higher world interest rates have led to pressure on the reserves and rising inflation, they say.

Star 8/5/89

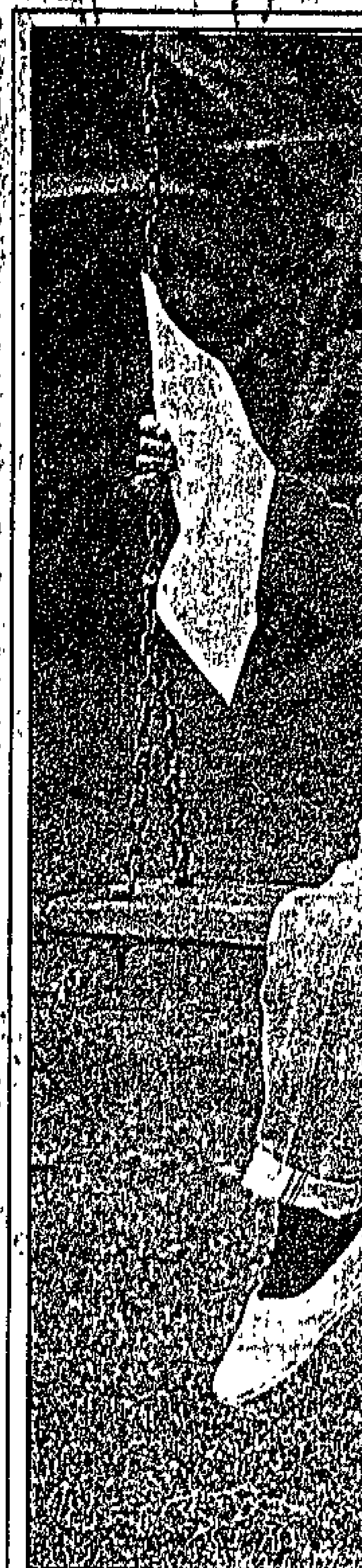
Mozambican forces kill 303

(218)

MAPUTO — The Mozambican armed forces killed 303 rebels during operations in the last week of April in the centre and south of the country.

A statement issued here said 287 rebels were killed in operations in the central province of Sofala. It said the rebels' infrastructure in the region had been "practically eliminated".

The statement said 16 other rebels had been killed in action in the southern province of Inhambane during the same period. — The Star's Africa News Service.



Nabbed ... Sophie Roos (4) reflecti

Taxman n

By Sue Olswang

A four-year-old Johannesburg gi taxed on the money she earns time child model.

Her parents, Mr and Mrs Ste Northcliff, now want to take t up with the Receiver of Revenue

"Our daughter, Sophie, is with an advertising agency, and, ally does television and magazi ling for which she receives, a modest fee," said Mr Roos.

"During 1988, she made R2 000, which is deposited in a s count and which we refuse to any reason. You can imagine o when the Receiver of Revenue

Prime and bonds set for 20 pc

New round of higher rates likely today

58

8/5/89.

Commercial banks and building societies are set to announce further increases on a wide range of interest rates today in the wake of Friday's tough package of a higher Bank Rate, tighter hire-purchase terms and forced company loans.

All major banks are geared to increase their prime overdraft rates by 1 percent to 20 percent and many institutions are considering raising their home mortgage bonds to similar levels.

By Sven Lünsche

First National Bank, Volkskas, Allied and Standard have said they will be increasing prime from today to 20 percent. Spokesmen for Nedbank and Trust said that while the matter had not yet be finalised, it was probable they would also increase prime today.

Banks' spokesmen said that while the mortgage bond rate was likely to move upwards, the matter would be studied before any decision was taken.

First National Bank managing director Mr Barry Swart said that the bank would be discussing a bond rate rise today.

Squeeze

The United Building Society said it had not yet discussed the matter and Allied would wait for a week or so before taking any decision.

The tough restriction measures, announced jointly by the Ministry of Finance and the Reserve Bank on Friday, will squeeze hard-pressed consumers even further.

And economists fear consumers could be paying more over the next few months as the Reserve Bank has indicated it would be pumping more money out of the economy.

This will put a squeeze on the remaining funds on the money market and borrowers at non-primo levels could soon be paying 1,5 or 2 percentage points more than will be the case after the latest round of increases.

The package of measures announced included:

- A rise in the bank rate from 19 to 20 percent.
- A 5 to 10 percent rise in minimum hire purchase deposits and shorter repayment periods.
- A R750 million forced loan from companies by imposing a 10 percent loan levy on top of normal company tax payments.
- Easing of prescribed asset requirements for life assurers.

The measures will hit the consumer mainly through the likely rise in bond rates.

Monthly payments on a R50 000 bond will rise from R568, when the rate was 12,5 percent early last year, to over R800 at the impending 20 percent.

On a R100 000 bond, the monthly repayments over the similar period will have risen from R1 140 to over R1 600.

But Reserve Bank Governor Dr Gerhard de Kock said the Government was to consider "ways and means" of expanding interest rate subsidies on certain categories of housing loans extended by building societies and banks.

It will apply to those home-owners whose mortgage costs are not heavily subsidised by their employers.

The Reserve Bank also said it would extend special facilities at a low rate of interest to the Land Bank to enable it to keep its short term lending rates unchanged, a move which it hoped would be of great benefit to the farming community.

Unchanged

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Star 8/5/89

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Corbank turns in dismal results

Star 8/9/89

By Ann Crotty

Inadequate management control systems appear to have been behind the sharp drop in net income suffered by Corbank in the 12 months to March.

It has reported a 42 percent drop in net income, after tax and transfer to contingency reserve, from R3,7 million to R2,1 million.

Attributable income was down from R3,5 million to R2 million, equivalent to earnings per share of 14,5c (25,4c). No final dividend is being paid.

The drop in earnings knocked net asset value from 250,9c a share to 220,5c.

The directors say: "The main reasons for the decrease are the sharp rise in interest rates and inadequate systems which did not identify unrealised potential losses timeously in the money and capital markets, options and fixed interest rate securities."

Although securities trading activities were the major problem area, losses were also incurred in the investment management division and there was a final write-off of bad debts from the old Hill Samuel industrial finance book.

The directors refer to the competitive environment in which Corbank operates and pressure on margins.

On the bright side, the corporate finance and investment banking divisions made an 'excellent' contribution and there was an above average performance from the instalment finance and property departments.

The performance in the trading division was presumably behind recent changes in personnel.

The directors say: "Management changes have already been instituted to rectify the shortcomings in both the capital and money markets and the investment management division."

Shareholders may take some comfort from the decision to streamline the group to that of a small speciality bank.

Fifth Trust Bank swindle suspect held

58

Cape Times 8/5/89 Own Correspondent

JOHANNESBURG. — Police arrested a fifth suspect late last week in connection with the R47m Trust Bank swindle and "further arrests cannot be ruled out", Johannesburg Commercial branch commanding officer Col Daan le Roux said yesterday.

Previously unnamed suspect Victory Park businessman Mr Ivan Handel, 45, appeared in Johannesburg Regional Court on Friday and bail of R300 000 was set. He will appear in court again today.

Two other suspects arrested two weeks ago — former Trust Bank senior clerk Mr Götz Guntenhöner of Roodepoort North and Oradan Investments employee Mr Rob Schreuders of Bryanston — appeared in the Magistrate's Court on Friday and their case was adjourned to July 7 pending further investigations and the extradition of Oradan Investments director Mr Niko Schefer. The two men were earlier granted bail of R30 000 each.

Cape Times 9/5/87

Cost benefits of mergers

Financial Editor

SUGGESTIONS that SA has too many financial institutions, that it is over-banked or that there are too many life assurers and building societies, should not dismay members of the Institute of Life and Pension Advisers (Ilpa), Southern Life executive chairman Neal Chapman said yesterday.

Opening the three-day Ilpa convention in Cape Town, he said: "These calls address the cost benefits which should flow from mergers and acquisitions, which are expected to reduce the number of institutions in the marketplace to a precious and prosperous few.

"I think we should be quite clear that rationalization will not of itself improve the quality of financial advice being given in the marketplace.

"There will always be both room and demand for the truly professional financial consultant and an equally great demand for personal attention to the client's needs."

Chapman said that in recent years "there have been those in authority who spoke and behaved as though they had forgotten the enormously important role which our industry plays in offering an avenue of savings for even the lowest income levels.

"We have all become familiar with the term 'level playing fields' and there are leaders of institutions other than life offices who misuse the phrase to suggest that either our industry performance should be reduced or the quality of returns which we offer the small saver as well as the larger investor are too high — a logic which I find totally confused.

"We are a nation in transition — a nation where savings per capita have fallen dangerously low.

"We are also a nation which needs to demonstrate to the potentially millions of new savers just how our industry goes about its business of creating and protecting wealth."

Platinum	$533,10
Palladium	$160600
Raw Sugar	£182,60

Star 9/5/89 (58)

Spectre of home repossessions looms

By Sven Lünsche

The spectre of home repossessions and the collapse of small businesses is looming in the wake of the rise in interest rates yesterday.

All major banks increased their prime rate to 20 percent and many financial institutions are set to raise mortgage rates to similar levels.

Home-owners will be hard hit because their repayment rates have soared over the past 16 months and many are already defaulting.

Payments on a R50 000 bond, which were R568 a month early last year when the interest rate was 12,5 percent, will jump to R800.

Repossessions

Building societies at present charge 18,75 percent on mortgage bonds, with the exception of Saambou, which charges 19 percent. Of the major banks, First National, Trust and Volkskas quote 19 percent. The rest charge 18,75 percent.

Banks and building societies said yesterday there had already been numerous repossessions of homes and the situation could worsen with higher rates.

The institutions are meeting with the Reserve Bank today in order to discuss the subsidy to home-owners at the lower end of the market.

But not only home-owners are struggling.

Similar to the situation in 1984-85, when interest rates hit 25 percent, many small businesses are unable to meet repayments on loans and are going into liquidation.

Recent figures from Central Statistical Services confirm that liquidations and insolvencies are on the rise. Many economists fear that the situation could deteriorate drastically if interest rates rise further.

● See Pages 11 and 15.

Bankers in home loan talks

Cape Times 9/5/84

SA 103

Own Correspondent

JOHANNESBURG. — Senior representatives of banks and building societies meet Reserve Bank officials today to discuss home loans, bankers said yesterday.

They expected the main topic of discussion to be government's financial assistance to homeowners at the lower end of the market.

Details of the extended subsidy scheme, which was announced on Friday, would be hammered out.

Government has set aside R50m to grant temporary assistance to lower income homeowners who do not receive other subsidies, as well as improving the existing scheme for first-time homeowners.

Meanwhile, all the banks are expected to announce increases in their mortgage rates soon.

The announcements have been put on hold until after today's meeting, but First National and Trust are expected to announce a 1% increase to 20% today.

The building societies are not expected to announce increases in home loan rates immediately, but Sapa reports the Allied said it would wait a week before taking a decision.

CAPE TIMES 9/3/87

58

Call for more stable interest rates

Financial Editor

THERE is a danger that political pressure will be applied to bring interest rates down before the election — resulting in disastrous consequences to the economy next year, Trust Bank economists Nick Barnardt and Jacques du Toit warn.

Describing this as "the major single risk factor" to monetary and fiscal discipline, they say in their Econovision overview that interest rates should be more stable, remaining always above the inflation rate.

Listing reasons for this, they say that over the past decade extreme interest rate instability has had a disruptive effect on individuals and business enterprises.

"Sharp declines in interest rates, and especially negative real rates, repeatedly caused exploding credit creation and consequently balance of payments deficits.

"The latter were then repeatedly reflected in sharply higher interest rates, exchange rate depreciation and rising inflation.

"Time after time these trends were later followed by lower credit spending, balance of payments surpluses and declining interest rates.

"The best way to break out of this straitjacket of instability and avoid extreme interest rate peaks is to minimize interest rate reductions in economic downswing phases — and to consistently keep interest rate levels visibly above the current and expected rate of inflation."

Barnardt and Du Toit point out that "continuing foreign debt repayments require relatively high interest rates to promote higher saving and productive use of scarce capital.

"Domestic rates must also be high relative to overseas rates, to prevent outflows of short-term capital and the accompanying exchange rate instability."

And, they say, "the statistics of the past three decades suggest that low real interest rates structurally undermine domestic job creation by artificially promoting the use of import intensive capital equipment."

More banks lift prime

Cape Times 9/5/89

58

JOHANNESBURG. — The announcement yesterday by Trust Bank, Nedbank and the United Bank that their prime overdaft rates are to be increased by 1%, means that all major SA commercial banks have now increased their prime rates.

Trust Bank and Nedbank are to increase prime rate from 19% to 20% with immediate effect, while United Bank's rate is to move up to 18,75% from 19,75% effective today.

First National Bank, Volkskas, Allied and Standard banks have already announced a rise in prime rate to 20%.

The banks' spokesmen said that while the mortgage bond rate was likely to move upwards, the matter would be studied before any decision was taken.

First National Bank, however, would be discussing a bond increase today, MD Barry Swart said.

The United Building Society said that it had not yet discussed the matter, and the Allied would wait for a week before taking any decision.

● The Paarl-based Boland Bank group also announced yesterday that it has joined the major banks in increasing its prime overdraft rate by 1% to 20%. — Sapa

Prime rates up

(58)

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Nedbank and the United Bank that their prime overdraft rates are to be increased by one percent, means that all major South African commercial banks have now increased their prime rates.

Sowetan 9/5/89

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First National Bank, Volkskas, Allied and Standard Banks have already announced a rise in prime rate to 20 percent with effect yesterday.

Hansard

(1) Whether the State President's Office has been informed of or is investigating the possibility of the involvement of foreign intelligence agencies with certain persons, whose names have been furnished to his Office for the purpose of his reply; if so,

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

B712E

The MINISTER OF LAW AND ORDER (for the State President):

(1) Heed has been taken of allegations that have been made in this regard.

(2) It is an established principle that no public comments are made concerning any foreign espionage activities or counter-measures undertaken in this regard by the National Intelligence Service, owing to the fact that this could seriously impede the RSA's counter-espionage activities. If, in the case that has been mentioned, or any other similar case, concrete evidence should be discovered, the appropriate steps shall be taken.

Ministers:

Unemployment Insurance Fund: contributions

*1. Mr F J LE ROUX asked the Minister for Administration and Privatisation:†

Whether (a) temporary and (b) permanent officials in the Public Service contribute to the Unemployment Insurance Fund in terms of the Unemployment Insurance Act, No 30 of 1966; if not, why not?

B794E

†The MINISTER FOR ADMINISTRATION AND PRIVATISATION:

(a) Yes.

(b) No. According to section 2(2)(l) of the Unemployment Insurance Act, 1966 (Act 30 of 1966) officers appointed in terms of the Public Service Act, 1984 (Act 111 of 1984) are not regarded as contributors to the Unemployment Insurance Fund.

Mozambique: names of visitors

*2. Dr W J SNYMAN asked the Minister of Defence:†

With reference to his replies to Question No 6 on 21 February 1989 and Question No 19 on 11 April 1989, (a) what are the names of the persons who visited Mozambique in mid-December 1988, (b) at whose invitation did the visit take place and (c) what amount was contributed by each of these persons in respect of the cost involved in the visit?

B824E

The DEPUTY MINISTER OF DEFENCE:

(a), (b) and (c). Following several Government visits in 1988 to various countries in Africa, the Governing Party of Mozambique invited at its own initiative a small visiting group of the South African Governing Party to visit Mozambique. The visiting group consisted of members of the House of Assembly and the President's Council.

The Department of Foreign Affairs was informed in advance of the visit.

The Mozambican Government carried the costs of the visit. The SA Defence Force was requested to supply a Dakota for the return flight. The cost of the return flight was R5 264,00 while the cost of recreation during the wekend was carried by the members of the group themselves. It is not known to me how much was spent by each member.

†Dr W J SNYMAN: Mr Speaker, arising out of the reply of the hon the Deputy Minister, I wish to refer him to the question on the Question Paper. The question was what are the names of the persons. From his reply I must assume that it was not only members of the Government who were invited to participate in that visit. The question asks clearly which members of the Government went on the visit. [Interjections.]

†The DEPUTY MINISTER: Mr Speaker, if the hon member understands Afrikaans, he must have listened to the reply to the question. I said they were members of the Government. Secondly, I repeat the invitation of the hon the Minister of Defence. If the hon member wishes to know these names he can approach me, but he will only be told confidentially. [Interjections.]

†Dr W J SNYMAN: Mr Speaker, further arising out of the reply of the hon the Deputy Minister, if the names are confidential, must we accept that these members of the Government paid this visit to Mozambique in secret? [Interjections.]

Hansard

Mr D J N MALCOMESS: Mr Speaker, further arising from the answer of the hon the Deputy Minister, may I ask if it is the intention of the Department of Defence that they should hand out lollipops, in other words free trips, to members of the governing party at the taxpayers expense and then not advise this Parliament, which votes the money, as to who has benefited from the payment of the taxpayers money? [Interjections.]

The DEPUTY MINISTER: Mr Speaker, I can only repeat what I have already said. We can confidentially give the hon member more information. What he said is not true. There are other interests at stake which I am not prepared to divulge at this moment.

Mr K M ANDREW: Mr Speaker, further arising from the answer of the hon the Deputy Minister, may I ask him whether Mr Peet de Pontes was one of the members who went on the tour? [Interjections.]

†Dr W J SNYMAN: Mr Speaker, further arising out of the reply of the hon the Deputy Minister, must we accept that he is not prepared to say what hon members of the Government were invited, as this is a secret? Do the other hon members who were not invited know that some hon members went to Mozambique? [Interjections.]

†The DEPUTY MINISTER: Mr Speaker, I am not aware of what other hon Members do or do not know. [Interjections.]

Transferral of provisions of Group Areas Act

*3. Mr R A F SWART asked the Minister of Constitutional Development and Planning:

(1) Whether any consideration has been given to transferring the handling of applications for exemption from the provisions of the Group Areas Act to any other Government Department; if so, (a) what consideration and (b) for what reason;

†(2) whether any other Government Department has been requested to handle such applications; if so, (a) what other Department, (b) what was its response and (c) what were its reasons for making this response?

B875E

†The DEPUTY MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) and (2) The hon the Minister will make a statement on this matter today.

Military service reduced

*4. Mr D J DALLING asked the Minister of Defence:

(1) Whether he announced on or about 20 April 1989 that military service in terms of section 22(3)(*b*) of the Defence Act, No 44 of 1957, was to be reduced; if so,

(2) whether this applies to (a) persons (i) currently rendering community service in terms of section 72E(3) of the said Act and (ii) liable to render such community service in the future and (b) persons who (i) are currently and (ii) may in future be serving prison sentences for refusing to render military service; if not, why not; if so, what are the relevant details?

B876E

The DEPUTY MINISTER OF DEFENCE:

(1) No, military service in terms of section 22(3)(*b*) of the Defence Act, Act No 44 of 1957, will not be reduced. The hon the Minister said that Citizen Force and Commando members will not be called up for periods longer than 30 days at a time and also that it is envisaged that Citizen Force members in the sixth cycle, will not be called up. These concessions can only be granted as long as permitted by the security situation.

(2) Falls away.

Senior Citizen Bonds: interest rate

*5. Mr R R HULLEY asked the Minister of Finance:

Whether it is his intention to review the interest rate payable on Senior Citizen Bonds which have paid a fixed interest rate of 15 per cent per annum for the past two years; if so, what are the relevant details; if not, why not?

B877E

†The MINISTER OF FINANCE:

No, there are no plans to increase the interest rate on the Senior Citizen Savings Bonds at this stage.

Sechold's profit rise is a creditable performance

4 Day 9/5/84 58

HAROLD FRIDJHON

SECURITIES Discount House Holdings (Sechold) gave a creditable performance for the 12 months to March with disclosed taxed profit rising to R9,4m from R8,1m.

This improvement of 18,5%, reported in a second interim statement — the financial year-end has been changed to June 30 — is noteworthy because of the steady increase in the interest-rate pattern during the the second six-month period.

The final dividend will be declared at the end of the 15-month period.

One must observe with some cynicism that the disclosed profit for 12 months is almost nearly double that reported for the first six months because of the smokescreen "net income after providing for tax and transfers to inner reserves".

That said, one assumes these transfers are a consistent percentage of taxed profit in which case the Sechold group's trading in assets — in the money market as well as in the bond market — was successfully carried out with knife-edged sharpness at a time when interest rates were rising.

Big profits are made when rates drop and markets are bullish.

MD Arthur Kelly said yesterday during the past 18 months interest rates had almost doubled.

Functions

This had necessitated limiting the the holding of stock and taking positions.

At present the discount house's book has been considerably reduced.

Profits had been cut to take advantage of market moves and to achieve a satisfactory outcome. Sechold was still performing some of the traditional functions of a discount house.

Deposits were received from the banks and other institutions but this was relatively low-key compared with its main business, which was trading and dealing in securities.

Sechold has a 30% stake in the Interbank Discount House and the group is also part of a consortium which has a 70% holding in National Discount House.

Kelly emphasised these two operations were totally separated from Sechold and that any dealing between them was done entirely at arms' length.

There was not, nor ever had been, any question of these two businesses being merged into Sechold.

The report said Interbank had shown a marked improvement in its earnings.

When the final dividend is declared after June 30, shareholders will, for the time being, not have the option of taking bonus capitalisation shares in lieu of a cash payout.

Top level talks on home loan scheme

B/Day 4/5/87 (58)

GREETA STEYN

SENIOR representatives of banks and building societies meet Reserve Bank officials today to discuss home loans, bankers said yesterday.

They expected the main topic of discussion to be government's financial assistance to home-owners at the lower end of the market. Details of the extended subsidy scheme, which was announced on Friday, would be hammered out.

Government has set aside R50m to grant temporary assistance to lower income home-owners who do not receive other subsidies, as well as improving the existing scheme for first-time home-owners.

Meanwhile, all the banks are expected to announce increases in their mortgage rates soon. The announcements have been put on hold until after today's meeting, but First National and Trust are expected to announce a one percentage point increase to 20% today.

The building societies are not expected to announce increases in home loan rates immediately, but Sapa reports the Allied said it would wait a week before taking a decision.

Going back to the basics

B Day 14/7/89 . 200 58

PROFESSIONAL financial advisers need to take a fresh look at each of their basic assumptions when recommending retirement funds to their clients, Old Mutual assistant GM Reg Munro said yesterday.

For example, there were numerous factors to consider before deciding whether a client would best be served by a defined benefit (DB) or defined contribution (DC) style of fund.

These included: future salary increases compared with rates of investment return; the need for inflation protection; the importance of ancilliary benefits such as life cover and spouse's benefits; career expectations; and company contributions.

"It is very easy to do projections over a period of 30 or more years, when the outcome of such projections are predetermined by the adviser's assumptions. The client's assumptions could be fundamentally different — and could indicate a need for fundamentally different advice.

"For example, an unskilled white collar worker's salary expectations would be for increases that kept pace with inflation. A professional person, on the other hand, can reasonably expect to see a real growth in annual income.

"When making projections, it is necessary to consider several options based on totally different assumptions. This will at least make it possible to identify and assess potential risk areas which need to be taken into account," he said.

While he conceeded that the need for such advice is limited, since only employer groups can choose between DB and DC funds, he believed this could change in the future.

"In the UK new legislation has given all individuals the option of leaving their company-sponsored pension funds, provided they enter an alternative scheme.

"Locally, the Mouton Commission is investigating the issue," said Munro, who serves as secretary on the commission.

He called on Ilpa to spell out some guidelines for a comparison of the projected benefits brovided by DB and DC retirement funds.

"The adviser must consider whether his client will have better or worse salary increases than the average for all fund members. The better his increases, the more benefit there is to his staying in a DB fund.

"Secondly, the adviser needs to consider whether his client's increases will be occur evenly throughout his career, or will tend to by higher early in his career and decreasing later or vice versa.

"Early increases lead to better benefits from a DC fund and later increases lead to better benefits from a DB fund," he explained.

The timing of a change in fund, should clients be in a position to exercise such an option, is also a major issue, Munro said.

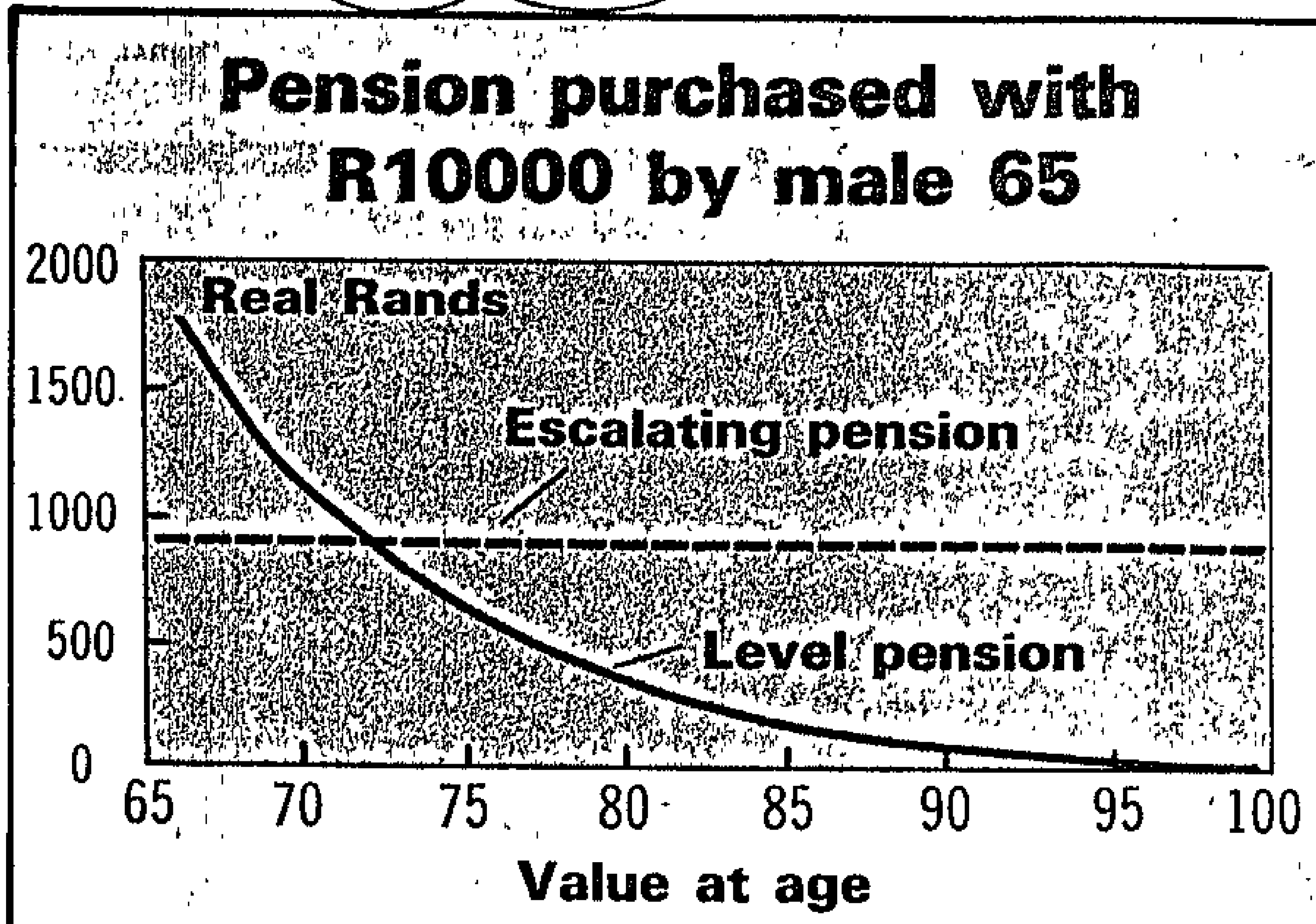
While some funds still pay out early leavers' personal contributions plus a low rate of interest — usually in the area of 3% or 4% — there is a slow trend towards improved early leaver benefits, especially for members of long standing.

Financial advisers must ask about their clients' expected career changes, to establish whether early leaver benefits are likely to be improved before a client leaves a scheme.

Munro also accused Ilpa Fellows (Filpas) of failing to sell increasing pensions to clients with retirement annuities when they reach retirement age.

"A blatant error I have often seen in comparisons between retirement annuity projected pensions and DB pensions has been the equating of a level pension with an increasing pension."

He also criticised Filpas for "not clamouring for life offices to offer a variety of pensions offering at least some protection against future inflation".



Graphic: LEE EMERTON

'Good marketing the secret of success'

BD 9/5/89

58

THE present take-up of life policies and investment-related life cover at the lower end of the market was unmatched anywhere else in southern or central Africa, according to Neil Chapman, chairman and CE of Southern Life.

This was largely the result of innovative marketing and product creation, he said, but it had drawn fire from other financial institutions competing with life houses for a relatively limited market.

He told delegates at Ilpa 89 yesterday that representatives of banks, building societies and government had criticised life offices for offering an excessively high quality of returns to small and large investors alike.

"In recent years people in authority have behaved as though they had forgotten the important role our industry plays in offering an avenue of savings for even the lowest income levels," he said.

"People in high places refer to the life assurers as 'fat cats'.

"And we have all become familiar with the term 'level playing fields'. There are leaders of institutions who misuse the phrase to suggest that either our industry performance should be reduced or that the quality of returns which we offer the small saver as well as the larger investor is too high!"

NEIL CHAPMAN

According to Chapman, about 30% to 40% of new individual life business being undertaken by Southern is with members of the lower income groups.

"We are a nation in transition, in which savings per capita are now dangerously low, and which needs to encourage the small saver.

"We must demonstrate to the millions of potential new savers just how our industry goes about its business of creating and protecting wealth.

"And it is vitally important, if we are to have a peaceful and prosperous future, that we be encouraged in the pursuit of our special role in the financial sector," he said.

Chapman also denied allegations that life companies were "fat cats, paying too little in tax and not doing enough to promote jobs and build houses".

"Life companies do not own the assets which they manage. Every cent on the balance sheet belongs to a client, and in the case of proprietary life offices, the capital belongs to the shareholders.

"Our investments and reserves have to enable us to perform in the short term against inflation and in the long term, to enable us to meet our contractual obligations.

"Given the contingencies against which our planning has to be done, 'fat cat' is hardly an appropriate term."

Chapman maintained, too, that in view of an absence of international banking credit — once the engine of SA's development — SA was forced to turn to the life industry to fund essential major projects.

Because of this, he said, there was a limit to which life houses could be expected to finance small business development or housing.

Industry observers claimed SA had too many financial institutions and that rationalisation was essential — but Chapman denied this.

"These calls address the cost benefits which should flow from mergers and acquisitions, which are expected to reduce the number of institutions in the market place to a precious and prosperous few.

Quality

"Rationalisation will not of itself improve the quality of financial advice being given in the marketplace.

"There will always be room for the truly professional financial consultant, and an equally great demand for personal attention to the clients' needs," he said.

Because of this, Chapman said, Ilpa played a vital role in the marketplace.

He said the industry had originated in order to meet two needs — the individual's need to ensure that money would be available in the future, and the client's need to be sure that his premium would be invested for sufficient return.

Bank signs R600 000 contract with ICL

B Day 9/5/89

(58) TANIA LEVY

THE International Bank of Johannesburg has signed a R600 000 contract with ICL for the supply of the Bankmaster back office banking system.

The system includes Bankmaster PC software and the 80386-based PC 3000 file servers which will link other PCs under a token ring network.

Bankmaster is already installed at all Standard Charter Bank branches outside SA, in neighbouring states, as well as SWABank in Namibia.

ICL recently concluded an agreement with Kindle Systems in Ireland for the exclusive distribution of the system suited to the needs of financial institutions.

ICL MD Fred Luyt says the world of finance has always been a leader in the application of information processing.

Lots of changes at Duros Merchant Bank

LIZ ROUSE

DUROS Merchant Bank (DMB) has acquired the minority 44% interest in Duros Projects, and Mike Bolton, previously MD of Duros Projects, has joined the DMB board.

Bolton and his team will continue to focus on new product development in the merchant banking area.

Reg Sherrell, one of the co-founders and chairman of DMB, feels the DMB has reached the stage where it has established itself in the financial services industry.

Sherrell thinks it is an appropriate time for him to confirm his plan to retire. Johan Claasen will be the new DMB chairman and Charles Turner the new MD.

THROUGH THE ROOF: The cost of buying a house is soaring beyond the means of many home buyers — and bringing with it the spectre of repossessions. All major banks increased their overdraft rates this week and many financial institutions are set to raise home loan rates. Mortgage rates have rocketed in the past 16 months and many buyers are already defaulting. Payments on a R50 000 bond which were R568 a month early last year, could jump as high as R800 in July.

The battle of the middle class to own a home

ARGUS 10/5/89

58

The Argus Correspondent, Johannesburg

ECONOMICS

MORE and more home owers are defaulting on bond repayments and there has been an increase in the number of homes being repossessed, banks and building societies have disclosed.

And in another development this week, consumer organisations appealed to financial institutions for greater leniency towards home owners and called on the state to stabilise the situation.

This comes as banks and building societies are poised to increase their bond rates in the wake of Friday's package of austerity measures.

The measures announced simultaneously by the Ministry of Finance and the Reserve Bank covered a wide range of curbs, most prominent among them a one percentage point hike in the bank rate, which is almost inevitably followed by an increase in prime and bond rates.

Immediate

Most major banks and building societies now charge either 18,75 or 19 percent on their bonds. While building societies are only able to raise their rates from July 1, banks can lift their rates to 19,75 or 20 percent immediately.

And most have indicated that they will do so this week.

Monthly repayments for many homeowners soared to levels substantially higher than when the bond rate was quoted at 12,5 percent only 16 months ago.

South African Consumer Council chairman, Professor Tobie van Rijn, yesterday appealed to financial institutions to be as lenient as possible, saying home owners should not have to lose their houses through circumstances beyond their control.

Overextended

He also cautioned about undue optimism as there was "absolutely nothing to indicate the situation would improve".

"Prices are running away. The situation is dire the consumer is dramatically over-extended and just cannot afford their bonds anymore.

"An increase in bond rates hits you far harder than when the price of cigarettes goes up. It is the biggest investment that most people make and an enormous number of people are being hit. The state needs to take immediate action, stabilise the bond rate and make provision for subsidy."

Housewive's League president, Mrs Lynne Morris, said increasing numbers of women were being forced into the workplace, many of them placing month-old babies in creches.

"The problem started when banks began offering outrageously high bonds, encouraging people to live way beyond their means," she said.

"Now they're grabbing business with one hand and waving two fingers in the air with the other."

She said the increased rates would push inflation up further "leaving us right in the cactus come July".

Allied Group spokesman, Mr Fritz Rieseberg, said the number of people falling behind in bond repayments was up noticeably on that of last year, and the trend followed for repossession.

Repossession

SA Permanent Building Society assistant general manager (public relations), Mr Peter van Broembsen, confirmed a high incidence in the number of loan defaulters, but was yet unable to say whether there had been appreciable increase in cases of repossession.

However, he stated that home owners viewed repossession as a last resort and would usually attempt to sell their houses first.

United Building Society assistant general manager, Mr Kevin Mac Gregor, said more and more people were extending their period of repayment on bonds.

Accommodate

Like all the other financial institutions questioned, he said repossession was more trouble than it was worth and encouraged home owners running into trouble to visit their bank manager who would do their utmost to accommodate clients.

An employee of The Star (sister newspaper of The Argus) yesterday appealed for assistance from his bank manager (not the UBS) but was turned down flat.

His bond repayments increased from R1 047 in September last year to R1 705-plus. He is considering letting a section of his house to make ends meet.

Another man interviewed by The Star faces losing his house as his bond repayments have rocketed by about 60 percent over the past year.

His 16 percent salary increase at the end of last year was a candle in the wind of the increases.

Shortfall

He estimated that initial payments of R940 a month in May last year (now up to R1 430) would rise to about R1 600.

He has already taken a second loan to offset his current shortfall.

"When I took the bond at 12 percent I believed that I was acting prudently. I was in a position to cope with a reasonable increase in the bond rate and had also been assurred that there was little likelihood of an increase."

His only option is to send his wife to work and place his nine-month-old baby in a creche.

"The middle class man is taking a huge beating."

Citi Times 10/5/89 (58)

Provident funds 'necessary'

Financial Editor

THE provident fund movement is "absolutely necessary for the evolution of retirement provision in SA and therefore to be encouraged whenever possible", Bill Haslam, MD of Time Life, said at the Ilpa convention yesterday.

Explaining that there were sound reasons why black trade unionists preferred provident funds which made lump sum payments on retirement to pension funds providing an income for life, Haslam said: "It may not be the best solution from a First World standard but it is a genuine attempt to meet the specific needs of a rapidly learning labour force."

He said there was a feeling among some black workers that they would not live long after retirement and money accumulated on their behalf would be lost on their death if it were paid in the form of a pension.

Lump sums were preferred by retiring black people for three main reasons: "Pensions are difficult to collect when the pensioner lives in some rural spot far away from a post office, building society or bank.

"Often they have to cash the pension cheque at the local trading store. The cost of cashing this cheque has in some cases amounted to as much as 30% of the face value of the cheque.

"Lump sum payments at retirement have not been large amounts but have been sufficient to purchase a number of head of cattle, a small house and, most important, provide dignity for the retired employee.

"Lump sum provision at retirement does not mean that employees must take their benefits in the form of a lump sum. Provident funds have in certain instances offered retiring members the option of putting all or part of the cash proceeds into an immediate annuity.

"Where this was appropriate, the retiring employee took up the offer but the important thing to note is that it was at his own instance and not that of someone else.

"However," Haslam continued, "the most compelling case that I find for provident funds has nothing to do with the merits or demerits of cash at retirement.

"Instead, it has everything to do with the acknowledgement of the human dignity of employees generally."

He said it was feared that after the release of the 1981 White Paper suggesting compulsory transferable pensions, which aroused black opposition, "there was a period in which we were unsure of the way in which black employees would regard retirement provision.

"There was a very good chance at that time that they would work actively against any form of retirement provision and instead rely on State schemes, using their current earnings to meet current consumption.

"This very real danger, however, did not materialize and our fears were laid to rest with the emergence of the provident fund movement."

Cape Times 10/5/89 (58)

SA forex reserves up by R40,77m

PRETORIA. — SA gold and foreign exchange reserves rose by R40,77m in April to R5,16bn after rising R24,94m to R5,12bn in March, Reserve Bank figures show.

Gold holdings, the largest component of total reserves, rose R46,03m to R3,71bn after a steep R487,87m jump to R3,66bn in March.

In volume terms gold holdings increased to 4,19m ounces from 4,10m ounces.

Gold was valued lower at R882,96 an ounce against R892,36 in March.

The gold share of total reserves increased to 71,87% in April from 71,55% in March.

Foreign bills remained at zero, while investments fell to R120,24m in April from R127,29m in March.

Other assets were barely changed at R1,33bn.

Total liabilities rose to R20,12bn from R19,91bn.

A year ago total foreign exchange reserves stood at R5,88bn and the gold component thereof at R4,91bn. — Reuter

Special report

ILPA

Professionalism, legal developments, and investment planning were among the topics covered yesterday during the second day of the second annual convention of the Institute of Life Pension Advisers (Ilpa) in Cape Town. **VAL PIENAAR reports.**

Judge emphasises integrity

A HIGH level of professionalism calls for both diligence and integrity, Judge Pat Tebbutt said yesterday, when he called on Ilpa members to work together to raise the standards of the life assurance industry.

"Closely related to industry and diligence is the exercise of sound judgment. One must understand one's client's requirements before one can advise the client," he said.

Tebbutt said the legal profession had links with the insurance industry dating back to the 16th century. So he believed the ethical standards governing his profession were appropriate for insurance advisers.

In both cases the professional needed to act in good faith and in the best interests of his client.

"The concept of 'the utmost good faith' applies to all insurance, including life. Honesty is, by virtue of long entrenchment in our law, a requirement in insurance."

Provident funds 'are essential in SA'

B/Day 10/5/89

58

PROVIDENT funds may not provide the perfect solution to the retirement needs of SA's workforce, but they are essential to the evolution of retirement provision in SA, Time Life MD Bill Haslam said at Ilpa 89 yesterday.

"The most compelling case for provident funds has nothing to do with the merits or demerits of cash at retirement — and everything to do with acknowledging the dignity of employees," he commented.

Haslam was responding to the views of pressure groups in favour of forcing employees to accept pensions rather than a lump sum payout on retirement.

The opponents of provident funds believed most individuals would lack the expertise to invest a large lump sum wisely, and would fall into financial difficulties and become a burden on the state.

"Even though they admit this is what the members specifically want, they believe in their wisdom they are far better placed to determine the solution to the employee's needs.

"In fact, I have yet to hear of a retired member who has lost all his money because it was paid in the form of a lump sum."

Haslam said the reason most retiring black workers preferred a lump sum payout was that pensions were difficult to pay when the pensioner lived in a remote rural area.

Retiring members could also take up an option to invest in an annuity if this suited their circumstances.

Haslam said the state's and employers' attitudes towards retirement funding had tended towards the paternalistic for the past two decades, while black workers had strongly resisted any attempt to foist unwanted pension schemes on them.

Pension withdrawal benefits were often the only financial source retrenched workers had during the last recession.

This reinforced the common view among blacks that pension funds were intended either to alleviate hardship during a period of unemployment, or to serve as a nest egg when returning to the rural home.

BILL HASLAM

Haslam cited an HSRC investigation which indicated that 53% of urban blacks — as compared with 21% of whites — believed pension contributions should be paid out at times of unemployment.

"It is hardly surprising black workers should feel aggrieved at the imposition of legislation which would prevent them from enjoying the fruits of the pension fund.

"Some workers perceived preservation as a device introduced by government to impound their benefits. This, with such issues as the requirement that 53% of the pension fund's assets be invested in government stock, has created an aggravated sense of suspicion about the industry," he said.

This situation was worsened by the fact that, according to the HSRC report, 40% of urban blacks — compared with 7,2% of whites — did not believe that their employers contributed to the fund.

But Haslam said the growth of the black trade union movement could help improve the situation.

"The movement has become very articulate concerning the way pension funds should be structured and the nature of the benefits to be provided."

Haslam attributed the preference for provident, rather than pension, funds to the fact black workers tended not to expect to live long after retirement.

Because of this the pressure for payment of retirement benefits in the form of cash lump sums continued.

"After the release of the 1981 White Paper, which led to considerable unrest before it was dropped, there was a good chance that black employees would work actively against any form of retirement provision. Instead they could have relied on state schemes, using their current earnings to meet current consumption.

"Our fears were laid to rest with the emergence of the provident fund movement — which said, in effect, that the employees had agreed with the principle of setting aside current income to meet their needs at retirement."

This was a major step forward, he believed, which indicated the workforce wanted its retirement provision to be funded through the private sector, rather than "some government pay-as-you-go system".

"If the design of the provident fund movement turns out to be faulty, reappraisal will be done through the experience of the employees rather than through advice from experts, which is questionable in the employees' eyes.

"Instead of proferring advice which will be mistrusted, we must support the union's actions, gain their confidence and allow the learning process to take its course."

Finance scheme for the big-ticket deals

B Day 10/5/89. 58

TANIA LEVY

AN APPARENT loophole in HP regulations is allowing National Panasonic to offer easy credit to buyers of TVs, audio and video equipment.

The finance scheme — offered through Barlows finance group Barbrook Investments to retailers — allows consumers to buy big-ticket items with a smaller deposit and longer repayment periods than those now mandatory for HP deals.

OK Bazaars furniture and appliance marketing director Arthur Solomon says National Panasonic offered the scheme to his chain before government announced its austerity measures in Parliament on Friday.

He added it had been incorporated into the OK's annual National Panasonic promotion.

The Barbrook scheme demands a 12% deposit and 24-month repayment period as opposed to the 20%-30% deposit and 12-18 months repayment period stipulated in new HP regulations.

Solomon says the scheme allows immediate transfer of ownership to the customer. In HP deals ownership does not change hands until later.

"The scheme operates on the lines of a credit card deal," he says.

National Panasonic MD Terry Millar could not be contacted for comment last night.

Beares and Russells are believed to have run similar schemes in 1984

Retailers said last night Beares was again running similar financing packages on National Panasonic products Attempts to confirm this with Beares directors were unsuccessful.

PA '89 national convention

BDay 10/5/89 (55)

Syfrets Trust director on tax havens

A TRIED and tested method of minimising tax payments is to keep one's money outside the country of one's residence, says Syfrets Trust director David Cloete.

Addressing delegates at the Ilpa conference in Cape Town yesterday, he outlined some aspects governing the selection of a suitable tax haven, and referred to a few havens favoured by local businessmen.

He defined a tax haven as a jurisdiction which a principal used in a transaction but which did not itself play an integral part in the transaction.

He cited the example of multinationals with holding companies in Luxembourg for tax benefits, while their activities were conducted elsewhere.

In the case of SA residents, he stressed that advisers could not recommend that clients hide the existence of foreign assets from the Exchange Control authorities.

A second case was that of the individual with substantial local assets who intended to emigrate. However, the incidence of such cases was slowing down.

Thirdly, he said the establishment of a tax haven would be useful for people intending to work in a high tax regime.

"Concerns requiring international expertise are often forced to strike a deal with migrant employees to pay part of their salaries into a protected fund," Cloete said, citing Mossgas as an example.

"Mossgas has had to draw heavily on foreigners to assist with one of the largest training programmes of its kind in the world.

"It is part of the package of those employees that they get protection from taxation in their home countries via tax havens. The same usually applies to expatriates working on the Middle Eastern oil fields," he added.

Cloete said local companies and individuals wishing to start a corporate venture abroad could also take advantage of tax havens, as could local companies selling their skills or patents overseas.

INVESTMENT

ARGUS 11/5/88 58

R500 000 fine mooted for JSE insider trading

Business Staff

PENALTIES for insider trading have been sharply increased — up to half a million rands in some case — in a new bill presented to Parliament.

Fines for various insider trading offences are increased fourfold for most offences, by the Companies Amendment Act.

The Act will also set by a Securities Regulation Panel to regulate securities trading and investigate insider trading.

A memorandum to the Act says that "to serve as a deterrent, a severe penalty is prescribed for any contravention of the provisions relating to insider trading, mainly because the profits to be made by dealing in insider information can be exceptionally high".

The highest penalty of a fine not exceeding R500 000 or 10 years prison or both is reserved for any company, director officer or person contravening section 440F (1) or (2) of the Act makes it an offence for any person in buying or selling securities to:

- Employ any device, scheme or artificie to defraud any person.
- Make any untrue statement of a material fact or omit to state a material fact in a statement to try to make it seem not misleading.
- Engages in any act, practice or course of business which operates or would opeate as a fraud or deceit upon any person.

The clause states that any insider trading will be deemed to be one of these above offences.

The Bill prohibits any any director, past director or officer of a company or any person connected with a company having knowledge of any information likely to affect the price of securities from dealing in such securities within 24 hours after the information has been publicly announced on the stock exchange or through the media or other means.

The Bill also sets up a Securities Regulation Panel to regulate take-overs and mergers of companies.

It says that at the moment there is nobody to do this and the lack of adequate regulation leads to severl cases where minority shareholders and other persons involved are treated unfairly.

The new panel would protect their interests.

The principle upon which it would function was self-regulation by the private sector and so all the members of the panel, except the Registrar of Companies and the chnairman of the Competition Board, will be nominated by the Johannesubrg Stock Exchange and reprasentative bodies engaged in the securities industry.

The panel, will be empowered to make its own rules rearding take-overs and mergers and will have the power to investigate any take-over or merger.

The panel will also exercise control over insider trading and to investigate cases of suspected insider trading.

It will act as a forum where complaints regarding insider trading can be lodged.

ARGUS 11/5/88

Clicks directors get R2,5-million

Business Editor

THE six executive directors of Clicks Stores have been given restraint of trade payouts averaging R433 000 and costing the company more than R2,5-million.

This is disclosed in the financial statements accompanying the group's annual report.

A spokesman said the one-off payments were made to ensure the continuation of the present management team and were considered particularly important since the takeover by Score last year.

A number of other companies have made payouts to prevent the poaching of key executivers by competitors.

In his review, chairman Jack Goldin said four new executive directors joined the management in the past year — Peter Green, financial director, Ben le Roux, operations director; Robin Spengler, human resources director; amd David Danziger, managing director of Diskom group.

They joined Trevor Honneysett, managing director and Raymond Godfrey, merchandise director.

"The performance and ability of the executive team, who have been with Clicks for many years, is reflected in the impressive results consistently achieved over a number of years," said Mr Goldin.

Mr Honneysett, in his annua review, pointed out that al though stocks are tightly con trolled, they are running "a li tle high" as the governm... surcharges last year tended ... inhibit consumer spending.

However, on the positiv side, the group now had a wi range of merchandise with average Clicks store offe 10 000 different items.

Hansard

45 001 – 50 000	49 603	965	867	349
50 001 – 60 000	55 159	799	812	340
60 001 – 70 000	24 779	252	326	127
70 001 – 80 000	12 043	70	174	40
80 001 – 90 000	6 573	36	68	16
90 001 – 100 000	4 026	26	67	6
100 001 – 150 000	7 336	36	109	9
150 001 – 200 000	1 898	5	39	2
200 001 – 250 000	702	0	11	1
250 001+	901	3	11	5
Total	1 421 711	236 519	124 603	305 518

NOTE: The above statistics do not include taxpayers under the Final Deduction System.

Contract for sale of pinewood

332. Mr C B SCHOEMAN asked the Minister of Environment Affairs:†

(1) Whether his Department has entered into a contract for the sale of pinewood for the manufacture of paper with a certain company, the name of which has been furnished to the Minsiter's Department for the purpose of his reply; if so, (a) on what date (i) was the contract entered into, (ii) did it come into effect and (iii) will it lapse, (b) what quantity of wood was so sold and is to be so sold in each year of the contract, (c) at what price is this wood being sold and (d) what is the name of the company concerned;

(2) whether he will make known the terms and conditions of the existing contract; if not, why not; if so, what are these terms and conditions?

B676E

The MINISTER OF ENVIRONMENT AFFAIRS:

(1) Yes.

(a) (i) Original agreement entered into the 1950, new agreements entered into in 1967 and 1975

(ii) 1 May 1950, 1 April 1967 and 1 April 1975

(iii) 31 March 2000.

(b) and (c)

See answer to paragraph (2) hereunder

(d) SAPPI Limited

(2) No. The contents of existing contracts are confidential and can only be made known if the other party agrees, and no other legal reasons exist for not making the contracts known. Terms and conditions of new agreements will be made known to interested parties.

Personal bodyguards for members of Parliament

344. Mr A GERBER asked the Minister of Law and Order:†

(1) Whether during the latest specified period of 12 months for which figures are available any members of Parliament made use of personal bodyguards provided by the South African Police; if so, what was the total cost involved;

(2) whether he will furnish the names of the members of Parliament concerned; if not, why not; if so, what are their names?

B751E

The MINISTER OF LAW AND ORDER:

(1) and (2)

In terms of a decision of the Cabinet on 25 May 1988, approval was granted for Ministers and Deputy Ministers to use members of the South African Police as drivers/bodyguards in the interest of their personal safety. However, it is not in the public interest or in the interest of the safety of Ministers and Deputy Ministers to make known information regarding this matter.

However, I am prepared to furnish this information to the honourable member on a confidential basis should he approach me for that purpose.

Hansard

Petroleum products: excise duties

426. Mr R R HULLEY asked the Minister of Finance:

What total amount was collected in net excise duties in respect of petroleum products in the (a) 1987-88 and (b) 1988-89 financial year?

B847E

The MINISTER OF FINANCE:

(a) R443 679 026.53

(b) R479 651 651.26

Land and Agricultural Bank: housing loans

486. Mr J B DE R VAN GEND asked the Minister of Finance:

What total amount of money was on loan to employees of the Land and Agricultural Bank in the form of housing loans as at 31 December 1988?

B925E

The MINISTER OF FINANCE:

R28 146 068,21

Banks show interest in Mauritius

58

7/5/89

The Star's Africa News Service

PORT LOUIS — UK-based Barclays Bank has become the first bank to apply for an offshore banking licence in Mauritius.

Banking sources said several other international banks had shown an interest in starting offshore banking here which is expected to attract South African capital.

Among those are the Banque Nationale de Paris Intercontinentale, Habib Bank, Baroda Bank, Hongkong and Shanghai Bank, the Rothschild Group and Bank of China.

The sources said some of the banks were unhappy with some of the regulations. No other details were given.

Recently the World Bank said in a report that the "level of regulations were bordering on the burdensome".

"A major potential source of funds to an offshore Mauritian bank is likely to be unofficial and official capital flight from less stable countries," the report said.

FNB raises home loan rate to 20 pc

Finance Staff

First National Bank announced yesterday that its home loan rate was to be increased by one percentage point to 20 percent with effect from May 23.

The move is likely to be followed by other banks and building societies, although building societies can only lift their bond rate with effect from July 1.

"This move mirrors the increase in the Reserve Bank rate and reflects the tight conditions at present being experienced in the money market," Mr Jimmy McKenzie, the senior general manager said.

R170m forex swindle: Man sought in UK

Cape Times 12/5/89

58

Mr Oliver Hill

JOHANNESBURG. — The Witwatersrand Attorney-General's office is preparing an extradition order for insolvent chemical magnate Mr Oliver Hill, currently in Britain, to face charges of foreign exchange contraventions and fraud totalling R170 million.

Witwatersrand police said Mr Hill, 50, was wanted by the Commercial Branch. A warrant for his arrest was issued on Wednesday in the Johannesburg magistrate's court.

Mr Hill, formerly of Torwood Avenue, Forest Town in Parktown, left South Africa in December 1987.

Police said Commercial Branch detectives, assisted by the Reserve Bank, were investigating charges of fraud, alternatively forgery and uttering, and a second set of charges relating to foreign exchange control contraventions.

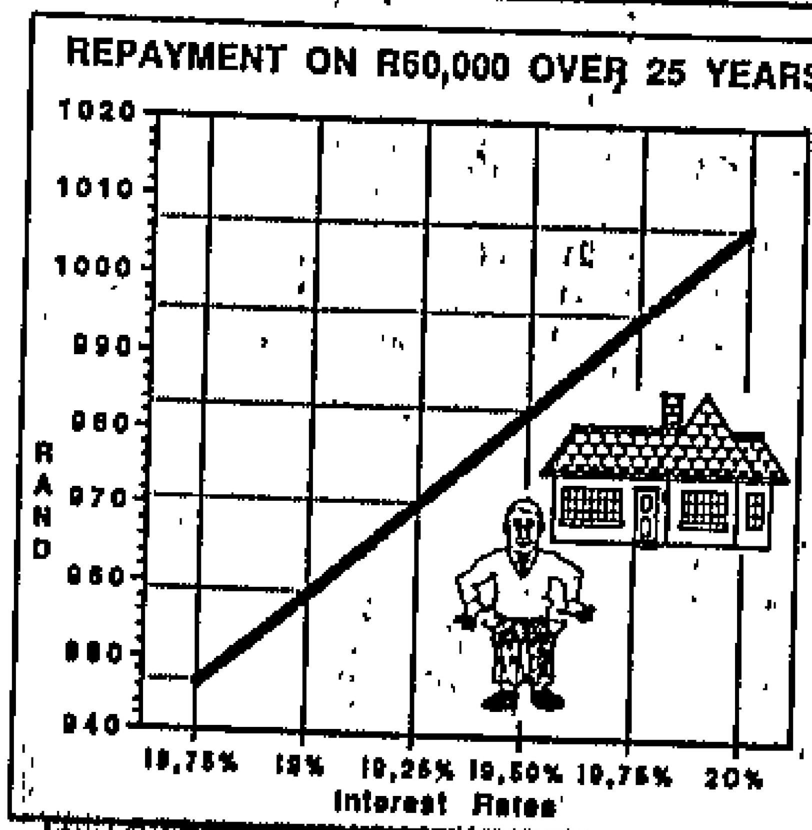
The forex allegations were described as the "single biggest" case of its kind yet exposed.

Police said the forex irregularities stemmed from the sale of forged Eskom stock certificates to foreign companies and individuals. They said monies were obtained through other fraudulent transactions.

● The Eskom stock certificate scam — uncovered in 1987 — was reported to police by a stockbroker who noticed an Eskom stock certificate bearing the same serial number as another certificate with a different rand denomination.

It is believed that foreign companies and individuals bought the forged Eskom stock with the cheaper finrand. The certificates had apparently been altered to appear as if they were owned by an SA resident, ensuring that when they were sold the proceeds would be in commercial rands.

Star 13/5/89



REPAYMENT OVER 25 YEARS ON:	18,75%	20%
R70,000	R1,105	R1,175
R80,000	R1,262	R1,342
R90,000	R1,420	R1,510
R100,000	R1,578	R1,678

Cash buffers for homeowners

● FROM PAGE 1.

● "Capping" loans. Instalments are frozen for periods of up to five years. The total amount owing may rise during the "capping" period, but the facility is a buffer until times get better.

● Where margins permit, bond payments can be waived for six months.

Low-cost housing is a sector of the market that is certain to take a knock as bond rates rise and building costs spiral. There has already been a big drop in housing sales in this sector

Mr Matthew Nel, managing director of the residential development division of the Urban Foundation, says: "The houses we were selling 15 months ago to families with an income of R500 a month now require an income of R1 250 a month — and this figure does not take into account an additional one percentage point rise in the mortgage rate"

Banks and building societies do not expect to see a significantly higher rate of repossession in this area. Subsidies from the public and private sectors are acting as buffers as rates increase.

Mr Brian Kemmey, deputy managing director of the Perm, says: "Incidents of default are no more prevalent among blacks than in the white sector. It is our experience that the black homeowner is a good payer and a responsible borrower."

Mr Kemmey does not expect to see the current high interest rate pattern maintained for long.

Mr Mike de Blanche, managing director of the United, says: "We might well see a slight increase in repossessions, but I have no doubt that the austerity measures will be short-lived and that interest rates will drop later this year.

...ancial strain

"The ... oubt, too, that unlike the market downt... about four years ago, there is a much greate... degree of confidence, both politically and economically, in the country and property values a... increasing."

Mr de Blanche is convinced that the man who can buy a home at present interest rates will not feel any financial strain in the future.

The banks, too, are apparently confident that repossession will not be a worry

Mr Pat Lamont, chief manager of the home loans division of First National Bank, which has raised its rate from 19 to 20 percent from May 23, says: "Foreclosure is not a significant factor on our total loan book of R4 billion

"We talk to borrowers on an individual level, and are working responsibly to overcome any problems so that we can avoid getting to the repossession level"

Mr Lamont believes that, with about 60 percent of home borrowers being subsidised either by the State or business, there is a cushion effect to rate increases.

Although none of the property experts interviewed by Saturday Star disputed that foreclosures would increase in the wake of a higher mortgage rate, they did not expect the increase in repossessions to be significant.

Natal Building Society's number of repossessions at present, in relation to its total book of borrowers, is only 0,29 percent, and (while Mr Bradshaw expects this to rise in the wake of the freeze) the increase will be "infinitismal".

Star 13/5/89

Message of optimism for home owners

FRANK JEANS

"COME in and talk, don't just give up. We can always work out something."

That is the message banks and building societies have for homeowners facing the threat of repossession of their property as the economic crunch tightens.

Homeowners are bracing themselves for a bond rate of 20 percent after the wide-ranging economic curbs announced by Minister of Finance Mr Barend du Plessis.

Top management spokesmen say foreclosure is a last resort decision taken when a borrower is unable or unwilling to meet his obligations.

"But there are a great many factors to be put together before a decision on repossession is made," says Mr Terry Bradshaw, southern Transvaal manager of the Natal Building Society.

The bondholder is usually notified twice after three months of arrears, and the society insists t... t... has to do is to ... problem over w... management ... compromise.

Only after a final demand letter will the foreclosure process be put into action, and at any time — even up to zero hour — repossession can be halted by a borrower's pledge to resume payments.

There are a number of ways in which the lending institutions can assist the borrower who finds himself stretched to the limit.

● TO PAGE 2.

Homes still in demand

TODAY'S issue of The Star Property Guide is the biggest yet with 180 pages, indicating the demand in the market place for homes even in the wake of rising interest rates and Finance Minister Barend du Plessis's austerity package.

The Property Association section of the guide is inserted in Weekend.

We'd laugh if it wasn't so painful

S Star 13/5/89

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IF it wasn't so serious it would be very funny, if not downright ironic, they way the economy is being managed at present.

Finance Minister Barend du Plessis warns that South Africa runs the danger of becoming a "banana republic" if consumers do not stop spending and the banks do not stop granting credit.

He could have fooled many people who have long held the view that we already display several symptoms of a "banana republic". These include a declining currency, a high inflation rate, a high level of public and private corruption and a general distrust of people in authority.

Money Matters

Magnus Heystek

In fact, if international credit ratings are anything to go by, South Africa currently ranks as a "high-risk country" as far as investments are concerned, lodged between Ghana and Indonesia, according to *The Economist*.

Can you blame foreign investors for not investing in a country with a high inflation rate (whatever it officially might be) and a currency seemingly on a permanent downward trend?

Spending

Barely two years ago Mr du Plessis, aided and abetted by the monetary authorities, urged the consumer to take up credit and to start spending in order to get the sluggish economy out of its Rubicon speech-induced nosedive.

Even respected and admired Dr Gerhard de Kock, governor of the Reserve Bank, commented on "the reluctance on the part of the consumer to take up credit and start spending".

After several economic stimulatory packages, which included a loosening of monetary policy by means of a gradual reduction in the interest-rate pattern, massive salary increases for civil servants, the repayment of several loan levies and other measures to induce consumers to start spending again, consumers eventually responded. And respond with vigour they did.

Interest rates were reduced to artificially low levels, dropping at the end of 1987 to a low of 12,5 percent, which was below the inflation rate. Financial institutions embarked on a massive credit-enticement spree. Homeowners were lured into taking up 100 percent bonds on houses (in some cases even more) and buying goods on the never-never while rates were kept down artificially.

Growth

In 1988 consumption expenditure increased in real terms by as much as 7 percent while the growth in the money supply during the year was 25 percent, way above the target growth rates set between 14 and 16 percent at the beginning of the year.

During the first quarter of 1989 it was obvious that consumption expenditure was not reacting to the import surcharges announced during August 1988 and several increases in the prime overdraft rate and other important rates since April last year.

According to the latest figures consumption expenditure was still growing at an annualised rate of 6 percent, which was far too high considering the state of the country's level of foreign exchange reserves. This problem was exacerbated by the declining gold price which further exposed the calamitous position South Africa was in.

Barely six weeks after the Budget it was necessary to announce further restrictive measures to protect the country's balance of payments, and more importantly the country's currency exchange rate.

Bonds

That these announcements were made barely four months before a general election underlines the severity of the situation. Homeowners who have bonds with building societies will, in the almost certain case of increased bond rates, make their first higher mortgage payment in July, barely weeks before they have to go to the polling booths.

Government is now wondering why consumers cannot (or will not) stop spending. But if the price of an imported products, like motor cars, television sets, video recorders or golf clubs, is continually rising at a rate much faster than the inflation rate due to the depreciating currency, why would they postpone purchases until later? Consumers are voting with their hard-earned money.

What makes the situation even more ironic is that Government is now calling on consumers to cut down on spending while its record of profligacy in recent years as been appalling.

Not once this decade has Government expenditure come even close to the budgeted figure. On average, Government spending has overshot the budget figures by 5 percent a year during the 80s, with an overshoot of 8,8 percent in 1984/85 — the worst year.

Each year the public has had to listen to the litany of excuses why Government was not able to balance its books. Now it is expecting the public to reign in its spending. One wonders if they are going to set an example.

Meanwhile, Mr Average Consumer is going to keep on spending his rapidly eroding money on imported goods until Government steps in once again with more hard-hitting austerity measures until they get the message.

And if you do not belong to one of several protected groups like civil servants or farmers, prepare for the worst possible scenario during 1990.

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New-look Nedcor looks after everyone

By Ian Smith

NEDCOR, the one-stop financial services empire formed last year by Nedbank's R180-million acquisition of the Perm building society, is growing — and not only by acquisition.

The brilliant first-half results announced two weeks ago contained an element of recovery from Nedbank's heavy fall four years ago. But there was an encouraging strong element of natural growth.

Nedcor chief executive Piet Liebenberg says: "Somewhere we shifted gears. I cannot pin down exactly when it happened, but we moved from recovery to a stage of growth from a normal base."

With good team culture developing with the building society partner and the promise of benefits of synergy and rationalisation still to come, Mr Liebenberg says the outlook is "very good".

Piet Liebenberg ... managing the risks in prudent fashion

But, as a practical banker, he says a more cautious view must prevail after the authorities' latest moves to cool the economy.

"It is difficult to predict how we will perform until we can see the effect of the new measures on the economy as a whole, the money market and, more particularly, on interest margins," says Mr Liebenberg.

All the signs are that bank margins will come under pressure again — a development foreshadowed by JSE reaction, particularly in the banking sector.

FOCUS ON A BANKING REVIVAL

The new Nedcor, however, should be cushioned to some extent by the Perm as building societies tend to do better in times of rising interest rates because of their long-term funds deposited at historic rates.

The more volatile pattern of the banks, however, comes into its own when rates fall.

Any major problem by mortgage holders in maintaining higher repayments after increased bond rates will inject another factor into the difficult conundrum.

But the group has been through difficult times before, many of them not of its own making.

Much will depend on the performance of the economy. Mr Liebenberg accepts that there are three views: That the cooling measures were essential, that the economy was slowing anyway, and that the latest moves contained a degree of overkill.

He says accepting that the group is not heavily involved in consumer banking, it cannot discern a marked downturn. "We have been in a steady position."

Nedcor's main preoccupation is in implementation of its long-term plan. The final objective is to have a group which has several well-balanced profit-generating units that will work in different cycles.

[redacted]

"That is not easy, and it is probably not possible to do it completely," says Mr Liebenberg.

"But the new group, as a whole, is better balanced and we are closer to our target."

He says no accounting allowance has been made so far for the benefits of synergy and rationalisation in the merger. "There will be some, but to make a bad pun, we have not banked on them."

The injection of the Perm has added another market segment in which the old Nedbank did not operate.

"There is little overlapping in our operations," says Mr Liebenberg.

The traditional Nedbank position has been in the upper end of whichever market it has operated in. The bank itself has tended to concentrate on the corporate end of the business, and the addition of the Perm has brought an exposure to the general retail market.

Two separate market research surveys indicate that both Nedbank and Perm hold strong positions in their own segments.

"They have both been around for 100 years and the surveys show it would be unwise to meddle with their separate identities," says Mr Liebenberg. "We do not want to disturb their images."

The Perm's traditional social conscience poses no problems. There is a place for every consumer in the group.

"We do not have to break into any new ground. Whoever the customer is, we have a company which will look after his needs. As clients' demands become more sophisticated, we have an operation to serve them."

In the country's main streets there will not be any visible change. Nedbank will not change its traditional concentration on the corporate sector, and the Perm's attitude to small accounts will remain. But the total group will inevitably become more involved in individual banking.

[redacted]

"There will be no inviolate dividing lines. We cover the spectrum of the financial services market — from merchant banking to the individual retail market," says Mr Liebenberg.

"Everyone has become a potential client and we can provide something for everyone. I cannot see any conceivable financial service which we cannot handle and we will emphasise this strength."

He sees opportunities for cross fertilisation in the group, particularly because demand for more sophisticated banking services grows. But this is not the only area of potential growth.

Nedcor is still in the market for acquisitions, but: "There are some things which appear attractive, but they are not always possible.

"We do not have anything on the table right now, but we are always looking.

"We live in a fast-changing industry — deregulation and inflation alone will make heavy demands on the banking sector."

He says the group has gone to inordinate lengths to prevent any repetition of Nedbank's forex losses and domestic commercial disasters of the mid-1980s.

"We have established what we believe are realistic and prudent guidelines within which every manager must operate. Circumstances are constantly changing.

"We are in a risk business. All we can do is manage the risks in the most prudent possible way."

Business Times Reporter

S (Times) 14/5/89

4/ SUNDAY TIMES, Business Times, May 14, 1989

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Insurers battle for business

By Robyn Chalmers

MARKET-rocking tactics are being used by some major insurance companies as they try to gain more business, says a broker.

Michael Duncan, deputy managing director of Price-Forbes Federale Volkskas (PFV) Rand, says the tactics result from the soft state of the insurance industry, which is nearing the bottom of the traditional market cycle.

"One tactic has been quick settlement of motor theft claims, some insurers paying after only two weeks. Others are paying within four weeks. Historically, the normal waiting period is six weeks.

"Another tactic relates to motor accident claims where the insurance company will recover its costs from an uninsured third party who is proved negligent.

"The recovery of these costs may stretch over many months and even years. As the money comes in, some companies are offering to first pay back their client's excess before recovering their own expenses."

Mr Duncan says that quicker payment on motor theft claims may be a practical and pragmatic approach because statistics show that if a stolen car is not recovered within the first two weeks, it is invariably a total loss.

"Further signs of the soft market are that aviation insurers have been giving premium rates guaranteed for 18 months, and some general insurers are removing unnecessary obstacles to claims settlements by not calling for signed agreements of loss.

"This rocking and jostling for a competitive edge can be expected to continue into the early part of 1990 when the market is likely to begin to harden again."

Lenders offer life-belts to home-owners

ST Times 14/5/89

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BANKS and building societies are leaning over backwards to help people who are struggling to keep their homes because of crippling interest rates.

Mortgage rates are now hitting 20% a year.

Several institutions have called on customers not to default on payments, but to go to branch managers for help.

"The last thing we want to do is repossess," they say.

Sharp

Institutions do not publish foreclosure statistics. But First National Bank, Allied Bank and the Perm confirm that since the last round of rate increases a few months ago, the number of defaulters has risen noticeably.

They fear increases could lead to a sharp rise in repossessions. These, however, will only filter through later because the legal procedure takes about six months.

FNB was the first institution this week to announce a rise in its mortgage rate from 19% to 20%, effective from May 23.

Senior general manager Jim McKenzie says: "I know it is tough on them, but we appeal to borrowers to see their branch manager if they have a problem. Something can be worked out."

Other institutions say they are likely to follow FNB with rates of between 19,75% and 20%.

Peter von Broembsen, financial director of the Perm, says the increase in defaulters has been noticed among all income groups

By Udo Rypstra

and is causing "considerable concern".

Since early last year, when banks and building societies were involved in a rate war for market share, interest rates have almost doubled from 11%, adding about R500 to the instalments on a R100 000 bond over 25 years.

Instalments on a 20-year R80 000 bond have increased from R987,80 a month a year ago to R1 296,80 (at 19%).

Increases in repayments have been less on smaller bonds, but are affecting sales to first-time buyers, who are subsidised.

Don Hunter, treasury chief of the Allied, says struggling borrowers can extend repayment periods or opt for fixed rates. The latter are pegged by the Allied at 19,25% for one year, 19,5% for two years, and 19,75% for up to five years.

One building scheme already hit by rate increases is the R2-billion Blue Downs coloured housing project in the Cape where owners are battling to stay within budget. Sales agents believe the higher interest rates may bring the project to a standstill until rates drop to more affordable levels.

One sign of distress is a large supply of houses for sale. A newspaper property supplement in Johannesburg this week ran a record 180 pages.

Property experts have been confounded by the spending spree on houses, but believe the latest rate rise may have burst the bubble.

Demand

Until now, it has been a seller's market with a shortage of good, realistically priced houses. Both the Standard Bank and the Perm report that in spite of high finance charges, there has been a steady demand for housing loans and bonds. Standard Bank wrote R100-million of new business last month after R120-million in March.

Alda Real Estate says sales of houses have started to taper off in Johannesburg and Pretoria because buyers fear further rises in interest rates.

Chairman Alda Geffen hopes sellers will now price their property more realistically.

Bond rates send families reeling

Sowetan 15/5/84 58

By NTHABI MOREOSELE

THE increase in mortgage bonds has sent residents of the townships' elite sections reeling.

Many bought homes when the rates were about 13 percent. The house was affordable and there was extra money for school fees, furniture, groceries and clothing. Then the bond rate was raised to 16 percent. There were grim faces but the bond was paid.

When the bond was increased to 18.75 percent, many families tightened their belts and economised on a large scale. The bond has now been increased to 20 percent.

Miss Pearl Mogae, a single parent with two children lives in a three-bedroomed house in Daveyton. She does not receive maintenance from her former husband who is unemployed. Miss Mogae says that budgeting her finances would be a pointless exercise.

"You cannot budget if practically all your money goes to pay the bond on the house," Miss Mogae said.

"I stopped thinking about buying clothes at the last increase. The current increase will make my situation worse. It means I have to buy essentials only. Polony, cheese and milk are luxury foods now.

"Forget about red meat. It is now a month-end treat. We live on eggs, mince and wors. I will have to cut mince if the rates go up again.

"We live from hand to mouth. I look forward to payday with desperation."

Miss Ros Monaheng of Garankuwa has cancelled a deal to buy a house.

"Anyone would be crazy to move into a new house right now," she said.

"The rates are too high. Who knows, they may be worse in the very near future."

A resident of Spruitview who declined to be named, said many people were talking of cancelling their houses or selling them.

"Everyone is reeling from the news," she said. "It is a nightmare. At present we are paying R900 a month. This is steep but the new rates will paralyse us.

"Those caught with unpaid furniture bills are unfortunate. I do not see how they will keep up payments.

"The bills were paid with the money that will now be gobbled up by the bond," she said.

Austerity poses threat to the small business

Star 15/5/89

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By Sven Lünsche

A repeat of the 1984/85 collapse of small businesses is looming in the wake of the Government's austerity package.

The restrictions placed on hire-purchase financing, higher interest rates and the forced company tax levy could see the financial position of a number of smaller companies deteriorate dramatically once the measures impact on the economy.

All official indicators to this effect — statistics on liquidations and insolvencies, sequestrations and civil cases for debt — were still showing a downward trend in the first few months of this year.

But analysts confirm that first signs of a depression are already emerging.

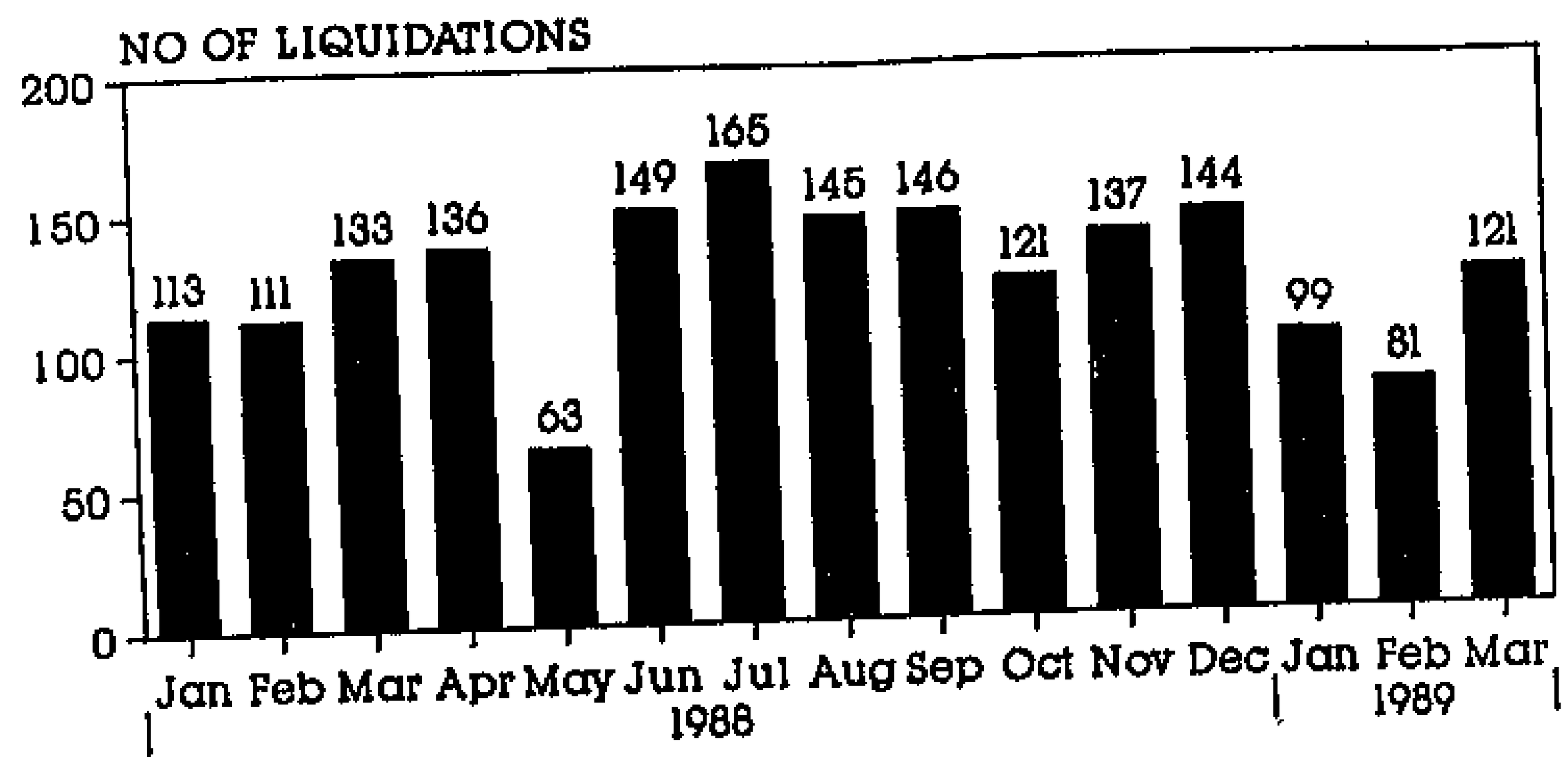
Paul Edwards, chairman of Information Trust Corporation (ITC), says bankruptcies are likely to increase substantially as consumers and small businesses are forced to the wall.

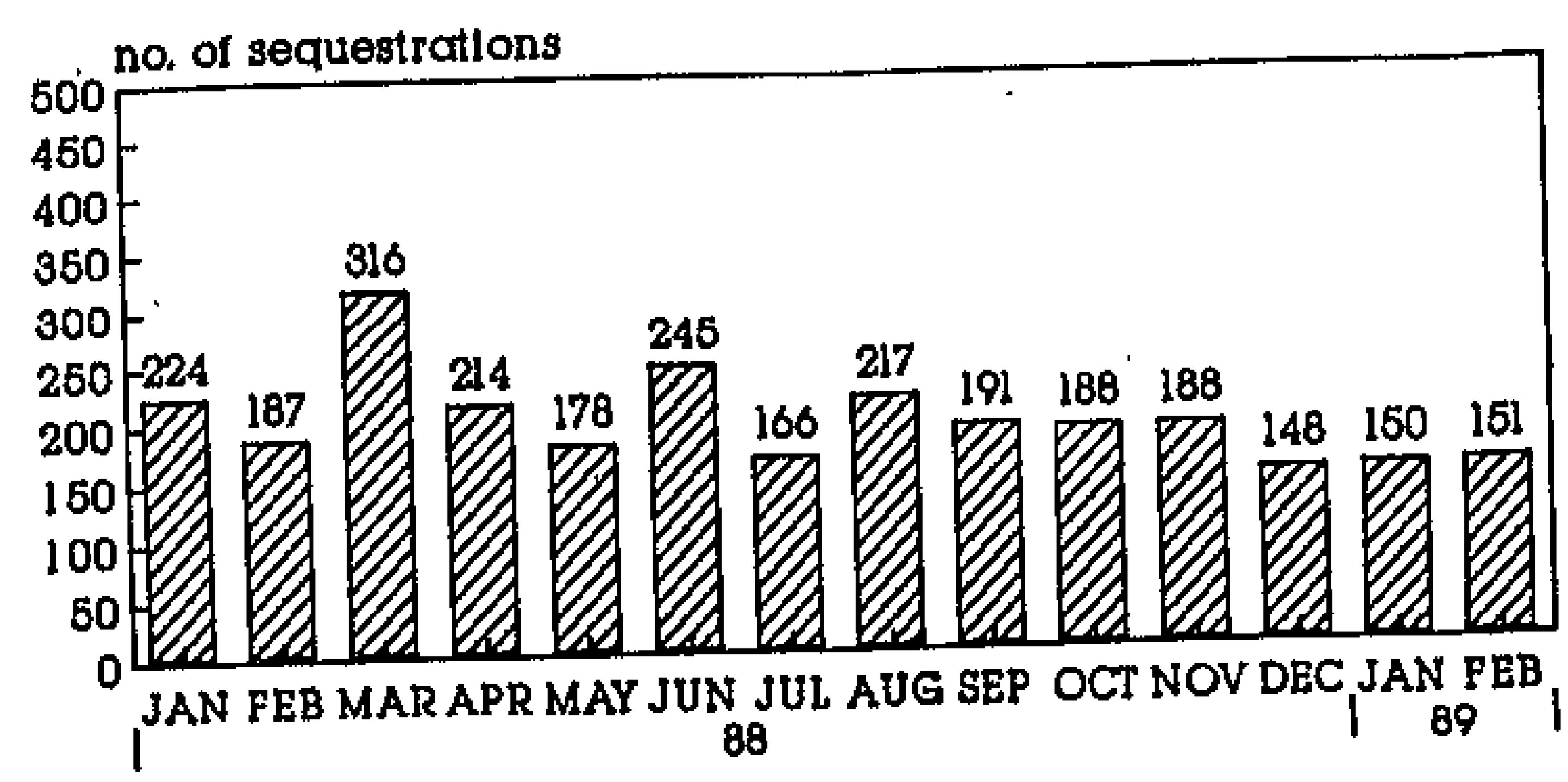
Due to the usual time lag, these will only become apparent by July or August in recorded statistics, although on a monthly basis a small upward trend is already evident.

Central Statistical Services figures show the number of summonses for debt for the last three months up to January this year increased by 3,3 percent, compared with the previous three months after seasonal adjustment.

This was an increase of 11,1 percent, compared with the corresponding months of the previous year.

The number of liquidations in March soared to 121 from February's 81 and the 99 liquidations recorded in January.





Individual sequestrations held steady at 150 in the first two months of this year, after declining rapidly from a peak of 316 in March last year.

For the first quarter as a whole, business liquidations, however, fell by 15 percent over the same period last year, while the number of individual sequestrations fell by 25 percent, which Mr Edwards attributes to the strong position of consumers and businesses for most of 1988.

His concern for small businesses is based on the fact that they tend to rely more heavily on bank overdrafts, which may be two or three percentage points above the new prime rate of 20 percent because of their higher risk profile.

They also have lower cash reserves than larger companies, which are better able to weather downturns in demand.

Criticising the latest move by the Minister of Finance as "knee jerk" and possibly "overkill", Mr Edwards warns that consumers are being pushed to the limit.

"The tremendous increase in bank advances and reduced savings levels indicate that consumers are borrowing heavily in an attempt to maintain their standard of living.

"There is every indication that there will be a repetition of 1984/85, when a record number of bankruptcies occurred because of the credit squeeze and sky-high interest rates."

Mr Edwards accepts that the economy must be cooled, but believes that existing restrictions are only just beginning to bite, and that the latest moves may throw the economy into reverse.

He does, however, welcome the news that farmers and small businesses may be eligble for slightly lower interest rates under a subsidy scheme announced by the Reserve Bank.

● The establishment of a stabilisation fund similar to that for petrol has been suggested to help ease the plight of bondholders.

The suggestion has come from the Institute of Estate Agents (IEA), which next week will be holding an urgent meeting of estate agents to set up a crisis seminar on rising bond rates.

There have already been reports that many bondholders are struggling to keep up with their monthly repayments and that the foreclosure of bonds and the repossession of homes is escalating because of recent rate hikes.

IEA national president Keith Wakefield says the aim of the meeting is to urge the creation of some kind of stabilisation fund to protect innocent purchasers in the face of rampant rates.

He says financial institutions such as banks and building societies, insurance companies and the Government could contribute to such a fund when rates go up and recover their money when they fall.

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Short-term outlook

HAROLD FRIDJHON

WITH no real investors in sight, the bond market was an ultra short-term jobbing pit last week.

The turnover was high, reaching about R3,5bn, as parcels of nominal stock bounced around the JSE floor and between the banks' trading rooms with a few points shift up and down, influenced by changing perceptions of the future trend of yields and the bears extracting themselves from untenable positions.

Bullish perceptions were reinforced by reports that the Treasury had all but completed its borrowing programme and, therefore, would reduce demands on the capital market, bringing down yields. This view was reinforced by the relaxations on prescribed assets.

The bears, however, taking their cue from the short-term market feel that rates must continue to rise.

As a result, yields have moved within a narrow band with the long-term issues, largely the Eskom 168, shifting a few points around 17,35%. The little traded RSA 13% 2005 was all but static. The short-term Sats SV06 was out of favour closing at 17,18%.

FINANCE

Seeds of discomfort festering in market

B/Day 15/5/07 58

IN THE MONEY MARKETS

Harold Fridjhon

SUPERFICIALLY the money market is comfortable, as it should be midmonth; at depth, however, a measure of discomfort is discernible, largely generated by the uncertainty of whether the Reserve Bank will implement its policy of restraint as fiercely as Governor Gerhard de Kock indicated it might

The market, and particularly the bankers, should get an inkling of how real De Kock's warnings were during the next two weeks when the month-end pressures start to build up.

Pay cheques

In six trading days the Bank has taken R900m out of the market, R800m in tax Treasury bills and R100m in normal Treasury bills (TBs). This has had the effect of ensuring that the market does not swing into surplus and will remain in bondage to the central bank. At the time of writing, the market's deficit — its debt to the Reserve Bank — is R674m.

Today liquidity to the tune of almost R1bn will flow into the market as public servants' pay cheques filter into the private banking sector. In addition the banks' balances will be eased slightly by the inflow of banknotes.

Already the banks have benefited by R800m from banknotes being returned so relief from this source will be negligible for the next week or so. And then will start a drain on their resources almost to the tune of R1bn.

A further drain will be the increased GST payments, followed at the end of the month by other taxes due. And if the Treasury continues with weekly offerings of R100m TBs, by the end of three months R1,3bn will leave the private sector because there will be few rollovers. Most of the TBs issued in the past three months are held by parastatal organisations.

This week, as public servant pay could temporarily put the market in surplus, will the Reserve Bank continue with its policy of mopping up so-called liquidity by issuing a further tranche of tax TBs? If it does, the market could be somewhat distressed by the end of the month and interest rates might be under pressure — as they appear to be at present.

The average rates for the last three tax TB tenders have risen from 16,6% discount to 16,98% to 17,17%. Granted that between the first issue and the second, Bank rate went up one percentage point.

And the same influence saw the TB rate move up to 16,99% from the previous, pre-Bank rise, 16,77%. The rate for 90-day liquid BAs have edged higher to 17,40% from 17,35%. And the Big Money call rate was a half percentage point higher last week, rising to a range of 16,75% to 17%. This is an agreed rate among the banks — unless one pressurised bank breaks ranks and is prepared to pay more for the facility.

Rates for six months and 12 months negotiable certificates of deposit (CDs) are around 18,20%, almost a full percentage point higher than it was about 10 days ago. These rates are really nominal because there are few issuers and there is a gap between what they are prepared to pay and what investors are demanding. After all, investors can earn 18,1% on a three months tax TB.

If the Reserve Bank persists in its policy of not entering into re-purchase agreements and will give overnight loans to the banks, at penal rates, only at the governor's discretion — as De Kock intimated to bankers — the squeeze will be on because the banks cannot reduce their lending overnight. They will have to balance their books by taking even more expensive short-term deposits, thereby increasing their provisions to meet liquidity ratios.

When money becomes a scarce commodity, the price will have to rise even in the face of an implacable Bank rate.

Allied denies merger rumours

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GRETA STEYN

THE Allied is emphatic there is no merger with the Standard on the cards, saying reports that a deal will be struck before the end of the month are incorrect.

B, Day 15/5/87

It is understood Allied management suspects the rumours are being spread by speculators intent on profiting from the share's subsequent movements. The building society group is trying to establish the source of the talk to find out if this is the case.

A report on SABC-TV that the Allied was about to merge with the Standard had an immediate effect on the building society group's share price, driving it up to 140c on Friday from 122c the day before. Volume soared and 373 744 shares changed hands in 105 deals — compared with 95 948 shares and 50 deals on Thursday. The burst quickly ran out of steam and the share sank back to close at 133c.

Investec beats banks' poor results trend

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GRETA STEYN BDay 6/5/89

INVESTEC Bank has continued on a growth track in earnings in spite of a management reshuffle and pressure on banks' margins.

The bank lifted earnings by 27% to R14m, or 70c a share, in the year to March. The year's results are compared with *pro forma* results reflecting the restructuring of the group.

Investec's sustained growth indicates small niche-players still have a place in SA's over-banked market. The bank points out it has, over the past eight years, achieved a 30% compound annual growth in earnings and 26% in dividends. A dividend of 32c was announced (1988: 24c) with cover at 2,2 times.

The results confirm that the management and board reshuffle last year was the right move. It included the appointment of Bas Kardol from outside as new executive chairman and the promotion of Stephen Koseff to MD.

But the share price is struggling to return to 340c, where it was before it lost favour with the market in October last year and dropped to 150c. However, at 210c, the share is at its highest level this year. It is at a discount to the net asset value of 331c a share.

Kardol said yesterday the bank's satisfying performance in the last year was mainly the result of Investec's policy of operating through specialised business units focused on well-defined markets.

In line with most banks, Investec's assets rose by 38% to R958m. The bank will be able to continue expanding at a fast rate, in spite of the Reserve Bank's capital-to-asset requirements. With the increase in share capital and reserves to R66m (1988: R59m), Investec should not have any problems on this score.

Said Kardol: "Investec is well placed to continue this growth trend through its capital base, allowing it to double its assets without the need for additional capital. Investec's capital-to-assets ratio of 8% compares favourably with an industry average of just over 4%."

He described the latest results as "particularly pleasing" given that the SA banking community experienced a difficult year.

Imperial Group lists its subsidiary

Star 16/5/89

The Imperial Group is to become a pyramid company through obtaining a listing for a new company, Imperial Investments, it was announced yesterday.

The new company, Imperial Investments will hold all the group's investments — Imperial Car Rental, Imperial Truck Systems and Imperial's motor interests.

According to the announcement by UAL Merchant Bank the new listing will be achieved by a reduction in the Imperial group's share premium account which will be effected by giving Imperial shareholders shares in the company.

Although Imperial's stake in the new company will be reduced by the capital reduction, the shareholders' interest in the group will remain unchanged as in exchange they will receive shares in the new company.

Joint managing director Bill Lynch explained that the move will be beneficial for Imperial. "The new company, Imperial Investments, will have greater flexibility to take advantage of all expansion and acquisition opportunities without Imperial's controlling shareholders losing control of the group."

In the financial year to end-June last year, turnover had soared to R321,4 million and earnings to R8,6 million. For the six months to December, Imperial further reported a 51 percent rise in earnings and a 50 percent increase in its interim dividend. — Sapa

Investec record still intact

Star 16/11/89 58

By Magnus Heystek

After some generally weak results from the banking sector, specialised investment banking group Investec Bank Limited today reports excellent results with net income after tax and transfers to internal reserves rising by 27,3 percent to R14 million, its eleventh successive rise to new record levels.

Earnings per share rose by 27,3 percent to 70c a share while the final dividend has been increased by 33 percent to 20c to make a total of 32c (24c) for the year.

Total assets of the group rose by 38 percent to R958 million while the funds under administration rose by 27 percent to R1,992 billion.

These results are commendable in the light of the tight margins under which banks operate and, according to management, is the result of a sustained focus on servicing clearly defined markets. Emphasis continues to be placed on effective management structures and on investment in superior technological support for operations.

Perhaps even more impressive is the increase in net income as percentage of shareholders' funds from 19,8 percent to 22,4 percent, reflecting more efficient use of capital.

During the year under review several management changes were made at Investec with Mr Bas Kardol being appointed chairman, Mr Stephen Koseff as managing director and Mr Bernard Kantor becoming the chief executive officer.

Mr Jan Senekal, past general manager of the Exchange Control Division of the Reserve Bank has been appointed a director of the bank.

Auto & General signs R8m order with MIS

(58) TANIA LEVY (10)

AUTO and General Insurance has signed an R8m order with Mercedes Information Systems (MIS) for an electronic underwriting system.

The system — a first in SA — links head office with about 14 Vax mini-computers at branches nationwide via a network of more than 400 Macintosh computers.

Electronic underwriting eliminates the reams of paperwork generated by insurance companies and makes head office expertise instantly available to staff all over the country.

The software is being developed by Business Solutions, an MIS sub-contractor.

B/Day 16/3/87

Last year MIS formed an alliance with Business Solutions' parent, The Strider Group, which supplies Macintosh computers in SA. This was prompted by the successful alliance between Apple Macintosh and mini-computer manufacturer DEC.

The contributions were stopped with effect from 1 April 1988 because of the curtailment of state expenses.

(2) National Cancer Association.

Airports: runways/facilities closed

413. Mr P C CRONJÉ asked the Minister of Transport Affairs:

Whether any (a) runways and/or (b) other facilities have been or are to be closed at any airports in the Republic in 1989; if so, (i) what facilities, (ii) on what dates, and (iii) why, in respect of each such airport?

B834E

The MINISTER OF TRANSPORT AFFAIRS:

(a) and (b) No, as far as State airports are concerned.

(i), (ii) and (iii) Fall away.

Government: amounts owing to private bodies/persons

478. Mr H H SCHWARZ asked the Minister of Finance:

What amounts were owing to private bodies and persons by the Government, other than on bank facilities and stock issues, as at (a) 31 December 1988 and (b) the latest specified date for which figures are available?

B916E

The MINISTER OF FINANCE:

		R
(a)	As at 31 December 1988	
	Indefinite Period Treasury Bonds	484 391 000
	Bonus Conversion Bonds	80 591 185
	Indefinite Period National Defence Bonds	197 515 000
	Indefinite Period Senior Citizen Savings Bonds	739 936 844
	Loan Levy	4 538 662
	Tax Redemption Certificates	154 264
	Total	1 507 126 995
(b)	As at 30 April 1989	R
	Indefinite Period Treasury Bonds	478 718 050
	Bonus Conversion Bonds	77 617 075
	Indefinite Period National Defence Bonds	171 308 400
	Indefinite Period Senior Citizen Savings Bonds	691 466 744
	Loan Levy	4 294 375
	Tax Redemption Certificates	154 264
	Total	1 423 558 908

Land and Agricultural Bank: amount outstanding

527. Mr J B DE R VAN GEND asked the Minister of Finance:

(a) What is the amount outstanding on the largest loan made by the Land and Agricultural Bank to a member of its staff and (b) in respect of what date is this information furnished?

B988E

The MINISTER OF FINANCE:

(a) R108 751,52

(b) 31 December 1988.

Land and Agricultural Bank: persons employed

528. Mr J B DE R VAN GEND asked the Minister of Finance:

(a) How many (i) White, (ii) Black, (iii) Coloured and (iv) Indian persons were employed by the Land and Agricultural Bank, (b) how many loans had been issued to employees in respect of each race group, (c) how many loans of (i) over R100 000 and (ii) between R50 000 and R100 000 had been made in respect of each race group, and (d) what rate of interest was being charged in respect of these loans, as at 31 December 1988?

B989E

The MINISTER OF FINANCE:

(a) (i) 1 017

(ii) 151

(iii) 25

(iv) None

(b) Whites — 501
Blacks — 8
Coloureds — 8
Indians — None
Number of accounts in operation

(c) (i) Whites — 2
Blacks — None
Coloureds — None
Indians — None

(ii) Whites — 314
Blacks — None
Coloureds — None
Indians — None

(d) 3%.

Own Affairs:

Parow School Board area: capacity/number enrolled

56. Mr K M ANDREW asked the Minister of Education and Culture:

(a) What was the (i) capacity of and (ii) enrolment at (aa) each specified school, and (bb) in total, in the Parow School Board area in 1988 and (b) (i) what are the corresponding figures for 1989 and (ii) in respect of what date are these figures furnished?

B928E

The MINISTER OF EDUCATION AND CULTURE:

(aa)	(a) (i) *	(b) (i) *	(a) (ii)	(b) (ii)
Aristea Primary (Kraaifontein)	750	750	641	648
Bastion Primary (Brackenfell)	700	700	542	601
Bellpark Primary (Bellville)	600	600	733	738
Bellville Hoër	700	700	818	807
Bellville Hoër Tegnies	700	700	703	701
Bellville Laer	700	700	322	284
Bellville-Noord Laer	550	550	470	481
Bosmansdam Hoër (Bothasig)	650	650	564	501
Bosmansdam Lae (Bothasig)	650	650	449	457
Boston Primary (Bellville)	700	700	660	619
Brackenfell Hoër	700	700	705	706
Brackenfell Primary	600	600	924	968
De Kuilen Hoër (Kuilsrivier)	500	500	756	754
De Kuilen Laer (Kuilsrivier)	900	900	755	748
De Ruyter Hoër (Ruyterwacht)	500	500	353	328
De Tyger Laer (Parow)	600	600	501	543
De Vrije Zee Primary (Vrijzee)	700	700	398	406
De Waveren Laer (Ruyterwacht)	600	600	357	324
Durbanville Hoër	650	650	836	738
Durbanville Laer	1 000	1 000	573	586
Durbanville Voorbereiding	400	400	397	441
D F Malan Hoër (Bellville)	800	800	1 098	1 060
Eben Donges Hoër (Kraaifontein)	600	600	1 224	1 097
Kraaifontein No 2 Hoër (Nuut)	0	850	0	222
Edgemead High	850	850	371	533
Edgemead Primary	700	700	937	948
Eversdal Primary	750	750	926	951
Excelsior Laer (Bellville)	700	700	540	551
Fairbairn High (Goodwood)	800	800	661	656
Fairmont High (Durbanville)	700	700	925	876
Fanie Theron Primary (Kraaifontein)	750	750	761	791
Gene Louw Laer (Amanda Glen)	850	850	800	893
Goodwood Voorbereiding	450	450	332	367
Goodwood-Park Laer	750	750	820	837
J G Meiring Hoër (Goodwood)	700	700	724	735
J J du Preez Hoër (Parowvallei)	600	600	484	482
Kenridge Primary	700	700	703	739
Koos Sadie Laer (Goodwood)	650	650	487	433
Labiance Laer (Bellville)	150	150	240	213
Mikro Laer (Kuilsrivier)	700	700	545	570

Recent restructuring beneficial to Fedlife

BD 17/5/89 KAY TURVEY (58)

THE restructuring of Fedsure's life insurance company Fedlife into different operating and servicing divisions had a positive effect on results for the past year.

In the group's latest annual report MD Arnold Basserabie said an indication of the company's progress was the 39% rise in premium income to R503m.

However, the arbitrary 75% hike in the tax rate for 1988 had boosted tax payments from R5m to R12m, causing a reduction in investment returns.

The share price also took a knock and was trading around 260c at the beginning of the year but has since recovered to 305c.

An announcement in Budget of changes in the tax basis for life assurers made it likely the 1989 tax rate would be meaningfully lower than in the previous year.

In the annual report for the first full year since the listing of holding company Fedsure in October 1987, the group achieved its forecast taxed profit for the year, which grew by 55% to R15,4m.

Sharp rise in income at Santam

Star 17/5/89

58

A sharp rise in investment income was the main reason for the 50 percent increase to R27,7 million (R18,4 million) in Santam's after-tax earnings for the six months to March.

The company announcement says that the interim dividend has been increased by 25 percent to 10 cents (8 cents) a share out of earnings of 39,6 cents (26,3 cents) a share. The dividend is covered 3,9 times by earnings compared with 3,3 times at the interim stage last year.

The interim report released today shows that investment income, before tax, for the period stood at R27,3 million against R17,4 million in the same period in the previous year.

The pre-tax underwriting surplus for the period rose 16 percent to R13,5 million from R11,6 million. Gross premiums rose to R366,2 million from R326,5 million and net premium income rose to R327,6 million from R295,0 million.

Insurance funds increased to R337,0 million (R233,6 million), improving the company's solvency margin to 28,4 percent compared with 25,8 percent at the end of September 1988, says managing director CJ Oosthuizen.

He added that providing there were no serious or extraordinary claims, he saw no reason why the results for the second half of the year should not match those of the first.

"I must sound a note warning though that the market is in a serious competitive struggle and I do not see this competitive position disappearing within the next 10 to 12 months." — Sapa.

COMPANIES

Santam raises interim as investment income soars

BDay 17/5/89 (58)

KAY TURVEY

LARGEST personal lines insurer, Santam Insurance, supported by soaring investment income, reported a 50% rise in taxed earnings to R27,7m for the half-year to March.

Out of 39,6c (26,3c) earnings a share a 10c interim dividend is to be paid, 25% up on the 8c paid for the comparative period last year. Dividend cover has been raised slightly from 3,3 times to 3,9.

Investment income rose 57% to R27,3m to reflect the influence of higher interest rates. MD Oosie Oosthuizen said the company employed a strategy of gearing itself to higher fixed interest-bearing investments while the financial markets were so unpredictable.

Improved cash flow and increased reserves also contributed to the solid growth in investment income, he said.

Gross premium income climbed 12% to R366,2m and net premium income increased 11% to R327,6m.

Pre-tax underwriting surplus rose 16% to R13,5m as the number of claims climbed and the amount for each claim escalated well above the inflation rate.

Oosthuizen said the company handled claims amounting to more than R1,5m every working day during the interim period.

However, the group was in a position to create the required catastrophe reserve recommended by Melamet without straining its financial position.

The requirement by which short-term insurers will have to put aside 2% of net premium income annually for the next five years is likely to be introduced this year.

The interim report shows insurance funds — including provisions and reserves — of R337m up from the R311,5m reported for the year to September 1988.

Oosthuizen said that, given the group's strong financial position, there was no need to raise premiums. The market remained highly competitive and this situation was unlikely to disappear within the next 12 to 18 months.

The share price climbed 10c to 220c yesterday in expectation of good results.

Suiting the priority need of an investor

PARTICIPATION bond investments, in which Masterbond specialises, are well suited to investors whose priority needs are the best available cash flow on a monthly basis.

A Masterbond Trust participation bond offers investors interest monthly in advance at one of the better rates available. And floor rates are established which protect the investor against a drop in interest rates.

Participation bond, or partbond investments are controlled by the Participation Bond Act of 1984. This, coupled with the stringent bond acceptability criteria applied by Masterbond Trust, makes these investments attractive.

Another investment instrument offered is its short term debenture bond.

B/Day 17/5/89

Bonds

These debenture bonds, offering investors investments for periods between six and 36 months, are placed on an agency basis in mortgage bonds over prime commercial and industrial property after applying Masterbond Trust's bond acceptability criteria.

As with partbonds, interest on these investments is paid at attractively high rates and they are also governed by a base rate to safeguard investors against falling interest rates.

Short term debenture bond investments are governed by the Investments of Funds Act of 1984 and the Companies Act of 1973.

On the lending side, Masterbond Trust provides bond finance to borrowers in the form of first mortgage bond loans against the security of fixed property located in prime areas.

NEW HEADQUARTERS ... 101 St George's Street

Portfolios are diversified

B Day 17/5/81 (58)

HEADED by Graham Manchip, Masterprop administers some R71m worth of properties and has established itself as one of SA's specialists in property participation development.

To date, it has successfully placed 11 property participations to a value of more than R46m and has budgeted to place a further R20m this coming year.

In its portfolios of property participation, the company has placed properties as diversified as small, well-situated mini-factories to one of the largest property participations in SA — the R16,2m Brackenfell shopping centre.

Growth

Masterprop is developing and marketing new property participation schemes: Stand 70 — a well-tenanted industrial complex in Wynberg, Johannesburg; and Merthyr House — a modern office complex in Pinetown, Natal.

These provide investors with solid monthly income and excellent capital growth opportunities.

Masterprop also gets involved in residential township development. It is involved in an up-market Indian township, consisting of 60 stands at Umlazi near Durban — one of the so-called "infill" site developments for blacks on the outskirts of Durban.

It is also involved in Silverhurst, a 79 plot up-market housing development in Constantia, Cape Town. With stands ranging from 1 350m2 to 4 000m², the Silverhurst development is intended to be "one of the most prestigious ever undertaken in SA, aimed, by and large, for the overseas market and the upper end of the South African market."

With the historic Silverhurst Manor House, which will be used as a residents' private club house, providing the architectural backdrop, all housing standards and architecture will be strictly controlled by the developers.

With the property cycle reaching its current peak, Manchip believes property activity, in general, will slow down except in urban, specialised niche markets which have been Masterprop's strength.

asterbond Trust

Masterbond marks fifth anniversary

S8

B/Day 17/5/89

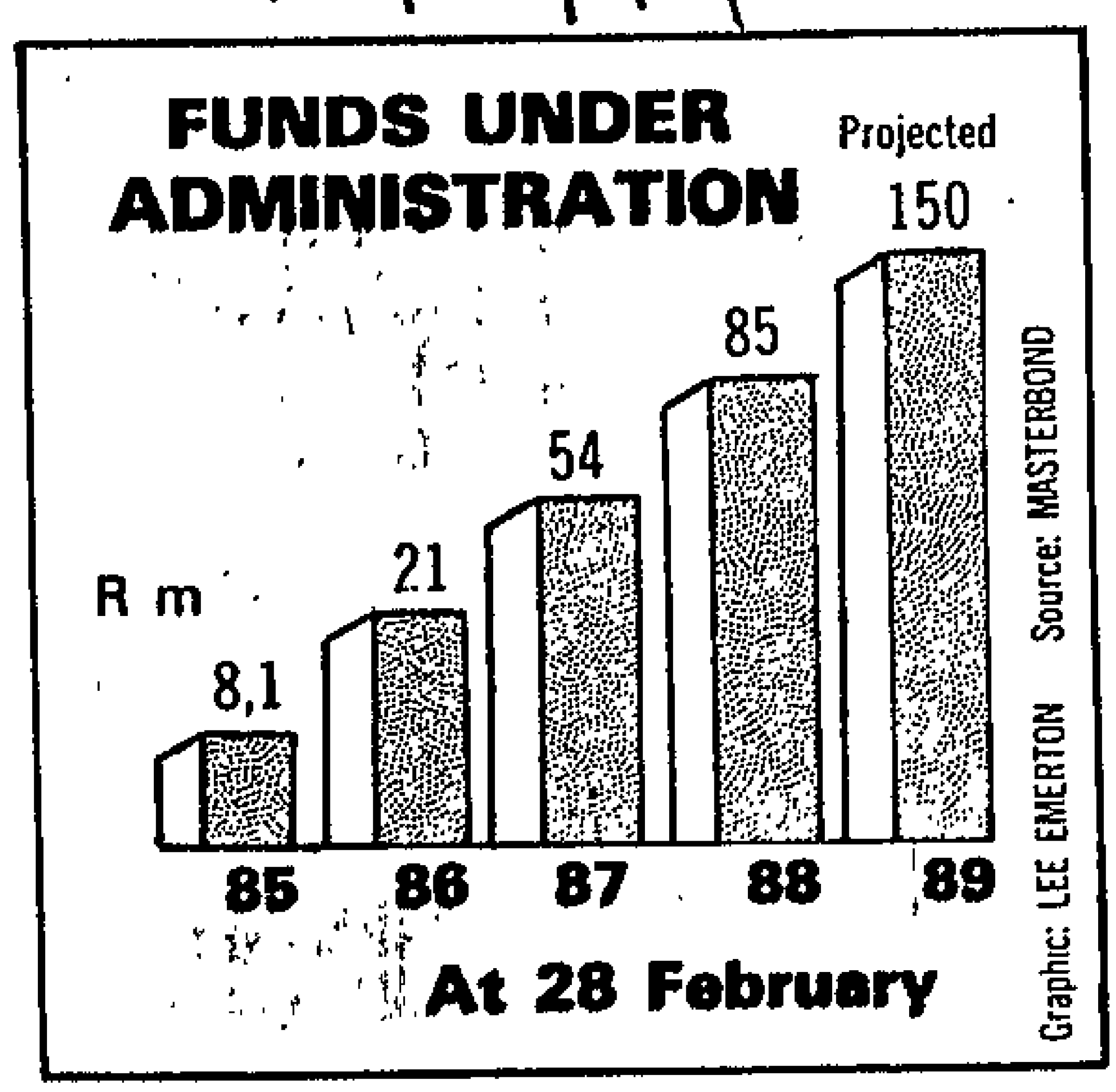
THE official opening today of Masterbond's new headquarters at 101 St George's Street in downtown Cape Town, also marks the company's fifth anniversary as a financial institution.

In an era when many small institutions have been swallowed by the financial giants, Masterbond has shown there is indeed a place in the market for the smaller concern — provided one finds a niche in the marketplace and services that sector well.

In this instance, founder Koos Jonker's considerable expertise in the property industry was the basis on which the company was founded. He subsequently expanded the business to the point where the group has some R162m in funds under administration.

Masterbond Trust is a highly diversified group of companies, specialising in financial services and property development.

The company was started by Jonker, a well-known valuer and property developer, operating out of offices in Shortmarket Street, off Greenmarket Square — an area steeped in history, and close to the financial heart of Cape Town.



Initially the company started out business as a participation mortgage bond (partbond) company, borrowing funds and lending money out on properties. Its first registered bond was over an hotel in Hout Bay — a loan which has been repaid long since.

But it did not take long before it diversified into other areas using fully its property expertise.

Early in 1985, Johann Brits, an experienced chartered accountant, joined the company as group MD to strengthen the management team and manage the new areas of growth.

It soon acquired its first head office in Burg Street to house the expanding business which, at that stage, established a property development company — Masterprop — in association with National Mutual of Australasia.

National Mutual's 51% stake in Masterprop was later bought back by Masterbond Trust after the disinvestment move which saw National Mutual quit SA. Since then, Masterprop has established itself as a leading company in the field of property participation investments.

In the first year of operation the group's turnover was R1,1m. With the past financial year ending, turnover is standing at R36,7m and the budgeted turnover for the coming financial year some R55,7m. With this kind of growth, it soon became clear to management a new head office was necessary.

The opportunity arose and management took the decision to purchase the 14-storey Southern Life building in St George's Street, which now serves as the headquarters of the Masterbond Trust Group.

In 1987, Masterbond Trust's original main interest in participation mortgage bonds had expanded so much into concomitant financial services that the decision was made to create two separate divisions. The company subsequently formed a property development division as well as a financial services operation, under Masterbond Trust Investment Holdings Limited.

Recently the group consolidated its resort development activities under a new division — Masterleisure.

