FINANCE – GENERAL.

DECEMBER – 1989.

Bankers sceptical of reports on big rise in dud cheques

BANKERS have expressed surprise at reports of dud cheques being issued at a rate of R20m a week. B Day 1/12/89

First National Bank senior GM Jimmy MacKenzie said there had been an increase in dishonoured cheques as a result of the present economic situation, but the figure of R20m a week seemed unrealistically high.

"However, FNB's contribution to such an amount would be minimal, otherwise we would have a sick-looking book." (58)

A Standard Bank spokesman said that no unusual increase in dud cheques had been noticed.

"Besides we have not relaxed our strict qualifying criteria for potential current account customers, so I am quite surprised at reports of such a high volume of dud cheques."

A Volkskas spokesman said that the bank also could not endorse the reports. — Sapa.

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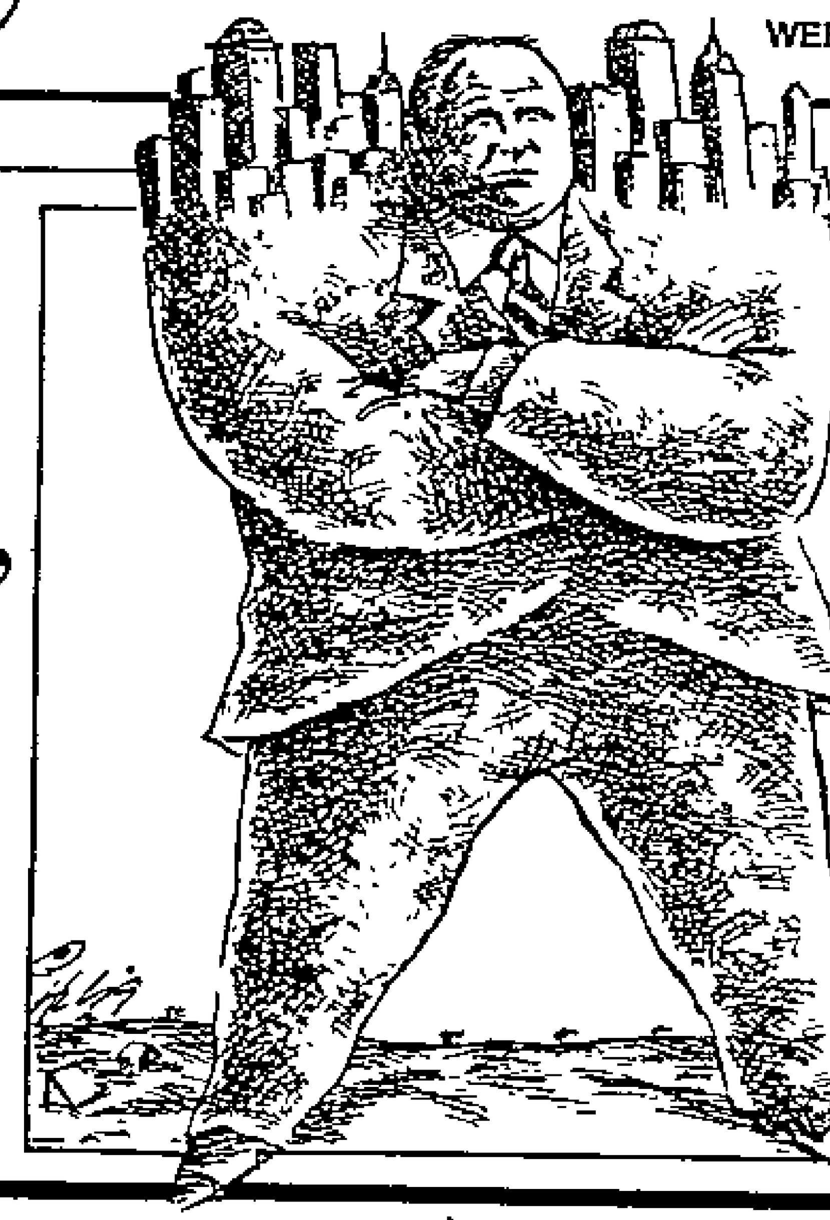
BUSINESS

The hidden catch in the 'no deposits' house plans

Lower-income families are falling prey to building contractors who offer to build extra rooms on to houses with no deposit. What the clients don't realise is that their own houses are the security, reports CASSANDRA MOODLEY



LOW income group families are falling prey to a new scheme in which building contractors buy up their rented houses on their behalf and offer these to building societies as security for loans.

The contractors promise to erect outbuildings without a deposit — but the families are in danger of finding their houses repossessed should they default on loan repayments

The Johannesburg-based advice centre body, the Advice Centres Association, says it knows of 10 cases in Soweto and Tembisa where people with building society loans for additions to their properties are under threat of losing their homes because they cannot afford the instalments.

What is most alarming, say advice office workers, is it is not explained to clients that they stand to lose their houses — which they believe they are merely renting — should they default on loan repayments.

ACA co-ordinator Thabo Ndabeni said: "It is becoming a common phenomenon for people to fall prey to building contractors who advertise that they will build two rooms and a garage without a deposit — all the prospective clients are in the lower income bracket.

"Clients fill in the necessary documents and the developer goes to a building society for a loan.

"The building society usually requires security and the developer — unknown to the client — suggests that the applicant's rented house be used as security.

"Subsequently the building society buys the house from the town council. The loan covers the cost of the rented house, the cost of building the two rooms and a garage and the rent arrears on the house — because local town councils will only consider the application for sale of a house if all rental and services arrears are paid," said Ndabeni

In addition to the price for the construction of the two rooms and garage the family now have the added cost of buying their rented house.

Clients who have gone to various advice centres are bewildered when they realise what the contract entails, said Ndabeni

"In one case in Moletsane, Soweto, the family wanted to build two rooms and a garage because their house was too small. They approached a developer who arranged the documentation for them. After the bond was registered and the repayment was indicated they realised that the amount was beyond their means.

"They then decided to cancel the deal but found that that was possible only if they repayed R8 000 — the amount used to buy their rented house from the town council."

ACA also said pensioners were being granted loans in this manner "The developers use the selling technique that although the pensioner does not receive a fixed income they can repay their loans by subletting rooms and garages — this puts rents for tenants at exorbitant rates.

Ndabeni said the SA Perm was involved in the 10 cases the ACA had documented. He said he was told by a Perm representative she had tried to explain everything to the clients.

Ndabeni said different developers were involved in each of the 10 cases. One of these was Compremark.

Tony Last, who described himself as the sole member of Compremark, said: "My company ensures that every single client whose house is paid for by building societies, is aware of this fact because Compremark explains this to them "

In another case, in Tembisa, when the client realised his house had been bought by the financial institution he decided to cancel the contract. However, he had to pay the administration costs and the price of the house.

Ndabeni described how the ACA answered an advertisement for a contractor who built outbuildings without stipulating a deposit The company refused to divulge details until a contract was signed The contractor would only disclose that no deposit was required

Ndabeni said the contractors are primarily at fault in persuading clients to sign legal documents without verifying that they have read and understood these. The developer is paid out and the client has to contend with a bond on his house.

Building societies were also at fault for not doing a follow-up consultation with clients to explain the legalities.

The town council is also duty bound to inform the homeowners they have received applications for purchase of the houses.

However, the ACA points out town councils also stand to gain, because the schemes help alleviate the three-year rent boycott in Soweto and Tembisa by bringing in money to cover rent arrears

Five cases in Moletsane, Soweto, have been resolved but ultimately the client had to pay out the cost of the house and administration costs.

The ACA is hoping to take a test case to court to query the right of building societies to grant loans to people who do not have the ability to pay these off.

A representative of the Perm's media relations department, Amanda André, said the Perm "is in full support of the practice to finance the addition of two rooms and a garage to existing properties in certain areas.

"However it is not the Perm's responsibility to scrutinise every developer or building contractor, but we do carefully screen every bond applicant to ensure that his income is sufficient to cover the bond repayment. Further our agreement is with the bond holder and not with the developer.

"Homeloan centres and advisers in our branches are specifically geared to the education and assistance of applicants

"It is unfortunate that many applicants, and this is not restricted to black people, do not fully understand the implications of building contracts and mortgage bonds but I can assure you every effort is made to explain the process.

"It is sad that people fall prey to unethical developers at their considerable cost," she said.

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Winail 1-7/12/87.

How building societies could ease bond defaulting

With bond rates around 21 percent, defaulting on payments is increasing. Economist A ROUKENS DE LANGE suggests a possible solution

WITH rising interest rates, the problem of home repossession has become a pressing issue, particularly for black home owners in new housing schemes.

The woes of people who cannot meet increased bond repayments and whose homes are repossessed could be avoided if building societies and banks were to adopt a system of inflation-indexed bond repayments to replace the present home loan system.

Some relatively simple calculations demonstrate the advantages of this system over the existing one.

Assume tnew home owners take out a bond for R100 000 to be repaid over a period of 20 years. At interest rates of 20 percent this would mean bond repayments of about R1 710 a month. Assuming an inflation rate of 15 percent a year this represents an interest rate in real terms of five percent. To home owners with a disposable annual income of, say, R40 000, bond repayments will swallow up 51 percent of their income.

If both the inflation rate and the home owner's income continue to grow at 15 percent a year, while the bond repayments remain constant, home owners will after 20 years be paying off only a trifling 3,6 percent of their income — which by this time will have risen to R570 000, although their purchasing power will have remained constant.

It is obvious something is amiss. What is needed is that bond repayments be indexed to inflation rates.

This can be done if we take the same example but adjust bond rates so that their real (after inflation) value — rather than their nominal value — remains constant over the 20 years.

Ignoring inflation in the first year and assuming a real interest rate constant at five percent a year, bond repayments in the first year would be R670 a month or 20 percent of the home owner's disposable income — considerably more manageable.

In the next year bond repayments would be increased by the inflation rate but presumably earning potential would be adjusted by the same percentage. With this indexing system homeowners would still be paying 20 percent of their real disposable income at the end of 20 years.

The proposed repayment method does mean the amount the home owner owes on a house will increase in nominal terms for many years after the initial transaction, but in real terms this will not be the case.

For the first 14 years the amount they owe will rise, increasing their debt from R100 000 to R250 000.

This is rather unnerving. But the home owner would by the end of the 14 years be earning R246 000 a year and bond repayments would still represent only 20 percent of income. And with no greater financial burden than in earlier years they would still have paid off everything after 20 years.

For the banks and building societies which grant the home loan, the problem is they would not be able to survive if they lent money at five percent while having to pay a much higher rate for what they borrow. This is mainly a problem in the early stages of the loan — they will eventually get a return on their investment.

But if they treat the deficit as if it were a small new annual loan to the home owner, there need be no drastic change in the operation of the lending organisations.

Higher loan levels will make bonds less secure and the banks and building societies would have to keep close control of these. It would probably also be necessary to reduce the proportion of the purchase price which could be covered by the bond. Some form of government regulation would also be necessary. All these details would have to be investigated.

But the basic principle of breaking the throttling link between interest rates and bond repayment levels through inflation indexing is a desirable one. Its overall effect would be to increase the financial security of the home owner and to bring greater stability to the economy.

It is clear current inflation rates seriously distort the economic process and are ruinous not only for the home owner but for the entire economy.

● A Roukens de Lange is senior research associate at Stellenbosch University's Institute for Futures Research

(58) Finweek 1/12/89

LIFE INSURANCE (58)

Second thoughts

Norwich Life has — dramatically and surprisingly — withdrawn its new Protax life assurance product (*Economy* September 15 and 22).

Protax is an endowment policy designed for professional men who are provisional taxpayers, enabling them to finance, through policy loans, the sharp variations in cash flow implied by that status.

This decision is despite effective approval for Protax by the Standing Products Committee of the Life Offices Association (LOA). LOA's only objection was marginal — that the way Norwich quoted illustrative gains on the policy when loans had been raised was not easily comprehensible.

Norwich legal adviser Thea Heunis says the trouble was the attitude of the commissioner for Inland Revenue. Though leading counsel and a leading tax consultant both considered Protax did not offend the definitions of a standard policy in the Sixth Schedule of the Income Tax Act, the commissioner expressed the view that it did offend the spirit — and seriously.

Conceding, says Heunis, that the Commissioner could argue that Protax offended against the long-term nature of life assurance, Norwich concluded the risk was serious and that marketing Protax would lead to an early amendment to the Act. Such an amendment — if past experience of overkill by Revenue is any guide — might sweep into its net more than just this product. Rather than impose this risk on the industry as a whole, Norwich withdrew.

It is to be hoped that Revenue desists from aggressive action, say under S103 of the Act, against taxpayers who signed up for Protax on assurances that tax experts considered it not to infringe the Sixth Schedule. ■

ROBIN MARSDEN

Old Mutual's assets in unit trusts top R2-bn

(58)

SW 2/12/89

DICK USHER

TOTAL assets under management of Old Mutual unit trusts passed the R2 billion mark this month.

Old Mutual administers three unit trusts: The investors' fund, the mining fund and the income fund.

This represents a growth of about 45 percent over 12 months, from R1,3 billion in November last year.

Old Mutual's assistant general manager for sales development, Bastiaan van der Westhuizen, said that it took from inception in 1966 until 1986 for unit trust assets to reach R500 million.

But the R1 billion mark was breached within the next 12 months and doubled to more than R2 billion over the next 18 months.

He said Old Mutual now had more than 220 000 unit holders in its three funds, the majority in the investors' fund where total assets were now about R1,7 billion.

While Old Mutual had done particularly well, the whole unit trust industry was a growing market, said Mr van der Westhuizen.

"People are after a medium-term investment that will beat inflation and for most people unit trusts have proved to be about the only product that will do this," he said.

"We've capitalised on this through our marketing strategy which has been backed by the actual performance of our investments.

"Our funds have achieved an average growth rate of 45,3 percent, which is well ahead of inflation."

Unit trusts were a popular form of investment because they gave people access to investment in equities and the asset growth that the stock market offered which they would otherwise not have been able to afford.

Mr van der Westhuizen said that an interesting aspect of the popularity of investment funds was that they were making great strides among women, who now accounted for 37 percent of investors, and also in the black market.

LONG-TERM INVESTMENT VIEW URGED

SYLVIA DU PLESSIS

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INVESTORS should concentrate next year on longer term investment strategies such as retirement annuities and provident funds, according to Price Waterhouse personal financial planning manager Martin McAusland.

McAusland said in a statement yesterday that 1990 would be a "big" year for certain long-term investment avenues which had been revitalised by government's relaxation of prescribed assets. This was despite the fact the high interest rates would attract a lot of short-term money.

"Retirement annuities and provident funds, for example, have taken on a new lease of life as they are now far more performance-orientated than before prescribed asset levels were reduced a few months ago," he said.

"A lot of money will be channelled into retirement annuities in 1990, because they are no longer seen as stodgy investments, are not taxed during accumulation and provide excellent payouts on redemption."

McAusland said prescribed asset requirements in the case of retirement annuities had dropped from 53% to about 10%, while for certain life policies they had fallen from 35% to 10%.

B Day 21/12/89

Provident funds would be "particularly attractive" next year in view of their tax-free status and valuable combination of risk cover and investment.

More people would make use of salary forfeiture to achieve tax and growth benefits through retirement annuities and provident funds, he said.

JSE is top exchange

□ From Page 19 Cape Times 2/12/89 58

metal prices "has put our market back in the limelight", Trengove Jones continues: "We are the greatest beneficiaries in the world from the rise in precious metals. It has led to a very positive reversal in the attitude towards our market overseas.

"This has swung round from disinvestment to seeing investment opportunities here, at an accelerating pace."

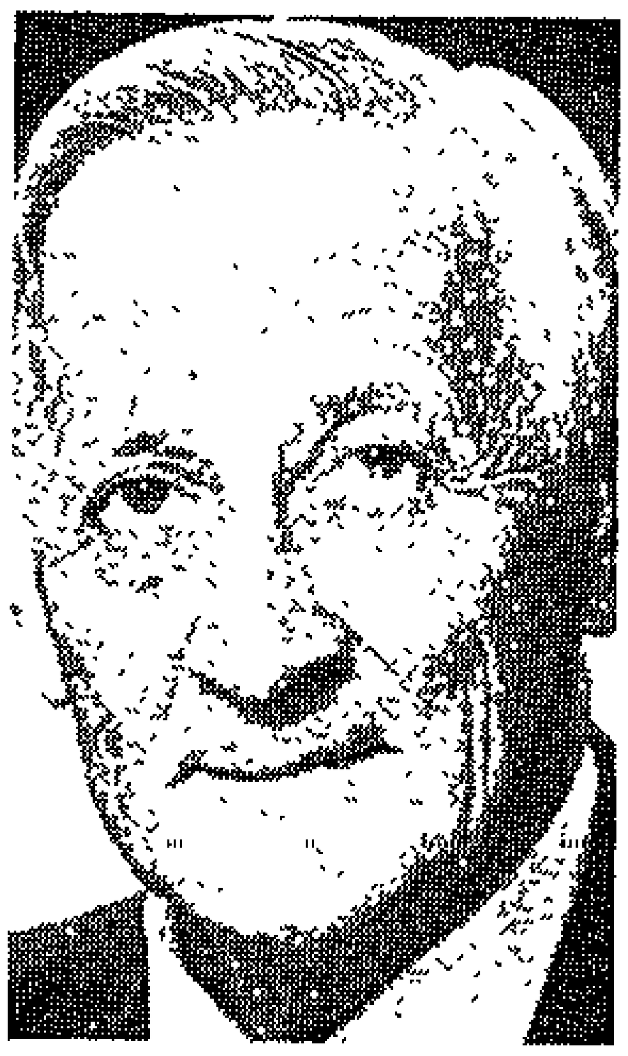
Frank Brewer, the partner heading the Claremont office of stockbrokers Frankel, Kruger, Vinderine, says:"In view of what has happened to precious metal prices the performance of our stock market has got to be one of the best in the world. Our all-gold index was 11 000 a year ago, and has virtually doubled."

George Joubert, at the Johannesburg office of stockbrokers Davis, Borkum, Hare, points out that financial rand swindles helped to push the JSE lower than any other major stock market after the October 1987 crash, and it has rebounded from a very low base.

The economy performed well last year, boosting industrial shares and the overall index. And the easing of prescribed asset requirements has meant a lot of new money coming into equities.

"Now, towards the end of the year, the rise in gold shares has completely outperformed the rise in the bullion price and pushed the overall index up to record levels," Joubert said.

APPOINTMENTS



Mr J H Heynns, director, NBS Cape.

Taiwan boosts SA gold shares

58

W/C ARGUS 2/12/89

Business Staff

TAIWANESE investors boasting vast sums of money are beginning to nibble at South African gold shares, and if this tentative move into hitherto unexplored waters grows, domestic gold shares could rocket.

London stock broking sources report keen Taiwanese interest in South African gold shares, with at least one of the new market makers in such shares having launched a major sales thrust into Taiwan.

London brokers regard Taiwan as a potentially exciting source of business for South African gold shares, pointing out that the resilience and buoyancy of the Taiwanese share market resembles that of Japan.

The Taipei market index rose from 1 000 to over 10 000 in less than three years to the end of October before declining. The average price/earnings ratio is 68, while the value of turnover on some days exceeds that of Japan.

The market is driven by the island's 2 million or more small investors — roughly 10 percent of the population. Bolstered by these enthusiasts, the Taipei market has continued to defy the prophets of doom.

It marked the bloodshed in Peking in June with only a temporary dip, survived a crackdown in July on dozens of unlicensed investment houses, shrugged off the Wall Street mini-crash in October and has subsequently risen above 10 000.

The market's excesses have been fuelled by the convergence of an undeveloped financial system and the vast wealth which has been accumulated over the past 30 years or so.

The country has foreign reserves of $75 billion (the highest in the world after Japan), an economy growing at 7 percent this year, and no rewarding outlets for all this money other than the share and property markets.

Taiwan's investors tend to be insular, taking little interest in foreign shares — a state of affairs which has been strengthened by the absence of any foreign brokerage firms in Taiwan until June this year.

Nevertheless, the horrendously expensive levels of shares by international standards means that Taiwanese investors are searching for new investment avenues.

It is in this context that South African gold shares assume relevance.

The Taiwanese have a strong affinity to gold. Last year the island became the biggest importer of gold in the world, absorbing more than 500 tons of the metal, helped by major purchases by the central bank.

Although imports could fall to around 250 tons this year, significant interest persists.

Gold imports have started to rise again, with analysts suggesting 15 tons will be bought on international markets in both November and December compared with 10 tons in October.

With the gold price now seemingly set for a bull run, the Taiwanese could quickly extend their buying to gold shares.

South African gold shares offer attractive yields to Taiwanese investors compared with domestic shares. And the Taiwanese do not suffer from political inhibitions.

London sources have reported during the past week or so that Taiwanese interest in South African gold shares is beginning to emerge despite their dislike of the financial rand system, which is difficult to understand and creates an impression of a weak economy.

If this continues to develop, it could unleash powerful buying pressures. The capitalisation of the Taipei market has reached nearly $250 billion and daily turnovers rival those of Japan.

The entire capital of the market is turned over nearly four times in a year, whereas in South Africa only 4 percent of the market capitalisation is turned over in the same time period.

The potential is mind-boggling, though South African brokers may not benefit materially in view of the probable preference of the Taiwanese to deal through London in order to avoid (directly) the complications of the financial rand system.

JSE is this year's top exchange worldwide

·CAP TIMES 2/12/87 SS

THE Johannesburg Stock Exchange plunged deeper than any other in the world after the October 1987 crash but in the past year, according to the Economist's international statistics — based on the monitoring of 16 bourses — it has been the best performer among the world's major equity markets.

It showed an overall gain of 39,3% over the 12 months to November 21 Its overall gain since December 31 was 31,2% in commercial rand terms — higher than any other major market The overall gain was 25,9% in financial rand terms

Singapore has been the second-best performer since December 31, with a rise of 35% in its overall index and gains of 29,9% in local currency and 28,9% in US dollar terms

The Paris bourse took third place Its overall index rose by 32,6%, with an advance of 24% in terms of the French franc and 21,2% in dollar terms

The surge in gold and precious metal prices in the past few weeks has propelled the JSE upwards, more than compensating for the fall in demand for other commodities and for industrial shares

The Johannesburg Stock Exchange has outperformed all other stock markets worldwide this year. Stockbrokers told AUDREY D'ANGELO why.

Gold attractive

Overseas investors are again finding SA gold shares attractive and their money has been pouring into the JSE in recent weeks

And the relaxation of the prescribed investments rule has enabled SA institutions to invest more of their money in equities, regarded as the most effective way of beating inflation

Peter Trengove Jones, at the Cape Town office of stockbroking firm Simpson McKie, says "There has been an enormous change in the past eight to 10 weeks It has all got to do with the very welcome revival in precious metals Gold shares are the stars but investors are also looking at platinum and the strongly gold and platinum-related mining financials

Restraints

"These sectors make up between 40% and 45% of our market and their very strong revival has propelled the JSE into new high ground

"The classic, commodity-based, rand hedge shares are losing ground now The commodity boom in the latter half of 1988 is a thing of the past

"The industrial sector of the market has been restrained by the rise in interest rates, which will impact on profits We still believe that some shares in this sector can show positive real growth, but it is going to be a lot less than they enjoyed in 1988-89 "

Pointing out that the rise in precious

□ To Page 20

overheard

THAT . . . it has been made known privately that the owners of a certain well-known wine farm on the Stellenbosch Wine Route are open to negotiation for purchase of the entire estate. The price? — R26 m.

□□□

. . . "with the problems WP cricket is having, perhaps the solution would be to replace Lawrence Seeff with Pam Golding, as captain " (Prominent banker, at a business lunch this week.)

□□□

. . . recent callers to the Castle have been presented with a surprisingly pacifist atmosphere. In the past, when put on "hold", the PABX played the traditional "Greensleeves", but now waiting callers are regaled with the "Mary Had a Little Lamb". . .

□□□

. . . from the current issue of the Cheltenham Ladies' College past-pupils magazine: ". . . has retired from soliciting for the third time, but is active in every sense."

□□□

. . . advice from the Somerset and Sherbourne Weekly News's cookery section "If guests are coming to dinner, disguise any unpleasant vegetable pongs by simmering apple peelings with a little lemon juice sprinkled over them just before they arrive."

Poacher swoops on Allied managers

58

Business Times Reporter

A SMALL specialist institution has poached seven managers from Allied Bank and the Allied Building Society.

SA Money Management (SAMM), which has hitherto specialised in preference shares and debentures, has branched out into investment advice, says senior partner John Harrison.

The Allied managers have become partners in SAMM and will woo investors, steering their money into the best investment home.

S Times 31/12/84

Links

Mr Harrison says: "For five years SAMM has arranged pref and debenture funding and traded in these instruments. It has brought us into close touch with several institutions. These links enable us to give unusually objective advice to clients on where to put their money."

SAMM has done much in the past five years to revive interest in neglected preference shares and debentures.

The company, which has its head office in Cape Town and is represented in Johannesburg and Durban, helps losing companies to save interest through issuing prefs, mainly to large institutions. The most popular period of the pref is the minimum three years.

JOHN HARRISON ... profits from prefs and debs

Mr Harrison says: "Pref dividends cost about 70% of prime overdraft rate — 14,7% instead of 21%. But the dividends, unlike interest costs, are not tax deductible.

"That is why it makes sense for a losing company, which is not paying tax, to issue prefs.

"Losing companies must either be fundamentally strong or they must be able to get guarantees from strong parents or from their banks before we can place the prefs with an institution.

"We deal in the corporate and institutional markets only and generally handle amounts exceeding R5-million.

Help

"The beauty of the arrangement is that pref dividends, unlike interest receipts, are not fully taxable in the hands of the holder. One pays tax only on a third of the dividend, so there are strong attractions for both borrower and lender.

"With the help of top lawyers and tax advisers, we have drawn up a standard pref deed document running to 34 pages. Last year, we arranged and traded prefs worth R300-million and debentures valued at R250-million."

Customers come first

Mutual and Federal step up 8 places to insure Top 10 spot

58

3/12/89

By Robyn Chalmers

CUSTOMER SERVICE is the name of Mutual and Federal's game. It certainly worked for the short-term insurer this year.

An annual average return rate of 51,9% over five years was good enough to push M&F eight places up from its position in last year's Top 100 Companies survey to settle at a comfortable ninth place in 1989.

Managing director Ken Saggers firmly believes the success of the short-term insurer lies in its good value and top class service.

"Today, M&F settles 800 claims a day, or 200 000 a year. Ultimately, this is giving the customer what he wants.

"We are not the cheapest — nor do we want to be — but at the end of the day we produce. We are not a fly-by-night operation — we are here to stay," he says.

In the volatile world of short-term insurance, M&F bucked the lower earnings trend, reporting good growth and a healthy underwriting surplus for the year to June 1989.

During a period in which there has been an intense rate war, high inflation and a deteriorating insurance market, M&F managed to boost its after-tax profit by 41% to R90,6-million.

It had an underwriting surplus of R54-million, compared with a surplus of R45,4-million during the previous financial year. Gross premiums rose by 11% to R826-million, while net premiums were 15% higher at R681-million.

M&F was founded in 1970 as a result of a merger between SA Mutual Fire and Royal Insurance. It is a subsidiary of Old Mutual, the oldest and largest life assurer in SA, and is closely associated with the Royal Insurance Company in the United Kingdom.

Over the past decade, the company has been the recipient of awards for superior earnings growth.

Triple A

This year, the company was given a triple A rating by the Quest Consulting company — the highest security rating possible. According to Quest, this means its management and business portfolios are of a high calibre.

The short-term insurance industry is currently in the grip of a particularly vicious rate war, which has been described as the worst such war in the history of South African insurance.

Mr Saggers says the situation at present is extremely unhealthy, with rates having come off 20% to 30% in the past 18 months.

"I believe the rate war will continue into 1990 — until insurers start producing losses. It must also be remembered that we have been very fortunate with weather losses over the past 18 months, but we cannot rely on this.

"Between July and October this year, for example, M&F was R40-million up on claims, compared with the same period in 1988, with the average cost per claim having increased by 30%. And this is across the board.

"I don't have to remind the industry what happened only a few years ago when a similar rate war took place — the AA Mutual collapsed."

Ties

The direct marketing trend which has developed in SA this year is being closely watched by M&F, he says. Mr Saggers remains convinced, however, that intermediaries have an important role to play, particularly in the marketing of insurance business.

"In the mass market (personal lines business) we continue to develop and build on our strong ties with the financial institutions with large marketing arms, such as big banking groups."

A further significant trend in the market at present is that of self-insurance, he says. The high cost of insurance has caused both the man-in-the-street and commercial entities to make their own insurance provisions or not to insure at all.

This trend is potentially damaging to insurers, who warn that it could also be highly dangerous for those who are caught unawares by a major disaster.

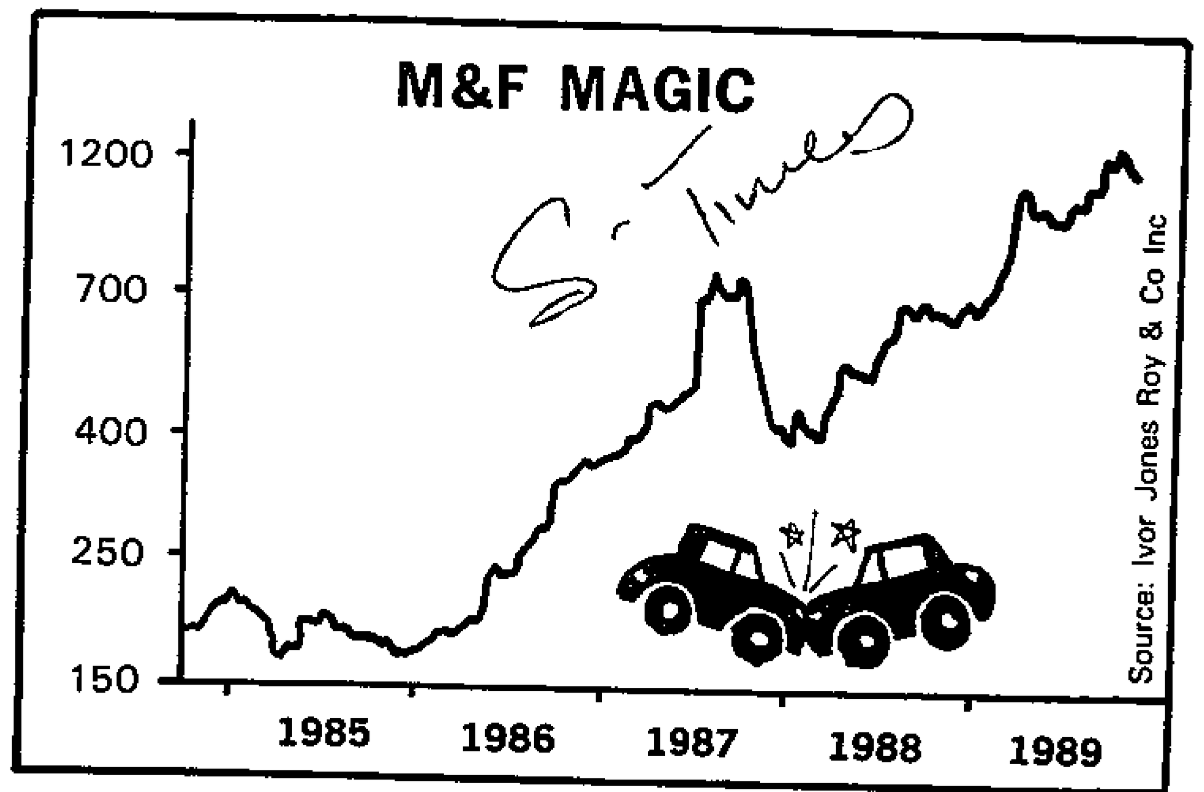
As with so many other organisations in South Africa, M&F is investing a lot more in its staff through an ongoing training programme and by concentrating on human resources management.

In addition, substantial investments in the latest computer technologies and systems have been made to streamline management information and to provide communication mechanisms with intermediaries.

Mr Saggers believes M&F's proven track record in equity investments and its good infastructure bode well for the future.

He adds that M&F is fully financed to meet the recommendations of the Melamet Commission. Evidence of this can be seen in the fact that the company's solvency margin is now well over 100%.

"The most important challenge within the industry now is to restore stability. Unfortunately, I foresee premiums rising sharply next year, with motor premiums in particular increased by at least 20% to 30%."



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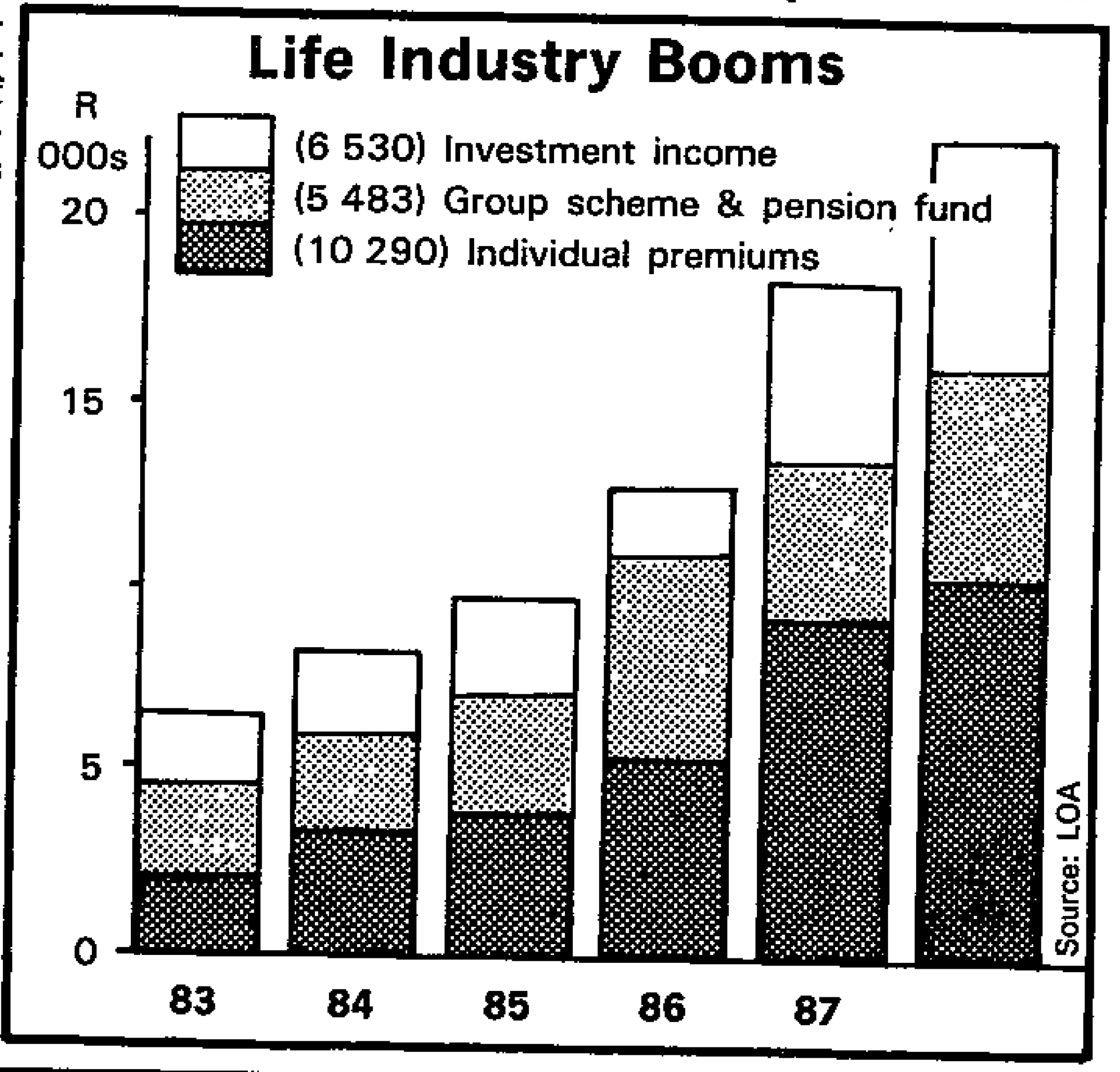

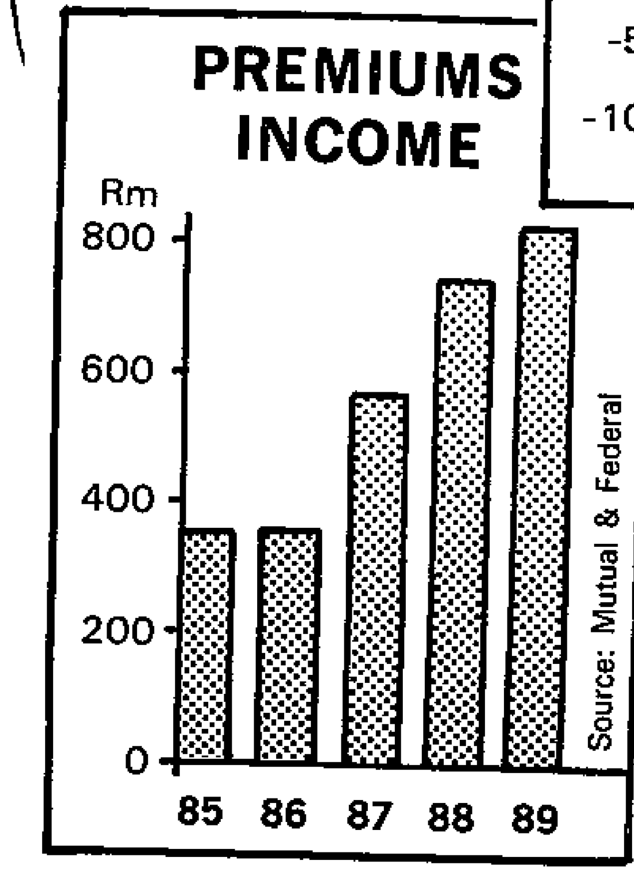

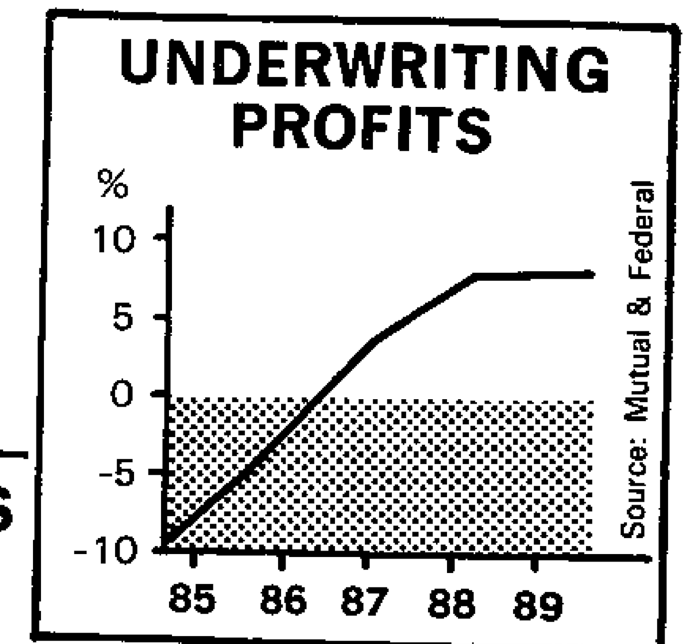

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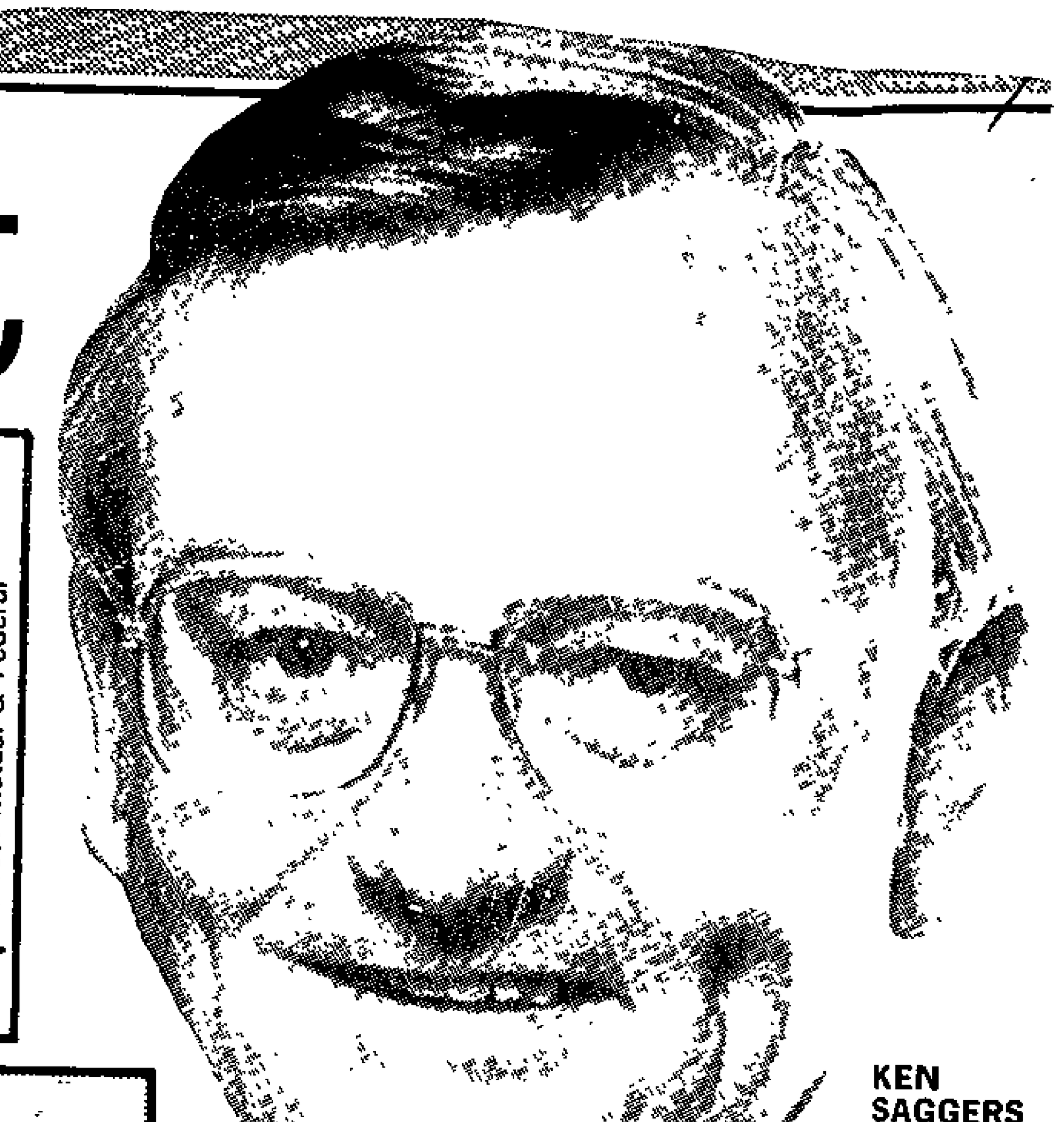

KEN SAGGERS ... top notch customer service ensures success

New tax formula for life offices praised

By Robyn Chalmers

THE SCRAPPING of prescribed assets must rate as this year's most important development in the lives of both long- and short-term insurance companies.

After years of speculation and lobbying on the part of insurers, Finance Minister Barend du Plessis announced in his March Budget speech that assurers, insurers and pension funds would no longer have to invest billions of rands in its loan stock.

During 1988, for example, an estimated R12-billion was invested in prescribed instruments by insurance and pension companies. Life offices were required to invest 53% of their liabilities under pensions and 33% of their liabilities under life policies in gilts.

While the abolition of prescribeds was warmly welcomed by the insurance industry, the investment guidelines which have replaced them have come under a certain amount of criticism.

The new guidelines officially came into being on October 1 this year, with the promulgation of the Financial Institutions Amendment Act. The aim of the guidelines was to ensure a prudent spread of investments within a certain maximum and encourage expertise.

Under the new regulations, insurance companies cannot invest more than 85% of actuarial liabilities in fixed property, equity and mortgage bonds, meaning they must invest at least 10% in gilts or hold it in cash.

Criticised

The fact that the guidelines are based on market value has been criticised. Reg Munro, Old Mutual assistant general manager of employee benefits, believes this means they have the potential to self-destruct.

Mr Munro says that if a fund were to invest the maximum allowance of 65% in equities, for example, an increase in market prices would push this percentage over the limit.

Figures supplied by the Life Offices Association (LOA) reveal that life companies showed excellent returns during 1988, with premium income totalling R15,8-billion.

This slowed down considerably for the year ended June 30 1989. Total premium income rose a mere 5,8% during this period, which in real terms represents a 10% decrease in premium income.

LOA chairman Pierre Steyn says the reason for this was a dramatic decrease in single premium income, both in nominal and real terms. This, he says, stemmed from an agreement reached by LOA members last year to market investment policies of at least five years.

Policyholders received a record amount of more than R7,7-billion in benefits during the 12-month period to June, however. This is an 18% increase over benefits paid during the equivalent period a year ago.

A new tax formula for life offices presented by Mr du Plessis in March was praised by the industry. Fedlife managing director Arnold Basserabie says the new tax basis will, in theory, bring about greater parity between assurance companies and other financial institutions.

"Although the principle established is commendable, certain parts of the new formula still need to be refined to make the tax basis of life business more satisfactory," he says.

Change

Mr Basserabie identifies the abolition of tax on income of insured provident funds as an important move on the part of Government, as well as the protection of spouses' interests in retirement benefit funds on divorce.

The short-term side of insurance has also witnessed considerable change, as well as the intensification of the controversial rate war.

The Melamet Commission into the AA Mutual crash reported its findings at the end of last year, and insurers have had to fulfill certain recommendations during the course of 1989.

One recommendation was a lifting of the solvency margin from 10% to 15%. The October Q-Wheel report by Quest Insurance Advisory Services shows that all insurers now exceed the 15% criteria.

The fierce rate war being waged by insurers has been one of the most devastating in the history of SA.

SA Insurance Association (SAIA) chairman Ron Carter describes the rate war as complete insanity.

"It simply does not make sense that, when everything else in the country is increasing in costs, insurance is not. It is an extremely dangerous practice."

Looking at other happenings over the past year, Mr Carter says he considers the investigation by the Melamet Commission into the outflow of short-term premiums as an important feature.

The introduction of an ombudsman to monitor consumer complaints was to be welcomed, he says.

RON CARTER

Unit trusts won't let anyone down

By Julie Walker

UNIT TRUSTS had a remarkable year to September, attracting the discretionary investment funds of 70 000 new unitholders to bring the total to 556 466.

The total value of the 31 unit trust funds exceeded R6-billion at September 30, compared with just under R4-billion in 1988. During the year there was a net inflow of R544-million into unit trusts.

Over the past five years, general equity unit trusts have achieved an average compound annual return of 26,8% — well ahead of the inflation rate over the period.

The 13 general funds were 47% invested in industrials, 18% in mining finance and 12% in other mining.

The specialist equity funds are almost all mining and resources based funds. They have achieved a compound rate of return of 21,4% over the past five years.

The 10 funds were 24% invested in gold shares, 24% in mining finance and 17% in other mining shares.

The eight high income trusts held assets with a market capitalisation of R264-million at September 30. In the last year they achieved an average total return of only 15,1%.

According to figures furnished by the University of Pretoria's Graduate School of Management's unit trust survey, UAL's general equity fund achieved the best return on a one year repurchase to repurchase basis.

The JSE's All-Share index climbed by 55,83%, but UAL's unit trust outperformed it with a rise of 56,47%.

New fund Norwich NBS did extremely well to finish in second place, with a rise of 55,71 — just under the rise in the All-Share index.

UAL's unit holders had a good year because its mining and resources fund also came tops, with a rise of 53,92% in the 12 months to September 1989. The survey uses the JSE's Mining Producers index as the yardstick against which to measure the performance of specialist equity funds. This index rose by 46,61%, while the All-Gold was up 38,71%.

To make it three out of three, UAL's gilt fund made the best return for unitholders out of the eight income funds. It returned 17,9%, whereas the survey estimates the rate of rise in the consumer price index at 15,29% over the period.

The worst performers in the two equity categories still achieved good returns. The Standard Bank Mutual equity fund gave a return of 41,77%. Its management adopted a bearish view on the JSE and the fund remained highly liquid.

Standard Bank Gold — the sole gold-only portfolio — did worst of the specialist funds, with an all-in return of 36,92%. It will probably do best this quarter after the leap in the prices of gold shares.

The worst-performing income funds were both Senbank's. Its Gilt trust made 9,96%, while the High Yield fund achieved a paltry 9,21%.

According to the survey, Senbank's two funds will be placed elsewhere within the Bankorp group, probably before the end of the year.

The survey says that, since the announcement of the relaxation of prescribed asset requirements for pension funds earlier this year, Senbank's Gilt fund in particular has lost its raison d'etre. The two could be the first casualties in a wave of unit trusts launched in 1987 which have not made the grade.

The liquidity of the equity funds varies as much as does their composition.

At September 30, the liquidity among general funds ranged from Sanlam Index trust's 8% to Lifegro's 27%. Four funds were more than 20% liquid, while the second-lowest liquidity was Sygro's 12%.

Four funds were more liquid than a year ago, while eight were less so.

Among specialist funds the range of liquidity was from Sanlam Dividend's 6% to Guardbank's and newcomer Southern Mining's 22%. Here, eight funds were more fully invested than they were last year, only Sage holding more cash.

The survey also notes movements in the unit trust industry. It says Board of Executors and AA Mutual Life have announced their intentions to establish general equity funds next year.

It also notes negotiations with the Registrar of Unit Trust Companies for the relaxation of certain legal restrictions. More flexibility and autonomy for self-regulation is called for.

The major areas of dissatisfaction relate to the 5% rules — a fund may not own more than 5% of any company's shares, nor may it have more than 5% of its funds invested in one company.

Another issue is that unit trusts may not hedge themselves on the futures markets, yet pension funds may do so.

Unit trusts also seek a lightening of the rules whereby they may not compare their performance with that of other trusts — or, indeed, other investment channels. The survey has become a source of reference in this regard.

It also refers to the developments at UAL, whereby UAL offers the chance to invest in a customised basket of managed growth assets which will provide an investor with a guaranteed minimum return on his investments.

An investor selects a minimum guaranteed capital performance to suit his financial plan. UAL offers guarantees ranging from a return of the capital invested to a maximum rate of the original capital invested, escalated at a compound rate of 5% a year.

All guaranteed returns are after tax at a rate of ,5%. The extent of the guarantee will affect the ultimate capital performance of the investment. A lower guarantee should yield higher capital growth.

The investor may select a fixed investment period between four and nine years. The assets of this product will produce a limited amount of annual taxable income, with the bulk of the income tax burden arising on the maturity date.

UAL trust also feature in Nedbank's home loan option introduced in May. Borrowers service only the interest on the home loan. Instead of reducing the capital portion, money is invested in UAL's unit trusts. The long-term proceeds from this investment should cover the capital liability and leave a surplus.

The general public may also in the near future be permitted to join specific pension funds which invest directly via a unit trust channel.

These funds will have to comply with the usual requirements, but the public will enjoy the same tax benefits as with a conventional pension fund.

Now there is a plan to link a retirement annuity fund to the 10 largest general unit trusts. Each members' contributions are, according to his own preference, invested in a specific trust. The usual tax benefits also apply here.

Unit trusts have let nobody down, and for the man in the street should continue to be the preferred investment vehicle for capital growth for the forseeable future.

COMPANIES

BDay 5/12/89 (58)

UAL chief warns of hard times due to interest rates

BARRY SERGEANT

UAL Merchant Bank MD Geoff Richardson warns that it might be difficult to achieve a real earnings increase in the year ahead.

In the annual report released yesterday, Richardson mentions the "more fragile economic sentiment prevailing today and continuing high short-term interest rates" as the chief obstacles.

In the year to end-September UAL achieved a 13% increase in net income to reach R27,4m. But the return on shareholders' funds — raised 21,4% from R81,2m in 1988 to R98,5m — was 30,5%, a very high figure anywhere in banking and financial services.

The 13% increase in earnings came off a very high base of return on shareholders' funds of 36,4% in 1987 and 32,7% in 1988. Despite the somewhat gloomy outlook, Richardson says that the "financial evolution taking place in SA is creating a range of opportunities on which UAL will be able to capitalise."

Outgoing chairman Owen Horwood comments that "steeply rising interest rates, an inverted yield curve and intense competition make the maintenance of a return on equity in excess of 30% a particularly noteworthy achievement".

UAL, a subsidiary of blue chip Nedcor, conducts its main operations in corporate finance, investment, securities, treasury and unit trusts. During the year under review, UAL achieved what it describes as "significant market share" in corporate finance transactions of R100m or larger.

During the year it participated in the launch of Nedgrowth, the first unit trust-linked mortgage scheme in SA. Assets under management of clients in the investment division exceeded R10bn for the first time.

A striking change in the financial statements were specific provisions for bad and doubtful debts which increased from R736 000 to R10,3m. The general provision remained unchanged at R21,2m and bad debts written off decreased from R2,3m to R367 000 in 1989.

or to changes in product fashion.

Libvest shareholders receive bonus

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Star 5/12/89

Finance Staff

Shareholders in Liberty Investors (Libvest), the pyramid company of the Liberty Life group, will receive a free allocation in Liberty Life's international investment arm, First Investment Trust (FIT).

Shareholders will get four free FIT shares for every 100 shares held in Libvest and in order to avoid that any shareholder will receive less than 100 FIT shares, holders owning less than 2 500 Libvest shares will get a cash payment of R10,25 per FIT share. This is equivalent to 41c per Libvest share.

The allocation will also entitle the shareholders to FIT's final dividend due in December.

Libvest's stake in FIT amounts to five percent of the latter's share capital and at last week's share price was valued at R71,5 million.

AA Life to be listed on the JSE

By Sven Lünsche

One of the fastest growing life assurers in South Africa, the AA Life, will be listed on the Johannesburg Stock Exchange via a reverse listing in February.

The vehicle used for the reverse listing is the cash shell, Ocean Appliance Corporation, which will trade under the name AA Life Group and seek a relisting on the insurance sector of the JSE. Star 5/12/84.

AA Life Group will hold 95 percent of the equity of AA Life.

According to managing director, Dr Brian Benfield, divdends are expected to be covered 1,5 times by earnings and the company is aiming at growth of between 20 and 25 percent a year.

The listing will take place under the guidance of Anglovaal, which only in April acquired a 41 percent stake in AA Life.

The assurer has shown remarkable growth over the last seven years, with assets rising by R50 million in 1982 to R300 million this year. In the six months to end-October net premium income was up by 47 percent, new business income by 54 percent and its market share improved by 20 percent. The AA Life is ranked the 10th largest assurer by the Life Offices Association.

The deal saw Volkskas Merchant Bank acquire 99,6 percent of Ocean's 3,95 million shares for 147,6c each from Federale Volksbeleggings.

This valued Ocean at R5,8 million, but cash at hand reduced to R5,5 million after allowing for a special dividend of 360c a share.

Subject to shareholders approval, Ocean will subsequently acquire 95 percent of AA Life's share capital by issuing 77 million new shares at 147,6c a share.

The payment values AA Life at just over R100 million.

Allied poaches bank MD

GRETA STEYN

IN AN aggressive move to strengthen its corporate banking division, the Allied has poached the chief of First Industrial Bank, Angus Prentice, to head the group's corporate banking operation as MD of Allied Bank.

Prentice's appointment follows a period of turbulence in the Allied's corporate banking division with his predecessor, Mike Henderson, generally believed to have been fired by group MD Kevin de Villiers.

Henderson's colleague divisional GM Clive Cook left about the same time.

De Villiers, who used to be a colleague of Prentice's at First National, said yesterday the Allied was targeting the corporate market as an area of expansion.

In addition to Prentice, five Corbank corporate banking division staff members — Mike Lammas, Sylvia Kenney, Beverly Cross and Amanda Brevert — are about to join the Allied to start a new division.

BD 5/12/89

De Villiers said the team would acquire tradeable assets such as Bankers' Acceptances.

Corbank MD Bill Pienaar said the bank's activities would not be affected by their departure, although some replacements would have to be made.

While the Allied has poached staff, it has also been the victim of poaching.

Non-managerial

58

Seven investment advisers left the group during the year to work for SA Money Management, which offered commissions and profit-sharing that the Allied could not match. However, De Villiers said the seven were all non-managerial staff of relatively junior rank.

"Their departure cannot be described as anything more than routine."

Listing for R100m-AA Life

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AA Life Assurance, in a deal that values the 10th biggest life office in SA at more than R100m, is to be reverse listed onto the JSE next year through the Ocean Appliance cash shell. Bl Day 5/12/89

Ocean, which becomes AA Life Group with a 95% stake in AA Life, will apply for a reinstatement of the listing under the insurance sector before coming to the boards in February 1990.

AA Life, in which Anglo Vaal acquired a 41% stake in April, reported a 54% growth in new business income and a 20% increase in market share for the six months to end-October. It is expecting earnings growth of between 20% and 25% a year with earnings covering dividends 1,5 times.

Had the deal been effective from May this year and the cash in Ocean invested for a full year at 9% after tax, pro forma earnings would increase by 4c from 12,6c to 16,6c.

KAY TURVEY

AA Life MD Brian Benfield yesterday described the listing as a milestone.

Ocean shareholders have yet to approve the AA Life acquisition after Volkskas Merchant Bank acquired 3,95-million Ocean shares, or 99,6% of its issued share capital, from Federal Volksbeleggings yesterday for R5,8m or 147,6c a share. A similiar offer is to be made to remaining shareholders.

Cash in Ocean amounted to R5,5m after allowing for a special dividend payment at 360c a share.

Subject to Ocean shareholders' approval an agreement has been reached with shareholders holding 95% of the issued share capital of AA Life to acquire all their AA Life shares for R100m or R13,70 a share. The purchase will be settled through the issue of 67,9-million new ordinary at 147,6c to AA Life.

Star 5/12/89 (6) (300) (58)

The Star Finance

Tax concessions on savings to be phased out

By Peter Fabricius, Political Correspondent

As announced in the Budget earlier this year concessions on investments with building societies, the post office and the Treasury are to be phased out over five years from March 1 next year, the Finance Minister Mr Barend du Plessis announced yesterdav.

He said no paid-up fixed-term shares with tax advantages will be offered by building societies from February 28. The Treasury's Bonus Conversion Bonds will also be redeemed on that date.

Mr du Plessis gave the following details of the changes.

Building societies

- Dividends on subscription shares and special tax-free indefinite period shares — which are now tax-free — will be only 80 percent tax-free from March 1 1990. The tax-free portion will be reduced by 20 percentage points a year until the dividend becomes fully taxable.

The dividend rate will continue to be fixed by the Minister of Finance in the light of the general interest rate pattern and also to ensure that the taxable portion represents a market-related rate of interest.

Building societies will be allowed to continue offering these investments on the new conditions.

- Tax concessions on paid-up indefinite-period shares (deposits) — will also be phased out over five years. The shares are now one-third tax-free.

This concession will be reduced by 20 percent — or six-and-two-thirds percentage points — each year starting from March 1 1990 until it is phased out altogether.

- The existing tax concession on paid-up fixed-term shares will apply for the full five-year phasing-out period but new shares of this sort issued after February 28 next year will not enjoy any tax concession.

Treasury bonds

- Bonus conversion bonds are due to expire on February 28 1990. After that no further interest will accrue on unredeemed bonds and investors should apply for redemption by that date at any post office conducting money order business. The bond should accompany the application.

- The present series of indefinite-period Treasury Bonds will close on December 15 and will be redeemed on February 28 1990. After that no further interest will accrue on unredeemed bonds.

To replace this series a second series with partial tax concessions will be offered. Existing investments that expired on February 28 1990 can be converted at face value to the new series.

This could either be done in full or in multiples of R100. More details will be provided in due course.

The tax concessions on the second series will be as follows:

- From March 1 1990, 80 percent of the interest will be tax free. The tax free portion will reduce by 20 percentage points each year until it is phased out.

The Minister of Finance will fix the interest rate according to market conditions and to allow for the higher taxability of a portion of the income as in building society and Post Office Savings Bank investments.

The Treasury will continue to issue these bonds under the conditions which will apply during phasing out.

Post Office savings

- From March 1 1990, only 80 percent of the interest on Savings Bank certificates will be tax-free; from March 1 1991 only 60 percent — until the interest is fully taxable.

The rate of interest will be fixed by the Minister of Finance each year in the same way as for Treasury and building society investments. Any new certificates issued will be subject to the phasing out arrangements.

- The relevant tax concessions on Post Office Savings Bank accounts, savings books and Telebank will be reduced by 20 percentage points each year starting on March 1 1990, until the income is fully taxable.

The rate of interest will not be adjusted annually to keep the taxable portion of interest market-related.

New investments will be offered according to the arragements applying during the phasing-in period.

Full dividend expected from Columbia

B/Day 5/12/89

LINDA ENSOR

INTERIM results of Columbia Consultants are due out this week, with a full (or nearly full) payout of a dividend from earnings expected.

In the past, group policy was to pay only a final dividend, but CE Gordon Polovin indicated earlier this year that this would be changed.

Earnings from the group — which are derived more from interest than earning-generating assets — are expected to be in the region of 8c (23,5c). This would push up the p:e on the current share price of 180c from its current 3,4 times to 22,5.

The total dividend in the 1988/89 financial year was 18c.

Investments still within the Columbia fold include 50% of Acrem, 40% of Pride Consultants, 60% of Powernet and 6,5-million shares in Toco.

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Realise

Polovin says a deal has almost been concluded to sell Supalek and negotiations are under way for the sale either of Blocktech itself or of its assets, leaving a cash shell.

He adds that net worth currently stands at between R50m-R55m, with the Blocktech and Supalek deals expected to realise a total of about R22m in cash.

Columbia may retain its Acrem interest, a "big earner" in the past, says Polovin.

Columbia is aiming to make a blue-chip investment with the funds realised from the sale of its assets, but to date nothing suitable has turned up.

Besides being cash flush, Columbia is totally ungeared, having paid off the R35,4m in interest-bearing debt it owed at year-end. It therefore has the potential, Polovin says, to borrow funds to make a substantial purchase.

Cape Times 5/12/89 (58)

Tax concessions to be phased out

JOHANNESBURG. — Tax concessions on certain investments with building societies, the Post Office and Treasury are to be phased out over five years as from March next year, Finance Minister Barend du Plessis announced yesterday.

The proposed gradual withdrawal of these tax benefits on building society investments has allayed fears that the move would drive up mortgage rates. Tax-free deposits, which pay a lower rate than taxable deposits have previously served to subsidise mortgage lending.

The abolition of all tax concessions attached to these investments was envisaged in this year's Budget and is in line with the committment towards levelling the playing field in the financial services industry.

In a statement issued yesterday, Du Plessis said all dividends accruing to subscription shares and special indefinite-period shares, which are at present fully tax free, will from March 1, 1990 be only 80% tax free and 60% tax-free from March 1991.

The tax-free portion will then reduce by 20% each year until the dividend is fully taxable.

The dividend rate will continue to be fixed by the Minister of Finance in light of the general interest rate pattern and to ensure the taxable portion reflects a market-related rate of interest.

Further, building society paid-up indefinite period shares which are currently tax-free to the extent of $33\frac{1}{3}$, will have this concession reduced by 20% each year from March next year until they are fully taxable.

Such shares issued after March 1991 will be subject to the conditions then applying in terms of the phasing out programme.

The existing tax concessions of paid-up fixed term shares will apply for the full five-year phasing out period, but new shares issued after February 1990 will not enjoy any tax benefit.

Building society spokesmen said the conditions were in line with expectations.

As the concessions are to be phased out, they will not significantly increase the cost of money for building societies and will therefore soften the impact on mortgage rates in the short-term, NBS GM Brian Short said.

He added it was important that investors realised it was the tax concessions that were being withdrawn and not the investments themselves.

Further, they should appreciate that there would be adjustments to the rate of interest, to ensure the taxable portion of the investment would pay market-related rates. This would prevent any panic or a run on the societies.

Allied Group MD Kevin de Villiers said the phased withdrawal was a move in the right direction towards levelling the playing field.

However, given the authorities' desire to encourage savings, he said he felt the tax-free limit on interest for fixed deposits might be raised.

He said tax-free deposits had subsidised the home-owner and it could be expected that home loan rates would in the longer term move more in line with the prime rate. Historically bond rates have been below prime.

UBS Mike Deblanche agreed the withdrawal of the tax benefits would gradually increase on the cost of money to building societies, but given fierce competition home loan rates might not rise significanly, he said.

Star 6/12/89

The Star
Finance

(58)

Croeser announces major restructuring at Finance

By Sven Lünsche

The Department of Finance has amounced a major restructuring of its operations, which will shift decision making responsibilities from the Treasury to various spending departments.