Govt needs to maintain world links

ZILLA EFRAT

GOVERNMENT must make very effort to maintain SA's international links, said Protea Assurance chairman Cedric Walton at the AGM in Cape Town yesterday.

He said Protea's British parent Sun Alliance had unshakeable confidence in the future of SA and provided Protea with substantial backing.

"We value this association and I personally implore government to make every effort on every front to ensure that international linkages such as this can be maintained and indeed allowed to grow," he said.

Reporting on the results for the first three months of the year, Walton said gross and net written premium had increased.

Although premium levels were slightly behind budget, investment income was substantially up resulting in the overall out-turn for the period being about the same as the previous year.

But results for the first three months seldom provided an accurate guide for the full year.

Walton said meaningful improvement looked remote as the impact of higher inflation, import surcharges and increased sales tax still had to be felt.

The absence of any meaningful increase in premiums over the past 18 months was a further aggravating factor.

Walton said Protea was now well equiped as a major insurer to face the challenges that undoubtedly lay ahead.

These included increasing competition, the increased reserving demands of the new insurance act, low economic growth, a weak rand and on-going inflation.

Plan to participate Industria property

B Day 17/5/89 (58)

MASTERPROP, the property arm of Masterbond Trust, has announced plans to "participate" — its word for syndicate — a modern industrial property currently known as Stand 70 in Industria, south of Johannesburg.

Yielding an estimated average return of 29,02% a year over a five year period, the offer is being made by way of single units comprising a R1 000 debenture linked to one ordinary share of R1,00 in the property holding company.

MD Graham Manchip expects the project — the 11th undertaking by the company since pioneering the concept in 1984 — to be fully subscribed within weeks.

"Our previous projects have all been extremely successful with investors welcoming the ability to invest in prime properties usually only within reach of the major institutions," he says.

Furniture chain Morkels is the main tenant and, Manchip says, it has indicated its happiness to continue occupying the premises for the foreseeable future. The second largest tenant is Merantha Ceramics.

The stand is 1 957m² with a total lettable area of 10 130m².

Manchip says the construction quality is generally more akin to an office development than to industrial premises.

Among the properties most recently participated by Masterprop are the high-rise Murray and Stewart Centre on Main Street, Port Elizabeth; 101 St George's Street in Cape Town's CBD; and Adcock Ingram House in Johannesburg.

Reduced disposable income is a contributory factor

Bond rates cut housing demand

58

BDay 17/5/89

EDWARD WEST

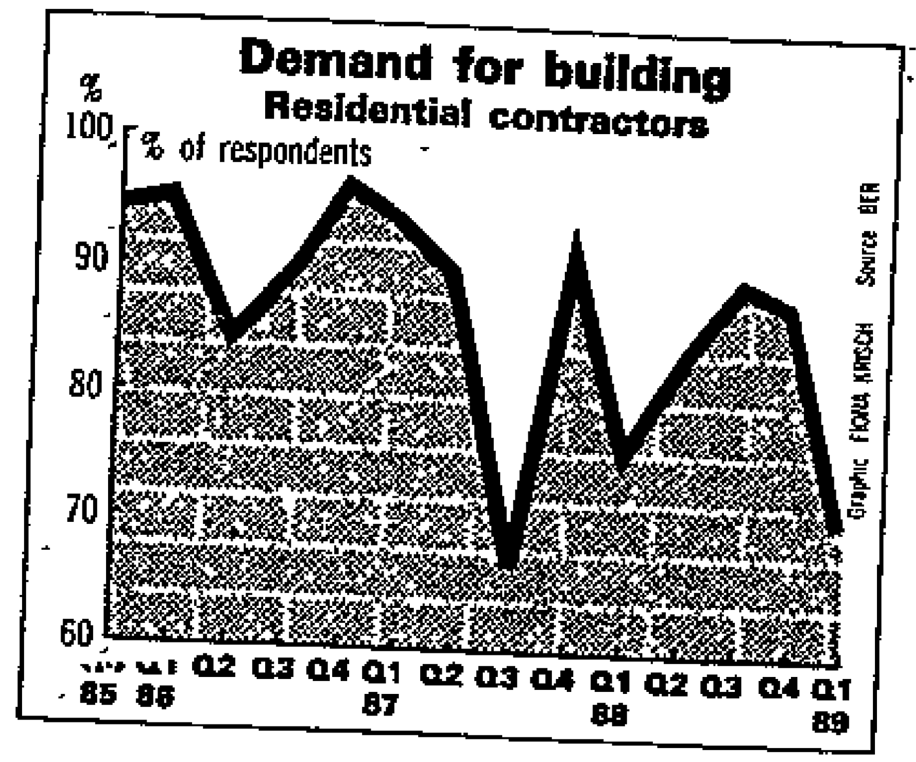
INCREASED bond rates have taken their toll on the housing market, cutting demand drastically between the last quarter of 1988 and the first quarter of 1989.

Separate reports released yesterday by the Bureau for Economic Research (BER) and the Building Industries Federation of SA (Bifsa) said sustained increases in mortgage rates and a deterioration in the level of disposable income had cut the demand for housing.

The declining trend was expected to continue during the rest of the year.

In contrast, activity in the non-residential sector had remained lively in a buoyant corporate environment.

However, the BER report said prospects were not as good for the next quarter.



Bifsa's building review said consumer confidence in investment in residential building had declined since the beginning of 1989.

While housing finance for the rest of 1989 was expected to be freely available, it would remain expensive, the report said.

Bond rates had increased from a level of 12,5% in February 1988 to 18,75% in March.

With interest rates unlikely to change direction before early in the fourth quarter after which they were expected to decline gradually, home financing would remain expensive.

High interest rates had had the effect of subjecting the cash flow of existing home owners to greater pressure while forcing prospective homeowners out of the residential market, Bifsa said.

Business confidence in the non-residential building market was expected to weaken in 1989 with investment in office buildings expected to decrease by 1%.

Investment in commercial buildings was expected to decrease by 10% in 1989.

The industrial building sector, in spite of anticipated deterioration of building conditions and a curtailment of production levels, was expecting a growth rate of 6% this year, the report said.

Non-competitive

Building material price increases had outstripped the consumer price index by nearly six percentage points in 1988.

Average prices for stock and face bricks had been excessive due to the general non-competitive nature of the building materials market says the Bifsa report.

Building material costs were expected to increase 18% on average this year.

High bond rates boost arrears

GRETA STEYN

HIGHER bond rates have caused an acceleration in building societies' arrears and are severely depressing the housing market for lower income groups.

Figures made available to researchers of the SA Institute of Race Relations (SAIRR) show the SA Perm's bond accounts for whites in arrears has risen from 4% of their book to 5% in the year to March 1989, and for blacks to 15% from 12%.

Other building societies confirm that arrears have risen as a percentage of the total mortgage book, especially in the past few months. One reported a 0,7 percentage point increase in this year alone.

The SAIRR said in its Social and Economic Update: "The rising mortgage rate is keeping potential black entrants out of the housing market and creating further difficulties for the low-income groups who had bought houses."

Research had found that owners had continued to pay off their bonds by taking in lodgers and back-yard tenants. But it appeared as if potential home buyers could no longer afford the type of homes available to their income group last year.

Building society and bank spokesmen said everything possible was being done to avoid repossession. The repayment periods on mortgage loans were being extended to keep instalments unchanged, or the unpaid interest would be capitalised.

However, this last alternative posed a problem in that it would be reflected as credit extension on banks' and societies' books. This would be reflected as inevitable growth in the money supply.

Forecast based on specialised computer model

BDay 18/5/89

58

Price of houses could fall 10% by December

CAPE TOWN — An outlook of gloom for SA house sellers has emerged from the latest nation-wide survey of building industry trends, conducted by the Bureau for Economic Research (BER).

Announcing the results of its most recent research completed and analysed by the Stellenbosch University-based BER, director Ockie Stuart said computer projections showed that house prices might be down by as much as 10% by December this year, compared with prices house fetched in December last year.

"That is the possible drop indicated, but we at the BER believe that a decline of not more than 5% from last year's peak is more likely," Stuart said.

The bureau based its forecast on projections of the latest industry data, using a computer model developed specifically for house prices by the Rode Report on the SA Property Industry, a market research report published by Cape Town research firm Real Estate Surveys.

Stuart noted that the current projections confirmed the downward trend in house prices forecast in the bureau's last analysis of the building industry three months ago.

Stuart also pointed out that the latest Rode House Price Index figures, read against the backdrop of the sharp rise in mortgage rates during the first quarter of 1989, suggested that house prices in SA probably peaked during the third quarter of last year. Prices could have been on a plateau since then, "and are in all likelihood drifting lower".

Competition

Stuart noted that architects polled by the bureau had reported a drop in both the value and volume of their work, compared to the same period last year. They also indicated that business conditions for their profession had declined since the last quarter of 1989, with an expectation that the period between April and June this year would show a further decline.

Among the quantity surveyors, the bureau's study showed a substantial rise in tendering competition compared with the same period last year.

The survey has been given a new format to help business people use its research findings more effectively.

Firms can now see at a glance, in the form of graphs and tables, the rise and fall in such factors as the number of employees in the architectural and quantity-surveying firms, the number and value or projects these firms have at sketch plan stage, the number and value of commissions and contracts awarded, the level of business confidence in various sectors of the industry, the value and volume of work being handled by building contractors, changes in financing costs and building demand, shortages of skilled labour, and the supply of bricks, cement and plumbing materials.

Stuart said it was vital for the building industry to use research data when planning. — Sapa.

(58)

Banks cannot resolve SA's housing crisis alone — FNB

BDay 14/5/87

GERALD REILLY

PRETORIA — The enormity of SA's housing problem could not be resolved by banks alone, without state aid, First National Bank home loans manager Pat Lamont said here yesterday.

Speaking at the National Association of Home Builders conference at the CSIR, he warned if employers were to play their part they would have to become involved to a far greater extent.

He stressed ever-increasing land and building costs were continually reducing the number of families able to afford a house in the "low cost" sector.

To provide a family unit with finance to purchase a property they could not afford was immoral and irresponsible.

This led to stricter lending criteria, which reduced the size of the potential borrowing population. As inflation took its toll fewer and fewer families were able to afford housing.

The first hurdle was the 5%-15% deposit.

An overall strategy should be formulated which transcended individual commercial differences, and addressed the real needs of the community, Lamont said.

Basic shelter

Goede Construction Company MD Pieter Goede said the role of the public sector in the direct provision of housing should be decreased.

Access to basic shelter for as many households as possible should be provided, rather than access to high quality shelter for a few beneficiaries.

Private developers and financial institutions should be encouraged to provide for a lower income market than they currently served.

In SA, with its extremes of wealth and poverty, housing sibsidies were essential to house the nation and accommodate urbanisation.

Subsidy schemes should reflect the socio-economic realities of a developing society where government resources were limited, and a significant proportion of the community had very low incomes, he said.

Much could be achieved if all subsidies could be addressed through one directorate or central administration linked to employer subsidies.

● See Page 5

Vista subsidiaries under winding-up orders

By Cathy Stagg

Three more wholly owned subsidiaries of Vista Homes were provisionally wound up in the Rand Supreme Court on Tuesday.

The applications were launched by Trust Bank Africa Ltd against Grenadine Investment Holdings (Pty) Ltd, Tobago Investments (Pty) Ltd and 4 KG Properties (Pty) Ltd.

Each of the three property development companies owed the bank about R9,7 million, the aggregate amount owing by Vista to the bank, for which the companies had signed as surety and co-principal debtors. 58

The provisional winding up orders were granted by Mr Justice Preiss and are returnable on June 13.

Fund to protect home buyers mooted

Star 18/5/89

Staff Reporter (58)

Top estate agents are to hold a crisis seminar in Johannesburg next week to discuss the rising mortgage bond rates.

Mr Keith Wakefield, president of the Institute of Estate Agents, said they were expected to urge the creation of a stabilisation fund to protect buyers.

"Financial institutions such as banks and building societies, inurance companies and the Government could contribute to such a fund when rates go up and recover their money when rates drop," he said.

"When rates are lower the consumer could be charged half a percent to cushion for times when rates go up."

He said stabilisation funds had worked for the sugar, maize and petrol industries. And the insurance industry was sitting on millions of rands.

Bond repayments have risen nine times in the past 14 months — from 12,5 percent to 19 or 20 percent.

Saambou strengthens its position

Finance Staff

Saambou Holdings is still strengthening its position in the market.

In the financial year ended March 31 the group raised its profit after taxation by R1,4 million to R18,4 million.

This achievement is particularly attributable to an increase of 27 percent in the group's profit after taxation in the second half of the financial year. Star 18/5/89

A closing dividend of 6 cents s share was declared, bringing the total dividend for the year to 11,5 cents.

According to the financial results of Saambou Holdings Limited the Group's assets have improved by R557 million to R3,2 billion — an increase of 22 percent.

The group managing director of Saambou Holdings Limited, Mr C du P Kuun, says the results are satisfactory in the light of relentless competition in the marketplace and pressure on interest margins. The past year also saw the development of new strategies to strengthen the position of the Group in the market.

in the powers accorded to the Land Bank.

Govt reduces private debt by R100m

MIKE ROBERTSON

CAPE TOWN — Government had reduced the amount owing to private bodies and people, other than on bank facilities and stock issues, by almost R100m, Finance Minister Barend du Plessis said yesterday.

Du Plessis said in reply to a question from Harry Schwarz (DP Yeoville) that R1,5bn was owed at the end of last year. By the end of April this year the amount had been reduced to R1,4bn.

The biggest reduction had come in terms of the amount owing on bonds, which was reduced from R740m to R691m.

The indefinite treasury bonds debt was down to R478m (R484m), bonus conversions bonds to R78m (R81m), indefinite period national defence bonds to R171m (R198m) and loan levies to R4,2m (R4,5m).

CARTER &

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Income

Land Bank statutory rights to be realigned

CHRIS CAIRNCROSS

CAPE TOWN — The Land Bank is to be accorded the same statutory rights as other issuing institutions to hedge against potential transaction losses when dealing in the secondary financial markets, particularly when interest rates fluctuate sharply.

These rights are embodied in the omnibus Finance Bill tabled in Parliament this week by Finance Minister Barend du Plessis.

According to a memorandum attached to the Bill, it became apparent enlarged powers were necessary because of circumstances affecting the Land Bank after its various credit instruments' liquid assets status — with the exception of Land Bank bills — was terminated last August.

Compelled

This had the immediate effect of allowing the margin between the rate of interest on new Land Bank debenture issues and that of comparable government stock to widen appreciably. It reached 1,30% at times.

The Land Bank was then compelled to create a secondary market for its own credit instruments at the end of 1988 to bring its debenture issue interest rates down to levels comparable with those of other credit instruments.

This demonstrated the importance of enabling the issuing institution to hedge against losses in secondary market transactions, and illustrated shortcomings in in the powers accorded to the Land Bank.

African Life's new business rises 85%

B/Day 18/5/89

KAY TURVEY

AFRICAN Life Assurance Company, in which Southern Life has a 92% stake, has reported an 85% increase in new business to R15,7m in the year to end March.

Premium income is 43% up to R24,8m and total assets have increased 27% to R119m.

MD Bill Jack attributes the record results to the enlarged sales force, greater productivity and a focused entry into direct mail selling.

Jack says the company is still on target for a listing in 1991. A share scheme has been developed for staff and the widening of the share register is set to continue this year with a private placing of shares among policyholders.

At the time of listing it is proposed Southern will hold 80% of the equity.

Sanlam claims big jump in market share

Business Day Reporter

SANLAM's says its market share of life assurance premiums from the rand currency area increased to 33% in 1988.

Senior GM George Rudman's claim, that it maintained its position as the life assurer with most public support, is based on a comparison of its achievements during the past calendar year with sector figures released recently by the Life Offices Association.

Rudman says the latest results mean Sanlam improved its share of life assurance business by 10 percentage points during the past eight years.

"This growing support is an important indicator of how effectively the company fulfils its role as a life assurer."

A recent independent comparison of actual policy payments by the weekly Finansies en Tegniek also confirmed Sanlam's leading position in pay-outs. It achieved eight top notches and its name appeared under the first three in every one of the 14 sections in which it was rated.

Rudman says these results endorse those of the 1988 Richard Wharton-Hood & Associates' survey of life offices investment performance in which Sanlam was rated first in 16 out of 24 categories.

21/3/89

(58)

Wesbank looks to South America

B/Day 11/5/89

58

MINIBUS TAXIS ... Wesbank adapted stokfel — the traditional African system of fund raising — and is now looking to South America for more alternative Third World systems to help those from the lower income groups buy their first cars.

Picture: ROBERT BOTHA

IN LESS than two years Wesbank has financed close on R100m minibus taxis — using an adaptation of a traditional African system of fund-raising called stokfel.

Now the bank is examining ways of adapting the scheme so thousands of people in the lower income groups can become first-time car buyers.

A Wesbank team has just returned from Brazil, where it investigated a similar Third World system called consortia finance.

Winner

The team found this system is "working well" in a hyper-inflationary environment.

The African stokfel system, shortened from *isitokofela*, is based on mutual co-operation and responsibility.

Southern Africa Black Taxi Association (Sabta) national advisor James Chapman gives a simple stokfel example: Ten people who want to start their own business each put 25% of their monthly income into a pool.

At the end of the first month they hold a draw, and the winner invests the pool money in a new venture.

"The other nine draw again, and so it goes round the group. The last man wouldn't have to wait more than five months to go into action, because each month the lucky ones have been putting a double portion back into the pool."

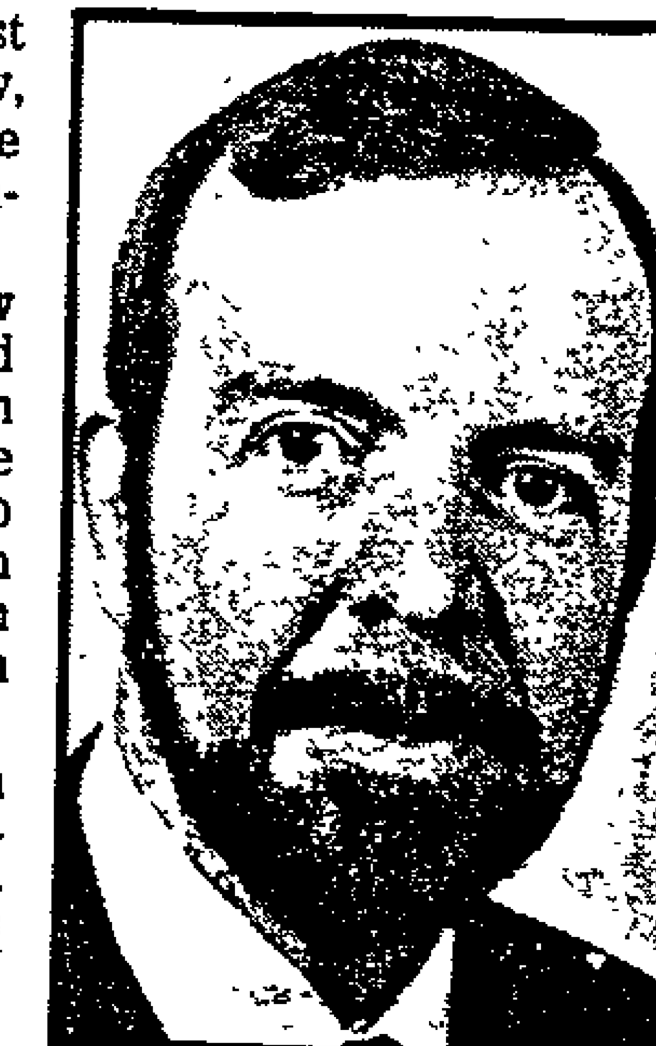
Fund-raising stokfels can be simple "savings accounts" to meet the emergencies of an extended family.

At the other end of the scale are highly complex transactions to raise money for ventures such as factories, or supermarkets.

Since few applications for minibus taxis have the kind of record required for conventional financing, Wesbank decided to try a stokfel approach.

Potential taxi owners pay 20% of the purchase price of a vehicle into the Sabta Foundation, set up specifically as a collective responsibility surety against loans granted by the bank.

Some purchasers raised the 20% deposit through private stokfels. The fund, now worth R15m, has seldom had to be drawn upon.



NEVILLE NIGHTINGALE

"Bad debts have been negligible — only a fraction of 1%," says Wesbank senior GM Neville Nightingale.

In the first year of the scheme, some 2 000 taxis were financed. Transactions are still in excess of 100 a month.

The South American excursion was made to explore ways of extending the taxi-financing scheme to SA's lower income groups through general consortia finance schemes, which are in operation in Brazil (where the banks are involved to a certain extent) and in Argentina (where they are not).

"It's a different world," says Nightingale.

"In Brazil inflation is estimated at anything between 250% and 650% this year.

Formula

"The maximum lease period is five months, and you're paying more than 100% a month interest. In that climate consortia finance is working very well."

The bank still has a lot of work to do before a satisfactory formula can be established for SA.

"Besides, now would be the wrong time to introduce a new concept that is going to expand purchases when the authorities are trying to restrict public spending."

But he is confident that, in time, a car financing plan will be worked out for people in the lower income brackets.

Bearish JSE gives investors the jitters

58

By Magnus Heystek

The bearish mood on the JSE continues to paralyze investors.

The overall index yesterday shed another 39 points to 2432, while the industrial sector, in particular, came under heavy pressure, with the index dropping 40 points to 2443, a decline of two percent.

Since the announcement of the package of austerity measures earlier this month, the industrial index has shed five percent of its value as the full implications of the current economic situation has begun to sink in.

Analysts are particularly concerned about the combined effect of higher interest rates and more stringent hire-purchase conditions.

These factors, together with the adverse impact of the company loan levy that is intended to raise R750 million in barely eight weeks, are bound to influence company bottom lines, they said last night.

While analysts were quick to point out that yesterday's declines were on the back of relatively small volumes, it would appear that most institutions were taking a cautious view of the market, preferring to remain on the sidelines.

The head of a large insurance company, who declined to be named, said shares had risen sharply in expectation of the abolition of the prescribed asset requirement for pension funds and life insurers.

This sentiment, it turned out, was slightly misplaced.

Other analysts have seen an apparent contradiction between the intention of the authorities over the abolition of the prescribed asset requirements and the wording of the legislation.

According to the legislation, the maximum exposure to equities may not exceed 65 percent in terms of market value, as opposed to book value in terms of the old legislation.

If this was indeed the intention of the legislation, it would have the opposite effect.

Some pension funds are rumoured to be sellers to obtain the correct ratio of equities, property, gilts and cash.

Recent economic developments, which include the sharp drop in the gold price to $370 and the surge in the dollar to R2,69 have also affected market sentiment.

"Volatile markets are not good for sentiment and this is clearly reflected in the behaviour of investors in recent days," a broker said last night.

Austerity measures beginning to work

58

Star 19/5/89.

By Magnus Heystek
Finance Editor

With credit demand falling off and every sign that the economy is beginning to cool off, no additional austerity measures are being contemplated at present, says Dr Gerhard de Kock, Governor of the SA Reserve Bank.

"But the sharp drop in the gold price, together with the decline in the rand against the US dollar is definitely hurting the country, and we will just have to sit it out", he said in an interview last night.

Speaking from Cape Town, where he was busy preparing for a presentation before the Economic Advisory Council, scheduled to take place today, he said that the latest economic data all point to a slow-down in the economy.

"It seems to me that consumers in particular have heeded the message and have started to curtail their consumption expenditure. The main bulk of credit is now being taken up by major corporations who cannot overnight rein in their capital expenditure programmes," he said.

Dr de Kock said that the drop in the gold price, from an average of $437 an ounce last year to its present levels, is costing the country hundreds of millions of rands in foreign exchange.

"We will just have to sweat it out until the dollar starts to weaken again."

The weak performance of the gold price rules out any possibility of monetary policy being relaxed.

Every drop of $50 an ounce in the gold price represents a loss of about $1 billion in foreign exchange reserves to the country, already under severe pressure to make payments of about $2 billion to foreign creditor banks in terms of the 1985/86 debt reschedulement agreement.

Forex reserves

Dr de Kock added that the Reserve Bank has sufficient foreign exchange reserves to make the payment and that this factor should not place the rand under further pressure.

Commenting on the sharp drop in the rand against the dollar, he said that there was "absolutely nothing" that the Reserve Bank could do to protect the rand against the surging dollar.

"Not even massive central bank intervention by major international countries is able to arrest the rise. In less than one year the US dollar has risen from DM1,70 to DM1,97 and looks set to go higher, despite unchanged economic fundamentals in that country."

Confirmation that the growth in demand for credit from both consumers and the corporate sector has started to show a decline, comes from Nedfin in its analysis of the latest BA 9 returns by banks.

The figures show that the rate of increase in instalment and credit sales has declined from 8 percent in the September 1988 quarter to 5,2 percent in the first quarter of this year.

Nedfin's managing director Ron Rundle stated that private consumer demand for credit started to taper off during the last quarter of 1988 while corporate demand remained strong.

However, this also showed a decline by March and he expected the decline to continue during the next six months.

Mr Rundle pointed out that commitments in the corporate sector tended to be spread over three to six months because of delivery times.

He said this trend had been helped during the first quarter by buying in anticipation of higher interest rates, increased prices and the weaker rand.

Mr Rundle said he expected demand for hard asset financing will decline slowly, except in the field of transport where continued delivery delays are being experienced.

Another factor that would keep demand from the transport industry high was the fact that 43 per cent of heavy road vehicles are over 10 years old and replacements are long overdue.

Bank credit

Total credit granted by South Africa's banking industry at March 31 stood at a record R20 billion.

Mr Rundle said that during the last year the additional credit granted by banks by way of credit and lease agreements climbed by R4,4 billion. Lease agreements grew by 30,8 per cent during the period and instalment sales by 28,1 percent.

The rise in the rate of credit granted is matched by a decline in the savings rate. This grew by only 0,5 percent in the March quarter and by 12,8 percent during the past year. At the end of the last quarter total savings with the banks stood at R8,4 billion.— Sapa.

Insider trading crackdown

Rooting out the dicey deals

58

Star 19/5/89

The introduction earlier this month of draconian penalties for insider trading puts South Africa very much in line with overseas legislation. SVEN LUNSCHE examines the legislation passed by Parliament last week, while NEIL BEHRMANN in London and RAMSAY MILNE of The Star's New York Bureau provide a broad overview of insider trading legislation in Britain and the US.

Parliament earlier this month passed an amendment to the Companies Act under which offenders of insider trading legislation face fines up to R500 000 and/or 10 years' jail.

This has sparked a wide debate in financial circles as there is no clarity on what constitutes an insider trading offence. Broadly defined, insider trading legislation aims at prohibiting dealings in securities by people with confidential, unpublished price-sensitive information about a company.

It also generally seeks to control "secondary insider dealing" by prohibiting a person taking advantage of tips given to him by an insider who is acting in breach of confidence.

The difficulties are to establish when someone has acted on insider information or when they have used their analytical skill to determine what is a good investment.

In most cases this is clear cut, but past experience in Britain and the US has shown that potential offenders have escaped punishment by claiming it was their job to establish whether a particular share was a good investment or not.

The apparent intention behind the recent legislation was not to watch share movements and then seek evidence of insider trading; it is to watch closely those who are in a position to carry on insider trading and then investigate their actions should share prices show large fluctuations.

But the amendments to the Companies Act also provide for the same penalties to be applied to anyone who has used false information or has made misleading statements with the intention of pushing up share prices.

The watchdog to administer the legislation will be the Securities Regulation Panel, which will also have the task of monitoring takeovers.

It will have the right to summon and cross-examine any person and to call for books and other documents to be submitted to it on a monthly basis. People in a position to conduct insider trading will have to submit their

To obtain a conviction, the prosecution must prove that the defendant knowingly "obtained", either directly or indirectly, information from another individual or tipster who under the Act is legally prevented from parting with the knowledge.

The tipster must have been connected with the company in the six months preceding the announcement. The defendant should be aware that the tipster held the information because of his ties with the company. He should know that the information is unpublished and price-sensitive.

The moral: be wary of those who claim they have insider knowledge.

But those who have a legitimate defence are brokers who are merely taking positions in market-making as well as liquidators, receivers and trustees who take a view and buy shares ahead of a takeover. The court must prove intention to trade on insider information.

The broad definition explains why it is difficult to pin down an insider and to prevent drawing unwitting innocent parties into the net.

UNITED STATES

The exposure and arrest of former Wall Street "biggies" such as Ivan Boesky, the archetypal insider trader whose stock transfer practices two years ago created Wall Street's biggest scandal, set in motion the most sweeping overhaul of stock market anti-fraud legislation in US history.

What is in place now in the wake of these and other scandals is a set of tough laws, enforced by the Securities and Exchange Commission (SEC) and federal and State prosecutors acting under the widespread provisions of the Racketeer Influenced and Corrupt Organisation Act (Rico).

Cheats and thieves

Though Congress is still under pressure from securities and financial lobbies to ease some of the tougher measures written into Rico after the Boesky scandal, neither Washington nor the SEC shows any sign of easing their analytical skill to determine what is a good investment.

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It will have the right to summon and cross-examine any person and to call for books and other documents to be submitted to it on a monthly basis. People in a position to conduct insider trading will have to submit their share portfolio on a monthly basis.

Since insider trading legislation was enacted in Britain, there have been only a paltry number of convictions, illustrating that it is very difficult to define and prove insider trading. Yet investigations are a deterrent. They illustrate that the financial authorities, in conjunction with the JSE, are concerned about the problem and are trying to stamp it out.

UNITED KINGDOM

UK insider trading legislation has become more stringent in the past few years, but actual convictions are few and far between.

Awaiting trial

Since the Company Securities (Insider Dealing) Act came into being in 1985, less than a dozen miscreants have been convicted. Under the Financial Services Act, the Secretary of State can appoint inspectors to probe possible insider dealing offences.

The UK authorities are at present investigating 45 cases of insider trading, six of which are awaiting trial. Insider dealers can face up to seven years' prison once convicted.

The Insider Dealing Act forbids dealings in securities by people with confidential, unpublished price-sensitive information about a company.

Under the Act you are guilty of a crime if you deal as a "prohibited person". This does not only involve people who are connected with the company, including merchant banks, lawyers, accountants and other advisers, but also those who obtain information from company employees, directors or advisers.

The law seeks to control "secondary insider dealing". It is aimed at preventing a party taking advantage of tips provided by or through an insider acting in breach of confidence.

must prove intention to trade on insider information.

The broad definition explains why it is difficult to pin down an insider and to prevent drawing unwitting innocent parties into the net.

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Cheats and thieves

Though Congress is still under pressure from securities and financial lobbies to ease some of the tougher measures written into Rico after the Boesky scandal, neither Washington nor the SEC shows any sign of easing up on what one legislator has called "a crusade against the cheats and thieves who pervade Wall Street".

Rico was enacted in 1970 to give public prosecutors a way to deal with the scope of organised and white-collar crime. Now, with tougher amendments, it is being applied energetically to all financial dealings, including insider trading, despite protests from the financial lobbies who are arguing that the original Rico was aimed at organised Mafia-type crime figures.

But prosecutors and others point out that victims care little whether their life's savings are stolen by mobsters wearing black shirts and white ties or stockbrokers in tailored suits.

Under Rico's new provisions, triple damages are now possible against an insider found guilty of misconduct.

In addition to permitting those who traded in the stock market to seek redress, others who can prove they were injured by the illegal trading can also seek redress.

This includes an investor or company proving that the purchase price of a takeover target was driven higher by insider trading.

The SEC is no longer required to prove that wrongfully acquired information served as a basis for stock transactions.

Instead, the law requires only that the commission prove that the trader concerned was in possession of such information for trading in related securities to be illegal.

The new law makes it a crime to trade on tips from insiders, provided the person receiving the tip knows, or has reason to believe, the information is confidential. In such cases, both face criminal prosecution.

The phrasing is important because it ends years of reluctance by the SEC to commit itself to a definition of insider trading.

Probe into captive insurance companies

Star 19/5/89 (58)

By Hellouise Norval

A commission of enquiry, to be chaired by Mr Justice David Melamet will soon turn the spotlight on the operations of captive insurance companies.

At issue is whether or not such operations amount to tax avoidance schemes and cause losses to South Africa's foreign exchange reserves.

A captive works on the principle of self-insurance. A subsidiary within a corporate group provides risk cover to its parent company and fellow subsidiaries. Premium income is retained within the group as are any profits made on the insurance transactions.

Over the last few years exposure to risk has become a more acute and serious business problem than ever before. For large companies self-insurance is an attractive proposition with captive insurance companies offering an inventive solution.

Tax havens

In common with international practice, South African companies have set up captives in tax havens such as TBVC countries, more particularly Ciskei.

An international tax journal quotes the tax havens which have attracted the establishment of captive insurance companies. It quotes Bermuda as having 1 000 captives, the Cayman Islands 330, Guernsey 160, Barbados 30 and the Isle of Man 30.

Anthony Chait, partner in Chartered Accountancy firm Fisher Hoffman Atride says a number of SA companies have set up captives in the above jurisdiction.

"They have done so with the consent of the Reserve Bank. In some cases exchange control has required that the premium is retained within the rand monetary area. In the event of a claim these funds are released. Other captives have been successful in obtaining permission to have premium income remitted to the captive abroad."

Anthony Chait — "Captives cannot be set up as post box companies".

Only larger corporate groups operate captives abroad. Insurance costs for these companies probably run into millions of rand. Mr Chait believes the volume of premium income flowing to these captives is significant enough to warrant a commission of enquiry.

Two issues, he says, probably prompted the investigation: Tax avoidance and exchange control considerations.

"Obviously the commission will examine to what extent the South African fiscus is being deprived of funds resulting from the operations of these captives. It is significant that the chairman is Mr Justice Melamet.

As President of the Income Tax Special Court he spends a considerable part of his time hearing income tax appeals. He is regarded as exceptionally well qualified and versed in matters of tax avoidance."

Exchange control

The other issue, says Mr Chait, is an exchange control consideration. "By allowing captives to be established off-shore and often in tax havens beyond the borders of the country means a considerable outflow of premium income. This must have an effect on the South African reserves."

Increasingly tax authorities are casting a jaundiced eye on captives in terms of tax avoidance. Mr Chait suggests that in order to escape being labelled a vehicle for tax avoidance in relation to the company it supports, a captive should give consideration to accepting business from outside companies.

"Compelling commercial reasons must exist for the setting up of a captive, such as a competitive reduction in premiums and the ability to spread risks on the international market to avoid increased premium costs locally or an outflow of foreign currency. These actions would give captives more credibility."

Mr Chait warns that when a captive is established off-shore or in a tax haven it must not be perceived as a "post box company".

"A captive can't be set up off-shore for the purpose of receiving premiums when all the work is done in SA. A captive has to possess competent management, independant of the parent group's activities in SA.

"Should a captive come under scrutiny it must stand up as a business performing a specific function with sound commercial reasons. It can't afford to be seen as a sham set up in a tax-neutral jurisdiction. This is probably one of the main issues the commission will address."

Mr Chait stresses that a captive must underwrite any risks it might not be in a position to meet itself. "It must be able to pass these risks on to reinsurers so that its continued existence is not threatened in the event of a major claim."

Independent functions

A captive with independant management needs to carry out the following functions from its own business centre: Administration; the issue of proper policy documents and renewal notices which conform to international practice; the collection of premiums; the handling of claims procedures; statistical analysis; loss prevention and investment counselling.

"A company has to do its homework and sums and compare the costs of its current insurance with the costs of establishing and maintaining a captive. When a captive is located in a tax haven profits are not taxed which adds to the group's tax effectiveness. In this instance there is a double tax benefit as the insurance premium is a normal business cost and tax deductible in SA."

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Metpol lifts income by 29%

CAPE TOWN-based Metropolitan Life (Metpol) lifted premium income for the six months to March to R205m — a 29% improvement on the figure for the equivalent period last year.

Investment income rose by 27% to R99,5m, attributable profits are up from last year's R5,8, to R7,1m or the equivalent of 16,5c a share.

The interim dividend is 11c a share.

The balance sheet has also strengthened considerably with total assets of R1,839bn at March 31, compared with the R1,671bn recorded at the last year-end.

Metropolitan MD Willem Pretorius also announced the launch of a major personnel motivation programme.

"We have entered what we see as a new phase of dynamism. We are determined to take the lead and be the most successful insurer in our focus markets.

"To achieve this, we have embarked on an intensive programme designed to inculcate a renewed commitment to success among all our staff."

Commenting on the company's prospects for the current six months, Pretorius said that barring any unforeseen setbacks in the economy, he was confident of an increase in both earnings and dividends.

SA trade surplus drops 51%

CM Times 19/5/89

58

By AUDREY D'ANGELO
Financial Editor

THE huge increase in exports achieved in March — which gave a badly needed boost to the current account of the balance of payments — has proved a flash in the pan.

Exports were down in April and imports slightly higher, resulting in a 51% drop in SA's trade surplus compared with March.

The sharp drop has come at a critical time, when both gold and the rand are continuing to fall against the rising dollar.

However, the trade surplus of R818m for April compared with R1;67bn in March, is still 43% higher than that achieved a year earlier.

Exports in April totalled R4,5bn compared with R5,1bn in March and R3,3bn a year earlier. Exports in February totalled R3,8bn.

Imports in April totalled R3,6bn compared with R3,4bn in March and R2,8bn a year earlier. Imports in February totalled 3,2bn.

The surplus for the first four months of this year totalled R3,5bn compared with R2,7bn for the first four months of 1988.

But the lower April figure explains the action taken earlier this month to tighten the economy and discourage consumer spending — and the insistence of Reserve Bank Governor Gerhard de Kock at a Cape Town conference last week that exchange controls were "a necessary evil".

The banks report that demand for credit is now coming mostly from manufacturers importing machinery and expanding their capacity.

And Colin McCarthy, director of the Cape Chamber of Industries, said this week that the imports now being discouraged were of machinery needed to boost the export drive.

But Volkskas economist Adam Jacob pointed out yesterday that 70% of SA's exports still stemmed from mining. The second largest exporter was Iscor, and the third the chemical industry.

"The clothing and textile industries are important in the Cape, and the exports they are achieving may be large for them.

"But in the short term SA has no choice but to reduce domestic consumer demand in order to cut imports and improve the balance of payments.

"With falling domestic demand manufacturers probably have no need to increase their capacity to enter the export market."

Pointing out that the world economy is declining, Adam said this meant that demand for SA exports was certain to fall and that improvement in the balance of payments would therefore have to be achieved mainly through a reduction in imports.

"We cannot rely on exports to build up our balance of payments. We shall have to tighten our belts in the domestic market.

"I sincerely hope that the government will also stick to the expenditure provided for in the Budget. There is no point in the private sector tightening its belt if the public sector overspends."

The Star
Finance

Fedservices on a high note

58

Star 19/5/87

Finance Staff

Fedservices, the services division of Federale Volksbeleggings, had a 27,5 percent increase to R26,2 million in taxed profit for the year to March.

Turnover of the operating companies — Avis, Fedics, PFV, Interpark and Interleisure — was R900 million.

Peet van der Walt, executive director of Federale and chairman of Fedservices, said yesterday each of the operating companies had produced exceptionally good results and contributions that were better than expected.

"This is the latest in a series of sound performances which have helped Fedservices achieve a 35 percent compound profit growth rate over the past four years and made the services division an increasingly significant contributor to Federale's earnings."

He said Fedservices was expected to maintain a sound growth rate in the new financial year and that its long-term prospects were excellent.

"The services sector dominates the modern industrialised economy. In the US, for example, it represents 71 percent of gross national product.

"This is a trend which is also apparent in South Africa, with privatisation, in particular, offering great expansion opportunities for service companies.

"Generally speaking, however, there is scope for improvement in the standard of services rendered in South Africa.

"The quality of service and the perception of that quality by the consumer are of the utmost importance. Quality in a service company is a function of the attitude, skills and productivity of the people who work there.

If the service sector is to flourish in South Africa, as it has done elsewhere, managements will have to give more attention to developing them."

Mr van der Walt said each of the Fedservices companies was the market leader in its sector, had a long and outstanding track record, a demonstrable commitment to excellence and compared well with similar companies internationally as far as both quality of service and productivity were concerned.

It was Fedservices' style to allow each company a high degree of autonomy within the framework of its guiding philosophy.

The five companies had a combined staff complement of 20 000, which underlined the significance of the service sector as a creator of job opportunities, he said.

METLIFE PREMIUM AND INVESTMENT INCOMES IMPROVE

BDay 17/5/89 (58)

LIZ ROUSE

INTERIM results published today by Metropolitan Life underline the company's solid growth and position as a major force in its chosen markets.

A R205m premium income for the six months to March showed a 29% improvement on the figure recorded for the equivalent period last year.

Investment income increased by 27% to R99,5m.

Attributable profits are up from last year's R5,8m to R7,1m — equivalent to 16,5c a share. An interim dividend of 11c has been declared.

The balance sheet has also strengthened considerably with total assets of R1,839bn at March 31 against R1,671bn at the September 1988 year-end.

Metlife MD Willem Pretorius also announced the launch of a major personnel motivation programme.

He said: "We have entered what we see as a new phase of dynamism and are determined to take the lead and be the most successful insurer in our focus markets.

"To achieve this, we have embarked on an intensive programme designed to inculcate a renewed commitment to success among all our staff."

Metlife celebrates its 10th anniversary this month — established as Metropolitan Homes Trust in 1979 — but the name was changed in 1985.

The company's roots go back to formation of Homes Trust Life by a syndicate of Cape businessmen. Its earliest function, to finance homes, changed and the emphasis switched to insurance.

Pretorius, commenting on prospects for the current six months of the financial year, said that — barring any unforeseen setbacks in the economy — he was confident of an increase in both earnings and dividends.

Nedbank sets challenge

(58)

A CARD-BASED fleet management system recently launched by the Nedbank group will, in a few months, allow clients with PCs to receive a wide range of reports — almost instantly and without leaving the office, says assistant GM Rudi Genis.

He says Nedbank's system poses a strong challenge to the three long-entrenched card issuers, First Auto, Stannic and Volkskas. The product, called NedMOTOR, was developed over the past two years by Nedbank in collaboration with Nedfin.

The charge card will allow drivers to settle the usual type of transaction — for fuel, oil, tyres, spares, repairs and maintenance — at any of about 10 000 outlets countrywide.

Data fed back to the bank can be processed into as many as 18 reports on the vehicle concerned. Among them: fuel consumption, private use, automatic payment order, replacement and licence renewal, allowance scheme and driver debiting.

Also available is fleet owner's coded identification, linked to the company assets register or filing system, and access to a wide-ranging information and computerised spreadsheet facility called NedInform.

"No found in our research that different subscribers have very different requirements. So fleet operators will be able to choose the type of report they want."

A company with a lot of vehicles will need comprehensive controls and reporting, so it will pay more than a small business or professional practice needing a simple record of expenditure for budgeting and tax purpose.

B/Day 19/5/89 (1)

Interface

"But they will all be able to extract whatever data they want on their fleet and fre-format it in any way not provided by the standard reports."

Genis says the bank is busy programming the software for a PC interface which should be ready in about three months.

Then any subscribers with a PC and modem, through the fleet management system and NedInform, will be able to get immediate information on their fleet.

Increase-rate in bank receivables is down

Further signs that the economy is cooling

B/Day 19/5/89

56

LIZ ROUSE

THE rate of increase in total bank receivables has fallen in the past six months, another indication that the economy is cooling off, says Nedfin Bank.

First came the Central Statistical Service GDP figures. These showed that, on a seasonally adjusted basis, GDP grew at only 1,6% for the first quarter of the year compared with the 2,8% growth rate reflected for the fourth quarter of 1988.

Yesterday, release of dismal trade figures for April had a marked effect on the performance of the JSE.

Analysing the banks' BA9 returns, Nedfin finds that the rate of increase in instalment sale and lease agreements has declined from 8% in the September 1988 quarter to 5,2% for the March 1989 quarter.

Nedfin's MD Ron Rundle says: "There is no doubt whatsoever that the stringent monetary credit control measures introduced by the authorities are working. We can see it from the figures."

He says that although total credit granted by the country's banking sector stood at almost R20bn at March 31 — a record — the pace was slowing. During the past year the amount of additional credit granted by the banks by way of HP and lease agreements has climbed by R4,4bn, with lease agreements showing a 30,8% increase over the period and instalment sale growing by 28,1%.

"Although consumer credit demand started to drop off in the September quarter following the introduction of curbs by the authorities, corporate demand remained firm. However, by the end of the March quarter, corporate demand was starting to slow and we expect this decline to accelerate over the next six months.

Increases

"Demand for capital expenditure items was particularly strong during the March quarter because businesses had anticipated that interest rates would begin to decline in the first part of the year, which encouraged industrialists to proceed with the purchase of plant and equipment.

"In addition, announcements of future price increases, particularly in the vehicle market, and the expectation of a lower value of the rand prompted, rather than postponed, many asset purchases."

Another factor in this market which boosted corporate demand was the fact that high-tech equipment is replaced about every five years.

Over the next few months, Rundle anticipates, the demand for hard asset financing will decline slowly, except possibly in transport.

"It is estimated that 43% of heavy road vehicles are geriatric — that is, their 'in-service life' exceeds 10 years and replacements are long overdue."

He believes the stringent credit control measures introduced earlier this month are taking their toll in the consumer area.

The rise in credit used has been matched by a marked decline in the rate of savings. Savings grew by only 0,5% in the March quarter and by 12,8% over the past 12 months. The nation's savings with the banking system stood at R8,4bn at March 31, 1989.

Japan, but at first there seemed to be a real translation problem.

deal with a lot of 'what if?' situations," says McCarthy.

Banks looking for alternatives

WHAT price a South African terminal for the electronic funds transfer at point of sale (Eftpos) projects of major banks?

With the fall in the rand and surcharges on imports, the cost of foreign terminals and components has put a brake on the Eftpos plans of both First National and Standard banks.

Now they are casting about for ways of getting a local terminal manufacturing programme going.

Spokesman for both banks stress they are still keen to develop Eftpos into a public service, initially for owners of various petrol, garage and fleet cards.

Both banks have run successful pilot schemes mainly on the Reef — FNB in conjunction with Shell and Standard with Mobil. (Standard also installed trial terminals at a couple of BP and Caltex garages.)

A public Eftpos service from FNB was to have been launched on the Rand more than a year ago, all being well.

But then it became clear that both banks were unhappy with the escalating cost of imported equipment.

Printer

"We have tested a system," says FNB senior manager, point of sale development, Barry Forbes.

"The problem is at the terminal end."

Basically, what is required is a PC with a card reader and printer attached to it, that will sit on a desk at the filling station.

The banks want to ensure that whatever units are finally selected will be able to take all petrol, garage and fleet cards. (The trial units do not have this facility.)

For technical reasons the trial units have also not been "on line" like ATMs. Transactions are transmitted via modems, telephone lines, and the Saponet data network.

It is understood the banks were baulking more than a year ago at a unit cost of around R5 000.

The price has to come down substantially for a widespread network to become justifiable, agree Forbes and his counterpart at Stanard, Dave Heard.

So unless domestic manufacturers can come up with the answers, it seems a public Eftpos service is still a long way off.

7/3/85

E50

Sage Financial Services to be floated on JSE

58

B/Day 19/5/89

LIZ ROUSE

THE R2bn-worth Sage Financial Services (SFS) will be floated on the JSE next month (June) through a R100m rights offer.

This is the first major listing this year. Sage chairman Louis Shill says that the decision to go ahead with such a large issue indicates that Sage can go to the market with "full equanimity". Shill is confident that the rights offer will be well received. The rights offer is fully underwritten.

The proposed listing was announced in November. SFS's principal subsidiaries are Sage Life, FPS, Sage Securities, Investors Mutual Funds, Sage Trust Company and Sage Strategic Investments, which holds investments in Allied Group (10%) and Rand Merchant Bank Holdings.

A renounceable rights offer of 25-million cumulative convertible preference shares in SFS will be made. Sage Holdings, which currently holds all the issued shares of SFS, will renounce all of its rights in favour of its ordinary shareholders and other offerees.

SFS is the holding company for the Sage group's diverse interests and strategic investments in the financial services sector. Activities cover a broad spectrum, including life insurance, personal financial planning and employee benefit consulting, trust company activities, mutual fund and investment management, corporate finance and strategic investments in the banking/building society fields.

In terms of earlier undertakings, former shareholders of Ned-Equity Insurance Company (now Sage Life) and Union & London Investment Trust, who exchanged their shares in those companies for shares in Sage Holdings and who are still registered as Sage Holdings shareholders, will be entitled to subscribe for SFS rights shares on a preferential basis. Terms and conditions of the rights offer will be published on or about Friday, May 26.

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Cloak thrown off Stannic's hush-hush prototype

STANNIC is soon to launch what it calls "the most sophisticated and versatile development yet" in South African fleet-management technology.

It is regarded as "a major enhancement" of Stannic's current fleet-management system.

The new advance — yet to be named — will initially use Standard Bank's corporate access terminal system (Cats) for bigger clients.

The corporation is not saying too much about the hitherto hush-hush development, which it plans to put on the market in July. The product, which Stannic claims introduces a new dimension to fleet management in SA, will also be demonstrated at the ITEC Exhibition in August.

Stannic assistant GM (marketing) Ron Newman says large fleet operators — through Cats — will have access to "a far more comprehensive state-of-the-art fleet-management system" than any currently available from other financial institutions in SA.

A major feature of the system is that clients will be able to produce their own reports on their own premises. They will be able to do so on a daily, weekly, monthly or annual basis — in a format they can devise themselves.

Hundreds of large companies already use the Cats network, says Newman. It allows them to reach the bank's computers by telephone to transfer funds or access a host of information services.

A combination of Cats and Stannic's enhanced fleet-management system, he says, will offer operators of big fleets maximum value and versatility in their fight against rising costs.

The new system can be used for large fleets of cars, trucks and forklifts — and by "large" Stannic is thinking of 100 vehicles or more.

Low income group faces bond squeeze

Star 20/3/89

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FRANK JEANS

WHILE there could be some hardship for low-income homeowners in the wake of the rising bond rate and the current austerity measures, the building societies do not expect any large-scale bond defaults and only a slight increase in the number of repossessions of properties.

Nevertheless, the "freeze" may eventually have an adverse effect on lower-income borrowers.

This fear was voiced this week by Mr Mike de Blanche, managing director of the United, who said there was concern about the risk attached to lending to the black community.

Mr de Blanche, speaking at the National Association of Home Builders conference in Pretoria, urged the Government to take responsibility for lower-income housing.

Intimidation

"Financial institutions have no control over the political situation, and unless the position is stabilised by Government, political agitation and intimidation against property-owners paying monthly instalments will increase," he said.

Mr David Waugh, general manager of the corporate housing division of Allied Building Society, believes the repossession problem should be viewed in the context of a lack of understanding of loans among lower-income groups.

Most of the Allied's lending to blacks is through the selling of housing schemes to companies.

Under this plan, a housing scheme is sold to a company, while the bond on a property is in the name of individual owners. Bond payments are collected by way of wage deductions by the company's personnel department.

The Allied expects a slight rise in arrears among black borrowers following the bond rate rise.

Mr Bob Tucker, managing director of the Perm, said: "Black people are keen to share in the benefits of home ownership and have proved to be responsible borrowers."

Mr Tucker believes statistics on arrears can be misleading. If, in any month, an instalment of say, R195 is paid where an instalment of R200 is due, the account is statistically noted as being in arrears.

He added: "There is excessive red tape in the implementation of subsidies on black home loans. Frequently, the introduction of the subsidy is delayed for months. The account will be technically in arrears, even though the borrower has regularly paid the full instalment due.

"Also, black homeowners have never previously experienced an increase in the bond rate and the consequential rise in the instalment rate."

In fact, said Mr Tucker, the Perm's experience of losses on its black home loan portfolio was significantly lower than its experience of losses on its white portfolio.

Guarantees

The Perm controls more than 200 000 mortgage loans, of which just over 2 000 white loans and 2 000 blacks loans are significantly in arrears.

Of these, a number are subject to subsidies or guarantees of some sort and Mr Tucker emphasised that this situation was "certainly no cause for alarm".

Mr Brian Short, of the Natal Building Society, Durban, said there was a higher incidence of arrears among black home-buyers than their white counterparts.

"But we're not too concerned. For various reasons we understand the position. For many of them it is a new concept, being first-time homeowners."

He did not anticipate any decrease in loans to black homeowners. "Fifteen percent of our monthly quota is to black homeowners. If anything, we see the figure increasing."

Help over home loans pledged

CAPE TOWN — The Government had a scheme to help home owners through the current difficulties caused by rising interest rates, the Minister of Finance, Mr Barend du Plessis, said today.

He spoke at the end of a three-day debate on the Budget's Second Reading.

Dealing with rising interest rates and the effect of corrective measures on the market, he said: "We have an attractive scheme to help homeowners through these difficult times and the details will be announced shortly."

The Government had devised a scheme to prevent homeowners from losing their houses due to rising interest rates. The scheme, which would be very attractive, would remove some of the pressures being placed on homeowners by fluctuations in interest rates. — Sapa.

SVEN LUNCHIE examines the legislation passed by Parliament last week, while NEIL BEHRMANN in London and RAMSAY MILNE of the Weekend Argus New York Bureau provide a broad overview of insider trading legislation in the United Kingdom and the United States respectively.

PARLIAMENT last week passed an amendment to the Companies Act under which offenders of insider trading legislation face fines up to R500 000 and/or 10 years' jail.

W/E Argus 20/5/89

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This has sparked a wide debate in South Africa's financial circles as there is no clarity on what constitutes an insider trading offence.

Broadly defined, insider trading legislation is aimed at prohibiting dealings in securities by people who have confidential unpublished price-sensitive information about a company.

It also generally seeks to control "secondary insider dealing" by prohibiting a person taking advantage of tips given to him by an insider who is acting in breach of confidence.

The difficulties are to establish when someone has acted on insider information or when they have used their analytical skill to determine what is a good investment.

In most cases, this is clear cut, but past experience in Britain and the US has shown that potential offenders have escaped punishment by claiming it was their job to establish whether a particular share was a good investment or not.

The apparent thinking behind the recent legislation was not to watch share movements and then seek evidence of insider trading.

Instead, it is to watch closely those who are in a position to carry on insider trading and then investigate their actions should share prices show large fluctuations.

However, the amendments to the Companies Act are aimed at catching more than insider traders. They also provide for the same penalties to be applied to anyone who has used false information or has made misleading statments with the intention of pushing share prices.

THE watchdog to administer the legislation will be the Securities Regulation Panel, which will also have the task of monitoring takeovers.

Members of the panel will be appointed by the Minister of Finance and by a number of bodies, with the Johannesburg Stock Exchange having the biggest representation — three.

The panel will have the right to summon and cross-examine any person and to call for books and other documents to be submitted to it on a monthly basis. People in a position to conduct insider trading will have to submit their share portfolio on a monthly basis.

Since insider trading legislation was enacted in the UK, there have been only a paltry number of convictions, illustrating that it is extremely difficult to define and prove.

Yet investigations are also a deterrent. They illustrate that the financial authorities in conjunction with the Johannesburg Stock Exchange are concerned about the

Reserve Bank may sink rand to save mines

CAPE TIMES 20/5/89

58 / EAA

By AUDREY D'ANGELO
Financial Editor

THE Reserve Bank may save marginal gold mines from closure by allowing the rand to plummet to a level at which they become viable again, Old Mutual chief economist David Möhr said yesterday.

He pointed out that this would also help SA exports and be a further discouragement to imports without raising interest rates.

Chamber of Mines economist David Kennedy agreed:"I think it likely that the rand will depreciate further and this will take some of the pressure off mines."

Rand Mines, which yesterday suspended trading in the shares of two of its mines — East Rand Proprietary Mines (ERPM) and Durban Roodepoort Deep — has appealed to the government for financial help to keep them open.

As the dollar gold price continued to fall a spokesman for the Chamber of Mines said that with the rand gold price at its present level about 13 mines could be considered "marginal" and in danger of closing.

Standard Bank economist Nico Czypionka pointed out that the rand had not fallen against the dollar as much as the mines would like because of the recent strength of exports other than gold.

"The rand is certainly going to be softish for most of this year but I don't think it will become very weak unless there is a drastic fall in the gold price."

Czypionka said the Government might take the view that the very marginal mines, of which there were probably four, might as well close because they produced very little gold. The loss of their production would make little impact.

But Trust Bank economist Nick Barnardt said that although in normal times he would not expect the Government to help marginal mines, at present every ounce of gold taken out of the ground helped SA meet its balance of payments (BoP) problem.

With more foreign debt repayments due next month, he did not believe the country could afford to let the marginal mines close.

But the mines would be faced with higher costs soon, after the mid-year pay rises, and he did not believe the rand gold price would rise sufficiently to solve their problem.

Bitter battle for funds from Granny Bonds

Star 20/5/89

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Money Matters

Magnus Heystek

WITH an estimated R1,5 to R2 billion in the so-called Granny Bonds maturing in the next couple of months, financial institutions are engaged in a bitter battle to attract these funds into their coffers.

For the first time in many years savers, and in particular our senior citizen savers, are now receiving a pre-tax interest rate on their savings which beats the inflation rate. How long this situation is going to last, is difficult to say.

With the first batch of Granny Bonds — Senior Citizen Deposits, announced during last year's Budget — maturing earlier this month, financial institutions embarked on massive advertising campaigns to draw in deposits. Most institutions are offering between 17 and 17,25 percent for senior citizen savers for one-year deposits. This is the highest rate available for relatively short-term deposits.

Compared with the current "official" rate of inflation of about 14 percent, this gives a pre-tax real rate of return of about 3 percent. Unfortunately, the interest on this is fully taxable save for the first R1 000.

Many investors will in the next few months have to decide how to invest their savings. Most retired people need the highest possible rate of interest to supplement their incomes. But savers have to be aware of the cyclical nature of the South African economy, and by implication interest rates.

Will interest rates go higher? And at what stage will it be prudent to tie up money for a longer period? These are the questions facing many today.

Normally I wouldn't advise investors to tie up their savings for long periods, but when interest rates are high this does make some sense. It is unlikely that interest rates will remain at a peak and they can expect to start declining sometime later this year. This will mean a reduction in deposit rates as well.

Austerity measures

Most bankers and economists agree that the latest austerity measures will cool down the economy sufficiently to allow for a slackening of monetary policy later this year. If this scenario does prove to be correct, then it would make sense to tie up savings now in order to benefit when interest rates start declining.

Some schemes currently being marketed by financial institutions offer a "floored" interest rate which remains constant in the face of a drop in interest rates generally. Conversely, should rates rise further, savers will receive a higher interest rate up to a level of two percentage points higher than their entry level. This is a worthwile option and certainly bears consideration.

The Perm, for instance, has just announced a new product to cater for the maturing Granny Bonds called the Permbonus. It's a 12-month fixed deposit with the entry rate of 17 percent guaranteed, but allowing for the rate to move up by a maximum of 2 percent in the case of interest rates moving higher. The minimum investment is R1 000 and the maximum is R500 000.

This scheme is very similar to the United's Bonus Deposits and under current circumstances, considering the volatile investment environment generally, it might be a safe place to keep money until clearer investment patterns emerge.

But generally, fixed-rate investors are finding it incresingly hard to beat both the inflation rate and the tax-man at the same time. Their predicament will worsen from March 1 next year when the tax-free and partially tax-free concessions fall away.

This makes the forthcoming general election even more important for hard-pressed savers and pensioners. This is an election where financial matters will come to the fore as an election issue. Make good use of it.

Industrial and financial sector undergoes major correction

58 Star 20/5/89

THE industrial and financial sector of the Johannesburg Stock Exchange is in the middle of a correction phase which could last until the third quarter of next year, state market analysts.

Matt Brenzel, head of Syfrets Investment Research, said that a correction of up to 20 percent could be expected. He said the market is nervous and that questions are being asked about the possibility of another "Black Monday".

He pointed out that with many variable factors in place, it was no easy task to draw a conclusion."On balance however," he stated "we feel thaat as several key fundamentals have been ignored, the Financial and Industrial Index is overpriced and a correction of 10 to 20 percent cannot be excluded.

"It must be realised there exists a mountain of investible funds waiting for such a correction. Scrip is likely to be extremely tight and prospective investors should not wait until the trough is reached before committing their funds".

Mr Brenzel was reluctant to estimate the extent of the downturn in industrials but said he felt it would possibly end during the course of 1989.

He said much depended on decisions taken by the institutions. The removal of prescribed asset requirements would increase their buying power substantially. And as the JSE traditionally gave a better return than fixed interest securities, they would turn the trend when they felt the trough was approaching and started buying.

40% fall predicted

Chartist Tony Henfrey is more pessimistic on the outlook. He feels the decline will carry through until the third quarter of next year, with an upkick at the end of year.

He also has the opinion that the Industrial Index will fall by as much as 40 percent until the uptrend is re-established.

He said the Industrial Index peaked on April 30 at 2581 and started its decline the next day. At the close of trading yesterday it stood at 2353.

Henfrey said: "The evidence suggests that in all probability the JSE Industrial Index has made a major long term peak and cycle analysis suggests the next trading low will occur in late October or early November. However, longer term cycle trends point to the likelihood that there will not be a meaningful oversold low until the last quarter of 1990".

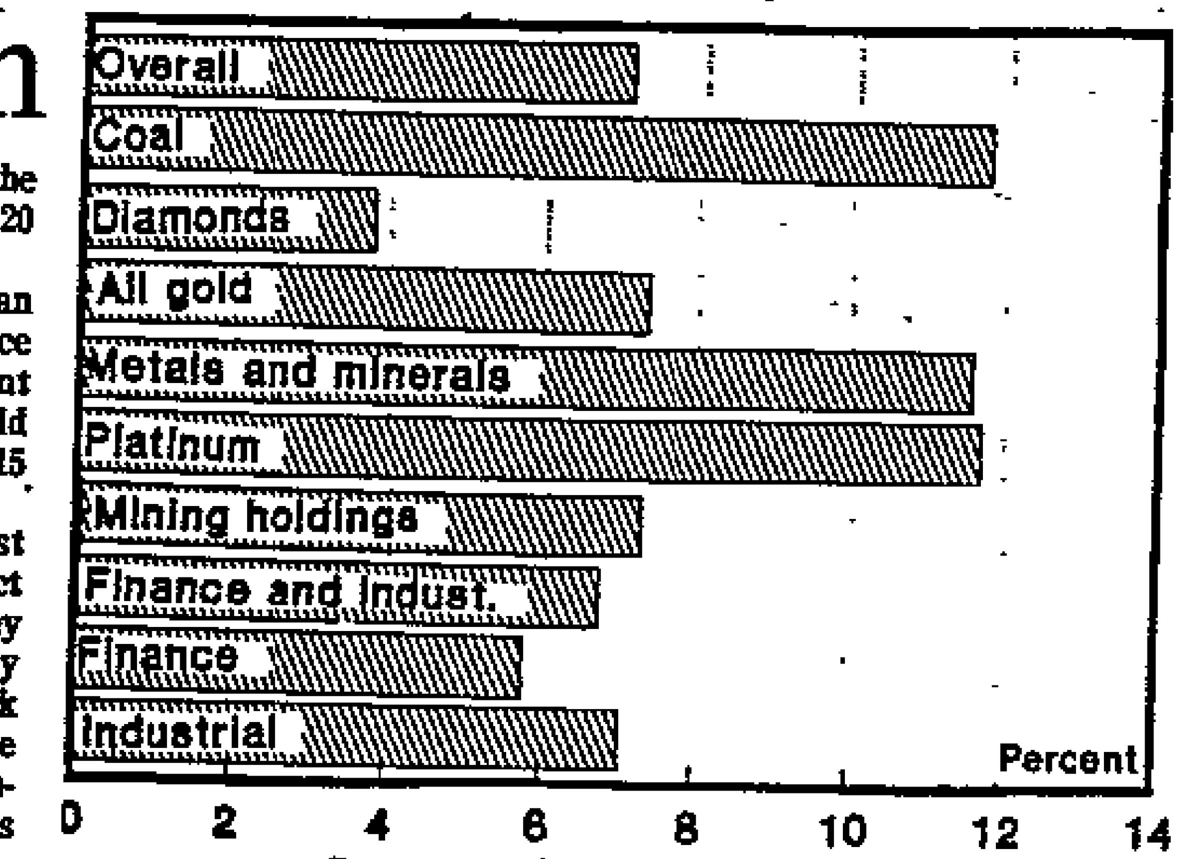
Mr Henfrey also said: "The JSE Industrial Index is now expected to underperform world markets, which it has been beating since early 1988".

Mr Henfrey is more optimistic on the gold markets and feels that the gold price is in the process of bottoming out and the will have a positive effect on the gold sector of the JSE.

Sydney Frankel of Frankel Kruger Vinerine Inc said it was time for a correction to take place and felt that losses in the index would be between 10 and 20 per cent.

Union Acceptance spokesman Alistair Colquhoun said the pace could not continue at current levels and felt the index could come back by between 10 and 15 per cent.

Other analysts said interest rates at a high level would attract institutional cash into the money and gilt markets and that they would only return to the stock market in any strength when the market appeared to be approaching a bottom and interest rates started to decline.— Sapa.



Percentage decline in sectors since May 5.

Reason to fear Bank's garrotte

B/Day 29/5/89 (58)

IN THE MONEY MARKETS

Harold Fridjhon

THE Big Money call rate shot up nearly a full point to 18,25% on Friday to touch a peak last reached four years ago, when rates were descending from the punishing 25% austerity prime.

Then the banks had been consistently paying over the odds for deposits to keep out of the clutches of the Reserve Bank. On Friday, they were impelled by the same motives.

Earlier in the month, Bank Governor Gerhard de Kock had warned they could expect rough treatment if they came hat-in-hand to get help from the Bank other than through the re-discount window.

And they are not prepared to find out how rough De Kock might be.

Most of the major banks declared they were feeling relatively comfortable about their positions when their books are ruled off tomorrow evening but, with Wednesday a public holiday, they were a little uncertain about the turn-of-the-month outflow and inflow of funds.

To cover all contingencies, they started aggressive bidding for deposits on Friday when the wholesale call rate rose progressively through the day from 17,5% to 18,25% and could reach 18,5% today and tomorrow. Some bankers said they regarded these expensive deposits, more or less, as an insurance — just in case the ball did not bounce in their favour on Thursday's final reckoning.

On Saturday morning when the market's disclosed debt to the Bank had risen to R1,66bn, up R300m in a day, it looked as if this cautious approach to the month-end settlement was indeed reasonable. The banknote issue at R7,36bn could increase by at least R300m and with other debits and credits the shortage at the end of the month could stretch beyond R2bn.

Dropped

The larger banks should have sufficient liquid assets to present to the Bank and get acceptable, non-punitive facilities, but others might have reason to fear the Bank's garrotte. These smaller banks could bid up the call rates, at the expense of the larger banks and snitch some of their deposits. There is a dearth of surplus liquidity in the market after the Bank's siphoning operations.

Indeed it is reasonable to assume that the level of liquidity in the economy as a whole has dropped in pace with the the gold price although, when measured against an anaemic rand, the gold and foreign exchange reserves might appear to be stable. But in dollar terms, the currency in which SA's debts and other foreign obligations are calculated, the state of the reserves give scant comfort.

Pushing

Perhaps this explains why interest rates are continuing to harden. The Treasury bill (TB) rate on Friday rose to 17,11% discount from 17,04% in a two-and-a-half-times over-subscribed tender for R100m worth of bills. This gives a yield of 17,86% on the finest, most liquid short-term asset.

The rate for 90-day bankers acceptances (BAs) is 17,50% discount, a yield of 18,28%. The banks are paying 18% on wholesale three-month deposits with interest monthly giving an overall return of 18,20%.

Rates are pushing through the ceiling of the current Bank rate, TBs are 11 points above their re-discount rate and BAs 20 points higher. But Bank rate is unlikely to be raised.

Bankers say demand for funds is tapering off. The gold mines are curtailing their capital spending and these cutbacks seep throughout the economy which is showing evidence of cooling off.

Perhaps Bank rate might ease before the election.

Gold loses another $4, rand slide continues

ARGUS 22/5/89

By TOM HOOD, Business Editor

GOLD lost another $4 today to open at $361,15 an ounce in London, the lowest price since early August 1986.

The rand also slipped as the American dollar continued to surge on Far East foreign exchange markets and was quoted in Johannesburg at 33,36 US cents, down from Friday's 36,92 cents.

Since the beginning of the year, when the rand was worth more than 42 US cents, the local currency has lost 14 percent of its value against the dollar.

The low gold price means that 15 of the country's 36 gold mines are in danger of making losses as their costs are higher than R350 a ounce — several report working costs above R400 an ounce.

The mines, however, could get some protection from the falling rand, which has maintained the rand price of gold. Mines receive rands for their gold above R1 000 an ounce. Today gold was worth R1 082 an ounce.

Rand Mines, which is seeking government aid to stave off closing two loss-making mines, said today if the mines, Durban Deep and ERPM, had to cease mining operations, the group had adequate reserves to write off its investment in them.

Share prices eased again on the Johannesburg Stock Exchange, where more than R14,5-billion was wiped off the value of shares in last week's downturn.

The JSE overall index of share prices lost another 14 points this morning to 2337 after losing 165 last week.

The possibility of another hike in interest rates was signalled today when a key money market rate — the 90-day bankers acceptance rate — climbed to 17,60 percent.

● See page 2.

African Life increases new business 85 percent

Star

58

Finance Staff

African Life Assurance has announced record achievements in virtually all aspects of activities.

In the most successful year in its history, total new business written for the year to March increased by 85 percent to R15,7 million.

Premium income at R24,8 million was 43 percent up on the previous year and total assets 27 percent up at R119 million.

MD Bill Jack says: "The customer focus in all activities, the common vision shared by the senior executives and members of staff and the sustained effort of African Life people have all contributed to growth of the company."

The staff were rewarded during the year when the company introduced a share scheme.

"This process of widening the share register will continue this year, with a private placement of shares with policyholders, centres of influence and employees," says Mr Jack.

"The board has decided to abopt a distribution policy whereby shareholders will be offered bonus shares.

"Those who do not elect to receive bonus shares will receive a dividend equivalent to 4,2c per share, making the total for the year 6,3c.

"This is a 50 percent increase on the previous year.

"African Life has, over the past few years, been the most rapidly growing life assurance company in the country if measured by recurring premium new business," says Mr Jack.

It is still on target for the proposed listing in 1991.

"The wealth of experience of the African Life senior management who have all contributed significantly to this year's outstanding results will ensure that our ambitious objectives for the next two years are met.

BUSINESS DAY, Monday, May 22 1989

SA demand for corporate credit still strong — banks

GRETA STEYN

CORPORATE demand for credit continued buoyant in the face of strong interest rates this year while consumers were already feeling the pinch, bankers said last week.

They said corporate demand for credit to finance capital spending would continue for at least another six months, while credit growth in other areas is already tapering off.

The rush to increase production capacity or replace obsolete equipment started last year and has spilled over into this year — an important factor underpinning the rapid increase in bank credit. But bankers agree the situation cannot last and the first signs that companies are worried about higher interest rates have emerged.

Nedfin and Nedbank, two banks in the Nedcor stable that specialise in corporate credit, reported increases of about 50% on last year's lending volumes.

Nedfin MD Ron Rundle said: "Demand for capex items was particularly strong during the March quarter because businesses had anticipated that interest rates would begin to decline in the first part of the year, which encouraged industrialists to proceed with the purchase of plant and equipment."

Credit for capital spending could be expected to lag behind measures to curb demand, as commitments for the corporate market tended to be spread over three to six months.

First National project finance manager John Kerr expected capital spending to continue strongly for another 12 to 18 months, simply because it took time for projects to be completed. He reported that about 60% of business written was to increase production equipment, while about 40% was for replacement.

Rundle said hi-tech equipment was replaced on average every five years, with the current upsurge of replacement spending following the boom of 1983/84. This factor had boosted demand, but signs of a slowdown in corporate demand had emerged in the second quarter.

The Industrial Development Corporation, which also saw higher lending volumes this year from 1988, confirmed that signs that the slowdown was about to begin had emerged recently.

B/Day 22/5/89

Protea revamp caters for changing market

58

Business Day Reporter

CAPE-based Protea Assurance has changed its management structure to cater for changing insurance needs.

BDay 22/5/87

MD Tony Crank said six new divisions had been created: corporate insurance, commercial insurance, personal insurance, client services, corporate communications and strategic research.

He added the divisions would try to find ways of assisting brokers and clients.

Earnings fall at Allied

58

Star 23/6/89

While the Allied Group substantially increased overall income to R1,226 billion (R883,9 million) for the year ended March, a sharp rise in expenditure to R1,154 billion (R781,6 million) and higher interest paid, resulted in income before taxation falling by about R30 million to R72 million.

Results released today show that after tax income recorded a corresponding drop to R52,8 million compared with R60,9 million in the previous financial year. Balance sheet footings grew from R7,084 billion to R8,549 billion, an increase of 20,67 percent.

Net income was accordingly lower at R55,5 million (R67,7 million) which translates into earnings per share of 17,9c (20,7c).

A final dividend of 5,5c was declared making a total for the year of 10,5c.

Chief executive Kevin de Villiers said that the year ahead was likely to be one of economic difficulties, but that the group was well prepared for all eventualities. — Sapa.

SB

Signs of revival at Volkskas

By Roy Cokayne

PRETORIA — The Volkskas Group, which in August last year had a major shakeup of its top management, has increased its after tax income by almost 28 percent to R90,9 million in the year to end-March.

The Pretoria-based banking group has also declared a total dividend of 78c, 5c up on the previous year.

Deposit and current accounts rose by more than 24 percent from R10,9 million to R13,5 million while total capital, reserves and liabilities increased by almost 22 percent.

Group managing director Dr Daniel Cronje said the encouraging performance by the group was achieved during a period of rising interest rates and relentless competition in the banking sector — both of which had put pressure on interest rate margins.

He attributed the improvement in the income of the group primarily to the growth in assets in real terms and an improvement in the bad debt position.

Total assets of the group in the year increased by 21,9 percent to R18,4 million while earnings per share improved by 14,9 percent to 214,1c in the year. This was based on 42,48 million shares in issue compared to the 37,52 million previously.

Volkskas explained that the increase in the number of shares stemmed from the share issue during 1987/88 for the acquisition of a 10 percent interest in UBS Holdings. But it pointed out that the group's interest in the net income of UBS Holdings had not been accounted as income although dividends received had been.

Sapa meanwhile reports that Dr Cronje maintains South African interest rates have just about peaked and should start to decline in the third or fourth quarter of the year.

"There will be a small crack in the third quarter that should bring a bit of relief. If rates have not peaked, they are very close to it," he said.

Dr Cronje said that bond rates would also decrease but this would take a bit longer because of the structure of building society borrowings. He said this would probably occur towards the end of the year.

Rising bond rates causing concern

58

By Dawn Barkhuizen

A national symposium on the effect of mortgage interest rates on home ownership in South Africa will take place in Johannesburg at the end of July.

The aim will be to devise methods to alleviate the burden placed on homeowners by the severe fluctuations in rates.

The decision to hold the symposium was made at a meeting in Johannesburg of members of the Institute of Estate Agents of South Africa.

Chairman Mr Keith Wakefield said items that would come under discussion were:

- The establishment of a stabilisation fund run on similar lines as those of the maize and wheat boards.
- Insurance policies that would protect the homeowner.
- The introduction of tax-free investments in financial institutions enabling banks and building societies to lend money at cheaper rates.

Expressing concern over the plight of the homeowner, Mr Wakefield said houses were basic commodities that should not become risk items.

He said there were no indications that bond rates would come down in the near future. There was a need for a mechanism to protect the borrower who, in many cases, had been lured into buying houses when rates were 12,5 percent.

He said there had been a marked increase in the number of householders selling their homes just for the value of the bond.

He warned that increases would also affect tenants, as homeowners would be forced to increase rents.

COMPANIES

ARGUS 23/5/89 (58)

Premier's profits soar by 32 percent

Business Staff

PREMIER'S results were well ahead of market expectations for the 12 months to end-March.

Key features of the 1989 results include a 29 percent hike in turnover to R4,1-billion, a 39 percent improvement in trading profit to R286,7-million and a 35 percent improvement in taxed profit to R217,4-million.

This all culminated in a 32 percent surge in net profit to R267,5-million.

The dividend was lifted 23 percent to 172c a share.

Reason for a better-than-expected performance was the strong contribution recorded by the much leaner food division which is showing the benefits of tighter asset management and the sale of its poultry interests (part of which are now housed in a separate joint venture).

SAB chipped in with R175,2-million at the earnings level.

Management highlighted the performance of the group's "traditional core business", that is all of the group's activities apart from SAB: Premier Food, 33 percent of CNA/Gallo, 48 percent of Twins and 76 percent of Gresham Industries.

Management's emphasis on the strength of the core business, and in particular on the food interests, could be designed to prepare the market for a separate listing of the food division.

DICK USHER

Cape Times 23/5/89 (58)

Gold slides, then recovers

Financial Staff

INTEREST rate jitters intensified on South African markets yesterday as the gold price continued to slump.

Late yesterday gold made a partial recovery to close in London at $360,50 an ounce and in New York at $361,75 — after plunging below the psychological $359 level.

Last night the governor of the Reserve Bank, Dr Gerhard de Kock, denied an immediate need for an interest rate hike and said a slowing down in the rate of growth of the money supply made it unnecessary to cool down the economy any further.

● The rand dropped to a close of R2,7785 against the dollar in Johannesburg yesterday compared with R2,7085 on Friday.

● Gold shares dropped on stock markets all round the world.

● On the Johannesburg Stock Exchange industrial shares fell too. The all-gold index dropped by 44 points and the industrial index by 66.

The dollar continued to rise as the central banks of seven countries tried to force it down. A statement from the White House expressed concern about the dollar's rise and said it could undermine efforts to correct international trade imbalances.

Economists have speculated that the government may decide to let the rand drop further against the dollar, to a level at which marginal gold mines will receive a rand price for their gold which will enable them to remain open in spite of rising costs.

Dr De Kock said the business community appeared to have responded to the message that spending had to be curbed.

"We want a soft landing for the economy but there is obviously no chance that our policy stance will be relaxed while the gold price is under pressure."

On the rand/dollar exchange rate, he said it was in SA's best interests that the rand depreciated when the price of gold was dropping.

R50 for a chicken — in 2000

Political Correspondent

A SMALL car will cost R150 000 and a "very modest" house R500 000 by the year 2 000 if the inflation rate continued to rise by 15% annually, Democratic Party co-leader Dr Zach de Beer said last night.

Speaking at the Democratic Future Fund's launch rally in Cape Town, Dr De Beer said the government's own estimates of inflation would produce price increases in the coming years that were "frightening".

The price of 1kg of chicken — R4 in 1987 — would increase six-fold to R24,60 by 2000 if inflation increased by 15% annually. (An average chicken of 2kg would cost about R50.)

Dr De Beer said there had been marked increases in retail prices over the past decade.

Medical care and health services had increased by 223% between 1979 and 1987.

● Pensioners protest — Page 2

Experts divided on rentals

Staff Reporter

Star 23/5/87

Estate agents in Johannesburg are divided over what effect the imminent increase in bond rates will have on housing rents.

Rents have risen recently, but some estate agents say increases were due to a growing demand for rented housing, balanced against a limited supply, rather than the rising bond rate.

Estate agent Mr Douglas Drysdale said he believed recent rent increases were a result of a combination of the two factors.

The increasing bond rate had forced landlords to sell their property as the increases could often not be passed on to the lessee, thus creating the present shortage of rented housing.

Aida Real Estate owner Mrs A Geffen condemned the bond rate increases, and said people with a modest income would not be able to buy a house.

Renting had become an unviable proposition except where a few apartments were concerned.

"Rentals have been very high this year, but if one looks at what the landlords are getting out of the situation, it is also a pittance," she said.

She predicted an increase in rentals once present leases had expired.

SB

Signs of revival at Volkskas

By Roy Cokayne

PRETORIA — The Volkskas Group, which in August last year had a major shakeup of its top management, has increased its after tax income by almost 28 percent to R90,9 million in the year to end-March.

The Pretoria-based banking group has also declared a total dividend of 78c, 5c up on the previous year.

Deposit and current accounts rose by more than 24 percent from R10,9 million to R13,5 million while total capital, reserves and liabilities increased by almost 22 percent.

Group managing director Dr Daniel Cronje said the encouraging performance by the group was achieved during a period of rising interest rates and relentless competition in the banking sector — both of which had put pressure on interest rate margins.

He attributed the improvement in the income of the group primarily to the growth in assets in real terms and an improvement in the bad debt position.

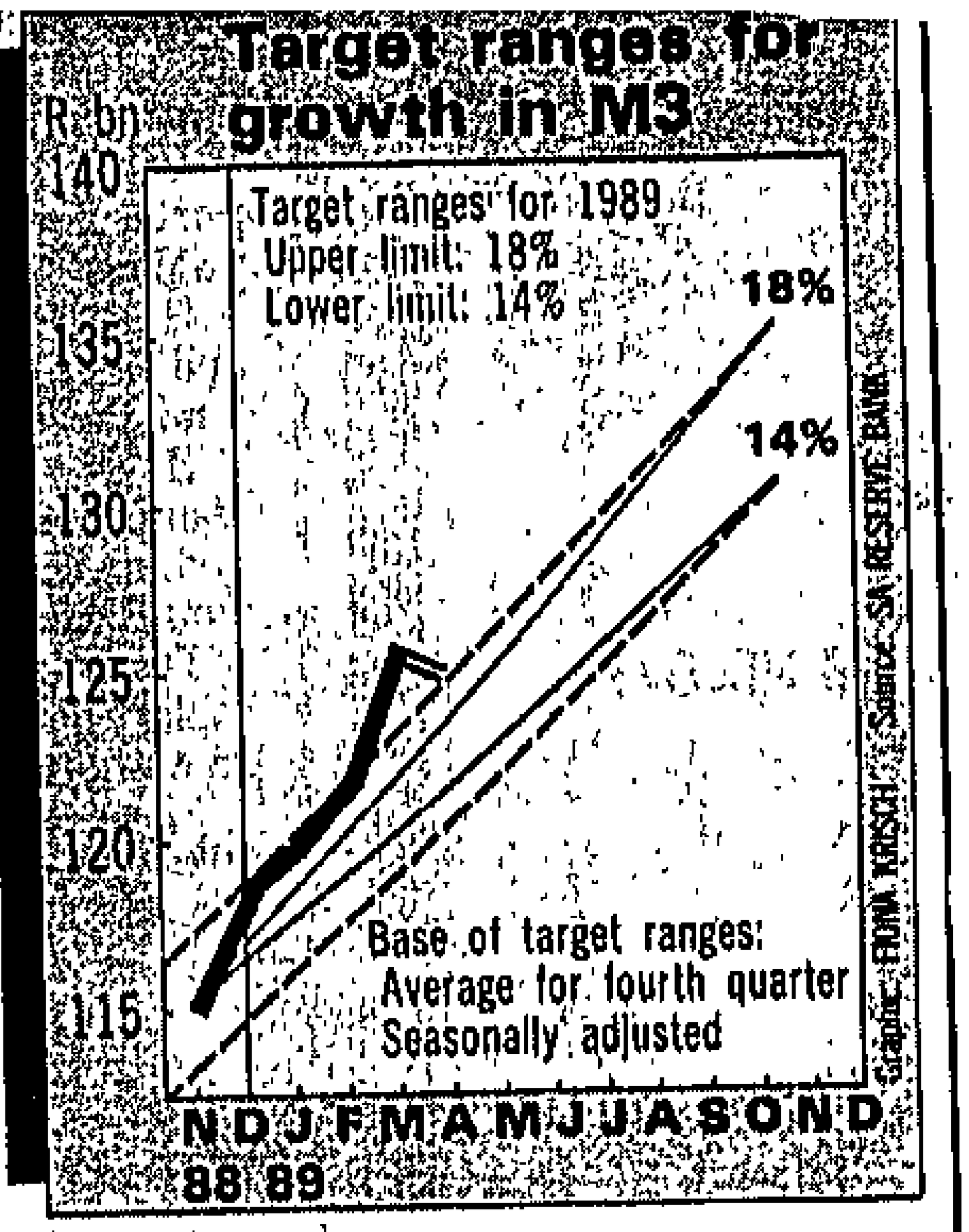
Total assets of the group in the year increased by 21,9 percent to R18,4 million while earnings per share improved by 14,9 percent to 214,1c in the year. This was based on 42,48 million shares in issue compared to the 37,52 million previously.

Volkskas explained that the increase in the number of shares stemmed from the share issue during 1987/88 for the acquisition of a 10 percent interest in UBS Holdings. But it pointed out that the group's interest in the net income of UBS Holdings had not been accounted as income although dividends received had been.

Sapa meanwhile reports that Dr Cronje maintains South African interest rates have just about peaked and should start to decline in the third or fourth quarter of the year.

"There will be a small crack in the third quarter that should bring a bit of relief. If rates have not peaked, they are very close to it," he said.

Dr Cronje said that bond rates would also decrease but this would take a bit longer because of the structure of building society borrowings. He said this would probably occur towards the end of the year.



Credit demand seems to be slowing down

BDay 23/5/89 58

KAY TURVEY

MONEY supply growth for April showed tentative signs of moving nearer the target range, hinting at a slowdown in credit demand.

April's growth from the same month last year was 25,86%. Year-on-year growth for March was revised to 26,52% from a preliminary 26,65%.

Rand Merchant Bank economist Rudolf Gouws said there appeared to be a slowing in credit demand, although for technical reasons the figure looked worse in March.

The seasonally adjusted M3 — which comprises all deposits with banks, building societies, and the post office — has moved from within the target range at R120bn in January to R122bn in February, then sharply to R125,8bn in March before falling back slightly to R125bn in April.

April's preliminary figure exeeds the R121,65bn upper limit of the "tunnel" region by R3,35bn.

However, economists warn a downward trend could only be confirmed over a period of a few months.

In any slowdown, demand for credit first tapers among consumers and then was followed by the corporate sector.

However, it remained to be seen whether the growth slowed fast enough to cope with ongoing developments in the economy. A weaker rand could effect the Reserve Bank's forward losses distorting and inflating money supply, he said.

Encouraged by money supply figures released by the Reserve Bank yesterday, capital market rates retreated from the day's highs.

Volkskas defies squeeze to boost earnings by 27%

MDay 22/5/89 (58)

GRETA STEYN

IN A period when banks' profitability was under pressure, Volkskas Group defied a squeeze on margins to post a 27,6% increase in earnings in the year to March.

The group benefited from buoyant demand for credit during the period and advances grew by about 17%. However, this growth in credit extended is moderate when compared with the explosion in other major banks' advances books.

● CRONJE

First National increased its advances by almost 25% in the year to March but its profitability was under pressure during that period. By contrast, the slower growth in Volkskas's book was accompanied by improved profitability. Volkskas's results underline the point illustrated by Nedcor's results — strong growth in market share is not necessarily a prerequisite for a good earnings performance.

Group MD Danie Cronje said the group emphasised quality of assets, rather than going for asset growth at any cost.

"We have avoided using loss-leaders to gain market share."

However, the group was also less exposed to the pain of a margin squeeze because its focus is more consumer than corporate. In the corporate market, margins are paper thin because of intense competition.

Another factor contributing to the growth in taxed earnings was an improved bad debt experience. In line with other banks, Volkskas found that actual bad debts declined from the previous financial year. The figures are not available, however, because Volkskas continues with its practice of limited disclosure.

The lack of information also means it is not possible to gauge how much provision has been made for bad debt.

Banks expect a worsening in the bad debt situation during the expected imminent downturn in the economy.

"With interest rates at current levels, and inflation rising, the credit-worthiness of banks' customers will weaken. But we have made provision for actual bad debts and are confident the quality of our assets will further protect us," Cronje said.

In spite of negative factors for banking he expects Volkskas group to maintain moderate growth in earnings.

The total dividend for the financial year comes to 78c (1988: 73c) after the final dividend of 56c. Earnings a share were up 14,9% and did not match the growth in taxed profits because of a larger number of shares in issue. The increase in the number of shares in issue stems from the share issue during 1987/88 to acquire a 10% stake in UBS Holdings.

Allied spends a little less than it takes

BDay 23/5/89

56

ALLIED Group substantially increased income to R1,2bn (R883,9m) for the year to March but a sharp rise in expenditure, to R1,15bn (R781,6m), and higher interest paid resulted in income before taxation falling to R72m compared with the previous year's R102,3m, reports Sapa.

Results released yesterday show that after-tax income recorded a corresponding drop to R52,8m compared with R60,9m in the previous financial year. Balance sheet footings grew from R7,08bn to R8,55bn, an increase of 20,67%.

● DE VILLIERS

Net income was accordingly lower at R55,5m (R67,7m), which translates into earnings a share of 17,9c (20,7c).

A final dividend of 5,5c a share was declared to make an unchanged total for the year of 10,5c.

CE Kevin de Villiers says the year ahead is likely to be one of economic difficulties but the group is well prepared for all eventualities.

□ GRETA STEYN reports analysts said the poor results should fuel speculation that the Allied is ripe to be taken over by one of the major banks.

Allied has, however, denied a takeover is imminent.

Directors explain the group's performance by saying it had opted to go for market share at a time of rising interest rates and this provided a good base for long-term profits.

Relief as rand, gold recover

(58) (39) CAPE TIMES 24/5/89

Own Correspondents

JOHANNESBURG. — Dealers on local financial markets breathed more easily yesterday after days of battling to survive the dollar's onslaught.

The rand firmed slightly, the gold price rose, interest rate fears receded and the JSE rebounded as relative calm descended on the markets.

The Minister of Finance, Mr Barend du Plessis, maintained that there was no need panic over the recent slump in the gold price.

Mr Du Plessis said it was unnecessary to impose further restrictive measures to cool down the economy, as the latest information showed that growth in domestic expenditure was already faltering and the recent package of measures introduced had still to demonstrate its effect.

Share prices on the JSE yesterday regained most of their losses recorded on Monday, following the sudden turnaround in the gold price, and helped by the weakening of the finrand which gave an upward thrust to currency-linked stocks on the JSE.

The overall index rose 2,7% to 2 350 while the gold index rose 4,4% to 1 371. Rand hedge stocks came to the fore on a lively industrial board and the index jumped 2,6% to 2 347.

Gold closed in London at $364,50, and sagged slightly with its later New York close of $362,25.

Reuter reports that a White House statement saying the dollar was too strong caused a drop to below DM2,00. It returned to that level where it stuck for most of the day, helping to keep gold well above the crucial $360 level.

The rand strengthened marginally to close at R2,7678 from Monday's four-year low of R2,7783.

● **Full market report — See page 10**

Repossessing of homes rising with bond rates

54

Star 24/5/84

By Norman Chandler, Pretoria Bureau

Statistics published weekly in the Government Gazette show there has been a huge increase in the number of houseowners who have had their homes sold about their ears as a result of financial problems.

The latest edition of the publication gives a total of 205 homes as having been sold by auction or other means as a result of court cases in all four provinces.

Many of the people who have lost their homes are new home owners, particularly black people

However, with the rising rate of interest for bonds, many people have been unable to meet their commitments and have had to forfeit their properties.

The Government Gazette figures show that the former building society, The Perm, which is now a division of NedPerm Bank, repossessed 58 houses as a result of court action in the past few weeks.

NUMBERS RISE

NedPerm Bank, which has officially been in existence since last month, is listed as having repossessed six homes. The bank was formed as a result of a merger between Nedbank and The SA Permanent Building Society.

The United Building Society and United Bank between them have repossessed 52 homes in the same period, while the next highest number is attained by the Allied Building Society, which has a total of 32.

Virtually every financial institution in the country has been forced to repossess homes.

These include the Natal Building Society (20), Saambou (12), First National Bank, Santambank, the Standard Bank and Standard Building Society, Eastern Province Building Society and the Trust Bank.

● See Page 11.

Star 24/5/89

S8

Diagonal Street

ANN CROTTY

Fedvolks now more focused

Latest figures from Federale Volksbeleggings (Fedvolks) suggest that it has learnt well from the disasters it suffered during financial 1985. Management has used the intervening years to restructure the group into a much leaner and more focused operation.

The benefits of this are reflected in the 40 percent hike in attributable profit, to R127,1 million (R91,1 million), reported for the 12 months to end-March.

The improvement at the per share level was whittled down by the rights issue but was nevertheless a very respectable 21 percent for eps of 85,3c (70,4c).

Chief executive, Johan Moolman was not surprised by the strength of the group's performance in financial 1989: "It was planned for back in 1985 — the plan has come together".

The essence of the plan was to create a consumer-orientated group with a significant market share in the sectors in which it operated.

Turnover during the review year rose 18 percent to R3,4 billion (R2,8 billion). Mr Moolman points out that on a comparable basis, that is allowing for the sale of assets effected during the year, the increase in turnover is probably around 20-21 percent which, he says, represents a real increase of 6-7 percent.

There was a significant improvement in operating margins, from 8,3 percent to 9,5 percent which Mr Moolman says goes hand-in-hand with the fairly pedestrian increase in turnover: "We were looking at margins rather than chasing turnover because we wanted to improve the quality of our earnings."

To this end the group moved out of industries in which there was a restricted value-added component and concentrated on product lines with scope to boost the value-added element.

The improvement in margins lifted operating profit 35 percent to R319,9 million (R237,1 million).

Interest payments took R58,4 million (R45,7 million); tax took R104,9 million (R75 million) leaving taxed profit showing a 35 percent advance to R180,2 million (R133,9 million).

Rights issue

The R102 million rights issue, which was effected during the second half pushed up the weighted average number of shares from 129,5 million to 149 million. This figure will increase to 168,4 million for financial 1990 which implies a further dampening effect on performance at eps level.

The immediate benefit of the rights issue can be seen in the reduced gearing — down from 55 percent to 44 percent.

Although the rights issue was expected to have an initial dampening effect on return on equity, the group managed to report an improvement in overall ROE from 23,7 percent to 24,6 percent. This trailed the improvement in return on capital from 24,7 percent to 29,8 percent.

A break-down of performance at divisional level shows domestic consumer goods was the star of the five major divisions. Its contribution to attributable profit was up 42 percent to R23,5 (R16,6 million). Food's contribution was up 31 percent to R31,6 million (R24,1 million); motor and agricultural rose 30 percent to R20,2 million (R15,5 million) and services increased 28 percent to R26,3 million (R20,5 million). The contribution from pharmaceuticals (affected by the listing of SA Druggists) was up 19 percent to R28 million (R23,5 million).

Although there is unlikely to be any real growth from domestic consumer goods, the group is expected to show reasonable real growth during 1990.

But the market remains nervous about Fedvolks. At 360c yesterday it was on a P/E of 4,2 times compared with the sector average of 7,6 times. This reflects previous years' difficulties plus concern about domestic consumer goods. At the current share price, investors are paying nothing for exposure to the group's domestic consumer interests. But for some, even this is too much. Others may see a very attractive long-term buy.

Sanlam predicts still higher inflation rate

Star 25/5/89

58

By Sven Lünsche

The inflation rate, as measured by the consumer price index (CPI), is still rising.

In April it reached 14 percent on a year-on-year basis — 0,2 percentage points up on March's 13,8 percent.

Figures released by Central Statistical Services (CSS) yesterday reflect a monthly rate of increase, after eliminating seasonal variations, of 1,3 percent.

This pushes the figure for January to April on an annualised basis to 14,9 percent, indicating that inflation will rise further in months to come.

Food prices, which previously had been the main culprit in the rate of increase in the CPI, remained unchanged on average in April, with whatever increases that took place being cancelled out by decreases.

CSS said the food price index in April, compared with April 1988, was only 7,8 percent higher — the lowest annual increase since October 1976 when it was 6,3 percent.

This conflicts outright with statements by consumer organisations and many economists that the cost of food is rising at a faster rate than are most other items.

However, the relatively low increase in food costs is partly a statistical distortion caused by the fact that the increase is off an already high base — food prices rose 2,9 percent in April last year from March.

During that month milk, cheese, sugar and egg prices rose, while decreases were seen in meat and fish products, fruit and vegetables.

Economists expect the CPI to continue rising rapidly over the next few months, given the higher sales tax, more expensive fuel, increased interest rates and the weaker rand.

Sanlam's May *Economic Survey* points out that the production prices of imported and locally manufactured goods have gone up considerably in recent times (see graph).

"The sharp increases in the prices of imported goods since the middle of 1988 can be mainly ascribed to the effect of the weaker value of the rand, while the lively domestic business conditions were clearly an important reason for the higher prices of locally manufactured goods," Sanlam says.

The economists expect that the input prices of imported goods will keep on rising for some months yet, but that the more sluggish domestic demand will in due course place a damper on sharp increases in the prices of locally manufactured goods.

"Taking everything into account, we believe that the CPI will be roughly 15,5 percent higher this year than last year, compared with 12,9 percent in 1988," Sanlam says.

Bonds: Govt may help

Star 2/5/84

By Derek Tommey

Help is at hand for house-buyers in the lower income groups who are having difficulty meeting mortgage repayments.

The Government is understood to be considering a scheme which will aid the people hardest hit by recent increases in mortgage rates and help remove fears of losing homes.

The scheme will enable house-buyers who cannot meet full monthly repayments to postpone paying part of the repayment. The Government will stand as guarantor for the postponed amount.

In the past 15 months the monthly repayment on a R50 000 mortgage bond has risen from R568 to R810 — a 43 percent increase.

When the latest package of economic restrictions was announced almost four weeks ago by the Minister of Finance, Mr Barend du Plessis, he said R50 million would be set aside to assist house-buyers in the lower income groups who did not receive a subsidy.

Market boosts Federale's undervalued share 45c

58

BDay 27.7.89

LESLEY LAMBERT

THE market has shown its approval of Federale Volksbeleggings' year-end results, boosting the undervalued share 45c to 395c and rating it closer to other industrial holding companies in the sector.

The share gained 25c on Wednesday in anticipation of strong results after the industrial holding company's subsidiaries and associated companies reported strong performances.

Expectations were met yesterday and the share gained another 20c in fairly heavy trade to close at 395c.

Federale's 40% growth in attributable earnings of R127m for the year to March and the improvement in its operating margins, confirmed the success of the restructuring programme, embarked on after losses in 1985 and 1986.

Its share price has been undervalued in the past. In spite of last year's turnaround, the share plummeted to a low of 295c after the group decided to raise capital by way of a R102m rights issue shortly after the release of its 1988 results. At the time, the market felt Federale was paying too high a price.

The share rose gradually to a high of 440c in January this year but fell erratically in the months preceding its year-end, as signs of an economic slowdown became evident.

At the current level, the 20% increase in the dividend to 21c a share places the share on an historical dividend yield of 5,3%, compared with a sector average of 4,9%. Its PE ratio is 4,6, compared with the sector's average 7,7.

Analysts feel the share would be fairly priced at about 450c, where it would yield 4,6% on dividend, with a PE of 5,2.

Having completed the disposal of assets in the 1988 financial year, the group entered a phase of expansion last year, strengthening existing divisions by organic growth and selective acquisition, and balancing the overall portfolio.

While its significant domestic consumer goods division will be most vulnerable to a slowdown in consumer spending, the cost of imported consumer goods — especially white goods — should increase demand for local products, offsetting the effect of an economic downturn.

In addition, the balance of income across the divisions, the strong market share in the various sectors and the backing of well-known trademarks, should further cushion the impact.

One of the main objectives during the year under review was to improve the group's efficiency. While the return on investment improved from 25% to 30%, the return on shareholders' funds improved from 24% to 25% in spite of the dilution effect of the rights issue.

CE Johan Moolman believes Federale is geared to sustain planned increases in turnover and earnings during the current financial year and has sufficient momentum to improve results further through organic growth.

BANKING (58) Fmail 26/5/89

Margin for comfort

Despite two increases this year in the key prime lending rate, there has been no increase in maximum rates on amounts under R500 000, as determined by the Registrar of Financial Institutions under the Usury Act. They were last adjusted in November — from 27% to 31% for amounts up to R6 000 and 24% to 28% for amounts over.

However, with prime at 20%, the spread between prime and the maximum rate is relatively high.

Usually, as the pattern of rates rises, the spread shrinks. For instance:

- ☐ In 1987, when prime was 12,5%, the most that could be charged (on amounts up to R4 000) was 23% — a spread of 10,5 percentage points;
- ☐ At end-1984 prime peaked at 25% and the maximum rate was 32% (up to R2 000) — a spread of eight percentage points;
- ☐ In December 1983 it was 20% and the spread was six percentage points; and
- ☐ In March 1982 it was 20% and the spread was four percentage points.

Not surprisingly, though requests for an increase are routine when prime rises, banks are not lobbying for increased maximum rates now. They are clearly still comfortable with their margins on smaller business.

This is not the case with business at prime and prime-related rates. To start with, banks missed out on benefits that the first phase of the upward leg of the interest rate cycle can bring. A year ago, some bankers told the *FM* they were hoping for easier margins. Generally, they said, banks do more variable tha fixed-rate lending, so can reprice loans fast than the rising cost of deposits. Moreover they benefit as the gap between lending rates and rates paid on free or low-interest current account balances widens.

This view was not held by all. Others predicted a squeeze. The past 17 months proved the pessimists right.

Official reluctance to allow key rates to move in line with cost of funds induced recurring squeezes, which seriously eroded profitability. Also, banks were not particu-

(58) Fmail 26/5/89

larly well placed at the turn of the cycle. After a year of plenty when short-term money was temptingly cheap, they were caught with less than 15% of funding locked in for more than six months at the end of 1987. Many institutions have battled with the term structure of their deposit books ever since.

Further rate increases now will bring a new crop of problems.

When rates move over 20% the spread reduces again in the face of insolvencies and client resistance. With prime at 20%, any further upward movement may well create just such a situation. ■

200 homes repossessed as interest rate bites

Cap. Times 26/5/8[?]

THE spectre of home repossession has become a reality for more than 200 home-owners listed this week in the Government Gazette.

The publication lists details of 205 homes — 46 of them in the Cape — to be sold in execution after repossession by building societies and banks.

And this is probably only the tip of the iceberg, as the financial institutions are known to prefer to keep owners in houses with payments in arrears.

Though banks and building societies have refused to reveal the numbers of houses in repossession, they have consistently said that this step is taken only as a last resort.

It is also usually a last resort for home-owners who will do anything to keep a roof over their heads, including extending their bond repayment period, which usually adds substantially to the eventual amount to be paid.

Many of those whose homes will be sold from under them are those who took out bonds when the interest rate was 12,5%.

This has risen more than 50% in the past 18 months and another increase in on the cards before the end of the year.

Rising repayments, combined with other increases in the cost of living, have simply snapped these household budgets.

The SA Perm and NedPerm Bank have together repossessed 64 houses in the past few weeks; United Bank and United Building Society 52 and the Allied Building Society 32. The Standard, Trust and First National banks are also listed as having taken judgments against defaulting owners, as are most of the smaller institutions.

(58) (100)

Forex ration rumours dismissed

CHRIS CAIRNCROSS

CAPE TOWN — Speculation in Johannesburg banking and investment circles that government might be seriously thinking of reintroducing old-style forex rationing are totally without foundation, said Reserve Bank Deputy-Governor Jan Lombard.

Responding to rumours apparently fuelled by uncertainties over the state of the gold price, the value of the rand, and the tenuous nature of the country's forex cover which — now barely supporting 1,3 months' imports — Lombard stressed that neither the Reserve Bank nor the Treasury would support such a step.

He admitted that a rationing of forex reserves had been mooted last year, but had been rapidly discounted as too drastic a measure, and likely to create more complications than remedies.

Lombard believed sufficient provision had been made to take SA through the next two months, during which forex reserves would be placed under further pressure with repayments having to be made in respect of the debt standstill agreement and dividend and interest payments.

Economists agreed yesterday that government should not resort to direct measures to cushion SA's forex reserves.

BD 4/26/87

It would be difficult to operate successfully and would undermine confidence both here and overseas, said Standard Bank senior economist Nico Czypionka.

He saw no reason to adopt panic measures at this stage.

He suggested that if affirmative action was necessary it could begin with government action to curb its own expenditure, such as on defence.

Old Mutual chief economist David Mohr also advised keeping away from direct measures to ease the strains on forex reserves.

ST Times 26/7/87

Insurers to rescue of medical aids

58

By Robyn Chalmers

INSURERS have moved into health care with a product which will have highly beneficial effects on the beleaguered business.

Crusader Life will officially launch its Total Health Care package in soon. The package was formulated by Dick Slingsby, who designed the Dread Diseases policy, together with Marius Barnard and other Crusader executives.

It is believed to be the first of its kind in the world, and was developed in response to a need for health care.

Solvency

A study by Jan Hupkes, professor of management economics at Unisa's School for Business Leadership, found that insurers would have to move into health to rescue medical aid schemes.

The report expressed reservations about the future solvency of some medical-aid schemes. It said it was clear that the average margins of schemes were too thin to maintain solvency.

"It is obvious that medical schemes' membership fees will have to increase drastically in the foreseeable future, even independent of the cost of medical services.

"It is clear that private insurance companies should be considered a welcome partner in the funding of health-care delivery systems in SA. They should be allowed to co-exist with current medical-aid schemes, and to complement, augment and supplement the activities of the latter."

Endowment

Although legislative barriers exclude insurance firms from providing medical-aid services, the report suggested they could provide schemes for people to insure themselves for major diseases only. They should not reimburse patients who went to doctors for treatment of minor ailments.

Total Health Care package does this by combining three Crusader products — Hospitalplan, Major Medical Expenses Plan and Dread Diseases. Underlying this package is an endowment policy which means that the insured will have an amount invested at the end of 10 years.

Dread Diseases now provides 10 benefits, Hospitalplan pays a maximum of R250 a day while in hospital either from day four or day one of an accident and the Major Medical Expenses Plan provides cover of more than R5 000 for anything related to a surgical or medical procedure.

Marketing

Crusader executive marketing director Brian Peters says the marketing of the package is important.

"Our new method of marketing this product, which is sold on a coupon basis, means that once the proposed insured has agreed to the sale with the consultant, he immediately obtains his policy document together with the terms and conditions.

"We have had the backing and endorsement of First Bowring. The product is now to be placed in each Bowrings office countrywide as well as in each First National Bank branch."

BRIAN STEPHENS

"The product was developed over about two years, and coincides with Professor Hupkes' report which described present health services as being in a sorry state.

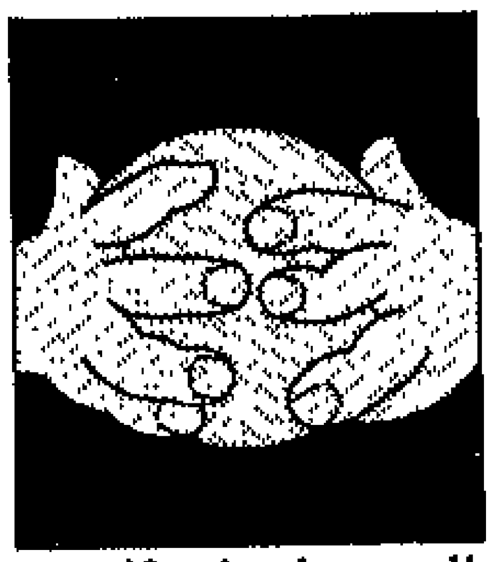
"Demographic trends mean that an increasingly larger segment of the population will need health care and escalating health expenditure has not been arrested as medical technology grows increasingly expensive with no end in sight."

(58) Fmail 26/5/89.

SANLAM

Doing without Fred's thrust

The new chairman's task is to find a successor



When the late Fred du Plessis was appointed chairman of Sanlam seven years ago, there were some — and we were among them — rather sceptical of an academic economist taking on such a manifestly demanding managerial role, despite his close association with the group's banking interests. His achievements proved us and other sceptics wrong.

The board moved quickly after his tragic death a few months ago to appoint in his place as non-executive chairman Dominee Tjaart van der Walt, an academic clergyman who like Du Plessis is deeply rooted in the ethos of Potchefstroom University. Having been deputy chairman since January, he too has a close association with this giant group, which stands as a monument both to Afrikaans business acumen and to the loyalty of a nation that once believed itself beleaguered in an imperial world.

The new chairman and his fellow Sanlam directors would be naive if they believed that his appointment would not in turn draw its share of scepticism. After all, to put it into perspective, his appointment would be akin to Anglo American appointing the bishop of Johannesburg, the Right Reverend Duncan Buchanan, to succeed Gavin Relly in a year or two. Both clergymen have similar attributes: they are urbane, affable, academic — but neither could reasonably lay claim to being men of business affairs to the same degree as could even the untested Du Plessis so long ago.

Well, having been proved wrong once, the sceptics — and we're again among them — could be proven wrong again. Except, of course, in Van der Walt's appointment there might be an element of divine inspiration on which an economist couldn't reasonably depend and about which sceptics wouldn't know.

Du Plessis might not on his appointment have had much practical business experience, but he did have the theory. And very quickly he put this to use in a most practical manner. Having got the ailing Trust Bank back on a reasonable keel and poised for growth, he applied his mind both to the streamlining of Sanlam itself, increasing its market share, and the rejuvenation of its major investments in mining and industry, which uplifted its investment performance. He took tough managerial decisions that were far-sighted and grounded in his own interpretation of economic trends that came from a deep intellectual grasp of economics.

He had the foresight to see the opportunities in retailing and distribution that led to the acquisition of the Natie Kirsh interests. He grasped the problem of General Mining and laid the foundation for its emergence once again as a mining house and industrial conglomerate of substantial promise and aggressive endeavour.

A few years ago he created Sankorp, the holding company for the group's listed companies and certain unlisted interests such as Nissan. Sankorp is staffed by only 23 people with Sanlam's former investment GM Marinus Daling as MD; decentralised management is a watchword.

Total assets under the influence of companies in the Sankorp group total more than R47bn. Nissan has been nursed back into significant profits, and all the companies acquired during the 1984 "lame duck" buying spree on the JSE — Tradegro (then Kirsh Industries), Murray & Roberts, Protea and Abercom — have been made more profitable or restructured into stronger entities.

These companies, bought at knockdown prices in a depressed stock market, have given Sanlam large slices of growing markets. Sankorp's equity earnings have increased from breakeven in 1985 to R530m in 1988 — and are still growing fast.

Du Plessis changed Sanlam from an Afrikaans institution into one that energetically began to see the entire SA community as its potential market. And he had profound and influential views on the formation of public policy that were often enlightened although not always entirely progressive.

Against that background there are some who argue that Van der Walt can be no more than an interim chairman who holds the fort until a man of business vision and inspiration takes over. If that is true, then Du Plessis' death did plunge Sanlam into a management crisis; and it fundamentally remains in one even now.

In the executive suites of Sanlam and Sankorp they do not take that view at all. The constituent divisions are all running in top gear and are being managed by men of substantial ability. Pierre Steyn at Sanlam itself, Marinus Daling at Sankorp, Chris van Wyk at Bankorp, Donald Masson at Tradegro, and Derek Keys at Gencor.

In particular, Steyn and Daling, who apart from being colleagues are also close friends, argue that perhaps the group does not need a full-time executive chairman. They argue that Sanlam is in reality two separate entities: the life office and ancillary operations under Sanlam per se, and the industrial interests grouped under Sankorp. The type of skills needed to run such divergent arms are now so different that their unity might best be achieved by a chairman different in character to Du Plessis: someone able more to liaise than execute.

The tragic loss of Kerneels Human, chairman of Fedvolks, so soon after Du Plessis himself, is a clear setback. But the young

Fred du Plessis

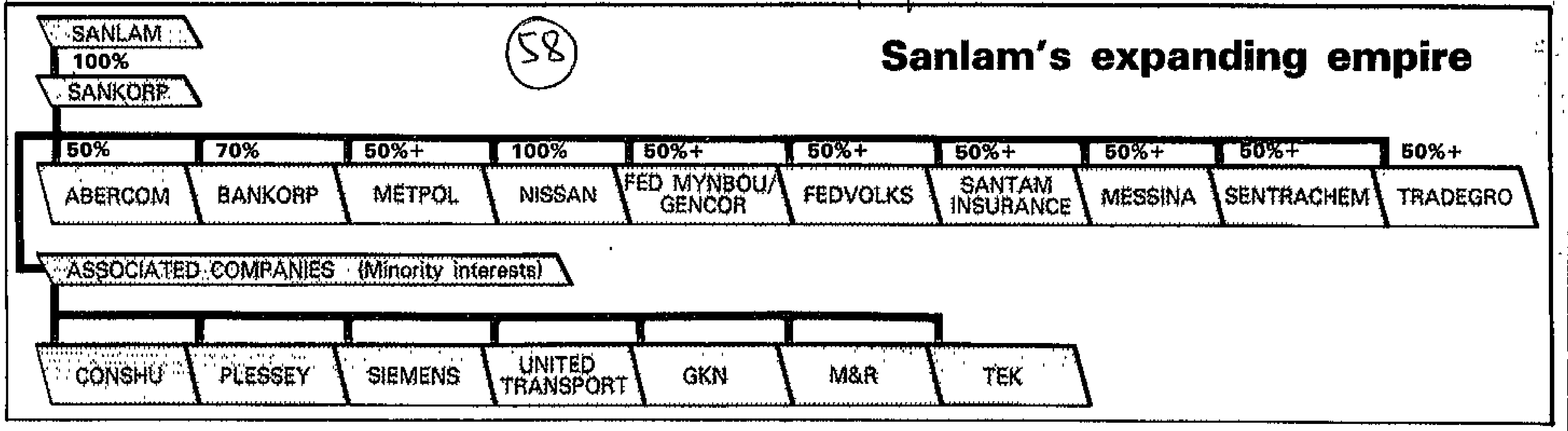
Tjaart van der Walt

Pierre Steyn

Fmail 26/5/89.

(58)

Sanlam's expanding empire



team running the greater Sanlam family has the benefit of the avuncular "Oom" Abie van den Berg, non-executive chairman of Sankorp and a Du Plessis confidant. Ironically, Du Plessis had been discussing succession with him shortly before he died.

Van den Berg is a pragmatist. He has a high regard for Van der Walt's many talents and attributes and believes he could easily grow into a dynamic chairman able to provide the leadership needed to take the group into the 21st century — one that is clearly going to be different in the demands it makes on chief executives.

"One cannot say that Tjaart is stepping into Fred's shoes," he says, "because he's not. Maybe he will in time. People tend to take time to ripen — you cannot squeeze them ripe. Tjaart has the ability to provide a different but no less dynamic leadership."

Van den Berg is sanguine about the calibre of the men in the Sanlam group. But he acknowledges that "no organisation as large or as prominent as Sanlam can afford not to have at its head someone who is recognised as a national figure, beyond the confines of the company."

In the quiet and dignified corridors of Sanlam's power there is no overt sign of manoeuvring under the nose of the charismatic dominee now in the chair. But while it might not be visible, it most certainly is there. For every business enterprise is also an entity of political intrigue, to a greater or lesser extent. Sanlam would be very strange if it were any different.

We would not doubt for a moment that Daling's and Steyn's friendship is a deep and genuine one. They are of an age. They have equally important responsibilities. They were both Du Plessis' protegés. They are not ostensibly in opposition. But would they remain in harmony if one or the other were promoted to the chairmanship?

Both are certainly well qualified for the job, if a little lacking in the gravitas that comes with maturity. Both have strong claims. Were it not for Du Plessis having himself come in as an outsider, Steyn would have historically the stronger claim. He is the older of the two and he runs Sanlam itself.

Logical successor

The most obvious man for the job must be Gencor's Derek Keys. He has a proven track record, is equally at home running an industrial concern or a financial institution; he is as knowledgeable (although less dogmatic) as Du Plessis on the question of policy formation; and he has a strong succession at Gencor.

But, were he to be chosen, an English-speaker would be running Afrikanerdom's most important business. Even if he wanted the job — and we suspect that if asked he would demur — that could disqualify him. Unless, of course, Du Plessis' Sanlam is more progressive than we figured. It would be nice to be proven wrong.

Be that as it may. The hard fact of business life is that "Oom" Abie is right. Du Plessis, through his ability and large personality, lifted Sanlam's horizons and probably did more even than Lens Wassenaar, his able predecessor, to keep it abreast of modern business practice.

The challenges of the future — whatever they may be — are going to have to be met by a chairman not only of charismatic disposition, but one who has an intimate knowledge of the business over which he presides.

In the modern business environment of increasing competition and internationalisation, there is no room for a caretaker at the top. Irreparable harm can be done if that level of leadership is not vigorous and informed. Internally, political manoeuvrings, and in the wider marketplace loss of marketing and administrative momentum, will sap enthusiasm and lower horizons.

Fred du Plessis created a new Sanlam of which every South African can be proud. Sanlam, the second-largest underwriter in the country, itself employs 10 000 people, has assets of R18bn, up 70% over five years, and over 2m policyholders. In the greater Sanlam group the number of employees runs into hundreds of thousands and the group has assets of R65bn under its stewardship.

It is the awesome responsibility of his successor Tjaart van der Walt to see that the Du Plessis momentum is maintained. If he recognises that that means quickly finding his own successor, he is every bit the man "Oom" Abie knows him to be. For success is a journey, whatever its duration — not a destination. ■

Marinus Daling

Chris van Wyk

Derek Keys

BOND RATES NEAR RECORD LEVELS

W/E Argus 27/5/89.

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By TOM HOOD
Business Editor

ALLIED has become the first building society to raise its home-loan rates in the latest round of interest rises, boosting it to a near-record 20 percent.

But home-owners have been told they need not increase their monthly repayments, provided the interest portion of the bond is covered.

Borrowers will pay a near-record 20 percent, an increase of 1,25 percent, from July 1.

Borrowers will pay 20 percent immediately on new loans.

The latest rise means housing repayments have rocketed by 50 percent in little more than 18 months.

Bond rates topped 20 percent briefly at the end of 1984, when a major bank charged a record 25 percent.

Boost

Two banks, First National and Trust, raised their home-loan rates this month to 20 percent and other banks and building societies are expected to raise their bond rates in the wake of the Reserve Bank's all-round boost to interest rates.

Before the new increases bond rates were lower than the prime overdraft rate of 20 percent which banks charge their largest customers.

Allied's rise means a home-owner with a R50 000 bond payable over 20 years will have to find another R50 a month, making the repayment R850 a month.

Repayments on a bond of this size were R568 a month — R282 less — when bond rates stood at 12,5 percent about 18 months ago.

Mr Eskel Jawitz, managing director of JHI Real Estate, said the housing market had held up remarkably well with present bond rates of 18,75 to 19 percent, but it remained to be seen what effect a bond rate of 20 percent or more would have on the market.

The country's largest building society, United, is expected to raise its bond rate by one percent to 19,75, according to Cape Town estate agents, but confirmation could not be obtained last night.

Southern launches new policies

FINANCE STAFF

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Star 27/5/89

SOUTHERN LIFE has launched two new endowment assurance packages.

The Education Provider is geared towards building capital for post-school education, and the Family Provider has been designed for all-embracing insurance protection for a breadwinner.

Diverse needs

"Insurance products are bought for a variety of reasons, including savings, investment, life cover, education and business protection. As these needs are widely diverse, products can no longer be generic and must be tailored for the needs of a specific market segment," said Peter Atkinson, assistant general manager (life marketing).

He said that with rampant inflation the projected costs of tertiary education will soon make this the preserve of the rich. Only by starting an investment plan now will sufficient funds be accumulated to provide a decent post-school education, he said.

While other forms of investment can provide similar lump sum benefits, life insurance plans offer the unique benefit of a cash payout on the death of the investor and a waiver of premiums should one be disabled. It is therefore the only way of taking care of unexpected events which could otherwise terminate the programme in mid-stream," he said.

Family Provider ensures a cash payout in the event of death, disability or the diagnosis of a dread disease. It provides long-term savings through a tax-free payout when the policy matures.

Other key features include a tax-free double cash payment in the event of the policyholder's death and a lump sum payout should one be disabled. All future premiums will be waived in this case and the policy remains in force to provide cover for the family.

Policy document

The customer orientation of these packages has also been extended to the Southern's policy document which has been completely reformatted and rewritten for ease of understanding. "As a policy document is the only tangible part of what an insurance company sells, the least we can do is make it user-friendly and interesting for our policyholders," he added.

Mr Atkinson said premium payments on these two products could be suspended for up to six months should one be unemployed, and in the case of a woman when she becomes pregnant.

Insurability benefit

A guaranteed insurability benefit allows the investor to increase the sum assured in the case of marriage, birth of a child, purchase of a house or joining a professional partnership for the first time.

Under the Education Provider, this guaranteed insurability applies to policies taken out on the birth of further children or where the child may purchase a policy on his life at maturity.

Market undergoing 'healthy adjustment'

Star 27/6/89

DAVID CANNING

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THE CURRENT drop in share prices is not a catastrophic event but, at this stage, should be viewed as much-needed correction which will give the market a more realistic base to work off.

A number of brokers and analysts have been bombarded with calls from small clients wondering whether to dump their shares and run for cover.

Although they differ in degree of the fall expected, most are talking in terms of a correction rather than a crash.

Human nature being what it is, investors tend to get caught up in the euphoria of a rising market and to regard paper gains, no matter how big, as already in the bank.

As soon as a correction occurs they tend to forget the medium to long-term nature of their investments and panic.

David Evans of Kaplan & Stewart says the current dip is expected and entirely in line with the old JSE adage: "Sell in May and go away."

All the big shares are ex-dividend and there is no pressure for institutions to buy. "In view of high interest rates, I expect shares to drift down until July, barring unforeseen circumstances."

However, there will be no crash and shares must offer big returns in coming years as high inflation will boost profits.

The resident partner in another leading firm, who asked not to be named, said the drop in gold "Definitely is cause for concern", although he too is thinking of a correction rather than a crash.

"Whether it turns into a crash will depend largely on the dollar and overseas market, especially Tokyo."

He was very unhappy about the inflated level of the Tokyo market, and believed a crash there could set off a worldwide slump.

However, he was not advocating that local shareholders dump equities. "But I would lighten the load a little though."

According to Syfrets Growth Fund manager, Anthony Gibson, the recent dip is "an expected and healthy adjustment to a market which had risen too far".

He says that while the gold price was the catalyst "it would have happened anyway".

His analysis of the key signs is that it is not the start of a crack of the magnitude experienced in 1969 or 1987.

He says the fall in the gold price to the region of $360 is the major factor as it has serious implications for the foreign reserves growth rate, currency and interest rates. Interest rates have risen sharply and may well have to rise further.

"Historically the share market has never performed well during a period of high interest rates as this tends to increase the attraction of fixed interest investments relative to shares. It also has a negative effect on company profits."

Although the JSE overall index and industrial index are now down 11 percent and 10 percent respectively from their peak of late April, these indices are still 40 percent and 50 percent up on their respective levels of exactly 12 months ago.

"This is still a very strong performance and it is only natural to expect some sort of correction — after all the overall index was 57 percent up year-on-year before this correction and the industrial index was up 67 percent."

The economy is headed for a period of economic slowdown for the next year or two. This always affects investor sentiment negatively.

The key question is how far will it fall?.

During the past 10 years we have experienced three bear markets: In 1969 by about 60 percent, in 1984/5 by about 18 percent and in 1987 by about 40 percent.

Reasons for his current optimism are that the market has not seen the "speculative hype" of the small men pushing equities (unit trust inflow figures confirm this). The overseas markets are performing well and show no signs of falling.

Then there are the changes to the prescribed assset requirements of pension funds and life offices — meaning that substantially more money will be channelled into the market.

The market is dominated by institutions who will begin buying at prices not much below current levels.

He stresses that unit-holders should consider the following points before divesting from unit trusts: "They must remind themselves of their long-term objectives, that is, income and capital growth.

"The share market has been in a long-term bull phase for the past 10 years, even allowing for the crash on 1987. This is largely due to it being the only sure inflationary hedge. And their investment is still well up on the value of a year ago."

Allied offers owners a choice

S Tar 27/9/87 (58)

MAGNUS HEYSTEK

THE Allied yesterday announced an increase in the rate of interest charged on its traditional bond from 19 to 20 percent, but at the same time announced several measures which will help troubled homeowners.

One option would be to switch to a fixed-rate bond, with the rate currently fixed at 19,5 percent. "While this option does not mean a great monthly saving for the homeowners, it does represent some form of security as far as mortgage repayments are concerned for at least twelve months", says Mr Kevin de Villiers, chief executive of the Allied.

In its letter to existing bondholders the Allied has repeated its previous offer to hold mortgage repayments at current levels, as long as the interest pay-

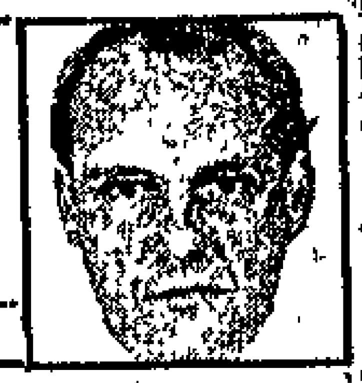
ly this is an interim measure and cannot be maintained indefinitely, but at least it will tide some people over troubled financial times."

He also said that in some cases the Allied would have no option but to repossess some houses, but would then consider letting the house to the previous owner until mortgage rates start to decline. "Then the people in question will be offered the choice to repurchase the house," he added.

Play safe until market improves

NW 27/5/89 (58)

Money Matters



Magnus Heystek

THE SHARP downward correction on the Johannesburg Stock Exchange has again underlined the very fragile and volatile investment environment in South Africa. And any look in a crystal ball suggests that this situation is bound to be fraught with extreme movements in the stock market.

Since April 27, when the present bull market in equities, and particularly in industrial shares, came to and end, the overall market has dropped by more than 10 percent as investors, large and small, starting converting some of their profits into cash and near-cash.

While the decline in prices was initially welcomed by most analysts, Monday's sell-off during which the Overall Index dropped by 66 points, raised spectres of a repeat of the Great Crash of '87. This sell-off was prompted by the drop in the gold price to below $360 an ounce on Monday. Since then the gold price and the market have recovered somewhat, but the mood is still very fragile. Any further declines in the gold price are bound to lead to further downward moves.

The weak gold price is particularly worrying for most analysts. Not only is it reducing the vitally needed supply of foreign exchange, but it also has severe implications for the local economomy, especially growth and job creation.

There is no doubt that a lower gold price reduces the Gross Domestic Product (GDP), albeit with a time-lag. If the gold price does not recover, it could lead to further lay-offs at gold mines as is now threatened at ERPM in Boksburg and Durban Roodepoort Deep on the West Rand.

So what should one's investment strategy be in such in precarious investment environment? Should one continue buying unit trusts or shares, or should one sit and wait on the sidelines until the market gives a clearer indication of where it is heading?

Anybody with an ongoing unit-trust purchasing programme should continue buying, as this is is not only a disciplined form of savings, but also offers the investor the advantages of rand cost-averaging. Technically speaking, the bull-market is still intact and is currently undergoing a healthy correction.

But if one prefers some kind of safety in these uncertain times, it might be prudent to switch some (or all of one's funds) from a general equity fund to one of the fixed-income unit trust funds. While this might entail some cost, roughly between 2 and 5 percent of the total value of the investment, it does offer the peace of mind that one's capital will remain intact should the market correction be more severe than most expect.

When the correction is over, it would be advisable to switch back into some general equity fund or into one the of the specialised equity funds.

Some life institutions, like the Standard Bank, Old Mutual and Sanlam, allow investors to switch money between one of the "family" of unit trusts at a very small fee. Perhaps this is not a bad idea considering the current state of the market.

It is debatable whether it is a good thing to suspend one's monthly investments in unit trusts and rather place the money on call until the situation improves.

Many people might not be disciplined enough to maintain this form of discretionary saving and might spend the money on non-essential goods. But, if you are convinced that you do have the necessary discipline, suspend your monthly debit order and rather build the money up elsewhere in a special savings account, and re-enter the market when it is at lower levels.

For investors who prefer to manage their equity investments on their own, it is not a good time to start a large-scale equity-purchasing programme. Many analysts expect the market to drop by another 10 to 25 percent as the recessionary conditions spread throughout the economy.

Rather place the money on call, which will earn interest of about 16 to 17 percent a year, and wait for the market to sort itself out. A further weakening in the gold price will definitely be detrimental to share prices, but a steady improvement in the gold price will be the signal to re-enter the market.

● Stock Market Solutions, yet another stock market training school, has recently opened its doors for business in Johannesburg. Here are some general investment guidelines offered by SMS for successful investing on the JSE:

1. Look for a rising index.
2. Compare shares within the sector.
3. Look for weekly volume greater than 20 000.
4. Look for increasing earnings per share.
5. A good sign is return on assets greater than 15 percent.
6. Be cautious of a debt/equity ratio of greater than 1.
7. Calculate the potential market price.
8. Always implement a stop-

Allied raises bond rate to 20 pc

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PRETORIA CORRESPONDENT

THE Allied has announced an increase in its home loan rate to 20 percent — the first building society group to announce an increase in the rate since the Government's latest austerity measures were introduced this month.

Several banks have already announced increases to their mortgage bond rates and the other banks building societies are virtually certain to announce home loan rate increases by the middle of next week.

First National Bank's home loan rate went up to 20 percent on Tuesday while Trust Bank's rate rose to the same level on Monday.

The Allied's increase will apply to new bonds immediately but be effective on existing bonds from July 1.

An Allied spokesman said in its letter to existing bondholders advising them of the latest adjustment, the Allied repeated its prior offer to hold mortgage instalments at their current levels provided the monthly interest payment was covered.

"Clients who are experiencing difficulty meeting their monthly bond commitments are invited to call on their Allied branch managers to discuss payment options available to them," the spokesman said.

Fixed-rate bonds

The Allied said it had fixed-rate bonds among its range of mortgage products.

The rate on the one-year fixed-rate bond was currently 19,5 percent and holders of traditional bonds who were concerned about the possibility of further increases could switch to this bond on request, the spokeman said.

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Longer bond life nets small monthly saving

By Udo Rypstra

EXTENDING the repayment term of a housing bond results in only a small monthly saving — and it lifts hugely the final cost of the property.

The opposite is also true. By paying a little bit more than the "official" monthly instalment, one can reduce the bond repayment term — and the total cost.

This has been pointed out by watchdogs such as the Consumer Council. It says it is better to pay more — if one can afford it.

Term

Repayments are calculated by taking into consideration the bond's term and the prevailing interest rate. At an interest rate of 20%, repayment to the UBS is R17,65 a month for every R1 000 borrowed for 15 years. Over 20 years, the instalment is R16,99 a month, over 25 years R16,78 and over 30 years R16,71.

A person who took out a 20-year bond for, say, R50 000 last year at the then low interest rate of 11%, was liable for monthly instalments of R516,50. Now that the interest rate has risen to 20%, he will pay R849,50 — a 64% increase, or R333 a month more.

Minimal

If the rate were to remain at 20% over the full life of the bond, repayments would total R203 880.

Sharp instalment increases have forced some people to extend the life of their bonds. They believe that the monthly repayments fall.

They do — but by a minimal amount.

If the life of the R50 000 bond is extended from 20 years to 25, repayments are R839 — a monthly "saving" of only R10,50. But the total price of the property over the full term of the bond will rise to R251 700.

Extending the repayment term to 30 years requires monthly instalments of R835,00. The total amount to the end of the life of the bond rises to R300 780.

By paying a few rands more a month, the repayment term and total cost can be reduced.

For instance, a person with a R100 000 bond over 20 years at 20% interest would normally have to pay R1 700 a month. By paying R56 a month more, he would reduce the bond's life by five years and lower the total cost from R407 760 to R316 080.

Readers are reminded that the examples given in the table are hypothetical because rates fluctuate during the life of a bond. The average bond has a life of only seven years after which owners tend to exchange their property for another.

It is also argued that the longer one takes to pay off a bond, the smaller the instalment becomes in terms of a percentage of one's salary.

BOND REPAYMENT CALCULATIONS

INTEREST RATE: 20% pa

PERIOD:	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
AMOUNT	Payment	Cost	Payment	Cost	Payment	Cost	Payment	Cost
R1 000	R17,65	R3 160	R16,99	R4 077	R16,78	R5 034	R16,71	R6 015
R25 000	R439	R79 020	R425	R101 940	R420	R125 850	R418	R150 390
R50 000	R878	R158 040	R850	R203 880	R839	R251 700	R836	R300 780
R75 000	R1 317	R237 060	R1 275	R304 820	R1 259	R377 550	R1 254	R451 170
R100 000	R1 756	R316 080	R1 700	R407 760	R1 678	R503 400	R1 672	R601 560
R125 000	R2 195	R395 100	R2 125	R509 700	R2 098	R629 250	R2 090	R751 950
R150 000	R2 634	R474 120	R2 550	R611 640	R2 517	R755 100	R2 508	R902 340
R175 000	R3 073	R553 140	R2 975	R712 580	R2 937	R880 950	R2 926	R1 052 730
R200 000	R3 512	R632 160	R3 400	R815 520	R3 356	R1 006 800	R3 344	R1 203 120

Source: Calculated by United Bond Repayment Calculator.

Tiny sails close to the wind

LONDON — At least one observer of Tiny Rowland's career was convinced that the Lonrho chief would be behind bars this week after his arraignment before the House of Lords.

By Richard Rolfe

Mr Rowland, three other Lonrho directors, the editor of Lonrho's Sunday newspaper The Observer and three lawyers were brought before the Lords in contempt proceedings — the first of their kind.

Their lordships considered that Lonrho's publication of excerpts from the leaked Department of Trade and Industry report on the takeover of Harrods by the Fayed brothers might constitute a contempt because they were about to hear an appeal from Lonrho in the Harrods matter.

When proceedings began this week, however, Mr Rowland's counsel took the war to the enemy's doorstep. He called on the five law lords to recuse themselves on the grounds that they had initiated the contempt proceedings and would now be acting as "prosecutor, judge and jury" in their own case.

This line of argument looked perilously like a further contempt, but after 2½ days of legal argument, the five law lords decided to accept Lonrho's advice to recuse themselves.

The case will be resumed before five different law lords on June 6.

Had the five law lords not acted as they did, Lonrho's counsel issued an implicit threat to break new ground by appealing to the European authorities under the European Human Rights convention which guarantees litigants "fair trial before an impartial tribunal".

In a bizarre aside, Mr Rowland's counsel argued that one of the five law lords should recuse himself because his father had been Mr Rowland's dentist.

The law lords may be wishing they could find a way to extract Mr Rowland's teeth.

R19m Coreprop project

COREPROP is to build a R19-million shopping centre in the Norkem Park area of Kempton Park.

Business Times Reporter

The 10 000m² development, on which work will start in July, will be at the epicentre of the greater Kempton Park residential area and next to the R25 intersection with Mooirivier Drive.

Coreprop chief executive George Skinner says projections for 1990 show an overall market potential of more than R41-million, of which the new centre could attract R25-million.

Mr Skinner says: "Our intention in developing a convenience-type centre there is to improve shopping facilities for the expanding areas outside the Kempton Park CBD.

"There are only two other substantial centres in the area, one in Birchleigh North and the other at the Kem Birch Centre. Checkers will leave Kem Birch and become our new centre's major tenant.

"The tenant mix will include banks, line shops and a variety of take-away outlets and late-night restaurants.

Fuel up

THE SA Coastwise Conference says the bunker surcharge has been increased by 1,2% to 7,3% from May 21 on all coastal cargo shipments. Unicorn Lines will do its best to keep operational costs as low as possible.

by JULIE WALKER

Property loan stocks burnish their image

S/Times 28/5/89

THE rash of roperty loan stock companies listed in the roperty sector since 985 has met with wid mixed fortunes.

The nine listel variable loan stock, or debenture, counters believe tley have suffered an identity crisis in that investors dont really know what they are all about. Late last year the nterested parties formed a associ- ation with a view t promot- ing the concept of investing in loan stock.

A presentation nde to the Investment Analys Society last week is one of the ways of self-promotion. t was in- tended for an alreay proper- ty-literate audience — I must have been the sole exception.

Loan stock has ben issued by Amaprop, hrprop, Boardprop, Grothpoint, Highgate, Hypro, Pang- bourne, Retprop ad RMS Properties.

DISCOUNT

Of these, five ar trading at a discount of up to 10% on the issue price. Barrop loan stock is the top of te feeble pops with 90c capitl appre- ciation on 700c sine 1985.

Association chirman Howard Schachat sys loan stocks have more in common with members of th proper- ty trust sector thn with some counters in the proper- ty sector, whose income could be derived from many non-property interests.

Property shares also yield dividends to investors where- as loan stock pays interest in the same way as do property trusts.

Loan stocks seem to be poised between the staid, safe image projected by both property trusts and the very word debentures, and the ris- kier image associated with property dealing.

A property trust's income is not taxed in its hands. All earnings are distributed to shareholders as interest and are fully taxable in their hands.

Loan stock income is taxed in much the same way, de- pending on whether or not linked units were issued. A linked unit can comprise or- dinary shares and deben- tures. Either way, the tax is trifling.

On the other hand, a prop- erty trust company may not issue shares for acquisitions, whereas a loan stock com- pany may do so in the same way as any other company.

TRUSTEE

Loan stock companies are allowed to borrow between 5% and 30% of the value of their property portfolios. But property trusts are strictly limited. The management company and trustee re- quirements are not governed by the same regulations as are unit trusts.

Uncertainty has surround- ed the tax implications of loan stock, especially since the Government announced it was to look at the position in December only to post- pone the idea in March.

Loan stock companies have made provision for changes which might be pre- cipitated by changes in the law. These could involve con- version to property trust sta- tus or to participating prefer- ence shares.

Nick Harris of Russell Marriott and Boyd Trust gave an overview of the property market. He said that capacity had been reached for major retail shopping centres in white areas, but scope existed in black areas.

CLOSER

Building in black areas presented difficulties which were being addressed but not necessarily resolved. He said development was now fo- cused on satellite centres closer to black residential areas.

Shopping centres had been lucrative for their owners be- cause in many cases rent was linked to turnover, which in turn had boomed because of inflation.

On office space, Mr Harris said that the trek north from Johannesburg continued, but major corporations were staying and even returning to the centre of town. Big com- panies employed many who relied on public transport.

He said Johannesburg had 1,25-million square metres of office space, of which 9% was vacant. Another 136 000m² would come on stream this year. More than half was pre- let.

Rents in Johannesburg had risen by an average of 50% since 1986 and in Sandton the increase had been 40%. He believed rents in Johannes- burg would rise by 15% this year. But in Sandton there was a potential oversupply and rents would flatten, per- haps rising 10% this year.

CHEAPER

Industrial rentals had fol- lowed the inflation spiral, ris- ing in line with higher pro- duction. The huge oversupply of the last three years had been largely taken up in the newer and smaller premises. But in the traditional smo- kestack areas there was still space and low rents were common.

Land values had risen sharply, especially at coastal centres.

John Rayner of stockbro- ker Max Pollak & Freeman- tle demonstrated that loan stock was technically cheaper than property trust shares. The average forward yield on loan stock was 12,2% and on property trusts 11%.

He believed loan stocks were at a discount because they were relative newcom- ers and there was vendor overhang, managements had to prove they could deliver the goods, and there was un- certainty about the tax status of loan stocks.

Mr Rayner said loan stock would show good growth i- earnings in the next t- years as the recent rises rent incomes flowed in. High- er interest rates also benefit ed the companies, which h- income as cash until declara- tion.

arket for millions

S/Times 28/5/89

erential offerees will be enti- tled to 125 for 100.

Holders of SFS prefs will be entitled to a fixed dividend of 5,4% of the issue price in 1989, fluctuating thereafter with the percentage change in earnings an ordinary SFS share from the performance in 1989.

The dividend shal never be less than 5,4% of the issue price. The complicated offer seems to be a way of dealing with tax implications.

Huntcor is to raise R107- million by the issue of 16 or- dinary shares for every 100 at 1 550c to follow its own rights in Hunt Leuchars & Hepburn (HLH), which is seeking R148-million to buy 25% of Rainbow Chicken.

HLH's offer is also 16 for 100 at 775c. Huntcor is cur- rently 1 550c and HLH 825c.

Springtex is to issue 15% unsecured subordinated com- pulsorily convertible deben- tures to its ordinary share- holders in the ratio of 88 debentures at 65c for every 100 ordinaries held. A total of R10,2-million will be raised.

tive dividend yield of 8%.

He warns that total market sentiment is a major criterion, and that although Msauli has the potential to climb under favourable conditions, the current climate is uncertain.

pops with 90c capital appreciation on 700c since 1985.

Association chairman Howard Schachat says loan stocks have more in common with members of the property trust sector than with some counters in the proper-

is not taxed in its hands. All earnings are distributed to shareholders as interest and are fully taxable in their hands.

Loan stock income is taxed in much the same way, depending on whether or not linked units were issued. A

their property portfolios. But property trusts are strictly limited. The management company and trustee requirements are not governed by the same regulations as are unit trusts.

Uncertainty has surrounded the tax implications of

To market for millions

MARKET jitters are not deterring several companies from raising capital on the JSE.

Sage ordinary shareholders will get the right to 100 cumulative convertible redeemable preference shares in Sage Financial Services (SFS) for every 100 Sage Holdings held, at 370c. Preferential offerees will be entitled to 125 for 100.

Holders of SFS prefs will be entitled to a fixed dividend of 5,4% of the issue price in 1989, fluctuating thereafter with the percentage change in earnings an ordinary SFS share from the performance in 1989.

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EXECUTIVE EDUCATION

RATE INCREAS

SUNDAY TIMES, Business Times, May 28, 1989

58

Timeshare buyers get time to think again

AN INDUSTRY OUT TO PUT ITS HOUSE IN ORDER

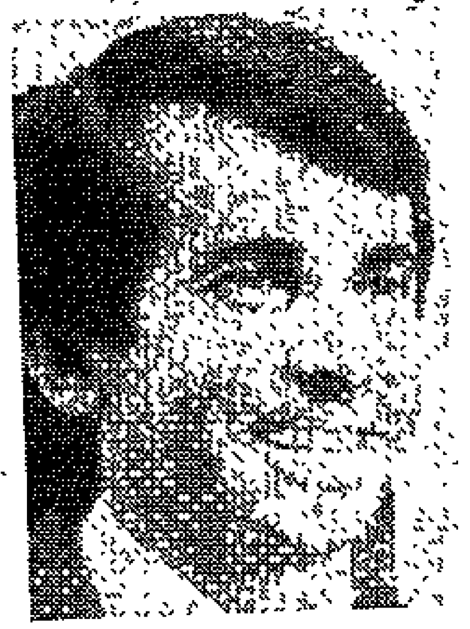
By Udo Rypstra

SOUTHERN Sun Timeshare (SST) has introduced a five-day "breathing period" during which buyers may nullify a contract.

This is a step forward in sales procedure not only for timeshare industry, but other businesses because it matches established foreign practices. People are allowed to have second thoughts about a purchase after having signed a contract.

SST's move comes ahead of a new and tougher code of conduct to weed out shady developers and bullying timeshare sales personnel. The code is being drawn up by the timeshare committee of the South African Property Owners Association (Sapoa).

It also follows an announcement that the Consumer Council is collecting complaints from timeshare buyers for submission to the Harmful Business Practices Council, chaired by Wits jurist Louis Tager. The complaints are expected to be considered later this year.



Brian Stocks ... time to stop the bullies

SST's decision to allow buyers a rethink is likely to surprise other developers.

SST managing director Brian Stocks, who also chairs the Sapoa timeshare committeee, says that in America cancellations can be as high as 23% of sales.

SST's decision comes at a time when developers are becoming increasingly concerned about the bad publicity timeshare attracts — especially because sales are dropping, mainly because of high interest rates.

So far, timeshare has had it easy. About 100 000 units have being sold for about R500-million. But, as in Europe, developers have been hit by a wave of bad publicity.

Problems facing the SA industry include:

- A controversy about sharp increases in levies, which timeshare owners claim are imposed to cover rising costs of on-site hotel operations. Timeshare owners says they should not have to shoulder these costs. SST has taken a publicity beating because of this. But it denies the allegations, saying the increases were made to meet a 100% wage rise in black labour and other costs.
- Reports of bullying tactics by European timeshare sellers have reached SA and are tarnishing marketers here.
- Developers are worried because unscrupulous salesmen are using these tactics. They include mail shots offering cars and cash prices for which the recipient will "automatically qualify" — but only if he or she attends a sales presentation.

Mr Stocks admits that the presentation often turns out to be a high-pressure sales demonstration where potential buyers are psychologically pressured to buy a timeshare week. Instead of a car, a lottery is held and the buyer receives a booby prize — and a sales contract he does not want.

- The failure of some projects to come to fruition. In one case, money paid into a trust account was allegedly used illegally to pay for development and land costs. In another scheme on the Vaal River, the promoters have run short of development finance and are looking to competitors to save the project. Several people have bought units which they may never own.
- Some schemes allegedly do not comply with the law or meet standards set by the Sapoa committee. In one case, Sapoa had to issue statements denying that it had endorsed, as some sales agents claimed, a project.

Sapoa's timeshare committee, to which major developers like SST, Ovland and exhange specialist Resorts Condominium International belong, has made some progress by forming a group which lays down ethical standards. It has played an important role in helping to draw up legislation protecting timeshare buyers and owners.

But it has no clout over fly-by-night operators. It can only warn the public about schemes it regards as falling foul of the law.

To overcome allegations that the committee "has no teeth", Mr Stocks says a self-funding Sapoa timeshare division is being set up. It will be headed by an executive director who will be given power to police the behaviour of subscribers to the Sapoa ethical code of conduct for developers.

Those members who do not conform will be thrown out.

Mr Stocks says that although most developments are endorsed by Sapoa, some "peripheral" developers are carrying on with projects before gaining its endorsement.

"A project that is not endorsed by Sapoa should be looked at carefully," he says.

One in 200 houses repossessed — MD

B Day 2/5/89

Own Correspondent 58

CAPE TOWN — At least one in every 200 houses were being repossessed — and payments on three in a 100 were in arrears, Allied Building Society MD Kevin de Villiers said last week.

He said: "There definitely is a trend towards falling behind on payments now."

Figures had shown just how rising bond rates had hurt homeowners. Rates had risen from 13,5% at the start of last year to 20% and were expected to rise again.

Repossessed houses represented 0,59% of Allied's total home loan book — "which is in line with other institutions which are showing a repossession rate of between 0,52% and 0,70%".

De Villiers said the society had seen payments in arrears increase from 2,5% of the loans book to 2,9% in the past six months. Those most likely to be at risk of losing their homes were people who had lost their jobs. They were followed by those who had bought a house for R90 000 to R120 000 with a 90%-100% bond.

UBS rates rise undercuts banks, societies

The United Building Society (UBS) today announced a one percentage point rise in its mortgage bond rate, to 19,75 percent, effectively undercutting banks and other building societies, which recently pushed up their rates to 20 percent.

A UBS spokesman said the increase would come into effect from July 1 on existing bonds, and immediately on new loans.

Allied Building Society on Friday increased its bond rate by 1,25 percentage points to 20 percent — in line with the First National and Trust banks — with effect from July 1, and from June 1 for new bonds.

Building societies have to give a calendar month's notice of a change in rates and a rise was only possible at the beginning of June in the wake of the Government's May 5 austerity package.

Star 21/5/85

(58)

FINANCE

D/Day 29/5/89

R3bn bonds change hands

58

HAROLD FRIDJHON

CHURNOVER was good for the winners but painful for the losers in last week's bond market, which recorded deals on the JSE floor amounting to about R3bn.

All the elements were present to give the punters plenty to play with. Soothing words about the economy came from the Reserve Bank Governor who said there was no reason to panic about the gold price. But the gold price did not respond to the governor's exhortation. It continued to droop until central bankers attacked the US dollar.

Offsetting the gold price panic were the better money supply figures. But the drooping rand undermined confidence generated by the money aggregates.

Dealers switched from bearishness to bullishness at the drop in a yield point. Then back again, almost hour by hour, with profits — and losses — accruing on one or two point movements.

On balance, the Eskom 168 moved from a 17,62% high (with the bears dominant) to a 17,40% low when the bulls emerged, forcing the bears to cover. Some dealers said the drop in yields was a much-needed technical correction. Perhaps the only technicality involved was covering open positions.

UBS Holdings' diversity pays off

GRETA STEYN

DIVERSIFICATION into areas other than traditional building society business helped UBS Holdings lift its earnings 23% a share to 63,1c in the year to March 1989.

A final dividend of 16c a share was declared, bringing the full dividend for the year to 27c — 12,5% up on 1988. Cover was increased to 2,3 times from 2,1.

CE Piet Badenhorst said yesterday: "Our first objective when we went public was to ensure we did not remain too dependent on mortgage business."

The group's stake in Volkskas and Commercial Union, which both announced excellent results, paid off with a hefty contribution to UBS Holdings' earnings. The contribution to the group's profits through its share in associates now accounts for about 26% (R39,1m) of R150,7m profits.

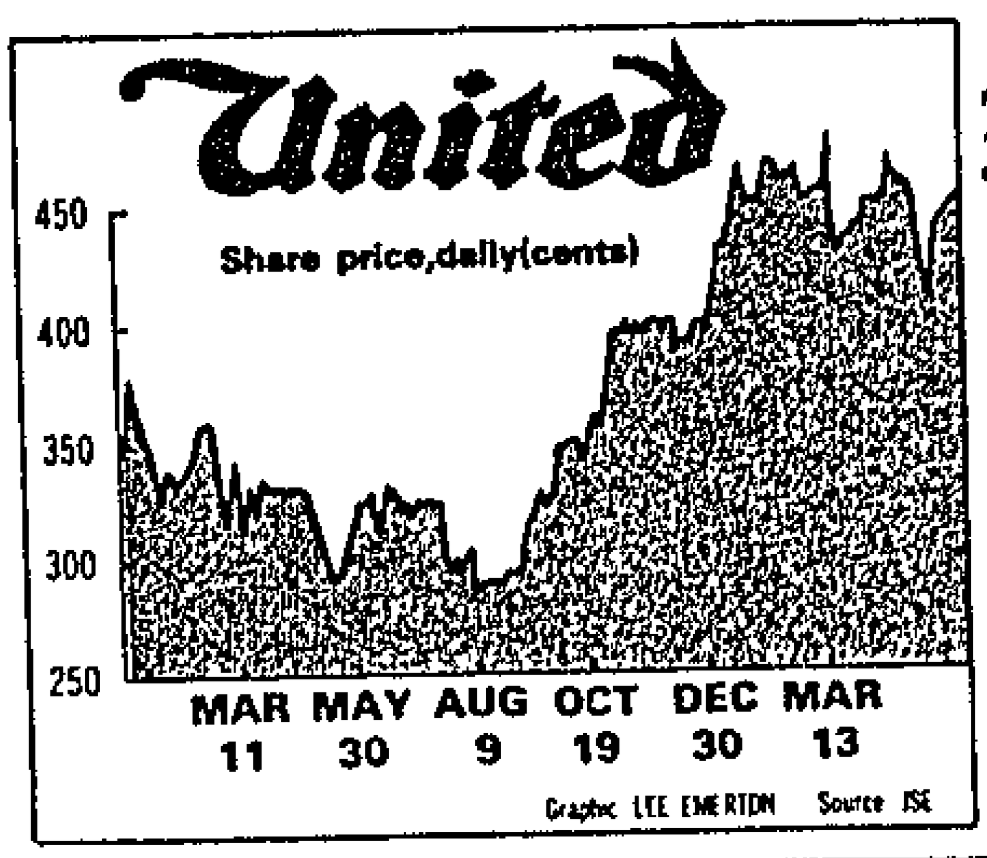
On its more traditional lending business, the narrowing of margins is obvious when interest earned is compared with interest paid. Interest paid on deposits rose 37,5%, outstripping the increase in interest earned on advances (31,8%).

However, the squeeze was not as severe as that experienced by other lending institutions. The Allied, for instance, showed a 51,7% increase in interest paid while interest earned lagged at 36,8%. The United's relatively comfortable margin reflects good asset and liability management.

This is obvious from comparing the relatively slow increase in assets to the stronger rise in earnings. Group assets rose 16,7% accompanied by a faster increase in earnings (23,3%). This contrasts with other lending institutions where strong growth in assets was not matched by bottom-line profits. The building society's increase in assets was only 13,1%.

United Bank made a loss of R600 000 but is budgeted to start contributing to group profits in this financial year.

MD Nallie Bosman said: "The bank is way ahead of target."



Bates Wells MD English resigns

TIM COHEN

BATES Wells Johannesburg MD David English is to leave the advertising agency by mutual agreement because of "policy differences".

English said yesterday he would leave SA's fifth biggest agency "on the best of terms" to explore private interests.

He declined to say what the policy differences were.

English was employed by Bates Wells in January this year, joining the agency from Rank Xerox, where he was MD.

He said that as a comparative newcomer to advertising he sometimes saw things differently to the old hands.

The agency had a talented team and wished them the best of luck.

Bates Wells financial director Roy Jones attributed English's departure to "differences in management style".

He said English would not be replaced and his responsibilities would be shared by other senior staff.

Perm joins in bond rate increase

Star 30/6/87

58 10

Finance Staff

Major financial institutions, with the exception of Standard Bank, Volkskas and Nedbank, have now announced increases to their bond rates.

The Perm this morning said it would be raising its bond rate by one percentage point to 19,75 percent with immediate effect on new bonds and from July 1 on existing bonds.

The rates of the United and the Natal Building Societies were increased to the same levels yesterday, while the Allied Building Society on Friday decided to push up its rate by 1,25 percent to 20 percent on its traditional bond, in line with the rates by First National, Trust Bank and Santambank.

CATASTROPHIC

A Standard Bank spokesman said an announcement would be made today. However, Mr Nico Czypionka, economist at the Standard Bank, said he did not think the latest bond rate increase would have the same "catastrophic effects" as the interest rates rise during 1985/86.

United, SA's largest home mortgage financier, said that despite the latest mortgage rates increase, house prices will on average rise by 10 percent this year.

● See Page 9.

Foreclosures likely to increase

58

Star 26/5/89

Finance Staff and Sapa

The latest round of increases in the bond rate are unlikely to have catastrophic results, as these are not panic measures taken by the authorities, and unlike 1984/1985, the economy is not going to collapse, says Standard Bank economist Nico Czypionka.

Mr Czypionka points out, however, there is likely to be an increase in business failures, bad debts and foreclosures on homeowners. But given the volatility of interest rates, jumping from one end of the scale to the other, there are bound to be lags before the full impact of the recent measures are felt. Nevertheless it is not expected to reach the levels of 1984/1985.

He sees the latest increase as bringing the mortgage rates in line with the prime rate to further reduce the individual cash flow, and so help cool down the economy.

"The cash flow is already strained, so the new measures will add further pressure on the individual's ability to purchase. And with the already significant slowdown in demand, the resulting drop in demand for credit should have a positive impact on reducing imports, and so help the balance of payments."

Commenting on the possibility of homowners being able to extend the period of their mortages to maintain unchanged monthly repayments, Mr Czypionka says that such an option is limited as many bondholders have already extended their bonds to the maximum period allowed.

United chief executive Piet Badenhorst says in spite of the high mortgage bond rates, the propery market remains buoyant, mainly because emigration has not reached the levels it did in 1984/1985.

Mr Badenhorst does believe, however, that repossessions are likely to increase across the spectrum of the home market, and hardest hit will those with bonds of 100 or 110 percent.

The UBS also expects the price of houses to rise by about ten percent this year.

In its latest quarterly housing survey the UBS says that the economy had begun to cool and that houses were now more affordable than at any time in the past ten years.

The price of houses has risen on a year-on-year basis by eight percent. A medium sized house costs about R92 000, a larger one about R129 000 on average and a small house about R73 000.

● All major financial institutions, with the exception of Standard Bank and the Ned-Perm, are increasing bond rates following the Allied's announcement of a 1,25 percentage point increase to 20 percent on Friday.

The rates of the United and Natal Building Societies are to increase to 19,75 percent with immediate effect on new bonds and from July 1 on existing bonds.

The Ned-Perm said a decision on whether to increase the rates and by how much would depend on the cost of funds on the margins.

Standard Bank is expected to announce its decision today.

UBS makes good on banking battlefield

(58)

Star 30/5/89

By Derek Tommey

The financial services industry has been a vicious battlefield since four of the "Big Five" building societies became banks, and interim and annual figures are keenly scrutinised to see who, at the present stage of the fight, are the winners and who are the losers.

Figures issued today by UBS Holdings shows it is clearly one of the winners. It reports attributable earnings for the year ended March of R150,7 million, which is an increase of 19,9 percent on the R125,7 million earned last year.

The final dividend has been raised by 14,3 percent from 14c to 16c a share, to make a total of 27c for the year — 12,5 percent more than last year's 24c.

Nonetheless, a close analysis of the profit statement shows it was a difficult year.

The interest on advances rose by 31,8 percent to R1,57 billion, but the cost of money rose even more, by 37,5 percent to R1,27 billion. Also helping to narrow margins was a 33,3 percent rise in operating expenditure to R396,6 million.

However, a 46 percent jump in investment income to R188,2 million greatly sweetened the results and enabled UBS Holdings to show a respectable 13,8 percent increase in net income before tax to R215,1 million.

A drop in the tax rate from 46,5 percent to 42,9 percent as a result of the increase in investment income enabled after-tax earnings to rise by 21,4 percent to R122,9 million.

UBS CE Piet Badenhorst

UBS chairman Herc Hefer

UBS Holdings' two top executives, the chairman, Mr Herc Hefer, and chiefexecutive, Mr Piet Badenhorst, said at a conference yesterday that the jump in investment income was the result of a R39,1 million contribution by Volkskas and Commercial Union, R18,6 million from the UBS insurance company, and interest on prescribed assets.

Mr Badenhorst said that the investment income from Volkskas and Commercial Union amounted to 25,9 percent of group profit. When UBS Holdings was listed it had been decided that it would not just be a building society with a few appendages but would invest elsewhere and it took a 30 percent stake in both Volkskas and Commercial Union.

Today less than 50 percent of UBS Holdings' income came from building society activities.

The United Bank, which had a loss of R600 000 in the year ended March, was expected to make a profit this year, and had already made a profit in April.

It had shown rapid growth and had 60 000 current accounts and around 90 000 credit card accounts.

Mr Hefer said that conditions were extremely difficult in the financial services market.

The Government's measures to dampen the economy were beginning to have an effect.

"Where interest rates will go is anybody's guess, but if they remain high the group could have a good year".

He explained that the income on advances usually lagged behind the cost of money and stable interest rates would benefit the group.

During the year ended March the group increased its advanced by 16,7 percent to R10,7 billion and its investments by 16,2 percent to R1,61 billion.

Deposits and current accounts rose by 18,1 percent to R11,5 billion.

Mr Badenhorst reported that the amount of short-term funds a building society could hold had been increased from 5 percent to 15 percent of its assets and the Government had been asked to increase this figure to 35 percent.

This would help prevent the building societies from being locked into high interest deposits when interest rates fell.

UBS lifts profits 23%

CIT Times 30/5/89

From GRETA STEYN

JOHANNESBURG. — Diversification into areas other than traditional building society business helped UBS Holdings lift its earnings by 23% a share to 63,1c in the year to March 1989.

A final dividend of 16c a share was declared, bringing the full dividend for the year to 27c — 12,5% up on the previous year. Cover was increased to 2,3 times from 2,1.

CE Piet Badenhorst said yesterday: "Our first objective when we went public was to ensure that we did not remain too dependent on mortgage business."

The group's stake in Volkskas and Commercial Union, companies which have both announced excellent results, paid off with a hefty contribution to UBS Holdings' earnings.

The contribution to the group's profits through its share in associates now accounts for about 26% or R39,1m of profits of R150,7m.

On its more traditional lending business, the narrowing of margins is obvious when comparing interest earned to interest paid.

Interest paid on deposits rose by 37,5%, outstripping the increase in interest earned on advances (31,8%).

However, the squeeze was not as severe as that experienced by other lending institutions.

The United's relatively comfortable margin position reflects good asset and liability management.

This is also obvious from comparing the relatively slow increase in assets to the stronger rise in earnings.

Group assets rose by a modest 16,7% but this was accompanied by a faster increase in earnings (23,3%).

Again, this contrasts with other lending institutions where strong growth in assets was not matched by bottom-line profits. The building society's increase in assets was only 13,1%.

United Bank made a small loss of R600,000 but is budgeted to start contributing to group profits in the current financial year.

"The bank is way ahead of target," its MD Nallie Bosman said.

The bank now has 60 000 current account holders and 90,000 credit card holders.

The United is in a strong capital position, having started off as a public company in 1986 with a 9% capital-to-assets ratio, compared with a requirement of 6% in terms of the Banks Act and one of 4% against liabilities for building societies.

Business failures and bad debts likely to increase

B'Day 30/6/89

(58)

Interest and bond hikes not disastrous — expert

THE rise in interest and bond rates is unlikely to have catastrophic results, as these are not panic measures taken by the authorities and, unlike 1984/1985, the economy is not going to collapse, says Standard Bank economist Nico Czypionka.

Czypionko says, however, there is likely to be an increase in business failures, bad debts and foreclosures on homeowners.

Given the volatility of interest rates in SA, there are bound to be lags before the full impact of the recent measures are felt, he says. Nevertheless, the economy is not expected to reach the levels of 1984/1985.

Czypionko sees the latest increase in the home-loans as bringing the mortgage rates in line with the prime rate to further reduce the individual cash flow, and so help cool down the economy.

"The cash flow is already strained, so the new measures will add further pressure on the individual's ability to purchase. And, with the already significant slow-down in demand, the resulting drop in demand for credit should have a positive impact on reducing imports, and so help the balance of payments."

Repossessions

On the possibility of homeowners being able to extend the period of their mortages to maintain unchanged monthly repayments, Czypionka says such an option is limited as many bondholders have already extended their bonds to the maximum period allowed.

United chief executive Piet Badenhorst says that, in spite of the high mortgage bond rates, the propery market remains buoyant, mainly because emigration has not reached the levels it had in 1984/1985.

Badenhorst believes, however, that repossessions are likely to increase across the spectrum of the home market, and hardest hit will be those with bonds of 100%.

The United Building Society expects the price of houses to rise by about 10% this year.

The United said in its latest quarterly housing survey that the economy had begun to cool and that houses were now more affordable than at any time in the past 10 years.

It said the 10% rise was considerably lower than the expected inflation rate of about 15%.

The price of houses has risen on a year-on-year basis by 8%.

A medium-sized house costs about R92 000, a larger one about R129 000, and small houses cost about R73 000. — Sapa.

Southern Life lifts earnings by 20,4%

Cpt Tms
31/5/89
58 [illegible]

By AUDREY D'ANGELO
Financial Editor

IN SPITE of a 116% rise in its tax bill to R63m (R29m), Southern Life Association lifted disclosed earnings for the year to March 31 by 20,4% to R94,9m (R79m).

Group total assets rose by 37% to pass the R10bn mark for the first time in the company's history.

Group total income rose by 18% to pass the R2bn mark. And net premium income rose by R174m to R1 388m (R1 213m).

Investment income rose by 27% to R751m (R593m). New business totalled R714m. This was made up of R272m recurring premium business and R442m in single premiums.

A total of R63m will be paid out in dividends for the year. A final dividend of 22c a share makes a total of 37,6c for the year.

Although conditions are expected to be tougher in the current year with the JSE already lower and with less disposable income available for investment, chairman and CE Neal Chapman, and executive director Arie van der Zwan, forecast continued steady growth.

Commenting on the past financial year Chapman said:"The increase in the market value of assets to R10 721m is an indication of the strength of the performance of our equity holdings, with some R850m coming from net cash inflow.

"Growth of this level is certainly not a once-off feature as group assets have increased by a steady annual compound rate of 26% since the formation of the 'new' Southern in 1984."

Commenting on the higher rate of tax paid in the past year, Chapman said the Southern welcomed the long awaited new tax formula announced by the Minister of Finance.

"The acceptance of the trustee principle whereby the tax rate will be the marginal rate deemed to apply to the average policyholder and not the company tax rate is most encouraging."

He said that in the five years since the formation of the new Southern significant growth had been achieved in all areas in spite of major financial and economic upheaval.

Neal Chapman

"The 20% growth forecast set at the time of the JSE listing has been exceeded, with earnings and dividends showing a 24% per annum compound growth over the period.

"The life fund has grown at a rate in excess of 26% per annum. Total income reflects a compound growth rate of 23% per annum".

In spite of inflationary pressures and expansion costs "our marketing and administration costs have been held below the inflation rate to a compound growth rate of 14%".

Discussing the strong comeback by group investments since the stock exchange crash in October 1987, Chapman said:"In the 12 months to end March the company has built up unrealized investment surpluses of R1,7bn compared with a write-down of about R700m at the last year end."

The Southern's top 10 equity holdings, which accounted for more than half the market value of its portfolio, were Anamint/De Beers, Anglo, First National Bank, Richemont, Gencor/Fedmyn, Barlows, the Rembrandt group, Amic, SAB/Premier and Vaal Reefs.

Closing gold prices

(In $ an ounce)
NEW YORK:
364,75/365,25
LONDON:
362,00/362,50
Fixing am: 362,10
Fixing pm: 362,10
ZURICH:
361,00/364,00

GST pulls in over R25bn

Political Staff

GST pulled in more than R25bn in the 1988/89 financial year, Mr Barend du Plessis, Minister of Finance, said yesterday.

He told Mr Harry Schwarz, the DP's finance spokesman, that about half of this amount came from individuals and companies.

The retail and wholesale sectors contributed R6,4bn, the manufacturing sector R2,03bn and "unclassified" another R1,6bn.

Oil prices up 20c per barrel

LONDON. — Oil prices edged up as much as 20c a barrel on world markets yesterday — in thin trading.

Towards the close of European trade, good quality North Sea crudes were quoted at about 20c up from Monday's levels.

Dubai, the key Middle East grade, firmed 5c to $15,40 a barrel.

Macadams tops as supplier

A 35% INCREASE in turnover to R41,9m for the 12 months to February 1989 consolidates Cape-based Macadams as the country's largest supplier of bakery and catering equipment.

A 12% improvement in pre-tax profits to R1,2m was offset by 37% increased taxation (16%).

The board has declared a final dividend of 0,5c a share, bringing the total for the year to 1,7c (2,4c), on earnings of 5,3c (6c).

Star 31/5/89

Southern seizes its chances

58

By Derek Tommey

Southern Life has reported highly satisfactory profit and dividend figures for the year to March.

Despite a 116 percent jump in the tax bill from R29 million to R63 million, net taxed surplus is 20,4 percent higher at R94,9 million.

Shareholders are to receive a final dividend of 22c, making 37,6c for the year — an increase of 19,4 percent on last year's payment.

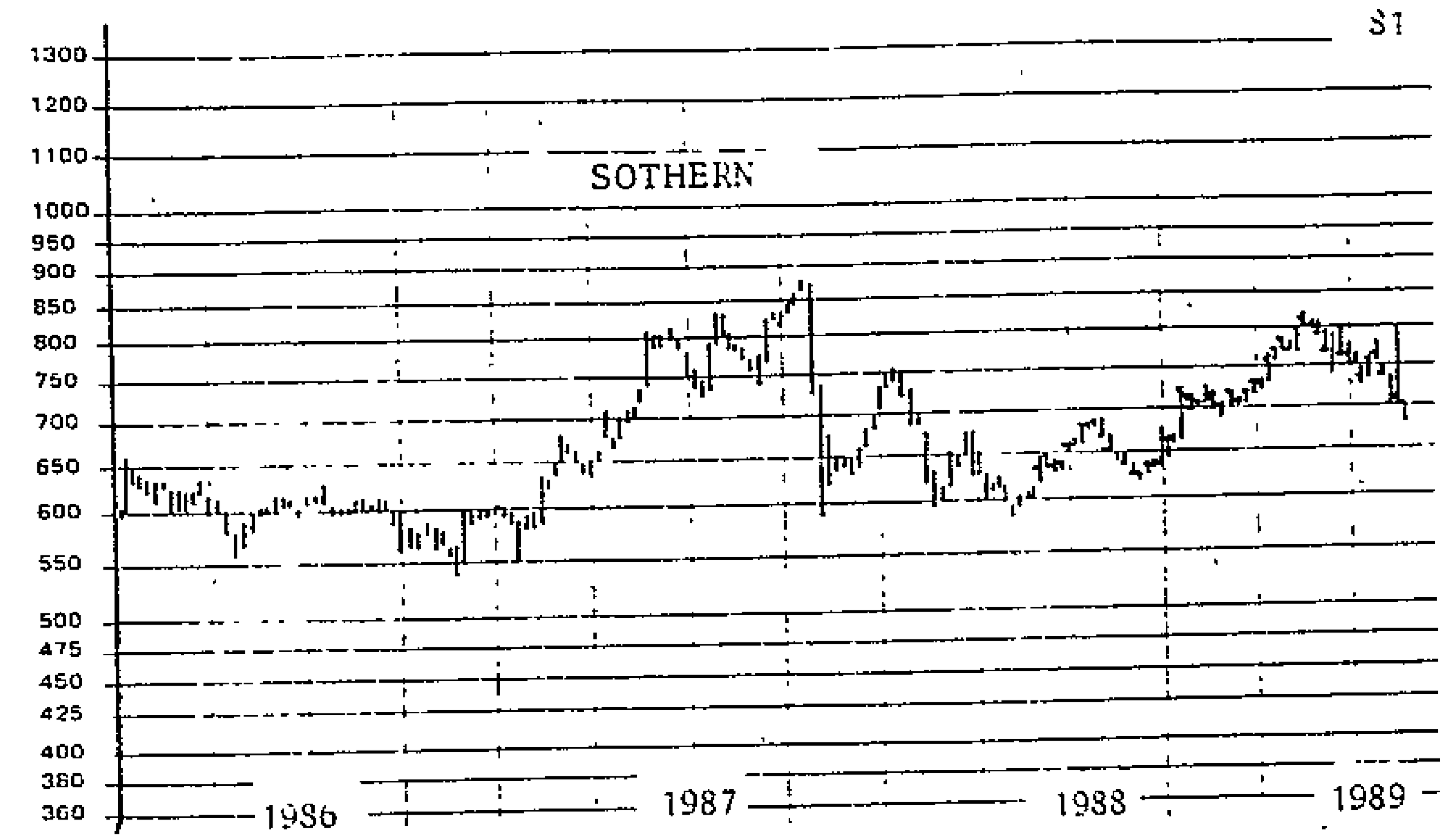
Southern's net taxed surplus has now risen at an average annual rate of 24,1 percent in the past five years, while dividends have risen at annual average rate of 24,2 percent.

Marketing and administration costs have been held below inflation at an annual average growth rate of 14 percent.

This strong performance suggests the market can start reappraising Southern's investment rating. On its latest dividend, its shares yield 5,3 percent, making them something of a bargain when compared with those of other life insurers.

The results are due to some extent to Southern seizing its chances.

Southern used the drop in share prices after the 1987 share market collapse to acquire new shares on the basis of good long-term value, says chairman and chief executive Neal Chapman.



It was rewarded with a 27,1 percent jump in investment income to R739,2 million and an investment surplus at the end of the year of R1,7 billion. Last year Southern had a write-down of R700 million.

The investment performance helped total assets grow 37 percent to exceed R10 billion for the first time in its history.

Its portfolio is an object lesson for investors who tend to chase every listed share.

The top 10 shares, and which account for almost 70 percent of its market value, are: Anamint/De Beers, Anglo American, FNB, Richemont, Gencor/Federale Mynbou, Barlows, Rembrandt group, Amic, SAB/Premier and Vaal Reefs.

Sales of insurance showed a lower growth rate. Net premium income grew 14,3 percent to R1 387 million.

New business production was R714 million, with single premiums accounting for R442 million and recurring premium for R272 million.

Mr Chapman says there has been a slowdown in sales of some insurance. High interest rates have affected sales of single-premium-funded 10-year endowment policies. The rise in inflation and more difficult economic conditions are affecting smaller investors, he says.

Southern is one of the four companies asked to manage a government pension portfolio.

It expects to acquire further business of this sort when various government organisations and state enterprises are privatised.

Mr Chapman welcomes the Government's decision to apply a tax rate on life insurers equal to the marginal rate of the average policyholder and not the company tax rate.

One notable event at Southern during the year was the introduction of a share option scheme for all staff. The only requirement was that participants had to have had two years' service.

The scheme has been well received by employees and over 90 percent of them are participating in the scheme.

Mr Chapman says the success of the scheme is due to a careful job being done to educate staff in what a share option is and how the share market works.

FINANCE - ~~I~~GENERAL

1989 - JUNE - JULY

Swiss banks firmly against church demands

From ROBERT GENTLE

BERNE. — Swiss banks have stood firm against demands by the Swiss Protestant Federation for increased economic pressure against SA and a tightening of the debt rescheduling timetable.

A joint communique to this effect was issued yesterday by the Swiss Protestant Federation and the Swiss Bankers Association, many of whose members have SA loans on their books.

It follows a top-level meeting between the two parties earlier this month in Berne at which the SA debt standstill agreement, which expires in mid-1990, was the main topic.

According to the communique, there remained a fundamental difference of opinion on the usefulness of sanctions in spite of agreement on the need to eliminate apartheid.

"The Swiss banks showed understanding with regard to the Churches' demands," the communique said.

"However, they made the point that they had very little room for manoeuvre."

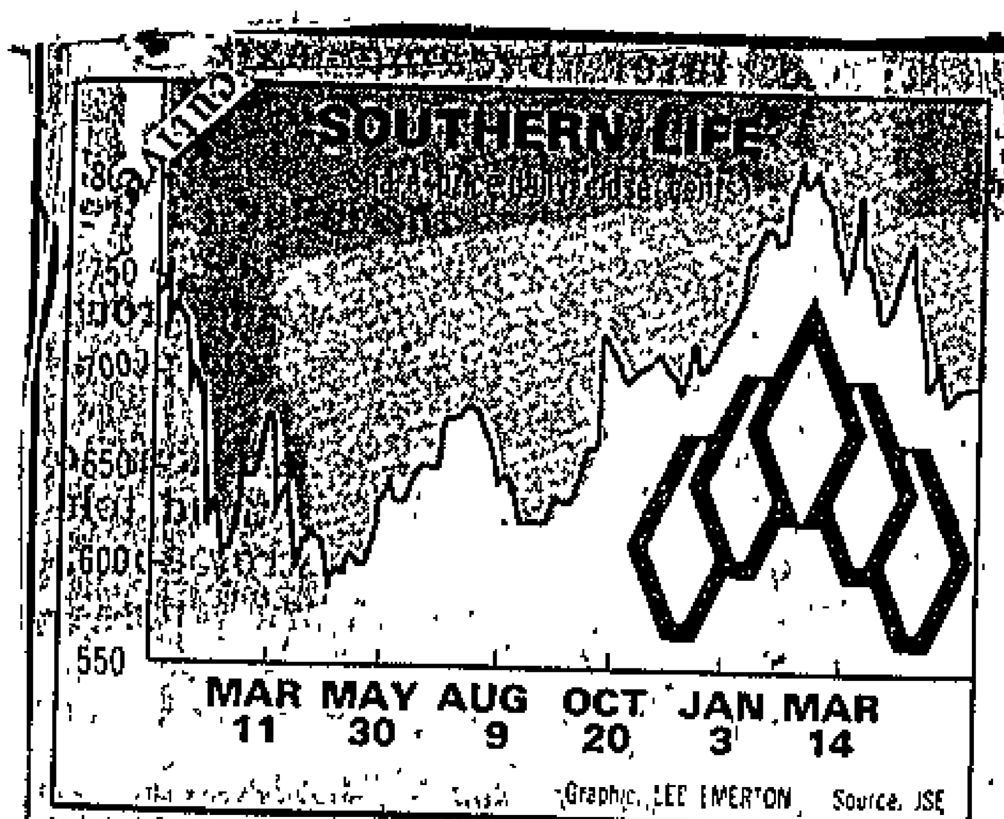
Accordingly, the banks said they would "examine the manner in which these demands can be formulated at the negotiation table".

The carefully worded communique confirmed what observers had said would happen all along, namely that the two sides would fully air the issue and then politely agree to differ.

"The Swiss are a very conservative people," a World Council of Churches spokesman in Geneva had said on the day of the meeting.

The other issue discussed was the Foreign Funding Bill, which would allow the SA government to control the inflow of foreign funds to anti-apartheid organizations.

"Both parties disapproved of the bill, which is incomptible with accepted diplomatic norms," the communique concluded.



Southern on solid ground

B/Day 1/6/89 58

KAY TURVEY

SOUTHERN Life turned in solid results for the year to end-March with the dividend up 20,7% as total income rose beyond the R2bn mark.

On a slightly enlarged share base, as an additional 4,6-million shares were made available to staff, earnings a share climbed 17% to 56,3c (48c). This allowed for a final dividend of 22c and gave a total distribution of 37,6c for the year.

Buoyed by healthy dividend growth in Southern's equity holdings, investment income rose 27% to R751m.

Executive director, investments, Jan Calitz said higher yields in fixed investment and a strong rise in rentals underpinned by the economic upswing last year further contributed to this growth.

Premium income rose a more modest 14% to R1,39bn. New business production for the year was R714m with single premium business remaining constant — in line with market trends — at R442m, while new recurring business grew about 30% to R272m.

The results show the departure of six top executives for various reasons over the past year has not hurt the bottom line, although it has dulled market perceptions of the life assurer and the share price has languished around the 700c mark.

However, the share was well bid at 750c in quiet trading on Tuesday.

Chairman and CE Neal Chapman said the losses should be seen in perspective. The group had two top teams following the Southern and Anglo American Life merger in 1984 and therefore had the necessary expertise to replace the departing staff. As a result the group's impetus remained unaffected.

In a strong comeback after the 1987 market crash Southern has built up an unrealised investment surplus of R1,7bn compared to a R700m write-down in the previous financial year.

The balance sheet shows the market value of Southern's assets climbed 37% to move beyond R10bn, indicating the strong performance of equity holdings, with some R850m coming from net cash inflow.

Assets have increased by an annual compound growth rate of 26% since the 1984 merger.

(58) W.mail 2-8/6/89.

The serious business of finance with a light touch

Faced with a situation that does not cater for their needs, millions of blacks have formed their own savings clubs. But the stokvels are not just about business.
By THAMI MKHWANAZI

AN amount of R2 000 changes hands every month between security guards Proteus Ndawonde, Ben Maphakani, Joseph Dube and five of their colleagues at a Johannesburg building.

The eight are on the security staff at Highpoint, the high-rise block in the centre of Hillbrow.

They are members of the Society for Leave Pay, one of an estimated 800 000 "stokvels", or savings clubs, in black communities, which turn over some R200-million a month.

Each member contributes R250 a month to the stokvel, and at the end of each month a different member of the Society for Leave Pay receives the R2 000 collected.

Payouts have been arranged to coincide with members' annual leave, hence the club's name.

The eight Highpoint security guards are among the millions of blacks who find it difficult to obtain loans from financial institutions in an economy to which they make an indispensable contribution.

The majority of members are migrant workers from peasant backgrounds, and the money they draw from the schemes is largely used to improve their lot in the homelands. Uses include the purchase of farming implements and the establishment of irrigation projects with other peasant families.

Stokvels enable members to save and receive regular lump-sum payments without having to fill in bank forms or stand in queues for bank tellers.

Their savings don't earn any interest. But, according to a representative of the National Association of Stokvels of South Africa (Nasasa), in the black community, "faced with a long history of deprivation, economically and otherwise, and lack of exposure to banking facilities, the availability of capital seems to be the most important thing".

The stokvels are as much about socialising and entertainment as about finance.

Monday Blues stokvels are popular weekday get-togethers in most black townships. The parties run from Monday to Thursday, with non-club members contributing a flat R5 or R10 for a quantity of liquor and food.

Some of the stokvels give themselves a liquor brand name, ensuring the brand is available at the party. Among those operating on the Reef are the Southern Comfort syndicate, Charles Glass, Hansa, Smirnoff, Pushkin and Tuesday Martell.

Stokvels are increasingly becoming popular with young upper-income blacks. Their clubs are fashion-orientated, and have a distinct Johannesburg northern suburbs orientation. They have "designer label" names such as Benetton, Palazzo Piti, Lacoste, Bear International, Le Gym, Daks of London and Kappa Sport.

Group identification is important, and members often wear clothes from the shops after which the clubs are named, or invest in club uniforms, T-shirts or caps.

Nasasa, formed a year ago by a small group of Soweto stokvels, aims to ensure that the funds mobilised are carefully utilised to the maximum benefit of stokvel members.

Nasasa promotes and encourages business activity among members, in an attempt to develop the stokvel concept beyond the level of merely circulating wealth to that of generating it.

Stokvels have helped to create small businesses, and this is a role Nasasa hopes to extend.

Shebeeners, hawkers, township "spaza" shops, taxi drivers and other informal activities have benefited from the stokvel system.

Nasasa points out these small businesses find it difficult to raise loans from financial institutions in the formal sector.

It says informal businesses typically employ capital of between R200 and R1 500. Most are one-person operations, operating often without business premises or a licence.

The informal sector, however, contributes an estimate R168,8-million a month, or R2,03-billion annually to the Gross Domestic Product in the PWV area alone, according to Central Statistical Services figures cited by Nasasa.

In order to ensure stokvel funds are used to generate wealth, Nasasa has undertaken to:

- Arrange better purchasing terms with shops and other suppliers such as furniture stores, hotels, supermarkets and liquor stores.
- Provide training for members to enable them to operate professionally and profitably.
- Promote a positive perception of the stokvel concept in the community as an integral part of the economic mainstream, and as a potential creator of jobs and wealth.
- Assist and encourage stokvel members in the initiation of business ventures and co-operatives.
- Educate members about the different forms of investment, negotiate on their behalf for better arrangements with financial institutions, and provide counselling on subjects such as housing, financial management and legal matters.
- Create a stokvel charity trust that will positively highlight the stokvel concept in the community, and establish an alternative financial structure that will tap the informal financial market operating outside the corporate insitutions.
- Create black financial institutions that will serve the needs of black communities.

Nasasa, an affiliate of the Foundation for African Business and Consumer Services, has branches in the PWV area, Aliwal North, the Western Cape and Bloemfontein.

Investec set to buy Duros

Star 2/6/87

Finance Staff

Investec Bank is hoping to acquire a banking license through the acquisition of Duros Merchant Bank's banking interest, it was reported today.

While management of both groups would not confirm the deal, market sources said the acquisition was imminent, but was dependent on whether the Registrar of Banks approved a banking license for Duros.

Duros' financial services team are said to have opted out of the deal and are planning an independent corporate and project finance operation.

Sources also said that no joint company would emerge from the transaction, as Duros subsidiary Duros Project would be set up as a new financial services group with a changed name.

Anglo's earnings rise by 46,2%

Gavin Relly bullish on gold's future

CAPE TIMES 2/6/89

58

From REINIE BOOYSEN

JOHANNESBURG. — Anglo American's equity accounted earnings rose by 46,2% to R2,64bn (R1,80bn) in the year to March, after a substantial increase in income from its 32,5% stake in diamond associate De Beers which more than offset static earnings from gold.

Earnings a share (equity accounted) were 1 148c (1988: 790c).

A final dividend of 200c a share has been declared, bringing total distribution to 270c — 20% more than last year's 225c.

Excluding the R1,39bn retained earnings of associated companies — which represent 52,6% of equity accounted earnings — the profit growth is less spectacular, at 20,9%.

Some 30 of the company's associates are equity accounted, the largest being De Beers, Minorco, Amic and JCI.

Retentions within the group have risen significantly from last year, when they were 42,7% of equity accounted earnings.

At a media conference on the results yesterday, chairman Gavin Relly said the rise in retentions reflected well on the group's long-term strength.

Besides the need of associates to retain a greater proportion of their earnings in times of high inflation, funds were earmarked for strategic capital expansions such as Highveld Steel and Vanadium's stainless steel project with Samancor.

Other projects under consideration were an additional pulp-line for Mondi, which would cost more than R1bn at current prices; and the establishment of a primary nickel mine in the eastern Transvaal.

While De Beers became the single most important contributor to equity accounted earnings (25,7% compared with 19,3% last year), the contribution of Anglo's gold mining associates declined from 21,7% to 14,8%. Equity accounted diamond earnings almost doubled to R679m (R350m).

Other segments managed sound improvements: coal, by 57% to R80m (R51m); Rustenburg Platinum, Samancor, CMI and Palabora, by 43% to R200m (R140m); industry and commerce (Amic, Samcor, Mondi and Highveld), by 70% to R498m (R293m); mining finance, by 51% to R604m (R399m); and banking, insurance and property, by 20% to R139m (R116m).

Relly said in spite of the "sloppy" gold price, gold remained "the heart" of Anglo, and alluded to the company's intensified gold drilling programme in SA, which ran up an additional R31m in prospecting costs, to R138m.

This figure — which included Anglo's mineral rights purchases — would amount to "about R170m to R180m" through 1989 to 1990, reflecting the company's "continuing faith in the future of gold".

The two major problems for the future of gold mining were coming to grips with fluctuations in the gold price and the technical difficulties associated with deep-level mining.

On the gold price, Relly took issue with the view that the future was negative in view of the waning threat of international nuclear conflict. Anglo could "hardly wish on the world the sort of political instability on which the gold price thrives", but predicted that "a great deal of instability may well emerge in eastern Europe".

NBS does record loan business

Star 2/6/89

(58)

By Frank Jeans

The Natal Building Society (NBS) has chalked up a record 22,6 percent rise in loans for the 1988-89 financial year.

The society has little doubt that even with the bond rate hitting the 20 percent level, loan growth will be maintained.

Trevor Olivier, assistant general manager, loans, says: "Our lending achievement shows that despite intense competition and increases in interest rates, the society has been able to develop its core business of providing home loans in the domestic market.

"In a year which saw some building societies re-defining their priorities and entering the banking arena, NBS chose to stick to the business of supplying loans for homeownership and the results speak for themselves."

As much as 84 percent of NBS business was generated in the domestic home loans market.

Looking at the effect of rising home prices and high bond rates, Mr Olivier says the ordinary homebuyer who is not subsidised has to settle for less.

"We are unable to control these factors and it is incumbent upon the Government to provide increased subsidies if the current level of inflation and interest rates are to continue."

"We applaud the fact that the Government has extended the first-time buyer's subsidy to include previously-owned properties and eagerly await further details of the new scheme."

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(58)

UBS HOLDINGS (58) Finweek 2/6/89

Coping well

Results are much better than those reported by Allied last week for the same period (year to March). CE Piet Badenhorst notes that after the listing in 1986, priority was to reduce the dependence on traditional building society business. Less than 50% of the latest bottom line stems from that business, but the emphasis remains heavily on retail business. Profits and dividends from the 30% stake in Volkskas and, for the first time, 30% of Commercial Union surged from R23,9m to R39,1m, or 25,9% of group profits.

UBS is to increase rates charged to bondholders to 19,75% with immediate effect on new bonds and from July 1 for existing mortgages. Chairman Herc Hefer expects an increase in repossession rates, especially among those tempted into the market at 12% or less. However, societies have issued bonds for only up to 90% of an asset's value, compared with 100% or more by bankers. But the property market remains buoyant, unlike in 1985, when high interest rates coincided with drops in property values. Last year UBS lent an additional R2,75bn in mortgages, while properties in possession declined from 730 to 581. The book value of properties in possession fell R10,4m to R24,5m — 0,24% (0,39%) of mortgage advances.

Despite the difficult conditions expected this year, Hefer hopes for further earnings growth. He points out that when interest rates are high or increasing, a certain lag in costs improves earnings performance. It seems clear that management does not expect an early decline in interest rates.

United Bank made a relatively small loss last year, but moved into profit in the first month of the current year. Profits are budgeted this year, though it seems unlikely that they will contribute much to the bottom line immediately. On the funding front, Badenhorst notes that while in the past building societies could fund only 5% of loans by money shorter than 12 months, now they may finance 15%. Application has been made to push this up to 35%, says Badenhorst. The decline in the savings rate continues to be of concern, adds Hefer.

COMPETITION MET

Year to March 31	1988	1989
Pre-tax profit (Rm)	189,0	215,1
Attributable earnings (Rm)	125,7	150,7
Earnings (c)	51,3	63,1
Dividends (c)	24	27

Earnings 23% up are impressive in the cut-and-thrust financial institutions sector. Dividends rose at a lesser rate, by 12,5%. At 440c, the share is on a yield of 6,1% and p:e of seven. Though competition seems unlikely to ease significantly, UBS seems to be coping well. If earnings improve only to 70c this year, the forward p:e is 6,3. The share, while well up on the 12-month low of 280c, may be worth buying.

David Ross

INVESTMENT (58) Fmail 2/6/89.

Guideline change

Changes may be made to the proposed investment guidelines for life offices and pension funds announced last month to replace prescribed asset requirements. The guidelines stipulate that 10% of pension funds' assets or life offices' liabilities must be invested in a combination of government and semi-government stock or cash (previously prescribed assets), while the other 90% may be invested in fixed property, equity and mortgage bonds. However, there are further stipulations — among them that not more than 65% may be invested in equity and not more than 30% in fixed property.

The Life Offices' Association (LOA) has asked the Registrar of Financial Institutions to redefine property unit trusts to fall within the fixed property, not the equity, category.

"Smaller life insurers don't have sufficient assets to invest in fixed property so buy property unit trusts instead," says LOA PRO Jurie Wessels. "If unit trusts are moved into the property category, they'll be able to invest more in equities."

A spokesman for the Registrar of Financial Institutions says the request is being considered. A decision will be made soon. ■

However, natural disasters accounted for the major loss of lives — 41 000, compared to 8 900 in man-made disasters. ■

AIDS INSURANCE (58)

Fmail 2/6/89

Tightening up

Insurers, fearing a growing number of Aids cases, are beginning to tighten restrictions. Last month, Southern Life eliminated the industry-wide R200 000 threshold for exclusion clauses and began omitting Aids coverage from all new life insurance policies, unless the applicant submits to a blood test.

Sanlam kept a threshold but cut it. For people applying for term and certain other life insurance worth more than R100 000, Sanlam now requires a blood test unless the applicant forgoes Aids coverage.

Federated, however, has raised the threshold by R1 000, says Dave Goelst, assistant GM, life administration. This allows someone to apply for coverage of R200 000 (a round sum) without undergoing the test.

Others have made small adjustments to the rule adopted by assurers at a meeting of the Life Offices' Association last October. Under the rule, new policyholders with R200 000 or more in coverage are not covered for Aids without a negative blood test.

Some companies have limitation clauses instead of exclusion clauses. Rather than excluding Aids coverage on new policies, Commercial Union will limit the payout on Aids deaths to eight times the annual premium, no matter how high the coverage.

At least one other is also considering

(58) 2/6/89.

Fmail

changing its Aids policy. African Life said more than a year ago it would introduce Aids clauses for most new policies, then backed off. It's changing its mind again.

"We have had a rethink," says MD Bill Jack. "We'll probably do something, but with reluctance. In a normal life insurance policy the only exclusion is suicide. Why should you pick out Aids over any other disease?

"But the potential growth in numbers scares us. If everybody else takes that route (tougher Aids rules) and you don't, all the people who have the disease come to you."

Only a few have died of Aids in SA — 115 by April 14, the latest figure available — but thousands are believed to be infected and the disease continues to spread rapidly.

However, the clauses don't protect insurers in the event of an epidemic because a new policyholder who's passed the blood test stays insured even if he later gets the disease.

"Companies are trying to protect themselves," says Douglas Keir, GM and actuary at Swiss SA Reinsurance, "from someone having a test, finding he's HIV positive, and going out to buy a lot of insurance." ■

State policies are causing heartache to homeowners

Star 3/6/89.

58

FRANK JEANS

A LEADING estate agent has slammed the Government for causing constant upheavals in the property market which cause heartache for homeowners.

Mr Scott McRae, managing director of Camdon's Nationwide, blaming Pretoria for the wild fluctuation in interest rates and tax policies, which he sees as discouraging homeownership, said: "There was a time when South Africa was almost a tax haven. Today the middle-class South African is carrying a disproportionate tax burden and is among the most heavily taxed individuals in the world.

"He is further disqualified from the benefits of tax allowances on his bond rate, such as those enjoyed in Britain.

"The housing industry might well be forgiven for believing that the Government is determined to turn South Africa into a nation of vagabonds without any fixed property."

He compared the South African situation to the "economic miracle" of Britain under Mrs Margaret Thatcher, which encouraged property ownership — creating a broad base of wealth and employment opportunities.

"In South Africa, we appear to have a 'couldn't-care-less' attitude towards home ownership.

"Little is done to encourage home ownership other than a meagre subsidy, which in any event is long overdue for upward revision."

Mr McRae sees a strategy to remove all the boom-and-bust conditions in the housing market:

- A forum to thrash out an overall blueprint for the industry.
- Adherence to a policy of strict ceilings on bond rates, irrespective of the overall pattern of interest rates.
- Allowances on mortgage payments, or at least the interest portion, for tax purposes.
- Maximum bond repayment periods to be 35 years as a standard policy.
- Release of the vast pool of insurance funds into the domestic housing market.
- Reduction on statutory transfer fee costs, a portion of which is tax.
- A scientific inquiry into non-traditional building methods via the agreement system, so opening the way to wider use of less expensive building materials.
- An adjustment to the rule-of-thumb system that bond repayments must not exceed 25 percent of salary.
- Elimination of bottlenecks in the land proclamation process, which continue to hold up developments and push up holding costs.
- Elimination of over-regulation of the industry, such as that being experienced in retirement village developments, the result of which will see prices rise drastically.

"At present, there is a total lack of overall planning for the property industry," says Mr McRae. "It is simply allowed to drift from boom-to-bust along with the rest of the economy."

● Illovo's magnificent four — each sold for R1 million. See today's PROPERTY GUIDE.

W/CAMGS 3/6/87 (58

SATURDAY JUNE 3 1989

'Unit trusts underperforming'

By TREVOR WALKER
Business Staff

UNIT Trusts investing in shares quoted on the Johannesburg Stock Exchange are underperforming and in some instances not even keeping pace with inflation.

This is the view of financial broker Mr Willem Roets of Stellenbosch.

"Claims that risk exposure is lessened by investing in unit trusts because of their diversified portfolio's and the exceptional investment skill of their management, cannot be justified by the market performance of these trusts," he said.

He said a weighted index compiled by himself and embodying 67 percent of the trusts on an asset basis as at December 1988 showed many of the funds still had to show substantial improvement in their prices to regain the overall price levels on the stock market before the crash of October 1987.

The general trusts and specialised trusts were 22 and 15 percentage points up from the March 1988 lower turning point in the market, but income results were still two percentage points down.

Enormous losses, compared with October 1987, were still evident among mining unit trusts. For example, 36,40 percent in the case of Standard Gold, 26,24 percent for Old Mutual Mining and 21,03 percent for UAL Mining.

Unit trusts specialising in industrial shares had also been disappointing.

The Sanlam Industrial unit trust was 10,28 percent below the October 1987 peak, whereas the industrial share price index of the JSE was currently 6,8 percent above that level.

Income trusts, virtually unaffected by the October 1987 crash, showed no capital growth whatever.

Lower return

While investors in this category of unit trusts received a return below the inflation rate and lower than rates available from building societies, the capital was subjected to various levies and buy and sell margins imposed by fund managers apart from the added risk of exposure in the market as such.

Dividends paid to the unit trusts by the companies they invested in did not translate down directly into the overall index of the trust.

Mr Roets said it was understood in the industry that the Association of Unit Trusts was to discontinue publication of its price index.

"This may seem justified considering that the performance of these trusts, is at variance with the claims made for the industry," he added.

Cape Town team goes a-selling

By TREVOR WALKER
Business Staff

CAPE TOWN, the tourist mecca of South Africa and the silicone valley of the Southern Hemisphere, went promoting its cause in London this week.

And the message to British business was: the City believes in fair play for all, irrespective of race, creed or colour.

The team, led by the mayor, Mr Peter Muller and Dr David Bridgman, the director in charge of Wesgro, consisted of officials from the chambers of Commerce and Industry and leading businessmen.

They put the City's case at a function arranged by the Confederation of British Industries in London on Thursday.

On Friday the positive role that Cape Town is playing in promoting harmoneous race relations in South Africa was highlighted at the various meetings the team had with concerned British business leaders.

Cape Town is proving to be the bellwether of sensible race relations in this country, said Mr Muller.

He hammered the point that sanctions against a major Western trading nation contributed little to the ethic of free competition and the acceptance of ideas of others.

A full report on the team's activities and accomplishments in London will be highlighted in next week's Weekend Business Argus.

Many leading Cape Town business leaders believe that the 10 year's to the 20th century will see the tourist industry boom in the Western Cape and diversified efforts in many allied industries are being geared up to meet the anticipated demand.

ıterest to ɔe pegged at 17 percent for desperate families

HOME BONDS RESCUE PLAN

S/Times 4/6/89.

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STREAKER SHEILA: THE WOOLLY TRUTH!

PICTURE SPECIAL: PAGE 3

By ANDREW GILLINGHAM

INTEREST on home loans will be pegged at 17 percent to help cash-strapped people who are on the verge of losing their houses.

The bold rescue plan will be supported by the Government and the building societies.

It is designed to soften the impact of soaring interest rates (now as high as 20 percent) on many thousands of people who face the forced sale of their homes because they cannot keep up monthly payments.

This is how the scheme will work:

Bond-holders in need will be required to pass a tough means test.

If they are found to be in imminent danger of becoming homeless, interest on their bonds will be frozen at 17 percent.

However, they will have to continue paying 17 percent — even if the interest rate later falls below that figure — until they have paid off the emergency cushion.

The Government will underwrite the money needed by the building societies to extend what amounts to bridging loans to potentially defaulting clients.

Details of the unprecedented scheme to stave off disaster for thousands of people have been kept under wraps because last-minute details still need to be ironed out.

Andrea busts beauty barrier!

By DOREEN LEVIN

FORMER Miss South Africa Andrea Stelzer has finished in the top 10 of the Miss Universe contest — as Miss Germany.

She was chosen ahead of 69 other international beauties in the Miss Universe Pageant held in Cancún, Mexico, the dream ending to a four-year success story.

Dutch model Angela Visser, 22, won the Miss Universe 1989 title.

But for Andrea, just being in the Mexican paradise as a participant in Miss Universe was the culmination of years of hard work and planning.

When politics cheated 24-year-old Andrea of the chance to represent South Africa at the Miss Universe Pageant in Miami, Florida, danger of becoming homeless, interest on their bonds will be frozen at 17 percent.

However, they will have to continue paying 17 percent — even if the interest rate later falls below that figure — until they have paid off the emergency cushion.

The Government will underwrite the money needed by the building societies to extend what amounts to bridging loans to potentially defaulting clients.

Details of the unprecedented scheme to stave off disaster for thousands of people have been kept under wraps because last-minute details still need to be ironed out.

Snags

But yesterday Dr Dawie de Villiers, Minister of Public Works and Land Affairs, confirmed that the plan was on the point of being implemented.

"The plan is aimed at home owners who need help. The Government expenditure involved is minimal.

"There are some snags which are delaying implementation, but the department is working hard to iron these out as soon as possible," said Dr De Villiers.

Reaction from the institutions was rapid and positive.

Association of Building Societies chairman Bob Tucker said: "If we can work out the technical difficulties, the plan will unquestionably help people who are in distress — it will save their homes."

Only a year ago it was possible to obtain bonds at a rate as low as 12,5 percent. Now most institutions are raising them to between 19,75 and 20 percent.

Behind

The move — instigated by the Government — is in response to the increasing number of people who have been forced to sell their homes. There were 245 in just one recent Government Gazette. Added to this is a number of bond-holders who have fallen behind with their repayments.

For the Government, the high interest rate is an increasing embarrassment in an election year.

Informed sources said the State had considered offering a direct interest rate subsidy — but the cost would have been enormous.

Yesterday, some economists said that, while the scheme would help people in distress, it might have the effect of circumventing the tight money policy of the Reserve Bank which — by allowing interest rates to find their natural level — was designed to squeeze inflation out of the economy.

Strict

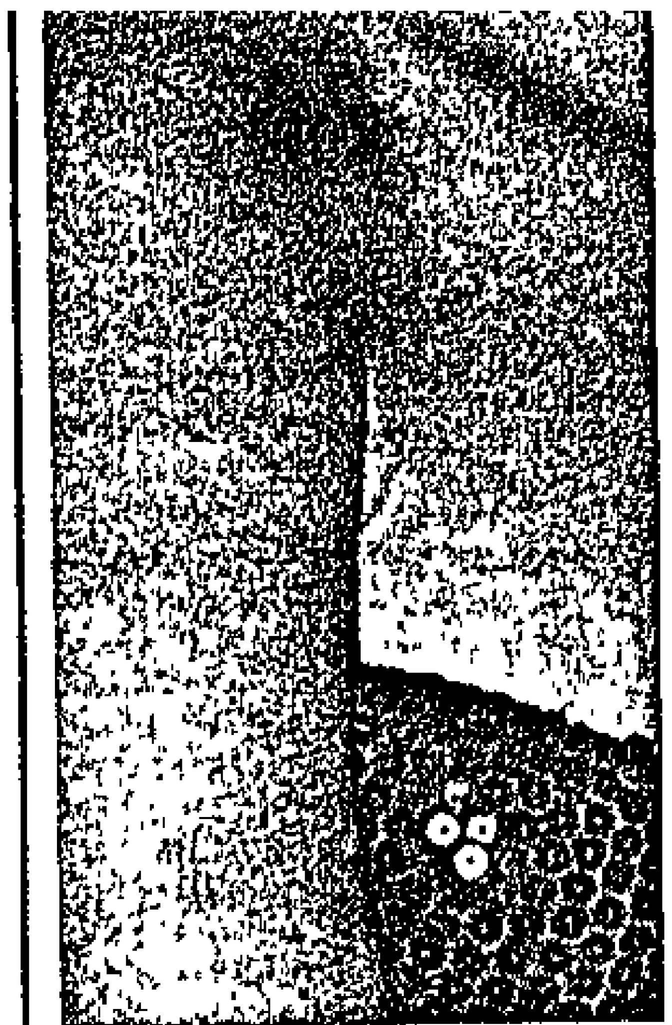
They warned that unless means tests were strictly applied, the frozen-bonds scheme would amount to a new form of credit creation that would leave money in the hands of the public for spending on consumer products.

Yesterday Dr De Villiers said assistance would be available only to those in real danger of losing their homes.

The scheme did not offer a free ride, nor was it a subsidy. In effect, it provided bridging loans that would eventually be repaid.

Dr De Villiers said: "The

To Page 2



Andrea Stelzer — picture

PICK 6

TURFFONTEIN:
Selecting seemed easy for 1 354 punters who each collected R998,60 from a R1 33 158 pool. Combination: 10; 5,6; 6; 20; 8; 6.

MILNERTON:
Twenty one ticket holders shared the R338 787,50 pool reaping the R1 2099,50 dividend. Winning numbers: 2,9; 10; 11; 6; 8; 1,2.

GREYVILLE:
The payout returned a dividend of R1 000,50 to 246 punters. Winning combination: 3; 3; 9,1,4; 20; 4; 1.

FAIRVIEW:
Seven punters shared the R29 710 pool collecting R3 183,20 each. Winning numbers: 1; 2; 2,6; 1,3,4; 7, 11; 2.

WP victory

RAMPANT Western Province crushed Transvaal 35-15 yesterday, Northern Transvaal whipped Eastern Province 50-6, and Free State beat Natal 21-16.

Bank heist

FIVE armed men held up the First National Bank in Prospecton, near Durban, yesterday and got away with more than R200 000.

Shark bite

A POLICEMAN, Sergeant Leon Krause, 22, is in a satisfactory condition after being bitten by a shark while skin-diving 20m off Gonubie beachfront, East London, yesterday.

Fight for life

DOCTORS fought to save the life of Iran's Ayatollah Khomeini, 86, after a turn for the worse yesterday.

Pricey desk

AN 18th-century mahogany desk/bookcase sold for R31-million at Christie's — the highest price ever paid for a single piece of furniture.

THE contents of this issue of the Sunday Times have been restricted in terms of the emergency regulations.

P.T.O.

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Southern follows Liberty example

By David Carte

SOUTHERN Life is to emulate Liberty's unstated policy of declaring earnings and dividend growth of roughly 20% a year.

Life company profits are based on actuarial calculations, which permit a degree of discretion.

Reliable 20% growth might be dead boring, admits chairman Neal Chapman, but shareholders like reliability and it is the best way to achieve blue-chip status.

Flashy

"In years of plenty, we won't do the flashy thing. In the five-year record we have provided, there was one in which profit growth was not startling. That was after the October 1987 crash — but thanks to conservatism, we emerged okay. You can continue to expect that."

In the year to March, Southern lifted total income by 18% to R2,1-billion and taxed profit 20% to R94,9-million. Total assets rose by 37% to R10,7-billion, the first time they have topped R10-billion.

Southern issued 4,6-million new shares to the trustees of its staff option scheme, which actually diluted earnings a share growth to less than 20%. Earnings a share were 56,3c (1988: 48c) — only 17% better.

A final dividend of 22c made 37,6c (31,5c) for the year. That was a 20% improvement.

With its results, Southern has published compound growth statistics since the merger of Southern and Anglo American Life in 1984. They show a company that has bedded down effectively.

Net premium income has grown by 25,3% a year, net investment revenue 18,1% and total income 22,5%. Taxed profits have forged ahead at 24,1% and dividends have moved in line.

Mr Chapman accepts that Old Mutual and Sanlam between them have stopped a trend in which smaller companies were successfully nibbling at their market share. The two giants now have two-thirds of the assurance market.

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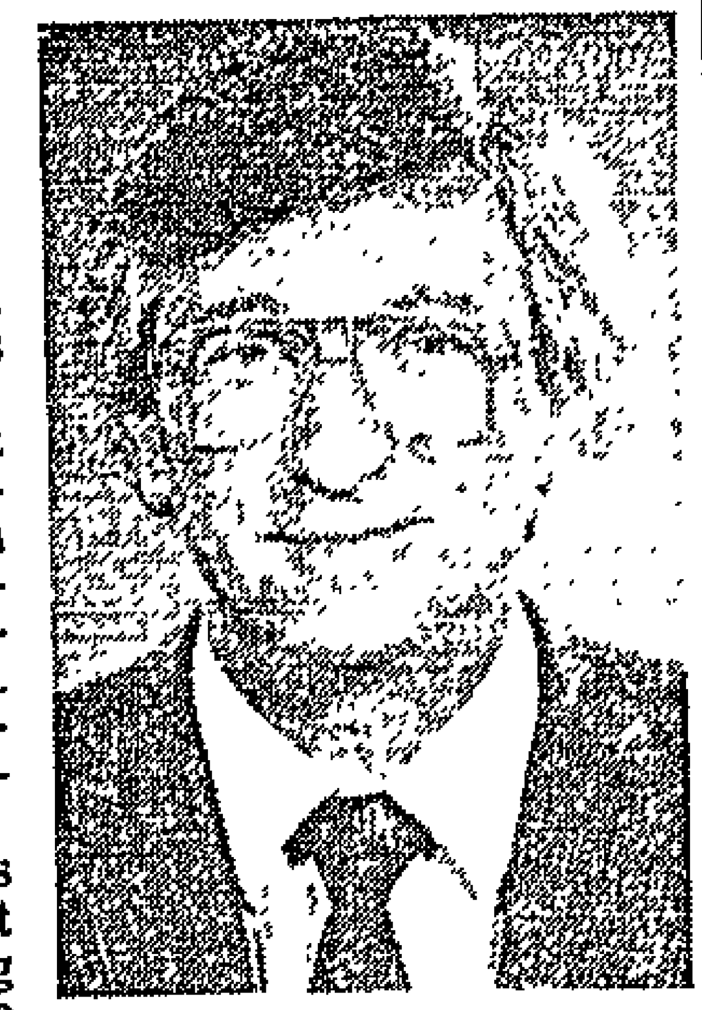

NEAL CHAPMAN

Liquid

Investment chief, Jan Calitz, says Southern was 10% liquid at the end of the year. At market value, shares accounted for about 50% of the portfolio, property for 13% and gilts for 27%.

The previous year Southern was 18% liquid and the equity component was only 41%.

Mr Calitz says Southern bought shares "fairly aggressively" for most of last year, but the higher equity component was caused partly by price appreciation.

The top 10 counters, accounting for 50% of the share portfolio, were: Anamint-De Beers, Anglo, First National, Richemont, Gencor-Fedmyn, Barlows, Remgro, Amic, SA Breweries-Premier and Vaal Reefs.

Mr Calitz agrees that the strategic investment in First National has performed disappointingly. But both he and Mr Chapman believe that First National could recover strongly in better banking conditions, notably once interest rates start to weaken.

Mr Chapman says the First National branch network and its retail reach have been helpful in moving products, notably Futura, the back-to-back investment scheme.

"Our ability in the wholesale money market is useful to First National. Their relationships with major companies assists us in the marketing of pension fund and deferred compensation packages."

Like Mike Levett of Old Mutual (see Page 12), Mr Chapman welcomes the trusteeship principle to be introduced to life company taxation.

"It takes the ad-hocery out of present arrangements," he says.

10-year indemnity

S/Times 4/6/89

A POLICY providing a 10-year indemnity for structural defects in a new building is being marketed by Hubert Hosken Construction & Engineering Insurance Brokers (Hosken), of Johannesburg.

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Most of the losses envisaged by this policy would be "professional indemnity" and recovery would have to be sought against the consultants involved, says Hosken.

"That in itself is a difficult process and is aggravated by the fact that the consultants are having difficulty in getting adequate limits of professional indemnity cover in present market conditions.

"Accordingly, the existence of such a policy under which consultants also benefit could have the dual effect of providing the developer and his consultant with important catastrophe protection, which may possibly be recognised by the consultants in their fee structure."

CARTE BLANCHE

S\Times 4/6/89

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By David Carte, BUSINESS TIMES Editor

A helping hand from banking

If you can't beat them, join them.

This seems to be the credo of Piet Badenhorst, chief executive of UBS Holdings.

He has long complained that the playing field in financial services is not level, sloping appreciably in favour of bankers and assurers.

He told the Investments Analysts Society this week that 90% of life assurance business, even a good part of pensions business, "is deposit taking in disguise".

Mr Badenhorst did not mention the assurers' biggest advantage — being in real assets, such as shares and property, rather than in financial assets that are eroded by inflation.

His solution to the UBS disadvantage? Get into insurance and banking through the purchase of 30% of Volkskas and 30% of Commercial Union. UBS's life arm, which sells mainly mortgage protection policies, contributed a taxed profit of R10-million.

Mr Badenhorst said: "That was a conservative estimate of life profits after an actuarial valuation. We know of a competitor that reported a profit of R21-million on a much smaller life arm."

As a result of diversification and thanks to equity accounting, UBS Holdings was happy to report this week that something like 38% of taxed profit came from banking and insurance last year.

Growth in the two new areas outstripped that in the building society. While building society profits rose only 12,5%, assurance profits rocketed 75% and banking profits by 20% plus. Less than half of taxed profit came from the building society compared eith 19,5% from banking and 18,6% from assurance.

Barry Swart of First National has predicted building societies will disappear.

He probably did not bank on so swift a transformation of SA's biggest building society. Of course, he may yet be right about those building societies that do not adjust to the vastly changed times.

We do need to remember that equity accounted earnings of associates (R27,5-million out of total earnings of R150,7-million) do not mean much. UBS has little control over the profits and dividend flows of Volkskas and Cusaf.

Mr Badenhorst believes rival building societies will find UBS's act hard to follow.

United spent R200-million on its Volkskas and Cusaf stakes. Few rivals have such resources. In addition, the UBS has more than 2-million building society clients from which to recruit banking clients. It has been able to place a bank manager in each of its major branches.

In only a few months it has acquired 50 000 cheque accounts with a net credit balance of R100-million. It has issued 70 000 of its own credit cards and 40 000 garage cards. It has poached 100 managers, including 11 general managers, from banks.

Mr Badenhorst claims a world record in getting every branch of the bank on line. United Bank is now profitable after losing R600 000 last year.

He believes that because it was a pioneer in banking computer systems, his group has been able to get on line at a fraction of the cost to competitors.

"The Hogan system requires four times more hardware than ours," he says.

The war with the banks goes on. "They are not talking about it so much any more because the interest-rate pattern does not suit them so well."

Because building societies have longer-term deposits, their cost of funds is slower to fall — or to rise. They are thus currently at an advantage.

Only Nedcor manages a higher return on assets than UBS.

Mr Badenhorst recognises that banking is a minefield for the uninitiated. That is why UBS has gone to such lengths to employ experienced bank staff. He is particularly wary about corporate banking, a low-margin, high-risk, high-skill area. But he contends the banks have underestimated the pitfalls in the building society arena.

"We have been lending against homes for many decades and we have learned a few lessons. One is that you must have a trained official to inspect every property against which you make a loan.

"We have also discovered that it is extremely risky to advance 90% and 100% bonds."

An institutional fund manager says: "Avoid the banking sector. It's dog eat dog and there's blood in the streets. Their shareholders' funds are around 3% to 4% of assets. Their computer and personnel costs are horrendous.

"Under such vicious competition, all it takes to decimate profits is a couple of bad debts. Their profitability is inadequate for the maintenance of their capital. Some banks will soon need rights issues at very low PEs, leading to further earnings dilution."

A banker disagrees, saying that this is yesterday's story and bank shares will seldom be so cheap. He believes the authorities will permit a proper margin for banks after the general election and that once interest rates start to fall, all will be rosy.

Until the authorities change their tune and permit market rates, I side with the pessimists. That said, UBS is demonstrating uncommon nimbleness in the fight.

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Inflation an ally of life assurers


MIKE LEVETT

By David Carte

LIFE assurers are winning the battle in financial services because of inflation, says Old Mutual managing director Mike Levett.

"Inflation is negative for savings, but it is less negative for us than for banks and building societies," he says.

"As a country, we are saving less. But the life offices are capturing a bigger proportion of savings."

Plight

The big advantage life companies have is being able to invest in real assets, such as shares and property, rather than claims on depreciating money, which is the plight of their rivals.

Mr Levett applauds Finance Minister Barend du Plessis' approval of the new "trusteeship principle" of life company tax.

It recognises that a tax on life companies should be on the same basis as one on investment income earned by individuals. This would imply that the average individual tax rate should be used. Life offices estimate that this is about 30%. Any expenses incurred in the production of this income should be deducted.

Expenses

As the fiscus does not wish to see a decline in the tax received from life offices this year, a tax rate of 45% (being the highest marginal individual tax rate) will be used and only 35% of expenses incurred in the production of income will be allowed instead of the 100% that an individual can claim.

In general it is expected that this formula will yield the same amount of tax as the old formula, which was calculated at the normal company tax rate (ie 50%). This was applied to 70% of all income with no allowance for expenses.

The life offices expect, however, that in time, the trustee principle as explained above will be used in its entirety. It will put an individual investor in a neutral tax position as to saving by life policy or directly in shares or fixed deposits.

Soared

Clearly the life companies expect to give a better return. In the long run, both the individual investor and life company profits should benefit from the new formula.

Mr Levett says life assurers' basic tax rates have soared from 30% to 40% in the 1970s to the high rates that apply at present.

Life companies will be treated in the same way as individuals on capital gains. If the investments are held for a long time, the gain will be tax free. Otherwise they will be taxed as revenue.

Mr Levett agrees with the Margo Commission that there should be an objective definition of a capital gain. He contends capital gains should not be taxable.

I asked Mr Levett whether Old Mutual was not at a disadvantage to chief rival Sanlam in not controlling companies outright. Several Sanlam companies, notably Gencor but Malbak and others as well, have scored on disinvestments.

Mr Levett's reply: "We are not standing here with a cheque book looking for disinvestments. If operating companies want to acquire companies quitting SA, and it makes sense, we will support them.

"We remain convinced that it is best not to have control or even strategic investments. It means we can make investments on two considerations only — price and value."

Mr Levett does not contest Sanlam's claim that it now has 33% of the total premium income in SA.

He believes market-share statistics must be handled with care. New business, for instance, breaks down into recurring and single-premium policies and then there is the distinction between individual and group business, single premiums and employee benefits.

Prescribed

"We could have brought new pension fund business on to our books and boosted premium income, but did not do so. We keep it out of the books because the pension fund clients would have incurred marketable securities tax unnecessarily and because of prescribed asset requirements in the past."

Mr Levett concedes that Sanlam has been worthy opposition since all its problematical controlled subsidiaries came right. He also recognises a likeable marketing campaign in its babies advertisements — but he does not acknowledge that it has made inroads on Old Mutual's business.

He contends the Big Two have increased their stake at the expense of some of the others. The market share of Liberty today, for instance, is the same as that of Liberty plus the Pru before their merger.

The success of the big two Cape mutuals is ascribed to their relative success in investment and to the economies of scale in information technology.

Namibia

Although my broker complains about poor administration at Mutual, Mutual has spent R200-million on its IT system, which it believes is the equal of anything in SA. "We do not look over our shoulders at competitors all the time. We try to do the right thing for the business."

Old Mutual has significant business in the UK (assets of more than R1-billion), Zimbabwe, Malawi, Kenya, Namibia and the TBVC countries.

Mr Levett says all policies sold in Namibia until a few years ago were payable in Cape Town in SA currency. It will not be necessary for Old Mutual to acquire vast new assets in Namibia to match its liabilities there.

But new policies are now payable in Windhoek in the currency of Namibia and liabilities on them will have to be matched there.

Founder rues sale of Duros banking arm

S/Times 4/6/89

(58)

By David Carte

DUROS Group has sold its merchant bank to Investec Bank for R15-million regardless of the opposition of Duros Merchant Bank founder Charles Turner.

Investec acquired the general and merchant banking activities of DMB with assets of R200-million — but it is not taking Mr Turner's corporate finance and project finance divisions. They have been left in the cold.

Problem

Mr Turner says the takeover is in nobody's interests.

"We were developing a promising banking baby. We had excellent teams in merchant and general banking. The problem was that the money market side lost R2-million last year and the corporate finance arm made R2-million for break-even.

"We believed we could recover and do well by restructuring the money market operation, but the controlling shareholders (Duros Group in Cape Town) were unhappy about receiving no return on their money. So they sold for cash."

Mr Turner thinks Duros took a short-term view. But Duros director Mervyn Key says the merchant bank was small investment worth about R9-million compared with Duros's market capitalisation of R160-million.

Mr Key says: "We are building up a conglomerate aimed at capturing the ordinary man's rands. We wish to serve basic human needs — food, clothing, shelter, transport and life assurance. The merchant bank did not fit in."

To sell the merchant bank, Duros Group acquired 75% of the bank's equity. It received ministerial permission to raise its stake above the normal maximum holding of 30% in a bank, but on what grounds is not known.

Mr Turner received about R1,5-million for his 10% stake in the merchant bank. He and his 20-man corporate finance and project finance teams are to go it alone.

He believes there is a good living in corporate finance and project finance, even though his company will not be able to offer loans. He sees no reason why the team cannot earn R2-million on its own.

Mr Turner and friends are doing the corporate finance for the five listed Berardo companies being restructured. There are no hard feelings, he says, and Duros will continue to be a customer.

This completes a divorce between Cape-based Duros, holding company of Tollgate, Gants and Arwa and its merchant banking associates in Sandton. The first sign of strain appears to have been the departure of Reg Sherrill, co-founder of DMB, who retired several months ago.

Investec director Bernard Kantor says the main attractions for his firm Investec were the merchant and general banking licence and a hand-picked 18-man treasury team headed by Jan de Kock.

Major

He says Mr De Kock is highly regarded and played a major role in producing the Stals report. Another unspoken attraction is that a competitor has been eliminated.

Mr Kantor says: "The authorities believe SA is overbanked, so you can't get any more banking licences. We will now have four strong legs — the merchant bank, Metboard, the general bank and property."

Initially, Errol Grolman will head Investec merchant bank. Helmut Bahrs, who joined from Finansbank, will be right-hand man. When Mr Grolman leaves to follow his own interests in the US, a new boss will be appointed.

Mr Grolman believes he will be a useful contact for

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● From Page 1

Duros (58)

Investec in the US.

In paying R15-million, Investec is acquiring assets of R14,5-million. It thus paid R500 000 for goodwill.

Investec, founded by Ian and Brian Kantor and controlled by management through Inhold, has come a long way. The privately owned bank has shareholders' funds of more than R70-million, on-balance-sheet assets of R958-million and funds under administration of R2-billion.

Earnings have grown by an average 23% annual rate for the past five years, beating the records of most the Big Five.

Management has been supplemented, recently by the accession of Bas Kardol, formerly a director of Barlow Rand to the chair, and the appointment of Jan Senekal, former head of the Reserve Bank's exchange control division, to the board.

Apart from the four divisions mentioned, it is active internationally and was a pioneer in the discounting of SA's foreign debt caught in the standstill net (see page 2).

Arm and a leg the cost of Success

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By Ian Smith

SUCCESS has not been kind to wholesale franchiser Shield Trading Corporation.