The changes follow recommendations by the van der Horst Committee and were outlined by the director-general of Finance, Gerhard Croeser, in a press statement yesterday.

According to Mr Croeser the Office of the Financial Institutions will become a body outside the public service, although its functions will not change materially.

More importantly, the branches of the Public Finance and Treasury departments would be scrapped from December 1 and re-organised into three new sections, namely Financial Planning, Financial Relations and Financial Supervision.

All three of the new branches will take over certain of the former Treasury's functions and would be headed by a deputy director general.

The Financial Planning section will he headed by former chief director of Economic Advice in the Central Economic Advisory Service, Estiaan Calitz, and would be responsible for drafting the Budget and control monetary, fiscal and tax policies.

Financial Relations will deal with inter-governmental relations (municipalities, local authorities and regional services councils) and inter-state relations (Development Bank and assistance to other countries).

Arnold Pretorius, former Public Finance deputy director general, will head this area.

Former Treasury Secretary, Richard Burton, will be in charge of Financial Supervision, which will control expenditure by government departments.

Dr Croeser reportedly said that the new approach was aimed at "the Department of Finance laying down guidelines and ground rules, but allowing other departments to make the tough decisions on their priorities, but also be accountable for these decisions."

Libery Life lifts number of shares in issue

(58) Finance Staff

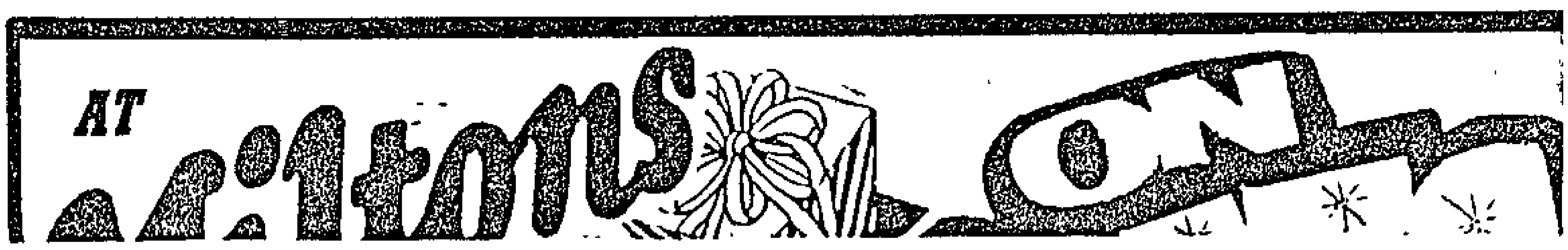
As part of the process of realigning its issued share capital with growth in shareholders' funds, Liberty Life yesterday announced a capitalisation issue and a decision to capitalise part of the company's share premium account. Star 6/12/89

Interests of shareholders have grown from R77 million in 1979 to R2,445 billion this year, Liberty directors said in a statement.

As a result shareholders in Libery Life, who hold shares on December 29, will be offered five new shares for every 100 ordinary or preferred ordinary shares held, or a cash equivalent.

The cash equivalent will be announced early next year. The new shares will qualify for the final dividend for financial 1989.

The number of new shares issued at around 930 000 will be minimal and effect on earnings will be marginal.



Met Life expenses surge

SIN 6/12/89 . By Tom Hood (58)

CAPE TOWN — Operating expenses at Metropolitan Life surged 31 percent to R169,7million in the year to September and exceeded the R162 million in benefits paid to policyholders.

Payouts were 17 percent ahead of the R138 million of a year ago.

Both marketing remuneration (R98,7 million) and operating costs (R71 million) grew 31 percent.

Recurring premium income of R414 million rose 30 percent (industry average of 5,8 percent). Total premium income of R438 million was up 28 percent. Coffers were swelled by R217 million from investment income, which rose 31 percent. Total long-term insurance funds increased by R276 million to R1,2 billion. Investments showed a market value appreciation of 34 percent to R2,426 billion.

The disclosed profit of almost R20 million was 25 percent up on a year ago. The final dividend of 19c (15c) is up 26 percent to raise the payout to 30c (24c).

Outflow from post office savings likely to increase

58

Finance Staff

The post office savings bank is losing between R30 million and R40 million a month and the latest announcement by the Minister of Finance on the phasing out over the next five years of tax-free investments is expected to boost this outflow.

However, senior general manager, finance, at the post office, Pieter Jordaan, said the withdrawal of tax-free benefits had to some extent been discounted as the Minister had made it clear in his Budget speech that he inteded to phase out the concession.

Mr Jordaan assured investors that the interest rate on savings bank certificates would be adjusted yearly and the return would remain market related.

The post office savings bank has R2,67 billion of investment money. There is about R2 billion in savings bank certificates, R609 million in bank books and R65 million in Telebank.

The certificates carry a 9,5 percent interest and the other two instruments six percent.

Mr Kingsley Loney, regional general manager in the Cape of the Natal Building Society, said the move was unlikely to have an impact on the mortgage rate.

Societies had adjusted their investment portfolios and the top commercial bond rate was now 21,5 percent and the residential rate at 20,75 percent, compared with a 21 percent prime rate.

The pressure was really on the post office tax-free investments. People had been adjusting their invest ment portfolios in the light of the high rates.

An investment in a taxable instrument at 18 percent compared more than favourably with the 9,5 percent top tax-free rate.

An investment in a tax-free building society instrument had been restricted to R20 000 a person. However, one could invest up to R80 000 in the post office, depending on marital status. This was one of the main reasons why the post office had attracted so much investment money.

New R45m admin building planned

Metpol boosts income 29%

CAP T/n B 6/12/89

sd

By AUDREY D'ANGELO
Financial Editor

CAPE TOWN-based Metropolitan Life (Metpol) lifted total income for the year to September by 29% to R655m (R506,5m).

Recurring premium income was R414,7m (R321m) and single premium income R22,9m (R20,2m). Investment income rose by 31% to R217,1m (R165,2m).

Earnings at share level were 45c (36c).

A final dividend of 19c was declared, making a total of 30c for the year compared with 24c last year.

The total market value of Metpol's investment assets rose to R2,4bn compared with R1,8bn the previous year.

The company paid out R162m in benefits to policyholders compared with R138,1m the previous year, and the disclosed surplus attributable to shareholders was R19,9m (R15,9m).

Its tax bill was lower at R27m (R32,4m). But its operating expenses were higher at R169,7m (R129,1m).

Deputy MD Marius Smith said the operating expenses included marketing remuneration — R98,7m compared with R74,9m the previous year — which rose inevitably with an increase in business.

Pointing out that the company was now 10 years old, Smith said its total income had grown by 22% compound annually since 1979. Its total income in that first year was R111,4m.

Its property development of five office blocks in landscaped grounds at Parc du Cap, Bellville, is almost completed and is fully let.

The next step will be to build a new administrative building for Metpol itself, at Parc du Cap, at a cost of R45m.

Work will start early in the new year and the building is expected to be ready for occupation in September 1991, when about 700 staff members will move in. But the head office of the company will remain in its present building in Wale Street, Cape Town.

Commenting on the rise in Metpol's investment income in the past year, Smith said it reflected the buoyancy in investment markets.

GM (investments) Johan Kotze said there was now an element of uncertainty in the equity market, and it looked expensive. "I am going into the market slowly, mainly through rights issues."

Most of his new investment was currently in the money market. "We can get interest of 19% or 20%, which is better than the inflation rate, and we can be 100% certain about the safety of the capital."

However, Kotze added, Metpol still has "quite a proportion of its assets in equities, and we are enjoying what we are getting (from that)".

Discussing gold, he pointed out that previous rises had been only in dollar terms and were only reflections of currency movements.

Until recently, gold had been declining steadily against the Deutschemark. This had changed since September 15 but gold had still risen by only 3% against the Deutschemark.

"The critical thing for us is the rand price of gold, which needs a substantial lift to justify the prices of gold shares today.

"The fundamentals have not changed since people were pessimistic about gold a few months ago. I would like to see the gold price in a structural uptrend in all the strong currencies.

"I am not too sure that will happen unless one sees a change in perception about the risk of high inflation in the Western countries. At present, interest rates are still above inflation and people can earn a real rate of return on their money."

Kotze said Metpol was still investing in property. "We are buying selectively."

Interest in advance

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Stw 7/12/87

Finance Staff

Santambank is playing Santa Claus to its short-term depositors. It offers to pay interest in advance at 18 percent on deposits of R1 000 to R50 000 with terms of four to six months.

This means that an investor who deposits money ahead of Christmas can walk out with cash to pay for his holiday and festivities without having to dip into capital.

If he prefers not to spend the money he can re-deposit the interest in a "gold" savings account, which pays 14 percent, provided it has a minimum balance of R200. "We are creating this opportunity for our clients to make it worthwhile to save during the festive season," says Mr Andries Swart, Santanbank's general manager, personal banking services.

Property funds benefit from requirements

BD 31/1/89 LIZ ROUSE (58)

THE newly-promulgated prudential investment requirements for life assurers and pension funds have given a noticeable boost to the investment market for direct property.

UAL Property Managers MD John Peters, commenting in the Syfrets & Commercial Union (Sycom) and Trycom property funds annual reports, says this investment income comes at a time when activity in the physical property market could be expected to pause as the economy passes its peak.

The new requirements will almost inevitably ensure that property represents a higher proportion of total assets than in the past, says Peters.

In addition, although capitalisation rates have been influenced by the sharp rise in interest rates since mid-1988, this process does not have much further to go and will be restrained by the inherent strength of demand.

Prime ofice developments are being placed on prospective yields of 10% and 10,5% while regional calibre shopping centres command 10,4% to 11%.

Regulations

Reviewing the performance of the JSE's property trust sector, Peters points out that the sector's index has outperformed the industrial index since April 1989.

Peters says there is growing evidence that a comprehensive revision of the regulations governing property unit trusts is both desireable and feasible. He is confident this will happen soon.

Peters says 1990's prospects for landlords are not unsatisfactory across much of the board. The take-up of space should continue at 1989 levels, while rental growth in the A grade property market will continue positive, although trailing the inflation rate.

Looking specifically at Sycom and Tricom, the funds have reported net distributable income a unit up by 20% to 72,52c and 9% to 56,9c a unit respectively in the year to September.

The respective boards project a modest improvement in distribution in 1990 — 75c a unit for Sycom and 58c a unit for Tricom.

Concern voiced about cutting of Treasury control over spending

Albany 11/2/87

58

ACHMED KARIEM

DP FINANCE spokesman Harry Schwarz has expressed concern about the removal of some Treasury control over spending of departments, but has welcomed changes designed to bring about greater efficiency in the Finance Department.

In a statement yesterday he said decisions on priorities of expenditure were often "not mere management decisions", but had important political implications.

Priorities of expenditure had to be carefully planned and decisions taken had to be changed at the highest level only.

There had been many examples of "lack of adequate financial control", and matters would get worse without meaningful input from Treasury.

Schwarz said another factor was the unnecessary expenditure of surplus departmental funds near the end of a financial year to avoid repayment into General Reserve Funds.

Basic safeguards of financial control had to be maintained in the light of reports on Education and Training Department activities.

Statutory

"In view of the changes, one must envisage that the role of the Auditor-General and of the Public Accounts Committee should become more proactive," Schwarz said.

He applauded the decision to make the Financial Institution Office a statutory body outside the Public Service.

However, banks and building societies might have to be brought under such a body, as would the methods of liaison between such a body and the Reserve Bank.

An example of the problem was the Usury Act, which not only policed adherence to the law but also fixed maximum interest rates.

Schwarz said insurance companies were having an increasing impact on the financial sector, meaning co-ordination between the Reserve Bank and the Registrar of the Financial Institution was vital.

Another matter of concern was the personnel position in the Finance Department.

He said Director-General Gerhard Croeser and fellow senior colleagues were "capable and experienced", although he lamented the shortage of skilled personnel within the department.

Cape Times 8 Dec 1989

Chairman retires on a high note

DR J G VAN DER HORST

Dr J G van der Horst has announced that he will retire on 1 March 1990 after spending 23 illustrious years at Old Mutual.

Giving his last chairman's address, Dr Van der Horst said it had been a great privilege to have participated so closely in the development of the Society and, through that, in the South African economy.

Mr Mike Levett, the present managing director, has been elected to succeed him as chairman.

A new position, that of chief operating officer to whom the general managers will report, will be created with effect from 1 March 1990. Mr Gerhard van Niekerk, presently general manager (employee benefits), has been promoted into this position.

Mr Garth Griffin, presently managing director of Providence Capitol Group in the United Kingdom, will be appointed general manager (employee benefits) in the place of Mr Van Niekerk.

Mr Ralph Roseman, general manager (services), has been seconded to the Providence Capitol Group to succeed Mr Griffin.

Mr Reg Munro was appointed general manager (services) with effect from 1st October 1989.

Dr Johannes van der Horst and Mr Bobby Jooste retain their positions of general manager (investments) and general manager (individual life) respectively.

Top team provide continuity.

MIKE LEVETT

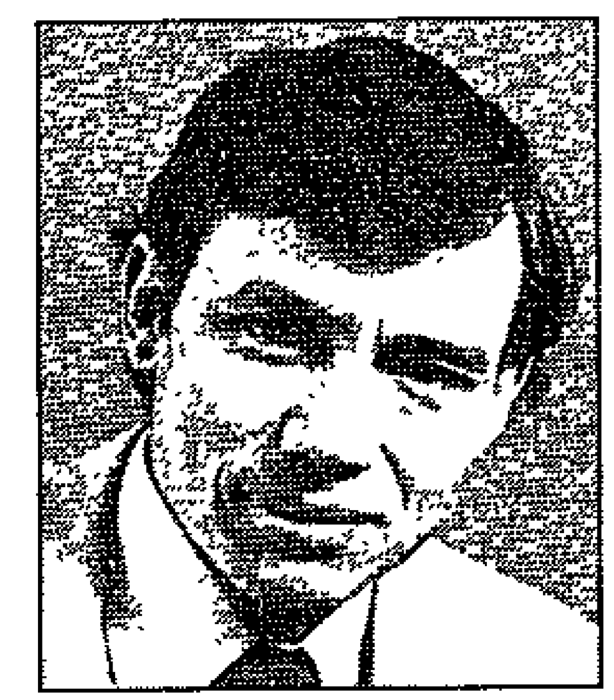
GERHARD VAN NIEKERK

Mr Les Geater and Mr Dave Hudson have both been promoted to assistant general management.

NEW DIRECTORS

Two directors were appointed to the Board during the past year. Dr John Maree is chairman of Eskom and next month he will assume the chairmanship of Nedcor Ltd and Nedperm Bank Ltd.

Mr Warren Clewlow is vice-chairman and chief executive of Barlow Rand Ltd, as well as being the acting chairman of the State President's Economic Advisory Council.



JOHANNES VAN DER HORST

BOBBY JOOSTE

REG MUNRO

GARTH GRIFFIN

Cape Times
8 Dec 1989

Old Mutual leads the Life Industry

"One of the most striking features of Old Mutual's performance during the 1989 financial year, was the rise in market value of assets under management to R46 552 million, 48% more than last year and almost ten times greater than at the beginning of the decade," said Dr J G van der Horst, chairman of Old Mutual, at the 144th annual general meeting in Cape Town.

"This gives Old Mutual by far the largest asset base amongst South African financial institutions, and makes us large even by world standards," he said.

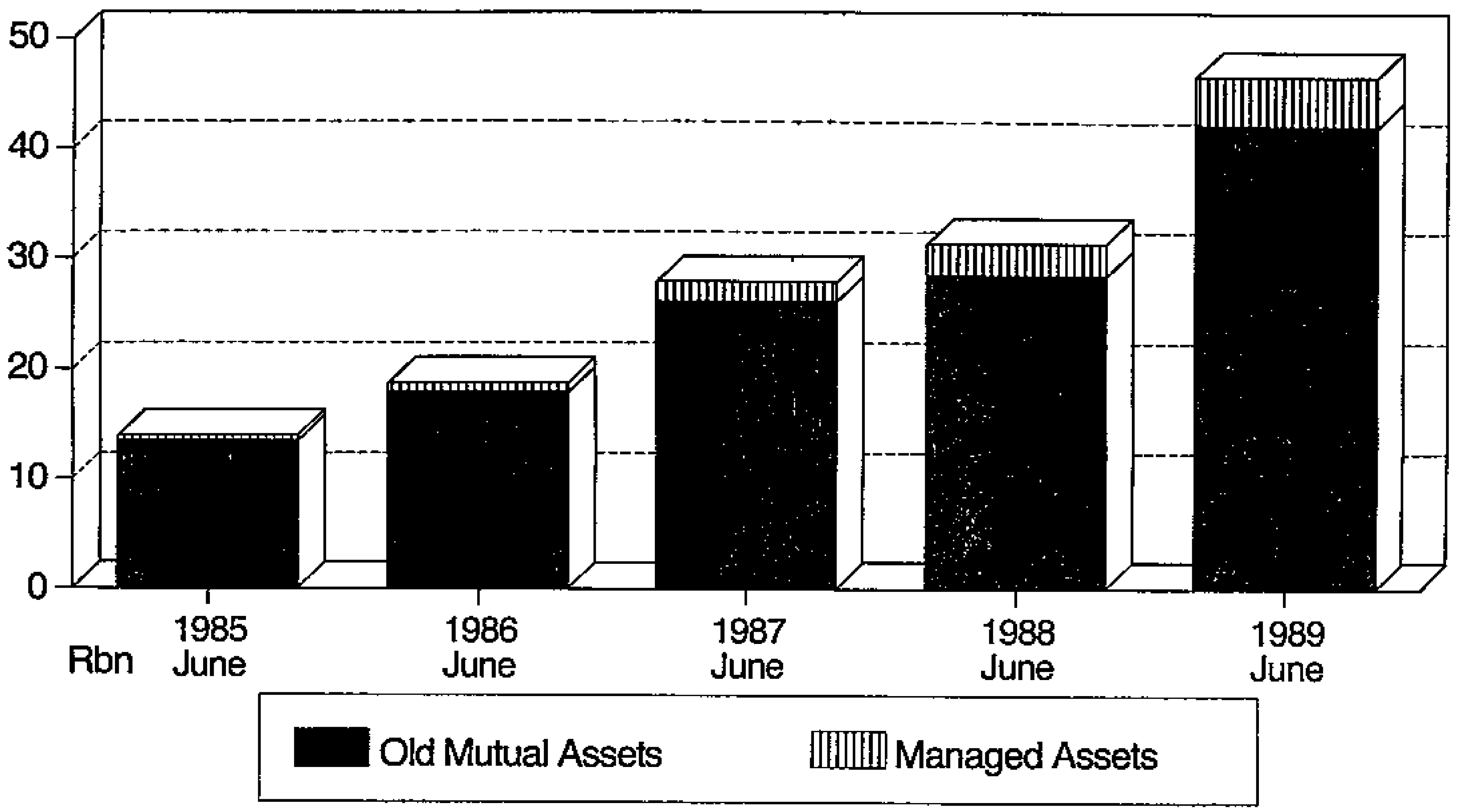
Dr Van der Horst added that as far as Old Mutual is concerned, size is not an end in itself.

"It is the consequence of success. Success in developing attractive products, marketing them well, providing good service and perhaps most important of all, giving policyholders an attractive return on their money.

"Because we are a mutual society, our total assets represent nothing else but the combined stakes of all our individual policyholders and pension and provident fund members in the wealth of Southern Africa. The man in the street, through his participation in life assurance, retirement funds and unit trusts, actually owns a very large portion of the economy."

He reported that payments to policyholders had risen by 38% to R2 508 million or R10 million per working day. This is more than eleven times the R217 million paid out in 1980.

TOTAL ASSETS UNDER MANAGEMENT



Source: Old Mutual

Total premium income rose to a new high of R5 635 million. At the beginning of the decade this figure was only R627 million.

Old Mutual's market share in South Africa continued to grow, increasing by nearly 5% over the past 3 years.

Income from recurring premiums, which is the foundation of Old Mutual's business, grew by 27% to R3 796 million.

Investment income, together with capital appreciation, determines the level of bonuses and investment returns that can be distributed to policyholders. During the year this income grew by an impressive 55% to R2 794 million.

Dr Van der Horst attributed this increase to strong dividend growth and correct positioning of portfolios to benefit from the rise in interest rates over the past year or two.

He said one of the reasons for Old Mutual's continued success is that it has been in the forefront of developments regarding products, systems and range of services provided and has maintained its position as market leader.

"In our changing environment, new markets are emerging and the challenge is to find ways in which these markets can be served."

JSE inundated with foreign buying orders

58

Stars 8/12/89

By Magnus Heystek
Finance Editor

Foreign capital continued to pour into South African financial markets yesterday which boosted the all-share index on the Johannesburg Stock Exchange through the 3 000-barrier for the first time while capital rates continued their downward trend of recent days.

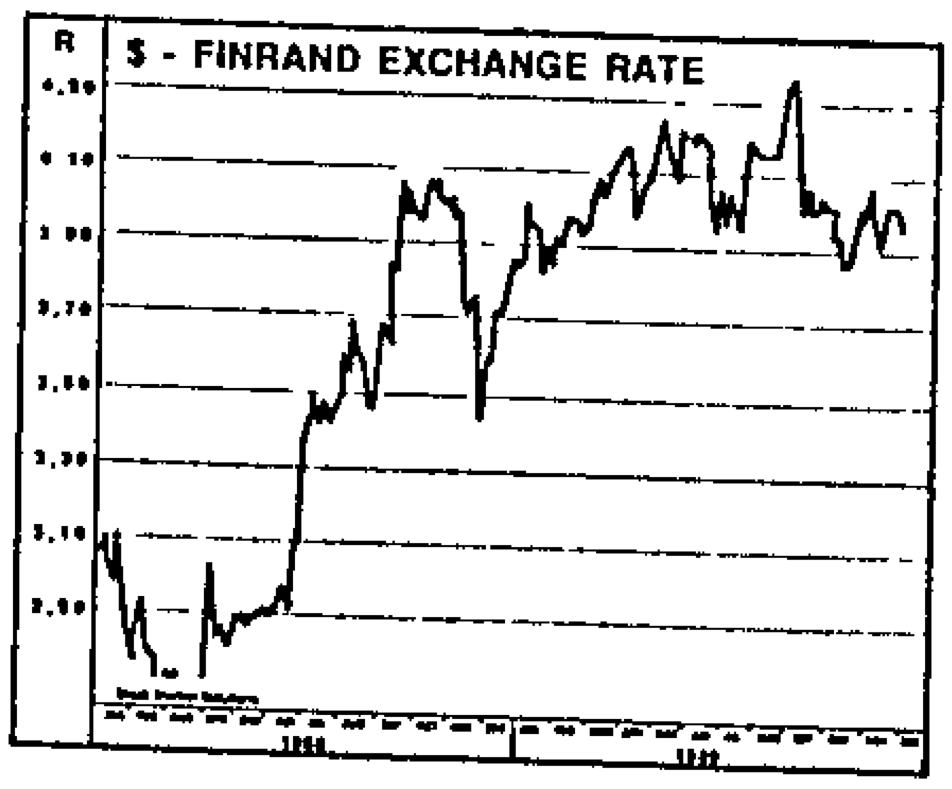
The overall market rose by 63 points to close at 3053 while gold shares rose by another 51 points to close at 2168. The industrial index was also very firm, rising by 66 points to 2725. Dealers described the trading conditions as "hectic and frenzied" with a shortage of good-quality scrip exacerbating the situation.

The bullish mood on the gold market was evident in the difference of over 100 points between the spot index and the futures market, indicating that the current bull market shows no sign of abating.

Resistance level

The gold price continued to firm yesterday after testing the resistance level around $400 an ounce earlier this week. Gold was fixed at $406 an ounce in London yesterday, up more than $3 an ounce on Wednesday afternoon's fix.

On the capital markets the buoyant conditions continued with the benchmark stock, the Eskom E168, closing at 15,90 percent after a brief rally to above 16 percent during the morning session. Overseas buying of stock was particularily in evidence with massive buying order flooding in from German and Swiss buyers in particulars.



Capital markets rates have dropped by more than 150 points since peaking at 17,40 in May this year, largely as a result of increased buying from overseas.

Local gilts are particularly attractive to foreign investors who can use the financial rand to effect transactions while dividends are remitted by means of the commercial rand. This boosts their running yield to well over 25 percent, compared with yields of between 5 and 9 percent in other world markets.

According to some analysts Japanese and Arabian investors are concealing their origin, using European dealers to execute their purchases.

The commercial rand continued to firm and at R2,57 against the US dollar was the strongest this year while the financial rand was also firmer at R3,96, indicating overseas demand for investment avenues in South Africa.

The influx of foreign capital, which started off as a trickle after the resignation of the former State President Mr PW Botha, has now developed into a full-blooded avalanche. According to informed estimates some R5 billion will have been invested in South Africa, mainly in gold shares and local gilts, by the end of the year.

Yesterday's announcement that the national call-up system is to be reduced to 12 months from next year, indicated a further lessening of tensions in the South African region.

The rand has strengthened considerably against the US dollar, rising from R2,85 in May to yesterday's levels around R2,57. With a further strengthening of the rand expected, this could lead to a reduction in the inflation rate later next year.

And to add further to the euphoria on local financial markets, it was announced yesterday that South Africa's gold and foreign exchange reserves in November rose by more than R300 million to R5,53 billion.

Strict controls

Speaking from Pretoria yesterday Dr Org Marais, deputy-minister of Finance, said that while there was no intention of relaxing the strict controls over the economy now, the improved conditions might be used to South Africa's benefit, like "repaying our foreign debt at a faster rate".

"We are committed to bringing down the inflation rate to below 10 percent. Current developments will certainly aid us in this attempt. We will not be making the same mistake as in the past by squandering any short-term gains," Dr Marais said yesterday.

R967,05 a fine ounce at the end of No- duced substantially during No

Mobil investigates R500-m capex

58

By Des Parker

Mobil Oil SA is investigating ways to increase production at its Wentworth Refinery in Durban.

The resulting development could involve expenditure of close to R500 million, Bernard Smith, chairman of the company and executive director in charge of energy affairs with holding company Gencor, says officials at the refinery and an engineering company last month began investigating alternatives for increasing the capacity of the plant.

These are "de-bottlenecking" the operation or adding new refining units in a "brownfield" development. "The method, if it were adopted, would involved capital expenditure of the order of R400 million," said Mr Smith.

"It would be premature to speculate on what developments will take place, but if we think it's important to bring on additional capacity we will be in a position to make the announcement in about six months' time."

The decision to investigate expansion at the Wentworth refinery followed Gencor's R650 million takeover of Mobil from its American parent.

Gencor has been laying foundations for the formation of a widely-diversified energy-related company, to be called Engen.

It will house the mining house's strategically acquired interests in Mossgas, Soekor, Mobil, Trek and other smaller energy-producing companies.

Star 8/12/89

Huge leap in ZCCM

Share boom — avalanche of foreign cash

Argus 8/12/89

By TOM HOOD, Business Editor

SHARE prices continued their upsurge on the Johannesburg Stock Exchange today after yesterday's boom put an extra R7 billion into the pockets of investors.

Share values surged as foreign capital poured into South African financial markets, sending the all-share index on the JSE through the 3 000-barrier for the first time.

Profit-taking, however, saw several gold-mining shares lose a few cents in spite of a higher gold price.

The influx of foreign capital, which started as a trickle after the resignation of the former president, Mr P W Botha, has developed into an avalanche. According to informed estimates R5 billion will have been invested in South Africa, mainly in gold shares and local gilts, by the end of the year.

The JSE's overall market index rose by 63 points to close at 3 053, while gold shares rose by 51 points to close at 2 168. The industrial index jumped 66 points to 2 725.

Dealers described the trading conditions as "hectic and frenzied" with a shortage of good-quality scrip exacerbating the situation.

Overseas buying was reported yesterday, with massive orders flooding in from Germany and Switzerland in particulars.

According to some analysts Japanese and Arabian investors are concealing their origin through European dealers.

The announcement that the national call-up is to be reduced to 12 months from next year indicated a further lessening of tension in the South African region.

Speaking from Pretoria, Dr Org Marais, Deputy-Minister of Finance, said that while there was no intention of relaxing the strict controls over the economy now, the improved conditions might be used to South Africa's benefit, like "repaying our foreign debt at a faster rate".

"We are committed to bringing down the inflation rate to below 10 percent. Current developments will certainly aid us in this attempt. We will not be making the same mistake as in the past by squandering any short-term gains," he said.

58 Finmail 8/12/89

NEDCOR

Profits' Permanent wave

Activities: *Providing a wide range of financial and banking services through a number of specialised subsidiaries.*
Control: *Old Mutual is the controlling shareholder.*
Chairman: *O P F Horwood; managing director: P J Liebenberg.*
Capital structure: *185,9m ords of R1 each; 1,12m partly paid "A" ords of R1,03 paid. Market capitalisation: R1 896m.*
Share market: *Price: 1 020c. Yields: 4,5% on dividend; 13,6% on earnings; PE ratio, 7,4; cover, 3,0. 12-month high, 1 075c; low, 635c. Trading volume last quarter, 1,4m shares.*
Financial: *Year to September 30.*

	'86	'87	'88	'89
Advances (Rbn)	9,0	9,8	10,9	19,9
Total assets (Rbn)	13,8	14,3	16,8	28,3
Taxed profit (Rm)*	80	133	174	257
Earnings (c)*	74,8	85,1	111,3	138,5
Dividends (c)	30	33	40	46

* After transfers to tax equalisation reserve.

Nedbank's Liebenberg . . . quality before volume

This time last year CEO Piet Liebenberg was cautious about Nedcor's ability to repeat its earnings growth rate. In the event, he was proved right and earnings rose by just over 24%, but only because the group increased its transfer to tax equalisation reserves to R130m from 1988's R36m. If the equalisation transfer had not been made, EPS of 208,4c would have been 55% higher than in 1988 — which underscores the quality of Nedcor's earnings.

Essentially, the group has increased its retentions by covering dividends an effective 4,5 times, using the final part of the tax holiday to build the capital base while, simultaneously, indicating to shareholders the eventual effect of a return to full tax. Chairman Owen Horwood reckons the 38,6% tax rate implied by the equalisation transfers is in line with what Nedcor will pay when its tax losses are worked off. Speeding the exhaustion of the tax loss is a drawback of the merger with the Perm.

Capital was further enhanced by the R173,7m rights issue that accompanied the merger. According to Liebenberg, capital is surplus to that needed even on a fully phased basis.

THE PRE-TAX PROFIT SPLIT

	1988 Rm	1989
Nedbank	152,1	210,2
Perm	n/a	101,0
UAL	39,0	11,5
Syfrets	27,5	31,6
Nedfin	18,1	30,7
Finansbank	11,2	20,1

Nedcor falls into that part of the banking camp currently emphasising business quality rather than volumes. It seems a necessary restraint at this stage, particularly as most banking companies need to lift their returns on assets to generate the resources needed to meet capital adequacy requirements mandated by the Banks Act. The result last year was a rise in Nedbank's return on total assets from 1,28% to 1,56%. Just over a month ago First National, which also restrained business growth, reported a rise to 0,9% from 0,73%.

Of course the group had emphasised lending volumes in financial 1988 when margins were narrower than they are now and when high interest rates were not leading to an increasing number of loan defaults. This past year bad debt provisions were increased to R99,4m from 1988's R53,8m. But of that increase, R38,8m was due to the Perm's first-time consolidation and provisions offset against profits by the rest of the group were 12,6% up on 1988's level against an 11,9% rise in advances by the group excluding the Perm.

The close match between the rates of increase in provisions and advances reflects some tight management of assets. And, reflecting the decision not to chase poor-quality business, Nedbank, the commercial banking arm, raised its advances by next to nothing to R8,79bn at the financial year's end, from R8,7bn a year before.

In contrast, Nedfin, the HP specialist, lifted its advances to R1,75bn from R1,35bn. Presumably, the growth rate will be slower this year. Nor is there much prospect of a sharp improvement in UAL's profits this year. Emphasis is shifting from traditional merchant banking activities towards investment banking, but the change instigated by altering market conditions will take time to produce benefits.

Finansbank was buoyed by privatisation business and raised its pre-tax profit. The Iscor privatisation has been completed and Finansbank has already been appointed to investigate the possibility of privatising SA Transport Services.

For now the Perm's operations remain separate from those of the rest of the group, though some cross-marketing of products is in place. However, it seems unlikely an artificial separation will continue for any great period. Optimum asset management, particularly when it comes to securitisation of assets such as mortgages, demands far closer links between Nedbank and the Perm than is now the case. By terminating its mutual status, and becoming a part of Nedcor, the Perm is better placed to raise capital.

This year's business growth is unlikely to be spectacular — emphasis remains firmly on the quality rather than volume of advances, and is likely to remain that way until interest rates start to decline and the economy picks up. Nonetheless, earnings after tax equalisation transfers and tax payments should rise by at least 20% this year as interest margins remain favourable. By the time the full tax liability is incurred, dividends will be about three times covered by earnings and, this year, a total payout of over 50c is easily within reach.

The share deserves its present rating.

Jim Jones

ADCOCK INGRAM

Meeting targets

Life in the pharmaceuticals industry is unlikely to be anything but tough. None of the major players has more than 6% of the marincrease of 26% when adjusted for the results of Fedmis fertiliser which was disposed of after five months of the year. At attributable level the advance was only 13% after net finance charges rose to R28,3m (R10,9m) and the effective tax rate reached 41% (33%).

The balance sheet has strengthened further, with the debt:fixed capital ratio rising to 0,46 (0,57). Capital spending has fallen but is due to pick up steeply, with commitments standing at R160m (R32,5m). Van der Walt says about R225m will be spent this year and about R474m in 1991 before dropping to about R200m. The gearing ratio is, however, targeted to be 0,40 at March 31.

For the second half, management is looking for a repeat of the 45c per share earned in the second half of last year. That would give a total 85,5c for the 12 months, placing the share on a prospective p:e of 7,4 times.

Andrew McNulty

METROPOLITAN LIFE

Solid sales

For an assurance company which does the major part of its business in the black market, the rising incidence of AIDS has become a factor of concern. Metpol MD Willem Pretorius, when discussing results for the year to end-September, says that over the past three years substantial additional reserves have been created to cater for this risk.

He emphasises that the middle- to upper-end of the black market will remain the focal area of the group's new business drive. He points out that over the past 12 months the average black premium, valued at about R80 a month, has exceeded the average white monthly premium.

At R655m, total income for the year is 29% higher than the previous year. There was a 28% growth in premium income, which reached R438m, and a creditable 31% growth in investment income to R217m.

Most of the business is written in recurring premium rather than in single premium policies: this comprised 95% of new policy write-ups, and growth in this activity matched that of overall income growth at 29%. Group scheme business, sold mostly to the trade union or labour-force market, is an important source of new business; this year it contributed about 25% of premium income.

Benefits paid to policyholders increased by only 17%. This enabled the company to transfer a large slice of funds available to policyholders and shareholders to the long-term insurance fund, which stands at R276m, 45% up on the previous year. Market value of total assets reached R2,58bn, exceeding the R2bn mark for the first time after rising by 34% from R1,92bn last year.

EPS, at 45c, were up by 25% and provide a 1,5 times cover on the 30c (24c) dividend. At 470c, the share yields 6,4% on dividend and stands on a 10,4 times p:e. *Gerald Hirshon*

AA LIFE

Wider horizons

The listing of AA Life Group as a holding company in February probably presages further development aimed at building a financial services group. A structure in which the group will have subsidiaries in various fields, some listed, would be the goal.

MD Brian Benfield says the group will start a general unit trust fund in March. There will also be interests in short-term insurance and other developments are in view. Other life groups have followed this path.

AA Life, which will be 95%-held by AA Life Group, will be the cornerstone. The listing is via Ocean Appliances cash shell because no capital is needed. AA Life held a R20m rights offer early last year and in April this year raised another R30m in another offer, in which the rights were renounced by existing shareholders so that Anglovaal could take a 41% stake. In the share swap involved in the listing, Anglovaal will maintain its stake in AA Life Group.

Ocean, a suspended shell, has R5,5m cash after declaration of a special dividend. Some of the cash will be used to cover the costs of the listing.

AA Life's growth has been impressive. Since 1982 it has risen from 24th position in the life industry to be ranked 10th now. Benfield says the industry is competitive and innovative, and its record of producing returns in excess of inflation account for its recent vibrant growth. With the industry's tax and prescribed assets regime now "on a correct footing," he is confident of its continued health.

According to the *pro forma* projected income statement, based on the assumption that the AA Life Group had been listed for the full year, EPS are expected to be 16,6c in the year to end-April 1990. On the 147,6c a share valuation being placed on the group, the p:e is 9 times, below that of other listed life companies. Tradeability is likely to be tight but may be eased because Volkskas Merchant Bank is committed to selling the 3,9m AA Life Group shares it will receive in the listing.

Teigue Payne

UNIT TRUSTS

High/low since 1.1.89		Annual dividend cents			Price Nov 27	Price Dec 4	Yield on repurchase price %
			General equity funds				
1708,68	1254,40	65,51	Guardbank	Selling price	1684,99	1708,68	4,11
1593,10	1169,30			Repurchase price	1571,32	1593,10	
144,27	109,68	7,33	Metfund	Selling price	142,01	144,14	5,45
134,47	102,64			Repurchase price	132,40	134,43	
179,69	123,83	7,21	Momentum	Selling price	177,68	179,69	4,30
167,77	116,83			Repurchase price	165,98	167,77	
737,82	563,19	46,49	NBS Hallmark	Selling price	712,73	718,97	6,96
685,90	514,27			Repurchase price	662,36	668,17	
309,27	230,45	16,55	Norwich NBS	Selling price	301,79	299,91	5,94
287,53	214,20			Repurchase price	280,48	278,73	
2064,58	1501,86	94,50	Old Mutual	Selling price	2029,73	2064,58	4,93
1918,03	1395,45		Invest	Repurchase price	1885,59	1918,03	
1697,96	1278,35	64,50	Sage	Selling price	1672,16	1697,96	4,09
1577,38	1192,56			Repurchase price	1553,60	1577,38	
1153,22	896,91	62,90	Sanlam	Selling price	1103,86	1110,02	6,09
1074,28	838,61			Repurchase price	1027,27	1033,13	
143,27	109,30	6,54	Southern	Selling price	141,52	143,27	4,93
132,78	101,31			Repurchase price	131,15	132,78	
859,74	643,58	45,61	Standard	Selling price	852,20	859,74	5,67
804,25	602,24			Repurchase price	797,18	804,25	
165,60	122,47	6,06	Syfrets Growth	Selling price	162,47	165,60	3,93
154,12	114,05		Fund	Repurchase price	151,21	154,12	
1498,91	1078,51	66,55	UAL	Selling price	1481,36	1498,91	4,76
1397,73	1004,48			Repurchase price	1381,38	1397,73	
			Specialist equity funds				
148,17	105,07	6,87	Guardbank	Selling price	147,04	148,17	4,97
138,12	97,98		Resources	Repurchase price	137,17	138,12	
308,86	215,58	14,17	Old Mutual	Selling price	308,86	306,89	4,97
286,95	200,19		Mining	Repurchase price	286,95	285,11	
126,79	90,88	5,10	Sage	Selling price	125,84	126,79	4,33
117,73	84,74		Resources	Repurchase price	116,87	117,73	
321,65	258,13	23,00	Sanlam	Selling price	296,24	292,61	8,45

High/low since 1.1.89		Annual dividend cents			Price Nov 27	Price Dec 4	Yield on repurchase price %
			Specialist equity funds (cont)				
299,73	241,44		Dividend	Repurchase price	275,69	272,27	
947,94	674,04	32,60	Sanlam	Selling price	930,62	938,23	3,73
881,48	627,18		Index	Repurchase price	865,88	873,01	
596,68	477,98	27,60	Sanlam	Selling price	568,05	573,68	5,17
555,58	445,78		Industrial	Repurchase price	528,93	534,21	
302,48	217,63	15,70	Sanlam	Selling price	302,42	302,48	5,58
281,49	203,33		Mining	Repurchase price	281,49	281,45	
156,47	109,40	6,76	Southern	Selling price	155,34	156,47	4,66
145,01	101,40		Mining	Repurchase price	143,96	145,01	
282,74	183,27	12,02	Standard	Selling price	281.80	282,74	4,56
263,57	170,94		Gold	Repurchase price	262,71	263,57	
360,31	251,45	17,28	UAL Mining	Selling price	354,37	360,31	5,15
335,52	233,35		& Resources	Repurchase price	330,01	335,52	
1216,90	984,43	53,56	UAL Select	Selling price	1131,82	1139,45	5,06
1130,49	914,67			Repurchase price	1051,18	1058,32	
			Income/gilt funds				
105,56	99,36	16,41	Corbank	Selling price	103,54	105,56	15,71
104,44	98,31		Gilt	Repurchase price	102,45	104,44	
114,02	103,84	15,54	Guardbank	Selling price	113,43	114,02	13,79
112,71	102,60		Income	Repurchase price	112,13	112,71	
107,69	102,61	—	Old Mutual	Selling price	105,62	106,20	—
105,47	100,48		Income	Repurchase price	103,43	104,00	
96,29	88,29	13,92	Senbank	Selling price	94,03	96,29	14,61
95,28	87,37			Repurchase price	93,05	95,28	
99,73	87,83	13,96	Senbank	Selling price	93,69	95,98	14,70
94,73	86,81		Gilt	Repurchase price	92,70	94,97	
89,91	85,18	12,40	Standard	Selling price	88,19	88,86	14,12
88,87	84,19		Income	Repurchase price	87,17	87,83	
108,17	102,29	15,59	Syfrets	Selling price	106,46	106,58	14,78
105,96	100,22		Income	Repurchase price	104,33	105,50	
1128,04	1024,94	165,25	UAL Gilt	Selling price	1062,25	1077,92	15,49
1116,76	1014,70			Repurchase price	1051,63	1067,14	

Servicemen may get 'time off'

CAPE TIMES 8/12/89

(58)

TROOPIES already doing their two-year call up are expected to get "time off" in terms of the one-year cut in training announced yesterday by President F W de Klerk.

Full details of the new arrangements are to be revealed today but it is understood that thousands of young men could be back on civvy street sooner than they thought.

The one-year cut has been welcomed by the Democratic Party's defence spokesman, General Bob Rogers, but the Conservative Party's Mr Koos van der Merwe accused Mr De Klerk of acting unilaterally without consulting the Parliamentary Standing Committee on Security Services.

Commerce and industry welcomed Mr De Klerk's announcement, predicting an economic boost, a major reduction of the national skills shortage and "material" tax cuts in next year's budget.

Assocom said that the reduction reflected the increasing stability in South Africa and would strengthen business confidence.

Minister of Finance Mr Barend du Plessis said the move would result in substantial saving on government expenditure and improve productivity.

Top business executives urged Mr De Klerk to go further and cut camps, citing this as the major disruptive force in the upper-level job market.

Economists, however, warned against euphoria,

To page 2

disease".

CAPE TIMES 8/12/89

From page 1

saying the initial flood of manpower onto the market would make jobs scarce.

Mr Adriaan Mocke, an economist at the University of Stellenbosch, said jobs would be scarce for the first year as matriculants "overflowed" onto the market, stretching universities and technikons to their limits.

Mr Jerry Ferry, president of the Cape Town Chamber of Commerce, said special help would have to be offered to unskilled servicemen coming onto the job market.

Opening an Armscor building in Pretoria, Mr De Klerk said the easing conflict situation between the East and the West — as well as in Southern and South Africa — had had a direct bearing on the security situation.

The more relaxed atmosphere in Southern Africa had not simply "fallen from the sky". The well-equipped security forces had made it possible.

If the situation changed the new call-up arrangements would be revised without hesitation.

In a statement Minister of Defence General Magnus Malan said a signal he had sent to President Mikhail Gorbachev in March 1988 was now paying dividends.

He had told Mr Gorbachev that if he applied the same principles to Angola that he had applied in Afghanistan, it would be a signal to South Africa that "the process to end the conflict in Southern Africa could begin".

General Malan said he had set out game rules for interaction in the security field in Southern Africa. These were:

- Mutual respect for sovereignty and territorial integrity;
- A desire to have stable, prosperous and developing neighbours;
- A rejection of the export of revolution, and
- South Africa reserved the right to act against revolutionaries and terrorists according to recognised international law.

The End Conscription Campaign (ECC) has welcomed the one-year cut in military training.

The ECC added, however: "This reduction does not remove the huge dilemma facing conscripts who still have to choose whether to serve in an apartheid army."

The organisation called on the government, as a "sign of goodwill", to release jailed objectors, declare a moratorium on all objector trials and allow exiled objectors to return without fear of prosecution. — Political Staff and Sapa

(58) FMail 3/12/89

BANKING LEGISLATION (58)

Squaring up

A new framework for regulating deposit-taking institutions is to be introduced in two stages, Banks and Building Societies registrar Chris de Swardt confirms that draft legislation, which will set out the principles, should be placed before parliament in the first half of next year. But it will not be possible to implement it until banking regulations are reframed, in terms of the new legislation.

This process, he says, may not be completed until the following year.

The two-legged introduction has caused confusion about the date when legislation, on which authorities and the private sector have been working for more than a year, is to be introduced.

A "major issue," says De Swardt, is the proportion of shares any one shareholder (and associates) should be allowed to hold. There is now an anomaly between the limits applying to banks and building societies. Under the Banks Act of 1965 and Building Societies Act of 1986, a building society controlling company which is also a registered bank controlling company, may hold up to 30% of a bank — but a bank or bank controlling company may not hold more than 10% of a building society.

As it happens, the 30% limit is exceeded in four of the five main banking groups — the exception being Volkskas — with permission from the minister of finance.

Reasons for these holdings are historic; at the time the larger holdings were accepted by the authorities as necessary. However, this does not make for the much-vaunted level playing fields and nor does the restriction on building society holdings.

While smoothing out discrepancies between rules applying to holdings in various banks does not appear a problem, lifting the restriction in building society holdings is being opposed by some societies, who fear their independence may be jeopardised.

One suggestion made by the Banks Act Revision Committee, which is working on the draft legislation with the Reserve Bank, is that societies should be given a five-year period of grace from the time they convert to company status before the doors are thrown open to wider holdings.

First to be affected, should this suggestion be accepted, would be UBS, holding company of United, which became a company and listed late in 1986. The other three societies converted and listed in 1987.

One way in which the impasse could be resolved is by looking more closely at what constitutes control.

De Swardt points out there is more than one way of defining control, which can be exercised not only through shareholdings but, for example, through an institution's board of directors or management.

The question of control is clearly controversial and will undoubtedly be the subject of broad debate next year, as parties lobby for position. Like demutualisation of building societies, the issue is likely to become a tug of war between powerful personalities. ■

New ways to finance that costly mortgage

58 9/12/89

58 star 9/12/8

MAGNUS HEYSTEK

HOME buying or building will never be the same again. Gone are the days when prospective home-owners had only one option when it came to mortgage finance.

Today, prospective home-owners have a wide range of financing facilities at their disposal. Recent innovations in the home mortgage finance market — unit trust or endowment linked — makes it imperative to compare all the various finance schemes available.

One of the options which has been thrown into the fray this year is the concept of unit trust or endowment-linked home loans.

Invested

This route were first opened up in May this year with Nedgrowth, the loan linked to the UAL Unit Trust. This has since been followed by similar schemes from Standard Bank, the UBS and the NBS, with others undoubtedly in the pipeline.

With both the unit trust and the endowment-linked bonds the borrower's payment services only the interest on the loan. Instead of reducing the capital portion, the balance of the money is invested either in unit trusts or an endowment policy. Long-term proceeds from this investment will cover the capital liability of the loan — and leave a substantial capital surplus.

The following table demonstrates the growth potential of the three routes and clearly shows the lower growth potential of endowments-linked loans compared with the unit trust route.

This example is for a bond of R100 000 at 21 percent interest for 25 years.

	Conventional	Endowment	Unit Trust
Assumed growth	N/A	20%*	20%
Total payment over 25 years	521 796	602 747	541 361
Value of investment at end of term	Nil	343 411	639 536
Amount owing on loan at end of term	Nil	100 000	100 000
Net investment value after repayment of loan	Nil	243 411	539 536
Amount paid above the conventional loan	N/A	80 951	19 565
Net gain	Nil	163 128	520 639
No of years to pay off loan	25	20	16 (Optional)
Least amount payable	345 283 (R1 817,90 p/m) 190 months	459 016 20 years	346 820 190 months

* The endowment quote gives a figure of 15 percent but states that because of various costs, a compound return of 20% is required to achieve this.

The endowment-linked loan makes no capital repayment for the first two years. After seven years the amount invested should be about R7 000 and after 15 years about R40 000.

Year	Conventional bond cost	Endowment value	Unit Trust value
1	1 645	0	992
2	1 645	0	2 202
3	1 645	308	3 677
5	1 645	1 765	7 670
10	1 645	10 573	28 346
15	1 645	39 825	84 090
20	1 645	122 763	234 374
25	1 645	343 411	639 536

Furthermore, the endowment is less flexible in that it should be kept for at least 10 years ... if surrendered before three years the surrender value is virtually nil and if before 10 years the tax free status of the investment falls away.

With a unit-trust linked loan there is a growing investment from the start. So, on the basis of unit trust performances for the last two decades or so, after 15 years the consumer will have more than enough to pay off the entire loan. At seven years the investment already stands at more than R12 000.

The real difference between the linked bond and the conventional loan is evident at maturity of the bond term.

At this stage, assuming a R100 000 loan, a 21 percent interest rate and a 25-year bond, the conventional borrower's asset will be a paid-up home.

With the unit trust- linked route, the borrower will have a home on which R100 000 is owed, as well as R639 536. The net situation is a paid up home and R539 500. The endowment-linked loan provides a house on which R100 000 is owed plus R343 411 — a net outcome of a home and R243 400.

One of the prime reasons for the difference in values of the endowment and unit trust investments is that the expenses involved in the administration of endowments are high, while there is a relatively low management cost for the unit trust schemes.

In fact comparisons on all counts put the unit trust route ahead of the endowments for the home owner.

Undoubtedly, however, the unit trust-linked loan performs best with the greatest differential between interest rates and the unit trust returns — ie, the higher the interest rates, the less attractive the unit trust plan.

Still even with today's peak interest rates, the only case in which the conventional loan comes out slightly ahead is when the repayment term is shortened to 190 months (15 years and 8 months).

Even then, the difference is a negligible R1 500 over the whole period.

This calculation assumes a 20 percent return on the unit trust investment, which when compared with historical returns, is actually extremely conservative.

Over the more average payback period of 25 years the new higher interest rates have a minimal effect on the unit trust-linked loan and investment return.

The capital sum available at the end of the period remains virtually the same, although the total amount paid and monthly repayment is slightly higher. The same applies to the endowment route.

The monthly payment on a conventional bond of R100 000 at 21 percent over 25 years, is R1 759,66, with no capital residual at the end of the tern. On a unit trust loan the monthly payment is R1 825,30 — with a substantial capital residual.

The effects of a stock market plunge such as in October 1987 and again last month raise questions as to the efficiency of market-linked bonds.

However, despite the massive stock market crash of October 1987 unit trusts have long outperformed all fixed interest and property investments. In addition, equities have outperformed fixed interest investments over the last 25 years.

The UAL Unit Trust, to which the Nedgrowth policy is linked, is still performing at more than [illegible] percent for this year to date — even taking into account Octo ber's market plunge.

Conprop the refurbisher

5 Times, 19/12/89

58

CONSOLIDATED Property & Finance (Conprop) will be listed in the property sector of the JSE four days before Christmas.

The business, established in 1978, has three divisions — property development, property investment and construction.

FAMILY

Conprop has been involved in the completion of factories, offices and holiday flats, as well as revamping buildings.

After a private placing of 3-million shares at 150c, which chief executive Frank Tarry says has been completed, there will be 18-million in issue. The Tarry family controls the other 15-million shares.

Conprop is thus capitalised at R27-million — a premium to asset value of R25-million.

The funds raised will be used to repay debts and listing expenses totalling R4,8-million, leaving the company ungeared.

Mr Tarry says timeshare and the leisure industry in general are in disrepute, and Conprop's listing is intended to restore credibility.

Management forecasts earnings of 34,9c a share for the year to February 1990, placing the company on 4,3 times forward earnings. It will declare a 10c dividend for the period to February 1990.

Mr Tarry thinks the shares are undervalued at 150c, but believes initial investors in Conprop deserve a bonus. He thinks they will hang on to the shares if the price is at a premium to that paid.

Market rife with talk of Western Plat sale

58

Star 11/12/89

By Neil Behrmann

LONDON — Lonrho shares have surged by 11 percent in the past few weeks on rumours that it will sell Western Platinum.

Trading at £2,94 a share, equivalent to R18,25 at financial rand rates, the shares have recovered from £2,31 reached at the low point of the October crash.

There is market talk that Minorco could be a buyer, but Anglo's international arm does not have any immediate deals in mind, says a Minorco spokesman.

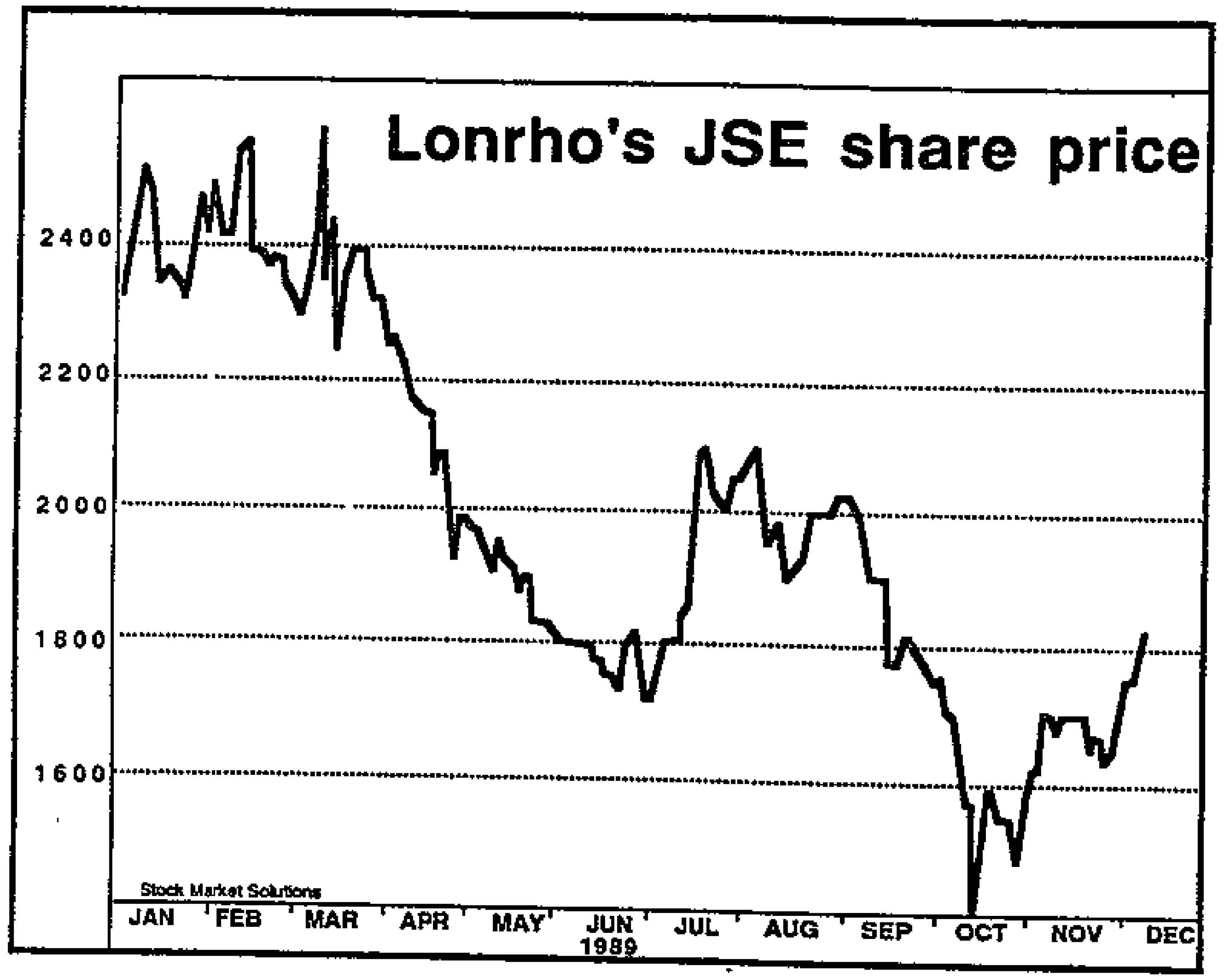
In any event, say analysts, it is doubtful Minorco would take on Lonrho's tough chief executive, Tiny Rowland. The experience with Congold would be an old ladies' tea party in comparison.

Lonrho has confirmed neither of these rumours, but analysts say that it would ask for $1 billion if it decided to sell Western.

Analyst Robert Davies of Shearson Lehman Hutton doubts whether Anglo American would pay such a large sum. He estimates the mine is worth $400 million to $500 million.

Western Platinum, 99 percent-owned by Lonrho, is the world's third-largest platinum mine after Rustenburg and Impala.

Production began on the Merensky Reef in 1971 and in 1980 Western Platinum also started developing the UG2 Reef, a chromite-rich body lying about 135 metres below the Merensky Reef.



Western Platinum is in the middle of an aggressive expansion programme centred on the number four shaft.

The aim is to increase tonnage to three million tons this year. This will yield 300 000 ounces of platinum group metals, including palladium and rhodium, which last week soared to a record price of $2 000 an ounce.

Annual platinum output is estimated at 200 000 ounces, 25 percent higher than levels seen in 1987. The mine plans to increase platinum group metal output to over 800 000ounces in five years time, says Shearson.

Western Platinum is a low-cost producer and working costs are estimated at R45 a ton, below the levels of Rustenburg and Impala, the firm says. Average grade, however, is lower.

Western Platinum produces 2 000 tons of nickel and, at present prices, the metal makes a significant contribution to profits. There is also potential from chromite output.

Precious metals, including a gold mine in Ghana, contribute about a quarter of pre-tax profits, says Warburg Securities.

It calculates that a 10 percent rise in precious metals prices raises earnings by six percent.

Lonrho shares were poor performers this year because the market was worried that a large holding of shares held by the financially stricken Australian tycoon, Alan Bond, would be dumped on the market.

These shares, however, have been placed, so the market will rate Lonrho on its merits.

The dividend yield on Lonrho shares is the highest in the FTSE 100 index, says Shearson.

Net asset value of Lonrho is estimated by analysts at £4,2 to £5,50 a share. Mr Rowland says the company is worth £8.

Annual profits are to be reported in January, but analysts forecast a 10 percent dip in earnings to 26p a share and dividends of 19p, or 6,8 percent.

Since the shares are valued in financial rands, the yield for South Africans is a much lower 4,2 percent.

It is currently a poor rand hedge because sterling is so weak. Yet at present exchange rates net asset value is nore than R30 a share.

Shares of Lonrho have been poorly rated over the years because key activities are based in Africa.

But the bulk of Lonrho's worldwide businesses are outside Africa and are involved in leisure, property development and motor distribution.

Barlow takes up export challenge

58

Star 11/12/89

Finance Staff

South Africa's need to complement its gold sales with exports of other products and services is stressed by Barlow Rand chairman Mike Rosholt.

He raises the point in his report on a year in which his group raised its export turnover by 55 percent to R3 billion.

Noting that a bright feature of the past year was "an export performance in other commodities and manufactured goods which more than compensated for the shortfall in gold revenues", Mr Rosholt says that a continuation of this trend could have great significance, particularly when the single market in Europe is established after 1992.

CHALLENGE

Elaborating on the Barlow group's export performance, chief executive Warren Clewlow says group companies are tackling the export challenge "in a systematic and focused way".

This has enhanced concentration on productivity, product design and process technology.

Pointing out that there is greater export potential to be harvested, particularly in Southern Africa, Mr Clewlow says:

"It is to me an enduring irony that the one lasting effect of sanctions has been to open the group's eyes to the opportunities that new markets offer."

He says that the group is vigilantly observing developments in the global economy that can be exploited to its advantage.

The changing face of Eastern Europe and the awakening of China offer trading and manufacturing opportunities which were unthinkable only a few years ago, he says.

●See page 18

The Star

58 Star 12/12/89

Towards a JSE 'under occupation'?

THE PACE of Eastern Europe's retreat from communism has surprised Western leaders who have watched developments closely, so understandably it may involve even more of a mental jump for many African leaders. With political thinking moulded by decades of socialist dogma, a tendency has been evident to dismiss the ferment as "Western media distortions". Hence the sense of time-warp one detects among some ANC supporters who avow their loyalty to old-style socialism as if nothing had happened — in Africa as well as Europe — to modify it.

It is in this light, probably, that one should view certain remarkable statements on economic policy that emerged from the Conference for a Democratic Future at the weekend. Contrasting with constructive resolutions emphasising what democratic South Africans have in common, there was a call (apparently not voted on) for the rejection of capitalism and the free-market system as economic "solutions". Deregulation and privatisation were attacked and there was talk of "occupation of the Johannesburg Stock Exchange to prevent trading in shares of privatised enterprises such as Sats, Eskom and the GPO".

There is a case for not turning traditional public utilities into private enterprises — the debate rages throughout Western society — but the ANC should be careful that its rhetoric about capitalism is not taken literally, nor taken too far. At the current level the debate could become quite silly, and tend to alienate some valuable support. One understands that unionised and politicised workers tend to see their bosses as natural enemies; that many aspects of the capitalist system's record in South Africa are nothing to be proud of; that there is a longstanding emotional attachment to socialist ideals.

But equally it must be recognised that the face of capitalism has been changing in South Africa, just as it has elsewhere. In recent years free enterprise has emerged as a positive force for change in this country, and one of the more influential ones. Activists may, if they wish, now view capitalism as a more subtle enemy, but it is not the same old ogre to be slain or destroyed out of hand. "Occupying" the JSE is hardly to be equated with desegregating a beach, nor would it be anywhere near as effective.

Indeed capitalism big and small offers this country one of the more hopeful solutions in sight for its huge economic problems. Doctrinaire socialism offers very little, and its record in black Africa is particularly abject.

It would be helpful to see South African views of the democratic future taking some account of these realities.

Speculators could push gold to $430

T, 8   Star   12/12/89

By Neil Behrmann

LONDON — Short-covering by speculators could push the gold price up to $430 if gold stages another rally.

According to market rumours, Philipp Brothers, one of the major players in a market controlled by Salomon Brothers, was forced to cover options at losses during the recent price surge. Other trading houses have also been burnt.

The firms had written options against bullion and when the gold price broke through trading barriers they were forced to buy back gold at losses. This short-covering played a major part in pushing gold to its recent peak of $420.

Some traders say that options have been written within the $420 to $430 band and if the price stages another recovery, professionals and speculators will again be forced to cover their positions.

That short-covering rally could spur gold further. Others say that there has not been sufficient follow through of investment demand to push gold higher.

Moreover, fabrication demand has waned at prices over $400.

Philipp Brothers said over the weekend it would cease to make markets in gold in New York and Hong Kong, but would continue to do so in London.

Salomon, which controls Philipp, said it was reducing its commission business because of consolidation and would dismiss 60 employees.

The consolidation at Salomon illustrates that precious metals and futures business is not that active.

North American gold bugs are making noises again. Mary Ann and Pamela Aden, the Costa Rica-based gold chartists, predict that the gold price may hit $850 next year.

But two resistance levels at $450 and $515 must be passed before this price can be seen, they say.

Before rushing to the nearest coin dealer, take heed of their track record.

In 1981 the sisters forecast that gold would hit $3 750. Maybe they will be right; maybe an outsider on the racetrack will come in. Place your bet.

To illustrate that it is foolish to make long-term predictions about gold or any other commodity, here is an extract from one of my reports in August 1987.

Gold was then around $470 and the expert opinion came from a leading Swiss bank. Since they are in a key position to monitor supply and demand, the Swiss should know what they are talking about.

' "Investors from Switzerland, offshore centres, the US and Middle East have been pouring money into precious metals," dealers say.

' "Clients should build up a suitable gold position as an insurance against heightened global risks in financial markets," says the Union Bank of Switzerland.

'The bank forecasts that gold could rise to $530 within the next twelve months, or even reach $620. Its prediction assumes easy money policies in the US and a decline in real interest rates and the dollar.

'Even if money policy is restrictive, real interest rates rise and the dollar remains firm, gold's support price will be around $444, says the Swiss bank.'

Gold did rise to $500 briefly but bottomed out at $360. The US pursued one of the most restrictive monetary policies for a long time, the dollar recovered and real interest rates remained high.

The message is evident. Gold is one of the most unpredictable commodities. Don't let anyone tell you otherwise.

Economy now moving in the right direction

Star 58 3/12/89

By Sven Lünsche

When the financial authorities embarked on their stringent monetary and fiscal policies early last year, the main aim was to curb expenditure and improve the position on the country's balance of payments.