The group built up a chain of 12 wholesale outlets under the Success banner after its listing in July 1987 — but burnt its fingers. However, since its February yearend Shield has franchised off or sold all of the Success outlets and it is back on track for its historical 40% annual earnings increase, says chairman Theo Muller.

"Success cost us an arm and a leg, but we are again firmly committed to our special brand of wholesaling where suppliers deliver directly to member stores."

Unique

Shield's system, eliminating the cost of warehousing, is still unique to the group.

Mr Muller says: "We think warehousing can constitute up to 7% of operating costs and it must blunt the effectiveness of the small operator. We are virtually paper-pushers, which gives us tremendous advantages."

Cost savings are passed to franchisees through information systems, best negotiated prices and special deals on an average of 3 000 products a month.

At its first yearend as a listed company Shield met its prospectus forecast of a 41% increase in earnings a share to 7,6c. But the cost of the Success operation showed up in the next half-year when pre-tax earnings fell 16,2% compared with the same time in the previous year.

In the last financial year turnover increased by nearly 25%, but the absorption of the costs of discontinued stores caused taxed income to fall from R2,6-million in the previous year to R1,8-million.

The more conservative approach allows for additional losses, some of which go back to the Northern Cape floods in February and March last year.

Extraordinary profits on the sale of the retail stores lifted income to R2,3-million. Earnings were down from 7,6c a share to 5,5c, but the dividend has been increased from 3c to 3,5c.

Now Shield is back to its knitting. Mr Muller says the core company, Shield Multi Trade, increased turnover by 34% last year.

Forecast

"We have cleared the way for the current financial year," says Mr Muller. He forecasts a 30% lift in turnover to R500-million this year with a 25% increase in earnings.

Shield is unborrowed and is sitting on R12-million cash, which puts it in a good position to take advantage of business opportunities.

The group is one of SA's four giants in pre-packed foods, serving 155 cash-and-carry and wholesale members who, in turn, reach 27 000 independent retailers and 225 Multi-Save retailers with a collective annual turnover of R2-billion.

Spazas

About 30% of Shield's business is done with spazas — the informal retailers which have mushroomed in black areas.

Shield's buying power in canned fish runs close to Metro's with 24,5% of the market. It is in the top four buyers of tea and coffee.

Mr Muller says the rise of giant supermarkets was expected to sound the death-knell of small retailers. But the buying power of organisations such as Shield has ensured the survival and profitability of small dealers.

THEO MULLER

"Members are not obliged to buy through us, but they do so because of the benefits we offer and our competitive pricing.

"The benefits traditionally offered by the corner shop are carried over to the Multi-Save members."

A rebate system based on previous business levels has been a strong contributor to growth. Shield provides a credit facility backed by Credit Guarantee Insurance.

The typical Multi-Save outlet is a daily shopping store with a turnover ranging from R500 000 a month to R1,5-million, says Mr Muller.

"We have learnt some costly lessons, but we are concentrating on organic growth. We know where we are going."

DIAGONAL STREET

Investec sitting pretty near top

S/Times 4/6/89 58

INVESTEC'S compound growth in the past five years is enough to silence those who have criticised the banking group.

Managing director Stephen Koseff has shown at a presentation in Johannesburg that Investec's growth in earnings a share came top among listed banks at a compound 23,2% a year.

Dividend growth did even better, climbing by 25,7%. It came second to Rand Merchant Bank in terms of compound growth of total assets, and had the third highest capital-to-assets ratio at 8%, making it unlikely that it would need to raise capital in the next 18 months.

HISTORY

Return on total assets of 1,7% is much better than many of SA's long-established banks.

Funds under administration have increased from about R200-million to almost R2-billion. Net asset value a share rose from 174c in 1985 to 331c at March 1989.

A brief history of the bank was presented by executive chairman Bas Kardol. The group was launched as a 100% subsidiary of Hosken, being known as Hosken Consolidated Leasing in 1974. Two years later it was bought out by management and the name changed to Investec.

It was granted a banking licence in 1980, and the following year 10% was sold to Metboard.

There was a private rights issue in 1984, and a year later Metboard and Investec merged — not without pain, according to Mr Kardol.

In retrospect, a takeover might have been preferable to a merger.

Investec Bank Metboard was listed on the JSE in 1986 after a rights offer at 400c a share. It was renamed Investec Holdings (Inhold) last year.

Wholly owned subsidiary Investec Bank (Investec) was listed on the JSE after Inhold shareholders were given the option of accepting one new share in Investec for every two held.

A cash offer of 330c apiece was also made for every new share to which members were entitled. Only 8,2% of the shareholders took the money.

It was a peculiar offer — to finance the cash distribution, Investec undertook to issue preference shares at "current market rates" to a maximum of R15-million.

Why Investec swopped cheap equity for interest-bearing prefs was not explained at the time, or at the presentation. Mr Kardol told me that he would tell me one day.

Management then bought out Standard Bank's 21% interest in Investec and swopped most of its holding in Investec for shares in Inhold.

Management now owns 53% of Inhold which in turn owns 75% of Investec Bank.

Inhold owns 68% of Metprop and 33% of Growthpoint Properties as well as Metfund.

TARGETS

Central bank services provide administration for Investec's five areas of activity — merchant banking, banking, property, property finance and asset management, and international business.

Investec describes itself as an investment banking group focused on serving select niche markets. Target markets are State and parastatal organisations, financial institutions, medium to large corporates, professionals and high net worth individuals.

There are only four branches and the staff complement is nearly 300. Investec International has representatives in London, Zurich, Geneva and Amsterdam.

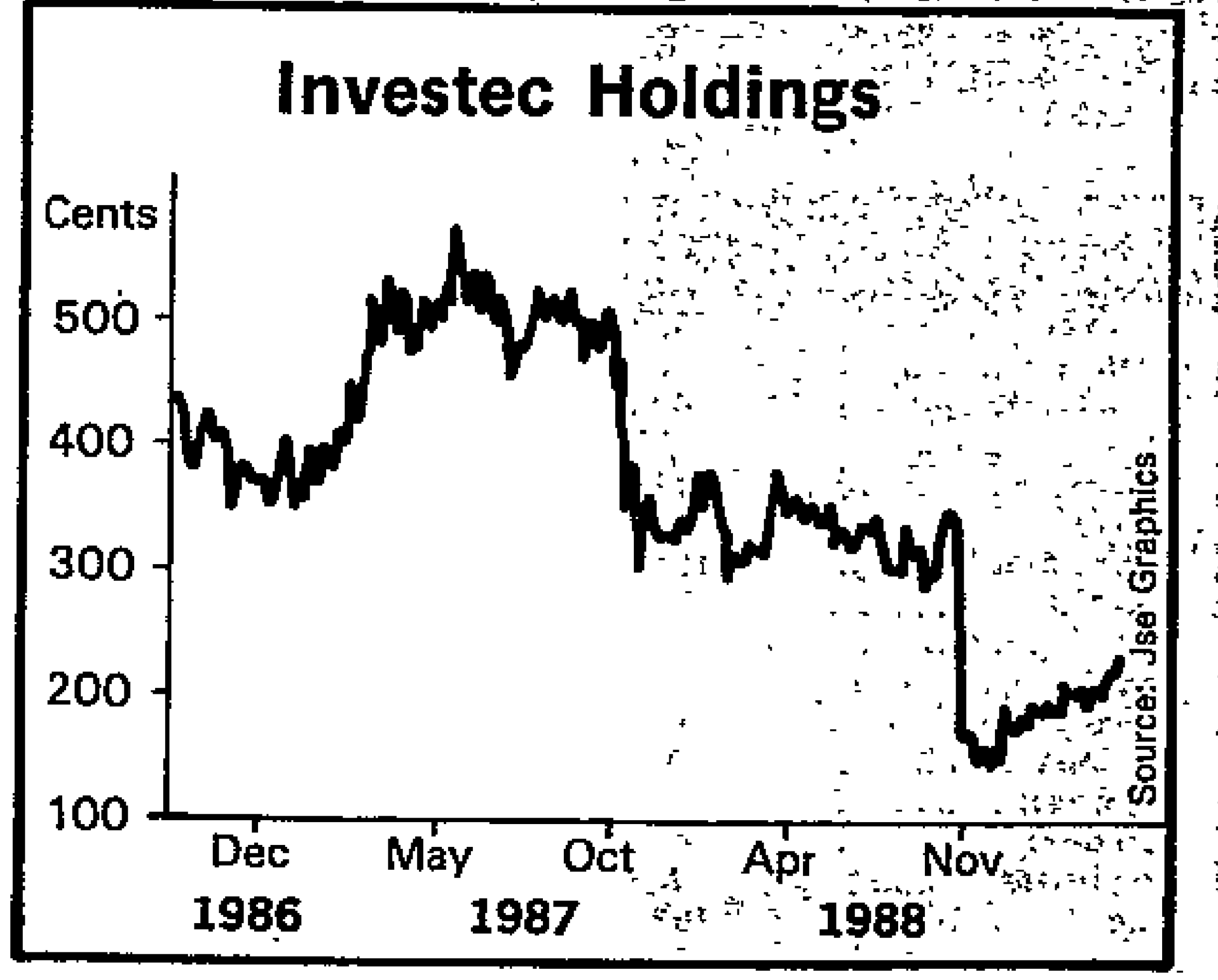
Net attributable earnings for the year to March 1989 reached R14-million, or 70c a share, a rise of 27% on the previous year.

An analysis of contribution shows that share capital accounted for 24,2%, financial markets 4,8%, corporate finance 12,9%, project finance 5,6%, banking and investment banking 26%, asset management and property finance 9%, property trading and management 12,8%, subsidiaries 3% and international operations 1,7%.

Mr Kardol says in his chairman's statement in Investec's 1989 report Mr Kardol says it is unfortunate that SA has missed out on the recent trend towards the globalisation of world business.

Instead of enjoying the benefits of what the geographical expansion has brought to many European countries in particular, SA has experienced the exact opposite through a continuation of disinvestment and sanctions.

"I believe that those who have the power to make South Africa an attractive investment proposition for multinationals should take note of foreign developments and treat the issue as a pressing priority."



He says Investec's strength lies in remaining focused in selected markets, and expects that earnings growth for the current year will be in line with the compound rate of 23% a year achieved in the past five.

Inhold is trading at 225c on the JSE — 5,4 times historic earnings. Investec at 460c is more highly rated at 6,7 times. The sector average PE ratio is 5,7.

Investec issued a cautionary notice on Friday. It is thought that the group will take over the banking operations of Duros, established only six months ago.

4 SUNDAY TIMES, Business Times, June 4, 1989

(58)

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By David Carte

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Flashy

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The previous year Southern was 18% liquid and the equity component was only 41%.

Mr Calitz says Southern bought shares "fairly aggressively" for most of last year, but the higher equity component was caused partly by price appreciation.

The top 10 counters, accounting for 50% of the share portfolio, were: Anamint-De Beers, Anglo, First National, Richemont, Gencor-Fedmyn, Barlows, Remgro, Amic, SA Breweries-Premier and Vaal Reefs.

Mr Calitz agrees that the strategic investment in First National has performed disappointingly. But both he and Mr Chapman believe that First National could recover strongly in better banking conditions, notably once interest rates start to weaken.

Mr Chapman says the First National branch network and its retail reach have been helpful in moving products, notably Futura, the back-to-back investment scheme.

"Our ability in the wholesale money market is useful to First National. Their relationships with major companies assists us in the marketing of pension fund and deferred compensation packages."

Like Mike Levett of Old Mutual (see Page 12), Mr Chapman welcomes the trusteeship principle to be introduced to life company taxation.

"It takes the ad-hocery out of present arrangements," he says.

10-year indemnity

5/Times 4/6/89

A POLICY providing a 10-year indemnity for structural defects in a new building is being marketed by Hubert Hosken Construction & Engineering Insurance Brokers (Hosken), of Johannesburg.

Most of the losses envisaged by this policy would be "professional indemnity" and recovery would have to be sought against the consultants involved, says Hosken.

"That in itself is a difficult process and is aggravated by the fact that the consultants are having difficulty in getting adequate limits of professional indemnity cover in present market conditions.

"Accordingly, the existence of such a policy under which consultants also benefit could have the dual effect of providing the developer and his consultant with important catastrophe protection, which may possibly be recognised by the consultants in their fee structure."

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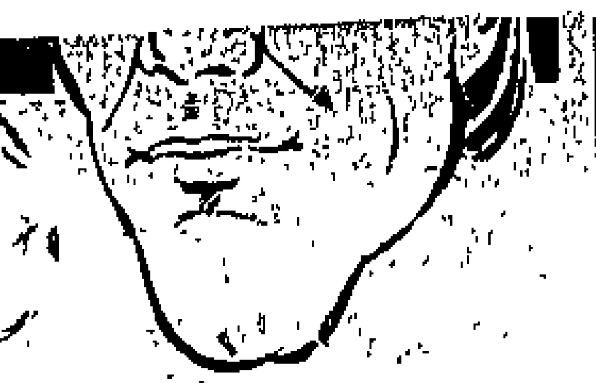
S Times 4/6/89



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A helping hand from banking

By David Carte, BUSINESS TIMES Editor

If you can't beat them, join them.

This seems to be the credo of Piet Badenhorst, chief executive of UBS Holdings.

He has long complained that the playing field in financial services is not level, sloping appreciably in favour of bankers and assurers.

He told the Investments Analysts Society this week that 90% of life assurance business, even a good part of pensions business, "is deposit taking in disguise".

Mr Badenhorst did not mention the assurers' biggest advantage — being in real assets, such as shares and property, rather than in financial assets that are eroded by inflation.

His solution to the UBS disadvantage? Get into insurance and banking through the purchase of 30% of Volkskas and 30% of Commercial Union. UBS's life arm, which sells mainly mortgage protection policies, contributed a taxed profit of R10-million.

Mr Badenhorst said: "That was a conservative estimate of life profits after an actuarial valuation. We know of a competitor that reported a profit of R21-million on a much smaller life arm."

As a result of diversification and thanks to equity accounting, UBS Holdings was happy to report this week that something like 38% of taxed profit came from banking and insurance last year.

Growth in the two new areas outstripped that in the building society. While building society profits rose only 12,5%, assurance profits rocketed 75% and banking profits by 20% plus. Less than half of taxed profit came from the building society compared with 19,5% from banking and 18,6% from assurance.

Barry Swart of First National has predicted building societies will disappear.

He probably did not bank on so swift a transformation of SA's biggest building society. Of course, he may yet be right about those building societies that do not adjust to the vastly changed times.

We do need to remember that equity accounted earnings of associates (R27,5-million out of total earnings of R150,7-million) do not mean much. UBS has little control over the profits and dividend flows of Volkskas and Cusaf.

Mr Badenhorst believes rival building societies will find UBS's act hard to follow.

United spent R200-million on its Volkskas and Cusaf stakes. Few rivals have such resources. In addition, the UBS has more than 2-million building society clients from which to recruit banking clients. It has been able to place a bank manager in each of its major branches.

In only a few months it has acquired 50 000 cheque accounts with a net credit balance of R100-million. It has issued 70 000 of its own credit cards and 40 000 garage cards. It has poached 100 managers, including 11 general managers, from banks.

Mr Badenhorst claims a world record in getting every branch of the bank on line. United Bank is now profitable after losing R600 000 last year.

He believes that because it was a pioneer in banking computer systems, his group has been able to get on line at a fraction of the cost to competitors.

"The Hogan system requires four times more hardware than ours," he says.

The war with the banks goes on. "They are not talking about it so much any more because the interest-rate pattern does not suit them so well."

Because building societies have longer-term deposits, their cost of funds is slower to fall — or to rise. They are thus currently at an advantage.

Only Nedcor manages a higher return on assets than UBS.

Mr Badenhorst recognises that banking is a minefield for the uninitiated. That is why UBS has gone to such lengths to employ experienced bank staff. He is particularly wary about corporate banking, a low-margin, high-risk, high-skill area. But he contends the banks have underestimated the pitfalls in the building society arena.

"We have been lending against homes for many decades and we have learned a few lessons. One is that you must have a trained official to inspect every property against which you make a loan.

"We have also discovered that it is extremely risky to advance 90% and 100% bonds."

An institutional fund manager says: "Avoid the banking sector. It's dog eat dog and there's blood in the streets. Their shareholders' funds are around 3% to 4% of assets. Their computer and personnel costs are horrendous.

"Under such vicious competition, all it takes to decimate profits is a couple of bad debts. Their profitability is inadequate for the maintenance of their capital. Some banks will soon need rights issues at very low PEs, leading to further earnings dilution."

A banker disagrees, saying that this is yesterday's story and bank shares will seldom be so cheap. He believes the authorities will permit a proper margin for banks after the general election and that once interest rates start to fall, all will be rosy.

Until the authorities change their tune and permit market rates, I side with the pessimists. That said, UBS is demonstrating uncommon nimbleness in the fight.

S/Times 4/6/89.

THE WEEK ON THE JSE

Best of a new name for Saflife

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By Julie Walker

SAFRICAN Life hit a new high of 165c on the back of fine results announced on Friday.

Formerly IGI Life, the group doubled earnings a share and boosted dividend by 79% to 12,5c. The market is usually slow to react to results from renamed companies, but Saflife added 20c to 165c.

The rand was steady this week, likewise the finrand and gold. Trading was thin.

Gencor gave up 400c to R82 after announcing a mega-rights offer to raise R1,5-billion. But Anglo American added 150c to 7 650c on Friday after impressive results for a net gain of 25c on the week. Johnnies eased R15 to R655 on foreign selling.

Wit Nigel added 10c to 65c on foreign interest after being lifted by SA buyers. It is to become a division of the Nigel gold mine after almost going under.

GF Namibia added 20c to 870c, at which it offers value. But newcomer Digoco sank to a low of 22c from 25c. It has been one way down from 60c for the mining exploration share since listing a month ago.

DEBUT

Zaaiplaats Tin Mining came off its high of 575c to close at 500c after the company concluded the series of warning notices by announcing the acquisition of 50,4% of Annesley Andalusite and 50% of a foreign company.

Zaaiplaats shares were priced at 717c for the deal. Zaaiplaats will raise R7,5-million to establish a tailings treatment dam and improve plant at Annesley. Zaaiplaats will drop the word tin from its name and will apply to move to the mining holdings sector.

Aurora Granite made a solid debut on Thursday. Issued at 200c, the shares traded between 250c and 265c before closing at 255c.

Marlin added 10c to 750c, Kudu was unchanged at 435c, but Keeley shed 40c to 1 160c.

Rho-Ex came under pressure on the last day to register for rights to Rho-Van. It gave up 15c to 155c after touching 150c.

Impala came in from the cold after being shunned by investors because of uncertainty. Impala defeated the Bafokeng tribe over mining rights in Bophuthatswana in that state's supreme court.

Impala added 375c to 5 325c and Messina — in which Impala has an interest and which is to develop a platinum mine — gained 100c to 2 450c.

Northam shed 50c to R22 in spite of announcing figures in line with expectations. Lefkochrysos put on 10c to 700c and Rustenburg added 150c to 6 050c.

In industrials Hunts featured with a 33% jump to 1 000c after last week's rally by other FSI companies. The preferred ordinaries were untraded at 950c.

Richemont picked up 20c to R14.

Funa Foods added 15c to 55c after a change of control at 57c.

Sanlic, which supplies locksmiths, rose 42c to 57c after a warning notice.

Speciality nil paid letters regained 15c to 65c, still a far cry from the 125c of May 17. Storeco shareholders are entitled to Speciality shares one-for-one at 325c in a move to turn Storeco into a pyramid company. Storeco lost 40c to 750c.

TATTY

Manserv gave up 15c to 65c, but rallied to 70c. The company, formed recently through the Don Gray listing, is thought to have severed its links with Columbia Consultants, which is realising many of its smaller investments.

Supalek fluctutated between 25c and 40c.

Lucem edged up 1c to 63c after touching 65c on continued talk of a deal. Ozz was bid at 41c.

Eureka gave up 4c to 28c ahead of tatty results, but Computer-Matic added 5c to 85c before giving it up again in spite of a fall in earnings.

Investec acquires Duros for R15-m

Finance Staff

Investec Bank has acquired Duros Bank Holdings and its 100 percent-owned subsidiary, Duros Merchant Bank, from the Duros group for about R15 million, which will be settled in cash.

The transaction, which was announced over the weekend, excludes the corporate and project finance divisions of Duros Merchant Bank.

The acquisition, which is subjet to approval by the Registrar of Banks, is in line with Investec Bank's long-term strategic objective to position its operational companies separately, executive chairman Bas Kardol said.

DIVISIONS

"Through this acquisition, we have managed to do so a little earlier than planned.

"After the acquisition, Investec will have four operating divisions: general banking, merchant banking, property activities and the existing Metboard activities.

"On the implementation of the transaction, the names Duros Bank and Duros Merchant Bank will be changed to reflect the change in control.

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Star 5/6/89

"Based on projected earnings of Investec and Duros Bank, the acquisition is not expected to have a material impact on Investec's earnings per share for the year to March 1990."

The Duros Group had announced in March this year that it was entering a consolidation phase in which the industrial group was to feature prominently, Duros executive chairman Johan Claasen said.

"We also planned to consolidate our financial interests, but first concentrated on industrial aspects of the group.

"We recently seriously addressed our group's financial interests.

"Investec's offer to acquire the banking interests were timeous because Duros Bank would have looked quite different in the near future," Mr Claasen said.

Fixed investment outlay tapers off

Star 5/6/89 58

By Sven Lünsche

Fixed investment spending is one of the lifeline's of an economy as it ensures the steady creation of employment opportunities.

However, after picking up steam for the first time in almost four years last year, expenditure on fixed investment is already showing signs of tapering off.

Uncertainty about the economic outlook and the resultant decline in business confidence are causing a marked slowdown in capital spending on fixed investment by the private sector, in particular.

Investment expenditure, as measured by gross domestic fixed investment (GDFI), usually lags the economic cycle. Economists say such investment represents deferred consumption.

But economists are now predicting that GDFI will decline along with the expected slowdown in the overall economic performance.

After many years of declining growth — the average annual growth rate in GDFI over the period to 1983 to 1987 was a negative 6,6 percent — fixed investment showed positive growth of 6,4 percent last year.

Most of this growth was generated by the private sector, which increased its captial spending on investment by 16 percent in real terms in 1988.

Investment by private businesses thus increased from 50 percent of total investment in 1975 to 66 percent last year.

But this increase has brought with it a certain negative trait, says Senbank economist Keith Lockwood.

"Since such investors are more likely to base investment decisions on prevailing economic conditions, the movement of total investment is likely to correspond more closely with that of GDP," Mr Lockwood says in the *Senbank Economic Review*.

"In additon, the Government has become increasingly reliant on the revenue windfalls that tend to occur when the economy is more buoyant to finance what little capital expenditure it does undertake.

"If these factors remain in evidence in the coming years, the level of investment will increase at the slower rate of four percent in 1989 and could decline in real terms in 1990," he says.

His forecasts are in line with those of the Bureau for Economic Research at Stellenbosch University (BER), which predicts a 3,1 percent rise in GDFI this year and a fall of 0,9 percent in 1990 (see chart).

Much of this can be attributed to uncertainty about the economic outlook. Both Assocom and the Federated Chamber of Industries recently reported business confidence was declining and that one of the first effects would be a scaling down of investment spending.

Some evidence of this is already emerging, according to latest available Reserve Bank figures.

Quarter-to-quarter growth in real, gross domestic fixed capital spending in the private sector tapered off rapidly from 25 percent in the first quarter of 1988 to 22,5, 6,5 and 3,5 percent in the second, third and fourth quarters respectively.

BER predicts that this year private sector GDFI will increase by a modest 3,7 percent and decline by 1,8 percent in 1990.

While investment spending by public corporations and the public sector is likely to recover from last year's lows, it will not be enough to prevent an overall decline in GDFI.

Both the BER and Mr Lockwood urge the Government to adopt policies which encourage the private sector to take up the investment challenge in order to promote demand and employment.

"Clearly, some investment priorities need to be set by the Government," he argues.

"The new local content programmes and encouragement of exporters, together with privatisation and deregulation porgrammes appear to indicate that the authorities are at least headed in the right direction.

"Investment can be encouraged by raising the level of expected profits or by reducing the costs of the investment," Mr Lockwood says.

"In the former case, some options are available to the Government, which could include policies aimed at stabilising the political situation, tax relief for investors, privatisation and deregulation.

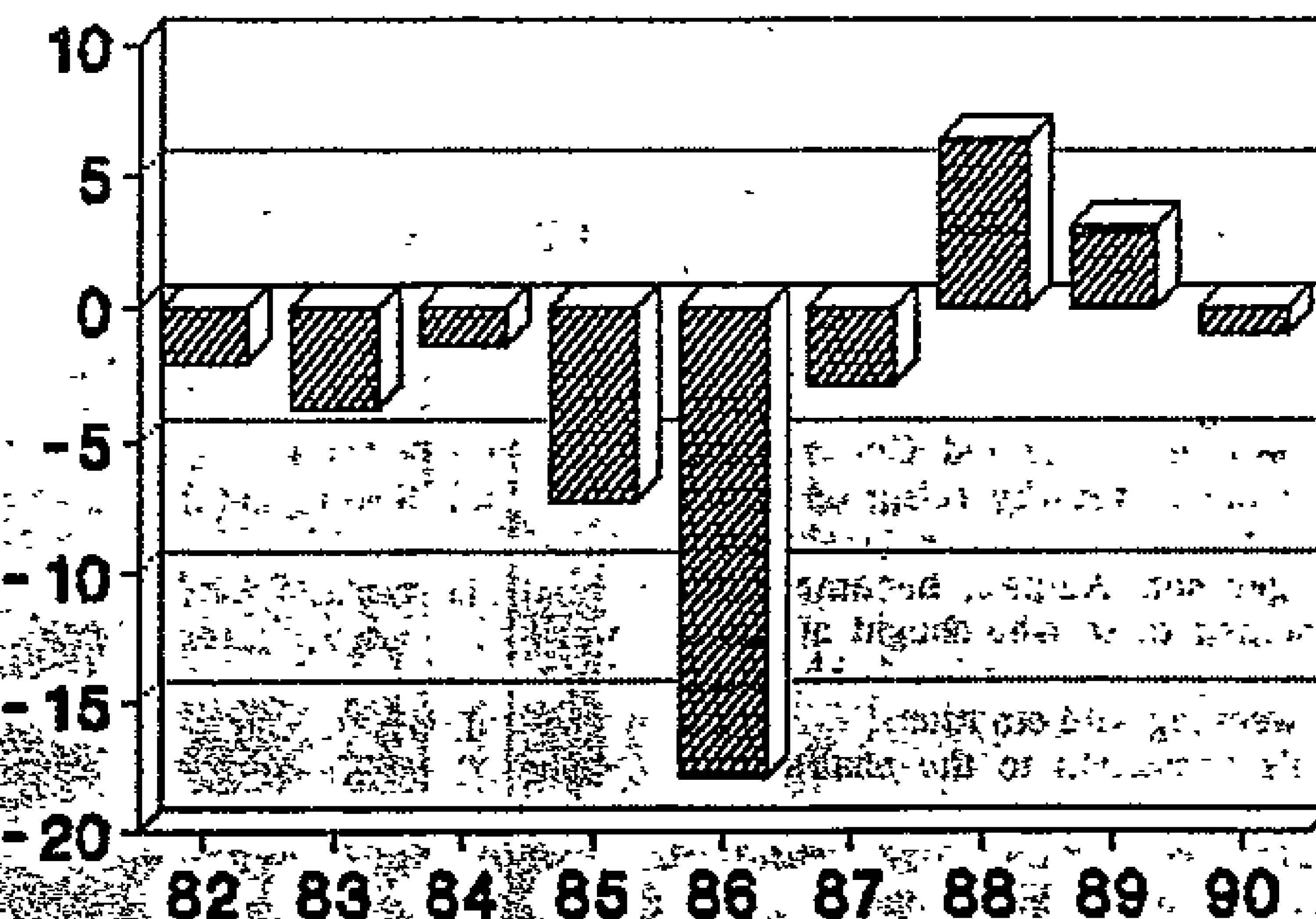
"In the latter, the reduction of customs and excise taxes and monetary policy offer some scope for reducing the cost of capital goods to investors."

Mr Lockwood adds, however, that without large-scale inflow of foreign funds, the simultaneous expansion of investment in all sectors to the levels which might be necessary to return the economy to a state of prosperity, appears to be beyond reach.

GROSS DOMESTIC FIXED INVESTMENT BY TYPE OF ASSET

(1985-prices in millions of rand and % change)

	1986	1987	1988	1989
Total, Rm	23 925	23 247	24 729	25 498
% change	-17,9	-2,8	6,4	3,1
Residential buildings, Rm	3 415	3 365	3 726	3 756
% change	-12,7	-1,5	10,7	0,8
Non-residential buildings, Rm	3 834	3 279	3 568	3 671
% change	-11,7	-14,5	8,8	2,9
Construction works, Rm	4 570	4 238	4 053	4 045
% change	-12,0	-7,3	-4,4	-0,2
Transport equipment, Rm	2 162	2 266	2 603	2 629
% change	-26,0	4,8	14,9	1,0
Machinery, Rm	9 365	9 388	9 953	10 490
% change	-22,9	0,2	6,0	5,4



Annual percentage change in gross domestic fixed investment (1989, 1990 — BER forecasts)

Star 5/6/89 [redacted] [redacted] 58

'Nothing for higher income bondholders'

Consumer groups welcome moves

By Kaizer Nyatsumba

Consumer groups today welcomed the Government's plan to provide bridging loans to struggling home bond-holders, but expressed unhappiness about the fact that only lower- and middle-income people would benefit from the plan.

This follows the confirmation yesterday by the Minister of Public Works and Land Affairs, Dr Dawie de Villiers, that the Government was looking at ways of reducing interest rates for certain home-owners to 17 percent from the current level of up to 20 percent.

The plan is meant to soften the impact of soaring interest rates on thousands of people facing the repossession or forced sale of their homes because they cannot keep up monthly payments. It will temporarily peg home loans at 17 percent.

Strict test

Bondholders in need will have to pass a strict means test, and if they are found to be in danger of losing their homes interest on their bonds will be frozen at 17 percent. However, they will have to continue paying 17 percent until they have paid off the emergency cushion, even if the interest rate later falls below that figure.

Dr de Villiers warned that a number of problems, including costs and legalities, could sink the initiative.

Further investigations to determine the viability of the schemes would be undertaken this week, he said.

Leading bankers said the scheme would probably apply only to houses with a maximum purchase price of R90 000.

The chairman of the South African Consumer Union, Mrs Lillibet Moolman, today cautiously welcomed the move, but said it was unfair that people in the higher-income group would not benefit.

The chairman of the Consumer Foundation, Mr Johann Verheem, welcomed the plan "because it is going to assist consumers, although it is unfortunate that the rate of loans increased to such an extent that it is necessary for the Government to subsidise the interest rates".

Home-owners with bonds of R100 000 have seen their repayments rocket by 50 percent from R1 140 to R1 700 a month since January last year.

The proposed tough means test before people can be helped was "very important so that only people in desperate need of help could use the plan" to avoid abuse of the scheme, the president of the Housewives' League of South Africa, Mrs Lyn Morris, said today.

● The Star's Political Staff reports the aid plan is on hold at least until June 20.

Democratic Party sources questioned the Government's commitment to come to the aid of bondholders, asking why action was not taken during the last session of Parliament.

A spokesman for Dr de Villiers said today the Minister would be holding formal discussions with banks and building societies on June 20 after which a statement would be issued.

● The Star's Pretoria Bureau reports that the latest Government Gazette shows a further 171 owners have lost their homes as a result of repossessions by building societies and other financial institutions.

First time

Many of the affected people in the Transvaal and Natal are blacks and, for the first time, a large number of coloured home-owners in the Mitchell's Plain area of the Cape Peninsula have also lost their homes.

The United Building Society repossessed 64 homes, Ned-Perm Bank, of which the SA Permanent Building Society is part, 49, and the Allied Building Society 36.

The remaining institutions involved are Saambou Building Society, Natal Building Society, Cape of Good Hope Bank, the Eastern Province Building Society, First National Bank, African Bank and KwaZulu Finance Company.

Pienaar may never play

Consumers say yes to bond aid but . . .

Argus 5/6/89 58

The Argus Correspondent

JOHANNESBURG. — Consumer groups today welcomed the government's plan to provide bridging loans to struggling home bond holders.

But they were unhappy that only lower and middle income people would benefit from the plan.

This follows the confirmation yesterday by the Minister of Public Works and Land Affairs, Dr Dawie de Villiers, that the government was looking at ways of reducing interest rates for certain home-owners to 17 percent from 20 percent.

Means test

This is intended to soften the impact of soaring interest rates on thousands of people facing the repossession or forced sale of their homes because they cannot keep up monthly payments.

Bond holders in need will have to pass a strict means test, and if they pass, interest on their bonds will be frozen at 17 percent.

However they will have to continue paying 17 percent until they have paid off the emergency cushion, even if the interest rate later falls below that figure.

Statement later

Dr de Villiers warned that a number of problems could sink the initiative, and that the proposed measures might require parliamentary legislation.

Dr de Villiers would hold formal discussions with the banks and building societies on June 20 after which a statement would be issued, a spokesman for his department said today.

Meanwhile Democratic Party sources questioned the Government's commitment to come to the aid of bond holders, asking why action was not taken during the current session of Parliament.

The latest government gazette shows that a further 171 house owners have lost their homes, bringing to over 500 the number of repossessions gazetted over the past three weeks.

Many of the affected people in the Transvaal and Natal are blacks while, for the first time, a large number of coloured homeowners in Mitchell's Plain have also lost their homes.

Coloured and Indian home owners are also to receive help with rentals for houses built with funds from the Housing Fund will rise minimally.

Increases will come into effect on July 1, when people earning up to R450 a month will pay R5 more, R451 to R800 will pay R10 more and those earning more than R800 will pay R15 more.

The Star Finance

House prices 'won't plunge'

Star 8/6/89

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By Frank Jeans

While the economic slowdown and the high level of mortgage rates are expected to have an adverse effect on the property market, a dramatic plunge in the prices of homes is unlikely.

In his latest *Quarterly Housing Review*, Dr Hans Falkena, economist of the United Building Society says: "House prices are already low particularly in relation to replacement costs.

"In addition, when income levels are taken into account, houses are more affordable than at any time during the past decade and this indicates that demand for homes might well remain structurally strong despite the weaker economic activity."

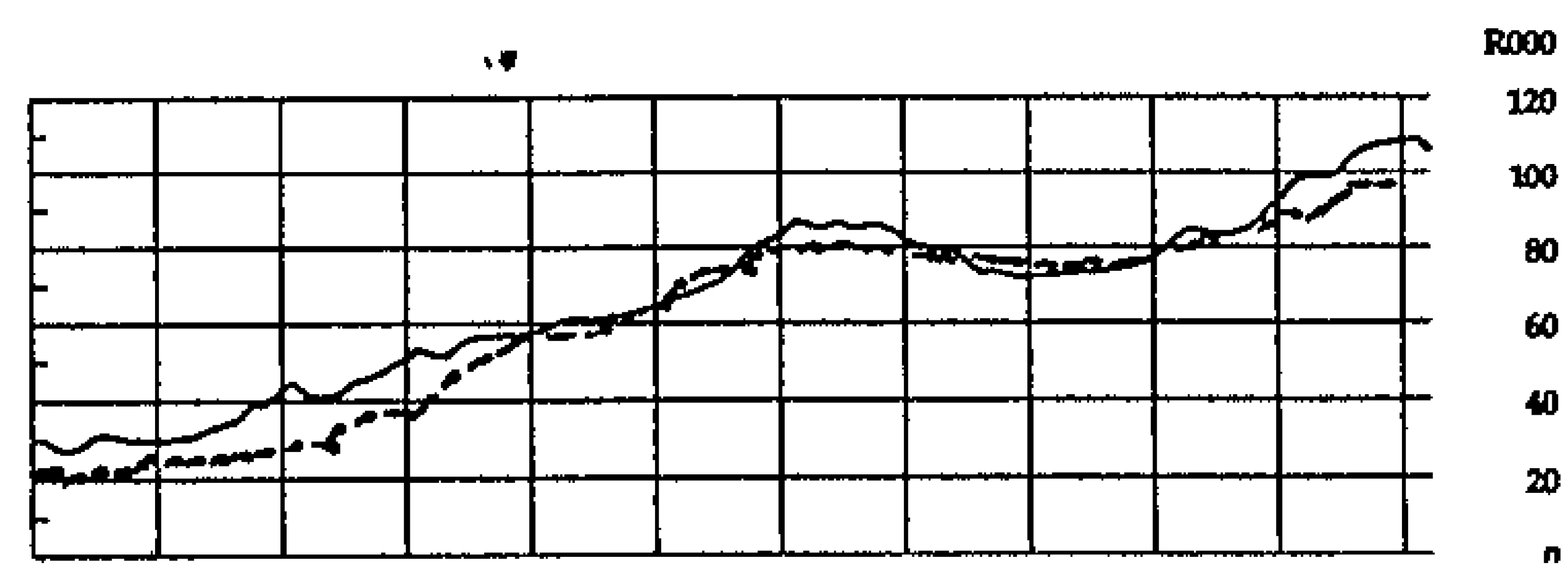
Against this background, the United expects house prices to rise by about 10 percent this year — significantly below the expected inflation rate of 15 percent.

Dr Falkena reports an average imcrease of 8 percent in house prices during the first quarter of this year on a year-on-year basis.

The price of a medium-size property is currently about R92 000, representing an increase of roughly 2 percent on the previous quarter.

Larger houses trade at nearly R130 000 and smaller homes at R73 000.

"A narrowing in the price differential between new and existing houses can be expected to develop as a result of a slowdown in economic activity in general and the property market in particular," says the review.



Average house prices (—new houses —existing houses)

Soda ash funding accord

Star 6/6/89

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An agreement signed in Gaborone at the weekend will provide a substantial part of the funding for the Sua Pan soda ash and salt project in northeast Botswana.

Signatories were Soda Ash Botswana (SAB) and a consortium of banks consisting of First National Bank of Southern Africa, Standard Bank of South Africa and UAL Merchant Bank.

The loan will be guaranteed by major SAB shareholders — the Botswana government, AECI, Anglo American and De Beers Holdings.

The banks will provide export credit and commercial loan facilities totalling R425 million, which is almost half of the total finance required for the project.

Target date for completion of the plant is early 1991.— Sapa.

Reserve Bank independence guaranteed

Star 6/6/89

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Finance Staff

In a belated response to recommendations made in the De Kock report on monetary policy, published in 1985, the government has introduced policies which will make the Reserve Bank more independent from political interference.

Under the new laws the Bank is now legally obliged to control money supply, a clause which should allow it to act without taking too much cognizance of political interests, which over the past few years have played havoc with monetary policy.

The new law requires the bank "to pursue monetary stability and balanced economic growth in the Republic, and in order to achieve those objectives the Bank shall influence the total monetary demand in the economy through the exercise of control over the money supply and the availability of credit."

The move has been welcomed by bankers and economists.

Confusion over bond aid plan

Cape Times 6/6/89 58

By MEG BRITS

NEWS of a government plan to help struggling bond-holders threw banks and building societies into confusion yesterday.

Senior spokesmen for several institutions said yesterday they had no details of the proposed scheme and were unable to interpret how it might effect those who qualified for it.

They also said they had no idea how a qualifying means test would be applied.

Reports at the weekend said the Minister of Public Works and Land Affairs, Dr Dawie de Villiers, had confirmed that his department was working out the details of such a package with banks and building societies.

And Finance Minister Mr Barend du Plessis said R50-million would be set aside to help battling home-owners.

Expectations are that the bond rate will be pegged at 17% for those so far in arrears with bond repayments that they are in danger of losing their homes — after they have passed a tough means test.

Many also believe that this would stave off disaster for many bond-holders who took out mortgages at 12,5% and have watched their repayments rise more than 60% in the past 18 months.

If the rate were pegged at 17%, a person with a R50 000 bond over 20 years would pay R734 a month or R116 less than at 20%. A person with a R100 000 bond over 20 years would pay R1 467 a month, or R233 less.

The government is expected to underwrite the amount of the difference to the financial institutions until such time as rates drop again.

It it not clear whether the scheme will take the form of a loan, to be paid back in monthly instalments once a bond-holder has passed his personal crisis, or whether the amount outstanding will be capitalised into the bond.

Big insurance switch could hit consumer

Cape Times 7/6/89

By MALCOLM FRIED

CONSUMERS are facing the possibility of higher insurance premiums and the risk of subsidising corporate losses as large companies across the country withdraw funds from the insurance industry and opt for self-insurance.

Corporations which had been paying hundreds of thousands of rand on premiums and seeing no return are increasingly cutting their external insurance and choosing to cover only for major catastrophes.

Insurance companies are facing an eroding premium base and, according to several analysts, might have to increase other premiums to make up the difference.

In-house risk management teams of large firms have been re-allocating funds once payed on premiums and creating a pool of money to be kept within the companies.

The pool is designed to cover any losses other than from major catastrophes, as well as to save the expense on insurance.

But, noted one insurance analyst yesterday: "Every corporation which is going for self-insurance has to know that a series of non-major catastrophes could hurt badly.

"And who's going to foot the bill then? Their customers, of course, as they'll have to hike up prices to cover their losses."

Many expanding companies are backing away from the insurance industry, seeing themselves capable of carrying risks alone.

Corporate growth means higher premiums and management is refusing to sink millions into what is perceived to be the prohibitive cost of insurance.

The chairman of Seardel, Mr Aaron Searll, said yesterday that the benefits of self-insurance outweighed the risks.

Professor Denis Davis, of UCT's department of commercial law, pointed out that companies had no legal obligation to be insured: "They bear the risk, if they so wish," he said.

Acknowledging the trend, Santam's senior general manager, insurance, Mr Jack McLachlan, said the industry was concerned about the outflow of money.

"We will have to plan a strategy to make provision for this."

Insurance industry spokesmen would not comment on whether individuals would face higher premiums.

The director responsible for corporate finance at Wooltru, Mr John Lavies, noted that corporations, when considering premiums, had to determine to what extent losses were controllable.

Echoing Mr Searll's comment on benefit outweighing risk, Mr Roger King, president of the Insurance Institute of the Cape of Good Hope, said self-insurance was increasing as more and more corporations were finding that the premiums were becoming unbalanced against the risk.

Consumer-affairs attorneys say that as a result, the average consumer could well face higher premiums as well as the chance of more expensive products if corporations were hit with heavy, uninsured losses.

Corporate spokesmen said it was unlikely that prices would be padded by such losses but they did not discount the possibility.

"They can't deny it," said one attorney. "The premiums are very pricey but there is a chance that serious problems could discount any advantage of self-insurance."

Bank robberies: work of ANC? 58

Political Staff

CAPE TOWN — The police are investigating strong leads, particularly in the Durban area, that ANC members are behind the recent spate of bank robberies. Star 7/6/89

Senior police sources said today that circumstantial evidence alone pointed to ANC members being involved while other firmer leads were being followed up.

In a number of the well-planned robberies, which have netted more than R4-million, Soviet-manufactured AK 47 rifles have been used as the hold-up weapons.

Star 8/6/89

Short-term profits rise at IGI

58

Finance Staff

Incorporated General Insurance (IGI) has announced attributable profits of R32,5 million for the year to end-March, a 52 percent increase on the R21,3 million notched up last year.

The short-term company earned underwriting profits of R19,2 million (R8,5 million) and boosted its investment company by R7 million to R21,5 million.

IGI's gross premium income for the year rose by 15,8 percent to R421 million (R364 million), while net premium income was up by 17 percent to R338 million (R288,8 million).

Earnings per share on a fully diluted basis rose by 25,8 percent to 269c (189,2 cents), while a final dividend of 24c a share was declared, bringing the total for the year to 38c.

In addition to the dividend, shareholders are to receive 20 additional shares for every 100 held in a capitalisation issue, chairman and chief executive Mike Lewis announced.

At current price levels this was worth about 160c a share and apart from rewarding shareholders the capitalisation issue would also strengthen the group's financial base.

Mr Lewis said that while the dividend cover remained high, he anticipated that the group's financial strength would permit this to be reduced progressively in the future.

Commenting on the results he said all components of the group had combined to produce the good performance, with the group's long-term arm Saflife, in particular, achieving record results.

Mr Lewis said the corporate objective of a 40 percent solvency margin was achieved during the period under review.

We blew it, admits Reserve Bank

CNT 71/14 86/89

58

Own Correspondent

LONDON. — The South African Reserve Bank conceded last night it had made key errors in managing the economy and pledged itself to a supply-side approach to future economic growth.

Addressing an audience which included senior British banking and finance personalities, the deputy governor of the bank, Dr Jan Lombard, said growth had to be driven by productivity gains and not excess credit.

"What has to be accepted in no uncertain manner is that steady economic growth cannot be appropriately generated by short-term demand management techniques," he said.

"We cannot spend ourselves into prosperity. That is just not on."

Dr Lombard acknowledged the "distortions" caused by low nominal interest rates, double-digit inflation, over-valued exchange rates and excessive fiscal reliance on direct taxation of income and profits.

"In retrospect, the mix of monetary and fiscal policy was not tightened enough during 1988. Initially, too little was done too late to curb the excessive increase in the money supply and in total spending," he said.

The authorities were "too reluctant" to discourage the domestic economic upswing which two years earlier they thought might never recur in the difficult political climate.

Dr Lombard said the emphasis should now be on boosting productivity, which had slumped because of the "general slacking of economic discipline" which followed the "short-lived gold price bonanzas" of the inflation-ridden 70s and 80s.

On the positive side, Dr Lombard cited the heavy infrastructural investment in recent years by public sector corporations.

As this would not have to be greatly expanded in the next two years, available domestic savings could be diverted towards industrial productive capacity.

The long-term aim of the Reserve Bank remained a return to normal international, political and financial relations with the rest of the world.

We blew it, admits Reserve Bank

Cit 7/9/8 8/6/89

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Own Correspondent

LONDON. — The South African Reserve Bank conceded last night it had made key errors in managing the economy and pledged itself to a supply-side approach to future economic growth.

Addressing an audience which included senior British banking and finance personalities, the deputy governor of the bank, Dr Jan Lombard, said growth had to be driven by productivity gains and not excess credit.

"What has to be accepted in no uncertain manner is that steady economic growth cannot be appropriately generated by short-term demand management techniques," he said.

"We cannot spend ourselves into prosperity. That is just not on."

Dr Lombard acknowledged the "distortions" caused by low nominal interest rates, double-digit inflation, over-valued exchange rates and excessive fiscal reliance on direct taxation of income and profits.

"In retrospect, the mix of monetary and fiscal policy was not tightened enough during 1988. Initially, too little was done too late to curb the excessive increase in the money supply and in total spending," he said.

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The long-term aim of the Reserve Bank remained a return to normal international, political and financial relations with the rest of the world.

Mortgage aid plan welcomed — with note of caution

Star 9/6/89

58

By Sue Olswang

The guarantee scheme announced by the Government to assist homeowners experiencing difficulties in making payments to financial institutions has been widely welcomed in many quarters, but not without words of caution.

In a statement today, Mr Bob Tucker, chairman of the Association of Mortage Lenders, welcomed the Government's proposed scheme because it was specifically intended for the homeowners in "real difficulty".

TEMPORARY

Mr Tucker said: "It is intended for the homeowner who is endeavouring to keep his home in the face of the burden of increasing lending rates."

He stressed, however, that only homeowners in real difficulty should apply for relief under the scheme because there was no reduction in interest charges, merely a temporary reduction in the instalments.

"This a guarantee to save houses which otherwise would be lost, it is not a subsidy of any kind. Relief under the scheme is at the complete discretion of the financial institutions," he said.

According to a statement from Dr Dawie de Villiers, acting Minister of Public Works and Land Affairs, the proposed scheme will permit a homeowner to capitalise the increase in the instalment which results from an increase in interest rates exceeding 17 percent.

This arrangment, he said, will apply for three years at the utmost and will be applicable to existing loans granted prior to May 1 this year. The current outstanding amount must not exceed R60 000 and the present available valuation of the property must amount to a maximum of R80 000.

Dr de Villiers said homeowners who decide to participate in the scheme will have to conclude an agreement with the financial institution, stipulating that if the interest rate declines below 17 percent, the monthly instalment payable will remain at the level of 17 percent interest until such time as the guaranteed capitalised interest is redeemed.

Mrs Lyn Morris, president of the Housewives' League of South Africa, welcomed the proposed scheme, but said it must be used with caution.

RESPONSE

"It is important to remember that you will be stuck with the 17 percent interest rate until you have paid that off, even if the bond rates drop below that figure," she said.

Mr Peter Soal, the Democratic Party (DP) spokesman on Public Works, said the proposed scheme was essentially a Goverment response to private sector initiatives.

Restrictions

The Star is being produced under the severe restrictions of the emergency regulations.

Relief on bond rate

Cpt. Times 9/6/89 (58)

Own Correspondent

JOHANNESBURG. — The government last night announced details of relief measures to assist home-owners struggling to meet their bond repayments.

Government assistance will be available to those bond-holders who owe less than R60 000 on a house which is currently valued at less than R80 000 — provided the loan was granted before May this year.

Home-owners in this category who elect to participate in the assistance scheme will for three years "at the utmost" pay an interest rate of only 17% — compared with the current bond-rate of between 19,5% and 20%.

The difference between 17% and the standard bond-rate will be capitalised. Repayment of this deferred portion will be guaranteed by government.

Long term implications

The caveat is that participants will carry on paying 17% even if interest rates should subsequently fall below this level — until the deferred portion guaranteed by government has been repayed.

Acting Public Works and Land Affairs Minister Dr Dawie de Villiers warned last night that "home-owners must not overlook the adverse long-term financial implications contained in the capitalisation of interest".

The announcement follows intense discussions between all ministers involved in housing and the Association of Mortgage Lenders of SA — representing all building societies and clearing banks.

Mr Bob Tucker, chairman of the association, last night said the scheme was specifically intended for the protection of "the genuine home-owners who

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From page 1

Bond rate

Cpt. Times 9/6/89 (58)

are endeavouring to keep their homes in the face of the burden of increased lending rates".

He said only home-owners in real difficulty should apply for a lease under the scheme as there was no reduction in interest charged — merely a temporary reduction in the instalment due. Over the life of their bonds, participants will pay more in interest than if they had not applied to fall under the scheme.

He pointed out that this is a guarantee to save homes which would otherwise be lost. "It is not a subsidy of any kind," Mr Tucker said.

He emphasised that the relief was at the complete discretion of the financial institution.

Building society spokesmen said it was ironic that the move, described as an "election sop", will apply to home-owners who are not part of the electorate.

"It will benefit blacks more than it will whites," one spokesman said.

DP public works spokesman Mr Peter Soal (MP Johannesburg North) said last night it was appropriate that people should be assisted to prevent them losing their homes because of economic conditions.

He added, however, that it was due to the government's mismanagement of the economy that the scheme had become necessary.

Business Day letter: Secret judgment

Cape Times 9/6/89

58

JOHANNESBURG. — In a secret judgment handed down by the Supreme Court this week, Business Day was finally interdicted from publishing the contents of a confidential letter from the SA Reserve Bank to a commercial bank.

In terms of the judgment by Mr Justice Eloff, only the final paragraph of the findings may be published. This states: "The rule nisi is accordingly confirmed with costs... Only this order may be published but not the rest of the judgment."

The judgment confirmed an earlier Supreme Court prohibition on the publication of Business Day's first edition of March 23, which contained a report about a letter sent by the Reserve Bank to a commercial bank. That followed an urgent Supreme Court application by the Reserve Bank.

Previous court rulings in March and May prohibited publication in any form of the letter and proceedings and prevented Business Day from mentioning the name of the bank concerned. The Reserve Bank started court action on the night of March 22 after Business Day had approached it for comment on the letter. — Sapa

Hard-hit bond holders aided up to R116

ARGUS 9/6/89

Political Staff and Business Staff

HOME-owners could save up to R116 a month in loan repayments if they qualify for the government scheme to help those who are struggling under soaring interest rates.

The scheme is restricted to home-owners "in real difficulty", according to Dr Dawie de Villiers, who announced the scheme last night.

Building society sources believe those most likely to benefit are house-owners outside the white group.

Home-owners can apply for a reduction of the mortgage bond rate to 17 percent from the new level of 19,75 percent. The balance will be capitalised, which means they will be paying interest on the interest "saved."

CONTINUE PAYING

They will continue paying at 17 percent if rates drop below that figure until they have wiped out the interest capitalised.

The concession applies only to bond-holders whose outstanding loan is less than R60 000 and whose property is valued at less than R80 000.

The concession will be at the discretion of the banks and building societies.

A home-owner who gets the concession and has a R60 000 bond will pay R880 a month instead of R996, saving R116. A R50 000 bond-holder will pay R733 instead of R839, saving R106, while a home-owner owing R40 000 will pay R587 instead of R671, saving R845.

Dr de Villiers said the State would help with a guarantee of the repayment of the deferred portion to a financial institution.

The arrangement would apply for three years only to loans granted before May 1.

Dr de Villiers warned home-owners not to "overlook the adverse long-term financial implications contained in the capitalisation of interest".

The chairman of the Association of Mortgage Lenders, Mr Bob Tucker, emphasised that "only home-owners in real difficulty should apply for relief".

WMail 9-14/6/89

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Another Sasol fire. Only the insurers have noticed

By BRUCE ALLEN

ANOTHER fire at a Sasol plant has gone virtually unnoticed. Although no deaths or injuries were suffered, damage incurred stands to make the fire the largest single insured loss ever experienced in this country.

Occurring on 6 May, a fire at the Sasol 2 plant caused extensive damage, with a total expected loss of some R350-million.

Dr Dirk Mostert, executive director at Sasol, has been reported in *Insurance Times* as saying the fire was caused by a ruptured pipe. Damage to equipment is estimated at R30-million and loss of income at about R320-million.

According to Mostert: "Although the fire was extinguished within an hour, damage to the equipment was such that the whole plant had to be shut down. Major equipment, however, was not damaged."

He adds that Sasol is fully insured.

Mostert says no fuel shortages are expected as a result of the fire, adding that the two other Sasol plants, Natref and the coastal refineries, are producing at full capacity.

Sasol's media co-ordinator, Pierre Louw, says the refinery section of the plant is already back on line. He says repairs to the damaged section should be completed early in July. Apparently no major damage was suffered but pipes and wiring will have to be replaced. Full production will be reached in August.

This fire follows the one on January 31 at Sasol 3. Although Mostert says the Sasol 3 plant is already producing at design capacity, 12 people died and nine were injured in the fire.

According to the Chemical Workers Industrial Union's Chris Bonner, an inquiry into the first fire is currently under way. She adds that since no lives were lost in the most recent fire, she does not expect a further investigation.

Keith Nilsson, deputy managing director of Guardian National, which is the lead insurer says: "The matter was heavily reinsured and it will not impact heavily on any particular company."

However, the fire will make Sasol's life more difficult when it comes to arranging revised rates for 1990. The CWIU will also, no doubt, take a close look at safety standards at Sasol's plants.

AIDS REINSURANCE (58) (88)

Spreading the risk

As Aids cases multiply worldwide, so do the ways insurance companies cope with the risk. A London insurance negotiator has developed what he calls the world's first long-term reinsurance for Aids. Last week he was in SA marketing the product.

So far, Stephen Gray of Gray Reinsurance Negotiators has sold one treaty — worth £12bn — to a UK life asssurer he won't identify. It was placed with a consortium of 16 UK reinsurers, who took 90% of the risk.

Gray says he's negotiating with two other UK assurers and two in Australia, and plans to approach the US market by year's end. His proposal got a "mixed response" from SA reinsurers but "keen enthusiasm" from life offices.

The product is not confined to Aids though marketing focuses on it. The treaty covers all

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causes of death but is particularly useful in laying off risk for diseases "where there is a constant threat of a change in mortality rates." Because it provides blanket cover, it eliminates problems caused by the fact that Aids is rarely listed on the death certificate because pneumonia or another complication is the direct cause of death.

Gray says that, while SA has few Aids cases, high incidence elsewhere in Africa complicates the picture for SA insurers. ■

AIDS INSURANCE 58 ... 9/6/89

Employee relief

Expatriates working for the 500 member companies of Employment Conditions Abroad, a UK information and advisory service, now have the benefit of an insurance policy specifically covering Aids or HIV infection. Employees living abroad, who contract the disease, won't have to face a death sentence in a foreign country because of a shortage of finances.

The policy, devised by UK insurance broker Overseas Health & Medical Services (OHMS) and placed through Lloyd's, pays £25 000 to the employer to repatriate the victim and family. Another £25 000 goes to the infected individual, plus any unused part of the first payment.

OHMS is investigating a policy to cover UK public sector workers, such as police, firemen or ambulance personnel, who are exposed to the HIV virus or Aids. ■

10/6/89 (88)

Bombshell for JSE

From JOHN SPIRA

JOHANNESBURG. — The proposed abolition of prescribed investment requirements may impact negatively on the Johannesburg Stock Exchange.

This bombshell, dropped by Mercer FBA actuary Hal McLaren, runs totally counter to expectations that institutional liquidity (estimated at upwards of R20-billion) will pour into equities once the prescribed asset rules for life assurers and pension funds are replaced by a new set of investment guidelines.

Should Mr McLaren's warning prove valid, the failure of additional institutional money to materialise would not only weaken a prospective JSE prop, it would also diminish the chances of success of the R2-billion Iscor flotation and the R1,5-billion Gencor rights issue.

Positive response

His views could go some way towards explaining why the news that prescribed assets were to be scrapped did not trigger a positive stock-market response.

The crux of the new investment guidelines is the requirement that life assurers and pension funds invest a maximum of 65 percent of their portfolios in equities and a maximum of 85 percent in equities and property combined.

Mr McLaren draws attention to the following drawbacks associated with these guidelines:

● A fund which has a strong need to hold assets with the potential at least to maintain their real value may want ot hold close to the maximum of 85 percent in real assets.

It will then be obliged to hold between 20 and 30 percent of its assets in property.

"That is more than most funds have held in recent years. Also, property returns have, on average, underperformed equity returns."

For this reason, institutions might not wish to increase their exposure to the equity market.

● Funds which hold the maximum in equities could be forced sellers in a rising market.

Since the equities will, for purposes of the new guidelines, be assessed in terms of market value (and not book value, as is the case at present), an improvement in the equity market would raise the equity portion of the portfolio to above 65 percent, thus forcing the fund to sell enough shares to reduce the total value to the indicated 65 percent.

Even if share prices should fall, if long-term bond values fell at a greater rate, an investment manager might be obliged to sell equities.

And: "What does he do if he is obliged to sell property, especially on a weak market?"

Mr McLaren concludes: "An investment manager might find, therefore, that he will be obliged to hold very much less than 65 percent in equities if he is to avoid being a forced seller.

"For some funds, this will mean that their holdings of equities will actually be lower than those currently permitted in terms of the book-value provisions of prescribed asset legislation, which has made it possible for some funds to hold 70 percent or more of their assets, by market value, in equities

● The proposals place new responsibilities on the actuary. He must advise on prudent asset allocation in relation to the nature of the liabilities, he must satisfy himself that sound investment policies are being followed; and he must certify his approval of those policies.

Mr McLaren queries the wisdom of these responsibilities: "The actuary's input might be only one of several that the investment manager considers.

"Certainly, there can be special features of the liabilities with which the actuary is better acquainted than most. And it is possible that the actuary's views on asset allocation will not differ materially from the investment manager's.

"If, however, the actuary must approve investment policies, the result might not only be conflict but also poorer investment returns. There could, in fact, be a tendency to adopt policies which guard too strongly against capital risk at the expense of policies which will help to ensure the maintenance of real value."

Lower equity exposure

Hence the institutions might be inclined to opt for a lower equity exposure.

Mr McLaren says one of the objects of the new guidelines is to promote saving, investment and economic and social development.

"There is little about the proposals which will truly work towards those goals."

By and large, Fed-life's Dennis Paizes agrees with Mr McLaren's view that less institutional money will go into equities than is generally anticipated.

APPOINTMENTS

Mr Silvas Naidoo, manager, Standard Bank, Mitchell's Plain.

Mr S H Hurwitz, general manager, Romens Holdings

Mr Danny van As, director, Tramway Holdings

Mr Adriaan Eksteen, director, Tramway Holdings

Strong case made for unit trusts

w/t Argus 10/6/89 58

Business Staff

AN article "Unit Trusts Underperforming" in last weekend's Business Argus attracted a great deal of attention and the chairman of the Association of Unit Trusts, Mr Roy McAlpine, has replied putting the association's point of view.

The article quoted comments by Mr Willem Roets, a Stellenbosch analyst.

"In the first place, let me state quite unequivocally that the unit trust industry has never attempted to attract funds based on the anticipation of short performance. In fact, quite the contrary, he says.

Market collapse

All unit trusts are required to explain clearly in their promotional literature the long-term nature of investment in unit trusts.

Unless the prospective unitholder believes that the investment will remain intact for a minimum period of three years — and preferably longer — unit trusts are not an appropriate medium."

To claim that unit trusts "are underperforming and in some instances not keeping pace with inflation" based on a 15-month period encompassing the most severe stock market collapse in history is irrelevant, said Mr McAlpine.

Different picture

Results achieved by the industry over the medium and long term showed a different picture.

Over the past five years the general equity trusts have, on average, achieved a total compound annual return (capital growth and income reinvested) in excess of 20 percent; while over the past 10 years the total compound annual return was about 25 percent.

The article outlined in detail the performance of certain specialist trusts — in particular, mining trusts, said Mr McAlpine.

"These specialist trusts were, in every case, launched by the relevant management companies as an additional investment medium to complement their general equity trust for the purpose of satisfying the needs of those investors who specifically wished to concentrate on the mining sector.

"Only under very special circumstances are specialist equity trusts recommended in preference to general equity trust.

"By the very nature of mining shares, price movements of specialist trusts can be expected to be more volatile than is the case with general equity trusts.

Mining trusts

"To comment critically about the performance of mining trusts over a relatively short period of 15 months when the gold price has declined from about $500 an ounce to below $400 an ounce is meaningless.

"The statement that the Association of Unit Trusts was to discontinue publication of its price index and that this was because the performance of unit trusts was a variance with the claims made for the industry.

'The inference is that the unit trust industry has decided to conceal information because it has something to hide.

Rapid expansion

"This is totally incorrect. The association recently revised and improved its capital index on account of the rapid expansion in the number of unit trusts in recent years."

Mr McAlpine claimed the article contained "nothing positive or constructive" said about the industry, which has transacted its business "in a highly efficient and responsible manner over 24 years and which currently has assets of R5,3-lbillion representing the savings of over 500 000 unitholders".

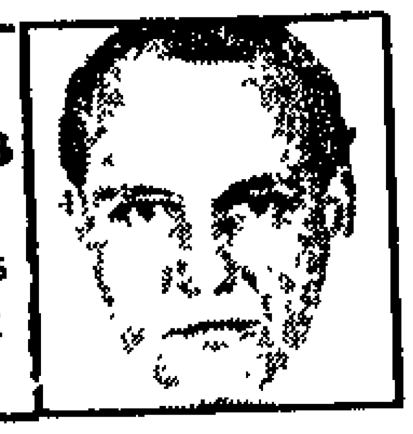
The unit trust industry had, over the short, medium, and long term provided the general public with the only investment medium available to the small investor which has consistently enabled their savings to grow in real terms over and above the rate of inflation, said Mr McAlpine.

Everybody loses when homes are repossessed

Star 18/6/89. (58)

Money Matters

Magnus Heystek



MANY homeowners are battling to keep up with their bond repayments, especially if they purchased a house 12 to 18 months ago when interest rates were much lower.

But at this stage it seems as if most homeowners will be spared a repitition of events during the recession of 1985/86 when hundreds, if not thousands, of people lost their homes.

In many cases people lost their homes unnecessarily. When faced with increased mortgage bond repayments they panicked and tried to duck the issue for as long as possible. The same goes for the banks and building societies who showed no mercy and immediately moved in and repossessed homes.

Learnt

This time around it appears as if both parties have learnt from the past. Homeowners are now more willing to come forward and discuss their financial predicament with financial institutions, and the financial institutions now appear to have more sympathy and are making contingency plans to help people to keep their homes.

Reposessing homes is in nobody's interest; everybody loses money. Financial institutions are not in the business of buying and selling homes and the homeowner loses more than just his house. In some cases he is burdened with very high legal costs which can lead to the bankruptcy court.

Mr Kevin de Villiers, chief executive of the Allied, said his organisation would try to help homeowners to keep their homes. In the extreme case of a reposession the homeowner would be offered rental of the property from the Allied until the house can be bought back. In this way the institution earns some cash on the property, while the previous-homeowner at least is spared the shame of losing his home.

But apparently the Perm is taking a much harder line. Anybody more than two months in arrears is now being threatened with legal action, and additional interest is added on to the arrears amount. This additional interest, in the words of a Perm circular, "will continue to to be charged until the 15th of the month following the date on which all of the arrear repayments have been liquidated in full".

The Government also seems to have learnt some lessons from the 1985/86 recession. Plans have been finalised which will offer some form of relief for homeowners battling to maintain monthly bond repayments.

Assistance will be given in the form of mortgage rates pegged at 17 percent until rates start dropping. If and when interest rates drop to below 17 percent the payments will continue to be made at an interest rate of 17 percent until the capital payments in arrears have been wiped out.

The forthcoming white election no doubt played a major part in deciding this form of assistance — the Government would not like to see people losing their homes on a grand scale again.

This is particularly important in regard to black homeowners. For most blacks who bought houses in recent times, it would have been their first experience of capitalism. Losing their homes would cause untold damage to the emerging black middle class and could quite concievably lead to a lurch towards protectionism and socialism.

Peaked

Homeowners should be heartened by the viewpoint of prominent economist Mike Brown of the stockbroking firm Frankel, Kruger Vinderine, who says interest rates have peaked and that a downward trend will be visible towards the end to the year.

While the Reserve Bank cannot yet start loosening monetary policy, it would most probably be able to do so during the fourth quarter.

The reason for this is that the economy is showing visible signs of slowing down. Consumers are now finally heeding the message that extravagant spending, especially on luxury goods, should come down.

Cape Times

...urday, June 10, 1989

Subsidised bonds also eligible for new govt scheme

By PETER DENNEHY

SUBSIDISED bond-holders would also be eligible for temporary relief from high home bond rates under the government's new scheme, a senior government official said yesterday.

The relief scheme will peg bond repayments on homes for three years to the level at which they would be if the interest rate was 17%.

At present rates are at — or at least close to — 20%, which means some owners who would qualify for relief are paying up to R116 more a month than they would have to.

Mr Leon Claasen, chief director of housing with the Department of Public Works and Land Affairs, said yesterday that irrespective of whether bond payers received a housing subsidy from the company for which they worked, or from local, provincial or central government, they would still be eligible for relief.

"This is not a form of subsidy," he said. "Interest is simply capitalised, and all of it has to be paid in the end."

Mr Claasen said he believed a R60 000 bond for an R80 000 house was "about the average size" in the housing market for South Africa as a whole.

But Mr Trevor Olivier, the NBS' assistant general manager for loans, said his institution's average new loan was "in excess of R63 000", so he would have set the cut-off point higher.

A spokesman for the Association of Mortage Lenders of South Africa said he did not believe the relief scheme would have "any noticeable effect" on the housing market. It would not entirely stop repossessions either, he said, though it would surely save some houses.

"Hopefully, houses will appreciate in value rapidly enough to offset the extra costs participating home-owners incur," he said.

Mr Olivier estimated that someone with a R60 000 bond might end up with a R67 000 bond after the three years, if bond rates were to remain at their present levels. In paying all this off over the years, a home-owner might eventually have to pay about R30 000 more, he said.

Sapa reports that the lengthening of the repayment period with a reduction in monthly repayments is an option which might be considered by Trust Bank to help home-owners, the bank's media relations manager, Mr Louis de Villiers, said yesterday.

Mr De Villiers said the bank welcomed the government's action to relieve the interest burdens on consumers.

First National Bank also announced yesterday that it supported the relief measures for home-owners.

The bank's spokesman, senior general manager Mr Jimmy McKenzie, said: "The bank has always supported relief measures for those home-owners who are hardest hit by increasing interest rates."

● Buyers warned — Page 15

Govt extends homes relief scheme

Star 10/6/89

58

SVEN LUNSCHE and SAPA

THE limits have been increased for participation in the relief scheme for homeowners who are experiencing problems affording their instalments.

This was announced last night by Acting Public Works and Land Affairs Minister Dr Dawie de Villiers.

"The scheme is now adjusted to be applicable on existing loans of which the current outstanding amount does not exceed R90 000 and in respect of which the present available valuation of the property amounts to a maximum of R120 000," he said.

Dr de Villiers said relief measures were not a subsidy scheme, but a temporary bridging measure in the form of a guarantee scheme.

"The primary purpose is to enable as many homeowners as possible to keep their houses."

A leading property economist has dismissed the scheme as a political ploy.

Mr Neville Berkowitz said yesterday that the

● TO PAGE 2.

Experts warn on relief scheme

58

Star 10/6/89

● FROM PAGE 1.

assistance programme would probably only amount to about R2 million, on the assumption that only people who are in danger of having their houses repossessed will apply for relief.

"The repossession rate at the moment is only 2,5 per thousand homeowners, so the scheme will only affect a tiny number of people," he said. "Given this, it seems that the scheme is no more than an election ploy aimed at poor whites, whereas mainly blacks are expected to make use of it."

Homeowners, who intend applying for the Government's assistance scheme will also end up paying virtually the same amount on their bond, as if they had not applied for relief, analysts said.

The chairman of Mortgage Lenders, Mr Bob Tucker, yesterday stressed that only homeowners in real difficulty should apply for relief under the scheme because there is no reduction in interest charges — there is merely a temporary reduction in the instalments.

Mr Trevor Olivier, NBS assistant general manager, loans, agreed: "The interest rate will not be pegged, but the monthly repayments will be pegged at a rate applicable at 17 percent.

"The balance owing will rise, with the Government providing institutions with a 'comfort guarantee'. In the end the borrower will pay."

For this reason, he said, borrowers should avoid using the scheme if at all possible — it would only add to their eventual liability.

The relief scheme will extend for a maximum of three years.

Varied rates plan now on home bonds

S Times 11/6/89

By ANDREW GILLINGHAM

STRUGGLING homeowners may be in line for another boost.

Sweeping changes in home financing are being examined in the wake of the Government's announcement of a relief scheme to help hard-pressed bond holders — first disclosed last week by the Sunday Times.

New proposals being considered by bank and building society chiefs and the Government, include:

- Differential mortgage rates — to be decided on each family's individual circumstances;
- More flexible home loans such as "slow start" mortgages;
- Separate administrative fees.

For the man-in-the-street with a good track record with his building society, it will mean paying a lower rate on his bond.

Unfair

Also, homes could become more affordable for first-time buyers.

Mr Bob Tucker, chairman of the Association of Mortgage Lenders of South Africa, said yesterday: "Why should the good borrower pay the same rate as the home buyer who is considered a higher risk?

"This results in the good borrower subsidising the others. That's not fair. And the situation is stopping the flow of money to some borrowers.

"If the institutions receive the same return from both types of borrower, they would rather lend to the better risk," said Mr Tucker.

Among the first to come out in support of the changes

☐ To Page 2

Multiple-choice bonds

☐ From Page 1

was First National Bank.

Senior general manager Mr Jimmy McKenzie said: "We approve of relating risk to return. Factors such as amount borrowed, period of repayment, deposit, location, age of dwelling, method of construction, administrative costs, customer's financial standing and track record all affect the risk.

"They should be considered when determining the interest rate."

However, Mr Tucker said the changes should go even further.

"We are pushing the Government to make changes to the Usury Act so we can charge for administration separately," he said.

At present the cost of administering the bond is recovered via the interest rate charged.

Excess

But the cost of administration on a bond of, for example R20 000 is about the same as that of a R500 000 bond. Thus the homeowner with the larger bond is being charged far in excess of the actual costs involved.

"Another change we want will allow us more flexibility in producing housing finance packages.

"Currently the Usury Act prevents interest being added to the capital borrowed. This stops us offering packages such as slow-start mortgages.

"Young couples could then pay a lower instalment at the start and increase their payments as their financial situation improves," Mr Tucker suggested.

Dr Dawie de Villiers, acting Minister of Public Works and Land Affairs, said in Cape Town yesterday: "The suggestions are interesting and we are considering them seriously. The whole question of housing finance is under review at the moment.

"The Act is not fixed. It's there to protect the consumer, but if it is standing in the way of providing shelter then we will consider suggested changes in a favourable light."

Abuses

Mr Peter Soal, DP public works spokesman and Johannesburg North MP, agreed that it was long past the time when the Government should allow free market principles to prevail.

"If the institutions are prepared to take the risk the Government should let them. The only consideration should be to ensure they don't abuse the freedom," he said.

Mr Tucker said there are other facts of life facing the potential homeowner.

"The size of the bond — now as much as 100 percent — and the period of the bond have gone as far as they can.

"The only other factor left is the standard of the housing. This has to fall. People are going to have to cut their cloth to suit their circumstances," he warned.

Highlighting the strength of Mr Tucker's argument is the fact the Government has been forced to step in and offer relief for hard-pressed homeowners.

The details of the scheme, announced this week, have already been modified to allow more people to receive help.

- Dr De Villiers announced on Thursday that rates of 17 percent would be pegged for needy homeowners on bonds of R60 000 or less and with properties valued at R80 000 or less.

But he announced yesterday that the ceilings were to be extended to R90 000 and R120 000 respectively.

"We can't extend the scheme any more," he said.

"If we did, we would be opening up another credit line when we are trying to curtail spending," said Dr De Villiers.

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Old Mutual's got R5bn in the kitty

By David Carte

OLD Mutual is sitting on more than R5-billion of cash — and feeling relaxed about it.

General manager, investments, Johannes van der Horst says: "There are assets of R37-billion and in our equity portfolio, and we still have a good chunk of corporate SA.

"Although the equity market looks a trifle vulnerable, we are getting 17% on short term-deposits compared with 9% to 10% a year ago. It's good to have flexibility ahead of privatisations and in case of further disinvestment."

Contender

Old Mutual and Barlows have been tipped as possible contenders for Gold Fields of SA should Cons Gold consider severing the SA link. But the suggestion is roundly denied at the top of both Mutual and Barlows.

Dr Van der Horst says the dollar price of gold is important in so far as it affects SA's constrained external position. But the rand price is more directly relevant to mines, mining houses and their shares

He is counting on a weaker rand to relieve distress if the dollar price weakens further. The rand price has moved up from R930 to more than R1 000.

Dr Van der Horst says lower rand prices of gold together with rising costs have concentrated minds in an industry which has been too little concerned about costs and needed something of a purge.

He believes gold mines have a bright future, provided they can become more cost efficient.

Confirming a generally bearish feeling at Old Mutual, Rob Lee, assistant general manager, investments, says: "Sometimes cash is the best investment."

Mr Lee believes that the strong dollar is a threat to world stock markets. He quickly adds that Old Mutual does not fear a replay of October 1987.

"That sort of correction happens once or twice in a lifetime. I would expect a general drift downwards."

Inflation

A rampant dollar has already forced the Japanese and the British to lift their interest rates. In the UK, prime is 15% compared with an inflation rate of 8%, to support sterling. The UK economy is slowing appreciably. German rates have also risen to support the mark and to counter inflation, which is running at 3%. Without higher rates, a weaker mark plus wage concessions soon to be granted, would be more inflationary than Germans like.

Running

With their inflation rate at 2%, the Japanese will have to follow, slowing down their economy which, fuelled by domestic spending, has been running at breakneck speed (industrial production up at an annualised 15%).

Mr Lee showed me a graph that perturbs him. It shows Japanese land prices running away from rents.

He believes one has to give. Either land prices will have to fall — the sort of thing that happens when financial markets are shaken — or rents will have to rocket, pushing up inflation.

With the leading industrial nations mostly facing fairly hard landings, he believes it will be difficult for gold to do well in the near future.

Mr Lee believes growth in SA will slow from 3% to zero by the end of the year. Provided gold does not weaken and fiscal policy is more disciplined, it should be possible for the SA authorities to avoid raising interest rates significantly.

Downwards

Because the Conservative Party poses a threat, it will not be easy for the Government to exercise fiscal restraint ahead of the election. A public-sector pay rise appears to be the most unthinkable prospect for the economy.

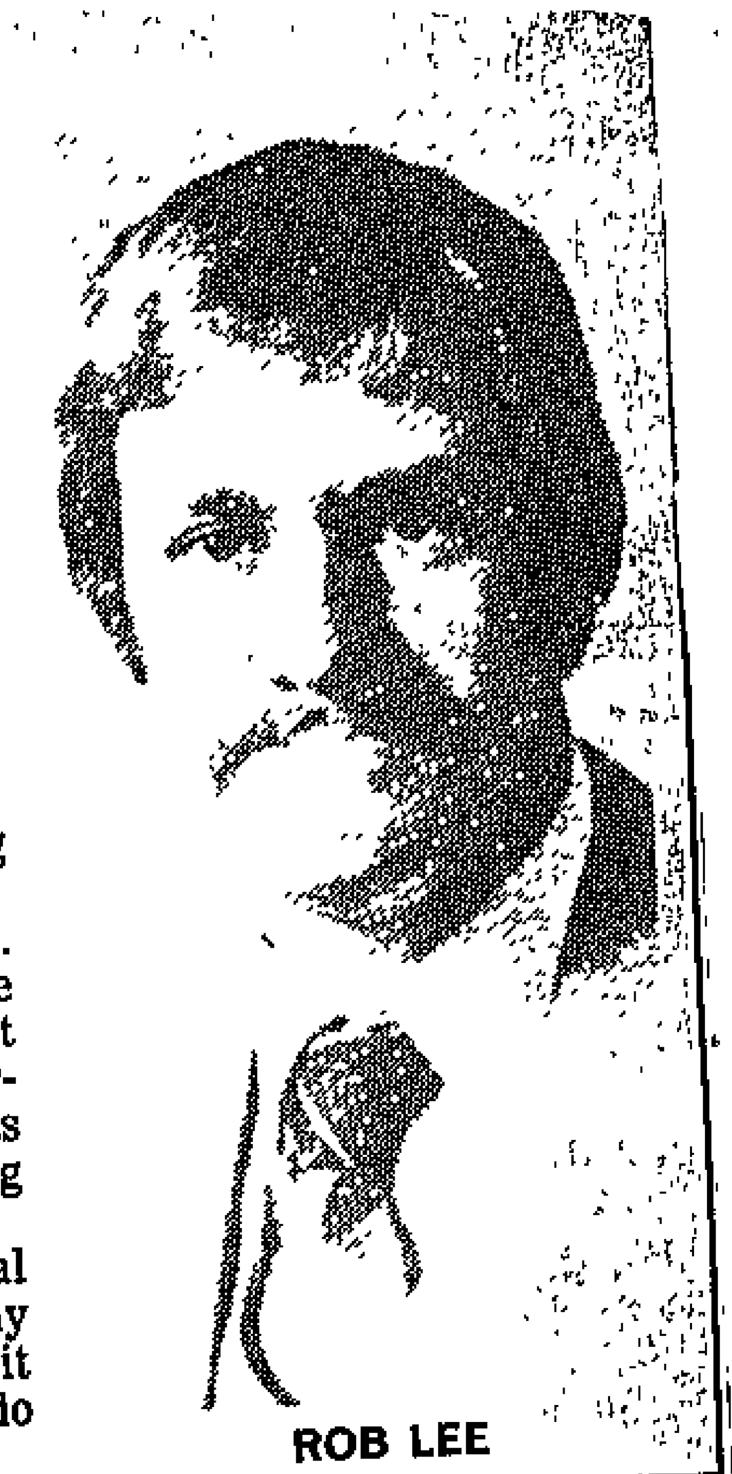
As to the SA market, he is not looking for any kind of a rout.

"Although the market direction is basically downwards, it is hard to see it retreating to post-crash levels. Earnings and dividend growth have been so good since the crash that PEs and dividend yields today are not too demanding."

In Mr Lee's scenario, rand hedges are obvious long-term bets. A gold price of close to R1 000 seems assured. If the dollar gold price does not bring it about, the rand probably will. With so many new mines likely to be announced, Mr Lee likes the exploration sector.

Pointing out that some top-quality stocks are available at less than four times earnings, Mr Lee maintains that cyclical sectors, such as furniture and motors, may have overcorrected.

Other interesting sectors, for defensive reasons, appear to be property and property trusts.



ROB LEE

Managed assets rise

OLD Mutual's assets under management rose by more than R10-billion to nearly R37-billion in the year to December.

Investment income increased by 44,8% — close to double the growth rate of the rest of the insurance industry's 24,8%.

SA premium income rose 27,7% compared with the rest of the industry's growth of 11,8%. Old Mutual's share of payouts rose to 37%, and expenses were held to 1987 levels.

Old Mutual claims to have sold a third of all policies in SA. It says it did particularly well in the retirement annuity market. The return on the RA portfolio in the year to April was 40%. Over five years it was 22% a year compared with the average inflation rate of 15,3%.

The RA portfolio is now worth R1,7-billion and exceeds pre-crash levels.

2/ SUNDAY TIMES, Business Times, June 11, 1989

Sasol pays R40m in annual premium

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By Robyn Chalmers

SASOL is estimated to be among the largest insurance risks in the world. Its assets of R25-billion are insured for annual premiums totalling R40-million.

Sasol has submitted claims for R460-million, one for the fire at Sasol 2 on May 6. The conflagration caused R30-million damage to equipment and resulted in loss of income of about R320-million.

The fire is believed to be the largest single insured loss ever in South Africa. The second-biggest claim is said to have been lodged by Sappi, which received R100-million for losses after the explosion at its Ngodwana mill in the Eastern Transvaal in November 1987.

Second

The Sasol fire was its second this year. The first was on January 31 at Sasol 3, Secunda. It caused the death of 12 people.

Initial estimates put the insurance bill for the Secunda fire at R390-million, but Sasol believes the final claim will be about R110-million.

The main SA insurers of Sasol are Guardian National. Deputy general manager Keith Nilsson says that although he cannot disclose the extent of Guardian's exposure, the risk is widely spread and, at net level, no SA insurer is likely to suffer.

Sasol media manager Jan Krynauw says SA insurers will handle about 8% of the two claims.

"It is general practice among insurers around the world not to carry the total risk of enterprises of significance, but to spread it risks among participants in the well-developed reinsurance market.

"The fires at Sasol 2 and 3 were the first major disasters since the plants were commissioned. We handle dangerous substances, such as gas and fuel, and thus have stringent controls."

Mr Krynauw says it is still too early to comment on the cause of the fires. Both were caused by ruptured pipes, but the plants have excellent safety standards.

The plants hold National Occupational Safety Association (Nosa) five-star ratings as well as Sartes and Noscar awards, the highest forms of safety recognition that can be achieved in SA.

"For instance, the accident frequency rate at Sasol 3 after the fire is 3,04 a million man hours compared with a figure of seven for the SA industry.

"The effectiveness of our risk-control measures means we are confident enough to carry the largest deductible of any company in SA."

The entire Sasol 2 plant had to be shut down after the fire, but a spokesman says the refinery section is back on line and the damaged section should be repaired by July.

Full production is expected to be reached by August. Sasol does not expect any fuel shortages as a result of the fire because Natref and the coastal refineries are producing at capacity.

It is estimated that the Sasol 3 fire will result in the plant's losing about 7% of its synthetic fuel output this year, and 3,5% of Secunda's output as a whole.

'iciency

Liz Hazell

Rosy future at banks and other institutions

S/Times 11/6/89 58

THE future of bureau services at financial institutions is rosy, says First National Bank sales manager, electronic banking, Liz Hazell.

Although most major banks and building societies offer bureau services, First National could be the largest. It provides four specific services — Interpay, Creditlink, Debitlink and Persodata.

Miss Hazell says: "A couple of years ago, with the swing towards PCs, the future of bureaus did not look too healthy. Many people were swept up in some good marketing drives for certain packages. But many of them are coming back to the bureau service because they find running a payroll on a PC is more involved than they thought.

Site

"Something that also worked to the advantage of bureaus was the introduction of Site. The practical applications involved in this tax system are best left to the experts. Clients view a bureau with total confidence in this respect.

"We have the people and the software to interpret Site correctly and the client knows he will receiove the correct legal interpretation."

She says most of the bureau's clients are small to medium companies.

"Most large companies want something that is customised to their requirements, or they wish to use software such as Q-Pac their own way. Most small companies cannot afford the costs involved in doing this and turn to bureaus."

First National moved into the bureau industry about 12 years ago with a payroll service, now known as Interpay. It then had spare time on its mainframe computers.

In addition to handling FNB's payroll of 25 000, Interpay takes care of 800 other companies in Johannesburg, Cape Town, Port Elizabeth and Durban.

"Another service we offer if a client wants to run his payroll in-house is Creditlink for crediting accounts.

"The benefits of this service are twofold — it takes some of the workload off the branches, but it also means that an employee does not have to go to the bank to cash his pay cheque."

First National also offers a PC-based human resource management service in the form of Persodata and the electronic collection of funds through Debitlink.

Miss Hazell says the bureau services are an integral part of the bank's business.

"The services are successful in cementing client relationships. They also encourage people to use electronic banking services such as ATMs. This fits in with our strategy."

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S Times 14/6/89

Banks foot bill

By Robyn Chalmers

BANKS' policy of self-insurance means they will have to bear the brunt of the R4-million they have lost in a spate of robberies this year.

First National Bank estimates it has lost more than R1,3-million to robbers, Nedbank R1,7-million and Volkskas R1,2-million.

These banks do not carry insurance because premiums and deductibles on policies have risen enormously. One bank says its excess has increased from R100 000 eight years ago to R5-million.

A spokesman says: "Large losses from bank robberies in America some time ago caused rates to harden considerably. Banks can no longer afford them."

Another spokesman says another reason for high excesses could be that insurers are reluctant to offer cover to banks because they are soft targets and represent too large a risk.

"Banks are not keen to put their tellers behind bullet-proof glass or to arm them."

Most banks have invested heavily in security measures since the number of robberies increased rapidly last year.

Banks are not alone in dropping insurance. Other large firms are loath to spend hundreds of thousands of rands on premiums and receive little in return.

Insurers are losing out, and may have to increase other premiums.

Minet group director David Brunt says self-insurance is the fastest growing form in the market.

"Only 60c to 70c in every premium rand is used to meet claims, the rest being absorbed by administrative costs, reinsurance, reserves and profit."

SFS joins top 30

S Times 11/6/89

(58)

By Ian Smith

DIVERSIFIED Sage Financial Services, which will be listed in the JSE's insurance sector from June 29, brings another heavyweight to the boards.

With assets of R1,35-billion, SFS ranks among the top 30 listed industrial and financial companies.

Profit growth has been large in the past five years. Pre-tax profit rose from R14,1-million in 1984 to R36,5-million in 1988. Taxed profit more than doubled to R21,6-million and profit attributable to ordinary shareholders increased from R5,2-million to R17,8-million.

SFS forecasts earnings attributable to ordinary shareholders of not less than R26-million in the year to December 31.

This is equivalent to earnings a share of 32c, representing a price:earnings ratio of 11,6. The average PE in the insurance sector is 11,3, but this does include short-term insurance companies which are more lowly rated.

The deal has been innovatively structured through the offer of 25-million cumulative convertible redeemable preference shares at 370c each. Rights shareholders will be entitled to a fixed annual dividend at 5,4% for 1989. After that the dividend will fluctuate in line with earnings an ordinary share, but it will not be less than 5,4% of the issue price.

Rights shares can be converted one-for-one into SFS ordinaries in five tranches from April 1991.

The offer, which closes on June 30, will raise R92,5-million to redeem existing preferance share capital and liabilities.

The SFS listing will complete Sage Holdings' reorganisation and rationalisation which started in 1985.

The largest component in SFS, Sage Life, increased its income from R265,7-million to R315,6-million in the year to last December. Assets jumped from R960-million to R1,2-billion. This consolidates Sage Life's position in the top 10 life-assurance companies in SA.

Fleets take insurance abroad

S Times 11/6/89

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By Robyn Chalmers

SOUTH AFRICA'S insurance market lost about R1-million in premium income last year when large sections of two fishing fleets moved their business abroad.

This was reported by Association of Marine Underwriters in SA (Amusa) chairman Des McElroy at the association's annual meeting.

He said reasons for the loss were that one company had to fall in line with foreign owner's instructions and the other organisation had registered and insured its vessels abroad.

Mr McElroy said most marine portfolios were profitable in 1988, although marginally so in some cases. However, the current state of the insurance market was worse than last year because of intense competition, inadequate rates and ever-widening cover.

Large losses for marine underwriters included a claim of R1,25-million for contamination of bulk chemicals; rusting of beer cans resulted in a loss of R1,5-million; and a claim of R2-million was lodged because of rusting of tin plate.

"A significant feature last year was the large increase in the sums insured, in some instance by over 100% and in many others by more than 50%.

"This development is to be welcomed as being a long overdue corrective measure. Although companies' liabilities are increased, this is compensated by a significant rise in total premium income."

Housing bond rates pegged

Citizen 1/6/89

SP

Relief in reach for those who cannot afford the increases

By SOPHIE TEMA

THE government has pegged bond rates at 17 percent for people who cannot afford the increased monthly payments.

Public Works and Land Affairs Minister Dawie de Villiers said this decision had been taken during discussions between the SA Association of Mortgage Lenders (AMLSA), representing building societies and clearing banks, and housing ministers.

The scheme is to be applicable to existing loans not exceeding R90 000 and on which property valuations amounts to a maximum of R120 000.

The assistance, which will not be in subsidy form, will be applicable for three years to loans granted before May 1989.

De Villiers said homeowners would be permitted to "capitalise the increase in the instalment" resulting from the increase in interest rates above 17 percent.

Homeowners who experienced problems paying the increased instalments will be permitted to defer payment of the increase of their instalments.

He said this step was taken because the government was aware of the problems homeowners had been experiencing.

"The scheme is aimed at assisting persons really in trouble, owing to the increase in interest rates, who do not have the ability to honour their obligations to financial institutions," said De Villiers.

He said the State would assist the guarantee of payment on the deferred portion to a financial institution as a temporary bridging measure.

Homeowners who took part in the scheme would have to sign an agreement stipulating that, should the interest rate drop below 17 percent, their instalments would remain at 17 percent until the guaranteed capitalised interest was redeemed.

"It is, however, very important that homeowners do not overlook adverse long-term financial implications in the capitalisation of interest," De Villiers said.

All parties involved were working on procedures to implement the scheme, he said. Details would be announced by the AMLSA.

A Johannesburg building society spokesman welcomed the announcement, saying the government and most financial institutions were keen to assist bond holders by providing bridging finances once all problems and legalities had been cleared up.

First National Bank general manager Jimmy McKenzie said his bank had "always supported relief measures for homeowners hardest hit by increasing interest rates."

The bank, which supported the government measures, had encouraged homeowners in financial difficulties to contact their branch managers, he said.

Home-owners likely to benefit from the plan are the lower and middle-income groups who own houses bought for R80 000 or less.

High rates spike buy-outs

(58)

B/Day 12/6/89

PUNITIVELY high interest rates will make management buy-outs (MBOs) more difficult because management will have to borrow at these rates to finance a buy-out.

Merchant bankers say the utmost care is taken in an environment of high interest rates, to make sure that companies will be able to handle the high gearing associated with a MBO.

Standard Merchant Bank (SMB) GM Mark Barnes says: "SMB is always keen to become involved in MBOs, both from a financing and structuring point of view. But the current economic situation means we have to be very selective."

It is a different story since 1987, Barnes says, when the low interest rates were ideal to support MBOs. But the prime overdraft rate has risen from 12,5% to 20% in less than 18 months.

FirstCorp's Andre Roux agrees: "It will be harder to put deals together because of high interest rates. The situation is further aggravated by the fact that high rates have been accompanied by a rising stockmarket for

''As the economy moves into downswing, it will be far more difficult for geared companies to survive the debt of a leveraged buy-out.''

most of this year, which has resulted in demanding price-earnings ratios."

But both are emphatic MBOs will remain an important corporate finance activity. Barnes says SMB has more MBOs on its books than a year ago, because of a growing entrepreneurial spirit.

He says: "As the economy moves into downswing, it will be far more difficult for geared companies to survive the debt of a leveraged buy-out. They have two factors working against them: the decline in economic activity and the increase in the cost of funding."

FirstCorp, too, has detected a signficant interest in MBOs which are not disinvestment-related, with all of the MBOs concluded by FirstCorp this year being entirely South African.

Barnes says: "Over 60% of our portfolio now comprises MBOs which have nothing to do with disinvestment. The reason for the interest in MBOs is a recognition that in the SA environment, equity ownership is essential to preserve and attract managerial talent.

He says the size of the company is not really important, but because of opportunity cost, FirstCorp would generally not consider MBOs of less than R5m. On the other end of the scale, the merchant bank can structure an MBO of a company with a purchase price of more than R100m.

Barnes says motivated management teams are very keen on equity ownership.

"A company that can afford a buy-out with prime at 20% is obviously going to make it. We are still actively pursuing MBOs when it comes to quality companies."

Bond scheme: more qualify

B/Day 12/6/89

LESLEY LAMBERT

GOVERNMENT's relief scheme for cash-strapped homeowners has been extended from the lower end of the market into the middle range to prevent a significant number of homes being repossessed as bond rates rise.

Public Works and Land Affairs Acting Minister Dawie de Villiers announced sudden changes to the requirements for participation late on Friday. He said government assistance, in the form of a guarantee for reduced monthly instalments, would be available to bondholders who owed less than R90 000 on a house currently valued at below R120 000.

The limits were increased from R60 000 and R80 000, announced on Thursday. This significantly increases the number of middle-income bondholders who qualify.

Critics who argued initially that the scheme was a political ploy feel the inclusion of more white bondholders as a result of the changes supports their argument.

However, De Villiers said yesterday the changes followed representations by banks, building societies and other interest groups which felt higher limits would be more representative.

"The lending institutions based their representations on initial responses they had to the scheme. It appeared from their evidence that in the initial limits we had excluded a large number of people who were in danger of losing their homes."

He emphasised the relief was not a subsidy. It enabled bondholders under threat of losing their homes to capitalise the difference between current market rates of 19,75%-20% and the 17% at which their monthly instalments would be pegged.

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Shift in the law could line up a lot of institutional spare cash for equities

KAY TURVEY

LARGE rights issues in Gencor and Premier, coupled with the privatisation of Iscor, are likely to increase institutional exposure to equities in a restructuring of portfolios made possible through the recent scrapping of prescribed assets.

This move is unlikely, however, to require the sale of government stock because institutional liquidity is high, about R30bn, and capital market immediate returns are favourable .

Liberty Asset Management executive director James Ingles said, although investment decisions would depend on individual views, there was now more flexibility.

Most institutions were still slightly under their equity targets, having taking a cautious view of the JSE since the market crash in October 1987, he added.

Prudential investment guidelines have been formulated but there was still a lot of uncertainty. It was also unlikely there would be a significant shifting of assets until the final format became law, said Old Mutual portfolio manager Ardre Smit.

They were carefully looking at their liability structure, however, to ensure prudential exposure to assets.

Southern Life executive director investments Jan Calitz said that to switch from fixed interest securities to equities or property would not benefit portfolios in the short term, although longer term the freedom to invest in these inflation hedge investments would be good.

The expected immediate return on equities is 4,5%, and about 10% to 11% on property, whereas gilts give a return of 17%, although there is no capital appreciation.

Over the longer term equities tend to outperform gilts. In the past 10 years the return on a long bond has, on average, been 11% a year compared to 27,5% in equities.

SA unduly pessimistic about economy — bank

B Day 12/6/87

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SYLVIA DU PLESSIS

SOUTH Africans were probably excessively pessimistic about short-term economic prospects, said Boland Bank's June economic review.

In spite of notable similarities between the current economic situation and the one that prevailed in 1984, the current situation differed in that it seemed to be more "shockproof".

"Economic growth is more evenly distributed, company debt ratios are generally more acceptable, the foreign debt situation is still in place and a larger degree of socio-political stability prevails," the bank said.

"Moreover, the agricultural outlook is more favourable, foreign perceptions are more positive and the gold price is still well above its 1985 average of $317/oz."

Lastly, it said, the mere memory of the 1985 turn of events should convince policy makers to prevent a similar experience at all costs.

The success of the current restrictive policy approach and the resultant short-term course of the economy would be determined by government's sense of economic responsibility before the election.

Although the first signs of a deceleration in credit demand was evident, the revival of fixed investment outlays demanded a sustained strict policy approach to prevent further BoP and reserve problems.

Boland said the strong dollar enjoyed no real fundamental justification and strengthened expectations that gold would creep back to the $400 level by year-end.

"Meanwhile, a strong dollar not only poses a threat, but also holds some advantages for SA."

The decline in the R/$ exchange rate promoted SA's export effort, given that most SA exports were denominated in dollars.

Banks vie for privatisation

BDay 12/6/89 . 58

COMPETITION among the merchant banks for privatisation business has been fierce, with Finansbank leading the pack and Standard Merchant Bank and Senbank also going places.

Although the advisory service merchant banks can provide the State and its corporations is not particularly lucrative, all the merchant banks have been keen to get involved in privatisation.

The spin-offs at first are prestige — and later it becomes pure business when the corporation is listed. It also presents the opportunity to gain a major corporate as a customer.

Says Standard Merchant Bank's Mark Barnes: "SMB sees itself as a blue-chip corporate finance division, and we would like any really significant development to require input from us. That is part of the reason why we have targeted privatisation."

Finansbank's Willie Ross says the bank's approach to privatisation was initially "philanthropical."

"We believe it is in the best interests of SA, and about five years ago took a decision to investigate the issue. Pieter van Huyssteen spent much of his time on privatisation — to the extent that he became an ideal candidate to advise the Minister of Privatisation."

Finansbank took the view that it was essential for government's massive stake in business to be reduced.

Approach

But bankers are never only philanthropical, and Ross says once the listing stage is reached, it becomes business like any other — only different. It is different in that it is larger than other listings, and that the organisation has to undergo a cultural change.

"In the case of Iscor, management's approach is like that of any other private sector company. But in many cases the broad staff do not see themselves as part of the private sector, and an education process is needed. The merchant banks can help with that," Ross says.

Government has set up a tender panel which decides on which merchant banks and stockbrokers will advise the State and its corporations on privatisation.

The panel is chaired by Wim de Villiers and includes JSE President Tony Norton and representatives from the Commission for Administration, the IDC, and the privatisation unit. Merchant banks first give a written presentation, and those that make the short-list then give verbal presentations.

Right now, Finansbank and Senbank are "tying up the loose ends and sorting out the technicalities" of the Iscor listing. The market has put Iscor's total capitalisation at R3bn, and about R1,5bn will be listed this year.

'Institutions are very liquid at the moment, and it depends on the merit of the stock and how it fits into institutional portfolios. Also, the price must be right.'

"The eventual figure will depend on how much the market can absorb at the time. We will canvass institutional demand and do surveys among the public before taking a decision," Ross says.

He expects a decision to be taken in late September, and a prospectus to be issued in early October. He does not see the size of the Iscor listing as an inhibiting factor for other companies wanting to raise capital.

"Institutions are very liquid at the moment, and it depends on the merit of the stock and how it fits into institutional portfolios. Also, the price must be right."

But he acknowledges the picture could change suddenly as the JSE has been unpredictable of late. He would prefer a correction now, rather than later in the year — and was therefore not unduly worried about the downturn caused by the strong dollar and weak gold price in May.

Finansbank is also involved with the Sats privatisation, along with SMB. For Eskom's privatisation, Ross and Finansbank MD Hennie van der Merwe serve on committees investigating the issue. Again, SMB staff also serve on these committees in their personal capacity. A draft report has been brought out on whether Eskom can be privatised or not.

Further involvement in privatisation by Finansbank includes toll-roads. But Finansbank, Ross says, would not want to be known as "the privatisation merchant bank." The bank is working hard to keep its normal private sector business going.

"The listing of Iscor is, in the final analysis, just a normal listing. Privatisation is not taking up more than a third of the corporate finance department's time. We've done quite a few other deals."

Once it is all finished, the bank hopes to have gained long-term clients in the people it has taken to the market.

What they say . . .

SMB's MARK BARNES . . . "timing has become crucial. A badly timed listing can be disastrous.

"But the question is not only when — but why?"

FIRSTCORP's GRAHAM DRINKWATER . . . "new listings will be difficult for others than rand-hedge stocks or high-profile food and beverage companies" certain domestic electrical appliances at a ceiling duty of 3% *ad valorem* and a rebate of the full surcharge.

advantage, have shifted from being their

☐ To Page 2

Bond scheme: more qualify 58

LESLEY LAMBERT

B/Day 12/6/85

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More pull-outs

BDay 12/6/87

MERCHANT bankers expect more disinvestments in the months ahead after a lull last year and some are already working on pull-outs by certain foreign companies.

UAL GM Nico van Heerden says the merchant bank is currently involved in negotiations for further "substantial disinvestments".

Scenario

He prefers not to elaborate, but sketches a scenario of continued pressure on foreign companies to leave SA.

UAL's most recent involvement was the disinvestment by the Dutch shareholder in Mooi River Textiles.

Both Van Heerden and Standard Merchant Bank (SMB) GM Mark Barnes stress that the merchant banks are by no means pro-disinvestment, although it is a source of business for them.

Says Barnes: "I strongly believe that disinvestment will be detrimental to the country in the long-run."

"The attitude can almost be described as: It's a dirty job, but somebody's got to do it."

SMB was involved with most of the major disinvestments — the recent sale of Mobil to Gencor followed the bank's involvement with the sales of General Motors, IBM, Rank Xerox and Coke.

Barnes says there is every reason to believe the year-long lull in disinvestment activity is at an end.

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Sanctions

American companies are re-examining their investments in SA in anticipation of further sanctions legislation.

He agrees with FirstCorp's Andre Roux that disinvestment will undoubtedly give rise to more management buy-out (MBO) opportunities this year.

B/Day 12/6/89 58

FINANCE

Inevitable cost of deficit

IN THE MONEY MARKETS

Harold Fridjhon

BANKERS are anticipating the end of June with that resigned feeling of painful inevitability which overcomes patients in a dentist's chair.

They expect they will have to pay dearly to fund a deficit which could reach as much as R3bn when the month-end balances have been ruled off.

Apart from this week's foreign debt repayment of $600m which will diminish the foreign reserves by about R1,6bn and, therefore, the cash in SA's money "pool", the internal private banking sector's resources will be reduced by company tax payments, plus the new levy and platinum mines tax.

Although the market shortage has come down from R2bn at the end of May to R469m on Saturday, the banks are only temporarily comfortable. They have had the monthly inflow from government spending, but part of the reduction in the shortage, their debt to the Reserve Bank, has been the return of banks notes which has released about R600m of their funds. Back that money, and more with the winter holiday spending, will go to the Reserve Bank at the end of June.

And there is no way out for the banks which are manacled by the Reserve Bank, a necessary disability which is also emasculating the money market.

Central bank policy is to keep the market short of liquidity so the banks are never entirely free of short-term debt which enables the Reserve Bank to exert an influence reaching beyond the 17% Bank rate.

The result is a predictable seesawing of interest rates between the beginning and end of each month and the two weeks in between. During the easier mid-month weeks the Big Money call deposits are pitched around Bank rate.

Crucial

Lenders know they can get 17% to 17,25% because the banks' only alternative source of funds is the Reserve Bank at 17%, provided they have sufficint liquid assets, which they do have at this period.

During the crucial first and fourth weeks wholesale call can reach beyond 19% — last month it was reported that some banks were paying close to 20%. The reason for the surge in the rate is that, in aggregate, the banks do not have sufficient surplus liquid assets to borrow at Bank rate and they must then pledge prescribed assets from the Bank at rates which could reach 21,5%.

This is likely to be a recurring pattern, possibly for the next three months or even longer, depending on internal factors which can be influenced or external forces beyond the control of the Reserve Bank.

The internal factors are mainly bank advances which largely depend on the strength of importer demand. Bankers reported on Friday that demand is slowing down but they question whether the slowing down is fast enough to bring the money supply aggregates back into the target range.

A new, unquantified, input factor affecting banks and building societies is the bond rate moratorium which could adversely affect their cashflows.

The external influences are, perhaps, more crucial and exacerbated by the present slump in gold, is the state of gold and foreign reserves. A depreciated rand could encourage exports and discourage imports — to the detriment of the CPI — and make the reserves in rand terms look better than they really are in dollar terms.

A favourable rand-based state of the reserves would, however, ease some of the pressures on the banks and have a positive effect on domestic perceptions but they would not deceive governor Gerhard de Kock and his colleages in the Reserve Bank who have to think in dollar realities and not rand cosmetics.

BDay 12/6/87 [redacted] 58 [redacted]

They should never have been listed

QUALITY is the name of the game when it comes to raising new capital on the post-crash JSE, be it through a new listing or a rights issue.

Before the crash, three or four listings a day were not a strange occurrence, but merchant bankers are unanimous — many of those companies should never have been listed.

It is common knowledge that many did not even come close to meeting their forecasts.

The DCM is a victim of the October 1987 crash and it has not yet recovered. It has become a source of shells through which other companies can obtain a listing on the JSE.

Euphoria

As UAL's Nico van Heerden puts it: "One is tempted to say the DCM has become a graveyard."

While the listings boom has come to an end, merchant bankers expect quality companies will raise capital either through new listings or predominantly through rights issues this year.

They do not expect anything like the euphoria of 1986/87, especially given the uncertain economic conditions.

But they believe significantly more companies with good track records will raise finance this year than during the lean period that followed the crash.

Van Heerden reports the bank already has "a number of listings and rights issues on the drawing board", scheduled for this year. He talks of two listings before the end of the year and possibly a third.

"But the quality of the companies is excellent. In these uncertain times, that is very important."

He says a spin-off of the uncertainty about the stockmarket and the economy in general is that companies wishing to raise finance want to do so sooner rather than later.

Many companies are finding their share prices are high enough to enable them to make a rights issue. With interest rates at high levels and uncertainty over when the cycle will turn, Van Heerden says rights issues are becoming a viable alternative to borrowing.

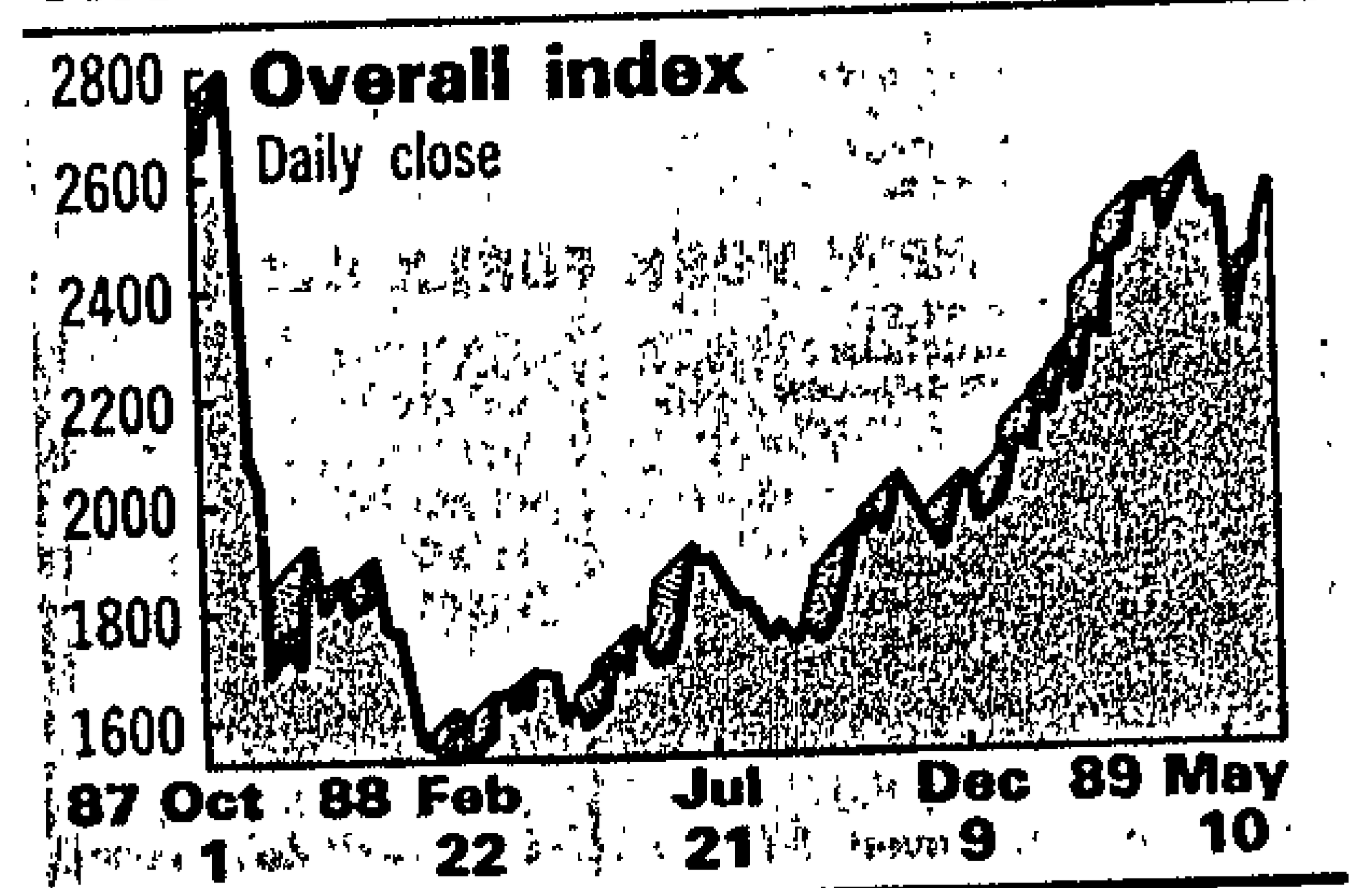
New listings, too, are being considered by quality companies needing capital for further expansion.

SMB's Mark Barnes says: "The quick capital gains available in 1987 are obviously no longer available. The fundamental reasons for going public are being examined very critically."

This is all the more necessary because of the uncertainty and unpredictability of the SA equity market. This uncertainty, Barnes believes, is often not based on any fundamental reasons, but is more psychological.

Barnes says: "Timing has become crucial. A badly timed listing can be disastrous. But the question is not only when — but why?"

The crash...and after



Graphic: FIONA KRISCH Source: JSE

FirstCorp's Stuart Jones also notes that high interest rates might cause more top companies to go for rights issues rather than increase their debt.

The last time interest rates were very high was in 1985 and companies raised capital to "de-gear". Although the level of gearing is not as high as it was then, Jones does see a shift towards equity financing rather than borrowing.

"The blue-chip companies will be able to raise capital with ease. The institutions are flush with cash and are looking for vehicles which will put their capital to profitable use.

"Dividend yields are still relatively low, which means equity can still be issued at a reasonable price."

There is more capital available for investment in equities since prescribed asset requirements were abolished.

However, Jones' colleague Graham Drinkwater believes new listings will be difficult for companies other than rand-hedge stocks or high-profile food and beverage companies.

Criticism

"I am reasonably confident about the market, but I believe the institutional support will focus on the blue-chips."

Rand Merchant Bank's Piet Botha agrees investors have become ultra-sensitive over quality. But if the quality is there, the demand is there.

He points to the imminent listing of Rainbow Chickens, which has drawn criticism of a too-high share price.

"But the price of the Rainbow shares only proves that institutional investors are prepared to pay for good scrip."

Small companies will find it difficult to raise capital through listings.

But Botha notes the possibility that they will raise finance through convertible debentures, rather than borrow more and worsen their gearing.

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A way out of the blues

INVESTMENT banking is increasingly becoming a way out of SA's banking blues of tight margins and small returns.

Although taking an equity stake in a company can be risky, a bank which makes an investment rather than only lending money could receive a much greater return on capital than earning only interest.

Many smaller financial services companies are also targeting this market. The returns on an equity stake can significantly enhance income from fees for corporate finance services. In most cases, fees alone would mean break-even for a corporate finance outfit — with little more to show for its trouble.

Says UAL GM Nico van Heerden: "Investment banking is becoming a trend, as banks look for avenues other than the ordinary bread-and-butter business to improve earnings."

UAL has emphasised investment banking for the past two years. It recently led a consortium which took a strategic shareholding in a subsidiary of the listed Imperial Group. Van Heerden says various new opportunities are currently being considered.

Rand Merchant Bank (RMB), which took a stake in Butterworths when the British parent pulled out of SA two years ago, is very active in this field.

RMB's Piet Botha says the bank sees a management buy-out as an opportunity not only to provide finance and structure the deal — but also to invest in the company.

"Companies are enthusiastic over banks taking an equity stake in them. It enhances the company's image if it is backed by a bank. Obviously, the quality of the company is of the utmost importance to the bank."

Investec is also serious about investment banking. The bank's corporate finance manager John Snider says it often happens that a customer's borrowing requirement is more than its bankers want to lend.

"We can evaluate the viability of the transaction for which it needs the finance, and may take an equity stake in the company to provide funds it might otherwise not be able to raise."

Capital

Snider notes Investec helped finance a number of mergers and acquisitions by providing equity capital. As a result, it acquired a stake in Bidcorp and a number of unlisted companies.

But some of the smaller players in the financial services industry are also see investment banking as a growing niche market. One such a company is Merhold Corporate, which does the investment banking business of Merhold Ltd.

Merhold Corporate's Thierry Dalais says: "We find numerous businesses who are either not mature enough to seek a listing on the JSE, or by choice do not wish to be listed or have a need for an 'active' minority partner where the control of their businesses are not challenged — we fill this need."

B104 12/6/89 (58)

Financiers play multiple roles

GORDON Gekko went too far when he said "greed is good" in the movie *Wall Street*, but an understanding of risk and return plus an entrepreneurial flair would be needed to succeed in corporate finance.

The typical corporate financier is an accountant, lawyer, investment analyst, psychologist, broker and banker rolled into one package.

He or she probably has an accounting or law qualification. Basic technical ability is needed, but that is by no means the only criterion.

In some cases, former engineers and agricultural economists have proved astute at putting deals together.

It is not a case of only being good at figures or knowing the law — creativity and confidence are definite requirements. Without being reckless, the corporate financier must not be too afraid of risk.

Any corporate financier who wants to be a success has to have "people skills" — the ability to relate to top people in high-profile listed companies as well as smaller private companies.

Tensions run high sometimes and the corporate financier has to take into account the personalities involved.

But perhaps the most important factor mentioned by merchant bankers is a sound business sense, the gut-feel of the entrepreneur.

Because of this entrepreneurial spirit, independent corporate finance operations manage to co-exist with large merchant banks by cultivating niche markets.

Board of Executors securities director John Wright says: "The type of individual attracted to corporate finance work is likely to be entrepreneurial, since innovative thinking is the name of the game.

Takeover

"As in any industry, this means that individuals who see gaps in the market will exploit such niches and this leads to the establishment of boutique-type operations."

The newest independent operation will be headed by former Duros Merchant Bank MD Charles Turner and his colleague Mike Bolton, who are not part of the recent takeover of Duros Merchant Bank by Investec Bank.

Analysts say Turner is a respected corporate financier with many years of merchant banking experience and his operation should succeed.

More players vie as competition rages

INTENSE competition rages in the corporate finance market with more players getting in on the act previously dominated by the merchant banks.

SA has 10 merchant banks providing corporate finance and some of the commercial banks, notably Standard Bank, also offer the traditional corporate finance services.

Over the last few years, auditors, stockbrokers and "in house" advisers have started offering these services, at times said to be at "cut rate" fees.

This raises an obvious question — How do the providers of corporate finance co-exist?

Ernst & Whinney Management Services partner Claire Herbst says: "We do not compete with the merchant banks — we see ourselves as playing a complementary role to them."

Aiken & Peat partner Richard Carreira agrees: "Accountants are not merchant bankers nor should they seek to become merchant bankers.

"We see the accountant's role as providing corporate financial services as distinct from and complementary to those of the merchant bank."

But Herbst adds the corporate finance service offered by Ernst & Whinney encompasses all the financial aspects of a transaction apart from taking a financial position in an undertaking or underwriting the raising of capital.

"We assist clients in the raising of finance but do not provide it. Assistance might include helping them with the preparation of a feasibility study.

"The benefit that a client gets from using our services is involvement at a much earlier stage than would be the case in relying solely on the merchant banks."

Carreira believes accountants have a role to play in new issues and management buy-outs.

They can also provide mergers and acquisitions support through reports on profits and cash-flow forecasts.

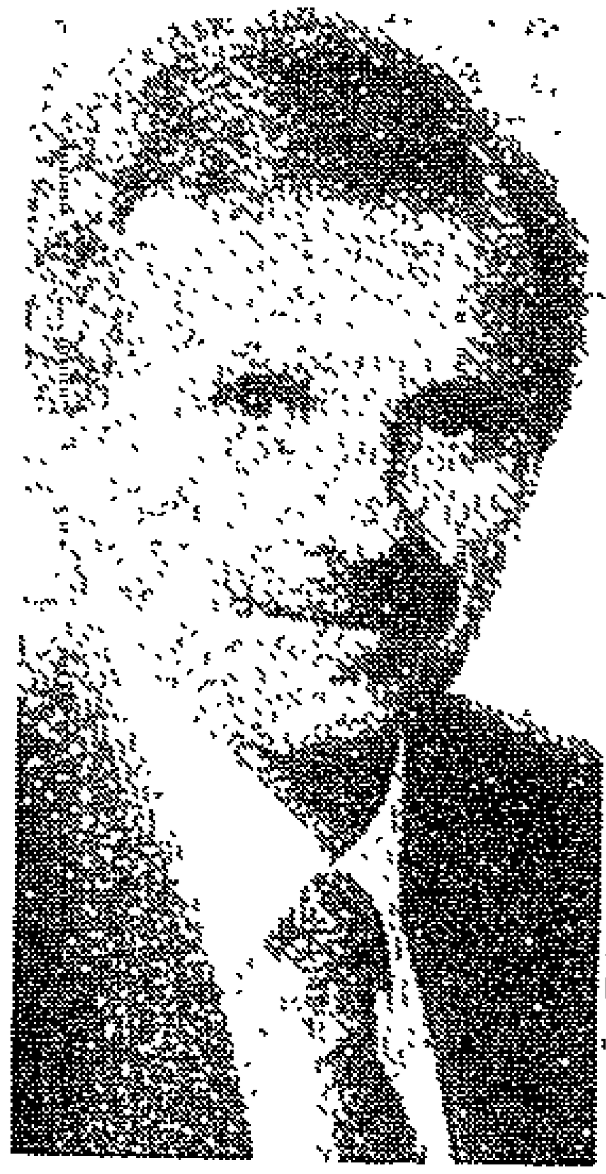
Other corporate finance services auditing firms can provide include:

- ☐ Assisting clients to arrive at fair valuations for their businesses;
- ☐ Helping clients in restructuring their groups, for instance from a tax-efficiency point of view;
- ☐ Advising clients on the best routes to follow in establishing legitimate offshore structures for the enhancement of their exports, using the accountant's expertise in tax and in exchange control;
- ☐ Advising clients on the correct timing and other issues when considering listing on the JSE;
- ☐ Advising clients on the best manner in which to acquire or fund assets, for instance by sale and leaseback.

The strength of the accountant, in Carreira's view, is his ability to provide an independent and objective viewpoint.

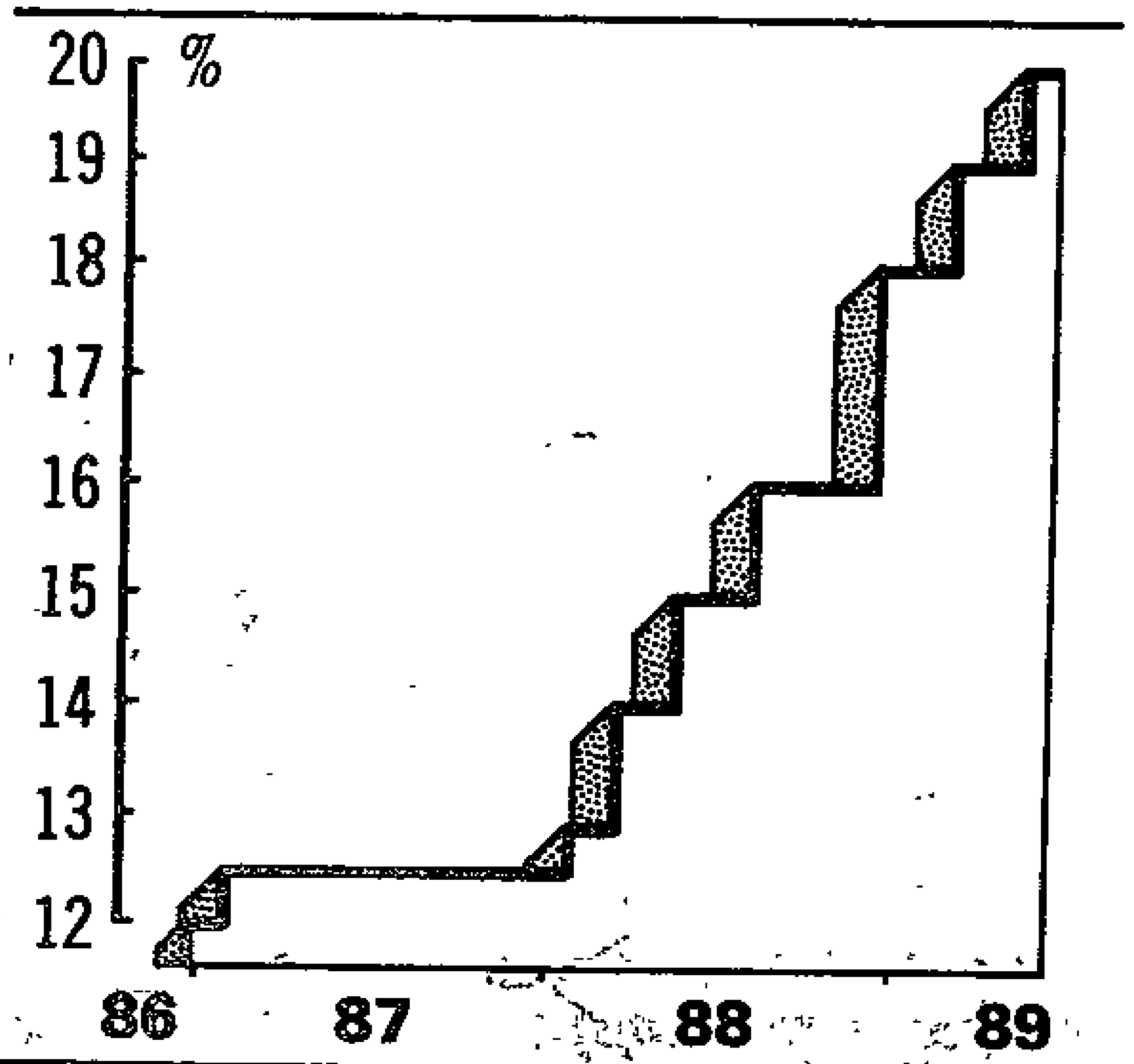
Herbst notes that this objectivity can often benefit the merchant banks. She says the auditing firm can come to the rescue when a transaction has reached a point where the bank and the client are in conflict.

"While clearly representing our client, we are able to bridge the gap between the two parties."



RMB's PIET BOTHA

Punishing prime rate



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Changing meaning of the term

BDay 12/6/89

(58)

CORPORATE finance encompasses much more than the obvious services of raising capital and mergers and acquisitions. It even reaches further than the recent move towards emphasising investment banking and management buy-outs (MBOs).

In an effort to meet the challenge of increased competition, banks are changing the meaning of the term "corporate finance".

The emphasis is on advice and on cutting the cloth according to the client's specific needs. It is also on innovation and developing new products.

Role

Standard Merchant Bank (SMB) GM Mark Barnes says his bank's role is changing from one where it had a once-off task — like a listing — to one where it provides general advice to bigger corporates on an ongoing basis.

Says Barnes: "Companies poised to make acquistions or rationalise their groups are now approaching the merchant banks before taking specific decisions. Instead of bringing the deal to the banks, the companies are asking us: 'What deal should we do?' "

There is a trend, then, towards working with the companies rather than working for them.

Barnes notes the scope of the corporate financial adviser's work is becoming broader and more difficult to define.

As part of the move into new directions, he believes the merchant bank's corporate finance department has a meaningful role to play in designing financial derivatives and instruments traded in treasury.

These instruments are needed to hedge risk in an economy which is particularly volatile.

"There is a definite need for derivatives that are South African in design, rather than clones of American instruments.

"The American market is vastly different from the South African market, and the common idea that we can import their products and people must be questioned. I believe we should put on our safari suits and design truly South African products."

The corporate finance division, Barnes believes, can provide a bridge between the mathematicians and the traders of the financial instruments. He is emphatic that derivatives should not be designed by academics in ivory towers, who are fascinated by American markets.

"SA markets are just not sophisticated enough and there is not enough liquidity to copy the Americans. There is no place here for esoteric and academic products."

Current

UAL GM Nico van Heerden believes merchant banks have to be innovative and aggressive to remain profitable. For obvious reasons, he does not want to discuss current innovations.

But he notes UAL introduced the concept of variable rate loan stock to the market. This enables companies to raise substantial funds, provide investors with an escalating yield and ensure the retention of voting control by the major shareholders.

Insurance discount for Watchers

Own Correspondent

58

CAPE TOWN — Neighbourhood Watch members can score discounts of up to 20% on household contents insurance policies. B/Day 12/6/89

At least two insurance companies are offering a straight 20% discount with no strings attached, while others offer reduced rates calculated on the merits of individual cases.

The discounts are in recognition of the positive influence neighbourhood watches have had in reducing the number of burglaries and thefts in particular areas.

Lending scheme passes on R1-m to small businesses

ARGUS 14/6/87 (58)

The Argus Correspondent

JOHANNESBURG. —The Get-Ahead Foundation, which assists small entrepreneurs with loans to start new businesses, is using an indigenous lending scheme — the stokvel — for loan distribution.

It has already lent more than R1-million to 3 000 people.

The recovery rate is estimated at 98 percent, but could be higher as no bad debts have been written off in the year the scheme has been operating.

Get-Ahead is so pleased with initial results that it is looking at ways of involving first-world banking institutions in stokvel loans schemes.

Mr Israel Skosana, deputy-managing director of the foundation and head of the commercial division, said bankers did not regard small loans in a "risk environment" as a viable proposition.

As a result would-be entrepreneurs were forced to look elsewhere for assistance. Yet once they had made the grade they were wooed by bankers wanting their business.

South Africa's 500 000 new businessmen were increasingly asking: "Just how necessary are first-world banking institutions which refuse to grant loans to emergent black businesses without complicated feasibility studies?"

Meeting ground

"Unless the Third and First Worlds find a common meeting ground, bankers who remain aloof from grassroots customers are in danger of being dismissed as irrelevant."

The stokvel might provide the solution to the problem. The indigenous lending scheme involved groups who pooled a set amount each month.

Members collected the lump sum in rotation — to be used for whatever purpose they wished.

"Some stokvels exist to help members buy cars, others to buy groceries and others to start businesses.

"Some put in R5 or R10 each, some R100 a month. They survive only because members have total confidence in each other. Members screen applicants wanting to join the stokvels themselves and admit only reliable people."

With the aid of a visiting Brazilian, Get-Ahead had determined techniques of perfecting a loan arrangement to members.

"We will give two loans to any stokvel — but members are jointly and severally resonsible for the debts."

Mr Skosana has just returned from a pan-African conference in Kenya, where he outlined details of the stokvel lending scheme to delegates from many parts of the continent.

"We stole the show with the presentation."

"Stokvels are an accepted form of financing throughout Africa and many other parts of the world but our adaptation caused enormous excitement."

So popular has his talk been that he has been invited to speak on the lending scheme in Tanzania and Uganda.

To illustrate the success of the stokvel lending scheme, Mr Skosana tells of the Atteridgeville mother who expanded her business fourfold within four months.

The woman was providing a tuckshop service to children at a neighbourhood school but lacked the capital to expand. She applied for a loan though her stokvel and was now operating four tuckshops in different parts of the township.

Mr Skosana said that between 1960 and 1974 the formal sector had created 160 000 jobs a year. But since 1974 this figure had dropped to 60 000. On the other hand experts estimated there were now 500 000 informal businesses employing 3,5-million people.

"They are part of the so-called underground economy.

Why is the State not providing tax incentives to big business to encourage assistance, or providing small business with relief from GST?"

Picture: ANDREW INGRAM, The A

DITCHED: It's the end of the road for this car after an unplanned trip into the N lands Avenue wheeltrap. Inspecting the damage are Gary and Ryan Pomario.

Newlands Avenue danger ditc could pose a peril for unwary

By ANTHONY DOMAN, Municipal Reporter

GAPING stormwater drainage channels along heavily travelled Newlands Avenue have provided some relief to an area plagued by flooding, but they are also wheeltraps that can gobble up unwary motorists.

And a driver whose car wandered into a channel last week encountered the added hazard of one of many driveway access "bridges" across the channels. The car was left a wreck.

But Cape Town city councillors and officials deny that the road is hazardous.

Council public relations officer Mr Ted Doman said the size of the channel helped prevent blockages by trees and other large chunks of debris.

LOT OF MONEY

"Covering the channel for its entire length would involve a lot of money. Blockages would also be more likely and drainage more difficult."

Ward 12 city councillor Mrs Eulalie Stott, whose area includes this particular stretch of Newlands Avenue, said there was "a bit of a problem".

"We have had two terrible floods with enormous storm damage."

In the past, debris had blocked stormwater channelled to a pipe flowing under the road. The result had been that the water overflowed the channel and flooded the road and nearby properties.

She sympathised with motorists but said the channel was thought necessary to protect people lower down.

"This issue has never come to a ratepayers' meeting," said Mr Rupert Hurly, city councillor for the adjacent Ward 11 (into which the lower part of Newlands Avenue falls) for the past 10 years.

COULD BE DANGEROUS

"I must admit that further up in Newlands Avenue you could get into trouble if you had to take

should be able to see the channel quite clearly ing the day and night."

Mr Smit drew an analogy with electric poles. "It sometimes happens that somebody h pole. Does that mean you have to move every in the city?"

He himself used the road "quite often".

"In fact, if you look at Kildare Road, which off Newlands Avenue, you will find what app to be an even more dangerous situation.

"Kildare Road also has a drainage channel a one side but although the road is a lot narr than Newlands Avenue I can recall only one dent there some years ago."

Pension funds ready to fight tax proposal

Star 14/6/89 [redacted] [redacted] 58

By Derek Tommey

The pension funds industry intends using every occasion to oppose a Government suggestion to tax the investment income of pension and provident funds.

Desmond Smith, newly elected president of the Pensions Institute, says such a move would be extremely inappropriate.

In an interview yesterday he said the proposal appeared to go against Government plans to get the private sector to bear a larger part of the burden of providing pensions for the aged.

Desmond Smith

He felt it was the wrong time to raise the matter as the Mouton Commission was looking into the whole question of pensions.

Mr Smith said it was difficult to know what action to take when there was nothing more definite than the odd statement.

But every opportunity should be taken to make the Government aware of the far-reaching implications should pensions funds be taxed.

Mr Smith (41) is senior general manager in charge of group benefits at Sanlam.

He said the Pensions Institute was raising with the Government the fact that private provident funds were not taxed, but that underwritten provident funds were.

The trade unions were calling increasingly for greater benefits from their provident funds, he said.

As a result, employers preferred to have their provident funds underwritten by financial institutions because this enabled them to guarantee benefits.

But if the management of a fund were handed to a financial institution, the return could be reduced by three or four percentage points because of tax having to be paid on its investment income.

Mr Smith welcomed the proposed abolition of prescribed assets for pension funds. He said it was a bold step to take in one swoop.

But the Pensions Institute was not completely satisfied with the draft guidelines for future pension fund investment.

One criticism was the proposal specifying that pension funds could invest up to 65 percent of their funds in equities and a total of 85 percent in equities and property.

Few pension funds had much money invested in property.

This provision could lead managers who wanted growth to increase their investment in the property market. This could lead to a shortage of suitable property for investment and push up property prices.

An aggravating factor was that property trusts were regarded as an equity investment and not a property investment.

Mr Smith said the guidelines were intended to be prudent. But in certain circumstances they could be imprudent.

However, the pensions industry had been assured by the Registrar of Financial Institutions that he would be extremely flexible in enforcing the guidelines.

Indigenous lending scheme helps 'small' entrepreneurs

By Winnie Graham

The Get Ahead Foundation, which assists "small" entrepreneurs with loans to start new businesses, is using an indigenous lending scheme — the stokvel — for loan distribution.

It has already lent more than R1 million to 3 000 people, all members of stokvels.

The recovery rate is estimated at 98 percent but could be higher as no bad debts have been written off in the year the scheme has been operating.

So pleased is Get Ahead with initial results, it is looking at ways and means of involving First World banking institutions in stokvel loans schemes.

RISK ENVIRONMENT

Mr Israel Skosana, deputy managing director of the foundation and head of the commercial division, said bankers did not regard small loans "in a risk environment" as a viable proposition. As a result, would-be entrepreneurs were forced to look elsewhere for assistance. Yet, once they had made the grade, they were wooed by bankers wanting their business.

He said South Africa's 500 000 "new" businessmen were increasingly asking: "Just how necessary are First World banking institutions which refuse to grant loans to emergent black businesses without complicated feasibility studies?

"Unless the Third and First Worlds find a common meeting ground, bankers who remain aloof from grassroots customers are in danger of being dismissed as irrelevant."

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Mr Skosana has just returned from a pan-African conference in Kenya where he outlined the stokvel scheme to delegates from many parts of the continent.

"We stole the show with the presentation," he said. "Stokvels are an accepted form of financing throughout Africa and, in fact, many parts of the world, but our adaptation caused enormous excitement."

So popular has his talk been he has been invited to speak on the lending scheme in Tanzania and Uganda.

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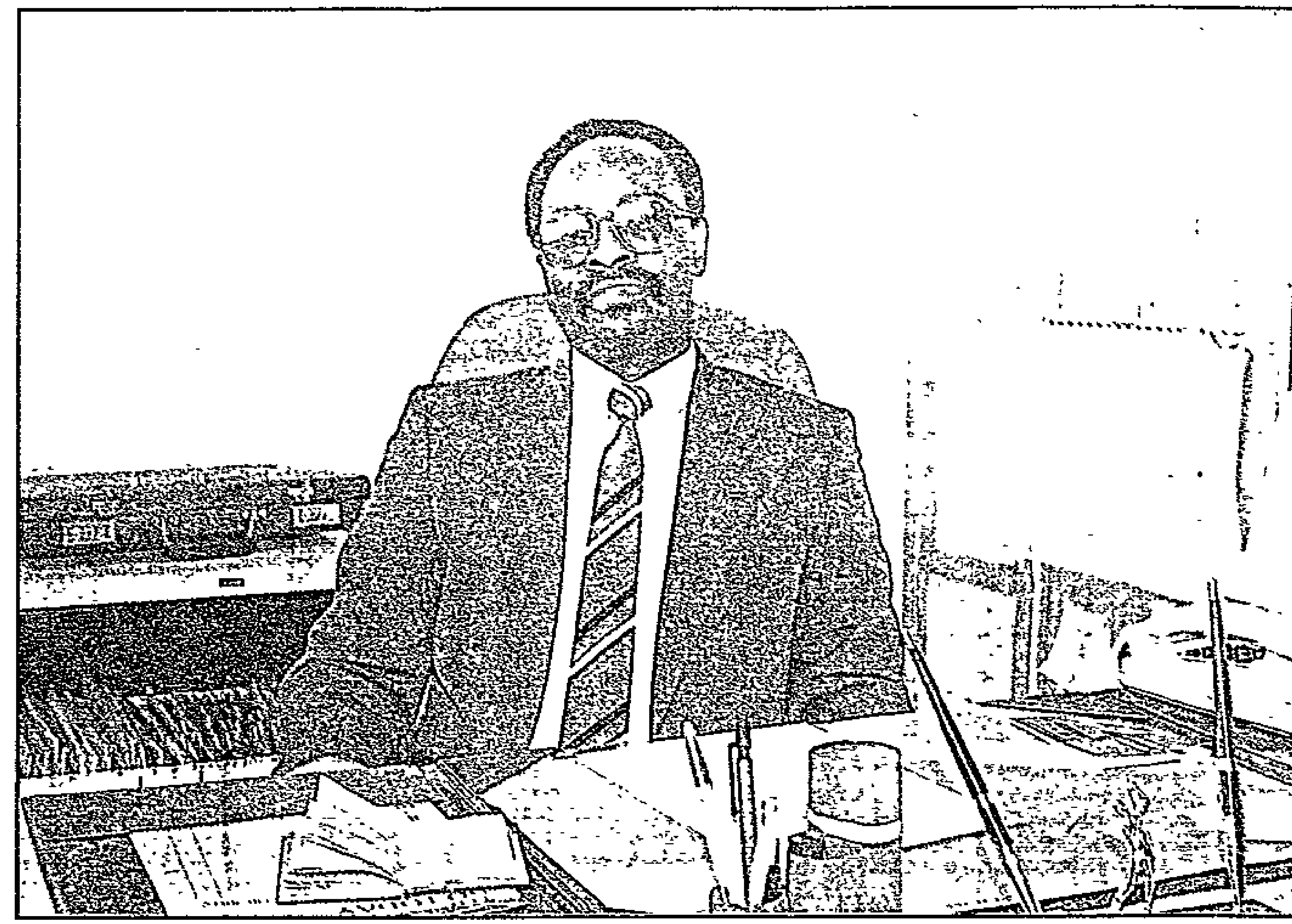
Mr Skosana said that between 1960 and 1974 the formal sector created 160 000 jobs a year.

UNDERGROUND ECONOMY

Since 1974, this figure had dropped to 60 000. On the other hand, experts estimated there were now 500 000 informal businesses employing 3,5 million. They were part of the so-called "underground economy".

Estimates of their contribution towards the gross domestic product varied from 40 percent to three percent, but the bottom line was that they were making a contribution.

"We don't want Government interference, but why is the State not providing tax incentives to big business to encourage assistance, or providing small business with, say, relief from GST?" Mr Skosana asked.



Created big impression . . . Mr Israel Skosana, deputy managing director of the Get Ahead Foundation, whose recent presentation outlining the Stokvel lending scheme stole the show at a Pan African conference in Kenya.

COMPANIES

Hosken bounces back after McCarthy losses

58

B Day 14/6/89

KAY TURVEY

HOSKEN Consolidated Investments, whose shares bucked softer market trends this week to reach a high of 715c, has declared a 28c dividend for the year to March. This is 22% up on last year's 23c.

After reporting a slide in attributable earnings at the halfway stage, due to a hefty tax bill, the group rebounded to report a 16% rise in the bottom line to R15,4m for the year.

Earnings a share on an enlarged share base, after shaking off losses in its holding in construction firm R McCarthy, grew 10% from 135,1c to 148,7c. Excellent results from listed subsidiaries IGI and Saflife, underpinned this performance.

Chairman Michael Lewis says atttributable income would have amounted to R21,4m, representing growth of 61%, had it not been for McCarthy's results.

He added losses in McCarthy had been halted and would now have a minimal effect on the group.

Lewis said negotiations were under way to sell the high-rise division and the rest of the business was being phased out.

He added HCI would focus on its mainstream business in the financial services market, "having learnt the hard way to stick to your knitting".

HCI has recently issued two cautionary announcements and is understood to be awaiting Reserve Bank approval to restructure its international holdings.

HCI and its 54%-held short-term insurer IGI each own about 50% of the UK pyramid, which holds a majority stake in a Lloyds broking company and 100% in IGI Insurance Company. It also has insurance companies in Botswana and Zimbabwe.

The restructuring will involve all offshore companies and is likely to have a positive impact in the current year.

IGI shares have soared, reaching 900c yesterday, from 770c a month ago.

The new and the old black business groups fall out

58 weekly mail 15-22/6/89

ONE represents established black business. The other brings together the new, rapidly expanding black entrepreneurial classes. It is perhaps not surprising that the two organisations are at odds.

Relations between the 25-year-old National African Federated Chambers of Commerce and the Foundation for African Business and Consumer Services have been tense since Fabcos was launched 18 months ago. Now the tensions have come out into the open, with each accusing the other of undermining black unity.

Nafcoc had originally been approached to join forces with Fabcos, but, according to Fabcos public relations officer Jabu Mabuza, had shown no interest.

In a recent Nafcoc newsletter, the chamber's Gabriel Mokgoko described the rival organisation as "purely an attempt to reinvent the 'wheel" and regretted the fragmentation of organisations given the need for unity among blacks.

Nafcoc would be prepared to have Fabcos members as affiliates but would not "as an older and better recognised federation sacrifice its identity and sense of history by joining a new established business body", he said.

But now Fabcos appears to have decided it would rather go it alone. Mabuza said last week the two organisations were pursuing different strategies and should remain separate.

"The unique aspect of Fabcos is that it represents the grassroots black organisations in the country while Nafcoc is also unique in that it represents black business," Mabuza said, stressing that his organisation did not want to take over Nafcoc or be taken over by it.

On the surface, at least, the conflict has been over structure. Nafcoc comprises regional chambers of commerce — although it has now said it is changing its constitution "to enable specialised business and professional associations to affiliate as members without sacrificing their autonomy".

Fabcos is made up of affiliates representing different sectors, such as the Southern African Black Taxi Association (Sabta) and the African Builders Association. It also includes organisations which don't represent business people as such — the National Black Consumer Union and the National Stokvels Association, for example. It claims its 12 affiliates represent one million members.

Meanwhile, however, lines of communication remain open between the two organisations. Mabuza said last week Fabcos applauded Nafcoc for the hard work it had done in promoting black business over the years. The newer organisation still wanted to hold talks with Nafcoc.

HOME LOANS (58) Fmail 16/6/89

Risk management

With an election in September, June 3 seemed a good time to offer distressed home owners relief from interest rate increases. And with the Linden municipal by-election on June 7 registering unsuspected voter dissatisfaction with, among other things, failure of economic policy, June 9 seemed an even better time to improve the offer.

Originally the scheme, whereby interest rates on certain loans could temporarily be pegged at 17% (with the balance capitalised for up to three years and underwritten by government), applied only to bonds under R60 000 on property worth not more than R80 000. The adjustment, six days later, lifted these ceilings to R90 000 and R120 000. So, though not many Linden voters will qualify, as homes in the suburb generally go for somewhat more, a great many others will be eligible for assistance.

The adjustments came, says a spokesman for the Department of Public Works, after representations from the Association of Mortgage Lenders. Institutions had already announced willingness to negotiate with borrowers in trouble, rather than incur the expense of taking a large number of properties into possession. So they benefit by the move as much as homeowners.

As to the latter, the reality is they don't want stable interest rates as much as consistently low interest rates.

(58)

For more than two years, homeowners who wanted the security of fixed interest rates, have had the option. In March 1987, Allied introduced a fixed-rate bond. When the rate on conventional bonds was 14%, it offered 15% over three years or 16% for five years. It now offers 19,5% for one year and 19,75% for two years.

Tindall

The response was "underwhelming", says executive deputy chairman Alan Tindall.

It's interesting to compare payments of a borrower who took out a two-year fixed bond for R50 000 at 15,5% in March last year, when Allied's conventional rate was at its lowest 13,5%. With monthly instalments of R621 a month, he will have paid R9 936 between April 1988 and July 1989. The holder of a variable rate bond would have started with a monthly repayment of R621, escalating to R839 in July when the rate goes to 20%. Repayments over 16 months will total R11 260.

Of course, choosing the point in the economic cycle to take out a fixed interest rate bond is like deciding the low point in a bear market — the only reliable guide is hindsight. But given the comparatively low real interest rates from the end of 1986 to the start of 1988 and the clear signs of demand pressures building up by March last year, it's surprising so few consumers responded. ■

(58) Fmail

INSURANCE (58)

Taxi cover

16/6/89

Between last July and December an estimated 19 000 black taxis were involved in accidents, excluding the homelands. Most carried no formal insurance cover.

SA Black Taxi Association (Sabta), which represents 95% of legal owners (of taxis with certificates of fitness and driven by licensed drivers, who have a Road Transportation Board permit), estimates only 15%-20% of its 50 000 members are insured.

"Mainly owners of new taxis have insurance — because their vehicles are bought on hire purchase," explains Sabta marketing MD James Chapman. "But once the loan is paid off — usually within three years — and the owner doesn't have to insure, he often stops paying the premiums."

Many owners prefer to self-insure informally through *stokvels*. Each member contributes to a pool which pays out in the event of accidents and thefts. Chapman says amounts paid into self-insurance could equal or double flows into formal insurance.

Lack of understanding and the high premiums are the main reasons for avoiding the formal insurance market. "Premiums are high because of the high loss ratio," says broker Louis Volks & Associates MD Alan Hackett. He says the yearly average loss ratio (claims to premiums) for black taxis at Sabta's rating levels is around 70% (and deteriorating), compared with an average of 60% on privately owned motor cars.

The result is annual premiums are around 15% of the value of the insured vehicle, compared to about 7% for private cars.

Pushing rates up are:

- ☐ A claims incidence around one in three;
- ☐ Vehicle repair costs averaging R14 000;
- ☐ Increasing numbers of accidents;
- ☐ Thefts and hijackings;
- ☐ High vehicle usage — often between 18 and 24 hours a day; and
- ☐ More than one driver for a vehicle.

Louis Volks, which holds about 70% of Sabta's business, also offers:

- ☐ Violation cover — for policyholders who violate the terms of the policy;
- ☐ A credit agreement shortfall — to cover lessees should market value of a vehicle fall below the amount owed for it because of high mileages travelled, often in excess of 10 000 km per month; and
- ☐ Absconsion cover — when the taxi owner disappears and reneges on his loan.

"In the past three months, losses in these benefits have about trebled," says Hackett. "We've had claims in excess of R1m."

He says the main reason is rising interest rates, which have caused taxi owners to default on payments as instalments increased.

If draft legislation, now with the State law advisers, is promulgated, taxis will have to carry special insurance to indemnify passengers against injury, on top of the R25 000 Motor Vehicle Accident (MVA) cover. ■

Duros Projects to stay independent

58

LYNNE PEACH

DUROS PROJECTS has turned down offers from several financial institutions in favour of retaining its independence. It has decided to change its name to Duro-link, the name used by its recently formed property development company, and go it alone.

Some speculation arose when Duros Projects (now Duro-Link) was excluded from the Investec deal which involved Investec's acquisition of the banking interests of Duros Merchant Bank.

Duros Projects has been run as an autonomous operation focusing on structuring finance transactions, project feasbility studies and new product development. Since its inception 18 months ago, Duros Projects has been instrumental in placing R200 million worth of loans, R180 million worth of interest rate swops and R130 million worth of preference share business. It is retained as financial advisor to several major corporations and generally provides corporate tax and financial advice.

The shares in Duro-Link are now wholly owned by the employees. Mike Bolton, who will continue to co-ordinate the team, says they are in business to stay and believe that the team's independent status provides Duro-Link with a unique niche in the financial services industry.

58

Kick-start for the young home-buyer

By Julie Walker

A METHOD of granting bonds through equity finance, making homes affordable to everyone, has been proposed by Mohamed Adam, president of the Institute of Islamic Economics.

Borrowers usually find that meeting repayments is most difficult in the first few years of a mortgage bond. The reasons are plain: often the buyers are newly qualified; study loans may have to be repaid; apprenticeships or training at low salaries still to be completed; or there are children.

The average person wants a home of his own. By the time a man has left school at 18, served two years in the army, studied for another three or four years at university, and taken his first job, the chances of his being cash flush are slight.

Gap

However, after he has worked for several years, his financial position improves and he is more able to meet repayments on a housing loan.

There is clearly a gap in the market for a repayments which are low initially, rising as one's income grows.

Dr Adam proposes an indexed payment plan which meets the wishes of the average person.

Assume that a home-owner with a bond of R90 000 earns R3 000 a month and has saved up a deposit of R10 000. His monthly repayment would be R1 530.

This means that he would have to earn at least R6 000 a month to be able to afford the house, based on the requirements of most building societies (banks included in this term) that a monthly repayment should not exceed 25% of one's salary.

Assuming that he was granted a bond his repayments would be 50% of his salary. His chances of defaulting are high.

Under Dr Adam's indexed payment plan he would start with repayments of R918 a month — 30% of his pay.

However, his repayments would increase in proportion to his annual salary increase. Repayment would always be about 30% of salary. The absolute amount repaid increases every year at the same rate as the consumer price index or inflation rate.

The indexed repayment plan derives from the concept of equity-based financing, in which the lender shares in the capital appreciation of the asset he is financing.

Example

The method can be compared with a conventional home loan — assuming Mr A is conventional and Mr B is indexed.

In year one Mr A will pay 67% more in repayments than will Mr B. Based on conventional lending wisdom, Mr A would not be able to afford the house, but Mr B would.

Mr B's repayments will increase every year in line with the inflation rate so that his repayments remain a fixed and affordable percentage of his salary. He will repay the total amount after only 11 or 12 years.

Happy

The total amount repaid by Mr B would be R140 670 less than that repaid over a conventional 20-year home loan at current rates.

One way in which borrowers try to reduce their monthly obligations is by taking the bond over 25 or 30 years. But this makes only a small difference in the instalments, which in turn have to be paid for five or 10 years longer and the total is far higher.

When interest rates were 12,5% but looking to rise, some building societies offered new borrowers a choice of repaying at a higher but fixed interest rate for three years no matter what happened to market-related rates.

MOHAMED ADAM

The rate was 16%, so those who took the option must be happy now. Whether they score over time remains to be seen.

Now building societies and the Government are helping hard-pressed home-owners by pegging repayments at an interest rate of 17%.

Borrowers repay at 17% even if rates fall below that until they have made good the difference.

The fact that building societies are prepared to be flexible to attract business is a sign that new thinking may be on the way.

Computer

Dr Adam believes that only a few changes need be made to computer systems to enable building societies to grant indexing to borrowers. He predicts that the first building society to do so would have a head start in attracting applications for bond finance.

Under the indexed plan, the building society achieves the identical return to that from the conventional method, says Dr Adam. The money is also circulated faster, becoming available for another borrower after only a few years instead of 20.

On the downside, it would probably be necessary for building societies to take an additional covering bond to protect themselves.

One banker says the drawback is the low cash flow to the banks in the initial period of the indexed bond repayments. Other than that, he believes Dr Adam's financial model has merit — and does not smack of a gimmick.

Pension fund heads for the rocks

58

By Robyn Chalmers

THE Government service pension fund is still firmly on the road to bankruptcy, says Sanlam's former chairman Andreas Wassenaar. S1 Times 18/6/89

Dr Wassenaar's comment follows the latest actuarial evaluation of the fund. It shows that the fund's deficit grew by R6-billion between 1985 and last year, resulting in an overall deficit of R23-billion.

Dr Wassenaar says he could have predicted the increase in the deficit in 1987 when he exposed the sorry state of the fund in his book En Route to Fairyland.

His criticisms flowed from rules dating from 1965 allowing public servants to reap benefits from the fund.

Jeopardy

The fund's solvency was placed in jeopardy. By 1985, when the first actuarial evaluation was conducted in 17 years, it had a deficit of almost R17-billion.

Dr Wassenaar says although the Government has limited some of the controversial buy-back service concessions, little other action has been taken to ward off the threat of future bankruptcy.

"The fact that the fund is growing is of no importance. If it stopped all new business today, it would continue to grow for the next 15 to 20 years because of the business it has on its books at present."

The deficit will increase to the point where the taxpayer will have to take on the total burden of a bankrupt fund.

The only way in which the Government can reduce the deficit increases is to amend two regulations immediatly. They are:

- The regulation which determines a public servant's pension according to his or her salary on the last working day. This allows an employee to be transferred to a high-paying job in the last few months of service and greatly increases pension payments.
- The whole package under which employees can buy back service. This becomes important if the inflation rate continues to rise, combined with salary and pension increases.

Negative

Old Mutual general manager of employee benefits Gerhard van Niekerk says the fact that the fund is now subject to actuarial reviews is good, but it is still forced to invest in Part 1 assets, a cause for concern.

"There is no point in funding a pension fund which has to invest in areas which give negative rates of return. It would be cheaper to pay benefits out of revenue.

"The fund is going backwards in real terms."

Duro-Link hives off

THE project finance division of Duros Merchant Bank is to go it alone as Duro-Link.

The division was left high and dry after Investec Bank bought Duros Merchant Bank for R15-million, but excluded the project finance and corporate finance divisions. 58

Duro-Link will structure finance transactions, undertake project feasibility studies and new project development.

While it was part of Duros Merchant Bank, it structured the finance for numerous projects, acting for banks and sponsor. It placed loans of R200-million, R180-million of interest-rate swops and R130-million of preference shares. It was also appointed financial adviser to the SA-French consortium known as Metrail. S Times 18/6/89

Duro-Link will be wholly owned by employees and headed by Mike Bolton.

The corporate finance division of Duros Merchant Bank, also left high and dry by the Investec deal with Duros, is also remaining independent under founder Charles Turner.

Duro-Link and DMB Services, as the corporate finance side has called itself, will retain informal relationships.

Credit insurance giant challenged

S Times 18/6/89. (58)

By Udo Rypstra

COMMERCIAL Union Assurance (CU) has entered credit insurance in competition with monopolist Credit Guarantee Insurance Corporation (CGIC).

In a deal expected to generate market growth, CU has teamed up with Hollandia Reinsurance Group and KreditInform, South Africa's largest corporate credit information bureau. The new company is Credit Underwriting Agency (CUAL), through which CU will market credit insurance.

Similar

CGIC, which has been unchallenged for more than 30 years, is backed by a consortium of banks and short-term insurance companies.

CUAL has been established with an initial investment of R500 000, Hollandia holding 50% of the shares, CU 35%, KreditInform 25% and CUAL management 15%. It will operate in similar fashion to a project management company. It will use KreditInform's new headquarters in Randburg as a national base.

Last year, domestic credit insurance premiums totalled R40-million and covered transactions valued at more than R5-billion. This represents 4% to 5% of gross domestic product. The partners in CUAL believe that with the help of credit insurance brokers, who handle about 80% of the business, the market base can be extended.

Phase I of the project, which is to be announced in a few days, will concentrate on the provision of domestic credit insurance. The long-term objective is to cover foreign credit as well.

A new range of computerised financial management services will be provided, says CUAL managing director John Manners.

CU chairman Bill Rutherford says the intention is not so much to wrest market share from CGIC, but to broaden the market base with innovative products and better service.

"Credit insurance is essential in our economy, which is subject to extreme financial pressures and a volatile trading environment.

"However, there appears to be a lack of understanding of the concept and value of credit insurance. It is seen as costly and time consuming to administer. It also often fails to meet the rigorous demands of comprehensive credit management activities."

Fire

Mr Manners says credit insurance is a financial management tool that protects the value of one of the most vital elements of the working capital cycle. Failure by a major debtor has exactly the same effect on a trading concern as the loss of a factory or stock through fire.

"Credit insurance is an essential product. However, we enhance the service by assuming the administrative burden associated with credit insurance and by providing a complete range of information services crucial to daily financial management."

KreditInform managing director Ivor Jones says the company's launch is opportune as the economy has entered a downturn. Judgments for debt are increasing and will result in more liquidations and sequestrations later this year.

The trend is confirmed by his company's information sharing system (KISS), which will be used by CUAL.

Mr Jones says: "We will be responsible for providing all the financial information relating to underwriting decisions. Our huge database and our supporting KISS service will give CUAL a unique advantage in the credit insurance market."

Mr Manners says the specialised broker will have access to a large base of clients.

Trading concerns often cede title to their book debt to bankers to secure facilities. But bankers are traditionally reluctant to attach much value to this security because of its unknown value. By taking cession of a credit insurance policy, the banker will receive monthly reports on the performance of his client's book debt and the insured value.

"This security then becomes a more valuable commodity, increasing the borrowing capability of the client, for example, from as little as 10c in the rand for an uncovered book debt to 80c for a book debt covered by credit insurers."

Imperial pyramid to improve tradeability

S8

S/Times 18/6/89

By Julie Walker

IMPERIAL is to form a pyramid, Imphold, to improve tradeability in the group's shares.

To complement its three existing divisions, it will launch a finance, property and insurance arm, of which the key player will be Regent Insurance. Regent is a short-term insurer, which Imperial aims to develop into a specialised motor and related insurance company.

Premium

Regent was bought as Trade Indemnity Insurance, and will be recapitalised with a share capital of R7-million. It will begin business before the end of the month.

The estimated premium income of SA's short-term insurance market in 1989 is R5,5-billion.

Imperial joint managing director Bill Lynch believes there is a gap in the market for a specialist insurer such as Regent.

Imperial's existing base will account for some of Regent's expected premium income.

Imphold will hold the trading assets of the group, the car rental, truck systems and motor trading operations.

In 1987 and 1988 Imperial's earnings grew by 73% and 58% respectively and the group forecasts another record year.

Imphold will be set up through the reduction of Imperial's share premium account by R11,9-million and the award to shareholders of 100 shares in Imphold for every 100 Imperial.

This means that Imperial shareholders will receive a holding in Imphold of the equivalent number of shares held in Imperial in addition to their Imperial holding.

Once the transaction is complete, Imphold's sole asset will be 75% of Imperial. The public will hold 25% each of Imphold and Imperial.

The relationship should be that one Imperial share will be equivalent in value to three Imphold shares.

Management forecasts that the company will pay a final dividend of 21,8c to give a total of 39,8c for the year — almost 60% higher than the 25c of a year ago.

Mr Lynch says that on forecast earnings of 99,6c a share for Imperial, Imphold would have pro forma earnings of 24,9c.

Demand

"When this is added to Imperial's earnings of 74,7c a share (on the reduced share capital) it leaves the Imperial shareholder in the same financial position as before the listing, except he now has two holdings instead of one."

The logic holds true for the dividend and net asset value.

Joint managing director Stephen Abelkop says that the second listing should help to satisfy demand for shares in the group.

A shareholders' meeting will be held on July 6 to sanction the capital reduction and Imphold's shares should be listed on the JSE on July 17.

Hosken pledges never again

58

51 times 18/6/89

By Julie Walker

HOSKEN Consolidated Investments raised earnings a share to 148,7c in the year to March 1989 and the dividend grew by 22% to 28c.

Its major investments are 52% in each of Saflife and IGI, both of which returned good performances. Hosken's bottom line was crushed by R6-million of losses — equivalent to 58c a share — incurred through R McCarthy.

McCarthy is a construction company which has been in the high-rise building market. Hosken financial director Martin Capper insists that the losses will not be repeated.

"We aim at worst to break even, and may make a small profit in McCarthy. It is being restructured and some divisions have been sold. We are really a financial services company."

Doubled

Hosken has short-term insurance and other interests in London, Botswana and Zimbabwe among others. Gross assets in the group almost doubled to R778-million in the year under review.

In SA, both IGI and Saflife are budgeting for strong earnings growth in the current year.

Hosken's current price of 750c is five times historic earnings and IGI at 900c is on 3,3 times earnings. Saflife at 190c is on a ratio of 8,6.

Hosken's dividend yield is 3,7%, that of IGI 4,2% and Saflife's 6,8%.

Business Report

Gencor to split shares 10-to-one

CAPE TIMES 19/6/89 58

Own Correspondent

JOHANNESBURG. — Gencor is to split its shares on the basis of 10-to-one after holding the largest-ever rights issue, set to raise R1,47bn.

The shares will be split as a result of demand for Gencor shares from smaller investors.

This will occur after an additional 19,6m new shares have been issued.

Details of the rights issue, which will enable the group to participate in new ventures, were also announced by the giant mining house at the weekend.

Gencor is to issue the 19,6m new shares to the holders of its ordinary shares, its preference shareholders, and holders of its debentures on the basis of 20 new ordinary shares for every 100 held.

The shares will be offered at an attractive issue price of R75, which represents a 12% discount on Friday's trading price of R85.

This should ensure that Gencor's controlling shareholder, Federale Mynbou (Fedmyn), which is underwriting the issue, has an easy ride.

Gencor's executive chairman Derek Keys has said that the rights offer is not designed to raise funds for any specific project.

In media statements Keys said: "Gencor companies are involved in a number of projects which have exciting potential — to name a few, the stainless steel project with Highveld Steel, the development of Oryx and Karee, Mossgas and the Torbanite project — and we want to be in a financial position to give the go-ahead if and when the need arises."

He said the capital raised would make Gencor a much more powerful group, placing it in an excellent position to participate in opportunities which had good earnings potential for the group.

Fedmyn, which holds a 54,5% stake in Gencor, is also to having a rights issue.

Like Gencor, it plans to split its share capital 10-for-one after the issue.

For every 100 ordinary or preference shares held, shareholders will be offered 22 new Fedmyn ordinaries at a price of R65, reflecting a discount of almost 10% on Friday's ruling price of R72.

Fedmyn and its subsidiaries have indicated they will follow their rights in the Gencor offer and underwrite the balance.

Sanlam also plans to follow its rights in the Fedmyn offer, taking up 51,4% of the shares offered.

Sanlam's wholly-owned subsidiary, Sankorp, will underwrite the balance of Fedmyn's rights offer.

Bank predicts gloom on SA business front

B Day 19/6/89 (58)

SYLVIA DU PLESSIS

BUSINESS conditions in most sectors of the economy will worsen in the months ahead through to mid-1990, with declining volumes and accelerating unit production costs in many cases, according to Trust Bank.

In its latest Econovision, the bank says those sectors most dependent on the use of credit and/or foreign exchange will feel the impact of the impending downswing most intensely.

On the consumer side, the durables sector will be worst hit, with sales volumes of passenger cars and other consumer durables already declining.

Sales of basic semi-durable products such as clothing and footwear will stagnate, but volumes will fall in upmarket and imported lines, the bank says.

Consumption of food and household non-durables, and most consumer services should have continued growth at a slower rate.

Christmas retail sales volumes this year will be visibly down on 1988.

The bank foresees a contraction in the volume of transactions and in real price levels from mid-1989 in the residential property market. The manufacturing sector will suffer from inventory reductions, especially on imports.

Domestic manufacturers will be cushioned by favourable export conditions and import replacement opportunities, the bank says.

These opportunities will stem from the recent substantial depreciation in the R/$ rate and predicted further depreciation against all major currencies.

This, coupled with continued international growth, will favour the domestic mining sector and export oriented divisions of agriculture, but high interest rates and the rising costs of fuel, implements and machinery will hurt the entire farming sector.

Business purchases of imported machinery and equipment will show a marked decline in 1990, with import replacement opportunities opening up for some domestic manufacturers.

Row looms over high premiums

58

Call for govt to deregulate riot insurer

BDay 19/6/89

KAY TURVEY

THE insurance industry is demanding that government deregulate its short-term riot insurer as resentment over exceptionally high premiums mounts.

A confrontation is brewing over the SA Special Risks Insurance Association (Sasria), the short-term insurer offering riot cover which government re-insures, as the squeeze on its captive market is felt.

Brokers have made representations to the authorities to reduce the rates charged by Sasria, which in many instances account for 60% to 70% of a company's total short-term insurance costs.

SA Insurance Broking Association (Saiba) spokesman on Sasria Peter Lawrence said the time had come to move Sasria out of the hands of the Finance Department and to the local insurance industry, where it could be more pragmatically and competitively run.

It is mandatory for all riot cover to be taken out with Sasria, and at a time when competition between insurers is fierce and rates covering all standard perils are low, Sasria's rates remain high.

Lawrence said the insurer, which was started after the Soweto riots in 1976, should be deregulated.

Initially it was accepted that rates should be high as there was no statistical base on which to calculate the risks, but this was no longer the case.

Sasria's fund, built up over the past 10 years, was estimated at R1,2bn — compared to Mutual and Federal's R800m, which had taken a century to accumulate — as the public had been ploughing in premiums while claims were kept low by the security forces under the state of emergency.

Further, at the time when Sasria was started the capacity and rating of overseas insurers fluctuated widely. Today, however, good alternatives existed in the UK but local companies were not allowed to take advantage of them, Lawrence said.

SA subsidiaries of international companies are also forbidden from insuring their assets against riot and political riot damages under the global insurance policies of their head offices.

The Finance Act makes it an offence to insure SA-based assets against riots and acts of terrorism outside SA without first offering the business to Sasria. The penalty for not complying is a fine of R10 000 or two years' imprisonment or both.

Jaundiced

Priceforbes Federale Volkskas Insurance Brokers executive director Don Gallimore said he knew of only one dispensation having been granted by Sasria, and that was for a risk with unique features.

Sasria CE Rodney Schneeberger denied that a monopoly had been created. He said better cover could not necessarily be obtained abroad, where there was a jaundiced view of what was happening in SA.

Sasria could not refuse or cancel a policy, and therefore the assured were getting a good rate for the risk covered.

Registrar of Financial Institutions Theo van Wyk could not confirm whether representation on Sasria's rates had been made by Saiba. However, he said major corporations had asked for differentiated rates at various times.

Imperial sets up new division

58

SKW 19/6/89

Industrial holdings company, Imperial, over the weekend announced the formation of a fourth division — a finance, property and insurance subsidiary.

The key element in the new division is the Regent Insurance Company, a short-term insurer which Imperial intends developing into a specialist insurer, focussing on the motor, rental and transport areas, the group says in a statement.

Imperial's joint managing director Bill Lynch explains: "We have sought for some time to buy an insurance company to expand into, what we see as, a related area of our business.

"We have bought Trade Indemnity Insurance Company which has become Regent Insurance and will be recapitalised with a share capital of R7 million. Regent will commence business in July."

Mr Lynch says that the premium income of the South African short-term insurance market in 1989 is likely to be around R5,5 billion. "It is our view that within the overall market there is excellent opportunity for a specialist insurer operating in a niche market."

According to Mr Lynch, Imperial's existing base will account for a respectable amount of Regent's expected premium income. Regent's managing director will be Charles Metcalfe, currently Johannesburg manager of General Accident. — Sapa.

Penalty fee for late bond payments

By Helen Grange

At a time when homeowners are struggling to keep up with their bond repayments, some account holders are also faced with the threat of a penalty fee should they fall into arrears.

The Perm Building Society charges additional interest of two percent of the monthly repayment should homeowners fall behind by two months. Thereafter the bank's attorneys are instructed to institute legal proceedings.

No other bank or building society has instituted this additional interest, although at the Natal Building Society (NBS), an extra fee of R20 is payable for a bond repayment outstanding for two months. For every month after that, R10 is added to this.

The general manager of Perm, Mr David Harrison, says the reason for additional interest on late bond repayments is the "extra problems experienced by the building society once an account falls into arrears."

"It is a reasonable reaction. It wasn't introduced to jolt people into paying, but only to cover administrative expenses on our side," he said.

Mr Harrison added that homeowners who couldn't meet their commitments could approach the building society, which would tailor bond repayments to their ability to pay.

Wittes honoured for saving captain

By Barry Glasspool

A Transvaal Rooibokke player who saved the life of his teammate and captain during a provincial match at Newlands two weeks ago has been honoured by his teammates and Transvaal rugby officials.

Wittes Buitendach thrust his fingers into Francois Pienaar's mouth to prevent him swallowing his tongue when Pienaar suffered an epileptic fit after receiving a blow on the head during the game against Western Province B. Doctors later said Buitendach's action had saved Pienaar's life.

Dr Louis Luyt, president of the Transvaal Rugby Union, said yesterday: "If it hadn't been for the quick, sure action of Wittes, we could have lost Francois. He almost had one finger severed, such was the ferocity of the bite."

Buitendach was presented with a Transvaal centenary tie at a weekend ceremony at which the gratitude of the TRFU was extended to the Rooibokke hooker.

21 SA academics hold talks with ANC

By Sue Valentine, Education Reporter

A 21-person delegation from the Union of Democratic University Staff Associations have returned to South Africa after three days of talks with the African National Congress in Lusaka.

The Udusa delegation was led by its president, Professor Mala Singh, and comprised delegates from all its branches. These included academics from Stellenbosch, Potchefstroom, Rand Afrikaans, Cape Town, Rhodes, Natal, Durban-Westville, Qwa-Qwa, Bophuthatswana, Unisa, Fort Hare, Witwatersrand and Turfloop universities.

The ANC delegation was led by Mr Thabo Mbeki.

Star 20/6/89

The general secretary of Udusa, Dr Mike Morris, said the union's intention in going to Lusaka was essentially as a fact-finding mission.

"The exchange of views was extremely beneficial and will enable Udusa to conduct more informed deliberations on these issues at its congress in July," he said.

Premier to restructure operations

CAPE TIMES 20/6/89 (58)

By AUDREY D'ANGELO
Financial Editor

THE huge Premier Group Holdings is to separate its core businesses — ranging from food and pharmaceuticals to entertainment and leisure — from its 34% stake in SA Breweries (SAB), chairman Peter Wrighton said last night.

The stake in SAB, acquired five years ago, will be put into a new investment company which will be listed and named Newco.

Premier, which will be called the Premier Group, will raise approximately R280m through a rights offer.

Wrighton said the cash would be used to expand the core holdings and to reduce their borrowings.

Premier shareholders will still be invested in it and will also hold shares in Newco on a pro rata basis.

Premier will have no interest in Newco. It will have four focused areas of operation — food (through Premier Food Holdings), pharmaceuticals (through Twins and Gresham), entertainment, information and leisure (through CNA Gallo) and consumer wholesale and retail (through Gresham and Score).

Explaining why the restructuring, which will make the shares more marketable, is being carried out, Wrighton said it would help investors to identify the respective values of the investment in SAB and that of the core businesses.

They would then be able to assess the prospects and management of the core businesses on their own merit.

Premier's earnings from its equity accounted investment in SAB had tended to obscure the performance of the core businesses whose earnings this year amounted to approximately R92,3m and whose turnover had exceeded R4bn.

Wrighton said the core businesses had posted substantial increases in earnings since 1984 of 130%, 135%, 50% and 42% respectively. This had progressively reduced the contribution of SAB to group earnings from 90% in 1985 to 65% in 1989.

"I suspect that the market has been somewhat confused by the existing structure and accordingly understates the true value of Premier.

"This view is supported by the fact that if the market value of the SAB investment was stripped out of the Premier share price shortly before we made the cautionary announcement, then the traditional core businesses would be valued at approximately R6,20 a share, which represents earnings multiple of less than five times.

"This is well below the average for equivalent stocks in the market. On the other hand, if the market is valuing the core businesses properly, the value of the SAB component is being taken in at a discount."

Discussing the rights offer Wrighton said: "We believe this move will not only facilitate the development of the inherent potential of the core businesses, but will also ensure that the group is properly geared."

He said the rights offer and restructuring were "the culmination of a period during which all the strategic issues affecting Premier have been addressed."

Premier acquired its stake in SAB from a consortium made up of JCI, Liberty Life and the Anglo American Corporation, in exchange for shares in Premier.

Additional shares were acquired to bring the holding to 93m shares, making Premier the largest individual shareholder.

Wrighton said he was confident that the company was leaner, more focused and more efficient than ever before and would welcome the challenge of separate evaluation.

Premier to restructure operations

Cape Times 20/6/89 (58)

By AUDREY D'ANGELO
Financial Editor

THE huge Premier Group Holdings is to separate its core businesses — ranging from food and pharmaceuticals to entertainment and leisure — from its 34% stake in SA Breweries (SAB), chairman Peter Wrighton said last night.

The stake in SAB, acquired five years ago, will be put into a new investment company which will be listed and named Newco.

Premier, which will be called the Premier Group, will raise approximately R280m through a rights offer.

Wrighton said the cash would be used to expand the core holdings and to reduce their borrowings.

Premier shareholders will still be invested in it and will also hold shares in Newco on a pro rata basis.

Premier will have no interest in Newco. It will have four focused areas of operation — food (through Premier Food Holdings), pharmaceuticals (through Twins and Gresham), entertainment, information and leisure (through CNA Gallo) and consumer wholesale and retail (through Gresham and Score).

Explaining why the restructuring, which will make the shares more marketable, is being carried out, Wrighton said it would help investors to identify the respective values of the investment in SAB and that of the core businesses.

They would then be able to assess the prospects and management of the core businesses on their own merit.

Premier's earnings from its equity accounted investment in SAB had tended to obscure the performance of the core businesses whose earnings this year amounted to approximately R92,3m and whose turnover had exceeded R4bn.

Wrighton said the core businesses had posted substantial increases in earnings since 1984 of 130%, 135%, 50% and 42% respectively. This had progressively reduced the contribution of SAB to group earnings from 90% in 1985 to 65% in 1989.

"I suspect that the market has been somewhat confused by the existing structure and accordingly understates the true value of Premier.

"This view is supported by the fact that if the market value of the SAB investment was stripped out of the Premier share price shortly before we made the cautionary announcement, then the traditional core businesses would be valued at approximately R6,20 a share, which represents earnings multiple of less than five times.

"This is well below the average for equivalent stocks in the market. On the other hand, if the market is valuing the core businesses properly, the value of the SAB component is being taken in at a discount."

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Confin gets controlling interest in Manserv

CAPE TIMES 21/6/89 (58)

Own Correspondent

JOHANNESBURG. — An effective new merchant banking/financial services group is being created by the acquisition by senior executives of Columbia Corporate Finance (Colfin) of a controlling interest in Managament Services Corporation (Manserv).

Having bought Columbia Consultants' 39,8% holding in Manserve (over 5,7m shares) at 64,5c a share, the MAP consortium, together with their existinng holdings will have a 50,1% controlling interest in Colfin.

The MAP consortium, which will extend an offer of 64,5c a share to Manserv minority shareholders, consists of Harry Spain, Jeff Wiggill, Philip Turnstall and Arthur Klitofsky.

In terms of the proposed restructure, certain investments which do not meet the new controllers' investment criteria have been sold for R4,2m in cash.

The investments are Manserv's 30% interest in Concorde Travel Holdings, its 26% interest in Graylink and its wholly owned investments in the Don Gray group companies, Key Computer People Transvaal and Andrew Levy, Johan Piron & Associates.

These interests have been sold mainly to management, said MAP consortium member, Jeff Wiggill.

Left in the new Colfin structure are Wingate Holdings and Punchline Columbia Training and Academy of Learning, the latter two companies to provide corporate and management training.

The R4,2m cash will form the basis of the reconstituted Colfin's investment banking operation. The main objective is the provision of a comprehensive range of corporate and project advisory and underwriting services through Colfin and finance facilities through its interest in Wingate Holdings.

Wiggill said the reconstituted group will place particular emphasis on these services, which include advice on the negotiation and arrangement of mergers, takeovers, acquisitions and disposals by companies; the raising of equity capital; valuations; analysis and recommendations regarding a company's capital amd financial structure; and the introduction of companies to JSE listing.

Another objective is the investment in private companies and management buy-outs with a view to ultimately obtaining a stock exchange listing.

The new group is well placed to do this because of Colfin's present diversified client base and its holdings in cash securities, a portion of which will result from the sale of the non-investment banking companies and its existing investment portfolio.

Wiggill says while financial services will remain the core of the reconstituted business, the group intends to promote its investment banking activities because of its significant cash holdings, both internal and from the sale of the Manserv interests in non-financial services companies.

The Map exectives said the reconstituted Manserv's present tangible NAV is around 70c a share of which about 35c a share is in cash. As this is well above the price paid to Columbia, this is a major advantage to the consortium.

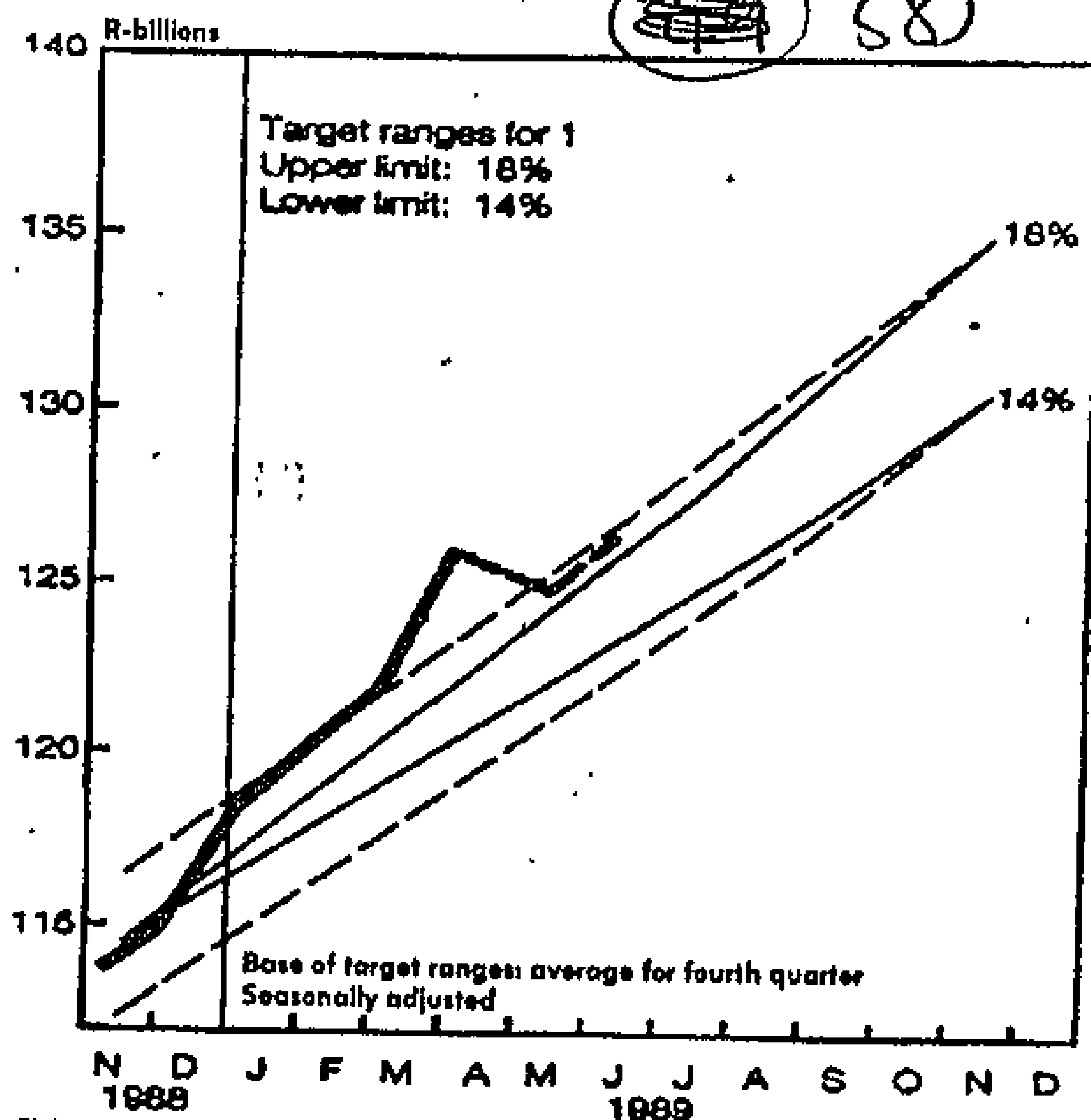
Manserv is expected to report earnings of around 24c a share for the year to March 1989, placing the purchase at a historic PE ratio of 2,7 times.

As Manserv shares are trading at 70c currently, minorities will probably stay on board with the new group.

More finance on page 12, 13, 16 and 17

M3 growth rate still on decline

58



The rate of increase in South Africa's money supply is continuing to decline according to the latest figures released by the Reserve Bank.

The preliminary estimate for the increase in the broadly defined M3 in May was 24,19 percent compared with 25,30 percent in April.

The rate of increase has declined steadily from December's 27,60 percent but still is only just inside the official growth target range of between 14 and 18 percent, which was set by the Reserve Bank in February. Star 22/6/89

In monetary terms, the increase in April in M3 was R124,57 million and in May R125,99 million.

Growth in the more narrowly defined M1 and M2 targets for April were 14,02 percent and 31,86 percent respectively.

21 Star 22/6/89 (58)

Volkskas 'is going places'

Finance Staff

Volkskas's decision to move many of its key divisions to Johannesburg reflects the change in character of the bank since Dr Daniel Cronje took over the reigns of the group last year.

Volkskas is the only major South African bank with its head office in Pretoria.

Although a Volkskas spokesman said its current headquarters in Pretoria would remain its registered and administrative head office it is believed the move might be a forerunner to the bank moving all its head office activities to Johannesburg.

A shakeup of Volkskas' senior management followed its annual meeting in August last year, which saw the appointment of a new group managing director in Dr Cronje and a new chairman in Mr Joe Stegman, influenced the decision to a great extent.

The move to Johannesburg will affect a quarter of the staff — about 500 people.

The spokesman said the move was prompted by the intense competition in the banking sector and the need to get closer to the heart of the financial and banking market.

In addition, it would enable them to become more aggressive in the corporate and English market.

The spokesman said a project team had already been selected to find premises. "This is priority number one. We are looking for suitable accommodation in the centre of Johannesburg, not in Sandton or any other areas".

The move is expected to be made by the end of the year.

Dr Daniel Cronje

The spokesman said the departments moving to Johannesburg included the bank's corporate finance division, international division, internal and external treasury, marketing division, public relations, the planning section of its manpower division, credit division, electronic banking services, economic, secretarial and the group managing director and senior general management.

About 1 500 people will remain at Volkskas's Pretoria headquarters. Included among the bank's departments and divisions remaining were the bank's inspectorate, security, purchasing division, credit card and management services divisions.

"Our Northern Transvaal head office in Hatfield for our Northern Region will move into the head office."

Agreement on new bond plan

CITY TIMES 24/6/89 58

THE government's relief scheme for cash-strapped home-owners has been finalised and could come into effect within days. The acting Minister of Public Works and Land Affairs, Dr Dawie de Villiers, said agreement on the plan, between the state and financial institutions, had been reached yesterday.

The chairman of the Association of Mortgage Lenders of South Africa, Mr Bob Tucker, said formal ratification of the scheme could take place "very soon".

Problems such as whether the agreement contravened provisions of the Usury Act had been ironed out, said Mr Tucker, and nothing could now stop bond-holders from getting relief.

In terms of plans outlined by Mr De Villiers, bondholders under threat of losing their homes will be able to capitalise the difference between current market rates of 19,75% to 20% and the 17% at which their monthly instalments would be pegged.

The aid would be available to those who owed less than R90 000 on a house valued at below R120 000.

BUSINESS PERSONALITY OF THE WEEK

Cheers ! Protea turns 25

W/E Argus 24/6/89 58

Business Editor

EVERYTHING was done verbally when his company transferred Tony Crank, a Liverpool marine insurance inspector, to South Africa in 1959.

About five years, he was told by Sea Insurance, part of the Sun Alliance Group. But nothing was in writing and nobody said any more about it.

"And I'm still here, 30 years later," said Mr Crank, now managing director of Protea Assurance, which celebrated 25 years in business in Cape Town this week.

"Long service is not unusual among our staff of 760. We have 96 people with over 25 years' service, the majority are skilled people," he said.

Although the Transvaal produces 40 percent of the business, Protea's board has resisted suggestions to move its headquarters to the Reef.

"With modern communications there is no need to be in Johannesburg," says Mr Crank.

He is only the third managing director to be appointed by Protea, a job he has held since 1982. He succeeded Mr H A W Anscombe, who held the post for nine years.

Tony Crank . . . outperforming inflation.

From marine inspector, Mr Crank eventually switched over to general insurance and then moved up the ladder.

Mr Crank says business can be highly competitive in an industry that's either enjoying a feast or suffering from famine. "Things don't seem to go smoothly for long."

The short-term industry is no sooner counting on a good year than it is hit by huge claims for fires, floods or drought. And companies are often torn between a rate-cutting war to get new business.

Landing customers with increased rates to meet these payouts can be counter-productive.

(See Page 3)

Cheers ! as Protea turns 25

(From Page 1) W/E 24/6/89 Argus 58

However, Mr Crank believes a lot of the industry's ups and downs will be ironed out by building up new reserves of about R500-million to pay for major losses instead of being forced to make sudden rates increases.

"The industry is changing and we will have strategic reserves for catastrophies. In the past we were not allowed to create reserves for floods but over the next five years companies can set up reserves representing 10 percent of net written premiums."

However, there have been fewer large industrial claims and, after years of drought, the Transvaal farmers have had very good rains.

The company can trace its origins back to 1813 when it traded in Cape Town as a branch of Sun Alliance, the British insurer. Protea was registered on June 20 1964 with a capital of R500 000 in R1 shares.

It received its certificate to underwrite all classes of short-term business on August 11 that year and notched up total premium income of exactly R72 724 for that year, which seems small beer by today's standards.

That income soared to R295 000 in 1965 and to R524 000 in 1966: now it is expected to be R197-million gross from short-term business for 1989.

First year's profit was R5 971 after the tax man grabbed R4 470: Protea now earns R11,7-million after paying tax of more than R5-million.

Another milestone was on January 1 1967 when the company took over all the assets and liabilities of the Sun Alliance and London Assurance Group in South Africa, Botswana, Lesotho and Swaziland.

Protea also took over the SAL group's business in Rhodesia, Malawi, Zambia, Mocambique and Angola.

On that date Protea was registered as an insurer undertaking life assurance.

Share capital increased to R1,5-million with the takeover and new status.

Total assets grew from R1,4-million to R13,2-million immediately and premium income rose ten-fold to R5,6-million.

The next 21 years saw Protea's premium surge to R127-million last year and total assets growing from R13-million to more than R396-million.

On January 5 1985 Protea took over the Phoenix Prudential Company of South Africa.

"Short-term business is a hard market with interest rates growing in the market place. Some companies will boost their cash flow by writing new business they would not normally write, the interest they earn will be higher than the claims will be."

Protea's shareholders have seen their returns outperforming inflation, partly from investment income but mainly from appreciation of the values of the company's investments in equities.

Buy a house and retire as a near-millionaire

58

Star 24/6/84.

A NEW mortgage finance scheme which is set to revolutionise property financing in the country has just been launched by Nedbank and its subsidiary UAL Merchant Bank.

In terms of the new scheme, called Nedgrowth, home owners have the option of repaying only the interest on their home loans and investing the portion that would have gone to capital redemption, in UAL unit trusts.

Says Mr Geoff Richardson, managing director of UAL Merchant Bank: "The Nedgrowth Home Loan is an innovation on the South African market and just as the introduction of equity-linked insurance policies changed the face of the life insurance industry in the late 60's and early 70's, the unit trust-linked home loan could revolutionise the home loan industry and the individual's inclination to save.

Geoff Richardson

Unit trusts have in the recent past recorded outstanding performances with the UAL general equity fund showing a compound annual return (on a lump sum) over 10 years with the income re-invested of 25,6 percent.

Even taking into consideration the effect of taxation on the income reinvested at a marginal rate of 45 percent, the compound rate of return would still have been an impressive 23,2 percent.

In terms of the Nedgrowth Home Loan the monthly repayment is structured in such a way that apart from the monthly interest — the bond value stays constant for the duration of the mortgage period — a monthly payment is made into UAL's unit trusts which has superior investment returns than can be got from a reduction of the capital outstanding on the bond.

Take for example the person with a home loan of R100 000 payable over a period of 25 years. At an average interest rate of 18 percenthis monthly repayment (including capital) in terms of a conventional bond would be R1 517,43 a month (excluding bond assurance costs).

MAGNUS HEYSTEK
Finance Editor

In terms of the Nedgrowth Home Loan his monthly repayments would beslightly more at R1 575,37 a month, with R75,37 being the unit trust contribution.

Assuming a growth rate of 22 percent, as experienced by UAL's unit trust in recent years, the value of the unit holding would be R979 787,08 at the end of the loan period.

After repayment of the loan balance, which remains constant at R100 000, the investor would be left with an unencumbered investment valued at R879 787,08 as well.

Even at higher interest rates of say 19,75 percent the home owner will still be in acash-flush position at the end of his loan period. Based on the same assumptions of the previous example but with an interest rate of 19,75 percent the home owners monthly repayments in terms of a conventional bond would amount to R1 658,21 per month. In terms of the Nedgrowth the monthly repayments increase to R1 721,20 but after twenty five years his net capital position would amount to R555 703,40c (R655 703,40 less R100 000) should unit trusts perform at roughly the same rate as during the last 20 years.

The Nedgrowth Home Loan is particularly suited to people who remain in their houses for the duration of the bond period. Although home loans are usually taken out for a period of twenty years and longer, the duration of the average home loan is usually under ten years.

Even after nine years (based on the same assumptions as related here) the unit trust-linked home loan will significantly outperform the conventional bond in terms of capital growth.

In this example, under the conventional bond, capital repayments would have amounted to only R4 640 while the value of the units in terms of Nedgrowth would be R25 667, a substantial difference to the home owner.

Cheats beware!

CHECKS on families who apply for the government subsidy for first-time home-owners are expected to become more stringent from next month.

The authorities are planning to get Deeds Offices to run the ID number of applicants through their computers to find if they have bought a property before, say estate agents.

Home-buyers will also need to register with the Department of Public Works and Land Affairs before they can go to a bank or building society for a loan.

Until now applicants merely had to sign a declaration attached to the mortgage form and say the house being bought was their first.

Officials suspect the scheme has been abused by some people in the past and that thousands of rands could have been paid to people who owned houses previously and were not entitled to the subsidies.

construction outlook is darkening. Group Five in a white knight rescue

Pension fund needs urgent action

58

25/1/90

S Times

By Robyn Chalmers

THE ageing SA population will result in huge Government pension payments unless a retirement provision system is created soon says Sanlam chief economist Johan Louw.

He says such a system must involve a large part of the total population, and should move away from a national pension or retirement system towards large-scale private schemes.

"One only has to take into account the big increase in the black population in recent years to realise that the situation is urgent. The private sector must get involved in retirement provision by creating a system which makes it easy for workers to provide for their future."

Teachers Federal Council (TFC) chairman Dudley Schroeder believes the situation could be alleviated if the Government Service Pension Fund was democratised and at least partially privatised.

He says money from State pension funds had been used as a cheap source of funding certain Government expenditures for too long.

Mr Schroeder says it is imperative that action be taken to end the lengthy debate concerning the Government pension fund.

He says some of the recommendations made in an internal investigation report by the TFC were considered during a recent Standing Committee meeting in Pretoria. These included that:

- Democratisation is essential and contributors to the Government pension fund should be given a say in the appointment of a Board of Trustees.
- An investment policy which will ensure maximum returns on capital and income should be applied. This means that the current statutory requirements of the fund to invest in Government stocks and obligations which yield a very limited profit only should cease. A more realistic income from interest at competitive current rates would eventually eliminate existing financial problems.
- Serious consideration should be given to the possibility of privatising the Government pension funds at least partially.
- The State should, within an agreed period, replenish current deficits from its own sources. These deficits can largely be attributed to the historical fact that pension funds whose funding was totally inadequate, were integrated with the Government pension fund.
- In cases of resignations before the age of retirement is reached, contributions should be deposited in a reserve fund.

S Times 25/6/89

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What to look(out) for in futures

ACCUSATIONS of price manipulation and dealing fraud as well as casino-like gambling have regularly been associated with futures markets.

Most recent events of subpoenas being delivered on exchange floors in the US are fresh in one's mind. Does this mean that these markets are to be avoided? Is there any economic value provided by a futures market?

These questions can be answered by outlining what participants in these markets should hope for and what they should be wary of.

Futures contracts trading on recognised exchanges has existed for many years and has survived many scandals.

This clearly illustrates that there are many who benefit from their existence. Responsible people have encouraged the development of futures trading with the number of exchanges, markets and contracts growing quickly.

This growth has been made possible through people with differing needs being able to match these in the futures markets thereby providing economic benefit to both parties.

Risk

The major parties in any successful future contract are hedgers (people looking to decrease their risk to price movements) and speculators (people who assume the risk with the objective of making profits).

Their relationship is analogous to an insurance transaction. Insurance underwriters take away the risk of financial loss related to specific events such as fire or theft.

Few people however, wish to experience a fire or theft so that they can recover their insurance premium.

In the case of a futures contract the event to be insured against is a change in the price of a commodity, or the value of a share index, or the level of interest rates.

The premium should be considered an expense not a loss. The true hedger is prepared to carry this expense because he benefits from the reduction in risk.

Economic value can be realised by the hedger in that with less risk many business advantages follow. Those who assume the risk can expect compensation, although as we all know through experience with insurance it may not always be profitable. Many participants in underwriting arrangements experience losses.

By DAVID KING, director of LAIRD Associates, the international financial services company, which he established with former Eskom financial director Larry Harper

It is unfortunate that the term "speculator" rather than "underwriter" is used for risk assumption in futures markets.

One imagines that this is so because small, individual investors have access to the future exchanges. Participants in the futures market are not like Lloyds of London or the insurance companies.

Underwriters deal among themselves therefore the existence of day-to-day dealing is not the difference. The most obvious reason for speculation being considered applicable to futures is the attraction of these markets to the amateur risk underwriter.

Amateur investing, speculation or underwriting is the biggest source of concern for futures contracts. These are the people who do not understand the full extent of their commitment in a contract, thereby affording the opportunity for the less scrupulous dealer to make his quick buck.

It is within this group that the losers outnumber the winners by a very large margin. Stories of unexpected losses, of poor dealer-client service and of bad investment management often cloud the definite economic merits of futures contracts.

Contract

To derive economic benefit from participation in the futures market one must:

- Clearly understand the motivation for becoming involved. Are you wishing to move risk to others or are you wanting to assume risk?
- Get to know every aspect of the futures contract. Initial cash requirements may be low, however total obligations can be very large. The full extent of losses can exceed your initial investment just as profits can be significant.
- Monitor market conditions and prices closely. This should include prices at time intervals during the dealing day because prices obtained are more critical than those obtained in a share transaction.

Much of the alleged fraudulent and manipulative dealing can arise when clients do not monitor their transactions in terms of market prices existing at the time of deal execution.

The hedger must follow the same precautions as the speculator regarding market activities.

In addition he should pay attention to ensuring that he does not move into the realm of speculating. Too often hedgers speculate in their hedging based on their view of possible future events.

While this is an acceptable practice, one must realise the degree of speculation as opposed to a true hedging strategy.

Allied group loses R10m in profit to accounting errors

Cape Times 26/6/89 (58)

Own Correspondent

JOHANNESBURG. — Allied management has uncovered serious accounting lapses in the group's financial accounts — and a subsequent investigation has led to a quiet R10m downward revision of its profits for use within the group.

Soon after the accounting blunders came to light, three accountants left the building society group and another apparently committed suicide.

Profits for the 1987/88 financial year were effectively revised downwards by about R10m as a result of the investigation. Well-placed sources said Allied management now regarded taxed income of R51m for the year to March 1988 as a more accurate reflection of the group's performance than the R60,9m in the official statements.

The investigation into accounting procedures, said to have been called for by MD Kevin de Villiers, who effectively took over the reins at the beginning of 1988, was completed recently. It is said De Villiers inherited the problem and his drive to solve it has made waves within the group.

The investigation and revision of the accounts were conducted with the help of auditors Pim Goldby and Aiken and Peat.

The core of the problem in 1987/88 was that transfers to reserves had been inadequate. Banks and building societies are not obliged to disclose these transfers.

Another important factor was that "once-off" profits — which could not be repeated in subsequent years — were included in the figure. As a result, the Allied reported a hefty profit of R60,9m in the year to March 1988.

As this profit was not sustainable, it was followed by a sharp drop in earnings to R52,8m in the year to March 1989.

Incompetence

However, compared with the revised results for the year to March 1988 of R51m — a figure auditors Pim Goldby and Aiken and Peat agree with — this latest earnings figure represents a small increase in profits instead of the official 13% decline.

De Villiers declined to confirm that profits had been revised downwards by R10m, but he acknowledged that accounting had been poor and steps taken to rectify the situation.

He said: "We found incompetence, but fortunately we did not find malpractice. What we found nine months ago was a fairly primitive level of accounting, but today our accounting is excellent.

"The figures for the 1988/89 financial year already reflect the steps we took, and by the time we report again, we will have had a full year of top-quality accounting."

An important measure was the implementation of tightly controlled budgets, profit and loss accounts and balance sheets for every branch and head office department of the Allied, De Villiers said.

The Allied is poised to make a strong comeback in the profit stakes. Analysts expect the group to report a substantial increase in earnings and dividends when it next reports. It has built up assets in the past financial year and, with a mortgage book of R6,1bn, is the third biggest player in the home loans market after UBS and Nedcor.

Building society margins improved this year as increases in mortgage rates took place swiftly. With no pressure on margins expected, analysts say the volumes the Allied has built up will lead to an impressive growth in earnings.

Rumours about an imminent takeover, which have played havoc with the Allied's share price, continue. But De Villiers points out that a hostile takeover is impossible because banking legislation would prevent this. Market talk is that he is keen to do a deal, but nothing concrete has emerged yet.

Allied startled by accountancy lapse

Star 26/6/89

(58)

Finance Staff

The Allied Group will not revise its profits for the 1987/88 financial year as a result of the exposure of major accountancy lapses, Allied managing director Kevin de Villiers said this morning.

Responding to a morning newspaper report that the R60,9 million profits for the 1987/88 financial year were overstated to the tune of R10 million, Mr de Villiers said that the official figures for the year would not be restated.

Fortuitous profits

Mr de Villiers, who started the investigation into the accountancy procedures when he took over at the helm of Allied early last year, indicated that the transfer to the reserves had been inadequate.

"There are always fortuitous profits that will be made and it might have been more prudent to transfer them to reserves," he said.

Banks and building societies are not obliged to disclose their reserves and Mr de Villiers said the lapse was a "natural mistake to make".

The additional R10 million were transferred to the bottom-line, although the profits were likely to be a "one-off" and were not likely to be repeated in the following financial year.

As a result the profits during the 1988/89 financial year to end-March declined by 13 percent at R52,8 million.

But given the R10 million accounting "blunder" auditors Pim Golby and Aiken and Peat, who assisted with the investigation, reportedly believe that Allied actually improved earnings slightly over the year.

The 1988/89 figures, according to Mr de Villiers, already "reflect the steps taken to boost the accountancy standards in the group.

"The problem was one of incompetence not of malpractise and we have taken steps to rectify the situation.

"By the end of this financial year we will had a full year of top-level accounting," Mr de Villiers.

As a result of the lapse three accountants left the group soon after the incident was uncovered.

Another committed suicide, but Mr de Villiers said "it was unlikely that this was related to the incident."

Allied denies it revised profits

CN 6 Times 27/6/89 (58)

JOHANNESBURG. — The Allied group has denied reports that it has revised its profits for the 1987/1988 financial year downwards by about R10 million.

In a statement issued yesterday the group said "The reports appear to have been based on unauthorised access to an internal managment review. This review was one of many similar studies which are performed on an ongoing basis. It was primarily concerned with the examination of Allied's sources of core profit".

The statement said that some problems with managment accounting had been discovered in the past year but they had been corrected. It said it was not correct to infer that these problems had any effect on the group or its operations.

It said the financial results for the 1987/88 financial year had not officially or unofficially been revised.

"The board is fully satisfied with the integrity of the annual financial statements for 1988 and 1989, as are the auditors.

"The fact that profits in 1988/89 decreased reflected market conditions and some long term strategic decisions and it should be noted that while profits from the core businesses declined, some subsidiary operations (in particular insurance) performed extremely well and significant profits from these sopurces were included in the group's results". — Sapa

African Bank back on track

Cape Times 27/6/89

58

Financial Editor

THE directors of the African Bank say it is well on the way to "shrugging off the problems that have plagued it in the last year".

Results for the six months to March 31 seem to bear this out. Retained income of R108 845 was 43% higher than the R76 108 for the whole of the previous year.

After tax income was R242 737 compared with R383 458 for the whole year. Distributable reserves were R318 845 compared with R496 108.

As is customary with the bank, no interim dividend has been declared on ordinary shares although R210 000 will be paid out to preference shareholders. Acting CE Jack Theron says:"Should this current trading trend be maintained it is anticipated that an ordinary dividend will be declared at year end."

Theron says it is an encouraging sign that the bank's ordinary share capital has increased by R263 050 since September last year to R3 912 058 at the end of March.

And applications for shares are still being received "indicating that investors have a renewed confidence in the bank."

Five-year plan

Theron continues:"There is now a firm base for our operations and increased efficiencies and tight controls founded on professional banking principles are in place."

The continuing improvement of computer and other internal control systems are helping to place the bank on a more competitive footing and offer a better service.

"The bank has engaged the services of the strategy group of Deloitte Haskins & Sells Management Consultants to assist in the preparation of a five year strategic plan for the group.

"A major task within this plan will be to ensure that delivery systems are in place to meet the expectations of an increasing and varied client base."

R8-billion JSE boom — De Beers record

ARG4
27/6/89
58

By TOM HOOD
Business Editor

MORE than R8-billion was added to share values on the Johannesburg Stock Exchange yesterday as prices soared across the board.

The JSE's industrial shares index reached its highest, gaining 49 points to end at 2 623. The overall index jumped 55 points to 2 646.

Gold shares slipped in early trading today, partly owing to profit-taking and a slightly softer gold price.

De Beers hit a record R66,85 yesterday after a jump of R2,60. Its price has doubled in 12 months from a low of R32,25. Investors have seen the market value of De Beers rocket by R1 500-million to more than R24-billion in one week.

RUSH TO BUY

Gold shares led the latest upsurge, which was boosted by a combination of a firm gold price, a weaker financial rand and a rush to buy by small investors. Big gains were also made by platinum, hotel, food, paper, tobacco and transport sectors.

Gold opened at \$374,35 an ounce in London today against \$375,25 at the close yesterday and \$374,25 at the New York close.

The rand opened at R2,7783 to the dollar (\$0,3599) in Johannesburg, against R2,7718 (\$0,3607) at the close yesterday.

The financial rand weakened sharply yesterday to close at R4,08 (\$0,2450) to the dollar against Friday's R3,99 (\$0,2506).

● See page 25.

Business Report

Allied briefed JSE analysts

CAPE TIMES 28/6/89 (58)

From GRETA STEYN and ROBERT GREIG

JOHANNESBURG. — Top Allied executives in recent weeks briefed JSE analysts and at least one major institution on the secret investigation into its profits.

This was discussed at a board meeting on Monday, a well-placed source said yesterday.

The source said the discussion had centred on the release of information by MD Kevin de Villiers to certain brokers' analysts before shareholders had been informed.

The source claimed the release of the information had taken place without board clearance.

De Villiers last night declined to confirm or deny that such briefings had taken place.

Analysts said yesterday top-level Allied executives told them some weeks ago that the 1987/88 profits were an inaccurate reflection of the group's performance in that year.

However, they were not under the impression that any official revision of profits was at all necessary.

But they were taking into account the "revised" figure — about R10m lower than the R60,9m in the official statements — and were basing their judgment of the company on the new information.

Business Day's report on Monday, which appeared soon after market talk surfaced, was immediately followed by an Allied statement denying that an unofficial revision of profits had taken place.

De Villiers said last night the board was standing by its denial, and mentioned the advertisement in today's Business Day, saying press reports on the group had been "misleading and exaggerated".

It says: "Allied's audited results for the 1987/88 year have not been revised — either officially or unofficially. The board is fully satisfied with the integrity of the annual financial statements for 1988 and 1989, as are the auditors."

● The annual meeting of the Allied Group is set for July 12, 1989.

CM Times 29/6/89 (18) 58

De Kock's brilliant career

TO RETIRE ... Gerhard de Kock

PRETORIA. — Dr Gerhard Petrus Christiaan de Kock, who resigned as governor of the Reserve Bank yesterday because of ill health, was born in Cape Town on February 14, 1926.

He received his primary education at the Pretoria Oos-skool and matriculated at the Afrikaanse Hoër Seunskool in Pretoria in 1942. He received a BA degree in 1945 and a MA degree in economics in 1947, both cum laude, from the University of Pretoria.

Dr De Kock then pursued his studies in economics at Harvard University in the United States, receiving an AM degree in economics in 1949 and a PhD (economics) in 1950. His doctoral thesis, subsequently published, was entitled "A History of the South African Reserve Bank, 1920-52".

Dr De Kock returned to South Africa in 1951 to take up a senior lectureship in economics at the University of Pretoria, a position he held for five years.

He joined the SA Reserve Bank in 1956, becoming head of the economic department in 1963. From 1962 to 1964 he combined his post in the Reserve Bank with that of part-time professor and head of the department of money and banking at the University of Pretoria. He has been an honorary professor at the university since 1965.

The Reserve Bank seconded him to the treasury as special economic adviser in May 1966, for a period of 14 months.

From August 1968 to June 1971 Dr De Kock served as alternate executive director of the International Monetary Fund in Washington, representing South Africa, Australia, New Zealand, Lesotho and Swaziland.

On being appointed one of the Reserve Bank's three deputy governors, with effect from July 1971, he returned to South Africa.

Promotion to senior deputy governor followed in July 1976 and in 1977 he was also appointed special economic adviser to the Minister of Finance and member of the Prime Minister's Economic Advisory Council. In 1985 he was appointed a member of the new Economic Advisory Council of the State President.

In August 1977 Dr De Kock assumed the task of chairing the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa. This commission issued an interim report on exchange rates in South Africa in November 1978 and a second interim report — on the building societies, the financial markets and monetary policy — in November 1982. Both reports were accepted by the government.

The commission received the Business Achievement of the Year award from the now-defunct Rand Daily Mail in December 1979. The final report of the commission was published in May 1985. Most of its recommendations were implemented.

Dr De Kock was appointed governor of the Reserve Bank from January 1981 and re-appointed for a further five-year term from January 1986.

Since January 1981 he has served as governor for the SA Board of Governors and the International Bank for Reconstruction, and the Development Bank of Southern Africa.

Dr De Kock was a member of the Central Council of the Economic Society of South Africa for several terms since 1956 and was president of the society in 1980 and 1981. He has served as president of the Institute of Bankers in South Africa and is a member of the Suid Afrikaanse Akademie vir Wetenskap en Kuns.

In 1984 Dr De Kock was nominated as a member of the board of the University of Pretoria.

Among the awards he has received is the SABC Diagonal Street Communicator of the Year award and an honorary doctorate from the University of Port Elizabeth, both in 1987.

The following year he received honorary doctorates from the universities of Pretoria and Potchefstroom. — Sapa

Acclaim for SA's gentleman banker

58

Star 29/6/89

The praise is pouring in for Dr Gerhard de Kock, South Africa's top economist, who announced his resignation from the Reserve Bank yesterday, reports **MAGNUS HEYSTEK, Finance Editor**

Dr Gerhard de Kock, who announced his resignation as Governor of the Reserve Bank yesterday, emphasised that he was stepping down purely for personal reasons.

"Given the precarious state of the economy, it was best to establish clarity about the economic leadership of the country as soon as possible."

Rumours that he had resigned as a result of political pressure were dismissed as "highly insensitive" by a Department of Finance spokesman.

It is well known that Dr de Kock's health has deteriorated recently. He was unable to fulfil his duties for several weeks earlier this year.

Bankers and economists were unanimous in their praise for Dr de Kock, the chief architect of South Africa's move to more market-related monetary policies this decade.

In 1977 he was appointed chairman of the commission of inquiry into South Africa's monetary policies.

Dry sense of humour

In the first of several reports, it proposed dramatic and sometimes radical — for South Africa — changes in the management of the economy.

During more than eight years at the helm of the Reserve Bank — a post held for more than 17 years by his father — he gained a reputation as a gentleman's banker, with a dry sense of humour.

Last year he was named Central Banker of 1988 by an international banking magazine.

Dr de Kock said yesterday: "It is a pity I could not see out the full period of my second term as governor. I would have been just about 65 then, and that would be a good age to retire. Unfortunately my health has prevented this, and I deemed it my duty to resign at the end of October."

He told Sapa that he had a house in Hermanus and a flat in Cape Town and would be moving to the Cape.

Dr de Kock is credited with masterminding the 1987 rescheduling plan which effectively reached agreement with overseas banks and financial institutions on repayment of South Africa's foreign debt after overseas credit facilities had been withdrawn.

His tenureship as South Africa's central banker has been characterised by extreme volatility in the economic cycles which placed him and central bank policy under great pressure.

He took over the reins at the Reserve Bank on Janaury 1 1981 with the economy racing ahead at an annualised rate of growth of 8 percent.

This was followed by a sharp recession as the gold price tumbled, only to be followed by the mini-boom in 1983/84 — which was again followed by the calamitous collapse of business confidence during 1985/87.

Reaction from bankers has been one of shock. All praised Dr de Kock for the way he handled a diffcult job.

Dr Chris van Wyk, managing director of Bankorp, said: "Dr de Kock is certainly a man of great distiction and international recognition, and we are very sad to hear this news. He has always been a significant liasion man between bankers and politicians.

"But we can regard ourselves as lucky that a man of the calibre of Dr Chris Stals is his successor."

Cape Times 29/6/89 58

From page 1

De Kock retires

he could make a unique contribution locally as well as internationally in the economic and monetary fields.

"He is a person of unqualified integrity with a very pleasant personality and fine sense of humour."

Standard Bank general manager Mr Andre Hamersma said: "Everyone has tremendous respect for the governor. He is extremely approachable and has an excellent relationship with the banking community. He is a person of international standing and in that respect means a lot to South Africa."

Anglo American's Mr Aubrey Dickman said Dr De Kock had played a major role in steering the economy away from a directed approach to more market-oriented policies.

Assocom's chief executive Mr Raymond Parsons said: "Business in South Africa has particularly appreciated Dr De Kock's consistent but balanced support of market-related policies, as well as his efforts to improve and reform the monetary system in South Africa."

In London there was little surprise in the City at the resignation. South Africa-watchers said he had been known to be ill for some time, and his resignation had been on the cards.

The appointment of Dr Stals as his successor went down well as Dr Stals is known to have worked closely both with Dr De Kock and Mr Du Plessis.

An analyst said: "The market certainly hasn't taken the news too badly. The financial rand is firmer and gilts are slightly up."

Another analyst expressed caution, saying that there is the possibility that Dr De Kock was edged out because he wanted to impose some stringent financial medicine ahead of the next elections.

"I'm willing to bet that interest rates will come down before September," he said.

Dr Johan Louw, Sanlam's chief economist, said: "The outstanding feature of Dr De Kock's governorship was his belief in the free market and his opposition to direct controls and intervention in the economy."

Dr De Kock clashed with President Botha on prices and wage controls last year and raised eyebrows earlier this year when he said South Africa had to show real political reform or it would not achieve higher growth and lower inflation.

Dr Ockie Stuart, director of the Bureau for Economic Research said: "Dr De Kock had a monetarist approach to managing the economy.

"Dr Stals is not known as a monetarist, rather, he can be expected to go for a more controlled approach. This probably ties in better with the current economic thinking of government."

Reaction from bankers was one of shock, although all praised Dr De Kock for the way in which he handled a very difficult job.

Dr Chris van Wyk, managing director of Bankorp, said: "Dr De Kock is certainly a man of great distinction and international recognition and we are very sad to hear this news. He has always been a significant liaison man between bankers and politicians and we are sad and sorry at the turn of events. But we in South Africa can regard ourselves as lucky that a man of the calibre of Dr Chris Stals is his successor."

Dr Stals was seconded to the Department of Finance in 1985, when he was senior deputy governor of the bank. He has been tipped for many years to take over as governor from Dr De Kock but was only expected, according to monetary officials, to return to the bank when his secondment ended in August next year.

Mr Botha announced the resignation of Dr De Kock yesterday and said that the Cabinet had put on record its appreciation for Dr De Kock's valuable services to South Africa.

Dr De Kock said he had no immediate plans but that he would not have any connection with the bank by October. He said that he had a house in Hermanus and a flat in Cape Town and that he would be moving to the Cape. — Own Correspondent and Sapa

Star 30/6/89

African Bank regaining investor confidence

58

By Jabulani Sikhakhane

Renewed investor confidence coupled with tight controls and the upgrading of computers and other internal control systems should see the African Bank showing improved financial results at year-end September after last year's poor perfomance.

Acting Chief Executive Jack Theron says there is now a firm base for the bank's operations and increased efficiency and tight controls founded on professional banking principles are now in place.

For the six months to end-March 1989 the Bank reported encouraging results after the foreign exchange scam, for which three of its former employees were each sentenced to 14 years jail, impacted negatively on the 1988 results.

After tax income of R242 737 realised during the period under review augurs well for the full year bearing in mind that taxed income for the year-end September 1988 was R353 458.

Retained income rose 43 percent to R108 845 compared with R76 108 for the previous 12 months to end September 1988.

SHARE SUPPORT

And since September the Bank's ordinary share capital increased 7,2 percent or R263 050 to R3,9 million at end-March with applications for shares being received steadily, indicating a renewed investor confidence in the Bank.

As is customary no interim ordinary dividend has been declared and should the current trend continue the Bank anticipates that an ordinary dividend will be declared at year-end September 1989. However preference dividends amounting to R270 000 were paid for the half year ending March.

Theron attributes the improved results to the management of interest turn and greater control over staff and operating costs. "The full impact of staff loyalty, their productivity and on-going rationalisation will further improve the operational perfomance and have a positive impact on the Bank's perfomance for the second half of the year".

The Bank has also engaged the services of a group of management consultants to assist in the prepartion of a five-year plan.

Building societies lose as savers turn elsewhere

58

Star 30/6/89

By Derek Tommey

The building society movement is seriously concerned about the low level of personal savings.

South Africans are not saving as much as they did in the past and what they do save is not going to the building societies.

As a result, societies are no longer able to rely on private individuals' nest eggs to provide them with a stable inflow of long-term savings.

Instead, they have to bargain with big institutions for short-term funds to finance their operations, leading to instability and major fluctuations of both lending and borrowing rates.

Both Gordon Chapman, chairman of the NBS, and HV Hefer, chairman of United, discuss the development in their annual statements out today.

Mr Chapman says there has been a consistent decline in the past few years in the proportion of funds obtained by NBS from the man in the street.

The result is that the NBS has become increasingly dependent on wholesale funding.

He suggests one way of improving the savings rate would be to increase the tax-exempt portion of interest income from the present figure of R1 000.

Low figure

One must admit this figure seems low and is not much of an encouragement to savings.

It means that at current rates of interest, only income on savings of R6 000 is exempt from tax.

Government policy surely must be to encourage people to save more than this.

However, Mr Chapman would also like to see lower inflation. It is a serious problem for all deposit-receiving institutions.

Inflation and rising rates of personal tax are forcing many to seek refuge in growth assets, which "is having a profound impact on the source of building society funding".

Mr Hefer of United also wants to tackle the problem of the low level of savings flowing to the building societies, but from a different angle.

He says economic conditions do not augur well for "an improvement in the already alarmingly low savings ratio".

"It is therefore unlikely that retail-sector savings will improve and the group will have to continue to rely substantially on the corporate sector for its funding requirements."

On the other hand, he points out: "Life assurers continue to enjoy substantial fiscal and regulatory advantages and the disproportionate flow of funds to that industry is expected to continue during the year ahead."

Investments in their "tax-advantaged and inflation-hedged products" provide real returns.

Mr Hefer does not actually call for the building societies to be allowed to compete on better terms with the life assurance companies, but it is clear that this is what he would like to see happen.

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Phenomenal growth in capital gains and dividends

Star 1/7/89

Bonsella from unit trusts

DEREK TOMMEY

THE past 12 months have been exceptionally profitable ones for mutual fund/unit trust investors. The funds' June quarterlies to be issued in the next few days will show quite phenomenal growth in both capital appreciation and dividends over the past year.

It is clear that the funds have taken full advantage of the buoyant share market in this period. Since last June the All Gold index has risen 19,2 percent, the Industrial by 42,9 percent, the Diamond index by 74 percent and the All Share" index by 57,8 percent.

Preliminary results, based on figures published earlier this week, indicate that several funds will report a combined growth in capital and income of 50 percent or more

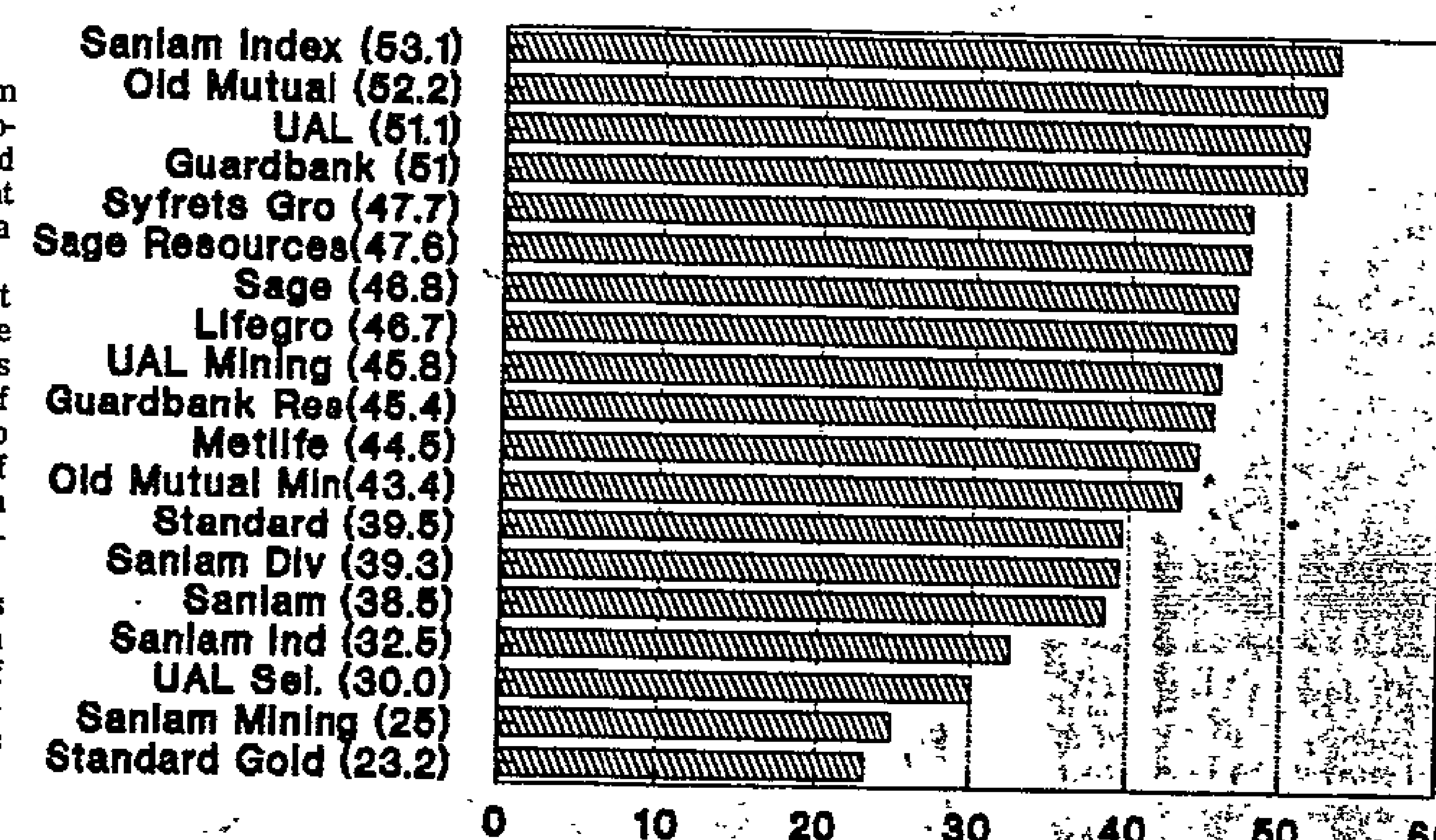
As a result most unit trust investors will, after taking 15 percent inflation into account, show a net return in capital and dividends of at least 25 percent on the money they had invested last June.

According to the preliminary figures the top performer in the past 12 months has been Sanlam Index. This achieved capital appreciation of 48,5 percent and paid out dividends equal to 4,6 percent of its year ago price, giving a total return of 53,1 percent.

Mr Otto Jaekel, Sanlam unit trusts' general manager, said the strong growth of the trust was partly the result of its policy of being fully invested and partly to it having a substantial portfolio of "rand hedge" shares which showed considerable capital appreciation during 1988 and 1989.

Most of the other Sanlam trusts also performed well. Sanlam Trust showed a gross return of 38,5 percent, while Sanlam Dividend trust, whose portfolio is planned to give investors a higher dividend yield than obtainable from other trusts, showed a return of 39,3 percent - comprising 30,2 percent in capital growth and 9,1 percent in dividends.

Sanlam Mining was one of the poorer performers, mainly owing to the easier trend in gold shares. But in recent weeks the gold market has picked up resulting in Sanlam Mining showing capital appreciation of 8 percent in the past three months.