After a few hiccups it now seems that these policies are beginning to succeed.

According to the Reserve Bank's latest *Quarterly Bulletin*, real gross domestic expenditure declined by 7,5 percent in the third quarter this year and both the current account of the balance of payments and the net foreign exchange reserves showed their biggest quarterly surplus in over two years.

This trend is likely to continue over the next few quarters and bodes well for the country's ability to repay its foreign debt and bring down the inflation rate.

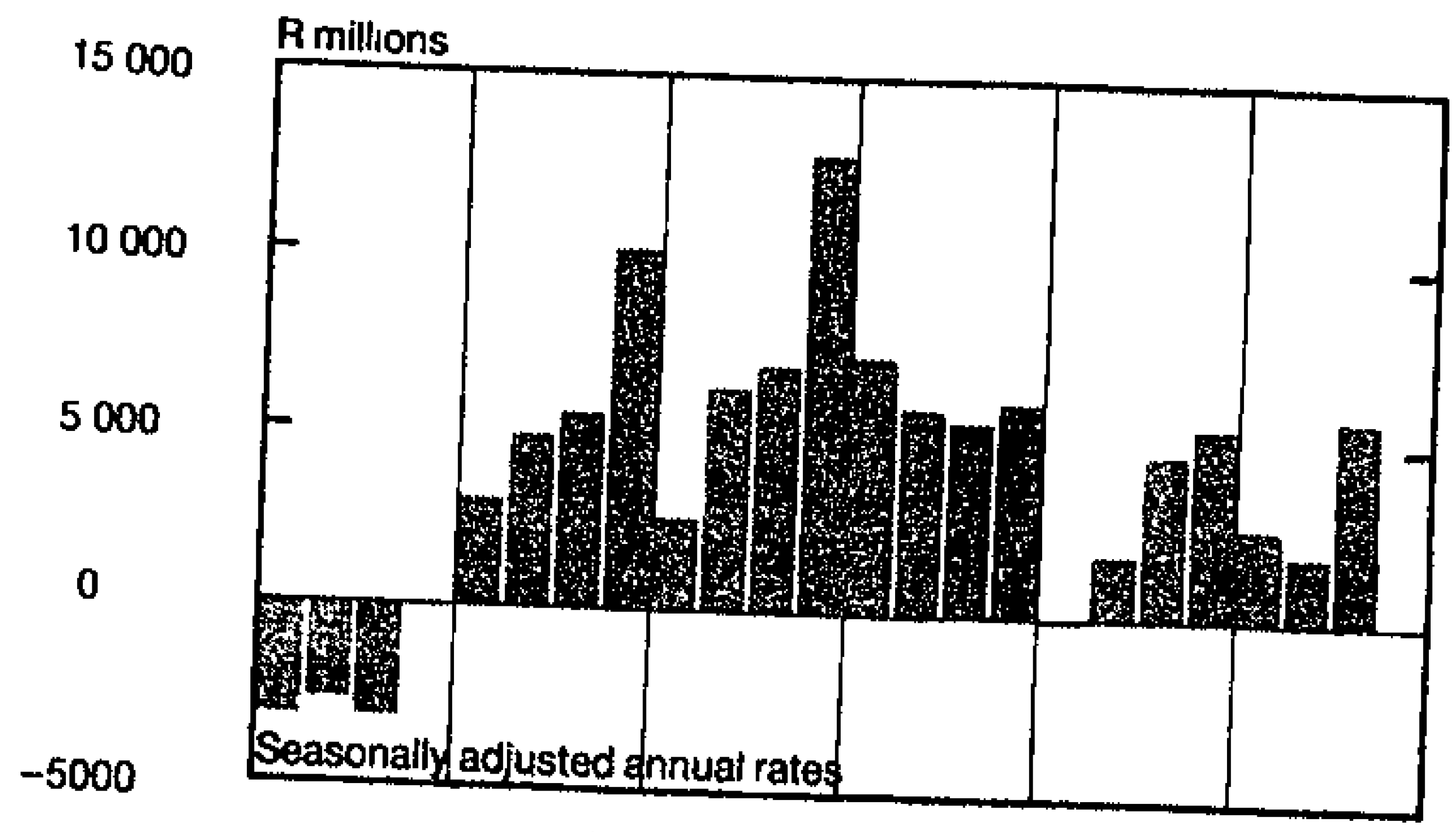
But it will also lead to lower economic growth next year, although the Bank still forecasts growth of two percent for 1989.

Already the growth rate, as measured by the annualised change in the gross domestic product, has declined to one percent in the third quarter, with output in the non-agricultural sector declining at an annualised rate of three percent.

Behind this trend is a dramatic decline in gross domestic expenditure (GDE), which, after rising strongly in the first three months of the year and declining slightly in the second quarter, fell back by 7,5 percent in the third quarter.

Total real final domestic demand (which does not include inventory investment or disinvestment) declined only mildly at an annualised rate of two percent.

Balance of payments on current account



Expenditure on consumer goods in particular declined sharply, falling by two, three and 9,5 percent in the first, second and third quarters respectively.

The slump in GDE caused the value of merchandise imports to decline by 11,5 percent, after import volumes decreased by 13 percent during the third quarter.

Coupled with the "the remarkably vigorous real merchandise export performance this year", the decline saw the surplus on the current account of the balance of payments rise to its highest level since the fourth quarter 1987.

The account rose from an average annualised level of R2,3 billion, or one percent of GDP, for the first two quarters of the year, to an annualised R5,8 billion, or 2,4 percent of GDP, in the third quarter.

The renewed strengthening of the current account surplus was accompanied by a marked further reduction of capital outflows to only R244 million in the third quarter, from R1,9 billion in the first quarter and R1,1 billion in the second quarter.

Total long-term capital movements actually recorded an inflow of R179 million over the quarter, which the Bank attributes mainly to the return by foreigners as net purchasers of shares and gilts.

Between them, the current account surplus and the limited capital outflows accounted for a moderate increase in South Africa's net gold and other foreign reserves on a quarterly basis for the first time since the first three months of 1988.

"More generally, the moderate but significant brightening of the balance of payments/foreign reserves/exchange rate situation showed the South African economy in the closing months of 1989 to be moving in the right direction in its external aspects at least," the Bank states.

The slowdown in spending is also boosting the Reserve Bank's intensified campaign to bring down the inflation rate.

Inflation has generally been on an upward trend since the beginning of 1989, but Reserve Bank Governor Dr Chris Stals is confident that "it will not escalate and get out of control next year".

A number of factors are working in the Bank's favour, notably the firmer rand exchange rate and the October rise in interest rates, "which seems to be sending the right signals to consumers".

Moreover, the recent announcement that the Reserve Bank can still issue government stock beyond the needs of the Exchequer is also keeping inflation in check.

"Although the funding requirements of the state have been met for this fiscal year, government bonds valued at R1 billion have already been transferred to the Stabilisation Fund and help us in our fight against inflation," Dr Stals said.

Exchange control rules to be tightened up

Star 13/12/89

58

By Sven Lünsche

The Reserve Bank is tightening up its exchange control rules in an attempt to reduce the illegal outflow of capital, which has cost the country millions of rands over the last few years.

Reserve Bank Governor Dr Chris Stals informed the commercial banks yesterday that the bank will formalise the procedure to follow where an authorised dealer or an authorised bank has failed to comply with the provisions of the exchange control requirements.

Dr Stals said that this had become necessary as the dual exchange rate system relied heavily on the proper execution of exchange control rulings by the private banking system.

Without referring directly to the recent spate of fraudulent usage of the system he said that exchange control over capital movements remained an essential supplement to market orientated monetary and fiscal discipline.

In a recent study Standard Bank indicated that illegal capital flight and fraudulent activities were exacerbating the country's debt repayment problems, arising from the misuse of the discount between the commercial and the financial rand.

This was reflected in the growth of the "errors and omissions" category of the balance of payments over the last few years, the bank said.

In 1988 alone, when capital outflows from South African totalled $2 billion "errors and omissions" accounted for $900 million, while at best $1,1 billion went for foreign debt repayments.

And Dr Stals said yesterday that the Reserve Bank was at present investigating 140 cases of exchange control violations.

In order to combat this trend the Bank deemed it necessary to formalise the procedure when authorised dealers were found negligent in the implementation of the exchange controls.

The seriousness of the contravention will determine whether the official warnings only will be given or whether the Bank will immediately resort to taking more drastic measures, Dr Stals said.

These measures can range from a full audit of the bank's exchange control administration and ordering the bank to provide security so that it will comply with the regulations, to the temporary suspension or withdrawal of a bank's or a branch's licence to act as an authorised dealer.

The Bank has already expanded and reconstructed its own exchange control department and created separate divisions for investigations of contraventions and inspections of authorised dealers.

Four committees, consisting of representatives from the Bank and authorised dealers, have also been established to monitor exchange controls and implement necessary steps, Dr Stals said.

SA banks get govt warning

Cape Times 13/12/89

58

PRETORIA. — The Reserve Bank yesterday summoned bank chiefs and laid down tough new procedures to enforce exchange control regulations.

Repeated widespread infringements of the rules have led to millions of dollars leaving the country.

The Reserve Bank had in recent months come in for strong criticism for its implementation of forex controls, governor Mr Chris Stals said.

In a statement yesterday, he said: "The monetary authorities remain convinced that given the non-economic stresses and strains on South Africa's balance of payments, exchange control over capital movements remains an essential supplement to market-orientated monetary and fiscal disciplines.

"As long as this is the case, the system of control must be made as effective as possible."

Mr Stals said the Reserve Bank has been reviewing the effectiveness and objectives of the exchange control system since February this year and had considerably expanded and reconstructed its exchange control department.

Commercial banks which contravened forex regulations would first be warned by the bank and, depending on the seriousness of the contravention, more drastic measures could be taken, he said.

These measures include penalties ranging from a warning to suspension or withdrawal of their licences to deal in foreign exchange, he said.

They may now be ordered to make a deposit with the Reserve Bank which could be confiscated if they fail to comply. — Sapa and Own Correspondent

Rand's rise eases inflation pressure

(58) Star 14/12/89

Finance Staff, Reuters and Sapa

The economy received yet another boost yesterday when the rand surged to a 12-month high against the dollar, which is bound to reduce pressure inflation.

It opened strongly against all other currencies, at one stage rising to a year's high of R2,53 against the dollar.

At close of business, however, the dollar cost R2,56, but prospects for the rand have improved considerably.

Since bottoming out against the dollar at R2,87 in mid-June the rand has regained lost ground.

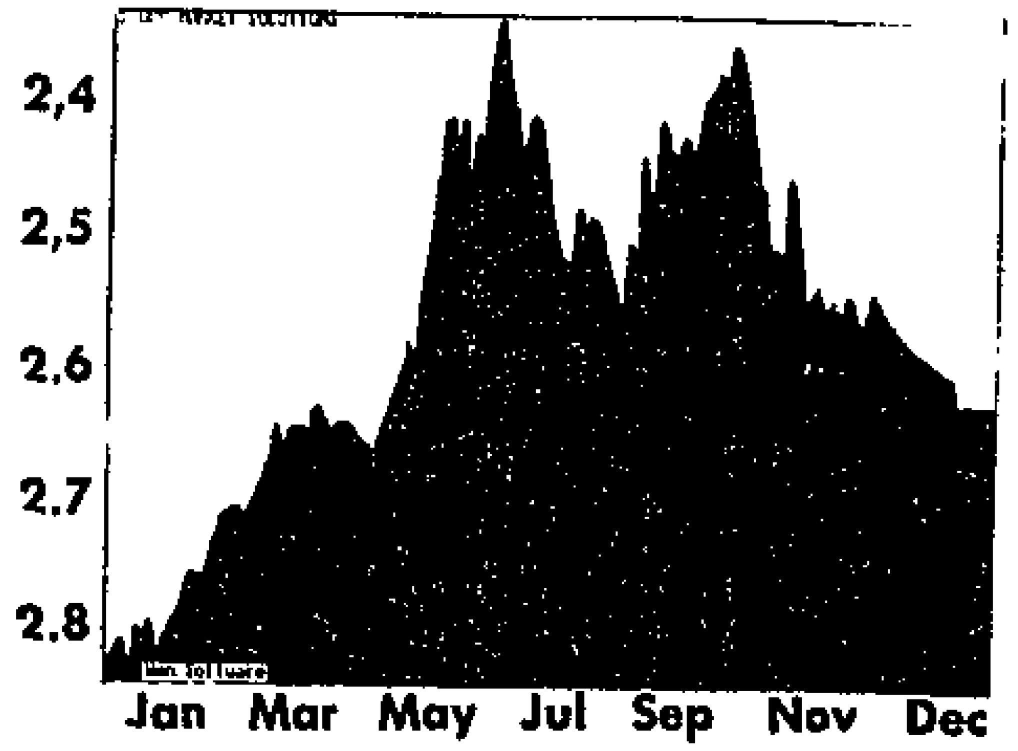
The firmer gold price and Tuesday's favourable Reserve Bank quarterly bulletin have seen the rand rise sharply on forex markets.

This is welcome news in the fight against inflation since the imported variety accounts for considerable pressure on local prices.

Figures contained in the Reserve Bank bulletin show the surplus on the current account of the balance of payments rose to an annualised R5,8 million in the third quarter.

Coupled with an inflow of foreign capital and a rise in gold and foreign exchange reserves, this means pressure on the rand next year will lessen when foreign debt repayments are made.

"Improved prospects for further rand appreciation meant a potential, and to some extent an actual, 'virtuous circle' of mutually beneficial effects of reduced capital outflows on the exchange rate and of expected exchange rate movements on speculative capital outflows," the Reserve Bank said.



The rand's improving performance against the dollar

However, some dealers are pessimistic whether the rand will continue its steady performance in the longer run.

"In the short-term the expected improvement in South Africa's reserve position, together with a higher gold price, should lend support to the rand, but fundamental economic powers are still putting downward pressure on the exchange rate in the longer term," Senbank economist Andries van Niekerk writes in the bank's latest *Currency Review*.

Yesterday the rand opened at R2,534, as the dollar came under pressure from a strong German mark on international markets. But by noon the rand had slipped back to R2,564 — about a cent firmer than Tuesday's close.

The financial rand went to R3,945 after opening at R3,925.

Money market rates held steady around Tuesday's softer levels in early trading amid general perceptions that rates had peaked. Dealers said that relatively comfortable year-end liquidity conditions were aiding the trend.

The dollar fell yesterday against all major currencies in nervous European trading.

Dealers said they were amazed by the dollar's tumble, which left most year-end trading strategies in a shambles.

The mark, supported by investor belief that the West German economy would profit from the breakdown of communism in Eastern Europe, forced the dollar to its lowest level in 13 months.

The dollar has fallen steadily since reaching a 1989 high of Dm2,0005 because of the mark's strength and fears the US economy might be heading for recession.

JSE nervous as bullion slips

Star 14/12/89 (69)

Gold slid more than $6 in late trading in London yesterday and continued the drop in New York and Hong Kong, causing nervousness on the JSE.

Traders attributed the selling to disappointment among investors that bullion failed to break the barrier of $420.

In Hong Kong this morning the metal opened at $407,65.

The falls adversely affected JSE trading and the all-gold index fell by 33 points to 2 221 while the overall index shed two points to 3 117.

Restrictions

Charter buys quarries in £53,5 million deal

Star 14/12/89 58

By Neil Behrmann

LONDON — Charter Consolidated yesterday announced a £53,5 million purchase of a quarries business and a pre-tax profit increase of 20 percent to £ 38,5 million.

Because results matched market expectations, Charter shares continued to languish at around 479p, down from the 1989 high of 550p.

The City does not believe Charter will produce fireworks, even though the return on capital in industrial operations has improved to 24 percent from five percent in 1986.

Executives were tight-lipped yesterday about changes in management, but hoped the game of musical chairs would end.

Richard Wakeling, former head of Charter, said the company had to find replacements quickly after the resignation of former Johnson Matthey (JM) chief Eugene Anderson.

Charter owns 39 percent of Johnson Matthey, but effectively controls the company.

New chairman of JM, David Davies, who made his reputation as head of Hong Kong Land, had still to devise a strategy, said Mr Wakeling, who will be his deputy.

With its excellent product lines, notably auto catalysts, JM was well placed, he said. Richard Wakeling only recently took the place of Neil Clarke, former chief executive and the architect of Charter's recovery.

A former finance director, Mr Wakeling hinted that he would become chief executive of Johnson Matthey in a few years' time.

New chief executive of Charter, Jeffrey Herbert, has so far impressed the City with his down-to-earth management approach.

He wants to transform it from an investment holding company into an operating concern. According to budgets, operating profit would account for 60 percent of total profits in five years' time from its present level of 40 percent, he said.

Hargreaves Quarries, the new acquisition, operates several quality limestone and whinstone deposits in the North of England.

Although the size of the acquisition was relatively small, Hargreaves was a profitable and reputable business, with considerable opportunity for further growth, Mr Herbert said.

Net profit was £3 million in the year to March and Hargreaves was well placed to grow organically and through acquisition, he said.

Charter had wanted to expand its construction materials interests for some time and there would be synergy with companies such as Penryn Granite, said Mr Herbert.

In its half-year report to September, Charter's earnings per share rose by 22 percent to 24,2p, while the interim dividend jumped 37 percent to 6,5p.

In the year to March 1989, earnings were 43p and dividends 17,25p.

On the latest results, the shares are trading at a P/E ratio of 10 and dividend yield of four percent.

Charter is liquid and most of the increase in pre-tax profits came from the finance division. Interest received soared to £8,2 million from £5,9 million because of the surge in UK interest rates.

The Star
Finance

Atlantis Diesel now at breakeven point

14/12/89 Star (58)

By Dick Usher

CAPE TOWN — Atlantis Diesel Engines (ADE) has reached breakeven and sees itself able to start generating a track record befitting its aim of a JSE listing.

The company said yesterday it had been under tremendous pressure in the prolonged recession of the mid-1980s, but had now reached breakeven with production of more than 20 000 engines a year.

Marketing and public affairs director Wally Rautenbach said the relatively stable commercial vehicle and agricultural engine market expected over the next five years showed clearly ADE had to take a wider view if it wanted to achieve significant growth and use capacity more fully.

The phase VI local content regulations offered ADE and the industry as a whole major opportunities.

The first opportunity lay in the need to balance imports with equivalent exports, which would demand an increasing emphasis on a long-term view of the export market, rather than the traditional view of using exports to dispose of excess capacity production.

Manufacturers would be able to achieve an import-export balance by specialising in the export of products such as cylinder blocks.

But a long-term approach was essential because export specialisation made manufacturers vulnerable to product supersession.

The second opportunity lay in import replacement where ADE had identified about 1 000 items — about 60 percent of its R150 million import bill — for local manufacture.

Local sourcing of some items would start in 1990, representing an eight percent savings on the import bill, he said.

Ultimately ADE was looking for more than R100 million in additional foreign exchange savings by 1997.

ADE had the capacity and knowhow to exploit export markets. The momentum of the export drive would be sustained by the continuing low value of the rand against foreign currencies.

The export initiative had also been designed to complement ADE's import replacement programme.

Local content of ADE engines now averaged 55 percent by value.

A defined programme, requiring R120 million in additional investment, had been instituted to raise local content to 70 percent by mid-1992, rising to 87 percent in 1998.

Additional capacity resulting from these investments would be used to exploit exports.

The company had also installed two light diesel engines in one-ton pick-ups as part of a viability study for the import replacement light diesel engine.

First tests were scheduled for completion by March 1990 and would be followed by an in-depth viability study.

The investigation was focused on the one-ton diesel market, with a top-side annual volume of 10 000 to 12 500 units.

Long-term growth could be achieved in this category through expansion into the indusrial, marine and minibus taxi market.

The minibus taxi sector in particular would gain by using a small diesel engine offering large fuel savings, he said.

Taxing problem on share dealing

58 Star 16/12/89

INVESTING on the stock exchange in the hope of making a quick buck can lead to problems with the tax collector. The private investor, burdened with a heavy tax bill on his salary, certainly doesn't want to add to his worries by being billed for tax on any profits he may make when selling shares. Aiken and Peat partner ALISTER MACKENZIE analyses the problem.

THE simple question to be addressed in determining whether a profit on the sale of shares will be taxable or not, is whether the transaction is of a capital or revenue nature. The former will escape tax whereas the latter will not, says Mr MacKenzie.

"This question may be simple: the answer is often is not.

"A substantial number of South African tax cases deal with disputes between the Receiver of Revenue and the taxpayer about the capital or revenue nature of receipts and accruals.

"The Income Tax Act does not define what constitutes capital or revenue in its definition of what constitutes gross income.

"Because of this lack of statutory definition, the courts have laid down various tests in determining the capital or revenue nature of a receipt or accrual.

Intentions

"One test which is of primary importance, is the intention of the taxpayer at the time the shares, or any other assets, were acquired.

"If the shares were acquired for the purpose of earning dividend income, and not for speculative resale at a profit, then any profit made when the shares are eventually sold some time later, would be of a capital nature, provided there was no clear change of intention prior to the sale.

"A decision to sell a capital asset is not in itself a change of intention otherwise it would be impossible to realise a capital profit.

"The onus of proof that a receipt is of a capital nature rests with the taxpayer.

"He must be able to prove on a balance of probability that his intention at the time of the acquisition and during the holding period, was investment as opposed to speculation, or participation in a profit-making scheme.

"It is therefore important that taxpayers keep adequate records setting out reasons for entering into particular transactions.

"It is important to note that in most situations no one test is necessarily conclusive and it is therefore up to the taxpayer to assemble the most persuasive arguments based on previous tests. It is dangerous to generalise." he said.

Guidelines

The outline below should be used as guidelines in arranging affairs at the time of making a purchase.:

- There must be some reasonable expectation of generating income from the investment over a reasonable time.
- Acquisitions financed from short-term sources, such as money which will be required soon to meet other commitments, could be difficult to justify as capital transactions.
- The period of holding an investment, while not conclusive will play a part in proving intention at the time of purchase. A quick sale for no particular reason, suggests a speculative transaction. A sale, even after a long holding, is always safer when accompanied by good 'investment' reasons for selling ", such as reports which indicate that the dividend rate is to fall.
- The re-investment of the proceeds of a sale can also play a part, although this may appear to bear no relationship to what the taxpayer's intention was when he made the original purchase. Re-investment can be justified if the reason is to maintain dividend yield by switching to a better performing investment.
- To demonstrate the intention of earning dividends, investment decisions should be made on the strength of expected income flow. Given the current interest rates in borrowing compared with dividend yields, a purchase financed using borrowed money could present a taxpayer with some difficulty in demonstrating his intention of acquiring income and that there is a net inflow of income. In other words, an interest burden that makes it impossible in the forseeable future to generate a net income from dividends could count against the taxpayer.

Mr MacKenzie said: Drawing of distinction between capital and revenue has filled a large amount of space in law reports both for income and expenditure.

"This highlights the difficulty of giving advice, even in specific circumstances."

SATURDAY DECEMBER 16 1989

Cash mop-up

w/t Argus 16/12/89 (58)

From CLAIRE GEBHARDT

JOHANNESBURG. — The Reserve Bank is squeezing the nation's liquidity dry in the biggest mop-up operation in South Africa's history.

Rising and unprecedented levels of government balances, which peaked at R12,2 billion in November, reflect the authorities' determination to reduce liquidity and excessive credit creation by the private sector.

And although this tougher monetary stance means a lot of belt tightening for the average South African, the good news is that one or two years down the line the country could be looking at single-digit inflation for the first time in 15 years.

According to the Reserve Bank's latest Quarterly Bulletin, government deposits with the Reserve Bank stood at a massive R11,7 billion at the end of November, having peaked at R12,2 billion on November 8 as the Iscor share issue transferred an extra R2,9 billion to the Exchequer.

This follows progressive month-end rises during August, September and October of R10,4 billion, R10,8 billion and R10,8 billion respectively.

Extracting liquidity from the private sector has made bank rate policy more effective by increasing the market shortage, says Nedbank economist Edward Osborne.

And with the cutting edge of monetary policy being the market's need for accommodation, the bulletin indicates that the banks' "window" debt to the Reserve Bank rose from a low of R0,5 billion on June 10 to a new record of R4,9 billion on October 28.

The average daily level of accommodation rose from R1 billion in the second quarter to R3,3 billion in the third quarter and to R4 billion in October. No assistance in the form of repurchase agreements has been extended by the Reserve Bank since March 7 1989.

Rising with the increase in the market shortage is the cost of overnight cash. Costly overnight loans from the Reserve Bank at interest rates exceeding the prevailing prime overdraft rate are designed to punish banks that need excessive amounts of central bank credit.

According to the Bulletin: "The market's tightness in combination with the Reserve Bank's refinancing conditions occasionally caused the rate on overnight funds, as taken in by banking institutions, to rise above the clearing banks' prime overdraft rate."

Governor of the Reserve Bank, Dr Chris Stals, stresses that the fight against inflation will take top priority in 1990 and beyond as a prerequisite for sustained economic progress.

"The changing balance of payments situation, changing political environment, and the full and determined support of the Cabinet and the Minister of Finance makes this a most opportune time to fight inflation."

He says it was necessary to increase Bank Rate on October 11 to convince people that "we meant business".

(See page 5)

Cash mop-up squeezes SA dry

w/t Argus 16/12/89 (58)

(From page 1)

"In retrospect we had ~~our~~ doubts about whether it was the right thing to do but it was important for the psychological effect."

Another important anti-inflationary step was the arrangement with the Minister of Finance that government would continue to issue stock beyond the needs of the Exchequer.

"The funding requirements for the current fiscal year have already been made, but we will continue to pre-fund, selling government stock quite superfluous to the Treasury's needs."

An additional R1 billion of government stock had already been generated and the proceeds credited to the stabilisation account, says Dr Stals.

"We do not underestimate the problems of 1990 as our measures begin to take effect but if it doesn't hurt, it doesn't work."

Protea sells out

(58

S[Times 17/12/87

PROTEA Assurance has disposed of its 24,5% stake in building society Malawi.

This is in line with a strategic decision taken earlier this year by Protea to concentrate on the SA insurance market.

Protea managing director Tony Crank says the Malawian Government bought 51% of the group's holding and the balance was acquired by the building society.

l CP Taria (44) ... head during the attack. Last night no arrests had been made.

West Rand man fires at servant and friends

Star 18/12/89

58

By Gien Elsas,
West Rand Burea

A Randfontein man is expected to appear in the local court soon on charges of attempted murder after apparently firing shots at a domestic servant and friends who were visiting her on Friday night.

A West Rand police spokesman said the man had asked the domestic servant to quieten down.

SHOTGUN

Later the man again went to the servant's room, this time with a shotgun. He fired several shots into the room.

A woman, only identified as Emma, was shot in the right knee while a man, Isaac, was shot in the right arm.

Both were taken to the Leratong Hospital where they are being treated.

Gem sales tipped to decline

Star 18/12/89

(58)

By Neil Behrmann

LONDON — Sales by De Beers are likely to be lower in the second half of this year, mainly because of a downturn in US demand.

De Beers is not prepared to comment on sales returns, but the market is consolidating, says Michael Grantham, a director of the Central Selling Organisation, the international marketing division of De Beers.

Christmas, which accounts for about 35 percent of diamond jewellery turn over, is the key to prospects, says Mr Grantham.

Nevertheless, a more stable period is to be expected after record turnover of $4,17 billion in 1988, up from $3,1 billion in 1987, he says.

After soaring sales of $2,3 billion in the first half, De Beers' second-half turnover is expected to dip by up to 10 percent, dealers in Antwerp and Tel Aviv predict.

Participants in the two largest diamond markets blame the downturn on a 15 percent average price hike in March after a 13,5 percent increase in 1987 and a 10 percent rise in 1986.

They are worried about the impact of higher interest rates on jewellery consumption next year.

Sales to Japan, Hong Kong and other Far Eastern nations are less buoyant than last year. US dealers are cautious because they fear a downturn in demand.

"It's a spotty market," says Moshe Schnitzer, president of the Israeli Diamond Federation.

Sales are still growing in the Far East and Europe, but the US is weak, he says.

The underlying market in diamonds remains strong, mainly because sales continue to grow, albeit at a slower rate, in The Far East, West Germany, France and Italy, says Jo Flies, chief economist of the Antwerp Diamond High Council.

Dealers might complain of slower trade, he says, but it is still far higher than levels experienced in the mid-eighties. Nevertheless, diamond experts are not complacent. World production has risen to 98 million carats from 64 million carats five years ago, says De Beers.

Only 15 percent of the total is gem quality, but continually to generate higher sales, De Beers and the diamond trade are spending $160 million a year on advertising and promotion.

The intensive campaign generates sales of 54 million pieces of diamond jewellery worth $39 billion, estimates De Beers.

Yet the market is highly dependent on the US, which accounts for 33 percent of turnover. Ahead of Christmas, returns there are disappointing.

The value of net US imports of uncut and polished diamonds fell three percent in the first eight months, US statistics show.

Purchases by Japan, which has a 28 percent share of the market, declined in some months of the year, but recovered sharply in September and October.

Measured in dollars, Japanese imports rose by only 4,5 percent in the first ten months, well below the growth rate of the previous year.

To support its own high prices and match the lower demand from dealers, De Beers reduced the supply of diamonds at its recent sales.

Margins of diamond manufacturers are squeezed because they find it difficult to pass on De Beers' price increases, says Jacques Zucker, a director at Zucker-Berkovic, Antwerp diamond dealers.

"Manufacturers are complaining bitterly," he says.

The Antwerp index of quality polished diamonds rose 14,5 percent in 1988 and a further three percent in the first half of this year.

Since then prices have levelled off. Price indices of small brilliant diamonds jumped 14,4 percent in the first six months, but have fallen slightly since then.

The investment market in diamonds remains flat. Quotes on D-Flawless, the top grade investment diamonds, are languishing at $14 000, against average quotes of $55 000 in 1980, say dealers.

Rand Mines, JCI join forces to buy up Middelburg Mine

58

Finance Staff

Rand Mines has exercised its pre-emptive right to acquire BP's 88,5 percent interest in Middleburg Coal Mine in which it already has an 11,5 percent interest.

The group is negotiating a joint venture arrangement with JCI in terms of which Rand Mines will have a 60 percent participating interest in Middleburg and JCI 40 percent.

The Middelburg acquisition, which becomes effective on December 26, includes a 12,7 percent holding in Richards Bay Coal Terminal.

The entire acquisition will cost R546 million and will be financed by bank loans and other cash resources.

Middleburg currently produces 5,5 million tons of saleable coal a year, all of which is exported.

Under the proposed joint venture Rand Mines will be responsible for the marketing of Middleburg's coal.

Commenting on the reasons underlying the planned joint venture with JCI, Allen Cook, deputy chairman of Rand Mines coal divisions, says: "JCI is a long-standing and highly respected company and its philosophy and business approach are similar to those of Rand Mines, which, we believe, will lead to a successful partnership.

"JCI has been involved both in the inland and export coal business for many years and we believe there may be room for further synergy between our two companies at one of our other mines where JCI has adjacent reserves."

Mr Cook says the coal export market is periodically volatile and that the joint venture arrangement would allow Rand Mines to spread its risk.

"At a production rate of 5,5 million tons a year, Middleburg's resources are becoming limited. JCI owns significant adjoining reserves which will be included in the joint venture and which will allow the mine a long-term future."

The acquisition is being concluded through Douglas Colliery, a wholly owned subsidiary of Rand Mines' Witbank Colliery, which holds the pre-emptive right.

In terms of the proposed joint venture, Tavistock Collieries, a wholly owned subsidiary of JCI, will buy from Douglas a 40 percent interest in Middleburg.

FNB sees some hard times ahead

(58)
THE STAR 19/10/89

The outlook for 1990 is far from cheerful as the authorities seek to increase foreign reserves, reduce money supply growth and curb inflation, says First National Bank (FNB).

In its just-released *Economic Comment* FNB says that together with obligations outside the debt standstill agreement, South Africa will have to repay $2 billion next year.

This will demand current account surpluses of a similar magnitude, which will limit growth potential to two percent a year.

Chairman Basil Hersov says in the annual report that the need for rationalisation in the banking sector remains and that economics will compel further rationalisation in the industry.

He says the industry has further scope for imaginative systems for co-operation and sharing to economise on the prohibitive costs of head-on competition.

The withdrawal of multinational companies has had a negative effect on social responsibility projects, he says.

Mr Hersov says this has placed additional financial burdens on local companies and that FNB is assisting programmes that have been so affected.

He says external influences on international and domestic cash flows are sometimes imponderable.

"Nevertheless, we believe that we have the skills to make the best of emerging economic conditions. We know what we have to do, and believe that it is reasonable to look forward to a solidly based advance in profits." — Sapa.

Sasol to pay interest

THE Industrial Court has ordered Sasol to pay interest estimated at more than R3 million into the relief trust account of 600 workers dismissed during a strike in October 1987.

The interim order was granted on December 14 in favour of the workers who are members of the South African Chemical Workers Union.

It will be payable into an account to be opened by Sasol within 10 days after the date of the order.

It is effective pending the outcome of an appeal against an earlier Industrial Court ruling ordering Sasol and its subsidiary, Natref, to reinstate the workers with full pay plus six months back pay.

The order provides that management pay into trust the interest on a monthly basis.

The union has also been ordered to give Sasol a monthly distribution account showing how the interest money received had been distributed among the individual workers.

The reasons for the order will be given later, according to the Industrial Court ruling.

Sacwu general secretary Mr Humphrey Ndaba said the interest, estimated at R3,8 million, could give each affected worker about R120 a month worker.

Life tougher for insurers

B/Day 20/11/94 SYLVIA DU PLESSIS (58)

THE insurance broking industry was unlikely to sustain profits as a return on revenue at past levels, because a range of factors were exerting pressure on margins universally, according to PFV Insurance Brokers MD Mike Hofmeyr.

Hofmeyr said yesterday that "dark clouds on the horison" included softer insurance markets, the cost of technology and higher acquisition costs.

"The consumer is demanding a more sophisticated, knowledgeable and thorough display of expertise when making his choice of insurance. This requires more time, more work, reports and statistical analyses and is therefore more expensive," he said.

An inflation rate of more than 16% would also take its toll on the industry, as would the trend towards fees for the larger corporate buyers and the fact that the cost of errors and omissions insurance was unlikely to drop.

Skilled people were becoming scarce and were demanding higher pay. Changes in consumer buying patterns would also have an impact.

"To cope with the future, brokers are going to have to develop new skills and employ new techniques if they want to succeed," Hofmeyr said.

"The environment has changed and the consumer has changed. Consumers have different needs and the traditional wisdoms will not necessarily succeed."

BoP surplus could touch R7-bn next year

By Sven Lünsche

South Africa's surplus on the current account of the balance of payments could rise to R7 billion in 1990, following an expected surplus of R4 billion this year.

However, the concurrent slow increase in the country's foreign exchange reserves indicates that almost the entire surplus on the current account had to be used to meet foreign debt repayments, write Sanlam's economists in the group's latest *Economic Survey*.

"We believe that this state of affairs will continue in 1990 unless the current firm tendency is maintained," Sanlam writes, adding that a $10 rise in the gold price over a year will push foreign exchange earnings up by more than R500 million.

The current account has been largely boosted by the strong performance on the country's foreign trade account, which yielded a surplus of more than R1 billion for the sixth month in succession in November.

For the first ten months of the year Sanlam estimates that the current account showed a surplus of roughly R3,3 billion, compared with a corresponding surplus of about R2,2 billion in 1988.

"The continued good export performance is particularly encouraging considering the recent firming in the external value of the rand," the economists write.

"We foresee non-gold exports performing satisfactorily in the year ahead and agricultural exports in particular shold do exceptionally well in coming months.

"In conjunction with the more sluggish foreign growth rate and the downward trend in commodity prices, exports could expand more slowly in due course, but the good performance of the gold price should compensate for this to some extent," Sanlam says.

In the wake of the strong performances by the country's exporters the economists call on the authorities to actively promote exports and move away from import replacement programmes.

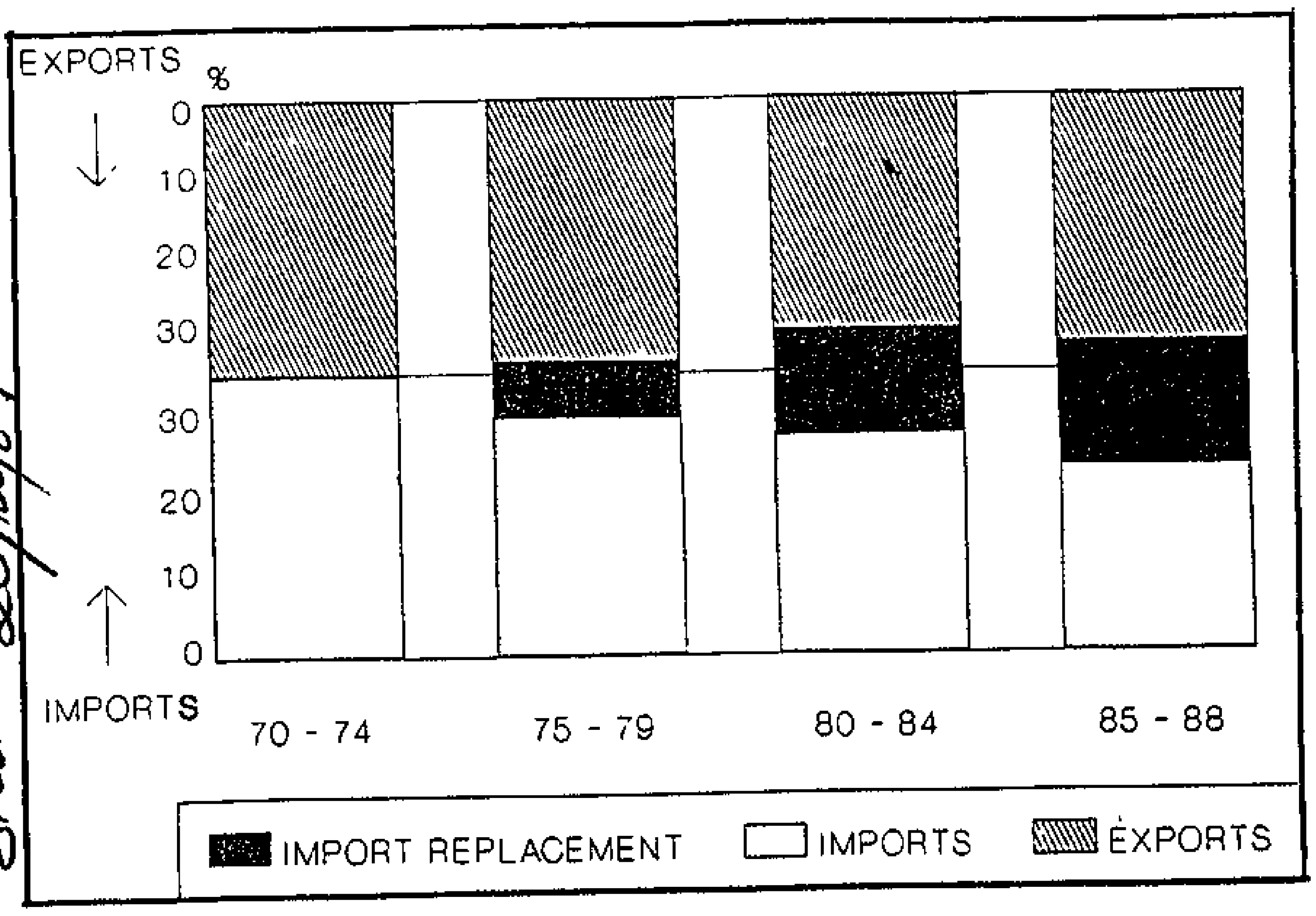
"It would appear that a rand which is invested to replace imports, saves less in foreign exchange than it could earn if it were invested in the export sector.

"Although considerable opportunities for further expansion of the process of import replacement remain, we believe that the emphasis should rather fall on the removal of measures that discourage exports and on steps to actively promote our export performance," Sanlam writes.

They add, however, that there are increasing signs of a greater awareness amongst South African industrialists on the necessity to boost exports, while the new export promotion campaign, which will become effective in April, should strengthen this trend.

Moving away from import replacement towards exports, however, could also mean that the rand would have to depreciate in real terms.

"In such circumstances a strong monetary and fiscal policy would be essential in the long-run, in order to relieve the upward pressure a weaker rand could place on the inflation rate."



The graph shows the extent to which import replacement has risen since the 1970-74 period. In relation to GDP both imports and exports accounted for about 35 percent each in 1970-74, but these ratios fell to 31 percent and 23 percent respectively in the period 1985-88.

Import replacement is regarded as the extent to which imports and exports have dropped as a percentage of GDP compared with the levels of 1970-74. Import replacement obviously eliminates the need for some imports, but resources that are used to replace imports are also not available for exports, and this leads to a lowering in the ratio of exports to GDP.

Star 28/12/89

58

Market mystified by Kersaf move

20/12/89 (58) Star

By Ann Crotty

The Kersaf saga dominated the market yesterday even managing to steal the limelight from gold and, in the absence of a formal announcement from any of the interested parties, speculation and confusion were rife.

On the speculation front: Kersaf was being de-listed; Sunbop was being de-listed; Mr Sol Kerzner was to become chief executive of Sunbop; Mr Kerzner was going to take a significant stake in Sunbop at the expense of Kersaf; certain of Sunbop's gambling rights were due for renewal and Bophuthatswana president, Mr Lucas Mangope was expected to make fairly tough demands in the renewal discussions and Mr Dick Goss and Mr Ian Heron respectively chairman and MD of Kersaf (until Monday night's announcement of their joint resignation) are not expected to feature in any plans for Kersaf or Sunbop.

With nobody available or willing to contradict, deny or confirm any of these stories, each story circulated freely through the market picking up or losing support along the way.

Towards the close of the market the one line of speculation that seemed to be gaining prominence was that the expiry of some of Sunbop's gambling rights had precipitated the Bophuthatswana-based call for a restructuring of Kersaf which in turn had led to the resignations of Mr Heron and Mr Goss.

Central to all of the speculation is the very important role that Sunbop plays in the earnings performance of Kersaf and the view that for the foreseeable future Sunbop will be the only significant source of growth for Kersaf.

Kersaf has an 80 percent stake in Sun International which in turn has 41 percent stake in Sunbop. The Government of Bophuthatswana and the Bophuthatswana National Development Corporation has 40 percent of Sunbop.

The gambling rights for Sunbop as for all of Sun International's casinos are held by Royale Resorts (which is controlled by Kersaf). No details are available as to the conditions attached to these gambling rights but yesterday some analysts were speculating that after ten years, the Sun City gambling rights may now be up for renewal. Renewal conditions will have to be thrashed out between Kersaf and the Bophuthatswana government.

Although the Kersaf/Bophuthatswana government relationship is inter-dependent, the fact that Sun City is the jewel in the Kersaf crown gives the Bophuthatswana negotiators considerable muscle. They may want to use this muscle to increase the Bophuthatswana stake in Sunbop or to effect some management restructuring involving a higher profile for Mr Kerzner.

A higher profile for Mr Kerzner would mean, ahead of any restructuring of Kersaf, that he was accountable to Kersaf's chief executives. In the light of Mr Goss and Mr Heron's resignations it will now mean that Mr Kerzner will not be accountable to those two men.

The other major line of speculation is that there are plans afoot to de-list Kersaf.

Apart from its 80 percent stake in Sun International, Kersaf has a 39 percent holding in Interliesure and, 100 percent of Kersaf Liquor.

A de-listing of Kersaf would require Safren (which is 49 percent held by Old Mutual) to buy out the 24 percent minorities. This represents 18 million of the 76 million shares in issue and based on yesterday's share price could cost in the region of R430 million.

If Safren could also take up the 20 percent of Sun International held by Southern Sun it would have considerably greater exposure to the strong earnings stream from the casino resorts and hotels.

Against this line of argument is the belief that R430 million is a hefty sum to have to spend on buying out minorities and that Kersaf's other interests (Interleisure and Kersaf Liquor) justify a separate listing for Kersaf.

BUSINESS DAY, Wednesday, December 20 1989 3

Nedbank keeps doors open longer

(58)

NEIL YORKE SMITH

NEDBANK is to keep most of its shopping centre and retail related branches open until 6pm on Friday December 22.

It will be the first time an SA bank has stayed open this late.

Commercial banking division GM Paul Niehaus said the move enjoyed the full support of Nedbank staff members. The idea had first been discussed with the staff society before the decision had been taken.

The move was seen as an important business decision for Nedbank, its staff and its clients, he said.

"An overtime rate was negotiated with staff volunteering to work late, no one had to be asked," Niehaus said.

Nedbank assistant GM of marketing Tom Bangert said in an interview yesterday that the bank was already experimenting with longer hours at certain branches.

These included Eastgate, Westgate, Sandton City and Cresta.

"The decision to remain open until 1pm on Saturdays has met with support from both clients and staff," he said.

A soaring finrand knocks gold shares

58

21/12/89 Star

By Magnus Heystek,
Finance Editor

The financial rand surged by more than 12c to R3,66 against the dollar yesterday in an apparent delayed response to the massive buying of local gilts by foreigners in recent weeks.

This brought the rise in the financial rand to more than 25c since last Friday, when the finrand was trading at R3,93.

Dealers were astonished by the sudden rise in the finrand so far this week and ascribed it partly to the drying up of the pool of financial rands in London.

Further increases are expected, especially if the gold price continues to improve.

The surge in the financial rand, however, had a devestating effect on gold shares on the Johannesburg Stock Exchange yesterday, with the All Gold share index dropping by 52 points to close at 2122.

Industrial index

The industrial index dropped to 2766 from Tuesday's 2800 close and the overall index to 3001 from 3062.

Heavyweight gold share Vaal Reefs lost R14 at R412, Freegold R2 at R53,50 and Randfontein 75c at R32,25 after briefly attempting a rally at mid-session.

The narrowing of the discount between the financial and commercial rands — now below 30 percent for the first time in more than two years — makes South African equities, mainly gold counters, more expensive to foreigners.

This seemingly incongruous rise in the financial rand and corresponding drop in the price of gold shares on the local market is explained by the fact that equity investments from abroad are made via the financial rand.

As a result of the sharp rise in the financial rand, equity prices have to drop in rand terms to make them attractive to foreign investors.

Financial rands are created mainly in London by investors wishing to either invest in or disinvest from South Africa.

Recent political moves, coupled with the rising gold price and a drop-off in disinvestment demand, has created a shortage of financial rands in London, leading to the sharp rise in the price.

Foreign investors have been particularly heavy buyers of local gilts and semi-gilts in recent months.

Buying has been further fuelled by the positive political perceptions about SA and the total yield of anything up to 25 percent that can be realised by investing in gilts via the financial rand.

The surge in gilts buying during the last two weeks has resulted in rates on the bellwether Eskom 168, for instance, dropping from 16,5 percent to yesterday's level of around 15,40 percent.

While a rising financial rand is seen as positive for South Africa because it reflects rising foreing confidence in the economy, it has the drawback of af fecting local shares prices.

According to some dealers, further rises in the financial rand — considered likely because of the thin London market — are bound to depress share prices on the JSE further, unless the gold price rises at a faster rate than the financial rand.

Gold analyst Dr Issy Bacher, who correctly called the current bull market in gold shares, was unperturbed at yesterday's weakness in gold shares, saying they were still in a massive bull market and that further purchases should be made on weakness.

"According to my technical indicators, the All Gold share index will definitely still test its previous peak of 2499 in the near future.

"It's not the time to be selling shares, rather it's a time to be buying on weakness. The gold price will be heading towards $500 next year," he said yesterday.

Two-tier currency

While a further narrowing of the "discount" between the financial rand and the commercial rand — which yesterday was holding steady at around R2,58 against the dollar — is expected, it is unlikely that the two-tier currency will be abolished in the near future, as some analysts are predicting.

One reason for this is the debt repayment agreement with foreign banks, which only expires at the end of June 1993.

Foreign bankers, who have already signed an agreement with South Africa for the repayment of its debt over the next three years, might not be very happy to see forex controls lifted while their money is tied up in this country.

The lifting of forex exchange controls is still considered to be risky by many analysts, particularly considering the low level of gold and foreign exchange reserves.

These would have to be much higher to consider even a partial lifting of forex controls, one analyst said yesterday.

The cost of houses will stabilise early in 1990, say estate agents

ACHMED KARIEM

HOUSE prices will stabilise in the first half of 1990 as high mortgage rates begin to bite, according to Multi-Listing Services (MLS) Durban-based chairman Keith Wakefield.

Wakefield said in a statement yesterday that while good stock would continue to sell rapidly, buyers' enthusiasm was "waning" because of the prolonged high level of mortgage rates.

The national average selling price of multi-listed properties had risen to R101 000 from R89 630 last year, he said.

MLS Transvaal director Les Cohen said inflation and heavy demand had contributed to price increases of up to 50% in certain areas this year.

"The rise in interest rates has been almost totally ignored. In my 26 years in the property business I have never seen prices rise so steeply while mortgage rates are rising," he said.

Cape-based MLS director Paul Enderli expected continuing upward movement of prices, despite the bond rate.

"Because of a continuing shortage of stock in established areas, the Cape remains a seller's market," he said.

Enderli said the opening of "grey areas" had little impact on the market. This was evident in slow movement of properties in the Zonnebloem area of Cape Town.

UBS economist Christo Luus said yesterday he anticipated overall increases of 10% to 12%, although this would still be lower than the inflation rate.

Luus said the rise, varying from region to region, was still a "drop in real terms".

UBS managing director Mike de Blanche said that while abroad recently, international bankers had told him the unfolding political climate in SA could only be good for the property market.

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'Pivotal role'

De Blanche said "badly needed" foreign investment would benefit the property market through industrial and commercial projects that would generate demand for property. BDay 21/12/89

He said estate agents' referral networks would play a "pivotal role" in the emerging trend towards greater investment in the property market, and foreign buyers would continue finding SA property very attractive.

"Despite removal of the benefits of financial rand purchases of property, the rand would remain comparatively weak, at least in the short term, making local properties very cheap in world terms."

Sanlam paid R500m last year

MOST of insurance giant Sanlam's death claim payments were attributable to heart attacks and other blood vessel diseases, violent causes including motor accidents and tumours, the group said yesterday.

In the past financial year, Sanlam paid out an average of more than R2m each working day due to deaths of policy-owners. This totalled more than R500m, almost double the amount two years ago, but still within anticipated levels.

Almost R150m was paid out to 4 800 death claims resulting from heart attacks and other blood vessel diseases. These claims constituted about one third of the death claims received during the year.

Violent causes, including accidents, drownings and murder, were responsible for death claims amounting to R132m.

Motor vehicle accidents resulted in more than 130 death claims a month and almost R80m had been paid out as a result.

"A tragic aspect of these claims is the fact that most victims are relatively young. An analysis showed that 75% of the policy-owners killed in motor accidents were between 20 and 50 years of age."

Cancer and other tumours was the third largest reason for death claims. An amount of R63m was paid out in respect of 1 942 claims for these deaths.

AIDS claimed the lives of seven policy owners, involving about R640 000 in claims, Sanlam said. — Sapa.

Money supply still out of target range

BDay 22/12/89

HAROLD FRIDJHON and
NEIL YORKE SMITH

GROWTH in the money supply, SA's stock of money, as measured by the M3 aggregates, slowed down to 24,55% in November compared with the sharply upward-adjusted numbers for October.

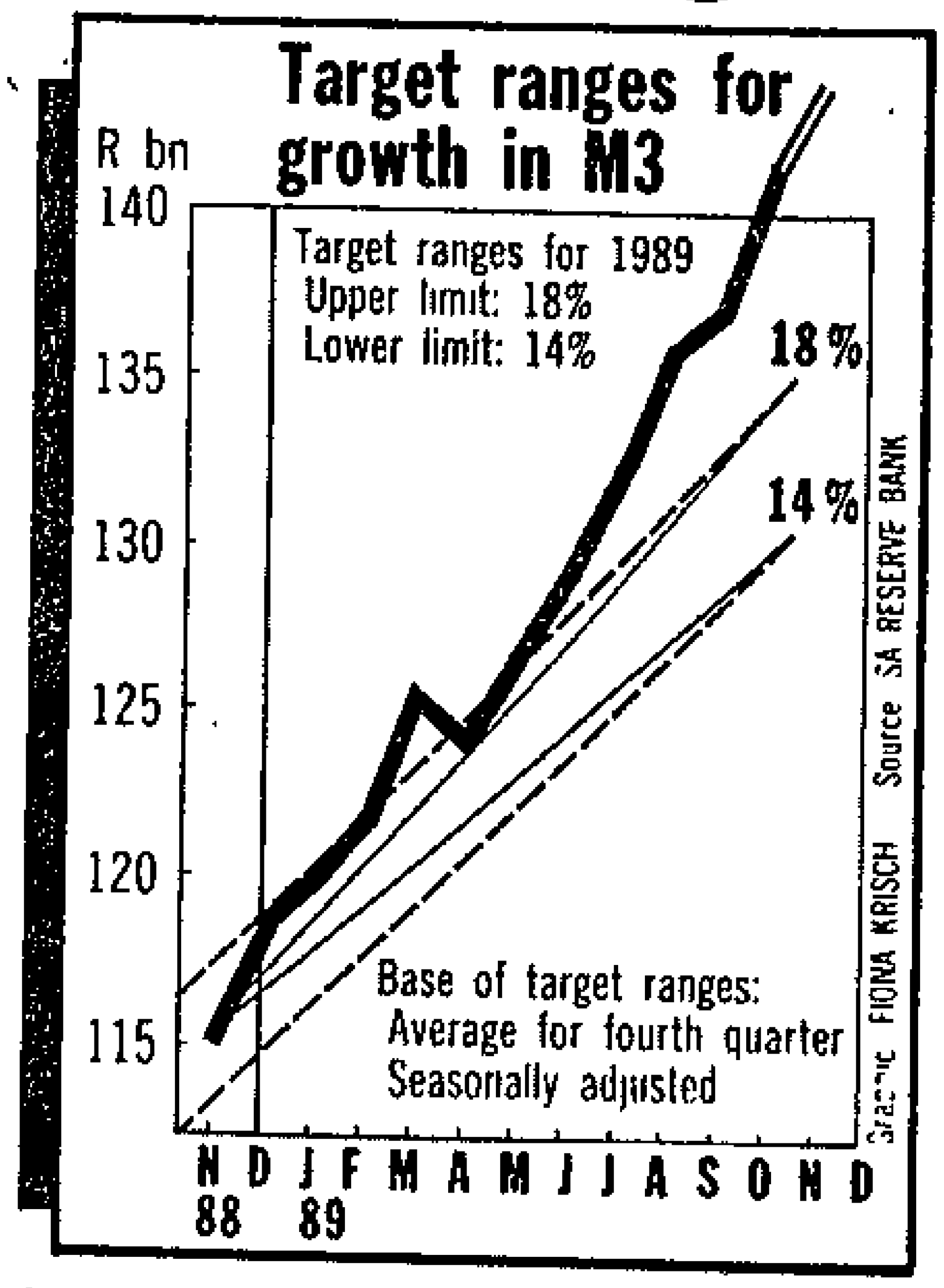
According to Reserve Bank figures released yesterday the percentage growth in the seasonally adjusted M3 for October soared to 24,70% compared with the preliminary estimate of 21,65%. The September growth was 22,87% adjusted from a preliminary 22,05%.

M3 is the broad measure of money supply, consisting of notes and coins in circulation plus all deposits with banks, building societies and the post office, which reached a total of R143,682bn at the end of November. The comparative figure for November 1988 was R115,364bn.

Encouraging features of the November returns are: the increase in the net gold and foreign exchange reserves added to the growth in money supply, and more significantly, the velocity of circulation continues to decline.

With only the December figures to come — and there is little hope of the rate of increase reducing over the holiday season — money supply once again will fail to reach the targeted range of 14-18%.

Senior deputy governor Japie Jacobs said yesterday that the Iscor flotation was the reason for the sharp upward adjustment in October. He indicated that most



figures in the preliminary calculation of M3 always required some adjustment.

Adjustments become necessary because of inaccuracies in the data supplied to the Reserve Bank by banks and other deposit-receiving institutions.

There are many margins for error, such as estimates made by the Land Bank or, provisional bank returns which do not identify whether negotiable certificates of deposit are held inside or outside the banking system.

Balancing act needed at First National Bank

58

By Ann Crotty

First National Bank surprised the market this year by producing results for the 12 months to September that were well ahead of expectations. Sk 24/12 89

Its performance in financial 1990 will depend on two factors common to the banking community: how it calls interest rate movements and control over operating costs.

In addition, there is in FNB's case the issue of cost and performance of the computer-based accounting and management information system, known as the Hogan.

For some years problems with it — in terms of cost and operating performance — have held back group earnings. But now it seems that management feels those days are behind it.

In the annual report, chairman Basil Hersov and MD Barry Swart say: "Installation of the Hogan accounting and management information system is now basically completed throughout our branch network.

"The fruits of this capital-intensive exercise will increasingly be felt in terms of financial information of unsurpassed flexibility and speed."

However, the market may be a little wary of yet another reassurance that all is well with Hogan and may prefer to await some hard evidence in the form of improvements at operational level and reduced expenses.

Analyst David Southey of Edey Rogers seems optimistic. In a recent report on the bank he saidt: "FNB is now well positioned to capitalise on its sophisticated computer systems and should derive significant economies of scale in the retail market."

As Mr Southey points out, expenditure on computer systems and subsequent problems in the installation and operation of the software have bedevilled the group for the past three years.

"Management now believes these problems are a thing of the past and that by far the bulk of spending on computers is over."

The installation of the Hogan software in all branches is apparently now complete and has been running smoothly since July.

Capital expenditure on computers in financial 1990 is budgeted to fall by R50 million to R200 million.

Looking to developments on the interest rate front, Mr Hersov and Mr Swart refer to the squeeze in the money market felt in the first half of financial 1989.

Barry Swart

"Treasury operations generally suffered, and pre-tax profits in our first half were up only two percent.

"Chasing compensating asset volumes could not be an answer since — quite apart from the authorities' slowdown directive — this would merely have caused capital-to-asset strains and exacerbated risk/reward dis-economies."

"From March onwards the money market eased somewhat, while the group positioned itself prudently on a view that the top of the interest rate cycle had yet to be reached."

This helped the group to counter the effects of the sharp increase in interest expenditure suffered in the first half. But full-year figures suggest that interest margins remained under pressure.

Looking to financial 1990 performance, Mr Hersov and Mr Swart say banking is highly sensitive to interest rate patterns.

"Nevertheless, we believe that we have the skills to make the best of emerging economic conditions, and that there is still considerable mileage to come from improvements in operating efficiencies already set in motion."

As Mr Southey sees it, a marked improvement in earnings growth is expected.

But he qualifies: "Asset and dividend growth will be slower, given the group's capital constraints and the need to generate capital through increased retentions."

FUNDS ROW RAGES

(58)

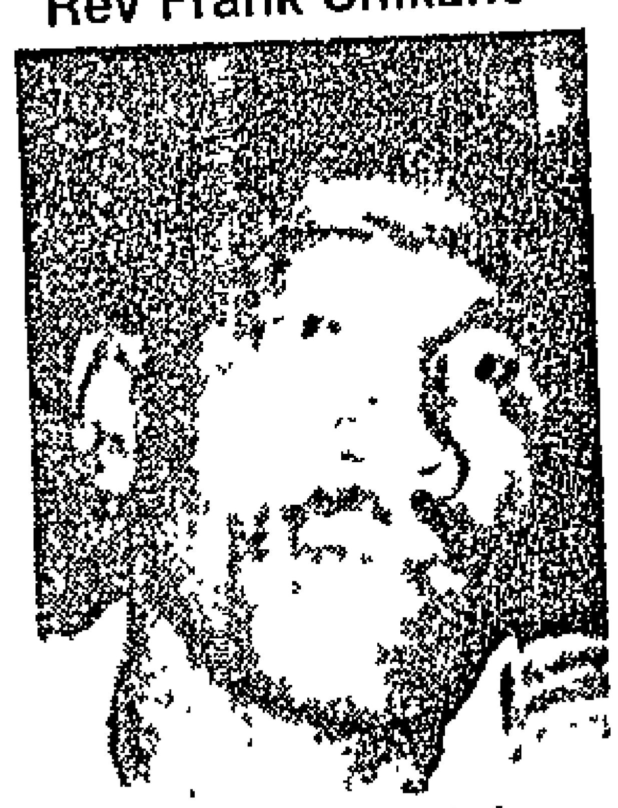
22/12/89

Sowetan

Kagiso Trust, SACC, SACBC deny claims

SEVERAL organisations and individuals this week backed claims by Azanian People's Organisation president Mr Nkosi Molala that Kagiso Trust, the South African Council of Churches (SACC) and the SA Catholic Bishops' Conference (SACBC) provided relief funds on a sectarian basis.


Rev Frank Chikane


Mr Nkosi Molala

By SY MAKARINGE

Molala told more than 3 000 people at the welcome home rally of released Pan Africanist Congress (PAC) stalwart Jeff Masemola in Atteridgeville last weekend that the Kagiso Trust refused to fund the rally because it subscribed to an ideology different from that of the PAC.

He also attacked the SACC and the SACBC for applying sectarianism when distributing relief funds to victims of apartheid.

The director of Kagiso Trust, Mr Achmat Dangor, said he made it clear when the Trust was approached that it did not fund political rallies, conferences or birthday celebrations.

Even the African National Congress rally held at the First National Bank Stadium a few weeks ago was not funded by the Trust, he said.

Dangor said, in fact, the application by the organisers of the Jeff Masemola rally was treated as a priority.

He said it took between three and six months to process applications. He said the charity organisation also did not fund trade union activities as it was a project agency which put more emphasis on development.

According to him, Kagiso Trust did not subscribe to any political organisation and that members of the Board of Trustees had diverse political beliefs. Molala

● To page 2

P.T.O.

dressed as a matter of urgency.

Comment: Page 4

which has caused a steady slide in prices since Highveld's 1989 second quarter contract price of $7,50/lb. — Reuter.

Money supply still out of target range

BDay 22/12/89

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HAROLD FRIDJHON and NEIL YORKE SMITH

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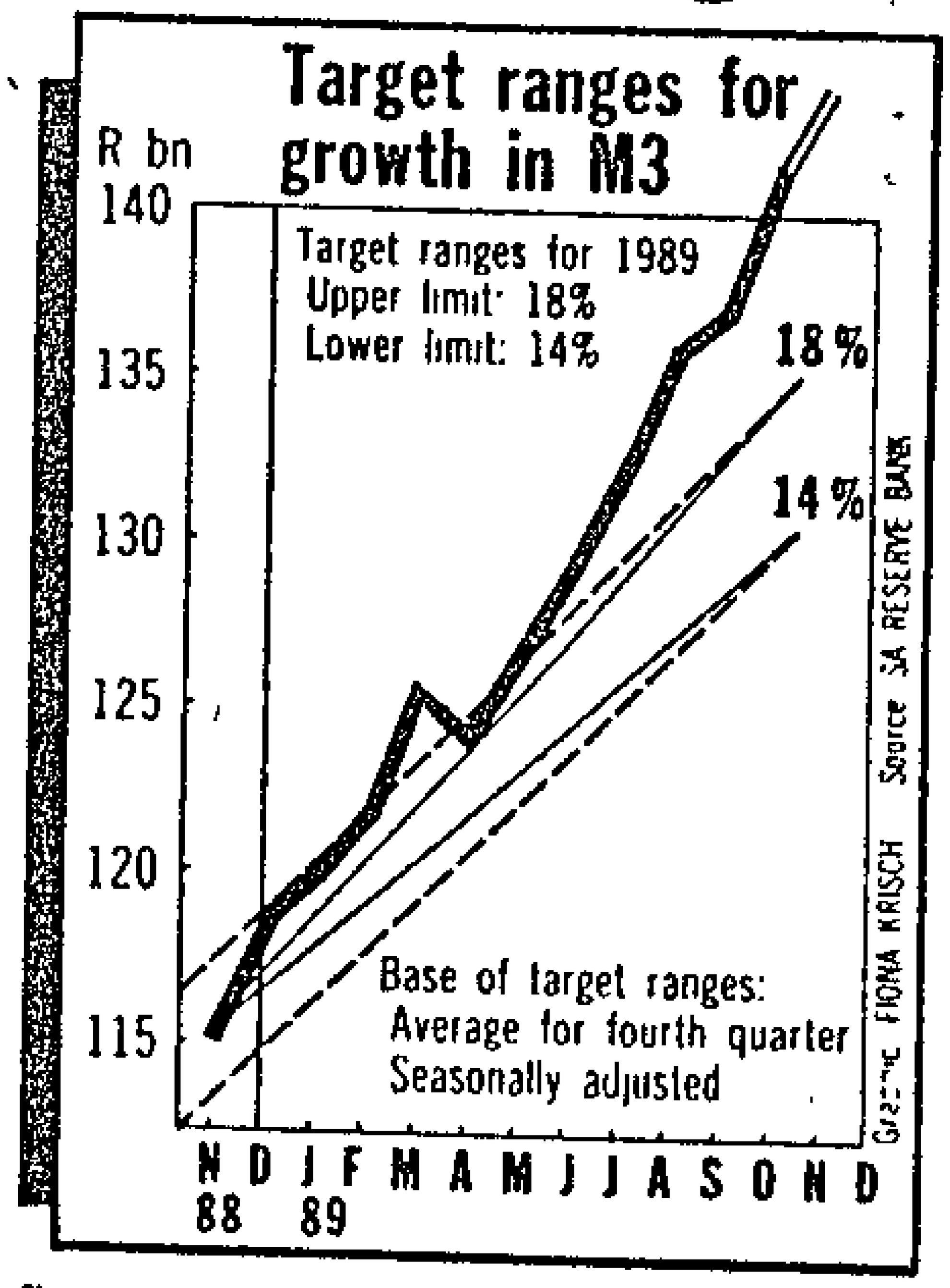

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MARTIN MCAUSLAND, personal financial planning manager at Price Waterhouse.