The recovery in gold shares also helped the Old Mutual Investment Trust into second place with an overall growth of 52,2 percent in the 12 months between June 30 last year and June 26 this year.

Mr Marco Celotti, a senior portfolio manager with the Old Mutual, said that the fund had a large stake in golds and the recovery in this sector of the market gave the fund an extra boost.

Third in the performance stakes was UAL with an overall growth of 51,1 percent and only fractionally ahead of Guardbank, which had a growth of 51,0 percent.

Mr Alister Colquhoun, UAL executive director and managing director of the management company, said the fund was heavily invested in the big corportions and these had performed well. Moreover, because the fund was the most concentrated and made few switches it saved on transaction expenses.

It is clear from these figures and those shown in the accompany graph that investors in South Africa have been well-served by the unit trust industry.

Although the heavy losses sustained by investors in the 1969 share market collapse led to considerable criticism of the movement, since then it has been an extremely sound investment, consistently providing investors with capital appreciation and dividend growth far in excess of the inflation rate.

The movement has been helped by the steady growth in the economy, which is expected to continue and enable unit trusts to show further substantial growth in the years ahead.

How to plan your finances

Star 1/7/89

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WE are often bombarded with advertising hype promising all sorts of things, or else tend to get lost in a maze of financial gobbledygook when we begin considering our finances.

This is a great pity, because it is quite unnecessary. If you are planning a trip abroad, you do not need to be an aeronautical engineer to book your flight, nor a town planner to draw up your itinerary — and you need their technical jargon even less. You do require a basic knowledge of where you want to go and how to get there and the same applies to financial planning.

- Short-term needs: the basic requirements of food, clothing, housing, holidays and the like.
- Medium-term needs: a reserve fund for unpredictable emergencies or savings for something you want to buy over the next few years.
- Long-term needs: providing financial security during retirement or inability to work, and life assurance.

The task of good financial planning is to build a sound bridge between where you are now and where you want to go. The bridge has two main supports: a thorough analysis of your present situation and clearly defined goals. The financial plan provides the body of the bridge to enable you to get from one side to the other in the best and easiest way.

The bridge may not be as wide, long or large as we may like. Very few people are wealthy enough to do everything they would like to do, so choices must be made.

You have to establish priorities.

The next step, preferably together with your financial adviser, is to collect all the relevant information and documents, helping to clarify your goals and isolate problems.

The two main supporting pillars are now in place. We now have to begin constructing the bridge. The implications of your present circumstances, whether business or personal, are analysed to point the way to the best design for you to achieve your objectives.

Planning requires regular reviews — it cannot be a one-time thing. Circumstances change, needs alter, priorities may not remain constant. Reviewing the situation helps monitor progress in attaining your goals and adapts strategies to changing needs.

Where should you put your hard-earned money? The choice can be bewildering: shares, unit trusts, property, participation bonds, building societies, banks, government stock, assurance policies, Krugerrands? Taxable or tax-free investments? For how long? Here the skill and knowledge or your adviser comes into play.

Four elements

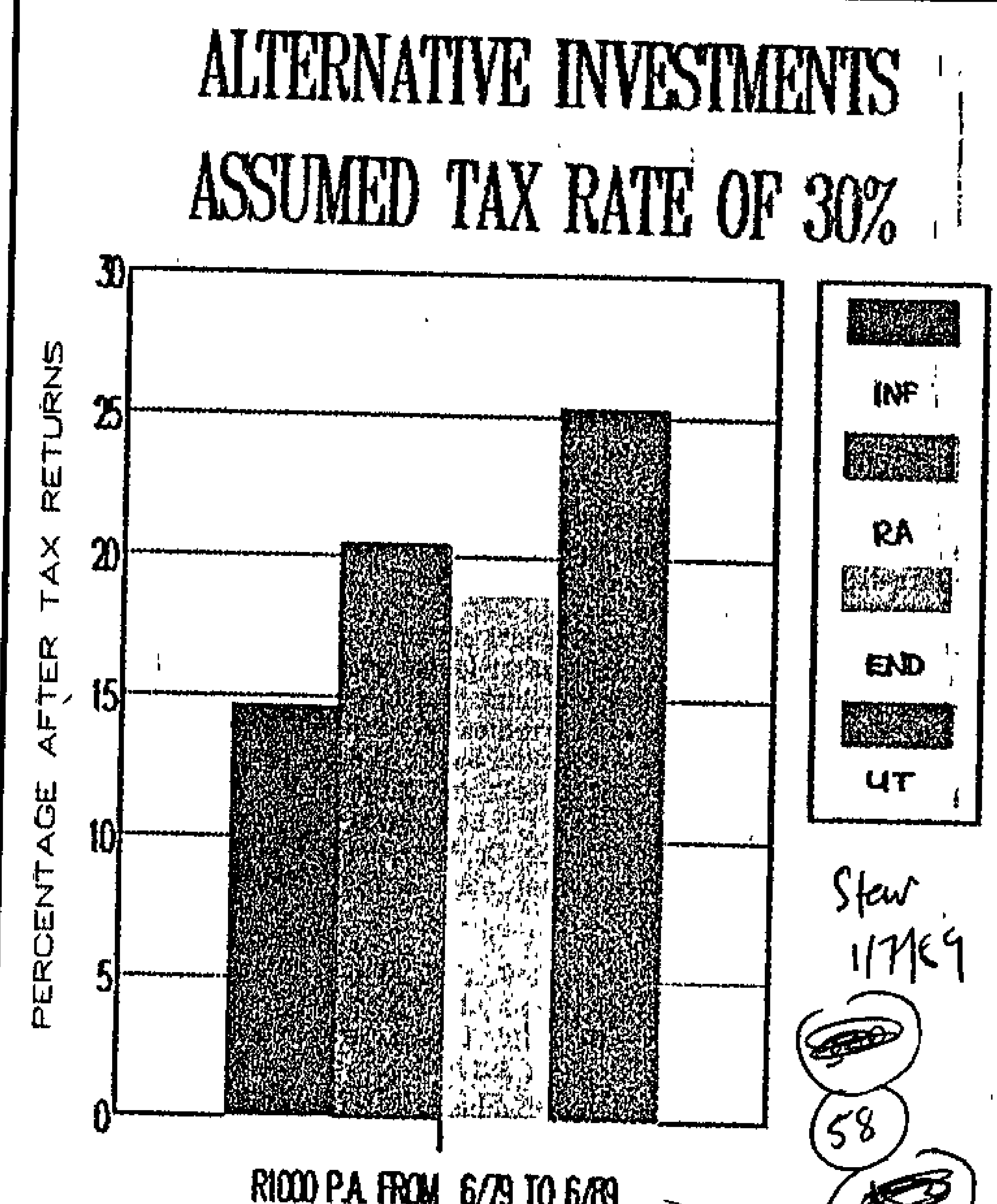
You invest money now to provide future income, capital growth, or both, with a view to having the money available when you need it. Four elements should be considered in deciding on the best type of investment for you:

- Risk: the higher the potential income or capital growth, the higher the risk of losing your money. Income and growth requirements must be balanced with security.
- Liquidity: whether the investment can easily and quickly be converted into cash. The period or term of the investment is a major factor in getting access to it fast or without penalties.
- Inflation: the need to maintain or preferably increase the real value of an investment, to protect its purchasing power. For example, R1 000 invested now at 10 percent a year interest will yield R2 594 in 10 years' time.

The problem is that if inflation is around 15 percent over the period, the money you get then will be worth only R641 in today's terms — a real loss of R359 over the 10 years, even without taking any tax into account.

- Tax: the important consideration is not whether an investment is tax free, partially tax free or fully taxable, but the net return after tax. A married couple earning around R50 000 a year would probably do better from a taxable investment at 17 percent than from a tax-free investment at even 10 percent. It is the money that ends up in your pockets at the end of the day that counts.

The most suitable investment portfolio (that fancy name applies just as much to the average person as to the rich) provides a balance between risk and security, growth and immediate income needs. There is no point in planning a luxurious retirement if you do not have enough left over to eat well now.



Star 1/7/89

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Unit trusts, endowments and RAs beat inflation

RETIREMENT annuities, unit trusts and endowments are all inflation-beating investments and each has a place in the well-balanced portfolio.

This chart by Old Mutual shows the after-tax yields of these investments over the past 10 years with R1 000 invested annually.

RAs had a 20,4 percent return, endowments 18,6 percent and unit trusts 24,3 percent and each category easily beat the inflation rate of 14,7 percent.

Old Mutual emphasises that portfolios should include a broad range of short and long-term investments ranging across the risk spectrum.

All belong in the balanced portfolio

Although unit trusts had the best performance one has to consider the very different risk ratings. Unit trusts have a comparative higher risk profile with no guarantees of capital invested — you could over the short term receive less than your capital.

Endowments have a lower risk profile and guarantee more capital than was invested. The guarantee in the above example was R11 206 — although only R10 000 was invested over the period. The proceeds after 10 years are completely tax-free and life cover, disability cover and other rider benefits can be added.

RA contributions are tax deductible but the proceeds are to some extent restricted. Only one-third of the proceeds may be taken in cash (in this case R9 497) and the balance must be used to purchase a lifelong pension. The pension in this instance yielded R220,16 a month after tax.

B|Pay|2|7|59

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Hitachi called in to smooth the way

WITH demand for on-line, up-to-date information from its clients, Kreditinform has built up a comprehensive computer system.

The company recently installed a new Hitachi PS7 system with five gigabytes of disk storage, a front-end processor for the on-line communications network and CPU to CPU link-up.

MD Ivor Jones explains that the company is still using its IBM System/36 computer for corporate credit information services.

"However, all the corporate information programs are being rewritten for the new Hitachi, and the IBM system will be phased out during the third quarter of this year.

"During the past seven years we have introduced a series of computer-based credit information services.

R500m debt

"Initially, we concentrated on establishing our corporate information database and the systems necessary to generate our range of in-depth reports, including our on-line network and Kreditinform information sharing system (or Kiss)."

The Kiss program, operated on behalf of members from various industrial sectors, monitors the creditworthiness of about 50 000 companies with R500m of outstanding debt each month.

Information is merged onto the one database from magnetic tapes and disks which are provided by Kiss members.

This information is complemented by additional data from company researchers who compile investigative reports.

Speed

"Through our on-line system, users have access to SA's largest corporate credit information databases.

"Systems are also being custom-designed to speed up lines so users can download information more rapidly.

"This is being helped by the fact that the Post Office's Saponet X.28 system has increased in speed with the new TDIO system, and user congestion has been alleviated.

"However, we are committed to developing our own private network which is capable of supporting all levels of communication.

"Currently, when our remote personal computers 'talk' at 1 200 bits/sec, in reality the speed is only 800 bits/sec.

"Also, clients can enter Beltel, which is supported by all the banks."

S/Times 2/7/89. (58)

Development Bank's R400m cornucopia

By David Carte

THE Development Bank of Southern Africa poured more than R400-million into underdeveloped urban and rural areas of SA last year.

Although Ciskei and Transkei were the major beneficiaries, large amounts were spent on urban development and an initial R127-million was earmarked for the roads, houses and a permanent camp for the Lesotho Highlands water scheme.

The annual report released this week shows that the value of loans granted rose R418-million, or 41%, to R1,65-billion. Total assets are now R2,1-billion.

The SA Government has committed itself to a new five-year cycle of contributions to the bank of R1 695-million (in 1985 real values). A first contribution of R375-million for 1989/90 has already been confirmed.

Surplus

The biggest inflow of funds was the SA Government's contribution of R371-million.

But the bank also reports an operating surplus of R54-million. Interest received was up 20% to R122,4-million. That was a return of 7,4% on the loan book of R1,7-billion. Some loans are interest free and others bear low rates.

The value of outstanding loan stock declined 34% to R80,7-million, so interest paid fell almost in line to R13,9-million. The bank aims to issue significant amounts of loan stock in the current year.

Operating spending rose by 35% to R56-million, R39-million of which went to salaries. The bank's staff has grown to 678. It is not expected to grow much more.

After spending R15,7-million equipping its new head office, the bank had a net surplus of R38-million, which was also devoted to development loans.

SIMON BRAND

Chairman Dr Simon Brand says in his review that loan servicing has become an important source of new funding for the bank.

The bank is eager to get rid of the stigma that it promotes apartheid by channelling development money into hopeless homeland areas, hence new stress on activities in urban areas (Alexandra renewal) and on co-operation with neighbouring states, such as Lesotho.

Dr Brand declares himself happy with the first five years' progress.

Heartened

"The core reason for the existence of an economic development institution like the Development Bank of SA is the unacceptably large differences in the quality of life, access to economic opportunities and control over economic resources between different regions and different sections of the population of southern Africa.

"This calls for interventions which can help bring about a more equitable distribution of access to opportunities and resources for all and thereby support a sustainable development process that will benefit all the peoples of southern Africa, but in particular those communities that have been bypassed by past patterns of economic growth."

Dr Brand says the bank has been able to influence governments to make policy changes encouraging development. He is heartened at widespread acceptance of the principle of user charging and revision of design standards to take into account affordability and sustainability.

The bank has also managed to encourage vocationally and career-oriented education.

The bank follows equal opportunity employment practices. Dr Brand hints that affirmative action is also likely. He calls for establishment of a culture that encourages tolerance for societal and cultural variety.

"It must be recognised that inequalities exist in southern Africa in general social conditions and in access to services such as education and that therefore particular support in coping with such inequalities . . . may have to be given to staff members from deprived backgrounds."

Lavish

The bank is anathema to protagonists of free markets, who would argue that tax cuts of R375-million a year would do more for development in SA than the bank.

Free marketers would be critical of apparently lavish spending by an agency that has such high motives.

The bank moved into its R32-million head office complex off the Ben Schoeman highway in Midrand last year.

Its premises in Sandton were breathtaking. Those in Midrand are even more imposing. Eyebrows may rise at a government agency spending R15,7-million on furniture and fittings for a staff of about 700.

The average salary is about R56 000 a year — but most of the staff are professionally qualified. The average is probably distorted by amounts paid to contract workers and others not on the payroll.

The list shows the bank's major projects. It is providing less than half of the R138-million being spent at Alexandra.

The biggest item on the list is a R98-million scheme to develop industries at Babelegi, Mogwase, Garankuwa, Selosesha and Mmabatho in Bophutatswana.

Next biggest is an 81km road in Transkei. Other large items are an industrial scheme for KwaNdebele, a technikon for Ciskei and college of education for Ezakheni.

DEVELOPMENT BANK ASSIGNMENTS OVER R10-MILLION

PROJECT	BORROWER	LOAN AMOUNT (Rm)
Khayalitsha housing	Cape Province	21,1
Factories etc Dotshabelo	SA Dev Trust	41,5
Factories etc Industriqwa	Qwaqwa Dev Corp	40,0
Roads	Qwaqwa Govt	24,0
Roads, infrastructure	Masizakhe Utility	15,7
Electricity distribution	Kwanobuhle Elec Supp	25,0
New technical college	Ciskei Technikon	24,5
Technikon campus	University of Transkei	36,2
Water scheme Umlazi	KwaZulu Govt	22,7
Magusheni-Zamba road	Transkei Govt	68,7
New college of education	Ezakheni College	25,4
Houses	KaNgwane Govt	11,3
Streets, drainage, Seshego	Lebowa Gov't	12,8
Dam on Mutlumuvi River	Lebowa Gov't	29,8
Alexandra urban renewal	Alexandra council	54,0
Electrcity supply	Vosloorus council	10,7
Factories Ekandustria	KwaNdebele Dev Corp	57,5
Roads in Kudube	Bop Government	12,8
Water supply	KwaNdebele Govt	11,2
Vlaklaagte-Tweefontein road	KwaNdebele Govt	12,7
Pipeline	Bop Govt	14,4
Industrial development	Bop Nat Dev Corp	98,1
Telecommunications	Transkei Govt	9,1
Telecommunictions	Transkei Govt	37,5
Electricity supply	Transkei Govt	11,9
Mortgage funding for houses	Lesotho Build Fin Corp	10,0
Permanent camp, Katse	Lesotho Highlands Dev	46,0
Road from Ha Sekhele to Katse	Lesotho Highlands Dev	67,1

Month-end was a torrid time

BDay 3/7/89.

58

IN THE MONEY MARKETS

Harold Fridjhon

IT HAS been a torrid month-end with the Big Money call rate sweeping past 19% and resting around 20,5/21%, just shading below the Reserve Bank's penal rate for loans against pledged prescribed assets.

In addition to the normal June-end pressures such as heavy tax payments, dividend payments, half-yearly settlements both here and abroad, and a peak banknote issue reaching R1,743bn, June 30 is also the financial year-end of the banks in the Bankorp group.

This has involved the customary window dressing which accompanies the preparation of annual financial statements. And in the Bankorp group, two of the banks, Trust and Santam, aggressively bid for market share throughout the 12 months by extending their advances books.

For most of last week trading in the money market was virtually at a standstill as the banks' dealing staff were increasingly involved in scrounging for deposits.

In the week before last the wholesale call rose a full percentage point to 18/18,5%, but last week the bidding for deposits intensified and the rate was steadily nudged upwards reaching a climax on Friday.

Frenetic bidding by one bank raises the marginal rate for all the other banks, not necessarily to get new money but, defensively, to retain the deposits which they have already secured. Big Money call deposits are notoriously volatile and can shift from bank to bank at a fractional flip in the rate.

A further complicating factor can be the clearance of the tax cheques which involves the flow of funds from the private banking sector to the Exchequer and could amount to as much as R1bn.

The settlement of month-end balance between the banks, and between the banking sector with the Reserve Bank, was extended for hours on Saturday morning, and the finalisation of the accounts and balances was delayed long past the normal deadline.

The final outcome was that the market shortage, that is the total discounting of liquid assets at the Reserve Bank's "window", was a record R3,6bn, indicating that the banks have acquired many more liquid assets than they were believed to be holding.

That, however, is only part of the story. It is believed that some banks have had to get additional facilities from the Reserve Bank, using prescribed assets as collateral, paying penal rates and incurring the Governor's displeasure.

The month-end crisis with the panic-induced call rates — which will probably drag into the first week of this month — is, however, a distortion of the banking picture. Calm will return to the money market next week, possibly with some slight softening of key rates and with banks and investors raising the time-scale of their investment perspectives.

Although one is a little distrustful of the outcome of Friday's Treasury bill (TB) tender which saw the TB rate drop by six points to 17,15% discount from 17,21%, the market is showing signs of bullishness towards the acquisition of assets. The TB tender for R100m worth of bills attracted bids of almost the same amount.

One assumes that private tenders fell short and the Reserve Bank topped up the tender — but it could be a straw in the wind.

The rate for 90-day liquid bankers' acceptances (BAs) eased five points to 17,50% from 17,55%, suggesting an investment interest, although there was no change in the 17,95% rate for 90-day non-liquids.

There is a definite interest in the six-months and 12-months areas. The banks would like to move away from very short-term funding to achieve a better mix in their books and investors, too, would like to acquire some longer-dated assets. As yet there is a gap between what investors want and what the banks are prepared to pay. The margins could narrow in the weeks ahead.

Yields show bearish signs

BOND market analysts believe yields are reaching a turning point and the bullishness that has prevailed during recent weeks could give way to what they regard as a more realistic bearishness.

This appears to have been confirmed last week. The Eskom 168, which closed at 17,25% the previous week, ended at 17,27% on Friday with a 13-point spread during the week. The RSA 13% 2005 moved from 17,22% to 17,26%.

While chartists might have contributed to this changing perception, the fundamentals dictate that currently logical reasons exist for the recent speculative euphoria.

The upward flip in the gold price looks like being short-lived. In spite of the US dollar weakening, gold is not moving positively counter to the dollar. Investment demand for gold is yielding to assets giving a return.

The possibility of rising interest rates, which have weakened US equity markets, have had a contrary effect on the US bond market.

Gold appears to be struggling.

And in SA the real investors are bypassing the market. They are bidding the issuers of bonds. Last week a large merchant bank bought R1bn RSA 13% 2010 bonds. The extent of the discount has not been disclosed but the yield is believed to be 17,20/25%.

This would appear to be a new bond. Surely Treasury ought to have made a public issue rather than a private placing. Public finance should not be a private matter.

Manserv's earnings improve

58

Star 31/7/89.

Finance Staff

Results released by reconstituted Management Services (Manserv) place the group in a strong position to pursue its core interests — namely financial services and investment banking.

Manserv was listed in April last year and in its maiden financial year to end-March improved earnings per share by 29 percent to 22,3c a share, just 1c lower than the figure forecast at the time of the listing.

Turnover rose from R11 million to R26 million while a dividend of 8c was declared.

Two weeks ago Manserv announced a major restructuruing with control assumed by certain senior executives of Columbia Corporate Finance (Colfin) and Punchline Columbia Training (PLC).

This has followed the decision by Columbia Consultants, the then controlling shareholders to dispose of certain investments in its portfolio.

Manserv was created in order to specialise in the provision of management and financial services, and was formed through the amalgamation of Colfin, Don Gray Computer Holdings, PLC and minority interest in Wingate Holdings and Concorde Travel Holdings.

Other subsidiaries, which returned poor results during the year, have since been sold for a total consideration of R4,2 million.

The restructure is intended to position the group as a focused financial services house and to obtain the funding available to facilitate the group's intended investment banking/holding operation, according to a statement accompanying the results.

PLC and Colfin were the major contributor to Manserv's satisfactory performance in the previous financial year and the restructure of the group will be facilitated through the promotion of the present activities of Colfin, a financial services and investment holding operation.

28/7 – 3/8/89.

Medical aid pitfalls come under the spotlight

By MZIMKULU MALUNGA

THERE was increasing pressure in government circles for a change in regulations governing medical aid schemes, Henk Beets, assistant general manager of the Old Mutual (employee benefits), told a seminar in Johannesburg this week.

Commenting that many medical aid members were dissatisfied with the current system, Beets pointed to the following problem areas:

- The benefit structure was too rigid.
- The contribution structure encouraged cross-subsidies.
- Employee participation was often compulsory.

He said the medical aid administrators had been trying for the past six years to have the regulations governing schemes changed, but without success.

"Medical aid membership is becomingly perceived as a necessary evil to obtain work," Beets said.

Quoting from a market survey conducted early this year among medical aid members, he said about 55 percent of people wanted a "no claim bonus" on medical insurance.

Other demands included:

- The exclusion of non-essential benefits.
- Different benefits for different age groups.

Beets said benefits paid to medical aid members were increasing more rapidly than the rate of inflation. Some 1,4 million medical aid members made three million claims each month.

Forecasting future developments in medical insurance, he said there was likely to be:

- Greater flexibility in benefit options, incentives to reduce claims and contributions to match risks.
- Removal of payment guarantees for hospitals and pharmacies.
- Involvement of insurance companies.
- Formation of health maintenance organisations.

On the question of whether provident or pension funds were better, the Old Mutual general manager (employee benefits), Gerhard van Niekerk, said they met different needs.

Commenting on the union push for provident rather than pension funds, he said employers had initially been concerned that lump sum payouts would be misused.

Both Van Niekerk and Beets pointed out that increased union activity had forced employers to change their attitudes on the issue of retirement benefits.

Van Niekerk said employers had tended to act unilaterally when it came to these benefits. There was still an element of paternalism in their administration, despite the existence of jointly managed schemes, such as those falling under industrial councils.

Both speakers highlighted the need for improved communications between employers and employees concerning retirement benefits.

On the question of housing, Beets said the current crisis could be eased by diverting employees' contributions from either pension or provident funds to speed up house repayments.

After the house had been fully paid off, the employee could top up his contribution to the pension or provident fund.

"A house must be seen as part of one's preparation for retirement," Beets said, adding that a house could also provide a future investment in the sense that it could be sold to generate cash.

Van Niekerk said his company would continue to serve its customers in Namibia, even if a socialist government came to power in that country.

Responding to the suggestion that institutions such as Old Mutual had a moral obligation to take sides in the "liberation struggle", he said the only way in which such organisations could play a role was by meeting people's financial needs.

Old Mutual's assets now over R39bn

58

KAY TURVEY

OLD MUTUAL's assets have topped R39bn, having grown by R11bn in 10 months on the previous full year to end June. B/Day 4/7/89

At the end of April total assets were R39,7bn, prompting a hefty expansion programme.

expansion will include the crea- three new regional offices and the opening of 17 new branches. New branch growth will be centred in the Transvaal and Natal, although two new Cape Town branches are also planned.

GM (individual life) Bobbie Jooste said yesterday a major part of the programme would be to improve service to brokers.

Liquidity levels of Southern unit trusts up in June quarter

(58)

BDay 4/7/89

LIZ ROUSE

SOUTHERN unit trusts increased their liquidity levels in the June quarter because of the uncertainty of a volatile JSE.

Southern Equity Fund's liquidity increased to 19,6% (R4,7m out of total assets of R24m) from 13,7% in the March quarter, while Southern Mining Fund's liquidity made up 16,3% (R1,45m out of total assets of R8,9m).

Despite the volatility in all sectors of the JSE which marked the second quarter, the two funds in the Southern stable recorded strong performances.

Head of Southern Unit Trusts, Carel de Ridder, said positive sentiments returned to the market fairly soon after the downward corrections of the past quarter and the medium-term outlook for the market remained good.

He said it was noticeable that quality scrip was in short supply and demand for shares had resulted in fairly large appreciations in many of the favoured counters.

"Industrial and financial equity prices are generally well supported by strong company balance sheets and excellent earnings growth prospects in many companies.

"Although some fundamental factors remain depressed, gold shares offer good value at current price levels, and solid performances can also be expected from some non-gold mining operations and mining financial companies."

During the June quarter Southern Equity Fund increased holdings in Western Deep, Rusplat, Anglos, Genbel, Gencor, JCI, Sunbop and Da Gama, with Amgold being added to the fund. The purchase price of units rose from 127,17c to 130,41c.

Southern Mining Fund added Dries, Keeley, Amgold and Sasol counters to the portfolio and holdings in Western Deep and GFSA were increased.

'Bankers see the most challenging period yet'

Boland 4/7/89

58

LESLEY LAMBERT

CAPE TOWN — SA's banking community experienced one of its most challenging periods ever last year as competition and the politicisation of interest rates inhibited profitability, Boland Bank's annual report said.

Increasing competition among the providers of financial services remained the worst of the forces which subdued growth, but the excessive politicisation of interest rates, as reflected in the hindering of timely adjustments in the official bank rate, complicated matters further, chairman Pietman Hugo said in the report.

In addition, increasing "grey" market activities which enabled corporate clients to sidestep banks as intermediaries in financing agreements was depriving banks of traditional financing opportunities, Hugo said.

Banks were also under the pressure of new capital requirments at a time when technological and infrastructural developments were making strong demands on their capital bases.

"In the existing inflationary milieu, banks find it increasingly difficult to generate sufficient capital by means of internal reserves. The logical alternative — the issuing of new share capital — will, however, not have the indefinite support of return-sensitive investors who place a high premium on dividend cover and earnings per share."

During the year under review Boland managed to increase taxed profits after transfers to internal reserves by 17% to R13,6m and dividends from 42c to 46c. Assets grew by 37% to R2,4bn, with total deposits exceeding the R2bn mark for the first time.

Sygro easily beats inflation

58

Syfrets Growth Fund has maintained a near fully invested position during the quarter to June, and the net inflow of R7,1 million was used to increase existing holdings with the introduction of Berzack Brothers, portfolio manager Anthony Gibson announced last night.

Star 4/7/89

At June 30 the cash holding represented 11 percent of the portfolio. Unitholders have received a total return (capital appreciation plus income distribution) of 49,4 percent for the 12 months ended June 30.

Mr Gibson said that compared with the level of inflation, which rose by 14,9 percent during the year to May 1989, investors have been more than insulated through the high rate of return.

The income distribution for the past quarter was 1,74c per unit. This gives a total income distribution of 5,74c per unit for the past 12 months. — Sapa

Southern trusts raise liquidity

58

Finance Staff 8/4/7/89

Reflecting the uncertainty in the market, liquidity levels in the Southern Equity Fund rose 13,7 percent to 19,6 percent, while liquid assets made up 16,3 percent of the Southern Mining Fund for the three months to June.

The head of Southern unit trusts, Carel de Ridder, said yesterday positive sentiments had returned to the market fairly soon after the downward correction of the past quarter and that the medium outlook for the market remained good.

He said it was noticeable that quality scrip was in short supply and that demand for shares in June had resulted in fairly large appreciations in many of favoured counters.

"Industrial and financial equity prices are generally well supported by strong company balance sheets and excellent earnings growth prospects in many companies," Mr De Ridder said, adding that goldshares also offered good value at present.

Syfrets fund pays 49,4% more

Cape Times 4/7/89

JOHANNESBURG. — Syfrets Growth Fund has maintained a near fully invested position in the quarter to June, and the net inflow of R7,1m was used to increase existing holdings with the introduction of Berzack Brothers Holdings, portfolio manager Anthony Gibson announced yesterday.

At June 30 the cash holding represented 11% of the portfolio. Unitholders have received a total return (capital appreciation plus income distribution) of 49,4% for the 12 months ended June 30.

Gibson said that compared with the level of inflation which rose by 14,9% in the year to May 1989, investors have been more than insulated.

The income distribution for the past quarter is 1,74c a unit. This gives a total income distribution of 5,74c a unit for the past 12 months, which represents a 16% increase over the 4,96c paid for the same period in June 1988.

The Income Fund which was launched nine months ago, now has more than 1 000 investors representing assets of R34,6m, Gibson said.

● Reflecting the uncertainty in the market, liquidity levels in the Southern Equity Fund increased from 13,7% to 19,6%, while liquid assets made up 16,3% of the Southern Mining Fund for the three months to June.

Commenting on the performance of the two funds for the last quarter, head of Southern Unit Trusts, Carel de Ridder said that positive sentiments returned to the market fairly soon after the downward correction of the past quarter and that the medium outlook for the market remained good.

In the quarter, the purchase of Southern Equity Fund units rose 127,17c a unit to 130,41c. The Southern Mining Fund unit price increased from 134,0c to 138,65c on June 30. — Sapa

Volkskas strategy one of great merit

Star 4/7/89 (58)

The Volkskas strategy of being more selective, both in the nature of operating assets under its control and the quality of banking business that it chased, was a winner in financial 1989, helping to lift net income 27,6 percent.

But it seems a repeat performance in 1990 is not on the cards. Not only because growth will be off a much higher base, but because of tighter trading conditions.

In the annual report chairman Johannes Stegmann refers to a number of difficulties: "It would appear that in the immediate future bank credit will expand more slowly than in the past year.

"Moreover, the increase in the rate of inflation is expected to gain momentum, with serious implications for operating costs."

The decline in economic activity, coupled with higher interest rates, is expected to aggravate the industry's risk exposure.

On the brighter side, Mr Stegmann says "the SA economy has proven time and again that it has surprising resilience and powers of recovery".

He concludes: "The current year will therefore present enormous challenges to the management of the company

Diagonal Street

ANN CROTTY

and its subsidiaries. Taking everything into consideration, I expect group profit to grow further in the present financial year."

It is this outlook that is preventing shares in the banking sector from providing much excitement for investors.

In late 1988 and early 1989 the sector index made a very strong recovery from the lows to which it plummeted in October 1988 (brought down by similar talk of slow economic growth and high interest rates).

But this recovery was wiped out between March and May of this year as the same old fears turned sentiment against the financial sector.

The release in May of Volkskas' strong results (which put the share onto a strong recovery path), vindicated the adoption of a more aggressive marketing strategy and the decision to target business quality, rather than quantity.

The same strategy should help it through the tough times ahead.

R100m in claims on AAM auditors

B/Day 5/7/89 58 89

SUSAN RUSSELL

SUMMONSES for claims of more than R100m for alleged breaches of professional duties have been issued against the auditors employed by AA Mutual prior to the collapse of the company's short-term insurance business, according to papers filed in the Rand Supreme Court.

In an affidavit, one of the partners at auditors BDO Spencer Steward (formerly Spencer Steward), Rae Brown, said summons had been issued against the firm and individual partners, following the liquidation of AA Mutual's short-term business in June 1986.

Brown's affidavit was made in an application by the auditors for an extension to the time period prescribed for the filing of their pleas in defending a R35m claim brought by Fedbel Ltd and Fedlife Assurance Ltd. The auditors' application for an extension was postponed until August 1 by Mr Justice O' Donovan.

The Fedbel (formerly Federated Employers Investment Co Ltd) and Fedlife (formerly the Federated Life Assurance Company Ltd) claim arises out of the Federated Insurance-AA Mutual merger in February 1986.

In terms of the agreement, the Federated group bought the controlling holding in AAM from Kirsh Industries and the Automobile Association.

After assuming control of AAM and having paid R35m, Federated discovered that underwriting losses exceeded what had been expected, and cancelled the deal.

According to Brown's affidavit, claims against the firm relate to alleged deficiencies in its auditing of AA Mutual for the year ended April 30 1985, and alleged breaches of duties in respect of the period after April 1985 and prior to the liquidation of the short-term insurance business.

He said at the same time as the Fedbel action was instituted against the auditors, summons was also served on them by Sunsept (Pty) Ltd, Manlac (Pty) Ltd, AA Mutual Insurance Association Ltd and the AA.

All Spencer Steward's working papers in respect of the periods in question were seized by the Melamet Commission and subsequently placed in storage with the SAP, Brown said.

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Hallmark wary in fluid market

BDay 5/7/89

LIZ ROUSE

MARKET value of NBS Hallmark Mutual Fund grew by 58% to R4,4m in the June quarter. This enabled investment managers to pursue a continuing rand-cost averaging programme and build up liquidity from 15% to 27%.

New investments were made in Trans-Natal, Sycom, Malbak, Suncrush, Rainbow Chickens and Foschini. Existing holdings were increased in Keeley, Gencor, GFSA, Genbel, Higate, Umdoni, Amic, AVI, Barlows, BTR/Dunlop, Richemont, Sasol, Sunpak and CNA Gallo.

The holding in Minorco was reduced and entire holdings of Kloof and Tamboti sold.

Overall, the mining content of the equity portfolio was reduced to 45% from 53% and the industrial content increased to 45% from 34%.

At the end of the quarter, 76% of the equity portfolio was invested in rand-hedge stocks and 10% in the property and property trust sectors.

Investment managers are adopting a cautious stance in the current uncertain market which is volatile and influenced significantly by day-to-day movements in the dollar and gold price.

They say gold remains in a bear trend with the metal behaving like a currency and reacting daily to dollar movements. As they expect continuing weakness in the rand exchange rate, a significant rand-hedge investment content has been maintained in the portfolio.

Major world economies are slowing, with rising inflation and increasing interest rates, and the SA economy is slowing rapidly. The fund's liquidity has, therefore, been built up in the current local and international climate of uncertainty.

NBS Hallmark will take advantage of special buying opportunities as they present themselves, believing that the JSE is fairly strongly underpinned by the recent removal of the prescribed asset requirements for financial institutions.

The fund's managers expect the JSE to weaken, but the downside risk is probably limited and will give them better buying opportunities than available now.

They report a sharp increase in the inflow since April from sales of the units. This will enable the fund to increase certain of its top holdings which are at present close to the limit of not more than 5% of the fund's assets in any one counter.

Volkskas sees raised profits

B/Day 5/7/89

(58)

Business Day Reporter

VOLKSKAS Group is expected to show further profits growth although, says chairman Jan Stegmann, the current year will have many challenges.

In his annual review he says prospects must be evaluated against the background of expected economic conditions.

With the economy cooling, and demand for credit falling, the bank is likely to expand more slowly than in the past year.

High inflation and the rising cost of imported equipment are likely to affect operating costs. The bank will require strict controls in evaluating credit risk, which will increase as the economy cools.

Stegmann expects the restrictive government policy to be maintained and have a significant impact on the financial services sector.

Volkskas has scaled down its industrial interests with the aim of strengthening its position in financial services where its greatest strength lies.

The merger of Lifegro and Momentum has brought cost savings and other advantages of rationalisation.

Stegmann's outlook for Volkskas is good: "Taking everything into consideration, I expect group profit to grow further in the present financial year."

Metfund has faith in JSE advances

B Day 5/7/89

(58)

LIZ ROUSE

METBOARD Mutual Fund (Metfund) saw the volatility in share prices as an opportunity to increase exposure to selected stocks. It also reduced liquidity to 12,45% in the June quarter from March's 17,28%.

This strategy, says Investec Management Company, combined with good performance from the top tier of the market in June, saw the unit price of Metfund advance by 8,41%. Overall return for the past 12 months is 44,22%.

The five Top 10 holdings at the end of the quarter were: Barlows, Anglos, Anglovaal A, De Beers and Cadschweb.

At the quarter-end, Metfund had 14,88% in diamonds and gold, 17,67% in mining financials, 3,68% in insurance, 2,22% in property trusts and 16,96% in industrial holdings, with 32,14% of the rest of its equity portfolio (worth more than R18m) spread over industrial sectors.

Metfund portfolio managers say in their quarterly report that, while international stock markets could well be in for a period of volatility in the quarter ahead, it is expected that the JSE will continue its overall advance, with equities maintaining their hedge qualities in times of rising inflationary expectations.

Industrial companies — particularly those with strong trading links with the informal sector — are expected to show continued growth both in earnings and dividends, although reporting signs of a cooling in the economy.

Quality gold shares are expected to be underpinned as a result of the rand gold price being supported by continued currency weakness.

New bond repayment scheme recommended

Star 5/7/89

58

By Kaizer Nyatsumba

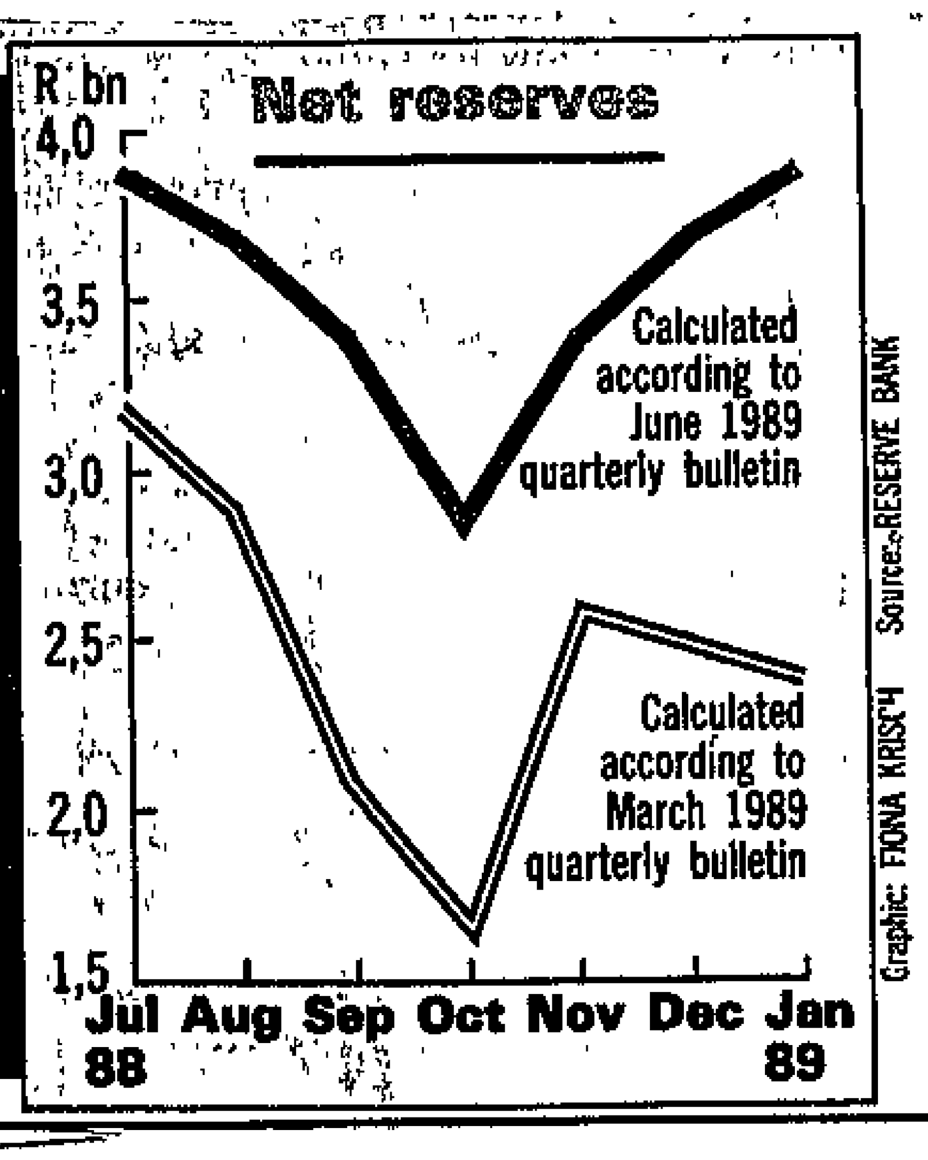
When interest rates are low the home loan repayment period should be shortened, the president of the Institute of Estate Agents of South Africa, Mr K H Wakefield, said in Johannesburg yesterday.

Opening a national symposium on the effects of interest rates on housing in South Africa, Mr Wakefield said the present 30-year bond repayment schemes offered no latitude for any extended period.

Shortening the repayment period when interest rates were low and extending the period when interest rates escalated would "cushion the monthly financial burden," Mr Wakefield said.

He urged delegates to consider:

- The possible establishment, when interest rates are low, of a central stabilisation fund into which people would pay so that when interest rates increased the fund would provide financial relief.
- The shortening of the repayment period when interest rates were low so that when the rates rose the period could then be extended.
- A prescribed investment which insurance companies would be obliged to retain with financial institutions, on the understanding that these investments would be used solely for housing loans.
- The modification of South Africa's "far too high" building standards which served to increase the cost of housing.



Bank alters treatment of loans (58)

B/Day 6/7/89

GRETA STEYN

THE Reserve Bank has changed its accounting in such a way that the level of its foreign liabilities is concealed.

The bank has altered the definition of foreign loans so that some foreign finance now falls under the general item "other liabilities" in its Quarterly Bulletin (QB).

The accounting change explains why there is a huge discrepancy between the bank's figures for its foreign loans in the June QB and those in the March QB.

According to the March QB, the bank's foreign debt was R2,6bn in January this year, but the June QB says it was only R1,1bn. There is no footnote to explain the sudden downward revision.

The change in the definition has rendered it impossible to determine the bank's net reserves, which reflect the performance of the balance of payments (BoP).

The net reserves show the stock of gold and foreign currency — excluding the foreign finance taken by the Reserve Bank to provide an extra cushion when there is pressure on the BoP. Economists describe this credit as bridging finance because of its short-term nature.

No official comment could be obtained from the Bank, but it is understood to have decided that certain foreign loans against gold are not, strictly speaking, loans. Speculation that the decision is an effort to counter pressure on foreign banks that

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Loans (58)

B/Day 6/7/89

☐ From Page 1

provide short-term credit could not be verified.

However, although the absolute level of the Reserve Bank's foreign debt is no longer available, the extent of its use of foreign credit is still clear. Flows in liabilities related to reserves are shown in the BoP table, although the level is not given.

According to the table, the change in liabilities related to reserves was R904m — which means there was an inflow of R904m in the first quarter specifically to top up ailing reserves.

This inflow enabled SA to report a R236m improvement in gross reserves in the first quarter. However, net reserves declined by R419m, reflecting pressure on the BoP.

B/Day 6/7/87 (58)

UAL stable's portfolio performs well

LIZ ROUSE

The UAL stable's major general unit trust was inactive in the June quarter, but its high-quality portfolio performed well.

The general trust, UAL Unit Trust, added only 50 000 Amic shares to its equity portfolio, whose worth rose to R277,9m (85,1% of total assets) from R251m (85,7%) at the end of the March quarter. Liquid assets were little changed at R48,6m (14,9% of the total assets) compared with R39,6m (13,5%) and other assets of R2,3m (0,8%) in the previous quarter.

● COLQUHOUN

UAL Mining & Resources was more active, adjusting its portfolio through disposing of the small holding in Barnex and introducing a new holding of 120 000 in Northam. The existing positions in ET Cons and Palamin were increased.

The portfolio worth increased to R202,6m (85,8%) from R185,1m (81,3%). Liquid assets were reduced to R33,5m (14,2%) from R40,2m (17,7%).

However, managers of the UAL Selected Opportunities Unit Trust established new holdings in Crulife, T & N, Rainbow Chickens, Combined Motor Holdings, Kohler, Sunpak and Unitrans. Liquid assets were static at R6,1m, but the percentage of total assets of R73,8m (R59,4m) declined slightly to 8,3% from 10,2%.

The Gilt Unit Trust's worth declined slightly to R58,6m (R61,8m). A high percentage of its assets remained in cash — R38,7m (66%) compared with R46,9m (75,9% in the March quarter).

Seen against a 3,75% rise in the JSE overall market index over the June quarter, a 5,4% increase in the financial and industrial index and a 3,7% fall in the all gold index, UAL Unit Trust and UAL Mining & Resources prices recorded gains of 7,8% and 6,4%. UAL Selected Opportunities posted a 1,2% gain.

Income distributions were higher in the funds distributing in the June quarter with UAL Unit Trust paying 18,95c a unit and UAL Mining & Resources 4,79c a unit.

UAL Unit Trust increased its year's income distribution by 38,2% to 61,2c (41,3c) a unit and UAL Mining & Resources' income distribution increased 30,5% to 16,5c (12,7c), both record distributions.

Executive director of the managers at UAL Merchant Bank, Alister Colquhoun, says some period of consolidation is to be expected and portfolio managers anticipate a more modest level of corporate earnings and dividend growth over the next 12 months.

Key factors which will influence the market will be the dollar-gold price direction and domestic interest rates. They are optimistic the influences will be positive.

UAL stable's portfolio performs well

B/Day 6/7/89 (58)

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The portfolio worth increased to R202,6m (85,8%) from R185,1m (81,3%). Liquid assets were reduced to R33,5m (14,2%) from R40,2m (17,7%).

However, managers of the UAL Selected Opportunities Unit Trust established new holdings in Crulife, T & N, Rainbow Chickens, Combined Motor Holdings, Kohler, Sunpak and Unitrans. Liquid assets were static at R6,1m, but the percentage of total assets of R73,8m (R59,4m) declined slightly to 8,3% from 10,2%.

The Gilt Unit Trust's worth declined slightly to R58,6m (R61,8m). A high percentage of its assets remained in cash — R38,7m (66%) compared with R46,9m (75,9% in the March quarter).

Seen against a 3,75% rise in the JSE overall market index over the June quarter, a 5,4% increase in the financial and industrial index and a 3,7% fall in the all gold index, UAL Unit Trust and UAL Mining & Resources prices recorded gains of 7,8% and 6,4%. UAL Selected Opportunities posted a 1,2% gain.

Income distributions were higher in the funds distributing in the June quarter with UAL Unit Trust paying 18,95c a unit and UAL Mining & Resources 4,79c a unit.

UAL Unit Trust increased its year's income distribution by 38,2% to 61,2c (41,3c) a unit and UAL Mining & Resources' income distribution increased 30,5% to 16,5c (12,7c), both record distributions.

Executive director of the managers at UAL Merchant Bank, Alister Colquhoun, says some period of consolidation is to be expected and portfolio managers anticipate a more modest level of corporate earnings and dividend growth over the next 12 months.

Key factors which will influence the market will be the dollar-gold price direction and domestic interest rates. They are optimistic the influences will be positive.

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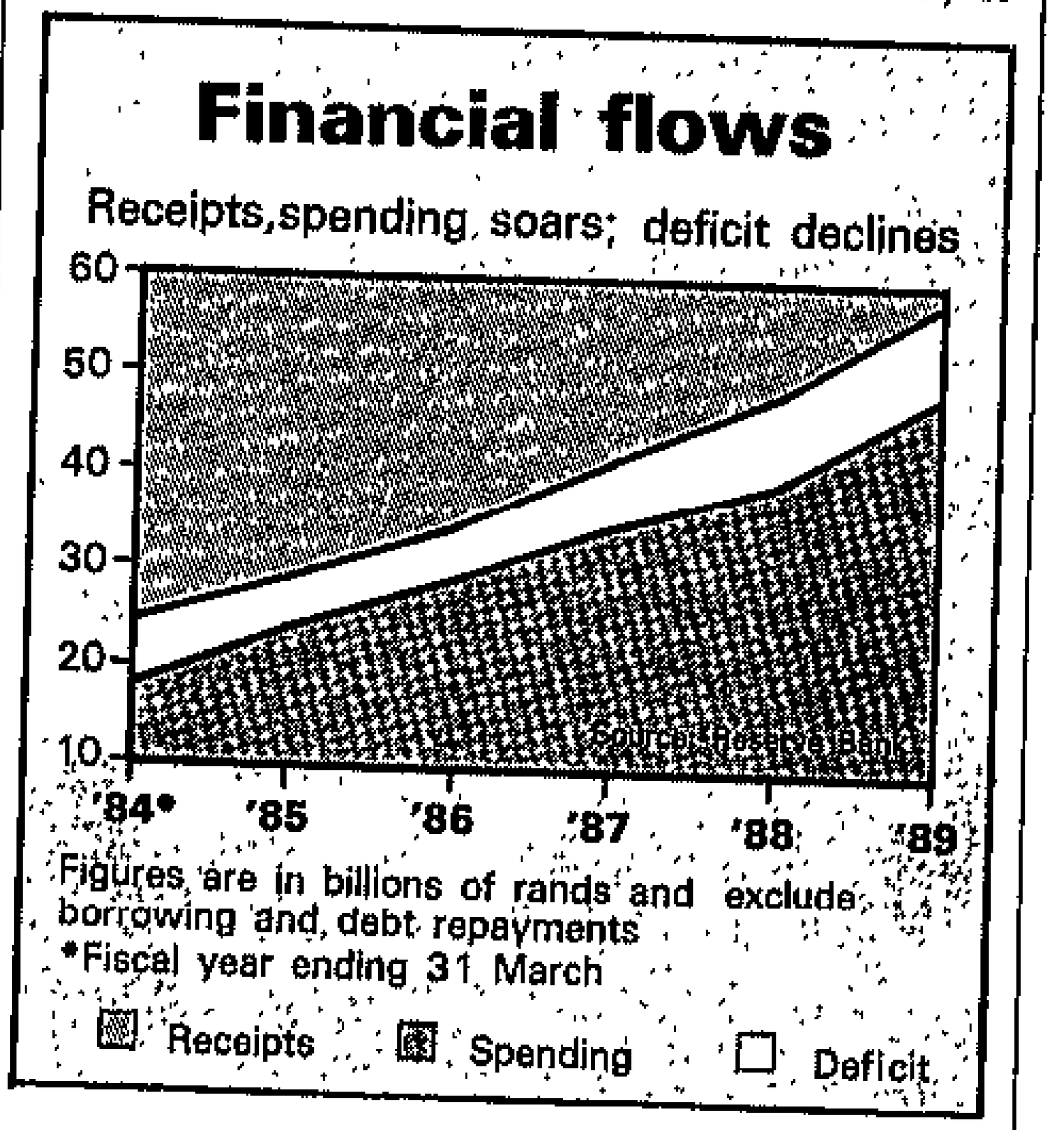
RESERVE BANK BULLETIN

Org out of synch

The contrast won't be lost on voters.

On Tuesday last week Org Marais, hapless champion of rising white living standards, called a hasty press conference to proclaim once again that whites are better off than 20 years ago. The 49-page document, submitted as supporting evidence, only confirmed that he's hopelessly out of touch.

The next day, the Reserve Bank submitted a more sober analysis in its quarterly bulletin. Covering the quarter to March 31, it



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provides a snapshot of the economy at the end of the 1989 fiscal year.

□ Real GDP grew at an annualised 1,6%. That means falling living standards, with the population growing at 2,5% a year. GDP has outstripped population growth only once since 1984 — last year's 3,2%.

□ Real GDE grew an annualised 6%, mostly because of a spurt in government spending;

□ The surplus on current account of the balance of payments dipped to an annualised R2,7bn, less than any year since 1984 and also less than the R4bn the Bank believes it needs to repay foreign debt and rebuild foreign reserves;

□ Foreign debt fell slightly last year, to US$21,2bn at end-1988, the latest figure supplied by the bulletin;

□ Reserves rebounded from R6,70bn in last year's fourth quarter, the lowest in two years, to R6,94bn in the first quarter;

□ Government spending leapt way over budget again in fiscal 1989, jumping 20,2% over fiscal 1988, according to figures compiled by the Bank. The 31,5% first-quarter increase was the largest in 10 years;

□ Government revenue soared even more than spending, rising 29,4% in fiscal 1989, nearly twice the budgeted amount. In April, the increase in revenue accelerated, growing 32% over April 1988, twice the 16% budgeted for fiscal 1990;

□ The fiscal 1989 deficit narrowed slightly, from R10,6bn on R48,9bn spending in fiscal 1988 to R9,2bn on R58,8bn spending; and

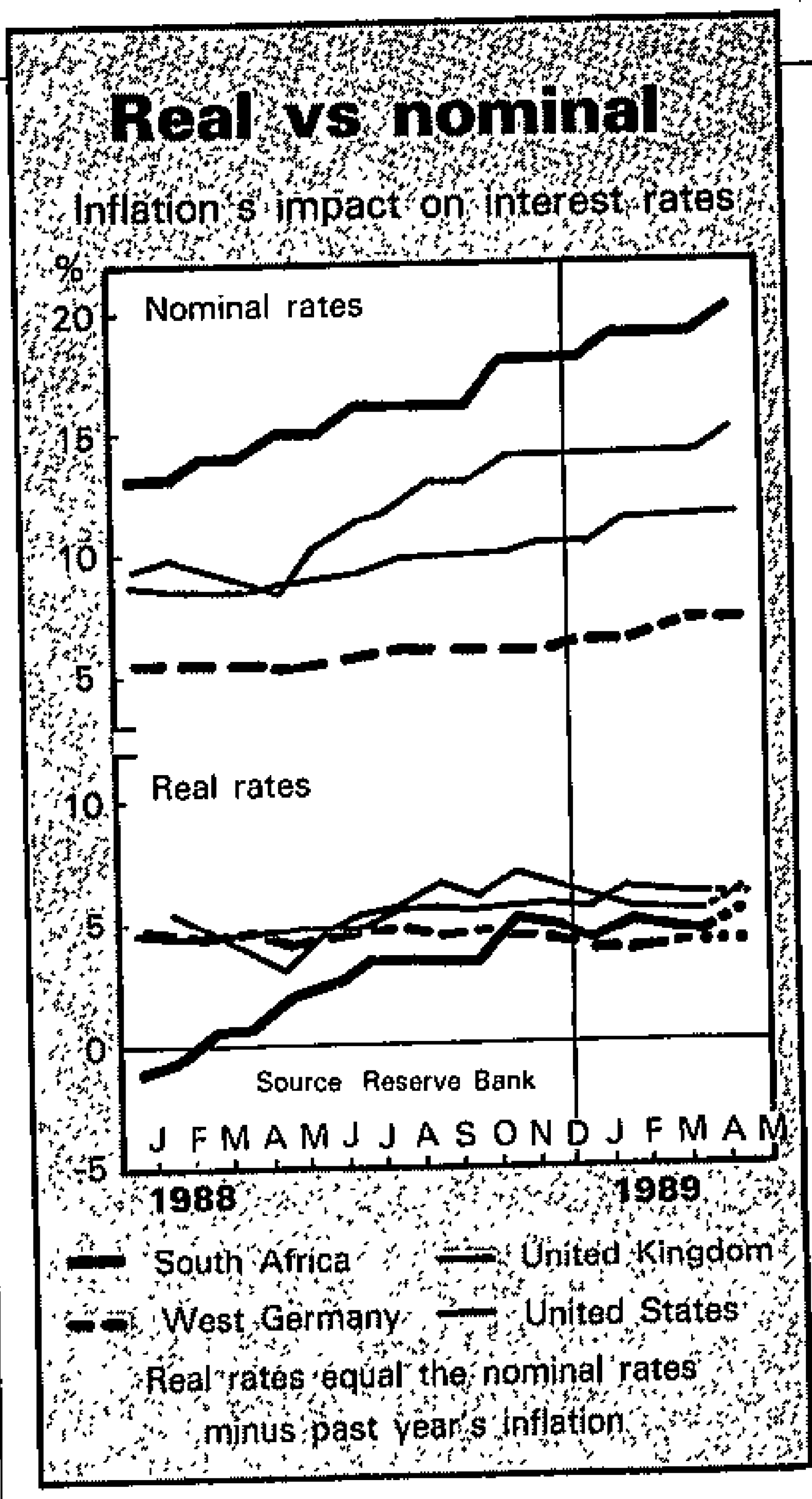
□ State debt increased to R68,7bn at the end of fiscal 1989 from R57,5bn a year earlier. It is now double what it was just five years ago.

Some of these figures differ slightly from Finance Department numbers because they are computed on a cash flow basis — when money is actually spent or received rather than when it is supposed to be. For example, Treasury figures show an 18% increase in government expenditure for fiscal 1989, vs the 20,2% given by the Bank and a deficit of R10,2bn, vs the R9,2bn computed by the Bank.

The bottom line is that fiscal policy continues to be carried out by raising taxes and increasing revenue, not cutting spending. This philosophy was exhibited again in the tax increases of April 14 and May 5.

The policy is aimed at braking the economy. It did slow in the first quarter and continued to slow in the second. That's good news for the Bank, because a weakening economy will check inflation and reduce imports while boosting exports — a tonic for the current account. But it's bad news for the companies that will go bankrupt, businesses that won't make as many sales and workers who will lose jobs.

The Bank wouldn't have had to brake if it hadn't pumped the economy up with easy rands and created a false boom in the first place. And it wouldn't have to worry so much



about repaying foreign debt from a current account surplus if government got its house in order and stopped spending billions of rands it doesn't have. ■

Insurers keep cutting rates despite fire claim losses

B Day 6/7/89 (58)

KAY TURVEY

SHORT-TERM insurers made a 7,7% or R18,2m underwriting loss due to fires last year, but are still continuing to cut rates as overall underwriting profits remain strong.

Quest Insurance Advisors Services chairman Denzil Curgenven said it was madness that insurers remained embroiled in a rate war, when there were such "horrific losses". However, he estimated general underwriting profits had not been as good since 1974.

Of the 10 insurance companies which had reported before December, an R18,2m loss had been recorded.

JULY • 7 • 1989

Financial Mail

7/7/89.

ECONOMIC POLICY

Nats still play the old tune

In the 1987 election manifesto, the National Party (NP) put the long-term goals of economic policy as the highest possible growth rate; maximum job creation; price stability; and balance of payments equilibrium — with genuflections toward private enterprise, privatisation and deregulation.

Success on every single one of those has been inadequate, despite (a) attempts to put much of the blame on wicked foreigners and (b) Org Marais' fatuous comments on white living standards.

So what is the prescription of the 1989 manifesto, under the heading "A Dynamic Economy"? It's worth quoting the "long-term goal" in full:

"The promotion of (a) high real average economic growth rate together with low inflation in order to ensure the highest possible real income per person. The optimal application of the means of production through the promotion of free enterprise and effective competition within a market-orientated economic system with sustained fiscal discipline and the greatest possible financial stability."

The changes are little more than semantic. Some would call the style more elegant; others, just more highfalutin. It's probable that both the CP and the DP would be able to embrace these principles virtually word for word.

But, certainly, this year's manifesto is much wider than its predecessor.

It specifies inflation as "our economy's public enemy No One" and repeats the commitment to single-digit inflation. Job creation, conversely, has been relegated to little more than a footnote and the balance of payments is a term conspicuous by its absence. There are references to a "more streamlined and cost-effective civil service"; the establishment of an export culture; the promotion of SA's tourism potential; the reduction of the public-sector deficit before borrowing (PSBR) to 3% of GDP; and the need to curb population growth.

Other figures are few and far between, but there is a commitment (as part of the Five-Year Plan) to cut the top marginal personal tax rate from the present 45% at R80 000 income to 40% at R100 000 and the company tax rate from 50% to 40%.

Clearly this outlines a society that most businessmen and others who believe in the free market philosophy would find a lot more congenial than what Swapo envisages for an independent Namibia (see ***Current Affairs***), which leans as far in the direction of socialism as it can without deterring local entrepreneurs and potential foreign investors.

It is ironic that the pledge of lower taxes and PSBR should be made on virtually the same day that the Reserve Bank *Quarterly Bulletin* disclosed that the State's share of GDP is at its highest ever. But this underlines the basic weakness of the manifesto: an apparent inability to distinguish between the means and the end.

What we need to know is not that we should cut tax rates, or PSBR, or that we need a streamlined, cost-effective civil service. After all, precisely that was one of P W's main promises 10 years ago — and *kyk hoe lyk ons nou.* What we need to know is *how* these objectives are to be reached.

For a party that has been in power for 41 years, it is not enough to say, "We'll work that out after we take power." Given the record of the Eighties (which surely not even the incorrigible Org Marais could quibble with), it's obvious that major changes in *implementation* are needed if there's to be any chance of attaining *objectives* which are really much the same as they were last time — and the time before that.

The NP clearly realises that it's more vulnerable on the economic front than ever before. Not only the CP (as in 1987), but also, belatedly, the DP have rightly seized on the poor performance of the economy as an election issue. The economic section constitutes just over four pages in a 20-page manifesto this time, as against less than one page (out of six) in 1987.

But are we really offered anything new? Not really. That would require not just the broader approach that is embodied in the latest document, but also much more attention to specifics. And that is where the NP's real problem lies.

For the specifics which will attract voters on the "left" of the NP are exactly those that will alienate those within the NP/CP margin. In economic policy, as elsewhere, the NP is facing the same dilemma as the old United Party: how to be all things to all people.

The NP seems to be hovering on the edge of writing off the rightwing radicals altogether, but unable to take the final plunge. Until it can make up its mind, it runs the risk of satisfying neither the Left nor the Right.

The one area in which it could stake a position on the high ground is deregulation, privatisation and trimming the civil service.

If it wishes to pursue any sort of reformist policies, it must eventually accept that the civil servants are a lost cause anyway. And the sooner the better.

Unless it dares to do that, a re-elected NP government is not likely to show any improvement in its dismal record of economic mismanagement. Don't hold your breath waiting. ■

international rates put SA at a disadvantage, eventually leading to inflation and continuing devaluation of the rand.

De Kock's success has been difficult to measure because the yardstick is "what might have been" if he had not done as much as he did. Two achievements, however, which were to be largely undone, were scrapping of exchange control over non-residents and the Bank's phased withdrawal from the forward exchange market in 1983. Both were reversed by the events of August 1985.

Both remain controversial issues that will have to be resolved at some stage.

On the Bank's forward exchange operation, Stals is noncommittal. Though it was a topic on which he was frequently quoted in the early Eighties, he is now biding his time before making pronouncements.

On exchange control, he is more explicit: "That's where pragmatism comes into it. With our BoP situation we can't live without exchange controls. From a philosophical point of view one would like to abolish exchange controls but at this stage it is impossible."

On interest rates he is unambiguous: "Interest rates can't be controlled. The Bank should influence the level of rates through its discount policy and market operations. But the moment it tries to control them by regulation and decree, it gets involved in the kinds of decisions it should not get involved in; it gets blamed for all kinds of things that should not be its responsibility."

The concept of allowing interest rates to be set in the market requires "a lot of marketing, a lot of explanation," he concedes. "But there is no soft option. There is no alternative."

A major asset in his present job will be Stals's experience relating to the international financial community.

"In 35 years," he says, "I have worked more in the Bank's foreign relations sphere than in any other. I started my career in the exchange control department, I was at one stage head of the BoP division of the economics department, and I was very much involved in gold marketing problems of the Bank in the late Sixties and early Seventies."

De Kock

When De Kock reorganised management of the Bank in 1981, Stals took over its foreign functions. And in 1985 he headed the debt negotiating committee that succeeded in rescheduling SA debt over a period of five years. He will continue with this task until negotiations for the next rescheduling are completed in the middle of next year.

However, he is likely to vacate his other two posts — chairman of the Taxation Standing Advisory Committee and that of economic adviser to the Minister of Finance — when he takes office in November. Successors have still to be named.

As to the future of our relations with the rest of the financial community, he believes, like De Kock, that a lot depends on developments of the next year. So far, little has changed in the attitude of the world's financiers to SA. But a certain amount of optimism is in the pipeline.

Whether the optimism is justified remains to be seen.

The new central banker cannot, like Atlas, carry the heavens on his shoulders alone — not without help from the country's policy-makers. ■

DE KOCK AND STALS: HOLDING THE LINE

When Chris Stals assumes his duties as Governor of the Reserve Bank in November he will be treading on familiar terrain. His distinguished tenure at the Bank spans 30 years — and he will bring to the position a wealth of experience coupled to a talent for diplomacy and a great deal of pragmatism.

The soft-spoken Stals is described as unassuming and affable, but is known to be tough: he seldom comes away empty-handed from the negotiating table. At 38, Stals (in 1975) became the youngest man to ever become GM of the Bank. Two years later he was a deputy governor and by 1981 senior deputy governor. His duties covered the Bank's foreign operations; forex controls; gold; international loan operations; the IMF; relations with other African countries in the Rand Monetary Area; and the multi-lateral technical committees. Stals described his job at the time as primarily that of diplomat.

In September 1985, Stals was appointed Director General Finance, and last month was named Special Economic Adviser to the Minister of Finance.

His reputation for pragmatism has earned him the tag of being "somewhat suspicious" of market-orientated policies — though he firmly talks in terms of a market-related approach. For his part, Gerhard de Kock is known for his commitment to a market-orientated approach, though his commission's report states that free markets are not an end in themselves and the authorities may have valid social or other reasons for interfering with the functioning of financial markets from time to time.

It is unlikely that Stals will reverse trends set by De Kock. He has clearly been De Kock's understudy; it was due largely to their joint efforts that major creditor banks signed a three-year debt rescheduling accord with Pretoria in March 1987 — effectively extending a freeze on most of the country's foreign debt to 1990 and averting a major crisis.

One of six children, Stals's father was a successful butcher in Germiston. He decided to try his hand at farming and moved to Ermelo during the drought and depression of 1934.

When Stals was in Standard 7, his father died. The farm was sold and he moved back to Germiston where he stayed with his two brothers. In matric he was made head boy and this was undoubtedly a source of his later motivation: "I realised that you can succeed despite circumstances — providing you are prepared to do your share."

Stals caught a train to Pretoria to look for work the same day he wrote his last matric paper. His priority, however, was to study further and to his delight he managed to find lodgings and a job with Old Mutual, all within walking distance of the university. However, Stals had to find new employment when his lectures clashed with work hours. Within three years he completed his BCom while working at the Pretoria municipality.

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Stals and De Kock are golf partners: "Sometimes we solve our problems on the golf course," he has said. Consultation will obviously continue — there will be continuity as well as change at the Bank.

Sanlam's trusts improve

Star 27/7/89 (58)

Sanlam's unit trusts have declared higher income distributions for the third successive six-month period.

Index Trust's income declaration of 18c a unit represents an increase of 55,2 percent on the June 1988 distribution. Industrial Trust's 15c is 37,6 percent higher, while Sanlam Mining Trust's 8,5c is up by 49,1 percent.

According to fund manager Stafford Thomas, investors experienced good growth in their income.

Index Trust's income declarations increased by 87,5 percent over the past 18 months and those of the Industrial Trust and Mining Trust with 134,4 percent and 84,8 percent respectively. — Sapa

(58) 7/7/89 Finmail

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GuardBank man doubts equities will manage to maintain pace

B/Day 27/7/89

LIZ ROUSE S8

IT WOULD be unduly optimistic to expect the equity market to continue to rise at the same rate in the months ahead as has been the case over the past 12 months.

This is the opinion of GuardBank Management Corporation's Roy McAlpine in his June quarter review.

He says that, with the all-share index having risen 32,1% over the first half of 1989, and with all sectors participating in the sharp rise, it becomes more difficult to assess the trend of equity prices.

There is no doubt that the rate of growth in corporate earnings and dividends, to be reported in the year ahead, will be "meaningfully" lower than those reported in recent weeks, says McAlpine.

The general fund, GuardBank Growth Fund, had a satisfactory quarter as a result of its concentration in prime blue-chip counters in the mining-financial, financial and industrial sectors.

The net inflow was comparatively low, as a result of which very few changes were made to the fund's portfolio. The equity content, which ended the March quarter at 84,91% (R571,4m), was allowed to drop to 84,03% (R598,2m). Liquidity increased to 15,97% (R113,6m) from 15,09% (R101,4m).

Satisfactory

Top 10 holdings are Richemont, De Beers, Gencor, Anglos, Liblhold, Barlows, SA Brews, Adcock, Remgro and Sappi.

GuardBank Growth Fund has declared an income distribution of 35,47c a unit for the six months to June, which reflects a 52,62% increase over the previous comparable period's distribution of 23,24c.

The overall increase in the unit price over the six months to June was 27,51%.

The GuardBank Resources Fund had another satisfactory quarter with the repurchase price reflecting an increase of 6,25%. In spite of this satisfactory performance, the fund suffered a net outflow, as a result of which it was necessary to lighten several holdings.

The equity content was decreased marginally from 84% (R40,7m) at the end of March to 81,6% (R38,7m) at the end of June. The equity content at the beginning of the year was 81,2%.

Cash resources increased to 18,38% (R8,72m) from 15,98% (R7,6m).

Reductions were made in the holdings of Southvaal, Samancor, Vansa, Anglos, Gencor, Sasol and Sappi.

Resources Fund's top 10 holdings are Anamint, De Beers, Minorco, Sasol, Anglos, Witcolls, East Dagga, Vaal Reefs, Kinross and Amcoal.

The fund has declared an income distribution of 3,94c a unit for the six months to June, an increase of 51,4% over the same period in 1988.

GuardBank Income Fund had another difficult quarter as both short- and long-term interest rates continued on their upward trend. Although the average life of the portfolio remained short throughout the quarter, it was virtually impossible to avoid a slight decline in the value of the fund's capital market stocks.

Taking all factors into consideration, an increase of 4,09% over the quarter can be considered satisfactory.

Cash resources make up over 50% (R3,88m) of total assets.

COMPANIES

(58)

B/Day 7/7/89

Old Mutual Investors' Fund asset base zooms to a record R1,6bn

● CELOTTI

LIZ ROUSE

OLD Mutual Investors' Fund continues to be the most popular choice for unit trust investors. It ended its financial year to June with assets of a record R1,6bn.

The 23-year-old fund's asset base grew by 59% during the past year.

The Investors' Fund also continued to provide one of the best performances in the industry by yielding 40% over one year, 26% over three years and 28% over five years. In all cases distributions were reinvested.

Old Mutual Income Fund, launched in April, attracted investments of more than R15m during its first quarter and announced a maiden dividend of 3,63c.

With interest rates remaining under continued upward pressure since its launch, the Income Fund has invested mainly in short-dated stocks and deposits and to a lesser extent in long-term government stock.

"The Income Fund provides entry into the wholesale fixed interest market for the investor who wants the optimum current income while maintaining reasonable capital stability of funds market," says Old Mutual Units Trusts manager Mike Harper.

"This enables the investor to earn a higher return in the fixed interest market than an individual might be able to negotiate."

Old Mutual Mining Fund declared a final distribution of 7,17c for the six months to June. This brings total distribution for the year to 14,17c, a 34% increase over last year.

Portfolio manager Marco Celotti said the fund had some repurchasing activity during the June quarter, fuelled by the weakness in the dollar gold price.

As a result of this, and to maintain liquidity at a desired level of around 16%, the fund was a net seller of shares. Its entire holdings in Harties, Duikers, RM Props, Barnex and Freddev were sold.

The 10 largest holdings in the Mining Fund are: Anamint/De Beers, Gencor, Anglos, Sasol, Amcoal, Dries, GFSA, Samancor, Assore and Witcols.

The Investors' Fund rationalised its holdings. Trading activity centred on purchases of Gencor, JCI and Remgro, and sales of AECI, Welkom, Sentrachem and Elands.

Its 10 largest holdings are: Anamint/De Beers, Richemont, Remgro, Safren, Anglos, Sasol, Gencor, JCI, Amic and Barlows.

The giant fund's liquid assets stood at R297,9m (18,14% of total assets) while funds available for investment amounted to nearly R144m at the end of June.

W Mail 7-13/7/89

Bank on the life insurers, they're safer

58

By BRUCE ALLEN

LIFE assurers rule the investment roost and it has become common to compare the returns made on life policies with alternative savings options.

Unlike banks and building societies, life offices channel much of their income into shares and property.

Since both areas have performed well when measured against the inflation rate, it's not surprising that the majority of the public's savings is going into life assurance products.

The premiums for your policy are used to pay for the life cover element and expenses. The balance is channelled into the investment arena.

Unlike term assurance and whole life policies, which concentrate on providing cover, most of the premium paid on endowment policies is used for investment. Although the life cover element remains important, people tend to buy endowment policies as a long term savings plan.

In terms of the Benefit Illustration Agreement (BIA), life assurance companies are obliged to reveal what income will have to be generated to give policyholders a return of 12 and 15 percent on their investments.

These figures are referred to as the illustrated maturity values of the policy (IMV) and are split according to a gross and net figure.

The gross figure is higher than the net because certain costs will be incurred in generating the required net figure. For example, Sage Life will have to earn 17,6 percent on its investments to give policyholders their 12 percent return. At the other end, Standard General Insurance (Stangen) needs to make 14,4 percent. It follows that Stangen's overheads are lower and it stands a better chance of making the grade.

With an average annual return of 14,7 percent over the past decade, Stangen is running ahead of its required 14,4 percent. With a historic return of 14,3 percent, Sage Life runs the risk of not meeting the 12 percent level for its policyholders.

Similar comparisons can be drawn with the other life offices. A glance at the figures reveal that, where the big guns are concerned, Old Mutual is in a more favourable position than Liberty Life.

Life assurers are coining the lion's share of the savings market. That's no reason for consumers to buy just any policy in the hope of a good return. Shop around and get value for your premiums.

●Bruce Allen is editor of the personal financial newsletter *Money & Investments*.

Star 8/7/89

58

Don't wait for new law, make a will

SINCE the proposed Capital Transfer Tax (CTT), which will replace Estate Duty and Donations Tax, will not make the legislative table this year, those intending to plan their estate should certainly not "just sit on the fence" waiting for it to come into force.

This advice comes from Bruce Howard, Deputy General Manager — Marketing at AA Life. "The need for prudent estate planning is on-going because of the impact it can have on the future of families and relatives," he says. "In fact, it should be accorded just as much careful consideration and attention now in view of impending new legislation as it has been previously.

"People in the throes of estate planning should now look at preparing effective and detailed wills as the most practical instruments through which to address their planning needs."

The natural tendency is, while the current lack of clarity about the new law continues, to postpone estate "pegging" arrangements and the disposal of assets, emphasises Howard. "It could well be self-defeating to allow this to happen."

The reason for the delay in introducing CTT, he explains, "is that the Receiver of Revenue is so overloaded with other new legislative proposals that he cannot give it the necessary attention".

In the interim, the estate planner should give a lower priority to estate duty "pegging" — that is the disposal of assets to a company or trust in order to fix the dutiable value of assets in the planner's estate by donation or sale.

This is due to (i) a lower rate of estate duty (15 percent) compared with the previous maximum rate of 35 percent, attributable to the growth in the value of assets. (ii) the substantial exemption — up to R1 million — and deduction in respect of bequests to a surviving spouse. (iii) it can cost up to 5 percent in transfer costs to peg the value of some assets.

The need is for flexibility because of the current uncertainty over the final outcome of CTT on trusts. For example, the proposed 15-year application of CTT to the value of trust assets could make a person potentially liable to estate duty sooner if they place assets in a trust (and possibly more than once).

In this situation, planning could backfire in the case of the younger wealthy planner, says Howard.

Urging that estate planners look at the will option, Howard says: "The need for a carefully structured will to cater for a planner's wishes regarding the distribution of his assets, catering for minor children and providing for tax efficiencies (which may require the creation of one or more testamentary trusts in terms of the will), remains.

"This is particularly the case since one never knows when death will occur. In this context, one must plan on the basis of the current law but provide for flexibility where possible.

"Should the law change to the detriment of the provisions of a will in the future, it can then be revised by amendment (codicil) or a new will can be drawn up."

Sage, Corbank link

58

MANAGEMENT of the R35-million Corbank Participation Mortgage Bond Scheme is being taken over by Sage Trust Company.

The move is in line with Corbank's aim to concentrate on providing specialised merchant banking services to the corporate sector. S Times 9/7/89

Sage Trust, a member of the Sage Holdings group which controls assets of R3-billion, serves a broad base of private investment clients and manages two participation mortgage bond schemes.

Managing director Alan Payne says: "We will eventually merge the Corbank scheme with our two existing schemes. Everyone will benefit from the deal."

There will be no change in terms or conditions of investments in Sage Trust or the Corbank scheme. Rationalisation should produce benefits over time.

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Property unit trusts on the march

By Udo Rypstra

INVESTMENT in property unit trusts is increasing and could lead to the formation of more listed and unlisted portfolios.

Those who invested in property units can expect yields of more than 10% in the next few months as well as capital gains, say analysts.

The market capitalisation of these units is now more than R2-billion. The figure is expected to rise because of the changes in prescribed asset requirements for financial institutions.

The requirements were that 33% of the net liabilities of life offices and 53% of pension funds had to be invested in government and semi-government stock or cash. Now institutions may invest up to 65% in equities and 30% in properties, including property unit trusts.

Niki Vontas ... opportunities for short-term capital gains

Speculation is that the institutions will have R9-billion available annually for investment in property, and part of it will go to the trusts.

Property trusts, originally introduced for individuals, are popular with institutions. A survey by stockbroker Max Pollak & Freemantle analyst John Rayner shows that 85% of the units are in institutional hands — including 35% with insurance companies and 18% with pension funds. Only 15% is held by individuals.

A survey by property trust adviser Niki Vontas of stockbroker Frankel, Kruger, Vinderine, says that in the short term property trusts and variable loan stock companies will benefit from the strength of the property market in the past 18 months and will generate higher earnings.

Mr Vontas believes that the new prescribed investment requirements constitute only one factor which will boost direct and indirect property investment.

SPOTLIGHT ON A R2bn SECTOR

Another factor is that property portfolios are no longer assessed at the cost of purchase, but at market-related values. This means there are opportunities for short-term capital gains.

[redacted]

Mr Vontas says rents have increased since the third quarter of 1986, but have now peaked and are on a plateau. The quality of leasing inquiries and their frequency has declined since May 1989.

However, the growth in rent returns and the decline in vacancies in 1986-1989 should lead to increased dividends, he says. In many cases dividends should translate into earnings that exceed the historic rent escalations of 10%.

"Most property unit trust and variable loan stock companies will soon declare interim or final dividends for June to September 1989 and they will confirm the growth expectations. This will result in stronger sectoral and individual indices."

Mr Vontas is so confident about the performance of property trusts that he expects the current gap between them and the rest of the industrial market to close in the fourth quarter of this year.

Like unit trusts, property trusts invest their income from big and small investors in prime commercial, industrial and sometimes residential properties, mostly in cities. There are 14 listed property trusts, each with a particular make-up.

Unitholders are taxed on income according to their tax category. As a result, life offices pay 35% tax of gross investment income, but pension funds are not taxed. Income to the individual is taxable at his or her full marginal rate.

The major advantage of property unit trusts, says Mr Vontas, is that they offer virtually the only way for an individual to invest in commercial and industrial property.

Property trusts are subject to regulations. They are designed to protect individual investors from exposure to the risk of direct property investment.

Another advantage is they are professionally managed. They offer access to a diversified portfolio — one can have a geographical, commercial or industrial spread which generates a steady income. So far, yields have kept pace with inflation. Like unit trusts, they are easily marketable.

A disadvantage is that income is regarded as interest by the Receiver of Revenue. Anyone who is already taxed to the hilt will not benefit much from them.

Another disadvantage is that because they are listed, quoted prices rise and fall with the rest of the market, irrespective of the value of the properties concerned.

Mr Vontas says it is possible that some of the next batch of portfolios will not be listed, a trend now evident in Australia.

Unit trusts cautious over more equities exposure

(58) B|Day 10/7/89

LIZ ROUSE

UNIT trust portfolio managers were cautious, in general, about increasing their exposure to equities in the June quarter because of the volatility of all market sectors.

However, unit prices increased as the JSE all market index recorded an improvement of 3,75% over the quarter and the financial and industrial index advanced by 5,4%.

Caution about gold shares was warranted until the last few weeks in June, when the index shot up on the improved gold price. Nonetheless, the index reflected a fall over the three months of 3,7%.

The result of general caution was that there was little change in the percentage liquidity of the general funds, while the specialist funds kept their liquidity levels high.

Total cash of the funds which have so far reported June quarter results — and excluding liquidity levels of Syfrets — amounted to R678,66m at the end of the June quarter.

With more funds still to report, it appears that total liquidity will be little changed from the March quarter's R814,8m, when general equity funds reported liquidity of 17% or R615,2m and specialist funds a cash content of 15% or R199,6m.

General funds

Of the general funds which have so far reported, giant Old Mutual Investors' Fund had the lowest liquidity level of 8,76%, retaining R143,9m cash in its total assets of R1,6bn. But its investment portfolio of blue chips was unchanged.

Other major general funds which held on to their existing blue chips to maintain unit price growth were Sage Fund (12,2% or R68,8m cash), Standard Mutual (21,57 or R53,9m cash), Sanlam Trust (21% or R41,1m cash) and UAL Unit Trust (14,9% or R48,6m cash).

A feature of the June quarter reports from fund managers was that there was no consensus about equities' direction.

Some considered that the medium-term outlook for equities remained good, as industrial and financial equity prices were well supported by strong balance sheets and excellent earnings growth in many companies.

Others warned that some period of consolidation was to be expected and forecast a more modest level of corporate earnings and dividend growth over the next 12 months. The Sanlam group believed that better value would be found later in the year.

Sage pointed out that demand for equities would be sustained because of the pending reduction in prescribed asset requirements and structurally entrenched inflation.

Good progress for Sage unit trusts in June quarter

58

b/Day 10/7/89

LIZ ROUSE

SAGE unit trusts' portfolio managers take a less cautious view of stock market prospects than other unit trust groups in the June quarter.

They believe the proposed substantial reduction in prescribed asset requirements for institutional investors, and renewed perceptions of structurally entrenched inflation, will cushion the effect of higher interest rates and clear signs of an economic downturn.

The positive factors resulted in sustained demand for equities, particularly in the industrial and non-mining sectors, in the June quarter.

Sage was relatively active in the market and liquidity was therefore relatively low at 12,2% (R68,8m).

The Sage Group's unit trusts made sound progress during the quarter.

Underlying portfolio performance was reflected in total returns (capital plus income) for the past year of 44,3% in Sage Fund and 43,8% in Sage Resources Fund.

Sage Fund's total assets at the end of June were R563m, 47% higher than in June 1988, while Sage Resources Fund's total assets of R45,9m were 60% above the level a year ago.

Sage Fund has declared a record distribution of 35,5c a unit for the six months to June, up 41% on the previous comparable period's 25,2c.

Total distribution for the past 12 months is up at 64,5c from 47,1c.

Sage Resources Fund has declared an income distribution of 2,8c a unit, up 16,7% on the previous half-year's, bringing total distribution for the past 12 months to 5,1c a unit.

FINANCE

Bulls sniff rates shift in wind

B|Day 10/7/89. 58

BULLISH sentiment appears to be spreading in the financial markets.

Those who are less bullish are now convinced that interest rates have peaked and will continue to move sideways for many weeks.

The more rampant bulls are already predicting that rates will start moving down, possibly before the end of August, with snide commentators reviving talk of prime shedding a percentage point or two before September 6.

Should this happen it would not be a direct general election snare, or a Primrose Prime, because if rates do start to ease there is little likelihood of their going up smartly again as they did in 1984 — unless the drain on the gold and foreign reserves persists and the money supply obstinately resists control.

IN THE MONEY MARKETS

Harold Fridjhon

The signs of bullishness are reflected in Friday's further easing of the discount rates for Treasury bills (TBs) and 90-day liquid bankers' acceptances (BAs). The TB rate declined to 17,09% from 17,15% in a well-supported tender with R245m bid for the R100m bills on offer. The TB rate has eased 12 points in two weeks.

The BA rate has come down 15 points during the same period. On Friday it fell to 17,40% from 17,45%.

The change in the market mood is also apparent in the bidding for negotiable certificates of deposit (CDs). Investors are dropping their sights and are bidding 18,35% for six months and 18,25% for a year, but most banks are showing an indifference to these overtures.

Major banks that believe rates will ease are not prepared to lock themselves into what they consider high levels for the next year or even the next six months.

They prefer to buy cheaper money in the overnight call market, as volatile as this source of funds has been.

Mid-week the Big Money call rate plummeted from the month-end peak of around 20,5% to 17%-17,5% although on Friday, after the Thursday market shortage moved up to R3,7bn from R3,07bn, the Big Money call edged up to 17,75%. Major banks appear to have dug in their heels against paying bone-crunching rates for call money.

Balances

Subsidiary reasons for the persistence of the market shortage — its debt to the Reserve Bank — could be the excessive holiday season banknote issue at R7,58bn and delayed clearance of tax cheques. But the real cause of the market's, and particularly the banks', distress is the tidal wave of money out of the private sector into the Treasury.

The Reserve Bank's June statement shows government balances reaching a record peak of R6,876bn, up R5bn on the May figure, and all that money has not come from tax payments. The Treasury, through the Reserve Bank, has been ceaselessly tapping RSA bonds into the market.

To what extent, no-one really knows. In May more than R1bn new stock was issued for payment in two monthly tranches. In June a further large parcel was sold to a major mechant bank, said to be on the same terms, and further unquantified sales have been effected through favoured channels of distribution.

The favoured vehicle is believed to be a new long-dated bond maturing in 2010, but shorter dateds, some on the verge of becoming liquids, have also been placed.

This is undesirable. Apart from the fact that public finance is not a private matter, all investors should be given equal opportunity to subscribe for new bonds.

At the very least there should be a public issue. But, better by far, the Treasury should offer parcels of bonds periodically on tender without intermediaries. By using market methods the Treasury might buy its money cheaper — but, of course, government is apparently not concerned with the fact taxpayers — and their present minor children — will have to foot the bill as long as it has cash in hand for pre-election handouts.

Accounting firms look at local merger

B/Day 10/7/89

KAY TURVEY

DELOITTE Haskins & Sells and Pim Goldby, Touche Ross's SA practice, are exploring a local tie-up following agreement in principle by the two firms to merge worldwide.

Pim Goldby managing partner Colin Brayshaw and Deloitte senior partner Tim Curtis agreed that although potential synergies might benefit clients and staff, there were many areas to explore before a local merger could be formally considered.

A decision will have to be taken by the two firms' 200 partners. A big advantage of a merger will be a rationalisation of costs and expertise in Deloitte's substantial training department.

The talks follow hard on the heels of the creation of Ernst & Young — the merger of Arthur Young and Ernst & Whinney, which was finalised locally two weeks ago.

If successful, the Deloitte and Touche firm in SA is expected to have an annual fee income well above Ernst & Young's R100m, pipping the newly-formed firm as number one locally. The combined Deloitte and Touche worldwide would generate revenue of more than $4bn.

In another possible link-up of the big eight accounting firms, Arthur Andersen and Co and Price Waterhouse in New York confirmed reports that they had begun talks about a possible merger of their worldwide operations.

If completed, an Andersen-Waterhouse merger would create the world's largest accounting firm, reaping $5bn a year in worldwide revenue, and eclipsing Ernst & Young's $4,2bn fee income.

SAPA reports that although Deloitte and Touche Ross are the smallest of the big eight, they have posted the most rapid growth in recent years. Between 1985 and 1988, their individual worldwide revenue jumped more than 88%, according to Bowman's Accounting Report.

Merger on cards for two auditing giants

ST 10/7/89

Deloitte Haskins and Sells International and Touche Ross International have agreed in principle to merge.

In view of international developments, the South African firm Deloitte, Haskins and Sells (DHS) and the local Touche Ross member firm have had preliminary discussions about a local merger.

GLOBAL

Colin Brayshaw, senior partner of Pim Goldby, and Tim Curtis, senior partner of DHS welcomed the announcement at the weekend of the proposed global merger, but said while both firms believed that the potential synergies might benefit clients and staff, there were many areas to explore before a local merger could be formally considered.

Edward A Kangas, chairman of the executive committee of Touche Ross International, and J Michael Cook, chairman of the executive committee of Deloitte Haskins and Sells International, said on Friday that their respective international executive committees had agreed in principle to a global combination of the two firms.

PROMINENT

The new international firm will be called Deloitte Ross Tohmatsu International.

Tohmatsu Awoki and Sanwa is a prominent auditing firm in Japan.

The combined firms will have 1989 worldwide revenue exceeding $84 billion, will employ 65 000 people and will be one of the world's largest accounting and consulting firms.

According to Mr Kangas and Mr Cook, it will have a leading position in all major US and international markets. — Sapa.

Portfolio managers still wary of market

BDay 10/7/89 58

LIZ ROUSE

STANDARD Bank mutual fund portfolio managers continue to take a cautious view of the stock market and kept liquidity levels high in the June quarter.

The general fund, Standard Bank Mutual Fund, has declared a dividend of 24,71c a unit, an increase of 30,01% on the dividend declared this time last year.

The fund's repurchase price increased by 6,33% over the past quarter, bringing total return for the six months to 23,49%.

Standard Bank Extra Income Fund made little progress — its price appreciated only 2,76c to 87,5c a unit in the June quarter as capital market rates remained at historically high levels. The appreciation represents an annualised compound return of 13,65%.

Standard Bank Gold Fund, which has declared a dividend of 6,64c a unit, was static. Its repurchase price increased by only 1,8%, bringing total return for 12 months to June to 20,25%.

Insurance brokers take on new name

BDay 11/7/89

KAY TURVEY

J H ISAACS Insurance Brokers is to change its name to Indemnity Insurance Brokers to reflect the change in shareholdings after the disinvesment of English brokers Minets.

The change results from the sale of J H Isaacs Group's 50% stake in the company to MIBSA, formerly Minet Holdings (SA), and to certain executive staff of J H Isaacs Insurance Brokers.

Because of the J H Isaacs group's policy of independence, it made use of an agreement to sell its shares in MIBSA after Nedbank, through its subsidiary Syfrets Trust, acquired a controlling interest in MIBSA.

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In July last year Minet Holdings (SA) indirectly acquired 42,5% of J H Isaacs Insurance Brokers. At the time Minet Holdings of London held a controlling interest and Nedbank a substantial minority stake. Through Syfrets Trust, Nedbank has increased its share to 75%.

Fedvolks recovery fails to persuade investors

58

B Day 12/7/89

ANALYSIS BY STEPHEN RICHTER

FEDERALE Volksbeleggings (Fedvolks) has staged an impressive bottom-line recovery since producing losses in financial 1985 and 1986, but investors do not seem to be listening.

In spite of the JSE industrial index's current record levels, the accompanying graph clearly shows Fedvolks' share price has turned in a disappointing performance considering this scenario.

The share rose strongly towards the end of the previous decade and by 1981 was approaching 600c.

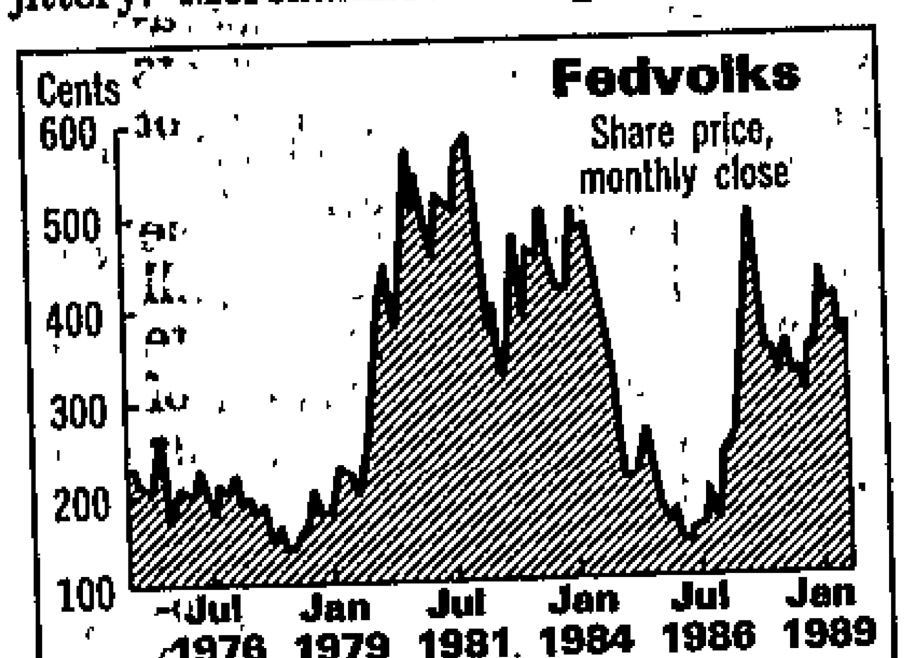
But since that time, its actions have left much to be desired. The highest level Fedvolks reached over the past three years has been 550c, at the height of the 1987 bull market. This would seem to indicate that investors are looking for further proof Fedvolks has indeed solved all its problems before bidding up the share price.

MD Johan Moolman feels last year's R100m rights issue may also be damping enthusiasm for the share, as the group will have to service an additional 34-million ordinary shares, which will dilute EPS.

In addition, he points out there is a general perception in the marketplace that Fedvolks is almost totally involved in the consumer spending sector.

Consumer spending is expected to suffer due to higher interest rates and other related factors that should cause a slowdown in economic activity. But Moolman points out Fedvolks controls companies in the pharmaceutical, food, motor components (replacement parts) and services sectors that have impressive track records and are performing well at the moment.

Looking at the latest balance sheet, however, there are a few factors that may cause potential shareholders to become jittery. Merchandise has grown significantly to R171,8m from only R107,6m at the end of financial 1988, while raw materials have jumped to R156,4m from R112m during the same period.



Graphic: FIONA KRISCH Source: JSE

Moolman says this sharp increase was in the motor components and consumer durable activities of the group. He admits Fedvolks is overstocked by about R50m at the moment, but expects this to be rectified by the year-end.

It also appears that Fedvolks' image is suffering because the group is not sufficiently involved in the rand-hedge area, which has attracted increasing investor attention because of the weakness of the local currency.

Moolman defends his company's current strategy by indicating that many subsidiaries are building up their export activities while the group has been gearing itself towards import replacement.

The domestic consumer goods division is benefiting from the move towards import replacement. The latest financial report shows this division ranks second highest in terms of assets employed, but generates only Fedvolks' third largest turnover and fourth largest attributable income figures.

Moolman explains Fedvolks has invested heavily in this sector of the group's business to upgrade production facilities for export replacement. Since this was completed only recently, the expected benefits will probably not flow through to the group's bottom-line until financial 1991.

Management has elected to keep dividend cover at a very conservative four times earnings due to capital expenditure and working capital requirements. Moolman does not expect cover to be reduced until economic conditions improve.

But if everything goes well for the group, Fedvolks could possibly earn 100c a share during the current financial year and pay a dividend of about 24c. And if management can follow up this with a respectable performance during the next few years, Fedvolks' share price may benefit.

After all, at the current level of 360c, Fedvolks is selling at a discount to net asset value.

Bid for BAT lifts Rothmans price

Star 12/7/89

By Sven Lünsche and Neil Behrmann

LONDON — Shares of Rothmans International surged to new heights on the London Stock Exchange yesterday after a record £13 billion bid for tobacco conglomerate BAT Industries.

Richemont, the Swiss-based international arm of the Rupert empire, which holds 30 percent of Rothmans, also rose sharply in response.

BAT's R228 million stake in three major South African companies is also in question, as analysts expect a major restructuring of the group if the bid is succesful.

At the close in London, Rothmans was 637p, up nine percent on the previous day. Its low this year was 425p.

Rothmans volume was a high 2,8 million shares.

Analysts felt a restructuring of Rothmans was on the cards and that the offer for BAT showed the company was undervalued.

The investor group, Hoylake Investments, yesterday launched a £13 billion offer for BAT in Britain's biggest-ever takeover. The group offered 850p for each BAT share.

BAT operates in 90 different countries, but if the bid is succesful, Hoylake is expected to sell off some of its non-tobacco interests to finance the transaction.

In South Africa, BAT's holdings not related to tobacco, include a 59 percent stake in short-term insurer SA Eagle, valued on the JSE at about R166 million, and control of unlised Willards Food, which controls over a third of the local snack food company.

SA Eagle managing director, Peter Martin, said this morning that it was too early to speculate on BAT's stake in the group, as the bid might not even succeed. "We have had no notification from London as yet," he said.

Anglo American is the other major shareholder in SA Eagle, with a 26 percent interest in the group.

BAT also holds a 63,6 percent interest in tobacco group, Utico, whose market capitalisation is currently at R63 million. The Old Mutual controls over 17 percent of Utico.

● See Page 12

'SAFETY NET' WARNING

HOMEOWNERS who are feeling the pinch of increased bond rates should negotiate with their building societies or banks rather than take up government's offer of bond relief, said Scott McRae, MD of Camdon's Nationwide.

McRae said government's "safety net" for bond holders is not a subsidy. 58

"This has been made clear by ~~Pretoria~~. It simply means that the reduced monthly payments are capitalised over the balance of the life of the bond and, in fact, the bond holder ends up paying more." B/Day 12/7/87

Capitalising, he explains, involves spreading the difference between the reduced bond payment and the market rate over the rest of the bond. Interest is paid on the amount, and ultimately the house costs more.

"The monthly payments decrease because the interest rate is pegged at 17% for three years, but interest rates will almost certainly soften in less than three years' time.

"Homeowners who take advantage of the relief scheme will then be paying more than their counterparts who did not," McRae said.

"Instead, homeowners can obtain similar relief from their building society or bank — and not be locked into paying 17% for three years."

R35-m action – AA Mutual, AA granted an extension

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Star 14.7.89

By Cathy Stagg

The Automobile Association and AA Mutual Insurance Association Ltd (AAM) have been granted an extension of time to file pleas and counter-claims in the R35 million action launched by Federated Employers Investment Co Ltd and Federated Life Assurance Co Ltd.

In February 1986, Federated agreed to buy AAM's shares but cancelled the deal in May that year, allegedly already having paid R35 million. AAM's short-term insurance business was wound up in June 1986.

The AA and AAM both intend instituting counter-claims which include R15 million under a shareholders' agreement, delivery of shares worth R15 million under a merger agreement, both concluded at the same time as the main agreement, and damages of about R45 million.

Among the difficulties encountered by Mr M F Doherty, the attorney acting for AA and AAM, has been the refusal of AAM's former chief executive, Mr Warren Plummer, to consult him. Mr Plummer left South Africa shortly before the collapse of AAM's short-term insurance business.

LENGTHY DELAY

In papers, Mr Doherty said that summonses were served in July 1987, more than 14 months after the purported cancellation of the main agreement.

The next month AA and AAM asked for further particulars.

In May this year, nearly 21 months later, lengthy replies were filed.

Mr Doherty asked for an extension of time to file pleas and counter-claims but Federated's attorney refused to extend it beyond July 15.

So the urgent application was launched, which also asked the court to make Federated's attorney pay costs because he had refused to agree to their request. Mr Justice J H Coetzee granted the extension until October 31 but did not make a costs order.

Mr Doherty said the inquiry into the collapse of AAM's short-term insurance business had produced 9 000 pages of transcript, 18 lever arch files of exhibits and about 40 AA files, which needed to be studied.

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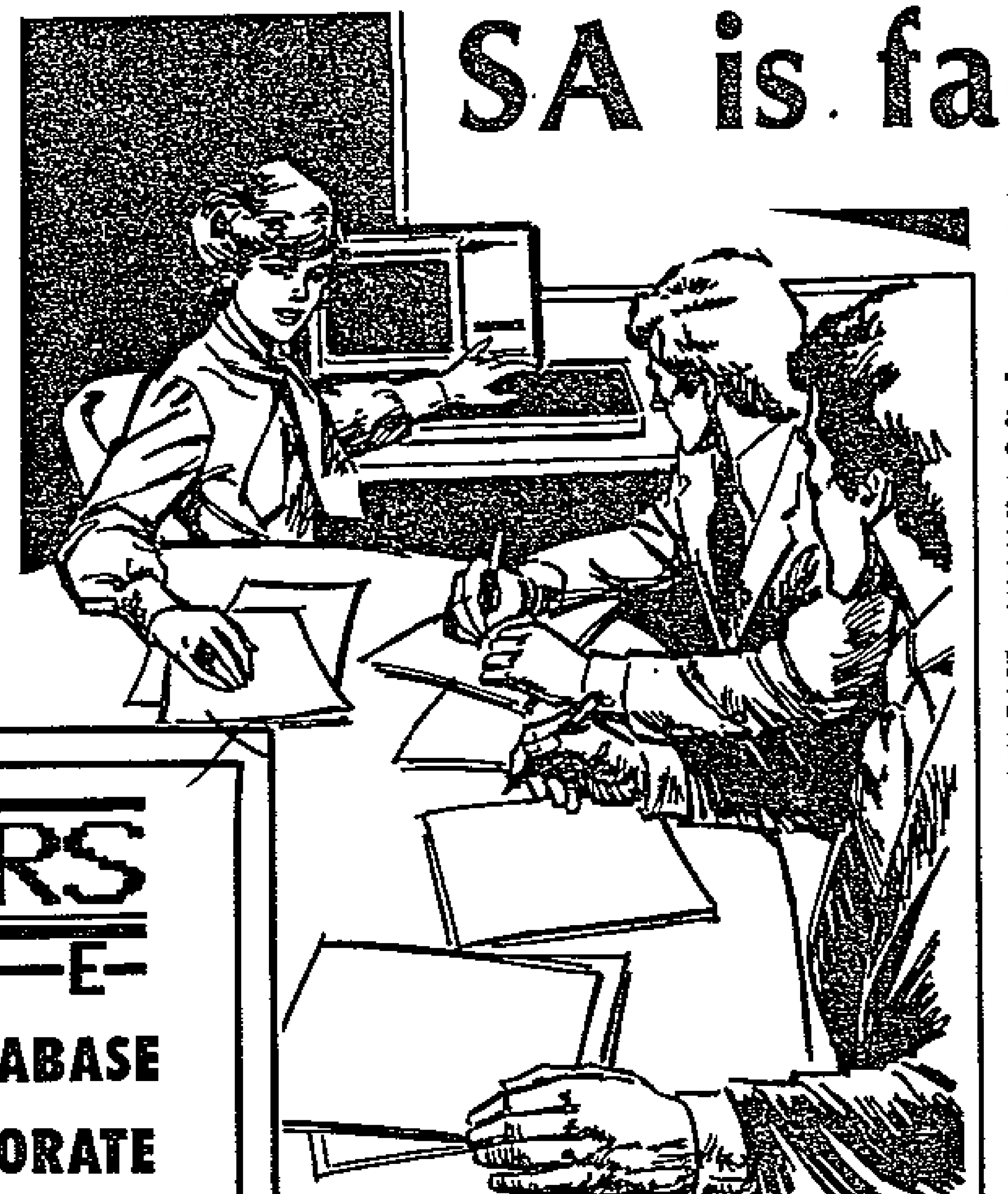
Business Day SURVEY

*Formed to compete with the only other large credit information company in SA, Kreditinform has now entered into a joint venture with Commercial Union and Hollandia Reinsurance Group. **MELANIE SERGEANT** reports.*



SA is facing massive credit information surge

THERE is a massive and growing market for credit information in SA — and as interest rates soar and the cost of financing debt becomes prohibitive, so demand is expected to increase.

Formed in 1982 to compete with the only other large credit information company in SA, Kreditinform has grown steadily in line with increasing demand for this type of data.

Operations director Peter Sullivan explains that from three offices — in Johannesburg, Cape Town and Durban — and a staff of five, the company now employs 180 at five offices countrywide.

On its launch, Kreditinform formed a network of people throughout SA to collect the information which forms its lifeblood, namely researched information and statutory information ranging from judgments to data from the registrar of companies.

"This immediately gave us something to sell to clients, and we still send daily reports to them regarding corporate judgements and liquidations.

"On the research side, every request is researched according to clients' needs — and we still operate in this way, although the company now has what it feels is the largest and most current database of its kind available in the country.

Demand

"Because we build reports according to our customers' demands, we have been able to maintain our philosophy of having very current information at our fingertips," Sullivan explains.

"In the early days, we underestimated the demand for our service.

"Essentially, we were geared up to be a credit management consultancy, but after starting the information side of the business, demand for this service took over, and consulting has thus taken a much lower profile."

PETER SULLIVAN

The company saw more than 100% a year compound growth for its first few years, and now controls about 60% of SA's corporate credit information market.

A major reason for the company's success among corporate clients is that it has moved from traditional credit management.

Notify

It does not simply supply data, but also assesses debtor risks for customers, taking a substantial load of work off the shoulders of the client company's own staff.

"We supply all available data and also notify customers of the best possible means of carrying out the particular transaction with the third party.

"Because of this additional service, from a rand value point of view, we have become the largest credit risk assessors in SA."

However, diversification has been an important contributor to growth, and in November 1987 the company launched the first in its range of consumer products, namely KreditScore, which is a consumer credit scoring system — and it believes that the market for this service can become massive.

"Our new endeavours are highly researched, however, and for two years prior to starting the consumer service, we started collecting consumer judgments."

Not surprisingly, the company used computers from the start, launching out with a small DataPoint system, but soon growing to a small IBM System/34, and then to a System/36.

"We now use one of the largest System/36s available, and in 1986 we were able to start giving clients on-line, in-depth credit reports.

Senior

"We now have more than 300 users on the system, and usage rates are climbing fast as clients realise the benefits — this system is faster and more economical than the manual reports."

Each research report is checked and signed off by a senior manager.

"This is after the report has already gone through four previous quality-control checks by our researchers.

"We save clients a massive amount of time. Because we have specialised in the business, clients do not need to waste time going to the registrar.

"Also, they can draw on the expertise of our staff to analyse potential risk.

"All in all, we handle about 100 000 trade references each month, giving over R500m worth of credit exposure," he points out.

The concept is designed to cut the load

TO CUT the load on clients' credit-checking staff, Kreditinform offers assessed reports.

These, says MD Ivor Jones, are highly regarded by credit professionals throughout southern Africa and by the company's associate Credit Information Agencies throughout the world.

There are several components of the reports, with a bank code, file copy and references report (BFR).

These are often used when there is already some information on record, but it is out of date.

Also, if the value of the enquiry is too small to justify a full, in-depth report.

"Subscribers often use this service when they do not want us to conduct a direct interview with the subject of the report.

"A BFR report comprises a new bank code, trade references, plus a full-file check, including judgments and notarial bonds — and can be supplied within 48 hours by telephone or telex."

Among the specialist reports offered by the company is the personal interview report, which is a very in-depth look at a company.

It is compiled by top-level Kreditinform staff in direct consultation with the report's subject — as opposed to telephonic compilation which is used for "factful" and assessed reports.

"The personal interview report answers specific questions about prospective debtors.

"It is ideal for companies which feel that the loss of the amount of money being considered in the deal would affect the company adversely," Jones explains.

The supplier acceptance survey is specifically designed for companies which rely to a great extent on their suppliers.

"It is used, for instance, by major retailers so they can be sure of continued supply of the product, because they could lose significant amounts if the supplier is liquidated during a big promotional campaign.

"Major manufacturers standardising on single suppliers need to be sure that the company will still be in business — to maintain continuity of supply.

"These reports are also popular in the building industry, because sub-contractors must be able to fulfil obligations for projects to come off the ground."

Insurance reports are on insurance brokers which ask to have their commissions paid in a lump sum as soon as a contract is accepted and the first premium paid.

"Insurance companies are at great risk here because if a policy lapses and brokers are not financially sound, the refund of commissions overpaid can be very difficult."

The company's corporate intelligence unit (CIU) is geared to handle out-of-the-ordinary enquiries.

These, Jones says, are either complementary to the company's existing range of reports, or provide a more customised service, depending on user needs.

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SUSAN RUSSELL

Inexperience adds to insurer's woes

THE short-term insurance business of Reinsurance Union Ltd was placed in provisional liquidation in the Rand Supreme Court yesterday.

In terms of the rule granted after an application by the company itself, interested parties have until August 8 to show cause why Reinsurance Union's whole insurance business in SA and overseas should not be wound up.

Most of the company's business (90%) was conducted overseas, according to court documents.

The company's GM, Ralf Arno-Hefler, said in an affidavit that inexperienced underwriting in its marine department led to large losses.

These were only discovered after the death of the department's manager in 1980.

Hefler said the decline in reinsurance markets worldwide, aggravated by the decline of the rand had also been a factor.

He said shareholders injected about R8m into the company to try and rectify the position. Reinsurance Union also stopped writing new business in 1985 and cancelled contract renewals.

Hefler said the company's assets were R19,7m on December 31 last year.

Net liabilities from December 31 1988 to May 31 1989 showed an increase from R2,98m to R3,85m, Hefler said.

"While it may be that sufficient funds exist to meet claims for the forseeable future, a stage will inevitably be reached when the company no longer has the resources to meet claims which arise," he said.

Within official framework . . .

RB needs more freedom — De Kock

Cape Times 12/7/89 58

Own Correspondent

JOHANNESBURG. — Reserve Bank Governor Gerhard de Kock yesterday called for official recognition that interest rates were not administered prices determined by the Cabinet.

He added in a speech at the University of Durban Westville such recognition should be "the next forward step in stabilisation policy".

Interest rates should — at all times — be flexible and free to respond to market forces as influenced by official monetary policy.

In a reference to last year's pressure by politicians to keep a lid on interest rates, he said: "If government approves a target for M3, or any other monetary aggregate, it cannot at the same time impose a ceiling on interest rates."

The Bank worked within a broad framework of official economic and financial policy determined by government but, within that framework, it should be free to take action to control growth of the money supply and to accept the consequences of such action for interest rates and exchange rates.

"I am pleased to acknowledge that there is already a much better appreciation of these realities of monetary policy than, say, a year ago, when political resistance to higher interest rates prevented monetary authorities from tightening monetary policy."

De Kock said proof of this was the increase in prime overdraft rate to 20% in May — a level that now appeared adequate for the job at hand.

Referring to the debate between monetarists and Keynesians, he said the real debate was not between conservative demand management and monetarism. It was between proponents of market-orientated economic policies and direct interventionists.

He appealed to everyone who believed in market-orientated policies to place more emphasis on the common ground between them and less on the differences. He asked pure monetarists to direct some of their fire at their "real enemies — the direct interventionists".