OUTLOOK 90

ST 23/12/89

Personal financial investment prospects

INVESTORS should tread warily in 1990 and concentrate on longer-term strategies.

Although high interest rates will attract short-term money, the first year of the new decade will be a big one for certain long-term investment avenues revitalised by the Government's relaxation of prescribed assets.

Retirement annuities (RAs) and provident funds have taken on a new lease of life as they are now far more performance-oriented.

Money will be channeled into RAs because they are no longer seen as stodgy investments, are not taxed during accumulation, and provide excellent payouts on redemption.

I would also earmark certain life assurance policies and provident funds for substantial growth.

In the case of RAs, prescribed asset requirements have plummeted from 53 percent to about 10 percent. For certain life policies they have fallen from 35 percent to 10 percent.

Provident funds will be attractive due to their tax-free status and their valuable combination of risk cover and investment.

On the subject of tax reform to stimulate savings, I'm confident tax-free interest ceilings will be lifted.

(58)

I believe the Government will remain committed to "real" interest rates to stimulate savings, stem consumer demand and control inflation.

Where pay is concerned, the trend towards flexible salary packages cascading down from the upper echelons of management to middle and lower levels will continue.

Salary sacrifice is becoming popular at all levels as people try to make their earnings more tax efficient.

Reserve Bank eases liquidity

58

Finance Staff

The Reserve Bank will provide some relief to the banks on the money markets over the next two weeks, it was reported today.

Traditionally liquidity is tight between Christmas and the first few weeks in January. Star 27/12/89

On Friday the market shortage on the money market reached R4,53 billion, compared with R3,2 billion at the end of the previous week.

However, the Reserve Bank's senior deputy manager, Dr Japie Jacobs, reportedly indicated that the Bank, as lender of last resort, would support the market over the difficult period.

He said that deposits from the public corporations would be filtered back into the market.

In addition repurchase agreements as well as the granting of overnight loans would be relaxed, Dr Jacobs stated.

The tight market conditions arise out of the increased cash banks are paying out for banknotes over the holiday period.

JSE survives double blow

Cape Times 28/12/89

58

Own Correspondent

JOHANNESBURG. — Diagonal Street maintained its composure yesterday under the double blows of a lower gold price and a further sharp appreciation in the finrand.

An attempt by gold to recover losses in New York the previous night was aborted by slumping silver prices and the dollar coming off its lows. Gold closed in London at $406,50, marginally above its afternoon setting of $406 but well down from its previous close of $413,25.

In New York the metal dipped below $400 in afternoon trading.

Silver tumbled to a low of $5,36 before finding some support to end at $5,41 after closing on Friday at $5,60. Platinum held up well in view of the weakness in gold and silver and closed only $2 lower at $507,50.

However, key support at $500 came under pressure in New York as gold fell further.

Dealers said the period between Christmas and New Year is usually slow for gold, but traders in New York said strength in global stock markets, as well as indications that the political situations in Romania and Panama were under control, also put pressure on gold.

Currency dealers ascribed the 4,1% jump in the finrand to R3,5150 to the dollar — a rise of almost 11% in just over a week — to economic fundamentals of strong demand and no supply of finrands coming onto the market.

They said the sale of shares by foreigners to create finrands has

To page 2

From page 1

been insufficient to satisfy demand in a very thin market with no disinvestment deals going through to counter the buying.

But dealers said they believed the share market would in future take less heed of finrand movements, as shares were offering good value at their lower levels to attract renewed local and overseas interest.

Yesterday's 1,9% (40 point) decline in the JSE all gold index to 2 064 brings its losses to 8,6% or 196 points from its peak of 2 260 two weeks ago. The overall index has fallen 5,7% or 178 points in the same period to 2 948.

Traders reported little selling of gold shares, but in the absence of buyers, with most people away on holiday, share prices were marked down.

● **JSE closing report — Page 8**

Cashworths: JSE in historic intervention

Cpt Times 28/12/89

Minority shareholders hold the key

58

By AUDREY D'ANGELO
Financial Editor

ONE of the most dramatic and significant company meetings in 1990 will be on Friday, January 12, when shareholders in Cashworths Fashion Holdings will vote on whether to buy 13 subsidiaries of Management Services Corporation (Manserv) for R12,2m in cash.

For the first time, the Johannesburg Stock Exchange (JSE) has intervened by applying "moral suasion" to the controlling shareholders, who have agreed to vote only half their shares.

This means that if all, or nearly all, the minority shareholders vote together they can throw the proposal out if they wish. The controlling shareholders have 8,5m shares and minority shareholders 6,5m.

Issie Goldberg

Stressing that the JSE had no legal right to intervene, Richard Connellan, deputy GM (listing and meetings) said that it had, however, decided to use moral suasion.

"We were concerned about a situation in which a consortium controlled two companies — one a cash shell with solid cash assets and the other where the assets were intangible — and proposed to reverse the company with the intangible assets into the cash shell.

"We were not happy about this. We convinced the controlling shareholders, just through moral suasion, to reduce the number of shares they will vote at the meeting.

"They agreed to do so to the extent that if all the minorities vote against buying intangible assets with their good solid cash the proposal will be defeated."

Connellan said that, hopefully, this would set a precedent against controlling shareholders doing what they liked regardless of the wishes of the minorities. "Although all shareholders, have, of course, the legal right to vote in any way they like."

Cashworths is an old established Cape Town company which was listed in the Development Capital Market sector of the JSE in 1987, after a private placing to raise R4,5m at R1 a share.

Control was bought by the MAP consortium of businessmen early this year, for an estimated 35c a share, when the fashion retail and manufacturing group was in serious difficulties.

The consortium sold all Cashworths' assets, leaving it with profits of R10,2m after all its debts had been paid.

The meeting on January 12 will be in Johannesburg. The chairman of the Shareholders Association of SA, Issie Goldberg, will be there and has urged shareholders who cannot attend it to appoint him their proxy.

Discussing the merits of the proposal, Goldberg described it yesterday as "unique in the annals of the JSE," and said it had "aroused tremendous indignation in many of Cashworths shareholders.

"In essence," he said, "the deal comprises the purchase by Cashworths of 13 subsidiaries of Manserv — of which six are dormant companies — for a cash payment of R12,2m. This payment will effectively denude Cashworths of its total cash holdings of R10,2m and involve Cashworths in raising an interest bearing loan of a further R2m to consummate the transaction."

Goldberg said there were many features which made the proposition interesting.

"There is close contiguity between the members controlling each of the companies, and the only major amount of cash in either company belongs to Cashworths."

He pointed out that the consortium had, in effect, rescued Cashworths when it bought control. "It is to the credit of the new controllers that they skilfully turned the nett assets to account by selling them off for cash."

After payment of debts, each Cashworth's share had a nett asset value of 65c.

Goldberg said that virtually the same consortium had recently acquired control of Manserv, with some subsidiaries which had "a poor history of profits."

This ingestion into Cashworth's would "reduce the nett asset value of Cashworth's shares considerably."

Goldberg said the Shareholders Association had asked the JSE to "use whatever influence they could to create a voting situation" that would give minorities in Cashworths an opportunity to decide what would happen.

Without "the splendid intervention of the JSE" and the co-operation of the Cashworths board, the meeting would have been a mere formality.

Goldberg said that minority shareholders adamantly opposed to the deal should fill in their proxies "against". Others should give him a blank proxy vote to enable him to "possibly negotiate a better deal for shareholders."

He will be available on weekdays between 11am and 12.30 pm at 45 1240.

A good year for property

Sed 28/12/89 (58)

OUTLOOK 90

By Neville Berkowitz of the Property Economist

Most people will look back on 1989 as a good year for property. The tail end of the 1987/88 economic upswing wagged for the better part of the year.

The white homes market saw schizophrenia reign. In the lower end of the market, under R100 000, hundreds of homes were being repossessed monthly by major mortgage lenders as high interest rates crippled limited family budgets.

At the top end of the scale the R1 million home barrier was crossed numerous times and the R3 million barrier breached on a few occasions.

The security driven townhouse and especially cluster home market at R300 000 to R1 million saw much increased demand and rising prices.

Most of the activity taking place in the construction of homes for blacks, coloureds and Asians was in the cheaper end of the market where builders' profits are paper thin. The losses by many major homebuilders show that this is not "the promised land" for the homebuilding industry.

The Urban Foundation's loan guarantee scheme, initally injecting R1 billion in homes under R25 000, was, in my opinion, the most important property news of the year. Now we must all make it work for the ultimate benefit of all South Africans.

Prospects for the residential market in 1990 are for initially high interest rates with the possibility of a 17%-18% bond rate by next Christmas.

Demand for new homes will continue to slow due to the weak economy and high interest rates. Demand for existing homes over R150 000 will continue, initially at a slower rate. However I expect the second half of 1990 to see the tentative beginnings of the next upswing in the residential market.

The office market was substantially more active in the first half of 1989. Tenant demand dropped off noticeably in the second half as the 1990 downswing became a reality.

Some office markets currently have limited supply of good A grade space. However buildings currently under construction will come onstream during 1990/1991 and a tenants market will re-appear once more.

Old Mutual continued their buying spree of Johannesburg CBD properties as well as completing their Menlyn office park in Pretoria. While Sanlam were active, announcing inter alia, three R100 million office developments in Parktown, Arcadia in Pretoria and in Durban.

I foresee 1990 being used to plan new office building for the possible 1992 upswing.

The retail market saw the expansion of Westgate to become the third largest shopping centre in the country. The start of Southgate, near Uncle Charlies and the recent announcement of Northgate in Randburg will add yet more retail space to a near saturated market place.

Black shopping in the Johannesburg CBD is as popular as ever and rentals for relatively small retail space have broken through the R100 sq/m a month barrier.

The industrial market was dominated by the mini factory market with rentals in high demand areas such as Strydom Park, Amalgam, Selby, and Sebenza ranging from R7-R10 sq/m.

Large industrial space users are also looking to position themselves for the 1990s and there are a number of large enquiries for space in excess of 5 000 sq m in the market at present.

Overall 1990 is likely to be remembered for a slowing economy, relatively high interest rates averaging 19% during the year, increased political reform, possibly softening prices and rentals in areas of increased supply with reduced demand — in general an unexciting year.

A year to keep the costs down and an eye open for opportunities for the potential upswing starting during 1991.

BDay 29/12/89

(58)

No fireworks, but insurance sector could provide 'defensive stock'

LINDA ENSOR

NO fireworks are expected from the insurance sector next year, but it could provide sound "defensive stock" in an embattled economic environment because of its relatively stable chart of earnings growth, especially those of life offices.

"We are quite positive about the sector and certainly it is less vulnerable to a downturn than other sectors as earnings are less cyclical," said one analyst. "In recent months the performance has begun to pick up."

The index for the sector showed a healthy 47,5% growth in 1989, compared with the 43,6% rise in the banking sector and the 38,1% in financial services generally.

The sector's average dividend yield is 3,7% and its p:e of 11,7 times, though sector statistics generally reflect the performance of its dominant player, Liberty Life. This compares with the financial sector's respective 4,7% and 10,2 times.

Some prices of insurance shares have shown phenomenal growth this year such as Safrican Life Investment Holdings (92,6%) which increased attributable earnings by 130% in the year to end-March; Mutual & Federal (80,1%) another exceptional performer which boosted after-tax profits by 41% in the year to end-June; and IGI (76%) which notched a 52,5% rise in attributable income in the same year.

Margins and thus earnings of short-term insurers, however, are likely to suffer from the rates war and the tighter markets.

On prospects for the sector Harry Lai, portfolio manager at stockbrokers, Frankel Kruger Vinderine, said that apart from a continued focus on sector leaders such as Liberty and Southern Life, the trend is likely to remain positive towards gold, top quality industrials and the mining sector with no great "fireworks" in the insurance sector.

Assurance companies, he added, have shown an increase in earnings of between 18% and 22%, benefitting from the fact that they can control growth by being able to transfer between 6% and 8% of surplus life funds onto their income statements, thus ensuring a smooth flow of earnings and dividends.

Louis Geldenhuys, an economist with stockbrokers, George Huysamer & Partners, said that the flat economic scenario for 1990 together with high interest rates could see the insurance sector gaining ground as a "defensive stock" where earnings and dividend growth are more secure.

Greater investment freedom for life assurance industry

58

Star 30/12/89.

DORIAN WHARTON-HOOD, joint managing director, Liberty Life, and chairman, Life Offices Association

OUTLOOK 90

THERE were three significant developments in the South African life assurance industry in 1989 which bear on prospects for the year ahead.

These were the scrapping of prescribed assets, the acceptance by the Government of the trustee principle of the tax basis applicable to life assurers, and the abolition of the taxation of underwritten provident funds.

The acceptance of the trustee principle means that the rate of tax paid by life assurers will in due course be reduced to a level approximating the average marginal rate of all policyholders.

New regulations

This is because the trustee principle accepts that life assurers pay tax on behalf of their policyholders. It also means that the assurers will in due course be allowed to deduct all the expenses incurred in the production of their taxable income.

At present life assurers are taxed at 45 percent, the highest marginal rate applicable to individuals, and are permitted to deduct only 55 percent of their renewal expenses.

Their new business expenses are averaged over the past five years, which effectively reduces the amount they are able to deduct.

This acceptance of the trustee principle was welcomed by the life assurance industry.

The replacement of prescribed assets by investment regulations effectively means that life assurers now have considerably more investment freedom and are now compelled to invest only about 15 percent of policyholder's liabilities in government stock.

This will certainly benefit policyholders, who can look forward to more exciting products and improved investment returns in the future.

It has been made clear that these investment regulations will be reviewed in 1990 and the life assurance industry hopes that this will lead to further relaxation on the part of the authorities and consequently, even more investment freedom for life assurers.

The abolition of taxation on underwritten provident funds to bring these into line with private povident funds was an important concession, also welcomed by the industry. Previously this anomaly was not as serious as it became after the abolition of prescribed assets.

Hopes are high in the industry that the cumbersome Sixth Schedule will either be simplified or abolished in 1990. This highly complex piece of legislation has done nothing to discourage investors form placing money with life assurers and has also generated very little tax revenue.

In addition, it has become expensive for the authorities to administer, and for life assurers to apply in practice. In fact, the only parties who appear to have benefited from the Sixth Schedule are tax advisers!

Also, the Sixth Schedule no longer has a role to play following the introduction of the five-year voluntary agreement entered into by all life assurers in October 1988.

In terms of this agreement, life assurers no longer sell policies with terms of less than five years, nor do they offer policyholders any form of guarantee, other than on death, within the first five years.

The agreement was aimed at drawing a dividing line between short and long-term savings, to assist the building societies and banks to focus on the short-term savings market, while the life assurers concentrated on the longer term savings market of five years and more.

The agreement has been most effective and it now seems inappropriate to have a barrier after five years, and a further division of the territory after 10 years, which was the original intention of the Sixth Schedule.

It is encouraging to note that there appears to be a better understanding among building society spokesmen of the reason why funds have continued to flow to life assurers.

Healthy development

Obviously this flow has continued because of the fact that life assurers have consistently produced real returns for investors above the inflation rate, and has nothing whatsoever to do with the tax basis applicable to life assurers.

While the life assurance industry welcomes any move to encourage savings by, for example, increasing the amount of interest payable free of tax to investors, funds will continue to flow to life assurers as long as investors believe that inflation will continue at a high rate.

It is therefore imperative for the authorities to control inflation.

In recent years, the Life Offices Association (LOA) has become increasingly successful in regulating its industry without the need to resort to legislation.

We believe that this is a healthy development and it seems that the authorities will encourage further self regulation rather than impose control by further complex legislation.

This attitude seems to be in tune with the De Klerk regime which has made a tremendous impact since the general election. There appears to be a spirit of co-operation and a genuine determination to deregulate and stimulate the economy.

The initiatives of the new State President have certainly been welcomed by business leaders and by commentators and critics of South Africa, both here and overseas.

A source of concern to the industry during 1989 has been the growing tendency among certain brokers and the media to suggest that it is possible for potential policyholders to compare the merits of different life assurance products in a scientific way

When the LOA introduced the Benefits Illustration Agreement, it was one of the LOA's intentions to neutralise future illustrative values of policies, because all experts in the industry believe that it is futile to compare projected future values.

When a policyholder buys a life assurance product, he puts his faith in the life insurer of his choice, and the ultimate value payable in terms of his policy depends on the future performance of that particular life assurance company.

Important factor

The key factor is future investment performance, which is impossible to quantify. Expense control, service, product design and so on, are, of course, also relevant.

To suggest that it is possible to predict future values by comparing premium rates, past investment performance and so on is patently ridiculous.

The past track record of a company is indeed relevant, but there is no basis for believing that the future will remotely reflect the past performance of any life assurer

For example, investment managers and other senior management may change jobs, with the result that policies and philosophies could change, to name but one important factor.

There is simply no doubt that the choice between two competing life assurance products depends on judgment, and cannot be done in a scientific way. The comparison of different products is an art and not a science.

Finally, although we expect 1990 to be a difficult year for the South African economy in general, life assurance companies are less dependent on economic syvles, and tend to perform reasonably well in sluggish times.

One of the biggest challenges facing South Africa in 1990 is the need to achieve a higher economic growth rate. By channelling their funds effectively, life assurers can help achieve higher economic growth and increased efficiency.

If inflation is to be significantly reduced, government and the private sector must act in concert. Government spending must be curtailed, the money supply must be controlled and productivity must be improved.

We need to become a leaner and hungrier economy if we are to compete in world markets.

FINANCE — GENERAL

1990 — JANUARY

Unit trusts deliver the goods once again

Star 2/1/90

By Derek Tommey

The unit trusts again strongly demonstrated in 1989 that in looking after the small investors' savings they have no equal. They have highlighted once more that they are able to deliver the goods and help protect the small investor from inflation and at the same time give him a stake in the country's economic growth.

An analysis of the performance of the unit trusts between December 28, 1988, and December 29, 1989 shows that in this period the 13 general equity funds had an average capital appreciation of 38,4 percent, and the specialist funds 35,1 percent which was well above the inflation rate of 16 percent to 18 percent.

But unit holders did not grow richer only "on paper" — with their profits remaining unrealised in the share market. Their wallets also grew a little thicker as the flow of dividends from the unit trusts swelled sharply.

The general funds paid out an average 42 percent more in dividends in 1989 than they paid in 1988, the analysis shows. And the Specialist funds paid out 36 percent more. Most of the income/gilt funds also achieved significant growth for their unit holders.

The trust showing the biggest capital appreciation last year, not unexpectedly in view of the sharp rise in gold share prices in the last two months of the year, was Standard Gold. The value of its units rose 58,6 percent. But reflecting the limited improvement so far in gold mining profits its dividend distribution grew by only 11,3 percent

Of the general funds, UAL showed the greatest capital appreciation with a unit growth of 47,1 percent. It also achieved a dividend increase of 44,5 percent. Runner up Momentum had 45,7 percent growth and 37,2 percent capital appeciation.

On the other hand, measured by income growth Sanlam Index put up the best performance with a 53,0 percent rise in dividends and a 40,8 percent rise in capital appreciation.

The Old Mutual Investment fund with a 52,2 pecent rise in dividend distributions and a 43,6 percent rise in unit value also scored highly.

In the specialist funds, Sanlam Industrial showed the best dividend growth, boosting its distribution by 56,5 percent. Capital appreciation was 23,3 percent. The running up in this section was UAL Selected with 55 percent and 23,9 percent respectively.

Worthy of note in the Income/gilt funds sector was the achievement of Standard Income in pushing up its dividend distribution by 44,5 percent. The rise in value of its units, however, was limited to 2,9 percent.

Unit trusts were helped by several favourable developments on the stock market in 1989.

In the first half of the year industrial shares boomed as companies reported sharply increased profits. Then the coal and base metal shares following significant rises in the export prices and the exports of base minerals and metals.

Towards the end of the year the sudden rally in the gold price cause a sharp rise in gold shares and mining finance counters.

Looking ahead no definite trend in the short term in the local market is apparent. But over the next to 24 months some of the fruits of the huge changes in Eastern Europe should start to be realised.

The should seelower taxes, greater consumer spending and more rapid economic growth on both sides of the former Iron curtain.

At the same time the Eastern Europe countries will start shedding the economic shackles of Communism and this too should lift living standards.

Together these developments should push the Western world into another period of strong economic growth in which South Africa, as one of the leading suppliers of essential minerals, should be a major beneficiary.

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	Capital appreciation 1989 %	Dividend growth 1989 %
MUTUAL FUND		
Guardbank	39,8	47,2
Momentum	45,7	37,2
Metfund	36,0	-2,16
NBS Hallmark	34,7	n/a
Norwich NBS	33,2	n/a
Old Mutual Inv	43,6	52,2
Sage	34,8	36,9
Sanlam	28,7	48,9
Sanlam Index	40,8	53,0
Southern Equity	36,9	n/a
Standard	34,7	45,9
Syfrets	42,9	14,7
UAL	47,1	44,56
SPECIALIST FUNDS		
Guardbank Resources	38,4	42,4
Sage Resources	39,0	6,4
Sanddiv	16,6	31,5
Sanlam Ind	23,3	56,5
Sanlam Mining	35,0	42,6
Standard Gold	58,64	11,3
UAL Min & Res	39,94	32,1
UAL Select	23,93	55,0
Old Mutual Mining	41,13	34,78
INCOME/GILT FUNDS		
Corbank Income	4,12	20,68
Guardbank Income	3,78	27,92
Senbank	6,30	10,46
Senbank Gilt	6,45	9,24
Standard Income	2,90	44,54
Syfrets Income	4,52	31,10
UAL Gilt	5,85	32,75

Worst is over for interest rates

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OUTLOOK 90

By Dr AZAR JAMMINE, chief economist, Econometrix

5/1/90

No single factor has played a more significant role in cooling off the South African economy in recent months than the high level of interest rates which has prevailed over the past year.

The boomlet experienced by the economy in 1988 and the first half of 1989 took place mainly as a result of people's willingness to borrow to buy homes, appliances, TV sets and the like. However, interest rates hovering around 20 percent for most of the year have sapped the ability of the man-in-the-street to keep borrowing and spending the way he was doing at the beginning of the year.

Indeed the major fear among consumers and home owners alike at present is that interest rates might rise still further.

The good news is that it is unlikely that they will do so, the bad news is that one should not expect rates to fall too far in the year ahead.

To understand the rationale for this prognosis one needs to examine the main determinants of interest rate movements in South Africa.

The country needs to accumulate sufficient foreign exchange reserves with which to repay the large amount of foreign debt falling due next year and manipulation of the level of interest rates is one of the key policy variables which can be used to influence the amount of foreign exchange available.

Three main factors influence the country's ability to accumulate foreign exchange reserves. These are the level of overseas interest rates, the gold price and the level of domestic economic activity.

The level of overseas interest rates is a vital determinant of our domestic interest rate structure because the gap between domestic and overseas interest rates affects the extent to which capital flows in or out of the country, thereby influencing the amount of foreign exchange which the country possesses.

At present, overseas interest rates are high, as the world's leading nations try to prevent their inflation rates from rising further. As a consequence, South Africa's rates have to remain high.

However, there are signs that overseas rates might start coming down gradually in the year ahead as overseas inflationary pressures begin to recede. So pressure on South Africa's rates to remain high might also begin to recede.

The gold price is an important variable in the interest rate equation as it is the country's biggest single earner of foreign exchange. When its price falls, the country has to earn its foreign exchange from elsewhere, either by increasing its non-gold exports or by reducing its imports.

Conversely, when the gold price rises, the imperative to keep interest rates high diminishes, since the increased foreign exchange earnings from gold remove the need to earn that foreign exchange by keeping imports down.

Therefore, with the outlook for a rising gold price looking quite positive, upward pressure on interest rates should recede from this source as well.

The third determinant of interest rates, the overall level of demand in the economy, also points to a reduction in rates.

With people increasingly feeling the pinch of the high rates of the past year, the demand for credit is beginning to tail off significantly and with it the overall level of economic activity.

As a consequence imports are already beginning to decline significantly and so the imperative to keep interest rates high so as to depress the demand for imports is not as acute as it was a few months ago.

The scene is therefore set for a decline in interest rates.

However, the new Governor of the Reserve Bank, Chris Stals, has committed himself to keeping interest rates above the inflation rate in his fight to bring inflation down in the long term. But inflation will not come down sharply in the year ahead as too much money has been created out of thin air over the past two years to allow for a sharp fall.

Therefore, Stals will not allow overdraft and mortgage rates to decline below 18 percent or 19 percent in the year ahead. So although the worst may be over in regard to rising interest rates, there is little cause for rejoicing.

Focus on pay packets

58 Sowetan 3/01/90

PAY packets in 1990 need to be almost four times bigger than 10 years ago to stay abreast of the lowest estimates of inflation and to avert a fall in living standards, according to new studies.

SOWETAN Correspondent

A report by PE Corporate Services says that a take-home pay of R 1000 a month in 1980 now needs to be at least R3950 a month to counter-balance the effects of inflation.

Miss Naomi Brehm, head of remuneration services, finds that average pay packets have lost out in the battle with price increases.

Price

On official counts, the consumer price index bounded upwards between July 1979 and July 1989 by 295 percent. But average wages and salaries lagged behind with increases of 293 percent.

Brehm believes the real picture may be much worse.

"The official rate of inflation is regarded with great suspicion," she says.

"It is presently given at between 14 and 15 percent, but this is often challenged and the real rate is believed in certain circles to be between 25 and 30 percent.

"In real terms, therefore, overall salaries in the 1980s have lagged behind quite substantially."

If one assumes the true rate of inflation over the past 10 years to be only two percentage points higher than the official figure, the cost of living has soared by 369 percent.

Tax

"This means that the employee who started in 1980 with R1 000 should now be earning R4 690 to match inflation - and he isn't."

In fact, the rise in basic pay should have been much steeper than that if account is taken of the heavier income tax burden generated by the fiscal drag caused by inflation.

Brehm cautions that employees should not expect pay increases to move higher in the 1990s - unless earned from incentives linked tightly to better performance and productivity.

Syfrets boosts its offshore link-ups

BDay 3/1/90 LINDA ENSOR (58)

SYFRETS moves into the 1990's as a restructured, streamlined organisation with a greater offshore involvement.

The group has formed an association with a Jersey-based financial services group, Ermitage International, through which it can offer clients international investment management opportunities through an offshore fund called the S G International Fund.

Syfrets is also currently negotiating a number of other ventures.

"Optimistically, an acceptable political scenario for SA resulting in capital inflow to support the economy by the watershed year of 1992 could result in a wonderful opportunity for trade with a vastly increased, simplified and more powerful Europe," chairman Brian Robinson said in his annual review.

S G International Fund invests in various offshore funds holding equities and bonds in different economies of the world, as well as currencies.

Robinson said the market value of client funds under Syfrets administration rose 40% to over R7bn (R5bn) in the 1989 year-to-end-September.

The Star
Finance

African Bank going rural

(58)

Star 31/1/90

By Jabulani Sikhakhane

The African Bank, constrained by a lack of capital resources, is turning to small rural towns for growth. Within the next five years it plans to increase its branches and agencies to 33.

Acting chief executive, Jack Theron, says the approach is based on the bank's experience that rural people are better savers, are more loyal and generally not looking for sophisticated services.

The bank's small-town branches are doing better business than those in urban centres, where operating costs are higher and competition is tougher.

"What we have in mind is to open outlets with a staff complement of four. These will have low-cost structures and administration will be centralised at bigger centres.

"Our target is to have every unit breaking even within three months of opening for business."

Mr Theron says his immediate priority is to show a return on investor capital. He predicts the bank will show a 28 percent return on capital, based on actual figures for the first three months of the current financial year.

The 24 percent growth in assets achieved in 1988 was predominantly funded from wholesale funds.

Mr Theron says he is not in favour of paying high premiums to get wholesale funds. His target is to have 40 percent wholesale deposits and the rest as retail and savings funds.

Mr Theron says even the larger commercial banks have reached a peak in the retail deposit market and are now turning to the black market.

The African Bank, he believes, has an edge over other banks in that it is black-owned, with a better understanding of black culture.

A constraining factor is that the African Bank is not generating sufficient profits to fund growth internally and needs to attract capital from external resources.

But it cannot hope to attract outside capital without establishing a history of good profitability.

Added to this is the fact that the bank's current capital structure appears to be operating harshly against ordinary shareholders.

In the 1988 financial year, it did not declare a dividend in order to build up reserves as part of the consolidation process.

As a result the ordinary share capital of the African Bank has shown slow growth over the last two years after rising by 26 percent in 1987.

The current capital structure, particularly the existence of 750 000 16 percent and 3,75 million 8 percent cumulative redeemable preference shares, compels the bank to pay out a large proportion of its taxed profits to holders of these shares.

He admits that it might need to attract non-black investors as shareholders, but feels it should remain under black control.

He says, however, that this is his personal opinion, which appears not to be shared by the founders of the bank, particularly members of the National African Federated Chambers of Commerce (Nafcoc).

Banks' Act in line for big changes

B/Day 4/1/90 (58)

GRETA STEYN

DRAMATIC changes to the Banks' Act — extending the ambit of the law and paving the way for hostile takeovers — are in the pipeline for this year.

Senior bankers are currently studying the draft amendments to the Act, expected to come into effect towards the end of the year. One of the major changes proposed is an extension of the ambit of the Act to include deposit-taking institutions other than banks. In addition, the amendments are intended to bring SA closer to international banking standards on the issue of risk. The draft legislation also relaxes banks' liquidity requirements and phases out discount houses.

Current limits on shareholding by any single institution in a bank or building society (30% and 10% respectively) are to be replaced by giving the the Reserve Bank discretion over shareholding, up to a limit of 49%. Banking sources said they expected the Bank to say yes to a hostile takeover bid only if it was clear depositors and shareholders would benefit.

The legislation, if passed, will bring SA banks closer to international banking standards. The Bank for International Settlements (BIS) system of capital adequacy will be phased in. In terms of the BIS requirements, banks have to keep an average of about 8% capital against their risk assets.

At the same time, banks' liquidity requirements will be relaxed — a saving as the need to keep cash and liquid assets against their liabilities to the public is expensive.

The draft legislation also seeks to define deposits and brings "other deposit-taking institutions" under the Act. This represents a victory for the banks and societies, who have long argued that "money brokers" should be subject to the same expensive statutory requirements as they are.

Operating in the grey or disintermediated market, money brokers are able to offer more competitive rates than banks.

However, it is not yet clear whether the definition of deposits will include certain life assurance products. It is understood the life assurers are lobbying against being included as deposit-takers.

The inclusion of firms operating without a banking licence in the grey or disintermediated market should lessen the extent to which licenced banks are moving off-balance sheet into the grey market.

BUSINESS

Sam Dubazana and his wife, Stella, in one of their Soweto hardware stores.

Wits - helping to keep cash registers ringing

HELPING independent business owners succeed is the main reason for the existence of the Centre for Developing Business at Wits University.

When it was founded 11 years ago the brief was to help people start up and grow their own business.

Since then several thousand prospective and existing business owners have had contact with the Centre either for personal consultation or by attending the many programmes the Centre offers on a regular basis.

Senior consultants Simon Aphane and Barney Tsita, who joined the Centre six years ago, have more than academic qualifications to offer.

Their practical experience of the problems facing new and growing businesses built up over years makes them a useful asset to any businessperson who needs outside assistance.

58 Sowetan 4/01/90

Outside view

Very often a fresh, outside view of a problem is what is needed to help the owner himself arrive at the solution to a problem.

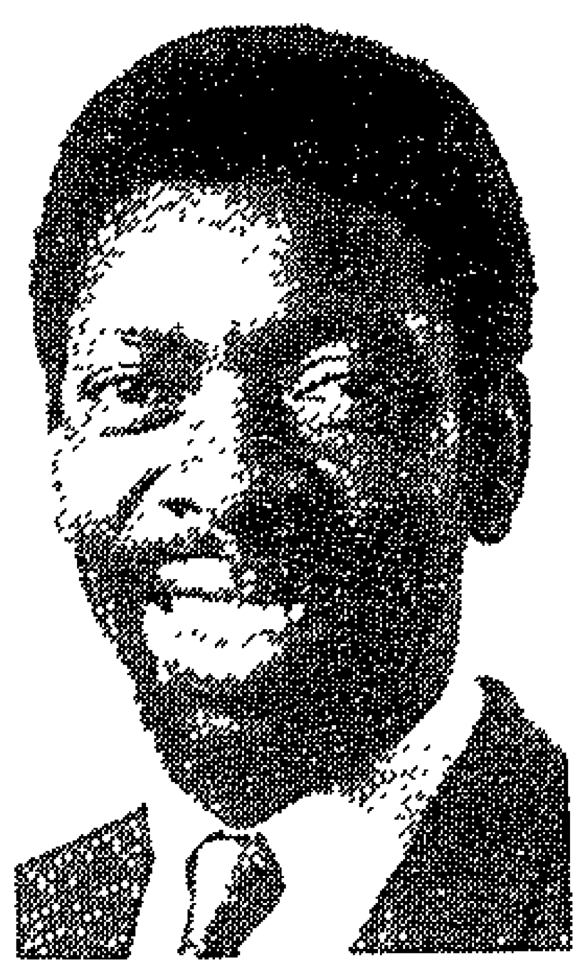
Aphane and Tsita were joined four years ago by Mel Brooks and in 1988 by Elias Maseko. All of these Centre staff are available for consultations but it is essential to phone for an appointment to ensure that someone is available to assist you.

Telephone them at (011) 643-3241.

Those who live too far to visit the centre should write to PO Box 98, Wits. 2050 for advice on business-related problems.

The centre has a number of training programmes scheduled for 1990.

If you are interested telephone the centre for further information.



SIMON APHANE

ELIAS MASEKO

MEL BROOKS

BARNEY TSITA

Insurance Act changes will aid consumers

B/Day LINDA ENSOR 4/1/90

CONSUMER protection has been enshrined in the amendments to section 20 (bis) of the Insurance Act which has been operative from January 1.

The amendments also provide security for consumer's premiums and for the speedy transfer of those premiums to insurers by way of supporting guarantees by intermediaries.

Tom de Fontaine, past president of SA Insurance Brokers' Association (Saiba) and a member of the joint Saiba/SA Insurance Association 20 (bis) Liaison Committee, which formulated the amendments, says:

"In simple terms, the consumer is protected from an intermediary default in the transfer of his premium to the insurers, should this only become apparent at, say, the time of a claim. The insurer is considered to be "on risk" and the claim must be met by the insurer. In the past there was no legal requirement that the insurance company had to stand by the policy if the premium had not been transferred to it, though they may have elected to do so."

Insurance companies are also protected against default, liquidation or abscondment by brokers because intermediaries are required to take out guarantees.

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Guarantee

The amendments introduce urgently required disciplines into the process of transferring premiums from intermediaries to insurers, doing away with trust accounts over which there was little control.

In terms of the amendment only intermediaries in possession of a guarantee will be permitted to handle premiums on behalf of their clients.

The guarantee can be issued by the newly established Intermediaries Guarantee Facility (IGF), a registered commercial bank or by the Land Bank. Arranged through the IGF, the guarantee will cost 0,5% of 20% (net of commission) of total annual premiums to a R50m maximum.

However, if the intermediary holds professional indemnity cover for the same amount as the guarantee, then the rate will automatically reduce to 0,25%. If it falls short of the guarantee amount, the two different rates will apply to the professional indemnity amount and to the balance.

The other category of intermediary can only receive premiums in the form of a cheque made out to the insurer.

To support the amendment insurance companies have introduced a change into the operative clauses of their policies, saying in effect that with no premium there will be no cover. But to ensure the insured is covered immediately after the renewal date, the firms have agreed that "guarantee intermediaries" can hold someone covered for a certain period.

'Stretch insurance risk categories' 58

LINDA ENSOR

PROFITS in the short term insurance industry could be maximised if, instead of largely flat rates, there was greater differentiation of risks and of the premiums attached to them.

This is the view of Statsure Consulting Group director Dewald Lubbe who recently attended the American risk & Insurance Association 1989 annual meeting. B/Day 4/1/90

"SA insurance companies tend to minimise the number of risk groups and fix average tariffs for each group," says Lubbe in a Press release.

"Applying a separating ratemaking policy enables insurance companies to avoid adverse risks and to achieve a competitive edge in the market."

He warns that risk classification loses its cost effectiveness if carried too far as it requires extensive monitoring to ensure that it is applied correctly and suggests a more detailed classification of the high risk groups only.

Bankorp looks to profits rather than asset growth

BDay 4/1/90

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ANALYSIS:
BARRY SERGEANT

THE stake of Sanlam and its subsidiaries in Bankorp has increased from about 75% to some 82% after Bankorp's R350m rights issue.

Sanlam subsidiary Sankorp, the underwriter to the issue, had to take up 17,8% of the rights issue at a cost of about R57,2m.

But whether or not the Bankorp group — which owns Trust Bank, Santambank, Senbank and Bankfin — offers the investor good value is still a long way from resolved.

Both Sankorp and Bankorp are "happy" that Bankorp's rights issue is over. Bankorp's Gunther Wrogemann says the group is now looking forward and concentrating on its policy of focusing on profitability rather than asset growth.

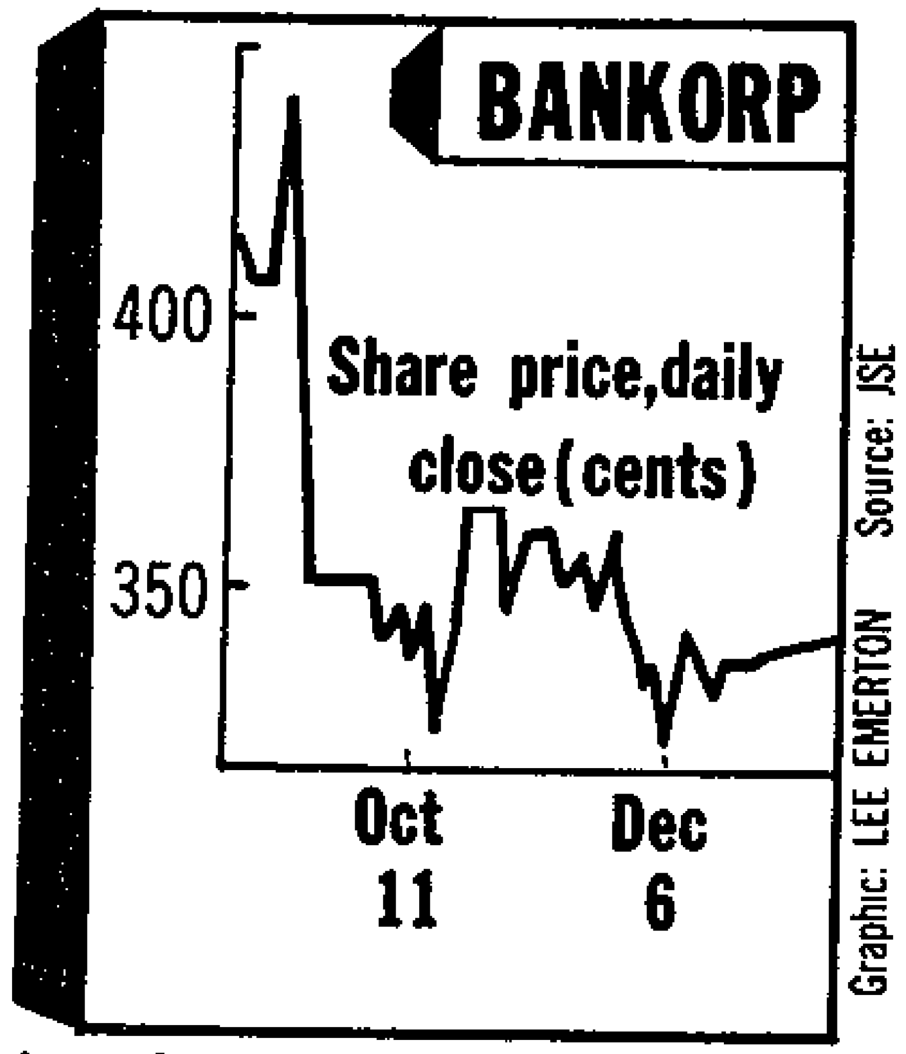
Attie du Plessis, a GM of Sankorp, says Sankorp is "satisfied" with the results of the rights issue. Describing it as a "thing of the past," he argues that Bankorp is now "well capitalised".

The rights issue of 94,4-million deferred ordinary shares offered at 340c each attracted subscriptions of 77,6-million. Sankorp took the balance.

Underwriting

Bankorp's issued share capital increases from 90,1-million to 184,2-million ords. Net asset value (NAV) per share decreases from 765c to 591c, excluding undisclosed inner reserves. The terms of the rights issue were, in the words of an analyst, to "savagely" dilute 1989 earnings per share of 126 cents per share to a level last seen between 1980 and 1981.

The rights issue increases the stake of Sanlam and its subsidiaries (including Sankorp) in Bankorp from about 75% to roughly 82%. Says Du Plessis: "We knew from word go that Sankorp would end up underwriting quite a chunk of the rights issue.



"The rights issue increases Sankorp's holding, but we discussed the matter with the authorities, who sanctioned it."

Expected changes to the Banks Act will mean that Sanlam and its subsidiaries control too much of Bankorp's capital.

"But," asks Du Plessis, "how is a bank expected to go into a rights issue without an underwriter?" He adds that Sanlam and subsidiaries have "always had more in Bankorp than the Banks Act allows." That potential problem remains to be resolved.

Last month's management shake-up at Trust Bank (now delisted and a 100% Bankorp subsidiary) did nothing to help sentiment towards the rights issue. A top banking analyst described the run up to the rights issue as a "fiasco", but noted that it was unlikely to recur under the new stewardship of Gencor chairman Derek Keys, now Bankorp's non-executive chairman.

In the meantime, ranking Bankorp is not easy. The group does not disclose its bad and doubtful debt provisions (or experiences), tax paid or reserves. It trades at a substantial discount to NAV.

Using December figures, First National traded at a 45,6% premium to NAV, Stanbic 54% and Nedcor 57,7%. Volkskas traded at a 34% discount, Bankorp 42,5%. Before the rights issue Bankorp traded at a 54,3% discount.

Using Bankorp's disclosed information, the main concern in the investment community is simply that the group's capital adequacy is still too low. An analyst's report shows the ratio for Nedcor, First National and Volkskas at 5%, while Stanbic shows 5,3% and Bankorp just 3,8% (after the rights issue). The Bankorp and Volkskas figures exclude inner reserves.

The analyst argues that Bankorp's disclosed equity to assets ratio is still "not robust". Bankorp's ratio fell rapidly in the past two years, mainly as a result of a very high growth in assets, particularly mortgage loans.

Savings

Another broker's report says: "Bankorp's management concedes that it will not be possible to generate the necessary capital internally and that additional outside capital will have to be raised every three to five years."

On the optimistic side, Bankorp's operating costs as a percentage of total assets are regarded as among the lowest in the industry. Moreover, the group plans to achieve further cost savings through its new computer systems. Management has estimated a 20% growth in assets in the year to June 1990. But bad debt levels are expected to rise steeply this year.

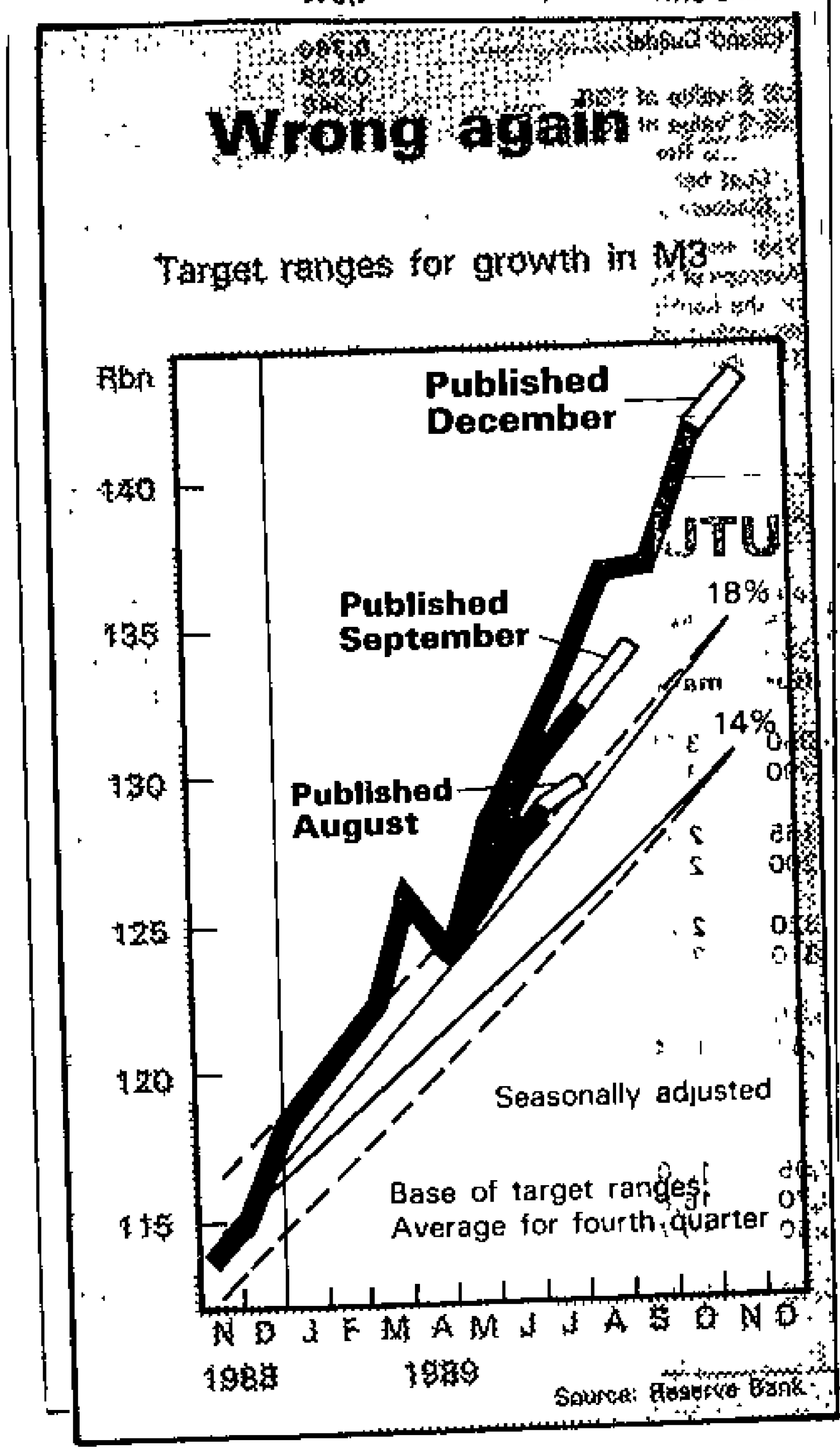
For the sector as a whole, current real interest rates should see a more reliable flow of deposits for banks, and less volatility in management of margins, income statements and balance sheets. In the meantime, with Bankorp priced at 340c after gaining 3c yesterday, the counter is probably a buy for those willing to hang on medium- to long-term.

MONEY SUPPLY F/M 5/1/90

Repeat performance

For the second time in 1989, published figures on growth in the broad monetary aggregate, M3, have been revised. Revisions in December, dating back to April, are again due to a mistake by a major bank in monthly BA9 forms submitted to the Registrar of Banks & Building Societies. (58)

The culprit is the same as in September when figures dating back to May were revised. Then, conventional deposits by the



F/M 5/1/90 (58)

private sector had been wrongly classified as liabilities to government, which fall outside M3 as defined. The mistake was discovered by the Reserve Bank economics department.

The latest revisions relate to negotiable certificates of deposit (NCDs). Like other claims against monetary institutions, these form part of the money stock when held by the non-banking private sector but not when held as an asset by banks.

Says a Bank official: "To establish this figure, we subtract NCDs held by banks from the total issue. The difference is deemed to be held by non-bank investors and thus included in the money stock. Because the information appears in a memorandum item where there is no check or balance, a mistake can continue for some time before it is noticed, either by the staff of the reporting bank or, should the figures appear anomalous, when queried by the Bank."

This error was found when the bank concerned submitted correct October figures.

In each case the correction does not affect previously published figures on credit aggregates, the counterpart of money supply.

There is apparently no way mistakes, especially in memorandum items, can be totally prevented. At least once a year auditors analyse banks' accounts. Mistakes should emerge at that stage. But, by then, major policy decisions will have been made, in which the rate of growth in monetary aggregates plays an important part.

The biggest revision in the latest figures is to the provisional estimate for October, which raises M3 to R142,1bn (compared with the previously published R138,6bn), or R141,4bn (R138bn) seasonally adjusted. Year-on-year growth in M3 thus becomes 24,7% (21,5%) while the percentage overrun at an annual rate from the base of the current target year is 24,7% (21,5%).

The revisions show that growth exceeded the targeted 14%-18% and upper tunnel limit for October of R134,3bn even more than was previously thought.

Provisional November M3 is R143,7bn, or R143,5bn seasonally adjusted, compared with the upper tunnel limit for the month of just under R136bn. Year-on-year growth is thus 24,6% with growth since the base of the current target year at 24,2% (seasonally adjusted and annualised).

Though revisions go back to April, figures are published only to July. They show:

- □ July M3 was R132,6bn (R132bn), the seasonally adjusted level was R133,6bn (R133bn), year-on-year growth 25,9% (25,3%), and seasonally adjusted annualised growth from the base of the current year 24,3% (23,5%);

F/M 5/1/90 (58)

- □ August R136,5bn (R135,5bn), R137bn (R135,9bn), 25,6% (24,6%), 25,4% (24,2%); and
- □ September R138,2bn (R137,3bn), R137,2bn (R136,3bn), 22,9% (22,1%), 22,9% (22%).

Growth in other monetary aggregates for October was:

- □ M1A 10% to R24bn;
- □ M1 18,2% to R47,2bn; and
- □ M2 30,6% to R114,2bn.

The much slower growth in the narrowest and most transaction-related monetary aggregates up to M1 (covering cash, cheque and transmission accounts and call deposits) is encouraging. Presumably the high interest yield on deposits included in M3 is luring investors into holding money as an asset, which has very different inflationary implications to money held for transactions. ■

F/M 5/1/90 (58)

SHORT-TERM INSURANCE

Insuring insurers

A short-term insurance company has been registered to provide a guarantee facility to cover registered insurers against the failure of brokers and agents to forward short-term premiums. Intermediary Guarantee Facility (IGF) was granted a licence last week by the Financial Institutions Office and starts operating this week.

This comes after changes to the controversial Section 20bis of the Insurance Act, which came into operation on Monday. These compel all intermediaries who handle premiums on behalf of insurers to furnish a guarantee of 20% of annual premium, net of commission, to a maximum of R50m.

As well as furnishing guarantees with IGF, brokers may still provide security in the form of guarantees issued by commercial banks and the Land Bank, but may no longer merely deposit premiums held by them into a trust account. Trust accounts were thought to be open to abuse.

Intermediaries will have to pay a premium of 0,5% of the amount guaranteed or 0,2% if the intermediary has a professional indemnity policy, with a limit equal to the guarantee. If an intermediary does not furnish a guarantee, the insured has no cover until his premiums are in the hands of the insurer.

Assistant registrar, short-term insurance, Willem Heckroodt says IGF had to be registered as an insurer "because under common law, no person can guarantee an amount owed to himself."

Even though IGF is a registered insurer, cover will be provided by the very people the guarantee facility is designed to protect — short-term insurers. "But it will spread the risk among all insurers instead of putting one insurer at risk, should a broker become insolvent," says First Bowring assistant group MD Rodney Maitland, who arranged the guarantee facility with the insurers.

F/M 5/1/90 (58)

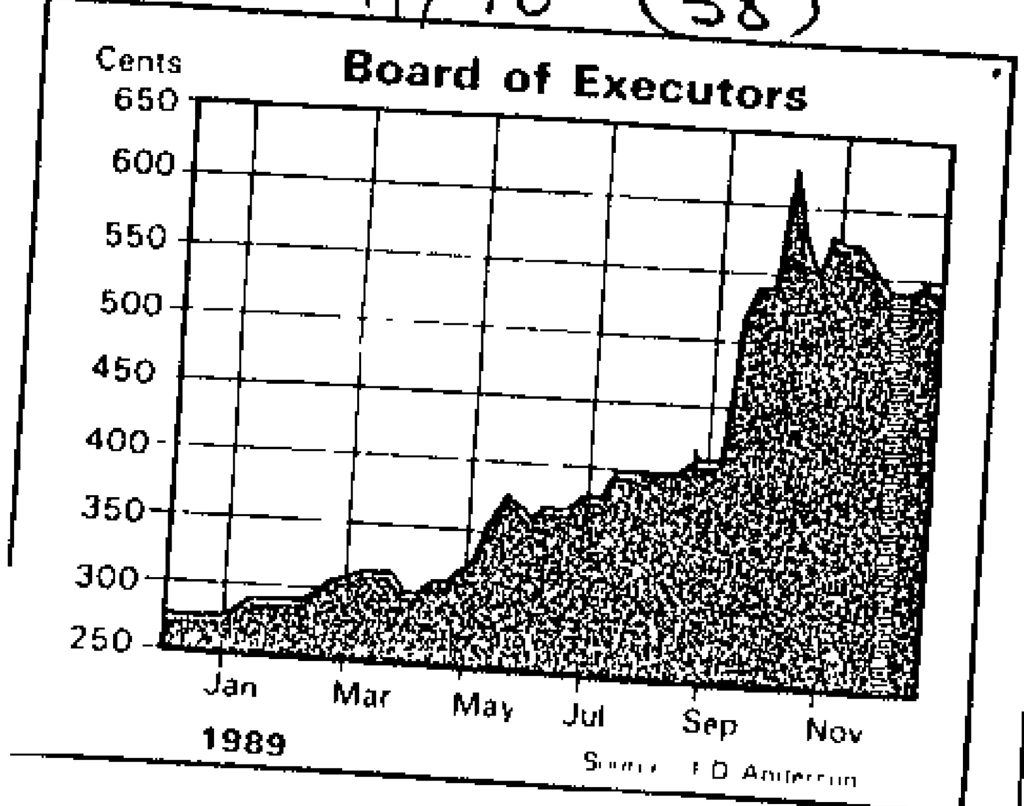
FIM 5/1/90 (58)

BOARD OF EXECUTORS

Disclosure needed

The release of this year's figures from Board of Executors came at the height of Investec's abortive take-over bid and raised the ques-

FIM 5/1/90 (58)



tion of whether results had been enhanced by transfers from inner reserves.

CE Bill McAdam emphatically denies that this happened. Just the contrary applies, he says: "As in any good year, transfers were actually made to reserves. And R3,6m of goodwill was written off. So these results represent quality (conservative) figures which conform with our previous accounting policies." Nevertheless, McAdam might be advised to heed the lesson and move with the times by dropping the secrecy of transfers to and from hidden reserves. Apart from anything else, hiding reserves tends to conceal management's true aptitude.

Disclosed assets under administration reached R2,1bn as a result of a R500m new business inflow. Included in that was a rise in the market value of managed pension funds from R130m in 1988 to R316m.

In addition to the normal trust and administration business, the decision to invest in opportunities outside of the traditional activities has also paid off. "The strategic investment in Mercury Trust and its under-

BOE's McAdam ... transfers made to reserves

Activities: *Investment house providing financial services.*

Control: *Directors and executives 20,7% (ords and loan stock).*

Chairman: *P W Wilson; managing director: W J McAdam.*

Capital structure: *5,6m ords of 10c and 5,6m unsec comp conv part loan stock of 250c. Market capitalisation: R60,5m (ords and loan stock).*

Share market: *Price: 540c. Yields: 4,6% on dividend; 14,9% on earnings; PE ratio, 6,7; cover, 3,2. 12-month high, 625c; low, 275c. Trading volume last quarter, 100 700 shares.*

Financial: *Year to September 30.*

	'87	'88	'89
Assets under administration (Rm)	1 529	1 614	2 101
Return on cap (%)	8,2	7,0	11,8
Pre-int profit (Rm)	3,2	4,6	7,6
Taxed profit (Rm)	1,86	2,1	3,11
Earnings (c)	30,3	37,5	80,4
Dividends (c)	15,0	18,8	25,0
Net worth (c)	414	417	557

lying investments, Fidelity Bank and the Storeco group, made a significant contribution to BOE's cash flow and equity-accounted earnings," says McAdam. Mercury is now wholly owned and, in the process, Libam has acquired 20% of the enlarged BOE.

Whether this link will lead to additional business being put in BOE's way is another matter. But the restructuring has left the company with cash resources estimated by McAdam to be about R30m and available to finance further diversification.

Disclosed earnings have grown at an average annual compound rate of 38% over the past five years. Though McAdam is reluctant to forecast a similar rise this year, growth should be fairly solid. Pity outside shareholders are vouchsafed only part of the picture.

Gerald Hirshon

Short-term market to stay soft

B/Day 5/1/90

LINDA ENSOR

THE soft market in the short-term insurance industry is likely to continue this year, with the operations of foreign insurers in the SA market exacerbating the situation.

This was the view of SA Insurance Association (SAIA) CE Rodney Schneeberger, who said the only saving grace of the rates war which broke out last year was that there were no major catastrophic claims — with the exception of Sasol's, which was heavily reinsured in foreign markets.

(58)

Schneeberger said the SAIA would be compelled to take "strong action" if the effect of foreign insurers' operations in SA proved too undermining.

"This will be even more so if serious and heavy claims are received, and these are inevitable, bearing in mind the market has had a comparatively good experience in the past few years."

The Commission of Inquiry into the outflow of premiums to foreign insurers, chaired by Mr Justice D A Melamet, submitted its report to Finance Minister Barend Du Plessis last month.

However, Guardian National MD Keith Nilsson believed the local market could have reached a point where it was potentially uneconomical — because rates were so low — for foreign insurers to seek business here.

Concern about the dumping of cheap insurance in SA has led to the SA Special Risks Association (Sasria) — of which Schneeberger is MD — to investigate the possibility of cover for loss of profits. This would cover profits lost, for instance, during a strike.

"The reason for this is not only because of demand by clients for cover, but also because the Sasria board is unhappy about the way in which loss of profit is being covered by overseas markets as a means of taking premiums out of SA."

Foreign insurers have also been soliciting business in the industrial/commercial, marine and aviation areas.

Medium term looks good 4 Norwich

Own Correspondent (58)

CAPE TOWN — The Norwich NBS unit trust managers are among those who expect gold to rise again following this week's dip in the price.

"It has not fallen below any technical support level," MD of the managemenat company John Bowman said yesterday. "Despite a correction we are still confident that it is in an upward trend."

And the fund managers' view of the JSE is positive, in the medium term. They have reduced liquidity from 30,9% at the end of September to 14,9% at December 31.

Bowman said that although the cautious view the managers were taking in the third quarter of 1989 was justified on technical grounds, "sentiment — based largely on a better gold price and improved political perceptions (particularly by overseas investors) — is now the driving force in the market.

"Provided the gold price holds, and it does seem reasonable to expect this to happen, sentiment will probably remain positive."

During the past quarter the fund reduced liquidity by increasing its stake, or taking new holdings, in Ofsil, Driefontein and Vaal Reefs.

It subsequently added to existing holdings in the mining, financial and industrial sectors. New holdings were opened in Powertech and Vansa. B/Day 5/1/90

At the end of the quarter the top five share holdings were in Messina, NBS, Sunbop, Unitrans and Waltons. The only sale was the fund's stake in Vansa.

In anticipation of a fall in interest rates, the fund bought Eskom long dated stock "in view of the good rates prevailing at the time".

The all-in return, of capital plus interest, from the Norwich NBS unit trust during the year to December was 41,6%.

Stanbic still rated highest, but future role unresolved

BDay 5/1/90 (58)

AHEAD of results to end-December 1989, Stanbic remains by far the most highly rated of the Big Five banks. Most analysts studying the financial services sector recommend Stanbic as a core holding, along with Nedcor, UBS and NBS.

The Big Five banks — Stanbic, First National, Nedcor, Bankorp and Volkskas — have combined equity of R5,6bn. The combined market capitalisation of the Big Five on last night's closing prices was R8,1bn.

The relative proportions show how highly Stanbic is ranked by the market: Stanbic has 27% of Big Five equity yet 36,1% of Big Five market capitalisation; First National 23% and 23,5%; Nedcor 20% and 26,3%; Bankorp 17% and 7,7%, and Volkskas 13% and 6,4%.

Top banking analysts argue that in view of the material slowing expected in industrial sector earnings this year, the financial services sector still appears to offer good value. Margins are expected to come under pressure after the second quarter, when interest rates are expected to peak.

While these unknowns offer the investor little confidence, it is perhaps less clear why the Big Five banks are rated so very differently — particularly Stanbic. Liberty Life owns 30% of the equity, Old Mutual 20%, with GFSA and Rembrandt holding 10% each.

ANALYSIS:
BARRY SERGEANT

In the year to end-December, Stanbic is expected to produce a hefty 25%-35% growth in earnings per share, and a 20%-25% rise in dividends. Last month, analysts had been recommending buying up to 2 700c, yet the share traded at 2 900c yesterday. Stanbic's share price has risen despite expectations of trimmings in margins this year — and the murky outlook for bad debts.

One bull point for Stanbic is its healthy capital base. This is thinning out — a feature common to all banks as inflation erodes capital. The group has gained substantial status since its mediocre performance in 1984-1986. Today Stanbic is SA's largest bank, rated on group equity, market capitalisation and assets.

While Stanbic has an equity to assets ratio of about 5%, this can be expected to decline when the results to end-December are announced.

The group's assets grew 35% in 1988 and are expected to rise some 25% in 1989. But a rights issue to bolster capital — currently R1,8bn — is unlikely as Stanbic is in a position to issue tax-efficient debentures.

The market expects a Stanbic debenture issue before mid-1991. The interest payable will not only cut the tax bill (unlike dividends); there will also be no dilution of earnings per share.

But the figures do not explain everything. Anecdotal information in the banking sector has it that Stanbic is highly rated due to management's long-term vision. One example was sophisticated computer systems installed in 1983-1985. Some of its rivals have only just completed expensive computer teething troubles.

Stanbic's capital expenditure on electronic goods has been comparatively low for 1988-1989, and can be expected to jump in 1990-1991, to once again reap benefits.

But one of the major unresolved issues in understanding Stanbic's ranking in the market, given its shareholders, is what possible predatory action it may take in the sector's expected rationalisation.

BANKING F/M 5/1/90 (58)

End to a means

When is a company in the business of banking? The answer — when it has a licence — is an expensive one. With legislation to replace the 1965 Banks Act due to reach parliament this year, the banks' stringent prudential requirements have implications for more than just profitability.

Though necessary to ensure stability, the requirements undermine the banks' role in the implementation of monetary policy.

In recent months, banks have been lobbying for relief on the liquid assets they have to hold — particularly the cash component — as a ratio of liabilities to the public. Held either at the Reserve Bank or in the banks' own vaults, these reserves are interest-free, costing the industry about R500m a year, says Senbank MD Doug Anderson.

So banks are asking for a lower liquid asset ratio and for interest on statutory deposits.

The issue has been raised at several meetings with Japie Jacobs, senior Deputy Governor of the Reserve Bank, soon to become special economic adviser to the Minister of Finance. He is not unsympathetic and believes the cash ratio could be reviewed and should be adjustable, and the liquid asset ratio could be lower. But he is reluctant to pay interest on cash reserves, which exceed R3,5bn.

He says paying interest on reserves held at the Bank would encourage institutions to deposit physically and withdraw large sums of cash from Bank branches each day. "We don't have facilities for this or for counting and sorting vast volumes of notes."

He argues, also, cash reserve requirements

F/M 5/1/90 (58)

are "the fulcrum of monetary policy in all countries with developed banking systems. Few countries pay interest on cash reserve balances — though their ratios may be lower."

Nevertheless, he is concerned that prudential requirements inhibit the banks' role in the financial sector.

Cash reserve ratios are now 5% of short-term liabilities and 2% of medium-term. Liquid asset ratios (which include cash) are: 20% against short-term liabilities, 15% medium-term and 5% long-term. Also, to maintain solvency, banks must have a ratio of capital and reserves appropriate to extent and risk profile of assets.

Meeting these requirements involves considerable opportunity cost — which banks pass on to clients, thereby putting themselves at a disadvantage to competitors in the grey market. F/M 5/1/90 (58)

Here, lenders and borrowers bypass banks to deal directly with each other — a process known as disintermediation. So the grey market often subverts monetary policy — which means statutory requirements can be self-defeating.

While there is no question of abolishing prudential controls, how they are applied is crucial to monetary policy. Other forms of control may be more appropriate — matching asset and liability maturities, for instance, rather than liquid asset holdings. ■

FIRST NATIONAL BANK

Advances slower

FIM 5/1/90 (58)

Activities: *Banking and financial services.*
Control: *Anglo American has 29,9% of the equity and Southern Life 24,9%.*
Chairman: *B E Hersov; managing director: B J Swart.*
Capital structure: *58,2m ords of R1; 14,5m preferred ords of R1. Market capitalisation: R1,78 bn.*
Share market: *Price: 2 450c. Yields: 5,3% on dividend; 15,4% on earnings; PE ratio, 6,5; cover, 2,9. 12-month high, 2 450c; low, 1 325c. Trading volume last quarter, 787 000 shares.*
Financial: *Year to September 30.*

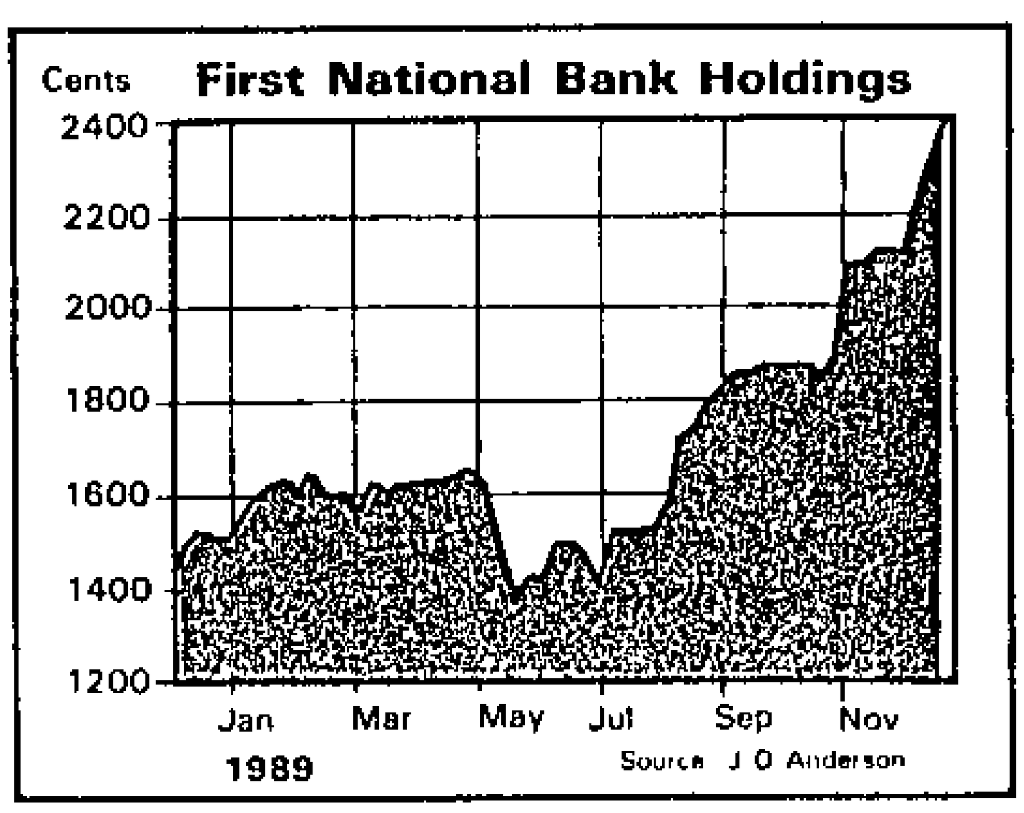
	*'86	'87	'88	'89
Advances (Rbn)	14,5	16,4	21,1	23,1
Total assets (Rbn) ...	18,2	20,6	26,2	30,3
Pre-tax profit (Rm) ..	181	302	306	390
Attributable profit (Rm)	107	185	207	274
Earnings (c)	148	255	285	377
Dividends (c)	71,25	105	112,5	130

After I reported the preliminary results (*Fox* November 3), PR head Jimmy McKenzie let me know that the board considered my report the most negative of any. This struck me as a *non sequitur*, as I'd commented favourably on the improved profitability indicated by an increased return on assets.

Presumably, some directors remain sensitive to the decline in advances in last year's second half. But new MD Barry Swart has no need to be defensive. It underscores the commitment to lending quality rather than quantity, and gave rise to the increase in return on assets to 0,91% from 1988's 0,73%.

At half-time, McKenzie said the greatest problem was operating expenditure, and that a rationalisation drive was already paying off. He was proved right. The second-half lending slippage was accompanied by considerable operational tightening as Swart put his mark on the group.

Staff numbers were cut by 1 000 or so to 25 674, after rising in the first half, by natural attrition and the release of some highly paid managers. The advertising budget was cut. Spending on new signs, which soared



FIM 5/1/90 (58)

FNB's Swart ... quality not quantity

after the name change, virtually ended.

Operating costs rose by 20% in the first half but only 12% in the second, or a 16% average for the year. This year operating costs will remain firmly under control. Further staff reductions are not out of the question. That should not represent any problems if the Hogan software operating system matches expectations.

INCOME MIX

Taxed earnings (Rm)

	1988	1989
First National Bank...............	111,3	148,5
Wesbank	52,3	55,6
First Corp	13,4	18,3
First Namib	n/a	15,3
Associates and others	15,9	36,6
Total	206,8	274,3

The directors say all branches have been converted to Hogan and look forward to its increased stability and new flexibility. Full commissioning also opened up a new profit source. In October, the bank doubled charges to customers using automatic teller machines (ATMs), which now provide more information and service. As ATMs average about 50m transactions a year, the doubled charge should lift revenue by R25m-odd.

Lending increases could be comparatively slow this year. On year-end figures, advances increased by only 8% in fiscal 1989, though Swart says average loans were 15% higher.

FIM 5/1/90 (58)

Business volume is expected to grow by about 15% this year, fractionally higher than the likely inflation rate and in line with the Reserve Bank's aim of further tightening credit creation. Increased volume, coupled with substantially improved operating systems, should lead to another improvement in return on assets. Hogan has, according to some off-the-cuff remarks by First National officers, yet to make a great contribution to operating cost savings. It should start coming into its own this year as branches become more conversant with its operation.

Most lending and profit growth should come from the commercial bank — the main beneficiary of Hogan — with HP specialist Wesbank slowing down. Last year, its profit growth decelerated as household discretionary incomes tightened and high interest rates deterred consumers from assuming greater debt burdens. Home loan advances rose to R3,8bn from R3,1bn; further, though probably slower, growth is in prospect.

Lending margins narrowed last year, the cost of borrowed funds rising faster than interest on advances. This year the situation should improve, provided the bank avoids paying penal month-end accommodation rates to the Bank. This will require careful credit extension, but that is already in place.

First National should raise earnings by at least 20% this year, though dividend growth is likely to be more restrained as cover increases towards the 3,3 times posited by Swart in October. It is unlikely to need to raise capital through a rights issue for at least a couple of years, which gives plenty of time to raise the return on assets further. The share's rerating is well advanced, and deservedly so.

Jim Jones

MALBAK FIM 5/1/90 (58)

Organic diet ahead

The dramatic expansion of Malbak in the past five years prompts questions about its future growth and direction, particularly after the Quality Tyres affair showed that even Malbak can make embarrassing mistakes. In the past five years turnover has grown ninefold, from R827m to R7,3bn, and EPS fivefold, from 25,9c to 136,1c.

Often criticised for acquisitive growth, Malbak began a phase of consolidation last year. Of the 36% attributable earnings growth, 15% was from acquisitions and 21% from organic sources, according to chairman Grant Thomas. This year acquisitions will be rare.

Financial director Peter Beningfield says

● From Page 1

Fields levelled

S/Times 9/11/90

quirements.

Insurance companies say they have a vital role to fill in the economy and in individual financial planning.

The proposed legislation brings restrictions on shareholdings in banks and building societies into line. Currently individual holdings are limited to 10% in building societies and 30% in banks, but the Bill gives the Registrar discretion to approve shareholdings of up to 49% in both types of institution.

It also brings banking regulations more into line with international standards.

Mr O'Grady says: "This must be welcomed. Foreign banks will obviously have more confidence in dealing with South African banks if they know that have to meet similar criteria."

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New life for annuities

(58)

Business Times Reporter

THE relaxation of prescribed assets regulations has revitalised long-term investment avenues.

Although high interest rates will attract a lot of short-term money, the first year of the new decade will be big for longer-term options, says Martin McAusland, personal financial planning manager of accounting and management consulting firm Price Waterhouse.

"Retirement annuities and provident funds, for example, have taken on a new lease of life," says Mr McAusland.

"A lot of money will be channelled into RAs this year because they are no longer seen as stodgy investments, because they are not taxed during accumulation and they provide excellent payouts on redemption."

Mr McAusland also earmarks certain life assurance policies and provident funds for substantial growth.

Prescribed asset requirements for RAs have fallen from 53% to about 10% and for some life polcies they have fallen from 35% to 10%.

Bank fields level for all

7/1/90

By Ian Smith

S/Times

SWEEPING changes in legislation covering financial institutions will go a long way towards "levelling the playing field" in the competitive banking sector.

But a row could blow up over the exclusion of assurance companies for the changes due to come into effect this year.

It had been hoped that the Deposit Taking Intermediaries Bill, which has been circulated to financial institutions for comment, would bring life offices under the same rules which govern other deposit-taking institutions.

"But it is clear that they are excluded," says an executive who has seen the Bill.

The difficulty apparently lies in distinguishing between genuine insurance and other long-term products designed to appeal as a form of saving or for tax reduction.

The Bill does, however, spread the statutory requirement net much wider and brings other deposit-taking institutions into its orbit.

Planning

Attorney Standish O'Grady, who has studied the Bill, says it does represent a large advance on current legislation.

"It has been well thought out and it goes a long way towards reducing unfair requirements.

"There will still be organisations called banks, building societies and merchant banks. But they will all be subject to the same requirements and they will play the same game."

"This would be welcomed by all the banks. It is my understanding that assurance companies will be exempt from the Bill's provisions.

"If this is the case the financial institutions, which claim insurance companies use their superior tax advantages to attract deposits, will still be engaged in a dispute."

Mr O'Grady says all the controls in existing laws are retained and strengthened, but there is provision for the relaxation of liquidity re-

● To Page 3

CBPL

S/Times (53) 7/1/90

by JULIE WALKER

Green light for gilts

THE meteoric increase in liquidity in secondary gilts markets and the Government's greater willingness to tolerate market-determined interest rates were among the most dramatic changes in the 1980s.

Hendrik du Plessis, assistant general manager of Sanlam, writes in The Securities Markets that these tendencies will persist. The Reserve Bank is committed to positive real interest rates, derivative markets have been developed and prescribed asset requirements have been virtually abolished.

VOLATILE

Mr Du Plessis analysed periodic returns from bankers' acceptances (cash), long-term Government stock (gilts) and the JSE's industrial index (equity) for January 1960 to January 1989.

"The overriding impression of the investment environment during the period under review is that of a volatile equity market and increasing volatility in the cash and especially the gilts market.

"The investor may, however, have been adequately rewarded with rising levels of return for accepting increasing levels of risk (ie volatility)."

Mr Du Plessis's risk-adjusted returns were arrived at by plotting the average return by its standard deviation.

The plots show that although highly volatile, the trend for all three classes of asset is largely sideways. From this perspective, the market has not become more risky. As expected, cash is a lower-risk investment than are gilts or equity.

Using advanced statistical procedures, Mr Du Plessis arrives at the conclusion that a targeted real rate of return could have been achieved in the 1980s at lower nominal risk than in the 1970s.

Optimally invested portfolios — where you should have had your money — were constructed with hindsight by investing in the asset class that realised the highest return in various periods.

DETERIORATED

Using a one-month holding period, the best return between July 1981 and January 1989 came from 28% cash, 22% gilts and 50% equity. The average return would have been 76,3% a year.

Over six months, the optimal return would have come from a portfolio comprising 35% cash, 6% gilts and 59% equity. The average annual return would have been only 41,5%.

Mr Du Plessis' conclusions suggest that long-term gilts have in the past 30 years been an even less attractive investment medium than most portfolio managers suspected.

Their relative performance has deteriorated over the years in spite of the large increases in long-term rates. This is borne out by the trend in risk-adjusted returns on gilts, their declining presence in optimally actively managed portfolios and total absence from ex-post efficient portfolios.

Speculating on developments, Mr Du Plessis believes that forces have been set in motion which are bound to change the situation.

Higher short-term interest rates are likely since the monetary authorities are committed to positive real rates. Higher short-term rates will probably support higher long-term ones.

More importantly, institutions which had more than 20% of their portfolios invested in gilts and semi-gilts at the beginning of 1989 will seek higher returns.

ILLIQUID

The abolition of prescribed investments and the greater liquidity generated by the derivative markets will provide the means for institutions to do so.

It does not necessarily imply a drastic increase in long-term rates, but rather adjustments to the whole matrix of relationships that describe the market. It can lead to higher returns on gilts and lower ones on equity and a lowering of the correlations between them.

Mr Du Plessis believes that gilts will become an acceptable investment medium, presenting portfolio managers with diversification opportunities with which to increase portfolio return and decrease risk.

He notes that transaction costs were not considered in the analyses. It would also have been difficult for a large investor to have implemented the active strategies in SA's illiquid market.

S/Times 7/1/90 (58)

Sage records

Business Times Reporter

SAGE Fund achieved a total return of 41,5% in the year to December and the Sage Resources Fund did one better with 46,8%.

Sage Fund's market value soared to R645,6-million from R608,4-million at the end of the September quarter. Resources ended the year worth R53-million after R48,5-million previously.

Both Sage Fund and Sage Resources are paying record dividends. Sage Fund has declared an interim of 41,1c a unit — 41,7% more than the 29c in the six months to December 1988. The total for the year is 76,6c against 54,2c previously.

Resources is paying 3,5c for the six months — a 52,2% increase. The payment for the year is 6,3c compared with 4,7c.

Soured

Liquid assets and cash have been built up slightly in spite of the firmer trend in equities.

Liquid assets at R100-million were 15,5% of the Sage Fund portfolio in December. In addition, R16-million, or 2,5%, is cash for distribution. Foreign liquid assets at R26,8-million were 4,1% of the portfolio. Liquid assets were more than 22% (20% previous quarter).

Sage seems to have soured on the Gencor group. The mutual fund sold off 62 000 Gencor and 52 500 Genbel and Resources sold 20 000 Genbel.

Both funds reduced their stake in Harties and Sage Fund sold its 10 000 Randfontein. It also dumped 100 000 Kersaf.

Sage says strategy "was focused on adapting the balance of the portfolio to reflect the emerging investment trends" — whatever that means.

The rand's world value

	R1 equals 6/1/90	R1 equals 6/1/89	One foreign unit equals (R) 6/1/90	One foreign unit equals (R) 6/1/89
US $	0 3937	0 4205	2 5397	2 3777
UK £	0 2415	0 2307	4,1405	4,3347
Deutschemark	0 6550	0 7449	1,5267	1 3425
Japanese yen	55 84	52 18	0 0179	0,0192
Swiss franc	0 6003	0 6318	1,6658	1,5928
French franc	2 2387	2 5420	0 4487	0,3934
Canadian $	0,4521	0 5009	0,2119	1 9964
Italian lira	491,89	648,22	0,0020	0 0018
Zimbabwean $	0 892	0 8055	1 1246	1,2415
Australian $	0,4960	0,4824	2,0202	2,70729

Trade weighted value of rand, % change against 1974 base . 40/60

Domestic interest rates

MONEY MARKET

	Friday 6/1/89 %	Friday 29/12/89 %	Friday 22/12/89 %
SARB accommodation rediscount rate TBs	18 00	18 00	18,00
Treasury bill tender rate	18,00	18 00	18,00
Basic call of discount houses	18 75	20 50	20,00
Three month banker acceptances	18 65	18 35	18,35
Three month NCDs	19,70	19 70	19,70
Three year RSA stock	15 50	15 60	15 55
Prime overdraft rate	21,00	21,00	21,00
All-in yield of finest acceptance credits	18,80	19,49	19,44

CAPITAL MARKET

RATES ON MOST TRADED STOCKS

SECONDARY MARKET	Average Previous Month	As on Friday
Long term RSA stocks	15 89	15,22
Long term Escom stocks	15,68	14,98

Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Mining exploration	5 6+	0 1	13 3
Transportation	4 0+	7 2	19 2
Klerksdorp	3,9+	6,9	0,0
Steel and Allied	3,8+	5,8	21,8
Evander	3,4+	8,4	0,0

Overall market this week

(Ordinary Shares Only)

	Mining	Non-Min	Total
Volume	12 893 898	20 024 383	32 918 281
Value traded	R269 261 302	R80 804 545	R350 065 847
Up	85	183	268
Down	27	72	997
Unchanged	43	335	378
Number traded	135	438	573
New highs	18	46	817
New lows	2	10	12

London gold fixings

	am	pm
Tuesday	$413,20	closed
Wednesday	$409,45	$406,00
Thursday	$400,40	$398,60
Friday	$401 20	$405 00

JSE Actuaries Index

	THIS WEEK	LAST WEEK	WKS% MOVE
OVERALL	3090	2978	3 8
MINING PROD	3312	3216	3 0
COAL	2220	2144	3 6
DIAMONDS	11741	11101	5 8
ALL GOLD	2095	2049	2,2
RAND&OTHERS	740	715	3 5
EVANDER	1908	1863	2 4
KLERKSDORP	6390	6213	2 8
O F S	1201	1150	4,4
WEST WITS	2833	2820	0,5
METALS&MIN	2207	2174	1,5
COPPER	616	607	1 3
MANGANESE	2250	2179	3 3
PLATINUM	5713	5643	1 2
TIN	64	84	0 0
OTHER METALS	149	148	0,7
MINING FIN	4320	4071	6,3
MIN HOUSES	4517	4217	7 1
MIN HOLDING	1281	1228	4,3
FIN&INDUST	3207	3109	3 2

	THIS WEEK	LAST WEEK	WKS% MOVE
FINANCIAL	1782	1747	0,9
BANKS&OTHER	1808	1699	0,4
INSURANCE	1290	1302	0,9-
INV TRUSTS	1777	1883	6 9
PROPERTY	372	373	0,3-
PROP TRUST	185	184	0 6
INDUSTRIAL	2892	2790	3,7
IND HOLDING	3050	2984	2 9
BEV,HOTL LES	5454	5228	4 4
BUILD&CONSTR	1828	1807	1,2
CHEM & OILS	960	906	6 0
CLTH FOOT,TX	908	903	0 6
ELECTRON ETC	955	927	3 0
ENGINEERING	927	898	3 2
FISHING	1246	1245	0 0
FOOD	3387	3223	4 6
FURN&HSEHOLD	310	310	0 0
MOTOR	2702	2340	0 9
PAPER&PACK	4253	4080	4 8
PHARM&MEDICL	670	688	0 8
PRINT&PUBLSH	3005	2913	3 2
STEEL&ALLIED	1105	1053	4 9
RETAIL&WHOLE	2118	2079	1 9
SUGAR	2640	2468	3 0
TOBACCO&MTCH	14323	13612	5 2
TRANSPORT	7189	7108	0,9

Dividends

Clumsy efforts cause chaos

LAST week's turmoil in the money market suggests that the authorities have been using monkey-wrenches for fine-tuning the market rather than a jeweller's delicate tools.

This, perhaps, is a charitable interpretation of what made a shambles of a market in debt to the Reserve Bank to the tune of a record R5,5bn — after having bought call money at usurious rates. Some bankers are reputed to have paid as high as 25% for overnight money. Others borrowed prescribed assets — at a fee of 0,75% — to pledge to the Reserve Bank at a rate of 22,75%. And the going rate for call money on Thursday ranged between 20%, the banks' prime rate, and 21%.

The uncharitable, and probably the more accurate, analysis of what created the chaos of January 5 is that the Reserve Bank's guesses or, should one say, estimates of the end-of-year abnormal monetary flows in and out of the banking system were way off. The Bank had acknowledged that the period between about December 16 and the first week in January were going to be more abnormal than the customary seasonal abnormality; before going on holiday Senior Deputy Governor Japie Jacobs assured the banks that the tight monetary policy would temporarily be relaxed and

IN THE MONEY MARKETS

Harold Fridjhon

that the Bank would be the bankers' best friend. It would provide repurchase agreements, it would filter PIC (Public Investment Corporation) deposits into the market; it would stand by like AA patrolmen with their little yellow vans.

But, of course, there had to be reasonable limits to this "roadside" assistance, but it would seem that the data on which these limits had been prescribed were inadequate. Tax payments due on December 31 were, apparently, higher than expectations, as were GST collections. Year-end settlements were higher. Cheques for government spending were apparently delayed because of the holidays. And holidaymakers, and Christmas-spenders, plundered the network of automatic cash machines, contributing to the notes in circulation rising to almost R10bn. The gurus miscalculated the volume of the return flow of the bank notes.

The climax came on Thursday. In desperation banks were outbidding each other for call deposits and the lenders took full advantage of the situation. To relieve the pressure on rates one major bank with adequate liquid assets borrowed to the hilt from the Reserve Bank to ease the pressure in the market. But to no avail; the position was out of hand.

The banks protested to the only deputy governor on duty, Jan Lombard, but he was unaware of the market crisis and only after the banks threatened to raise, unilaterally, their prime rates, did he investigate the position and take action by offering a R500m repurchase tender which was more than twice over-subscribed at an average rate of 20,92%.

This week should bring a slow return to normality. But rates, however, will ease only gradually.

The jump in the rate for 90-day liquid bankers acceptances (BAs) to 18,55% has already reduced to 18,50%. The wholesale call rate is down below prime and will probably drop to 19% before declining further.

Hopefully the Reserve Bank will have lessons-learnt, soul-searching sessions when Governor Chris Stals returns to his desk.

Sage Fund and Sage Resources end the year on a high note

8/1/90 B/Day

58

THE Sage Group's unit trusts ended the year on a strong note with both Sage Fund and Sage Resources reflecting record income distributions.

A statement released on Friday shows that total portfolio returns were 41,5% for Sage Fund and 46,8% for Sage Resources for the past year.

Sage Fund's total assets at December 31 were R645,6m, while Sage Resources Fund's total assets amounted to R53m.

Sage Fund announced an income distribution of 41,1c a unit for the six months ended December 31, the highest distribution in the fund's history.

Sage Resources Fund announced an income distribution of 3,5c a unit for the six months to December 31, which is also the highest in the history of the fund.

FNB tightens up criteria for student loans

BDay 8/1/90.

LINDA ENSOR

FIRST National Bank, one of the biggest financers of student loans, is applying stricter criteria to the granting of such loans this year.

A precipitating factor has been high increases in university fees (between 10% and 18%), which has meant First National has found it more difficult to assist students with all of their loan requirements.

The other major lender, Volkskas, has not changed its lending policy, a spokesman said yesterday.

Standard Bank, not nearly as heavily exposed in this area as First National and Volkskas, has moved from its former fixed 8,5% to a prime-linked interest rate.

"Our book was growing too quickly," said First National youth market sales manager Kobus Bastiaanse. Last year 10 000 loans (about 2 500 of which were first-time loans) averaging between R3 000 and R5 000 each were granted.

As from this year, first- and second-year loans will be granted only to those applicants whose parents have operated a First National current account for between one and two years, or where the applicants themselves have had a Bob-T account for two years. They must also have satisfactory academic results.

(58)

Bastiaanse said the bank had to restrain growth in its student book in view of the fact that it was subsidising the loans.

"The bank needs to get its student loan book into context with the rest of its lending portfolio," he said. "We are happy to see the size of our student loan book rise at about the annual rate of inflation."

First National charges between prime or slightly above prime in the first year and, in certain circumstances, prime less between 1% and 5% in following years.

2 Cape Times, Monday, January 8, 1990 58

Allied's forex fundi held for R5m fraud

Own Correspondent

JOHANNESBURG. — Allied Bank's foreign exchange department head, divisional general manager Mr Ulrich Leitich, was arrested last Thursday on charges of foreign exchange fraud totalling more than R5 million.

Mr Leitich, 49, is believed to be the most senior bank official to be charged with forex fraud since the African Bank case was exposed a few years ago.

State advocate Mr Dave Gordon said Mr Leitich had been joined as co-accused in the R47m forex fraud case being investigated by the Witwatersrand attorney-general's office against Austrian national Mr Ranier Moringer.

Mr Moringer, 47, of Bryanston, was arrested in August last year on forex fraud charges involving his company, Ciskei Aircraft Industries (CAI), following investigations by the Harms Commission.

Mr Leitich appeared in the Johannesburg Magistrate's Court late on Thursday afternoon and was released the same day on bail of R50 000. He has been ordered to appear in court again on January 25.

Allied Bank managing director Mr Kevin de Villiers said in an interview the bank had paid the R50 000 bail for Mr Leitich as "we are not suspicious of him at all and our actions are consistent with that. I believe there is a very good chance the charges will be withdrawn".

Mr Leitich was instructed to surrender his passport — he is a SA citizen — and ordered not to make contact with any witnesses involved in the Moringer case nor to leave the country.

An informed source said the forex transactions in question were done about the time the Allied Building Society became the Allied Bank.

Mr De Villiers said Mr Leitich was still employed by the bank and had not been censured in any way.

"We have a great deal of faith in his integrity and believe he will be exonerated". He said it was not impossible that Mr Leitich had "unwittingly broken the rules".

He added the bank was not affected by the fraud.

● In a separate development, Mr Moringer's attorney Mr Gary Mazaham said an urgent appeal against a decision by the magistrate wherein bail was refused was being prepared and might be heard in the Rand Supreme Court this week.

Sage funds show record income distributions

CAPE TIMES 8/1/90 58

JOHANNESBURG. — The Sage Group's unit trusts ended the year on a strong note with both Sage Fund and Sage Resources reflecting record income distributions.

A statement released yesterday shows total portfolio returns was 41,5% for Sage Fund and 46,8% for Sage Resources for the past year.

Sage Fund's total assets at December 31 were R645,6m, 44% higher than for December 1988, while Sage Resources Fund's total assets, at R53m, were 51% above the level a year ago.

Sage Fund's 10 largest holdings at December 31 were Richemont, Anglo American, JCI, Rembrandt Group, Rembrandt BEH, Gold Fields SA, Barlows, Gencor, De Beers and SA Breweries.

Sage Fund announced an income distribution of 41,1c a unit for the six months ended December 31, the highest distribution in the fund's history.

The distribution for the six months was 41,7% above the 29c a unit declared in December last year.

Total distribution for the past 12 months amounted to 76,6c a unit, compared woth 54,2c in 1988.

Sage Resources fund's top 10 holdings at the end of December were Mid Wits, JCI, Gencor, Anglo American, Lebowa, Messina, Kinross, Sappi, De Beers and Deelkraal.

Sage Resources fund announced an income distribution of 3,5c a unit for the six months to December 31, also the highest in the history of the fund, and a 52,2% increase on the comparable period in 1988.

The total distribution for the past 12 months amounted to 6,3c a unit compared with 4,7c a unit in 1988. — Sapa

Sage unit trusts do well

(58)

Finance Staff

The unit trusts in the Sage Group — Sage Fund and Sage Resources Fund — largely maintained their holding in blue chip stocks over the December quarter and were rewarded with returns above 40 percent during 1989. Star 8/1/90

The Sage Fund's total return (capital plus income) was 41,5 percent, boosting assets to R645,6 million, 44 percent higher than in December 1988.

It announced an income distribution of 41,1c per unit for the six months to end-December, compared with 29c for the same period in the previous year. For the whole of 1988 the fund distributed 76,6c per unit (54,2c in 1988).

Its ten largest holdings included rand-hedge stocks like Richemont and the major mining houses.

Sage Resources Fund announced an income distribution of 3,5c per unit for the second half of the year and 6,3c per unit for the whole of 1989 The respective figures in 1988 were 1,7c and 4,7c.

The increases reflect the 46,8 percent improvement in total returns over the year, in which the fund's assets rose by 51 percent to R53 million.

BDay 8/1/90

Black matric results to be investigated

TANIA LEVY

THE Department of Education and Training (DET) has been instructed by Education and Development Aid Minister Stoffel van der Merwe to make an urgent analysis of November's examination results

In a statement released at the weekend DET liaison services director Corrie Rademeyer said no further comment on the results would be forthcoming until the in-depth investigation has been completed.

Only once this investigation has been completed would the department be able to say what steps it intends taking to improve the performance of standard 10 candidates.

Only 58% of 195 690 DET candidates passed matric last year.

Rademeyer quoted DET director-general Bernhard Louw as saying it would be simplistic to ascribe the unsatisfactory pass figure to any single factor.

He said it was important for the DET to consider thoroughly all factors, based on reliable and comprehensive information from all DET regions.

The co-operation of education departments in the self-governing territories and TBVC states will be sought.

Matriculants at private black colleges fared better than their DET counterparts

The Pro-Matriculation (Promat) colleges scored a 78.7% pass rate. Several other private black colleges could not be reached for comment.

Promat MD Larry Robertson said yesterday the results were indicative of what could be done in black education. Promat's 850 matriculants followed the DET syllabus and wrote the department's exams.

A DET spokesman said while Promat was to be congratulated on its achievements, the pass rate at their five colleges could not be compared meaningfully with those of a department as vast as the DET.

He said pass rates close on 100% had been attained in some DET schools, but these had been offset by the very high failure rates in others

Robertson said the results could be compared as Promat's student body represented a cross-section of people from all walks of life, age groups and areas around SA.

Debit card makes its SA debut

ANDREW GILL

THE debit card, which British analysts have predicted will overtake the credit card, has made its debut in SA

Checkers and Standard Bank have jointly implemented a debit card system in some stores, and Checkers information GM Orlando da Silva said at the weekend he believed the trend would accelerate in the 1990s.

The system, called electronic fund transfer at point of sale (EFTPOS), is operational in nine stores, while another 20 are in the planning stage.

Da Silva predicted that within two or three years banks would have to change their electronic banking infrastructure, and "this system is one of the options".

Standard Bank's divisional GM John Holloway disputed claims that debit cards would cut down on the use of credit

"Buying on credit is part and parcel of the capitalist system," he said

He also expects the change to debit card systems to be slower in SA than in other countries because of the additional load they would place on post office telephone lines, on which the electronic banking infrastructure relies

The cost of implementing the system is also a drawback, but Da Silva believes it will pay for itself in the long run

Checkers sees the system as a customer service

The store benefits, too, from a reduced risk factor, because "bouncing" cheques can be ruled out with the system

Insurance sector mediator a success

BDay 8/1/90

LINDA ENSOR

THE short-term insurance industry's ombudsman has had a busy — and successful — four months since his appointment in August.

Out of 85 complaints about 50 have been settled, 26 of them successfully. This is a good record considering members of the public are as yet largely unaware of the service.

Ombudsman Bill Schreiner SC says most complaints have come from dissatisfied individuals, the Consumer Council and brokers whose clients' claims have been repudiated by insurance companies.

He has acted as mediator, in many cases obviating the need for court cases, which, for the man-in-the-street, are costly and lengthy.

"Many of the complaints are due to the carelessness of insured persons, in that they do not take the insurance proposal form as seriously as they should, suppressing facts which ought to be disclosed

"Non-disclosure enables the insurance company to legally repudiate the policy "

Small amounts of money — usually below R100 000 — are involved in the disputes, which relate mostly to motor cars and burglaries

"A lot of dissatisfaction exists in cases where the financier of a hire-purchased car insures it If the car gets stolen soon thereafter, the insured finds himself, notwithstanding his insurance policy, with a substantial amount still owing to the finance company

"The insured should have been fully covered for the total loss of the vehicle. It appears in these cases that the finance company insures its own interest to a certain amount and requires the insured nevertheless to pay a substantial balance "

Other sources of complaint are personal prejudices by claims officers in insurance companies against certain claimants, which result in the repudiation of their claims, and errors in the automatic transfer of premiums via debit orders on bank accounts which lead to the cancellation of policies.

Schreiner has also noticed the tendency of the public to opt for policies with the lowest possible premiums, not appreciating that the cover obtained is not as comprehensive as might be desired

"There are material differences in the cover offered by different companies," he says. His annual report on his activities as ombudsman is due for publication in May.

CAPE TIMES 8/1/90 (58)

Vermaas investors may sue Volkskas

Own Correspondent

JOHANNESBURG. — A number of investors are claiming up to R50m from Volkskas because they allegedly invested into Mr Albert Vermaas's businesses on the basis of credit rating analysis supplied to them by Volkskas.

Pretoria attorney Mr Bernie Mautschke said yesterday that a number of clients would be claiming from Volkskas for a sum which could be more or less than R50m.

Newspaper reports said yesterday that Volkskas had been given till January 16 to react to the claims.

A document which had been drawn up by a Volkas manager was allegedly distributed among some of the Vermaas group's agents, the report said.

The Volkskas document said Mr Vermaas was a prime client, describing him as good for any contract to which he might bind himself.

The documents were allegedly shown to potential investors.

They were therefore holding the bank responsible for losses which they had incurred since Mr Vermaas's businesses were declared bankrupt.

Mr Vermaas was arrested on November 23, 1988 for alleged fraud, contraventions of the Bank Act and attempted theft. He was declared bankrupt on March 1.

Volkskas spokesmen could not be reached for comment yesterday.

Bank tightens up on student loans

CAPE TIMES 8/1/90 (89) 58'

Own Correspondent

JOHANNESBURG. — First National Bank — one of the biggest lenders of student loans — is applying stricter criteria to granting loans this year.

A precipitating factor has been the high increases in university fees (between 10% and 18%) which meant that First National found it more difficult to help students with all of their loan requirements.

The other major lender, Volkskas, has not changed its lending policy, a spokesman said yesterday.

"Our book was growing too quickly," said the sales manager of First National's youth market, Mr Kobus Bastiaanse. Last year 10 000 loans (about 2 500 were first-time loans) of an average amount of between R3 000 and R5 000 were granted.

According to Mr Bastiaanse the bank had to restrain the growth in its student book in view of the fact that the bank was subsidising student loans. "The bank needs to get its student loan book into context with the rest of its lending portfolio."

Mr Bastiaanse said the reason for entering the student market in the first place was to secure the future business of the successful student.

JSE records tumble in gold rush

58

Argus 9/1/90

By DICK USHER
Business Staff

AN unprecedented buying spree, which had many seasoned brokers shaking their heads in disbelief, boosted two key sectors of the JSE to record highs yesterday.

The gold index rocketed 108 points (5,1 percent) to 2 203 — the largest single-day rise in recent history — largely in belated response to Friday afternoon's sharp rise in the gold price to $405 in London.

The overall index soared 100 points (3,23 percent) to an all-time high of 3 190, while the industrial index continued its record-setting performance of recent days, rising by 39 points to yet another high of 2 931.

The volume of shares traded was 12,6 million valued at R110 million, slightly down on Friday's activity when 13,3 million shares valued at R141 million were traded.

Smaller investors and institutions alike were involved in a scramble for gold and gold-related shares.

- Today the market opened quietly steady. Gold shares had Freegold unchanged at R54,50 after a R3,50 gain yesterday while Harties was steady at R35,50 as the bullion price drifted slightly lower overnight.

But Rustenburg platinum firmed R1,75 to R87 and industrial leader Barlows 50c to R47.

Analysts misread banks' shares 58 FNB

BI Day 9/1/90

HAROLD FRIDJHON

BY OVERLOOKING the value-added element in bank profits, analysts and the share market are confusing the winners and the losers among banks' shares, according to a study of bank and building society accounts by First National Bank (FNB).

Capital-rich banks conventionally appeared to be the top performers largely because equity capital was interest-free funding in a business which overwhelmingly made its money on the interest-turn.

But, FNB said, if every bank and building society were, notionally, stripped of the funding benefit of its interest-free capital "endowment", that was its equity, the residue represented the value-added over and above the money-market value of the shareholders' funds.

"If a bank with its gearing mechanism of up to 30 times capital cannot produce a better return to shareholders . . . than a first-out, lowest risk, ungeared wholesale deposit interest rate, why should shareholders bother to invest?"

Table 1 shows the effect of stripping out the capital funding benefit from the pre-tax profits of leading banks and building societies. This benefit, applied equally to all the banks, is calculated at 15,8% which is the average weighted wholesale rate for the year ended November 1989.

The balance which remains is the value-added factor apparently earned from banking services and fees, tight controls on credit, bad debts and expenses, and investments.

The table also shows shareholders' funds and total assets which indicates the extent of the banks' gearing. Returns on equity (ROE) and on assets (ROA) are calculated on the pre-tax figure before and after the "stripping-out".

FNB, Nedcor and Stanbic lead the field in that placing, with the others well down in the order of merit.

Table 2 compares the standard analytical ratios with those calculated on the value-added basis."

The study draws attention to an investment aspect neglected in SA: the cost of capital which to the investor is the opportunity cost of putting his money in one particular investment instead of another.

The widely varying opportunity costs in the banking sector revealed in Table 1 and 2 represent only the managements' contributions and omit share price performances.

COMPARATIVE BANK PERFORMANCE ANALYSIS WITH NIL CAPITAL ENDOWMENT

R Million	Allied Half Year Sep	Bankorp Full Year June	FNB Full Year Sep	NBS Full Year March	Nedcor Full Year Sep	Stanbic Half Year June	UBS Half Year Sep	Volkskas Full Year March
Capital — 1989	552,4	792,0	1 206,0	278,1	1 343,2	1 795,1	1 314,1	792,1
Assets — 1989	9 343,5	24 569,7	30 347,7	4 515,1	24 578,7	31 432,4	14 208,5	14 307,1
Transfer Rate	15,80%	15,80%	15,80%	15,80%	15,80%	15,80%	15,80%	15,80%
Pre-Tax Profit	51,1	134,0	390,0	48,6	407,3	205,9	121,6	93,5
Less Endowment Effect	43,6	125,1	190,5	43,9	212,2	141,8	103,8	125,2
Adjusted Profit	7,5	8,9	199,5	4,7	195,1	64,1	17,8	(31,7)
ROE — Normal*	18,50%	16,92%	32,34%	17,48%	30,32%	22,94%	18,51%	11,80%
— Adjusted*	2,70%	1,12%	16,54%	1,68%	14,52%	7,14%	2,71%	-4,00%
ROA — Normal*	1,09%	0,55%	1,29%	1,08%	1,66%	1,31%	1,71%	0,65%
— Adjusted*	0,16%	0,04%	0,66%	0,10%	0,79%	0,41%	0,25%	-0,22%
Equity : Asset Ratio	5,91%	3,22%	3,09%	6,16%	5,46%	5,71%	9,25%	5,54%

* All ratios have been annualised

RANKING BY STRENGTH

By Equity:Asset Ratio

Company	%
1 UBS	9,25
2. NBS	6,16
3. ALLIED	5,91
4 STANBIC	5,71
5 VOLKSKAS	5,54
6. NEDCOR	5,46
7. BANKORP	3,32
8. FNB	3,09

By p:e Ratio (Ord Shares) (January 4 1990)

Company	%
1. STANBIC	9,8
2. NBS	9,0
3. UBS	8,9
4 NEDCOR	8,3
5 FNB	7,0
6. ALLIED	6,9
7. VOLKSKAS	5,1
8 BANKORP	2,7

By adjusted return on equity ('Value Added') Pre-Tax

Company	%
1. FNB	16,54
2 NEDCOR	14,52
3 STANBIC	7,14
4. UBS	2,71
5 ALLIED	2,70
6 NBS	1,68
7. BANKORP	1,12
8 VOLKSKAS	(4,00)

HOME SWEET HOME . . . Among the hundreds of passengers to benefit from the short-lived cut-rate charter flights, this group arrived at D F Malan Airport from Gatwick Airport, London, yesterday. From left are Mr David Fowkes, Kerry Fowkes, 8, Michael Fowkes, 4, Mrs Jean New and her husband Mr Peter New, Mrs Wendy Edwards and Mrs Mercia McLean

Picture OBED ZILWA

Flights fiasco: SA blamed

Cape Times 9/1/90

From IAN HOBBS

LONDON — The South African civil aviation authorities were blamed last night for the collapse of a major tourist venture and the use of emergency procedures to fly more than 350 British passengers home to London.

About 350 British tourists were being flown from Cape Town and Johannesburg to London last night on the orders of Britain's Civil Aviation Authority (CAA)

The CAA intervened last Friday at the request of Caledonian Airways, the wholly-owned British Airways subsidiary, after the travel firm Masterleisure, which operates in Britain and South Africa, failed to make advance charter payments

In London, Caledonian issued a guarantee that all British passengers still in South Africa who had booked fares through Masterleisure, trading under the name Inflight Travel, would be flown home on January 16

Caledonian sales manager Mr Mike Lewin said Masterleisure had been "unable to fulfil payment commitments" after negotiations for 21 jumbo jet flights had been limited to just six

Mr Lewin said Caledonian and Masterleisure were bitterly disappointed that a major new venture for South Africa, which had already brought 1 000 new tourists to the country, had been halted

Mr Lewin said the issue of the South African authorities limiting land rights to just six charter planes, and problems with foreign currency, had wrecked the "promising" venture

At Masterleisure's office in Marlborough, Wiltshire, financial director Mr Neil Wilshire, of Cape Town, said the intervention of the CAA last Friday had come as a "total bombshell" to him

Mr Wilshire said "I have no doubt that the South African authorities were being protectionist on behalf of the pool agreement between SAA and BA. We managed to sell 1 000 seats, at £600 (R2 500) a time, in a very short time and perhaps somebody did not like the business we were generating

"We keep hearing about free enterprise, privatisation and deregulation . . but when we get a responsible and promising venture going we end up being damaged."

A spokesman for British Airways last night strongly denied they had acted against Masterleisure to protect their pool arrangement with SAA

JSE hits record!

58

Cape Times 9/1/90

Own Correspondent

JOHANNESBURG. — The Johannesburg Stock Exchange's overall index soared to a new record yesterday

The forceful re-emergence of institutional buyers on Diagonal Street yesterday boosted share prices, pushing the JSE to a new record.

In hectic trading, the index chalked up a gain of 96 points or 3,1% to sweep past its previous high of 3 119 set on December 13, scaling a fresh peak of 3 186.

The rally, led by gold and mining-house shares, spread to all other sectors of the market with the industrial index posting a gain of 41 points or 1,4% to reach a new high of 2 933

The strong rise in share prices came amid a shortage of scrip and a weaker finrand, to help boost the JSE all gold index 107 points (5,1%) to 2 212, coming within a whisker of its 2 260 December 13 peak.

"Investors are discounting a higher gold price, and as long as the trend is bullish share prices will move to higher ground," a dealer said.

The market should also be buoyed by the weight of institutional funds — estimated by some analysts at R32 billion — seeking an investment outlet this year. With the scrapping of prescribed asset requirements, more of this money is expected to find its way into the equity market.

Furthermore, most of the big disinvestments of the past couple of years seem to be out of the way and it is unlikely that large amounts of cash will be drained off for large rights issues such as the Gencor offer and the Iscor flotation.

Rampant bullish sentiment was undimmed as gold traded in a narrow range above $400 when Japanese and Swiss traders turned sellers and Australian producers offered some gold

Profit-taking placed gold under a modicum of pressure, and the metal eased 10c to close in London at $404,65 despite the dollar falling on news of prime rate cuts to 10% from 10,5% by major US banks.

The dollar was also hit by the mark, which resumed its upward swing after a round of technical adjustments last week. The US currency fell from DM 1,6923 to DM 1,6685.

The rand closed marginally firmer against the dollar but eased against most other leading currencies. It closed at R2,5422 from Friday's R2,5478 to the dollar while the finrand weakened by 5c to R3,6000.

Analysts said gold might be suffering from slack demand after surging last week on fresh worries about possible political instability in the Soviet Union.

There was still some nervousness on financial markets, but a small rally on the Tokyo stock market provided some relief yesterday.

Killer hippo

LUSAKA — A rogue hippopotamus crushed to death an illegal border-jumper and seriously injured his son when the two were trying to cross the border into Zimbabwe at night near the Victoria Falls

No Share Game

BECAUSE of technical difficulties in obtaining the full Johannesburg Stock Exchange share listings for both editions of the Cape Times, there is no Share Challenge competition today

CH Arg 3/1/90

Iscor gains 35%

Own Correspondent

JOHANNESBURG. — Iscor's market capitalisation has increased by R1,3bn to just under R5bn in the two months since its JSE flotation.

Yesterday's closing price of 270c means shareholders who subscribed to the issue in November have gained 35% on their investment.

Iscor said it would invest R5bn in capital projects over the next five years.

MD Willem van Wyk said yesterday Iscor would spend upwards of R1bn a year over the next three years, dropping to about R600m annually until 1996.

New board members were told of the plans at the group's first board meeting held at the end of November.

"The bulk of the investment — most of which is to be funded internally — would be on new plant and upgrading of existing works," Van Wyk said.

Though Iscor no longer had State guarantees, it was financially sound and had a low gearing, which in the longer term would allow for external funding

Capacity was being increased at the Ellisras coal mine and the hot-strip mills at Vanderbijlpark.

Efficiency was being improved at Iscor's works — with the installation of new continuous casting machines, the building of new chrome plating lines, and new methods of producing liquid iron.

Van Wyk said the new developments would not result in layoffs.

He forecast a 20% improvement in taxed earnings, and agreed with the prospectus forecast that earnings would be about 52,7c a share, with a dividend of 17,6c a share for the year to end June (equivalent to a dividend yield of 6,5% and a p:e of 5,1 on the presiding share price).

High local stocks and a slowdown in the local market would tone down orders a bit for the second half of the year,

Trusts

Reduced premiums hold back growth

BDay
9/1/90 LINDA ENSOR (58)

THE extreme pressure in the short term insurance industry to reduce premiums resulted in a 12% growth in premium income for Santam to R748m (R668m) in the financial year to end-September, instead of the expected 20%.

Net premium income after reinsurance amounted to R657m (R600m) and net claims paid out totalled R442m (R419m). A pre-tax underwriting surplus of R26,1m (R23,3m) was made possible by the absence of natural disasters.

MD Oosie Oosthuizen said above-average growth of 16% was achieved in the corporate field, while there was a 9% increase in the number of motor vehicles insured and a 30% increase in the value of the motor portfolio.

"Farmers' insurance activities also showed an above-average growth rate of 18,5% in a very competitive market."

While the number of crime-related claims remained static, "the average amount per claim, has, however, soared and gives cause for considerable concern".

The number of motor thefts rose by 4,7%, but the average amount per claim shot up by 42%.

"This alarming increase reflects the relative selectivity of thieves as they seek out the more expensive vehicles, as well as the impact which inflation is having on the price of motor vehicles. Santam Insurance processed no fewer than 3 533 motor vehicle theft claims last year."

Investment income increased by 59% (42%) to R60,5m (R38,1m) due to higher interest rates "and the good cash flow from underwriting".

Oosthuizen said Santam intended investing fairly substantially in the stock market this year and so while interest rates were expected to remain high "the switch of funds from high-yielding interest-bearing investments to relatively low-yielding shares could have a negative influence".

Santam's solvency margin at year-end stood at 33,3% (25,8%).

who was involved in the Helderberg Retirement Village near Somerset

vaal over the past year.

The legal profession was doing

Details of life policy claims

B Day 9/1/90 LINDA ENSOR (58) (300)

MORE than 40% of Old Mutual policy-holders below the age of 25 who died between 1986 and 1989 were victims of motor accidents.

Death claims due to AIDS almost doubled last year — from eight in 1988 to 15.

The review of Old Mutual's payouts for 33 576 death claims in 1989 reveals that motor accidents were responsible for 26,2% of the death claims in the 25-40 age group, and represented 11,5% of the total number of death claims handled by Old Mutual.

"Each year motor vehicle accidents claim more lives than heart disease in the age group below 40," says Bobbie Jooste, Old Mutual's GM (individual lives) in a Press release.

He adds, however, that heart disease remains the greatest cause of death and is responsible for 46,9% of deaths in all age groups.

Cancer was responsible for 12% of Old Mutual's death claims in 1989.

Govt to look at schools crisis

B Day 9/1/90

GERALD REILLY

PRETORIA — Government is expected to give urgent attention to the politically charged black education grievences outlined at a meeting of 1 500 teachers, parents and pupils in Soweto at the weekend.

The meeting was a reaction to the disastrous black school matric results last year. Of 196 000 who wrote the exam 42% (91 000) passed.

The Department of Education and Training (DET) is to make an urgent analysis of the results, which are the worst in years.

The Soweto meeting demanded that the results be nullified and that either papers be re-marked or permission be given for the examination to be rewritten in June.

The issue was believed to have been discussed at a meeting of senior DET officials, called by Director General Bernhard Louw, yesterday.

Highlighted at the Soweto meeting was the claim that most of black education's problems were rooted in the DET's system of "own" education and discrimination in the funding of black education.

A DET spokesman said last night that no immediate statement on the issue would be made.

He said readmission of failed students was a decision that would have to be taken by individual headmasters.

But he stressed that the number of last year's standard 9 pupils, now moving into Standard 10, had increased by about 20% and it would be difficult for failed pupils to be accommodated.

The department had taken into account the possibility of intimidation by "troublemakers" following any refusal to readmit failed matriculants.

About 25 000 of the failures came from DET schools, mostly rural, and the rest from the homelands.

Sapa reports that a new independent education committee formed at the weekend meeting is to set up a school-enrolment monitoring office in Soweto from tomorrow.

The committee's function will be to monitor a back-to-school campaign, to see whether pupils are returning to school, whether they are accepted and, if not, to investigate why, committee member Sheila Sisulu said.

The office will be at Ipelegeng Centre, White City, and will be staffed by volunteers, supported by trained staff from educational organisations.

☐ Our Durban correspondent reports that there was chaos at many black schools in Natal yesterday when thousands of failed matriculation pupils attempted to re-enrol for their classes.

● Comment: Page 4

African Bank seeks new investors

(58)

ZILLA EFRAT

THE African Bank, which is currently undergoing many changes and has shown a 103% improvement in earnings in the year to September, is looking to attract corporate and private sector investors.

Finance and treasury GM Ismail Mamoojee says the bank requires capital for growth and wants to bring in parties interested in being associated with it. However, no changes in control or policy are envisaged. B/Day 10/1/90

At present 67,7% of shareholders hold less than 500 shares, while 17% hold between 500 and 1 000 shares.

In his annual review, chairman Sam Motsuenyane says the current capital structure compels Afbank to pay out a large proportion of profits to holders of preference shares, a factor which operates harshly against ordinary shareholders.

The preference shares are redeemable at Afbank's option, but a redemption can only be made out of profits or by a fresh issue of shares. Profits are currently insuf-

☐ To Page 2

African Bank B/Day 10/1/90

(58)

☐ From Page 1

ficient to fund growth internally, he says.

In his review, acting CE Jack Theron says the year was characterised by uncertainties in the marketplace brought about by the movement of some senior staff, but Afbank's results reflect a turnaround

Taxed income after internal transfers improved to R718 705 (R353 458). However, the results do not reveal movements to and from internal reserves as permitted to banks under the Companies Act.

Reserves rose 130% to R175 170 (R76 108) and deposits were up 9% to R158m (R144,6m) following the previous year's drop of 47% and 45% respectively. Advances rose 17% to R131,6m (R112,6m)

An ordinary dividend of 5c a share was declared after being passed the previous year. Preference dividends of R420 000 were paid out.

In conjunction with management consultants, Afbank has drawn up a five-year strategic plan which is currently being implemented.

Theron says the quality of the loan book continues to improve and a more conservative credit policy has been implemented which will reduce future loan write-offs.

He says in spite of the bank's negative image in the first half, it was able to maintain an acceptable mix of deposits which are yielding an attractive gross return.

Various profit improvement plans are under way, he says.

Mamoojee says Afbank will not deal in foreign exchange for the next two to three years to consolidate its position and to build up reserves. No trading has been done since the 1986 forex scandal.

OM unit trusts in good form

(58) Star 10/1/90

By Derek Tommey

The repurchase price of units in Old Mutual Mining Fund rose 11,9 percent in the December quarter to bring the gain for the year (if distributions were reinvested) to 50,1 percent.

The repurchase price of the Old Mutual's main unit trust, the Investors' Fund, rose 10,3 percent in the December quarter to show a 52 percent return on a lump sum with distributions reinvested in the 12 months to December.

During the quarter the Investors' Fund increased investments in the mining houses.

It bought shares in GFSA, JCI and Rand Mines and lightened its large holdings in Gencor.

Shares in Amgold, Genbel, Barplats and Minorco were acquired and holdings in Kersaf and Sasol increased.

The fund acquired 9,2 million Iscor shares, which account for 1,18 percent of the total portfolio.

The top 10 shares at December 31 were Anamint/De Beers, Richemont, Rembrandt Group, Safren, Anglos, Sasol, JCI, Gencor Driecons and Nedcor.

At the end of the quarter it had liquid assets of R303,7 million, equal to 15,33 percent of the total portfolio.

The Mining Fund increased its holdings of ET Cons, Deelkraal, JCI, Rand Mines, East Daggafontein and Genbel and added Minorco, Barplats and R1,2 million Iscor to its portfolio.

Shares sold included Driefontein Cons, Western Deep, Smancor, Gencor, GFSA, and CMI.

Liquid assets at the end of the quarter amounted to R29,7 million — 16,15 percent of the portfolio.

Old Mutual's Income Fund, which was launched in April 1989, declared its third distribution in December, bringing the total for the past nine months to 12,68c per unit.

High risk, high rewards in options trading

Star 10/11/90

Finance Staff

Trading in options on the JSE is expected to commence this year and promises to be an exciting new avenue for investment and risk management.

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The attraction of options trading (and also futures and forwards) as compared with the underlying securities activity of the market is that the uncertainty and volatility is increased.

In the past, people trading in these markets (financial, produce or commodity) had to carry all of the risk.

The development of a futures, forwards and options market reflects the desire to hedge that risk by transfering it from those unwilling to bear it (the hedgers) to those more willing to assume it (the speculators) through the use of derivative instruments such as options, futures and forwards.

Although the purpose of some derivative contracts is solely related to delivery, the emphasis of the more popular derivative contracts are not on the underlying assets themselves but in the way these contracts adjust the assets' risk/reward characteristics.

In anticipation of the new traded options market, stockbrokers Davis Borkum Hare has compiled a basic trading manual to help investors prepare and educate themselves.

These are the more general terms which investors will need to become familiar with before venturing into this market:

A FUTURE is an **OBLIGATION** to buy or sell a standard quantity of a specified asset at a future date and at a price that is agreed between the parties at origination of the contract.

An **OPTION** is a **RIGHT** to buy or sell a standard quantity of a specified asset at a future date and at a price agreed between the parties at origination of the contract.

A **FORWARD** is an **OBLIGATION** to buy or sell a specified quality and quantity of an asset at a future date and at a price agreed between the parties at the origination of the contract.

The essential differences between the way these different instruments work are as follows:

A purchase of a future or forward contract implies an obligation. A purchase of an option only implies a right.

This means that the option is a one-sided contract in that the purchaser of the contract is not required to perform on the contract if he does not wish to.

The futures or forwards contract holder however is obliged to perform on his contract by either closing out his position by taking an equal and opposite contract or by delivery in the specified manner as set out in the contract.

Forward contracts are different to futures in that delivery is always assumed whereas with futures, only approximately 5 percent of contracts are delivered. This is because investors normally close out the contract before expiration. Options like futures are normally closed out before delivery.

When setting up a futures contract the broker handling the deal will require a cash deposit (or margin as it is called) from both the buyer and the seller.

However with an option, only the seller, otherwise known as the writer, need place margin as the buyer has already paid his premium to the writer. Forward contracts do not normally require margin.

With a forward contract, payments are not made at origination or during the term of the contract but are made at maturity of the contract.

Futures contracts are normally "marked to market" daily. This means that their value is recalculated daily and adjustments in terms of payments are made from buyer to seller or vice versa.

Options contracts are paid for up front and any profit or loss on the contract is paid on maturity or exercise of the contract. Option writers will pay margin as and when required throughout the life of the contract.

Future and option contracts are normally standardised in form with respect to expiry dates and prices and volume transacted per trade, whereas a forward contract is normally customised to the circumstances of the individual trade. The consequence of this is that one can have a secondary market on options and futures but not on forwards.

It is possible to emulate a widely based equity portfolio by holding the nominal value of the portfolio in stock index futures or call options on that particular index, and the balance in a short term money market instrument. This strategy (referred to as the synthetic portfolio) has the following advantages:

- Lower transaction costs,
- Easier way to change exposure to the market and,
- The ability to trade in large amounts without moving the price.

Car finance groups cruising comfortably

NEIL YORKE SMITH

MOTOR finance houses expect reduced turnover growth in 1990, but the situation is viewed as far from critical.

Wesbank GM Neville Nightingale said he was expecting a relatively "soft landing" for the vehicle financing industry.

"I stress this does not imply recession, but rather that growth will be reduced to match the inflation rate," he said.

Nightingale based his forecast on the expected economic slowdown and relatively stable new vehicle sales.

He said sales would be closely related to the industrial relations situation

Nightingale said bad debts would not present a big problem as long as interest rates did not escalate further.

Stannic MD Gutch Vickers said he was reasonably optimistic about the current year

"I do not expect turnover to slow, as has been predicted by many people," he said

Vickers based his view on "the inflationary environment in which assets are appreciating at a rate above that of the expected inflation rate". Bday 10/1/90

He confirmed the likelihood of an increase in consumer bad debts "We expect a small increase in this area, but the levels will be nowhere near critical," he said.

Vickers said despite "a tightening of belts in some areas" he still expected a 20% to 25% increase in the balance sheet during 1990.

In a report on the outlook for 1990, Nedfin said prospects for banks involved in hard asset financing looked less encouraging when compared to with "buoyant" 1989".

"The demand for corporate passenger vehicles will no doubt continue at a reasonable level, although consumer demand will continue to decline as disposable income is eroded," the report said.

"The threatened avalanche of bad debts has not happened, although banks involved in consumer finance do report some increase," the report said.

Insurance co-operatives probed

B/Day 10/1/90

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LINDA ENSOR

AN INVESTIGATION is underway into the operations of non-agricultural co-operative societies which provide short-term insurance to their members.

Concern has been expressed about these uncontrolled co-operatives, which do not provide guaranteed cover for their members.

Apparently the number of such co-operatives seeking registration has mushroomed recently.

One of the biggest operators is Panorama Insurance Brokers and Investments of Johannesburg which has 10 000 members.

The inquiry will determine whether it is advisable to allow such societies to continue to operate outside the strict requirements imposed on registered insurers by the Insurance Act. They are subject to the Co-operative Societies' Act.

The terms of reference of Judge D A Melamet's commission of inquiry into the flow of short-term insurance premiums out of SA — the report of which has already been completed and is to be tabled in Parliament soon — have been extended to include this investigation.

Assistant registrar of short-term insurance Willem Heckroodt said the provisions of the Insurance Act relating to co-operatives had been used by some brokers to form co-operatives with the ostensible purpose of providing indemnity for their members, but were for the real purpose of providing insurance.

Non-profit

"These co-operatives pay out claims only to the amount that is available in the fund and then take out re-insurance to top it up.

"They have no shareholders' funds, no accumulated reserves, including contingency reserves and do not maintain a solvency margin. As a result claims cannot be paid when the fund is exhausted."

Heckroodt said these co-operatives ran on a non-profit basis, paying out surpluses as dividends each year. No funds were accumulated.

The limited reserves of the fund would not cover large claims, such as those involving public liability.

"The government wants to find ways of regularising or stopping these practices," Heckroodt said.

Panorama MD James van Blerk said the reason for setting up Panorama as a co-operative rather than an insurance company was because "we felt there was room for the insuring public to share in the profits of an insurance company. This is not normally the case."

He said Panorama had R8m in extended reserves, about R2,5m in a monthly reserve and R15m in annual premium income.

"We are not obliged, but are well advised to adhere to the terms of the Insurance Act." Members had decided to transfer surpluses to the reserve fund until it equalled the total annual premium, Van Blerk said.

Evidence from members of the public will be heard by the commission between February 26 and March 16.

Increase in prime unlikely — Stals

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BDay 10/1/90

HAROLD FRIDJHON

BANKS' margins are being squeezed by the abnormal seasonal shortage in the money market and there is speculation that the Reserve Bank will be asked to increase prime rates.

Reserve Bank Governor Chris Stals said last night no official approach had been made to the Bank.

The banks — commercial, merchant and general— collectively owe the Reserve Bank a record R5,6bn. They are paying up to 21% for overnight wholesale call deposits and up to 22,75% for portions of the central bank's facilities.

Stals said he regarded the present situation as "a passing phase" and the Bank was helping banks as best it could within the parameters of the tight monetary policy.

The Reserve Bank had assisted to the extent of R3bn in open market operations, apart from the R4bn-R5bn assistance which had been given through the rediscount window.

The Bank would continue providing one-day re-purchase agreements (repros), the buying of prescribed assets which the banks had to re-purchase within 24 hours. Yesterday the Bank invited tenders for R400m worth of repros, attracting bids amounting to R882m; the average rate for this facility was 21,28%. These repros would be rolled over, Stals said.

Stals's remarks indicated that it was not on the cards to increase the Bank rate or prime, which cannot be raised without Reserve Bank approval.

He said a more flexible prime rate had its merits but before such a step could be taken many structural changes would have to be made in the Bank's accommodation policy and these had to be investigated.

Stals questioned the effectiveness of the banks' application of their prime rates. How many customers were given rates below prime and what percentage of their lending was at the so-called prime rate? He added that some banks used the bankers acceptances mechanism to give advances at lower rates.

One bank economist said last night that raising Bank rate would be most inopportune. The economy was slowing and the demand for credit was reducing. The gold and foreign exchange reserves were improving and and so was the balance of payments. Raising Bank rate would be applying overkill, particularly as Bank rate and prime were over politicised.

He added that the present market position was cyclical and possibly exacerbated by additional bank lending over the December/January period.

African Bank stages recovery

(58) Star 10/1/90

Finance Staff

The African Bank is well on the road to recovery after a year in which financial problems culminated in the resignation of senior management, including chief executive Gaby Magomola.

In the year to end-September the bank turned in an excellent performance with profits up by 103 percent, general manager Ismail Mamoojee reported yesterday.

A dividend of 5c a share has been recommended after no dividend was paid in the 1988 financial year. Preference dividends totalling R420 000 were also paid out.

And the bank is looking at further expanding its operations.

Mr Mamoojee reportedly said the bank would open three new branches during 1990 and is seeking corporate and private investors to finance further expansions.

A five year strategic plan to boost profitability has been implemented.

No change in control is envisaged, although at present about 85 percent of shareholders holdless than 1 000 shares each, making efforts to raise capital more difficult.

In addition the bank's current capital structure compel it to pay profits to holders of preference shares and although the shares are redeemable at the bank's option this can only be implemented if the profits are sufficient to justify such a move.

In the year to end-September taxed income after internal reserves more than doubled to R718 795.

The bank's reserves surged by 130 percent to R175 170, after a 47 percent plunge previously, while deposits with the bank rose by nine percent to R158 million. Advances were up 17 percent to R131,6 million.

However, the African Bank, which was at the centre of a foreign exchange scandal in 1986, has no plans to reapply for a foreign exchange dealing licence in the short-term.

Mr Mamoojee said management would wait for an improvement in reserves before any moves would be made in this direction. This could take up to three years.

No rise in prime on the cards — Stals

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Finance Staff

Reserve Bank Governor Dr Chris Stals has indicated that a rise in interest rates was not on the cards at present.

It was reported today that the Reserve Bank had not received any approaches by the commercial banks to raise its Bank rate in order to protect the banks' margins. Star 10/1/90

Short-term interest rates on the money markets have risen sharply recently in the wake of a shortage of funds on the market.

Dr Stals said he regarded the current situation on the money market as a "passing phase".

GuardBank unit trusts show healthy growth

(58)

The market value of the GuardBank Growth Fund at December 1989, excluding compulsory charges, was R848,82 million.

The repurchase price of 1 672,3c per unit (inclusive of income distribution of 42,31c) reflects an increase of 7,13 percent over the repurchase price of 1 561,08c per unit at September 1989.

An income distribution of 77,78c per unit has been declared in respect of the year to December.