The most important issue in monetary policy was to gain recognition from policymakers that independent targets could not be set for money supply, interest and exchange rates.

He stressed that the Bank should be given the freedom to adjust Bank rate and its other conditions of accommodation to the banking sector as frequently and by as much as it finds necessary, to keep the money supply growth within government-approved limits.

"Otherwise, the Bank will not be able to exercise the necessary control over total demand in the economy and to make its full contribution to a reduction in the inflation rate, a sound balance of payments, a stronger rand, a rebuilding of gold and foreign exchange reserves, and eventually a higher average real growth rate," De Kock said.

US banks urged to demand reform in SA

Cape Times 12/7/89

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Own Correspondent

WASHINGTON. — Congressional sanctions leaders have written to major US banks urging them to demand political reform as a condition for rescheduling their outstanding loans to SA.

In doing so, they appear to recognise they have little chance of forcing the banks to comply and "acknowledge that the banking community cannot be expected to base its decisions and transactions on political considerations".

They appeal instead to sound banking principles, arguing that apartheid and "questionable financial dealings among members of the ruling national party" have made SA a bad debt risk.

The banks contacted include Citibank and Manufacturers Hanover, both members of the Technical Committee of creditor banks which is to meet shortly to discuss rescheduling arrangements after June 30, 1990.

The letters, dated June 28, were signed by Senator Paul Simon, chairman of the Senate Africa Sub-committee; Congressman Henry Gonzalez, chairman of the House Banking Committee, and Congressman Ron Dellums, author of the most extreme sanctions legislation now pending.

The lawmakers ask that the banks impose seven conditions of any rescheduling, including the end of the State of Emergency and the start of process to negotiate a new constitution for a democratic, non-racial and Unitary SA".

They quote British Prime Minister Margeret Thatcher as saying, "if SA does not restore its economy, including privatisation and the abolution of apartheid legislation, it will be impossible to support the resceduling of SA debt."

London stocks afterhours: Blyvoors 275, Bracken 88, Driefontein $10^3/_4$, E Rand Pro $3^3/_8$, Freegold $8^7/_8$, Grootvlei $1^1/_4$, Harmony 5, Leslie GD 95, Randfontein $52^1/_2$, Southvaal $36^1/_2$, Stilfontein 3, Venters $1^1/_4$.

Client list ahead by 30% as squeeze hits market

BDay 12/7/89 (58)

THERE are definite advantages attached to looking after customers — especially if the intention is to grow in a limited or shrinking market.

Having carefully researched its customer needs and expectations — implementing various new strategies, including a new customer-care programme — Kreditinform's new client list is running about 30% ahead of last year's figures.

Sales and marketing director Robert Campbell explains that this year, the company has formalised the way in which it takes care of its clients, based on the research findings.

"We are paying particular attention to service, speed and delivery of our services.

"Today, our customers enjoy the best levels of care available, and this stems from the fact that our production staff are committed to specific standards of performance, and are maintaining these."

Example

Campbell points out that Kreditinform is also getting closer to customers by encouraging them to criticise its services through continual liaison.

One example is the company's corporate Kiss programmes for specific industries.

Although introduced in 1983, it is hoping that during 1989, the amount of information available to these users will be doubled.

Here, users share information on debtors' purchasing and payment trends.

"Sales are growing for information exchange because participating clients can cut their bad-debt exposure as well as exposure to bankruptcies and liquidations.

Faster

"This is vital in times of high interest rates and recession," he points out.

Because of increased demand for information with this year's economic downswing, the company is investing heavily in new networks which will facilitate faster customer access to information.

"Customer needs have undoubtedly become more sophisticated as more enter into computerisation, so our communications facilities must be state-of-the-art to meet their demands."

But, expecting a deteriorating economy this year, Kreditinform is advising customers to address their debtor problems and to start reviewing these on a continual basis, instead of looking at a few.

"We advised clients to review credit limits across the board so all exposures were in hand.

"The spin-off here is that more information on our database can be updated, and thus overall service to all customers is improved dramatically."

Training

The company has also changed the format of its reports this year, improving their overall quality and general presentation.

Apart from telemarketing staff who phone clients on a continual basis to check that they are happy with the service, the salesforce also services customers regularly and have received thorough training on the company's new system.

ROB CAMPBELL

"And Kreditinform has run a number of in-house seminars for customers.

"Response has been very good, and the conflict that often exists between sales and credit departments can be put to rest because few companies know how to deal with this area.

"For instance, we train on the use of proactive credit management information before sales people go out, instead of reviewing new clients after the order is placed."

The tentacles spread

IN LINE with its growth, Kreditinform has entered into several ventures in order to complement its core business.

The most recent of these is last month's formation of the Credit Underwriting Agency (CUAL), in which it owns 25%.

This is a joint venture with Commercial Union (CU) and Hollandia Reinsurance Group, and sees the birth of a new, specialised and independent underwriting agency.

CUAL is underwriting credit insurance solely for Commercial Union.

CU is one of two insurers in SA providing trade credit insurance for local commerce and industry.

Kreditinform MD Ivor Jones points out that CUAL benefits from the experience his company has gained in developing its computer-based information services, and its expertise in establishing the first information exchange service in SA.

Vital

"We are supplying all financial information on a continual basis, which is crucial to underwriting decisions in terms of premium rates, the debtors covered, and in detecting potential financial problems," he explains.

An older, but vital venture for the company is its 51% investment in Kreditech, a computer software development house which is involved in developing all the software needed by Kreditinform.

Jones explains that partners in this venture are directors of the computer bureau Dataplan.

"Through our direct holding in this company, we ensure that all the necessary expertise for our technological advancement is available for the future.

"Some parts of the software developed for Kreditinform have proved highly successful for overseas companies to which they have been exported."

Crucial

The company also has a 51% stake in McGregor's Research Services, the corporate research company in partnership with McGregor's "Who Owns Whom".

"This company researches specific industries with regard to competition in the industry, size of the industry, the market share of players in the industry, as well as aspects such as raw materials and other crucial items.

"The publication is already on-line, and will soon be available on our own network, extending its appeal to investment management and other key business people."

Oldest

In addition, Kreditinform holds 50% of South African Combined Merchants' Credit Bureau, a credit information organisation specialising in the clothing industry.

"This Cape-based company, which is one of the oldest in the industry, has one of the most comprehensive files of credit information on the clothing industry, and we are currently combining this with our own files," says Jones.

The company has also focused on servicing specific sectors of industry, and its Kiss programs are run for those involved in the building, textile, clothing, footwear, radio, appliance, television, financial services, steel and engineering, automotive, plastics, food, and soon the paint industry.

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'WAN is the largest of its kind in SA'

IVOR JONES

COMPUTERISATION, from the outset, has facilitated the development of several new and innovative services by Kreditinform.

MD Ivor Jones says: "Our on-line system is one of the most comprehensive and flexible credit information services in the world.

"It is locally developed, and the wide area network (WAN) of subscribers is the largest of its kind in SA."

Using a PC or terminal, users are linked by a telephone modem directly to the company's computer and have immediate access to the corporate credit information database.

"The on-line system is an amalgamation of three separate databases which each provide different aspects of credit information, and which can be accessed either individually or together, depending on users' needs."

The databases comprise the company system, judgment system and the registrar's file.

The company system displays all information available, using credit reports compiled by Kreditinform, and has information such as company registration, details, names of directors, subsidiaries, trade references and surveys, Kiss file information and bank account details.

From the judgment system database, users can access all public-record information, including Supreme and Civil Court judgments, details on liquidations, sequestrations, notarial bonds, and others.

The registrar's file has basic information on all registered companies and close corporations in SA, and is the only computerised file of its kind in SA.

Jones explains that to help users find the information they need as quickly as possible, the on-line system has an alpha-search feature which allows clients to scan for data using a single word, two words, name and address, Kiss subscriber number, director's name, trading or registered name, associate, subsidiary or previous names.

The Witwatersrand Chamber of Commerce and Industry (WCCI) recently became Kreditinform's 250th on-line client.

Fund managers cautious on equities

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By Sven Lünsche

The unit trust industry showed a net inflow of R106,5 million in the second quarter of the year, but Unit Trust Association chairman Roy McAlpine warned that the current quarter could be one of consolidation.

Commenting on figures released by the Association of Unit Trusts, Mr McAlpine said: "After the very sharp rise in the equity market which took place during the first quarter of 1989, the fund managers of the various unit trusts are currently adopting a more cautious investment policy."

During the first six months of the year industrial share prices have risen by over 30 percent, propelling the overall index to a gain of 32,1 percent over the period.

Star 13/7/89

But many fund managers said that the deteriorating economic fundamentals behind the industrial sector would not provide support for the market in months ahead.

GuardBank fund managers pointed out that there was no doubt that the rate of growth in corporate earnings and dividends to be reported in the year ahead would be meaningfully lower than those reported in recent weeks.

Signs of the volatility currently influencing the JSE were already evident in the second quarter, and many portfolio managers agreed that it was becoming increasingly difficult to assess the likely trend of equity prices in the near future.

But the buoyancy on the stock market so far this year saw gross unit trust sales at rise to R333,8 million, its highest level since the last quarter of 1987.

However, repurchases were increasing and reached R222,7 million in the period.

At June 30, the total assets controlled by the industry amounted to R5,63 billion, reprsenting a 6,8 percent increase in the quarter and a 51,1 percent rise over the past 12 months.

The enormous assets represented the savings of more than 537 000 unit holders, Mr McAlpine said, adding that that over the past five years the six general equity funds had grown at an annual average compounded return of 23,3 percent.

The specialist equity funds had growth of 41 percent over the past 12 months. The six longer established specialised funds grew by an average compound return of 47 percent.

Liquidity levels were generally lower in the wake of higher equity prices.

The general equity funds at the end of June had R3,95 billion under their control and 16 percent of their portfolios was invested short-term assets.

Specialist equity funds had 14 percent of their total of R1,44 billion in liquid assets, while income funds, which had R242 million under their control at the end of the quarter, invested 49 percent in short-dated assets.

Cut in prime rate signalled by market

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Star 13/7/89

By Derek Tommey

Money market sources believe that the commercial banks' prime rate could drop from the present 20 percent to 19 percent within the next four weeks and could drop to 18 percent before the end of the year.

Were this to happen, it would lead to similar reductions in mortgage rates.

A money market dealer pointed out that normally there is a spread of about two percentage points between the 90 days bankers' acceptance rate and prime rate, but recently this has been widening.

The 90 days BA rate has been slowly falling. After peaking at 17,60 percent at the end of May it declined to 17,30 percent on Monday and was 17,45 percent last night.

With the spread between prime and 90 days BA's now more than 2,5 percentage points, the market would not be surprised to see bank rate and prime rate reduced, he said.

Rates in the futures markets are also indicating a drop in rates over the next months.

The November 90-day BA rate is standing at the equivalent of 16,80 percent, said the dealer. This indicates that the market is expecting a prime rate of 19 percent by then.

Then the market is also taking a somewhat cynical attitude to the Government and its election policies. It believes that whether warranted or not, Government will try to sweeten the electorate by reducing bank rate by one percent before the September 9 election.

However, there are also some good economic reasons for expecting a reduction in interest rates in the next month or so.

Unlike 1985, this time the Government's economic package has contained strong fiscal measures.

In 1985 virtually the whole burden of the squeeze had to be borne by the money borrowers. This time, as a result of steep tax increases, those with money are also being hit. The result is that there is less need for high interest rates as in 1985.

The Government's failure this year to adjust the tax tables for fiscal drag has meant there has been a substantial increase in the real rate of taxation.

The result is that this year the Government will be extracting an extra R3,2 billion from the ordinary taxpayer without even having to increase the tax rates.

The effects of this heavy tax increase are likely to become progressively harsher as the year wears on. Unless people run down their savings to maintain their spending they will find it increasing difficult to maintain their living standards.

To this R3,2 billion extra tax bite has to be added the R750 million to R1 billion which the Government aims to extract from the economy through the 10 percent loan levy on companies later this month and also this year's increases in general sales tax and petrol prices.

With all this money being taken out of the economy, money is likely to be extremely tight later this year and to remain so until the Budget.

In this situation some easing in interest rates seems not just desirable but absolutely necessary if the the Government wants to avoid overkill.

B/Day 13/7/89.

Sunday film decision awaited

BRUCE ANDERSON

CONFUSION reigns over when a final decision on Sunday cinema shows in Johannesburg will be taken.

After deciding last month that it was in favour of Sunday cinema shows, the Johannesburg City Council management committee announced that it would refer the issue to Justice Minister Kobie Coetsee for a final decision.

However, this week Coetsee's personal spokesman said no such request for a decision had been forwarded to the minister's office.

"We read the newspaper reports a while ago and were expecting to be approached, but it seems to be taking the council a long time to forward a request for a decision," the spokesman said.

Management committee member Cecil Long said yesterday he was sure officials in the council secretariat would have forwarded a request for a decision to the Justice ministry.

Long added that council was in recess, and he would be able to clarify the matter when he returned to office next week.

A final decision on Sunday cinema showings in Johannesburg — and, by implication, the rest of the country — is keenly awaited by the major cinema groups.

They are keeping a low profile on the issue for fear of jeopardising an affirmative decision.

BANKS SUPPORT POLICE MOVE

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DANIEL SIMON

MAJOR banking groups supported the SAP's decision to withhold certain information regarding future bank robberies, saying the move was a measure to help combat the trend.

Amounts taken during holdups, and robbers' methods, would no longer be disclosed to the media, a directive issued by SAP public relations chief Maj-Gen Herman Stadler said. B/Day 13/7/89

The directive was issued after Law and Order Minister Adriaan Vlok's Pretoria meeting with senior bank men and police officers early this week.

One of main grievances highlighted at the meeting by bankers was the sensationalistic reporting and publicity afforded to bank robberies.

Commenting on the SAP's decision, First National Bank (FNB) GM of security Gerry Christy said some Press reports dealing with robberies had been "irresponsible".

"The less known about a bank robbery, the better," he said.

Standard Bank MD Mike Vosloo said there was an apparent connection between the level of publicity associated with well-planned robberies and subsequent attempts by "amateurs".

DP justice and media spokesman David Dalling said that a "blanket of silence" on bank robberies would not contribute to public confidence.

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Norton pleas for real interest rates

(58)

By Frank Jeans

A much healthier economic climate is on the horizon and "less politicised interest rate patterns" can be expected.

Tony Norton, president of the Johannesburg Stock Exchange has little doubt that Minister of Finance Barend du Plessis and the Governor-elect of the Reserve Bank, Dr Chris Stals, are more objective in economic strategy than the politics of the day would indicate.

Speaking at a Property Writers Club lunch in Johannesburg yesterday, organised by architectural firm Stucke Harrison and Partners of Sandton, Mr Norton said: "There is no substitute for good politics and good economics.

"People are now revolting over the confusion in rates patterns, tax laws and inflation, but I believe the new leadership will create new opportunities."

He saw the abolition of prescribed-assets requirement as a landmark for South Africa and said it was certain there would be better fiscal and monetary policy co-ordination, which must eventually result in greater acceptance of real interest rates.

"We can therefore expect shorter-term interest rate patterns to fluctuate less widely than before, but above an axis higher than inflation," he said.

"At the same time, the long-bond market could well move shorter in average life and demonstrate similar but obviously smoother tendencies.

"This does not mean that in future interest rates will not temporarily fall below inflation. But this will, over time, be more than corrected by extended periods of real rates."

On the downside, Mr Norton referred to the disturbing drop in the productivity of capital because of relatively cheap loan capital — and "this, in a society with an unemployment problem of serious and growing proportions".

Star 13/7/89

Referring to government intervention in the economy, the JSE president said: "Just as government distorted the cost of long-term capital, so too there was an unacceptable mix of trying to use monetary policy to do too much while, at the same time, unduly politicising short-term interest rate patterns."

Fund managers take a cautious view of market

BDay 13/7/89 (58)

LIZ ROUSE

UNIT trusts attracted R106,5m in new money in the June quarter in response to the trusts' continued good performance, but showed a decline on the March quarter's net inflow of R146,2m.

Commenting on the statistics released by the Association of Unit Trusts, chairman Roy McAlpine notes that after the equity market's sharp rise in the March quarter, it was to be expected that the next three months would be a period of consolidation.

Although equity prices continued to rise over the quarter, price increases were, in general, more modest than in the first quarter.

Nevertheless, unit sales continued at a high level, with gross sales amounting to R333,8m, the highest since the last quarter of 1987. But repurchases also reflected an increasing trend, amounting to R227,3m. The June quarter net inflow of R106,5m brought net inflow for the past 12 months to R460,4m.

At June 30, the total value of the assets managed by SA's 31 unit trusts amounted to R5,63bn. (One new fund, Old Mutual Income Fund, was launched during the quarter.) At that level the total assets of the industry reflected a 6,8% increase over the quarter and a 51,1% increase over the past 12 months.

Over the past five years, six general equity funds showed an average annual compound return (capital appreciation plus income) of 23,3%, while over the past 12 months the nine general equity funds achieved an average annual compound return of 47%.

The specialist equity funds, of which 10 have been in existence for more than a year, achieved an average annual return of 41% for their unitholders in the past year, and the six longer established trusts a 19,9% annual compound return over the past five years.

Analysing the liquidity levels of the funds, it can be seen that the general equity trusts had R629,2m, or 16% of their R3,945bn portfolios, invested in short-term assets at the end of June.

The specialist equity funds had R200,5m, or 14% of their total portfolios of more than R1,439bn, in liquid assets.

The income funds continue to find support from investors seeking a sound investment offering a high immediate income, says McAlpine. The eight income trusts had assets of R242m at the end of June, with 49% or R119,1m invested in short-term assets.

Total assets of the funds at R5,6bn represent the savings of more than 537 000 unit holders.

McAlpine says after the sharp rise in the equity market in the first quarter of 1989, fund managers of the various unit trusts are adopting a more cautious investment policy.

Corbank chiefs lash out at malpractice

Star 14/7/89

Malpractice in the business, official and quasi-official sectors is a significant factor in the inability of the economy to attain the necessary annual growth rate in excess of 2,5 percent, say Corbank chairman Bob Aldworth and chief executive Laurie Korsten in the group's annual report.

They point out that the rampant greed of insider trading, unauthorised dealings in financial rands, the incidence of bribery and corruption, tax evasion and sharp business deals have become the accepted norm.

In addition they say, there is the corrupt appropriation of civic resources as well as the misuse of positions of authority.

Other factors hampering the economy are;

- The high rate of inflation which seems to have turned upward again on a long-term increasing trend;
- Increasing government expenditure at a rate which makes it difficult to reduce the total tax burden in the near future;
- Long-term motivation to invest, take risks and work harder is seriously hampered by the heavy tax burden;
- Pressures for wage increases combined with low productivity reduce the country's competitivenes in international markets;
- The severe pressure on the balance of payments as a result of disinvestment, trade sanctions and embargoes.

Mr Korsten admits that the financial results for the Group were disappointing, but says that measures have been taken to improve Corbank's performance in coming years. He is confident that the Group has entered the new financial year in a stronger position than a year ago.— Sapa.

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No further rise in bond rate foreseen

By Jabulani Sikhakhane

Mortgage rates are not expected to rise further but could hold current levels for the remainder of the year, says the chairman of the Provincial Building Society, Dr EP Drummond.

He told the society's annual meeting in Durban yesterday that should the gold price remain above the $360 level and consumer spending be contained, mortgage rates were not expected to rise.

Dr Drummond said the society adopted a conservative lending policy and made sure that a prospective borrower was not over-extended, either in respect of the size of the loan or the ratio of the borrower's instalments to income.

Taxed operating profits had increased by 63,7 percent in the year under review.

This meant depositors could earn a positive rate of return on their investments.

"Furthermore, every effort is being made to assist borrowers who find difficulty in meeting bond repayments.

He said this iwas evidenced by the fact that the society had only two properties in its possession, both of which were subsequently sold.

Reserves to assets exceeded 8,8 percent, more than double the statutory requirement.

It had risen from 4,5 percent in the last 10 years.

"We will continue to forego asset growth, which is non-profitable.

"We take the view that asset growth for growth's sake can be counter-productive and self-defeating," he said.

The bank that puts cash behind reform policy

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W mail 14-20/7/89.

Once the bank for 'homelands', the Development Bank is increasingly involved in the upgrading of townships in major areas, reports HILARY JOFFE

ONCE an institution providing aid to the "homelands", the Development Bank of South Africa has become increasingly involved in the state's reform policy, funding rural and urban projects which have major social implications.

The DBSA's 1988/89 annual report, released last week, provides an insight into the bank's expanding activities.

It is currently funding several projects in urban areas which reflect important shifts in government policy. Central to these is the upgrading of selected townships. And a new trend is the encouragement of private sector initiatives in areas previously dominated by state institutions.

Reflecting the DBSA's changing role, the allocation of its resources has shifted. The proportion of its funds going to urban development has increased from five percent at the end of its first financial year in 1983 to 16 percent after five years, while the share allocated to rural and agricultural development has fallen from 17 percent to 11 percent.

It now spends the largest portion of its funds on bulk infrastructure development — 42 percent compared to 29 percent at the end of its first year.

The bank's total contribution to approved projects has risen to R3,8-billion, from R682-million after its first year.

In his chairman's report, Dr Simon Brand says the DBSA exists because of the "unacceptably large differences in the quality of life, access to economic opportunities and control over economic resources between different regions and different sections of the population of Southern Africa". This requires more equitable access to resources and support for a sustainable development process, Brand writes, which will benefit particularly "those communities that have been bypassed by the past patterns of economic growth".

Dr Simon Brand

Interventions should include influencing policy, as well as providing resources.

The DBSA also considers it part of its mission to intervene in ways which "mobilise private resources rather than simply extend the role of the already overburdened public sector", Brand writes.

The DBSA's support for private sector initiatives in urban areas, outlined in the report, includes:

- Privatisation of electricity distribtuion in kwaNobuhle. The bank is footing R25-million of the total R38,9-million bill to electrify the Uitenhage township. Its investment is in the kwaNobuhle Electricity Supply Company, a joint venture by multination companies in the area and Eskom, which will provide the electricity, in effect bypassing the local authority.

The report describes the project as "having a major potential impact, highlighting the principles of the privatisation of a trade service with full community support".

- Assistance to the Small Loan Company, formed by the Urban Foundation to provide housing finance to lower-income groups who do not have access to conventional sources of finance. The DBSA is assisting with the pilot study for the project, providing R1,5-million of the total cost of R2,2-million.
- The provision of infrastructure, through private sector participation, for Potsdam in the Ciskei, at a total cost of R15,7-million. DBSA is financing the Masizakhe Utility Company to the tune of R15-million. The project includes roads, stormwater drainage, water, electrical and sewage reticulation, sewerage disposal and streetlights.

The bank is also heavily involved in the upgrading of townships, particularly in funding bulk infrastructure.

One of the largest of its projects is the Alexandra Urban Renewal Project — supported by the Central Witwatersrand Regional Services Council the National Housing Commission, Eskom and DBSA. The bank's loan to the Alexandra City Council is R54-million of the R138-million total cost of the project, which involves upgrading water, sewer, street, stormwater, electricity and ablution facilities.

It is also involved in the upgrading of townships such as Daveyton and Khayelitsha.

The bank allocates resources not only to concrete projects but also to research and policy-making efforts.

In addition, it is engaged in development work outside South Africa's boundaries, providing substantial funds to Lesotho, particularly the Lesotho Highlands project (over R1-billion).

Sharp divide in growth rates

By HILARY JOFFE

SHARP differences in economic growth rates in different parts of the country are revealed in the Development Bank of South Africa's annual report, published last week.

Where previously the bank provided breakdowns according to homelands, it now divides South Africa into nine "development regions", which include the "self-governing" and "independent" homelands.

Its figures show an average annual growth rate (measured by gross geographical product, GGP) of 1,7 percent between 1985 and 1989, but a one percent a year decline in per capita GGP.

Three areas of the country registered negative average growth rates in period 1985 to 1989: region B (–0,4 percent a year), which includes the Northern Cape and a part of Bophuthatswana; region C (–0,1 percent), the Orange Free State, Qwaqwa and another Bophuthatswana district; and region J (–0,5 percent), the Western Transvaal and Bophuthatswana districts.

The region which recorded the highest growth rate — 4,9 percent a year, on average — was region G, which includes the Northern Transvaal, Lebowa, Gazankulu and Venda. The Eastern Transvaal and kaNgwane — region F — grew by an average 3,7 percent, while the Natal, kwaZulu and northern Transkei — region E — grew by 2,1 percent.

The PWV area, including kwaNdebele and a bit of Bophuthatswana, grew by an annual average 1,6 percent.

In capita terms, however, most regions of the country recorded negative growth. This was particularly true of the PWV, where there was 4,4 percent a year population growth, presumably in part due to migration into the area, and in the Western Transvaal. Per capita GGP fell by 1,6 percent and 2,7 percent respectively in these two regions.

A Development Bank representative said its researchers had only started analysing the figures for the development regions and was not in a position to provide an explanation of their differing growth rates.

Guardbank makes a Gencor killing

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SAGE bought Gencor shares, but wise Guardbank sold them even though both unit trust funds like the mining giant.

The reason — Guardbank probably got more than R90 a share, but retained enough of the shares in its two equity portfolios to allow it to replace those sold at R75 in the rights offer and made a capital profit to boot.

By Julie Walker

Guardbank Growth had a quiet June quarter, buying 20 000 Liberty Holdings and a bit of Government stock. It eased positions in chemical companies Sasol and AECI, and sold out of Safcor as the share price rose.

Its resources fund bought granite company Marlin, Amcoal and Winkelhaak golds and sold out of Randfontein and Rand Leases.

Guardbank says that although the short-term outlook is uncertain, it is confident that in the medium and long term, blue chips will move higher.

Sage bought De Beers, Samancor, JCI, Fedvolks, Walhold and Tongaat. It sold some Vaal Reefs and FIT. It noted sustained demand for equities.

UAL's older funds were idle. The general fund bought 50 000 Amic and Mining & Resources picked up Northam, ET Cons and Palabora. It sold Barnex.

But Selected Opportunities went on a buying spree, adding Crulife, T&N Holdings, Rainbow, Combined Motors, Kohler, Sunpac, Unitrans and Middle Wits.

UAL fund managers expect "a more modest level of corporate earnings and dividend growth ... that interest rates are approaching a cyclical peak ... and that the dollar gold price is consolidating".

Well done to Metfund for bringing the little-traded Cadswep into its top five. Cadswep jumped on a takeover bid for the British parent company.

Metfund added to current holdings and bought Driefontein, Trimtex, Bid Corporation and NEI Africa as well as four property trusts.

Its cash portion was reduced from 17,2% to 12,5%, whereas that of Southern Equity increased from 13,7% to 19,6% even though Southern says the medium-term outlook remains good.

Value

Southern believes gold shares offer value, and it put its money where its mouth is in Western Deep and Amgold. The mining fund added Driefontein and Gold Fields of SA. Both sold Doornfontein, and Barplats was also disposed of.

Standard remained cautious, and will try to preserve capital and maximise income. It believes there will not be much more downward pressure on gold at $375, nor will it advance above $400.

The Mutual fund portfolio managers did not trouble themsleves this quarter, and the Gold fund made trifling changes.

More than R106-million of new money flowed into unit trusts in the quarter, both sales and repurchases growing.

Assets in the 31 trusts are R5,6-billion — 51% up on a year ago, and there are 537 000 unitholders.

Lloyd's a poor risk for South Africans

ST Times 16/7/89

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By Anthea Duigan

DECLINING estimates of 1986 Lloyd's profits coupled with the rand's falling value raise the question of whether South African membership is still a worthwhile risk.

The estimated overall profit from the 1986 underwriting account is £600-million. Although a record profit for Lloyd's, it is only a half of that expected a few months ago. The figure reflects adjustments by underwriters to their reserves for claims in past years.

The need to review and often increase the reserves for old claims and the volatility of world insurance risks cause varied underwriting results.

Although indications are against Lloyd's membership as a current form of investment, its bull and bear cycles should be equated with those of the stock market.

This is the view of David Newton, a Lloyd's underwriting agent for 13 years who has settled in Johannesburg as an independent consultant to Lloyd's members.

"Lloyd's membership first became possible for South Africans in the early 1970s. The fundamental attractions, then and now, remain the opportunity to participate legitimately in an international business and the valid development of hard currency reserves.

"However, the costs of becoming a member have increased in the past 10 years from R11 000 to R90 000 (£6 000 to £20 000) due to a combination of the falling rand and an increase in entrance fee, guarantee charges and personal stop loss premiums.

Beyond

"This, coupled with the new minimum asset requirement of £250 000 effective in 1990, has placed an investment beyond the reach of the average investor. Conversely, profits will be worth more in rands now than 10 years ago."

But how certain can the member be that profit will be earned?

"In the 1970s the average return was equivalent to 6,5% of participation. Between 1980 and 1985 the average return was less than 3%. Far larger returns are expected for 1986 and 1987, but 1988 and 1989 look less promising."

Out of a membership of 32 500, of whom 550 live in SA, nearly 2 000 members withdrew from Lloyd's last year and the number is expected to increase this year.

Mr Newton says: "Many members have reviewed their involvement in Lloyd's and decided that the balance between risk and reward has shifted the wrong way, no doubt influenced by these issues as well as the change in UK taxation which no longer benefits UK members.

"The change of circumstances has not deterred some members who wish to increase their participation and there is still a waiting list for membership.

Hinges

"Since the basic asset requirement has been increased to £250 000 (R1,1-million at today's rates and perhaps significantly more tomorrow) it is advisable for members to exceed this sum to provide for further depreciation in the rand.

"Successful membership hinges on the choice of underwriting agent and his performance as an adviser. Once the right choice has been made, the agent can be relied on to do his best to maintain the best possible portfolio of syndicates.

"As in the case of an investment adviser, a sound and effective dialogue with the agent helps ensure an above average return."

Small borrowers in the firing line

S/Times 16/7/89

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By Udo Rypstra

INDIVIDUALS who have so far escaped the worst effects of the credit clamp through the use of bank overdrafts and credit cards are next in line to feel the squeeze.

Private accounts are coming under closer scrutiny as fears mount that Government moves to cool demand may not be working fast enough.

Bankers are watching credit levels and action is taken when customers overstep the mark or limits are too high.

They are doing so in response to directives by the Reserve Bank.

"We like to help as much as we can," says First National Bank general manager Jimmy McKenzie.

Highest

The new clamps follow the highest private consumption spending for the past five years in the first quarter of this year. Although credit business has been hit by higher deposits and interest rates and shorter repayment periods, there is little evidence that people are tightening their belts.

JIM McKENZIE

First-quarter private consumption expenditure was R75,8-billion compared with R74,2-billion in last year's boom.

Additional spending pressure came from black consumers who have been given greater access to credit, says a Central Statistical Service official.

Mr McKenzie and other bankers report that although demand for home loans has fallen, the use of credit cards remains high. However, "people appear to be more careful".

Corporate demand for credit remains strong.

Economists expect the weakening in consumer credit demand to last for several months. Interest rates will remain high for as long as the money shortage lasts.

Mr McKenzie says the shortfall reached an unusually high R3,5-billion halfway through the month. "By the end of this month it will be R4,5-billion and if the pattern is permitted to continue next month, I cannot see interest rates coming down."

Furniture

Trust Bank chief economist Ulrich Joubert expects the Reserve Bank to keep money market rates high for most of the year.

He and FNB chief economist Cees Bruggemans expect corporate demand for credit to remain high because of business investment decisions taken two years ago in the light of low interest rates.

Mr Joubert says: "With the rand low, it still pays to finance exports."

Statistics from the Furniture Traders Association indicate that sales continue to fall. Where growth of 18% would have been acceptable, sales last month were up by only 7,1% on June last year, says FTA executive director Frans Jordaan. This compares with growth of 12,6% in May compared with the same month last year.

Mr Jordaan says: "The latest figures are bad and represent negative growth of 8% or 9%."

Hire-purchase traders are taking a knock because of the higher deposits and shorter repayment requirements. Discussions with the Government to ease the "discriminatory" requirements are continuing, says Mr Jordaan.

"Why pick on a small sector of the market which is responsibile for only 8% of retail sales? If the economy must cool down, restrictions must apply across the board."

OK Bazaars has suffered a drop in big-ticket sales, especially in the audio and video department, where Business has dropped by up to 40% since August last year.

Linen

Dion managing director Jannie Els reports a 12% negative growth in the TV and video market. However, appliances are still selling well.

"Last month, we were 35% up on the previous year, but this may now come down."

About 15% of sales are on credit — a fairly static figure.

Edgars boss Vic Hammond says demand for clothing, footwear and household linen rose by 60% among blacks and 28% for whites last year. But now real growth is only

● To Page 2

Credit

● From Page 1 58

7% for the white market and 10% for blacks.

Sales have exceeded projections because inflation is running at 17%.

Sales of new cars have slumped from 300 000 a year in the early 1980s to about 200 000. S/Times 16/7/89

Information Trust Corporation managing director Paul Edwards says many people and companies have to rely heavily on credit to meet obligations and maintain living standards. The lack of cash is likely to lead to an increase in liquidations and sequestrations.

Central Statistical Service says that from February to April 222 500 summonses were issued for debt and 105 381 judgments granted. The figures indicate an increase of 1,5% and 5,1% respectively over the same time last year.

From March to May 362 companies went to the wall — 9% more than in the same time last year. A total of 571 individuals was sequestrated — 10,4% more than in the three preceding months.

Lift-off for SA Eagle and Utico

S/Times 16/7/89 58 198

By Julie Walker

SA EAGLE and Utico shares flew to new heights this week on the back of a £13-billion bid for British American Tobacco (BAT) by Hoylake.

BAT listed interests in SA are 59% of SA Eagle and 63% of Utico. Should the bid succeed, analysts expect the SA parts to be sold off as part of the unbundling (asset stripping).

The combined market value of the two stakes is R250-million.

Coupled with the threatened sale of 38% of Gold Fields of SA, there does not look to be much upside for the financial rand.

R17 on speculation that it would be sold. The stake is worth more than R300-million.

Cadswep is near the top of Anglovaal Industries' shopping list. Anglovaal owns 16% and has board representation.

Short-term insurer SA Eagle's biggest SA shareholder is Anglo American, which also has a large stake in Southern Life.

Rembrandt shares moved up. It has tobacco interests, which might make Utico attractive. However, it has the first right of refusal on Gold Fields of SA, which could cost a cool R2,7-billion at current market value.

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Beltel

A Business Times Survey July 16, 1989

BEST pays bills at button-touch

ONE of the innovative applications on a videotex service — an electronic chequebook, or multiple account payment facility — will be launched on Standard Bank's BEST (bank electronic system terminal) system tomorrow.

BEST, which offers services such as inter-account transfers, account information and an investment account facility for small and medium companies, has been one of the most popular applications on videotex.

Research

The introduction of an electronic cheque facility is set to boost the number of users on the system, says Standard Bank project manager, Kevin Mackrory.

"We did extensive research among our customer base before developing the system. Much of our development is based on customer needs. This was one facility that the majority of our users wanted.

"Many of our customers have read about technological developments such as EDI (electronic data interchange) and they want this kind of technology. They want a facility whereby they can move a cheque, or payment, from point A to point B electronically.

Loaded

"For example, if a company is doing a payroll, a clerk can capture pay cheques on screen and they will be held in the system for seven days. When the signatory is ready to issue the cheques, he simply goes through them and fills in the due date, the amount and a reference. The cheques can be transferred straight to the beneficiaries' accounts at the touch of a button."

The system can also be useful to pay creditors, says Mr Mackrory.

"Once the capture clerk has all the company's creditors loaded into the system, it is a matter of changing amounts and references. Again, at the touch of a button, the cheques are transferred to the creditors' accounts.

"This sort of facility is full-on EFT (electronic funds transfer). There is no doubt that this kind of application will take off. The market has told us they need this sort of facility.

"One of the biggest growth areas in videotex will be payment-type applications. Electronic banking systems are spreading like wildfire and we are experiencing growth of about 200 users a month on our BEST system."

One of the most attractive features of the multiple account payment facility is that it helps the user to reduce bank charges.

"The charge a transaction on this facility is R1,25, regardless of the amount being handled," says Mr Mackrory. "This is a big plus for users, many of whom have to pay large service fees when they issue cheques for big sums."

The security of the facility, as with all facilities on BEST, Mr Mackrory says, has been given prime consideration.

Levels

"The customer has three levels of sign-on when he wants to get into the facility. First, the user has to get into Beltel. Once this has been done, he has to use his given code for access to BEST. The third level of security is defined by the user himself — only certain members of his staff may be allowed to issue cheques for a certain amount and so forth. As with all the videotex facilities we offer, we ensure that our users change their security codes regularly."

The bank is also protected because automatic verification is done on all transactions.

"If a user issues a payment for a certain amount and he does not have funds available, the system will tell him."

One of the major benefits of BEST is the cost-saving that the user can reap — the average call to do banking is usually about two telephone units, or 28c. It also allows the user to conduct his banking at his leisure.

"Our whole concept is to take the bank to the customer's office or home."

Lift-off for SA Eagle and Utico

ST Times 16/7/89

SS

By Julie Walker

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BAT listed interests in SA are 59% of SA Eagle and 63% of Utico. Should the bid succeed, analysts expect the SA parts to be sold off as part of the unbundling (asset stripping).

The combined market value of the two stakes is R250-million.

Coupled with the threatened sale of 38% of Gold Fields of SA, there does not look to be much upside for the financial rand.

Slowly

A JSE dealer says the finrand has been behaving mysteriously. "The view is that it should be lower," he says. "But it could have received some support since its range of use was broadened."

But if the sales are done slowly, as was the case when Barclays plc sold out, the downward pressure on the finrand would not be as acute as feared.

Speculators rushed to buy shares in the listed concerns, both on the JSE and foreign bourses. But British analysts do not believe the bid for BAT will succeed.

They say British financial institutions would require some cash before they sold. Only paper has been offered, and the offer document has not yet been lodged. The bid could also run into political barriers as well as the British Monopolies and Mergers Commission.

In America trouble could come from BAT's Farmers Group, the California insurance concern. Its sale would require the approval of nine state insurance companies.

BAT has had to withdraw its $400-million five-year Eurobond issue, due for completion tomorrow, to protect investors' interests. The bonds had technically been bought by an underwriting syndicate, but not paid for.

Cadbury Schweppes in the UK is also the subject of takeover talk, the favourite contender being Swiss confectioner Jacobs Suchard. The British chocolate leader owns 54% of Cadswep SA, whose shares rose to a high of R17 on speculation that it would be sold. The stake is worth more than R300-million.

Cadswep is near the top of Anglovaal Industries' shopping list. Anglovaal owns 16% and has board representation.

Short-term insurer SA Eagle's biggest SA shareholder is Anglo American, which also has a large stake in Southern Life.

Rembrandt shares moved up. It has tobacco interests, which might make Utico attractive. However, it has the first right of refusal on Gold Fields of SA, which could cost a cool R2,7-billion at current market value.

Unusual credit insurance plan on offer

ZILLA EFRAT

WITH the economy slowing and liquidations already on an upward trend, Credit Guarantee Insurance Corporation (CGIC) and Information Trust Corporation (ITC) have joined forces to offer a unique new credit insurance product. (58)

The service, called ITC Guarantee, will guarantee payment of commercial trade debts on a case-by-case basis.

Companies will be able to carry the risks on accounts with which they feel comfortable and insure specific risks.

This allows great flexibility and may prove more cost-effective than insuring the whole debtors' book, says ITC executive chairman Paul Edwards.

Both companies say insuring specific trade debts is more risky than insuring the whole debtors' book, but the premiums recognise this. BDay 17/7/89

CGIC MD Chris Leisewitz says he knows of no other country where such a scheme is operated.

"It can operate only because CGIC insures such a massive proportion of SA's trade debt, both internally and export-orientated."

US congressmen set 7 conditions for SA debt re-scheduling

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AK 6u S 17/7/89

The Argus Foreign Service

WASHINGTON. — Three United States banks approached by the United States Congress not to reschedule South Africa's debts have not yet responded to the request, nor have they shown any enthusiasm to appear before the House of Representatives banking committee's hearings on financial sanctions against South Africa.

A spokesman for the committee said it was not known whether any banks involved in lending money to South Africa would appear before the committee for the hearings. "So far they have shown little enthusiasm for it," he said.

Three banks which have lent money to South Africa were meanwhile asked by a group of congressmen not to allow a rescheduling of the debts. They are Citicorp, Manufacturers Hanover and Morgan.

The congressmen's letter was written in anticipation of the upcoming meetings of the technical committee of creditor banks that will deliberate on terms for negotiatng the rescheduling of South Africa's debt by June 1990.

"What particularly concerns us is a trend, already under way, to reschedule South Africa's short-to-medium term loans into long-term loans without the South African government being required to undertake the necessary economic and political changes that would enhance its ability to meet its obligations to the international banking community," the signatories said.

They appealed to the American members of the technical committee, Citicorp and Manufacturers Hanover to seriously consider setting rescheduling terms that would be conditioned on the South African government's adoption of:

- The end of the state of the emergency.
- The release of all political prisoners and detainees.
- The lifting of the ban on all political organisations.
- Allowing the return of political exiles and refugees.
- Restoring Press freedom.
- Repealing all apartheid legislation.
- Establishing a process to negotiate a new constitution for a democratic, non-racial and unitary South Africa.

These steps were in the economic interest of both South Africa and the international banking community, the congressmen said. They would bring about an end to the country's international isolation, thereby putting South Africa back on the road to economic growth and prosperity.

Coupled with a redistribution of social and economic benefits, South Africa would once again become an attractive place for foreign trade and investment.

If the government remained unresponsive, the congressmen said, they felt the option of refusing to reschedule its debts would be the proper course for the bankers to adopt.

New cost policy not expected to hurt Saswitch

BRUCE ANDERSON 58

THE use of automatic teller machines (ATM) connected to the Saswitch banking network continues to grow in spite of banks' tendency to pass on to clients the cost of using terminals belonging to other institutions. BD 17/7/89

Saswitch GM Andre Mansvelt said last week that although the banks' policy of passing on costs to clients had an effect on the use of Saswitch terminals, he did not think this would have a major impact on volumes recorded by Saswitch.

Initially most banks did not pass on the Saswitch charge — R1 for the first R100 drawn and 50c for every R100 thereafter.

Recently, however, most banks have begun to pass on at least part of the cost.

Increasingly banks are trying to encourage clients to use ATMs belonging to their own bank. As a result most banks seem set to increase their own ATM networks.

Trust Bank, for example, will add 150 terminals to its network this year.

Trust Bank senior manager Kosie de Villiers said it was possible for a bank to incur losses if it did not have enough ATMs and was constantly forced to pay fees for the use of other terminals.

Effect

De Villiers added ATMs that belonged to a bank offered a client more services and tended to be more reliable for that bank's clients.

Nedbank electronic banking manager Pat Sullivan said although it was not his bank's policy to encourage clients to use Nedbank terminals, the fact that it passed on the cost of using a non-Nedbank ATM was likely to have that effect. Nedbank plans to add 60 terminals to its network.

First National electronic banking head Ken Boyd said his bank had decided not to pass on the cost of using Saswitch, mainly because it felt this would give First National the market edge, but the decision was constantly under review.

Boyd added First National usually benefited from having one of the largest ATM networks in the country in that it most often gained from the fees other banks paid to it for use of terminals.

Standard Bank also usually found itself in a net gain position, a spokesman said.

He said that Standard would add about 80 terminals to its existing network of just over 900 terminals — the largest ATM network operated by a single bank.

In spite of offshore interests . . .

Cape Times 18/7/89

AAC a grassroots SA entity — Relly

(58)

JOHANNESBURG. — Anglo American Corporation (AAC) is "first and foremost" a grass-roots SA entity and has no desire to change this, says chairman Gavin Relly in his annual review.

However, he says, the corporation's policy of building up its overseas interests within its own relatively limited foreign resources, and based on its technical and financial skills, will continue both directly and in support of Minorco.

Although Hanson PLC's acquisition of Minorco's stake in Cons-Gold will not promote Minorco's plan to become directly involved in natural resources management on an international scale, it will enable the company to take advantage of new investment opportunities from a powerful cash base.

Anglo American, Relly says, is pursuing its investment programme in southern Africa.

- Some R200m will be spent this year on prospecting, much of which will be devoted to delineating new gold mining areas in SA;
- Several new mining ventures in the non-precious metals field are expected to be announced in the next 18 months;
- Mondi Paper has just announced a R110m greenfields timber project in the Eastern Cape and is planning a second.

Pulp line at Richards Bay and Highveld Steel, with Samancor, is examining a project to produce stainless steel for export.

Planned and projected capital expenditure by the corporation's gold, coal and industrial interests, he says, should be well in excess of R8bn in 1989/92.

The corporation is keen to help develop Mozambique and may re-assume responsibility for part of the cashew nut industry which became a state activity after independence, he says.

In a more stable security climate opportunities would exist for forestry, mineral and agricultural development and the exploitation of natural gas.

The corporation's associates in Zimbabwe, he says, have been enjoying more prosperous times due to higher international commodity prices, and chrome, nickel and sugar operations have benefited.

Investments in Zambia have done well in local currency terms but the chronic shortage of foreign exchange has severely limited dividend remittances, he says.

While favourable copper prices have enabled Zambia Consolidated Copper Mines to declare its first dividend in eight years, payment to shareholders has not yet been cleared.

In Botswana, Relly says, favourable prices and record production enabled Selebi-Phikwe copper/nickel mine to reduce its debt, the burden of which continues to preclude dividend payments.

The R900m soda ash venture at Sua Pan near Francistown, in which Anglo American is participating with AECI and the Botswana Government, will meet Southern Africa's soda ash and salt needs, thus saving substantial foreign exchange, he says.

New equity investments by the corporation in the 1988/89 financial year included funding for the developing gold mine at Navachab, in Namibia. — Sapa

City directors on exchange control charges

Cape Times 18/7/89 (58)

Court Reporter

THREE Cape Town company directors pleaded not guilty in Cape Town Regional Court yesterday to fraud and contraventions of the exchange control act involving millions of rands.

They are all directors of Electra Sea Products in Station Road, Woodstock: Mr Frederick Ronald "Pat" Chambers, 35, of Killarney Road, Oranjezicht, Mr Malcolm Stanley, 40, of Corbrooke Avenue, Claremont, and Mr Russel Lancaster Penny, 35, of Garfield Road, Claremont.

They are charged with 53 counts of contravening the exchange control regulations to the extent of about R2,7m by allegedly making incorrect statements about transaction values.

They are also charged with defrauding SATS to the order of about R30 000, contravening the Sea Fisheries Act to the order of about R128 000, and with illegally exporting perlemoen, failing to declare the true value of goods exported, and making a false statement. All the alleged offences took place between 1986 and 1988.

Giving evidence yesterday, Sea Fisheries control officer Mr Herman de Waal said he found documents relating to illegal exports in the company's Station Road office.

The directors allegedly unlawfully exported about 21 000kg of perlemoen. They also allegedly made a false statement by declaring that they were exporting frozen kingklip when they knew the container also contained squid and perlemoen.

The alleged contraventions of the Sea Fisheries Act involved allegedly possessing 21 000kg of perlemoen without proof of purchase.

The hearing continues today.

Mr M J Langenhoven was the magistrate. Mr F Silbert prosecuted. Mr G D van Schalkwyk SC and Mr R D Mc Dougall instructed by Norman, Wink and Stephens appeared for the accused.

Star 19/7/89

Ailing S Steele bought by Supreme

58

Finance Staff

In its second major acquisition in a year, Supreme Bond Trust has gained control of cash-strapped Sam Steele Holdings, whose subsidiaries make and retail furniture.

Supreme is the controlling shareholder in Supreme Industrial Holdings (SI), formerly Mewa Holdings, which was taken over last October for R7,1m.

In terms of agreements announced today, Supreme Bond Trust has acquired claims of R45 million by banks against Sam Steele for R38 million.

It has also acquired the 49 percent interest of Johannesburg Mining and Finance Corporation in Sam Steele.

Subject to shareholder approval, Sam Steele will issue to Supreme 50 million shares at 20c each by capitalising R10 million of the claims of R45 million.

Supreme will offer minorities 20c a share.

The Star Finance

AECI smoothes out problems in production

Star 19/7/89

By Ann Crotty

Latest results from AECI show the quality of performance that shareholders can enjoy when the group is free of major production problems. The higher than expected 38 percent surge in earnings to 84c (61c) was also helped by rationalisation in the group's fertiliser division and the generally strong economic conditions.

Management capitalised on all of these factors and succeeded in boosting operating margins from 9,5 percent to 11,3 percent. When it is achieved on a turnover of R2,26 billion (up 25 percent from R1,8 million), an improvement of this extent has a major impact on the bottom line.

The improvement in margins helped to counter the impact of a sharp increase in finance costs and a higher tax rate.

The higher finance costs reflect significantly higher interest rates and to some extent camouflage the improvement in working capital management.

Net trading income was up 47 percent to R255 million (R173 million); financing costs were up from R30 million to R53 million — accounting for 21 percent of operating income compared with the previous year's 17,3 percent.

Earnings rose to R130 million from R94 million. An interim dividend of 30c a share has been declared. This is 5c up on the previous interim and reflects an increase in cover from 2,4 times to 2,8 times.

Higher cover

The higher cover won't surprise many shareholders as it is in line with chairman Gavin Relly's reference in the annual report to: "the need to increase gradually the level of dividend cover in view of a continued high level of inflation and the difficulties foreseen in raising finance abroad."

Exports account for R201 million, or 8,9 percent, of group turnover. This is significantly ahead of the previous interim's R97 million (5,4 percent) contribution.

Exports accounted for around 7 percent of turnover value for the 12 months of financial 1988. This was down significantly from the 10 percent that exports traditionally account for and was attributed to the production bottlenecks at Coalplex. Now that these have been ironed out, MD Mike Sander is optimistic that exports could account for close to 10 percent of turnover for the full financial year. This should have a positive impact on margins.

Looking at the divisional performances, Mr Sanders says that chlor-alkali and plastics performed very well — helped by comparatively strong international prices and the weaker rand.

Export performance

Export performance from SA Nylon Spinners more than made up for the higher cost of internationally sourced raw materials.

Although there was a softening in demand from the gold industry, overall demand facing the explosives and chemical division was firmer but according to Mr Sander, the week gold market meant that customers were sensitive to cost increases.

Sasol has now become a major competitor in the explosives market but Mr Sander appears confident that AECI's size and its strong technology base will help it to defend its position.

Despite the one-off costs associated with the rationalisation of fertiliser production facilities, this division managed to make a positive contribution to group profits.

On a general note he states that demand for most of the group's products was reasonably strong: "We saw a fairly good economy".

Management does not expect the rate of growth to be sustained in the second half.

This may be a little conservative. A number of positive developments could see the group sustain its strong first half performance: raw material constraints on the polyethelene plants have been sorted out which will not only improve capacity utilisation but should also lift exports and; the second half of the year is seasonally much stronger for the fertiliser industry.

But as Mr Sander points out, much depends on the strength of the economy.

FREWIN TROPHY

...e had been hit over Mozambican air space. — Sapa-AP

Swiss forestall SA credit crunch

SB

Cape Times 19/7/89

From SIMON BARBER

WASHINGTON. — Swiss banks have quietly taken responsibility for repaying \$3,5 billion (R9,43 bn) worth of SA's short-term foreign debt, forestalling a major credit crunch next year, according to US banking sources.

The debt, which was outside the standstill, was in the form of Eurobonds due to mature in 1990 and 1991. "South Africa got the Swiss to buy them in and then secured them with gold," a bank official said. "The holders are being paid on due date."

SA was faced with having to pay bondholders \$2,1 bn next year and the balance of the \$3,5 bn in 1991.

The Swiss rescue operation was hinted at by Finance Director-General Mr Chris Stals in his private report to creditors following last month's meeting of the standstill committee in London.

"A much greater share of the (total debt) outstanding at present, and particularly the debt outside the net, is now represented by long term maturities," the report said.

Stals told the bankers that since the start of the standstill in August 1985, SA had reduced its foreign debt from \$23,7bn to \$21,2bn at the end of 1988.

Suicide over call-up papers

Cape Times 19/7/89

Own Correspondent

LONDON. — A young South African comitted suicide by jumping in front of a tube train here shortly after receiving call-up papers to go home and do national service, Hammersmith Coroners Court was told yesterday.

Mr Jerome Barrett, a 25-year-old land surveyor, smiled at a girl then lay down calmly on the railway lines as a train approached. It was too late for the train to stop.

Mr Ford Hallam, a neighbour and friend, said that Mr Barrett had received national service call-up papers shortly before he jumped in front of the train.

FNB creates holding company structure

8/av 19/7/87 (58)

First National Bank is creating a holding company structure to be called First National Bank Holdings Limited.

It will accurately reflect the bank's future activities as a financial services group.

The formation of the holding company structure, subject to shareholder approval, would not affect the conduct of banking operations, a spokesman said yesterday.

First National Bank of Southern Africa Limited will become the holding company.

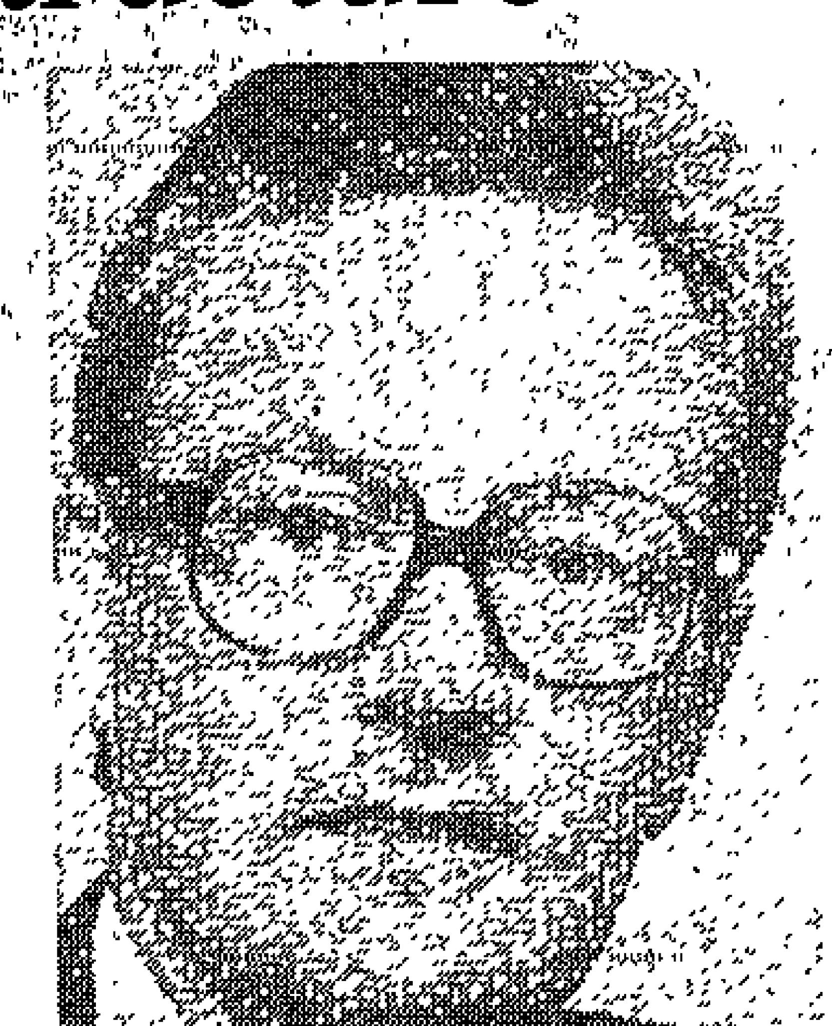
Banking operations will be transferred to First National Industrial Bank Limited, which will change its name to First National Bank of Southern Africa Limited and will continue with commercial banking operations.

The structure will enable the group to deploy its capital base more effectively within the current banking regulatory framework.

It will also ensure maximum efficiency in dividing the areas of operations into their constituent parts.

"The overall aim is to position the group so that it will be able fully to utilise its resources for future development in the financial markets," said Barry Swart, managing director of First National Bank.

Another feature of the holding company restructure is that all



MD Barry Swart

property and property holding companies will eventually be transferred to and be managed by a property holding subsidiary.

First National Bank will dispose of its banking assets and liabilities to its subsidiary company, First National Industrial Bank (FNIB), in exchange for the issue by FNIB of ordinary shares and debentures with a combined value of R595,1 million.

FNIB will therefore conduct the commercial banking operations of First National Bank and will accordingly change its name to First National Bank of Southern Africa Limited.

The disposal of the banking operations and properties will take effect retrospectively from October 1 1988.— Sapa.

Bankers, police defend secrecy

BANKERS and police have jumped to the defence of a new policy not to reveal to the public, through press reports, amounts stolen in bank heists.

Police public relations chief Major-General Herman Stadler has denied that the authorities are shirking their duty in this regard and said publishing details of methods used to rob banks inspires robbers and tells them how to do it.

First National Bank's divisional general manager for internal audit and security, Mr Gerry Christy, said more publicity should be given to solving of cases than to the incidents themselves.

The decision was made after a meeting on July 10 in Pretoria between bankers and the Minister of Law and Order, Mr Adriaan Vlok.

In a letter to Johannesburg's Business Day, Gen Stadler said: "The SAP, however, realise that robberies of this nature are newsworthy and we will continue to disclose particulars of when and where the robberies occurred, persons injured or killed, firearms used etc ..."

But, he said, experts agreed that the "copy-cat" syndrome could not be ignored.

Mr Christy said the press, bankers and the police needed to join hands to fight the high incidence of bank raids.

"Media reports such as those that have told how easy it is to rob a bank are irresponsible."

Mr Gareth Richards, group spokesman for Standard Bank, said reports of huge amounts stolen from banks could "well often be the spur that some other robber needs to perpetrate his deed".

Armed robbers arrested

DURBAN. — Police have smashed a gang of three alleged armed robbers and have linked them to a series of armed hold-ups in Pinetown, Westville and Stanger, involving more than R500 000.

The breakthrough came at the weekend when detectives arrested a man as he was using his share of the robberies to pay lobola to his future father-in-law at Scottburgh.

Police say they have positively linked the three men to 11 armed robberies. — Sapa

Masked men rob bank

JOHANNESBURG. — A gang of masked bandits yesterday morning raided a branch of First National Bank in Rosebank, Johannesburg, taking a large amount of money, police said.

The Clearing Banker's Association is offering a R10 000 reward for information which will lead to the arrest and conviction of the robbers and the recovery of the cash.

Police said four gunmen held up staff and clients at the bank before escaping with the cash. They sped off in a BMW 5-series car, which may be stolen. — Sapa

Managing director of Trust Bank Mr Kobus Roetz acknowledged that whether an amount was disclosed or not did not necessarily mean robberies would drop.

"We can only hope that it will help in cutting down the robberies," he said. — Staff Reporter and Sapa

First National rings changes

FIRST National Bank announced yesterday that it was creating a holding company structure, which would result in First National Bank Holdings Ltd. This would accurately reflect its future activities as a financial services group.

The formation of this holding company structure, which is subject to shareholders' approval, will not affect the way the group's banking operations are conducted. (58)

First National Bank of Southern Africa Limited will become the holding company. Banking operations will be transferred to First National Industrial Bank Limited which will call itself First National Bank of Southern Africa Ltd and will continue with the commercial banking operations.

The new structure will enable the group to deploy its capital base more effectively within the current banking regulatory framework and ensure the greatest efficiency in dividing the areas of operations into their constituent parts. It will allow the group to fully utilise its resources for future development. B I Day 19/11/87

FNB will dispose of its banking assets and liabilities to its subsidiary company, First National Industrial Bank (FNIB), in exchange for the issue by FNIB of ordinary shares and debentures with a combined value of R595,1m. — Sapa.

Star 20/7/89. (58)

Gazetting holds up bond relief scheme

By Helen Grange

A number of homeowners are anxiously waiting for the Government's relief scheme for bondholders to be gazetted tomorrow — at the earliest.

About four applications for relief have been made daily at building societies and banks countrywide since the scheme was announced last month.

But it cannot be implemented until it has been announced in the Government Gazette.

The scheme is applicable on existing loans of which the current outstanding amount does not exceed R90 000 and in respect of which the present available valuation of the property amounts to a maximum of R120 000.

Homeowners in this category who receive assistance will pay an instalment of only 17 percent, although interest will be calculated at the full rate.

The caveat is that participants will carry on paying 17 percent even if interest rates should subsequently fall below this level until the deferred portion guaranteed by the Government has been repaid.

Standard leads SA in shareholders' equity

B/Day 20/7/89 (58)

ROBERT GENTLE and
CHARLOTTE MATHEWS

STANDARD Bank Investment Corporation has been ranked 264th on total shareholders' equity, well ahead of First National, Nedcor and Volkskas, in a Euromoney 500 survey of the top 500 international banks in 1988.

The survey showed Standard's shareholders' equity was $640m. Standard ranked 224th in 1987.

First National, with shareholders' equity of $407m, was listed 372th (330th in 1987), Nedcor with $351m was listed 415th (398th in 1987) and Volkskas with $293m ranked 478th (484th in 1987).

The ranking was compiled by a worldwide data-base operated by Bankers Trust of New York. The compilers said one of the reasons most of the SA companies had slipped in the ranking was the depreciation of the rand since the last survey.

Exchange rates also accounted for the surge in the rankings of Japanese banks, which profited from the rise in the yen. Almost half of the 22 new entrants to the listing were Japanese banks.

Among the 22 banks which dropped from the list was Bank Holding Corporation of SA which was placed 457th in 1987.

Britain's National Westminster ranked first in the survey, with shareholders' equity of $10,9bn. Barclays came second.

In a ranking of the top 100 banks based on return on equity (ROE), Nedcor led the SA contingent at 24th place (41th in 1987), followed by First National at 45th (262nd in 1987) and Standard at 77th (158th in 1987).

Their ROEs were: Nedcor 24%, FNB 20,3% and Standard 17%.

S8

7-million names on consumer lists

A NATIONAL database of more than 7-million consumers has been developed by Information Trust Corporation (ITC).

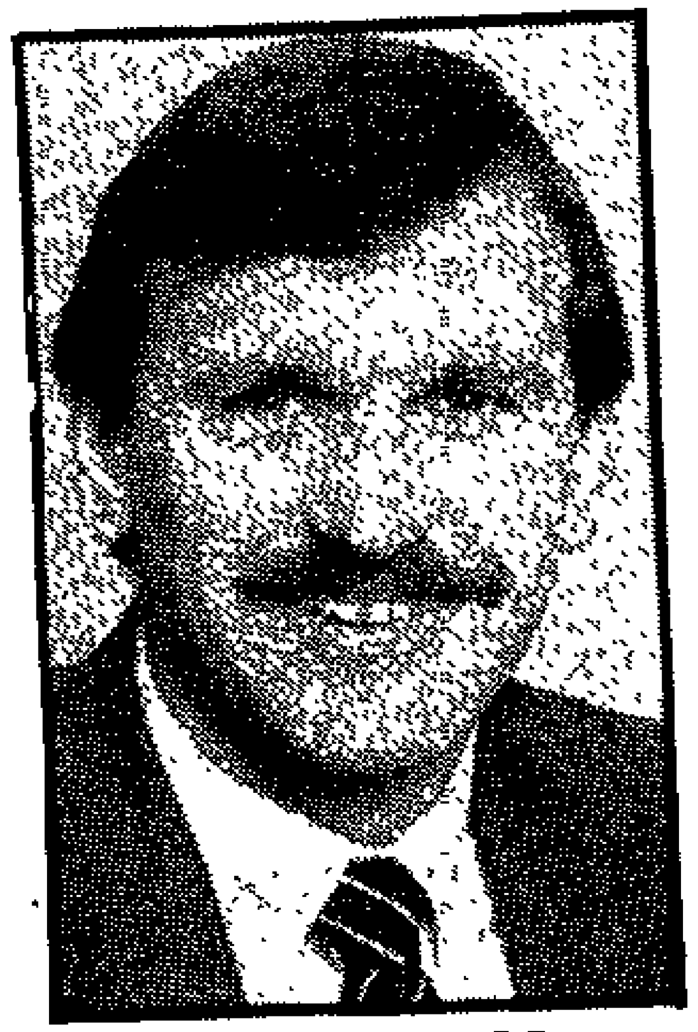
It has acquired George-based Capecom, credit control specialists Greyling — which covers the northern and western Transvaal — and interests in Pretoria-based Campbell & East Vaal Credit Bureau, which covers the eastern Transvaal.

Access

The databases of these organisations have been merged with ITC's to form a national database of over 7-million consumers.

In return, all branches of the new ITC associates have been computerised and have access to the national file.

ITC executive chairman Paul Edwards says this results in one major database serving the entire country.



PAUL EDWARDS

"We have made enormous progress in offering SA retailers and banks a technically advanced, cost-effective credit information service," he says.

"One only has to examine the bad-debt rate of major chains who utilise the ITC service effectively — many of these have bad-debt rates below equivalent chains in, say, England."

He believes ITC's service contributes markedly to achieving higher profitability through more effective credit vetting.

Voters

The success of ITC's service is largely dependent on the quality of its records, which go back many years. It is a major supplier of commercial and consumer credit information.

Edwards says other companies without consumer credit experience have attempted to get in on the action, using lists such as the voters roll as the basis of their file.

As these rolls are largely out of date, and in many cases inaccurate, this could have an impact on the quality of information sold.

He also points out that voters rolls only cover certain ethnic groups.

Use of poor quality credit information can lead to a deterioration in the quality of debtors books — something retailers can ill afford in current economic times, says Edwards.

Reports are reducing risks

CREDIT reports provide valuable information on potential debtors, enabling credit managers to reduce their risks.

Robertson Reports' head Emlyn Robertson says credit investigators should look at the backround, reputation and management experience of potential debtors.

"Although the legal entity one is dealing with is a company, ultimately one is dealing with individuals. Payment depends on the individual decision-maker in a company who is responsible for paying.

"It is important to get an insight into the character and integrity of the individual."

Investigators also look at the source of finance a debtor is using such as equity, bank credit, retained earnings or a factoring house.

The extent to which a potential debtor relies on bank finance and the extent to which security has been asked for by the bank is examined.

The identity of who a debtor's major customers are gives a good indication as to whether his business is operating in a high or low-risk market and whether it is likely to be affected by bad debts, says Robertson.

He adds: "A credit bureau's wide exposure to different suppliers gives it a better insight into the reliability of trade references".

It is also important to obtain as many trade references as possible.

The number of employees can act as a check item to be related back to any financial information obtained on the potential debtor, in order to establish whether the size of the operation in terms of labour intensity is compatible with figures supplied.

The ideal is to obtain the latest audited balance sheet on the company, but even estimates can be useful, says Robertson.

Cheque fraud: 14% of bad debt

B'Day 20/7/89

(58)

CHEQUE fraud is causing increasing problems for banks, building societies and businessmen — it now constitutes 14% of judgments taken for debt in SA.

It has resulted in payment by cheque being undermined and has forced businesses to take special precautions.

Vericheque offers a service to protect businesses from cheque fraud.

It publishes monthly registers on consumers and businesses that have written RD cheques and is claimed to be the largest refer- to-drawer database in SA.

Vericheque MD David Rosin says Vericheque has proved to be very successful in preventing the acceptance of RD cheques and correcting dishonoured cheques.

He says proper cheque acceptance procedures are important in the prevention of financial loss by deterring the passing of worthless cheques and reducing costs in following up returned cheques.

There is no statute that lays down that the giving of bad cheques amounts to fraud.

It has been left to the courts to decide whether the Act complies with the common law definition of fraud.

B/Day 20/7/89

Latest export insurance policy will be taken out by banks

CREDIT Guarantee Insurance Corporation (CGIC) recently introduced an export-oriented credit insurance policy which is unique to SA.

The policy, which is taken out by the bank itself, protects the bank against insolvency or protracted default on the part of a client which it had financed for export purposes.

The new policy, called the "short-term export finance guarantee", goes further. It protects SA banks against their exporter clients' failure to pay.

The purpose of the new policy is to promote exports by making finance available to approved exporters, who under normal banking practices would not qualify for extra financing and would not be able to secure and execute certain export orders.

58

The policy protects lending banks to the extent of 90% of their loan to an exporter and specifically against a loss resulting from the non-payment of the loan due to the insolvency or protracted default of an approved SA exporter.

A bank qualifies for CGIC's policy if its loan to an exporter relates to the financing of approved costs of materials and services required for the production of export goods or for the financing of approved export-trade debtors.

The lending banks will pay a premium for the guarantee of 1% or 1,5% of the amount of the loan, depending on whether the terms for the loan are six or 12 months respectively.

Revolutionising markets

B/Day 20/7/89

(58)

AN extension by Kreditinform, credit information and collection consultants, of its corporate credit database to include marketing and investment information will be available to users by the end of October.

MD Ivor Jones says as there is no comparable marketing database in SA, the move is set to revolutionise marketing in SA.

The credit system has over 300 on-line customers and is accessed by many other customers. It contains 127 000 credit reports as well as the Registrar of Companies' 56 000 files.

Jones says this is in excess of all registered companies and close corporations in SA, because it includes all defensive names, reserved names, liquidated companies and name changes.

The system also contains all legal files, judgments, liquidations, sequestrations and business bonds taken over the last five years.

To this database, Kreditinform intends to add investment information through a link up to McGreggors' on-line system.

Kreditinform has also joined up with a marketing company to enable it to supply a system which will enable users to segment their market by competition and market share, identify potential new business, appoint distributors, define sales territories and source products.

Jones says users may purchase only those sections of the system they require.

World first for insurers

INFORMATION Trust Corporation (ITC) and Credit Guarantee Insurance Corporation (CGIC) announced this week they had joined forces to offer a new credit insurance product, said to be a world first. (58)

The scheme, called ITC Guarantee, guarantees payment of commercial trade debt on a case-by-case basis.

ITC executive chairman Paul Edwards believes the new product will be highly attractive to businesses which wish to insure only certain of their debts instead of their entire debtors book. B/Day 20/7/94

Under the scheme, customers will contact ITC for cover. ITC, through its huge database, will investigate the debtor and provide the cover on behalf of CGIC within 24 to 48 hours, depending on the amount involved.

CGIC MD Chris Leisewitz says he knows of no other country where such a scheme is offered.

Change in ethics

(SA) 82 (58)

IN 20 years the nature of the business world and the environment in which credit management or a controllerof credit has to function has changed.

Robertson Reports' head Emlyn Robertson says today's credit decisions are influenced by interest-rate fluctuations, the emergence of many new businesses, changes in business morality and increased fraud.

High interest rates are one of the most unpredictable and costly factors that affect all businesses, he says.

They make it important for credit granters to know to what extent their customers are reliant on bank finance and the effect a sudden rise in the bank rate may have on their liquidity. 5/10/84

In addition, a new entrepreneurial element has emerged in SA as a result of certain economic pressures over the past few years, says Robertson.

However, it is a statistical fact that only two out of five new businesses succeed within the first three years of their existence, he says.

But the most important factor affecting credit decisions today is the prevailing standard of ethics among the majority of businessmen.

Although a manager of credit enters into agreements with varying legal entities, whether he gets paid on time or gets paid at all depends largely on the morality of the various persons managing the financial resources of that entity.

Robertson says it is a sad comment on the deterioration of business ethics in our time that the worst abusers in taking extended terms are often the large corporations.

They have worsened the situation by sending a ripple effect through the whole economy, down to the smaller operations who find it necessary to adopt this morality in order to survive.

LOA moves to simplify insurance tax

KAY TURVEY

MOVES are under way which — if successful — could lead to the abolition or revision of complicated legislation governing the tax treatment of insurance policies.

The Life Officers' Association is drawing up a memorandum to present to the authorities to simplify the Sixth Schedule to the Income Tax Act, which causes an "administrative nightmare" for life offices.

Drafting is in the early stages. Refinement of this provision will make it easier for life assurers to develop more flexible products, and should do away with what has been described as anomalies and "absurdities".

Abolition would have little impact on revenue, as its contribution to the fiscus is negligible, says Abri Meiring, Old Mutual legal services manager and convenor of the LOA taxation committee (policyholders).

3200 58

He says the schedule abuses the fiscal measure to force life offices into the long-end of the investment market, which should rather fall under the Registrar of Insurance and be covered by the Insurance Act. BIDay 20/7/89

LOA executive director Richard Geary-Cooke says developments since the last amendment of the Sixth Schedule make it possible to simplify or possibly abolish the legislation.

□ To Page 2

Insurance

BIDay 20/7/89

□ From Page 1

3200

Long-term insurers have entered an inter-office agreement not to issue policies for less than five years, which are more attractive than those offered by banks.

Further, the acceptance of the trustee principle for the new taxation formula for life assurers makes refinement of the schedule more likely.

This principle acknowledges life offices as custodians of policyholders' funds.

As such they should be taxed at the average rate deemed to apply to the policyholder, and not at company rates.

B|Day 20/7/89 (58)

As market booms, new ideas arise

CREDIT Guarantee Insurance Corporation (CGIC) is to launch three new products tailored to meet the market's needs.

Its new policies are targeted at the large company, small businesses and those who require pre-delivery cover.

CGIC technical control and development GM Rodney Smit says CGIC sees much scope in the market for larger companies.

CGIC is now introducing an abnormal loss policy which will be offered to companies with tried and tested credit control management procedures.

Large companies are prepared to absorb a certain level of loss. The new policy covers abnormal losses above this set level

Smit says it is a "catastrophe-type" cover with a relatively lower premium than would be the case if all losses were covered

Another new product is targeted to meet the needs of the smaller business with an annual turnover of under R1m and fewer debtors.

In terms of the policy, the small businessman can approve any of his debtorsup to R15 000 on the basis of a bank report or favourable past trading experience.

Fixed

He is permitted up to five creditors to whom he owes more than R15 000 and CGIC will isssue the limits on these.

The premium is fixed and is adjusted each year according to the incidence of claims on the policy.

The third new policy will cover pre-shipment requirements for both local and export orders

CGIC's existing pre-shipment cover for exports pertains mainly to political risks

RODNEY SMIT

The pre-delivery policy will cover both specific and non-specific goods

It extends the protection offered by CGIC, allowing cover from the date a contract is received right through to delivery and payment.

The new policy covers insolvency of the buyer during the course of manufacture and repudiation or unwillingness to accept the order.

It also covers cases where orders are cancelled on the basis of adverse information received about the buyer. When this happens, post-shipment cover will be withdrawn but CGIC will pay out the pre-shipment cover.

Pre-delivery cover must be taken out with the post delivery-cover, but the latter may be taken on its own.

Smit says CGIC has also restructured its organisation into fifteen business units on the operational side.

Each unit will look after a number of products in geographic and industry areas in order to develop a level of specialisation in them.

Interest

Previously, the short-term domestic division was separate to the export side Now combined, each unit deals with the same policy holders no matter what their requirements are.

With the downswing of the economy, claims should increase and greater interest in credit insurance is expected, says Smit.

With stable economies overseas, changes in export business are not anticipated in the near future

However, with negative political perceptions of SA, CGIC's export business could even grow, says Smit.

Enter a new player

CREDIT Underwriting Agencies Limited (CUAL) entered the credit insurance market this month in competition with Credit Guarantee Insurance Corporation (CGIC).

CUAL MD John Manners says his company opened its doors on July 1 to offer an alternative in the market place.

Last year, the premium volume of domestic credit insurance was R40m, which covered trade transactions of R5bn.

But Manners believes the market remains largely untapped and because of this scope CUAL's entry into the market will not result in a premium price war.

However, he says the competition will be healthy for the industry and the consumer.

Manners says CUAL has the necessary skills it requires as a domestic credit insurer. It also has a comprehensive information base to underwrite risk and the expertise to assess risk.

Its major shareholder is Commercial Union with a 35% stake, followed by Hollandia Reinsurance and Kreditinform, both with 25%. Management holds a 15% stake.

Manners says CUAL can widen its base of business through sophisticated computer systems and with the support of its specialised brokers

Its computer systems will enable it to take on the credit insurance administration and have access to information which can be manipulated and fed back to clients in the format of dynamic management information.

The system will also allow CUAL to monitor a client's book debt performance and relate back to him information on the industry in which he operates.

"We believe our computer system gaurantees the speed and quality of service essential in the volatile field of credit management," says Manners

CUAL offers the full range of traditional credit insurance products, as well as a range of innovative products not yet offered in SA but available in Europe.

At this stage, the new company will only offer domestic credit insurance, but intends to move into the export market in the future.

The first step to collect

THE first step in collecting an account receivable is ensuring that the credit has been carefully granted. And collecting efficient information must precede any sound credit decision.

Kreditinform says in the past credit managers concentrated on whether payments were likely to be received at all.

Modern credit managers, however, take into account the possibilty of material loss to their company from slow payment.

The increased cost of carrying slow accounts due to higher interest rates is the reason for this change in attitude

The task of the credit manager is to determine the risk his company should take in the extension of credit,

Kreditinform believes that the endeavour of the credit manager is not to reject a potential customer that may be somewhat marginal, but to find ways in which his company can profitably do business with that company.

It is this degree of risk that will determine the amount of information required in order to make a profitable credit decision

Kreditinform says a question not asked often enough is whether a creditor can profitably sell even more to a particular debtor. The effective use of credit information can go along way to address this problem.

The amount of credit to be extended is an important factor in the decision on the amount of credit information that needs to be collected

It would be a total waste of money to obtain indepth information on a customer when the amount of money at risk is very limited.

Kreditinform says the net profit a company makes on a sale will affect the amount of credit information required because a sale with a high degree of profit gives the company a little bit of extra leeway in the event of a slow paying account or even a bad debt.

In other words, a company that has a high profit element can afford to be slightly more lenient in the granting of its credit and can take a higher risk than a company with very small margins.

'We collect, they cry'

EX-BOXER and debt collector Jimmy Abbott believes he is more successful than other collectors because of his reputation as a "bad guy".

Abbott is a manager at Jumbo Debt Collectors, which specialises in debt tracing, special investigations and actual debt collection.

"We collect and they cry. A lot of people know me as a bad guy and this helps my business a lot," he says.

"I am not interested in any violence. The other guy may, however, get a bit nervous because he thinks that I am going to break his legs."

Progress billing works

PROFESSIONAL firms and suppliers of services do well by adopting a "progress billing philosophy".

Aiken & Peat management consulting director Dion de Beer says professional firms, from engineers to auditors and management consultants, add value to the remuneration paid to individuals.

As salaries increase with high inflation and the need to retain the best personnel, firms cannot afford to build up work in progress and only receive payment months after work has been started.

Good credit management demands that they bill clients progressively, as work is completed and before delivery of the final product.

This requires clearly defined contractual agreements and trust that delivery of the completed service will take place, says de Beer.

"The progress billing philosophy also enables the professional firm to withdraw temporarily or permantly if payment of the progress billing does not take place," says de Beer

SA banks in world top 500

CITIZEN 20/7/88 58

Own Correspondent

JOHANNESBURG. — Standard Bank Investment Corporation (SBIC) has been ranked 264 on total shareholders' equity, well ahead of First National, Nedcor and Volkskas, in a Euromoney 500 survey of the top 500 international banks in 1988.

The survey showed Standard's shareholders equity was $640m. Standard ranked 224 in 1987.

First National, with shareholders equity of $407m, was listed 372 (330 in 1987), Nedcor with $351m was listed 415 (398 in 1987) and Volkskas with $293m ranked 478 (484 in 1987).

The ranking was compiled by a worldwide data-base operated by Bankers Trust of New York.

The compilers said one of the reasons most of the SA companies had slipped in the ranking by shareholders equity was the depreciation of the rand since the last survey, which directly affected the dollar-quoted equity value.

Exchange rates also accounted for the surge in the rankings of Japanese banks which profited from the rise in the yen. Almost half of the 22 new entrants to the listing were Japanese banks.

Among the 22 banks which dropped from the list was Bank Holding Corporation of SA which was placed 457 in 1987.

Britain's National Westminster ranked first in the survey with shareholders equity of $10,9bn and Barclays came second. Standard was also first in 1987.

In a ranking of the top 100 banks based on return on equity, Nedcor led the SA contingent at 24 (41 in 1987), followed by First National at 45 (262 in 1987) and Standard at 77 (158 in 1987).

Their ROEs were Nedcor 24%, FNB 20,3% and Standard 17%.

Standard Bank MD Mike Vosloo said last night that ROE in a high inflation environment could not compare with ROE from low-inflation countries, but he added he would prefer to examine the figures in more detail.

FNB Senior GM Jimmy McKenzie said SA banks were performing well but also asked for time to consider the figures.

Busiest time in 36 months

B/Day 20/7/89

(58)

SA's fast-growing factoring industry has experienced its busiest period over the last three years and is expecting to grow 20% this year.

First National Industrial Bank's First Factor division chief manager Colin Warner says the industry is predicting purchased debt of R2,5bn in 1989.

This is 20% up on last year and is in line with international trends. Factoring in the UK has grown about 24% a year in the past three years.

In the last three years more players have entered the SA market offering a wide variety of services.

Warner says factoring is gaining acceptance in SA after being seen as a form of assistance for companies "on the skids." Today's factoring houses have killed such claims.

He says factoring is not provided to any company that has not been thoroughly investigated and is not viable. It must have good products and management, as well as a growing turnover and the ability to meet turnover forecasts.

However, there is slightly less activity in the industry at the moment while companies wait to see what interest rates do.

Most suitable for factoring are the clothing, shoe and textile industries, which deal on fairly long terms, placing a strain on their cash flows.

First Factor's client base is, however, well spread. Although the clothing, textile and footwear industries account for 28% to 30% of its book, other sectors such as food, furniture, printing and automotive each account for about 6%.

Warner ~~says~~ factoring as a form of finance that is probably one of the cheapest ways for a businessman to maintain his equity in his business while keeping it growing at the same time.

The cash flow enables companies to obtain better terms from their own creditors as it increases their negotiating power.

Warner says a factoring house can assist in bridging difficult situations.

For example, a company may receive an exceptional order but not have the necessary working capital to execute it. Factoring can provide up to 80% against the value of the invoice.

Factoring can also be an ideal vehicle to provide the capital required for management buy outs/ins. This has already been done very successfully and is a trend that could increase.

First Factor offers its clients a full range of services including debt collection, setting credit limits and continual monitoring of debtors.

It has access to a substantial data base of credit information and offers a pool of expertise that many companies find hard to establish.

Warner says:"We believe that we have over the years saved our clients significant amounts of money that could have resulted in bad debt. We pick up problems and trends early."

First Factor has experienced record collections and reduced the days outstanding and the number of arrears in its debtors book over the last two months.

Warner attributes this to the professionalism of his organisation.

(58) FM. 21/7/89

FIRST NATIONAL (58)

End of the woe?

At the height of the computer woes that afflicted First National Bank (FNB) late last year, a tale popular among the bank's competitors concerned an irate customer who stormed into an FNB branch to complain that the computer had fouled up his account. Trying to calm the customer a teller is supposed to have said: "It's all the fault of Hogan, but don't worry, he's emigrating to Australia."

Few computer systems have been as quick to enter common parlance as the Hogan range of banking application software. Unfortunately for FNB — and possibly other local users such as Bankorp, Volkskas and Saambou — the connotations have more to do with poor service than leading-edge technology.

Last week, however, FNB completed its mammoth implementation of the Hogan systems and is confident it can offer customers services which are not only on a par with those of its competitors but will soon put it at the forefront of retail banking.

All of the bank's nearly 600 branches are using the Hogan systems to provide services such as current accounts, customer information, savings and time and notice accounts as well as specialist products such as BOB, BOB T and Junior BOB. A card system, which is being developed in conjunction with Hogan Systems of Dallas, will go on line early next year.

"We are running more than 3,5m accounts on Hogan," says FNB GM in charge of information systems Mike Jarvis.

The implementation of Hogan will, he contends, ensure FNB is well placed to capitalise on the industry's move to relationship banking. This will involve far wider financial services including consultancy, insurance, travel and broking.

FNB (then Barclays) opted to standardise on the full range of Hogan software in 1984.

The move has been expensive, time-consuming and disruptive and has done little to enhance the bank's image among either its corporate clients or the public.

Jarvis says FNB's spending on computer equipment — about R400m in the past four years — is in line with that of its major competitors. He stresses that the bank's computer projects over the last few years have stretched far beyond the implementation of Hogan.

"It is a myth to think that all we have been doing is implementing Hogan."

In order to make use of Hogan the bank had to move from ICL and an assortment of other computer architectures to IBM and compatible mainframes; it has switched from seven regional computer sites to two centralised centres on the Reef; six independent and incompatible national networks have been replaced by one backbone service and all of its ATMs have been upgraded.

Jarvis says many of the problems which affected customers were caused by running IBM and ICL equipment in parallel.

"If all we had to do was implement Hogan it would have been easy," he says, pointing out that other financial institutions already had IBM mainframe architecture and introduced only parts of the Hogan range.

The new computer infrastructure will not only enable the bank to offer more varied and sophisticated services, it will also be more cost effective, says Jarvis.

Despite the anguish, Jarvis says he has no doubts about the wisdom of going the Hogan route. "I'm sure we will have lost some customers because of the hiccups and some people won't have brought their accounts to us. But they will have been relatively small in number. I believe we will be able to recoup those accounts in a relatively short time." ■

are likely to encourage this swing.

The financial sector continues to be the biggest consumer of computer hardware and software (34% of sales), followed by the public sector and manufacturing companies.

Despite increased emphasis on the local manufacture of computer products sales of these products showed little growth. Neilson reckons revenues from local equipment, excluding the vendors' mark-ups, accounted for only 5% of hardware sales. He adds, however, that computer users are overcoming their reservations about buying local equipment.

"Nearly a quarter of respondents (from a sample of 500 companies) said they would consider buying a locally-made mainframe if quality and technical skills issues could be satisfied," says Neilson.

Good news no doubt for local conglomerate TSI, which last month announced the MF/100 — the first mainframe to be manufactured in SA. ■

BANK AUTOMATION

Olivetti's big catch

They will be breaking out the chianti in Ivrea with the news that Italian computer giant Olivetti has secured one of the largest banking automation contracts ever awarded.

The company's Olivetti Systems & Networks subsidiary is to supply Dutch co-operative bank Rabobank Nederland with distributed information systems worth a minimum of $340m. The order calls for the installation of more than 2 000 Olivetti LSX Unix-compatible minicomputers and at least 25 000 networked PCs at 2 200 branches of Rabobank and its affiliates.

Olivetti has identified the financial sector as one of its key areas of growth — banking systems sales contributed 25% of its income last year — and the Rabobank order is further vindication of what it terms its strategy of Open Systems Architecture (OSA). Simply put, OSA calls for the development of integrated software applications which can run on industry standard operating systems such as MS-DOS and Unix as well as OS/2 (which, with IBM's backing, is likely to assume the mantle of an industry standard). This allows users to move applications across different manufacturers' hardware and frees them from being tied to a single computer supplier.

Olivetti, together with arch rivals IBM and NCR, has made great use of PC-based distributed systems to provide financial institutions with low-cost and flexible computing power at their branches.

One of the first financial institutions to adopt Olivetti's OSA was Bankorp in SA. The organisation embarked on a joint development project with Olivetti Africa in 1986 and intends automating all of the branches of its banks — starting with the branches of Trust Bank — using PCs, local-area networks and Unix minicomputers. The implementation of this equipment is expected to be completed late next year and will initially comprise more than 2 000 PCs and 150 LSX Unix-compatible minicomputers.

Zaina . . . great potential for growth in banking sector

According to Eben de Klerk, MD of Bankorp's information systems arm Bankorp-Data, OSA provides high levels of flexibility without the constraints of traditional proprietary systems. He expects Olivetti's OSA offering to be substantially enhanced as a result of the Rabobank contract.

Olivetti Africa has increased its penetration of the local banking systems market with contracts from Saambou, Telebank and recently Nedbank (*Technology* February 3). The company is also on the short list — together with NCR — for First National Bank's branch automation project. This contract is due to be awarded early next year.

Virgilio Zaina, MD of Olivetti Africa's Systems & Networks division, estimates his company has about 15% of the local banking systems market. IBM agent ISM, with customers such as Standard Bank, Volkskas, Allied and the United Building Society, has the lion's share.

Revenues from this market are in the region of R250m a year, but Zaina sees great potential for growth in the sector.

"It is estimated in Europe that 80% to 90% of banking staff will have a workstation on their desks by the early Nineties," he tells the *FM*. "We are still a very long way from that." ■

VOLKSKAS

58 Fmail 21/7/89

Cautious outlook

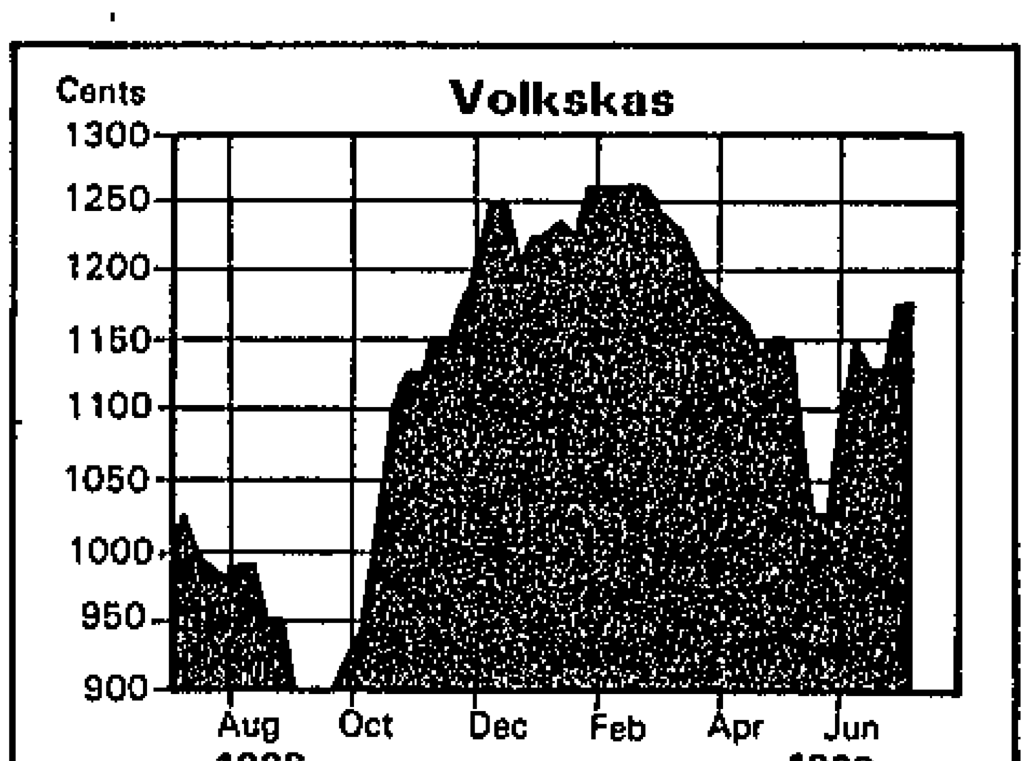
Activities: *Banking, insurance, financial services and property development.*
Control: *Rembrandt and UBS Holdings each have 30% of the equity.*
Chairman: *J A Stegmann; managing director: D C Cronje.*
Capital structure: *42,5m ords of R1. Market capitalisation: R489m.*
Share market: *Price: 1 150c. Yields: 6,8% on dividend; 18,6% on earnings; PE ratio, 5,4; cover, 2,7. 12-month high, 1 275c; low, 900c. Trading volume last quarter, 203 576 shares.*
Financial: *Year to March 31.*

	'86	'87	'88	'89
Total advances (Rbn) .	8,05	7,64	8,90	10,71
Total assets (Rbn) ...	13,32	13,14	15,10	18,41
Disclosed profit (Rm) .	53,2	60,8	71,3	91,0
Earnings (c)	174,0	199,6	186,4	214,1
Dividends (c)	57	60	73	78

Danie Cronje's appointment as Volkskas group MD comes not a moment too soon. It makes a pleasant change to have someone heading the bank who is aware of the importance of the bottom line and not an academic like his predecessor, Piet Morkel, who has been sidelined after failing to improve the bank's poor return on assets. Cronje brings a merchant banker's mind to the group, which can't be bad.

One of the main problems Cronje has is changing the group's corporate culture — sectarian and secretive. As I said last year the bank remains way behind competitors Standard and First National in its reporting disclosure. Where are details of the cost of funds and interest received on advances? And why does the group believe it should continue to determine disclosed profits by transfers to and from inner reserves? Perhaps as management shifts to Johannesburg from Pretoria a greater sensitivity to the investment community's needs might develop.

Last year the average return on total assets was an unchanged 0,7%. That's as bad as the admittedly poor return earned by First National struggling with computer problems and large property developments. Volkskas



Volkskas' Cronje ... signs of change

is nowhere near as far along the computerisation road so, presumably, when it is then its returns could deteriorate if business conditions remain as they are. On top of this Volkskas seems to be slipping behind in the race for new business. That's rationalised by chairman Joe Stegmann, who says Volkskas did not strive for growth at any cost. The question analysts ask is what would have happened to return on assets if a more aggressive business stance had been adopted.

The return on assets affects the group's ability to raise additional capital and helps explain why the dividend cover has been raised. That's a development unlikely to attract equity investors if a rights issue does become necessary to top up capital. The alternative to more capital is restricted business growth — a dilemma faced by some competing banks.

There are some positive signs of change — a share option scheme is to be introduced and might motivate management towards greater awareness of the bottom line. And there is a planned shift of bank staff to Johannesburg. But the problem of changing or redirecting the Volkskas corporate culture remains.

The best chance for that could be a merger with another financial institution. Saambou, which was 8,8%-owned at the balance sheet date, is an obvious candidate, though whether UBS would agree is another matter. UBS seems in no hurry to forge closer links with Volkskas, as it presumably believes its own banking developments offer better profit opportunities. However Rembrandt, which has a shareholding equal to that of UBS will not be content to watch Volkskas perform comparatively stodgily for years.

Stegmann takes a far from positive view of this year's prospects. He expects slower expansion of bank credit, sharp operating cost increases and greater credit risks. Put this together with a likely narrowing of banking margins with heightened competition, and this year's growth is unlikely to be great. That may, in part, help explain the past year's cautious dividend increase to a level from which a further increase can be declared this year.

That might be a comfort for some shareholders, but it is not a prospect which has improved the group's market rating. The dividend yield is less than that of high fliers Nedcor and Standard but above those of Trust and First National. There will be no compelling reason to buy the shares until Cronje proves he can re-direct the group.

Jim Jones

PLATE GLASS

Fmail 21/7/89

Start-up costs

Activities: *Glass manufacturing; processing and selling glass, timber, board and aluminium products.*
Control: *Placor has 49,7% of the equity. Placor's largest shareholder is Liberty with 31,7%. The directors own 22,8% of Placor.*
Executive chairmen: *B Lubner and R Lubner.*
Capital structure: *16,5m ords of 50c each; 0,5m "B" non-red cum prefs of R1; 2,5m 8,5% red cum prefs of R1; 4m variable rate red cum prefs of R1; 5,3m "B" variable rate red cum prefs of R1. Market capitalisation: R848m.*
Share market: *Price: 5 150c. Yields: 4,3% on dividend; 9,4% on earnings; PE ratio, 10,7; cover, 2,2. 12-month high, 5 275c; low, 3 950c. Trading volume last quarter, 190 810 shares.*
Financial: *Year to March 31.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm) ..	85,1	123,0	159,1	84,0
Long-term (Rm) ...	99,3	129,0	129,7	219,7
Debt:equity ratio	0,50	0,75	0,60	0,49
Shareholders' interest	0,43	0,35	0,43	0,41
Int & leasing cover .	2,38	5,17	5,68	5,28
Debt cover	0,50	0,45	0,48	0,62
Performance:	'86	'87	'88	'89
Return on cap (%) ..	12,6	13,9	15,0	17,3
Turnover (Rbn)	1,57	1,68	2,32	2,76
Pre-int profit (Rm) ...	120,2	137,5	204,2	275,2
Pre-int margin (%) ..	7,6	8,2	8,8	10,0
Taxed profit (Rm)	51,9	71,9	96,7	123,8
Earnings (c)	203	305	401	483
Dividends (c)	105	145	185	222
Net worth (R)	17,1	19,4	25,6	28,9

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BUSINESS

ANC campaigns to stop debt rescheduling

By MOIRA LEVY, London

WITH less than a year to go before South Africa's $11-$13-billion debt agreement expires, the African National Congress has launched a 16-country campaign for more stringent financial sanctions.

At a weekend think-tank in London, attended by representatives of church organisations, anti-apartheid groupings and development agencies from the United States, Europe and Asia, and members of the United Nations Special Committee Against Apartheid, initiatives were planned to halt the rescheduling of South Africa's international debt.

The British Anti-Apartheid Movement has already started the campaign with a threatened boycott of National Westminster Bank.

Other banks targetted by the campaign are Credit Lyonnais of France, Union Bank of Switzerland and US and West German banks represented on the 13-member Technical Committee responsible for negotiating the debt rescheduling.

The international campaign to halt debt rescheduling includes demands for

- A stop to gold loans or gold "swaps"
- Guarantees from banks not to extend new loans or any other forms of credit to South Africa
- The termination of trade credit facilities and import and export credit guarantees
- Creditor banks stop taking advantage of the exit clauses which enable their debts to be converted into long-term loans or equity.

At the meeting, an ANC representative warned against "being duped" by signs that South Africa's new generation of leaders was moving towards negotiations. Recent reform initiatives were described as an attempt to create a climate of expectations conducive to renegotiating the rescheduling of the foreign debt.

The representative told the meeting: "Tragically, instead of facing reality and taking steps to fundamentally transform society, the regime's strategy is to create the impression that apartheid is being dismantled."

Other speakers warned that Pretoria's efforts to win the goodwill of the banks by promoting a "position apparently amenable to negotiations and reform" will be shortlived. "The experience of the past four years indicates ... when Pretoria has secured the banks' acquiescence to rescheduling deals, the regime reverts to internal repression and external agression."

Economists stressed there was an urgent need to act immediately on formulating a new, stronger sanctions package.

In a paper delivered at the meeting, UK economist Paul Goodeson said the next two years would be crucial, as the economy was particularly vulnerable while the debt was being renegotiated.

Sanctions introduced in the coming year would have a two-fold effect, he said.

Firstly, they would reduce export earnings, thereby reducing the foreign exchange available for debt repayments.

Secondly, "by destroying the belief that South Africa is 'over the hump' with regard to international sanctions, they will have a major indirect effect on the terms and conditions on which the debt is rescheduled".

Goodeson called on Europe's socialist governments or coalition partners — France, Spain, Belgium, Luxembourg and Italy — to implement the measures passed by the Socialist International, including a ban on coal and agricultural imports.

This would have the direct effect of reducing South Africa's export earnings by more than $969-million. And the psychological impact would be considerable: for example, it would account for approximately 72 percent of South Africa's coal exports to the European Community and about 30 percent of its coal exports worldwide.

If the Netherlands and Germany introduced the same import restrictions, South Africa would suffer a further cut of $598-million in its export earnings.

The representative of a group of Non-Governmental Organisations said the campaign aimed to "ensure that the banks are forced to take political factors into account in their dealings with South Africa".

Stanprop records encouraging results

STEPHEN RICHTER (58)

STANDARD Bank Property Fund (Stanprop) recorded a rise in net distributable income per unit for the six months ended June 30 to 6,95c (5,85c). This translated into an 18,8% rise compared with the corresponding period of the previous year.

There was an encouraging increase in letting activity with regard to the industrial portfolio. This resulted in occupancy levels rising to 97% (79%). This matched the occupancy level of the residential sector which had risen from 95% at June 30, 1988. The rental and offices portfolio remains firmly let and has an occupancy level of 98% (97%).

Stanprop disposed of the following residential properties: Moor Park in Sandton, and Heathrow, Orly and Gatwick in Hyde Park. B'Day 21.7.89

'Old style paternalism' is giving way

TRADE unions representing mainly low income industrial workers have recorded significant successes in negotiating more appropriate employee benefits for their members and the trend has now spread to higher income employees.

In its 1988 Employee Benefit Review Old Mutual says employees generally "are beginning to question existing benefit structures, realising that their voice can effect meaningful change".

Old Mutual says its "Bridgebuilder" programme, designed in response to unions representing low-income workers, is having particular success among the older unions representing mainly middle-income workers.

In the past, the provision of employee benefits focused almost exclusively on retirement needs, mainly through the traditional pension fund. This is now changing, with "old-style company paternalism" giving way to negotiation between employers and employees, says the Review.

General trends identified by Old Mutual include:

- More and more lower-income workers are looking for arrangements which give them access to their job savings in the form of loans for housing, education and a variety of life-crisis needs. Higher income workers are looking for benefit arrangement with tax advantages.
- Lower income workers face regular periods of unemployment while high job mobility characterises upper-income workers. Both are interested in the withdrawal benefits offered by a pension or provident fund, in particular whether they will be able to get back the employer's contribution.
- Employers are becoming increasingly aware of the costs of providing adequate retirement benefits for employees and are trying to provide these more effectively.

58 WMail 21-27/7/89.

How ups a

THE concept of selling short is simple, yet many investors fail to understand how it is possible to sell something they do not own.

The SA Futures Industries

ALISTER COLQUHOUN

UAL units on low throttle

58

ALISTER Colquhoun, executive director for UAL unit trusts' portfolio management, takes exception to my labelling his general equity fund idle in the June quarter in last week's wrap-up of the funds which bothered to send me a report.

No offence was intended — the fund bought 50 000 Anglo American Industrial Corporation shares and nothing else.

I used the word idle, not in the sense of the first dictionary definition "lazy, indolent, unoccupied, useless, vain, purposeless or groundless", but in the second sense — "run slowly with throttle nearly closed".

GUARDBANK

Mr Colquhoun believes my throttle should be closed on account of my comments about another fund's performance in the June quarter.

I thought that Guardbank had been clever in selling Gencor shares at more than R90 while retaining enough shares to follow the rights offer at R75. There should be no change in the number of shares ultimately held by Guardbank, but the fund more than likely made a capital profit.

Mr Colquhoun questions whether or not it is smarter to retain the Gencor shares and sell the nil paid letters. His funds did that, and made more of a profit for unitholders when the cheaper dealing costs are taken into account.

The way Gencor shares are going — up to 9 225c this week — the best idea could have been to hang on to them.

"We stuck to our policy of retaining our portfolio of only blue-chip shares," says Mr Colquhoun. "We do not waste unitholders' money with unnecessary dealing costs merely to display activity."

CHANGES

The Mining & Resources fund sold one shareholding, bought one and added to two existing shares.

The Selected Opportunities fund made several changes, seven new holdings being introduced and some positions consolidated.

Mr Colquhoun would like to sell about 1% of the shares in the fund, but he cannot find a buyer.

The higher-risk fund has appreciated by 32% in the 12 months to June, whereas the general equity fund climbed by 53% and mining and resources 47%.

Stockbroking and investment banking area once again a cottage industry.

Star 22/7/87

58

The arrival of cheap computing and telecommunications was supposed to turn financial intermediaries into worldwide insomniac traders. With hind-sight, that was wrong: computers are killing the broking business worldwide. Can it happen here?

EVER since 1987, when the worldwide boom in stock and bond markets came to an abrupt end, the buzzwords of the broking and investment-banking businesses have lost their buzz.

First to go was globalisation, the idea that a brave new world of competitive, high-tech financial markets would be dominated by a few worldwide, monster firms.

Next was the notion that even in a domestic or regional market the winners would be integrated conglomerates, able to offer a full range of services from their supermarket shelves.

Those disappointments could be lived with, given a closure here, a redundancy there.

The latest candidate for debuzzing could prove more awkward. It is market share — the belief that, in the end, a firm with a large share of any financial market is sure to be profitable. It looks increasingly likely that this high hope too, will be wrong.

Job cuts

The City of London is where the relation between market share and profitability looks most tenuous.

The latest firm to announce job cuts, James Capel, is one of the biggest and most respected of brokers.

Smith New Court, which announced financial losses on June 30, is one of the largest market-makers in equities. The other top firms in equities are gilts — BZW, S G Warburg, UBS, Midland Montagu — are merely washing their faces.

In time, it is said, that will change: today's low profits are the result of over-capacity and low turnover. After a shake-out (other firms, of course, not ours) and when markets revive, the profits will return.

Will they? Try a more alarming prospect: fewer firms will not guarantee milder competition. Oligopolies can be bitterly competitive, especially when the barriers to new entrants are low. In the trading and broking of shares and bonds, a large market share may not yield abundant profits — and for good reason.

The culprit is the computer. The arrival of cheap computing and telecommunications was supposed to turn financial intermediaries into worldwide insomniac traders, giving power to those able to invest in equipment and to back their trading position with huge amounts of capital.

With hind-sight, that was wrong: computers are killing the broking business, at least in its current form. In markets, as Ivan Boesky would confirm, the best source of profit is information that others do not have.

What the microchip has done is to make information cheaply available to everybody. Worst of all, it has made it available to the customers.

Information

Cheap information is what stymied the idea of dominance for the financial conglomerate. Corporate treasurers and institutional investors can now pick the best cherries from each firm rather than using one supplier.

And this calls into question quite what value even a specialised intermediary is adding. Most bonds and even, these days, many shares are mere commodities; the difference between buying them at Smith new Court, or Salomon Brothers, or a tiny boutique is little more than price and efficiency of service.

It was barriers to entry plus information — good contacts, research, naughty tips — that allowed the old low-tech City brokers to take a fat profit. Without that hold over information or market entry, there is little that a traditional firm can charge for, virtually regardless of its size or its market share.

It is this basic change in their business with which brokers and investment bankers must come to terms.

Attention will return to the quality of the people who work in broking firms rather than to the size of the trading floor.

With information available to all, what counts is understanding that information, producing new ideas about it and cultivating personal relations with clients.

Brokers and investment banking are again becoming cottage industries. Those in possession of a saleable advantage will be better off setting up their own small firms and subcontracting any bulk services they need, such as computing, dealing or distribution.

This is already happening in America in merger advice, with young profitable firms such as Blackstone and Wasserstein Perella, and it is catching on in London. For every announcement of job losses, there is a new boutique of brokers or advisers of some sort, often with offices outside the high-rent City.

Cutting costs

The question for the big battalions will be whether they can adapt to this return to the cottage. Not only will they need to cut costs and learn to manage; they will also need to find ways to let their staff become entrepreneurial.

The financial giants of the future may well be little more than brands, having spun off regional and functional divisions to teams of managers who then trade under the name and buy in services, such as computing or distribution, from the parent. Call it Balkanisation, fragmentation or whatever.

Without it, brokers and investment bankers face death from a diet of chips. — **The Economist**

Banks vie for older investors

Star 22/7/89

58

MAJOR banks in the country are zooming in on senior citizens investors with special financial packages offering higher-than-normal interest rates and a convenient one-stop banking facility.

With South Africans saving less of their disposable income each year senior citizen investors are becoming a lucrative market for the banks.

The Reserve Bank's Quarterly Bulletin reports that last year's very low personal savings ratio — 1,7 percent of disposable income — continued during the first three months of 1989. In 1987 individuals saved 4,6 percent of disposable income.

The over-60s investors have bigger amounts of money and can afford to invest for longer periods. Almost all the banks with senior citizens portfolios are looking at minimum investments of R10 000 and offer additional interest on fixed deposits of 12 months or longer.

A spokesman for First National Bank said the senior citizens portfolio is becoming competitive as the banks vie for the "stable and loyal investor".

Says Bill Mansfield, Divisional General Manager, Personal Banking Services Division: "Consolidator is an attempt to better serve their needs. It is designed to make life easier by consolidating everything they

JABULANI SIKHAKHANE

need from a bank into a single package that is easy to understand and easy to operate."

Standard Bank's Consolidator offers free banking, a range of investment products, a preferential interest rate on fixed deposits, a unique hospital cash plan, discounts on comprehensive insurance and attractive travel and leisure offers.

Free banking is provided to customers who invest R10 000 in current, call, notice or fixed-deposit accounts. Should the investment fall below R10 000 preferential rates will apply.

Consolidator customers have automatic and exclusive access to a specially adapted Hospital Cash Plan, which is unique in that there is no age limit. The plan provides daily cash payments for hospitalisation as a result of accident or illness. There is a choice of three levels of cover.

Trust Bank offers senior citizens a bonus of 5 percent on interest on fixed deposits which means that when a deposit is made at a rate of say 17 percent the effective interest rate is 17,85 percent.

Supertrust pays 10 percent additional interest on interest received on an annual basis for people between 55 and 64 years of age and 20 percent for people over 64. This means that when interest of R100 is receivable for a year R20 extra is added to the account for the over 64.

First National Bank's Seniors Portfolio offers two commission-free personal cheques per month, two free stop orders, commission-free Visa traveller's cheqnes, a free safe-custody envelope and FirstCard for succesful applicants with an annual card fee waived for the first year.

There is an additional 0,5 percent interest on published rates for fixed deposits for 12 months and longer. Script dealings and overdraft facilities are available to senior citizens at competitive rates.

Senior citizens also receive a free insurance advisory service, free financial consultancy service whose functions include investment portfolio management, establishment of trusts, participation mortgage Bonds and estate planning.

Nedbank offers only 0,5 percent additional interest on fixed deposits for the senior citizens. However the bank will offer a package suitable to the client's needs. A spokesman said the bank was working on a special package for senior citizens.

Volkskas Bank offers special interest rates for person over 60 on fixed deposits and a 7 percent bonus on interest for deposits in Bonus Save 5000 which is a special savings account for investments of R5 000 and more.

Many people still don't trust unit trusts

Star 22/7/89

Money Matters

MAGNUS HEYSTEK

(58)

LAST week at a braai I found myself talking to an old friend whom I would classify as successful.

If not rich I would say he is well-off. He lives in a house which is probably worth R500 000, drives a Porsche while his wife ferries around their five children (he must by successful!) in a new Volkswagen Combi.

We started talking about inflation, interest rates and investments.

Someone else asked my views on unit trusts. I endorsed them as probably the best investment for the average investor. Much to my surprise my friend interjected, saying that he knows nothing about unit trusts and prefers keeping his money in banks and building societies.

Much as I tried to convince him that long-term saving with traditional financial institutions is a highway to poverty, he refused to change his mind.

Despite the undoubted successes of unit trust investments over the last 23 years, many people still don't understand how they work and in some instances do not even know what unit trusts are.

The unit trust industry is partly to blame. Much more could be done to promote investing in unit trusts, either in the form of a regular savings programme or a lump-sum payment.

I say partly, because there are other factors which obfuscate the obvious advantages of investing in unit trusts.