The overall return, including both income and capital appreciation for the twelve months, amounts to 46,50 percent.

Fund manager, GuardBank Management Corporation, has announced an income distribution of 42,31c per unit (1988: 30,04c) in respect of the six months to December. For the year to December the income distribution of 77,78c per unit (1988: 53,28c) represents an increase of 45,98 percent over the 1988 distribution.

The market value of the GuardBank Resources Fund at end-December, excluding compulsory charges, was R55,82 million.

The repurchase price of 140,10 per unit at end-December (inclusive of income distribution of 4,47c per unit) reflects an increase of 9,02 percent over the repurchase price of 128,51c per unit at end-September 1989.

The market value of the GuardBank Income Fund at end-December, excluding compulsory charges, was R9,61 million.

The repurchase price of 114,80c per unit at end-December (inclusive of income distribution of 8,87c per unit) reflects an increase of 4,67 percent over the repurchase price of 109,68c per unit at end-September 1989. — Sapa.

Star 11/1/90

New Syfrets fund launched

LINDA ENSOR 58

SYFRETS has launched a new investment fund with a gilt and semi-gilt portfolio solely for foreign clients.

As the Disa Income Fund is registered in the Cayman Islands, the fund is not subject to any income, withholding or capital taxes. BDay

A Disa director, Ian Hamilton of Syfrets, says investors will also benefit from above-average returns made possible by the two-tiered currency structure of the rand as the policy is to invest through the financial rand in a spread of quoted and traded SA gilt and semi-gilt fixed interest bonds. 11/11/90

Hamilton says the return at the start of the fund in November was 22%. This has since dropped to about 20% because the finrand has moved upwards and because of the negative impact of interest rates on the gilt market.

Investment in call and put options will also be made in order to reduce the capital risk associated with fixed interest bonds and fluctuating interest rates.

Hamilton, who recently visited Europe to market the product, says the concept was well received there by both investors and leading bankers.

The preferred minimum investment in the fund is $25 000 or £15 000. Investment to date has been "substantial", according to Hamilton.

Growth in Sanlam Index income distribution outstrips the rest

LESLEY LAMBERT

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CAPE TOWN — Income distributions by Sanlam's Index Trust have grown 20,5% during the six months to December 1989, while the mining and industrial trusts have lagged at 15,3% and 3,2% respectively. BDay 11/1/90

The Sanlam Index Trust declared a distribution of 17,6c a unit for the six-month period, while the Sanlam Industrial Trust declared 13c a unit and the Sanlam Mining Trust 8,3c a unit.

The trusts reduced their liquidity levels significantly during the final quarter of 1989 as the equity markets strengthened. The Sanlam Trust's liquidity fell from 15,9% to 10,7%; the Industrial Trust from 16,5% to 14,1%; and the Mining Trust from 18,1% to 10,3%.

Liquidity of the Index Trust rose from 8,3% to 11,2% primarily as a result of strong investment inflows, according to unit trust portfolio manager Stafford Thomas.

But it had since been reduced to around 9,5%, he said.

Purchases for the unit trusts were concentrated in high-quality gold, mining financial and industrial shares during the last quarter, with an emphasis on the Rembrandt Group, Iscor, Kloof, Anglo, Barlows, Midwits and Bevcon, said Thomas.

"Sanlam trusts are now focusing on the leading blue chip shares which we believe will continue to set the pace for the JSE in 1990," he said.

Income distributions for the Sanlam Trust and the Sanlam Dividend Trust will be declared at the end of March.

Credit still excessive, Barend warns banks

By Roy Cokayne (S8)

South Africans were continuing to make "excessive" use of bank credit and Minister of Finance Barend du Plessis has warned the banking sector — and borrowers of bank funds — they should no longer doubt the Government's seriousness in addressing the problem of inflation.

He said the banking sector and the borrowers of funds should adjust their lending and borrowing operations accordingly.

"Wrong decisions at this stage could prove to be very costly later in 1990 and official policy should not then be blamed for the hardships," he told the annual conference of the Women's Bureau of South Africa in Pretoria last night.

Mr du Plessis said the rise in the money supply (M3) to 24,7 percent in October last year after declining slightly from 27,9 percent in August 1988 to 22,9 percent in September 1989 was admittedly influenced by special short-term bank credit made available to potential subscribers to the Iscor share issue.

But the rate of increase in the money supply nevertheless remained unacceptably high and in spite of relatively high interest rates - in nominal if not in real terms - South Africans continued to make excessive use of bank credit.

"As a result, there is much more money in circulation at this stage than what the Reserve Bank judged to be prudent when the money supply targets for 1989 were set at the beginning of last year."

The present level of interest rates would have to be maintained "for some time".

Star 12/1/90

After adjustment for inflation, South Africa's present level of interest rates were more or less in line with prevailing rates in the major overseas financial centres.

F/M 12/1/90 (58)

AA MUTUAL

The saga continues

More than 15 000 cheques, totalling about R5m, posted to creditors of the liquidated short-term insurance business of AA Mutual have not been cashed. Many have been returned stamped "address unknown."

This is about 10% of the 150 000 cheques, totalling about R33m, sent to concurrent creditors in September under the third phase of the liquidation, or Third Liquidation Account. So far concurrent creditors have received 30c in the rand.

The first two accounts met only preferential creditors' claims — such as salaries, leave pay and PAYE — and were paid in full.

Under the Insolvency Act, payments to creditors who can't be traced go into the government's Guardian Fund and eventually end up in government coffers.

The huge number of returned cheques adds another twist to the complex tale of SA's largest liquidation. The insurer, once one of the biggest, collapsed nearly four years ago. It will probably take many more years before the books are closed.

The fourth account, announced last week, should be less complicated. Only about 900 cheques have been drawn, to pay R2m on 2 730 claims. (Some creditors have several claims, which will be paid with one cheque.)

Creditors who weren't paid in September because of disagreements over amounts, brokers not paying premiums to AA Mutual, or for other reasons, will still be paid 30c in the rand. "We have managed to recover many premiums owing from brokers and will be able to admit premium-refund claims," says liquidator Metrust's Henry Gunn.

Creditors can inspect the account and make any objections to the Master of the Supreme Court before February 5.

Claims include insurance claims, reinsurance treaty claims, trade claims, commissions and refunds of premiums. Premiums are refunded pro rata and only to policyholders who paid premiums in full each year; those who paid monthly are not eligible.

Concurrent creditors may ultimately receive another 15c in the rand. "When all assets are realised, and based on a worst-case scenario, we should be able to pay concurrent creditors 45c in the rand," Gunn says.

But it may be years before the next distribution because many disputes spawned by the liquidation are tied up in the Supreme Court. Large sums are involved and the issues are complex, so many may end up in the Appellate Division — another lengthy process.

The final winding-up order for the short-term insurance business was granted in June 1986.

In April 1988, the Melamet Commission of Inquiry outlined reasons for AA Mutual's demise, including shortage of capital, bad management and lack of control, bad underwriting, and inadequate accounting.

Nedbank defends equity base

BANKS must have a strong equity base, says Nedbank MD Chris Liebenberg, replying to a First National Bank study which, Liebenberg says, creates the impression that "to be under-capitalised is good".

Liebenberg was reacting to a Business Day article on Tuesday which quoted FNB as saying that by overlooking the value-added element in bank profits, analysts and the share market were confusing the winners and the losers among banks' shares.

Liebenberg says the article is quite right when it states that banks must earn more than a real rate of return on their capital than the marginal wholesale call rate. The so-called over-capitalised banks are currently better equipped to write more business than those which are strapped for funds.

By overseas standards SA banks are not over-capitalised. On the contrary, they are under-capitalised.

HAROLD FRIDJHON

The phasing in of the new SA capital/assets ratios which will come into effect by December 1992 allow for an average 4-5% capital/asset ratio compared with 8% in Europe.

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BDay 12/11/90

Structure

Over time all the banks here will have to increase their capitals either by earning it or by going to their shareholders. With the present very tight margins the banks are hard-pressed to provide for inflation and a reasonably inflationary dividend. There is very little room to accumulate capital. Banks have very few inflation-proof assets; they have to build capital from earnings and present margins leave insufficient scope for ploughbacks after tax.

When the current phase is over and margins widen the grey market will begin to operate again and the structure of some asset books will come down again.

Liebenberg claims that a good bank for an investor in the prevailing conditions is one which is over-capitalised, making good profits and is earning a return on all its capital in excess of the call rate, because it will not have to go to the shareholders.

"This runs contrary to the FNB study," says Liebenberg.

In assessing bank shares, investors must take into account a bank's ability to fund future technological expenditure, which is very costly.

They must examine a number of factors, starting with the mix of a bank's income, interest returns, other income, funding which also has an "endowment" effect on a rising interest rate cycle, and many other factors.

The banks which have built up their income other than from the interest-rate turn will be the blue chips, says Liebenberg.

Insurers pay R6m in AIDS claims

LINDA ENSOR

THE number of AIDS claims to life assurance companies has risen 50% since 1984 and more than R6m has been paid out in this period.

Figures revealing the exponential rise in AIDS claims were released for the first time yesterday.

And Dr Ruben Sher, head of the AIDS Centre, disclosed that in 1989 (until December 15) 72 people had died of AIDS while 134 new cases were reported. This brought the total death toll since 1982 to 174 and the total number of cases to 305.

"There have been many heterosexual cases. The disease is spreading into the heterosexual community," Sher said.

Since 1984, 55 AIDS claimants with a total of 99 policies have lodged claims, according to Jakes Greyling of Mercantile & General Reinsurance of SA who compiles national statistics for the industry.

There was one policy in 1984, two in 1985, seven in 1986, 11 in 1987, 27 in 1988 and 51 in 1989. (58)

Greyling said the exponential rise in the figures was worrying the industry.

Of the 99 policies on which Aids claims were based, 77 were life policies, 13 were disability policies on which a lump sum is paid and 19 were personal health insurance (PHI) policies.

Greyling said that of equal concern to the industry was the term of the policies. Life policies are expected to endure 20 years to get a return, but the average term of the 99 policies was 4,43 years. Nineteen had been in force for less than one year, 18 for less than two years and 14 for less than three years.

BDay 12/1/90

ALLIED FM 12/1/90 (58)

Hitting back at rivals

Allied Group, hurt by rivals offering a wider range of services, is slashing fees in a bid to keep customers and recoup lost business.

Allied is offering to pay existing customers half the bond registration cost on a new home. It will also pay half the bond registration cost for the buyer of a customer's old home if it, too, is for an Allied bond.

In addition, it will waive the valuation fee on a new home for bondholders who remain with it. The offers expire in October.

The average saving on bond registration costs and the valuation fee will be R619,50 — small change compared to the cost of a house but a competitive advantage that could shift some business Allied's way.

Allied, second largest of the four remaining building societies, is the only one to take this action. Consumer division senior GM Don Hunter labels the offer aggressive and says the aim is to retain customers and win back business lost to banks that could offer bonds, cheque accounts and everything else a customer needs. He says the war between banks and building societies is still intense and it's tough for building societies to compete against one-stop banking.

Banks are reacting cautiously to Allied's offer. Standard Bank GM for home loans Terry Power says: "Obviously what they

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want is business." The supervisor of Standard's client services division describes the offer as fantastic and speculates that "it could be that their business is down."

United group marketing GM M J R van der Berg says Allied's move reflects the severe competition in the home loans industry. He says United will examine a similar deal, but nothing has been decided.

Banks raised the stakes in the home loan war, Van der Berg claims, when many wrote to building society customers and offered not only to pay cancellation fees and bond registration costs, but also to reduce the rate to between 0,5-1,5 percentage points below the going rate if they transferred their bonds.

Hunter won't say how much new business Allied's offer has garnered, only that he is "very happy with the response."

Allied, which started a bank in 1986, hopes to close the gap with full-service banks in July when it begins offering cheque accounts. The admission that the building society lost business to banks offering more services is the latest in a series of setbacks.

In the past two years, almost a third of Allied's senior staff has left. Some resignations are attributed to conflicts with MD Kevin de Villiers over the handling of the transition from building society to bank. In October, Allied, acknowledging bad publicity over management defections, launched a R2m print advertising campaign.

The 1989-1990 interim results, released in October, showed a 25% earnings rise.

Last month's Quality Tyres liquidation cost Allied Bank R3,4m. Not an inconsequential sum for a new bank. ■

BANKING F|M 12|1|90

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Paying for their sins

Speculation in the money market last month was that interest rates might fall by the middle of this year. Now some banks are saying prime should be increased — or at least, that the Reserve Bank should alleviate tight market conditions by giving additional assistance.

The banks are most concerned about penalty rates of 22,75% that many have had to pay to borrow against prescribed assets in the face of intense illiquidity in the money market. And they say prime rate at 21% is out of line with other rates. For example, call, the overnight lending rate, rose to the same level as prime on Tuesday.

"Banks are being squeezed to pay rates that aren't market-related," a banker says.

"It's unacceptable that we should be penalised with these costs when there are many seasonal factors involved," says Standard Bank treasury head John Lloyd. "We're financing huge outflows of funds and getting insufficient adjustments." Several seasonal factors traditionally create large outflows in December. These include notes in circulation, which increase as holiday-makers withdraw money to finance their holidays; tax payments, and debt repayments.

Tax payments — estimated at around R3bn — have been larger than usual, while notes in circulation hit a record level of R9,8bn last month. Substantial foreign debt payments on December 15 and 29 also pushed the shortage upwards.

But the Bank believes it has provided enough support to the market in the light of its restrictive monetary policy. "Bank margins are bound to be squeezed while there is a restrictive monetary policy," says Governor Chris Stals. "We're prepared to assist the market in the short term but we don't want to ease monetary policy." If the Bank were to support the market further, banks would have no incentive to curb credit, which they have continued to grant freely despite requests from the Bank to reduce it.

Stals says the Bank has already assisted the market to the tune of about R3bn over and above the window shortage by offering repurchase agreements and placing Corporation for Public Deposits funds with banks. Since December 27 the Bank has offered three repurchase agreements for R500m, and one for R400m on Tuesday.

Its reluctance to help the market further reinforces the strong stand it has taken to curb the money supply in an effort to reduce double-digit inflation. If banks don't stop extending credit as liberally as in the past, money supply will continue to rise beyond the target range. November's provisional money supply figures show that M3 considerably overshot the target.

The seasonal squeeze has been aggravated by the high market shortage continuing longer than usual into January. December's seasonal factors traditionally ease off at the end of the month and the window shortage begins to return to more manageable proportions. But on Monday it jumped R500m from Saturday's R4,5bn.

One reason for the increase may be the late clearing of tax cheques. Later this month, the R600m paid in government salaries and interest payments will help to reduce the shortage and government spending, which usually increases towards the end of the financial year, will also help.

Until then, pressure on the banks' margins is likely to continue. The Bank has said prime won't rise under present circumstances. "We can't make important decisions on month-end and seasonal factors."

Lloyd disagrees. "The unrealistically difficult conditions in the market have been in place since early December and banks can't be expected to accept the situation for an indefinite period without making some adjustment to their lending rates."

But the Bank is happy with the relationship between SA interest rates and those overseas. So the balance of payments and interest rates have fallen on its list of priorities. Curbing money-supply growth and lowering inflation have risen on the top. Banks will have to toe the line. ■

Southern's unit trusts excel

Southern unit trusts' long-term outlook on gold shares has paid handsome dividends after the strong performance of gold on the JSE.

Liquidity levels were reduced in both Southern Equity Fund and Southern Mining Fund in the three months to December.

Portfolio manager Carel de Ridder said yesterday gold sentiment turned positive when the dollar gold price recovered late in the quarter and gold share prices rose significantly.

"The performance of both portfolios supported Southern's belief that gold shares offered relative value. However, while sentiment about gold has improved, the fundamentals remain weak and gold needs to move above R1 200 an ounce for this situation to improve."

Investors in Southern Mining Fund received a return of 49,9 percent for the 12 months to end-December.

Southern Equity Fund posted returns of 42,6 percent.

By handsomely outperforming inflation, unit trusts remained one of the few opportunities for real growth in asset values, said Mr de Ridder.

Industrial shares followed the lead of gold and as a result of selective share purchases, liquidity levels in both funds were reduced significantly.

Liquid assets were reduced from 21,1 to 13,3 percent in Southern Mining Fund and from 15,3 to 11,6 percent in Southern Equity Fund.

Mr de Ridder said the rapidly changing political environment both locally and in Europe had led to improved business sentiment and economic activity in general.

"The strength of the financial rand towards the end of the year was indicative of the change in sentiment towards SA.

"While this may depress certain shares in the short term, these events will be positive for the economy.

"Strong share prices can be expected in the year ahead, although it will be necessary for fund managers to be more selective," he said.

Mining-related counters in Southern Equity Fund increased from 46,6 percent to 51,9 percent of the portfolio in the quarter, while financial and industrial stock was reduced to 36,5 percent.

Holdings in Driefontein, Elandsrand, Western Deep, Amgold and Genbel were increased and Apex Property Trust and Iscor added to the portfolio.

Amgold, AVI and D&H were sold out of the portfolio and Plate Glass holdings reduced further.

Holdings in Amcoal, Freddev and Randex were sold out of the portfolio.

The market value of the assets in the funds rose by R4,5 million to reach R39,6 million at December 31. — Sapa.

Crackerjack performance by unit trusts

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Star 13/1/90

DEREK TOMMEY

MOST investors in unit trusts have just had an extremely rewarding year. Only the most unlucky will not have received a return of more than 40 percent on their units in 1989.

Figures prepared by the University of Pretoria show that five unit trusts — UAL, Old Mutual, Momentum, Standard Gold and Old Mutual Mining — provided their unit holders with returns of more than 50 percent if the reinvestment of dividend distributions is taken into account. Another 13 provided returns of between 40 percent snd 50 percent.

Altogether more than 75 percent of the equity and specialist unit trusts increased the value of their investors' holdings by 40 percent or more.

While the unit trusts were not creating instant wealth — they came pretty close to doing so.

UAL was the top runner in the equity trusts, showing a 56,16 percent growth. UAL also deserves to be commended for bettering the overall market increase of 55,5 percent. No other trusts managed this feat.

Standard Gold was the bright star in the specialist trusts with a total return of 56,5 percent.

Even the income funds were able to show fairly high returns, though they invest most of their money in fixed interest stocks.

Senbank Gilt had a growth in income payments and capital appreciation of 25,19 percent while Senbank High Yield showed a return of 23,79 — in both cases attractive figures.

However, it must be said that measured against the recent past, 1989 was an exceptional year for investors.

Depending on which yardstick one uses, the JSE came either second or third in the world for capital appreciation last year. And what happens on the JSE has a direct effect on the unit trusts.

The returns received by long-term investors in units also show that the 1989 figures were something out of the ordinary. Nonetheless, those who have held units for seven years or more are showing highly acceptable average annual returns.

The average annual return in the past three years from Old Mutual units has been 23,41 percent. But if you had held them for the past seven years you would have had an average return of 27,49 percent, and if you had held them for 12 years the average return would have been 30,7 percent — more than double the inflation rate in this period.

Holders of GuardBank units have been similarly rewarded. The average annual return from GuardBank units in this 12 year period has been 30,52 percent — the same as the All Share index.

The specialist funds have also looked after their long-term unit holders. Those who have held UAL Mining and Resources units for the past 12 years have received an average annual return of 27,12 percent while Sanlam Industrial has shown an annual return of 26,19 percent in this period.

Several factors combined to make 1989 a bull year on the JSE. The sliding value of the rand in 1988, coupled with a sharp improvement in economic activity overseas, boosted South Africa's exports and the earnings of any company with foreign interests.

Then, just as the industrial and non-gold mining boom showed signs of slackening, the price of gold, which had been heavily oversold, started to recover. This, plus an improvement in foreign investor sentiment towards South Africa, sent gold shares into orbit. The visible result was a 58 percent rise in the gold share index in less than three months.

On top of this, signs that the Government is actually doing something about curbing inflation and creating a strong base for greater economic expansion in say a year's time has also led to heavy buying of some of the major industrial stocks.

Looking further into 1990, there seems a good chance that the share market will remain strong. The Government's anti-inflationary measures should ensure that the export industries remain competitive and prosperous. Although there are signs of an economic downturn overseas, demand for South African goods is still expected to remain strong.

Gold price

The price of gold is also expected to gently firm as the year wears on, helping the local gold mining industry. Consumer demand for jewellery — the factor that determines the strength of the diamond market — now seems to be the major determinant of the gold price.

In the past few years consumers have quite happily accepted 10 percent to 15 percent increases a year in diamond prices; so it is to be expected that they will not jib at similar increases in the diamond price and put a floor under the metal at beween $440 to $460 an ounce.

Finally, there is a dark horse which must be considered — foreign investment interest. If this continues to strengthen as it has in the past month or so, the South African economy will receive a very healthy boost later this year.

It could even lead to foreign creditors deciding not to take payment of the $2,5 billion (R6,25 billion) loans due to be repaid this year and roll them over instead.

Were this to happen it would leave South Africa with a firm rand, healthy balance of payments and substantial foreign exchange reserves — all of which could open the door to a major jump in the economy.

This does not seem to be the time for investors to take profits in their units. Istead, it would appear that this is still the time to buy.

Endowments vs unit trusts

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Money Matters

MAGNUS HEYSTEK

JUDGING from the many queries I receive concerning the differences between endowment policies and unit trusts, it seems to me that a great deal of confusion exists about the respective merits of these investment avenues in one's overall financial planning.

Many people, for instance, believe that unit trusts are in all respects superior to endowment policies.

It is true that unit trusts have outperformed endowment policies over the long term, but this presupposes that the individual has held on to his investment through good times and bad. The high degree of liquidity in unit trusts, can in fact be a stumbling block to building up a worthwhile investment.

On the other hand endowment policies are not quite so negotiable in the short-term.

Although they have a large investment component they must, by law have a significant part of life cover built in. Without this element the generous tax exemption on the proceeds of the policy on maturity falls away.

The policy must be at least 10 years old before the proceeds are considered to be of a tax-free nature.

Despite these restrictions endowment policies have been very good investments over the last 10 to 15 years with overall returns on average easily exceeding inflation over the same period.

Broadly speaking, there are two types of endowment policies;

- One guarantees a certain return in the future and may be topped-up by revisionary bonuses from time to time depending on the investment performance of the insurance company;
- The others are market-linked policies which have a greater degree of risk but the performance of the policy is directly linked to the performance of certain types of investments, like the stock market or property.

While there is no disputing the better returns enjoyed by most unit trust funds, it is a case of comparing apples with pears in certain instances.

The high liquidity of unit trusts can sometimes work against the average investor should the necessary discipline not be exercised.

Many unit trusts holders not used to the cyclical nature of stock markets can easily be frightened into selling every time the stock market takes a knock. Others are easily tempted to cash in some of their profits when the market soars.

In both instances the long term return on the investment is going to be negatively affected. If you have an endowment policy and want some cash quickly, it can be used as collateral for a loan without touching the underlying value of the investments.

Banks are unlikely to accept unit trusts as collatoral as there is no guaranteed value. It will rather insist that the unit trusts be sold to cover any outstanding debt, for instance.

Like unit trusts, endowment policies have the great advantage that the investor is benefiting from the supposedly superior knowledge of investment markets of the life insurance companies. By pooling together the huge amounts from policy holders the insurance companies can make large investments.

By investing large sums of money in expensive, high-risk projects life insurance companies can earn a far higher return on behalf of their policy holders than individuals normally can do for themselves.

Recent changes to the requirements regarding the type of investment life insurance companies can make is also expected to boost overall returns in the future. This will make endowment policies even more of an attractive investment avenue for the man-in-the-street.

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Cusaf follows the Sage Life RA's path

By David Carte

COMMERCIAL Union (Cusaf) is the second assurance company to come up with a tax-efficient, equity-based retirement annuity (RA).

Hard on the heels of Sage Life's announcement of a similar scheme, Cusaf has taken advantage of the abolition of prescribed asset requirements to come up with what it bills as "the most tax-efficient investment opportunity of the decade".

Other life companies are expected to follow the two pioneers.

Limits

Contributions up to the normal limits on RAs (the greater of R1 700 a year or R3 500 less pension fund contributions or 15% of taxable income) are tax deductible.

If the equity-linked fund can achieve the historical return of 25% a year, investors on the top marginal tax rate will receive the equivalent of a pre-tax return of 45% annually.

The new RA is more risky than one containing fixed-interest stock and, in a general market retreat, negative returns are possible.

Contributions to the Golden Harvest Personal Equity plan go into a "high-performance equity portfolio" — the Culink equity fund, which consists of blue-chip shares. But money can be transferred into more security-oriented funds.

BILL RUTHERFORD . . . tax-efficient investment

About 49% of Culink's equities are diamond, gold, platinum, granite and mining-house stocks, and the rest are financials and industrials. The top mining shares are Anglo American, De Beers, Driefontein, GFSA and Rusplats. The top five non-mining counters are Barlows, Rembrandt, Richemont, SA-Brews and Tiger Oats.

Cusaf is one of few composite companies in SA, handling long- and short-term insurance.

Although it writes more than R206-million of long-term business a year, it brings to account only R2-million of taxed profit. That is because the company's articles of association require 95% of life profits to accrue to policyholders and 5% to shareholders.

Formula

"We're only 5% from being a mutual," jokes managing director Bill Rutherford. He says the formula makes for good policyholder returns, which in the long run will benefit shareholders.

Because of the premium war, the "salad days of 1988" are over for the short-term arm and a sharp drop is expected in underwriting profits in the year to December 1989.

In the previous year, underwriting profits peaked at R21,3-million. But in the first half of 1989 Cusaf reported a 20% drop to R8-million.

Mr Rutherford expects the deterioration to have been even worse for the year, but investment income is thought to have risen at least in line with the interim advance of 31%.

If underwriting profit is down by 40% to R12,8-million (R21,3-million) and investment income is up by 30% to R33,9-million (R26,1-million) and only R2-million comes in from the life side, we would be looking at pre-tax income of R48,7-million compared with R43-million in 1988

In the previous period there were dealing losses of R4,5-million, which were replaced by a profit of R1,4-million at the interim So it is not unrealistic to expect Cusaf to lift earnings appreciably in spite of hard times on the short-term side.

The entire short-term sector has been marked down heavily because of the war. At 1 600c, Cusaf is only 5,1 times historical earnings. The dividend, covered more than five times, is certain to rise by at least 20%.

Collapse

Judging by the ratings of other life companies, the life arm is worth at least 25 times stated earnings of R2-million. The entire company is capitalised at R160-million, so the short-term side is valued at R110-million — about 3,8 times historical earnings.

Bearing in mind that it would take only one more AA-type collapse to restore discipline to the short-term market and that it is long-term performance that counts, Cusaf shares seem exceedingly cheap.

UAL leads unit trust runners

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UAL unit trust was the top performer in 1989.

On a repurchase to repurchase, the price of units rose by 55,6%, handsomely beating the Old Mutual Investors into second place. OM Investors climbed by 52% and third-placed Momentum by 51,8%.

The returns include capital appreciation assuming distributed income.

STANDARD

The one-year comparisons have been made by the the Association of Unit Trusts, and those of more than one year by the Graduate School of Management at the University of Pretoria

Bottom of the pile over a single year was Sanlam Trust, which managed a rise of only 36,8%

Among specialist equity trusts the Standard Bank gold fund sneaked into first place because of the rapid rise in golds in the last quarter of 1989

Being the only pure gold fund, Standard is the most highly geared to changes in the gold market The units rose by 55,7% last year.

Old Mutual Mining also grew by more than 50%, followed by newcomer Southern Mining and by UAL Mining & Resources.

Sanlam again took last place with growth of 26,9% on its Dividend trust

UAL Selected Opportunities did a fraction better at 27%. It contains many non-index stocks which have so far been shunned by most investors.

The income funds again floundered when compared with the equity trusts UAL again took pole position with a climb of 22% — less than half of the appreciation shown by the leading equity fund. Senbank's Gilt trust picked up a shade under 22%, and its High Yield fund 21,8%

Standard Bank Extra Income fund managed growth of only 17,6%

The Pretoria survey measures performance over three, five, seven, 10 and 12 years. In each case, Old Mutual Investors takes No 1 slot. Over 12 years, the fund has grown by a compound 30,7% a year, pipping Guardbank by a whisker.

UAL Mining & Resources was the best specialist fund over 12 years, growing at 27,1% a year, slightly ahead of Sanlam Industrial Trust

The longest-standing income fund is Standard's Over 10 years it has grown at 12% a year, but the consumer-price index was measured at 14,6% in the same time, says the survey

I don't suppose the poor-faring Sanlam will run a series of advertisements on the outcome of this survey

S/Times 21/1/90

Syfrets launches new fund to attract the overseas investor

Star 15/11/90. (58)

Finance Staff

As part of its drive into the overseas market in the 1990s, Syfrets has launched a new investment fund for overseas and foreign clients, the Disa Income Fund.

The Disa Income Fund, which is only available to non-South African residents and trusts, is registered in the Cayman Islands and is therefore not subject to any income, withholding or capital taxes.

The fund's policy is to invest in a spread of traded and quoted South African gilt and semi-gilt fixed-interest bonds.

The two-tiered currency structure of the rand enables these investments to yield above-average returns. The fund may also invest in call and put options to reduce the capital risk associated with fixed-interest bonds and fluctuating interest rates.

Syfrets' Ian Hamilton, a director of the Disa Income Fund, recently returned from an extensive marketing trip to Europe.

"The Disa Income Fund concept was enthusiastically welcomed by both investors and leading European bankers," he says.

"The political and financial changes occurring in SA are attracting considerable positive attention abroad, and Syfrets' Disa Income Fund seems to be the right product being launched at the right time."

The advantages of this unique fund are:

- High return — the SA gilt and semi-gilt bond markets offer high returns because of the two-tiered currency system.
- Lower risk — the capital risk due to fluctuating interest rates is minimised by balancing the portfolio with call and put options. The portfolio also has a spread of bonds, thereby reducing specific risk.
- Low minimum investment — the preferred minimum investment is $25 000.
- Advantage of size — gilt and semi-gilt bonds usually trade in denominations of R1 million.

Help the small man's call

By JOSHUA RABOROKO

AFRICAN Bank chairman Dr Sam Motsuenyane has appealed to the private sector to become more involved in helping to develop small businesses, particularly in providing capital, contractual opportunities and business education.

In his annual report, Motsuenyane says lack of capital and management skills are two factors which contribute to the failure of a large number of small businesses.

The difficult business climate during the year, particularly because of high interest rates, placed extreme demands on small business ventures.

He says the bank has improved its performance considerably following problems created by the reduction of staff at a senior level.

Motsuenyane said that besides specific provisions to cover known losses, the bank maintains a general provision for doubtful debts to cover unidentified losses inherent in the advances portfolio, particularly in the retail division.

Capital

Referring to the bank's capital requirements, he says the current capital structure of the bank, particularly the 750 000 16 percent and 3 750 000 8 percent cummulative redeemable shares, compels the bank to pay out a large proportion of its taxed profits to the holders of these shares.

This works heavily against ordinary shareholders.

The bank's profits are still not enough to enable it to fund growth internally and therefore it must attract outside capital.

Motsuenyane was pleased that during the past year the bank increased its ordinary share capital, although moderately.

BDay 15/1/90.

Some gloom, some cheer

S8

IN THE MONEY MARKETS

Harold Fridjhon

THE contrast between the money market and the bond market has never been as stark as it was last week. The one is bubbling and effervescent; the other, the money market, is struggling through the vale of despair, and with good reason.

Managers and dealers in the money market are dealing in realities. They are reminded on a daily basis that little relief will come their way in the near future.

The optimists are hoping that come the end of the fiscal year on March 30, tensions will be relaxed with fresh money coming into the market as the Treasury settles its year-end accounts. The pessimists, maybe realists, believe that the garrotte around their throats might only be eased slightly in June and that it might be September before they can breathe comfortably again.

Volatility

But for the bond market operators there are no such fears. They live for the trade of the next minute, following the trend of the moment and rationalising what has triggered the volatility.

The money market — and that really means the banks because the market as a place for trading assets is nonexistent at present — has only one concern: raising overnight wholesale deposits to reinforce their sparse liquidity resources. They are caught between the hammers of the large financial institutions and the immovable anvil of the Reserve Bank.

Knowing the banks' desperate need for cash, the institutions have been forcing up the rates for big money. And beneath these hammer-blows, the Reserve Bank is virtually immovable. It has given some help by way of roll-over repurchase agreements (repros) at a price and with deposits from parastatals at 21%.

But the high shortage, the debt to the Bank, remains barely changed. On Friday it was just under R5bn, down R400m on the previous day in spite of notes in issue dropping by R868m in a week. But big outflows from the banks lie ahead: huge GST payments, swollen by Christmas shopping, as well as PAYE payments, increased by bonuses.

There will of course be counterflows, public service salaries and other government payments but they are far from being contras. The core debt will remain undented.

The banks were hoping that relief would come on February 15 when R2bn of government stock would be redeemed and not rolled over.

But that is not to be. The Reserve Bank has already neutralised the money by holding maturing bakers' acceptances (BAs) and other paper due for payment on or about the same date. And any time the Bank can pull the carpet, withdrawing parastatal deposits and withholding repros.

The banks have pleaded in vain for a raise in prime to offset their punitive cost of money. Prime is too politicised and too public for a higher rate to be given the official nod. Instead it has been suggested that, as was done some years ago, the banks should replace prime with a minimum lending rate, privately negotiated with their customers.

Bank rate and the rates on home loans and on farmers' debts would remain unchanged but this might not give the banks the breathing space they are looking for because the grey marketeers would then step in.

Reality

Meanwhile the rate for 90-day BAs has leapt to 18,65% from 18,50% a week ago. Either the discount houses are trying to discourage the issuing of BAs or else they are hedging against a move in Bank rate.

The Treasury bill rate stood remote from reality at 18% as the Bank's satellites took up last Friday's tender when R20m was bid for R20m bills.

The crisis in the money market has gone over the heads of bond market dealers. Turnovers soared last week to more than R11bn with rates showing an unprecedented volatility moving up and down in a 40-point spread on a single day. It really appeared to be unbridled speculation.

One broker, nervous about the market, said: "It showed all signs of being the final splurge before the market blows its top."

Government will protect policy-holders — de Klerk

Star 16/1/90

By Helen Grange

Legislation protecting insurance policy-holders will receive urgent government attention this year, State President F W De Klerk said last night.

Speaking at the opening of the new Auto and General Insurance Company building in Milpark, Johannesburg, Mr De Klerk said recommendations by the Melamet Commission of Inquiry, which is investigating ways to improve practices in the insurance industy following on the collapse of the AA Mutual, had been completed and handed to him for attention.

Mr de Klerk added that legislation was being prepared for an Office of Financial Institutions to be created in a Statutory Council outside of the civil service.

An ombudsman had also been instituted to monitor the short-term insurance industry. Although he had only been appointed last August, the majority of cases referred to him had been dealt with successfully.

Mr De Klerk said these steps were in line with the government's policy of deregulation and an attempt to obviate "unnecessary bureaucratic frustrations".

"What we envisage is a country with a modern, streamlined and efficient administration characterised by imaginative and innovative constitutional and economic thinking.

"At the same time, we will also remain true to the tried and tested principles of democracy and a free market economy. Within this framework, we are committed to a future in which all our citizens will be able to live in happiness, prosperity and security while enjoying equality of treatment and opportunity in every sphere of endeavour," Mr De Klerk said.

Protea RAs bloom

Star 16/1/90

Figures released by Protea Assurance's life division show that property-linked retirement annuities (RAs) produced a 77 percent return last year on a monthly investment. Property-linked endowment policies earned just one percent less.

A lump-sum investment made at the beginning of the year would have produced a return of 57 percent on the equivalent RA and 65 percent on a property-linked endowment. The property portfolio is managed by UAL Merchant Bank. — Sapa. (58)

Bank's telex labelled 'racist'

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Sowetan 16/11/90

By MATHATHA TSEDU

THE First National Bank branch in Duiwelskloof has issued an order to all branches in the northern Transvaal not to cash cheques issued by its black customers without prior approval.

The order, sent by telex on January 10 this year, has been bitterly criticed by black staff members who have accused the Duiwelskloof branch accountant, Mr JA Bezuidehout, of racism.

No reason was given for the move in the telex. Part of the message reads: "Please instruct your tellers not to cash any cheques of black customers in respect of the amount before referring to us. We will hold you responsible if any cheques are cashed in terms of tellers manual paragraph 10.3.2.1 as from today". It was signed by Bezuidenhout.

Limit

The paragraph referred to states that FNB branches may cash cheques drawn and presented by customers of other FNB branches "up to a limit of R200 without prior reference to the account holder's branch" if the customer is properly indentified.

FNB branch manager in Duiwelskloof, Mr Richard Curren, said he was not aware of the instruction sent by his accountant. He said the message was wrong and would be rectified immediately.

The thorny problem of unlocking funds to boost housing

BDay 17/1/90

LINDA ENSOR

IMAGINATIVE schemes are being devised to unlock the huge investment funds of life offices for investment in the low-income housing market. However, direct investments of pension and provident funds for this purpose are becoming increasingly unpopular among trade unions and life offices alike.

Life offices have billions of rands of investment funds available annually. But the major proportion goes into the stock market.

Neither life offices, investing on behalf of policyholders, nor unions whose pension and provident funds are invested on behalf of their members, are prepared to accept the lower rates of return from housing project investments.

Workers, as investors in the funds, naturally wish to receive a maximum return, but as recipients of housing loans from the funds also desire a subsidised rate of interest.

Geoff Schreiner, national organiser of the National Union of Metalworkers of SA (Numsa), in an article in the November issue of Trustee Digest, expressed Numsa's view on the issue, saying: "Numsa does not believe that workers' money in pension and provident funds should be used to subsidise housing needs. The state and employers should subsidise housing. Numsa does, however, accept that a portion of pension and provident fund assets should be invested in community projects, provided that such investments do not jeopardise returns to members of the fund."

Numsa, Schreiner says, is considering investing part of the assets of more than R3bn in the funds in which the union is represented. Projects to be considered are investments in the purchase of land for housing, low-cost building activities, rental accommodation and rural developments, and in financial institutions prepared to provide small loans.

"The union will not negotiate further on individual housing loans from any particular pension and provident fund until a housing allowance (from employers) has been agreed to. This is to ensure that workers are not called upon in any way to subsidise their own homes."

Life offices have been criticised for not using the massive funds at their disposal to assist in solving the housing crisis. Their response that this is not justified by the lower rate of return from such an investment is the same as that of the trade unions.

As Dick Geary-Cooke, executive director of the Life Offices Association, says: "Life assurers look after the interests of their policy- and pension holders and it is their fiduciary duty to these people to maximise returns ... the rates of return from housing projects do not justify the investment.

"The problem is to create a situation in which instruments used to fund low-cost housing give a market-related return and are themselves marketable. And to be marketable they must carry a guarantee that the money will be repaid."

Certain life assurers — Liberty Life, Sanlam and Southern Life — contributed to the establishment last year of the Urban Foundation Loan Guarantee Fund, set up with an initial capital of R20m injected by Western governments, international companies and SA corporations.

The contribution was an interest-free five-year loan, which, while small in relation to total investment funds available to life assurers, represented about 10% of the Loan Guarantee Fund (LGF).

Franz Pretorius, the Urban Foundation's GM of project finance, says the investment by life offices in the LGF "is a very positive step by that industry. The Urban Foundation's R20m LGF enables the short-term insurance industry to underwrite R350m of R1bn worth of mortgages to be granted by banks and building societies under this scheme."

However, the life offices do not see it as their responsibility to devise such initiatives.

Expanding on union objections to the use of provident funds, Taffy Adler of the Labour and Economic Research Centre, in a paper last year to the conference on affordable housing, said: "It has become increasingly common to look to trade unions and their influence over pension and provident funds as a solution."

Adler said it had been suggested that the approximately R65bn under the control of pension and provident funds (the industry now estimates the figure at R100bn), instead of being invested on the stock exchange, could be directed under union pressure to the housing market.

"Workers in some provident funds have agreed to a small loans facility for housing purposes at the 'official' interest rate (of 16%). Given that the fund could have been earning a return on investment of, on average, around 20%, this of course represents a subsidy by the benefit fund to the individual borrower."

He says trade unions are thus becoming more wary of any attempt to use pension funds for housing, which should, he believes, be subsidised by the state and employers.

"While union trustees should be prepared to use the monies in these funds for socially responsible investment, such investment should not be to the detriment of the members of the fund. Funds will remain willing to invest in the provision of housing, but will now require guarantees in relation to the returns and security of their investments."

Apart from the problem of the general rate of return on the fund, there is also the question of equity.

This was pointed out by Chris Bösenberg, senior manager, Group Benefits Evaluations at Sanlam, which has been involved in provident fund housing schemes.

"To do it equitably, one must arrange for the loan to affect only the lending member's benefits, otherwise all members will suffer from receiving a return on the total fund which is lower because the loan to the member is made at a lower rate of return than that earned on the total fund. That would mean that members were subsidising the loan or that employers would have to do so by making a greater contribution.

"The fairer way would be to credit the member with the lower rate but this would mean that his total retirement benefit would be less. He would eventually be paying for the subsidisation somewhere else."

Matthew Nell, acting CE of the Urban Foundation's FHA Homes, believes the problem of a reduced benefit could be addressed by regarding the house as a source of security and possible revenue for the member who would rejoin the fund after repayment of the loan.

Another aspect of the equity question, Bösenberg adds, is the fact that legislatively only 25% of a provident fund can be made in loans. "The majority of members will be excluded by the restriction."

Bösenberg confirms the trend away from the use of provident funds directly for housing loans, but says another way in which they could be used is by investing an amount in building societies on condition that they make it available to members for housing loans.

"Building societies are quite amenable to that solution as it means they have security and it also means the fund earns normal rates of return. The other advantage of this is that there is a rollover of the investment every three years and the fund is free to make a new investment."

Nell says several schemes for channelling life office funds are under consideration at the moment.

He says life assurance companies could perhaps adopt the UBS scheme of securitisation of mortgages through the issue of stock on a portfolio of mortgage bonds. This step to develop a secondary mortgage bond market was not developed specifically for low cost housing.

The knotty problem persists. The Urban Foundation estimates that 127 000 housing units will have to be built each year over the next 20 years to house black urban families. The current housing backlog stands at about 800 000 units.

Until solutions are found, the investment funds of life offices will continue to find their way onto the stock exchange, while shanty towns mushroom and overcrowding reaches intolerable levels.

LETTERS

developing property in black townships. The company was unable to raise further capital from its shareholders.

Allied Bank article inaccurate

Business Day Reporter 58

BUSINESS DAY erroneously quoted Allied Bank MD Kevin de Villiers on Monday as confirming an amount of R30 000 was involved in an internal investigation pending against former employee Andrew Robb. B/Day 17/1/90

De Villiers did not do so. The report contained two other inaccuracies:

- It was incorrectly stated the investigation concerned a fraud. De Villiers had declined to comment on the nature of the investigation; and
- It was incorrectly reported De Villiers said if discrepancies in Robb's professional behaviour were found, his estate would be liable for any funds allegedly owed the bank. De Villiers said that hypothetically he believed that in common law if the investigation showed there had been a problem then the estate would be liable.

Business Day regrets the errors and apologises for them.

BIDay 17/1/90 (58)

Changes in legislation on insurance in pipeline

LINDA ENSOR

SIGNIFICANT revisions of the legislative framework of the insurance industry are in the pipeline.

Two draft Bills — one for long-term and one for short-term insurance — are being prepared for submission to Parliament in the 1991 session.

They will be circulated to the industry for comment.

Commissioner of Inland Revenue Hanr - Hattingh, when asked yesterday whe r there was any likelihood of the unwieldy and complicated Sixth Schedule being abolished, said: "The whole object of the Sixth Schedule is to combat tax avoidance schemes.

"It cannot be abolished overnight. We are, however, looking into different methods of achieving the same object."

Hattingh said a departmental committee had been established to investigate the matter.

The schedule governs the taxability of gains from SA life policies and sets out the criteria for standard (tax-free) policies and non-standard policies, the proceeds of which are taxable.

President F W de Klerk announced this week that draft legislation arising out of the Melamet Commission of Inquiry into the use of captives and the outflow of premiums from SA will be circulated for comment later this year. A Bill arising out of the Van der Horst Committee's recommendations was being prepared.

Registrar of Financial Institutions Theo van Wyk said that on the advice of Finance Minister Barend du Plessis's advisory committee, it was decided to draft two separate insurance Bills.

The drafts streamline existing legislation and consolidate past amendments into one document.

Deputy Registrar, Long Term, Oppie Opperman said the long-term draft allowed for the registration of several additional classes of insurance business. Unlike the existing Insurance Act, it also made provision for two types of valuations of a business and included clauses requiring the return of more information than previously.

In addition the draft Bill incorporates consumer protection clauses.

In terms of the recommendations of the Van der Horst Committee, the Office of the Registrar of Financial Institutions would be transferred out of the government service and placed under the control of a statutory board which would report to the Minister of Finance.

NBS disputes FNB contention on assessment basis of shares

HAROLD FRIDJHON

NBS Holdings disputes First National Bank's contention that bank and building society shares should be assessed on a basis other than on the conventional yardsticks of a return on equity and a return on assets. BDay 18/11/90

FNB's contention was published in Business Day last week.

FNB maintained the performances of these institutions should be measured by their "added-value" earnings after the benefits of their no-cost endowment of high capitalisation had been stripped out. To put all the companies on an equal basis FNB apportioned a notational 15,8% earnings on their shareholders' funds.

58

Profits

~~[illegible]~~

NBS GM management services Mark Farrer says in a statement the FNB analysis hinges on the use of a "transfer rate" — the 15,8% — to ádjust reported pre-tax earnings downwards. He regards this as a highly theoretical and impractical concept ignoring the fundamental tenet that equity capital is used to fund a business.

Farrer maintains the correct method of measuring returns must relate to total profits earned on equity, and preferably after tax.

As equity/asset ratios vary tremendously, it is appropriate to adjust to a basic return on equity. Assuming equal returns on assets, the more highly geared an instituion the greater the return on equity. This must not be looked at in isolation but should be viewed in the context of the industry and the better captalised institutions in the industry.

Farrer says the different levels of gearing can be skirted around by looking at the return on total assets. He says the FNB exercise ignores real world analysis by using pre-tax profits.

"It is after-tax profits that finally count as far as shareholders are concerned."

A note of justifiable pique creeps into the NBS statement. If FNB had used the building society's interim report for September — published on October 23 1989 — when calculating the ranking of institutions by its adjusted "value-added" pre-tax method, NBS's return on equity would rise from 1,68% to 3,02% and its ranking on the FNB table would rise to fourth place from sixth.

BDay 18/1/90 58

Unit trusts had a 'golden' decade

LIZ ROUSE

THE eighties were golden years for the unit trust industry, with the combined asset value of the funds appreciating more than tenfold to R6,6bn, while the number and variety of trusts increased significantly.

But perhaps most important of all, SA's burgeoning unit trust industry continued to deliver an outstanding investment performance, says Roy McAlpine, chairman of the Association of Unit Trusts. Over the past decade the total annual compound return of the 11 general equity funds, which were in existence at the end of 1979, amounted to an impressive 24%.

McAlpine reports that at the end of 1989, the total market value of SA's 31 unit trusts — 13 general equity trusts, 10 specialist equity trusts and eight income trusts — amounted to R6,6bn.

At the end of 1979 there were only 12 unit trusts — 11 general equity trusts and one specialist trust — having a combined market value of R576,7m.

McAlpine says the greater recognition of the investment merits of unit trusts has also led to a sharp increase in the number of unitholders. In the 1970s it was estimated that SA had about 200 000 unitholders, wherease today there are almost 570 000. Over 73 000 new accounts were added to the association's list in 1989.

The growth in the industry is illustrated in sales of unit trusts of nearly R1,38bn in the 12 months to December 1989, compared with the mere R42,3m sales achieved in 1979.

McAlpine says the 1989 unit trust sales must be compared with the R1,64bn recorded in 1987, the year of a raging bull market, and R786,6m recorded in 1988.

Although SA enjoyed a strong equity market in 1989, the R565,5m net inflow into the unit trusts during the past year was about half the R1,072bn achieved in 1987, reflecting the higher level of repurchases. McAlpine ascribes this to the fact that the public was frightened off by the October 1987 market decline.

He believes that the confidence of the small investor in equity investment has not yet been fully restored. But those who rode out the market fall are enjoying great benefits today.

It should be emphasised that unit trusts are an investment for the long term and for those seeking both capital and income appreciation.

McAlpine believes that with its excellent track record and its ease of investment, unit trusts can make further inroads into the investment market.

In the last quarter of 1989, on sales of R366,2m, the industry experienced a net inflow of R159,6m. With the strength of the share market, the unit trust capital index soared 41,6% from 116,32 a year ago to 164,70 at Decemebr 31 1989. The income index climbed yet again, to 1 917,01 from 1 380,52 at December 1988, a 38,9% improvement.

The association's quarterly consolidation tables show that among general equity trusts, Old Mutual has been the best performer over the past five years with a return of 33,6% (51,8% in 1989), but UAL Unit Trust outstripped it with a return of 55,6% in 1989, while the smaller Momentum recorded a return of 52,2%.

Giant Sanlam Trust lagged behind with a return of 36,78% in 1989 and 21,72% over five years. However, Sanlam Index's return was higher at 27,83% over five years (nearly 47% last year).

Standard Gold starred among the specialist equity funds with a return to unitholders of 55,71% in 1989, followed by Old Mutual Mining with 50,18%.

Rationalisation on the cards as brokers face grim year ahead

58

THE outlook for brokers' margins this year looks grim and a rationalisation of the industry by way of takeovers and mergers is thought likely by insurance sources.

Already, there was the merger of Price-forbes Federale Volkskas (PFV) and Bankorp International in December.

In a soft insurance market, premiums and commissions are low. Commission rates are pegged to premiums and fixed by statute. Inflation and rising costs are also eroding margins.

"Premium rates have dropped about 40% and commissions have dropped likewise," says Richard Austin, national short-term director of First Bowring Associates.

Austin says that in 1989, total short-term premium revenue was R4,8bn — "a mere 10% increase over the previous year". This figure includes personal lines, industrial and corporate insurance.

"Brokerages are not keeping pace with that amount and are probably at a standstill. I foresee this situation continuing."

Rod Pearson, director of marketing and technical of Mibsa (previously Minet), agrees, saying 1990 is going to be worse than last year as the downtrend in rates is likely to continue due to the lack of large claims and the competition by overseas

LINDA ENSOR

operators such as Lloyds, which currently has a large overcapacity.

Pearson believes margins are currently running at less than 5%, adding, however, that the vulnerability of broking firms depends to a large extent on whether they charge fees, as is often the case with large accounts.

"In a falling market commission drops, but fees remain stable," he says. Pearson expects takeovers and mergers to occur.

Inevitable

Austin concurs with Pearson's view, adding that margins are being further squeezed by the escalation of costs and expenses — probably higher than the rate of inflation — because of the skills shortage and the need to provide more services.

"Rationalisations and mergers in the industry are inevitable and small brokers are going to be squeezed harder," he says.

According to PFV Insurance Brokers MD Mike Hofmeyr the outlook for brokers' margins this year is pessimistic. He says tighter expense management will be critical for brokers who will have to cost their services more accurately if profit levels are to be maintained.

F/M 19/1/90 (58)

SANTAM F/M 19/1/90

Rates in a vice (58)

Santam has emerged from fiscal 1989 breathing a sigh of relief. The industry-wide squeeze on premiums developed much as

Activities: *Short-term insurance.*
Control: *Subsidiary of Sanlam.*
Chairman: *C H J van Aswegen; managing director: C J Oosthuizen.*
Capital structure: *70m ords. Market capitalisation: R210m.*
Share market: *Price: 300c. Yields: 8,4% on dividend; 26,7% on earnings; PE ratio, 3,8; cover, 3,2. 12-month high, 300c; low, 180c. Trading volume last quarter, 885 000 shares.*
Financial: *Year to September 30.*

	'86	'87	'88	'89
Total assets (Rm)	309	416	516	667
Solvency margin	22,7	23,9	25,8	33,3
Net premium income (Rm)	487	577	600	657
Underwriting profit (Rm)	(0,7)	20,3	23,3	26,1
Investment income (Rm)	22,5	26,9	38,1	60,5
Taxed profit (Rm)	15,1	29,1	38,8	51,3
Earnings (c)	21,5	41,5	55,4	73,3
Dividends (c)	13	15	18	23
Net worth (c)	158	197	221	312

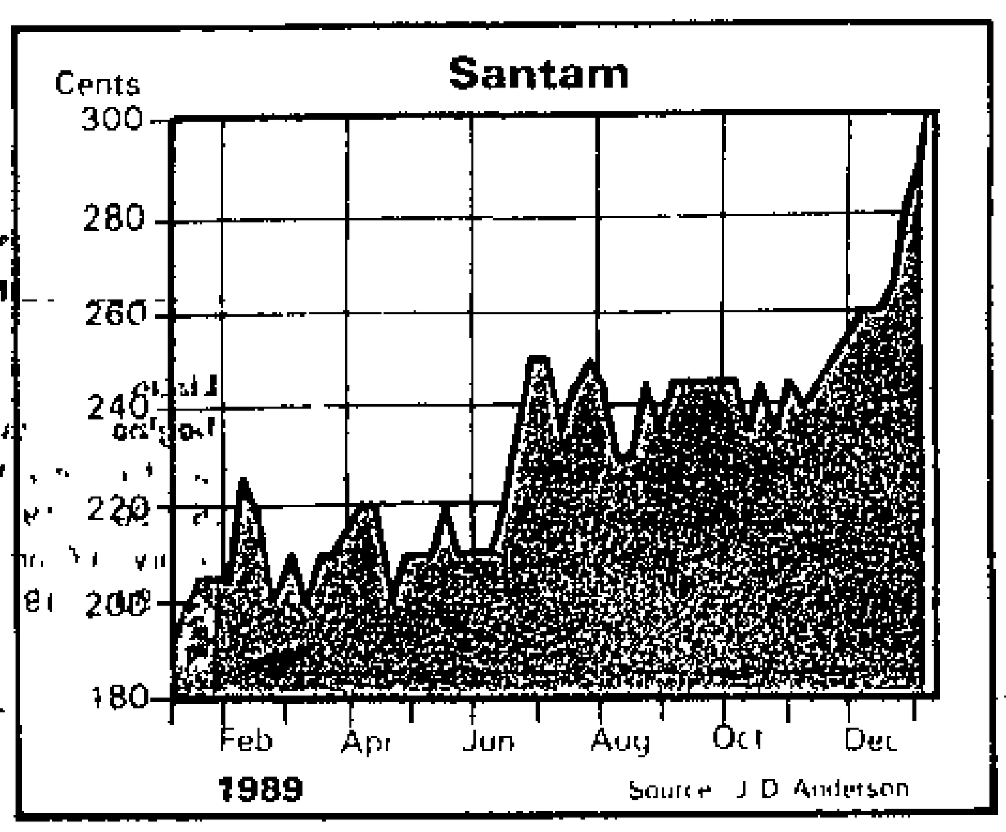
expected but a low incidence of major catastrophe claims allowed the underwriting profit to rise precisely in line with the growth of gross premium income. Various market sectors are under extreme pressure — particularly fire and personal lines — but persistent competition makes it unlikely that premiums can be hiked to improve margins.

MD "Oosie" Oosthuizen sees no prospect of dramatic premium rate increases in the near future and that implies a tightening squeeze on underwriting operations. The decline in the number of crime-related claims as policemen were withdrawn from strife-torn townships and returned to normal police work has run its course. Claims are fewer than a couple of years ago but the costs of individual claims are significantly higher.

Basically, then, there is little reason to expect a substantial improvement in underwriting profit this year. Last year, its rise lagged behind inflation and the same is on the cards for fiscal 1990. On the other hand, Santam is shifting its investment stance and apparently counting on a decline in interest rates to boost the equity market.

Last year, investment income rose by 59% as strong cash flow from premiums was ploughed into high-yielding fixed interest securities. Last year, the strategy started to change and investment funds were being channelled increasingly into equities. The emphasis on share investment will be greater this year, though comparatively low yields on equities will brake investment income growth.

Last year's strong earnings advance has allowed Santam to comply easily with the



Santam's Oosthuizen ... cautious on rates

F/M 19/1/90 (58)

new regulations arising from the Melamet Commission's recommendations. The 33,3% solvency margin (shareholders' funds expressed as a percentage of net premium income) is well above the newly mandated 15% and the company should have no difficulty in establishing catastrophe reserves equivalent to 10% of net premium income over the prescribed five years.

Last year's performance beat most analysts' expectations, in part because there were no major catastrophe claims. This year's trading conditions are likely to be as competitive as last year's and the squeeze on underwriting margins is likely to intensify. Nevertheless, increases in investment income should outweigh any weakness in the underwriting profit. *Jim Jones*

SPLITTING THE INSURANCE ACT

58

The preliminary draft of the new long-term insurance Act is expected to be presented to the sector by the Financial Institutions Office by month-end. The proposed Act will replace part of the Insurance Act of 1943, which covers both long- and short-term insurance.

The Act is being split because of differences between long- and short-term insurance. "Long-term insurance is geared around paying benefits at maturity; short-term insurance compensates policyholders for losses that may but will not necessarily occur," says Life Offices Association executive director Dick Geary-Cooke.

Also, long-term insurers have a much greater capitalisation than short-term insurers. At the end of 1988, assets of long-term insurers totalled R86bn while short-term insurers' assets were R8bn, according to the Registrar of Insurance's statistical report.

The association will comment on the draft before a preliminary Bill is released in March. It should be published in October or November before going to the Standing Committee on Finance to hear evidence and then on to parliament next year. FM 19/1/90

The sector is not entirely sure what to expect, but word is the Bill will be geared towards increased consumer protection.

A draft for a new short-term Bill is not expected until later because the office will have to consider the outcome of the Melamet Inquiry into the flow of short-term insurance premiums out of SA and the operations of captives.

However, SA Insurance Association CE Rodney Schneeberger expects few changes.

"Many recommendations from the first Melamet Inquiry into the winding up of the short-term business of AA Mutual have already been implemented," he says. "We expect the new Act to incorporate the various amendments."

TRADED OPTIONS MARKET

Starting up at last?

The face of financial markets will change during the Nineties, but it remains to be seen if the promised local Big Bang materialises. Along with a formal futures exchange, due to open by mid-year, the JSE is poised to launch a formal options market. The target date for the Traded Options Market is now the end of March, nearly a year later than planned. (58)

Last week, the Traded Options Market took another important step towards its launch when proposed rules were published in the *Government Gazette.*

Stockbrokers and institutions have been impatiently awaiting the Traded Options Market, hoping it will inject much-needed liquidity into the JSE — long one of the world's least liquid markets.

Why the delay? "We originally planned an easy system," says Peter Redman, chairman of the JSE and its Traded Options Subcommittee. "As development progressed, we realised that to create the kind of market we wanted was a much bigger job than anticipated." FM 19/1/90

Brokers are disappointed that the project has taken so long, and that costs have shot up, but many feel that the approach will pay off. "The attitude has been to get everything right first. It is better to sort out teething problems before trading begins," says Davis Borkum Hare director Philip Eyles.

JSE deputy CE Mike Thompson admits: "We were too specific about when objectives could be accomplished. We thought we could adapt rules in use overseas. It does not work." The JSE is believed to have spent R5m-R7m to develop the market. "Our budget of R2m was naive," Thompson says.

The JSE still has many details to wrap up before the launch: finalising the procedures manual; completing the computer systems; educating dealers, brokers and clients; and setting examinations.

Exams will be set on three levels: compliance officer (each participating broker will have to appoint one), senior dealer and dealer. Exams are expected to begin by the end of next month, the aim being for all dealers to qualify before floor trading starts.

At the start there will be 11 traded-options contracts, some of which are already traded over the counter. Included are the All Share, All Gold, Industrial and Offshore indices, and a range of listed equities. All Traded Options Market instruments will be settled in cash except for one De Beers option, which

continue p. 43

continue from P 42.

will be settled in scrip. (58)

Options traded on a formal market are more tradeable, or liquid, than those traded over the counter because it is easier to match buyer and seller. An option traded over the counter is customised to a particular client, but options traded on a formal market can be bought and sold, and a position closed out, at any time during the life of the option.

Trading will be by open outcry on a section of the equity floor. Twenty-two large, modern screens have been installed. Whether marketable securities tax will be levied on options must still be resolved.

Most institutions welcome the new market. "We think it is a natural extension of the options and futures we have already," says Old Mutual assistant GM, investments, Rob Lee. "We support it and will use it."

But a portfolio manager at a large institution, who says it could make the market more liquid, adds: "It has taken so long to take off that when it eventually starts, people may treat it with suspicion. It could take time to get off the ground." FM 19/1/90

One observer questions whether the market will work. "I doubt whether the JSE can do this effectively because it does not have the capital to run a decent-sized options book, bearing in mind no stockbroker is running a reasonable options book on the Eskom E168. Nor does it have the expertise."

Redman counters: "We don't envisage having to register marketmakers at the outset so we do not need a large capital base at this stage." It is expected that institutions will be the main writers of traded options.

Adds Eyles: "Our intention is not to overstaff because we don't think the market will take off immediately. Initially, institutions will be the main participants, so the main problem is to educate the investing public."

The JSE is aware of this. A brochure, *An Introduction to Traded Options,* will be available by March. ■

Scrap the finrand, bank chief urges

Star 19/1/90

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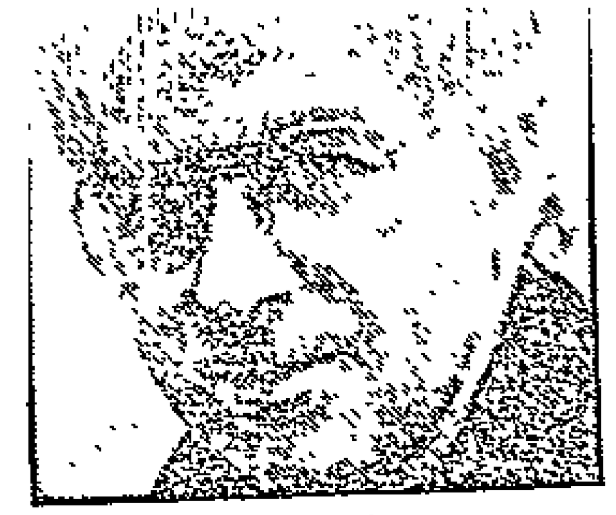

Dr Liebenberg

By Magnus Heystek
Finance Editor

Nedbank MD Chris Liebenberg has caused a stir in the financial markets by calling for drastic changes to the financial rand.

"South Africa no longer needs the financial rand and it should be done away with," he said in an interview yesterday.

But senior deputy-governor of the Reserve Bank Dr Japie Jacobs has denied the Bank soon intends making such a decision.

Embroidering on comments he made on Wednesday at the Ellerine's function in Johannesburg, Mr Liebenberg said yesterday the negative factors of the two-tier currency now far outweighed the positive ones.

"It has served a very useful purpose for South Africa in a time of deteriorating political confidence, but now, with the improving level of political confidence, it has outlived its usefulness."

He said the finrand had brought investors from abroad who would otherwise not have looked to South Africa for investment purposes.

But recent developments posed the question whether the time had not come for the financial rand to be abolished in its current form.

"For instance, the high tax-free yields obtainable through finrand investments can hardly enhance the South African image among the international investing public.

"The use of it to buy gilts is probably the biggest negative factor — it creates opportunities for parastatals to roundtrip by selling their paper cheaply and investing their funds at a high rate with banks with a conse quent impact on the broadly based on M3 money supply," said Mr Liebenberg.

Interest payments

Another factor was that South African investors were having problems competing with foreign investors for local investments.

"It also allows disinvestors to switch their relatively low taxable dividends to relatively high tax-free interest payments, with the consequent impact on our balance of payments and exchequer account."

Mr Liebenberg urged the authorities to cancel the finrand option and offer instead a 10-year repayment period option at realistic interest rates via the commercial rand.

"As it is, flowing from the tremendous discounts on offer, foreign investors in gilts get the equivalent of their capital and interest over a 10-year period through the commercial rand in any event, and then still have the gilt investment in the finrand," he said.

While admitting that the abolition of the two-tier currency was a long-term objective of monetary policy, Dr Jacobs dismissed suggestions that the finrand should be scrapped under present circumstances.

"The finrand mechanism has been a great shock-absorber for the financial systems in a time of political and financial uncertainty.

"It also forms an integral part of the debt rescheduling agreement with foreign creditors. It makes no sense to scrap the financial rand while, at the same time, maintaining the restrictions on foreign debt," he said.

Dr Jacobs said the sharp drop in gilt rates of recent weeks had led to massive savings for the Treasury because lending was done at sharply reduced interest rates.

It is known in capital market circles that the Government has been a selective marketer of government stock, although it had already completed its funding requirements earlier in the year.