Unit trusts are often the last product offered to prospective investors by sales people who market financial products. The reason for this is that the commission earned on unit trusts is significantly lower than that earned on other products like endowment and life insurance policies.

In some cases the commission and administration costs on life and investment-type of policies are as high as 7 percent, while the commission paid on the sales of unit trusts is about 3 percent. So it is quite understandable that marketers of financial products will try to promote the higher-paying policies instead of unit trusts. Only after offering a prospective client the other financial products, will an agent suggest unit trusts.

Many gullible people are frightened off unit trusts by references to equity market crashes, which tend to be spectacular.

But in the long run, at least over ten years or more, unit trust investments have performed far better than endowment policies in terms of compound returns, even taking into consideration the devastating effects of the stock market crash of '87.

Take for example someone who invested R10 000 in Metboard's mutual fund in 1980. By the beginning of June this year, with the dividends reinvested, the accumulated capital would have been worth R45 345. This is equivalent to a compound return of 20,8 percent compared with the average inflation rate of 14,8 percent over this period.

By comparison, the JSE overall index grew at a compound rate of 16,37 percent while average house prices rose by only 12,7 percent on average.

Another reason why I prefer unit trusts to endowment policies is their almost-instant liquidity. But to some undisciplined investors this could also be considered a drawback. With unit trusts easily available to investors at short notice, some people may tend to use this capital to splurge on durable goods. This could seriously undermine a long-term retirement plan.

If one tends to be undisciplined when it comes to money, then I would recommend endownment policies which protect the investor from himself.

Endownment policies have other features that unit trusts do not have. It is possible to link other benefits to them, like death and disability cover.

Endowment policies also provide for a guaranteed payouts in most instances. But these guarantees are bound to be very low, presently a compound growth of about 4 percent.

But for people who don't trust themselves with their own money, I have no hesitation in recommending endowment policies.

● **On Monday morning on the John Berks Show on Radio 702 there will be an open line on personal financial matters. Readers with financial problems are invited to call on 331-0702.**

ANC, SA bankers meet

Cape Times 22/7/89 58

BANKER
Dr Lombard

By BARRY STREEK

THE deputy governor of the Reserve Bank, Dr Jan Lombard, and the head of the Development Bank, Dr Simon Brand, have attended a closed-doors conference about the South African economy with members of the African National Congress.

The two were among 25 South African economists and businessmen who met 19 members of the ANC, two Soviet Africa experts and 15 other academics from different countries in Lausanne, Switzerland, between July 8 and July 15.

The focus of the conference was current and post-apartheid economic policies.

Though all the participants attended in their private capacities, Dr Lombard and Dr Brand are both top figures in South Africa's financial establishment and both have close links with the government.

Among other South Africans attending the talks were the acting chairman of the National Manpower Commission, Dr Frans Barker, the managing director of the Standard Bank, Dr Conrad Strauss, the chief economist at Rand Merchant Bank, Mr Rudolf Gouws, and the managing director of the SA Perm, Mr Bob Tucker.

Among the ANC delegates were Mr Barney McKay, who was described as a "government consultant" from Zambia, Dr Manto Tshabala, head of the post-apartheid student group in Lusaka, and Mr Raymond Mokoena, of the ANC's interior department in Lusaka.

The conference organisers were Professor Pieter le Roux of the Institute for Social Development at the University of the Western Cape and Professor Nicolas Jequier of Lausanne University.

Dr Lombard could not be contacted yesterday as he was out of his office, but a spokesman for Dr Brand confirmed that he had attended the conference.

The two Soviet participants were Mr Yevgeny Tarabin and Mr Vladimir Tikhomirov, both of the Institute of African Studies at the USSR Academy of Sciences.

No statement was issued after the conference, but the participants were reported to have agreed that the South African economy was in a crisis because of apartheid and there was urgent need for change.

Life office statistics

58

A REPORT in last week's Business Times on the investment performance of life assurers quoted figures from a survey by Richard Wharton-Hood & Associates.

Statistics showing the investment performance of Liberty Life and Sanlam over 10, five and one year spans as at March 31, 1989, were supplied by the David Hersch Organisation and not by Richard Wharton-Hood & Associates.

S Times 23/7/89

58

Insurance rate war threatens disaster

By Robyn Chalmers

POLICYHOLDERS may be smiling at the rate war in the short-term insurance industry, but insurers believe it is reaching dangerous levels.

Some even warn that another AA Mutual fiasco is likely.

Most insurers are slashing rates to gain a bigger slice of the soft market. Although experts believe the big players can do this without adverse effects, they fear that smaller insurers could be hit hard.

South African Insurance Association chairman Ron Carter says he has never seen the rate war as intense as this. He warns that it is doing immense damage to the industry as a whole.

Insurance companies in general have returned to profitability after what was possibly the worst 10 years for it in terms of claims. Greatly improved underwriting profits were reported almost across the board last year.

Fierce

Santam Insurance assistant general manager Leon Britz does not, however, believe this justifies the fierce rate cutting prevalent. He says rates have fallen too far, too low and too fast.

Better underwriting profits have contributed to the rate cutting.

Aegis, for example, has announced a widespread reduction in premiums. Effective from July 1, annual and monthly premiums for household policies have been cut by 6% in Cape Town and the Peninsula, 18% in Pretoria, Verwoerdburg and Arcadia, 48% in Hammanskraal and Garankuwa and 60% in Transkei and the homelands.

In addition, there will be a 15% discount for all policyholders in flats. Aegis marketing superintendent Theo Grant says the reductions are based on claims statistics and underwriting results as opposed to participation in the rate war.

The cyclical nature of the insurance industry is well known. Premiums drop sharply before heading up. The reinsurance market to a large extent governs these cycles.

Reinsurers increase the amount of reinsurance available in the market, causing overcapacity, which means a drop in prices, stiff competition for market share and a rate war.

Aviation

The rate war is also evident in a smaller section of short-term business — aviation insurance. A report in specialist insurance magazine Cover estimates that rates in the aviation market have dropped by as much as 75% in the past two years.

Companies specialising in this business report that the soft state of the market is killing them. The weak rand, the 15% surcharge on imported spare parts, mainly from America, GST, rising costs and plummeting premiums are hurting badly.

PriceForbes Federale Volkskas (PFV) Aviation director Mike Hellman says in the article that the market is chaotic and still on a downward slide.

"Things are so bad that the hull losses for the first quarter of 1989 have already exceeded the whole of the estimated hull premium income for this year.

"Overcapacity in London is the prime cause of the present situation. Good American business is no longer being offered in London, and Lloyd's is particularly premium hungry at present as its income is falling."

RON CARTER

Co-op Resources

S Times 23/7/89 (58)

By Don Robertson

Help for those under pressure

A PARTIAL alternative to full maintenance leasing has been established by Motor Assist, a member of the Heritage insurance broking group.

Motor Assist is aimed at the small fleet owner, the private motorist or fleets which prefer to buy on hire purchase or for cash.

Because of the increasing cost of vehicles, transport managers have to budget more carefully and avoid unnecessary expenses.

Motor Assist offers a mechanical assessing and technical consultation facility for vehicles, including heavy trucks.

The service includes advice and assistance on vehicle replacement, inspection of mechanical damage before repair to ascertain likely costs, negotiations with dealers for discounts and technical information about repair costs.

The company will also offer to scrutinise repair invoices to prevent overcharging, compile fleet management data, advise on management of in-house maintenance workshops, arrange risk and preventative maintenance and assist in driver education.

Motor Assist executive director Paddy Ovens says that because of expected increases in running costs, transport managers do not wish to be burdened with additional problems, such as excessive repair bills, having to pay for unnecessary replacement parts and costs of repeat repairs.

"Our company will relieve them of all these and many other hassles and enable them to apply their working time more productively and profitably."

Contracts are available at R15 a month or R150 a year on private vehicles, R12,50 a month or R130 a year for fleet owners.

Dread-disease guide

S.Times 23/7/89 (58)

Business Times Reporter

MERCANTILE & General Reinsurance will launch a dread-disease underwriting manual soon.

M&G believes it is a world first, and should help underwriters to assess dread-disease risks, which can be complex.

Until now, few useful claims statistics have been available, meaning underwriters have adopted a cautious approach to the risks.

The manual provides statistics on specific mortality ratios for three of the major dread diseases — malignancy, stroke and heart disorders.

M&G has been involved in the development of the dread-disease benefit since it was launched a few years ago.

Churchmen talk on SA's debt

Cape Times 24/7/89

Own Correspondent

JOHANNESBURG. — Influential members of the Anglican Church — including top businessmen — met Archbishop Desmond Tutu and other Anglican bishops here last week for a secret exchange of views on South Africa's foreign debt conditions.

Mystery surrounds the meeting, described as "sensitive" by a prominent church member. Archbishop Tutu's spokesman confirmed the consultation on financial sanctions — called by the bishops — with 30 experts, mostly church members.

"They included people both opposed to and in favour of financial sanctions," he said.

He noted that the archbishop had called for tighter financial sanctions but could not confirm the call for a 15% debt repayment in June 1990.

Worried about the call top businessmen in the church asked experts to research the implications of a debt squeeze. They found it would cause tremendous economic hardship.

ROAD TO FERMENT ... Archbishop Desmond Tutu (right) and the Rev Allan Boesak examine their recently launched book, "The Road to Damascus"

Factoring burgeons as squeeze continues

B Day 20/7/89

AS THE credit squeeze and lack of available funds from the traditional banking sector continues, companies find factoring or invoice discounting the right way to finance debtors.

This situation augurs well for recently established Quorum Managed Portfolios, a subsidiary of Quorum Holdings, which is involved in confidential invoice discounting (CID).

Quorum executive director Jeff Carel says there is a readiness in the market to consider CID as a method of financing, as it releases a high percentage of turnover in cash and provides small to medium companies with money to fund their growth.

Unlike traditional factoring, with CID the client remains in control of his book and his customers are unaware he has discounted his book, says Carel.

Cash

58

With CID the customer is able to factor only that part of the book needed to obtain the capital required.

From a cost point of view, factoring and CID are generally not more expensive than traditional overdraft facilities, says Carel.

"In the economic situation that we are entering, where credit control and management becomes very important, companies will be able to use the cash obtained from factoring or discounting debts to obtain better terms from their creditors.

"In this way they can cover the costs of discounting their book."

Carel says Quorum offers credit investigations, consultations on credit management, control and the arrangement of credit insurance with its CID funding.

As factoring grows in popularity, so will CID, as its advantages become apparent, he says.

Big 8 mergers may confuse restrictions

B/Day 25/7/89

S8

ROBERT GREIG

MERGERS among SA's Big 8 auditing firms will make restrictions on those firms doubling as consultants for the same State bodies harder to enforce, says auditor-general Joop de Loor.

"The State policy that private sector auditors may not also provide consultancy services to their public sector clients, and vice versa, will be be reviewed from time to time. But for the time being there is no reason for change," he said.

Price Waterhouse and Arthur Andersen, Pim Goldby and Deloittes, Arthur Young and Ernst & Whinney, Peat Marwick, and Aiken and Carter are all Big 8 firms which have merged or are considering mergers.

"This has a significant effect on the work they do for the public sector where joint audits are involved," said De Loor.

For example, Pim Goldby and Deloittes are the Reserve Bank's joint auditors. If their merger comes off, a new joint auditor will have to be found.

In some of the mergers, one partner

☐ To Page 2

Mergers

B/Day 25/7/89

☐ From Page 1

performed consultancy work while another audited. The new entity would have to resign either the audit or the consultancy in terms of present rules.

Accounting mergers are good and bad news for the public service. The bad is that the number of large, resourceful firms available for public service work shrinks.

De Loor said that this could spread work to the smaller, less prominent firms identified internationally as the profession's innovators.

De Loor said the Big 8's international links were one of their major attractions to the public service, especially as the public service emulated Western trends by adopting private sector-type accounting disciplines and procedures where appropriate.

Auditors argued that the insights of consultancy gave added value to the statutory audit and could smooth the expensive initial learning curve. They added that a "Chinese Wall" between audit and consultancy functions preserved the independence of the audit.

Mergers

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☐ From Page 1

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Revamp of bond market to go ahead

S8

Star 26/7/89

Finance Staff

The authorities have completed an investigation into consolidation of government stock and are to implement the process on August 1 for completion on December 29.

Capital market dealers have welcomed the news.

"The consolidation of stock into a smaller number of marketable stocks will be a boost for gilt trading," a dealer said yesterday.

Several long-dated stocks have become virtually untradeable in recent years due to the changing requirements of capital market investors.

"Greater tradeability will enhance the attractiveness of the gilts market to a certain extent," other dealers said.

Finance Minister Barend du Plessis said yesterday: "This step will not only allow managers greater flexibility in restructuring their portfolios according to market conditions, but should also improve the competitiveness of the Government as a borrower in the capital market.

"Ultimately it should reduce the cost of government borrowing."

Mr du Plessis said during the last Budget that the authorities had decided to consolidate various of the previous issues into a few large issues.

He said yesterday: "The consolidation will probably promote the development of derivative markets in government stock, such as options which have become an important intrument in risk managment."

He said participation in the consolidation would be voluntary.

Prospectuses would be sent to stockholders and details published in weekly financial publications, he said.

Bank and building society credit leaps

B/Day 26/7/89

GRETA STEYN

CREDIT extended by banks and building societies jumped by 2,2% in May from April — double the 1% increase the Reserve Bank set as a benchmark earlier this year.

The Bank's latest credit demand figures show total credit extended rose by R2,8bn in one month to R130bn in May. June's official figures are not yet available but bankers said yesterday the increase would again be more than the 1% the Bank would like to see. As proof they point to the R2,8bn surge in the money supply between May and June.

The latest credit figures fuelled doubts that the economy is slowing down fast enough.

Asked whether the slow-down was occurring at the right rate, Reserve Bank Senior Deputy Governor Japie Jacobs said yesterday: "It is a valid question. But we believe the current level of interest rates, the petrol price increase and this month's loan-levy will take care of the job without the need for further measures."

He stressed, however, that monetary policy could not be relaxed if SA was to achieve the desired surplus on the current account of the balance of payments this year. Nonetheless, the latest figures had to be put into perspective or they could give rise to alarmist comment.

Jacobs pointed out that June's money supply figures were somewhat distorted.

"Window-dressing by banks can be expected in June, as banks with year-end or half-year results do their best to have a bigger balance sheet."

He added quarterly average increases in the money supply, expressed at an annual rate, were dropping. The rate had dropped from a high point of 29,5% in the third quarter of last year to 17,1% in the second quarter of this year.

Another important factor when analysing money supply and credit data was the velocity of circulation: the rate at which money circulates through the economy to finance the total volume of transactions. When this rate is dropping, strong growth in the money supply is not evidence of over-spending in the economy.

The income velocity of money circulation has been on a declining trend — in the fourth quarter of 1988, the velocity was 1,83 compared with 1,96 in the first quarter.

Discount House of SA economist Chris Greyling said the latest figures indicated spending had stabilised at a high level. It was not yet clear whether that level might not still be too high. Standard Bank's Nico Czypionka, however, said one should remember a fair amount of "distress borrowing" takes place once interest rates are high.

Retirement packages that can benefit all

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B/Day 26/7/89.

Retirement benefit packages are increasingly being negotiated with employers and unions. The private sector needs freedom to implement innovative deals, says GERHARD VAN NIEKERK, GM of Old Mutual's employee benefits division

GONE are the days of annual "wage talks". In today's environment, every aspect of the contractual relationship between employers and employees is under the spotlight.

Actual distribution of income — and retirement benefits — is no longer a question of paternalistic handouts or unrealistic demands backed by threats, but increasingly a matter of all-inclusive negotiation.

The traditional perception of "them" and "us" ("bosses" and "workers") is slowly being replaced by a realisation that all parties involved are equally important for the creation of wealth.

Employees generally, not only low-income industrialised workers, are beginning to question traditional benefit structures, realising that their voice can effect meaningful change.

In short, it is being realised that simple choices between instruments such as pension and provident funds are completely insufficient. The emphasis must be on human needs and the solutions must be restricted as little as possible by statutory regulations.

The only way in which the different needs of our diverse population can be satisfied is if the private sector is allowed to implement the results of negotiated arrangements. The private sector is well developed and has the necessary infrastructure and expert knowledge. The state alone cannot achieve what is required.

There are basically two ways of formally providing for a population's retirement needs. The first is money transferred from the working to the retired population through taxation.

The second involves deferred individual consumption, involving voluntary individual savings or negotiated savings arrangements between employers, employees and sometimes the state.

The first system is fundamental to almost all state-controlled systems. For it to work, there are three important prerequisites:

- ☐ A stable demographic pattern. In other words, no meaningful change must take place in the ratio between older persons and the working generation over a period of about 50 years;
- ☐ The present generation must be willing to finance the older generation; and
- ☐ The present working generation must reasonably expect that the next generation of workers will have the same attitudes.

For success, the second system — based on deferred consumption — requires that:

- ☐ It is economically profitable for an individual to limit his consumption — to save now to benefit in the future. This implies real investment opportunities (interest rates) and a tax policy which encourages savings; and
- ☐ Individual income must be above a minimum threshold for participation. Someone living on the breadline cannot save for the future unless aided by his employer.

The first system implies sufficient resources and political powers of persuasion to pay universal benefits to all pensioners. In SA, this is difficult to visualise.

My view is that deferred consumption is the only way in which our population can hope to achieve additional retirement security in the medium to long term.

However, given the composition and financial position of our population it will be difficult to go beyond the present philosophy of state pensions for the really needy only. A long-term macro-strategy to provide for retirement can be summarised as follows:

- ☐ Create the necessary climate for the unemployed to be absorbed by the informal sector;
- ☐ Create opportunities for people in the informal sector to graduate to the small business sector and encourage membership of a formal retirement system; and
- ☐ Encourage the preservation of established employee benefits rights for those in stable, formal employment.

This long-term strategy addresses both short- and long-term objectives — in other words, survival in the short term and provision in the long term.

At the micro level the total income package of employees, especially that of union members, will increasingly be negotiated. This must be encouraged. To promote it, however, there must be as many options available as possible.

Cpt Times 26/7/89

Increase gold production to reduce SA debt says Kantor

By AUDREY D'ANGELO
Financial Editor

SOUTH AFRICA should fix its exchange rate to the basket of European currencies when Europe becomes one market in 1992, Brian Kantor, professor of economics at the University of Cape Town, said last night.

And it should boost gold production now to reduce foreign debt as much as possible.

Kantor, speaking at a seminar organized by Investec, stressed the need to bring down the inflation rate.

He said SA needed a system of "reverse annuities" with payments increasing with time so that people in this country need not fear living too long.

He pointed out that one effect of inflation was that the share market gave a much better return than fixed investment. Even ignoring capital growth, it took 11 years for dividend income alone to overtake interest income from longterm investment.

Property shares had done even better. "Dividends from property shares have done spectacularly well".

He thought property shares and investment were under-valued.

In view of this, anyone expecting to live more than 11 years should invest their money in the equity market or property shares.

"The danger facing old South Africans is that they will live too long," Kantor continued. "We need a system of reverse annuities.

Brian Kantor

"The great problem facing ageing South Africans is inflation.

"It was not always like that. SA's capacity to generate inflation high in relation to that of other countries began in the '80s."

SA had mismanaged its booms in 1979 and in 1987-88, "giving us tremendous trouble on the way down."

Kantor said the government did not print money to finance its expenditure. It was willing and able to do this through taxation. "The government spends too much. But it also taxes too much."

It always failed to raise interest rates in the early stages of a boom, because politicians prevented the Reserve Bank from doing this.

"We haven't got a political fix. And I've given up on money supply targets. We always undershoot in recessions and overshoot when times are good.

"We need a fix and I've got one. We should get back to fixed exchange rates and fix the rand to the European basket of currencies in 1992. We can trust to the Germans and others to manage their money supply properly.

"We should go in at an under-valued rate. This is better than going in over-valued."

Kantor said his second suggestion was to step up gold exports to reduce SA's foreign debt problem. Pointing out that revenue from gold mines amounted to "less than 1% of the take from sales tax", he said: "We should stop looking at our gold mining industry as a source of revenue."

SA had consistently reduced its gold output since the 1970s. Instead it should increase it. "We should stop thinking of revenue and start thinking in terms of higher gross domestic production (GDP) and lower debt."

He was in favour of getting rid of the Board of Trade, and of stopping trying to save foreign exchange by increasing local content. This interfered with efficiency and did not bring foreign currency into the country.

Inflation, was not as bad as it appeared through the year-on-year statistics, Kantor said. The smoothed, annualised, monthly increase showed a declining trend.

He expected inflation to peak towards the end of the year "but it won't go much above 16%."

The balance of payments (Bop) was the key. "The outlook for the BoP in dollars is difficult but not disastrous."

The price of gold by the end of 1991 depended on the way the US economy was managed — "and I have not given up hope that the Americans will mismanage their economy and give us at least a medium gold price."

It was quite possible that the Americans would allow a slight rise in inflation, which would suddenly turn into a big rise. A great deal would depend on how tough Alan Greenspan, Chairman of the Federal Reserve Board, was and how much power he had.

Old Mutual calls for deregulating social security funds

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B/Day 27/7/89

ALAN FINE

OUTLINING plans that could revolutionise employee benefit schemes and create a new social security structure for SA, Old Mutual employee benefit GM Gerard van Niekerk called yesterday for the effective deregulation of constraints limiting the options of benefit funds.

At a media conference in Johannesburg, he and other Old Mutual managers addressed the need for new methods to deal with the pension vs provident fund issue, the unaffordability of medical aid schemes and the use of fringe benefit contributions to help alleviate the black housing crisis.

"We need more flexibility between the different types of funds to allow them to address the changing individual needs of employees," Van Niekerk said. "We are seeking ways now of doing this, given the constraints. The lawmakers will follow."

Group marketing manager Eric le Roux said employees needed to be able to defer for as long as possible having to decide between the annuity retirement benefit associated with pension funds and the lump-sum benefit allowed by provident funds.

This would help ensure that people eventually received the kind of payout most appropriate to their needs. And this flexibility should be contained in "a collectively bargained set of benefits", he added.

Van Niekerk warned the thorny question of preservation would not be solved until funds were allowed to permit members "hardship access facilities" — loans to carry them through life crises.

This, he said, would remove the pressures on members to resign from jobs to gain access to needed funds. He stressed the compulsory preservation principle proposed by government several years ago — which sparked numerous strikes — was not the answer.

Assistant GM Henk Beets said wherever the blame lay for sharply escalating medical costs, the Medical Schemes Act made it impossible for individual members to choose structures that suited their requirements and their pockets.

The schemes could not offer lower cost structures, and the Act contained no incentives for limiting unnecessary treatment.

The Act excluded the possibility of, for example, no-claim bonuses, the exclusion of non-essential benefits in return for lower premiums or the operation of an excess system similar to car insurance.

Beets envisaged a future of greater flexibility and the removal of payment guarantees. He also spoke of the establishment of health maintenance organisations where salaried doctors are contracted to supply health care to members — a system likely to discourage the "over-servicing" many believe happens today.

On housing, Beets warned against the investment of retirement fund capital where the return would be lower than market rates. However, he proposed another type of flexibility whereby retirement fund members would be able temporarily to cease contributions to the fund and instead use the money, including employer contributions, to help finance bond repayments. Accumulated amounts in the fund could be used as a deposit.

Investec buys control of Kuper organisation

Star 22/11/89 (58)

Finance Staff

Investec has acquired an 80 percent controlling interest in property brokers I Kuper and its associate Kuper Computer Management Services.

The takeover, for R4,4 million, makes the enlarged Investec property arm one of South Africa's largest independent operations and emphasises the group's commitment to expanding property interests.

Investec executive chairman Bas Kardol says: "Important considerations for the acquisition were the high calibre of the key personnel within I Kuper, a valuable portfolio of clients and their efficient property management computer system.

"The Investec group is developing its four major areas of operation: merchant banking, general banking, Metboard and property. The acquisition of I Kuper fits in with our strategy of developing each area to its full potential."

The Kuper acquisition brings an element of more stable earnings to Investec's property arm, which last year contributed 12,8 percent to net income.

A major portion of Kuper's income is derived from a landlord portfolio comprising some 700 properties built up over the past 55 years.

I Kuper's executive chairman, David Kuper, and his entire management team are staying on and Kuper will continue operating from its existing premises.

Mr Kuper says: "In establishing this link with a dynamic banking group which has a strong property arm, new opportunities present themselves for the staff and businesses of both parties."

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INVESTEC BUYS CONTROL OF KUPER

LIZ ROUSE

INVESTEC has acquired an 80% interest in I Kuper and its associate company, Kuper Computer Management Services, for R4,4m.

An amount of R1,5m will be paid immediately and a further payment of R1,9m will be made in April 1990.

Investec has a call option and the management a put option on the remaining 20% of the equity of the Kuper companies.

Management members will remain in their present positions under long-service contracts.

The acquisition is consistent with Investec's strategic objective of developing its four major areas of operation, namely merchant banking, general banking, Metboard and property.

Although the acquisition would have had a minimal impact on Investec's earnings and net asset value had the deal been effective for the year to March 1989, the Kuper companies should make a positive contribution to earnings in future.

The Star

Finance

Credit info war hots up

By Jabulani Sikhakhane

The credit information management and debt insurance market is becoming intensely competitive, forcing major players to join forces and broaden their range of services.

The Infomation Trust Corporation (ITC) and the Credit Guarantee Insurance Corporation (CGIC) have just teamed up to launch a new credit insurance scheme.

At the same time ITC's major competitor, KreditInform, has entered into an information-sharing agreement with Executive Credit Control (ECC), one of the largest collection agencies in the country.

The credit insurance scheme started by ITC and CGIC, known as ITC Guarantee, follows the launch earlier this month of a new credit insurance group, Credit Underwriting Agency.

It sees the Commercial Union, as a major shareholder, team up with Hollandia Reinsurance and KreditInform.

ITC executive chairman Paul Edwards believes the ITC Guarantee Scheme will be attractive to businesses wishing to insure only certain of their debtors.

"For a monthly fee we will guarantee payment in case the debtor company goes insolvent.

"We will pay 75 percent of the debt when the debtor company is deemed insolvent.

Any dividends when the company is finally liquidated will be for client's account, Mr Edwards says.

CGIC insures a massive proportion of South Africa's trade debts and provides insurance cover on trade debts exceeding R14 billion.

CGIC MD, Chris Leisewitz, says the scheme can only operate because CGIC insures such a massive proportion of South Africa's trade debt, both internal and export-orientated, and because of the size of ITC's database.

Commenting on the agreement with KreditInform, Ray Bearson, ECC's founder and director of sales and marketing, says his company experienced a 160 percent growth rate in accounts handled in 1988 and a 145 percent growth is expected this year.

"We expect that 140 000 accounts will have been handed over to us by the end of this year," he says.

The agreement with KreditInform will help ECC overcome the immediate backlog in inquiries.

In terms of the agreement, ECC will be linked to KreditInform's mainframe computer to co-ordinate their tracing services.

In turn, ECC will supply KreditInform with magnetic tapes of unpaid accounts.

The information-sharing is expected to improve ECC's efficiency and response.

Standard Bank head in secret sanctions talks

Argus 27/7/88

(58)

The Argus Correspondent

DURBAN. — Standard Bank Group chairman Mr Henri de Villiers has confirmed that he and influential Anglican Church members had attended a "secret" meeting in the Transvaal last week with the Most Rev Desmond Tutu, Anglican Archbishop of Cape Town, and other bishops for an exchange of views on financial sanctions.

Mr de Villiers is believed to have expressed strong opposition to a proposal to oppose the rescheduling by Western banks of South Africa's foreign debt — but he said yesterday he was not free to disclose what was discussed and who else was present.

However, he stated: "My views on financial sanctions are well known. I am totally opposed to any form of sanctions."

Mr de Villiers, a fund-raising trustee of the Anglican Church, was present at the meeting in his private capacity. The meeting was part of a move by the bishops to seek advice on economic pressure/sanctions.

The Anglican Provincial Synod, which met in Durban in June, passed a resolution encouraging the bishops as a matter of urgency to investigate the effects which would result from Western banks halting the rescheduling of South Africa's foreign debts.

About R8,5-billion of debt will be in the standstill net by June 1990, when the rescheduling agreement expires.

Top businessmen in the church asked a group of economists to research the implications of a foreign debt squeeze. Their research found it would cause tremendous economic hardship and would result in unemployment.

No comment on the meeting was available yesterday from official Anglican Church sources.

(Report by T M McElligott, 85 Field Street, Durban.)

Argus 27/7/89

Homes boost

From DICK USHER, Business Staff

JOHANNESBURG. — A bold new plan which will link pension schemes to the financing of house-ownership — a step which could go a long way towards easing the country's housing crisis — has been unveiled.

The plan, which views home-ownership as part of the total retirement package and would help first-time house buyers meet their bond commitments, was disclosed here by the country's biggest insurance group.

Insurance companies have been under pressure from the government for years to channel into housing some of the billions of rands they invest each year on behalf of policy holders.

The scheme, proposed by Old Mutual, would mean that the joint pension contributions by employers and employees, plus any State or private subsidies, would be channelled into the purchase of houses — especially for those who would not otherwise be able to afford the deposit.

The retirement fund contributions would accumulate until there was sufficient for the deposit on a home.

Monthly contributions would then be used as bond instalments, enabling higher repayments and therefore affordability of housing.

The combined contributions to bond repayments would reduce the repayment period and once the home was fully paid for, would revert to providing funds for retirement.

"Viable model"

Old Mutual executives said they believed it was a viable model.

Old Mutual assistant general-manager Mr Henk Beets said the idea solved two problems in the provision of housing for lower-income groups — the shortage of capital available for low-cost housing and the lack of systems available to make houses more affordable for low-income buyers.

He said the concept was based on the understanding that it was critical for the private sector to become involved if South Africa's housing crisis was to be solved.

Hard to save

While pension funds could invest in low-cost housing, the money to pay for them had to come from somewhere, which meant either reduced benefits or increased contributions from members.

The bulk of the population earned less than R1 000 a month and could not afford to buy homes costing more than about R18 000.

The low income level had made it difficult to save enough for a deposit on a house and the preferences of building societies and developers were for houses in the R47 000-upwards range — well out of the reach of most wage earners.

"Buying a home must also be seen as part of preparation for retirement and that it provides a basis for financial security beyond a pension benefit because it is a capital asset that could be sold or rented," said Mr Beets.

COMPANIES

(58)

R37m teller machine project

B/Day 27/11/89

SYLVIA DU PLESSIS

TRUST Bank and Santambank, which both fall under the Bankorp umbrella, have embarked on a R37m joint automatic teller machine project as part of a cost-saving exercise aimed at benefiting clients of both banks.

A spokesman for the banks said yesterday the first multi-institutional machine in the country came on stream yesterday at Southdale, south of Johannesburg. He added that a total of 360 ATMs would be installed countrywide at the rate of one a day over the next year.

Bankorp CE Chris van Wyk said the project was proof of a new spirit of co-operation in the group.

"Under my guidance, the colleague companies in the Bankorp stable will strive towards working together wherever possible to provide better and more cost-effective financial services to the entire SA market."

The new machines, which will replace Trust Bank's Trustteller and Santambank's Twiki and feature both banks' logos, will be named Bankteller and will remain part of the Saswitch network.

Trust Bank and Santambank said in a statement the big benefits to clients would be increased accessibility to their own institutions' ATMs, thereby saving them the fee charged when another ATM in the Saswitch network is used.

Santambank, which has not charged clients for Saswitch transactions, stands to save a considerable amount of money.

MD Roeland Perold said the bank's payments to Saswitch ran at about R250 000 a month.

"This network, apart from providing our clients with more service points countrywide, will be a definite saving for the bank," he said.

Trust Bank senior GM (general banking services) Jerry van Vuuren said the ATMs being installed at present used the latest technology.

"These NCR machines are extremely reliable, are effective and user-friendly, and are able to process transactions quickly. Some of the machines have colour screens."

58 Finmail 28/7/89

CORBANK 58 Finmail

Back to basics

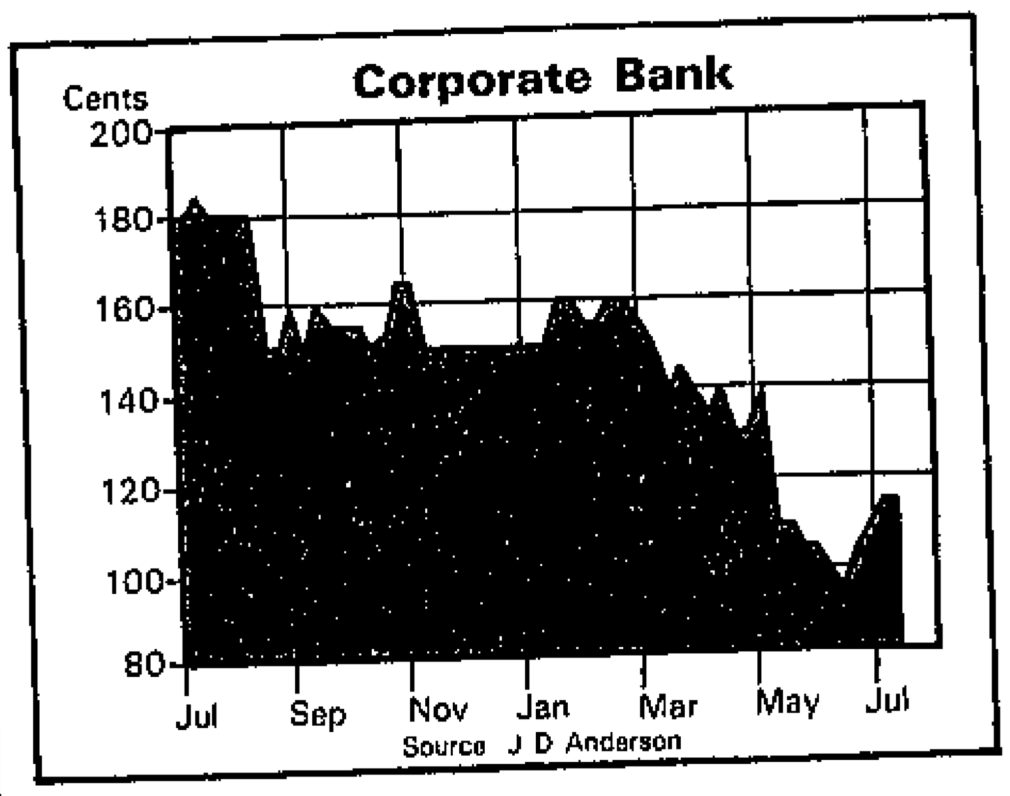
Activities: *Banking and financial services.*
Control: *The directors control 25% of the equity.*
Chairman: *A R M Aldworth; chief executive: L P Korsten.*
Capital structure: *13,8m ords of 50c; 50 def red prefs of R1. Market capitalisation: R16m.*
Share market: *Price: 105c. Yields: 5% on dividend; 13,8% on earnings; PE ratio, 7,2; cover, 2,8. 12-month high, 190c; low, 95c. Trading volume last quarter, 571 870 shares.*
Financial: *Year to March 31.*

	'86	'87	'88	'89
Total assets (Rm)	n/a	299	498	812
Advances (Rm)	150	159	200	292
Deposits (Rm)	214	194	316	393
Taxed profit (Rm)	—	1,83	3,76	2,19
Earnings (c)	21,1	17,0	25,4	14,5
Dividends (c)	12,5	7	10	5,25
Net worth (c)	311	268	251	217

The views on corporate SA's moral turpitude expressed by Corbank's chairman Bob Aldworth and CE Laurie Korsten are highly commendable even though they are not original — we've heard them expressed by other leading bankers such as SBIC's Henri de Villiers. Trouble is they are an irritating distraction from Corbank's own problems caused by ineptitude and the failure of management controls in some divisions.

A year ago Korsten devoted a large part of his statement to lambasting Hill Samuel's predivestment management of Corbank. Implicit was that he and his management team would turn things around in financial 1989 — the performance speaks for itself. Management controls failed to pick up timeously the problems building in the gilts and money market trading department. Not that controls might have picked up some of these — they were caused by what Korsten describes as irregularities.

Korsten does not say so, but it seems the money market and gilts traders exceeded their authorised trading limits, which combined with a misreading of interest rates to help lose a bundle as well. Of course they might have been heroes if their game plan had panned out and their views on interest



rates had been correct. Under those circumstances trading profits might have offset the poorer trading conditions of other divisions and the entire management team could have looked good in the first year in which Hill Samuel was not a convenient scapegoat.

Sharp earnings drop

The upshot, though, was a sharp disclosed earnings drop. Corbank's unsatisfactory reporting standards are likely to remain in place for some years — a year ago Korsten said consideration would only be given to fuller disclosure once the bank has established satisfactory inner reserves. He and Aldworth do not provide any specific forecast of Corbank's likely performance this year. Rather, they devote considerable space to talking about the overall economy and SA's well-documented foreign exchange problems.

Shareholders are best advised not to grasp at the straws of promised improvements as Corbank's activities become more focused. The two executives warn that benefits are likely only in financial 1991. They point out that some divisions — corporate finance, investment banking, and banking services — produced good results last year. In addition the severance of links with UK-based Hill Samuel was not a drawback to Corbank's own development of disinvestment merchant banking business.

The share is struggling somewhere above its 12-month low, suffering from poor credibility among investors and banking analysts. That credibility gap has led to rumours the directors' shareholdings are up for grabs. There may be smoke where there is fire but Korsten does point out that the directors' shareholdings increased last year and he adds that he is himself a buyer of the shares. That aside, the share's investment recovery is likely to take several years. There are no compelling reasons for buying. *Jim Jones*

Perm chief foresees decline in bond rates

58

9/4/21/7/84

By Frank Jeans

Bond rates have peaked and unless something extraordinary happens they should drop towards the end of this year.

That's the prediction of Bob Tucker, MD of the Perm, who says his society will be introducing new and innovative products to meet the needs of clients in the upper-, middle- and lower-income groups.

On the downside, Mr Tucker, says the effect of tight conditions and high bond rates has resulted in foreclosures on an extensive scale.

Speaking at the launch yesterday of the Perm's sponsorship of the Institute of Estate Agents' annual convention in Johannesburg from September 4-6, Mr Tucker said: "Many households are today in dire straits because of present conditions.

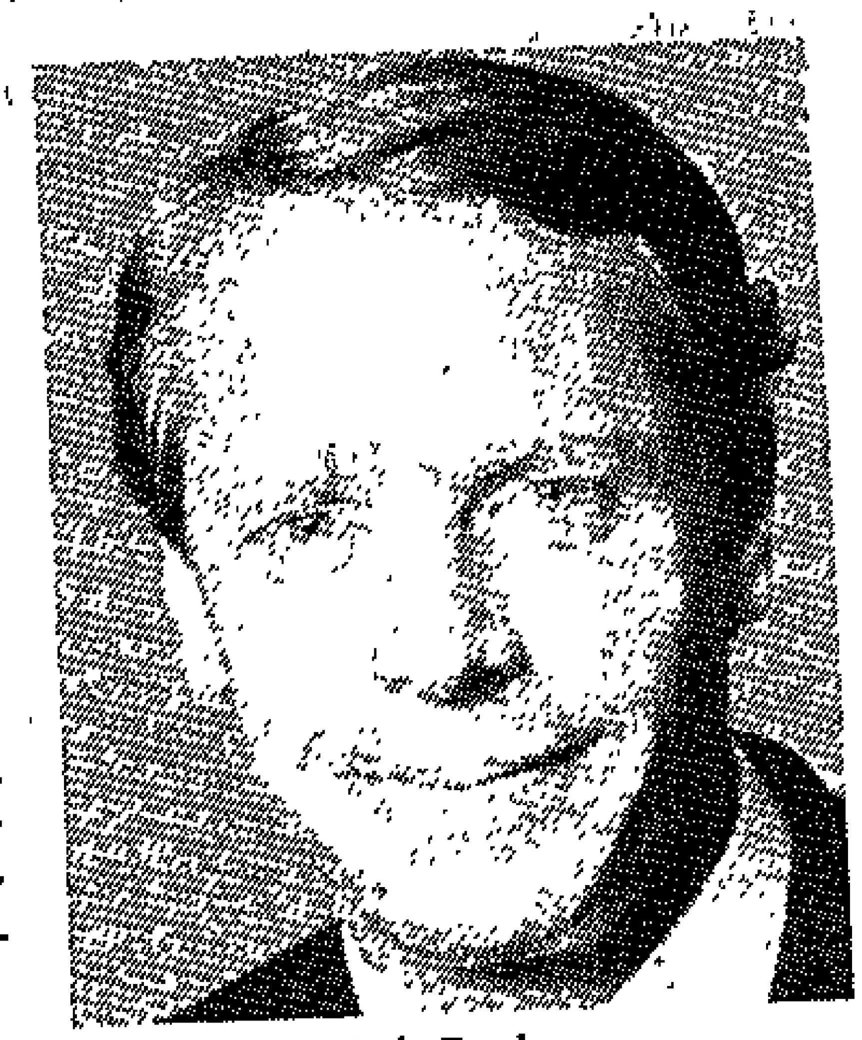
"At one time the property-owner had a 20 percent stake in his home. Today, it is more like 10 percent and such a situation causes significant instability in the housing market."

Hitting out at the destructive competition that has arisen in the societies-banks homes war, he said this had come about from the "crazy scramble" which had induced borrowers to over-commit themselves.

Conditions had distorted the rule of thumb which laid down that 25 percent of a borrower's salary went to financing his property.

"The figure is now more like 45 to 50 percent and salaries have not risen commensurately," he said.

Pointing out that there was a logical alternative to the current state of high interest rates on mortgages, Mr Tucker said the difficulties suffered especially in the lower end of the market could be alleviated by the introduction of differential rates on bonds.



Bob Tucker

"This system is being investigated by all financial institutions and means that each bond is assessed in terms of the risk and administration cost component of each bond.

"Starting with a base rate determined by the market, and dependent on the profile of a bond, a differential would be added to each bond."

This differential would be reassessed from time to time and would depend on the performance of the bondholder throughout the life of the bond.

The person who allows his bond to fall into into arrears would be penalised with a higher differential, while the borrower who maintains his repayments would enjoy an advantage.

Keith Wakefield, president of the Institute of Estate Agents, said there could be no doubt that with interest rates having moved from 12,5 to 20 percent, over such a short period, the residential property market had been adversely affected.

"While good stock is still selling, a number of agents throughout the country have indicated a slowing down of turnover and there has been a scarcity of genuine qualified buyers."

Star 28/7/89 (58)

Housing crisis: plan to tap pension funds

Finance Staff

A new plan linking pension schemes to the financing of home-ownership is expected to help ease South Africa's housing crisis.

The plan, which sees owning a home as part of the total retirement package and to help first-time buyers meet their bond commitments, was disclosed at a conference in Johannesburg yesterday.

Insurance companies have been under pressure from the Government for years to channel into housing some of the billions of rands they invest each year on behalf of policy holders.

The scheme, proposed by Old Mutual, would mean that the joint pension contributions by employers and employees, plus any State or private subsidies, would be channelled into the purchase of houses — especially for those who would not otherwise be able to afford the deposit.

The retirement fund contributions would accumulate until there was sufficient for the deposit.

Monthly contributions would then be used as bond instalments, enabling higher repayments.

The combined bond payments would reduce the repayment period, and once the home was fully paid for, would revert to providing funds for retirement.

Old Mutual executives said they believed it was a viable model.

Old Mutual assistant general-manager Mr Henk Beets said the idea solved two problems in the provision of housing for lower-income groups: the shortage of capital available for low-cost housing, and the lack of systems to make houses more affordable for those buyers.

Private involement

The concept was based on the understanding that it was crucial for the private sector to become involved if South Africa's housing crisis was to be solved.

While pension funds could invest in low-cost housing, the money to pay for them had to come from somewhere, which meant either reduced benefits or increased contributions from members.

Investment in housing schemes also had certain risks for pension funds: control of the investment; guarantees of the credit; and avoidance of management involvement.

Most of the population earned less than R1 000 a month and could not afford to buy homes costing more than about R18 000.

The low income level had made it difficult to save enough for a deposit on a house, and the preferences of building societies and developers were for houses in the R47 000-upwards range — well out of the reach of most wage earners.

"Buying a home must also be seen as part of preparation for retirement," said Mr Beets.

Star 28/7/89 (58)

Retirement funds hold key

Bold plan to make housing affordable

Staff Reporter

South Africa's housing crisis could be eased if the Government accepts an insurance company's bold plan to make housing affordable by linking deposits and bond repayments to retirement benefits.

The plan unveiled at a two-day conference in Johannesburg on pension and provident funds proposes that all available resources be focused on meeting employee needs, particularly housing needs.

Old Mutual's assistant general manager, Mr Henk Beets, said yesterday the proposed scheme would accelerate home ownership.

Retirement

It would also increase the "portability" of retirement benefits, he said.

On trade union agendas, housing was possibly second after retirement benefits, he said.

Mr Beets said in an interview that Old Mutual was involved in negotiations with two large employer organisations and a trade union which had shown interest in the plan.

"We have two specific schemes that we are working on at the moment and we hope to use them as a role model. We hope to take the two schemes to the civil service authorities for approval." The scheme would then be expanded.

The plan calls for retirement accumulations to be made available as deposits.

It would take an employee earning R600 five years to accumulate enough to afford a deposit for a house costing between R20 000 and R30 000.

The plan would also involve the diversion of ongoing retirement contributions towards bond repayments.

"When Government and employer subsidies are put together with the employee's own contributions to the fund, the bond repayment period could be cut to 15 years instead of 25 years on a R30 000 bond."

The proposed plan would make access to housing finance easier and more affordable for the majority of the population who are currently not catered for, Mr Beets said.

Options

Other options could be for employees to leave employer's contributions in the fund to be used for other benefits like death and disability cover. The retirement fund could also provide additional death cover on a bond. After paying the deposit, the employees could resume fund contributions to accumulate retirement benefits.

However, the major problem appears to be the building societies, which largely have fixed financing administration costs.

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Standing strong and alone

After rebounding from losses, IGI is confident of further growth

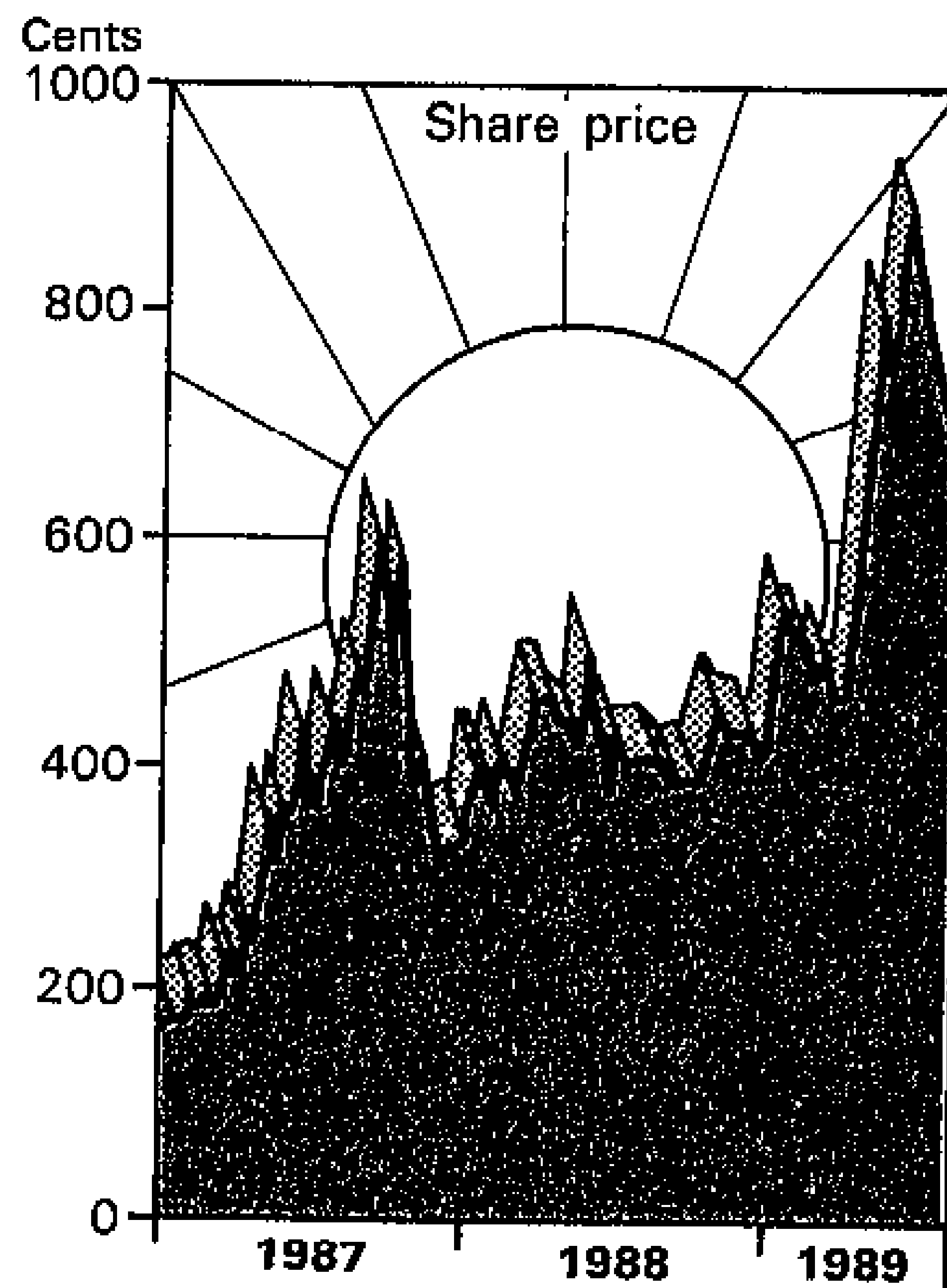
Results from the three companies in the IGI group reflect the steady rehabilitation of the group after its profit plunge in 1985. The recent rise in all three of the group's counters on the JSE — IGI, HCI and Saflife — confirms that investors, who had left them in the cold, are recognising and rewarding the recovery.

In the year to end-March, IGI (which derives its income about 80:20 from short-term insurance and its 41%-held life company, Saflife) declared 52,5% higher attributable income at R32,6m. EPS were 25,8% higher on a diluted basis. The total dividend, at 38c, was 26,7% higher; the heavy dividend cover, the premier reason for IGI's financial recovery (and probably also its low share price), was maintained at 7,1. But a capitalisation issue of 20 shares for every 100 held will be worth 140c a share at IGI's current 700c; the share stands on an earnings yield of some 39%.

The share, which languished between 115c and 200c for most of 1986 and 1987, on p:es of 1-2, rose to a high of 500c last year. It has since soared up to 900c before retreating to the present level, where it stands on a p:e of only 2,6.

Considering the income yield, it looks still cheap, especially as net worth (including hidden reserves) is about R11.

IGI's new policies pay out



Source: J D Anderson

Saflife reported a 130% rise in attributable income to R6m, and a 104% earnings increase; the total dividend rose 79% on slightly increased cover of 1,7 (1,5). Assets have more than quadrupled to R416,3m (R95,6m), particularly because of the acquisition of Traduna from July 1. The share's profile has been more moderate than IGI's: it traded between 55c and 90c in 1986, rose to 65c-155c in 1987, and ended 1988 at 135c. It has since risen to 200c, where it is on a p:e of 9,3 and earnings and dividend yields of 10,7% and 6,3%.

The results of Hosken Consolidated Investment (HCI), which holds 53,8% of IGI and 10% of Saflife, were not so happy because of deep losses in its only major non-insurance subsidiary, the R McCarthy construction group. HCI's attributable income increased 16,3% to R15,4m. EPS and total dividend were 10,1% and 21,7% higher; cover was 5,3 (5,9). The share traded between 115c-230c in 1986; 65c-155c in 1987 and 80c-135c last year.

It has since risen to 750c. The operations of R McCarthy are being sold or closed and

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IGI chairman Michael Lewis says they will contribute no loss to HCI this year. Based on the market value of its investments in IGI, HCI and directors' valuation of its overseas interests, HCI's price should be close to that of IGI.

IGI's rerating has occurred just as the short-term industry is again in a phase of rate slashing. Lewis says there have been no increases in premiums for 18 months, and some rates being quoted are down by 50%. The cycle is likely to be much ameliorated by legislation arising from the Melamet Commission, expected to be passed before end-1989, relating to hidden reserves.

The first such reserve is for claims incurred but not yet reported. The new law requires that 7% of net premium income should be kept for this. IGI financial director Martin Capper says IGI has reserved much more. For the second, the unexpired risk, an average of 40% of premium income must be reserved. A third new reserve created by Melamet is for contingencies: companies will have to set aside 2% of their premium income for five years (10% total).

Lewis says last year was IGI's best ever, though there was strong growth in 1987 and 1988. The strengthening of its reserves on the high dividend cover has been impressive. IGI's solvency margin (free reserves as a percentage of net premium income) has risen from 18% in 1986 to 40% now.

Capper says cover can be eased progressively from this year. He targets 20%-25% annual dividend growth rather than a "dividend treadmill."

Despite tough conditions, Capper says IGI is budgeting for real EPS growth. Of the R40,7m pre-tax income of IGI company last year, slightly less than half (R19m) was from underwriting, premiums grew only 15,8%; the rest was from investment income. If it broke even on underwriting this year its dividend growth could still be 20% on the same investment performance.

IGI company has also already provided R7m (2%) for its contingency reserve on a taxed basis. The new law makes the provision tax-deductible, entailing another boost for IGI (last year, IGI company's tax was R11,5m).

Capper says it would be "against the spirit of Melamet" to pay this benefit to shareholders.

IGI says some smaller companies now building turnover at the expense of margins and reserves will be hit by a double whammy in the proposed new law. Besides the increased reserve requirements, a company which incurs an underwriting loss of a certain percentage will have to increase its insurance fund for unexpired risk by the same percentage.

Capper believes this provision will end cash flow underwriting, the extent of which is reflected in the fact that in the five years between 1981 and 1985, the industry recorded underwriting losses in all but one year. He believes the industry is now more efficient and healthy and does not foresee another AA Mutual-type collapse.

IGI knows how it feels to trade unprofitably. In 1985, it was heavily into group schemes. Accounts were big and major brokers pressed for ever-lower rates. IGI's computer systems were inadequate to handle volumes in some classes of business. It was a bad year generally — total underwriting losses in the SA short-term industry in 1985 were R97m.

In IGI's subsequent streamlining, hundreds lost their jobs. Systems were upgraded. It was decided to be more selective and not to write any "uninspected risks," normally done for major companies. Taking business for volume's sake was stopped. In answer to rate cutting, IGI offered differential premiums — rewarding good risks and no claims.

The new policies have been successful, helped by a lack of successive major catastrophes and adequate reinsurance. Lewis disagrees with the idea that for assured growth, particularly in its life business, IGI group (SA's largest "independent" insurance group) must link up with a larger entity, as AA Life has recently done with Anglovaal.

Lewis says IGI will continue its current portfolio of about two-thirds motor, compared to an estimated industry average of 50%. Despite reduction in profitability in motor business, Lewis believes IGI can thrive by watching costs and efficiency — meaning more profit centres and accountability. The group is also more focused on black business than any other major insurer.

If Aids hits blacks more than white, Saflife might be more exposed. Lewis says Saflife has made provisions for the projected extra claims and is heavily reinsured.

The group's offshore interests have interested investors. Whatever mistakes it has made, the investment of R1m to establish a short-term company, IGI Insurance Co Ltd, in Britain 15 years ago wasn't one — though it took six years to reach profitability.

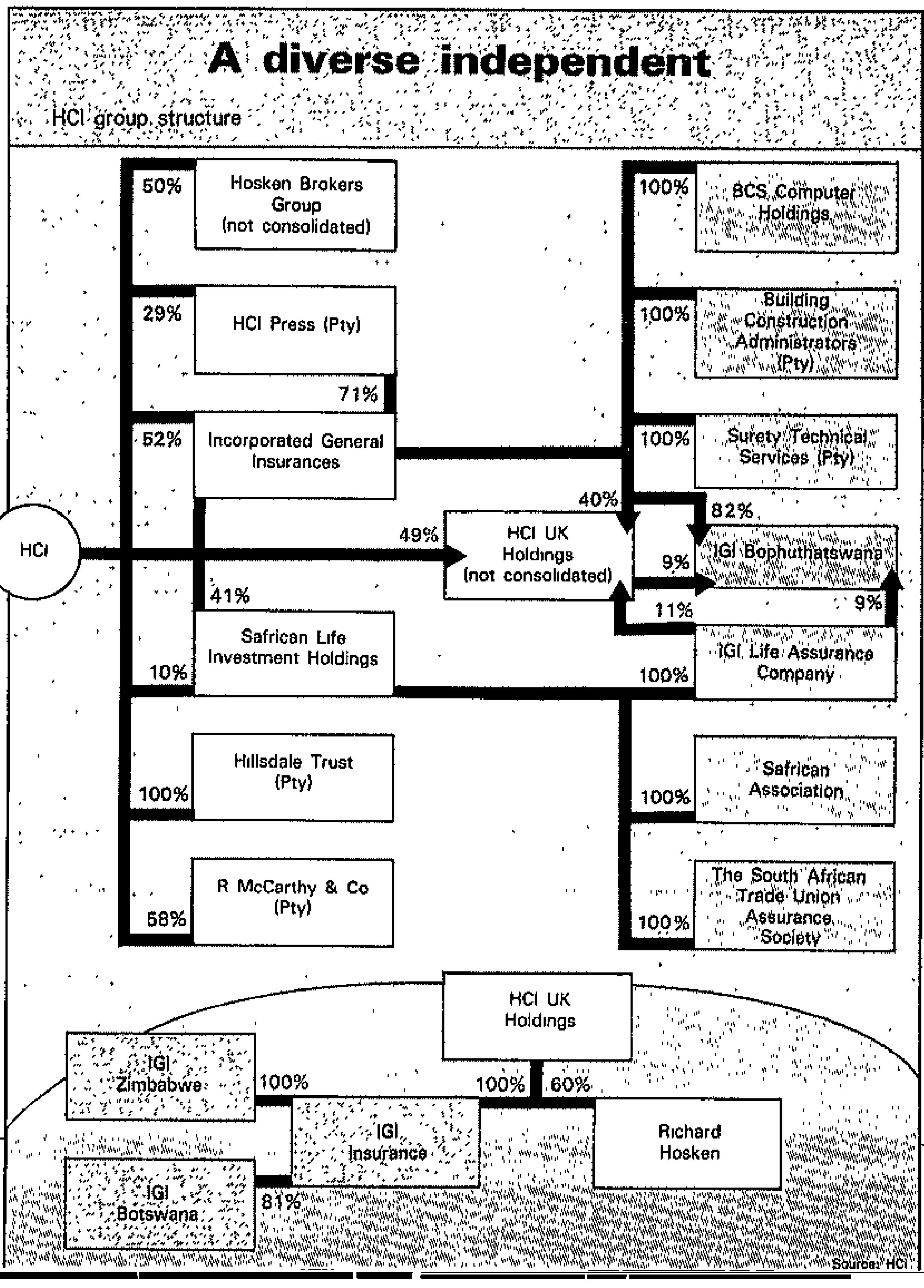
HCI holds 48,7%, IGI 40,4% and Saflife 10,9% of the UK pyramid which holds 60% of Richard Hosken, a Lloyd's broking company in London, and 100% of IGI Insurance. A mini-Richemont structure is envisaged, with a listing in Luxembourg, to be moved to London when the company becomes large enough — it's hoped in three years.

The Luxembourg listing would raise US$1m-$1,5m now, possibly more later. Capper says on a p:e basis the British interests are conservatively valued (excluding the value of HCI's control) at R23m. And the listing will also lower its SA profile.

Foreign earnings (including those from other African coutries) are not consolidated in any of the local group's accounts. In the latest year they accounted for R1,7m (HCI), R1,4m (IGI) and R0,4m (Saflife). The British company declared its first, modest, dividend; Capper believes the listing will allow the small group to grow more quickly and will have a substantial effect on the local parents' earnings in the medium rather than the long term. The deal is awaiting exchange control approval, which should be granted.

On total assets of R770,5m at end-March, IGI was one of SA's largest short-term insurers, with Mutual & Federal and SA Eagle. It has soldiered, against reverses, to that position without losing its independence — and looks like continuing to do so.

Teigue Payne



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SASWITCH

Bankorp spreads its ATM net

Bankorp is investing R37m in automatic teller machines (ATMs) in an effort to improve service and reduce the Saswitch fees of its Trust Bank and Santambank subsidiaries.

While shared ATM services such as Saswitch and Multinet — which are now linked — have proved a boon to consumers, they are highly expensive for organisations such as Bankorp which have small ATM networks. The two Bankorp commercial banks each pay more than R250 000 a month in fees to Saswitch. The bulk of these fees are a result of customers of Trust Bank and Santambank using other financial institutions' ATMs. Much of these costs are absorbed by the banks.

By expanding their base of ATMs from 112 machines — 72 at Trust Bank and 40 at Santambank — to 360, the Bankorp subsidiaries expect to substantially reduce their customers' usage of other organisations' ATMs. The enlarged network will also increase the ATM revenues the two banks receive from other financial institutions.

A contract for the supply of 300 ATMs was awarded by Bankorp to NCR SA, now part of Fintech, last year. Installation of these machines has already begun and the last of these units is due to be up and running in June 1990.

Bankorp also hopes to further cut costs by merging the ATM services of Trust Bank and Santambank. Trust Bank's Trustteller service and the ATM facility of Santambank, which goes under the awful name of Twiki, will make way for a single Bankteller network. The first Bankteller ATMs went on line in Johannesburg last week. By the middle of next year, all of Bankorp's ATMs will operate under the Bankteller banner.

The Bankorp banks expect to recoup the cost of the expansion and upgrade of the ATM network, as a result of reduced Saswitch charges, within four years. Bankorp chief executive Chris van Wyk says the shared ATM service is an indication of the increased co-operation between companies in the Bankorp stable. He says companies in the Bankorp group will work together wherever possible to provide better and more cost-effective financial services.

According to Santambank MD Roeland Perold the combined service will reduce the two banks' support and maintenance costs and avoid the duplication of ATM facilities. He says it was a mistake for the banks to have two separate ATM services.

"People use other institutions' machines and it doesn't make any difference to their loyalty to their bank. It would be stupid to have our own machines if we can share."

The Bankteller machines are claimed to be the first multi-institution ATMs in SA. When a customer inserts a Trust Bank card into a Bankteller machine a Trust Bank display will appear on the screen offering that bank's services. If a Santambank card is inserted, a different display, offering Santambank services, will appear.

Perold says the concept of "common cash machines" could be extended to other financial institutions. He points out that these organisations already share the Saswitch switching service.

Nedperm is the only other financial institution with more than one ATM service. The company is investigating ways in which it can rationalise the computer facilities of its Nedbank and SA Perm subsidiaries (*Technology* June 2), but has yet to decide whether to merge the ATM services of the two companies. ■

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REMBRANDT GROUP

After the restructuring

Activities: *Investment company with interests mainly in banking, forestry and timber processing, printing and packaging, financial services, engineering, adhesives, life assurance, medical services, mining, petrochemical products, portfolio investments, tobacco products, food, wine and spirits, and various trade mark products.*
Chairman: *A E Rupert; managing director: J A Rupert.*
Capital structure: *522m ords of 1c each. Market capitalisation: R6,1bn.*
Share market: *Price: 1 170c. Yields: 1,7% on dividend; 9,9% on earnings; PE ratio, 10,1; cover, 5,8. 12-month high, 2 200c; low, 600c. Trading volume last quarter, 4,2m shares.*
Financial: *Year to March 31.*

	*'88	'89
Investments:		
Unlisted (Rm)	925	1 189
Listed (Rm)	1 450	2 224
Performance:	*'88	'89
Net income (Rm)	449,6	598,0
Earnings (c)	86,8	115,1
Dividends (c)	17	20
Net worth (c)	502	622

*Figures restated after transfer of international interests to Richemont.

Rembrandt Group (Remgro) is a very different animal compared to a year ago. The year 1988 saw the transfer of all its international interests into Richemont, leaving Remgro holding investments only in SA. The composition of the present interests has been substantially disclosed, so investors can at last evaluate the share with something more than an act of faith.

Yet an act of faith may be needed to justify buying now. On a dividend yield of 1,7%, the share looks fully priced on historical performance. What potential investors need to ask is how effectively the group might invest its funds in the future — there should be plenty of cash generated by the tobacco interests. Also important is what the implications may be of a sale of Consolidated Gold Fields (Cons Gold)'s interests in SA.

The structure and content of the portfolio (**see graphic**) is essentially that of a mining house with major interests in tobacco. Investments or associates rather than managed businesses form the bulk of the portfolio.

Net income last year was R600,9m (R453m), an after-tax figure given as income from normal business operations, including earnings from associates. Of this 71% (70%) was from two divisions: 39,3% (44,6%) from the trade mark group, comprising the wholly owned tobacco subsidiaries and the liquor investments; 31,2% (25,8%) was from mining interests.

The industrial interests provided 15,7% (14,6%), financial services 7,1% (8,4%) and corporate finance and other interests 6,3% (6%). Looking at existing holdings in these, growth prospects are likely to be steady rather than spectacular. In the industrial sector, the interest in Huntcor fell from 87% to 65%, while Huntcor's interest in Hunt Leuchars & Hepburn (HLH) rose from 63% to 78%. This followed the acquisition by HLH of 100% of Bonuskor and of food company Robertsons. HLH's food interests were expanded with its purchase since March 31 of 25% of Rainbow Chicken.

Chairman Anton Rupert describes the broiler-chicken sector as a strategic industry with the potential of developing into the largest agricultural industry in the next few years. He contends the growth rate of the industry is evident from the consumption of white meat which has increased from 1,95 kg per capita in 1956 to 15 kg in 1988; Rainbow produces 2,2m broiler chickens a week of which 330 000 are consumed by the mining industry.

In the financial services sector, the year has been one of restructuring. The insurance interests were rationalised with the takeover by Momentum Life Assurance of Lifegro Assurance. Momentum was listed, and the new operation is considered to be among the five largest life insurance companies in SA. Sage Holdings is also reorganising.

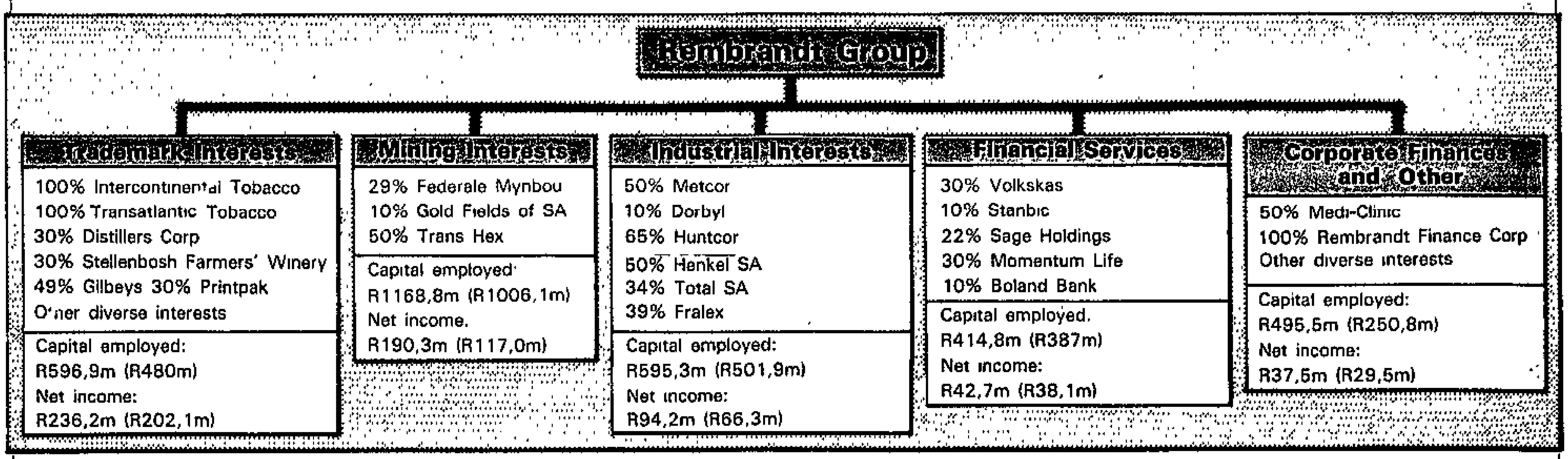
Medi-Clinic for the first time showed a profit of R3,6m after deduction of interest of R8,7m on the convertible debentures. Rupert ascribes the R6m improvement to better cost-effective management, better utilisation of, especially, the larger hospitals, and to the fact that those hospitals which were being built during the previous period are now functioning.

While such developments may bear more fruit later, it is difficult to be greatly enthusiastic about the investment proficiency which management has so far shown in building up the local portfolio — unlike the evident quality of the international portolio that's now in Richemont. Much of the mining division consists of Federale Mynbou/Gencor; Gencor only became a good performer a couple of years ago.

However, major changes could come before long. As noted previously (*Leaders* July 14), there could be many permutations to a Hanson sell-off of Cons Gold's interests in SA, including its holding in GFSA on which Remgro has first refusal. An effective merger of GFSA with Gencor must be among the options being considered. J D Anderson research director, Charles Booth, feels that conceptually such a move would make sense, as it is one way that value could be created.

In such a deal Remgro would presumably emerge with a bigger stake of an enlarged Gencor. Gencor now gains about two-thirds of earnings from Samancor and Sappi. A merger — or a bigger direct holding of GFSA by Remgro — would mean a much larger element of precious metals and base minerals in Remgro's portfolio. And it would further reduce the relative importance of the directly managed businesses.

Though the trade mark group is the biggest income contributor and accounted last year for 18,2% of capital employed, Remgro continues to provide little detail of its tobac-



Perm chief 's views under attack

Star 29/7/1989.

FRANK JEANS 58

WHILE there is consensus among lending institutions that Perm MD Bob Tucker is on line with his prediction of a bond rate drop by the end of the year, there has been strong reaction to his comment about the "destructive competition" in the societies-banks battle in the home loans business.

A building society source said yesterday that although the 12,5 percent rate set by banks had certainly sparked the bond war, it should be seen against the background of free enterprise.

"I agree that the long-term repercussions have been harmful, but one must ask: was it a crime to come to the market with a highly competitive rate to secure a slice of the market?

"We are living in competitive times, so can we blame the banks, which were moving into a comparatively new market, for being aggressive at the outset?"

Jimmy McKenzie of First National Bank, was reported as saying: "We came to the market at a time when building societies were not able to handle all the applications they were receiving.

Bob Tucker

"Since then, our homes book has grown on a selective basis to a point near the R4 billion-mark.

"Although we have had a few defaults in the past few months, we have had no regrets.

"Many households are in dire straits because of the present conditions which stem from the crazy scramble in lending and which have induced borrowers to overcommit themselves financially," he said.

"There has certainly been an increase in repossessions, but so far as we are concerned, the situation is far from being out of control," a society source said.

Brian Short, general manager, public affairs, of NBS, said: "We agree with Mr Tucker's prognosis on bond rates for there are hopeful signs that they will soften by the end of the year or the beginning of 1990.

"Suggestions of irresponsible actions by financial institutions, however, are another matter.

"Undoubtedly, times are tough- and the entry of the banks into the market obviously led to increased business.

"In hindsight it might have been seen in this scramble that some institutions, particualrly the banks, lowered some of the traditional standards.

"However, to speak of 'vindictive and totally destructive competition' is overstating the case in our view because, and certainly in the case of the NBS, we strove to maintain our standards during the period of increased competition."

"Moreover," he says, "we do not expect repossessions to rise dramatically so far as the NBS is concerned.

"Firstly, because we were fairly successful in maintaining our standards and secondly because at all times, we try to assist our borrowers to avoid foreclosure."

Society men emphasised, too, that the vice in which the borrower was caught today was not the making of the financial institutions, but the end result of the function of supply and demand over which the fiscus had more control than banks and building societies.

58

Star 29/7/89

East, west home's best investment

SOUTH AFRICAN middle-class house prices are levelling off and could be heading for a slight decline this year, reports the Bureau for Economic Research at Stellenbosch University.

This news may cause some discomfort to most middle-class people with a house, in most instances their largest single possession.

The property cycle is very much linked to the overall economic cycle, albeit with something of a time-lag. While several leading economic indicators started declining early last year, property values are only now starting to react to the various austerity packages announced by the Government.

But shrewd property investors will not see a slow-down in property prices as a cause for concern. Rather, it presents an opportunity for investors who are brave enough to weather a possible further downturn.

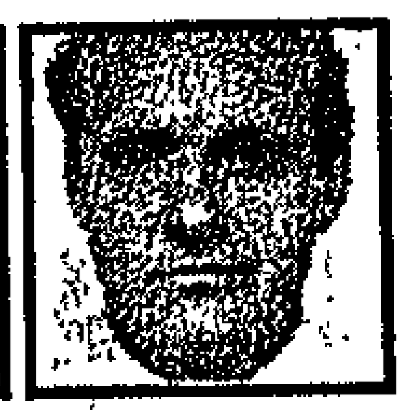
Whether this is likely to happen is dependent on the performance of the economy next year and, more importantly, events on the political playing fields.

During the 1985/86 recession property prices in South Africa dropped in real terms for the first time since 1961. The reason for this phenomenon was to be found in the sharp drop in the political future of the country, more than in the high level of interest rates. This is unlikely to happen again, suggesting that any decline in property prices is bound to present an excellent buying opportunity.

Another point to emerge from the BER's survey on the proper-

Money Matters

MAGNUS HEYSTEK



ty market is that it now costs more to build a house than to simply buy a house of comparable quality and location.

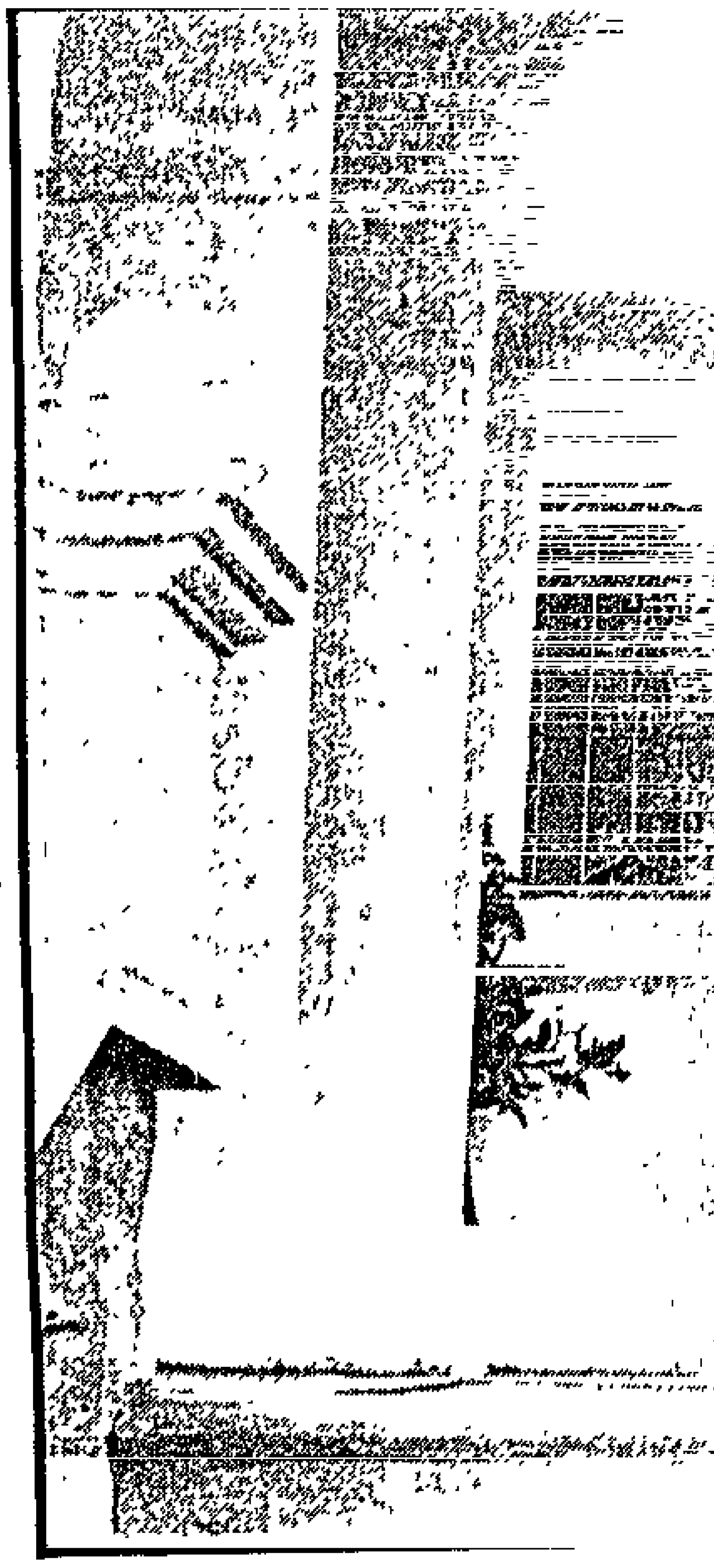
From mid-1986 building costs have started to outpace the growth of purchase prices and have now reached a point where it is clearly more expensive to build rather than buy.

When the property market improves the prices of existing houses are bound to rocket. Some economists are on record as saying that property prices will soar by at least 30 percent when the economy revives.

Other factors that normally lead to upward pressure on residential property prices include a drop in interest rates which makes mortgage bonds more affordable, an increase in immigration, a growing economy, a rising gold price and, of course, inflation.

While average house prices have barely kept pace with inflation over the years, a house has been the best investment the average person could have made. The reason for this is twofold. Using mortgage finance to acquire a property creates a very powerful capital growth-generating mechanism. Capital growth is recorded on the full sum of the property, and not just on the initial deposit made by the home-owner. In a rising market the percentage returns can be quite staggering, far outpacing any other investment instrument available to the small investor.

The second reason is that it is not even an investment in the true sense of the word. Owning, or for that matter renting, a house is satisfying a basic human need. So what better than to provide for this need and still see substantial capital gains over the long term?



HOME SWEET HOME: Owning a

Buying and selling not a

BUYING and selling a house is not always as simple as they seem. Various factors have to be taken into consideration before a final decision can be made.

Chances are if you're selling your house you'll want to buy another. This includes both potential profit and risk. You need to be decisive and conversant with market conditions.

In my opinion you cannot buy and sell simultaneously — you cannot buy subject to sale, nor sell subject to purchase. You have to take a decision. Do you sell first, having to give a firm occupation date, and hope that you'll find a house to move into in time? Or do you buy first, giving yourself sufficient time in which to sell your house to pay for the one you've bought?

Market conditions

Irrespective of whether you buy or sell first, find out about market conditions — get acquainted with the market in the proposed area(s) of purchase, as well as that in your area of sale. At the moment you're likely to be selling and buying in a seller's market, where demand exceeds supply. That means you'll probably sell soon if your house is competitively priced, but might not find a replacement as easily.

Selling first

If you decide to sell first, the disadvantage is that you might have to move into a rented accommodation if you can't find a suitable house to buy immediately, or the house you buy does not have a well-timed occupation date. The advantage is that you will know how much money will be available for the purchase, and when.

Buying first

The advantage of buying first is that you may be able to move straight from one house to the other with minimal disruption to your family. However, the disadvantages are that you won't know

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HOME SWEET HOME: Owning a home satisfies a basic human need and is still the best investment for Mr Average.

Buying and selling not as simple as they seem

ESKEL JAWITZ

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The advantage of buying first is that you may be able to move straight from one house to the other with minimal disruption to your family. However, the disadvantages are that you won't know how much you'll get for your house, and whether you'll have to dip into reserves or arrange bridging finance to cover the purchase.

I have heard many buyers with a house to sell lament: "But what happens if I can't sell my house?" With respect, there is no such thing as a house that will not sell. There is only a seller who is not prepared to accept what the market will pay.

Conditional transactions

If you try to make a purchase of a house conditional upon sale of your own, what you're really doing is asking the seller to give you an option. And why should a seller agree to that? In addition, conditional purchase indicates uncertainty, that you're not sure about being able to sell your house. Again, why should the seller accept that risk on your behalf? He or she is just as likely to find another buyer, particularly in a seller's market.

Guidelines

If you're buying before selling, you really don't have to worry if you follow these guidelines:

Make sure there's enough time in which to sell your house — for your purchaser to pay you — to meet the commitment on the house you buy. Be realistic about what to expect for your house — establish what comparable houses are selling for in the area; ask the agent you're buying from for a true market valuation of your house; and, if still not reassured, call in a few other agents — but be sure they understand you want its market, and not insurance or replacement, value.

When making an offer on another house, be conservative about the funds you'll have available — base calculations on the lowest, not the highest, valuation of the house you're selling.

OM pension funds outstrip inflation

Cpt Times 27/7/89 (58)

Financial Staff

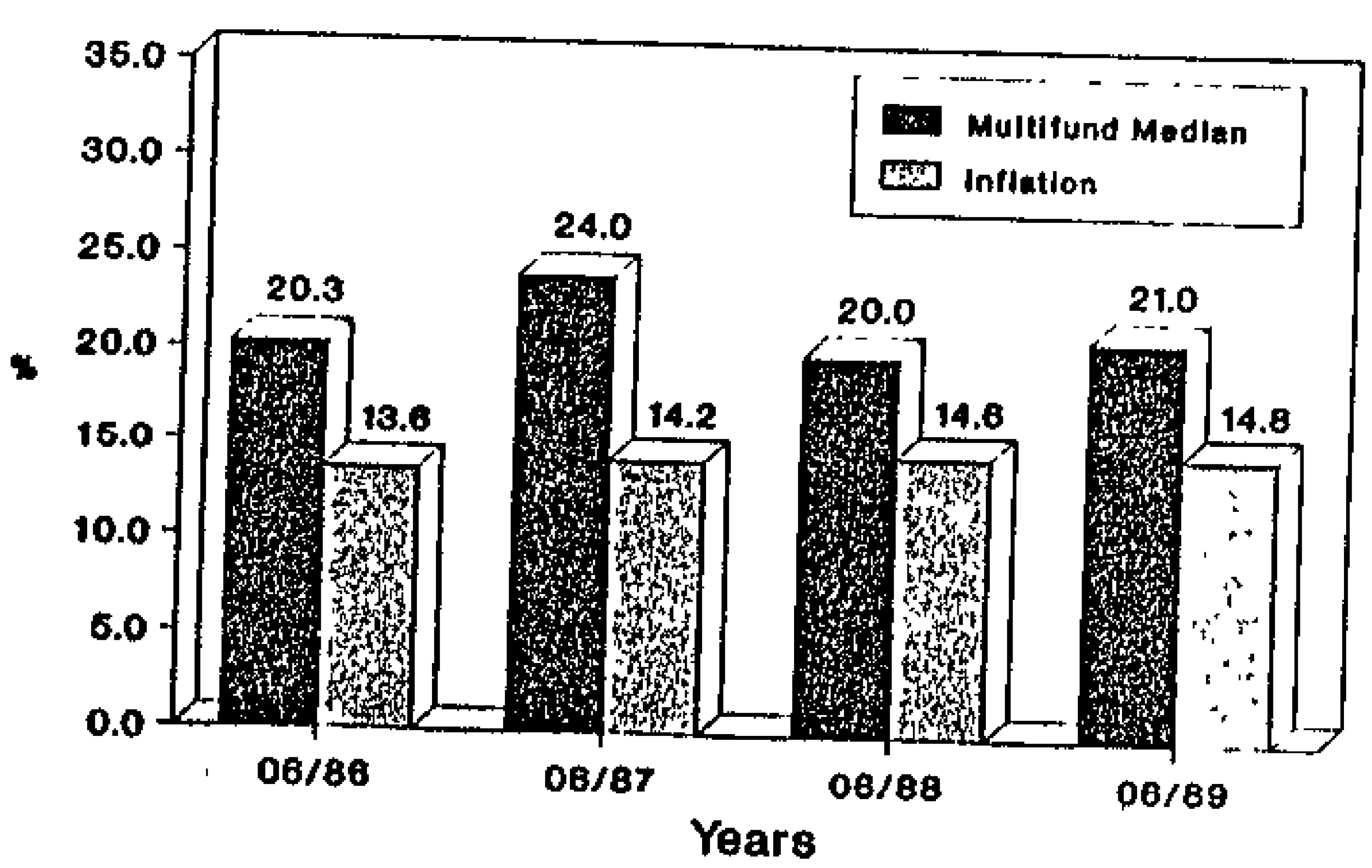
PENSION funds in the Old Mutual stable have outstripped inflation by achieving investment performances of 36,4% in the Multifund and 29,7% in the Omnifund for the 12 months ended June 30, 1989.

"Old Mutual's investment strategy of having a high exposure to growth assets in an inflationary environment has certainly paid off," said employee benefits GM Gerhard van Niekerk.

The equity investment in the Multifund portfolio achieved a return of almost 66% in both the industrial and mining sectors, far outperformong the respective indices.

Van Niekerk said this clearly illustrates why Old Mutual has welcomed the abolition of prescribed assets.

MEDIAN RETURNS FOR MULTIFUND
10 YEAR COMPOUND TIME-WEIGHTED



The returns achieved by Old Mutual's Multifund compared to inflation over the past four years.

"The more flexibility responsible investment managers enjoy, the more secure the financial future of fund members will be. It will therefore be a pity if the impact of the abolition is diminished by complex inhibiting guidelines," he added.

(58)

Instant policy promises 30% premium cut

By Robyn Chalmers

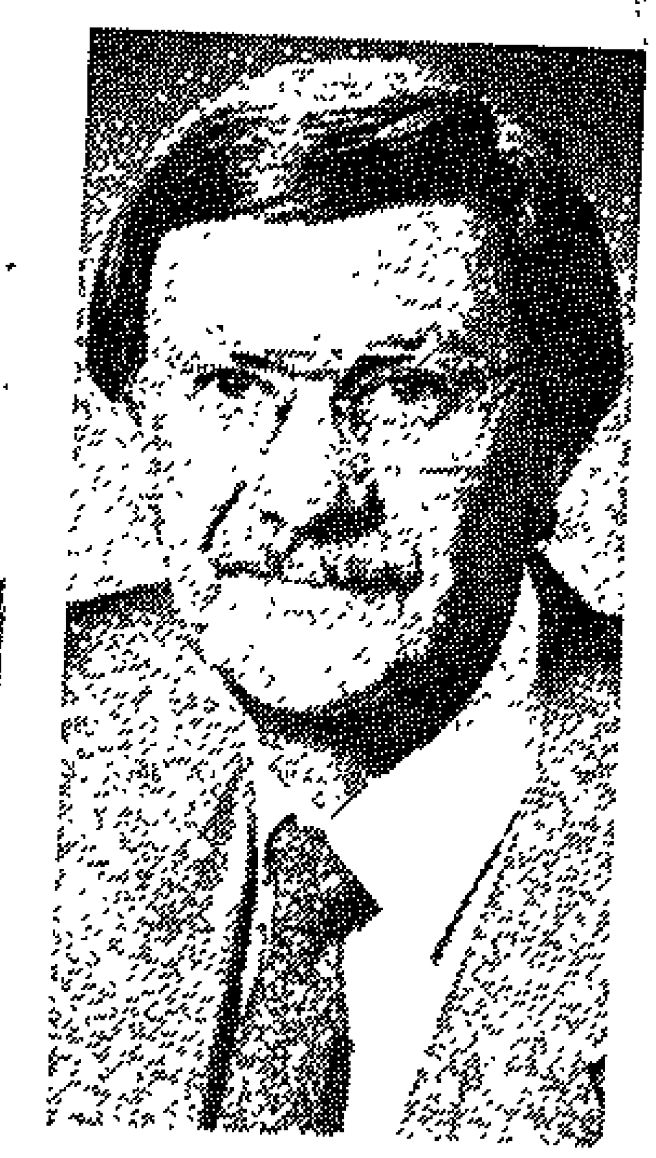
SANTAM will launch a trend-setting short-term insurance product next month, promising to cut motor and household premiums by up to 30%.

Santam Insurance managing director Oosie Oosthuizen announced the introduction of Teleplex in Johannesburg this week. He said the product was formulated in an effort to bring insurance back within reach of ordinary people.

Investment

"Teleplex will be bought and sold purely over the telephone by way of a toll-free number. This same number can be used by anyone from anywhere without the use of dialling codes and at no more than the cost of a local call.

"This has only become possible because of the new facility offered by the Post Office. We expect that Teleplex will not only increase our business, but that of the Post Office."



OOSIE OOSTHUIZEN

Mr Oosthuizen said the new policy was in line with a trend well under way in the United Kingdom and elsewhere.

He predicted that SA's short-term insurance companies wanting to continue with personal lines would switch to this system in the next few years.

Reduction of premiums would be possible through the use of advanced technology and computer facilities. Mr Oosthuizen said Santam had invested about R5-million in new technology. The toll-free calls were expected to cost an additional R1,5-million a year.

The company had recruited 80 people, both temporary and permanent, to man the telephones six days a week.

Santam expected to realise about R50-million premium income within a year from the new policy, increasing to about R100-million in two years.

Although a similar system was introduced in SA by short-term insurer Auto & General a few years ago, Mr Oosthuizen said Teleplex was an entirely different policy.

Among other things, the policy offered a double no-claim bonus, cover would be as complete as possible — hail damage would be included and all drivers of the vehicle covered. Quotations would take 90 seconds and be sent out on the same day. Claims would be handled by Santam branches.

Qualifying criteria, however, indicated that applicants must be 26 years of age or older, have a bank cheque account, and not have had a motor accident claim in the preceding three years.

Much scepticism over direct insurance has been evident in the market for some time now, but Mr Oosthuizen believes that Santam's reputation as a solid and long-standing insurance company will overcome it.

Flagship

Mr Oosthuizen said: "There was similar scepticism in the industry when we launched our Multiplex policy, yet this has since become the flagship of Santam. Teleplex is an innovative product, and I believe other insurers will follow our lead.

"We believe a cheaper policy is important now, especially because insurance has started to be classed as a luxury instead of a necessity."

The speed of the quotation was a major part of the policy, as present quotations involved a cumbersome process, taking anything from a couple of hours to a few days.

Smith deal

SMITH Mining Equipment has concluded an agreement with Smith International of Houston to handle its oilfield drilling equipment.

An operation has been established in Cape Town to supply and service the equipment, including soil investigation and exploratory drilling tools, waterwell and quarrying machinery and goods for Mossgas.

Unauthorised money deals cost Saambou R6,7m

(58) S/Times 30/7/89

By ANDREW GILLINGHAM

SAAMBOU Building Society has suffered a R6,7 million loss which was not recorded on its March 1989 balance sheet forwarded to shareholders.

The loss occurred on unauthorised transactions made by the society's official capital market trader, who had not kept proper records which might otherwise have alerted the board of directors.

Saambou Holdings managing director Mr Christie Kuun said yesterday that no fraud had been involved in the transactions.

"The person and his assistant fully intended to bring profits made into the group," he said.

"But they misjudged the trends in the capital market and losses were experienced.

"Because the transactions were not recorded even our audits missed them, therefore they were not recorded on our balance sheet. We wanted our shareholders to be fully aware of the situation.

"The loss will be written off in this financial year.

"Neither capital nor reserves is affected. We will still make a profit this year and will be paying a dividend to our shareholders."

However, in the group's balance sheet its building society operations recorded a R5,8 million profit for the year ending March 1989.

Mr Kuun said the losses would be covered by profits earned by the building society's operations this year, which would also make a contribution to group profits.

The loss-making transactions took place from early 1988 until two weeks ago, when the board found out what had been happening.

Both staff members involved have been suspended awaiting further action by the Saambou board.

Mr Kuun said additional controls had been put into place to prevent similar problems occurring in future.

GDM tops R100m

S/Times 30/7/89

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GROSS assets of GDM Finance exceeded R100-million in the year to April 1989, and there are more than 180 clients, according to the trade finance group's annual report.

No single client constitutes more than 7% of receivables, and the risk is further spread across industrial sectors.

The largest is engineering and light industry, which accounts for 21% of business. Clothing accounts for 20% and household and consumer goods 19%.

Managing director John Cowper says GDM's earnings should increase in the current year. The use of trade finance helps to release working capital for use by businesses.

Insurance warning for motorists

(58)

MOTORISTS have been warned not to underinsure their vehicles because the price of new and used cars is rising rapidly.

The advice comes from Bruce Lipton, a member of the fire and accident sub-committee of the SA Insurance Brokers Association and a director of insurance broker Glenvaal Transvaal.

Mr Lipton says: "In the past, the tendency was to look at the middle-market values of a second-hand vehicle and then insure for a lesser amount as values were always decreasing.

"Today, it is wiser to take the retail price, plus GST, as the more realistic figure and then still overinsure slightly."

For example, a Mercedes-Benz 380SE could have been bought for R50 000 in 1984. However, the current price quoted by the Auto Dealers Digest is R65 000, although it could well be sold for R90 000.

Investec strengthens its property hand

58

ST Times 30/7/89

By Ian Smith

INVESTMENT banking group Investec has moved smartly to strengthen its position in one of its key operating areas.

Its acquisition of an 80% interest in I Kuper & Co and associate Kuper Computer Management Services will strengthen Investec's property operations, which contributed 12,8% of the group's R14-million attributable earnings in the year to March 1989.

Investec's property division is strong in the trading and syndications market. I Kuper's strength lies in property management, mainly on the Reef.

The merged operation will make Investec one of the large indepedent operators in property.

"It's a good deal for us — there is virtually no duplication or overlapping of operations," says Investec executive chairman Bas Kardol.

It will also bring an element of more stable earnings to the group's property earnings. A major part of Kuper's income is derived from a landlord portfolio of 700 properties, built up in the company's 55 years.

Investec is paying R4,4-million — including R1,5-million up front — for its stake in Kuper.

Kuper executive chairman David Kuper and his management team are staying with the company, which will continue to operate from its existing premises.

Mr Kardol says: "Our group has worked closely with I Kuper for many years and we know the company and people well.

"Important considerations in the acquisition were the high calibre of people, the valuable portfolio of clients and their efficient property management computer system.

"The combined team provides great depth of experience and expertise."

S/Times 30/7/89 (180) (58)

Portfolio aid for harassed executives

Business Times Reporter

THE average executive spends too much time looking after his company's operations and not enough on his personal financial affairs.

The huge demand for personal financial planning — illustrated by the response to Business Times' Making the Most of Your Money column — has led to a growing industry based on the need for specialist financial advice.

But it has largely developed into an industry driven by commission earnings and vested interests, says Martin McAusland, who heads a new division as personal financial planning manager for accounting and business advisory firm Price Waterhouse.

Mr McAusland says it is pointless trying to accumulate wealth which will be eroded by taxation and inflation, or which may be passed on to unchosen heirs.

Will

"An increasing number of companies in South Africa are concerned with providing a more balanced personal financial planning service to executive staff members, if only to to demonstrate concern for their welfare and as a means of retaining skills.

"The top executive does not have sufficient time to devote to his own financial affairs — a problem that frequently becomes known to the family only on his death."

Mr McAusland says that research in SA has shown that six out of 10 executives do not have a will.

The cost of professional personal financial planning is generally beyond the means of the average South African unless the consultancy is tied into the sale of an investment product with an obvious return to the consultant or his organisation.

"This cost has meant that personal financial planning has traditionally been dominated by the life-assurance industry and trust companies," says Mr McAusland.

"Although many consultants do an excellent job, their advice can be biased and, should it prove to be erroneous, there is often little or no legal redress."

Annuities

Mr McAusland says that in the case of of advice provided by the life-assurance industry, two major recommendations are regularly made — investment in retirement annuities and capital growth income plans based on life assurance policies.

"Trust companies will possibly emphasise participation mortgage bonds and managed share investments.

"Generally, these products are excellent investment options and should certainly form a vital part of any portfolio.

"The drawback, however, is that these investments are by nature often long term and seldom take into account immediate liquidity requirements. A full mixture or spectrum is needed for effective planning."

He says personal financial planning must address day-to-day living and contingency needs, at the same time taking into account tax implications, future inflation and the degree of risk.

"Planning must safeguard existing assets, promote the accumulation of assets and provide for their efficient distribution after death.

"All three phases must be tax efficient."

Mr McAusland says more companies are paying attention to the needs of blue-collar workers and staff who do not have sufficient disposable income on which to base a comprehensive personal financial portfolio.

"In this field the accent is on pension benefits and the development of provident funds with advice given at retirement and whenever needed on investment options."

A clipboard function means you — or your application — can extract data

... communications utilities, databases, graphics packages and even some pseudo-multi-tasking.

big businesses are opting for this new system to succeed DOS. Next step is for more smaller users to follow.

Mail order booming

S/Times 30/7/89 (58)

By Ian Smith

MAIL order and direct marketing group MAS Holdings is running ahead of budgets with sales in the first four months of the financial year 30% up on last year.

Mashold chief executive Marco van Embden told the annual meeting in Cape Town this week that there were no signs that the excellent start to the year would fall off in spite of the forecast slowdown in the economy.

"Mashold's customers are unaffected by rising interest rates and inflation, which makes the group more recession-proof than traditional retailers."

In the past five years Mashold has produced consistent earnings growth of around 30%, more than trebling earnings a share from 8,8c to 25,6c for the year to February.

The group has a strong customer base, selling clothing, footwear, household textiles and general merchandise through catalogues to customers in towns and remote areas.

All sales are cash-on-delivery.

Mr Van Embden said: "Rising petrol costs and the unavailability of many goods in small local stores are all to the group's advantage."

The growth in the informal sector had also had a positive spin-off, he said.

"Our business is a bridge between the formal and the informal sector.

"Mail order shopping from a catalogue is very convenient. Wherever there is a post office — and there are 2 500 throughout South Africa — Mashold has an outlet for its merchandise."

...MOOLMAN

...for about 40%. But its proportion is rising as

OM Investors the top fund

S8

S Times 30/7/89

OLD Mutual Investors unit trust has been the top performer for 10 years, according to figures from the University of Pretoria's Unit Trusts Survey June quarterly wrap-up.

On one-year repurchase to repurchase — such as accrues to an existing unitholder — the fund climbed by 53%. It was up by 43% on a selling to repurchase baseline.

In three years the fund showed annual compound growth of 26,8%, over five years it was 28,2% and over seven a handsome 33,2%.

The rates of inflation for one, three, five and seven years were respectively 15,5%, 15,1% 15,7% and 14,6%.

GROWTH

Other yardsticks are the JSE actuarial indices. Over one, three, five and seven years the All-Share index has climbed by 56,4%, 25,7%, 26,3% and 35,2% respectively.

When the JSE indices boom, the unit trusts are just behind, but on average the funds provide better growth than do the indices.

The well-tabulated survey shows how general equity funds have outperformed the specialists in all instances over the 12 years for which comprehensive data are furnished.

Liquidity of the funds has varied since the quarter to December 1987, during which many unitholders cashed in. Among general equity funds, Guardbank's liquidity dropped from 14% to 11%, Standard's from 34% to 25% and Sygro's from 24% to 11%.

That of UAL, Old Mutual and Sanlam remained about the same, but Sage increased its near-cash from 12% to 18% of the portfolio.

MARKED

Among specialist funds the differing views were even more marked. Guardbank Resources doubled liquidity to 14%, and Sage Mining went from 10% to 14%.

Old Mutual Mining and Sanlam's three specialist funds were little changed, but others rushed in. Liquidity at UAL's Selected Opportunities dropped from 29% to 8%, UAL Mining from 20% to 14%, Standard Bank Gold from 26% to 14% and Southern Mining from 23% to 16%.

The portfolio structures are broken down in the survey. Of the general equity funds the percentage invested in mining ranges from Guardbank's 25% to Sanlam Index Trust and newcomer Southern Equities each with 46%.

The amount in financials and industrials goes from Southern Equities' 34% to Guardbank's 59%.

The total market value of all 31 funds exceeds R5,6-billion.

The survey makes the observation that no specialist equity fund — mainly mining-based — could match the performance of the JSE's mining producers index in the past 12 years.

"Had the index been an athlete, surely complaints would have been made against the use of steroids."

Bernstein back from Aussie to join Sage Life

S/Times 30/7/87 (58)

Business Times Reporter

TOP life-assurance man Morris Bernstein is returning to SA after emigrating to Australia.

He will become managing director of Sage Life and a director of Sage Financial Services.

Dr Bernstein, 45, was chief executive of Anglo American Life. He held a similar position at Southern Life after its merger with Anglo Life.

At Sage Life, Dr Bernstein replaces a former close colleague at Anglo American Life, Ian Solomon, who has emigrated to the UK.

Diverse

Sage Life, which was built up from Ned-Equity, is growing quickly and it is one of the top 10 assurers in SA with assets last year of R1,2-billion.

Dr Bernstein will also play a key role in the development of Sage Financial Services, the diverse financial services division of the Sage Holdings group which was listed last month with total assets of R1,35-billion.

The investments of SFS cover a broad spectrum, from insurance, financial planning, investment and finance to the banking and building society fields.

The company, with its huge backing and asset base, has been tipped for a prominent position in the rapidly growing financial services sector.

MORRIS BERNSTEIN

In the past five years pretax profit has risen from R14,1-million to R36,5-million. Taxed profit has more than doubled to R21,6-million and profit attrtibutable to ordinary shareholders has jumped from R5,2-million to R17,8-million.

Sage Life is the largest component in SFS and it will be the biggest earnings contributor.

In spite of intense competition in the life industry, Sage produced significant growth in individual and group new business last year.

Premiums passed R200-million and income exceeded R300-million for the first time.

Dr Bernstein's departure was the beginning of something of an exodus at Southern Life. Others to leave were chairman Zach de Beer, pensions chief Bill Haslam, employee benefits head Charles Davies and equity investment head John Scott — mainly former Anglo men.

Southern has said the top-level departures were all for unrelated — and positive — reasons and that it has filled the gaps from its ranks.

Toyota presses to cut imports

S/Times 30/7/87

TOYOTA is installing presses worth R8-million to produce body parts at its new R41-million toolroom at Prospecton, near Durban.

In the past, body parts for run-out models have been imported.

The presses will play an important role in the company's import substitution programme which will help save foreign currency.

Two 1 350-ton hydraulic and three 600-ton mechanical presses will be used for stamping body panels for run-out models.

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Old Mutual prepares for post-apartheid SA

By David Carte and Robyn Chalmers

OLD Mutual this week fielded thorny questions facing the life-assurance and pensions industry.

At a conference attended by representatives of most newspapers, magazines and SABC television, Old Mutual managers engaged in public soul searching, confronting such questions as:

- Should it take sides in the liberation struggle?
- How should it react to the possibility of nationalisation in Namibia, and who knows, one day in SA itself?
- Is it a rip-off that an employee leaving a pension fund receives only his or her contributions plus a lousy 2% to 3% a year?
- Are the life companies too powerful and would not privatisation make them even more powerful?

Apartheid

Although Mutual raised these questions, which it believes are bothering the public, the replies from pensions chief Gerhard van Niekerk and team were not entirely predictable or defensive.

Like Anglo American, but unlike its rival Sanlam, which keeps its head well down on socio-political questions, Old Mutual has been applying its mind to the implications of the rise of black trade unions and even to the question of a post-apartheid SA.

As a mutual, it is conscious that it belongs to its policyholders right across society.

With population and income trends running strongly in favour of the black community, Old Mutual knows it cannot serve one or two groups. Trade unions are ascendant particularly in pensions and provident fund issues, and Old Mutual is taking steps to spread its appeal to all population groups.

The group realises that it is through pensions and provident funds that blacks will first start to gather economic power.

Fatalistic

On taking sides in the liberation struggle, Mr Van Niekerk has a wonderful reply: "We can help only in the struggle for liberation from economic want."

He is fatalistic on the question of nationalisation.

"We were nationalised in Zambia and several other African countries, but we still perform a valued service in other liberated countries, such as Kenya and Zimbabwe.

"If we are nationalised in Namibia or anywhere else, so be it — but if they take such a step, governments will be riding rough shod over the decisions and actions of policyholders, who voluntarily bought policies from us."

Mr Van Niekerk acknowledges that institutions with their billions will inevitably be the major subscribers to privatisation share issues and that their power will increase.

But he contends that because institutional money represents members of pension funds and policyholders, the small man will get his slice.

Expense

On the question of whether it is a rip-off that the departing employee receives only his or her contributions plus 4%, Mr Van Niekerk acknowledges that under existing practice, the stayers and the newcomers benefit at the expense of the leavers.

But the contribution paid by the employer does not belong to the employee personally. The employer pays it so that the fund can meet the cost of benefits, which he guarantees.

Mr Van Niekerk believes employers have erred in stating that they match employees' contributions. They should pay in a portion of the salary bill, so that nobody gets the idea that the employer's contribution is his or hers.

If the rules are to be changed to permit the employer's share to be paid to the departing employee, not only will contribution rates go up, but workers will have to shoulder the risk of benefits not being met.

Factors

If the employer's contribution becomes the property of the employee, it will become deferred pay and therefore taxable.

Mr Van Niekerk says withdrawal benefits have improved, particularly for those with long service. After 15 years' service, most funds pay twice their own contributions plus interest.

He says trade union resistance to the traditional pension fund was one of the major factors which caused the entire pensions industry to take a long, hard look at itself.

Allegations from employees about paternalism and the fact that pension benefits are structured for the First World component of SA have resulted in a big swing by black workers from pension to provident funds.

Employers have become edgy about workers receiving a lump-sum on retirement, fearing they will not have the financial acumen to invest their money wisely.

Risk

Old Mutual assistant general manager Reg Munro says that the debate on pension vs provident funds rests ultimately on one question — who carries the investment risk?

"A provident fund which carries a defined contribution is essentially a money purchase scheme where the risk is passed on to the employee. If the stock market crashes, he will lose out, but if it booms he will benefit substantially.

"Where the employee carries the risk, he should be allowed to participate in the investment decision-making process. While the day-to-day investment decisions should be left to an expert, he should be able to choose the investment manager, for example, and the investment strategy involved."

Awareness

Mr Van Niekerk believes there will be a far greater awareness of the economy and of business if employees are allowed to become involved in financial decisions. He envisages a move in this direction.

Group marketing manager Eric le Roux says there is strong support for this idea among many trade unions, which are also promoting the idea of union-based funds.

Last year the Chemical Workers Industrial Union (CWIU) launched an industry-wide fund. One of the problems was that employers were reluctant to join it.

Mr Le Roux believes their concern about the CWIU fund is mainly of a structural nature, but that in general, they fear the groups involved do not have the financial expertise to succeed.

"Competition among unions is such that they must provide facilities to attract members. Industry-wide unionised funds have both advantages and disadvantages, however.

GERHARD VAN NIEKERK

"On the one hand, preservation of funds is increased, especially among the more skilled workers, as they will tend to remain in one industry even if they do job hop.

"On the other, there is nothing to compel employers to contribute to an industry fund. If they decide not to, then the worker will be the loser."

Assistant general manager Henk Beets put the spotlight on medical aid schemes, about which there has been increasing grumbling from members.

Old Mutual is aware that while people are reeling under the burden of rising costs, medical aid administrators, doctors, pharmaceutical companies and hospitals are blaming one another while reaping fat profits. What is Old Mutual's explanation and what is being done?

Mr Beets' explanation is that the benefit structure of medical aid schemes is too rigid, the contribution structure encourages cross-subsidies and employee participation is often compulsory.

In reaction to rapidly rising subscription rates coupled with greatly increasing claims by members, he says there is much pressure on the Government to change the regulations governing schemes.

He foresees that in order to right the wrongs of schemes, it is essential that insurance companies become involved in the medical arena, that health maintenance organisations be formed, benefit options become more flexible and active incentives to reduce claims be introduced.

Old Mutual took a look at social old-age pensions, contrasting the dilemma of the State with that of the individual and the employer. Debating the old question of whether a state pension should be viewed as relief for the destitute or a livable income, Mr Van Niekerk says that in theory it should be relief — but in practice it becomes the means for survival for many people.

Masterbond
58

BDay 3/7/89

sees funds soar

CHARLOTTE MATHEWS

AN UNPRECEDENTED inflow of investments in the past three months is likely to push Masterbond Trust beyond its target of R241m in funds under administration for the year to February 1990.

MD Johann Brits said this trend was likely to be maintained.

"Our view is based on two principal factors," he said. "First, fixed-interest investments are gaining in popularity as the public finds that, although this might not be the ideal time to borrow, it is certainly a good time to invest.

"Second, more and more funds are maturing under government's granny bond scheme and these investors will be seeking new, high-yield returns."

He said fixed-interest investments were yielding a very real return at prevailing rates.

Masterbond was paying 18,5% a month in advance on participation mortgage bonds and investors aged 60 and over were receiving an additional 0,25%.

Manserv performs well but misses April forcast

(58)

BDay 3/7/89

CHARLOTTE MATHEWS

BETTER than expected performances by Colfin and PLC for the year to March helped Manserv to lift its earnings by 29% to 22,3c (17,3c) a share, but this just misses the forecast made in April.

Manserv listed on the JSE main board with a forecast of 23,2c a share. A forecast of R3,35m was made for attributable earnings and R3,2m (R1m) was achieved. A dividend of 8c a share has been declared.

Turnover rose to R26m (R10,9m). Comparisons are difficult as the group has made various acquisitions in the past year.

Two weeks ago Manserv announced its restructuring as a financial services and investment banking house.

The group, to be renamed Colfin, was created from an amalgamation of Columbia Corporate Finance, Don Gray Computer Holdings, Punch Line Computer Training and minority interests in Wingate Holdings and Concorde Travel Holdings.

As part of the restructure, companies in the group which returned poor results during the year have since been sold for R4,2m in cash.

Around half of the share's tangible asset value of 70c is represented by cash and this with Colfin's diversified client network will form the basis of the group's investment banking programme.

Manserv will provide corporate and project advisory and underwriting services and finance facilities, management training and investment in private companies and management buyouts.

Saambou's capital market losses at R7 m

Star 31/7/89

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Finance Staff

Saambou's share price fell by 15c to 85c on Friday after the company disclosed at its annual general meeting that it had recorded losses totalling R6,7 million on its capital market operations.

But chairman Hendrik Sloët said that the loss would not disadvantage shareholders and investors at the building society.

In an Afrikaans daily newspaper this morning he was quoted as saying that Saambou's annual turnover in the capital market was between R700 million and R800 million and the loss of R6,7 million would not affect its portfolio.

The group's reserves of R192 million would also not be affected as the loss could be written off from profits.