Foreign investors have been particularly heavy buyers of local gilts and semi-gilts, which offer yields of anything up to 25 percent, currently the highest yield on government-backed bonds anywhere in the Western world.

Precarious state

Other economists and anlysts canvassed on Mr Liebenberg's sugges tion considered it unlikely that the finrand would be dropped in the near future, especially considering the precarious state of SA's gold and foreign exchange reserves.

Mike Brown, economic analyst at broking firm Frankel, Kruger and Vinderine, said such a move would lead to a sharp drop in the commercial value of the rand, which would be highly inflationary.

It might also, as happened in September 1983 when the two-tier currency was dropped, lead to a sharp outflow on the capital account on the balance of payments.

Most Sabta taxi members not comprehensively insured — SA Eagle

PIERRE DU PREEZ

B/Day 19/11/90

MOST members of the SA Black Taxi Association (Sabta) do not carry comprehensive insurance.

According to statistics released yesterday only 15% to 20% of the 45 000 membership carried formal insurance through Sabta's main insurer, SA Eagle.

A SA Eagle spokesman, which insures vehicles for Sabta members through Sabta's broker, confirmed the figures.

More than 90% of all taxi owners in SA are represented by Sabta.

Sabta president James Ngcoya said it was true most taxis were not insured.

He blamed unfair treatment members were getting from insurance institutions for this state of affairs.

"After the completion of HP agreements taxi owners are often faced with high increases in insurance premiums or told it is not possible for them to be insured any more."

SA Eagle spokesman Andre Gast said that over the last three years the claims record of Sabta members had become "progressively worse".

There had been an approximate 20% increase in the claims-to-premiums ratio in that period.

Premiums had been increased late last year, but further increases were not expected for the foreseeable future.

Figures released by the National Road Safety Council (NRSC) indicated a "definite increase" in the collision rate involving minibuses in the period 1986 to 1988.

NRSC spokesman Pierre Hugo said: "One can assume that most minibuses in SA are taxis."

He could not comment on the insurance aspect.

A spokesman for Protea Assurance said the company's involvement was "very small" and not significant enough to make any inroads on the overall market.

An IGI spokesman said his company did insure black taxis but if Sabta members were included it was "purely accidental" as the company was not geared to supplying insurance solely for Sabta.

A Santambank Insurance spokesman said his company's invlovement in the black taxi market was limited.

A spokesman for Commercial and General Insurance brokers said his company had about 500 Sabta taxis on its books which he classified as "small".

National Employers' General Insurance (NEG) said its invlovement in the Sabta was "nothing whatsoever".

In 1986, 26% of minibuses in SA were involved in accidents. In 1987 the figure was 29% and in 1988 it had risen to 32,8%.

Figures for 1989 are not yet available.

Sabta and the NRSC had previously announced joint schemes to improve safety standards in the taxi industry.

Automobile Association spokesman Hugo Hagen said his organisation was concerned about unlicensed vehicles and drivers on the roads.

The AA had issued a warning to motorists over the recent holiday period especially in Natal to "take notice and beware" of these drivers.

58

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CREDIT GUARANTEE SPLITS EXPORT COVER

LINDA ENSOR

CREDIT Guarantee Insurance Corporation (CGIC) has introduced greater flexibility into its insurance cover for exporters by separating commercial and political risks.

Previously only a comprehensive package was available.

MD Chris Leisewitz says the move will mean lower premium rates, but he could not detail the size of the reduction as rates are tailored to each export and to the political risk involved.

Commercial risks are attached to a particular firm while political risks, Leisewitz says, attach to a particular country — essentially those whose foreign exchange record or circumstances jeopardise payment.

The under-developed countries of Latin America and Africa fall into this category.

However, as political risk also covers sanctions, boycotts and strikes, exporters to Britain are not invulnerable. A number of strike-related claims have been paid.

In terms of the newly introduced separation of risks, it would be possible, for example, to insure for political risk in ten countries and for commercial risk in one.

F/M 19/1/90 (58)

BARPROP F/M 19/1/90 (58)

Big renewals

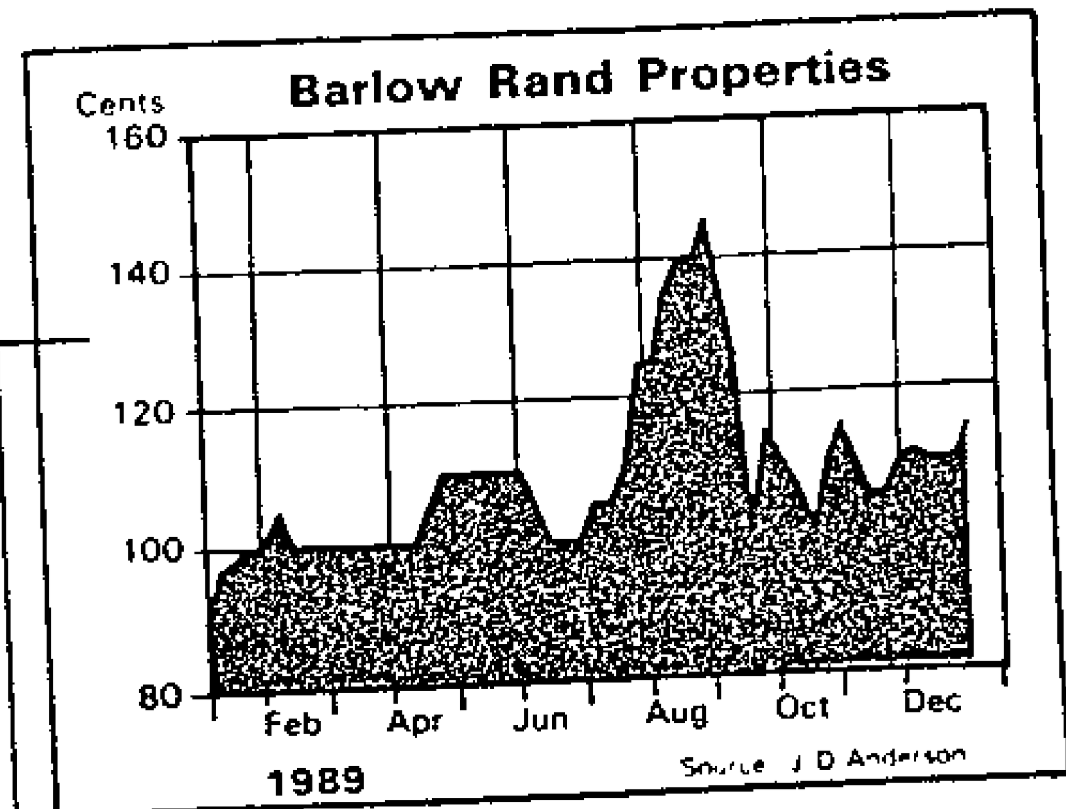
The close relationship Barprop has with Barlow Rand is largely to the former's benefit. It has a solid client base, with about 80% of its space occupied by Barlow's companies.

Activities: *Invests in industrial and commercial properties.*
Control: *Barlow Rand has 80%.*
Chairman: *E M Groeneweg; MD: C G Steyn.*
Capital structure: *85,9m ords of 10c each; 210m R7 loan stock units. Market capitalisation: R94,5m.*
Share market: *Price: 110c. Yields: 7,3% on dividend; 8,7% on earnings; PE ratio, 11,5. 12-month high, 150c; low, 90c. Trading volume last quarter, 156 000 shares.*

Year to Sep 30	'86	'87	'88	'89
Turnover (Rm)	33,1	35,4	39,2	44
Earnings (c)	9,58	9,71	10,32	11,52
Dividends (c)	8	8,19	8,75	9,65
Int per unit (%)	11,73	12,01	12,83	14,15
Net worth (c)	109	112	113	115

However, with Barlow holding about 80% of the ords and institutions most of the loan stock, the shares are little-traded. It has also been suggested that Barlow dictates the rentals though MD Colin Steyn says all are market-related.

Barprop was formed in 1985 when Barlow listed its property portfolio. New, arm's-length leases were negotiated. This meant that last year properties representing 56% of Barprop's rentals came up for renewal, compared with 15%-20% annually for most similar companies. Lease renewals are an opportunity for reassessment and, in strong market conditions like last year, can result in major step-ups in the rental base. This was the case for Barprops which increased its rentals on the reviewed properties by 24,5%.



Barprop is also selling properties worth about R50m. This will be invested in acquisitions or new developments to improve the quality of its portfolio. Steyn says he favours developments because yields are higher.

He expects no decline from Barpop's 99% occupancy level this year. High interest is being earned on the cash pile and the increased rentals after the review should add to income flow. The forecast 11% increase in interest and dividend this year thus seems conservative.

Following the classification of loan stock as fixed property under the prescribed assets guidelines, Barprop's loan stock has risen sharply, apparently on standing buying orders from institutions. The loan stock now yields only slightly more than the share though it is fully taxed for individuals. In contrast, Amaprop loan stock is at a large discount.

Teigue Payne

BONDS FM 19/1/90

Sharing the gilts

Since the mid-Eighties, when screens were introduced to the gilt market, it's been felt that most business was conducted off the JSE floor by banks and discount houses. The percentage was rumoured to be as high as 70%. (58)

Now a survey of net gilts and semi-gilts settlements conducted by the Bond Market Association supplies some facts. It covers 4 330 deals, with a nominal value of R13,1bn and approximate market value — based on yield to maturity as at the end of last February — of R10,7bn. These split 50:50 in number between JSE and non-JSE deals, while the equivalent of 60% by nominal value was done outside the JSE.

The two major categories of deals were by non-members of the JSE with each other (29% by number and 40% by nominal value) and JSE members with non-JSE members

FM 19/1/90 (58)

(35% by both number and value).

"The association's main objectives were to get some indication of the size of the market and assess the net settlement situation," says CEO Graham Lund. "We were keen to see whether trading costs could be reduced if clearing were centralised, and also to assess settlement risk."

Figures were taken for the week of March 2-9 1989. Though Lund admits that week may not be representative, and that there was difficulty in matching deals, he feels the results are reasonably accurate. There was a 95% response from the 73 members.

"Settlement risk was found to be smaller than expected," says association committee member Stuart Yates. Net settlement was R1,56bn, or roughly 15% of the total nominal value of transactions. "This indicates that 85% of trade is jobbing, which is a healthy sign and shows good liquidity," Yates concludes. Jobbing is trading for a quick profit rather than for investment.

That week the JSE reported 1 951 trades, with nominal value of R3bn, but the association and JSE figures don't agree.

JSE gilts deals are netted out in its clearing house. Outside the JSE, individual deals are settled between the parties. For example, if a bank has 20 individual deals in a week, this means 20 settlements. If all these deals went through a central clearing house it would involve one settlement in scrip or cash.

Plans for non-JSE gilts traders to use a central clearing system are not settled. Most favour this as long as it does not drive up costs: these findings show that at least one cost — settlement — could come down. ■

INTEREST RATES FM 19/1/90

Pulling in the reins

The Reserve Bank has indicated that it won't let banks raise prime. But banks are mooting the possibility of raising lending rates to customers who borrow at prime or below. They are being forced to look at this option by the extreme and unabating money market illiquidity that has persisted all month.

Banks say it's difficult to raise some lending rates without raising prime because of intense competition. Some say that if liquidity eases soon they could sit it out and accommodate prime clients.

But the squeeze could continue for a while — maybe into March. In the face of longer-term tightness, banks might reassess the interest charged on new and existing loans, especially overdrafts and HP agreements. "But it's unlikely we'd raise rates on home loans," one banker says.

The Bank has used market illiquidity as an opportunity to follow up its pleas for banks to curb credit by letting the tight liquidity continue. The window shortage, the amount the market owes the Bank, was still as high as R4,3bn this Monday. (58)

Part of that represents overnight loans. Because of a shortage of rediscountable bills, banks borrow overnight against long-term RSAs and Eskom stock at penalty rates of 22,75% — 1,75% points above prime. So with the liquidity squeeze, banks find they are often lending at rates lower than those they are paying the Bank.

Another example of how banks are being squeezed is the rates paid for repurchase agreement tenders, a form of direct Bank aid to the market provided at rates determined by the demand from banks. The Bank has been lending at rates exceeding the 21% prime rate. On Friday banks paid 21,46% — 0,5 percentage points above prime. On Monday the rate fell slightly to 21,43%.

Bank Senior Deputy Governor Japie Jacobs argues that policy is aimed not only at curbing demand for credit, which is determined by lending rates, but also at curbing the supply of credit by banks. "It is unacceptable for banks to continue to expand

FM 19/1/90

credit financed with liquidity provided by the Reserve Bank," he says. "A squeeze on profitability as banks expand their balance sheets will force them to reassess credit policies." (58)

The strategy may work. The Bank's tight monetary policy of recent months has curbed credit demand by smaller clients. But corporate clients have continued borrowing heavily. If pressure on profit margins can persuade banks to curb credit to larger clients, money-supply growth would drop.

Meanwhile, some corporate clients are believed to be taking advantage of call rates above prime. Many who can borrow at prime or below are borrowing up to their overdraft limit and reinvesting at call, which has been as high as 1,5 percentage points above prime.

If their overdraft limit is high enough, some clients can make significant profits. For example, a corporate client with an overdraft limit of, say, R10m that can be borrowed at prime less one percentage point for one month, will make R150 000 — another spur to money-supply growth. ■

FORWARD COVER (58) FIM 19/1/90

Economy to the rescue

The Reserve Bank's massive forward cover loss is starting to dwindle. The cumulative loss peaked at R17,5bn in October before falling to R16,7bn in November, the first monthly drop since March 1988. In December the loss receded again, to R15bn.

The reason is, fairly obviously, the improving rand. It has gained almost 9% against the dollar since June.

But the Bank is still deeply mired in the forward cover mess and has no clear plan on how to extricate itself, despite repeated promises to do so. It also has no clear plan on how to cover the loss, which would equal 25% of the entire Budget if it had to be repaid in one year.

The Bank seems willing to sit tight and hope tough monetary and fiscal policies will lead to higher real interest rates — through lower inflation — and a further strengthening of the rand.

The Bank doesn't believe the time has come to withdraw from the forward market and let commercial banks hold full responsibility for forward cover, says Deputy Governor Jan Lombard. For that to happen, real interest rates would need to be still higher, compared with our major trading partners.

This strategy has support from local economists. Azar Jammine, of Econometrix, does not expect much exchange rate volatility in the immediate future and thinks the Bank can afford to wait for the effects of the anti-inflation drive.

United's Hans Falkena agrees that the Bank can await foreign and local economic developments before it decides how to withdraw from the market. For example, a cooling down of the US economy should lead to a decline in US interest rates. Slightly higher US inflation also could push real interest rates more in line with ours.

The Bank, however, says it will not simply "sit back and wait for better days" but take "very firm action" to ensure that commercial banks take over its role in the forward market. But the Bank won't say what kind of action it's contemplating. It's ruled out raising interest rates, largely for fear of sending the fragile economy into a recession.

The Bank got into this mess because for years interest rates were set at artificially low, politically expedient levels. When the rand was stable and capital inflows strong, the forward cover loss was minimal. At the end of 1983 it totalled R910m but in 1985, when international concern at the unrest in the townships sent the rand plunging, backing up the commercial banks on forward cover became a very expensive business.

The business became more expensive in December 1988 when the Bank began offering a preferential forward rate for businesses that secured offshore loans. The Bank feared that excessive local borrowing would put upward pressure on local interest rates and hurt efforts to bring in capital from abroad to rebuild foreign reserves.

The preferential rate encouraged foreign borrowing but also subsidised imports at a time when SA was trying to increase the surplus on the current account. (Since October, when the forward cover loss began to decline, the Bank has no longer subsidised imports.)

The loss doubled in 1988 — last February it topped R10bn — and forward cover was suddenly a controversial topic.

Falkena says that given government's refusal to raise interest rates, the Bank had to back forward cover or importers would have had to pay cash on the nail, putting unbearable pressure on depleted foreign reserves.

The question is whether the interest rate policy was valid. Jammine believes it was not: interest rates should have been allowed to rise and then the Bank could have stayed out of forward cover.

Even if favourable economic conditions limit the loss in future, the Bank will be left with an enormous bill on Treasury's behalf.

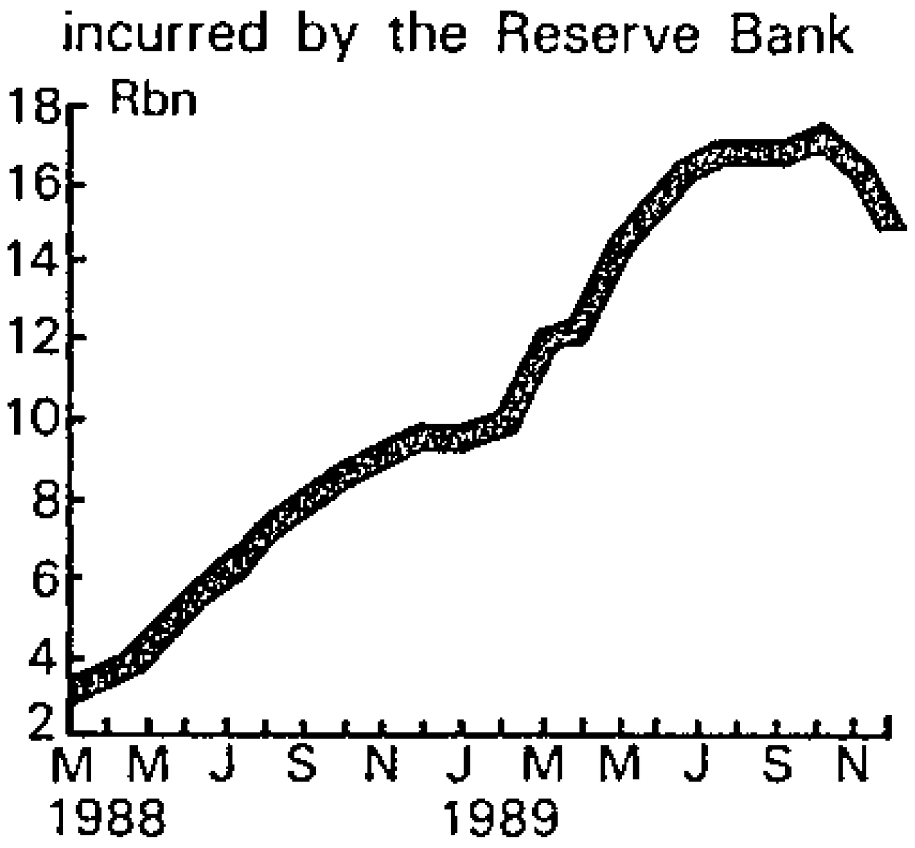
Nedbank's Edward Osborn believes the entire amount could be written off. Or, he says, past appropriations and the Bank's accumulated profits — even privatisation proceeds — could be used to reduce the amount.

He argues that the taxpayer should not be forced to suffer the deflationary effects of paying off the loss. Even were government to borrow the necessary funds over a number of years, shifting the obligation to the national debt, higher debt-servicing costs would still be passed to the taxpayer.

"This prolongs the agony for no apparent purpose," he says. "The real price has already been paid in the greatly increased money supply and resulting inflation."

A sigh of relief

Cumulative forward cover losses incurred by the Reserve Bank



The losses bottomed out in March 1988, then soared before receding in November 1989 Source Reserve Bank

INTEREST RATES F/M 19/1/90

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SASWITCH (S8)

Retailers' UDI

Saswitch has temporarily shelved plans that would have allowed retailers to use its automatic teller machine (ATM) network to provide financial services.

Technical specifications were drafted more than two years ago to enable retailers to debit their customers' banking accounts at the point-of-sale. But, says Saswitch chairman Brian Kemmey, a more important priority now is to improve the efficiency of the ATM network. FM 19/1/90

The Saswitch decision is unlikely to come as a surprise to the large retail chains — many of which have already started implementing their own financial services systems. Demands on the Saswitch automatic teller sharing network have risen steeply in the past few years: since it went into operation in 1985 the number of ATM transactions Saswitch routes between financial institutions each month has grown from 350 000 to 6m.

Saswitch has replaced its central computers, rewritten a large amount of software and is now improving communications links with its members, says Kemmey. Nearly 4 000 ATMs, belonging to 15 financial institutions, are linked to the network. Saswitch was founded and is controlled by the banks and building societies, many of which are unhappy about what they see as attempts by retailers to muscle into the financial services market.

Kemmey declines to reveal when Saswitch decided to postpone the introduction of retailers to its network but it is understood to have been late last year. "Saswitch is not

continue p 32.

FM 19/1/90 (S8)

ready to launch electronic funds transfer at point-of-sale. It is a very expensive thing to do nationally," he says.

The ability to debit customers' banking accounts at point-of-sale is very attractive to the large retail groups. It allows them to check out customers more quickly, reduces the amount of cash they have to hold at the stores, speeds payments and, in some cases, enables them to make a profit on the transaction.

Pick 'n Pay has spent R20m in the past three years setting up a retail switching network similar to Saswitch. Called PayNet, it will enable all of Pick 'n Pay's hypermarkets and stores to provide a variety of financial services in co-operation with participating banks and building societies. Pick 'n Pay's stores will be able to use PayNet to debit banking accounts at the tills, verify cheques, debit credit cards and dispense cash to customers.

Financial director Chris Hurst says eight stores have been connected to PayNet and, by the end of April, all of the group's 26 outlets in the western Cape will be on line. The company plans to have every Pick 'n Pay outlet hooked up by next year. The cost of setting up the network is expected to reach R40m.

PayNet was designed by the EFT Company which comprises some of the original developers of Saswitch. Three building societies — United, Allied and the NBS — have hooked up to the PayNet network and Hurst hopes some of the banks will join the service soon. A stumbling block is believed to be the reluctance of some of the financial institutions to pay Pick 'n Pay transaction fees for the PayNet service.

Pick 'n Pay rival, Checkers, has also implemented electronic funds transfer facilities at some of its stores. Checkers has adopted a much less ambitious approach than Pick 'n Pay. Checkers GM systems, Orlando da Silva, says nine of its stores are able to debit customer banking accounts at point-of-sale. This service is now available only to customers that bank with Standard Bank.

Unlike Pick 'n Pay, Checkers has not set up a central switching service but has put in place less costly direct communications links with Standard Bank. Whereas PayNet operates like Saswitch and reroutes transactions, the Checkers system is a point-to-point service similar to the MultiNet network.

Da Silva hopes to link the Checkers service to other financial institutions this year. Its initial partner, when it started investigating the service in 1985, was First National Bank (then Barclays).

Finrand goes sanctions when US lifts

G/T Argus 20/1/90 58

By TREVOR WALKER
Business Staff

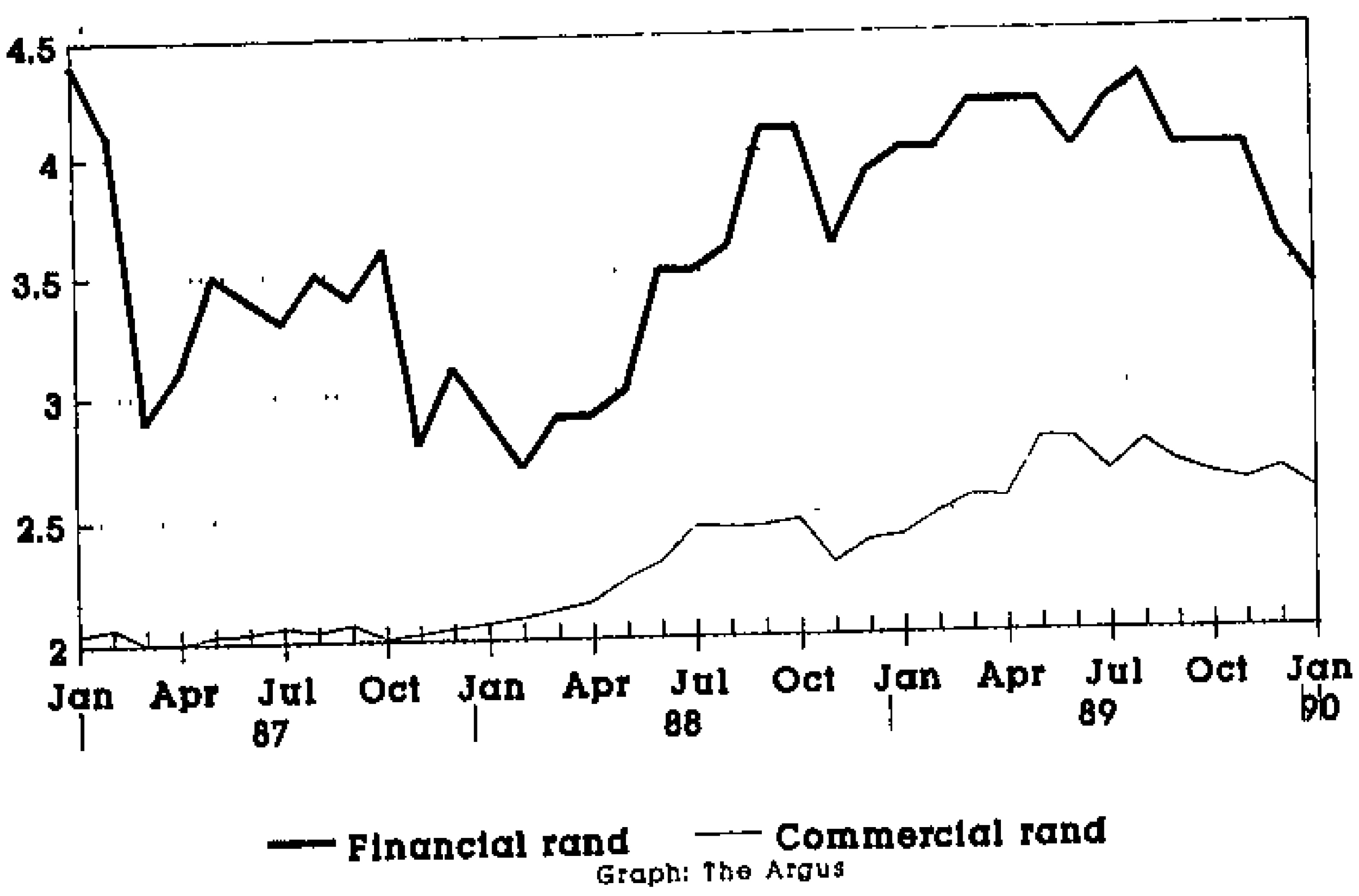
South Africa's political rand, the financial rand, will not be removed until the US lifts its sanctions on this country, senior government sources said this week.

Foreign investors had been major buyers of South African gold shares in recent weeks and this with their huge purchase of gilt and semi-gilt stock on the capital markets had seen the financial rand discount fall dramatically toward the price level of the commercial rand.

South Africa's debt standstill declaration and foreign debt crisis was orchestrated largely by US banks and the country's response to this had been sophisticated and responsible.

South Africa, under the late governor of the Reserve Bank, Dr Gerhard de Kock, abolished its first use of a split currency when the difference between the two currencies fell to 17 percent.

Financial rand
$1 buys so many finrands



Graph: The Argus

Government sources said South Africa had to deal with capital sanctions as well as technological boycotts and the defence mechanism of the financial rand had proved its worth in current market conditions.

A spokesman for the Reserve Bank said the situation had improved so materially recently that in some months there had been a net inflow of investment capital into South Africa.

An investment in blue chip gilts such as Escom could yield a foreign buyer as much as 50 percent on his money and this with the new spirit of optimism that had become part of the South African scene had led to a whole re-rating of the country's investment potential.

South Africa is on the move politically and President F W De Klerk's address at the opening of parliament next month is building expected to be a major policy statement.

Never easy

Finance Minister Mr Barend du Plessis since first taking over from Professor Owen Horwood has never had the luxury of an easy budget and March 1990 is going to be no exception, but bank economists comment that what might be laid down this year could be the harbinger of good news next year.

The government's use of the funds it pulled in from the flotation of Iscor and the cut back in defence spending should help the exchequer to reduce government spending and economists await with some interest Mr Du Plessis's percentage increase on his last year's R65 billion call on the economy.

22/1/90

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The Star
Finance

Prospects for banking sector

OUTLOOK 90

By Douglas Ellish
Analyst, Andersson & Wilson

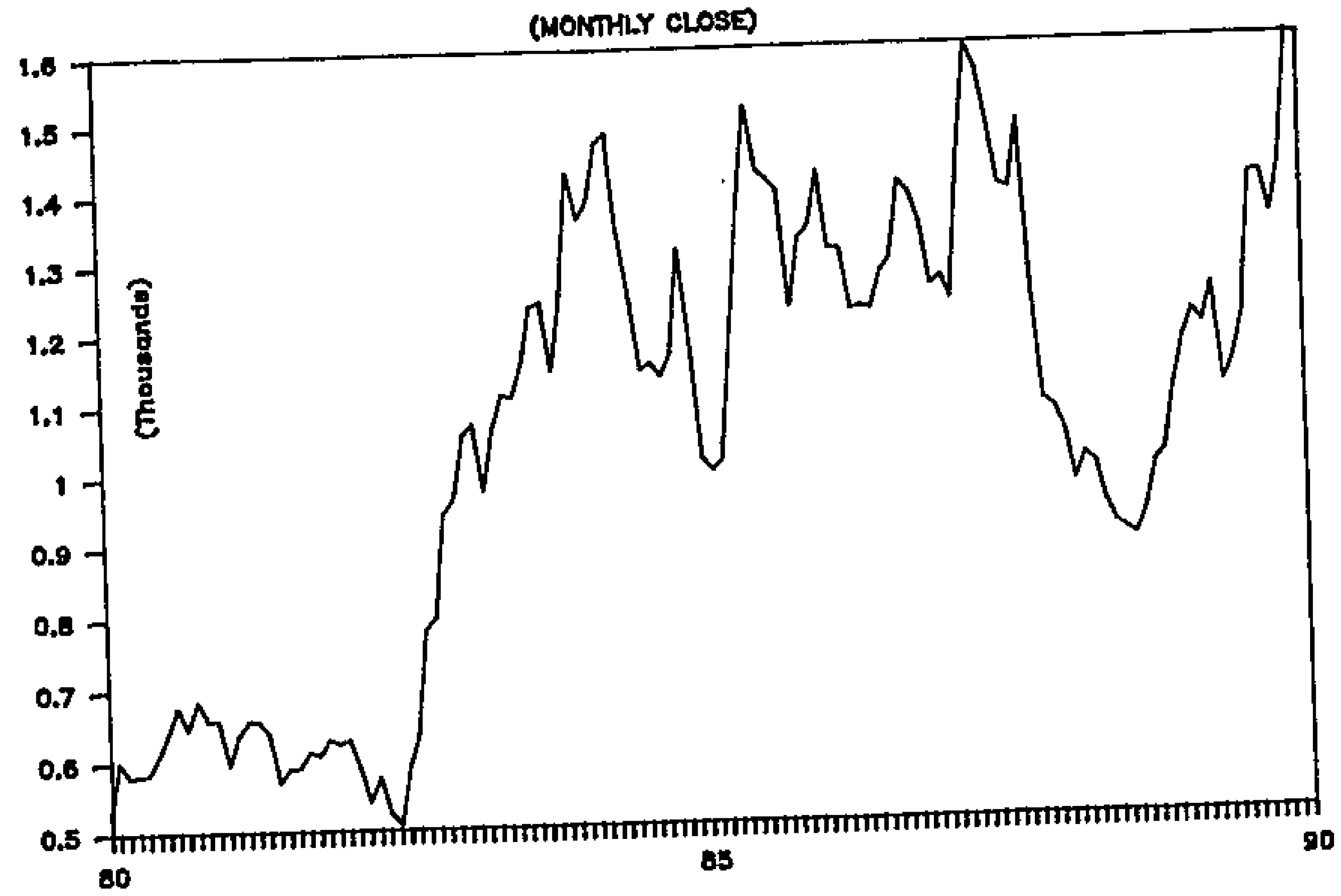
The object of considering the prospects for any particular sector is to determine whether that sector is likely to out-perform or under-perform the market in general. The real issue is therefore whether funds should be directed towards or away from a particular sector.

An answer to that question requires a view on the market in general (defined for present purposes as the industrial market) and a view on the sector under consideration.

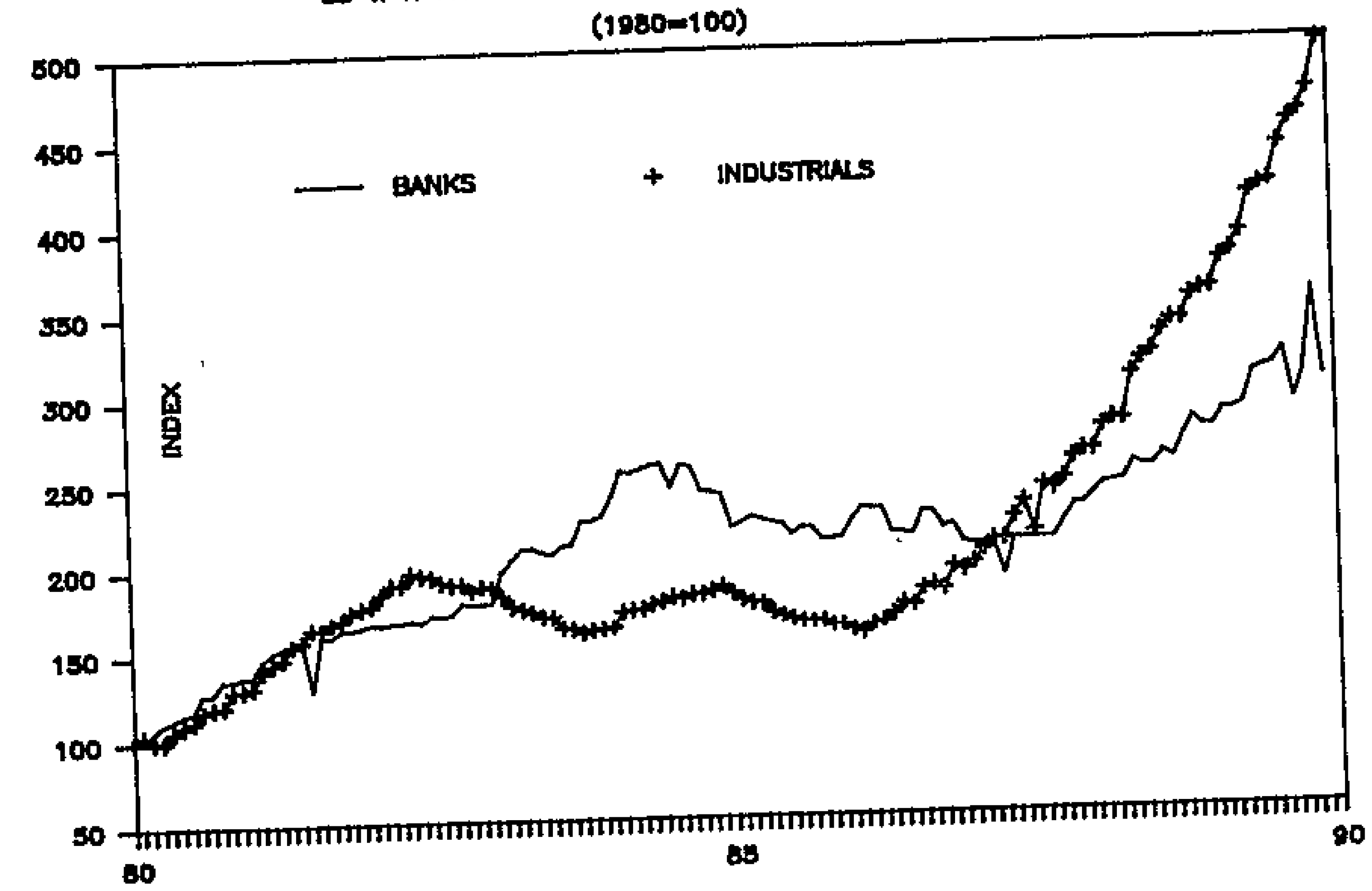
Prospects for the industrial market have been dealt with previously. The view expressed was that industrial shares are expected to post relatively modest appreciation of 10 to 15 percent this year.

The price performance of the banking sector over the past decade has been poor, with the current level of the index not significantly higher than it was about six years ago, while the industrial index has risen materially, as shown in the accompnaying graphs.

BANKS INDEX
(MONTHLY CLOSE)



EARNINGS: BANKS VS INDUSTRIALS
(1980=100)



Interest rates

A number of factors combined to put enormous pressure on banking profits in the mid-80s. Briefly, these were as follows:

- The rapid increase in interest rates in 1983 and 1984 which caused a severe squeeze on interest margins.
- A sharp increase in the incidence of bad debts occasioned by the recession of 1984-85 and the unprecedented high level of interest rates.
- Poor asset growth in 1985-86 as credit demand collapsed.
- Intense competition in the financial services markets.
- Massive infrastructural expenditure (particularly on computer systems) as banks and building societies strove to improve their relative competitive positions.

Of equal significance to the rating of bank shares was the amendment of the Banks Act in 1985. The capital adequacy requirements of banks was revised upward on a five-year phase-in basis.

As a result of these more stringent capital requirements, coupled with the pressure on profitability discussed above, most of the banks were forced to hold rights issues. This supply of scrip to the market did little to improve investors' perceptions of the sector.

The graph shows indices of earnings of the banks and industrials since 1980. It is apparent from these graphs why the relative performance of banks has been so poor.

So much for the past.

What markets really reflect is perceptions about the future. The more recent performance of the banks (in both price and price relative terms) has been good. Is it probable that this trend will continue?

Let us consider the prospects for the banking sector and attempt to determine whether they are reflected in current prices.

We expect the environment for banks will be significantly better in the 1990s than in the past decade, for these reasons:

- A repeat performance of the conditions which prevailed in the mid-80s is unlikely.
- Banks are better equipped to deal with a changing environment (through improved asset and liability management, hedging techniques and risk management).
- Most of the major banks are well capitalised and unlikely to require capital on anything like the scale of the last decade
- More acceptable (and less variable) returns on shareholders' funds are expected to be earned as more sensible pricing policies are applied and as further rationalisation of the sector takes place.
- A return to sustainable real interest rates (a policy objective of the authorities), if achieved, should improve the competitive situation of the banks relative to the insurers as the medium for the channelling of the nation's wealth.
- Capital expenditure requirements are not as onerous as in the past.

On balance, therefore, we are significantly more optimistic about the prospects for banks in the current decade and believe the relative performance of the sector will be much better than in the 1980s.

In the shorter term, we expect the following developments in the banking environment:

- Short term interest rates are expected to decline (probably in the second quarter). This should benefit the banks relatively more than the societies since the former's interest margins should widen while the latter's narrow.
- The rate of increase in demand for credit in the current year is likely to be substantially lower than that of last year.
- The incidence of bad debts is expected to be higher than last year, but is unlikely to reach the crisis levels of the mid-1980s.

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SA housing bonds are among the most expensive in the world

LALA CAMERER

WITH financial institutions offering mortgage rates between 20,75% and 21%, SA interest rates on home loans are among the highest in the developed world.

Australians were recently seen, on M-Net's 60 Minutes programme, bemoaning the fact they pay 18% interest on mortgages. SA wasn't mentioned in the report.

FNB economist Cees Bruggemans believes mortgage rates "will remain at their present level for the better part of this year".

Australia has an inflation rate of 8% and mortgage rate of 18%. SA's inflation rate is currently around 15%.

Dangerous

United Building Society economist Hans Falkena believes "with our 21% mortgage rate, we are significantly lower than Australia in real terms".

However, he says it is "dangerous" to compare rates internationally as it would be like comparing "pears and bananas". One should rather look at real rates.

He says SA's mortgage rates are neither superior nor inferior to the rest of the world because the price of credit is determined by the Reserve Bank.

And he feels the quality of our mortgage loans to be on par with the First World countries. Indications of this are the number of deals it is possible to handle in a certain time period, the amount of repossessions, the flexibility of the market, and whether one can sell mortgages off easily or not.

Standard Bank's mortgage rate of 20,75% is below the prime overdraft rate of 21%. Senior GM Dennis Matfield says: "With costs very high and a large shortage in the money market, financial margins are squeezed. With deposit rates high, savers are getting real return, with borrowers having to bear the consequences."

He believes high rates will remain with no easing until the end of the second or beginning of the third quarter this year.

Economists say the average US homeowner is better off than those in most countries for two reasons: the interest rates are lower and every cent paid on home loan interest is tax deductible. Mr Average American with a mortgage bond of $50 000, pays interest rates of 9,78%.

With Britain's less stable economy, rates on mortgage bonds are 15%. This could edge up to 18%-19% soon. It was 9% only 18 months ago. Homeowners can now no longer afford a £100 000 loan on a property worth £210 000.

France boasts an interest rate on home loans of 10%, Germany 9% and Australia 18%, which the M-Net programme described as "about the worst in the developed world".

Figure estimated at up to R30m

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TrustBank hit by big loss on Eskom gilts

BDay 23/1/90

ROBERT GENTLE

TRUSTBANK suffered a major loss in December on Eskom E-168 gilt options after misjudging the scale of gilt purchases by non-residents, and found itself dangerously exposed, bond market sources said yesterday.

The bank confirmed there had been "a mismatch" for December, but it would not comment on market estimates indicating losses of between R25m and R30m.

Bond market sources said TrustBank had written large amounts of call options at rates of around 16%, and had then found itself scrambling for stock to cover open positions when heavy foreign buying drove rates down.

What probably followed was that TrustBank continued to write options to cover itself, but the falling rates simply compounded the problem — a phenomenon they described as "whiplash".

The scale of the exposure was such that ripples eventually reached the Reserve Bank, the bond market sources said.

Reserve Bank senior deputy-governor Japie Jacobs confirmed that TrustBank's exposure had been brought to his attention.

"We pointed out to them that it would be wise to cover themselves," he said.

Jacobs would not disclose exact figures, however, saying only that it was "unwise" for a bank to have such exposure.

TrustBank senior GM, treasury and offshore activities, Martin Croucamp, said he had personally contacted Jacobs about the matter, and corrective action had been taken afterwards

Croucamp would also not disclose the extent of the loss.

"It is the cost of restructuring the book that is relevant here, and that is not something we are uncomfortable with," he said

He did not elaborate and would not be drawn on whether the cost of restructuring the bank's book would have a detrimental effect on the next round of profit figures.

Without going into detail, Croucamp said TrustBank had miscalculated the timing of the bull market brought about by foreigners piling into SA gilts and driving rates down.

"The rapid fall of that market caught us unawares," he said. "We thought the bull market would happen in the first months of this year. We made a tactical error."

TrustBank was now back in the gilts market "in a limited way", and there were lessons to be learned.

Reaction in the market concentrated on what was described as "TrustBank's failure to hedge" the exposure that inevitably results from the writing of a call option.

"This episode shows you have to administer and manage your positions when you have so many open call options," a JSE gilt trader said.

An options trader questioned the degree of control TrustBank management exerted over its dealing room.

He also pointed out that the options had been written in a thin market in which volatility was low.

"That is bad," he said.

The Reserve Bank said it now regarded the matter as closed

"We are satisfied things will be monitored in future," said Jacobs.

Star 23/1/90

The Star Finance

Hudaco's earnings improve

By Derek Tommey

Engineering supplier Hudaco had an excellent year in 1989. It increased its operating profit in the 12 months ended November by 56 percent to R43,6 million (R27,8 million). This was achieved from a 45 percent rise in turnover from R252,1 million to R364,7 million.

However, earnings a share showed a less exuberant rise — by 26 percent from 85,4c to 107,3c.

A final dividend of 28c has been declared making a total payment of 48c for the year — a 26 percent increase on last year's 38c.

Mr KF Clarke, Hudaco's chief executive, says trading conditions were buoyant. The surge in operating profit was the result of a strong drive to improve operating efficiencies.

However, outlays were heavy. Finance costs more than doubled, rising from R2,9 million to R6,9 million. Tax payments rose by 70 percent from R7 million to R11,9 million.

This and other expenditures were partly financed by borrowings of R29 million and the issue of 2 million shares which brought in R15 million.

Mr Clarke says that the company is expecting a slow-down in 1990. But it largely supplies replacement markets whose activities tend to hold up well under these conditions.

Although the rate of tax will increase, Hudaco expects another year of real growth in earnings.

Fabcos aiming for own finance house

By Jabulani Sikhakhane

Negotiations are at an advanced stage between the Foundation for Business and Consumer Services (Fabcos) and several financial institutions to establish a financing house for Fabcos members.

The chairman of Fabcos Marketing and former CE of the African Bank, Gaby Magomola, says several financial institutions have shown great interest in the project.

A source at Fabcos says June has been set as the deadline for launching the company.

"We have a team of experts looking at what the needs are and how best to address them. What we need is a scheme to accommodate financing needs of our constituents who have continous need for finance," Mr Magomola says.

The company, whose equity is still to be decided, but will be black-owned, will provide finance for Fabcos members, who include stokvel members, small builders, taxi operators and members of the 600 000-strong National Black Consumer Union (NBCU).

Negotiations have also been held with motor manufacturers and oil companies as possible joint partners in the project.

However, sources point to the Perm as the financial institution likely to take up partnership with Fabcos.

The Perm has strong links with the small savings clubs (stokvels).

The formation of a financing house comes in the wake of growing concern within the Southern Africa Black Taxi Association (Sabta) over the increasing number of whites entering the industry, mostly using blacks, either as fronts or drivers.

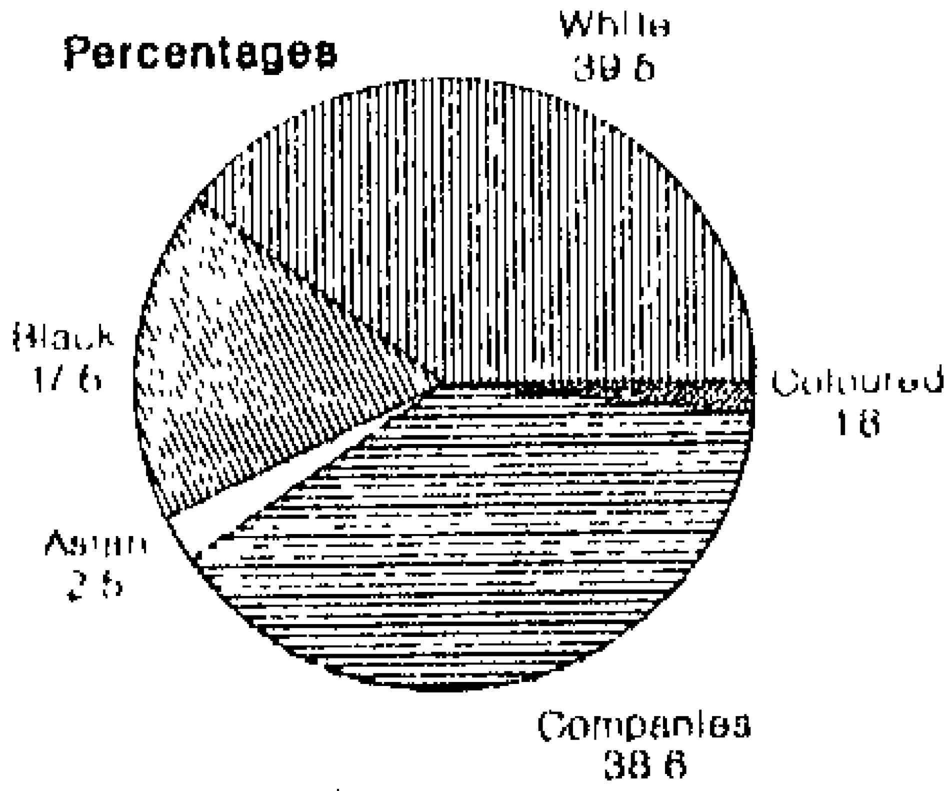
According to estimates, over 30 percent of taxis are now owned by whites.

Figures from Central Statistical Services (CSS) show that of 13 347 minibuses registered from January to September 1989, 5 274 were registered by whites, against only 2 348 by blacks.

Companies and close corporations accounted for 38,6 percent, while Asians and Coloureds made up for the other 2,5 percent and 1,8 percent respectively.

However, compared with the same period in 1988, the number of minibuses showed a decline of 380 from 13 727.

MINIBUS OWNERS



1989

13 347 registered January to September

Conference to highlight Mozambique economy

Finance Staff

More and more South African businesses are looking at expanding their operations into Mozambique.

A conference aimed at highlighting the latest economic and political trends is now planned over the weekend of February 23-26 in Maputo's Polana Hotel.

The conference is organised by Action Conferences, a Johannesburg-based company, which has been doing business in Mozambique for two years.

Speakers at the conference include the head of the SA trade mission, representatives of Mozambique government ministries and Maputo-based private enterprises. Further information can be received from Action Conferences at (011) 887-7870/78, 82.

African Life income rockets by 44%

58)

LINDA ENSOR

AFRICAN Life Assurance — which plans a listing on the JSE soon — increased its total income by 44% to R33,6m (R23,3m) in the nine months to end-December.

MD Bill Jack says the 38% rise to R16m in new business is in line with targets. For the full financial year to end-March a 33% increase in new business premium income and a 33% rise in recurring premium income has been targeted.

"The company raised R27m new capital in its recent private placement of shares to policyholders and business associates and is well placed to finance this sort of growth for many years," Jack says.

The private placing towards the end of last year was undertaken with a view to a listing.

Recurring premium income of R25,3m rose by 44% and gross investment income by 45% to R8,3m. Total assets have soared by 65% to R170m. Jack says African Life's strength is in the low premium bracket with policies ranging between R40 and R70 a month.

B/Day 23/1/90

Star 24/1/90.

The Star

Finance

Rand weaker against all major currencies

(S8) Finance Staff (S8)

The rand weakened against all major currencies during 1989, and is expected to ease further in the year ahead, according to Senbank's latest *Currency Review.*

The average value of the rand in 1989 was down by 15,4 percent against the US dollar compared with the previous year; by 7,9 percent against the Deutsche mark; 6,7 percent against the Japanese yen and by 6 percent against pound sterling.

Senbank economist Andries van Niekerk expects that the high inflation rate and large capital outflows will impact negatively on the rand, although it has received some short-term relief from the higher gold price.

"Until such time as inflation is reduced and the surplus on the balance of payments reaches significantly higher levels, the rand will remain under pressure," he says.

Senbank expects the rate of inflation to decline during 1990 as the economy slows down. But the country's rate of inflation remains considerably higher than that of its main trading partners, eroding its competitiveness in international markets.

In the third quarter of last year, the surplus on the current account of the balance of payments rose to R5,8 billion and for the year as whole a surplus of R4,5 billion is expected.

However, the balance remains under pressure due to large foreign debt repayment, and this will have a negative effect on the value of the rand in the longer term.

Senbank expects that the Reserve Bank will try to keep the value of the rand as stable as possible to help curb inflation.

Banking sector reaches a turning point

Citi Times 24/1/90 (58)

By ARI JACOBSON

THE banking industry has reached a turning point, with the intense scramble for market share in the 1980s being replaced by internal rationalisation in the 1990s

Kevin de Villiers, MD of the Allied group, says the financial service industry has had an over-staffing problem, "with too many bankers, not too many banks".

Market research has shown, says De Villiers that banks do not experience economies of scale

"Low fixed costs and high variable costs experienced in the financial sector, counter the expansion through growth argument. Also empirical evidence shows no relationship between return on capital and the size of the institution."

Market rumours assert Bankorp attempted to expand market share in a failed attempt to reap economies of scale, as did First National Bank (FNB) through financial acquisitions.

"The failure of this policy is best seen in the light of FNB's improved profitability as its asset base declined," says a market source.

De Villiers says profits are best generated through an internal policy of maximising efficiency and removing wastage.

This, he says "dispels the merger argument in boosting performance, but does not discount power play leading to hostile takeovers."

Richard Lomberg of Davis, Borkum, Hare & Co says, "once banks are allowed 30% ownership and capital is needed, mergers will be possible".

However, Lomberg says banks are more likely to opt for share facilities while maintaining their identity.

FNB GM Stan Macdonald says marketing has become imperative in creating unique identities and differentiated products for banks.

"Vast costs underly the need to share services but price and service competition will always remain fierce," says Macdonald.

This does not rule out a place for smaller banks in niche services with well-established clientele, he adds.

FNB economist Cees Bruggemans says although there is room for consolidation, the sector will remain remarkably competitive.

"The next three to four years will be good for banking as money market pressure eases, bad debts decline and bank shares are rerated," says Bruggemans.

Rand Merchant bank's Rudolf Gouws, presently compiling a paper on this aspect of the banking system, says "productivity in financial services — based on output per employee — has fallen relative to other sectors."

Gouws says this trend has been perpetuated on the JSE where the financial sector has underperformed the overall industrial sector.

"Further rationalisation is likely within organisations and the industry as a whole," he says.

Closing gold prices

(In $ an ounce)

LONDON:
412,00/412,50
Fixing am: 408,60
Fixing pm: 408,25
ZURICH:
407,50/410,50
NEW YORK:
413,00/413,50

Commodity Index	1794,0
Platinum	$498,25
Palladium	$134,45
Raw Sugar	£216,50

Unitrans to raise R65m

JOHANNESBURG. — Unitrans is planning to implement a rights issue to raise approximately R65m.

A circular to shareholders says the proceeds will be used to finance further growth and accelerate development of the company's existing business.

The funds will be raised by way of a renounceable rights offer of unsecured compulsorily convertible subordinted debentures to shareholders.

A separate non-renounceable offer of debentures will be made to staff in terms of the share option scheme for employees. — Sapa

Share prices on page 12

Homes go for R10 at auction

Cape Times 25/1/90

By PETER DENNEHY

EIGHTEEN houses were yesterday sold for R10 each after the owners were unable to afford bond repayments.

The two- and three-bedroomed houses are in Kleinvlei, Gaylee, Eerste River and Blue Downs.

They were sold in execution of debt at a public auction

All were sold to the United Building Society, to which they had been mortgaged Judgments had been given against the former owners, mostly in the second half of last year, for defaulting on their bond repayments.

The UBS was the only bidder at yesterday's auction, which was held at 10am at Kuils River Magistrate's Court.

Another auction is due to be held at the same place on Monday, January 29, for 18 houses in the newly developed coloured suburbs in the Kuils River area The only requirement is that buyers are classified "coloured".

The messenger of the court initially objected to the Cape Times presence at the auction yesterday

He asked whether the Cape Times team had come to bid for the houses, and was told by the reporter that he had come to attend and record the proceedings. He mentioned that the Cape Times could be arrested for "interfering", but the Cape Times was later allowed to attend

A tenant in one of the affected houses arrived to see whether her new landlord would allow her to continue renting, but she did not bid for the house.

UBS public relations manager Mr Kevin MacGregor said from Johannesburg yesterday that many of the houses the financial institution "bought back" would be rented out before eventually being resold

The new housing projects in that area are all home-ownership schemes, in terms of government policy, and no official provision is made for rented housing stock. However, they are often rented out after "repossession"

Mr MacGregor said the mortgager was legally entitled to claim, from the defaulter, the difference between the amount she or he owed on the bond and the price the house fetched at the auction, but in practice this almost never took place.

Defaulting home-owners could not bid at the auctions, as they were insolvent.

Gold rush!

Cape Times
25/1/90
(58)

Own Correspondent

JOHANNESBURG. — Gold moved into fresh bullish territory yesterday as investors flocked to the metal in a classic flight from paper assets on a crumbling dollar and tumbling world stock and bond markets.

Heavy Far and Middle East buying swept gold up $9 to close in London at $421,25, its highest level since mid-December 1988.

The rising metal created a mood of gold euphoria on the JSE and the all gold index rocketed 140 points or 6,7% to 2 232. Strong buying from both local and overseas investors resulted in several lightweight golds recording gains of between 20% and 46% on the day.

Enthusiasm for golds spread to other sectors of the market to quell fears that the JSE would follow the downtrend of Wall Street as happened in October 1987 and 1989.

The market opened with a flourish on US buying on Tuesday night of SA golds quoted on Wall Street and demand followed throughout the day to lift the JSE overall index 80 points or 2,6% to 3 194. This is just below last Tuesday's peak of 3 261.

"It was an unbelievable market," a dealer said as the value of shares traded climbed to R214,8m from R129m the previous day on a volume of 17,62m shares changing hands against the previous 12,2m.

Overseas demand for SA shares was reflected in a further strengthening of the finrand investment currency to R3,3250 ($0,3007) from R3,4100 ($0,2932) to the dollar, its highest level since the middle of 1988.

Some analysts cautioned that gold's recent rally was motivated more by fear than reason and that higher interest rates could, at some point, draw funds from the metal to bonds.

"I expect gold to consolidate and we could see a small step back before the metal makes a run at the $425 resistance level where many stop-loss orders have accumulated", a Zurich trader said.

Renewed nervousness on financial markets was triggered yesterday morning when the Tokyo stock market dropped by 1,6% to send share prices in London sharply lower on expectations of further declines on Wall Street.

However, London dealers were relieved when Wall Street lost only 50 points in the first hour of trading and the FTSE 100 rallied to close 12,5 down at 2278,6.

Worries over Wall Street pushed the dollar more than a pfennig lower to close in London at DM 1,6830. Traders said foreign exchange markets were turning from events in East Europe to concentrate on economic fundamentals such as interest rate movements.

'Dial-a-policy' insurance alarms brokers

(58) B/Day 23/11/90

LINDA ENSOR

INSURANCE brokers are becoming increasingly concerned about the inroads being made into their business by direct marketing of policies over the telephone.

Their dismay was evident at a recent meeting in Johannesburg of 35 representives of major short-term insurance brokers to discuss the implications of the development introduced by such insurers as Auto & General (A & G) and Santam.

Santam established its telephone service, Teleplex, in August 1989 and it has been "a great success", says Teleplex senior manager Jan Kleinhaus.

A & G, which pioneered telephone marketing, has 100 000 policy-holders who contracted their insurance over the telephone.

A third of these clients were referred by brokers who were paid their full commission. The remainder responded to advertisements.

In defence of the broker's role, SA Insurance Brokers' Association (Saiba) president Jimmy Vickers said they had access to the entire market, which was in such a volatile state it was possible, for example, to get different rates for different people from one insurance company.

At a cost

Also, because of the access the broker had to the market, he could get together an insurance package with a number of insurance companies to ensure the client received the best and cheapest policies.

The feeling of the brokers who attended the meeting was that no single SA insurer was in a position to claim its rates for all individual types of insurance — for example house-owners', householders', all-risk, motor and personal accident policies — combined to provide the most economic premium for most policy-holders.

"It is a fallacy to think if there is no intermediary one is going to get cheaper insurance," Vickers said.

"The insurance company still has to provide all the services a broker provides, often at a cost which is the same as the commission paid to the broker."

However, Kleinhaus believed an intermediary was not necessary because of the highly sophisticated technology in use to sell the personal domestic insurance package.

The savings achieved, he added, were being ploughed back into the premium structure, and they had also made an intensive advertising campaign by Sanlam possible.

A & G MD Steve Klinkert disagreed, saying "the broker will always have a place in personal lines business because he can give independent, unique advice for each specific client. Not all policies suit all clients. His function should be to advise clients on what policy suits them best."

Exposure draft of insurance Bill expected soon (58) LOA

LESLEY LAMBERT

CAPE TOWN — The Life Offices Association (LOA) is expecting to see an exposure draft of the long-awaited Long-term Insurance Bill by the end of this month.

The Bill, which has been on the financial authorities' drawing boards for a couple of years, separates the life assurance industry from the short-term market for legislative purposes.

Nevertheless, industry spokesmen expect amendments in the legislation to favour consumers as the effects of the Melamet Report on short-term insurance, released after the collapse of the AA Mutual in 1985, filter through into the life industry.

They also expect a redefinition of life assurance to incorporate new products and demands in the market. They say the Bill may include some controversial amendments, such as the registration of brokers.

LOA executive director Dick Geary-Cooke said yesterday that once the LOA had received and studied the exposure draft, it would be issued to the industry at large.

The industry would then report back to an LOA management committee which reconvened in May and, hopefully, the draft legislation would have been through the first parliamentary reading by December.

If the schedule was maintained the new legislation could become effective by mid-1991, he said.

BDay 20/11/90

Old Mutual starts new fund for gold

(58)

LESLEY LAMBERT

CAPE TOWN — Old Mutual has launched a new gold fund — the second in SA after Standard Bank's Gold Fund — for investors who are prepared to take high risks with potentially high returns.

Investment GM Rob Lee said yesterday the life office had taken a cautiously optimistic view on the gold price in dollar terms.

He said the rationale behind the fund was to follow the gold price over the longer term rather than to try and cash in on short-term bull runs like those seen over the past few months as the metal responded to signs of renewed investor interest.

Influence

He said current gold share prices, which had risen in expectation of a higher gold price, could only be sustained if the gold price continued to rise.

Factors which could influence it positively were a weaker dollar, growth in world gold production peaking beyond 1990, increased demand from Eastern European countries, decrease in gold loans and forward sales and a strong jewellery and industrial demand, he said.

Negative influences like a neutral view on world inflation and continued positive real interest rates, were likely to prevent the metal achieving price increases similar to those seen in the 1970s.

The gold fund will invest in a range of quality gold shares as well as mining financials and exploration shares and will maintain very low levels of liquidity.

It will give smaller investors the opportunity to invest in the highly priced heavyweight gold counters with a relatively small capital outlay.

The fund will open for investors at the published unit price on February 5.

Income will be distributed six-monthly. The minimum initial lump sum investment is R1 000 and the minimum monthly investment is R100.

Investors are advised to invest for at least five years to iron out the fund's risky nature.

B/Day 25/1/90

Caught in the post-Christmas price spiral

S8

w/Mail 19/1/90-25/1/90

In the post-Christmas gloom, consumers regret their frenetic December buying sprees and bank managers get on the phone ... PHILIPPA GARSON reports on the credit controversy

AS most people limp along flat-broke through January trying to forget their Christmas splurges and ignore the bills and bank managers calls, economists pale at the growing debt mountain of the "now generation" — those who don't hesitate to "buy now" ... and who don't always "pay later".

Buying on credit is a world-wide phenomenon and no cause for alarm say some, while others urge banks to tighten the grip on credit lending and lower their overdraft ceilings, before the real shock comes.

Everyone is anxious to pass the buck, with the government blaming banks and banks saying it's up to the government to put the lid on inflation and accusing retailers of allowing customers to buy on credit regardless of their credit history.

But there is no dispute about the fact that rising inflation fuels credit spending which in turn results in accumulating debt.

As Paul Edwards, managing director of Information Trust Corporation explains: "Consumers are locked into a particular lifestyle and because of the rising cost of items — especially durables — their credit commitments grow rapidly at a faster rate than their income."

People also tend to buy now — whether they have the available finance or not — because rising inflation means that buying a few months later will prove to be a far more costly affair.

Edwards pinpoints a growing trend where people are using their houses as a means to raise finance from banks, and banks are in turn being more accommodating by allowing loans of 80 percent of the valuation of a house. Because of rapidly rising house prices, people have access to more and more money and consequently feel wealthier. But as Edwards says, when equity is spent as fast as it is increased, houses are no nearer to being owned. He adds that the majority of people who end up in court for not paying debts are those who cannot pay their housing bonds. So while more and more are borrowing against their houses, fewer are able to service their bonds.

A comparison between 1988 and 1989 figures of the total value of judgements against people appearing in court for unpaid debts reveals a startling upswing: in magistrates' courts country-wide the total rose from R72-million to R96-million, and in supreme courts the figure almost doubled from R26-million to R43-million.

The more banks lend, the more they make, says Edwards, and while they are putting increasing pressure on the Reserve Bank to raise the prime rate, the Reserve Bank is, in turn, urging banks to curb their lending. Edwards sees more controlled lending as a better way to shrink the debt mountain, than higher interests rates to curb consumer spending.

Edwards feels that government overspending will have to stop before consumer patterns will follow suit.

First National (group) economist Cees Bruggermann sees the high debt backlog as merely part of the business cycle, and only with policy tightening, and putting stress on the system, does business reach its maximum in the cycle. He says the 1985 figures for debts reaching the courts were as high as those of last year.

He predicts that the Reserve Bank will maintain its tight policy, but adds that the modern solution is not to stop lending — as was policy in the 70s — but to increase interest rates and so curb some borrowers. This will, in turn, lower interest rates again: "We don't want to traumatise the economy. We have to be gentle in the way we steer it."

Standard Bank's John Holloway displays a similar calmness about the debt mountain and overspending which he says happens every December and drops again every January. He agrees that people are tending to live more and more on credit, but he sees no cause for alarm. He sees the problem as a bigger one for the government (which is trying to reduce

credit spending) than for the consumer fearing insolvency.

Holloway's view is that though banks are seen as the culprits, they are not always to blame. He adds that banks are more cautious about lending than most people think, and usually lend to people with a good credit history — not simply adequate security: "Banks do not lend to those people in the habit of getting into financial difficulty. We look at factors like income, honesty, stability in jobs and financial history. We watch how people conduct their accounts."

Holloway concedes however that banks should be more cautious with credit: "The crunch is coming and the situation could become a lot worse."

Bid to close insurance loophole

58

BlDay 25/11/90

LINDA ENSOR

LOOPHOLES in the Insurance Act which make possible the placement of insurance business on offshore markets, including captives, will be closed if a draft amendment to the Insurance Act, now circulating, is promulgated.

The draft arises from the Melamet Commission of Inquiry into the outflow of premiums and into captives, which submitted its report last month.

The draft has been prepared in record time and, according to Life Offices Association executive director Dick Geary-Cooke, comment is required by January 31.

It arrived on his desk only yesterday and Geary-Cooke felt more time might be required for the industry to give its considered opinion.

Geary-Cooke said the amendments would probably not affect the long-term industry, adding, however, that the legal advisory committee of the LOA would be studying it to ensure it did not inadvertently do so.

The draft will amend sections 60 and 75

☐ To Page 2

Insurance loophole

58

☐ From Page 1

of the Act. BlDay 25/11/90

In the past, in terms of normal foreign exchange control requirements, permission only from the Reserve Bank was required if insurance premiums were sent offshore.

This was not sufficiently well supervised and as permission was apparently easily come by, lack of compliance with provisions of the Insurance Act regarding offshore business was widespread.

A copy of the draft was not obtainable yesterday, but it is apparently directed both at the person insuring and the agent placing the business and defines the offence more precisely.

Offences in terms of the Act are punishable by a fine of R10 000 or imprisonment not exceeding two years.

The effect of the draft will be to limit the activities of captives, that is, those companies that insure themselves through an offshore company, usually established in a tax haven.

It will not affect registered insurance companies conducting registered offshore reinsurance business.

Strengthened margins put insurers on sound footing

5/Day 25/1/90

JACQUES MAGLIOLO

SUBSTANTIAL growth in underwriting profits and investment income characterised the direct (non-specialist) short-term insurance industry in 1988, the latest year for which figures are available.

The outcome was a general strengthening in insurers' solvency margins — the ratio of free reserves to net premium income (NPI) — to an average of 48,2% (1987: 43%).

In a recent market survey of 19 short-term insurers, Quest Consulting Group outlined the financial improvements that placed the industry on a sounder footing after the scare caused by the liquidation of AA Mutual.

This, in turn, prepared insurers for the current soft market with its strong competition and, "because of a stagnating economy, its limited development potential," says SA Insurance Association chairman Ron Carter in January's Cover insurance magazine.

Pattern

In 1988, the industry produced an underwriting profit of R193m, 120% higher than 1987 and a continuation of a trend that eliminated 1986's underwriting loss of R73m.

Investment income followed a similar pattern, with a 44% rise to R294m (R204m) — 80% higher than 1986's R162m. As a percentage of NPI it climbed 8,9% (7,2%).

NPI rose 16,7% to R3,3bn (R2,8bn), while net operating costs increased by 19% to R888m (R745m). As a percentage of NPI, operating costs remained virtually unchanged at 26,9%.

Claims incurred as a percentage of earned premium income fell to 66% (69%).

Not all companies had improved solvency margins: Aegis's fell to 34,6% (39,4%); AI Insurance's to 29,7% (32,4%); and Mutual-&Federal's to 67,3% (91%).

President (19,1%) and Stangen (22%) had the lowest solvency margins.

Homeowners buckle under bond blues

Sowetan 25/1/90 58

Sowetan Correspondent

HOUSE repossessions by banks and building societies are running at record levels as more and more homeowners fail to keep pace with the surge in bond repayment bills caused by sky-high interest rates.

New counts taken by the Information Trust Corporation show that the number of homeowners hammered by the courts for debts on home loans has climbed to almost 18 000 a year.

Debt judgments handed down by magistrates courts in the past three months - October to December - soared to 3 256. Supreme Court judgments jumped to 1 228.

Repossessions

The quarterly total of 4484 shows an increase of no less than 65 percent compared with a year ago, when the number of legal actions on debts was already starting to flow faster.

In terms of value, the judgments covered debts - usually the total still outstanding on bonds - of almost R230 million.

Virtually all of the debtors risked repossession of their homes unless they were able to reach agreement on a settlement plan with creditors.

Banks and building societies normally decline to release individual statistics on the rate of repossession orders going out.

Noose tightens for homeowners

Star 25/1/90 (S8)

As the number of homeowners facing the nightmare of repossession orders on their properties reaches record levels, and interest rates on their bonds remain high, there appears to be a need for a new set of guidelines that everyone will use in the preparation of a home mortgage agreement. These guidelines should be aimed at providing better advice to prospective homebuyers, closer examination of the ability of mortgagees to meet their repayment terms — and words of caution about the risks of shifts of the goal posts with possible changes in domestic circumstances as well as changes in interest rates and higher bills to meet. MICHAEL CHESTER reports.

The number of homeowners now engaged in struggles to ward off the danger of repossession orders on their property, unable to keep pace with sky-high interest rates on their bonds, has reached the highest on record

Building societies and banks take elaborate care to draw a veil across the precise details of their foreclosures, but the lists of "sales in execution" run by the Government Gazette have never been longer.

Property market insiders say the tragic list of repossessions may show only the tip of the iceberg. There are far longer lists of homeowners now deep in arrears with their monthly bond repayments — and in the shadow of legal action.

Many of the casualties can trace the root of their problems back to the "bond wars" of the mid-1980s and the battle royal in the corridors of high finance for bigger slices of the multibillion-rand home loan business

It was the moment when the virtual monopoly held by building societies over mortgage finance deals — the crucial nod or dreaded shake of the head to prospective homebuyers — was challenged by the big commercial banks

Both sides had glared at each other for years, with heated exchanges of allegations of unfair rules about competition

Acid arguments

The acidity of arguments becomes understandable when one learns that the tussle was about a financial market worth a phenomenal R35 billion — the current value of all the mortgage cash out on loan to homeowners

Both sides wanted new ground rules. And the Government provided a set, though, of course, not to everyone's satisfaction.

"New laws and new rules, all well intended and based on the new gospel of deregulation and the free-market system, gave the go-ahead to a combat that shook the whole business of home-buying finance to its foundations," recalls Mr Neville Berkowitz, the noted property economist.

"The building societies and the banks fought tooth and nail to attract new bondholders — and all of them rolled out the red carpet to homebuyers. The general public wallowed in the chance to seize new finance packages that looked like passports to paradise."

Interest rates came tumbling down from peaks of 21,5 and even 25 percent in 1985 to the lowest in years at 12,5 percent in 1987. And there was fierce competition to introduce innovations galore to offer better and still more seductive new home bond packages.

"Often, though, the missing element was a word of caution to families who were tempted to over-reach themselves in commitments to buying homes beyond their budgets," says Mr Berkowitz

"If there was no active encouragement, there was often very little discouragement as the high-finance combatants fought for market shares.

"Not so long ago there were rules that clamped strict limits on mortgages to ensure a reasonable down-payment and a scale of monthly bond repayments that should never swallow more than 25 percent of the income of prospective buyers, counting only the income of the main breadwinner

"In the 'bond wars' the rules were often tossed out of the window as eager salesmen were tempted to help buyers construct fanciful versions about their financial affairs and their ability to foot the bills.

"Unfortunately, out to impress loan managers, many buyers laid out the pay packets of wives and children too when they tried to prove how they could cope with bond repayments — along with dangerously optimistic calculations of the future prospects of fatter and fatter wages and salaries.

"All too often there was little or no regard for possible hiccups in their budgets — pregnancies, meaning at least a temporarily missing pay packet, the cost of new additions to the family, nappy bills becoming school bills, and school bills becoming university fees.

"Also often ignored was the possibility of pay packets not keeping pace with the constant bogey of inflation and growing household expenses.

"Worst of all, thousands of homebuyers basked in the euphoria of believing that 12,5 percent interest rates were here to stay.

"When interest rates marched higher and higher, so did the pressure on family budgets, until many of them are now snapping.

"Obviously, none of the banks or building societies take any pleasure in ordering a foreclosure. It's a costly process in legal expenses and hassles — and none of them enjoy being saddled with empty houses up for re-sale.

"But there comes an obvious limit to how far they can go to try to help when longer term solutions to arrears look impossible"

Lessons to be learnt

Even so, argues Mr Berkowitz, there should be lessons to be learnt from the current drama of repossessions.

First, he says, prospective homebuyers would do well to allow for shifts in bond interest rates between 16 and 20 percent over the next four years or so — on average around 18 percent — when they work out whether they can afford a particular purchase

"Second, perhaps the time has come for the private sector — not the Government — to create a panel of ombudsmen, bringing the talents of economists, accountants and academics as well as property fundis, to write a sort of new rule book on home buying.

Mortgage masterplan needed

Mr Paul Edwards, chairman of the Information Trust Corporation, believes the surge of financial problems hitting homeowners has made it vital to introduce a new masterplan to avert the risk of still worse increases of repossession tragedies

ITC, the credit bureau network that monitors consumer debt patterns, urges the creation of a national data system to test all new mortgage applications to protect homebuyers from over-reaching themselves with bond commitments.

All banks and building societies should be obliged to check with the central data base before signing approval to bond applications that could prove too onerous to buyers when interest rates were jolted higher, said Mr Edwards

Britain and the United States had already installed such data bases to check the financial records of borrowers and their ability to cope with new loan repayment pressures, he said.

South Africa should follow suit — especially in view of the hard fact that as many as 60 percent of all potential borrowers, at their own peril, were able to camouflage the full extent of existing debt obligations when they applied for new loans

Such systems protected not only the lender but also the borrower, particularly less sophisticated borrowers with little actual experience of longer term risks of movements in interest rates.

"The data base system would ensure a responsible approach by lender and borrower alike," said Mr Edwards

"In the fierceness of competition, mortgages of 90 or even 100 percent of property values have been allowed

"Many homebuyers stretched themselves to the limit to meet monthly bond payments with little or no capital in reserve — leaving no allowance for swings in bond rates.

"What's badly needed now is a brand new set of guidelines that everyone will use in the preparation of a home mortgage agreement — banks, building societies, estate agents and everyone else in the chain of events in a bond application.

"The basic aim should be far better advice to prospective homebuyers, closer examination of the ability of mortgagees to meet their repayment terms — and words of caution about the risks of shifts of the goal posts, with possible changes in domestic circumstances as well as changes in interest rates and higher bills to meet."

Mr Dave Miller, national president of the Institute of Estate Agents, recalls a major conference that was held only a few months ago to hammer out ways and means to try to hold interest rates on a more even keel.

Many of the best brains in the property market tried to solve the riddle of trying to ensure that bond repayment bills never became too onerous.

"The conference found it was not possible," he laments.

"One problem is that people are forever optimistic about their financial affairs. Often they make too little allowance for fluctuations in interest rates and other upsets.

"But not even the big financial institutions could have forecast three years ago that interest rates were going to jump by as much as 50 percent in a mere 18 months.

"Now the minimum rates are not far short of double the 1987 level — up from 12,5 percent to around 21 percent.

"None of the institutions is being blooded-minded about repossessions. They bend over backwards to try to help and compromise with arrears. Repossess ions come as the very last resort.

"All the problems come back to inflation — and the economic muddles that can be blamed on the lack of direction in government economic policies. No one can forecast what may happen next with interest rates or how to plan budgets with any real accuracy."

ta- tly But give-and-take in the ne- during the transition

Political sentiment lifts JSE

Finance Staff

Initial fears that the JSE would crumble yesterday amid Monday's three percent slide on Wall Street were dispelled by large-scale foreign investment on the stock market. Star 24/1/90

Over the last few months foreign investors have pushed up the JSE to new record highs, while local institutions remained on the sidelines as gold failed to break through the $420 mark.

Non-resident purchases of local stocks, in particular mining shares, have intensified lately, fuelled by reports of the imminent release of Nelson Mandela.

Political sentiment had already improved since President FW de Klerk took office and tentatively moved on the path to reform, but the release of Mandela could unleash a new flood of foreign investments, say local analysts.

That is not to say the JSE will be immune from international stock market movements, but it certainly will be sheltered to some extent by the prospect of meaningful reform.

This, in addition to a gold price above $400 and the discount offered to foreigners through the financial rand, will keep the JSE moving up although at a more moderate pace than in recent weeks, argues one stockbroker. 58

Not all analysts agree though. "The JSE will not escape the repercussions of the sharp drop this week in the Dow Jones and a downward correction could be expected," says Syfrets Unit Trust manager Anthony Gibson.

"We expect this to go on for about two months, unless the gold market should run, in which case our market would run counter to the current international trend," he adds.

House repossessions running 'at record levels' 58

By Michael Chester

Star 25/11/90

House repossessions by banks and building societies are running at record levels as more home-owners fail to keep pace with high interest rates and the resulting surge in bond repayments.

New counts taken by the Information Trust Corporation show that the number of people hammered by the courts for debts on home loans has climbed to an annualised rate of almost 18 000 a year.

Debt judgments handed down by magistrates courts in the past three months — October to December — soared to 3 256. Judgments at supreme court level jumped to 1 228.

This quarterly total of 4 484 shows a 65 percent rise compared with a year ago, when the number of legal actions on debts was already rising.

The judgments covered debts — usually the total still outstanding on bonds — of almost R230 million.

Virtually all of the debtors risked repossession of their homes unless they were able to reach agreement on a settlement plan with creditors.

INTEREST RATES

Banks and building societies normally decline to release individual statistics on the rate of repossession orders going out.

But on figures confirmed by Mr Peter Hibbit, a senior general manager at the Perm, the monthly count of sales in execution ordered by the building societies as a whole had already soared from 475 in November 1988 to 850 last August.

According to Mr Bob Tucker, president of the Mortgage Lenders Association, which covers banks and building societies alike, many of the foreclosure problems can be blamed on higher interest rates.

Building society bond rates have gone up from around 13,5 percent three years ago to around 20,75 percent.

Interest rates on most bank home loans have gone up from 12,5 percent, at the peak of the "Bond Wars" in 1987, to 21 percent.

The institutions say the rate of foreclosures would be much worse had they not been bending over backwards to try to help homeowners with schemes to reach a compromise on arrears with monthly bond repayments.

"Repossessions come only as a very last resort. Sales in execution normally become necessary only when the bond-holder ignores our letters or refuses to come in and talk to us.

"There are even a few bond-holders who simply march out of the house and leave it deserted — walking away from the whole problem. That can happen when he has been granted a 100 percent bond, leaving him with no deposit to forfeit and a feeling he has nothing to lose anyway."

● See Page 21

HÄGAR the Horrible ®

By Dik Browne

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egatta application

elody McDougall

n Council's Conservative Party tee has turned down an applica- cial Vaal Triangle Technikon to a at the Emfuleni Park because ces could possibly take part in

now being sought for the re- ke place on Saturday March 3. enior director for the technikon's ffairs, yesterday said the techni- binted at the council's decision. to let the students use Emfuleni acks attended, was unacceptable.

Strict premium rules likely

58

LINDA ENSOR

THE Registrar of Financial Institutions will exercise strict control over the outflow of premiums to foreign markets in terms of the draft amendment to the Insurance Act presently being circulated.

Rodney Schneeberger CE of the SA Insurance Association (SAIA) says that at present Section 60 (ii) of the Insurance Act provides that all insurance which is not placed through Lloyds has to receive the approval of the Registrar, who consults on the issue with a special SAIA committee for guidance and recommendation.

Schneeberger says this provision is deficient in that it only covers the spillover of business which Lloyds does or does not accept.

"By deleting Section 60 (ii) and amending Section 75, what is proposed is that all business leaving the country (except re-insurance as defined) requires the approval of the Registrar of Financial Institutions, who will presumably still look to the SAIA for guidance and recommendation."

Schneeberger said the speed with which the matter was being dealt with indicated the wish of the Financial Institutions Office to have legislation enacted during this parliamentary session.

B/Day 26/1/90

MONEY SUPPLY FM 26/1/90

Slowing the presses

The latest money-supply figures are the first real sign that credit demand could be slowing. Preliminary December figures show that growth in M3, the broadest definition of money, still overshot the 14%-18% target; but the growth is slackening.

M3 grew by a preliminary 21,83% from December 1988 to last month, down from November's 23,35% year-on-year (itself revised downwards from 24,55%) and October's 24,7%. Preliminary M3 for December rose to R144,8bn from November's R142,3bn (revised down from R143,7bn).

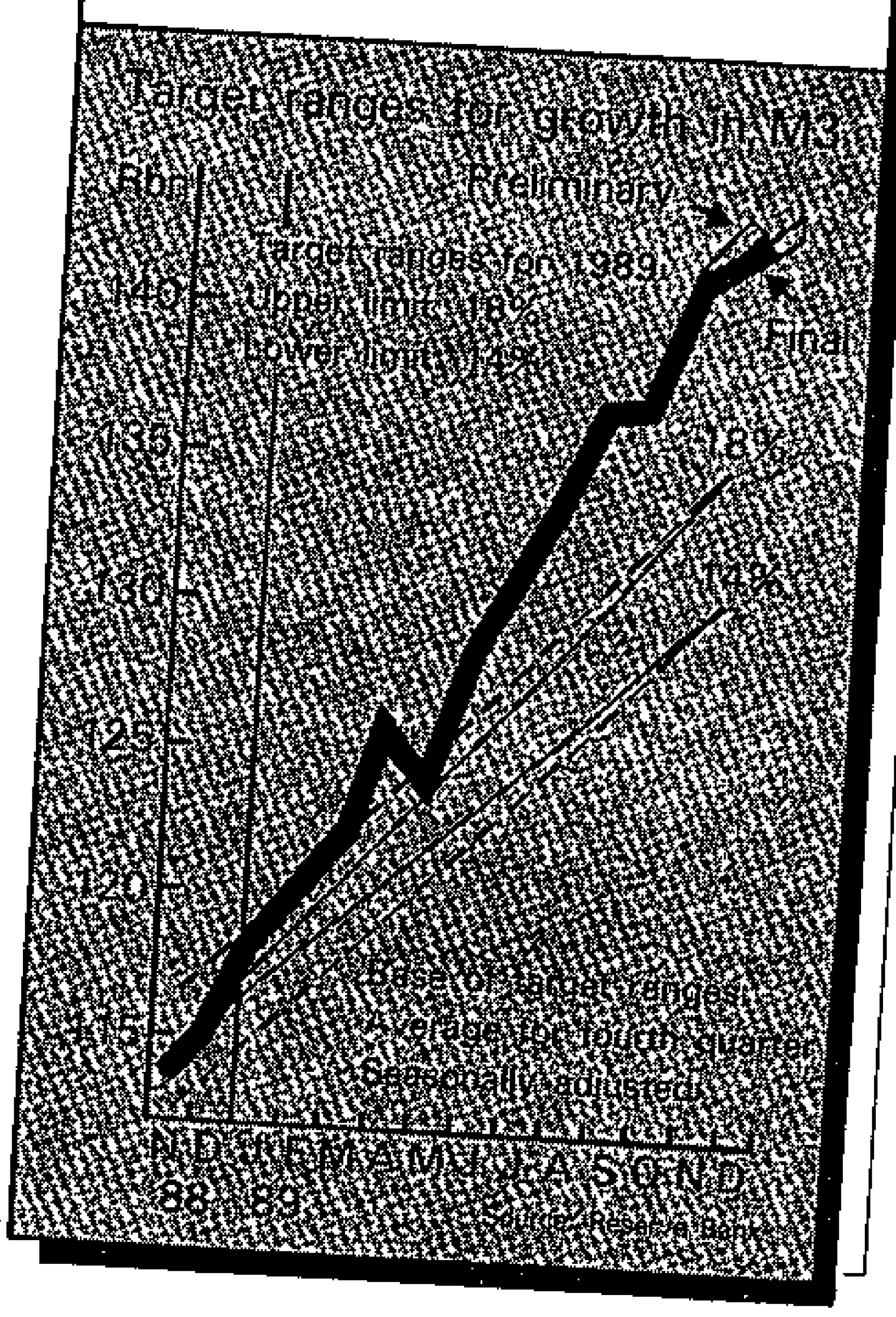
The Reserve Bank says revisions are made because preliminary figures are based only on a sample of banks. Adjusted figures include all the banks.

(58)

The slowdown in domestic credit extended is most encouraging. It actually fell from R140,1bn in October to R139,2bn in November. "This is the first seasonal decline since early 1987," says Rand Merchant Bank economist Rudolf Gouws.

Though banking institutions extended more credit to the domestic private sector, it was marginal compared to previous months.

Turning tide?



FM 26/1/90 (58)

In November, it increased to R112,3bn from R111,7bn in October — a 0,5% rise. In October, the increase on the previous month was 3%; in September, 2%. Credit extended by building societies and the Post Office Savings Bank remained virtually the same over the two months.

But, while credit extension is slowing, it's still high. The Bank is still battling to stop lending to the corporate sector, though it believes consumer credit has been curbed.

"Ultimately, the goal of the authorities is to cut expenditure," says Old Mutual economist Rian le Roux. "The slower increase in the latest figures is promising but further deceleration is required if any meaningful progress is to be made in curbing inflation."

Economists warn that one month's figures cannot be seen as an ongoing trend. "Until the slowing in money supply growth is confirmed, overall economic policy will remain tight," Le Roux says.

☐ M0 increased from R10,7bn in October to R11,4bn in November and R12,1bn in December. M0, coins and notes outside the Bank and the SA Mint plus all deposits of private banks and building societies with the Bank, is usually high in November and December because of Christmas spending and the holidays. Adjusted for seasonal fluctuations, December preliminary M3 comes down to R143,6bn. ■

BDay 26/11/90 58

SPB in financial dispute over cancelled, postdated cheques

LINDA ENSOR

SELECTED Portfolio Brokers (SPB) — which took over the acronym and impressive Parktown building of the broking firm involved in the multi-million Swiftsure scandal — is involved in a financial dispute which could result in legal action being taken against it.

The other party in the dispute is Dr Keith Boyd, a medical physicist, who claims that a stop-payment order was placed on post-dated cheques issued to him by SPB.

The conflict revolves around a R200 000 deal involving shares in a venture capital manufacturing company.

The broking firm involved with Swiftsure was Share and Property Brokerage (also SPB). Wim Schulte, who worked for Swiftsure, now works for SPB.

Small investors in Swiftsure lost about R8,6m which was raised supposedly to build luxury yachts.

The sequestrated Schulte said he acted merely as a consultant for SPB with no authority to speak on its behalf, but Boyd said he signed the document outlining the amount and date the post-dated cheques would be paid and that he also co-signed the cheques.

SPB MD Maggi Payne confirmed this but denied Schulte was an SPB director and owned shares in the company.

"I needed a second person to co-sign cheques," she said.

Payne denied she knew about Schulte's association with Swiftsure and said when she found out about it towards the end of last year she immediately took steps to make herself acquainted with his background.

"All 'executive' powers of Schulte were immediately terminated," Payne said. "In any event I respect his abilities and find him a valuable asset to the company."

Payne said she never knew those involved with Share and Property Brokerage or with Swiftsure and was never involved in any of their projects. She had merely taken over the building and used the initials on the door as a basis for her company's name.

Cheques to Boyd had been stopped, Payne said, as SPB did not have sufficient funds to pay for the projects it was involved in at the time. She stressed that SPB was not facing financial difficulties and had not had similar problems with other clients.

Controlling credit growth in the SA banking system

BiDay 26/11/90

EDDIE CADE

58

FOR the past year we have witnessed a continuing campaign on the part of the banking authorities to curb the rate of growth in bank lending. That effort continues unabated, with some visible degree of frustration on both sides of the dialogue.

Does it have to take so long? Do we have to stick with TINA (there is no alternative), or could we find some new approaches? I believe other possibilities are worth considering.

I start from the premise that there *is* excessive credit growth in the economy, and that the authorities have the right and duty to control that growth in pursuit of monetary policy. There are times when most people would accept that proposition, and the government believes it to be true now — which means it is the name of the game.

Various methods are currently available to supervisors in SA to curb credit growth. They don't seem to be working well.

□ Capital adequacy requirements are a permanently constraining factor, but have no direct connection with the cyclical requirements of the economy.

There will always be timing differences, and it is dangerous to manipulate prudentiality for the ends of monetary policy (fortunately this has not been tried or suggested).

□ Moral suasion without teeth, follow-through or distinction between the innocent and the guilty is ineffective. It is useless to distribute blame and pain indiscriminately to the banking system as a collective and ask it to regulate itself. How does Bank A persuade Bank B to toe the line in a competitive market? That task of moral suasion is a supervisory responsibility which cannot be ducked.

□ Management through the money market consists of open market operations (sale and purchase, issue and redemption of securities by the authorities), direction of public sector cash flows, interest rate policy (Bank Rate), and manipulation of the cost of funding and liquidity (both "statutory" and "prudential") via "lender of last resort" facilities at the Reserve Bank's "window". In sum, these techniques may be described as managing the shortage, the authorities' main approach to credit control.

The problems? Essentially the fact that the system distributes the pain indiscriminately: "Last resort" interest rates set the cost of "top call" and "call" rates for all. The rain descends on the just and the unjust alike. Why should an unscrupulous predator bank worry unduly about moral disapproval or penal "window" rates if everybody is equally condemned and the market funding pain widely spread, while the predator frustrates credit growth policy and thereby wins market share?

There is also again an uncomfortable interface between prudence and monetary policy — in this case concerning bank liquidity. "Statutory" and "prudential" liquidity (a distinction we need not delve into here) are both put under pressure: some people even suggest that the "lender of last resort" might shut his "window" in enforcement of monetary policy. Since an important concern of regulation is to preserve bank liquidity, to threaten it is a contradiction in terms.

Prime is pegged by fiat rather than by forces of supply and demand. Consequent squeezes are inherently unfair.

Then there is the economically sterile and counter-productive practice of "round-tripping". Because prime is artificialy pegged, a corporate customer may draw down its overdraft lines at 21% and place the money on deposit at a near-window rate of, say, 22,5%.

The result of the shortage-orientated system is a dialogue of the deaf. On the one hand "we need a prime rate increase"; on the other "it's your own fault, the banking sector should regulate itself" — in that case, why employ regulators?.

Is there any alternative or feasible supplement to the present system of controlling credit growth via the money market shortage, administered prime, "window" cruelty, etc? Here are a couple of suggestions:

1. Curtail or abolish the role of bankers acceptances (BAs) as statutory liquid assets. Whilst Bank A may regard itself as the more liquid for holding in portfolio Bank B's signed eligible BAs, and vice versa, the banking system as a whole is no more liquid: the two obligations cross-cancel in cash flow terms. True, some BAs could be sold prematurity outside the banking sector, but the extent is limited and the inter-dependence of the banks resembles taking in one another's washing. By creating its own statutory "liquidity", the banking system can expand credit faster than might otherwise be the case.

It is their convenience as self-created "liquid assets" that causes BAs to be absurdly under-priced as a credit instrument: typically a base rate of, say, 2,4% under prime, plus a margin (commission) ranging from 0,1% upwards for top customer names. This is nowhere near an economic return on the bank capital underpinning the credit risk, and inevitably there is a widespread knock-on effect when one such product is given away. Accommodation (non-liquid) BAs and other wholesale credit lines (even term facilities) are contaminated.

The market is skewed by the traditional regulatory philosophy of "liquid assets": there are in fact reasons for hope that at least some changes to the formula are on the way.

2. Commercial bank reserve accounts in the books of the Reserve Bank should be disconnected from regulatory liquidity and recognised instead as an instrument of monetary policy.

If this separation is effected, then illiquid reserve balance requirements can be levied against advances instead of against specified maturity bands of bank liabilities (as at present); even more penetratingly, the levy can be made against quantified advances growth within a stated period from a known starting base. Credit expansionism beyond the authorities' goal is then penalised by incurring a non-interest-earning, non-performing, illiquid asset requirement growing by leaps and bounds.

This "diabolical progressivity" was the brainchild of the Wormser Committee in France in 1971. It is "dirigiste" and anti-competitive, of course, but it certainly has teeth and provides the direct linkage which SA lacks at the moment, between individual bank conduct and individual consequence.

People have suggested to me that this French system is just another version of the credit ceilings and the reserve requirements tried in SA of old: a careful reading proves otherwise. Like other attempts to regulate the banking system, it would reinforce the tendency to go off-balance-sheet, but then *que voulez-vous?* One caveat: advances growth should be measured in terms of monthly average balances, not the highly misleading and manipulable month-end snapshots.

These suggestions will be unpopular in some quarters, but they are an attempt to supply new ideas and break the current impasse.

From my standpoint the indiscriminate philosophy of equal guilt, industry self-regulation and equal punishment via the money market shortage and administered prime lacks subtlety and penetration: it doesn't bring the right pressures to bear where they are needed, and thus clumsily takes too long to work. By itself, it is not enough or, if you prefer, too much.

□ **Cade is a senior GM with FNB. He expresses here a purely personal view.**

INSIDE

Savings is key in tax

w/t ARC4's 27/1/90 (58)

By TREVOR WALKER
Business Staff

SAVINGS will be the key to significant personal tax reductions in 1991, although some measure of relief is expected in this year's Budget on March 14.

Treasury sources said the average South African wage earner would have it easier in 1990 and could look forward to a very much easier 1991 if personal savings were to show a meaningful increase this year.

Personal savings levels dropped from 10,2 percent in the 1970s to 3,2 percent in the 1980s, and to 1,8 percent of disposable income in the first half of 1989.

Party pledge

The National Party committed itself to reducing taxes in its referendum manifesto last year and it is understood Finance Minister Mr Barend du Plessis is determined to make a start with this pledge to the voters.

What form the tax cuts will take has not yet been decided, but at the very least allowances for fiscal drag or bracket creep in the tax tables are expected.

Government spending or the deficit before borrowing will definitely be reduced in 1990, but if people really begin to cut their spending on luxury consumer goods then the Treasury will be able to reward this thrift with meaningful cuts in 1991.

The sources said the government was committed to reducing spending. The Reserve Bank had begun to bring the money supply under control and the third leg of the equation — consumer spending — could play a very meaningful role if this was switched into savings.

The exchequer budgeted to spend R65 billion in 1989 and it is expected this could rise by 13 percent this financial year to around R74 billion.

The Treasury is drawing up the Part Appropriation requirements, and given the larger than expected increase in tax revenues this year it is possible, as was the case in the present financial year, a major portion of government borrowing will have already been completed by Budget date or soon thereafter.

Lower spending on defence is expected to be used in other areas, but also to reduce government debt, which costs about R9 billion a year to service interest charges.

Education will again be granted a meaningful increase and the demand from other social services will also put pressure on spending.

Speculation was that the import surcharge would be abolished, but this appears unlikely since it brings in about R2 billion a year and is too large to abolish at a stroke.

Mr Rudolph Gouws, chief economist at Rand Merchant Bank said the government was clearly moving in the right direction and the use of the proceeds from the Iscor flotation to reduce government debt was welcomed by business.

Mr Du Plessis at the time of the issue said it would help government to reduce its interest bill by R500 million a year and this did not take into account the R140 million dividend paid by Iscor just prior to the privatisation of the company.

The money spent on weapon systems and the development of Armscor over the past 10 years had to be viewed as insurance, but this now appeared to have run its course, political sources said.

However it did not mean this huge investment in capital could be summarily terminated.

less paying to

outperformed them at times. Both beat cash.

Old Mutual gets in on gold act

S/Times 28/1/90 58

GOING for gold is the Old Mutual's policy.

It has launched a unit trust which will comprise only gold shares, mining houses and gold-related assets.

Fund manager Marco Celotti says the gold fund has been launched to fill a market gap.

The timing of the fund is right for several reasons:

- The political situation in SA is improving.
- Foreign investment is returning.
- The gold price has turned the corner.
- SA gold shares offer better investment opportunities than do American or Australian mines, especially to foreigners through the financial rand mechanism.

CAREFUL

Mr Celotti says much must happen before the finrand can be abolished, and that it is simplistic to call for its demise now. He believes that the fiscal authorities which previously abolished then reinstated the finrand will be more careful next time.

The intention is to remain fairly fully invested. Mr Celotti says people who opt for the fund have already made a decision on gold's prospects, and do not need a fund manager to decide to remain 25% liquid.

But they do need to invest through a mutual fund because top-quality golds are too expensive to be bought individually.

MARCO CELOTTI ... too early to abolish the finrand

He concedes that the fund's unit price will follow the gold price over the longer term. But the challenge lies in optimising the fund's performance through ups and downs.

Old Mutual is cautiously optimistic about gold in dollar terms. Positive factors include a weaker dollar in the medium term, the growth in world gold production peaking in the 1990s, developments in Eastern Europe, the decrease in gold loans and forward sales, and strong demand from jewellers and other industries.

Clouding the horizon are continued positive real interest rates and a neutral view on world inflation.

The fund will be open for investors at the published unit price from February 5.

The minimum initial lump sum investment is R1 000, and minimum monthly investment R100.

Investors in other Old Mutual unit trusts can switch between the four funds at a reduced initial charge as market conditions and personal needs dictate.

Income will be distributed in August and February. About 65% of the portfolio will be invested directly in gold shares, 20% in mining houses, 5% in exploration and 5% in other gold-related assets.

Liquidity will be kept close to the statutory minimum of 5%.

Rand

THE life of Winkelhaak gold mine in the Evander field will be lengthened well into the 21st century by the installation of a sub-vertical shaft.

Winkels is the oldest Evander mine, the largest and safest. It is also one of the lowest-cost gold producers in SA. It rates blue chip status on the JSE, the price climbing to R124 this week.

The shaft, whose cost is estimated at R700-million in January 1990 money

Financial services leading the field

B/Day 29/1/90

58

SA's financial services sector is widely held to be the most proactive to current technology trends and is among the world leaders in electronic banking.

This trend, says Grinaker Data Systems executive chairman Graham Bell, is expected to continue into the '90s.

He says with the banks striving for improved and new customer services, the use of an advanced telecommunications infrastructure will become one of the major tools to enhance services.

Shortage

"However, an across-the-board skills shortage has affected the banking industry, among others, and this has led to the use of inexperienced staff whose lack of skills is being off-set with the use of more advanced technology.

"Added to this, local institutions are gearing themselves for a dramatic increase in demand from black consumers in the '90s.

"What we've seen to date is only the tip of the iceberg, so the more technology that can be harnessed to assist banking staff at the front office, the greater the improvement in services and productivity."

GRAHAM BELL

He believes ATMs will be one of the key areas to experience a dramatic increase in transaction volumes.

"In line with the financial sector's use of leading-edge technology, we anticipate it could be one of the first sectors to utilise video conferencing. Overseas surveys indicate explosive growth in world-wide video, voice and data networks.

"The so-called integrated private networks were estimated to be worth $2bn world-wide in 1989.

"Growing at a five-year compounded rate of 30%-35% a year, by 1995 this amount is projected to reach $10bn. The integrated private network is not only the fastest growing segment within the telecommunications industry, but also the fastest growing major segment of the information technology market," he says.

Geared

Communication equipment suppliers geared to benefit from these advances will be those providing communications equipment that complies with all international CCITT requirements and offer value-added service enhancements.

"These facilities and functionalities are available with GDS' ISDX 10000 Bandwidth Manager series products.

He says the product is able to interface the management facility to extend devices such as PABXs and to other wide-area network topologies like X.25 networks and modems.

Draft insurance law 'still lacking'

LINDA ENSOR (58)

FURTHER legislative measures may be necessary to cover fully the issues investigated by the Melamet Commission of Inquiry into the outflow of premiums from the country, says PFV Group Broking Services MD, Don Gallimore. B/Day 29/1/90.

Recent figures for the short-term industry from the Financial Institutions Office show that in 1988 gross premiums placed with direct insurers totalled R5,6bn and gross premiums placed with professional reinsurers totalled R546m, giving a total of R6bn, if the element of double accounting is disregarded.

The amount of reinsurance placed overseas by insurers totalled R712m, business placed with Lloyds totalled R316,8m, and with non-registered markets R33,8m.

Gallimore says while the present draft amendments to sections 60 and 75 of the Insurance Act were obviously prepared to deal with the most urgent aspects, it did not respond to all the issues addressed by the commission.

He believes further legislation dealing with, for example, fronting arrangements — in terms of which registered insurers in SA accept business and place it overseas — will be necessary.

B/Day 29/1/90 (58)

Retailers may begin to join in the game

THERE is intense competition among financial institutions to provide dependable and efficient service to the high-volume personal market, and the future could see financial institutions vying with retailers for business.

In line with these developments, SPL secured the distribution rights early last year for US-based Shared Financial Systems' ON/2, Storenet/2 and Healthnet/2 on-line transaction processing packages.

These systems handle large-volume transaction delivery and processing and are designed to run on fault-tolerant hardware so transaction processing is not interrupted.

Manager of SPL's on-line transaction processing products division Peter Hall says the impact of this new technology is expected to be felt throughout SA's electronic banking and Eftpos industries.

Two major banking groups in SA have already bought ON/2 to drive their massive ATM networks and to provide switching facilities to the various environments of banking.

Hall says reliable transaction processing using fault tolerance has become vital for financial services.

Demand

"Customer acceptance of electronic banking services has created a demand for better availability of services — 24-hour uptime is now expected seven days a week.

"Competition is intense among financial institutions to provide dependable and efficient service to the personal market and fault-tolerant computers using ON/2 can give them 100% uptime and guarantee the objective of improved customer service."

Hall says further applications for ON/2 financial systems include the control of manned teller terminals, voice response terminals and maintenance of the entire card data files.

He says retail Eftpos functions in high-availability systems could have far-reaching implications for future relationships between banks and retailers.

"Organisations with any kind of vision for the future will take advantage of this changing relationship."

Referring to the driving force of competition between the financial institutions, Hall adds that there could be additional competition between banks and retailers.

Retailers worldwide are taking advantage of their ability to attract customers by diversifying into fields traditionally held by financial institutions.

He quotes from Dr Stefan W Kaminsky's Beyond Retail Banking: "There are good reasons to assume machines in payment systems are going to change the balance of power between banks and retailers — and retailers may well be the winners."

Changing

Hall says the changing face of electronic banking and the fact that Eftpos is gaining ground presents challenges to both the retail and financial sectors.

The challenge is for both to encourage customers to adopt electronic payment methods instead of cash and cheques.

If this challenge is accepted, suitable business opportunities can be anticipated and planned for.

SECURITY IS GUARANTEED FROM SMART CARD TO BANKING SYSTEM

TIME is money, and this is particularly true for any bank's business customers.

It is vital for them to be able to react quickly to changes in their liquidity or moves in the national and international capital markets. 8/10c4 29/11/90

Position

Philip's Manny Fialho says electronic banking allows customers to know their position at any given time, to know the rates and tariffs on the money markets and to make the right decisions.

Although banks have recognised the important time saving that electronic banking offers to clients, one of the major problems is to guarantee the integrity and authenticity of transmitted messages.

Fialho says some institutions have rightly chosen a system that offers a dynamically adaptable security level, one that is user-friendly and based on international standards.

The PC or terminal at the customer's site is enhanced with a smart card reader and each user receives his own smart card. All the user has to do when using electronic banking facilities is to insert the smart card into the reader and enter his personal identity number (PIN) and transactions are handled automatically.

Says Fialho: "The complete log-in procedure, the exchange of secret data needed for message protection and the message protection itself are performed automatically, without user interaction or the need for him to know what is happening.

"This security takes on new dimensions, since each smart card has a built-in DES algorithm. This allows real security from the user's smart card to the bank's system."

Fialho says when buying a smart card reader for PCs, users receive a universal interface allowing them to exchange data in a secure way with institutions other than their bank.

58

Requirement

The only requirement is that the bank supplies clients with smart cards. "Several networks are already protected in this way overseas," he says.

He says development in the smart card field is advancing rapidly and that it won't be long before they are introduced into homes.

Higher rates charged . . .

Banks battle for survival

CMT TIMES 29/1/90 58

Own Correspondent

JOHANNESBURG. — Banks are raising interest rates on overdrafts of certain corporate customers and charging more for Bankers' Acceptances (BAs) in an effort to salvage margins.

Certain banks are also slapping punitive interest rates onto customers who exceed their credit limits in a move to become ultra-strict about lending criteria.

The prime overdraft rate, the rate banks charge their blue-chip customers, remains in place and bankers say they are not lobbying for an increase in prime, currently 21%.

But only triple A-rated corporates qualify for 21% — the majority are charged a margin above prime. That margin is widening as banks battle to survive a liquidity crunch.

One treasurer said: "The triple As have not been affected. But you should see what has been done to the less-than-blue-chips."

The wide-ranging effort to rescue margins is the result of a huge cash shortage in the money market — in excess of R5bn. At levels above R4,6bn, banks run out of liquid assets to rediscount for cash at the Reserve Bank's window.

They start paying the Bank's punitive interest rates of up to 22,75%. Rates paid in the money market for cash are between 20,5% and 21,5%.

The stranglehold on margins started in late December and bankers have had a number of meetings with the Reserve Bank to discuss the issue.

The Bank is said to be opposed to another increase in Bank rate and the prime overdraft rate, but is happy with the banks' efforts to save the situation by raising selective lending rates.

The monetary authorities have signalled they want to keep the squeeze on the banks as part of a strategy to force them to curb credit growth.

The Bank's extra liquidity aid has been mainly to offset the outflow due to the Iscor privatisation (R3bn) — and even this cash might be taken out of the market next month.

The Bank is expected to take the cash out of the market to offset a liquidity inflow of about R2bn (a government stock redemption) that would have eased the pain.

Reserve Bank Governor Chris Stals, asked to comment that the Bank would offset the inflow, said: "It is true that certain short-term accommodation facilities made available by the Reserve Bank to the market have been designed to mature at the same time. Whether these will be rolled, extended or replaced by new arrangements will depend on prevailing market conditions at the time."

Cash-flush Genbel lifts income 33%

CAPE TIMES 29/11/90

59

JOHANNESBURG. — With its R298m rights offer and R70m preference share issue behind it, Genbel Investments finds itself cash-rich in the first half of its financial year.

Figures released on Friday show distributable income has climbed 33% from the R45,6m, reflected at the interim stage a year ago, to R60,6m.

With a larger number of shares in issue, the per share increase is 26% as earnings climbed from 124c a share to 156c a share.

A dividend of 120c has been declared compared with the previous 110c.

MD Anton Botha said that with the gold mines' improved profitability and the repositioning of its portfolio, Genbel is expected to resume a more normal income growth in the current financial year. — Sapa

Banks act to ease squeeze on margins

BDay 29/1/90

(58)

GRETA STEYN

BANKS are raising interest rates on overdrafts of certain corporate customers and charging more for Bankers' Acceptances (BAs) in an effort to salvage margins.

Certain banks are also slapping punitive interest rates onto customers who exceed their credit limits in a move to become ultra-strict about lending criteria.

The prime overdraft rate, the rate banks charge their blue-chip customers, remains in place and bankers say they are not lobbying for an increase in prime, currently 21%. But only triple A-rated corporates qualify for 21% — the majority are charged a margin above prime. That margin is widening as banks battle to survive a liquidity crunch.

One treasurer said: "The triple As have not been affected. But you should see what has been done to the less-than-blue-chips."

The wide-ranging effort to rescue margins is the result of a huge cash shortage in the money market — in excess of R5bn. At levels above R4,6bn, banks run out of liquid assets to rediscount for cash at the Reserve Bank's window. They start paying the Bank's punitive interest rates of up to 22,75%. Rates paid in the money market for cash are between 20,5% and 21,5%.

The stranglehold on margins started in late December and bankers have had a number of meetings with the Reserve Bank to discuss the issue. The Bank is said to be opposed to another increase in Bank rate and the prime overdraft rate, but is happy with the banks' efforts to save the situation by raising selective lending rates.

The monetary authorities have signalled they want to keep the squeeze on the banks as part of a strategy to force them to curb credit growth. The Bank's extra liquidity aid has been mainly to offset the outflow due to the Iscor privatisation (R3bn) — and even this cash might be taken out of the market next month.

The Bank is expected to take the cash out of the market to offset a liquidity inflow of about R2bn (a government stock redemption) that would have eased the pain.

Reserve Bank Governor Chris Stals, asked to comment that the Bank would offset the inflow, said: "It is true that certain short-term accommodation facilities made available by the Reserve Bank to the market have been designed to mature at the same time. Whether these will be rolled, extended or replaced by new arrangements will depend on prevailing market conditions at the time."

Banks raise selective rates

Star 29/11/90 (58)

Finance Staff

A number of banks have been raising interest rates on overdrafts of some corporate customers in order to ease the squeeze on their profit margins.

In addition the banks are charging more on Bankers' Acceptances and have introduced penalty rates when the credit limit is overstepped, in the wake of the refusal by the Reserve Bank to raise its Bank rate.

The commercial banks have had a number of meetings with the Reserve Bank, but the monetary authorities have pointed out that the banks need to be far stricter when making credit available to their customers.

The shortage in the money market now stands at above R5 billion and could worsen when the extra liquidity, provided by the Reserve Bank to offset the R3 billion outflow from the Iscor privatisation, is taken out next month. This money could be replaced, however, by a R2 billion government stock redemption.

According to newspaper reports, banks have not yet raised their prime rates, the rate they charge on overdrafts of their blue-chip customers, but have received Reserve Bank approval to increase other selective rates.

Electronic banking

Smart cards will boost bid for cashless society

BDay 29/11/90 (58)

MAJOR changes have swept over the banking and financial services industry during the last decade — and the '90s promise even more.

The development of new technologies is largely responsible for these changes.

It's no secret that SA's financial sector has consistently been one of the country's largest technology purchasers and has driven demand for much improved and faster telecommunications and other services, whether from the Post Office or from systems vendors.

Predicted in the '70s, the card boom took off in the '80s, but the much-mooted cashless society has not materialised.

In SA, this is more marked as it is only in recent years that the massive black market has been persuaded to turn its attention to plastic cards.

Underlining the fact that the cashless world may never become a reality is a recent report published by Lafferty Business Research.

Of six countries researched, France and Great Britain took a leading position with electronic payments using plastic cards, but in some 80% of cases, meals, appliances, petrol and railway tickets were still paid for in cash.

Cut down

Bank cards don't have a share in more than 12% of purchases.

A survey by Vargos Research showed that in the UK in 1987, only 35% of large companies used terminal-based electronic banking products, and this was only a 5% increase on figures for 1984.

Nevertheless, it is widely held that smart cards, with their in-built microchips, should cut down significantly on cash and cheque usage.

One local company reckons the first stores offering smart cards should emerge in the next 18 months.

Electronic Funds Transfer at Point of Sale (Eftpos), which allows stores to sell goods to customers with cards and automatically use these cards to debit their bank accounts, has not taken off to the extent predicted in the '70s, but is nevertheless being implemented by stores locally and internationally.

Some local retailers argue that as a Third World country, the technology for Eftpos is too advanced and expensive for local consumption, but others reckon the cost benefits are easy enough to justify.

Pilot schemes are underway nationwide, and it is only some issues such as who pays for what in the Eftpos chain that is holding back even more widespread implementation.

Trends

One of the major trends, which has already started overseas is that of cross selling of goods and services.

Writing in Nixdorf's magazine Dialog, Die Welt economics editor Dr Hanna Gieskes says: "Food service is only a part of electronic shopping. A wide range of non-food services from banking and insurance to travel and entertainment can also be combined into the overall concept.

"To what extent banks, insurance companies and other service industries choose to co-operate with each other and food retailers remains to be seen. "Much depends on the competitive forces at work in a free market in which a bank may be selling insurance and an insurance company issuing loans."

Illustrating how banks are moving into previously untouched areas is a development from the Swiss Bank Corp.

Its "customer centre" is an interactive terminal which will start by selling concert tickets via computer and then move into other non-banking areas.

From the local retail side, you can already get cash while you pay for groceries at some Eftpos-based shops, and no doubt a plethora of other services will emerge over the months to come.

Shopping at the press of a button

BDay 29/11/90 (58)

NOWADAYS there is nothing extraordinary about drawing cash from an automatic teller machine and checking account balances on the same machine.

People have become accustomed to this type of self-service much faster than anticipated.

However, the ATM and statement printer are only the first steps towards customer self-service, says Nixdorf Computer divisional manager of sales John Fletcher.

Bank customers' demands are becoming increasingly sophisticated — especially when it comes to self-service.

"There is a growing demand for services outside the usual business hours, and not only for withdrawing money.

"It is with this in mind that Nixdorf has produced its Customer Service Centre (CSC) banking system.

"The design of the CSC incorporates a number of features unknown to South African ATM users.

Colour

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"The design of the customer interface, all part of the hardware, comprises a colour display (television screen), keyboard and ID card unit.

"Speech output by the CSC can also be used as an enhancement.

"The system is upgradable from the entry level standard customer terminal (ATM), to providing on-line, video-driven, interactive transactions by means of the keyboard and ATM voice response.

"In a typical example, the CSC is used in Europe not only for standard ATM applications like deposits, withdrawals and balance inquiries, but also for buying goods."

He says customers can inquire visually into a category of products a supplier has available.

For instance, he may wish to view a range of lawnmowers available from a particular shop. By carrying out a simple transaction, the item can be purchased without any further ado.

The delivery address can be entered into the CSC and the purchase price automatically debited to his account.

Fletcher says the benefits to both customers and suppliers are enormous.

"This form of after-hours shopping is taking off in Europe because of the convenience and simplicity."

Intelligence

Industry standards are applied to make the use and integration of CSC terminals as easy as possible. All components are put together with their own intelligence and network capability, which allows flexible use of terminals.

This ensures the system is capable of operating offline if necessary.

"Elements like the correct use of colour and graphics or fixed function keys in conjunction with menus help even inexperienced customers to operate the terminals easily," he says.

JOHN FLETCHER

SYSTEMS TO KEEP INFORMATION AT MANAGEMENT'S FINGERTIPS

COMPETITION among banks and financial services for better customer service and efficiency is giving rise to a wide range of systems for increased accuracy in branch networks.

In keeping with this demand, the United Group has installed the Legent Inventory and Asset Manager (IAM) on-line system from Productivity Software to manage and maintain control over its network of computers, terminals and ATMs.

UBS's Kevin Rowe says: "This package can instantly provide information on hardware configurations as well as input into our charge-out systems.

"We expect to get faster access to information about all our equipment and see a large saving on people resources needed to record and manage this information," says Rowe.

"Information will be available to users throughout the country, particularly to our remote control centres that monitor and install network equipment."

Checking

More benefits are expected to come in planning budgets for maintenance agreements and checking the accuracy of invoices from suppliers and services.

Until recently, says Rowe, tools have not been available to analyse the total information technology environment of the organisation and how the components integrate.

Productivity Software's Derek Underhill says this basic flaw in information systems reporting has changed with the launch of the Legent MICS IS management support systems for the MVS environment.

"Highly rated by Datapro 70 Management Information Service, MICS (MVS Integrated Control System) is a flexible management support system which allows information systems management to apply accepted management practices to its data processing resources. It helps in three basic areas, namely network, capacity and cost management."

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SUCCESSFUL

Printers make it cheaper

ment criterion.

He says there is more of a case for

month for R425 000.

Annualised, these returns can outperform the stock markets.

Housing subsidy scheme proposed

B Day 2/11/90

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BENJAMIN COCKRAM

A CAPITAL housing subsidy scheme offering one-off capital subsidies to low income black families may be the solution to SA's present housing shortage, a survey by the CSIR's Division of Building Technology (Boutek) says.

The Department of Public Works and Land Affairs-sponsored evaluation of the effects of housing subsidies said such a scheme was currently being mooted as a solution to the problems of low income blacks, who could otherwise be tied to repayment obligations they would find difficult to meet.

A suitable scheme was currently being discussed by the South African Housing Advisory Council (Sahac) and the relevant state departments, a Boutek newsletter carrying the results of the survey said.

If such a scheme could be introduced, it would address a wide spectrum of families across SA in need of housing aid. The newsletter said this was because funds would be applied far more effectively across a wider field of participants than was now possible

The newsletter said the scheme would release a large portion of the state machinery, currently involved in administering housing on a national scale, to tackle other fields of the housing problem in need of attention.

Discussions came about as a result of government's wish to dispel the previously held belief that housing for the low income portion of the population was the sole responsibility of government.

However, government's recent policy concerning the enhancement of the private sector emphasised the concept of individual responsibility, as well as encouraging home ownership with all its advantages of a more stable community.

The scheme was under discussion as it was felt it could compensate for some of the inadequacies of schemes such as the first-time home-buyer scheme which, although it had gained momentum since its implementation, was now leading to a increase in demand on available funds.

Since 1985 a large number of blacks had subscribed to the scheme.

The newsletter said this placed an increasing demand on available funds, resulting in a state-commissioned inquiry into its viability.

Managing your portfolio

M/Daily 30/1/90

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THE Investment Analysts Society has organised two workshops on portfolio management.

The first, in Johannesburg on February 28, will cover topics such as management of equity, gilts and property funds and new investment instruments. Speakers will include UAL's Alister Colquhoun and RMB's Alberto Bottega. The second, in Cape Town on April 3, combines presentations by guest specialists and case studies.

Each seminar costs R335 for members of the society and R400 for non-members. Enquiries can be made at phone (011) 28 2320.

Mutual building societies given more room to move

BDay 30/1/90

(58)

LINDA ENSOR

THE list of permissible investments by the three remaining mutual building societies — Eastern Province, Provincial and Grahamstown — has been extended.

In terms of a notice in the Government Gazette, mutual building societies may now invest in management companies for unit trusts, in participation bonds and also in specified endowment policies.

Eastern Province Building Society (EPBS) MD Trevor Jennings said EPBS had been instrumental in having these amendments to the Mutual Building Societies Act promulgated.

The motivation for lifting the restrictions related to participation bonds was that these bonds were very closely related to the society's existing business.

The society had the staff, facilities and infrastructure to incorporate them.

Regarding unit trusts, Jennings said in the past mutual building societies had had to market the products of other institutions, earning only an agent's commission. The amendment made it possible for a mutual society to share in the profits of the business by establishing a unit trust company in partnership with some other institution.

"We would like to develop our own products with someone else," he said.

"We will now be able to have inflation-linked investments."

The clause on endowment policies was introduced to cover a particular policy taken out by EPBS for itself.

Jennings hoped the amendments foreshadowed a major revision of the Mutual Building Societies Act, possibly next year.

"We will be approaching the authorities regarding other unnecessary restrictions," he said.

Camdon MD warns of further bond rate rise

Finance Staff

A further rise in the bond rate would have serious socio-economic repercussions for the country, a leading property marketing group has warned.

Thousands of low income households, already stretched to their limit with repayments and the relative health of the construction industry — which provides employment for thousands and generates many spin-offs for the economy — would be threatened by such an increase, Mr Scott McRae, managing director of Camdon's Nationwide, announced this week.

Reacting to rumours that another increase in the prime rate is on the cards, Mr McRae said. "Government planners seem determined to ring inflation out of the economic system.

"That is laudible as such. However, I believe there is a very serious danger of overkill and the possibility of leaving thousands of South Africans unable to retain their homes has serious social and economic implications."

He said demand for medium to up-market properties in this country had never been stronger. It was owners of lower priced homes that were badly affected.

The building societies and banks were doing their utmost to assist home-owners by re-financing their loans but there was a limit to how far they could lend assistance.

"In light of the fact that inflation is eroding the wealth base of the country, home ownership remains one of the few hedges against inflation the man-in-the-street has."

Standard ups interest rates on fixed deposits

GRETA STEYN

THE Standard Bank, acting on the view that official interest rates will remain high for the next nine months, has raised interest rates paid on fixed deposits in the six- to nine-month categories.

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It is the first bank to react to the liquidity crunch in the money market by seeking to raise funds more cheaply in the consumer market.

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The six-month period, where rates have been increased by 0,5 percentage points to 18,5%, is the main target — indicating the bank does not expect a drop in Bank rate in the next six months.

In the seven- to nine-month category, interest rates were lifted by one percentage point to 18%. This compares with a one-year rate of 17%.

Personal Banking GM John Holloway said the increases did not reflect an expectation that official lending rates would rise, but rather was a response to liquidity scarceness in the money market.

"We have already responded on the consumer lending side by raising the rate on revolving credit from 24% to 25% and charging punitive rates to customers who overstep the limits."

BOE growth hampered by higher costs

JACQUES MAGLIOLO

THE Board of Executors' (BOE) pension fund assets rose by 437% to R500m in 1989 — but this rapid growth caused the company to incur relatively large transaction costs.

GM John Winship is not concerned: "In spite of transaction costs, we are confident that our investment performances will be well above average." The BOE's year-end gross investment performance (inclusive of investment charges) was 43%; with a share increase of 58% and fixed interest at 22%.

Of importance was BOE's introduction of an equity linked investment, which the directors believe "takes away the market's downside risk".

The new product combines fixed deposits and options on all share index futures. "The investor benefits from stock market appreciation but retains, at least, the value of the original investment," says Winship, adding that the investor is in a no-lose situation.

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He says the product "makes a lot of sense" in the current environment of high interest rates, and will also provide for investors who would like to "lock-in their share market gains, but retain an exposure to the market."

Winship's forecast for this year is positive: "While the economy will have to endure tough conditions, a good base is being established by more controlled government expenditure and appropriate action by the Reserve Bank for a stronger showing after 1990."

He believes during 1990 short-term interest rates will be adjusted downwards; long-term rates will decline as inflation abates; and industrial and financial shares will begin a major appreciation by year-end.

"Gold bullion has established a new bull-trend and we can expect further appreciation from gold shares."

But this positive view is tempered with the awareness of the enormous US debt, which makes American and world stock markets vulnerable.

Equally a breakdown in co-operation between the G7 nations would have negative economic consequences.

Reserve Bank to curb money supply growth

By Sven Lünsche

In line with its efforts to reduce inflation, the Reserve Bank is to set lower targets for growth in the money supply this year.

Reserve Bank Governor Dr Chris Stals says monetary policy will remain tight for some time and that the targets for growth in the broad measure of money supply, M3, are likely to reflect this policy.

"Given our efforts to bring inflation under control, it is reasonable to assume that the targets will be lower than last year's 14 to 18 percent level," Dr Stals said yesterday.

"Dr Stals has kept interest rates high and liquidity in the market tight, despite the improvement in the balance of payments," TrustBank economist Nick Barnardt said yesterday.

"However, persistent growth in bank credit and money stock are forcing him to maintain a tight policy and I expect a target of 11 to 15 percent for 1990," he said.

Another bank economist predicted an even lower range of 10 to 14 percent, "as combating inflation involves breaking inflationary expectations, which a lower target would do".

However, a lower target in itself creates numerous problems, not least the task of overcoming them.

Over the last few years growth in M3 has substantially exceeded targeted figures.

Upper limit

Sowetan 3/1/90

From the fourth quarter of 1988 to last year's fourth quarter M3 rose by 25 percent to R143,1 billion, against a targeted upper limit of R135,13 billion.

The Reserve Bank will release its target figures by the end of February, when the commercial banks have submitted their BA9 figures.

But Dr Stals said the target was reached with flexibility and that there was no acceptance of a rigid and overriding "money rule".

"If we do not achieve the targets it is a good indication to us and the general public that we are still growing too strongly, as was the case last year.

"However, we are receiving evidence that the economy is headed for a soft landing if the current level of interest rates is maintained for a while and no futher adjustment in rates is necessary," Dr Stals said.

The target usually comprises the Bank's forecast for inflation plus economic growth as measured by gross domestic product (GDP).

While it is generally expected that GDP growth will not exceed 1,5 percent this year, the difficulty arises when predicting the inflation rate for the year.

Dr Stals said: "Monetary and fiscal policy are making their contributions to lower price increases and will continue to do so, but whether inflation will fall further in the year ahead will depend largely on the level of wage increases.

"If wage increases fall in line with stricter monetary policy, the major impact of lower economic demand will be on prices.

"But if wages continue to rise at the high levels experienced over recent years, then not only will inflation decelerate at a much slower pace, but unemployment will increase," he said.

Many economists agree with him that economic demand is already slowing down credit demand, and hence money supply.

"While corporate demand for credit is taking longer to taper off than consumer demand, the growth in money supply should fall well within an 11 to 15 percent target range by the second half of this year," Mr Barnardt said.

Nedfin MD Ron Rundle said: "Corporate credit demand held up exceptionally well last year, but should decline as interest rates for corporate customers remain high and have even been raised over the last few weeks."

More banks to match Standard Bank's offer?

CAPE TIMES 31/1/90

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By ARI JACOBSON

STANDARD BANK'S survival instincts, which saw them embark on a campaign into the retail (consumer) market is a dead-end ploy, according to a spokesman for a leading bank.

The source says, while money market rates are uncomfortably high, any attempt by a bank, to dangle favourable retail rates at depositors, will be met head on with retaliation.

"It's a short-sited move to gain market share — the outcome will be higher costs, on all the banks' retail books."

At the moment Standard's 18,5% for six month's retail monies, is far cheaper then the comparable cost of NCDs at 19,75% in the wholesale (money) market.

"Initially there might be some gains to Standard but eventually other banks will match them to protect their deposit base."

Standard Bank's GM (treasury) John Lloyd, says the quantum of deposits available to the industry is limited by the attraction of insurance policies, to savers.

"This money does find its way into the wholesale market but at a much higher price," says Lloyd.

He confirmed market rumours that Standard has been "into the bank" for about R2bn.

"We acted as an anchor to the banking system, by passing liquidity banks in need and using the liquid assets we had available, to increase accommodation with the Bank."

This smoothed out rates, he says, "but that role has been replaced by fierce inter-bank competition for funds".

First National's assistant treasurer Mike Law, says Standard Bank's move was a funding strategy, which gave credence to their belief that rates would stay high for the next nine months, by raising deposit rates.

"However, this type of incentive will have little attraction, for the retail market, dominated by the life insurers," says Law.

Old Mutual's assistant GM (investments) Rob Lee, says high inflation and negative real interest rates, has seen short-term investment foresaken, for higher returns and better protection from the life policies.

Lee says the dampening of inflation, the restoration of real returns on money and the lowering of the marginal tax on interest from deposits, would increase the banking system's competitive edge.

Brian Kantor, who heads the School of Economics at UCT, says the tax bias in the system, has created a lopsided flow of contractual savings to institutions.

While savers at banks have 45% of their interest income chopped off most insurance policies preclude tax.

"I appealed to the Margo Commission to eliminate this incongruency by allowing retirement savings schemes to be encompassed by all market participants," says Kantor.

This, he says, would have the effect of spreading the tax advantage throughout the system.

Strong rand could be bad news

Stals vows to keep up the heat on banks

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GRETA STEYN

TOO strong a rand would not be in SA's best interests as its exports would become too expensive, Reserve Bank Governor Chris Stals said yesterday.

In an interview on current developments in the markets, Stals indicated the Bank was paying urgent attention to the value of the rand after its climb in recent months. Since early September, the local unit has gained more than 8% against the dollar.

● STALS

"There are many advantages to an appreciating rand — it helps fight inflation and alleviates problems in the forward cover market.

"Nevertheless, an appreciating rand cannot be justified in the longer term. I would prefer a stable rand."

The Bank was looking at purchasing power parities for greater clarity on the "correct" value of the domestic currency.

Foreign exchange dealers said yesterday the Bank was hanging onto substantial dollar inflows coming into the country and had made no effort to underpin the local currency by putting dollars into the market.

Turning to monetary policy, Stals vowed to keep up the pressure on the banks, currently facing a liquidity crunch, in the hope this would compel them to restrain credit growth.

He said: "Banks are currently paying interest rates in excess of the prime overdraft rate on part of the cash they need from the Reserve Bank.

"That is what tight monetary policy is about. If it doesn't hurt, it won't work."

He described the huge shortage of cash in the money market — well in excess of R5bn — as unhealthy, and partly a reflection of continued high demand for credit. The Bank could therefore not react by providing the banks with cheap cash.

But he disagreed with the view that the cash shortage indicated the need for another increase in Bank rate and the prime overdraft rate.

"There is much the banks can do to curb the rate at which credit is extended without another increase in Bank rate."

He also noted the cash shortage was aggravated by the turn-around in the Bank's forward cover book that has seen three months of profits instead of losses. The losses had provided the banks with a steady inflow of liquidity and Stals was glad this had been curbed.

The Bank hoped to facilitate its withdrawal from the forward cover market through exchange rate and interest rate policy.

"One of the benefits of a stable currency would be a reduction in the Bank's losses on its forward book. At the same time, keeping interest rates high in real terms maintains the cost of cover at a relatively high level.

"The foward cover situation is yet another reason why we cannot begin to contemplate lower interest rates."

He acknowledged that long-term interest rates were too low relative to the short-term rates, but added this was the result of a market distorted by exchange control regulations.

Foreign purchases of SA gilts via the financial rand had distorted the price of

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Stals

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long-term capital.

"There has been no inflow of liquidity into the local market as the finrand mechanism isolates SA from capital inflows or outflows of this nature. The low long-term rates should not have any spillover effect on the short end of the market."

SA still had a long way to go before a single exchange rate could even be considered. The finrand would have to move much closer to the commercial rand and stay there for a signficant period before one could contemplate abolishing the finrand.